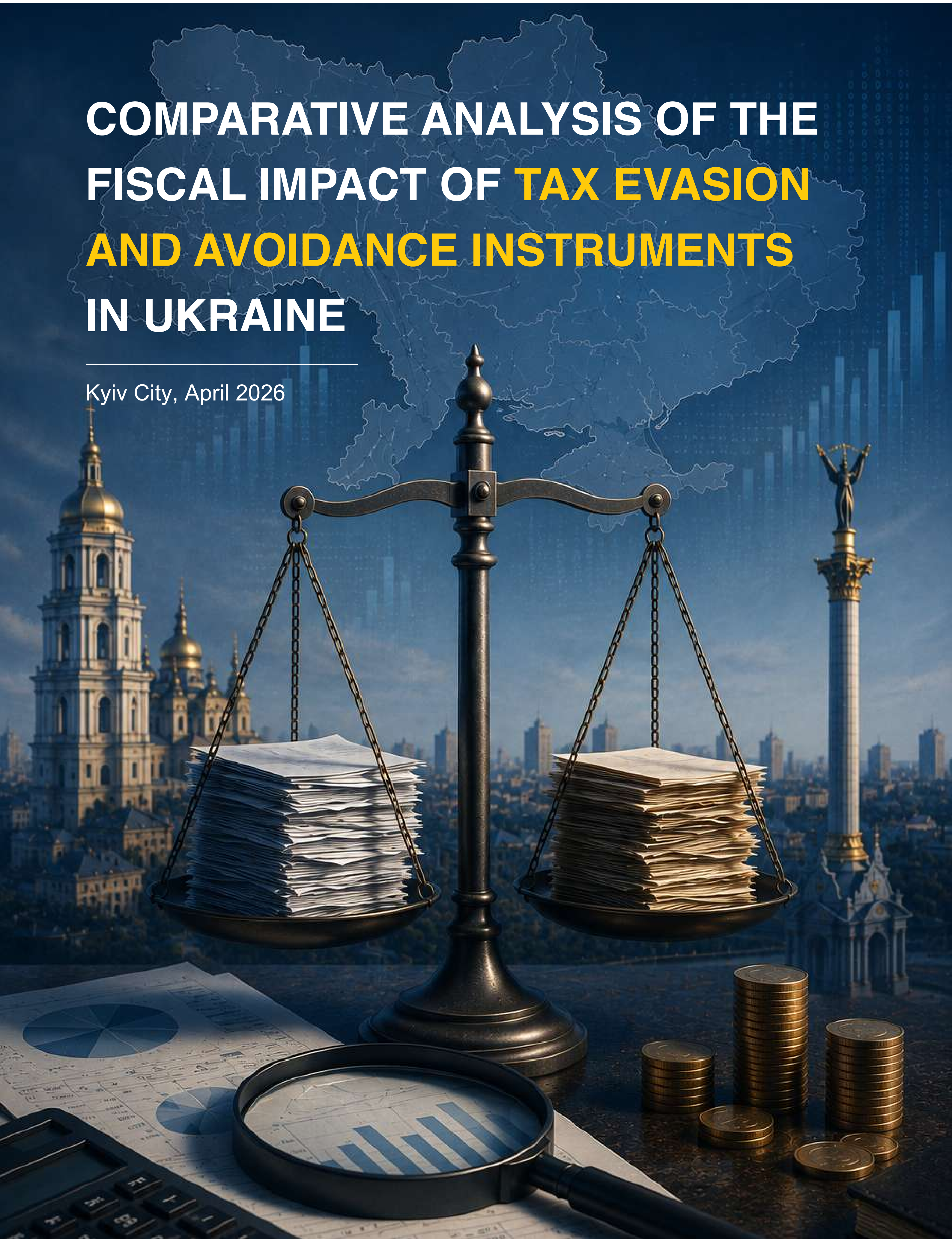
ICET Institute for Social and Economic Transformation
CASE Україна Centre for Social and Economic Research
Economic Expert Platform

COMPARATIVE ANALYSIS OF THE FISCAL IMPACT OF TAX EVASION AND AVOIDANCE INSTRUMENTS IN UKRAINE

Kyiv City, April 2026



Authors:

Vladimir Dubrovskiy
Oleh Getman
Viacheslav Cherkashyn

Reviewers:

Myroslav Laba, Honored Economist of Ukraine

Econometric calculations:

Tatiana Aleksieieva

The study was conducted by experts from the Institute for Socio-Economic Transformation, CASE Ukraine, and the Economic Expert Platform, with the support of CIPE and NED.

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National characteristics and key patterns

Like most countries with low per capita income and weak governance, Ukraine suffers from a relatively large shadow economy—economic activity on which taxes are not paid. Estimates from various studies put its size at between 20% and 40% (see Table 1), which is significantly higher than in developed countries but broadly comparable to the figures for countries with governance quality and per capita income levels similar to those of Ukraine.

It is worth noting that, according to estimates by the Ministry of Economy of Ukraine, the size of the shadow economy declined substantially to 27% in the pre-war years, coinciding with a reduction in the redistribution of resources through public finances. This is a natural outcome, given that the expansion of the shadow economy is a rational response to excessive tax pressure, particularly in the presence of weak state institutions. Another important factor contributing to the natural reduction in the share of the shadow economy is economic growth, which was accompanied by rising labor productivity in the formal sector, as well as other factors that made formal employment more attractive. However, this observation applies to fully informal economic activity.

As a result of the full-scale war and the measures associated with it, certain schemes (such as covert cross-border capital transfers) have declined significantly – strict wartime regulations have left far less scope for them. The number of people in informal employment has also fallen naturally as a result of the overall reduction in the labour force. It is also likely that the share of large businesses has declined due to the destruction and temporary occupation by the enemy of territories that have traditionally been the location of large industrial enterprises. On the other hand, new incentives for informal employment have emerged, as well as a trend towards splitting businesses into individual entrepreneurs in order to avoid having to notify the Territorial Recruitment Centre of employees who are liable for military service (these and other changes are described in more detail in the report). However, on the whole, the structure of the informal economy remains fairly conservative.

At the same time, the existence of a large informal economy, on the one hand, prevents the nominal tax burden from being reduced and, on the other hand, distorts the conditions of competition. Both of these phenomena, in turn, contribute to the growth of the informal economy. It is important to bear in mind that the structure of the informal economy in Ukraine is atypical in relation to the structure of the economy itself. Unlike most other countries (with the exception of some CIS countries), in Ukraine, the vast majority of tax revenue is lost due to the most widespread forms of tax evasion and aggressive tax planning, which are used on a massive scale by large enterprises that account for a significant share of the domestic economy and, thanks to their informal relations, have considerable opportunities to avoid paying tax.

Consequently, simply applying the experience of other countries to the Ukrainian context in this regard leads to inappropriate conclusions and recommendations that do not contribute to an effective fight against the informal economy.

Eurostat identifies seven components of the informal economy: 1 – business entities that deliberately fail to register their otherwise lawful activities; 2 – purely unlawful activities; 3 – producers who, by law, are not required to register (e.g. private peasant economy); 4-5 – registered business entities that, for various reasons, have fallen out of the scope of monitoring; 6 – deliberate distortion of data (under-reporting of the tax base); 7 – other. In this paper, we evaluate most of these components.

As regards the overall size of the informal economy, estimates vary depending on the methods used. The available estimates are summarised in the table.

Table 1. The level of the informal economy in Ukraine, according to various estimates

Source	Year / period	Grade	Method / Comment	References
Ministry of Economy of Ukraine – Analytical Report "The Shadow Economy. General Trends"	2021 (January - June / year)	Depending on the method: the electrical method ≈ 27-28%, the monetary method ≈ 32-33%, the "household expenditure – retail turnover" method ≈ 21%, the loss ratio method ≈ 23%; integrated/aggregate figures in the range of ≈ 31-33% according to various estimates.	Official calculations by the Ministry of Economy (using data from the State Statistics Service and various approaches — the electrical, monetary, expenditure and loss ratio methods). The document contains time lines and comments on the volatility of the methods.	https://me.gov.ua/file/78b79266-3a86-4be0-a528-ef8bb1551809?utm_source=chatgpt.com
National Bank of Ukraine (NBU) – joint study with EY / Mastercard (published by the NBU)	2018 (published by NBU 2020)	23.8% of official GDP (≈ UAH 846 billion hryvnias for 2018)	Study (EY/MasterCard under the auspices of the NBU and the Ministry of Economy) – an assessment of the size of the "shadow economy" by component (cash and non-cash components).	https://bank.gov.ua/en/news/all/doslidjennya-tinovoyi-ekonomiki-v-ukrayini--mayje-chvert-vvp--abo-846-mlrd-griven--perebuvaye-v-tini
Ernst & Young (EY) – global overview "Shadow economy exposed"	2023 (estimates, published in 2025)	Interpretations/media: for Ukraine ≈ 19.3% (estimate for 2023) – according to the report's interpretations	The assessment focused solely on the shadow economy of cash payments, which is an important part of the overall "shadow economy"; however, in the Ukrainian context, this accounts for, at best, slightly more than half of all payment schemes, as large and mediumsized enterprises do not use it, preferring more "technological" schemes with lower transaction costs	https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf?utm_source=chatgpt.com

Yuliia Svyrydenko (First Deputy Prime Minister for the Economy) – public statement	2024-06-26 (briefing)	**"approximately 40%"** (as stated – "40% of the economy may be in the shadow")	The official political statement was not accompanied by a detailed methodology in the public release	https://unn.ua/news/40percent-ukrainskoi-ekonomiky-perebuvaie-v-tini-ochevydno-ts e-stosuietsia-y-ahrosektora-ta-eksportu-ahroproduktsii-svyrydenko?utm_source=chatgpt.com
Director of the Economic Security Bureau, O. Tsivinskyi	2025	Losses due to the shadow economy amount to $14.5–24 billion a year (the "shadow economy" accounts for 30–35% of GDP)	Expert assessments by the Economic Security Bureau	https://www.reuters.com/business/finance/ukraines-economic-police-need-more-fight-shadow-economy-director-says-2025-09-17/

This study does not aim to assess the overall size of the shadow economy, but focuses instead on a comparative assessment of the scale and fiscal impact of the largest schemes. Such an assessment of these schemes, and the identification of the factors underlying their emergence and expansion, makes it possible to draw conclusions regarding the sequence and priority of measures to tackle the shadow economy and to develop specific steps to combat each of the schemes, which are also set out in the study.

It is important to note that some of the schemes are interrelated, and the figures for some are partly included in those for others; therefore, the total budget losses resulting from all the schemes assessed in this study will be slightly less than their mathematical sum.

The range of tax avoidance tools in Ukraine is, on the whole, not very different from that in other countries. The standard set includes, in particular:

- Breaches of customs regulations and smuggling
  - manipulation of the customs value of goods
  - interrupted transit
  - schemes involving postal consignments
  - "jackets" ("ants")
  - direct smuggling
- Value Added Tax (VAT) fraud
  - unlawful refund from the budget in the course of export
  - fictitious business operations (missing trader), in particular "carousel" schemes
  - substitution of goods ("tax fraud schemes")
- Counterfeit
- Shifting profits to tax havens (offshore jurisdictions)
- Schemes in the shadow market for property
- Shadow salaries/informal employment or "envelope salaries"
- Manipulation of the tax base (concealing sales volumes, minimising declared profits, etc.)
- Abuse of international agreements (treaty hopping), tax relief (deductions), preferential treatment and special tax regimes
- Informal entrepreneurship and unregistered self-employment

Approaches to assessing several key components of the shadow economy remain problematic, in particular:

- structuring business operations through pseudo individual entrepreneurs operating on pseudo-trading platforms and/or under pseudo-franchises;
- transactions on the financial market, in particular "code substitution" and "drops" schemes, swaps, transactions involving crypto-assets, securities fraud, overseas payments in the form of royalties, fines, interest on loans, etc., for the benefit of affiliated parties (some of these transactions are legitimate);
- the volume of unregistered agricultural production;
- volumes of cross-border electronic sales exceeding the limits permitted by law.

In addition to the structure of the shadow economy, Ukraine has two interrelated characteristics that set it apart from most countries.

First, there is the "conversion center" industry—networks of shell companies established for the purpose of tax evasion. Such structures are closely linked to political corruption, adapt to changes in legislation, and facilitate the payment of "envelope wages" through VAT fraud, smuggling, or the distribution of counterfeit goods. Unlike many other schemes, their activities are overtly criminal in nature.

Second, there is the institutional legacy of parts of the State Tax Service (STS) and the State Customs Service (SCS), rooted in the 1990s, when these institutions were established as instruments for the discretionary control of businesses. This legacy has fostered a repressive and corrupt institutional culture characterized by the protection of illicit schemes, kickbacks, informal arrangements concerning the terms of tax evasion, and corrupt pressure on businesses. According to a 2024 survey by CASE Ukraine, only 22.2% of entrepreneurs believe that the STS genuinely combats tax evasion schemes, while 27.5% believe that it facilitates them.

This calls into question the argument that the simplified taxation system (STS) is the primary problem. Special tax regimes for microbusinesses and self-employed individuals exist for objective reasons in most countries around the world, including EU member states (see https://iset-ua.org/ua/doslidzhennya/item/211-svitovyi-dosvid-zastosuvannia-cco for further details). While such regimes may create opportunities for abuse, the scale of such violations is significantly smaller than that associated with VAT fraud, smuggling, and "envelope wages." Imposing additional reporting and record-keeping requirements on microbusinesses will not eliminate the underlying causes of informality.

The most promising way to reduce the shadow economy is through a radical improvement in administration: liquidation of "coversion centers", and overhauling the Economic Security Bureau, Customs and the Tax Service. The overhaul of the Economic Security Bureau is nearing completion, and reform of the State Customs Service has begun, which could significantly reduce "conversion centres", VATfraud schemes and "grey" imports. At the same time, it is also important to overhaul the State Tax Service; the draft law on this matter has not been considered for two years (No. 9243).

Myroslav Laba, Honored Economist of Ukraine

This study is a continuation of the authors' long-standing work devoted to analyzing tax evasion and tax avoidance schemes in Ukraine. Each year, the authors expand the scope of their analysis, refine the list of the most significant schemes, and improve their calculation methodology. It is precisely this systematic approach that makes the findings particularly valuable: society, as well as the executive and legislative branches of government, can see not only the figures representing fiscal losses but also gain a better understanding of how the shadow economy is evolving, how it affects legitimate businesses, and what policy measures can contribute to reducing its scale.

Of particular value is the authors' approach of examining tax evasion in the context of the state of public institutions, the quality of tax administration, customs control, and the overall investment climate. This approach enables public officials vested with decision-making authority to formulate more effective public policy in the field of taxation.

To a considerable extent, the availability of well-substantiated estimates of fiscal losses has contributed to the renewal of individual institutions whose performance is critical to the effectiveness of efforts to combat the shadow economy. Last summer, a new head of the Economic Security Bureau was appointed, followed this spring by the appointment of a new Head of the State Customs Service of Ukraine. In both cases, the appointments were made through transparent competitive selection processes. The re-certification of staff and renewal of personnel are currently under way. Provided that these reforms continue consistently, there are good grounds to expect a reduction in the scale of the informal economy and an increase in budget revenues.

According to the analysis conducted, the largest fiscal gaps are associated with informal employment and the payment of "envelope wages" (UAH 237–262 billion); violations of customs regulations, smuggling, and "grey" imports (UAH 110–125 billion); counterfeit goods and illegal trade in excise goods (UAH 37–41 billion); and fictitious entrepreneurship (UAH 38–48 billion). This is why experts and international partners advocate assessing the performance of fiscal authorities not by the percentage of planned budget revenues collected, but by the size of the tax gap—the loss of budget revenues estimated in accordance with the "tax gap" methodology.

This study is also of particular practical importance in light of the Government's recent decision to establish an Interagency Working Group on the Formalization of the Economy, tasked with analyzing the causes of informality and preparing practical proposals to address them. In my view, this study should become an essential reference for all members of this working group, as well as for the analytical units of central executive authorities responsible for identifying and combating tax evasion and tax avoidance schemes.

At the same time, the legislative branch also has an important role to play in eliminating shadow practices. For the Verkhovna Rada of Ukraine Committee on Finance, Taxation and Customs Policy, this study provides a ready-made analytical basis for preparing amendments to tax and customs legislation. A significant proportion of tax minimization schemes exploit gaps, inconsistencies, or excessive complexity in the existing regulatory framework. These loopholes should be closed through legislative amendments that eliminate opportunities for abuse without imposing additional fiscal burdens on compliant businesses.

I hope that this study will become not merely a subject of expert discussion but will also have a tangible impact on the decisions of the government, parliament, regulatory authorities, and law enforcement agencies. It is my hope that the next editions of this research will already demonstrate positive progress in formalizing the economy, narrowing tax gaps, and reducing the number of companies that evade or avoid paying taxes.

II. Assessment of tax avoidance and tax evasion mechanisms (schemes) in Ukraine

2.1. Tax avoidance through offshore schemes and BEPS[1]

The essence of the scheme: the term "tax avoidance through offshore schemes" refers to taxpayers' use of the following tools: the use of all means permitted by law to reduce the tax burden, i.e. the lawful minimisation of tax liabilities. These include cross-border aggressive tax planning, tax optimisation, abuse of rights or the use of unscrupulous practices, such as exploiting discrepancies, conflicts and loopholes between different national tax systems (double deductions or exemptions), as well as preferential taxation of certain types of activities or income, and the manipulation of residency statuses, through which profits of Ukrainian origin are transferred to countries with lower or zero corporate tax rates without being subject to corporate income tax.

Offshore schemes serve several purposes at a time, namely:

- avoiding excessive domestic taxation (erosion of the tax base and cross-border profit shifting to low-tax jurisdictions) – BEPS);
- protection of savings and investments, in particular through 'round tripping' – the transfer of funds abroad by residents, which are then returned to the country in the form of foreign direct investment, reducing the risks of corporate raiding and simplifying judicial protection of property interests (by removing cases from the jurisdiction of Ukrainian courts, which are considered unreliable due to political dependence and corruption);
- capital flight (emigration), in particular due to the protracted war, extreme instability in tax and regulatory legislation, corruption and an unfavourable investment climate;
- insurance against currency risks and avoiding "wartime" restrictions on transferring currency abroad.

According to available research[2], companies worldwide on average book around 7% of their global sales in tax havens, resulting in a loss of tax revenue amounting to USD 190 billion. This makes it possible to estimate the potential (most likely, the theoretical maximum) volumes of cross-border profit transfers from Ukraine in 2024-2025 at UAH 152.7-175.2 billion (7% × 2,503,108, see Table 2), whilst budget losses are estimated at UAH 30-32 billion, taking into account the introduction of increased (from January 01, 2025) and emergency corporation tax rates (in 2023, 2024 and 2026; a similar decision is being prepared for 2027) – 25% and 50% respectively – for banks

[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

and financial institutions (the forecast will be revised upon receipt of the 2025 data; reports on controlled transactions must be submitted to the tax authorities by October 01, 2026).

However, thanks to cooperation with the EU, the OECD, the IMF and partner countries, Ukraine has now implemented a comprehensive set of international measures to break the long-standing dominance of offshore structures in the economy (in particular, the Action Plan to combat base erosion and profit shifting has been implemented (the BEPS Plan, and the integration of BEPS 2.0 has begun), the country has acceded to the Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), a three-tier approach to transfer pricing documents has been introduced (2020), the Controlled Foreign Companies rules (2022) and the CRS international standard for the automatic exchange of financial account information for tax purposes (2024).

Comprehensive efforts to protect the national tax base are continuing. The new 48-month program with the IMF (Clause 25 of the Memorandum)[3] and the Budget Statement for 2026–2028 (pp. 11-12)[4] emphasise the implementation of an ambitious set of novations:

- ▸ harmonisation of Ukrainian legislation with EU legislation on combating tax avoidance in accordance with Council Directive (EU) 2016/1164 dated July 12, 2016 (ATAD), which will provide, amongst other things:
- ▸ abolition of tax reliefs for the income of foreign companies whose place of effective management is in Ukraine;
- ▸ implementation of a capital gains tax model for the withdrawal of assets, a general anti-avoidance rule (GAAR) and the elimination of cross-border hybrid mismatches;
- ▸ refining the controlled foreign company rules that have been in force since 2022.
- ▸ modernisation of transfer pricing rules in line with OECD recommendations and international tax practice;

For reference: draft legislation on improving transfer pricing rules and implementing certain provisions of the ATAD was published by the Ministry of Finance of Ukraine on March 16, 2026 for public consultation[5];

▸ expanding the scope of international automatic exchange of information for tax purposes, including the introduction of reporting requirements for digital platform operators and international data exchange in accordance with the OECD Model Rules on Reporting by Digital Platform Operators and Council Directive (EU) 2021/514 of March 22, 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC 7).

[3] Лист про наміри 4130/0/2-26 від 13.02.26 та Меморандум про економічну та фінансову політику - https://mof.gov.ua/uk/memorandum_of_economic__financial_policies-677

[4] Постанова Кабінету Міністрів України від 27 червня 2025 року № 774, стор. 11-12

[5] https://www.mof.gov.ua/uk/Draft_regulatory_legal_acts_in_2026

For reference: On April 08, 2026, the Verkhovna Rada of Ukraine adopted the relevant draft law No. 15111-d dated April 06, 2026 at the first reading[6];

- the implementation of rules relating to the OECD's Two-Pillar Solution to address tax issues arising from the digitalisation of the economy.

Given this trend, the main risks remain not the lack of regulatory tools to combat offshore schemes, but rather extreme regulatory turbulence and the weakened institutional capacity of the supervisory authorities. Furthermore, unreformed regulatory bodies continue to face risks of corruption and inefficiency (the introduction of KPIs at the legislative level is an attempt to address the latter issue), a lack of financial and professional human resources, low salaries, as well as a heavy burden on taxpayers and additional complications for cross-border business operations during the war.

Table 2. The state of transfer pricing (TP) controls in 2019-2025

(million UAH)

Показник	2019	2020	2021	2022	2023	2024	2025**
1. Reports on controlled transactions (CT)							
The number of reports submitted by taxpayers for the relevant years	2 401	2 403	2 459	2 392	2 596	2 797	The data will be available once the reporting period has ended (by October 01, 2026)
For amount of	2 569 634	2 532 652	3 649 715	2 180 865	2 503 108	3 300 000	-
2. Audits regarding taxpayers' compliance with the "arm's length" principle							
Number of initiated inspections	0	0	1	1	11	45	98
Number of completed inspections	17	2	27	1	11	22	29
Number of breaches relating to the timeliness and completeness of CT declarations and the submission of TP documents	169	89	56	6	486	476	635
Penalties imposed for breaches of the requirements regarding the timeliness and completeness of CT declaration and the submission of TP documents	32	18	11	2	92	173,3	313,1
Assessed additional corporate income tax	484	114	469	0	2 598	450	841,8
Agreed amount of the corporate income tax liability	235	20	21	90	16	24,9 or 5.5% of the additional amount charged	49,5 or 5.9% of the additional amount charged
Reduced negative value of the corporate income tax base	557	6	1 625	0	1 632	1 994,1	927,9
Agreed amount of the reduction of negative value of the corporate income tax base	1 970	38	254	1 512	29	245,8 or 12.3% of the reduced amount	203,5 or 21.9% of the reduced amount of which 45.4 million relates to audits from previous years
Amounts received by the budget following audits	6	43	74	64	16	181,5	105,5

* pp. 59–60 of the Report on the implementation of the Work Plan of the State Tax Service of Ukraine for 2024

** pp. 60-61 of the Report on the implementation of the Work Plan of the State Tax Service of Ukraine for 2025

[6] https://itd.rada.gov.ua/billinfo/Bills/Card/69776

Transfer pricing controls require further improvement (in terms of the comprehensiveness of the controls, their impact on the budget and conflicts with taxpayers), having more of a remedial effect given the potential scale of cross-border profit shifting from Ukraine and the widespread practice of taxpayers independently adjusting their tax base (although sometimes under pressure from the tax authorities):

Insert 1: RESULTS OF THE REPORTING OF CONTROLLED TRANSACTIONS FOR 2024[7]

- submitted reports on controlled transactions – **2,797** (+11% compared to 2023)
- total value of controlled transactions – **UAH 3.3 trillion** (+32%)
- Notifications regarding participation in international groups of companies – **1,754** taxpayers
- jurisdictions of the parent companies: Cyprus – 20%, USA – 12%, Germany – 10%, France – 5%, Switzerland – 4%
- jurisdictions with which the CT were performed: Austria – 18%; Switzerland – 17%; France – 11%; the Netherlands – 10%; the USA – 6%; Germany and Cyprus – 5% each
- types of controlled transactions: goods – 49%, including raw materials – 19%; banking services – 28%; financial services – 11%; services – 7%; transactions involving securities – 4%

Press release from the State Tax Service of Ukraine, published on October 31, 2025[8]

During 2025, following the work carried out… 583 (amended) corporate income tax reports were filed, resulting in a voluntary increase in the financial result of over **6.3 billion hryvnias**. These adjustments resulted in an increase in corporate income tax provisions of **0.8 billion hryvnias** and a reduction in the negative tax base of **1.9 billion hryvnias**.

pp. 58-59 of the Report on the implementation of the Work Plan of the State Tax Service of Ukraine for 2025

Consequently, the main outcome of the transfer pricing control body's work in 2025 (as in previous years) was that the tax authorities encouraged businesses to 'voluntarily' adjust their financial results with a view to increasing their corporate income tax payments (+0.8 billion hryvnias). At the same time, the coverage of audits of companies engaged in controlled transactions remains low, although the number of such audits is on the rise, and their results are disputed (UAH 96 out of every UAH 100 in additional tax assessed is being contested by taxpayers) and fairly modest for the budget (+0.105 billion hryvnias).

The situation regarding budget revenue is almost the opposite when it comes to the tax reporting campaign for controlled foreign companies (hereinafter referred to as CFCs):

[6] https://itd.rada.gov.ua/billinfo/Bills/Card/69776

Insert 2: On May 01, 2025, the submission of CFC reports for 2024 was completed; the results are as follows:
Quantity of CFCs: 14,116
- control of CFCs: 11,391 controllers (11,143 – individuals, 248 – legal entities)
- reports submitted: 19,162 (98% of reports were submitted by individuals, 2% by legal entities)
- countries of registration of CFCs: Poland – 23%, Cyprus – 10%, USA – 10%, United Kingdom – 10%, Estonia – 9%, other countries – 38%
- the amount of tax payable under CFC reporting: for 2024 – **UAH 2.9 billion**; in total for the period during which the CFC rules have been in force (2022-2024) – **UAH 4.92 billion**

Press release from the State Tax Service of Ukraine dated May 05, 2025[9]

Consequently, the results of the State Tax Service's activities in this area in 2024-2025 can be regarded as follows: although they have not achieved definitive (or radical) results in halting the profit shifting abroad, they nevertheless demonstrate a positive trend and play a very important role in terms of fiscal deterrence and prevention. A downside of the process remains the high cost and complexity for taxpayers of the TP and CFC control procedures, which is one of the reasons for the restraint in investment activity or even a change in the geographical location of tax residency by Ukrainians (in particular, refugees deciding not to return to Ukraine).

At the same time, there has been a global decline in the use of offshore (tax haven) schemes, partly as a result of the widespread implementation of measures to combat BEPS, as well as the pandemic, wars and their psychological effects. According to estimates by the Tax Justice Network[10], Ukraine loses a total of **USD 459 million (or UAH 20.2 billion)** in budget revenue each year due to illicit cross-border flows (trade, banking and investment).

Our previous analytical studies, covering data for the period 2022-2024, noted a de facto halt in the outflow of profits abroad due to the large-scale anti-offshore reforms of 2020–2023, the pandemic and the war (the latter resulting in a massive economic downturn and a near-total ban on transferring currency abroad), which significantly curtailed offshore schemes. Therefore, the projected volume of "tax avoidance through offshore schemes" (taking into account taxpayers' voluntary transfer pricing adjustments, as well as targeted audits and enquiries) is expected to be in the 2024-2025 period, in our opinion, within a historically low range of UAH 55-65 billion, leading to potential corporate income tax losses of between UAH 12 and 14 billion* (these figures will be refined following receipt of the 2025 CFC reports, which should be submitted to the tax authorities by May 01, 2026). However, this trend may

[9]https://tax.gov.ua/media-tsentr/novini/894493.html
[10]https://taxjustice.net/country-profiles/ukraine/

change as exchange control requirements are gradually relaxed (through exchange rate liberalisation) and new grounds for transferring foreign currency assets abroad emerge.

**maximum losses are estimated at 30–32 billion; tax control measures cover 17–20%, with additional assessments of around 3 billion (see additional assessments in Table 2); we calculate the potential losses from the portion not covered by audits: (100% – 17–20%) × the potential penalties for each 10% – 1.6 billion = 8 × 1.6 = 12.8; we insure the result within the range of UAH12-14 billion*

Recommendations:

▸ continue active international cooperation on protecting the national tax base from transnational tax avoidance schemes, namely:

- a review of bilateral double taxation agreements containing tax rates that encourage "aggressive tax planning", notably those with the Netherlands, Switzerland, Germany (currently under review) and others, it is worth noting the Convention with Australia, signed on October 16, 2025, and the Convention with Japan, which entered into force on August 01, last year;

- realize in the near future (the Ministry of Finance and the State Tax Service failed to do so in either 2024 or 2025) the considerable fiscal potential of the automatic exchange of information under the CRS standard and the CFC rule, in particular by implementing a one-off capital de-shadowing program* (Ukraine's first tax amnesty in 2022–2023, as is well known, was unsuccessful) and the introduction of stricter financial liability for concealing income (shifting profits) to offshore (low-tax) jurisdictions;

**the initiative was included in Operational Objective 6 of the Ministry of Economy, Environment and Agriculture's Draft Government Action Programme (Government Strategic Initiatives for 2025–2026, p. 70, see draft resolution No. 14069 dated September 23, 2025): "draft legislative initiatives have been submitted to the Verkhovna Rada of Ukraine regarding the de-shadowing of profits through the introduction of a one-off (special) voluntary declaration scheme with the aim of attracting private capital, together with an analytical justification of the feasibility, impact and format of these initiatives'*

- not to delay Ukraine's full accession to the OECD and its participation in the new project to enhance international tax transparency in the area of offshore property[11] – the Multilateral Competent Authority Agreement on Automatic Exchange of Readily Available Information on Immovable Property, (IPI MCAA) – which 26 jurisdictions committed to signing on December 04, 2025. The international automatic exchange mechanism will come into operation in 2029–2030;

[11] https://www.oecd.org/en/topics/sub-issues/international-tax-compliance-policies-and-best-practices.html

▸ key factors contributing to capital outflows from Ukraine, particularly via offshore schemes, include the country's low investment attractiveness, weak protection of property rights, and the high cost and complexity for taxpayers of CFC and TP instruments. Without significant improvements in these areas, it is unrealistic to expect that tax control measures alone will be sufficient to put a definitive stop to the transfer of profits and funds to offshore jurisdictions. This requires, amongst other things, a review of the rules governing TP* and CFCs** with a view to weakening or simplifying them. However, over the past three years, the state has adopted the opposite approach, deeming it necessary, as part of its revenue mobilisation policy, to increase control and intervention in the economy.

**to update the thresholds for transfer pricing (TP) controls; the last increase took place in 2016 under Law No. 1797 (threshold for related parties – from 5 to 10 million UAH; turnover – from 50 to 150 million UAH)*
***to address the key issues facing the CFC: (1) the complexity and high cost of administration (reporting is very detailed, compliance costs are high, and an individual effectively requires comprehensive accounting and legal support in order to report on any foreign asset); (2) taxpayers are not confident that information about their foreign assets will be used solely for tax purposes; there are concerns regarding data leaks or the unlawful use of such information against businesses; (3) the rigidity and onerous nature of the CFC legislation: for individuals, this is one of the arguments for changing tax residency and a reason why refugees may not return to Ukraine in the future; for companies – it creates a barrier to reinvestment in overseas companies and hinders the expansion of Ukrainian products (the ease of trading via a local subsidiary is negated)*

2.2. VAT evasion/avoidance

The tax administration system established in Ukraine, which is based on the electronic administration system (VAT EAS) and the obligation to register tax invoices and adjustment calculations relating to them in the Unified Register of Tax Invoices and Adjustment Calculations (TI/AC) with the possibility of their extrajudicial blocking by the supervisory authorities (the Risk Assessment Criteria Monitoring System, or RACMS), imposes substantial costs on taxpayers, both in time and money, for maintaining tax records and complying with procedures.

Given the heavy administrative burden, the historically high risk of tax-related corruption, and its dominant role in generating state budget revenues, the issue of budget losses resulting from VAT evasion schemes is one of the most pressing. At the same time, it should be noted that the introduction of the VAT Electronic Administration System (VAT EAS) and the System for Monitoring Risky VAT Transactions (SMKOR) has reduced the scale of the “tax pit” and “tax carousel” markets. However, this achievement has come at a significant cost to businesses in terms of time and financial resources.

Table 3. Analysis of the key parameters of VAT administration for the period of 2017-2025

(billion UAH)

Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025
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	179,6
Tax collection for the state budget ($VAT_{collection}$)	430,7	506,2	530,6	543,7	696,2	551,6	713,2	891,6	1 028,5
VAT_{refund} / $VAT_{collection}$	27,88%	26,02%	28,63%	26,32%	22,94%	15,33%	18,56%	18%	17,46%
GDP at current prices (GDP_{nom})	2 982,9	3 558,7	3 974,6	4 194,1	5 459,6	5 191	6 537,8	7 658,7	8 931,2
VAT_{refund} / GDP_{nom}	4,03%	3,7%	3,82%	3,41%	2,93%	1,63%	2,03%	2,05%	2,01%
$VAT_{collection}$ / GDP_{nom}	14,43%	14,22%	13,34%	12,96%	12,75%	10,62%	10,91%	11,64%	11,52%

**Data from the NBU[12], the State Statistics Committee and our own calculations*

The obtained data show that, in percentage terms (VAT revenue/GDP nominal), the highest share of VAT revenue was recorded in 2017–2018, and the lowest in 2022–2023. This may be caused by a number of factors*, including widespread VAT reliefs for the military goods and their gradual phasing out, the lack of tax refunds for businesses between February and September 2022, and unsuccessful attempts between 2022 and 2024 to amend the rules governing the system for monitoring the registration of tax invoices and related adjustment calculations.

**factors that contributed to the peak figures in 2017-2018 and the subsequent decline in the ratio of VAT collected to nominal GDP in the following years:*

- *exemption from VAT in 2019–2020 on transactions involving the import into the customs territory of Ukraine of goods specified in the subcategories of the Ukrainian Classification of Goods for Foreign Economic Activity (UKT ZED) 8502 31 00 00, 8541 40 90 00, 8504 40 88 00, in particular solar panels and wind power generators, in accordance with Law of Ukraine No. 2628-VIII dated November 23, 2018;*
- *exemption from import VAT on motor vehicles powered exclusively by electric motors; goods intended for combatting coronavirus (medicines, medical devices, medical equipment). The relief applies not only to imported goods but also to domestically produced “anti-coronavirus” goods;*

[12] https://bank.gov.ua/files/macro/S_budget_y.xlsx

- *VAT revenue figures for 2018 were influenced by a reallocation of 8 billion UAH from NJSC "Naftogaz", which resulted from a successful court case against "Gazprom". This amount affected the ratio, but is not the result of efforts to combat fraud;*
- *the rise in "grey" imports over the last few years has also affected the ratio of VAT collected to nominal GDP. Goods that enter Ukraine without paying customs duties and are subsequently sold through businesses that do not pay VAT increase GDP, but not VAT revenue;*
- *VAT revenue figures for 2023 were affected by the mid-year abolition of "military" exemptions from excise duty and VAT for the fuel market.*

As we can see (Figure 6), the gap in 2022 was offset by a gradual improvement in the state's tax collection efficiency. However, the positive trend observed in 2023–2024 was not confirmed by last year's figures, when the fiscal weight of VAT fell slightly. This requires further analysis, in particular through an assessment of the status of tax refunds/debts from the budget* and the gap in VAT payments (see "Calculation of VAT non-compliance" below).

**According to the State Tax Service, in 2025 taxpayers claimed a VAT refund of 198,210.2 million hryvnias. A VAT refund of UAH 179,608 million was paid in 2025. However, following documentary checks of the VAT claimed for refund from the budget, a budget refund of 10,466.1 million hryvnias was refused. We can therefore provisionally estimate that businesses failed to pay UAH 8.1 billion of officially declared tax last year (198.2 – 179.6 – 10.5). Furthermore, in November–December 2025, there were frequent instances of tax authorities pressuring taxpayers to make adjustments and to abandon attempts to claim VAT refunds*

2.2.1. Recognition of a high-risk tax credit ("twists", high-risk VAT)

The essence of the scheme: a company (usually a legitimate importer) officially imports goods into Ukraine, paying import VAT to the state budget and, accordingly, receiving a tax credit for that amount. The goods are then sold domestically for cash, but on paper they remain on the company's stock records. At the same time, the VAT EAS enables such a company to issue tax invoices for the full amount of import VAT and, consequently, to unlawfully generate a tax credit for the VAT payers concerned, whilst returning the funds received into their accounts to the client in cash, after deducting a "service" fee. By analogy – entering false details on tax invoices and combining incompatible goods – the "twists" scheme applies to manufacturing companies that can generate a tax credit of "internal" origin. This scheme is difficult for the regulatory authorities to detect, is hard to identify at the declaration stage, and requires monitoring of the entire supply chain, leftover stock inventory, and reconciliation of stock options.

The period 2019–2020 can be regarded as the historical peak in the use of tax fraud schemes, when the volume of high-risk transactions reached 180 billion hryvnias, and the annual VAT losses to the budget potentially amounted to 30 billion hryvnias:

Insert 3: “Businesses have been identified which, between January 2019 and March 2020, carried out transactions involving the substitution of product codes. The volume of fictitious VAT invoiced by such taxpayers amounts to around 2.5 billion hryvnia per month”

(Preliminary report of the Temporary Investigation Commission, appendix to the Resolution of the Verkhovna Rada of Ukraine No. 1034-IX dated December 02, 2020)

We analyse the performance of the relevant departments:

Table 4. The status of combating VAT fraud schemes by the Economic Security Bureau of Ukraine for 2024–2025*

(million UAH)

Performance indicators Economic Security Bureau of Ukraine	As of January 01, 2024	As of January 01, 2025	As of July 01, 2025	As of October 01, 2025	As of January 01, 2026**
1. Preventing losses to the state arising from unlawful VAT refunds from the budget					
the number of analytical outputs (analyst's findings) produced in the area of combating unlawful VAT refunds	53	27	23	34	42
regarding the risks of offences affecting the state's economic security, amounting to	1 564,2	1 246,2	1 655,4	2 889,2	4 200
2. Preventing the spread of high-risk VAT tax credits					
the number of analytical reports (analyst's opinions) produced in relation to a typical scheme involving the overstatement of tax credit amounts through the carrying out of dubious transactions that show signs of being counterfeit, transactions involving the substitution of product codes, or without the goods/works/services being properly displayed along the supply chain	221	294	152	215	227
regarding the risks of offences affecting the state's economic security, amounting to	11 698,3	9 854,7	5 444,1	8 331,1	10 400
3. Identification of risks in the area of threat and risk assessment in the agricultural exports sector					
the number of produced analytical outputs (analyst's findings)	39	139	34	41	55
regarding the risks of offences affecting the state's economic security, amounting to	6 743,5	15 221,4	2 257,9	5 740,4	6 300

**Information from the Economic Security Bureau of Ukraine (upon request); the data will be updated once information regarding the 2025 results has been received from the Economic Security Bureau.*

***pages 12, 14 and 16 of the Report “On the Activities of the Economic Security Bureau of Ukraine for 2025”* [13]

It is worth noting that, in general, statistics of the Economic Security Bureau require verification given the lack of a link to actual budget revenue due to the duplication of results between the supervisory authorities and the Economic Security Bureau (where the results of control measures concerning an individual taxpayer, for example, desk-based or documentary checks on VAT refunds, are included in the performance figures of the Economic Security Bureau on the basis of an existing recommendation concerning that taxpayer or an identified risk).

[13] https://esbu.gov.ua/diialnist/plani-ta-zvity

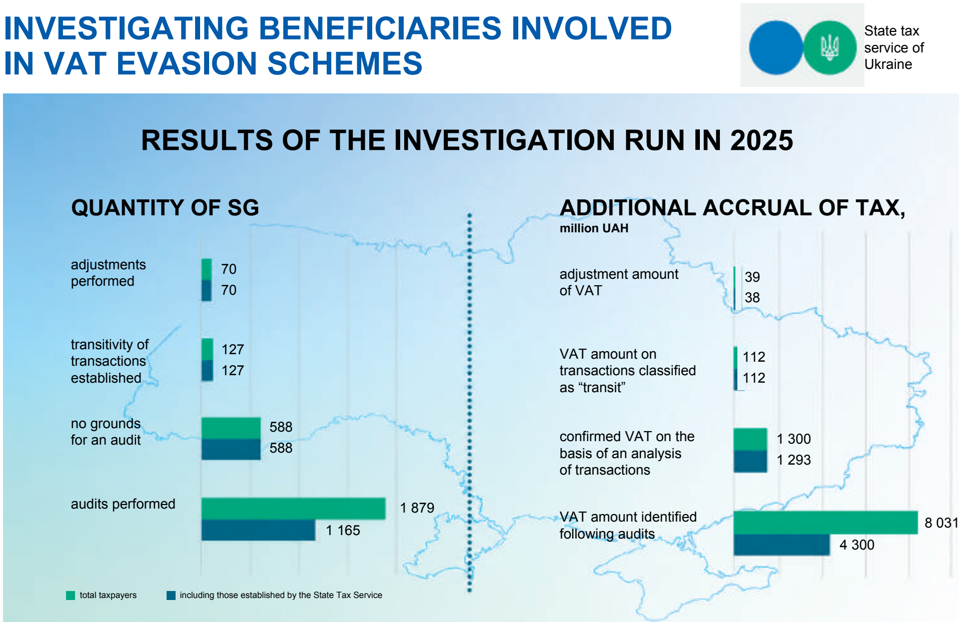
This situation will continue to recur until a system is put in place between the State Tax Service, the State Customs Service and the Economic Security Bureau to allocate the relevant budgetary revenues (with confirmation via the State Treasury) and for the Economic Security Bureau to reflect the results of its activities in official reports, for example, in the Unified Report on Criminal Offences compiled by the Office of the Prosecutor General of Ukraine.

Table 5. Results of the audit of 'high-risk' VAT by the State Tax Service of Ukraine for the period 2017-2025*

	2017	2018	2019	2020	2021	2022	2023	2024	2025
1. Identified beneficiaries who have used a tax credit scheme to minimise or evade tax, in particular:									
quantity of beneficiaries	1 000	3756	8 522	5 907	5 201	3 041	1 984	2 896	2 664
total value of transactions relating to the tax credit scheme (million UAH)	6 776	11 155	27 510	24 504	29 945	10 647	12 595	14 367	9 482
2. Audits of the beneficiaries who have used a tax credit scheme to minimise or evade tax, in particular:									
number of the performed audits	3 868	3 223	3 014	1 568	3115	1 127	1 086	1 956	1 879
additional charges levied following audits (million UAH):	7 737	5 399	5 644	2 690	9 027	2 668	2 171	4 343	3 405
in particular, corporate income tax (hereinafter "CIT")	-	-	-	591	2 587	927	687	603	-
in particular, VAT	7 737	5 399	5 644	2 103	3 995	1 165	1 033	1 183	-
reduced negative value of the income tax base (million UAH)	-	-	-	400	7 288	965	379	437	583
reduced VAT tax credit (million UAH)	1 414	988	783	1 254	4 217	1 736	756	1 742	1 200
reduced budgetary VAT refunds (million hryvnias)	623	242	133	333	2638	838	1 107	378	906
amounts received by the budget following audits (million UAH)	391	193	212	122	359	126	148	118	-

**Information from the State Tax Service of Ukraine (upon request); Reports on the implementation of the Work Plan of the State Tax Service of Ukraine for 2024 (pp. 38-39) and for 2025 (pp. 41-42)*

**the data will be updated once information regarding the 2025 results has been received from the State Tax Service.*



In total, audits in 2025 covered 8.3 out of 9.48 billion UAH of identified high-risk tax credits (or 87.6%), of which 3 billion UAH of fraudulent VAT was recovered (last year's figure was 3.36 billion UAH, and 2.17 billion UAH – in 2023). In view of the available data and calculations (Tables 3 and 4), there is currently no reason to believe that the "twists" has been definitively resolved. The scheme remains an elite one and, most probably, operates with the active assistance of certain State Tax Service officials, both former and/or current:

> Insert 4: "The Security Service of Ukraine and National Anti-Corruption Bureau of Ukraine have uncovered a conversion centre: the former leadership of the State Tax Service was involved in its activities… Between 2020 and 2023, the conversion centre issued tax invoices containing false information regarding the supply of goods and services totalling **15 billion hryvnias**, whilst the fictitious value-added tax amounted to over **2.3 billion hryvnias**."
> *Statement by the Security Service of Ukraine dated October 24, 2025*

At the same time, the issue of combating fraudulent high-risk credit has not been definitively resolved due to the shortcomings of the automated monitoring system (since the start of the war, 10 sets of amendments[14] have been provided to the relevant Cabinet of Ministers Resolution No. 1165), in particular due to its particular vulnerability to human error and the limited effectiveness of analysis and inspections. Furthermore, a comprehensive and transparent audit of the system for monitoring risks and the criteria for blocking/unblocking tax invoices, as provided for in the decision of the National Security and Defence Council of Ukraine dated January 23, 2024, which was brought into force by the Presidential Decree No. 21/2024[15] and Order of the Cabinet of Ministers of Ukraine No. 464p[16] dated May 24, 2024, has never actually taken place. Although the tax authorities have been gradually reducing the proportion of blocked tax invoices and adjustment calculations over the last two years (see section 2.2.3. RACMS (Risk assessment criteria monitoring system), below).

[14] https://zakon.rada.gov.ua/laws/show/1165-2019-%D0%BF#Text
[15] https://www.president.gov.ua/documents/212024-49521
[16] https://zakon.rada.gov.ua/laws/show/464-2024-%D1%80#Text

Forecast (estimate): the annual scale of high-risk tax credit fraud ("tax fraud", high-risk VAT) ranges between **85 and 95 billion UAH**, with corresponding budget losses of around **14–16 billion UAH per year***

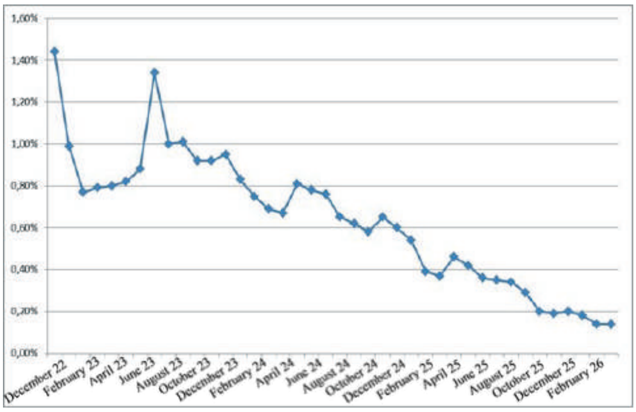
**previously, a maximum of 180/30 billion was projected, but given the downward trend in recent years, we consider figures in the range of 110–100 billion to be likely. Through its analyses and audits in 2024–2025, the State Tax Service covered 14.4 and 9.5 billion hryvnias, of which 2.9 and 3 billion hryvnias of fraudulent VAT were neutralised (Table 4). At the same time, the analysis of the Economic Security Bureau covers 9.9 and 10.4 billion hryvnias (there is some overlap with the State Tax Service). In other words, a maximum of 95 billion hryvnias worth of high-risk transactions, multiplied by 0.1667 (the VAT rate), remains outside the scope of state control, amounting to 14–16 billion hryvnias*

The performance of tax and law enforcement authorities in combating VAT "carousel schemes" in 2023–2025 can be characterized as a gradual process of restoring effective state control over the full collection of VAT. However, Ukraine still needs to overhaul the tax service, appoint a permanent head of the agency through an open competitive process, and further improve VAT administration, both by combating tax evasion and avoidance schemes and by making the system more taxpayer-friendly.

2.2.2. Risk assessment criteria monitoring system (RACMS)

The State Tax Service publishes information on the results of the RACMS's work every month. Following the abnormal figures recorded at the end of 2022 – which were caused by the amendments made by the Ministry of Finance to the Resolution No. 1165 and caused considerable harm to law-abiding businesses – the situation gradually improved during 2023-2024. Following the introduction of a series of amendments to the CMU Resolution, the blocking rate fell from an abnormal 1.44% in December 2022 to 0.95% in December 2023, and to 0.6% in December 2024, and by the end of 2025 it had reached its lowest level (0.18%) (data shown in the graph).

The number of businesses whose tax invoices were blocked decreased from approximately 20,000 to 8,000–9,000 by the end of 2025. At the same time, this remains a relatively high figure, indicating that the VAT Risk Monitoring System (SMKOR) requires further improvement to minimize the blocking of tax invoices issued by compliant businesses.



2.2.3. Fictitious business activities, in particular “drops”, code substitution, “black”/”grey” grain, “carousel” schemes and others

The essence of the scheme: a fictitious business activities, in tax terms, is the acquisition of control over a business entity for the purpose of carrying out actions aimed at avoiding or evading tax payments, in particular VAT, obtaining cash, and manipulating financial statements and source documents. The Criminal Code of Ukraine (Article 205)* defined fictitious business activities as “the establishment or acquisition of business entities (legal entities) for the purpose of concealing unlawful activities or carrying out activities that are prohibited”.

**On September 25, 2019, the provisions of Law No. 101-IX dated September 18, 2019 came into force, whereby Article 205 was removed from the Criminal Code of Ukraine. On the one hand, it was a key tool for combating the criminal activities of conversion centres and punishing cases of unlawful VAT refunds from the budget; on the other hand, it was one of the most common means of exerting pressure on businesses. An attempt made in 2020–2021 to apply Article 205-1 of the Criminal Code of Ukraine, “Falsification of documents submitted for the state registration of legal entities and individual entrepreneurs”, as the relevant provision in this area, did not result in its widespread application. In other words, there is a need for a new practical tool to combat the unlawful refund of VAT from the budget and fictitious business activities (efforts to introduce criminal liability for value-added tax fraud have been limited to two unsuccessful attempts at the legislative level – draft laws No. 3087-d dated July 02, 2020 and No. 3959-1 dated August 25, 2020).*

In a broader sense, fictitious business activities form the basis of the transit and conversion centre (TCC) industry, which largely serves the informal economy’s need for cash and its conversion into non-cash form, the circumvention of bans and restrictions, salaries in envelopes, conducting business transactions off the books, and providing services involving the falsification or manipulation of source documents and tax invoices. The issue remains relevant in light of the latest results of the law enforcement agencies’ work:

Insert 5: A criminal organisation with a turnover of up to 18 billion hryvnias has been uncovered

The money-laundering scheme had been operating since 2020 in five regions of Ukraine, involving **over 500** affiliated companies and individual entrepreneurs. The funds were transferred abroad via 20 foreign companies[17]. According to the investigation, the total amount of funds converted may exceed **18 billion hryvnias**.

The losses to the state amount to almost **57 million hryvnias**. According to preliminary figures, more than **200 businesses** have used the services of this network. Documents were drawn up for companies purporting to show the purchase of goods or services that did not actually exist. As a result, companies were able to report lower tax liabilities, particularly VAT. More often than not, these "transactions" were executed with fuel, so that everything would look like genuine business activity. To this end, over 90 fictitious companies were set up. Fictitious transactions were carried out through them, after which the money was converted into cash and returned to the clients. Cash was issued through exchange offices [18]

Statement by the Economic Security Bureau of Ukraine and the Office of the Prosecutor General of Ukraine dated April 27, 2026

One form of criminal activity in this area involves groups that create schemes based on the widespread use of individuals' bank accounts as transit accounts for the transfer and laundering of illicit funds. To this end, an individual provides its bank account details, including its login details and access to online banking, to third parties for their use. Such schemes are known as "drops" ("money mules"). Money obtained through tax evasion (in particular, the black market in excise goods and online trade) and money acquired through other criminal means (cybercrime, drug and arms trafficking, etc.) is channelled through "drop" accounts. At the final stage of the scheme, the owner ("dropper"), who needs cash, "meets" with other "grey" players (for example, "grey" petrol stations), who need non-cash funds to be transferred to their accounts, minus the organiser's commission (3-7%).

Insert 6: Typical signs of a "drop":

- a new customer's bank account or a "dormant" account (one that has not been active for a long time), on which abnormal activity begins (up to a hundred transactions per day with a turnover of 40-100 thousand hryvnias);
- many card transactions are of a transitory and random nature (various receipts, different recipients and senders)

[17] https://t.me/oleksandrtsyvinskyi/33, https://esbu.gov.ua/news/tinova-imperiia-na-18-mlrd-hrn-beb-vykrylo-konvertatsiinyi-tsentr-iakyi-obsluhovuvav-sotni-kompanii-po-vsii-ukraini

[18] https://gp.gov.ua/ua/posts/40-obsukiv-90-fiktivnix-firm-i-ponad-18-milyardiv-griven-vikrito-zlocinnu-organizaciyu-yaka-dopomagala-biznesu-platiti-mense-podatkiv?fbclid=IwY2xjawRcGc9leHRuA2FlbQIxMABicmlkETFoaFJaUUYzSU9NWm1MdEhNc3J0YwZhcHBfaWQQMjIyMDM5MTc4ODIwMDg5MgABHigrOzicO84F16zxmVeBNlmKbyJy-QdFNWxOFUFdHYu1Y95Gi3oS9lsfgrU-_aem_9K2tk-mjEMrX8ULcVSa75A

How can you understand that you're being offered the chance to become a "money mule":

- high income with minimal effort;
- accepting payments from unknown individuals onto one's own card;
- providing bank details and access to online banking;
- you are asked to open a new card for your own use or for third parties;
- interaction with the employer is exclusively online (without face-to-face contact);
- there are no requirements regarding education or work experience.

Statement by the Main Service Centre of the Ministry of Internal Affairs and the Cyberpolice Department of the National Police of Ukraine dated March 25, 2026[19]

A criminal scheme involving the use of "drops" ("mules") has become a trend in recent years; according to the NBU's estimates, it has risen to become the most popular method (following the dismantling of the coding/miscoding scheme[20] in 2023-2024). Overall, the NBU estimates that a single "drop" generates an average of up to 2.5 million UAH per year, whilst the total volume of the "drop" scheme amounts to around 200 billion UAH per year.

An attempt to restrict the "drop" scheme at a legislative level was made through draft law No. 14161 dated October 27, 2025 on the establishment and maintenance of a register of persons whose payment transactions require enhanced monitoring. The draft provides for the establishment of a legal framework for the collection, storage and exchange of information on individuals whose payment transactions require enhanced monitoring in order to prevent the unlawful use of the payment infrastructure; it also sets out the legal basis for the operation of the "drop" Register, which will be established and maintained by the NBU.

A scheme involving the illegal refund of VAT, in which goods are resold and exported multiple times, with the result that the exporter claims a VAT refund whilst the suppliers, having failed to pay the tax, disappear without having paid the tax – has been dubbed "carousel" (or "carousel fraud") – the same goods can circulate in a loop within a country or between countries, allowing VAT refunds to be used as a tool for criminal business activities. "'Carousel" schemes are the largest source of tax losses in the European Union. As Ukraine becomes more integrated into the European Union, we can expect their share of the market in Ukraine to grow and Ukrainian partners to be drawn into the international criminal networks that operate these schemes within the EU.

[19] https://hsc.gov.ua/2026/03/25/yak-pratsyuye-shema-z-groshovimi-mulami-ta-yak-yih-rozpiznati/

[20] Miscoding is a manipulation scheme designed to conceal the true origin of payments, based on the acquiring bank assigning the merchant a Merchant Category Code (MCC) that does not correspond to the nature of its activities and directly misleads other participants in payment systems as to the nature of the services provided by that merchant.

At the same time, between 2022 and 2025, the issue of fictitious businesses became even more pressing due to their widespread use in schemes involving the export of "grey" grain from Ukraine. It is difficult to estimate the direct losses to the budget resulting from grey grain export schemes due to their scale and the large number of participants involved. The Economic Security Bureau estimated the losses to the state budget in 2022 due to non-payment of taxes under this scheme at 5.2 billion hryvnias, whilst the Governor of the National Bank of Ukraine recorded the non-repatriation of foreign currency proceeds amounting to 8 billion US dollars[21].

The situation was addressed by Laws No. 3706-IX and No. 3707-IX dated May 09, 2024, Resolution of the Cabinet of Ministers of Ukraine No. 1261 dated October 29, 2024, and Clause 27 of the Procedure for Maintaining the Unified Register of Tax Invoices regarding the specific features of the export of certain types of goods during the period of martial law, which introduced a number of onerous regulations: the export support regime, specific requirements for the registration and preparation of tax invoices and adjustment calculations (TI/AC) and VAT refunds, state-set minimum export prices, etc.

Insert 7: "A new system has been in place since December 2024: for some exporters with a good reputation and a positive tax record, tax invoices are registered unconditionally, whilst for others, registration takes place with a three-day delay. The State Tax Service may classify the latter as high-risk and block these invoices. As a result of this system's operation, the registration of more than 300 tax invoices issued by 124 taxpayers, covering a total value of **2 billion hryvnias**' worth of goods, was suspended. In other words, over the period the system has been in operation, foreign currency revenue amounting to **200 billion hryvnias** has been received."
(Interview with the Chair of the Verkhovna Rada Committee on Finance, Tax and Customs Policy dated May 03, 2025[22])

Based on the available data, the grey grain scheme was largely curtailed, but not completely stopped.

Insert 8: "The Economic Security Bureau lacked a systematic approach, as well as regulatory, organisational and technical support, to manage risks effectively in the economic sphere. On certain issues, the Bureau's results were piecemeal, and no comprehensive medium- and long-term planning had been put in place. The automation tools were not sufficient to integrate the results of analytical work into activities aimed at preventing offences…For the four years of its operation since its establishment in 2021, the Economic Security Bureau, as the sole analytical body, has failed to implement adequate measures aimed at preventing and combating offences that undermine the state's economic security. This is due to a combination of factors, including regulatory and organisational issues, the untimely and inadequate nature of management decisions, and a lack of resources.

[21] 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

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

Decision of the Accounting Chamber of Ukraine No. 22-1 dated September 23, 2025 following the audit of the Economic Security Bureau

"The total value of violations relating to the repatriation of foreign exchange earnings exceeds 8 billion US dollars, with agricultural products accounting for the largest share…The problem of non-repatriation of foreign exchange earnings and fictitious exports is systemic in nature and constitutes one of the key threats to Ukraine's financial stability and economic security."
Report of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on the investigation into possible breaches of the law by entities engaged in foreign economic activity relating to the non-repatriation of foreign currency proceeds to Ukraine; Draft Resolution No. 15075 dated March 11, 2026[23]

Forecast (estimate): overall, it is quite difficult to assess the true extent of fictitious business activity. According to data from the relevant government bodies, the problem remains a pressing one, and the total maximum turnover generated by these schemes could reach up to 400 billion hryvnias a year*. Given the aforementioned prevalence of fictitious business practices, in particular "drop" schemes, "grey" grain schemes and others, we estimate these to amount to between 250 and 320 billion hryvnias in 2025; the losses to the state budget resulting from these schemes are largely accounted for in other sections of the study.

**The volume of "grey" grain amounts to 200 billion hryvnias (320 billion in total, 120 billion of which is subject to controls); to this we add the volumes of the "drop" scheme, adjusted by the NBU and the Economic Security Bureau, estimated at 200 billion hryvnias*

Consequently, the erosion of the regulatory framework, the low effectiveness of investigations into tax offences, staff turbulence in the relevant agencies, the incomplete process of relaunching the Economic Security Bureau (the re-certification of all Bureau staff began in February–March of this year) and the supervisory bodies (it was not until April 10, 2026 that the Government managed to appoint Orest Mandzii as the Head of the State Customs Service of Ukraine), and weakened coordination are significantly hindering and complicating efforts to tackle the phenomenon of fictitious entrepreneurship and VAT fraud schemes.

Recommendations:

- during the reorganisation of the Economic Security Bureau and the Customs Service, society and the authorities should ensure that the old personnel and ideology, as well as the most brutal practices – in particular the "maski shows" (aggressive searches of business entities performed by the government bodies with use of force) targeting legitimate businesses – are not allowed to persist;

- the current capabilities of the regulatory and law enforcement authorities, which include requirements for a monitoring system and the compilation of "critical" lists of taxpayers and tax credits, are sufficient to significantly curb VAT minimisation schemes. However, this has not happened and will not happen as

[23] https://itd.rada.gov.ua/billinfo/Bills/Card/69694

long as the regulatory bodies and the Economic Security Bureau remain only partially reformed and there is little coordination between them. A more proactive and comprehensive approach is needed from the President, the government, parliament and the National Bank of Ukraine, as has already been seen in the fuel and gambling markets, and with regard to “drop” schemes and the “grey” grain market;

▸ as the main source of budget revenue, VAT requires further modernisation of the administration system, aimed at eliminating tax avoidance schemes (the issue of “scheme-based” tax credits has not yet been fully resolved) and making the system more user-friendly and convenient for taxpayers. The “overhaul” of the RACMS should be fully completed before the Ukrainian VAT system is integrated into the EU’s tax administration system;

▸ most VAT fraud cases are of a documentary nature, meaning they can only take place with the involvement of State Tax Service staff; it is therefore crucial to develop and implement new, high-quality anti-corruption documents, in particular the State Tax Service’s Anti-Corruption Program for 2026-2028 and the Code of Ethical Conduct for Tax Officials (both currently being drafted). However, a more effective solution would appear to be a reorganisation of the State Tax Service, following the example of the Economic Security Bureau and the State Customs Service.

2.3. Tax evasion/avoidance through breaches of customs regulations, smuggling and corruption at the border

The essence of the scheme: in Ukraine, smuggling is defined as a criminal offence (the deliberate movement across the customs border without customs control or by concealing goods from customs control), taking into account the amendments introduced in 2018 and 2023[24], the following are covered (in accordance with Articles 201, 2011, 2013, 2014 and 305 of the Criminal Code of Ukraine):

- cultural values;
- weapons and their components, or ammunition, as well as toxic, potent and explosive substances;
- radioactive materials;
- sensitive tools for surreptitious obtaining of information;
- narcotic drugs, psychotropic substances, their analogues or precursors, or counterfeit medicinal products;
- timber, in particular unprocessed timber or sawn timber of valuable and rare tree species, as well as other timber prohibited from export;

[24] Article 2011 was added to the Criminal Code of Ukraine pursuant to Law No. 2531-VIII dated September 06, 2018; Articles 2013 and 2014 were added pursuant to Law No. 3513-IX dated December 09, 2023

- excise goods, excluding electricity (from January 01, 2024), where the value of the smuggling exceeds UAH 1,135,500;
- other goods (from July 01, 2024) with a total value of more than UAH 7,570,000.

In this study, smuggling and “grey” imports are defined as the illegal (in breach of the law) importation into the customs territory of Ukraine of any goods, regardless of their value, including cases involving partial declaration or no declaration at all, or declarations containing distorted data or manipulated information, in particular as a result of corruption at customs. This phenomenon can be broadly categorised as follows:

1) customs fraud (documentary smuggling) and corruption schemes. A key feature of these schemes is the involvement of customs officials, which facilitates falsification and misrepresentation in declarations (manipulation of data in reporting, authorisation and accompanying documents to understate the customs value, weight, quantity, characteristics and quality of goods, and the substitution of commodity codes or subcategories with the aim of avoiding or reducing the customs duties payable).

2) movement outside customs control (“black” smuggling) – the illegal movement of goods across the customs border outside customs control. This involves either crossing the border outside the customs posts of both countries, or evading customs controls at Ukraine’s state border crossing points, in particular outside the crossing points’ opening hours or without a customs inspection in return for a fee. A characteristic feature of the scheme is the complete avoidance of documenting transactions (the absence of a paper trace) and, consequently, their non-reflection in official national statistical (customs) data.

3) abuse of benefits – involves the abuse of benefits granted under international treaties (the Kyoto Convention, etc.) and Ukrainian legislation, in particular the disguising of the importation of commercial consignments of goods into the customs territory of Ukraine as postal or courier consignments, or as personal imports or the carriage of personal effects. The following schemes can be identified in particular: a) traditional schemes, i.e. “jacket” schemes (the movement of goods in small consignments within the permitted import allowance) or “diplomatic” schemes (the abuse of diplomatic benefits regarding customs inspection); b) combined schemes, namely “duty-free” (the illegal sale of tobacco products imported without payment of customs duties for subsequent sale in duty-free shops, combined with the forgery of official documents purporting to show that the products were sold to citizens leaving the customs territory of Ukraine) or “postal” schemes (the use of international postal and express consignments to split consignments and import goods without any taxation).

4) Abuse of customs procedures – goods are imported into or exported from Ukraine under customs procedures that do not require the payment of customs duties (transit; temporary importation or exportation; customs warehouse; processing within or outside the customs territory), and then the goods disappear or a fictitious export is recorded. The scheme has a dangerous "national variant" – interrupted exports, whereby a company exports goods in compliance with customs legislation but does not register as a taxpayer, in particular for VAT. Once the export transaction has been completed, the company disappears without repatriating the foreign currency proceeds to the country and without reporting to the tax authorities (examples of such schemes are set out in the materials of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on the investigation of facts, publicised in the media, concerning possible corrupt practices by officials of state authorities, which have led to significant losses to the revenue side of the State Budget of Ukraine[25]).

Table 6. These schemes can be classified according to their purpose (fiscal implications):

Foreign Economic Activity	*Scheme/breach*	*Breach purpose (fiscal implications)*
IMPORT	undervaluation of customs value	evasion of (or partial payment of) customs duties, VAT, excise duties at the border
	substitution the product code or subcategory	
	a change in weight and/or quantity of goods	
	a change in the characteristics or quality of the goods	
	manipulation of the product range	
	overvaluation of customs value	move of foreign currency assets outside Ukraine; overvaluation of an importer's expenses, which affects the payment of corporation tax; pressure on the hryvnia exchange rate
EXPORT	undervaluation of customs value	cross-border transfer of profits to low-tax jurisdictions, loss of income tax revenue
	overvaluation of customs value	abuse of the VAT refund scheme; balancing out certain smuggling schemes; 'carousel' fraud or the legalization of previously siphoned-off funds
	a change in weight and/or quantity of goods	circumventing statutory prohibitions (restrictions) on the export of goods
	substitution the product code or subcategory	

Implementation channels: "grey" imports and smuggling entering Ukraine are sold through a range of channels without paying any tax, or with only partial payment of tax. The most common sales channels are: a) via the internet or Telegram channels by individuals; b) via small shops or markets by individuals without any documents, or by individual entrepreneurs, or by "shell" limited liability companies; c) via certain retail chains, with "grey market" goods being formally documented through "one-day" companies or "accumulators".

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

Attempts to quantify the extent of tax evasion resulting from breaches of customs regulations, smuggling and corruption at the border rely on indirect methods, in particular mirror customs statistics (mirror data from partner countries); consequently, the estimates provided are often approximate. The World Bank has highlighted the following key precautions regarding potential distortions arising from the use of 'mirror' statistics[26]:

1. The value of imports is systematically over-valuated compared with that of exports, because imports are calculated at CIF prices (including freight and insurance), whilst exports are calculated at FOB prices (excluding these costs). This is important when calculating capital outflows to offshore jurisdictions via transfer pricing, but the estimates of "grey imports" – the subject of this section – are distorted in the opposite direction. In other words, because of this distortion, the scale of "grey" imports is underestimated.

2. Due to the fact that some trade flows pass through third countries in transit, this gives rise to "suspended" exports and "orphan" imports (in the literal sense, i.e. not linked to any registered exports). In theory, they should balance each other out, but in practice this does not happen. Since the start of the full-scale war, re-exports and transit through Ukraine have been the exception rather than the rule. Therefore, there may be "orphan" imports, but not the other way round. This, in turn, narrows the gap between imports into Ukraine and exports from partner countries.

Consequently, the distortions identified by the World Bank researchers lead to an underestimation of the scale of "grey" imports due to the calculation of "mirror statistics" in this study.

This section applies the methodological principles used by the UN and the World Bank (mitigating risks to data validity and reliability, and eliminating bilateral asymmetry by focusing solely on significant differences and conducting in-depth analysis by commodity group, whilst taking into account caveats regarding the consistency of mirror data), using UN data (UN Comtrade Database) and the capabilities of the EASY MARKETS platform[27].

An international comparison of customs statistics on mutual trade for 2023 and 2024 was carried out across 74 jurisdictions, which together account for over 98% of Ukraine's official imports and exports. Mirror statistics for 2025 were analysed for 33 countries, accounting for 29% of Ukraine's imports (based on the number of partner countries for which statistics were available as of April 30, 2026). According to Ukrainian statistics, last year's figures are provisional; the State Statistics Service has not yet published the official figures for Ukraine's exports and imports for 2025.

Furthermore, based on the discrepancies identified (the "Difference"* indicator) in the 2023 and 2024 data and a broader sample of countries (99), potential

[26] 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

[27] https://comtradeplus.un.org, https://easymarkets.com.ua/uk/opportunities/import-export-mirrors/#open

areas and the scale of fraud have been identified (where there are significant discrepancies in the mirror data that are difficult to explain by objective reasons (logistic reasons) and which may be the result of documentary falsification of data in invoices for foreign trade contracts):

- by country (high-risk jurisdictions), based on calculations of differences: in the case of imports – the value of the partner country's "lost" exports and "unknown" imports into Ukraine; in the case of exports – "lost" exports from Ukraine and the partner country's "unknown" imports;

The value of the "Difference" indicator is interpreted as follows:
– in the case of imports: a negative difference represents the so-called "lost" exports of the partner country (Ukrainian imports are less than the partner country's exports); a positive difference represents "unknown" imports into Ukraine (Ukrainian imports exceed the partner country's exports). In this case, two figures are calculated to illustrate the scale of invoice fraud (documentary smuggling): the difference in physical volumes, with a "minus" sign, is multiplied by the average price of the exporting country ("lost" exports from the exporting country), and the difference with a "plus" sign is multiplied by the price of Ukrainian imports ("unknown" Ukrainian imports);
– in the case of exports: a positive difference indicates "lost" exports from Ukraine (Ukrainian exports exceed the partner country's imports); a negative difference indicates "unknown" imports by the partner country (Ukrainian exports are less than the partner country's imports). The difference in physical volume with a "plus" sign is multiplied by the average price of Ukrainian exports (the value of "lost" Ukrainian exports), whilst the difference with a "minus" sign is multiplied by the average price in the importing country (the value of "unknown" imports) Given the main reason for the asymmetry in the statistics (the partner country is defined as the country of origin in the case of imports and as the country of destination in the case of exports), for the purposes of this study, in order to obtain more accurate data on imports, the country of shipment according to Ukrainian statistics is compared with the partner country's country of destination, as per the mirror statistics

- for specific goods (high-risk goods) by means of an analytical sample of goods by product group (based on 6 digits), using the differences in a range of indicators (value, quantity, calculated price per tonne/unit, unit weight);
- an assessment has been carried out of potential budget losses relating to high-risk goods: (A) on imports – undervalued Ukrainian imports/underestimated imports (the negative difference between the actual value of imports and the value of imports at the export price) and overvalued imports (the positive difference between the actual value of imports and the value of imports at the export price); (B) for exports – undervalued Ukrainian exports (the negative difference between the actual value of exports and the value of exports at the partner country's import price) and overvalued Ukrainian exports (the positive difference between the actual value of exports and the value of exports at the import price).

However, it is precisely when these discrepancies are particularly significant that they can serve as a starting point for identifying issues and assessing potential budgetary losses. According to calculations by Global Financial Integrity[28], the total value of discrepancies identified in trade between Ukraine and all its global trading partners amounts to between 9.28 and 17.83 billion US dollars. According to previous studies, the scale of discrepancies in invoices for goods under foreign trade contracts rose steadily between 2015 and 2022 – from USD 9.35 billion in 2015 to nearly USD 14 billion in 2022.

According to current estimates (Tables 9-11), based on a comparison of customs statistics on mutual trade, the gap continues to widen, reaching a record **22 billion US dollars** in 2025 (preliminary figures, to be finalised), and USD 17.24 billion in 2024 (this sustained upward trend is most likely due not only to instances of customs fraud, but also to objective reasons for discrepancies in the statistical data resulting from the inclusion of humanitarian and military cargo).

In particular, the analysis shows that, across 33 countries, the discrepancy in the data between Ukraine and its partner countries has increased compared with 2024: partner countries' lost exports rose by 208% (by 1.75 billion US dollars, whilst Ukraine's unreported imports rose by 122% (by 1.24 billion US dollars). As a result, the total cost gap increased by 3 billion US dollars (142%). An analysis by product group reveals a trend of significant discrepancies between Ukrainian statistics and the data from partner countries regarding passenger cars (group 8703) and certain product groups within the energy equipment sector (generators – group 8502, batteries – group 8507, and transformers – group 8504).

[28] Trade-Related Illicit Financial Flows in 134 Developing Countries 2009 – 2018 - https://gfintegrity.org/wp-content/uploads/2021/12/IFFs-Report-2021.pdf

Table 7. Differences between the statistics of exporting countries and the State Customs Service regarding imports of goods into Ukraine for 2025

Total for all items	Preliminary data from Ukrainian customs statistics (Import)			Mirror statistics (Export)	Difference
	Country of origin / destination	Country of trade	Country of dispatch	Country of dispatch	Country of dispatch
Total for all countries / groups of countries	**83 131 151,31**	**83 131 151,31**	**83 131 151,31**		
Total number of selected countries/groups of countries	**23 676 964,97**	**26 142 297,35**	**27 660 880,13**	**24 327 605,23**	3 333 274,90
Export losses from partner countries (negative)					-3 355 488,50
Unidentified imports into Ukraine (positive)					6 688 763,40
Total cost gap					10 044 251,90
Romania	1 837 211,40	1 413 673,20	5 092 602,49	1 835 217,77	3 257 384,72
Czech Republic	2 382 719,66	3 201 084,44	3 687 275,07	2 930 913,26	756 361,81
Hungary	1 741 364,39	1 645 499,56	3 081 457,44	4 158 296,90	-1 076 839,46
The Netherlands	1 092 323,65	2 473 324,91	2 601 610,12	1 894 971,20	706 638,92
USA	4 550 959,06	3 478 750,32	3 199 860,74	2 378 230,56	821 630,18
Italy	2 669 982,77	1 800 697,01	2 169 872,80	2 594 813,92	-424 941,12
Lithuania	1 441 399,32	1 507 390,68	2 295 344,49	1 648 288,10	647 056,39
Great Britain	1 430 617,42	3 652 594,55	864 982,13	1 398 284,40	-533 302,27
Spain	1 040 262,10	1 005 535,79	835 857,84	1 017 759,48	-181 901,64
Latvia	216 860,41	551 635,47	557 454,16	370 838,80	186 615,36
Denmark	437 087,33	916 325,85	425 839,76	551 135,30	-125 295,54
Moldova	156 702,95	344 275,13	305 212,65	299 628,60	5 584,05
Norway	456 317,20	415 138,90	479 211,43	752 189,30	-272 977,87
Estonia	139 004,30	1 328 779,26	286 075,34	261 716,49	24 358,85
Japan	1 067 244,90	779 488,42	156 810,77	556 077,00	-399 266,23
Finland	338 717,89	254 989,66	181 502,38	201 308,18	-19 805,80
Canada	273 629,68	185 296,17	207 961,29	403 079,10	-195 117,81
Egypt	288 631,38	108 080,42	176 629,42	98 559,24	78 070,18
Azerbaijan	270 182,60	82 738,64	149 402,71	227 936,50	-78 533,79
Malaysia	332 903,39	65 716,09	60 763,24	25 897,60	34 865,64
Brazil	259 311,22	36 223,51	62 521,53	71 551,40	-9 029,87
Indonesia	252 194,97	38 643,47	117 977,00	58 652,10	59 324,90
Australia	312 310,88	41 487,46	289 003,31	311 684,00	-22 680,69
Luxembourg	48 515,42	617 557,68	45 350,81	7 425,42	37 925,39
Portugal	312 310,88	41 487,46	289 003,31	223 938,60	65 064,71
Chile	55 100,03	14 404,60	7 622,38	17 527,80	-9 905,42
Bosnia and Herzegovina	27 764,26	4 889,29	8 962,00	6 777,20	2 184,80
Iceland	135 149,93	100 939,56	8 372,37	5 060,30	3 312,07
The Republic of South Africa	73 145,79	24 378,48	10 684,04	8 618,00	2 066,04
New Zealand	30 751,61	10 364,67	4 750,41	10 313,10	-5 562,69
Kyrgyzstan	5 570,74	906,70	906,70	587,30	319,40
Paraguay	717,44	0,00	0,00	328,30	-328,3

**provisional figures, to be clarified*

The further widening of price gaps is taking place against the backdrop of a tectonic shift in Ukrainian export flows, primarily from the aggressor states of Russia and Belarus to EU countries and Asia, particularly China, Hong Kong and others.

It is interesting to note that the balance of value gaps in customs statistics is consistently negative for Ukraine. However, this phenomenon may be the result of systematic efforts by the customs authorities to increase the customs value of imported goods in order to boost budget revenue, or the inclusion of delivery costs in the import price, or particularities in the compilation of statistical data (for example, State Statistics Service of Ukraine regarding the processing regime or the exchange rate used by the regulatory authorities or UN Comtrade converts import figures from national currencies into US dollars):

Table 8. Comparative table of differences between the statistics of exporting countries and the State Customs Service regarding imports of goods into Ukraine for 2024 and 2025

(thousand US dollars)

Total for all items	UKR CUSTOMS statistics (IMPORTS)		Mirror statistics (Export)		Difference (UKR CUSTOMS – Mirror)			
	2024	2025	2024	2025	2024	2025	Difference between 2025 and 2024	between 2025 and 2024, %
Hungary	2 897 796	3 081 457	3 367 928	4 158 297	-470 132	-1 076 839	-606 708	229
Czech Republic	3 625 772	3 687 275	2 330 800	2 930 913	1 294 972	756 362	-538 610	58
Italy	2 097 636	2 169 873	2 307 652	2 594 814	-210 016	-424 941	-214 925	202
Romania	3 861 062	5 092 602	2 029 290	1 835 218	1 831 772	3 257 385	1 425 613	178
USA	2 127 285	3 199 861	1 683 511	2 378 231	443 774	821 630	377 856	185
The Netherlands	2 227 156	2 601 610	1 481 195	1 894 971	745 961	706 639	-39 322	95
Lithuania	2 065 000	2 295 344	1 348 567	1 648 288	716 433	647 056	-69 377	90
Great Britain	775 124	864 982	983 235	1 398 284	-208 112	-533 302	-325 191	256
Spain	743 925	835 858	767 994	1 017 759	-24 069	-181 902	-157 832	756
Norway	326 824	479 211	460 906	752 189	-134 082	-272 978	-138 896	204
Japan	223 851	156 811	436 173	556 077	-212 322	-399 266	-186 944	188
Latvia	528 003	557 454	378 965	370 839	149 038	186 615	37 577	125
Canada	155 919	207 961	351 764	403 079	-195 845	-195 118	728	100
Moldova	337 527	305 213	329 103	299 629	8 424	5 584	-2 840	66
Denmark	341 279	425 840	306 833	551 135	34 446	-125 296	-159 742	-364
Estonia	313 072	286 075	305 108	261 716	7 964	24 359	16 395	306
Finland	168 227	181 502	181 662	201 308	-13 435	-19 806	-6 371	147
Azerbaijan	103 812	149 403	177 242	227 937	-73 430	-78 534	-5 104	107
Portugal	47 373	289 003	95 359	223 939	-47 987	65 065	113 052	-136
Australia	52 798	289 003	77 268	311 684	-24 470	-22 681	1 789	93
Egypt	125 054	176 629	75 338	98 559	49 716	78 070	28 354	157
Brazil	70 812	62 522	50 497	71 551	20 315	-9 030	-29 344	-44
Indonesia	67 115	117 977	33 925	58 652	33 190	59 325	26 135	179
Malaysia	79 114	60 763	20 923	25 898	58 191	34 866	-23 326	60
Chile	10 709	7 622	14 510	17 528	-3 801	-9 905	-6 105	261
Luxembourg	47 420	45 351	10 458	7 425	36 962	37 925	963	103
Bosnia and Herzegovina	10 381	8 962	7 666	6 777	2 715	2 185	-531	80
New Zealand	5 386		6 453	10 313	-1 067	-10 313	-9 246	967
Iceland	8 505	8 372	6 309	5 060	2 196	3 312	1 116	151
RSA	8 444		5 175	8 618	3 269	-8 618	-11 887	-264
Mexico	4 655		639	1 300	4 016	-1 300	-5 316	-32
Kyrgyzstan	321		285	587	37	-587	-624	-1 601
Paraguay	0	0	28	328		-328	-328	

**provisional figures, to be clarified*

From the data set obtained, we identify the jurisdictions posing the greatest risk:

Table 9. Lost/missing exports from partner countries in 2025

(thousand US dollars)

	UKR CUSTOMS statistics (IMPORTS)			Mirror statistics (Export)	Difference (UKR CUSTOMS–Mirror)
Total for all items, 2025	Country of origin / destination	Country of trade	Country of dispatch	Country of dispatch	Country of dispatch
Total for all countries/groups of countries	**83 131 151,31**	**83 131 151,31**	**83 131 151,31**	**—**	**—**
Export losses from partner countries (negative)	**10 383 597,46**	**10 840 784,79**	**8 916 796,18**	**12 272 284,68**	**-3 355 488,50**
Hungary	1,741,364.39	1,645,499.56	3,081,457.44	4,158,296.90	-1,076,839.46
Italy	2,669,982.77	1,800,697.01	2,169,872.80	2,594,813.92	-424,941.12
Great Britain	1,430,617.42	3,652,594.55	864,982.13	1,398,284.40	-533,302.27
Spain	1,040,262.10	1,005,535.79	835,857.84	1,017,759.48	-181,901.64
Denmark	437,087.33	916,325.85	425,839.76	551,135.30	-125,295.54
Norway	456,317.20	415,138.90	479,211.43	752,189.30	-272,977.87
Japan	1,067,244.90	779,488.42	156,810.77	556,077.00	-399,266.23
Finland	338,717.89	254,989.66	181,502.38	201,308.18	-19,805.80
Canada	273,629.68	185,296.17	207,961.29	403,079.10	-195,117.81
Azerbaijan	270,182.60	82,738.64	149,402.71	227,936.50	-78,533.79
Brazil	259,311.22	36,223.51	62,521.53	71,551.40	-9,029.87
Australia	312,310.88	41,487.46	289,003.31	311,684.00	-22,680.69
Chile	55,100.03	14,404.60	7,622.38	17,527.80	-9,905.42
New Zealand	30,751.61	10,364.67	4,750.41	10,313.10	-5,562.69
Paraguay	717.44	0.00	0.00	328.30	-328.3

*Table 10. "Unknown" imports into Ukraine in 2025**

(thousand US dollars)

	UKR CUSTOMS statistics (IMPORTS)			Mirror statistics (Export)	Difference (UKR CUSTOMS–Mirror)
Total for all items, 2025	Country of origin / destination	Country of trade	Country of dispatch	Country of dispatch	Country of dispatch
Total for all countries/groups of countries	**83 131 151,31**	**83 131 151,31**	**83 131 151,31**	**—**	**—**
Unidentified imports into Ukraine (positive)	**13 293 367,51**	**15 301 512,56**	**18 744 083,95**	**12 055 320,55**	**6 688 763,40**
Romania	1,837,211.40	1,413,673.20	5,092,602.49	1,835,217.77	3,257,384.72
Czech Republic	2,382,719.66	3,201,084.44	3,687,275.07	2,930,913.26	756,361.81
The Netherlands	1,092,323.65	2,473,324.91	2,601,610.12	1,894,971.20	706,638.92
The United States of America	4,550,959.06	3,478,750.32	3,199,860.74	2,378,230.56	821,630.18
Lithuania	1,441,399.32	1,507,390.68	2,295,344.49	1,648,288.10	647,056.39
Latvia	216,860.41	551,635.47	557,454.16	370,838.80	186,615.36
Moldova	156,702.95	344,275.13	305,212.65	299,628.60	5,584.05
Estonia	139,004.30	1,328,779.26	286,075.34	261,716.49	24,358.85
Egypt	288,631.38	108,080.42	176,629.42	98,559.24	78,070.18
Malaysia	332,903.39	65,716.09	60,763.24	25,897.60	34,865.64
Indonesia	252,194.97	38,643.47	117,977.00	58,652.10	59,324.90
Luxembourg	48,515.42	617,557.68	45,350.81	7,425.42	37,925.39
Portugal	312,310.88	41,487.46	289,003.31	223,938.60	65,064.71
Bosnia and Herzegovina	27,764.26	4,889.29	8,962.00	6,777.20	2,184.80
Iceland	135,149.93	100,939.56	8,372.37	5,060.30	3,312.07
The Republic of South Africa	73,145.79	24,378.48	10,684.04	8,618.00	2,066.04
Kyrgyzstan	5,570.74	906.70	906.70	587.30	319.40

**provisional figures, to be clarified*

Insert 9: "Four out of five iPhones sold in Ukraine are sold without any tax being paid, resulting in a loss of VAT of around **13 billion hryvnias annually**"

Ihor Khizhniak, CEO of Comfy, at the conference "Cooperation between the Economic Security Bureau and law-abiding businesses – the key to effectively combating economic crime" on August 15, 2025

Another major means of tax avoidance at the border is the misuse of the benefits provided for in international treaties and Ukrainian tax legislation. In particular, this refers to the importation of commercial consignments of goods into Ukraine's customs territory as postal or courier items, for which a simplified declaration and clearance process applies. At present, one of the greatest threats to local economies – particularly the Ukrainian economy – comes from cross-border marketplaces, whose business model is based on exploiting a specific benefit that affords them far more favourable fiscal and regulatory conditions than those enjoyed by official importers, domestic manufacturers and retailers.

Some of these parcels are used in "grey" schemes, and businesses are actively taking advantage of the scheme by combining duty-free parcels into commercial consignments for subsequent sale on the Ukrainian domestic market without paying tax. According to data from the State Customs Service of Ukraine on the value of postal items and international express consignments, their total value in 2025 amounted to UAH 167.3 billion, of which UAH 92.9 billion worth of consignments were exempt from customs duties (no customs duties were charged). Based on these figures and the assumption of a 40–50 per cent increase in the cost of shipments in 2026, maintaining the tax exemption for international parcels would potentially result in a loss of budget revenue from value-added tax alone amounting to approximately **UAH 26–27.9 billion per year**[29].

An attempt to resolve this issue was made through draft laws on the taxation of electronic trade transactions with value added tax (No. 15112 dated March 30, 2026 and No. 15112-1 dated April 03, 2026) and on assessing the efficiency and effectiveness of customs authorities (No. 12360 dated December 25, 2024, which has been awaiting consideration by Parliament at second reading since December 17, 2025). They are proposing to abolish the exemption whereby goods sent by post (express delivery) for personal use and valued at less than 150 euros are not subject to tax (sub-clause 196.1.17 of the Tax Code of Ukraine). These legislative initiatives form part of Ukraine's international commitments under the new program with the IMF[30].

[29] https://iset-ua.org/ua/nashi-proekti/item/233-analiz-proiektu-zakonu-shchodo-opodatkuvannia-operatsii-elektronnoi-torhivli-15112
[30] https://mof.gov.ua/uk/memorandum_of_economic__financial_policies-677

Insert 10: The State Customs Service's efforts to combat breaches of customs regulations

In 2024, customs authorities recorded 9,409 breaches of customs regulations, amounting to UAH 18 billion. The cost of breaches in 2024 more than doubled compared with 2023 (UAH 8.9 billion). At the same time, budget receipts for 2024 remain modest: of the 5,306 cases referred to the courts, totalling nearly UAH 18 billion, only UAH 3.8 billion have been recovered (compared with 2 billion hryvnias in 2023); of the confiscated property worth UAH 111.6 million transferred to the State Bailiffs'Service, UAH 15 million have been paid into the budget.

Review of the outcomes of work of the State Migration Service for 2024

Between January and December 2025, as a result of analytical and investigative work, as well as measures taken by the customs authorities, 9,507 breaches of customs regulations were detected, with the value of the goods involved amounting to UAH 11.1 billion. Customs authorities have referred 5,505 cases of breaches of customs regulations, amounting to UAH 10.6 billion, to the courts for consideration. Following the courts' consideration of the cases, penalties (confiscation of goods and fines) totalling over UAH 8 billion were imposed.

Annual Report of the State Customs Service of Ukraine as a law enforcement agency for the media and civil society for 2025, pp. 24–25[31]

The Economic Security Bureau's efforts to combat smuggling

In 2024, detectives of the Economic Security Bureau conducted investigations into 78 criminal cases relating to smuggling. 22 persons have been served with notices of suspicion, and 14 criminal cases have been referred to court.

Economic Security Bureau Activity Report for 2024, pp. 31-32[32]

In 2025, as part of its efforts to identify and manage risks in the customs sector, the Economic Security Bureau produced 153 analytical reports in the form of analysts' findings on offences affecting the country's economic security, totalling UAH 13.6 billion. 61 recommendations were sent to government bodies to implement measures aimed at preventing budget losses. Between January and December 2025, detectives of the Economic Security Bureau served notices of suspicion on 65 individuals, and 39 criminal cases relating to offences involving smuggling were referred to court.

Economic Security Bureau Activity Report for 2025, pp. 16 and 34

[31] https://customs.gov.ua/plani-ta-zviti-roboti#nav_tabs_content_1776331886966_4

[32] https://esbu.gov.ua/storage/app/sites/32/2025/Zvit-ESBU-2024.pdf

The data obtained show that the scale of "grey" imports and the extent of the response to them by the State Customs Service and the Economic Security Bureau, in particular in terms of prevention and compensation for budget losses, are not comparable. However, this year there are grounds for a reversal of the negative scenario: laws criminalising the smuggling of excise goods and ordinary goods are now in force – with effect from January 01. 2024 and July 01, 2024, respectively; in May 2024, parliament lifted the moratorium on documentary customs inspections, which had been in place since March 2022; a landmark event in customs reform was the adoption of Law No. 3977-IX, which requires a competitive selection process and the appointment of the Head of the State Customs Service (the new head was appointed on April 10, 2026) and, most importantly, the re-certification of customs staff. On July 04, 2025, Law No. 4323-IX dated March 25, 2025 came into force, which refined the approaches to administrative liability for breaches of customs regulations (tailoring of penalties). On April 17, 2026, the draft of Ukraine's new Customs Code, based on the EU Customs Code, was finalised, taking into account the European Commission's comments and proposals from the Ukrainian business community. The Government expects the Verkhovna Rada of Ukraine to consider and adopt the draft in two readings by September 01, 2026, with the new Customs Code due to come into force on December 01, 2027[33].

According to studies by the OECD, GFI, FATF and WCO, the overall estimated breakdown (in %) for all "grey"/illicit customs schemes is as follows:

1. **Under-invoicing/trade-based fraud (mis- or under-invoicing, false documents)**
Estimate: **~50% (range 40-60%)**
Trade-based fraud – one of the main methods for moving large consignments of goods. This is confirmed by studies of trade flows and reports from the IFF (illicit financial flows).

2. **Interrupted transit/'transit' schemes (re-export, "stopover" and removal of cargo)**
Estimate: **~5% (range 5-15%)**
This is an important procedure for large cargoes.

3. **Re-sorting/substitution of batches (re-sorting, repackaging, mismatch of goods)**
Estimate: **~25% (range 10-25%)**

4. **Postal/courier smuggling, "jackets" – individual couriers/illicit transportation, "shuttle" operations**
Estimate: **~10% (range 5-15%)**
"jackets"/"couriers" – people who import or export goods in small consignments; the rapid growth in small consignments sent via international postal and courier services

5. **"Green borders" (off-road smuggling)**
Estimate: **~10% (range 5-20%)**

[33] https://customs.gov.ua/news/zagalne-20/post/vidpovidaie-zakonodavstvu-ies-proiekt-novogo-mitnogo-kodeksu-ukrayini-peredanii-na-zatverdzhennia-uriadom-2784

A historically important route for tobacco, fuel and other goods in regions with weak supervision.

To calculate the potential volume of “grey” imports, we use both estimates based on “mirror statistics” and estimates based on surveys and assessments by the authorities:

1) the cost of customs fraud schemes amounts to **at least UAH 120 billion per year** (Committee on Finance, Tax and Customs Policy of the Verkhovna Rada, Temporary Investigative Commission on Economic Security)[34]; customs fraud schemes drain up to **UAH 10 billion per year** from the state budget (State Bureau of Investigation of Ukraine)[35];

2) in 2024, the share of “grey” imports is estimated to average 11.6% (2023 – 13.4%)[36], which corresponds (with the volume of goods imported into Ukraine amounting to USD 70.75 billion) to a value of **UAH 325 billion** and budget losses of **UAH 105-110 billion** (representative business survey).

3) budget losses resulting from gaps in legislation, the inefficiency of customs authorities and smuggling in Ukraine – **up to UAH 300 billion** a year (Office of the President of Ukraine);

4) taking into account the “adjusted” value gap for 2025 of USD 10.04 billion (USD 8.1 billion in 2024) and deducting from this certain items of humanitarian aid that are not reflected in Ukrainian statistics, we arrive at an estimate of the potential scale of smuggling and “grey imports” ranging **from 220 to 285 billion hryvnias**, with budget losses of **65–90 billion hryvnias per year**[37].

Taking into account the various sources and estimation methods, the average estimate of state budget losses from “grey” imports and smuggling in 2025, based on all methods, is in the range of **110–125 billion hryvnias per year**. The volume of “grey” imports and smuggling has increased compared with 2024.

Recommendations:

- A key task for the state in 2026 will be the timely and transparent reorganisation of the customs service, as provided for in Law No. 3977-IX dated September 17, 2024, in particular, the conduct of a one-off assessment of customs officials – on September 09, 2025, the Government approved the Procedure for organising and conducting the assessment of customs officials and the introduction of new methods for their evaluation (Resolution of the Cabinet of Ministers of Ukraine No. 1100 dated September 08, 2025);

[34] https://hromadske.radio/podcasts/my-ie-buly-y-budem-informatsiynyy-maraton/1150134

[35] https://apostrophe.ua/ua/news/society/2023-03-01/vyimyivayut-milliardyi-griven-direktor-gbr-rasskazal-o-poteryah-byudjeta-ot-shem-na-tamojne/291952

[36] Monitoring of Customs Operations from a Business Perspective – 2024 (IER, March 2025)

[37] The total customs duty burden on potential smuggling amounts to 29-32%, bearing in mind that imports for commercial purposes will be subject to VAT at rates of 20% or 7%, import duties at rates ranging from 0% to 50% (whilst the average customs rate is 4.9%) and excise duty, provided that the tax burden is 9-14% of the agreed (contractual) value, which is not lower than the customs value determined in accordance with Section III of the Customs Code.

▸ reform of the pay system at the State Customs Service remains a pressing issue (despite a 56% increase in the payroll fund, real salaries are barely keeping pace with inflation, and customs inspectors working at border posts have an average monthly salary of €650[38]);

▸ further strengthening the information and analytical aspects of customs operations through the phased establishment of an automated exchange of customs information with all of Ukraine's neighbouring countries and trading partners, in particular through the implementation of sub-clause 3 of clause 1 of the Decree of the President of Ukraine No. 505/2019 "On measures to combat smuggling and corruption during the customs clearance of goods", which instructs the authorities to take measures aimed at introducing the possibility of real-time exchange of information with the relevant information systems of other states regarding the customs clearance of goods moving across Ukraine's customs border;

▸ systematic improvements to the technical infrastructure of the customs authorities (surveillance equipment, the installation of scanners at border crossing points; recent innovations include new equipment for inspecting postal items and four mobile scanning systems utilising AI[39]);

▸ Despite the legislation wave of criminalising goods in 2024, the scale of illegal movement of goods remains high, whilst the practical results of the State Customs Service's work are far too modest. Similar statistics are seen in the Economic Security Bureau – few cases reach court, and court rulings are rare (see Insert 11). Although the pre-trial investigation of cases involving the smuggling of goods is entrusted, in particular, to the Economic Security Bureau. In view of this, it is of the utmost importance to fully involve the Economic Security Bureau in combating the smuggling and granting customs the status of a law enforcement agency (by appearing of operational, investigative and prosecutorial powers). The European Commission has endorsed the latest recommendation[40];

▸ An important aspect will be the introduction of a system of key performance indicators for the State Customs Service as an institution. On December 17, 2025, the Verkhovna Rada of Ukraine adopted, in principle, the draft law No. 12360 dated December 25, 2024, which introduces a procedure for assessing the efficiency and effectiveness of the activities of the customs authorities[41]. This assessment will be made on the basis of KPIs to be determined by the Ministry of Finance and published on the State Customs Service's official website;

▸ the documentary nature of most smuggling schemes (smuggling is inextricably linked to corruption) necessitates the strict implementation of the Anti-Corruption Program of the State Customs Service of Ukraine for 2023-2025 and the rapid development of a new and more effective version for 2026-2028 (currently under development).

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[38] https://uaprogress.tech/analytics?tab=2

[39] 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, slide 9

[40] https://mof.gov.ua/uk/news/mitnii_ogliad_za_iii_kvartal_2025_roku_ukrainska_mitnitsia__rozvitok_popri_viinu__prezentatsiia-5378

[41] https://itd.rada.gov.ua/billinfo/Bills/Card/55500

2.4. Counterfeit goods and illicit trade, in particular in excise goods

The essence of the scheme: counterfeit goods are the adulterated goods or a new product unlawfully created on the basis of the original in breach of intellectual property rights. Counterfeit goods also include:

- using someone else's logo, or one so similar that the two could easily be confused;
- counterfeiting the appearance of a product or its design features;
- the unauthorised use of multimedia products, books and computer programs ("pirated" discs);
- the unauthorised use of patented technical solutions.
- Article 1 of the WHO Framework Convention on Tobacco Control defines illegal trade as "any practice or conduct prohibited by law relating to the manufacture, dispatch, receipt, possession, distribution, sale or purchase of tobacco products, including any practice or conduct intended to facilitate such activities".

Within the country, illicit trade takes place through the following schemes:

- a completely illicit trade, where goods are sold without paying any taxes and without completing any paperwork. This scheme is widely used in the sale of tobacco products and goods from the oil and gas sector;
- "semi-legal trade", the sale of goods in shops, kiosks and the like which hold the necessary registration documents; however, only a portion of the goods is recorded through the payment transaction registration system, whilst the remainder is sold without fiscal receipts or with the issue of pseudo-fiscal receipts (so-called "ghost receipts"). This scheme is widely used for the sale of almost all excise goods (with the exception of energy products and motor vehicles);
- online distance selling without recording transactions via a cash register/software cash register (CR/SCR) and without reporting actual sales figures in tax returns. It is most commonly used for the sale of alcohol and tobacco products.

Estimate (forecast): in 2025, the size of the shadow market for excise goods reached **UAH 132-146 billion**, whilst budget losses amounted to **UAH 41-45 billion per year**

Insert 11: "The Temporary Investigation Commission paid particular attention to the illicit production and distribution of excise goods, including tobacco products, alcoholic beverages and fuel. According to experts' estimates, the annual loss to the state budget resulting from the illicit production and circulation of excise goods – tobacco products, alcoholic beverages and fuel – amounts 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 into possible unlawful actions by officials of state authorities, other state bodies and state-owned enterprises, which may have harmed Ukraine's economic security, draft No. 14028 dated September 10, 2025.

The most negative trends are continuing in the market for excise goods – primarily the market for alcohol, fuel and tobacco, which have traditionally been the mainstays of the informal economy. In our previous analytical reviews, "Determining the Shadow Economy Share in Excise Goods and Its Trends (2023–2025)" and "On measures to combat "schemes" in the trade in excise goods"[42], we carried out a detailed assessment of budget losses in each of the markets, including a description of the methodology and calculations.

As a result of the war, the **tobacco industry** faced a significant drop in production, logistical problems and the loss of some of its customers. This predictably led to an increase in the share of illicit tobacco products on the Ukrainian market between 2022 and 2025, reaching historic highs of 20%, 18%, 20% and 19% respectively (preliminary figures for 2025 are subject to revision). In other words, **one in five packs of cigarettes sold today is illicit**. If we convert the data obtained into tax revenue, we arrive at an estimated budget losses of **UAH 25–27 billion**.

Insert 12: Based on the annual average for 2025, the volume of trade in illicit cigarettes remained virtually unchanged compared with the previous year. In October 2025, the proportion of illicit tobacco products reached 17.8% – mainly due to a sharp increase in counterfeit products bearing forged excise stamps (during 2025, these accounted for 42% of all counterfeit products). Overall, the annual rate of illicit trade in 2025 stood at 15.9%. Given this level of illicit cigarette products on the Ukrainian market, the annual losses to the Ukrainian state budget due to unpaid taxes are estimated at UAH 26.5 billion, whilst the volume of the shadow cigarette market in Ukraine amounts to over 5.5 billion cigarettes.

"Monitoring of the illicit trade in tobacco products", a report by Kantar Ukraine dated December 14, 2025.[43]

[42] http://iset-ua.org/ua/doslidzhennya/item/221-tinova-chastkf-pidaktsyzki-2024та https://iset-ua.org/ua/doslidzhennya/item/216-shchodo-zakhodiv-po-protydii-skhemam-pry-torhivli-pidaktsyznoiu-produktsiieiu

[43] https://www.kantar.com/ua/inspiration/ait/ait-wave-4-2025

At the same time, both last year and this year, the Government has been relying on the introduction of an electronic excise stamp in its fight against "tobacco smuggling" – the e-excise stamp will become mandatory from November 01, 2026 (the full-scale roll-out has been postponed by 10 months; the changes are provided for in Law No. 4698-IX and Resolution of the Cabinet of Ministers No. 1752). However, the success of this reform is highly questionable:

Insert 13: The main purpose of introducing electronic excise stamps is to bring the trade in alcohol and tobacco products out of the shadow economy, as the Ukrainian budget loses an estimated **UAH 30 billion** annually from the tobacco market alone. The relevant system is already operating in test mode. It is used to generate an electronic stamp. And now, anyone who scans the unique code in the "Diia" app can see all the information about the product, from the manufacturer to the shop

Interview by Ukrainian Radio with the Deputy Minister for Digital Transformation, April 04, 2026[44]

The introduction of the electronic excise duty has been **completely disrupted**. It tooks two and a half years to develop the software – and in the end, the software that was developed… doesn't work. And they do not respond to market feedback

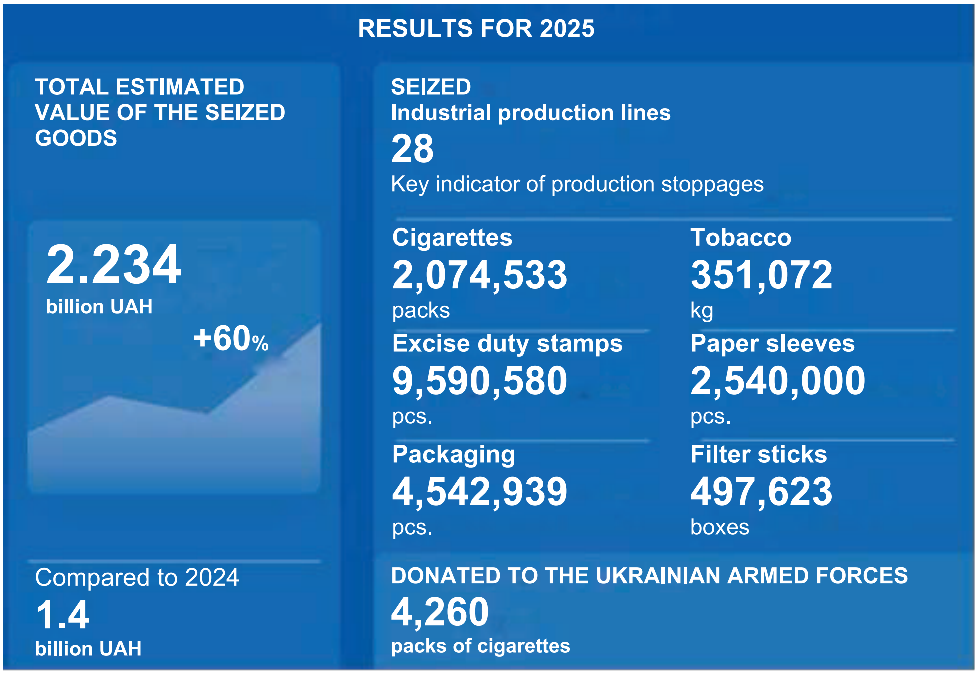
Interview with the Chair of the Verkhovna Rada Committee on Finance, Tax and Customs Policy D. Hetmantseva dated April 16, 2026[45]

In 2025, the Tax Service collected UAH 119.7 billion in excise duty on goods produced in Ukraine, which is 13.7%, or UAH 14.5 billion, more than the revenue collected in 2024. Of this increase, UAH 10.6 billion in revenue came from tobacco products (+14.9%). Unfortunately, this increase indicates that the situation regarding the unshadowing has worsened, as excise duty rates on cigarettes were increased by Law No. 4115 with effect from April 01, 2025 (+23% compared to the first quarter, +47% compared to 2024). Assuming sales volumes remained unchanged, the budget fell short by at least UAH 5.46 billion. And given that in 2025, revenue from tobacco products recorded via cash registers rose by 29.12% (to UAH 152.47 billion, compared with UAH 118.08 billion in 2024), the additional revenue should be significantly higher.

The Economic Security Bureau reported the following results regarding the efforts to bring the tobacco products market out of the shadows: "In 2025, 304 criminal cases relating to the illegal circulation of tobacco products were entered into the Unified Register of Pre-trial Investigations, 170 of which were referred to court." As the results of the court proceedings, 110 convictions were handed down." The total value of goods seized from illegal circulation amounted to UAH 2.23 billion, including 2.07 million packs of cigarettes*:

[44] https://www.kantar.com/ua/inspiration/ait/ait-wave-4-2025

[45] https://delo.ua/economy/getmancev-u-kerivnictva-beb-je-nestrimnii-reformatorskii-zud-ale-nemaje-konkretnoyi-roboti-z-gancirkoyu-abi-vimesti-brud-z-kimnati-463873/



**Economic Security Bureau Activity Report for 2025, pp. 24-25*

At the same time, these results are not sufficient either and have attracted criticism:

> **Insert 14:** "the renovated Economic Security Bureau has not produced any tangible results…We do occasionally hear about individual cases, but these are isolated incidents and do not lead to an end to the offences… unfortunately, we do not see any positive changes in the work of the Economic Security Bureau."
> *Interview with the Chair of the Verkhovna Rada Committee on Finance, Tax and Customs Policy D. Hetmantsev dated April 16, 2026*

On the other hand, legislative changes are also stalling – draft law No. 9364 on increasing liability for the illegal circulation of excise goods, which was adopted in principle by the Verkhovna Rada of Ukraine back in April last year, has still not been considered (it has been in the "prepared for second reading" stage since March 19, 2026).

At the same time, given the further increases in excise duty rates (requirements from international creditors and the European integration agenda to meet minimum excise duty thresholds for cigarettes), a shift in the current balance (80–83/20–17) towards an increase in the "shadow economy" is highly likely unless the state takes additional measures. At the very least, the experience of certain EU Member States suggests that the shadow market expands when excise duty rates rise too rapidly and are not set at optimal levels[46], and the state is unable to bring these negative developments under control (due to the weak institutional capacity of regulatory and law enforcement bodies). The shadow economy figures for post-socialist countries seeking EU membership stood at 30.7% in Bulgaria (2010), 37% in Latvia and 47% in Lithuania (2009). It therefore appears that the shadow market for tobacco in Ukraine has not yet reached its peak.

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

The **fuel market** has shown dramatic trends during the war. Initially, in 2022, the share of the shadow market reached a record high of 34%; then, in 2023, under pressure from the state, the informal market shrank dramatically to 13%, before rebounding last year to 18%, a level that has been maintained this year.

The estimate of actual sales was made on the basis of aggregated declared data on total sales and the number of consumers, the volume of potential fuel consumption, and retail fuel sales (as recorded by cash registers).

Table 11. The share of the illicit motor fuel market in 2020-2025

Year	Legal sale (million litres)	Legal sales via cash registers/electronic cash registers (million litres)	Number of end consumers (agreements on the compulsory insurance of legal liability)	Estimating consumption levels (million litres)	Shadow size (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 and the Motor Transport Insurance Bureau of Ukraine; authors' calculations*

Consequently, the full-scale war has probably led to an increase in the proportion of "shadow market" sales (whilst absolute figures have fallen). Measures taken during 2023, together with the enemy's destruction of most of the mini-refineries, led to a sharp decline in this share on an annual average, whilst the volume of the illicit market decreased by a factor of 2.5. However, the "shadow" market adapted somewhat to these measures in 2024-2025, and some mini-refineries resumed operations, causing the share of shadow sales to rise slightly (according to the Ukrainian Oil and Gas Association, following the introduction of advance income tax payments in December 2024, the number of licensed petrol stations fell from 6,000 to 5,000, which may indicate that some of them have moved into the shadow sector[47]), although it remains much smaller than it was before the war. In 2024, the shadow economy grew by 5% (to 18%) and remained unchanged in 2025, corresponding to budget losses of **UAH 10-11 billion** per year.

At the same time, the fuel market grew last year both in terms of revenue (from UAH 380.41 billion in 2024 to UAH403.47 billion, UAH +23.06 billion or +6.1%) and in terms of excise duty rates (from January 01, 2025, in accordance with Law No. 3878-IX, rates were increased for petrol to EUR 271.7 per 1,000 litres or +12%; diesel fuel to EUR 215.7, or +21.45%; and liquefied petroleum gas to EUR 173, or +16.98%). On the other hand, according to figures from the State Tax Service and Customs, excise duty revenue on fuel rose by 50% compared with 2024 (from UAH 78.74 billion to UAH 118.07 billion).

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

Table 12. Revenue from excise duty on fuel in 2022–2025*
(budget classification codes 14021900 and 14031900)

(million UAH)

MONTH/YEAR	2022	2023	2024	2025
January	4,647.73	4,318.48	5,613.39	7,234.87
February	3,606.63	3,285.87	4,380.19	6,925.39
March	539.05	3,593.77	5,333.22	8,768.41
April	18.48	3,440.55	5,890.12	8,788.77
May	22.30	3,965.25	5,980.47	9,451.73
June	23.34	5,180.46	6,100.99	9,309.29
July	34.39	4,298.49	6,240.25	11,112.17
August	59.85	5,144.84	6,887.51	10,628.28
September	51.60	6,340.62	7,823.55	10,694.41
October	2,621.74	5,526.55	8,068.47	10,374.30
November	2,986.02	5,615.97	7,986.45	11,163.04
December	4,253.78	4,938.84	8,435.10	13,622.99
Total	18,864.90	55,649.68	78,739.73	118,073.65

**the figures include all types of fuel (diesel, petrol and liquefied gas, methanol, benzene, toluene, etc.)*

Alcoholic products. It is believed that alcohol consumption rises significantly during wartime (between 2016 and 2019, total alcohol consumption remained relatively stable; we assume that it remained at the same level in 2020-2021, which were years of peace, whilst consumption rose slightly in 2022-2023). The detailed calculation was made on the basis of WHO data and statistics on the adult population[48]:

Table 13. The proportion of illicit alcoholic products in 2021–2025

Year	Overall consumption levels (in litres of alcohol)	Estimated consumption level taken into account (in litres of alcohol)	Estimated level of shadow consumption (in litres of alcohol)	Shadow level
2021	8.4	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%
2025*	8.87	6.14	2.73	31%

**figures for 2025 are provisional and will be clarified*

The active efforts of members of the Verkhovna Rada of Ukraine and the government's interagency working group on bringing the excise goods market out of the shadows have had an impact on excise tax revenue flowing into the state budget. According to estimates by the relevant parliamentary committee, *"by 2026, the combating shadow economy could generate additional revenue of UAH 200 billion. In particular, the budget will receive an additional UAH 39.51 billion in excise duty as a result of combating the shadow economy (alcohol, tobacco products, beer, wine, fuel and other excise goods – UAH 201.07 billion instead of UAH 161.56 billion)."* [49]

[48] https://iset-ua.org/images/Ocinka-tini-pidakcizka-2024-final.pdf
[49] https://t.me/getmantsevdanil/10155

We can therefore conclude that in 2023 the resurgence of the informal economy was contained, and that this trend continued in 2024 and 2025. If we convert the data obtained into tax revenue, we arrive at an estimated annual budget losses, which totalled **UAH 6-7 billion**.

Recommendations:

- to draw up a policy document – a strategy for combating the illegal manufacture and circulation of excise goods (the previous strategy on tobacco products ceased to be in force in 2021, pursuant to the Order of the Cabinet of Ministers of Ukraine No. 570 dated September 23, 2017);

- to strengthen the institutional capacity of the relevant state bodies: to restart not only the Economic Security Bureau and customs (completing the re-certification process) as soon as possible, but also the Tax Service, and to modernise their technological infrastructure; organise coordination, for example through the National Security and Defence Council of Ukraine, between law enforcement and regulatory bodies within the country, with a clear division of responsibilities (the government's current efforts are, unfortunately, insufficient, particularly in the tobacco and fuel markets);

- to increase penalties for the unregistered trade in excise goods, which would help to close down illicit retail outlets, in particular through the adoption of draft law No. 9364 dated June 08, 2023 "On Amendments to the Code of Ukraine on Administrative Offences and the Criminal Code of Ukraine regarding the strengthening of liability for the illegal circulation of excise goods");

- to ratify the Protocol to Eliminate Illicit Trade in Tobacco Products, the objective of which is defined as "the elimination of all forms of illicit trade in tobacco products" (Article 3), in particular through the control of the entire supply chain;

- to pursue a more predictable and measured excise duty policy: to make adjustments to the timetable for increasing excise duty rates, in consultation with the business community; to avoid tax shocks; and to implement a policy of setting rates according to the level of health risk, in line with international practice.

2.5. The shadow market for agricultural land leases and schemes involving land and property

For many years, most agricultural land was farmed under lease arrangements, and a significant proportion of these lease agreements were not properly registered. Consequently, no personal income tax (PIT) was paid on lessors' income. There is also the problem of the illegal leasing of state-owned land, which takes place on a corrupt basis.

A World Bank project estimated the extent of the shadow agricultural land lease market, based on a comparison of statistical data and satellite surveys of crops, at 28–29% of the country's total agricultural land, i.e. around 9 million hectares as at the beginning of 2022. Of these, only land tax was paid, set mainly at the minimum rate of 0.3% of the standard monetary valuation (SMV), or 70 UAH per hectare per year for arable land. At the same time, pensioners, who make up more than half of the shareholders, were exempted from this tax too.

The situation changed in 2022, when a minimum tax burden per hectare of land was introduced under Law No. 1914-IX. For the period 2022–2023, agricultural producers that are legal entities calculated the minimum tax liability (MTL) per hectare of land at a rate of 4% of the SMV of each land plot for which they held registered ownership or usage rights. For sole individuals, the State Tax Service will calculate the minimum tax liability, and the relevant tax decision will be sent to the tax address of the such an individual.

Consequently, the losses to the state budget resulting from the shadow leasing of land – which experts had estimated in previous years at UAH 8-12.5 billion per year – were minimised in 2023, and schemes involving the shadow leasing of agricultural land have lost their economic viability.

At the same time, schemes involving unregistered land and property remain widespread. According to the estimates by the Growford Institute, the state budget loses around UAH 15-17 billion a year as a result of these schemes (potential revenue if all land and property were entered into the registers, the issue with the delivery of tax notice-decision were resolved, and tax debts were settled on the basis of data on property tax receipts for 2025).

Despite ongoing efforts towards digital transformation, property tax in Ukraine is not generating the expected revenue for the budget. This is due to a number of factors, including a low level of tax compliance amongst taxpayers, shortcomings in the operation of information systems, difficulties in accounting for construction-in-progress projects, the limited capacity of the tax authorities, and the consequences of the war. As a result, the tax system does not ensure an adequate level of fiscal efficiency.

Recommendations:

1. It is necessary to ensure the full integration of state registers, in particular the property register, the land cadastre, the address register, the building register and tax databases, so that every property is automatically reflected in the tax system. The tax should be calculated automatically on the basis of data from the registers, without the need for any further requests or applications from the owner.

2. It is advisable to send tax notices and decisions electronically via "Diia", the taxpayer's online portal, email or SMS, rather than relying solely on paper correspondence.

3. A comprehensive inventory of property should be performed using satellite images, data from local authorities, Technical Inventory Bureau archives and information on utility connections.

4. Local authorities should be given greater financial incentives to administer the tax by increasing the share of revenue allocated to local budgets and introducing performance targets for tax collection.

5. Provide for the reorganisation of the Tax Service along the lines of the NACP and NABU – appoint the leadership of these bodies through commissions in which international experts have the casting vote, re-assess all staff, and set market-rate salaries for employees;

6. The strategic change should be to modernise the land tax, merging it with the tax on immovable property other than land plot, based on mass valuation using geodata for conciliation, with the application of transparent, quasi-market mechanisms for price adjustments at the taxpayer's request, and with property taxes being offset against direct tax payments; to introduce a rule for the confiscation and auction sale of properties on which tax is regularly evaded; calculate subsidies and grants to local communities based on the maximum amount of land/property tax that, according to the geocadastre, they should be collecting (see the study for further details "Ways to improve the property tax system in Ukraine").

2.6. Salaries in envelopes and informal employment

Insert 15. The breakdown of citizens' informal income:

- unregistered workers employed as business entities

Example: people in full-time employment with a company or as individual entrepreneurs who are paid their entire salaries "in envelopes".

- officially registered employees who formally receive the minimum salary, but also receive additional payments "in envelopes" on top of it

Example: some retail chains (see below) officially state that the average salaries of their employees are only slightly above the minimum salary; meanwhile, their competitors (particularly in terms of staffing) report salaries that are several times higher.

- employees working in private households (there is some overlap with the self-employed persons)

Example: those who work full-time in the care of the elderly and the sick, children, private drivers, etc.

- informal entrepreneurs/self-employed persons

People who earn their own income, often through online platforms or small businesses, but who are not registered as individual entrepreneurs (sole proprietors, FOP in the Ukrainian abbreviation).

Examples: drivers, delivery couriers, tutors, manicurists, freelancers in the Ukrainian and international markets, etc.; as well as informal entrepreneurs with employees

In this section, we will examine the undeclared income of employees (working for a business), and in the next section, that of the self-employed.

According to the State Statistics Service, before the outbreak of the full-scale war, the number of people in informal employment (those working without a formal employment contract or without running a business as their main occupation) aged between 15 and 70 stood at more than 3 million in 2021. This represents 19.5% of the total number of employed Ukrainians in this age group, taking into account all categories of employees. Among them, around 1.8 million were self-employed. Furthermore, according to the results of a survey conducted by the Razumkov Centre, 63.7% of respondents stated that they work under an employment contract or with an entry in their employment record book and receive only their official salary; the remainder admitted that they receive all or part of their salary informally. At the same time, almost one in five (19.8%) were working without being officially registered (which is consistent with the State Statistics Service data within the margin of statistical error), whilst 16.4% of respondents, although they had a formal employment relationship with their employer, received part of their salary informally.

At the same time, according to a study by the Institute of Economics and Forecasting of the National Academy of Sciences of Ukraine, more than a quarter (26.5%) of the economically active population (aged between 15 and 70) receive income from the shadow economy. This does not contradict the data from the State Statistics Service and the Razumkov Centre, as it is likely that some of these citizens have unofficial income in addition to their official income, such as from part-time work.

Unfortunately, since the start of the full-scale invasion, the State Statistics Committee has stopped publishing data on informal employment, which had been used in previous reports. However, in 2024, UNICEF conducted a large-scale (over 18,000 respondents) representative survey which, amongst other things, included questions on the nature of employment with options such as “Work for a salary without formal documentation, based on a verbal agreement” and “Worked independently to earn an income without registering a business and without employing others (repairs, consultancy, services, resale, as a taxi driver, etc.)”, which fall under the category of informal employment. This made it possible to assess the scale of this phenomenon in 2024.

According to the results of this survey, 970 respondents were in informal employment, accounting for around 14% of the total number of employees (including those who were "temporarily not working" due to holidays, weekends or illness). In addition, 268 of those surveyed – or around 4% of those in employment – were engaged in self-employment without being officially registered. In total, this amounts to around 18%, which is 2% lower than the figures from the survey of Razumkov Centre in 2020 and the State Statistics Service. The difference may be due to differences in methodology. In particular, the UNICEF survey did not include an option relating to informal businesses with employees (who are, of course, employed informally). The socio-economic context has also changed significantly.

The total number of people officially employed in Ukraine's economy in 2024 comprised 7.6 million employees (according to the Pension Fund of Ukraine) and nearly 1.5 million individual-entrepreneurs who filed tax declarations – a total of 9.1 million persons. Accordingly, the total number of people in informal employment stood at approximately 1.9 million, which is close to the estimate given in 2023 by the then Deputy Prime Minister Yuliia Svyrydenko – 1.7 million persons[50]. This represents a significant decrease compared with the 3 million recorded in 2021, according to the State Statistics Committee. This is clearly linked, first and foremost, to the overall decline in employment in the private sector, but there may be other factors as well. Contrary to expectations, internally displaced persons were found to be less likely to be in informal employment: they accounted for only 2.6% of those in informal employment, compared with 4.4% in the overall sample.

Respondents were also asked about their monthly income. The average figure among those who quoted a figure and were working informally was around UAH 11,000, which is almost half the average nominal salary in 2024 – UAH 23,800. In total, those in informal employment in 2024 earned more than **UAH 250 billion** in income, of which, had it been taxed (social security contributions + personal income tax + military tax for "net" salary = 58%), they would have had to pay almost **UAH 145 billion**. However, respondents tend to underreport their income in surveys, so this estimate is a minimum. The highest estimate can be obtained by assuming that, on average, those in informal employment earned roughly the average "after tax" salary, which stood at UAH 18,300 per month in 2025. In this case, those in informal employment received a total of almost **UAH 418 billion**, on which their employers would, accordingly, have had to pay a total of almost **UAH 242 billion** in tax. It should be emphasised that this figure is conditional, as a significant proportion of these jobs would simply not exist if they were subject to the current tax regime; and the self-employed could take advantage of the opportunity for a compromise approach to bringing the informal economy into the formal sector through the use of the simplified taxation system. It is also unlikely that it will be possible to bring the category of those employed in other households out of the informal sector; this group, however, accounts for less than 8% of all those in informal employment. Consequently, their income was not taken into account when calculating the average income.

[50] Revenue from budget-saving reservation has not been included in the 2025 state budget – Svyrydenko (interfax.com.ua)

In 2025, the Federation of Employers of Ukraine carried out a study on undeclared work in collaboration with the State Labour Service. According to the findings, 23.4%, or 2 million 683 thousand employees, were working without being officially registered. At the same time, the rate of informal employment stands at 19% for women and 28% for men – this is likely due to men's desire to avoid compulsory registration with the Territorial Recruitment Centre. These are mainly unskilled rural residents and service sector employees. The study does not explicitly identify the unofficially self-employed, although it does refer directly to, for example, motor vehicle repairmen who effectively work as self-employed individuals rather than as employees.

Assuming that undeclared employees are paid the minimum salary, the authors of the study have estimated the notional shortfall in revenue to the state budget and the Pension Fund of Ukraine at UAH 86 billion for the first nine months of 2025, which, extrapolated to a full year, amounts to UAH 115 billion.,

However, these figures are simultaneously understated and overstated. On the one hand, they are understated because informally employed individuals are more likely to receive the average net salary, which, according to the Pension Fund of Ukraine (PFU)[51] and net of taxes, amounted to UAH 17,968.11 per month in 2025. On the other hand, they are overstated because they are calculated based on the assumption that everyone—both informal employees and the informally self-employed-should pay taxes equally. In reality, the self-employed would typically register as individual entrepreneurs (FOPs) and pay the Single Tax (ST) plus the Single Social Contribution (SSC) calculated from the minimum wage. Unfortunately, the study does not explicitly state the number of informally employed individuals who are most likely to be self-employed; therefore, it is impossible to calculate this share precisely.

Assuming the proportions are identical to those found in the 2021 State Statistics Service (Derzhstat) surveys, and further assuming that the majority of them would meet the criteria for Group 2 of the Single Tax, the total amount of entirely unofficial salaries would reach **UAH 246 billion**. Out of this amount, **UAH 127.5 billion** should have been paid in taxes (including the SSC). At the same time, the self-employed should have paid a total of about **UAH 77 billion** in Single Tax, Military Tax (VZ), and Single Social Contribution.The econometric assessment of anomalies in the salary distribution (Fig. 2; see Appendix 3 for details) in 2025 was complicated by the emergence of a new anomaly in the UAH 20,000–25,000 range. This is clearly linked to the requirement to ensure that the average official salary is not less than 2.5 times the minimum salary in order to be entitled to retain 50% of staff. It is also likely that companies fill some of these 50% of positions with part-time employees on half-time contracts (with salaries peaking at around UAH 10,000). However, they are unlikely to receive any additional payments "in envelopes", so we have excluded this peak from our calculations.

[51] Unlike in previous years, we are using the average salary based on figures from the State Tax Service and the Pension Fund of Ukraine Average monthly salary for 2025 – Pension Fund of Ukraine, as the State Statistics Service also includes military personnel in its figures and excludes micro-businesses – meaning its figures are overstated

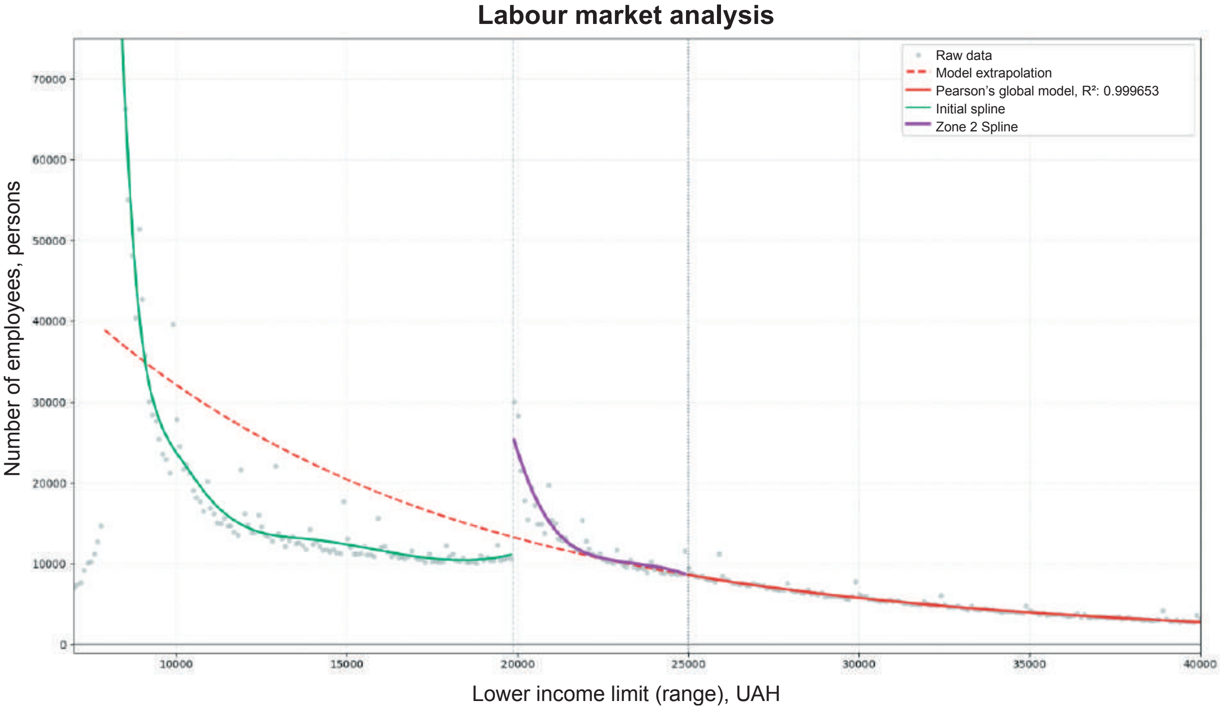
The assessment showed that there is an unusually high number of employees earning close to the minimum salary (in the range of UAH 7,900-9,400 per month) – in total, more than 530,000 more than the model predicts. A second anomaly in the range of UAH 19,900-24,900 adds a further 97,000 to this figure – bringing the total to almost 630,000, compared with 650,000 in 2024. At the same time, in the subsequent intermediate anomaly (range: UAH 9,400-19,900 per month), on the contrary, there are 840,000 fewer employees than predicted by the model (also close to 825,000 in 2024). We interpret this as a sign of "additional payment in envelopes". Overall, within this range, payments were UAH 111 billion below the model's projections; however, in the other two ranges, where there was a surplus compared with the model, UAH 39 billion was paid out in the first one (close to the minimum salary) and UAH 18 billion in the second one. However, the anomaly in the range of UAH 19,900-24,900 is not followed by a further decline. Consequently, there is no reason to believe that the employees belonging to this anomaly receive additional payments "in envelopes" – rather, these are simply additional costs incurred by employers as a result of this regulation. So, we estimate the "salaries in envelopes" at UAH 72 billion (compared with UAH 63 billion in 2024 – the increase more or less reflects the rise in the average salary), but, at the same time, the state received a "bonus" of UAH 18 billion as a result of the forced increase in official wages. It is possible that some of these are former "salaries in envelopes", but overall, the introduction of this incentive has not led to a reduction in the scale of this practice. Bearing in mind that, unlike the previous method, this refers to nominal salaries, the estimated shortfall in budget revenue amounts to around **UAH 32-33 billion**.

An alternative rough estimate suggests that the average salary was actually paid, whilst officially the minimum salary was paid; consequently, the difference amounted to UAH 162,000 per year per employee. Assuming that all 840,000 people receive the top-up payments (and that the discrepancy with the anomaly near the minimum salary is explained by overlapping anomalies), we arrive at an upper estimate of **UAH 130 billion**[52], with a corresponding notional loss of budget revenue of **UAH 58 billion**. But that is an overestimate.

These estimates may be an underestimate due to a partial overlap between the two anomalies in the region of a monthly salary of UAH 9,000.

[52] Unlike in previous years, and also unlike the authors of the study, we are using the average salary based on figures from the State Tax Service and the Pension Fund of Ukraine, as the State Statistics Service also includes military personnel in its figures and excludes micro-businesses – meaning its figures are overstated

Diagram 1. Distribution of employees by monthly salaries received, ranging from the minimum salary to UAH 40,000, in 2025



Number of people affected by the anomalies:

Interval	Actually	Model	Difference
[7900, 9300]	1,080,848	548,208	-532,640
[9400, 19800]	1,471,628	2,311,003	839,375
[19900, 24900]	646,110	549,593	-96,517

Table 14. Financial results of anomalies:

Interval	Actually (million UAH)	Model (million UAH)	Difference (million UAH)
(7900, 9300)	82,381	43,547	-38,834
(9400, 19800)	194,140	305,111	110,971
(19900, 24900)	137,997	120,073	-17,924

Thus, in total, employees received between 320 and 390 billion hryvnias in undeclared payments from their employers, on which they would have had to pay between 160 and 185 billion hryvnias in tax; and a further UAH 77 billion was likely lost in tax revenue from the unofficially self-employed. It should be noted that the difference compared with previous years is partly due to the use of a different survey methodology for the study of informal employment, as well as the assumptions that had to be made due to the lack of data on informal self-employment in the survey. From 2026, the State Statistics Service is due to resume its regular surveys, which will enable a transition to a more consistent methodology.

Furthermore, the state received a “bonus” of around UAH 8 billion from the introduction of the average salary requirement for staff retention, generated by taxes paid on artificially inflated salaries.

One of the most interesting sectors in terms of minimising payroll tax is the food retail sector. In 2025, the average salary in this sector, according to companies’ tax returns, stood at UAH 7.6 thousand. This is less than the minimum salary officially set by the state. At the same time, in the 10 largest store chains, the average official salary is much higher – ranging from UAH 26,000 to 45,000. According to experts’ estimates, the state’s losses resulting from the informal payment of salaries in this sector amounted to:

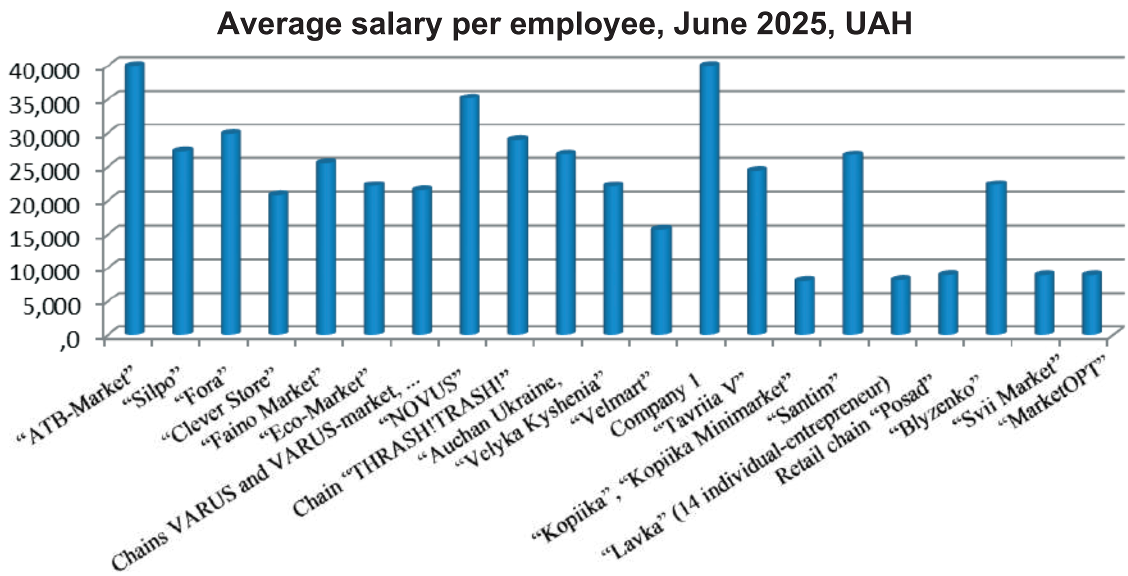
UAH 13 billion in 2021;

UAH 15 billion in 2022;

UAH 28 billion in 2023;

UAH 37.2 billion in 2024.

Average salaries at the 30 largest food retail chains:



2.7. Tax evasion using Group 2 simplified taxation system: “splitting up and concealing turnover”

As in previous years, the extent of irregularities involving the use of the Simplified Taxation System (STS) was investigated by analysing anomalies in the distribution of individual-entrepreneurs in the relevant groups according to their annual declared income (turnover). However, whilst up until 2022 the main type of violation was exceeding the limits for Groups 2 and, to some extent, Group 3 of the STS, following the indexation of the 2021 limits and the repeal of the rule requiring the mandatory use of cash registers for annual turnover exceeding UAH 1 million, together with the introduction of this obligation for entities in Groups 2 and 3 of the STS, this problem has almost disappeared. In 2022, only a minor anomaly was observed near the upper limit of Group 2, comprising around 10,000 individual-entrepreneurs, which were likely linked to another scheme – “splitting” – which we had previously assessed as a minor issue, but which has since become the main type of violation in Group 2.

The existence of different tax regimes or rates naturally creates opportunities for tax arbitrage. However, in practice, it is not as widespread as some theorists claim, due to transaction costs and other factors that make such schemes less profitable, as well as deliberate opposition from the tax authorities. The best-known and most widespread example worldwide is the transfer of profits to ‘tax havens’ or other jurisdictions with lower corporate tax rates, a practice commonly employed by large businesses, particularly multinational corporations.

In Ukraine, in particular, a significant proportion of large businesses are structured through offshore companies, partly to minimise tax (we examine the relevant schemes in Chapter 2), and partly as a means of protecting property rights against corporate raiding. Some smaller businesses exploit the STS in the same way, organising themselves through pseudo-individual-entrepreneurs (pseudo-FOPs), and in this sense are effectively using the STS as an “internal offshore”. This is a series of schemes collectively referred to as “splitting”. Unlike the widespread exceeding of limits, which was the case until 2022, this refers not to abuse by the entrepreneurs themselves, but to larger businesses masquerading as individual-entrepreneurs.

Splitting schemes can be broadly categorised as “parallel”, where several pseudo-individual-entrepreneurs operate simultaneously, collectively forming a larger structure; and “sequential” schemes, where pseudo-individual-entrepreneurs take turns at the same workplace as they reach the upper limit of their annual turnover (“revolving” scheme). Sometimes these approaches are combined: for example, there are several “locations”, at each of which pseudo-individual-entrepreneurs operate in a “revolving” mode. Such pseudo-individual-entrepreneurs may also simultaneously breach the limits through tampering with cash registers, or simply by failing to issue fiscal receipts.

From the point of view of formal organisation, pseudo-individual-entrepreneurs can be organised as pseudo-franchises (if they operate under a common brand but in different territories, for example, in similar kiosks or in the restaurant sector), pseudo-“platforms” (if they operate within the same territory, whether physical or virtual, such as cashiers in a supermarket), and as pseudo-outsourcing, better known as “individual-entrepreneurs instead of employment” and discussed in another section.

All these schemes, with the exception of pseudo-outsourcing (individual-entrepreneurs instead of employment), are predominantly used by Group 2 of the STS, as the tax burden for Group 3 (6% + social security contributions in 2025 or 5% + social security contributions in 2024) is higher than the average (for those taxes replaced by the single tax) under the general taxation system (3.4% in 2024)[53], and even more so in the retail sector (1.6%)[54]. In trading, Group 3 of the STS is used for commission-based trading, which can also sometimes form part of a “splitting” scheme. As the firm that has resorted to splitting its operations is not a micro-business entity, it is required to maintain full accounting records, a process further complicated by the use of a pseudo-individual-entrepreneur, so there is no question of any savings on administrative costs. The risks associated with inspections and the resulting formal and informal costs also only increase as a result of splitting. Therefore, it usually makes sense if a pseudo-individual-entrepreneur operates under Group 2 of the STS and has a sufficiently high turnover – ideally closer to the thresholds for that group. An exception to this is the situation, particularly in the restaurant sector, where Group 3 is also used to simplify accounting, even if this means paying a higher rate of tax than under the general tax system, or in a scheme involving commission-based trading.

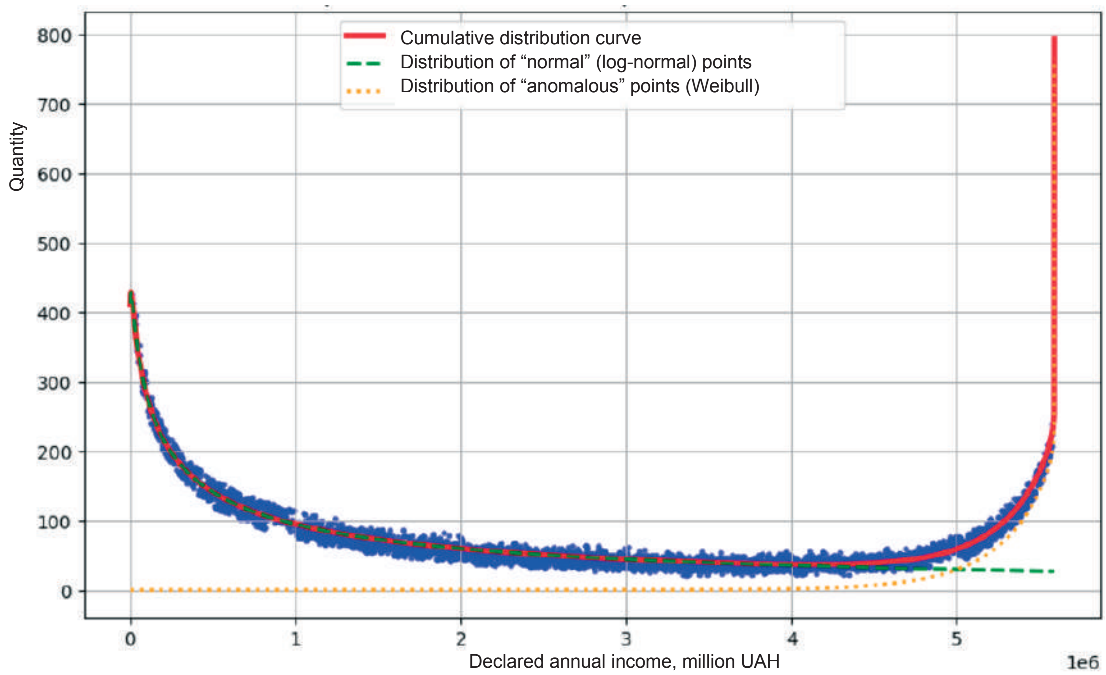
Consequently, pseudo-individual-entrepreneurs involved in splitting schemes typically have turnover figures significantly higher than the average, whilst having no employees. However, “parallel” pseudo-individual-entrepreneurs may have quite different annual turnover figures, as may some genuine individual-entrepreneurs, so there is no clear criterion for distinguishing between them. It comes up when discussing pseudo-individual-entrepreneurs involved in a “revolving” chain scheme: most of them set their turnover ceiling at less than one year.

An analysis of the distribution of individual-entrepreneurs in Group 2 of the Single Tax (ST) scheme by declared annual turnover in 2024-25 shows a significant increase in the anomaly compared with 2022. In 2023, it comprised around 68,000 individual-entrepreneurs, accounting for approximately 14% of the total number of individual-entrepreneurs in Group 2 of the ST scheme. In total, they generated a turnover of around UAH 355 billion. If it were taxed in line with the average tax rate of 3.4%, this could generate **UAH 10-12 billion** for the budget.

[53] Taxes under the general tax system that will be replaced by the single tax for 2023: Income tax (excluding the financial sector) – UAH 142 billion.
Value added tax on goods (works, services) produced in Ukraine, taking into account budgetary refunds – UAH 215 billion.
Property tax (other than land tax) paid by legal entities that own property – UAH 6 billion.
Land tax on legal entities – UAH 10 billion. In total – UAH 373 billion.
Turnover in the non-financial sector, excluding imports, stands at UAH 11 trillion. The average “tax burden” from these taxes is 3.4%

[54] Data on tax payments, which replace the single tax, for the retail sector in 2023 were obtained from the State Tax Service and divided by the volume of retail trade based on publicly available data from the State Statistics Service.

Diagram 2. Breakdown of individual-entrepreneurs in Group 2 of the Single Tax scheme by declared annual income for 2023



Data: State Tax Service, based on a specific request; authors’ calculations

The sharp increase in the number of individual-entrepreneurs within the anomaly zone was driven by individual-entrepreneurs with officially employed staff. This is highly unusual for standard tax-splitting schemes, as the taxes paid on the salaries of such employees (personal income tax, unified social contribution and military tax) account for a large, if not the main, proportion of all taxes paid by the company under the general taxation system. According to experts, the most likely reason in this case is not so much tax savings as the requirement for legal entities to register their employees with the Territorial Recruitment Centre, whereas individual-entrepreneurs are not subject to this requirement. This may have prompted a number of legal entities, which were unable to secure their employees from a military draft, to split themselves into pseudo-individual-entrepreneurs in order to protect them.

According to additional data on the breakdown of Group 2 individual-entrepreneurs with cash registers by income, which closely resembles the diagram, preliminary estimates suggest that more than half of the anomaly described above is accounted for by Group 2 individual-entrepreneurs with cash registers (10% of the total). We regard this primarily as an indication of the splitting of larger enterprises that should be subject to the general taxation system or fall within Group 3 of the Single Tax scheme. A more detailed analysis of the structure of “anomalous” individual-entrepreneurs shows that the majority of them operated for less than a full year, with a peak of three months. Whilst this may be partly due to seasonality in the temporary accommodation sector, this is hardly the case in other sectors. At the same time, for example, in the retail sector, only 16% of all “anomalous” individual-entrepreneurs operated for a full year. This is evidence of the use of a splitting scheme.

Table 15. Information on individual-entrepreneurs who are Group 2 single-tax payers and who, during 2024, did not employ any staff, declared turnover in excess of UAH 5 million and registered a cash register (lines (KVED) where the number of individual-entrepreneurs in each month does not exceed 10 have been excluded for ease of understanding).

Name of the business activity according to KVED DK 009:2010	KVED	The number of full months worked during 2023											
		1	2	3	4	5	6	7	8	9	10	11	12
Processing industry	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
Temporary accommodation and food service activities	I	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 transactions	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
Activities in the field of administrative and support services	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, 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, based on a specific request

Individual-entrepreneurs who have not used cash registers present a very similar picture. The total turnover of these individual-entrepreneurs ranged from 40 to 54 billion hryvnias. Based on the average tax burden under the general system, this corresponds to a notional shortfall in budget revenue of UAH 1.4-1.8 billion, which forms part of the aforementioned UAH 10-12 billion in notional budget losses resulting from splitting.

It may in fact be higher if these pseudo-individual-entrepreneurs are actually exceeding the permitted threshold, even though they are required to use a cash register, due to manipulation of the cash register or failure to issue receipts. Since fiscalisation was originally introduced on a blanket basis (contrary to expert advice) rather than on a risk-based one, efforts to monitor the use of cash registers or electronic cash registers are "smeared" across a huge number of entrepreneurs, the majority of whom do not need to be monitored at all due to their physical inability to exceed the turnover threshold for Group 2 of the Single Tax scheme. There is also a moratorium on inspections whilst hostilities are ongoing, subject to certain exceptions. On the other hand, this figure may be an overestimate, as a significant proportion of such schemes operate in the retail sector, where the average tax burden under the standard system is lower.

It should be noted that some of the "anomalous" individual-entrepreneurs may well be genuine individual-entrepreneurs who actually exceed the permitted limit using the same methods as the pseudo-individual-entrepreneurs in the "revolving" scheme, but do not wish to report this, as we interpreted it prior to

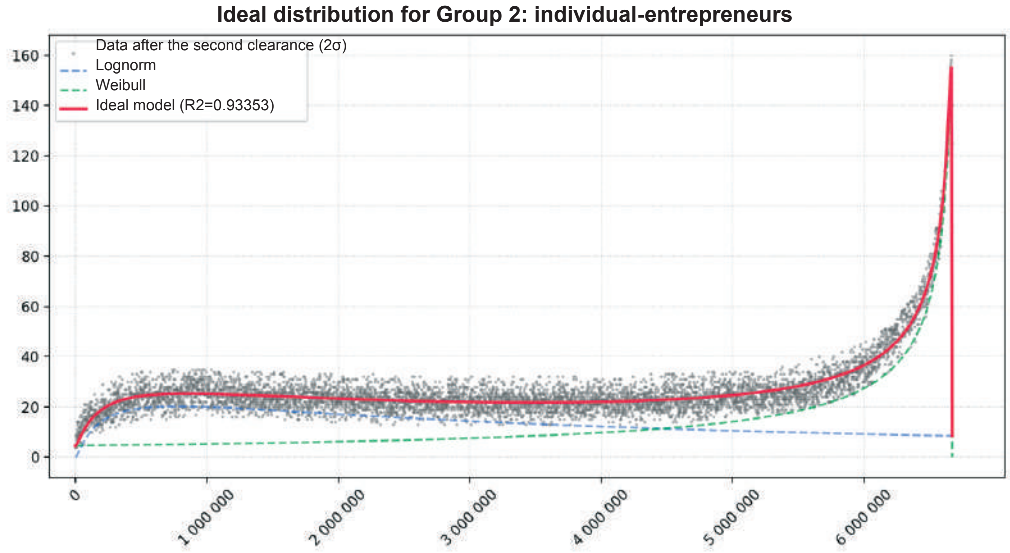
2021. However, this is in any case a small proportion, given that in 2022 the anomaly decreased sharply compared with previous years, whilst being five times smaller than in 2024, and by that point most likely already consisting mainly of pseudo-individual-entrepreneurs. It is highly unlikely that the number of genuine individual-entrepreneurs who, under the restrictive conditions of Group 2, managed to exceed the limits could have grown so rapidly, particularly during a full-scale war.

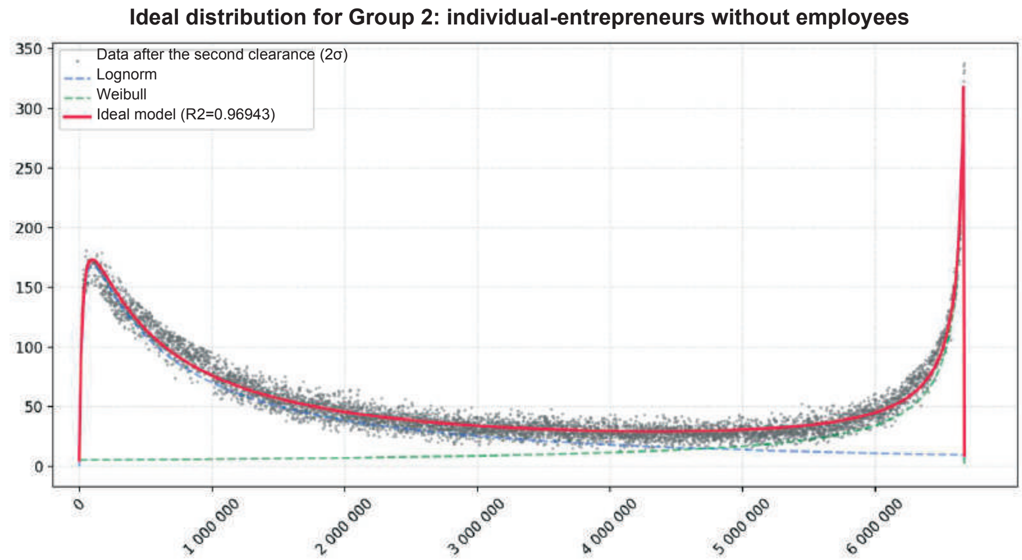
In 2024, the trend towards a sharp increase in the use of the "splitting" scheme continued. An analysis of distribution anomalies (Fig.), similar to that shown above (details are set out in Appendix 2), shows that the number of "anomalous" Group 2 individual-entrepreneurs has risen to 154,000, or 27.5% of the total number in Group 2, whilst their total turnover has risen to UAH 732 billion, accounting for almost half of Group 2's turnover. Moreover, unlike in 2024, this growth was predominantly driven by individual-entrepreneurs without employees, which is an indirect indication of a splitting scheme designed specifically for tax optimisation. Based on the average tax burden, they would have had to pay almost UAH 25 billion under the general tax system; instead, they paid UAH 6.2 billion in single tax and social security contributions. Consequently, the estimated shortfall in budget revenue amounted to around **UAH 19 billion**. This figure may be lower if the splitting occurred mainly in the retail sector, where the tax burden is 1.6% of turnover. However, despite the relatively minor notional losses to the budget, given the rapid spread of such abuses, the situation calls for a stepped-up effort to combat this type of misconduct.

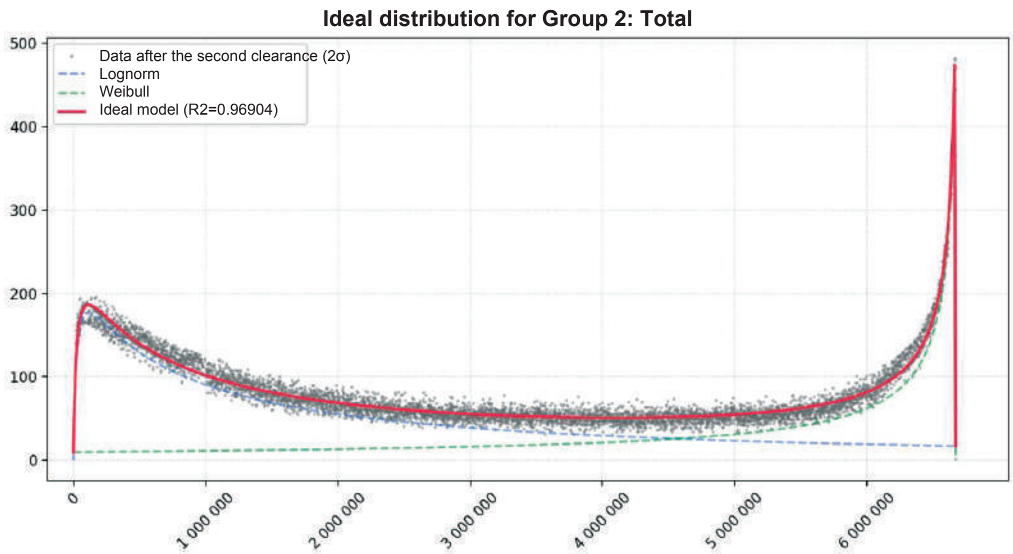
In 2025, the trend continued: the total turnover of pseudo-individual-entrepreneurs had already exceeded UAH 1 trillion, of which UAH 463.5 billion was generated by individual-entrepreneurs with employees (presumably through splitting to protect staff from mobilisation), whilst the remaining UAH 613 billion were generated by likely participants in tax optimisation schemes. Taken together (and taking into account taxes paid), they resulted in notional budget losses of almost **UAH 26 billion**, which is already on a par with other "medium-sized" schemes. However, if we consider only tax optimisation involving pseudo-individual-entrepreneurs who are actually self-employed, the estimated budget losses are reduced to **UAH 15 billion**.

Although the growth rate of this scheme has slowed somewhat, in terms of sheer numbers it has already reached alarming proportions. Urgent measures are needed to combat splitting. Fortunately, by 2026 they will already be in widespread use and proving effective, so there is reason to hope that, based on the results for 2026, the scale of this scheme will be significantly reduced.

Diagram 3. 4. 5. Breakdown of individual-entrepreneurs in Group 2 of the Single Tax scheme by declared annual income for 2025







Recommendations:

1. Tax authorities should pay closer attention to cases where several individual-entrepreneurs operating from the same premises consistently exhaust their annual allowance within a few months. This almost certainly indicates the use of a sequential splitting scheme.

2. The NBU should make the criteria regarding "clusters of individual-entrepreneurs" – which are currently provided to banks as recommendations – mandatory.

3. Apply the GAAR procedure with clear criteria, to be drawn up by an independent commission with the participation of all stakeholders. The relevant study has made it possible to tentatively formulate the following criteria for Ukraine.

4. Consider the possibility of setting limits on the use of STS groups depending on the number of employees.

Below is an indicative calculation of the "splitting and concealing turnover" scheme in the retail and catering sectors

In total, there are approximately 4,600 food retail outlets, retail outlets in general, and restaurant chains nationwide (Appendix 1) – those that could be identified. Their total number may be 2-2.5 times greater.

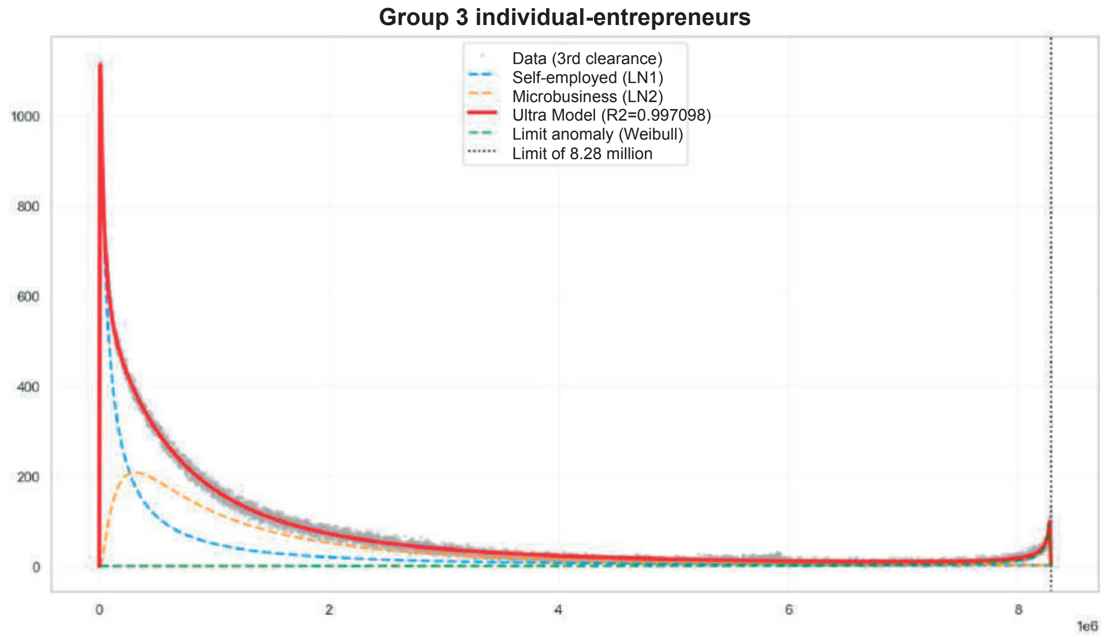
If there is a shortfall in tax revenue replacing the single tax paid into the state budget of approximately UAH 2 million (calculation is provided in Appendix 1) per year from a single retail outlet, this results in a shortfall in state budget revenue from 4,600 retail outlets amounting to UAH 9-10 billion. These are merely the losses resulting from the "splitting and concealing" scheme affecting individual-entrepreneurs' turnover; at the same time, the related schemes involving "unregistered employees" and "minimum salary plus envelope payments" lead to further shortfalls in state budget revenue amounting to tens of billions of hryvnias (calculated for the economy as a whole in section 2.6).

Assuming a calculation based on a tax burden on trade of 1.6% (note 53), the estimated shortfall in budget revenue will be correspondingly lower.

2.8. Abuse of Group 3 of STS: pseudo-individual-entrepreneurs for cashing out – tax evasion when receiving funds as salaries or dividends

The breakdown of Group 3 individual-entrepreneurs by annual turnover in 2025 is shown in Diagram 2 (see Appendix 2 for details). According to the modelling results, in 2024, 23,000 individual-entrepreneurs were classified as "anomalous", accounting for 3.7% of the total in Group 3. In total, they accounted for UAH 157.6 billion of annual turnover, which represented 17% of the turnover of Group 3.

Diagram 6. Breakdown of individual-entrepreneurs in Group 3 of the Single Tax scheme by declared annual income for 2025



If we assume that all these individual-entrepreneurs are "pseudo-individual-entrepreneurs" (this is an overestimate; some of them may simply be large enough individual-entrepreneurs who do not wish to switch to the general system, or the result of splitting due to the Territorial Recruitment Centre factor; an additional calculation is required, taking into account those individual-entrepreneurs who employ staff, which will be carried out once the data is received), then the notional shortfall in budget revenue ranges from zero (if all of them are the result of splitting, as in Group 2, however, the tax rate for Group 3 exceeds the average tax burden – therefore, part of the "splitting" may even have a positive fiscal effect, whilst the other part relates to sectors with a higher burden under the general system), to **28** (if used for dividend payments) and to 52 billion hryvnias (if used for payments of salaries "in envelopes"). In the second case, they have already been taken into account in the "minimum salary + envelope" scheme and in informal employment. We do not know the actual proportions that make up the "anomalous" group. The assumption that minimises the error is to divide into equal parts. In this case, the average amounts to **UAH 26-28 billion**, making this type of scheme the most damaging of all those that exploit the simplified system.

In 2025, the magnitude of this anomaly decreased. Specifically, among individual-entrepreneurs with employees, only 9,600 (15.3% of the total number of such entrepreneurs) were identified as "anomalies", and their combined turnover amounted to UAH 70 billion. In all likelihood, these individual-entrepreneurs either deliberately do not wish to exceed the limit of 3 Group, or are the result of splitting up businesses in order not to exceed this limit. However, as they pay a 6% turnover tax – which is almost twice the average tax burden for businesses in the sector operating under the general tax regime – this behaviour does not result in any notional loss of budget revenue; rather the opposite is true.

However, of the 6,200 “anomalous” individual-entrepreneurs without employees (1% of the total), who together received around UAH 51 billion, the majority are likely to be pseudo-individual-entrepreneurs used by larger companies to evade corporation tax (18% + 5% personal income tax + 5% social security contributions = 28%) or to pay salaries “in envepoes” (effective rate of 37%). As before, in the absence of information on the breakdown between these two cases, we consider them to be equal in terms of volume. Under this assumption, the total estimated budgetary losses resulting from this scheme amount to **UAH 13.4 billion**.

The difference is partly explained by a change in methodology (in the 2025 calculations, individual-entrepreneurs with and without employees were treated separately), but the absolute value of the anomaly in the aggregated data has also decreased from UAH 157.6 billion to UAH121–141 billion (the first figure refers to the sum of the volumes in the “with employees” and “without employees” categories, whilst the second refers to an estimate of the overall distribution, consistent with previous years). This is probably due to the measures taken to combat “drops”, including “individual-entrepreneur drops”.

Recommendations:

1. Reduce the overall burden on the payroll fund.

2. Switch to paying income tax solely on capital withdrawn from the business (“Estonian CIT” or PnVK in Ukrainian).

3. Classify individual-entrepreneurs without employees, whose turnover is close to the Group 3 threshold, as high-risk and prioritise audits of payments made by legal entities to such individual-entrepreneurs.

4. Consider the possibility of setting limits depending on the number of employees.

Abuse of Group 3 of the STS: using individual-entrepreneurs instead of employment

According to expert estimates by relevant trade associations, based on the criteria for employment relationships set out in the draft law No. 13507, the number of individual-entrepreneurs at risk of having their civil-law relationships reclassified as employment relationships amounts to up to 10% of all those operating under the relevant KVED codes, which amounts to 381,000 as of 2024. The relevant number of potential pseudo-individual-entrepreneurs is therefore up to 40,000 people. Given that this is an “elite” scheme intended for highly paid, highly skilled employees, we can roughly estimate their average “salary” at UAD 2,000 per month, which is consistent with the results of econometric modelling. In that case, the total turnover would amount to up to UAH 40 billion, of which UAH 2 billion would be paid in single tax, instead of approximately UAH 20 billion in personal income tax and social security contributions. The total estimated shortfall in budget revenue is therefore UAH 18 billion.

Recommendations:

Pass the draft law No. 13507, which sets out clear criteria to distinguish "individual-entrepreneur instead of employment" from genuine individual-entrepreneurs, and apply these criteria through the revamped State Tax Service.

III. General conclusions

The results of the comparative analysis are presented in Table 20. The relationship between the figures given there largely confirms the observations regarding the structure of tax avoidance in Ukraine set out at the beginning of this paper.

Schemes involving salaries in envelopes have emerged as the leading form of tax evasion among the largest schemes (according to the latest figures, the resulting budget losses amount to UAH 140–280 billion per year), whilst schemes involving "grey" imports (UAH 105–120 billion per year) have slipped to second place.

Offshore schemes and the cross-border transfer of profits, driven by currency restrictions and the high initial cost of compliance resulting from new global standards on tax transparency (antiBEPS, FATCA, ATAD, BEPS 2.0, CFC and others) are increasingly taking on the characteristics of "elitism", that is, they remain accessible only to a few large Ukrainian companies and wealthy Ukrainians. The scale of profit outflows abroad is at a historically low level.

Other popular tax avoidance/evasion schemes show mixed trends. The introduction of administrative procedures, such as the deposit of funds into VAT accounts, the unified register of tax invoices (elements of the VAT EAS) and the automatic monitoring system (RACMS), has led to a reduction in the scale of fraudulent tax credit schemes, whilst VAT evasion schemes have not yet been completely eradicated.

There have also been positive developments regarding budget losses caused by fraudulent schemes and incomplete land and property registers.

Positive trends are being observed in the fight against the illicit circulation of counterfeit goods and illicit trade, which is typically dominated by excise goods (alcoholic beverages, tobacco products and petroleum products). Over the past two years, there have been positive results from efforts to combat the shadow market in the alcohol and fuel sectors, whilst various trends have been observed in the tobacco market on a quarterly basis.

Recommendations:

In addition to the recommendations set out in the relevant sections aimed at minimising the scale of fraudulent schemes, the general recommendation applicable to all sections is to continue and complete judicial reform, as well as institutional reform of the customs and tax services: recruiting staff through open competitions in which international experts have a decisive vote, and ensuring they are paid decent salaries.

In addition, we consider it extremely important to further strengthen the transfer pricing and CFC control framework, and to establish a single data centre containing all tax and customs information within the Ministry of Finance or at an independent data aggregator operating under its auspices.

Table 16. A comparative analysis of the fiscal impact of tax evasion and tax avoidance schemes in Ukraine

(billion UAH for 2025)

Scheme	Taxes (payments) that it enables people to avoid	Estimated volumes	Estimated budget shortfall	Notes	Losses of GDP in %, 2023	Losses of GDP in %, 2024
breaches of customs regulations, smuggling and corruption at the border	VAT excise duties customs duties	300-360	105-120	moderate positive trend	2.5%	1.5%
counterfeit goods, illicit trade in excise goods	income tax + 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)	mixed trends	0.6%	0.5%
fictitious business operations (“carousel” schemes, code substitution, “drop” schemes)	income tax + VAT + social security contribution + personal income tax + military tax	250-320	38-48		0.9%	0.6%
creation of artificial tax credits (“tax fraud schemes”, “accumulators”)	VAT	78-90	13-15	moderate positive trend	0.3%	0.2%
offshore schemes	income tax (hereinafter “IT”), repatriation tax	55-65	12-14		0.15%	0.18%
schemes relating to land and property taxation	personal income tax + income tax + social security contribution + military tax		18-20	moderate positive trend	0.3%	0.25%
Unregistered employment and minimum salary + “envelope” (salaries paid in envelopes)	social security contribution + personal income tax + military tax	313-533	150-253		3.5%	3.5%
“Individual-entrepreneur instead of employment”, Group 3	social security contribution + personal income tax	38-40	17-18	increase	0.15%	0.23%
“Encashment” via a Group 3 individual-entrepreneurs		157-160	26-28			0.36%
Splitting into individual-entrepreneurs and under-reporting revenue	single tax	220-300	10-19	increase	0.18%	0.24%
Informal self-employed persons	personal income tax + social security contribution	260-400	16-24			0.3%

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