

Tax Service Performance Digest

No 10

January 2026

Key events



In January 2026, information regarding the potential introduction of value added tax (VAT) obligations for individual entrepreneurs (FOPs) triggered active discussion within the expert community. The business sector reacted to this development predominantly critically.

The key concerns relate not so much to the tax rate itself, but rather to the complexity of VAT administration, which is particularly burdensome for small and medium-sized enterprises (SMEs). These concerns include the risks of penalties and suspension of VAT invoices, as well as the potential increase in compliance costs associated with accounting and reporting for small businesses.

Topic of the Month. Anti-Corruption Programme

On the implementation of the Anti-Corruption Programme of the State Tax Service of Ukraine for 2023–2025

Results of inspections related to corruption risks

The highest number of violations was identified in the area of prevention and settlement of conflicts of interest. In particular, these violations concerned employees of the territorial bodies of the State Tax Service (STS) in the course of conducting desk (cameral) audits.

In addition, inspections revealed violations of anti-corruption and other sector-specific legislation in the following areas:

- handling of confidential and official information, including taxpayers’ personal data and financial performance indicators;
- internal (departmental) control over compliance with legislation and the performance of official duties;
- organisation and conduct of desk (cameral) audits;
- procedures related to the suspension of registration of VAT invoices and adjustment calculations;
- identification and verification of financial transactions that may be related to money laundering or terrorist financing;
- control over compliance with maximum retail prices for tobacco products;
- control over compliance with minimum prices for alcoholic beverages;
- oversight in the area of production and circulation of alcohol, tobacco products, liquids for electronic cigarettes, fuel, and other excisable goods;
- measures aimed at combating the illegal production and circulation of excisable products.

As a result of the work of authorised units responsible for the prevention and detection of corruption, the following number of employees were held disciplinarily liable:



Violations concerned non-compliance with the requirements of the Law of Ukraine “On Prevention of Corruption”, rules of ethical conduct, and provisions of the Code of Ethical Behaviour.

Within administrative proceedings, the following number of protocols was drawn up:



The most common administrative offences included:

- violations of requirements related to the prevention and settlement of conflicts of interest;
- violations of financial control requirements (late submission or non-submission of asset declarations).

The increase in the number of administrative cases in 2024 was driven by the reinstatement of the obligation to submit asset declarations, including for the years 2021–2022, as well as by the verification of their timely submission.

Based on materials provided by anti-corruption units, pre-trial investigation authorities initiated:



The increase in the number of criminal proceedings in 2025 is associated with the establishment of a unified authorised unit — the Department for Prevention and Detection of Corruption — which ensured the centralisation of functions, strengthened analytical capacity, and improved the effectiveness of identifying potential criminal offences.

The most common detected potential criminal offences included unauthorised actions involving information in automated systems and abuse of power or official position.

According to the State Tax Service (STS), these results indicate strengthened internal control within the tax authorities and an increased level of responsiveness to violations of anti-corruption legislation.

Implementation of the National Revenue Strategy (NRS)

The National Revenue Strategy envisages a number of anti-corruption measures to be implemented by the State Tax Service of Ukraine (STS). Among the key updates related to these measures, the following developments should be highlighted:

- 1 The IT solution for processing Standard Audit File data (SAF-T UA) — the Information and Communication System for electronic audit “e-Audit” (hereinafter — ICS “e-Audit”) — was put into full (industrial) operation on 31 December 2025, in accordance with STS Order No. 1247 dated 25 December 2025 “On the

commissioning of the Information and Communication System for electronic audit “e-Audit”.

Thus, the implementation of the respective measure under the National Revenue Strategy until 2030 was delayed by nine months.

Warranty maintenance of ICS “e-Audit” is ongoing in accordance with the Software Warranty Maintenance/Support Regulation.

In January 2026, the use of ICS “e-Audit” in full (industrial) operation was ensured in the course of tax audits.

A total of 107 large taxpayers included in the 2026 schedule of planned documentary audits were notified of the mandatory requirement to submit SAF-T UA files upon request of the controlling authorities during such audits.

- 2 At the same time, the State Tax Service continues the implementation of a new tax risk management system.

Registration risk

VAT registration. In December 2025, 550 entities were notified via the Electronic Cabinet of the obligation to register as VAT taxpayers, as their transaction volumes over the preceding 12 months exceeded UAH 1 million.

In total, during 2025, 11.1 thousand notifications were sent to 6,464 taxpayers.

As a result:

- 270 entities registered as VAT taxpayers;
- materials concerning 6,157 taxpayers were referred for tax audit;
- 2,550 cases were referred to financial monitoring units;
- 3,622 entities provided explanations and supporting documents confirming that their transactions are not subject to VAT;
- 382 entities had previously been registered as VAT taxpayers, but their registration had been cancelled; they are currently applying the simplified taxation system at a 5% rate.

In addition, the VAT registration of more than 1.1 thousand entities was cancelled by decision of the tax authorities.

Excise and fuel. In December, 4 entities were notified of the obligation to register as excise taxpayers. One entity completed such registration.

As of 1 December 2025:

- 668 fuel storage licences held by 64 entities were revoked;
- 74 entities were notified of the obligation to register excise warehouses.

Audits of entrepreneurs ceasing operations. In December, 500 documentary audits were conducted in respect of individual entrepreneurs (FOPs) terminating their activities. At the same time:

- in 4.7 thousand cases, audits were deemed unnecessary;
- 6.8 thousand FOPs were deregistered without undergoing audits.

Detection of unregistered business activity online. A total of 653 test purchases were conducted via online platforms (Instagram, Facebook, Prom, Bigl, etc.) to identify individuals selling goods without proper registration. As a result:

- 421 individuals registered as FOPs;
- 133 individuals were invited to provide explanations;
- 10 individuals submitted tax declarations;
- 99 administrative protocols were referred to court for conducting business activities without registration.

Reporting risk

In January 2026, 6.1 thousand notifications were sent to taxpayers regarding the failure to submit tax reporting.

Out of 11.9 thousand notifications sent in December 2025, only 0.5 thousand reports were submitted (4.3%).

To improve the accounting of taxpayers liable for rent payments and environmental tax, territorial bodies were provided with lists of valid permits and

licences (including those related to nuclear energy, radio frequencies, and water transport).

CRS and FATCA (financial reporting)

As of the end of 2025:

- 176 financial institutions failed to submit CRS reports for 2023–2024;
- updated information was obtained regarding the submission or non-submission of 652 FATCA reports;
- 10 institutions submitted reports containing undocumented accounts.

Inspections were carried out in respect of a number of institutions:

- no violations were identified in 5 cases;
- tax notifications-decisions were issued to 3 institutions in the amount of UAH 1.08 million;
- requests for explanations were sent to a number of institutions;
- in certain cases, inspections are ongoing or subject to a moratorium.

Declaration risk

Based on the processing of the first list of taxpayers with the highest tax risks, during January–December 2025 the tax authorities conducted scheduled documentary audits of 29 large taxpayers (39.7% of the total number of large taxpayers included in the audit plan) and 684 other taxpayers (34.1% of the total number of such taxpayers included in the audit plan).

As a result, additional tax liabilities amounting to UAH 5.1 billion were assessed, while negative pre-tax profit was reduced by UAH 4.2 billion.

For 2026, the following taxpayers selected under the CRM methodology were included in the schedule of documentary audits:

- 73 large taxpayers (66.4% of the total number of large taxpayers included in the audit plan);
- 1,184 medium, small, and micro taxpayers (37.3% of the total number of such taxpayers included in the audit plan).

In January 2026, one large taxpayer was subject to a scheduled audit, resulting in additional tax assessments of UAH 4.7 million, while five other taxpayers were audited with additional assessments amounting to UAH 39.2 million.

The presence of additional tax assessments based on confirmed risks following audits indicates the validity of the risk-based approach within the CRM system and confirms the effectiveness and targeted nature of identifying high-risk business entities.

As of 20 January 2026, based on the implementation of compliance measures with taxpayers under the CRM methodology during 2025:

- 2,736 meetings were conducted;
- 741 taxpayers submitted amended tax returns, resulting in additional assessments of UAH 343.7 million;
- 150 taxpayers reduced declared losses by UAH 262.5 million.

Payment risk

The organisation of the State Tax Service's (STS) work on addressing payment risk remains one of the most underdeveloped areas. Payment risk is understood as activities aimed at ensuring budget revenues and reducing the amount of tax debt. However, performance in this area remains negative, as tax debt continues to grow at a significant pace.

In particular, as of 1 January 2025, tax debt to the consolidated budget amounted to UAH 175.7 billion, increasing to UAH 278.5 billion as of 1 January 2026 (+UAH 102.8 billion).

The practical implementation of the CRM system in tax administration demonstrates that, despite overall progress in the reform, the management of tax debt remains the least developed area within the CRM methodology.

The effectiveness of CRM implementation will be ensured only if work is organised comprehensively across all four key areas simultaneously:

- identification of risks, their mitigation, as well as analysis and evaluation of results;

- training of staff in new methods and approaches, including capacity building;
- communication with the public at both the central and territorial levels;
- digitalisation of processes.

Insufficient progress in any of these areas leads to misalignment in the relationship between taxpayers and tax authorities.

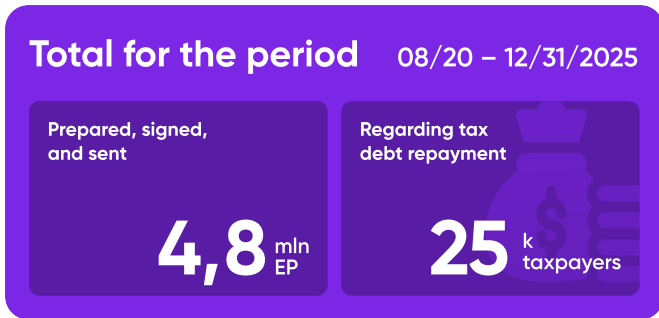
CRM constitutes the foundation of tax compliance, the strengthening of which is the core objective of tax administration measures envisaged under the National Revenue Strategy until 2030.

- 3 In fulfilment of the requirements of Law No. 4698-IX, the Ministry of Digital Transformation of Ukraine published a plan for pilot testing of the components of the e-system for the circulation of alcoholic beverages, tobacco products, and liquids used in electronic cigarettes. In January 2026, the practical implementation of testing activities for all components of the electronic system was launched.
- 4 In addition, within the framework of the National Revenue Strategy until 2030, the STS reports the introduction, in December 2025, of electronic information exchange between the STS, the State Treasury Service of Ukraine, and payment service providers, including electronic money issuers, in the process of enforced collection based on electronic payment instructions. This is intended to ensure the prompt transmission of such instructions and the recovery of funds from the accounts of tax debtors.

At the same time, the STS reports further improvements to software for maintaining registers of managerial and court decisions concerning tax debt amounts subject to recovery.

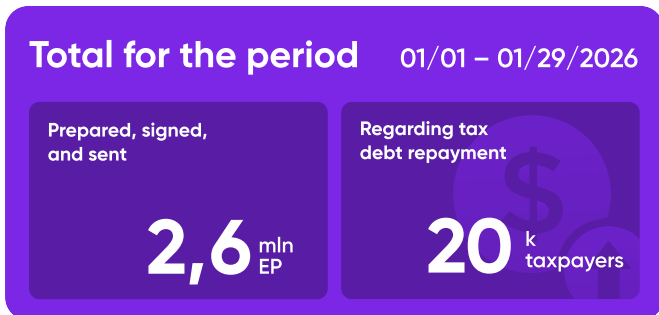
The reform remains at the stage of full-scale implementation, despite the fact that the deadlines stipulated under the National Revenue Strategy have already passed.

In total, for the period from 20 August to 31 December 2025:



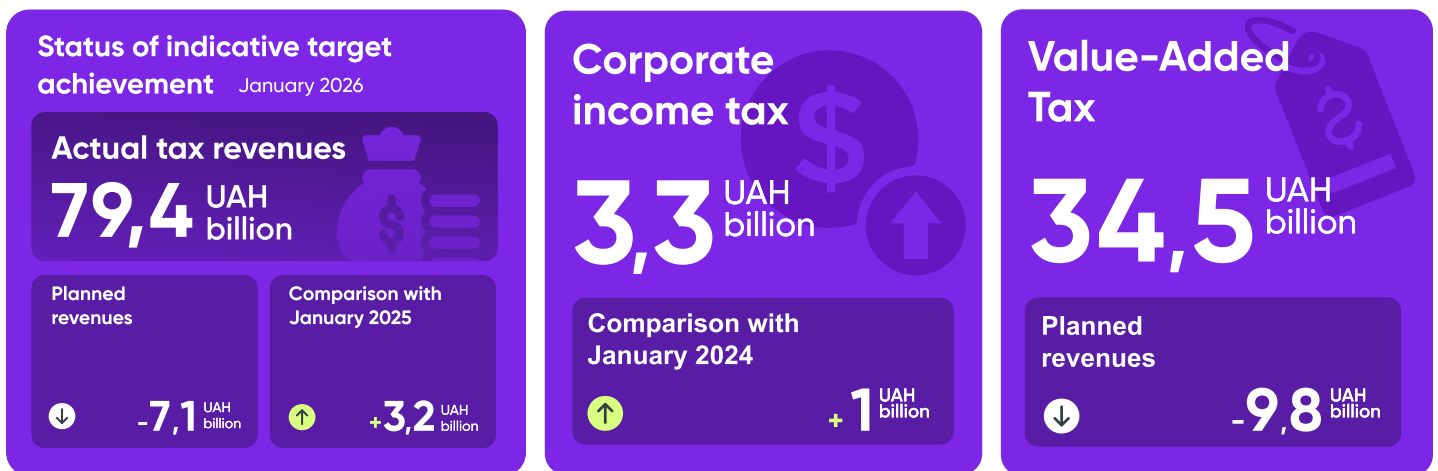
4,796,848 electronic payment instructions were generated, signed, and sent to 97 payment service providers (including 24 branches) for the recovery of tax debt from 24,695 taxpayers.

For the period from 1 January to 29 January 2026:



2,564,072 electronic payment instructions were generated, signed, and sent to 97 payment service providers (including 24 branches) for the recovery of tax debt from 20,437 taxpayers.

Performance Against Indicative Targets



In **January 2026**, total tax and fee revenues to the general fund of the State Budget amounted to UAH 79.4 billion. This was UAH 7.1 billion (–8.2%) below the Ministry of Finance’s planned target for the period, while at the same time UAH 3.2 billion (+4.2%) higher than in the corresponding period of 2025.

Value Added Tax (VAT) revenues amounted to UAH 34.5 billion. The Ministry of Finance’s target was not met by 22.2%, resulting in a shortfall of UAH 9.8 billion. At the same time, VAT revenues were UAH 2.9 billion (–7.8%) lower compared to January 2025.

In 2025, UAH 24.3 billion in VAT was refunded to taxpayers. The stock of unrefunded VAT amounted to UAH 29.4 billion, decreasing by UAH 7.0 billion compared to the previous month.

Corporate Income Tax (CIT) revenues amounted to UAH 3.3 billion, which is UAH 0.7 billion (+27.2%) above the Ministry of Finance’s planned target and UAH 1.0 billion (+44.0%) higher than in the corresponding period of 2024. These revenues are primarily explained by the presence of tax overpayments.



Personal Income Tax (PIT) and the Military Levy amounted to UAH 29.3 billion, including UAH 13.8 billion from the military levy. In January 2026, revenues increased by UAH 5.1 billion (+21.3%) compared to the same period of 2025. At the same time, the Ministry of Finance’s target was exceeded by UAH 2.1 billion (+7.6%).



Excise tax on imported goods totaled UAH 1,774.6 million, which is UAH 2,556.0 million (–59%) lower than in the corresponding period of 2025.

Excise tax on domestically produced goods amounted to UAH 5,517.7 million, with the Ministry of

Finance’s target met at 111.7% (+UAH 577.0 million). Overperformance in certain categories — including ethyl alcohol (+150.1%, +UAH 10.2 million), spirits and liqueurs (+11.7%, +UAH 74.9 million), tobacco and tobacco products (+80.3%, +UAH 1,249.0 million), and motor vehicles (+94.5%, +UAH 4.0 million) — was partially offset by underperformance in wine products (–18.6%, –UAH 28.1 million), beer (–20.0%, –UAH 54.5 million), electricity (–6.7%, –UAH 81.0 million), and fuel (–54.0%, –UAH 597.5 million).

Administration

The administration of trade in excisable goods and electronics remains one of the key anti-corruption challenges for the State. These sectors concentrate significant volumes of corruption-related capital, while high tax rates create substantial margins in the case of illegal trade in such goods.

The situation in these sectors for January 2026 is as follows:

Alcohol. In December 2025, distilleries produced 3.21 million decaliters (dal) of absolute alcohol, which is 8% lower than in the corresponding period of 2024. At the same time, the production volume in December 2025 exceeded the average monthly level for 2025 by 0.26 million dal of absolute alcohol.



The VAT payment level on produced volumes, based on VAT declarations for December 2025, was as follows:

- **Alcohol producers (ethanol/distillers):** 2.5%, which is only 0.5 percentage points higher compared to 2024, despite a 59% increase in production volumes;
- **Alcoholic beverage producers:** 4.5%, which is 1.2 percentage points lower than in 2024, despite an increase in supply volumes.

The decline in VAT payment efficiency amid increasing production volumes indicates a deterioration in taxpayer integrity and an expansion of the shadow sector. This situation also clearly points to the presence of high corruption risks in the activities of the State Tax Service in this area.

Tobacco. In December 2025, tobacco product manufacturers produced approximately 2.0 billion cigarettes (excluding cigarillos and TVEN), which is 0.4 billion units below the average monthly level for 2025. This represents the lowest monthly production volume of cigarettes (excluding cigarillos and TVEN) recorded throughout 2025.

Excise tax paid on tobacco products produced in Ukraine

January 2025 year

4,3 UAH billion



Comparison with the same period in 2025



-21,2%

In January 2026, the State Budget of Ukraine received UAH 4.3 billion in excise tax from domestically produced and imported tobacco products. This is 21.2% lower than in January 2025.

At the same time, the Ministry of Finance's target for domestic tobacco production for January 2026 was exceeded by UAH 1.2 billion (+80.3%).

The VAT payment level on produced tobacco volumes (based on VAT declarations for December 2025) amounted to 13.9%, which is 3.3 percentage points lower compared to December 2024.

According to a KANTAR¹ study published in December 2025, the share of illegal tobacco products as of October 2025 reached 17.8%, representing an increase of 2.4 percentage points compared to July of the same year, primarily driven by a sharp rise in counterfeit products with forged excise stamps. At this level of illicit cigarette presence on the Ukrainian market, annual State Budget losses due to unpaid taxes are estimated at UAH 26.5 billion, while the shadow cigarette market exceeds 5.5 billion cigarettes.

The decline in VAT payment efficiency in the sector may indicate a deterioration in taxpayer integrity and point to the use of tax minimisation schemes, as well as high corruption risks in this area.

Level of VAT payment on fuel

Jan 2026 year

1,17 UAH billion



Comparison with the same period in 2025



-14,3
UAH billion

Fuel. In January 2026, 51 fuel retail chains (fuel station networks) paid UAH 1,173.4 million in taxes (excluding SSC), which is UAH 14.3 million lower compared to the average monthly level for 2025, including:

- UAH 512.7 million in value added tax (VAT);
- UAH 241.9 million in corporate income tax (CIT), including UAH 168.1 million in advance

¹ <https://www.kantar.com/ua/inspiration/ait/ait-wave-4-2025>

payments;

- UAH 322.2 million in personal income tax (PIT);
- UAH 51.7 million in excise tax.

In January 2026, compared to January 2025, the volume of fuel sales in retail trade increased by 25.2%, while turnover recorded via cash registers (RRO) grew by 38.2%.

The increase in RRO-reported turnover indicates partial de-shadowing of the fuel retail market. At the same time, the presence of a significant number of illegal fuel stations (according to the Ukrainian Oil and Gas Association²) requires strengthened enforcement and oversight by the Bureau of Economic Security (BES) and the National Police.

Cut flowers.

Analysis of cut flower imports: discrepancies in statistical data

The cut flower market in Ukraine represents a clear example of how two parallel systems can coexist within the same sector. On the one hand, there are companies that officially import and sell goods, pay value added tax (VAT) and corporate income tax, formally employ staff, and provide competitive fully declared wages. On the other hand, there are large trading networks and brands that have for years operated through individual entrepreneurs (FOPs), fragment business structures, underreport turnover and payroll, and effectively shift the tax burden onto the state and compliant taxpayers.

The examples presented indicate that this is not a matter of isolated violations, but rather a systemic model that enables major market players to:

- avoid VAT payments;
- minimise corporate income tax;
- underreport wages and unified social contributions (SSC);
- obtain an unfair competitive advantage in the market.

² <https://perevirazs.info/>

Based on a comparison of official data from the State Customs Service of Ukraine with international trade statistics (TradeMap), it was established that in 2024 Ukrainian customs authorities cleared 1,533 tonnes of cut flowers, while according to exporting countries' statistics, deliveries to Ukraine were four times higher (6,890 tonnes).

Thus, officially declared imports account for only approximately 22% of the volumes recorded in international statistics. The discrepancy in supply volumes may indicate the existence of a significant segment of imports carried out in violation of customs legislation or outside proper customs clearance procedures.

According to available estimates, the volume of such imports in 2024 may have amounted to approximately USD 40 million (around UAH 1.6 billion). Accordingly, potential losses to the State Budget from VAT alone may exceed UAH 320 million per year.

The issue of shadow imports of roses was considered on 4 December 2025 at a meeting of the Temporary Investigative Commission of the Verkhovna Rada of Ukraine on the protection of investors' rights. The analysis revealed significant discrepancies in statistical data: in 2024, only 136 tonnes of roses were officially declared, while exporting countries reported nearly 3,000 tonnes of deliveries to Ukraine. According to preliminary estimates, up to 95% of products may have entered Ukraine without proper customs clearance.

According to estimates presented during the meeting, cumulative losses to the State Budget from such operations over the past three years may have exceeded UAH 600 million. The relevant materials have been transferred to law enforcement authorities, and investigations are ongoing.

Transparent segment of the flower market

The share of tax-compliant businesses (wholesale and retail) demonstrating an adequate level of tax discipline and official wage payments (not lower than two minimum wages) accounts for only 0.06% of the market.

In particular, in November 2025, wage levels in these companies ranged from UAH 20.5 thousand to UAH 32 thousand, which corresponds to market benchmarks and indicates the feasibility of conducting profitable business activities without the use of tax minimisation schemes.

Market shadowing: structure and fiscal risks

A significant portion of the market operates with signs of shadow activity.

As of 2025, the average officially declared salary in the retail trade of flowers and plants amounted to UAH 7.9 thousand, which is below the statutory minimum wage level (UAH 8.0 thousand). At the same time, the estimated market average salary of a florist in 2025 is approximately UAH 21.5 thousand.

Such a gap indicates the likely systematic underreporting of official wages and a substantial share of informal (“shadow”) payments.

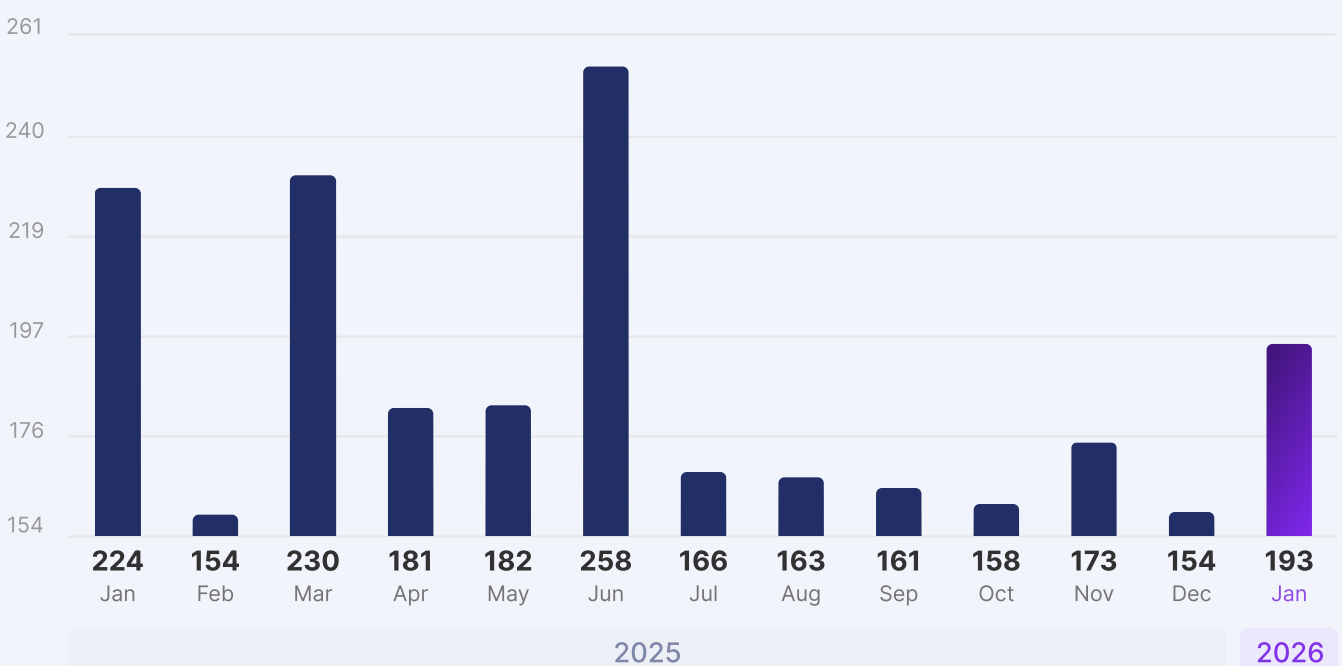
The use of the individual entrepreneur (FOP) model for business fragmentation, underreporting of actual turnover, and optimisation of tax liabilities can be clearly observed.

The number of FOPs exceeds the number of legal entities by more than 340 times (40 active legal entities compared to 13.6 thousand active individual entrepreneurs).

According to conservative estimates, potential losses to the State Budget may amount to at least UAH 1.82 billion annually.

Violations

Number of criminal proceedings initiated under Articles 204, 212, and 212-1 of the Criminal Code of Ukraine for the period from March 1, 2025, to February 28, 2026.



According to data from dashboard.gp.gov.ua, developed by the [NGO Technology of Progress](#), in January 2026 a total of 193 criminal proceedings directly related to tax administration (tax evasion and illicit trade in excisable goods) were registered.

This is 31 fewer than in January 2025, but 39 more than in December 2025. These figures represent the highest level recorded since the change in leadership of the Bureau of Economic Security of Ukraine in August 2025.

Number of criminal proceedings initiated under Articles 204, 212, and 212-1 of the Criminal Code of Ukraine for the period from 1 March 2025 to 28 February 2026.



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The digest was prepared by the NGO “Technologies of Progress.”