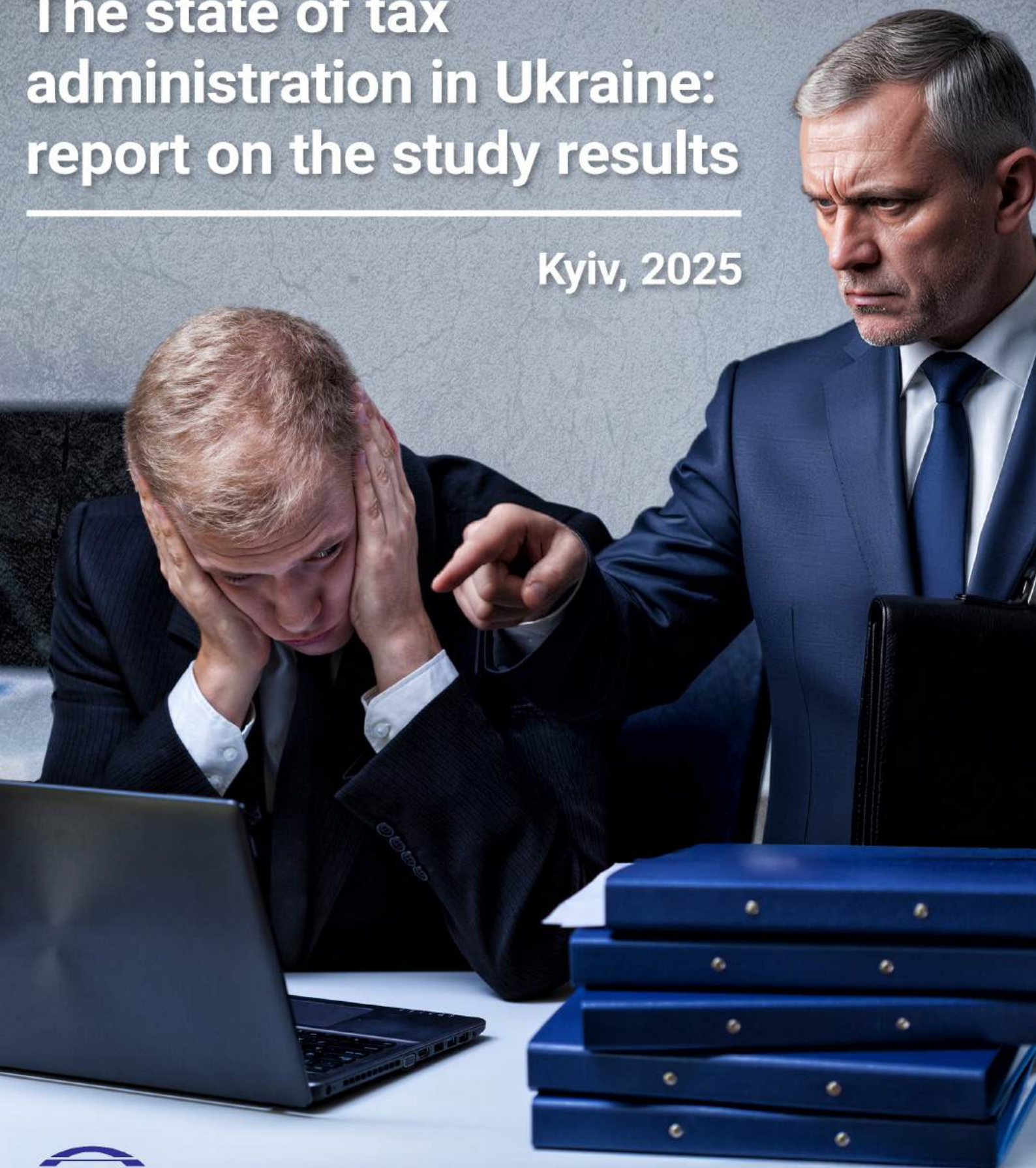

The state of tax administration in Ukraine: report on the study results

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CASE Ukraine

Lead author:

Dmytro Boyarchuk, Executive Director, CASE Ukraine

Co-authors:

Yevhen Shulga, Director of Development, CASE Ukraine

Myroslav Laba, Tax and Regulatory Policy Specialist at the Economic Expert Platform, Associate Expert at CASE Ukraine

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List of abbreviations

IE — individual entrepreneur

VAT — value added tax

STS — State Tax Service

Key findings

- ▶ Entrepreneurs operating under the general tax system and paying VAT incur significantly higher administrative costs compared to other regimes, including time spent by employees on reporting and participating in audits. In particular, the average time spent on maintaining tax and accounting records under the general system with VAT is 478.2 person-days per year. This is over four times higher than the 114.5 person-days required for accounting under the simplified system with VAT. However, the latter figure does not account for self-employed individuals under the simplified system.
- ▶ Doing business as an individual entrepreneur is much safer in terms of sanctions pressure (application of penalties, fines, additional charges, etc.). Thus, only 16.0% of individual entrepreneurs surveyed reported that sanctions had been applied to them, which is half the rate among entrepreneurs operating as legal entities (34.1%).
- ▶ The main reason for bribery among entrepreneurs under the general tax system is to prevent unjustified obstacles or remove existing obstacles to business activities. On the other hand, those under the simplified tax system¹ cite insufficient knowledge of tax accounting, completing and submitting reports, etc., as the main reason for bribery.
- ▶ Entrepreneurs are divided in their opinions on the activities of customs and tax authorities. Thus, 47.1% of respondents said that tax and customs officials perform their duties conscientiously or mostly conscientiously. Meanwhile, 41.8% of respondents said that officials often fail to perform their duties properly or frequently abuse their power. Entrepreneurs subject to the simplified tax system rate the work of customs and tax officials more positively than those under the general system.
- ▶ Corruption poses a bigger problem for VAT-paying entrepreneurs than for non-payers. Thus, VAT payers under the general system claim that corrupt practices “were a very strong obstacle” in 11.0% of cases, while non-payers answer this question affirmatively about half as often (4.7% and 4.8% for the general and simplified tax systems, respectively).
- ▶ Entrepreneurs believe that the State Tax Service tends to facilitate tax evasion schemes (27.5%) rather than effectively prevent them (22%).

¹ Both individual entrepreneurs and legal entities that have opted for the simplified tax system.

Methodology

The study aimed to gain a deeper understanding of the characteristics of the general tax system in comparison to other tax regimes.

The survey involved business entities of all ownership types, including individual entrepreneurs (IEs) and owners and/or managers of legal entities. A total of 928 respondents were surveyed, comprising 33% individuals and 67% legal entities. The maximum theoretical sampling error for entrepreneurs does not exceed ± 3 percentage points.

The survey was conducted using computer-assisted telephone interviews (CATI). The sample was random and sourced from the Unified State Register (excluding business entities registered in temporarily occupied territories).

The Info Sapiens agency conducted the survey in November–December 2024 on behalf of the Centre for Social and Economic Research CASE Ukraine.

The questionnaire was based on the Global Survey on Tax Administration, conducted by the World Bank from April to May 2024. The results are presented in the report [“Study of Taxpayers' Costs of Tax Compliance in Ukraine”](#). The main difference from the World Bank survey is the methodology: in our study, the sample was selected randomly and interviewed by telephone, whereas the World Bank sent invitations to all enterprises to complete a questionnaire via the taxpayer portal.

The data were analysed in terms of four tax regimes:

- (1) VAT payers under the general tax system (404 respondents, 43.5%);
- (2) non-VAT payers under the general tax system (64 respondents, 6.9%);
- (3) VAT payers under the simplified tax system (83 respondents, 9.0%);
- (4) Non-VAT payers under the simplified tax system (377 respondents, 40.6%).

The two largest groups in the analysis are VAT payers under the general tax system (43.5%) and non-VAT payers under the simplified tax system (40.6%). As the number of respondents under the general system without VAT (6.9%) and under the simplified system with VAT (9.0%) is limited, some results for these two groups are presented as illustrative (“for information only”) and require further research.

Main results

Tax administration

The survey results clearly demonstrate the burdensome nature of the general tax system as well as the high administrative costs associated with VAT. Entrepreneurs operating under the general tax system and paying VAT incur much higher administrative costs than those under other regimes. Entrepreneurs under the general system with VAT consistently reported higher tax accounting costs (19.4% versus 3.0% for those under the simplified system), higher taxes (25.1% versus 11.6%), a higher probability of being audited (12.7% versus 2.0%), and more attention from the tax authorities (16.9% versus 2.2%). Entrepreneurs under the general system with VAT report having twice as many employees involved in accounting and tax accounting, with an average of 2.1 employees, compared to an average of 1.2 employees for those under the simplified system. It is important to note that self-employed “simplified taxpayers” mostly keep their own records and are not included in the latter indicator. Furthermore, tax and accounting under the general system with VAT requires an average of 478.2 person-days per year. This is more than four times higher than the 114.5 person-days required for record keeping under the simplified tax system without VAT (the indicator does not take into account self-employed taxpayers under the simplified tax system).

Informal payments

The issue of informal payments was examined using a series of questions designed to shed light on it from different angles. When asked about informal payments for services aimed at optimizing or minimizing tax burden, or preventing or removing obstacles to business activities, only 8.9% of respondents reported having resorted to this practice. The vast majority (82.2%) stated that they had not paid for informal solutions to tax issues. However, when asked about their awareness of informal payments (based on others’ experiences) during certain transactions, such as VAT refunds, unblocking tax invoices or customs clearance of imported goods, respondents stated that such practices were quite common. Notably, 18.6% of surveyed VAT payers under the general system reported being aware of informal payments during the VAT refund process. 29.2% of those under the general system with VAT reported informal payments during the unblocking of tax invoices. 15.9% of VAT payers under the general system surveyed reported informal payments during import operations.

The vast majority of entrepreneurs under the general tax system cited *preventing or removing formal, bureaucratic, or unfounded obstacles to business activities* as the main reason for informal payments (55.6% of those who answered this question under the general tax system with VAT). Conversely, entrepreneurs under the simplified system cited a lack of knowledge regarding tax accounting and submitting reports as the main reason for making informal payments to tax officials (51.5% of respondents under the simplified system with VAT).

When asked to specify the reasons for informal payments during VAT refunds, 80.9% of respondents who reported being aware of such payments indicated that the main reason was to prevent or eliminate formal, bureaucratic or unjustified obstacles to business activities. Additionally, 69.5% of respondents who answered the question about the reasons for informal payments during customs clearance of imported goods cited artificially created obstacles to doing business as the main reason.

Inspections and sanctions by the State Tax Service

For VAT payers, the likelihood of audits is much higher compared to other tax systems. In particular, 25.6% of respondents representing VAT-paying enterprises under the general system reported tax audits. By contrast, the State Tax Service pays significantly less attention to entrepreneurs under the general and simplified systems without VAT: audits were conducted with 17.2% and 11.4% of respondents, respectively.

When asked about specific expectations or demands for gifts or informal payments from inspectors, most entrepreneurs who had experienced audits stated that such phenomena did not occur.

Analysis of responses from individual entrepreneurs (IE) and legal entities regarding other tax systems clearly shows that working as an IE is a safer option. Notably, 16.0% of IEs surveyed reported that sanctions had been applied to them, compared to 34.1% of entrepreneurs under other tax regimes.

Entrepreneurs rarely appeal decisions made by the tax authority regarding the application of penalties, fines, additional charges, and other similar sanctions. In total, 6.5% of respondents who had sanctions applied to them reported appealing such decisions through administrative procedures and 15.6% did so through judicial procedures. Furthermore, entrepreneurs under the general tax system with VAT are more likely to appeal tax decisions (25.8% of those who had sanctions applied to them reported that they challenged the decision either through administrative or judicial procedures). In most cases they appealed directly to the court (20.7% of those under the general system with VAT). Only 5.1% of entrepreneurs under the general system with VAT appealed to the tax authorities against the audit results.

The question of why entrepreneurs do not appeal against the State Tax Service's sanction decisions through communication channels within the tax authority itself was unclear or irrelevant to entrepreneurs, and requires further study (none of the entrepreneurs who reported appealing to the court regarding the tax authority's actions answered this question).

In most cases, the application of penalties and fines was related to VAT administration. This was stated by 55.3% of entrepreneurs under the general system with VAT who had experienced fines and by 34.5% of those under the simplified system with VAT. Income tax (mentioned by 14.5% of entrepreneurs under the general system with VAT) and taxes and charges on wages (mentioned by 13.8% of entrepreneurs under the general system with VAT) were the second and third most common reasons for fines.

Assessment of the work of the STS

The assessment of the tax service's work in countering tax evasion schemes highlights significant issues. Only 22.2% of respondents said that the tax service counteracts schemes successfully or mostly successfully, while 27.5% believe that the tax authorities themselves contribute to them. No significant differences in responses to this question were found between different tax regimes.

When asked about the integrity of the tax and customs authorities, 47.1% of respondents said that officials perform their duties with integrity or mostly with integrity. However, 41.8% said that officials mostly use their powers in bad faith or constantly abuse them. Entrepreneurs under the simplified system rate the work of the State Tax Service more positively than those under the general system.

Shadow sector

Entrepreneurs were asked whether competitors' practices in the shadow sector created obstacles to their activities. One-third of respondents (32.8%) said that these practices did not present an obstacle. Another third (30.9%) said they were unaware of such practices. However, approximately 35.0% of respondents indicated that the practices of competitors in the shadow sector did create problems for their activities to some extent, which highlights the relevance of the issue.

Corruption was cited as an obstacle to doing business by 32.5% of entrepreneurs. By contrast, 45.3% of respondents said that corruption did not hinder them and 19.4% said they were not even aware of such practices. In terms of tax systems, corruption is clearly a much less significant problem for non-VAT payers than for businesses that pay VAT. VAT payers claimed that corrupt practices "were a very strong obstacle" in 11.0% of cases (general tax system with VAT), whereas non-payers were significantly less likely to cite corruption as an obstacle (4.7% and 4.8% for the general and simplified systems, respectively).

Tax rates

Most entrepreneurs are not particularly concerned about tax rates. 53.9% of respondents said that tax rates had no impact on business conditions. Only 7% said that tax rates were a very strong obstacle and 11.7% said they were a significant obstacle.

When asked about the presumption of guilt in taxpayers, one-third of respondents (33.3%) said that it created obstacles to their activities to some extent. In contrast, 40.9% said this practice did not pose an obstacle and 23.9% said they were not aware of it. The responses to this question reveal a clear distinction between entrepreneurs under the general system with VAT and those under other tax regimes. While 52.9% of respondents under the simplified system stated that the presumption of guilt was not an obstacle, only 29.5% of those under the general system with VAT chose this option. Conversely, 18.8% of respondents under the general system with VAT said that the presumption of guilt was a significant obstacle (compared to 4.0% of respondents under the simplified system), and 13.4% said that it was a very strong obstacle (compared to 5.6%).

Entrepreneurs were asked extensively about the advantages and disadvantages of their tax system. Respondents using the simplified system cited lower tax accounting costs as the main advantage (32.9%), while those using the general system cited administration costs as the main disadvantage. 30.5% of respondents using the simplified system consider lower tax payments an advantage, whereas entrepreneurs using the general system consider this one of its main disadvantages. More "simplified" taxpayers also cite the lower probability of audits and the lower level of attention from tax authorities as advantages of their tax regime. Conversely, VAT payers cite the ability to work with a large number of companies as an advantage. Notably, over 44% of general system entrepreneurs (including both VAT and non-VAT payers) believe their tax regime has no advantages, whereas the majority of "simplified" taxpayers (58.6%) said it has no disadvantages. Meanwhile, only 25.6% of respondents under the general system without VAT said that their current regime has no disadvantages.

General information about respondents

Regional coverage. The survey included 928 respondents, of whom 309 were individual entrepreneurs (33%) and 619 were legal entities (67%). Geographically, based on their registration location, the companies represented all regions of the country, including Kyiv with 157 respondents (16.9%), the Northern region with 151 respondents (16.3%), the Central region with 120 respondents (12.9%), the Eastern region with 189 respondents (20.4%), the Southern region with 94 respondents (10.1%), and the Western region with 217 respondents (23.4%).

Table 1. Distribution by region

Kyiv	Kyiv
Northern region	Zhytomyr region Kyiv region Sumy region Chernihiv region
Central region	Vinnytsia region Kirovohrad region Poltava region Cherkasy region
Eastern region	Dnipropetrovsk region Donetsk region Zaporizhzhia region Kharkiv region
Southern region	Mykolaiv region Odesa region Kherson region
Western region	Volyn region Zakarpattia region Ivano-Frankivsk region Lviv region Rivne region Ternopil region Khmelnyskyi region Chernivtsi region

Respondents' positions: Among those surveyed, 84.7% reported being business owners, company directors, or managers. Another 15.3% were chief accountants, financial directors, or accountants. Most respondents (61.6%) indicated that they had 10 or more years of business experience. Of the remaining respondents, 20.8% had 5 to 10 years of experience, 10.9% had 3 to 5 years of experience, and 6.8% had less than 3 years of experience.

Year of registration of business entities: Both relatively young companies and long-established businesses took part in the survey. 17.3% of businesses were registered between 2020 and 2024, 32.4% between 2015 and 2019, and 50.3% more than 10 years ago.

Use of hired labour: 31.7% of respondents reported that they had no hired employees; in other words, they indicated that only the owner worked at the enterprise. Among those who reported having no hired employees, 66.5% were IEs and 33.5% were legal entities. Of those who reported having employees, 78.1% have up to 10 employees, 16.1% have 10–49 employees, and 4.6% have 50–249 employees. Only 1.2% of respondents reported having more than 250 employees.

Tax system: 43.5% of respondents are under the general system with VAT, 40.6% are under the single tax (simplified) system without VAT, 9.0% are under the single tax (simplified) system with VAT and 6.9% are under the general system without VAT.

Organisational and legal form: Of the legal entities surveyed, 69.4% operate as limited liability companies, 13.8% are private enterprises, 8.4% are private farms, and the remaining 8.4% are other forms.

Types of economic activity: 33.5% of respondents are in the wholesale and retail trade sector, 10.8% are in agriculture, forestry, and fisheries, 10.5% are in construction, 7.3% are in manufacturing, 5.5% are in transport and warehousing, and 6.7% are in postal and courier services, information and telecommunications.

Tax accounting

Number of employees who provided accounting/tax reporting for businesses

According to the survey, the vast majority of companies (67.6%) handle their own accounting. Of these, two-thirds (47.3% of the total number of respondents) hire employees. The remaining one-third (20.3% of respondents) are IEs who do their own accounting. 21.0% have outsourced their accounting functions, and 8.3% use a combination of both options (hiring employees and outsourcing). Of the respondents who perform accounting tasks in-house (those who have hired employees and those who do it themselves), 65.1% said this work is carried out by one person, 21.2% by two people, 6.0% by three people, and 7.7% by more than three people. The weighted average number of employees involved in accounting and tax accounting is 1.8 per enterprise in the sample.

In terms of tax systems, it is clear that VAT administration significantly increases the workload. Entrepreneurs under the general tax system with VAT report the largest number of employees involved in accounting and tax reporting, with an average of 2.1 people per business. Entrepreneurs under the simplified system without VAT involve an average of 1.2 employees in accounting and tax reporting. Entrepreneurs under the general system without VAT report the same number of employees (1.2 on average). The simplified system with VAT requires an average of 1.6 employees for accounting purposes.

It is worth noting that self-employed individuals under the simplified tax system mostly did not answer the question about the number of employees involved in accounting, which may suggest that there is no need for such accounting. When asked who was responsible for accounting, the majority (78.2% of self-employed “simplified taxpayers”) responded that they did the accounting themselves. In other words, the responses in the “simplified system without VAT” group reflect those of entrepreneurs in the simplified system who are not self-employed “simplified taxpayers”, since the latter, according to legislation, do not perform accounting.

Interestingly, when considering the responses of entrepreneurs only in the distribution “individual entrepreneurs vs. legal entities” (without separating those who keep VAT records), the declared number of employees required for accounting under the general and simplified systems does not differ – 1.8 persons. This suggests that VAT adds the main burden to tax administration.

In the World Bank report, *“Ukraine: Study of Tax Compliance Costs in 2024”*, the average number of employees responsible for accounting and/or tax reporting was 1.9 per sample. The majority of self-employed “simplified taxpayers” (87.9%) keep their own records. In companies with up to 50 employees, only 32.8% kept their own records (compared to 23.6% in our survey). In companies with more than 50 employees, it is natural that no one keeps records themselves. Legal entities mostly rely on their own employees (69.6% in the survey), external specialists (12.7% in the survey), or a combination of internal and external services (11.1% in the survey).

Table 2. Number of employees engaged in accounting/ tax reporting in 2024

	General tax system		Single tax (simplified) system)	
	with VAT	without VAT*	with VAT*	without VAT
Number of employees engaged in accounting/ tax reporting	2.1	1.2	1.6	1.2
Number of employees engaged in accounting	1.7	1.1	1.4	1.1
Number of employees engaged in tax reporting	1.4	1.0	1.1	1.1

* – when asked to separate employees engaged in accounting and tax accounting, one-third of respondents (among those who provided data on the number of employees) indicated that they did not have employees engaged exclusively in tax or accounting.

Note: At a significance level of 0.05 (95% confidence interval) for the question “Number of employees engaged in accounting/tax accounting,” statistically significant differences were found between the general system with VAT group and the general system without VAT group, as well as between the general system with VAT group and the simplified system without VAT group. For the question “Number of employees who provided accounting services,” statistically significant differences were found between the general system with VAT group and the simplified system without VAT group. For the remaining comparisons, the differences are statistically insignificant ($p > 0.05$).

Time spent by businesses on accounting and tax reporting

Although there is no striking difference in the number of employees involved in accounting and tax reporting between the general and simplified tax administration systems, this difference is obvious in the responses to the question about the number of person-days spent on accounting and tax reporting.

41.1% of respondents answered the question regarding the total number of person-days spent on accounting and tax reporting (12.9% said they did not know; the remainder did not answer). Of those who answered, 6.7% estimated the costs at more than 1,000 person-days per year, 7.1% at 500–1,000, 26.1% at 250–500, 23.5% at 100–250, 25.5% at 10–100, and 11.1% at less than 10.

Entrepreneurs claim that accounting and tax reporting under the general tax system with VAT requires an average of 478.2 person-days per year. This is four times more than the 114.5 person-days required to keep records under the simplified tax system without VAT but with hired employees. It is also important to note that self-employed “simplified taxpayers” did not answer this question, as they do not maintain any accounting. Therefore, the indicator for those under the simplified system without VAT does not actually include the self-employed.

The time spent on accounting and tax reporting increases rapidly depending on the size of the enterprise. Micro-entrepreneurs (with up to 10 employees) report spending 188.0 person-days per year on accounting; small enterprises (with up to 50 employees) report spending 457.8 person-days per year; and medium-sized enterprises (with more than 50 employees) and large enterprises (with more than 250 employees) report spending 1,848.1 person-days per year. Interestingly, an analysis broken down by “IE and legal entities” (without distinguishing between VAT payers and non-payers) shows a similar number of person-days required for accounting and tax reporting: 321.5 for IEs and 360.7 for legal entities. It should be noted that these figures do not include self-employed “simplified taxpayers”, as they did not answer these questions.

Entrepreneurs were also asked to separate the time spent on accounting and tax reporting. Entrepreneurs almost unanimously note that they spend much more working time on accounting than on tax reporting. Entrepreneurs under the general tax system with VAT, in particular, report spending 273.7 person-days per year on accounting and 206.5 person-days per year on tax reporting.

According to the World Bank report *“Ukraine: Study of Tax Compliance Costs in 2024,”* the estimated time spent on accounting is significantly lower for entrepreneurs under the general tax system, but higher for those under the simplified system. In particular, according to the World Bank report, “simplified taxpayers” without employees spent 26.2 person-days per year on accounting (in our survey, “simplified taxpayers” without employees did not answer this question, which we interpret as a lack of accounting as such). Enterprises with up to 50 employees spent 122.4 person-days per year on accounting (in our survey, this figure is 263 person-days). Enterprises with more than 50 employees spent 400.8 person-days per year on accounting (in our survey, 1,848.1 person-days per year).

Table 3. Number of person-days spent on accounting and tax reporting in 2024

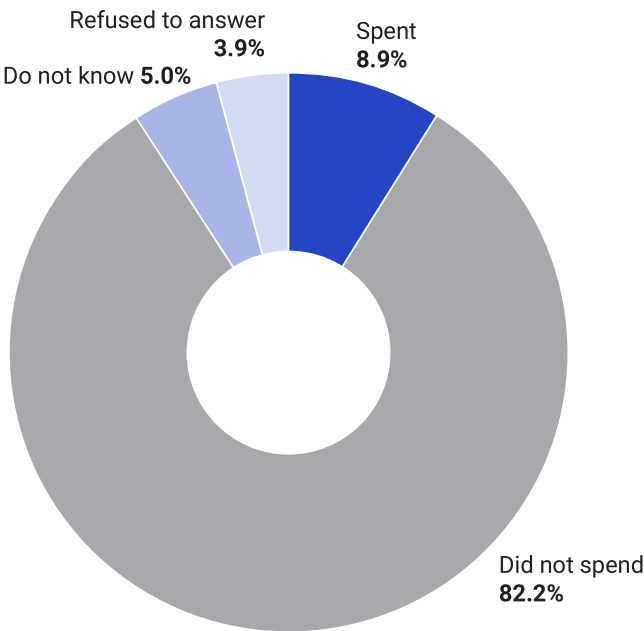
	General tax system		Single tax (simplified) system	
	with VAT	without VAT	with VAT	without VAT
Number of person-days spent on accounting and tax reporting	478.2	170.6	254.3	114.5
Number of person-days spent on accounting	273.7	86.5	131.0	62.9
Number of person-days spent on tax reporting	206.5	50.1	89.7	38.8

Note: At a significance level of 0.05 (95% confidence interval), statistically significant differences were found between the general system with VAT group and the simplified system without VAT group. For the remaining comparisons, the differences are statistically insignificant ($p > 0.05$).

Expenditures by businesses on informal payments to third parties

The majority of entrepreneurs (82.2% of respondents) stated that they did not make informal payments to resolve tax issues. 8.9% of entrepreneurs reported making informal payments. There was no significant difference in the answers given by entrepreneurs regarding their tax systems.

Figure 1. How much money did businesses spend on informal payments in 2024?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ with a 95% confidence level.

Of the 82 respondents who reported spending on informal payments to third parties for assistance or other services to optimise or minimise their tax burden, or to prevent or remove obstacles to their business activities, those under the general tax system with VAT declared paying an average of UAH 177,000 in 2024 to resolve issues. Entrepreneurs under other tax systems reported much smaller amounts for resolving tax issues. Those under the general system without VAT reported an average of UAH 50,000, while those under the simplified system with VAT reported an average of UAH 34,000. Those under the simplified system without VAT reported paying an average of almost UAH 28,000 to resolve tax issues in 2024. Self-employed “simplified” taxpayers reported paying an average bribe of UAH 7,000.

Y The World Bank report “Ukraine: Study of Tax Compliance Costs (Tax Compliance)”, published in 2024, lists the average amounts of informal payments made for assistance or services aimed at minimising the tax burden or removing obstacles to doing business at UAH 23,900 in 2023 and UAH 25,200 in 2021. The report's authors specify that, for enterprises with higher turnovers (from UAH 8 million to 80 million), the average informal payment was estimated at UAH 68,900 in 2021 and UAH 113,800 in 2023. Smaller enterprises (with a turnover of up to UAH 1 million) reported informal payments of UAH 10,000–15,000.

Table 4. Amount spent by businesses on informal payments to third parties for assistance or other services to optimise/minimise their tax burden or prevent/remove obstacles to their business activities in 2024*

		UAH, weighted average	UAH, median
General tax system	with VAT N = 38	177418.8	49000
	without VAT N = 9	50004.1	50000
Single tax (simplified) system	with VAT N = 6	34041.6	10000
	without VAT N = 29	27861.8	16000

* – a total of 82 respondents answered this question, so the results for this question are for information purposes only and require further study.

When asked about the reasons for making informal payments, the vast majority of entrepreneurs under the general system responded that the main reason was to prevent or remove formal, bureaucratic, or unjustified obstacles to business activity (63.4% of respondents under the general tax system with VAT answered this way). Those on the simplified system cited a lack of knowledge about tax accounting, including completing and submitting reports, as the main reason for making informal payments (58.6% of respondents to this question regarding the simplified system with VAT). A total of 82 respondents answered this question, which is only 8.8% of those surveyed.

Similar results regarding the reasons for informal payments are also presented in the World Bank report, *“Ukraine: Study of Tax Compliance Costs in 2024.”* In particular, in the World Bank report, the majority of IEs (77%) cited a lack or insufficient knowledge of tax reporting as the reason for informal payments. In contrast, most legal entities cited the prevention or elimination of formal/bureaucratic/unjustified obstacles as the main reason for informal payments (53.1% of legal entities responded this way).

Table 5. Reasons for making informal payments in 2024, % of all respondents

	General tax system		Single tax (simplified) system	
	including VAT (N = 38)	without VAT (N = 9)	with VAT (N = 6)	without VAT (N = 29)
Lack/insufficiency of knowledge about tax reporting, completing and submitting reports, etc.	25.1	-	-	58.6
Gaining advantages over other taxpayers	4.6	-	-	3.4
Resolving issues in cases of tax evasion or minimisation of tax burden	4.3	-	-	-
Prevention or elimination of formal/bureaucratic/unjustified obstacles to business activities	63.4	-	-	27.6%
Other, please specify	9.2	-	-	13.8%
Don't know	5.7	-	-	10.3%
Declined to answer	1.7	-	-	-

* – A total of 82 respondents answered this question, so the results for this question are for information purposes only and require further study.

Note: Statistically significant differences between groups of respondents were found for the following answer options: “lack/insufficiency of knowledge about tax accounting, filling out and submitting reports, etc.” ($p=0.006$), “prevention or elimination of formal/bureaucratic/unjustified obstacles to business activities” ($p=0.049$) and “don't know” ($p=0.006$). For other answer options, the differences between the groups are statistically insignificant ($p>0.05$). For the same answer options, “lack/insufficiency of knowledge about tax accounting, filling out and submitting reports, etc.”, “preventing or removing formal/bureaucratic/unjustified obstacles to business activities” and “don't know”, there is a statistically significant difference compared to other answer options ($p<0.05$).

Informal payments for VAT refunds, unblocking of tax invoices, and customs clearance of imported goods

Although most entrepreneurs respond that they have no experience of informal payments, when asked if they are aware of any such payments made by others, they indicate that such practices are more widespread. This is particularly evident in responses to questions concerning specific transactions, such as VAT refunds, unblocking tax invoices, and customs clearance of imported goods.

For example, 18.6% of surveyed VAT payers under the general system reported being aware of informal payments during VAT refunds. 29.2% of VAT payers under the general system reported being aware of informal payments during the unblocking of tax invoices. 15.9% of surveyed VAT payers under the general system reported informal payments during import operations. Under the simplified system (with and without VAT), the rate of reported informal payments is significantly lower across all categories (almost twice as low).

According to the World Bank report, “Ukraine: Study of Tax Compliance Costs in 2024”, approximately 10% of VAT payers acknowledged being aware of informal payments made to obtain VAT refunds.

Table 6. Are you aware of any cases where informal payments or gifts were made in order to obtain a VAT refund?

	General tax system		Single tax (simplified) system	
	with VAT N = 404	Without VAT N = 64	with VAT N = 83	Without VAT N = 377
Yes, I am aware of such cases regarding some companies	18.6%	14.1%	10.8%	11.9%
I don't know anything about this	79.7%	78.1%	89.2%	86.5%
Declined to answer	1.7%	7.8%	-	1.6%

Note: The results show statistically significant differences between groups of respondents depending on the tax system ($p=0.001$).

Table 7. Are you aware of any cases where informal payments or gifts were made to unblock tax invoice disputes?

	General tax system		Single tax (simplified) system	
	with VAT N = 404	Without VAT N = 64	with VAT N = 83	Without VAT N = 377
Yes, I am aware of such cases regarding some companies	29.2%	20.3%	16.9%	12.5%
I don't know anything about this	69.8%	78.1%	81.9%	85.7%
Declined to answer	1.0%	1.6%	1.2%	1.9%

Note: The results show statistically significant differences between groups of respondents depending on the tax system ($p=0.000$).

Table 8. Are you aware of any cases where informal payments or gifts were made for the customs clearance of imported goods through customs?

	General tax system		Single tax (simplified) system	
	with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Yes, I am aware of such cases regarding some companies	15.9%	20.0%	6.0%	11.4%
I don't know anything about this	83.1%	78.5%	91.6%	88.1%
Declined to answer	1.0%	1.5%	2.4%	0.5%

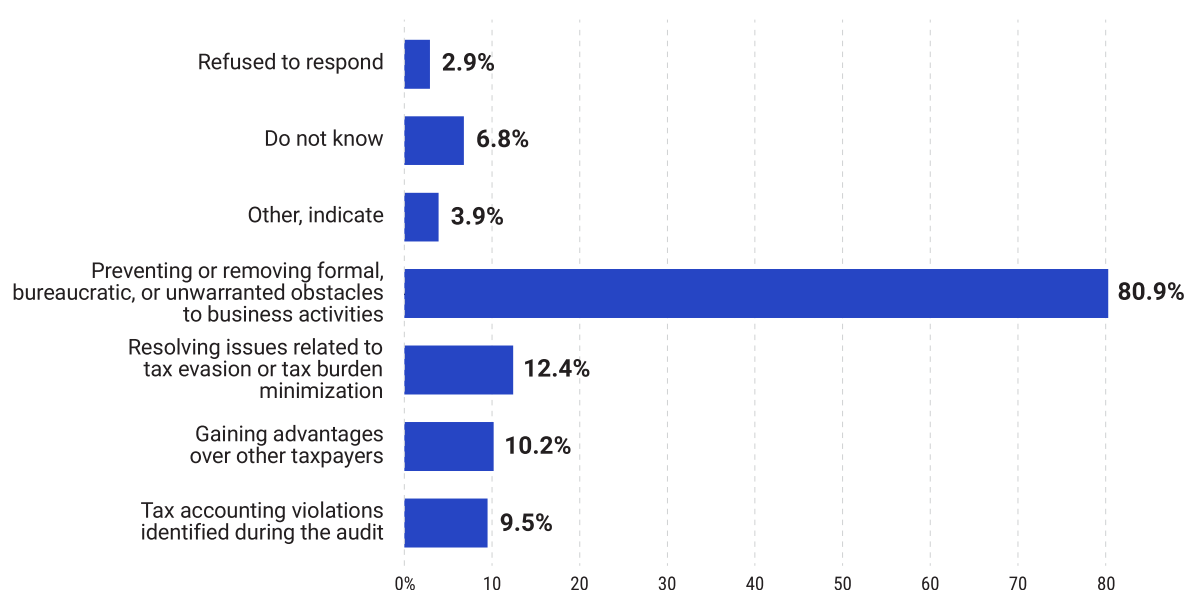
Note: The results indicate differences between groups that are approaching statistical significance ($p=0.053$).

Reasons for making informal payments or gifts when receiving VAT refunds from the budget or customs clearing of imported goods

A relatively small number of respondents answered the question about the reasons for making informal payments. However, among those who did respond, there was almost unanimous agreement across all categories. The main reason given was to prevent or remove formal, bureaucratic or unjustified obstacles to business activities. 12% of all respondents (80.9% of those who reported being aware of informal payments during VAT refunds) cited this as the reason for making informal payments or gifts in exchange for VAT refunds. Additionally, 9.4% of all respondents (69.5% of those who reported being aware of informal payments during the customs clearance of imported goods) cited the presence of artificially created obstacles to doing business as a reason for making informal payments during the customs clearance of imported goods.

Similar results in responses to questions about the reasons for informal payments are mentioned in the World Bank report, "Ukraine: Study of Tax Compliance Costs in 2024". In particular, the report states that 78.8% of enterprises – it is unclear whether this refers to all respondents or only those who reported making informal payments – claimed to have made informal payments to overcome formal bureaucracy and unreasonable obstacles.

Figure 2. Reasons for informal payments or gifts to obtain VAT refunds from the 2024 budget, % of respondents who reported being aware of informal payments during VAT refunds*



* – respondents could select multiple answers, so the sum of answers exceeds 100%.

Note: 138 respondents answered this question. The statistical error for this subsample is no more than $\pm 8.3\%$ with a 95% confidence level.

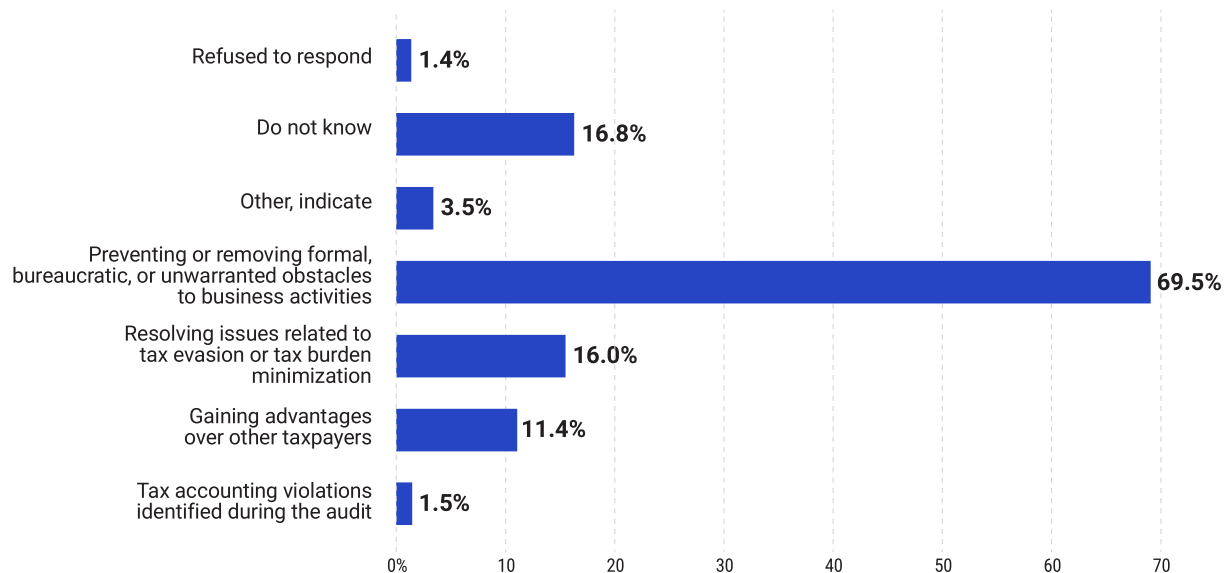
Table 9. Indicate the reasons for making informal payments or gifts in order to receive VAT refunds from the 2024 budget, % of respondents who reported being aware of informal payments during VAT refunds*

	Total N = 138	General tax system		Single tax (simplified) system	
		with VAT N = 75	without VAT N = 9	including VAT N = 9	excluding VAT N = 45
Tax accounting violations identified during the audit	9.5%	12.3%	-	-	8.7%
Obtaining other advantages over other taxpayers	10.2%	10.9%	-	-	4.9%
Resolution of issues in cases of tax evasion or tax minimisation	12.4%	12.1%	-	-	13.0%
Prevention or removal of formal/bureaucratic/unjustified barriers to business activity	80.9%	83.9%	-	-	78.2%
Other (please specify)	3.9%	5.8%	-	-	1.5%

* – respondents could choose several answers, so the sum of answers exceeds 100%.

Note: No statistically significant differences between groups of respondents were found across tax systems ($p > 0.05$).

Figure 3. Reasons for informal payments when clearing imported goods in 2024, % of respondents who reported being aware of informal payments during customs clearance of goods*



* – respondents could select multiple answers, so the sum of answers exceeds 100%.

Note: 126 respondents answered this question. The statistical error for this subsample is no more than $\pm 8.7\%$ at a 95% confidence level.

Table 10. Reasons for informal payments when clearing imported goods in 2024, % of respondents who reported being aware of informal payments during customs clearance of goods*

	Total N = 126	General tax system		Single tax (simplified) system	
		with VAT N = 64	without VAT N = 13	with VAT N = 5	excluding VAT N = 43
Tax accounting violations identified as a result of the audit	1.5%	1.7%	-	-	-
Obtaining other advantages over other taxpayers	11.4%	15.0%	-	-	6.5%
Resolution of issues in cases of tax evasion or tax minimisation	16.0%	13.7%	-	-	22.8%
Prevention or elimination of formal/ bureaucratic/ unjustified obstacles to business activities	69.5%	66.2%	-	-	73.7%
Other (please specify)	3.5%	5.2%	-	-	1.6%

* — respondents could choose several answers, so the sum of answers exceeds 100.

Note: No statistically significant differences between groups of respondents were found across tax systems ($p > 0.05$).

The amount of informal payments or gifts when receiving VAT refunds from the budget, unblocking tax invoices, and customs clearance of imported goods

In general, only a small proportion of respondents answered questions regarding informal payments during VAT refunds, unblocking tax invoices and customs clearance of imported goods. Specifically, 64 entrepreneurs responded to the question about informal payments during VAT refunds, 97 responded to the question about informal payments during invoice unblocking, and 31 responded to the question about informal payments during customs clearance of imported goods. Therefore, the results obtained from these questions are more informative than statistically significant.

When asked about informal payments for VAT refunds, invoice unblocking, and customs clearance of imported goods, entrepreneurs indicated “kickback” amounts ranging from 10% to 15% of the refund amount. Entrepreneurs under the general system with VAT reported that, on average, the “kickback” amount was 13.2% of the VAT refund amount. For unblocking tax invoices, entrepreneurs under the general system with VAT paid an average of 11.5% of the blocked amount. The amount reported to be paid for customs clearance of imported goods was 14.2% of the declared customs value.

The World Bank report, “Ukraine: Study of Tax Compliance Costs in 2024”, states that the average amount paid in informal payments to “settle matters” during customs clearance, tax payments, and the obtaining of licences, permits, and services was 32,800 hryvnia. While the survey asked about the percentage of “kickbacks”, the World Bank report itself does not provide any results on this issue.

Tax inspections

Were tax inspections of businesses conducted in 2024?

Entrepreneurs report that tax inspections are a common occurrence. Moreover, the likelihood of inspections is much higher for VAT payers than for other tax systems. In particular, VAT payers under the general system report tax audits in 25.6% of cases. The attention paid to entrepreneurs without VAT (both under the general and simplified tax systems) is much lower: audits were conducted in 17.2% and 11.4% of respondents, respectively.

When asked about the frequency of audits, most individuals who have encountered them report that there is one audit per year. However, VAT payers under the general system claim that in many cases, there were two or more audits per year. In fact, only 45.1% of entrepreneurs under the general system with VAT reported one audit per year. The remaining 54.9% claim that there were two or more audits per year. For enterprises that have chosen alternative tax systems, the State Tax Service conducts only one audit per year. This is reported by 84.5% of entrepreneurs under the general system without VAT who experienced audits in 2024, and 79.1% under the simplified system without VAT. VAT payers under the simplified system also mostly report one audit per year (in 64.2% of cases), but many in this group report two or more audits per year.

In the World Bank report *“Ukraine: Study of Tax Compliance Costs in 2024,”* 13.8% of respondents report audits (for 2023). Larger enterprises are more likely to face audits: 49.1% of enterprises with more than 50 employees reported having experienced audits (in our survey, this figure is 40.6%).

Table 11. Were there any tax inspections* of businesses in 2024?

	General tax system		Single tax (simplified) system	
	with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Yes	25.6%	17.2%	33.7%	11.4%
No	72.0%	81.3%	63.9%	88.1%
I don't know	2.0%	1.6%	3.6%	0.3%
Declined to answer	0.5%	-	-	-

* – this includes all checks – documentary (scheduled or unscheduled, on-site or off-site) and actual.

Note: The results show statistically significant differences between groups of respondents depending on the tax system ($p=0.000$).

Entrepreneurs who reported having experienced inspections were asked to specify the type of inspections they had undergone in 2024. The responses received did not indicate a predominance of any particular type of inspection (e.g., scheduled, unscheduled, counter, etc.).

Entrepreneurs were also asked how many times certain types of inspection were carried out and how many person-days were spent interacting with the State Tax Service inspector during the inspection. Interestingly, entrepreneurs under the general system with VAT reported the highest number of cross-checks (6.2 per year on average) and actual checks (six per year on average). In terms of time spent, entrepreneurs did not single out any particular type of inspection as particularly labour-intensive, although enterprises under the general system with VAT spent the most time on inspections. Entrepreneurs under the general system with VAT who have experienced inspections report spending an average of 56.7 person-days interacting with a State Tax Service inspector during inspections in 2024.

Table 12. Inspections carried out in 2024 (number of respondents who reported each type of inspections among those who indicated that inspections were carried out in 2024) *

	General tax system		Single tax (simplified) system	
	with VAT N = 103	without VAT N = 11	with VAT N = 28	without VAT N = 43
Scheduled inspections for all types of taxes	22.3%	36.4%	7.1%	27.9%
Unscheduled inspections (for specific taxes, at the request of the tax-payer, following enterprise reorganization, or to confirm information or documentation)	26.2%	27.3%	17.9%	14.0%
Counter-checks (i.e., inspections of your business counterparties)	25.2%	9.1%	10.7%	9.3%
Factual inspections (checking cash transactions, cash registers, permits, etc.)	17.5%	27.3%	14.3%	27.9%

* – respondents could select multiple answers, so the sum of responses exceeds 100%.

Note: The results show statistically significant differences between the answers to the question about scheduled audits for all types of taxes among groups of respondents depending on the tax system ($p = 0.019$). Responses to questions about cross-checks and actual audits reveal differences between groups that are nearly statistically significant ($p = 0.054$). For responses regarding unscheduled audits, no statistically significant differences were found between groups of respondents based on the tax system ($p > 0.05$).

Table 13. How many times was the following type of inspection conducted in 2024?

	General tax system with VAT	Single tax (simplified) system without VAT
Scheduled inspections for all types of taxes	1.2 (N = 22)	1.5 (N = 12)
Unscheduled inspections (for specific taxes, at the request of the tax-payer, following enterprise reorganization, or to confirm information or documentation)	3.0 (N = 24)	-
Counter-checks (i.e. inspections of your business counterparties)	6.2 (N = 25)	-
Factual inspections (checking cash transactions, cash registers, permits, etc.)	6.0 (N = 17)	1.0 (N = 12)

Note: No statistically significant differences between groups of respondents by tax system were found ($p > 0.05$).

Table 14. Total time spent in person-days on a specific type of inspection in 2024

	General tax system with VAT	Single tax (simplified) system without VAT
Scheduled inspections for all types of taxes	56.7 (N = 18)	1.7 (N = 11)
Unscheduled inspections (for specific taxes, at the request of the tax-payer, following enterprise reorganization, or to confirm information or documentation)	17.5 (N = 23)	-
Counter-checks (i.e., inspections of your business counterparties)	18.0 (N = 20)	-
Factual inspections (checking cash transactions, cash registers, permits, etc.)	19.5 (N = 15)	3.5 (N = 10)

Note: No statistically significant differences were found between groups of respondents across tax systems ($p > 0.05$).

Informal payments during tax inspections, presentation of inspection orders, and time spent by an inspector in an office during the inspection

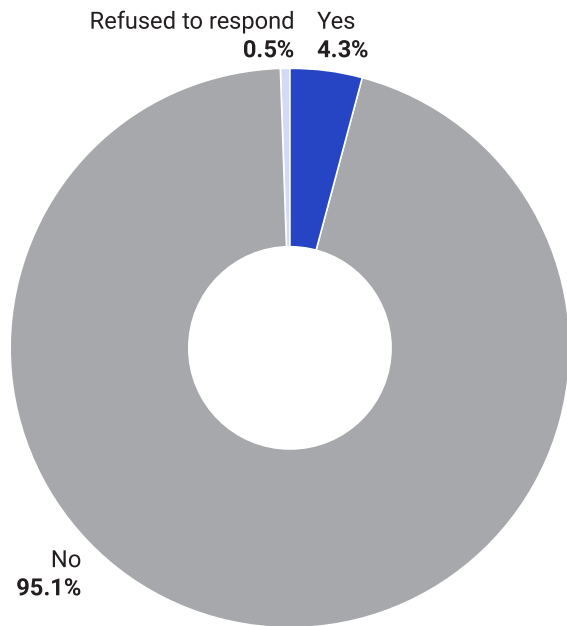
When asked whether the inspector had expected or demanded gifts or informal payments during the inspections, the vast majority of entrepreneurs with inspection experience answered negatively, meaning there had been no such cases during the inspections.

When asked if the inspector presented an official inspection order, 63.3% of respondents answered affirmatively. Among entrepreneurs under the general system with VAT, this figure was 72.5%. Entrepreneurs under other tax administration systems also often confirmed that they had seen the audit order, although almost half denied that the inspector had presented it to them.

When asked how much time the inspector spent in the office during the inspection, 44.8% of entrepreneurs said that the inspection was remote. The rest stated that an inspector spent about 20 hours in an office during inspections in 2024. Entrepreneurs under the general system with VAT reported that an inspector spent an average of 26.6 hours with them during inspections. In contrast, simplified system entrepreneurs said that an inspector spent much less time at their premises (9.5 hours on average for VAT payers and 7.4 hours on average for non-VAT payers).

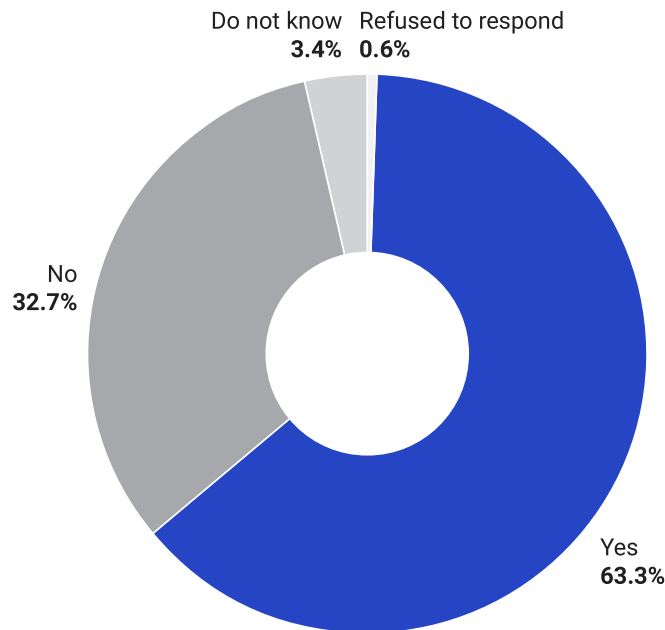
According to the World Bank report *"Ukraine: Study of Tax Compliance Costs in 2024"*, 54.6% of respondents confirmed that they had been presented with an inspection order (compared to 63.3% in our survey). Enterprises with more than 50 employees confirmed that they had been presented with an audit order in 81.0% of cases (compared to 68.2% in our survey). Regarding the duration of inspections, the report states an average of 14.2 hours for enterprises with more than 50 employees (compared to 48.9 hours in our survey). For enterprises with fewer than 50 employees, the average inspection duration was 6.3 hours (compared to 16.3 hours in our survey).

Figure 4. Were gifts or informal payments expected or requested during any inspections or meetings?



This question was answered by 185 respondents out of a total sample of 928. The statistical error for this subsample is no more than $\pm 7.2\%$ at a 95% confidence level.

Figure 5. Was an official order presented to you by the tax inspector during the last tax inspection conducted in 2024?



This question was answered by 185 respondents out of a total sample of 928. The statistical error for this subsample is no more than $\pm 7.2\%$ with a 95% confidence level.

Consequences of the last tax inspection conducted in 2024

When asked whether the audit had any consequences for them, entrepreneurs gave a wide variety of answers. The most common response was “fines and/or penalties” (46.6% of VAT payers under the general system who had experienced audits). The second most common response regarding the consequences of the audit was “confirmation of the correctness of tax accounting” (28.2% of VAT payers under the general system who underwent an inspection).

Similar results can be found in the World Bank report, “Ukraine: Study of Tax Compliance Costs in 2024”. Notably, the report found that fines and penalties were the most common consequence of tax audits for businesses of all sizes. Overall, 58.6% of respondents reported such consequences of audits (compared to 44.7% in our survey). Enterprises with more than 50 employees reported fines in 63.1% of cases (compared to 48.8% in our survey). Those with fewer than 50 employees reported fines in 52.4% of cases (44.4% in our survey).

Table 15. Did the last tax inspection conducted in 2024 have any of the following consequences for your company?*

	General tax system		Single tax (simplified) system	
	with VAT N = 103	without VAT N = 11	with VAT N = 28	without VAT N = 43
Increase in the amount of taxes due, not disputed	10.7%	-	3.6%	11.6%
Increase in taxes payable (under appeal)	11.7%	9.1%	3.6%	2.3%
Fines and/or penalties	46.6%	36.4%	46.4%	41.9%
Temporary suspension of business operations	1.9%	18.2%	7.1%	-
Informal payments in cash or in kind	1.0%	-	-	-
Seizure of goods or property	-	9.1%	-	-
Reduced time for current work due to employees fulfilling inspectors' requirements	21.4%	18.2%	7.1%	2.3%
Tax accounting confirmed as accurate	28.2%	36.4%	21.4%	32.6%
Elimination of tax accounting errors with potential negative future consequences	15.5%	36.4%	17.9%	20.9%
Other consequences	4.9%	18.2%	3.6%	2.3%
Don't know	2.9%	9.1%	21.4%	9.3%
Declined to answer	1.0%	-	-	2.3%
No consequences	7.8%	-	10.7%	11.6%

* – respondents could choose several answers, so the sum of answers exceeds 100%.

Note: No statistically significant differences between groups of respondents were found across tax system ($p > 0.05$).

Appeals

Application of penalties, fines, and additional charges

According to the survey, 28.1% of respondents reported being subject to fines, additional charges for taxes, fees, and payments in 2024.

Sanctions are applied more frequently to VAT payers. Thus, 39.5% of enterprises under the general system with VAT and 34.9% under the simplified system reported the application of fines and other sanctions. Non-VAT payers are in a more favourable position: 14.5% of enterprises under the general system with VAT and 16.7% under the simplified system with VAT reported the application of penalties, fines, and additional charges.

In terms of IEs versus legal entities, it is clear that working as an IE is much safer. Notably, 16.0% of IE respondents reported sanctions, compared to 34.1% of entrepreneurs surveyed under other tax regimes.

The results obtained regarding the application of penalties are comparable to the data presented in the World Bank report, *"Ukraine: Study of Tax Compliance Costs in 2024"*. Notably, 28.9% of respondents in the World Bank report stated that they had been fined, compared to 28.1% in our study. The report also states that companies with more than 50 employees were more likely to have been fined (72.2% of respondents compared to 51.7% in our study). Entrepreneurs without employees were fined much less frequently (17.0% of respondents compared to 17.2% in our study). As in our study, legal entities in the World Bank report also report a higher frequency of fines (49.8% of respondents compared to 34.1% in our study) than individual entrepreneurs (21.8% compared to 16.0% in our study).

Table 16. In 2024, did the tax authorities apply penalties, fines, or additional charges for taxes, fees, and payments to your enterprise ?

	General tax system		Single tax (simplified) system	
	with VAT N=404	without VAT N=64	with VAT N=83	excluding VAT N=377
Yes	39.5%	14.5%	34.9%	16.7%
No	58.0%	84.6%	63.8%	82.1%
I don't know	2.6%	1.7%	1.4%	0.9%
Declined to answer	-	-	-	0.4%

Note: The results demonstrate statistically significant differences between groups of respondents across tax systems ($p=0.000$).

The entrepreneurs surveyed stated that they appealed against decisions made by the tax authority regarding penalties, fines and additional charges in very few cases. Of the respondents who had experienced fines, 6.5% reported appealing against such decisions through administrative proceedings with the tax authority (17 respondents), while 15.6% appealed through the courts (41 respondents).

Entrepreneurs under the general tax system with VAT were found to be more active in appealing tax decisions (25.8% of those subject to sanctions appealed the decision). Most of these entrepreneurs appealed directly to the court (20.7%). Only 5.1% appealed to the tax authorities regarding the audit results.

Entrepreneurs under the simplified system, however, appeal to the tax authorities more often. Notably, 10.8% of enterprises under the simplified system without VAT stated that they had appealed against the audit results through administrative procedures.

In the World Bank report, *"Ukraine: Study of Tax Compliance Costs in 2024"*, a significantly higher percentage of respondents appealed against the actions of the tax authorities through administrative or judicial proceedings. According to the report, 33.8% of enterprises appealed against tax fines, and a further 20% appealed against the actions of the tax authorities in court (53.8% in total). By contrast, in our study, only 22.1% of respondents who had been fined challenged the actions of the tax authorities, either administratively or in court. Most entrepreneurs went directly to court (15.6% of respondents who had been fined). Respondents without employees were indeed more likely to appeal to the tax authorities, confirming the results of the World Bank survey. However, all other respondents, even those with up to 10 employees, clearly preferred to go to court when appealing against the actions of the tax authorities.

Table 17. Did the business* appeal against the tax authority's decision to impose penalties, fines, additional charges for taxes, fees and payments on the enterprise?

	General tax system		Single tax (simplified) system	
	with VAT N=159	without VAT N=9	with VAT N=29	excluding VAT N=63
Yes, in the STS (appeal against the results of the inspection through administrative proceedings)	5.1%	-	7.0%	10.8%
Yes, in court (through legal proceedings)	20.7%	-	3.5%	6.0%
No	73.6%	-	89.5%	83.2%
I don't know	0.6%	-	-	-

* — among those who were subject to penalties, fines, additional charges, etc.

Note: No statistically significant differences were found between groups of respondents across tax system ($p>0.05$).

The most common reason given by respondents for not appealing the decision to the tax authorities was that "the amount was not significant". This was the response of 36.6% of those who had sanctions imposed on them. The second most popular answer was "we agree with the penalty because of the actual violation", chosen by 26.5% of respondents who were sanctioned. 11.8% of respondents who had experienced sanc-

tions indicated that avoiding problems with the tax authorities was the reason for not filing a complaint. 10.3% of respondents who had experienced sanctions chose the option “Did not expect a different outcome”. Lack of sufficiently competent employees to handle the complaint was cited by 8.2% of respondents.

VAT payers more often than others chose the answers “the amount was not significant” (35.8% of entrepreneurs under the general tax system with VAT) and “agree with the penalty due to an actual violation” (23.3% of entrepreneurs under the general tax system with VAT).

Another interesting detail is that entrepreneurs who appealed the decision directly to court did not explain why they did not first file a complaint with the tax authorities. This group of respondents did not answer the question about the reasons for not filing a complaint.

The reasons for not appealing differ between the World Bank study and ours. In the World Bank report, “Ukraine: Study of the Costs of Tax Compliance in 2024”, the primary reason for not filing an appeal was that it would not affect the outcome. This was the response of 44.3% of respondents, whereas in our survey, only 10.3% of those who had been fined selected this option. Meanwhile, 27% of companies surveyed by the World Bank stated that they did not want to risk encountering problems with the tax authorities. By contrast, only 11.8% of respondents with experience of tax sanctions chose this answer in our study. Third place was attributed to a lack of qualified personnel as a reason for not appealing, with 15.1% of enterprises selecting this answer. In our study, this figure was 8.2%. Conversely, the answer chosen most often in our survey (“the amount of the fine is insignificant”) ranked last in the World Bank study, with only 12.4% of respondents selecting this option. In our study, this figure was 36.6%.

Table 18. Why did you not file a complaint with the tax authorities regarding the decision to apply penalties, fines, additional charges, etc. (among those who were subject to penalties, fines, additional charges, etc.)?*

	General tax system		Single tax (simplified) system	
	with VAT N=159	without VAT N=9	with VAT N=29	without VAT N=63
The amount was not significant	35.8%	-	51.7%	34.9%
To avoid future problems with the tax authorities	12.6%	-	17.2%	7.9%
Didn't expect a different result	11.3%	-	10.3%	6.3%
We don't have enough qualified employees to deal with this	4.4%	-	13.8%	15.9%
The STS office is far away, and I have no information about the possibility of using electronic or postal communication	1.3%	-	-	-
Other	3.8%	-	-	1.6%
Agree with fine due to actual violation	23.3%	-	31.0%	30.2%

* – respondents could select multiple answers, so the total exceeds 100%.

Note: A statistically significant difference between groups of respondents, depending on the tax system, is observed only for the answer option “Our business does not have enough competent employees to deal with this” ($p = 0.018$). For the remaining answer options, no statistically significant differences were found between respondent groups across tax systems ($p > 0.05$).

The most frequent violations in terms of taxes, fees and payments

Penalties and fines were mainly applied for VAT offences. This was reported by 55.3% of entrepreneurs under the general system with VAT (those subject to sanctions) and 34.5% under the simplified system with VAT. The next most common violations were income tax (14.5% of entrepreneurs under the general system with VAT) and taxes and charges on wages (13.8%). The application of penalties and fines mainly concerned VAT. This was stated by 55.3% of entrepreneurs under the general system with VAT (of those to whom sanctions were applied), and by 34.5% of those under the simplified system with VAT. The next most common violations were income tax (14.5%) and taxes and charges on wages (13.8%).

Table 19. What were the penalties, fines, and additional taxes, fees, or payments related to?

	General tax system		Single tax (simplified) system	
	with VAT N=159	without VAT N=9	with VAT N=29	without VAT N=63
Corporate income tax	14.5%	-	-	-
Value-added tax	55.3%	-	34.5%	-
Payroll taxes and contributions (single social contribution, personal income tax, military levy)	13.8%	-	6.9%	4.8%
Single tax (simplified) system	-	-	34.5%	44.4%
Others	11.3%	-	13.8%	12.7%
Hard to say	4.4%	-	6.9%	9.5%
Late tax payments / filing of accounting documents	9.4%	-	6.9%	14.3%
Property tax (land/real estate)	6.9%	-	3.4%	9.5%

* – respondents could select multiple answers, so the sum of responses exceeds 100%.

Note: A statistically significant difference is observed between groups of respondents depending on the tax system for income tax ($p = 0.018$), value-added tax ($p = 0.000$), and single tax ($p = 0.000$). For the remaining answer options, no statistically significant differences were found between respondent groups across tax systems ($p > 0.05$).

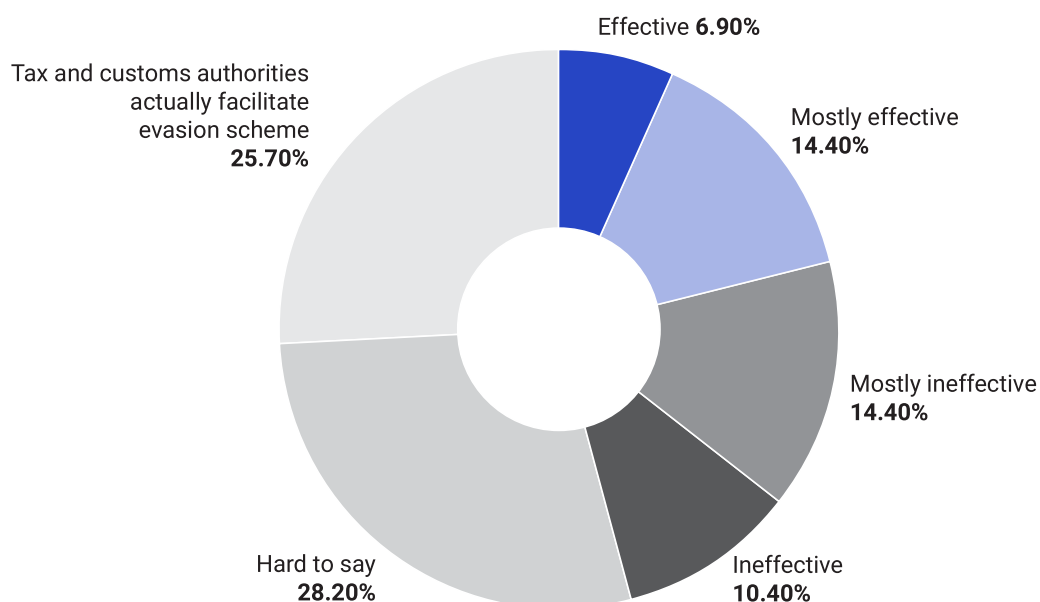
General questions

How effective are the tax and customs authorities in combating large-scale tax evasion schemes?

Only 22.2% of respondents positively assessed the tax service's work in combating tax evasion schemes, with 16.2% responding that the service effectively combats schemes and 6% responding that it does so mostly effectively. Meanwhile, 27.5% of respondents believe that the tax authorities themselves contribute to these schemes, and 26.4% were unable to answer the question.

In the World Bank report, *"Ukraine: Study of Tax Compliance Costs in 2024"*, the question about trust was phrased slightly differently. Specifically, the study's authors asked respondents to agree or disagree with the statement that "tax authorities are fair". Only 7.8% of respondents agreed with this statement. A total of 24.3% of respondents completely disagreed with this statement. Taking into account those who somewhat agreed or somewhat disagreed, 48.9% of respondents in the World Bank report indicated that they either completely or somewhat disagreed with the statement. In contrast, 31.3% said they completely or somewhat agreed with the statement about the fairness of tax authorities.

Figure 6. How effective are the tax and customs authorities in combating large-scale tax evasion schemes?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ at a 95% confidence level.

Table 20. How effective are the tax and customs authorities in combating large-scale tax evasion schemes?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Effective	6.9%	8.5%	1.2%	6.6%	6.3%
Mostly effective	14.4%	11.9%	25.4%	19.2%	14.0%
Mostly ineffective	14.4%	16.8%	14.1%	15.8%	11.6%
Ineffective	10.4%	9.1%	8.9%	7.4%	12.8%
Tax and customs authorities actually facilitate an evasion scheme	28.2%	29.8%	33.5%	16.4%	28.1%
Hard to say	25.7%	23.9%	16.9%	34.6%	27.1%

Note: The results show statistically significant differences between groups of respondents depending on the tax system ($p=0.014$).

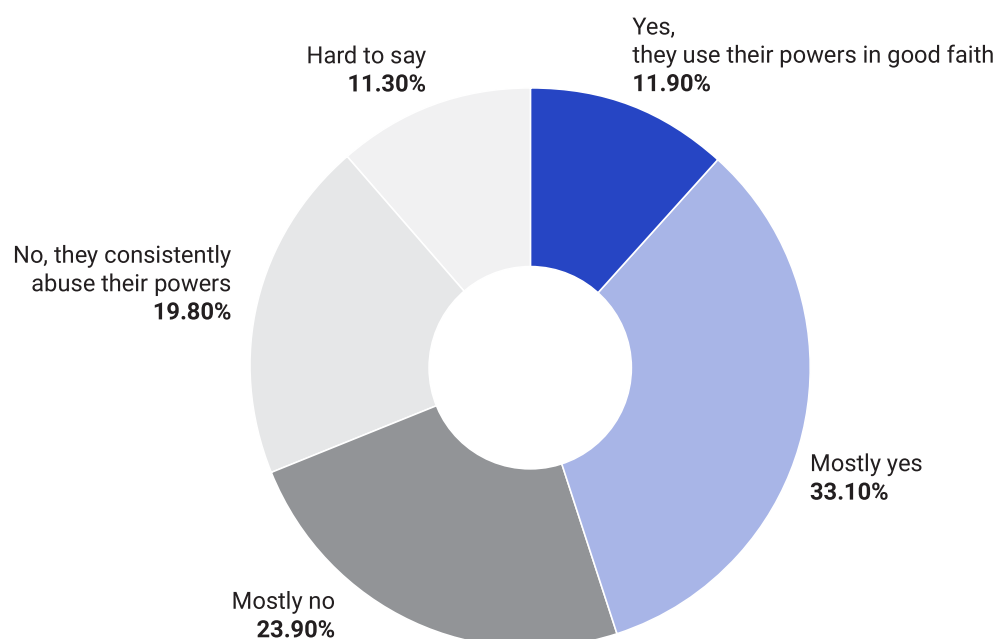
How conscientiously do the tax and customs services use their powers in their relations with entrepreneurs?

When asked whether tax and customs authorities use their powers in good faith, 47.1% of respondents said that officials always or mostly act in good faith (11.9% and 33.1%, respectively). Conversely, 41.8% responded negatively, saying that officials mostly act dishonestly (23.5%) or constantly abuse their powers (18.3%).

Entrepreneurs who benefit from the simplified tax system tend to assess the activities of the tax and customs services more positively than those under the general tax system.

Comparable results on integrity are presented in the World Bank report, "Ukraine: Study of Tax Compliance Costs in 2024", in which 43.3% of respondents answered positively to the question regarding the honesty and impartiality of the tax authorities. Meanwhile, 28.3% answered negatively, and 28.4% were unable to provide an assessment.

Figure 7. Do you believe that the tax and customs authorities use their powers in good faith in their relations with entrepreneurs?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ with a confidence level of 95%.

Table 21. Do you believe that the tax and customs authorities use their powers in good faith in their relations with entrepreneurs?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Yes, they use their powers in good faith	11.9%	10.5%	9.5%	16.8%	12.6%
Mostly yes	33.1%	31.2%	40.5%	43.4%	31.8%
Mostly no	23.9%	26.9%	18.9%	20.4%	22.4%
No, they consistently abuse their powers	19.8%	19.6%	23.4%	7.2%	22.1%
Hard to say	11.3%	11.8%	7.7%	12.2%	11.1%

Note: No statistically significant differences between groups of respondents were found across tax systems ($p > 0.05$).

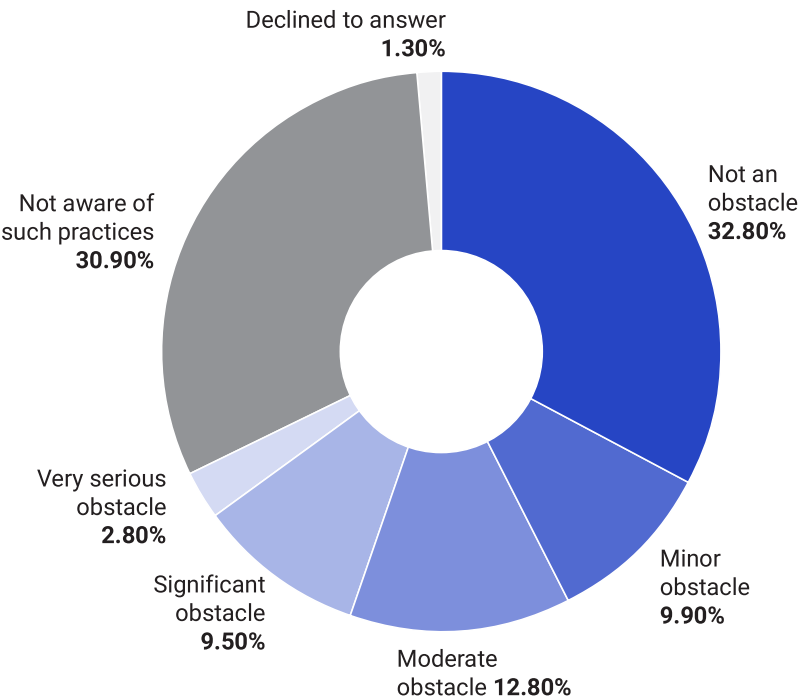
To what extent did competitors’ practices in the shadow sector pose an obstacle to business activity in 2024?

One-third of respondents (32.8%) said that competitors' practices in the shadow economy did not affect their business. Another third (30.9%) said that they were not aware of such practices. However, approximately 35.0% indicated that competitors' practices in the shadow sector did create problems for their activities to a greater or lesser extent. Of these, 22.7% said that shadow practices were a minor or moderate obstacle, and 12.3% said that they were a significant or very significant obstacle.

There is a statistically significant difference in the answers to this question depending on the tax system. Notably, the answer option “were a significant obstacle” was chosen more often by representatives of enterprises under the general tax system with VAT (13.4%), which is much higher than under other tax regimes.

According to the World Bank report “Ukraine: Study of Tax Compliance Costs in 2024,” a significantly higher number of respondents reported the negative impact of competitors' practices in the shadow economy. In particular, if we focus on the responses indicating that competitors' practices in the shadow sector are a significant or very significant obstacle, this answer was chosen by 41.3% of respondents (when referring to 2023) and 38.4% of respondents (when referring to 2021). Meanwhile, in our survey, 12.3% of respondents indicated that they faced a significant obstacle and a very strong obstacle. Entrepreneurs under the general system with VAT more often indicated competitors' practices as a significant and very significant obstacle (17.5% of respondents).

Figure 8. To what extent did competitors’ practices in the shadow sector pose an obstacle to business activity in 2024?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed ±3.2% with a confidence level of 95%.

Table 22. To what extent did competitors' practices in the shadow sector pose an obstacle to business activity in 2024?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Not an obstacle	32.8%	29.6%	30.9%	34.0%	36.2%
Minor obstacle	9.9%	9.4%	10.7%	11.4%	10.0%
Moderate obstacle	12.8%	10.6%	19.3%	17.8%	12.9%
Significant obstacle	9.5%	13.4%	2.3%	6.6%	7.2%
Very serious obstacle	2.8%	4.1%	5.4%	3.1%	1.0%
Not aware of such practices	30.9%	31.1%	31.4%	25.9%	31.8%
Declined to answer	1.3%	1.8%	-	1.3%	0.9%

Note: The results show statistically significant differences between groups of respondents depending on the tax system ($p=0.038$).

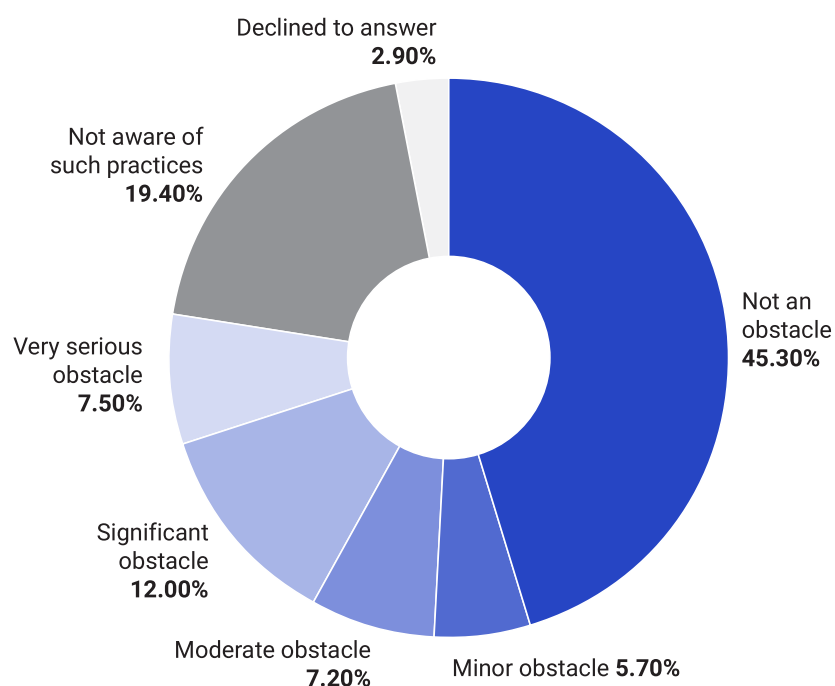
To what extent was corruption an obstacle to business activity in 2024?

When asked about the impact of corrupt practices on their entrepreneurial activities, 45.3% of respondents stated that corruption did not hinder them. Meanwhile, 19.4% reported being unaware of such practices. One-third (32.4%) reported experiencing some degree of problem due to corruption. Specifically, 12.9% stated that corruption was a minor or moderate obstacle, and 19.5% reported that it was a significant or very significant obstacle.

Regarding tax systems, corruption is clearly a much less significant problem for non-VAT payers than for VAT-paying entrepreneurs. Non-VAT payers state that corruption is not an obstacle in over 50% of cases. VAT payers state that corruption is not a significant obstacle less frequently, at 40%. Accordingly, VAT payers are more likely to respond affirmatively to the question of whether corruption was a "very significant obstacle" (11.0% of respondents under general tax system with VAT), while non-VAT payers respond affirmatively significantly less often (4.7% and 4.8% for the general and simplified systems, respectively).

The responses received about corruption as an obstacle to business differ significantly from the results presented in the World Bank report *"Ukraine: Study of Tax Compliance Costs in 2024."* In particular, the World Bank report mentions corruption as a significant or very serious obstacle to business for 41.8% of respondents (for 2023) and 37.4% of respondents (for 2021). In our survey, only 19.5% of respondents stated that corruption is a significant or very significant obstacle to business.

Figure 9. To what extent was corruption an obstacle to business activity in 2024?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ with a 95% confidence level.

Table 23. To what extent was corruption an obstacle to business activity in 2024?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Not an obstacle	45.3%	40.2%	50.6%	39.5%	51.1%
Minor obstacle	5.7%	6.0%	4.6%	10.4%	4.5%
Moderate obstacle	7.2%	9.4%	4.4%	6.2%	5.5%
Significant obstacle	12.0%	11.7%	14.1%	17.2%	10.8%
Very serious obstacle	7.5%	11.0%	4.7%	5.7%	4.8%
Not aware of such practices	19.4%	18.9%	17.5%	18.3%	20.6%
Declined to answer	2.9%	2.8%	4.0%	2.9%	2.8%

Note: The results show statistically significant differences between groups of respondents across tax system ($p=0.031$).

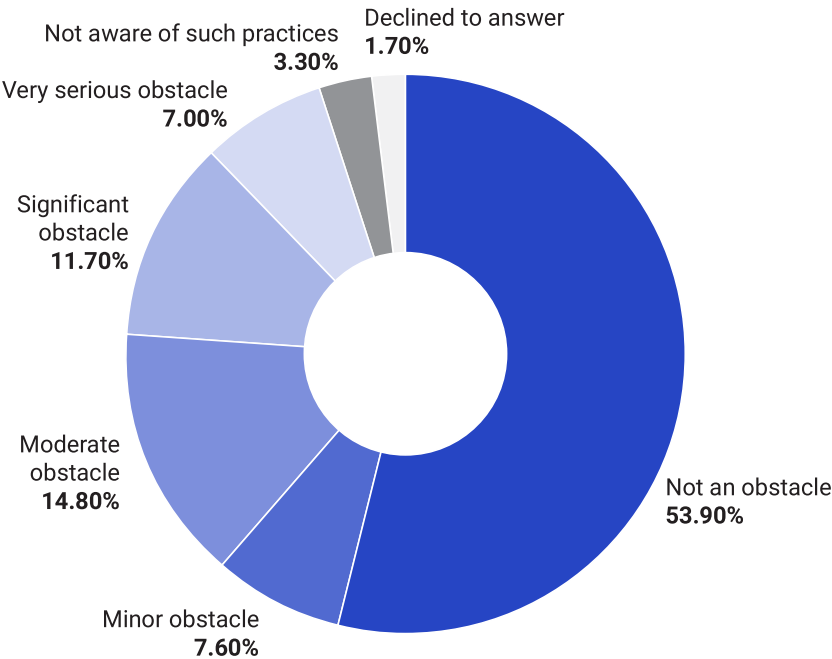
To what extent did tax rates pose an obstacle to business activity?

The majority of respondents (53.9%) stated that tax rates had no negative impact on business conditions. Only 7% of entrepreneurs surveyed stated that tax rates were a very significant obstacle to their activities, while 11.7% considered them a significant obstacle. 22.4% of respondents selected the option “insignificant or moderate obstacle to activities”.

Taxpayers on the simplified system are less concerned about tax rates than those on the general tax system. In particular, 61.4% of those on the simplified system said that tax rates were not an obstacle, compared to 47.4% of those under the general system with VAT. Conversely, 13.6% of enterprises under the general system with VAT and 9.6% of enterprises under the simplified system without VAT said that tax rates were a significant obstacle.

In the World Bank report “Ukraine: A Study of Tax Compliance Costs in 2024,” 37.9% of respondents (for 2023) and 29.5% of respondents (for 2021) stated that tax rates were a significant or very significant obstacle. In our survey, this figure was 18.7%.

Figure 10. To what extent were tax rates an obstacle to business activity in 2024?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ with a 95% confidence level.

Table 24. To what extent were tax rates an obstacle to business activity in 2024?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Not an obstacle	53.9%	47.4%	51.6%	53.6%	61.4%
Minor obstacle	7.6%	8.4%	3.9%	6.8%	7.6%
Moderate obstacle	14.8%	17.4%	11.8%	15.8%	12.2%
Significant obstacle	11.7%	13.6%	14.6%	9.5%	9.6%
Very serious obstacle	7.0%	6.8%	14.8%	11.5%	4.8%
Not aware of such practices	3.3%	4.0%	2.2%	2.8%	2.9%
Declined to answer	1.7%	2.4%	1.1%	-	1.5%

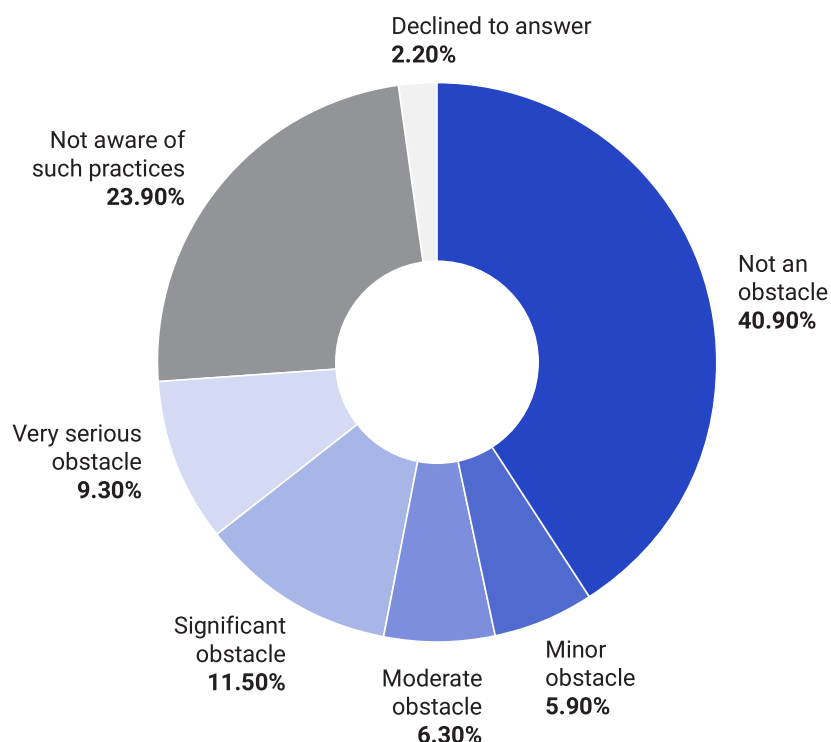
Note: The results demonstrate statistically significant differences between groups of respondents across tax systems ($p=0.016$).

To what extent did the practice of presumption of guilt where the taxpayer must prove the absence of criminal intent to the tax and customs authorities constitute an obstacle to business activity?

When asked about the presumption of guilt, 40.9% of respondents stated that this was not an obstacle, while 23.9% indicated that they were not aware of it. Conversely, one-third of respondents (33.3%) noted that it created obstacles to their activities to some extent.

In terms of tax systems, a clear divide emerges again between the general and simplified systems. While 52.9% of respondents using the simplified system said that the presumption of guilt was not an obstacle, this figure was much lower among those using the general system with VAT (29.5%). Conversely, 18.8% of those under the general system with VAT said that the presumption of guilt was a significant obstacle (compared to 4.0% of those on the simplified system), and 13.4% said it was a very strong obstacle (compared to 5.6%).

Figure 11. To what extent did the practice of presumption of guilt where the taxpayer must prove the absence of criminal intent to the tax and customs authorities (e.g., the SMKOR mechanism) constitute an obstacle to business activity in 2024?



Note: The survey was conducted on a sample of 928 respondents. The statistical error does not exceed $\pm 3.2\%$ with a 95% confidence level.

Table 25. To what extent did the practice of presumption of guilt where the taxpayer must prove the absence of criminal intent to the tax and customs authorities (e.g., the SMKOR mechanism) constitute an obstacle to business activity in 2024?

	Overall N = 928	General tax system		Single tax (simplified) system	
		with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Not an obstacle	40.9%	29.4%	41.9%	41.8%	53.0%
Minor obstacle	5.9%	8.9%	5.4%	5.7%	2.8%
Moderate obstacle	6.3%	8.9%	10.2%	3.3%	3.4%
Significant obstacle	11.5%	18.7%	8.6%	12.8%	4.1%
Very serious obstacle	9.3%	13.5%	9.2%	6.1%	5.5%
Not aware of such practices	23.9%	18.5%	23.6%	29.3%	28.5%
Declined to answer	2.2%	2.1%	1.1%	0.9%	2.8%

Note: The results show statistically significant differences between groups of respondents across tax systems ($p=0.000$).

Advantages of the tax regime you work under

When asked about the advantages of their companies' tax regimes, those using the simplified system clearly identified lower tax accounting costs and taxes paid as key benefits. In particular, 32.9% of surveyed taxpayers under the simplified system (without VAT) consider lower tax accounting costs to be an advantage, compared to only 2.6% of enterprises under the general system with VAT. Lower taxes paid were cited as an advantage by 30.5% of the surveyed taxpayers under the simplified system, compared to just 6.9% of enterprises under the general system with VAT. Taxpayers under the simplified system also cite a lower probability of audits and less attention from tax authorities as an advantage of their tax regime.

Conversely, VAT payers cite the ability to work with a large number of companies as an advantage. This was stated by 31.5% of respondents under the general system with VAT and 25.0% of respondents under the simplified system with VAT, compared to just 14.3% of respondents under the simplified system. More than 44% of entrepreneurs under the general system (including both VAT payers and non-payers) believe that their tax regime has no advantages. In contrast, only 22.6% of VAT payers under the simplified system and 19.3% of non-VAT payers under the simplified system said that their regime has no advantages.

The answers to this question are very similar to the results presented in the World Bank report, *"Ukraine: Study of Tax Compliance Costs in 2024"*. Notably, 47.3% of entrepreneurs on the general system without VAT stated that their tax regime offered no advantages (compared to 44% in our survey). VAT payers under the general system also cited the ability to work with a large number of companies as their main advantage (26.2%, compared to 31.5% in our survey). However, the results regarding the advantages of entrepreneurs under the simplified system differed significantly. The World Bank report states that 55.7% of taxpayers under the simplified system without VAT consider the low total tax liability to be an advantage. However, in our survey, only 30.5% of respondents considered this to be an advantage, which is slightly lower than the proportion who considered lower tax accounting costs to be an advantage (32.9%). Low tax accounting costs were noted by 40% of respondents in the World Bank study.

Table 26. What are the main advantages of the tax regime under which your company was registered in 2024?*

	General tax system		Single tax (simplified) system	
	with VAT N = 404	without VAT N = 64	with VAT N = 83	without VAT N = 377
Lower overall tax liability	6.9%	15.9%	24.3%	30.5%
Lower tax accounting costs	2.6%	15.0%	26.4%	32.9%
Lower probability of inspection	5.9%	12.2%	13.2%	19.6%
Lower attention from tax authorities	7.5%	8.9%	17.6%	16.3%
Opportunity to work with many companies	31.5%	21.1%	25.0%	14.3%
No advantages	44.8%	44.4%	22.6%	19.3%
Other advantages	3.7%	0.9%	4.7%	6.1%
Don't know	6.7%	3.4%	7.8%	6.1%
Declined to answer	1.9%	-	1.4%	1.2%
Simplified reporting/documentation	0.3%	2.4%	3.7%	10.4%

* – respondents could select multiple answers, so the total exceeds 100%.

Note: For all answer options except "other advantages," "don't know," and "declined to answer," we observe statistically significant differences between groups of respondents across tax systems ($p=0.000$).

Disadvantages of the tax regime you operate under

Entrepreneurs under the general system with VAT highlighted several disadvantages, including higher tax accounting costs (19.4% compared to 3.0% for those under the simplified system), higher taxes (25.1% compared to 11.6%), a higher probability of inspection (12.7% compared to 2.0%), a higher level of attention from tax authorities (16.9% compared to 2.2%), and a higher probability of inspection by tax authorities (15.3% compared to 2.5%). In contrast, most taxpayers under the simplified system (58.6%) stated that their tax system had no drawbacks, compared to just 25.6% of respondents under the general system with VAT.

The answers to the question regarding the shortcomings of the chosen tax regime are very similar to the findings presented in the World Bank report, *"Ukraine: Study of Tax Compliance Costs"*. VAT payers under the general system cited higher taxes (34.2% versus 25.1% in our survey) and higher tax accounting costs (30.9% versus 19.4% in our survey) as the main disadvantages of the chosen system. Other disadvantages of the general system with VAT include increased scrutiny from the tax authorities (30.2% versus 16.9% in our survey) and a greater likelihood of audits (27.3% versus 12.7% in our survey). In the World Bank study, 30% of taxpayers under the simplified system without VAT stated that there were no disadvantages to the chosen tax regime; in our study, however, this answer was chosen by 58% of taxpayers under the simplified system.

Table 27. In your opinion, what are the main disadvantages of the tax regime under which your company operated in 2024?*

	General tax system		Single tax (simplified) system	
	with VAT N = 404	without VAT N = 64	with VAT N = 83	excluding VAT N = 377
Higher overall tax liability	25.1%	23.6%	24.2%	11.6%
Higher tax accounting costs	19.4%	14.6%	9.5%	3.0%
Higher probability of inspection	12.7%	6.4%	7.3%	2.0%
Closer attention from tax authorities	16.9%	9.7%	5.7%	2.2%
Higher likelihood of audit by tax authorities	15.3%	4.9%	6.2%	2.5%
Inability to work with many companies	5.0%	5.8%	3.3%	11.0%
No disadvantages	25.6%	40.0%	51.6%	58.6%
Other disadvantages	1.8%	2.4%	2.6%	2.7%
Don't know	7.3%	1.2%	2.3%	2.8%
Declined to answer	2.6%	3.4%	1.4%	0.7%
Blocking of tax consignments	3.9%	-	-	-
Deficiencies in legislation and in the functioning of state bodies	4.9%	5.4%	0.8%	4.1%
Low income, taxes, limits	0.3%	2.3%	1.8%	2.9%
Bureaucratic shortcomings (format, time for processing, etc.)	2.5%	1.1%	1.0%	0.3%

* – respondents could select multiple answers, so the total exceeds 100%.

Note: For the vast majority of answers, except for "other advantages," "declined to answer," "shortcomings in legislation, work of state bodies," and "shortcomings in bureaucracy (format, amount of time, etc.)," we observe statistically significant differences between groups of respondents across tax systems ($p < 0.05$).

Conclusions

The survey results clearly demonstrate that the general tax system is more burdensome and less attractive to entrepreneurs than the simplified regime in many respects. Notably, the radical difference in administration costs is evident not only between self-employed individuals under the simplified system and enterprises under the general tax system, but also between legal entities under the two systems. Notably, the difference in time spent on accounting is significant: 478.2 person-days per year for enterprises under the general system with VAT versus 114.5 person-days per year for entrepreneurs under the simplified system. This difference essentially reflects the distinction between enterprises with hired employees and the majority of legal entities. Self-employed taxpayers under the simplified system did not respond when asked about the number of employees involved in accounting and the amount of working time spent on tax and accounting, since they do not keep accounts as such in accordance with the law. In other words, a legal entity that opts for the simplified system and chooses not to be a VAT payer reduces its tax and accounting costs fourfold, which makes the general tax system even less attractive.

In addition to the significant difference in accounting costs between the general and simplified systems, entrepreneurs also claim that tax authorities conduct more audits of VAT payers under the general system and apply sanctions more frequently. In other words, in addition to the lower accounting costs under the simplified regime, there is also the issue of significantly greater business security.

Notably, respondents themselves highlight the cost of accounting as a key factor in the attractiveness of the chosen tax regime. Entrepreneurs under the simplified system indicated that lower accounting costs were the main advantage of their chosen tax regime (32.9% of respondents), even exceeding the answer option about the amount of taxes paid (30.5% of respondents). Those under the general system with VAT, however, rank higher taxes paid (25.1% of respondents) as the main disadvantage of their chosen tax regime, followed by accounting costs (19.4%).

The results show an urgent need to make the general tax system more entrepreneur-friendly and simpler, and to reduce the cost of compliance for VAT payers under the general tax regime. Unfortunately, current fiscal policy ignores the problems of the general tax system, identifying the existence of the simplified system as the main threat instead. This study proves the fallacy of this approach, drawing attention to the fundamental flaw in fiscal policy of worsening business conditions for those under the simplified regime instead of easing conditions for entrepreneurs under the general regime, which discourages Ukrainian entrepreneurs from growing and developing.

