Monthly digest

TECHNOLOGY OF PROGRESS

Tax Service Performance Digest

№5
August 2025

Key Highlights

On 1 August 2025, amendments to the State Budget of Ukraine entered into force, increasing projected tax revenues by UAH 91.8 billion. However, the nature of these changes is primarily technical: they reflect adjustments to future revenue expectations resulting from tax rate increases introduced earlier in the year, as well as the already recorded overperformance of tax revenues against budget targets.

Excluding the revenue overperformance already achieved, the budget was increased by UAH 24.7 billion for the period from August through the end of 2025, attributable solely to higher tax rates.

The current version of the State Budget disregards potential reserves from the formalisation of the shadow economy, which undermines incentives to combat informality and corruption.

As of 1 August 2025, the transitional period during which reduced fines were applied for violations of cash register (RRO/PRRO) regulations has ended.

Full fines are once again being imposed:

- 100% of the value of goods (works, services) for the first violation;
- 150% of the value for each subsequent violation.

Topic of the Month: Gambling Industry

Despite certain progress achieved through legislative amendments and efforts to combat miscoding (a scheme involving manipulation of banking systems to conceal the true origin of payments by altering their purpose), according to members of the Temporary Investigative Commission on Economic Security, the level of informality in Ukraine's gambling market still results in tax losses of up to UAH 20 billion annually.

Among the principal problems and shadow schemes in the sector:

- There is no effective control over the gambling business due to the absence of a State online monitoring system that would track all bets and payouts to players in real time.
- Some online casinos treat player winnings as "stake returns" to avoid taxation on gambling proceeds.
- Companies manipulate financial reporting: tax returns report one set of figures for revenues and taxes on winnings, while different amounts are routed through banking channels.
- The rate at which new illegal online casino sites are established significantly exceeds the rate at which control authorities close them.
- The use of "drops" schemes, whereby bets are accepted not into the organiser's bank account but into the accounts of a network of private individuals.

Overall, during January - August 2025, taxpayers in the gambling businesses (KVED 92.00 "Organization of gambling") paid UAH 13[1].07 billion in taxes. This is 105 times more than in 2021, when the sector was almost entirely in the shadow economy. Nevertheless, significant growth potential remains: for example, in August 2025, tax revenues amounted to UAH 2.8 billion, exceeding the August 2024 figure by UAH 0.9 billion (+47.4%).

In December 2024, the rules on mandatory fiscalization of settlement transactions in the organisation and conduct of gambling (bets, stake returns, etc.) were clarified.

Prior to these amendments, even legal operations were largely conducted without the use of RROs, exploiting loopholes in the legislation.

The absence of RROs (cash registers) enabled easier manipulation of reporting by adjusting data on organisers' revenues and payouts to reflect desired figures. It also allowed operators to avoid inspections and penalties for non-fiscalisation of transactions.

However, the fiscalization of gambling operations has not yet had a broad-based impact. Since November 2024, the number of RRO/PRRO increased from 176 units to 446 in August 2025; nevertheless, significant month-to-month fluctuations are observed, which are difficult to explain within the normal dynamics of the sector. For example, in August 2025 the number of cash registers decreased by 59 units compared to July.

Although payments processed through cash registers increased - reaching UAH 4.8 billion in August 2025, up by 1,497.3% compared to the same period in 2024 (UAH 0.32 billion in August 2024) - total tax revenues to the budget in January-August 2025 rose by only UAH 1.4 billion, or 12.0% year-on-year, two-thirds of which was attributable solely to August.

Relative taxation indicators in the sector raise a number of concerns. The positive trend in the payment rate of corporate income tax has come to a halt. While in 2022 the average payment rate was 20.4%, in 2024 it declined to 17.8%, and in 2025 it fell further to 16.5%, despite gambling operators' revenues increasing by 12.6%. All else being equal, this may indicate that companies are more actively employing tax minimisation schemes and highlights the need for stricter control measures and deeper monitoring of the sector's activities.

Similarly, employment and wage indicators among gambling operators point to a lack of transparency and risks of tax evasion. Officially, companies in the sector employ between 1 and 776 persons, with half of businesses reporting fewer than 10 employees. Average monthly wages also fluctuate unnaturally, ranging from UAH 310 to UAH 236,000. At the same time, 16% of employees officially receive less than the statutory minimum wage.

Implementation of the National Revenue Strategy (NRS)

The National Revenue Strategy provides for a set of anti-corruption measures to be implemented by the State Tax Service of Ukraine (STS). Key developments regarding these measures include the following:

1. In line with the National Revenue Strategy through 2030, the STS is required to publish on its website a Report on the Implementation of the STS Anti-Corruption Programme for 2023–2025 and on the remedial measures identified in the Risk Register, which forms an integral annex to the Programme.

   The STS published the Report on the Implementation of the STS Anti-Corruption Programme for the first half of 2025 on its website following the link. However, it did not provide a report on the implementation of the Risk Register for this period. This contrasts with the Report on the Implementation of the STS Anti-Corruption Programme for the second half of 2024, which also disclosed the actual timeframe for the implementation of risk mitigation measures, their implementation status, a description of results achieved, or information on the reasons for non-implementation.

   The absence of publicly available results on the implementation of each measure in the Risk Register complicates public oversight of the STS's activities in this area.

2. No progress has been made in developing the ICS software "Information Exchange with Foreign Competent Authorities." In August 2025, only the possibility was considered of conducting a separate procurement for the development of the terms of reference for creating the ICS software "Information Exchange with Foreign Competent Authorities."

   There is a risk of losing the funds allocated in the State Budget for 2025 for the development of this IT solution.

   It should be recalled that the implementation of the system is intended to ensure transparency in the exchange of information with foreign competent authorities, eliminate potential corruption risks associated with the manipulation of tax information, and improve the quality of documentary audits.

3. The development of the ICS "e-Audit" continues, with the system being populated with audit tests and algorithms required for the analysis of SAF-T UA data files, as well as the validation of audit tests deployed within the STS environment. In August 2025, 88 standard audit files (SAF-T UA) were submitted to the STS through the e-Cabinet in test mode.

   The full-scale launch has already been delayed by five months. The current expected completion date for the development of this software product is 30 October 2025. Given that tax audits represent one of the highest corruption risks, the automation of taxpayer selection for audits and the generation of risk registers will help reduce corruption and influence the outcomes of such audits.

4. The STS continues the implementation of a new tax risk management system aimed at reducing corruption risks, in particular by minimising the subjective approach to selecting taxpayers for audits and preventing tax evasion.

5. Based on the processing of the initial list of taxpayers with the highest tax risks, in January–August 2025 the tax authorities conducted scheduled documentary audits of five large taxpayers and 270 other taxpayers, resulting in additional tax assessments of UAH 1.7 billion. The negative taxable value was reduced by UAH 0.9 billion.

The tax authorities have also undertaken measures to address identified risks related to registration, reporting, and payment in order to minimise them:

- **With respect to registration risks, in particular:**
  - In July, 535 business entities received information notices in their e-Cabinet regarding the need to register as VAT payers;
  - More than 1,000 companies were subject to decisions annulling their VAT registration;
  - Following the 2024 tax declarations, 584 single tax payers of Group III (legal entities) exceeded the income threshold and were transferred to the payment of other taxes and fees.

- **With respect to reporting risks:**

Through the e-Cabinet, taxpayers received 10.4 thousand information notices regarding the non-submission of tax reports by type of tax. Of the taxpayers who had received similar notices in July of the current year (8.0 thousand in total), 1.0 thousand reports were subsequently filed, representing 12.0% of the total number of notices issued. This indicates that a substantial number of companies failed to submit reports not due to de facto termination of activities.

- **With respect to payment risks:**

the number of companies not subject to penalties for late payment of tax liabilities was reduced as follows:

  - Single tax from legal entities – by 1,197 companies;
  - Land tax / rent - by 465 companies;
  - Rent payments - by 343 companies.

6. As of August 2025, the software required for the introduction of the e-Excise system on 1 January 2026 has not yet been fully developed. Delays by the Ministry of Digital Transformation in the development and pilot launch of the necessary software pose risks to the timely implementation of the reform in Ukraine and may result in continued multibillion losses to the State Budget from various schemes involving excisable goods.

7. In August 2025, the pilot operation of the software for the Unified Register of Licensees for the production and circulation of ethyl alcohol, spirit distillates, alcoholic beverages, tobacco products, tobacco raw materials, and liquids used in electronic cigarettes, as well as the Unified Register of Licensees and Locations of Fuel Circulation, continued. Full-scale operation, which was scheduled to commence on 1 January 2025, has not yet been launched.

Performance Against Revenue Targets

Status of indicative target achievement August 2025

Actual tax revenues 131,8 UAH billion

Planned revenues: +0,08 UAH billion

Comparison with August 2024: +29,8 UAH billion

Corporate income tax 51,1 UAH billion

Comparison with August 2024: +8,9 UAH billion

Value-Added Tax 23,4 UAH billion

Planned revenues: 86,3%

In August 2025, UAH 131.8 billion in taxes and fees was collected for the general fund of the state budget, exceeding the Ministry of Finance's target for this period by UAH 0.08 billion, or 0.06%. This also represents an increase of UAH 29.8 billion, or 29.3%, compared to the same period in 2024.

Corporate Income Tax – UAH 51.1 billion, which is UAH 8.9 billion, or 21%, higher than in the same period of 2024. These revenues were driven by several factors: an increase in the number of taxpayers required to file quarterly reports, inflation, higher tax rates for certain categories of taxpayers, as well as the existence of advance payments. However, the process of formalisation that had been taking place in recent years has slowed, with the payment rate declining to 1.35% in the first half of 2025, down by 0.08 percentage points compared to the first half of 2024.

Value-Added Tax (VAT) – UAH 23.4 billion, achieving 86.3% of the Ministry of Finance's target, leaving a shortfall of UAH 3.7 billion. This is UAH 1.7 billion more than in August 2024.

In August 2025, taxpayers received UAH 14.6 billion in VAT refunds. Compared to July, the outstanding balance of unreimbursed VAT increased by UAH 0.28 billion, amounting to UAH 22.15 billion. In addition, the tax authority continues to refer a significant share of refund claims for documentary audits. Other factors contributing to the high level of unreimbursed VAT include the Treasury's failure to transfer UAH 5.6 billion to businesses in a timely manner as of 1 September 2025, as well as the untimely execution of court rulings on VAT refunds.

All of this delays the reimbursement process, increases the burden on the economy, and creates potential corruption risks by incentivising businesses to seek informal arrangements or operate in the shadow economy.

Personal Income Tax and Military Levy – UAH 30.7 billion, including UAH 13.8 billion from the military levy. In August 2025, revenues increased by UAH 13.2 billion, or 75.4%, compared to the same period of 2024.The overperformance in revenues was primarily driven by the higher military levy rate and nominal wage growth. Enterprises continue to increase official wages in order to secure the right to reserve their employees from mobilisation.

Excise Tax on Imported Goods – UAH 4.4 billion, which is UAH 1.7 billion, or 62.7%, higher than in the same period of 2024. The increase was driven primarily by higher excise tax rates and the existence of advance payments.

Excise Tax on Domestically Produced Goods – UAH 11.2 billion, which is UAH 1.2 billion higher than in August 2024. However, only 89.5% of the Ministry of Finance’s target was achieved, leaving a shortfall of UAH 1.3 billion. The underperformance in excise revenues from tobacco indicates insufficient effectiveness in combating shadow schemes, while in the case of fuel, in addition to inadequate oversight by control authorities, the shortfall also reflects an objective factor - the destruction of production facilities of one of the main fuel producers as a result of shelling by the Russian Federation.

Administration

The administration of trade in excisable goods and electronics remains one of the key anti-corruption challenges for the state. These sectors concentrate the largest volumes of corruption-related capital, while high tax rates enable significant margins from illicit trade.

The situation in these sectors during January-August 2025 is as follows:

Alcohol. Alcohol plants produced 26.90 million decalitres (dal) of absolute alcohol, representing a 45.8% increase compared to the same period of 2024. The average monthly production volume of alcohol in 2025 amounted to 3.36 million decalitres of absolute alcohol, which is 1.06 million decalitres per month higher than in 2024.

The VAT payment rate on produced volumes: August 2025

for alcohol producers	Comparison with 2024	for producers of alcoholic beverages	Comparison with 2024
2,2%	-1,5 percentage points	5,1%	-0,8 percentage points

The VAT payment rate on produced volumes for:

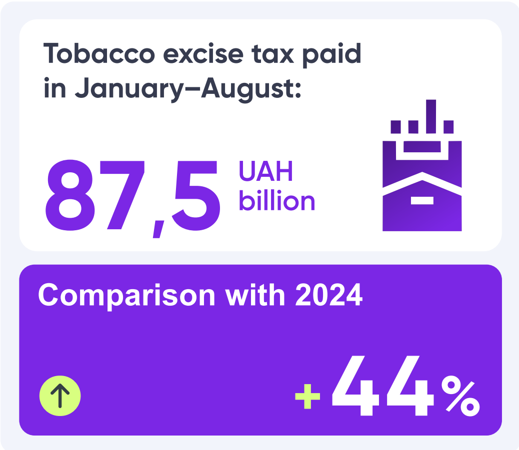
- **alcohol producers** decreased to 2.2%, down by 1.5 percentage points compared to 2024, despite the increase in production volumes;
- **alcoholic beverage** producers fell to 5.1%, down by 0.8 percentage points compared to 2024, despite the growth in supply volumes.

The corporate **income tax payment rate** in the first half of 2025 on produced volumes for:

- **alcohol producers** declined from 0.4% to 0.3%, down by 0.1 percentage points compared to the same period of 2024;
- **alcoholic beverage** producers fell from 1.8% to 1.4%, down by 0.4 percentage points compared to the same period of 2024.

The decline in the effectiveness of VAT and corporate income tax collection amid rising production volumes indicates a decrease in taxpayer integrity, an expansion of the shadow segment in the sector, and poor quality of tax control. This situation also clearly demonstrates the existence of high corruption risks in the STS's work in this area.

Tobacco. Producers of tobacco products manufactured approximately 20.8 billion cigarettes, excluding cigarillos and T-VEN, averaging 2.6 billion cigarettes per month. In July 2025, production volumes of tobacco products remained at the previous month's level, amounting to 2.6 billion cigarettes. Following the temporary decline in production in April 2025 and despite the subsequent increase from May 2025 onwards, cigarette production still remains 215 million units below the level recorded in March 2025.



The State Budget of Ukraine received UAH 87.5 billion in excise tax from domestically produced and imported tobacco products in the first eight months of 2025. This represents a 44% increase compared to 2024.

The Ministry of Finance's target for domestic tobacco production for January–August 2025 was underperformed by UAH 983 million, with the shortfall in August 2025 amounting to UAH 550.9 million (or 6%).

The VAT payment rate on produced volumes of tobacco products declined to 15.3%, down by 1 percentage point compared to 2024, despite production volumes increasing by approximately 100 million units per month in 2025.

The corporate income tax payment rate in the first half of 2025 increased by 0.6 percentage points, from 1.1% to 1.7%, compared to the same period of 2024.

The decline in the effectiveness of VAT collection amid rising production volumes may indicate the use of tax minimisation schemes by taxpayers.

Паливо. In January–August 2025, 48 fuel retail networks paid UAH 9.0 billion in taxes (excluding social security contributions), including:

- UAH 3.6 billion in Value-Added Tax (VAT);
- UAH 1.9 billion in Corporate Income Tax, including UAH 1.2 billion in advance payments;

- UAH 2.2 billion in Personal Income Tax;
- UAH 0.9 billion in Excise Tax.

VAT payment level from gas station networks
Jan - Aug 2025
1,2 %

Comparison with the same period in 2024.
+0,3 percentage points

The VAT payment rate for fuel retail networks stood at 1.2%, an increase of 0.3 percentage points compared to 2024.

The corporate income tax payment rate in the first half of 2025 increased only marginally, by 0.1 percentage points, from 0.3% to 0.4% compared to the same period of 2024.

In the retail fuel sector, taking into account a 6.1% decrease in fuel sales volumes during January–August 2025 compared to the same period of 2024, and the increase in excise tax rates on fuel effective 1 September 2024, revenues recorded through RRO/PRRO grew by only 1.6% year-on-year for January–August 2025.

At the same time, according to A-95 Consulting Group, the average price of diesel fuel (the most widely used fuel) increased from UAH 52.85 at the end of August 2024 to UAH 55.98 at the end of August 2025, up by UAH 3.13, or almost 6%

Despite the marginal increase in the effectiveness of VAT and corporate income tax collection following the rise in tax rates, the sector requires stronger oversight by tax and law enforcement authorities.

Sales Volumes Through Cash Registers

The formalization of settlement transactions remains a key instrument in combating the shadow economy. The use of RRO/PRRO enhances business transparency and reduces the scope for corrupt practices.

Average daily revenue August 2025:
16,3 UAH billion

Comparison with July 2025
+3,2%

Comparison with 2024
+30,4%

In August 2025, total revenues recorded through RRO/PRRO systems increased to

UAH 506.3 billion, up by 31.1% compared to the same period of the previous year and by almost 3.7% relative to July 2025.

Average daily number of checks in August compared to 2024

+9,8%

Comparison with July 2025

+0,4%

The average daily revenue increased to UAH 16.3 billion, up by 30.4% compared to the previous year and by almost 3.2% relative to July 2025.

The number of receipts in August 2025 also rose by almost 9.8% year-on-year and by 0.4% compared to July 2025.

The steady growth in RRO/PRRO indicators against the backdrop of the traditional stagnation of consumer prices in August (year-on-year inflation stood at 13.2%) reflects the gradual formalisation of retail trade and the strengthening of tax discipline among businesses. This indicates greater transparency in cash circulation and an expansion of the tax base.

Results of Tax Audits

In January-August 2025, the STS:

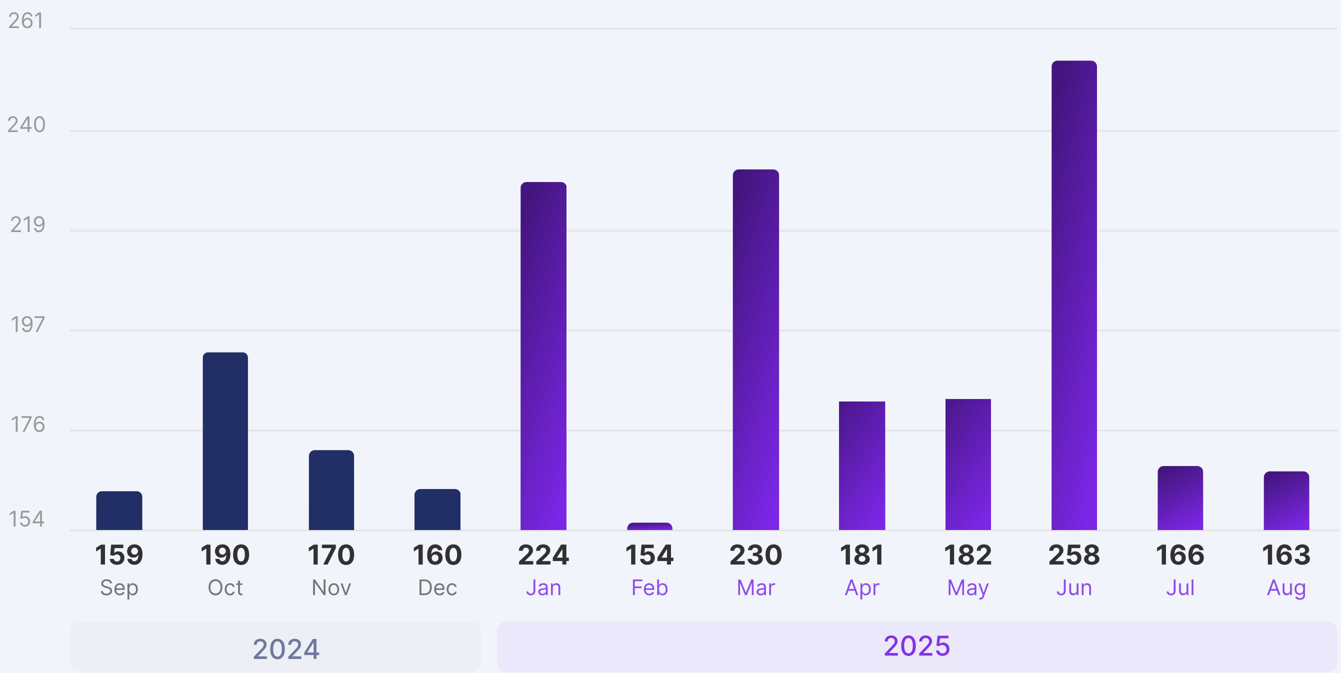
- conducted 2,607 scheduled audits (+15% compared to 2024) and 21,287 unscheduled audits (+29%);
- assessed additional tax liabilities of UAH 88.6 billion, 78% of which resulted from unscheduled audits. At the same time, assessments from scheduled audits decreased more than fourfold (UAH 19.6 billion in 2025 compared to UAH 87.0 billion in 2024);
- agreed: UAH 6.4 billion from scheduled audits (almost unchanged from 2024) and UAH 57.3 billion from unscheduled audits (a 3.3-fold increase);
- collected actual budget revenues of UAH 3.7 billion, which is 8.2% lower than in 2024.

The average amount of additional assessments per auditor from scheduled audits decreased fourfold (UAH 14 million compared to UAH 59 million in 2024).

This may indicate poor quality in the selection of taxpayers and related systemic issues, as the number of audits increased while the volume of additional assessments declined significantly. The preservation of outdated administration and control practices objectively sustains a high level of corruption in this area. Accelerating the implementation of IT solutions is critically necessary to enhance the effectiveness of tax control, reduce corruption risks, and ensure the integrity of audits.

Violations

The number of criminal proceedings initiated under Articles 204, 212, and 212-1 of the Criminal Code of Ukraine during the period from 1 September 2024 to 31 August 2025.



According to data from dashboard.gp.gov.ua, developed by the NGO Technology of Progress, 163 criminal proceedings directly related to tax administration (tax evasion and the sale of excisable goods) were registered in August 2025. This is 14 fewer than in May 2024 and three fewer than in July 2025. These figures represent the second-lowest indicator this year and may be linked to the process of leadership change within the Bureau of Economic Security.

In addition, in August, 12 tax authority employees received disciplinary sanctions for violations of anti-corruption legislation and ethical standards, while one official was dismissed.

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The digest was prepared by the NGO Technologies of Progress as part of the Fiscal Watch Ukraine: Advancing Transparency and Oversight in Taxation, Audit, and Public Spending project, which is implemented with the support of the EU Anti-Corruption Initiative in Ukraine (EUACI).

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EUACI EUROPEAN UNION ANTI-CORRUPTION INITIATIVE

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