

# Tax Service Performance Digest

**No4**  
July 2025

The following sections of the Digest provide a chronicle of developments in tax policy for July, including the rollout of SAF-T UA, taxation analytics, and other trends in the interaction between businesses and the State Tax Service.

## Key Highlights



In July 2025, pursuant to the decision of [the National Security and Defence Council of Ukraine](#), the State Tax Service announced that tax audits would focus exclusively on taxpayers assessed as posing significant risks.



Implementation of the e-Excise system's IT solution is ongoing, with its full-scale launch scheduled for 1 January 2026. As part of preparatory work in July, web services were developed to enable system integration, including access to the Unified Register of Licensees and data on the display of unique identifiers of electronic excise stamps for excisable goods in fiscal receipts.



As of 1 July 2025, amendments introduced by Law of Ukraine No. 4115-IX of 4 December 2024 entered into force. These amendments expanded the grounds for liability for violations in the retail trade of excisable goods. Previously, sanctions were applied only in cases where such goods were sold at prices exceeding the maximum allowable level; liability is now also imposed for sales at prices below the legally established minimum. Prices below the minimum were typically set by sellers who operated without issuing receipts, i.e. without paying taxes. The new rules will make it easier for the tax authorities to monitor compliance with tax legislation by retail sellers, as enforcing the minimum price requirement is simpler to administer.



On 17 July, the chief inspector of the Main Department of the State Tax Service in the Khmelnytskyi region was detained while receiving an unlawful benefit and was served with a notice of suspicion.

## Topic of the Month: Tobacco Industry

In July 2025, the tobacco market once again came into focus. Key developments during the period included the strengthening of excise policy amid rising volumes of illicit trade in cigarettes and electronic cigarette liquids, as well as active operations by the Bureau of Economic Security against shadow producers.

The main corruption schemes in the tobacco industry remain as follows:

- trade in tobacco products without an excise stamp or with counterfeit excise stamps. Such products may be either counterfeit goods manufactured on illegal production lines or produced on licensed lines.
- trade in tobacco products labelled as Duty Free, despite the legislative ban on manufacturing cigarettes for Duty Free sales within the territory of Ukraine;
- unlawful cross-border trade/smuggling.

These schemes essentially amount to the sale of tobacco products without the payment of excise tax and VAT.



According to a [KANTAR](#) study conducted in April 2025, the share of the illicit tobacco market reached 16.2% (compared to 14.1% at the beginning of 2025). Within this, the share of counterfeit<sup>1</sup> products increased to 8.8% (from 6.4% in February 2025).

The study also notes that among products bearing signs of counterfeit excise stamps, based on

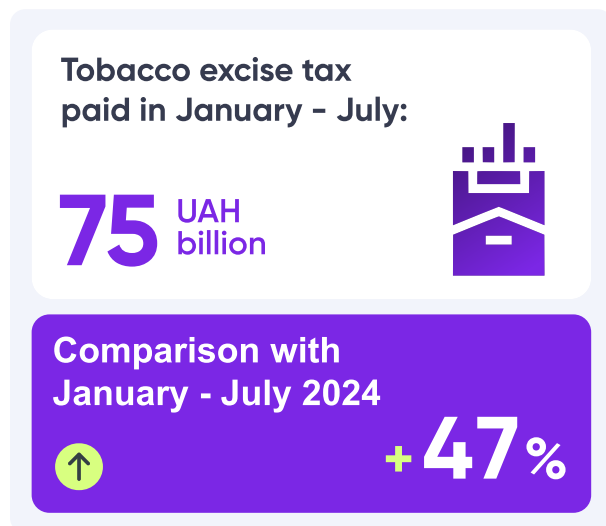
packaging labels, 33% were produced by Marshall Finest Tobacco (United Tobacco)/ VK Tobacco FZE (Ternopil), and 6% by *Ukrainian Tobacco Production* (Vynnyky).

More than half of the products labelled as Duty Free, according to packaging

<sup>1</sup> Counterfeit products are those manufactured in Ukraine without an excise stamp or with a counterfeit excise stamp.

information, were produced by the Vynnyky Tobacco Factory. The remaining 43% of illicit products are represented by brands of Marshall Finest Tobacco.

In January - July 2025, manufacturers produced approximately 18.2 billion cigarettes (excluding cigarillos and T-VEN), averaging 2.6 billion per month. In June 2025, production volumes, after a decline in April of this year, increased to 2.6 billion cigarettes, but this figure still remained 279 million below the level recorded in March 2025.



In the first seven months of 2025, the State Budget of Ukraine received almost UAH 75 billion in excise tax from domestically produced and imported tobacco products. This represents a 47% increase compared to 2024, driven primarily by higher excise tax rates and inflation.

The Ministry of Finance's target for domestic tobacco production for January - July 2025

was underperformed by UAH 432 million. The decline in excise tax revenues from domestic production continued in July, with the shortfall amounting to UAH 904.9 million (or 10.3%).

The VAT payment rate on produced volumes of tobacco products declined to 15.55%, down by 0.6 percentage points compared to 2024, despite higher production volumes in 2025.

The decrease in the VAT payment rate and the partial underperformance against the Ministry of Finance's revenue targets for the sector may indicate a decline in taxpayer integrity. Businesses continue to employ tax minimisation schemes while tax and law enforcement authorities exercise only minimal control over the sector.

## Electronic Cigarettes

Significantly higher levels of shadow activity and, consequently, budgetary losses are being recorded in the market for electronic cigarettes and related liquids. Following the ban on flavoured liquids (effective July 2023, Law No. 1978-IX), the shadow segment of the electronic cigarette market expanded sharply and has, in effect, come

to dominate the entire sector. While in the second half of 2023 its share amounted to approximately 99%, after a temporary decline to 92.3% in 2024, shadow operators had fully re-established their dominance by 2025. This is evidenced by the complete absence of excise stamp purchases in 2025, compared with 6.9 million in 2023 and 1.76 million in 2024.

Budgetary losses from the shadow circulation of electronic cigarettes amount to billions: in 2023 they were estimated at UAH 3-4 billion, while in 2025 they are expected to reach approximately UAH 5 billion. Demand, however, has not declined: whereas in 2024 electronic cigarettes were used by 15.8% of smokers, by early 2025 this share had risen to 17%. Around 70% of users of flavoured liquids are aware of the prohibition, yet only 2.2% have stopped using them, while 76% seek such products on the illegal market or abroad.

Illegal products are sold openly in shops, kiosks, and even shopping malls while a significant share of distribution takes place online through social networks and messaging platforms, with postal delivery and the use of “drops” for payments. Additional schemes are widespread, including “self-mixing,” the sale of liquid components, smuggling, and underground production of flavoured disposable vapes. Given the scale of the shadow market in this sector and the growing number of electronic cigarette users, the efforts of law enforcement authorities to reduce informality have not delivered the expected results.

### **Implementation of the National Revenue Strategy (NRS)**

The National Revenue Strategy outlines a set of anti-corruption measures to be implemented by the State Tax Service of Ukraine (STS). Key developments and current aspects related to these measures include the following:

- ❶ No progress has been made in preparing and launching the tender for the development of the ICS software “Information Exchange with Foreign Competent Authorities.” As a result, the STS has already missed the deadline for the timely introduction of tools aimed at improving the quality of documentary audits and minimising potential corruption risks associated with the manipulation of tax information. There is also a risk that the STS will lose the funds allocated in 2025 for the development of this IT solution.

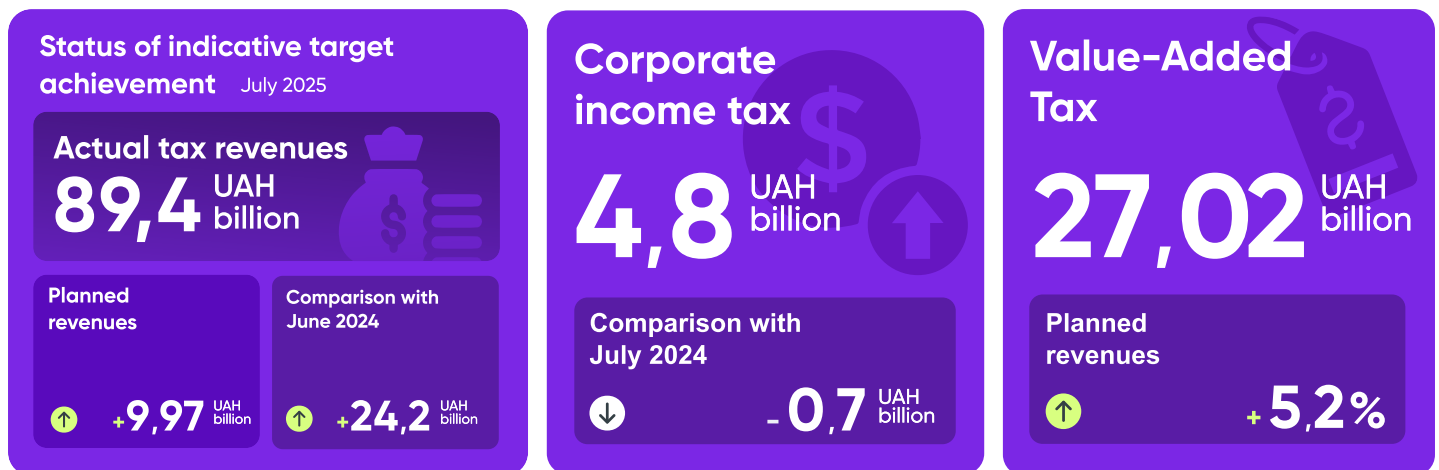


- 2 The STS continues the implementation of a new tax risk management system aimed at reducing corruption risks, in particular by minimising the subjective approach in selecting taxpayers for audits and preventing tax evasion.

Based on the processing of tax risk data through the ICS “e-Cabinet,” in July 2025 the STS sent 8,000 information notices to taxpayers regarding the non-submission of tax reports by type of tax. Among taxpayers who had received similar notices in June of this year (8,200 in total), 800 reports were subsequently filed, representing 9.9% of the total number of notices issued.

- 3 On 2 July 2025, the STS held a meeting with representatives of civil society institutions and business associations to discuss the implementation of the pilot project for the operation of the tax risk management system. However, input was provided by only seven expert organisations. This may indicate that the consultation process remains rather closed, without opportunities for comprehensive discussion within the expert community.
- 4 The STS continues to work on developing an IT solution for e-Audit. In July 2025, 108 standard audit files (SAF-T UA) were submitted to the STS through the e-Cabinet in test mode, including five files from participants to memoranda on testing this reporting format. Despite ongoing progress, the STS has already delayed the implementation of digital audit by four months. It should be recalled that the deadline was agreed with international partners in Ukraine’s Memorandum with the IMF. The full-scale launch of e-audit will enhance the transparency of documentary audits of taxpayers, improve the automatic detection of tax risks, and reduce corruption risks during audits.

# Performance Against Revenue Targets



In July 2025, UAH 89.4 billion in taxes and fees were collected for the general fund of the state budget, exceeding the Ministry of Finance's target by UAH 9.97 billion (+12.6%) and surpassing the July 2024 figure by UAH 24.2 billion (+37.2%).

**Corporate income tax** – UAH 4.8 billion, reaching 154.9% of the Ministry of Finance's target. At the same time, this is UAH 0.7 billion, or 12.3%, lower than in the same period of 2024. The overperformance against the Ministry's target in July 2025 was driven by payments made by taxpayers under declarations to be filed in August.

**Value-Added Tax (VAT)** – UAH 27.02 billion, exceeding the Ministry of Finance's target by UAH 1.3 billion, or 5.2%. Compared to July 2024, VAT revenues increased by UAH 5.8 billion, or 27.1%.

In July 2025, taxpayers received UAH 15.3 billion in VAT refunds. Compared to June, the outstanding balance of unreimbursed VAT decreased by UAH 2.1 billion, amounting to UAH 28.9 billion. However, the tax authority continues to refer a significant share of refund claims for documentary audits: in July 2025, 32.8% of the claimed amount, compared with 17.87% in July 2024.

Other factors contributing to the high level of unreimbursed VAT include the Treasury's failure to transfer UAH 7.8 billion to businesses in a timely manner as of 1 August 2025, and the untimely execution of court rulings on VAT refunds, the value of which increased from UAH 4 billion to UAH 8.7 billion.

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 32.4 billion, including UAH 14.5 billion from the military levy. Compared to July 2024, revenues increased by UAH 12.5 billion, or 62.9%. The overperformance in revenues was primarily driven by the higher military levy rate and nominal wage growth.



**Excise Tax on Imported Goods** - UAH 4.6 billion, which is UAH 1.9 billion, or 67%, higher than in the same period of 2024. The increase was driven primarily by higher excise tax rates and by advance payments to the budget, which have grown by UAH 14.5 billion since the beginning of the year - reflecting substantial amounts

paid by taxpayers in advance at the request of the tax authority.

**Excise Tax on Domestically Produced Goods** – UAH 11.2 billion, achieving 85% of the Ministry of Finance’s target, leaving a shortfall of UAH 2.0 billion. The underperformance in excise revenues from tobacco, fuel, and beer indicates insufficient effectiveness in combating shadow schemes. In the case of fuel, in addition to inadequate oversight by control authorities, the shortfall also reflects an objective factor the production facilities of one of the main fuel producers were severely damaged by Russian shelling.

# Administration

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

**For the period January–July 2025, the situation is as follows:**

**Alcohol.** Alcohol plants produced 23.88 million decalitres (dal) of absolute alcohol, representing a 49% increase compared to the same period in 2024. The average monthly production of alcohol in 2025 also increased to 3.41 million decalitres of absolute alcohol, which is 1.12 million decalitres per month higher than in 2024.



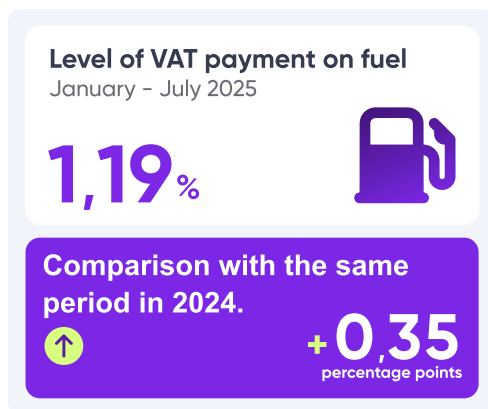
The VAT payment rate on produced volumes for:

- alcohol producers decreased to 2.16%, down by 1.7 percentage points compared to 2024, despite the increase in production volumes;
- alcoholic beverage producers fell to 5.1%, down by 1 percentage point compared to 2024, despite the growth in supply volumes.

The decline in the VAT payment rate amid rising production directly indicates a decrease in taxpayer integrity and an expansion of the shadow segment in the sector.

**Fuel.** In January - July 2025, 48 fuel retail networks paid almost UAH 7.9 billion in taxes (excluding social security contributions), including:

- UAH 1.6 billion in Corporate Income Tax, including UAH 1.1 billion in advance payments;
- UAH 1.9 billion in Personal Income Tax and the military levy;
- UAH 3.2 billion in Value-Added Tax (VAT);
- UAH 0.8 billion in Excise Tax.



The VAT payment rate for fuel retail networks stood at 1.19%, an increase of 0.35 percentage points compared to 2024.

**In the retail fuel sector, taking into account a 7% decrease in fuel sales volumes during January-July 2025 compared to the same period in 2024, as well as the increase in excise tax rates on fuel**

**effective 1 September 2024, revenues recorded via cash registers (RRO/PRRO) grew by less than 1% year-on-year for January-July 2025.**

The increase in the VAT payment rate remains marginal even after the rise in excise tax rates. This underscores the need for stronger oversight by tax and law enforcement authorities to reduce shadow schemes in the fuel sector.

Following the review of the excisable goods sector, attention should also be paid to another area - the food industry. July marks the seasonal peak in ice cream consumption and dairy production, which is accompanied by tax imbalances and therefore requires particular attention.

### Administration in the Ice Cream Production Sector

In January - July 2025, ice cream producers paid UAH 279.84 million in taxes (+UAH 27.45 million compared to 2024). However, this increase was driven exclusively by Personal Income Tax and the military levy (+UAH 77 million), while declines were recorded in the sector's key taxes - VAT (-UAH 32.7 million) and Corporate Income Tax (-UAH 18.4 million). This indicates a deterioration in financial performance and a likely decline in the volume of legal sales.



The VAT payment rate in January - July 2025 declined to 0.65% from 1.17% in the previous year, despite a 17.8% increase in supplies, which may indicate the use of tax minimisation schemes.

A similar trend is observed with Corporate Income Tax: in Q1 2025 the rate fell to 0.62% from 1.15%, despite a 19.7% increase in revenues, which may

likewise point to the deliberate understatement of the tax base.

The average sectoral tax burden in January-July 2025 amounted to 3.1%, which is 0.2 percentage points lower than in the corresponding period of 2024.

In the first half of 2025, the average wage in the sector increased to UAH 15,430 (compared to UAH 13,860 in 2024), reaching UAH 21,090 in June. Despite this positive trend, 11.6% of enterprises continue to report wages below the statutory minimum, while 76.7% report wages below the sectoral average.

In addition, 46.5% of taxpayers employ no more than 10 staff, with some cases reporting revenues exceeding UAH 40 million. This indicates the likely use of schemes to understate payroll, pay “envelope wages,” and conceal employment in order to minimize tax liabilities.

In January-July 2025, ice cream imports amounted to 1,203.7 tonnes (+1.3% compared to 2024), while exports rose to 11,627.7 tonnes (+25.2% year-on-year). According to the Dairy Producers Association, in July 2025 exports reached 2.62 thousand tonnes (+17% compared to June), exceeding the previous year’s level by 36%. Foreign currency earnings increased by 64% compared to July 2024, reflecting stronger external demand and improved competitiveness of Ukrainian ice cream.

The growth in exports, combined with increased sales in the domestic market, indicates a genuine expansion of production in 2025. At the same time, the combination of rising production volumes with a decline in the level of tax payments points to the use of tax minimisation schemes, the understatement of the tax base, and the partial shift of certain operations into the shadow economy.

## **Sales Volumes Through Cash Registers**

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

In July 2025, total revenues recorded through RRO/PRRO systems increased to UAH 488.4 billion, up by 29.4% compared to the same period of the previous year and by almost 5% relative to June 2025.





The average daily revenue increased to UAH 15.8 billion, up by 29% compared to the previous year and by almost 2% relative to June 2025. The number of receipts in July 2025 also rose by nearly 11% year-on-year and by 4.2% compared to June 2025. The steady growth of these indicators reflects the gradual formalisation of retail trade and the strengthening of tax discipline among entrepreneurs.

## Results of Tax Audits

In January–July 2025, the STS:

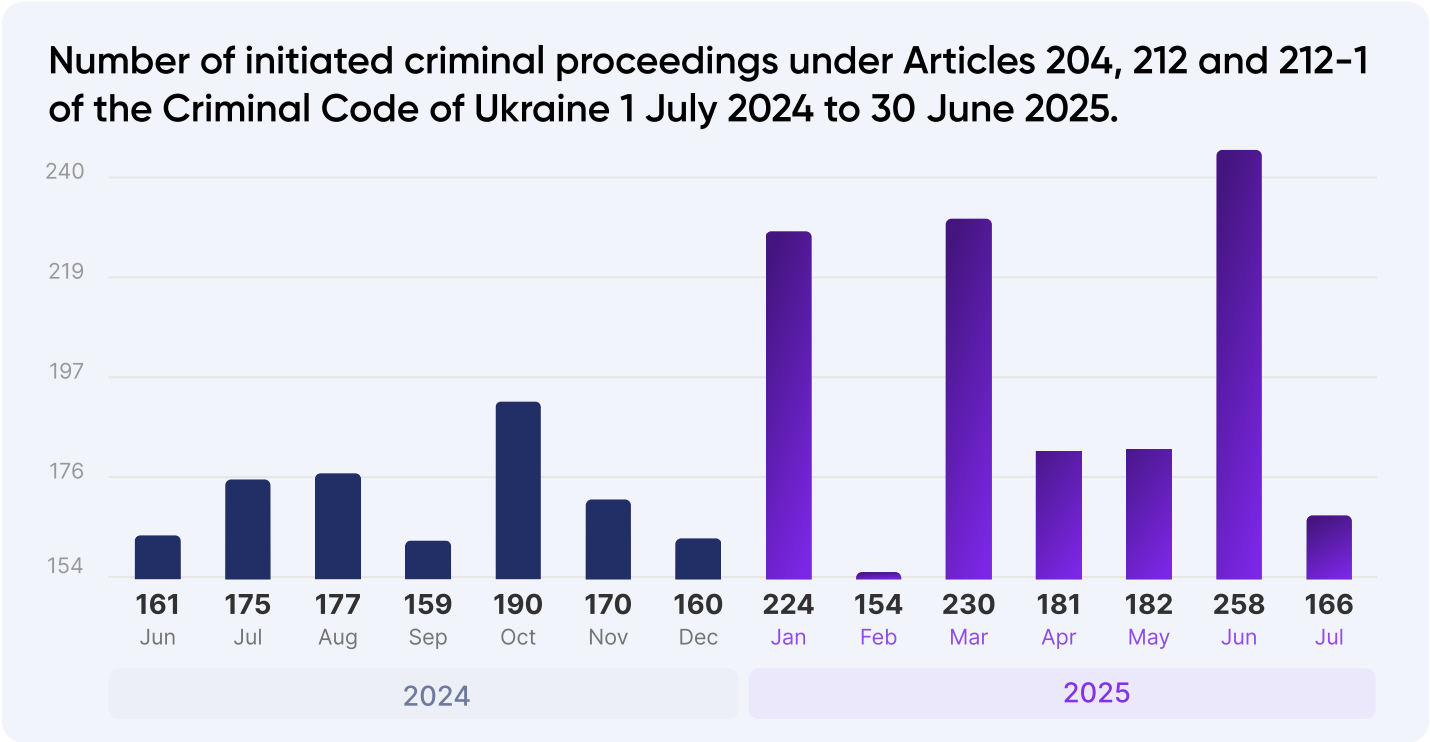
- conducted 2,261 scheduled audits (+13% compared to 2024) and 18,872 unscheduled audits (+32.5%);
- assessed additional tax liabilities of UAH 65.2 billion, 77% of which resulted from unscheduled audits. At the same time, assessments from scheduled audits decreased fivefold (UAH 15.0 billion in 2025 compared to UAH 81.5 billion in 2024);
- agreed: UAH 6.6 billion from scheduled audits (almost unchanged from 2024) and UAH 37.3 billion from unscheduled audits (a 4.7-fold increase);
- collected actual budget revenues of UAH 3.1 billion, which is 15% lower than in 2024.

The average amount of additional assessments per auditor from scheduled audits decreased fivefold (UAH 11 million compared to UAH 55 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. Corruption risks remain high, as oversight continues to be largely formal.

This challenge can be addressed only through the effective implementation of the tax risk management system and e-Audit. At the same time, the key element the SAF-T UA software has not yet been fully tested or deployed. 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. Conversely, the preservation of outdated administration and control practices objectively sustains a high level of corruption in this area.

Violations



According to data from [dashboard.gp.gov.ua](https://dashboard.gp.gov.ua), developed by the [NGO Technology of Progress](#), 166 criminal proceedings directly related to tax administration (tax evasion and the sale of excisable goods) were registered in July 2025. This is nine fewer than in July 2024 and 92 fewer than the record high in June 2025.

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

In addition, in June, eight tax authority employees received disciplinary sanctions for violations of anti-corruption legislation and ethical standards (a 70% decrease compared to the same period in 2024), and one official (Head of the Tax Debt Management Department) was dismissed.

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