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**TAX EVASION IN UKRAINE: ANALYSIS OF CAUSES, ECONOMIC CONSEQUENCES AND COUNTERMEASURES**

*Tax evasion is an urgent problem for any country, as this undermines the basics of the tax system and impedes the effective financing of government programs and services. Taxes are an integral part of the functioning of the state and providing public goods for citizens. They are the main source of budget revenues used to finance education, health care, infrastructure, defense and other important areas. However, despite its importance, tax evasion remains widespread in many countries around the world. Tax evasion can be defined as a deliberate concealment or reduction of tax liabilities, which is illegal and punishable in accordance with the law.*

*The article analyzes the reasons for tax evasion (economic, institutional and legal, socio-psychological, technological and globalization) and economic consequences for Ukraine (failure to receive tax payments by the budget; suspension of the implementation of state programs; non-payment of salaries for budgetary countries; Tax evasion directly leads to a significant loss of government revenues, limiting the possibility of financing public services and infrastructure projects, as well as a significant threat to phenomena and processes of economic and social nature and significantly destabilizes the development of the tax sphere, which requires the development of a complex of measures of effective counteraction.*

*The measures to counteract tax evasion are outlined. The authors propose: improve the procedures for administration of taxes and compulsory payments, ensure their transparency; improving the institutional capacity of tax authorities, ensuring effective tax control, improving the quality of taxpayers' service; creation of favorable conditions for conducting business and strengthening requirements for compliance with tax legislation.*

*Keywords: taxes, tax evasion, causes and mechanisms of tax evasion, countermeasures against tax evasion.*

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**ПОДАТКОВЕ УХИЛЕННЯ В УКРАЇНІ: АНАЛІЗ ПРИЧИН, ЕКОНОМІЧНИХ НАСЛІДКІВ ТА ЗАХОДИ ПРОТИДІЇ**

*Ухилення від сплати податків є актуальною проблемою для будь-якої країни, оскільки це підриває основи податкової системи та перешкоджає ефективному фінансуванню державних програм і послуг. Податки є невід'ємною частиною функціонування держави та забезпечення суспільних благ для громадян. Вони є основним джерелом доходів для бюджету, які використовуються для фінансування освіти, охорони здоров'я, інфраструктури, оборони та інших важливих сфер. Проте, незважаючи на свою важливість, ухилення від сплати податків залишається поширеним явищем у багатьох країнах світу. Ухилення від сплати податків можна визначити як навмисне приховування або применшення податкових зобов'язань, що є незаконним і карається відповідно до законодавства.*

*У статті проведено аналіз причин ухилення від сплати податків (економічних, інституційних та правових, соціально-психологічних, технологічних та глобалізаційних) та економічних наслідків для України (недоотримання бюджетом податкових платежів; призупинення реалізації державних програм; невивлати заробітних плат працівникам бюджетної сфери; скорочення видатків з бюджету на соціальні цілі; порушення законів конкуренції; зниження інвестиційної привабливості країни; зростання рівня економічної злочинності та корупції; виведення значних обсягів капіталів за межі країни; зниження обсягів ВВП). Ухилення від сплати податків безпосередньо призводить до значної втрати державних доходів, обмежуючи можливості фінансування державних послуг та інфраструктурних проєктів, а*

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також становить значну загрозу явищам і процесам економічного й соціального характеру та істотно дестабілізує розвиток податкової сфери, що вимагає розроблення комплексу заходів ефективної протидії.

Окреслено заходи протидії ухилення від сплати податків. У висновках авторами запропоновано: удосконалення процедур адміністрування податків та обов'язкових платежів, забезпечення їх транспарентності; підвищення інституційної спроможності податкових органів, забезпечення ефективного податкового контролю, підвищення якості сервісного обслуговування платників податків; створення сприятливих умов для ведення господарської діяльності та посилення вимог щодо дотримання податкового законодавства.

Ключові слова: податки, ухилення від сплати податків, причини та механізми ухилення від сплати податків, заходи протидії ухиленню від оподаткування.

## **GENERAL STATEMENT OF THE PROBLEM AND HOW IT RELATES TO IMPORTANT SCIENTIFIC OR PRACTICAL ISSUES**

Tax evasion in Ukraine is a multifaceted problem, significantly impacting the country's economic stability and well-being. It manifests in various forms, from simple income concealment schemes to complex transactions using offshore jurisdictions. Despite efforts aimed at combating this phenomenon, tax evasion remains widespread in Ukraine, indicating systemic shortcomings in the tax system, inefficiency of control bodies, low tax culture, and other factors. This leads to substantial state budget losses, violation of tax fairness principles, distortion of the competitive environment, and the hindrance of the country's economic development.

The issue of tax evasion becomes particularly acute during wartime, when the country urgently requires financial resources to ensure defense capabilities, support the social sphere, and restore the economy. Reduced tax revenues due to evasion complicate the fulfillment of these tasks, exacerbate social tension, and undermine trust in state institutions.

The study of tax evasion in Ukraine remains highly relevant and crucial for ensuring the state's financial stability, forming an effective tax system, and securing sustainable economic development for Ukraine.

## **ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS**

This issue remains relevant and continues to attract the attention of numerous researchers actively working in this field. Problems of tax administration and compliance with tax legislation are explored in the works of: Andrushchenko I. [1], Bondaruk, T. [2], Ivanova R. [10], Kiyanka I. [10], Maslak O. [4], Medynska, T. [2; 5; 10], Melnychuk I. [2], Nikonenko U. [2], Oliynyk N. [5; 8], issues of tax incentives and their impact on the business environment are considered in the works of: Pynnykoza P. [7], Rushchysyn N. [10], Sasolina N. [8], Shvaheer O. [8].

## **FORMULATING THE ARTICLE'S OBJECTIVES**

The purpose of this study is to analyze the volumes of underpaid tax revenues in the budget by types of tax evasion in Ukraine, to summarize the main causes and mechanisms of tax evasion, to summarize the socio-economic consequences for the national economy and to define measures to counteract tax evasion.

## **THE MAIN MATERIAL STATEMENT**

Tax evasion is a serious problem for every country, as it undermines the foundations of the fiscal system and prevents effective financing of public programs and services.

Taxes are an integral part of the functioning of the state and the provision of public goods to citizens. They are the main source of revenue for the budget, which is used to finance education, healthcare, infrastructure, defense and other important areas. However, despite their importance, tax evasion remains a widespread phenomenon in many countries around the world.

Tax evasion directly leads to a significant loss of government revenue, limiting the ability to finance public services and infrastructure projects. To compensate for the lost revenue, governments may raise taxes on law-abiding citizens, which would place an unfair financial burden on compliant taxpayers. With lower incomes, the government may be forced to cut back on basic public services such as healthcare, education, and social security, which will negatively affect the quality of life. Inaccurate tax data due to tax evasion can lead to erroneous economic policies and decisions, as the true economic picture is obscured.

Tax evasion contributes to the expansion of the shadow economy, in which unregulated and untaxed businesses have an unfair competitive advantage. Widespread tax evasion can lead to a loss of public trust in the government and its institutions, weakening the social contract. This helps to create conditions conducive to corruption and other illegal activities, as tax evaders often commit additional illegal acts.

Undoubtedly, tax evasion poses a significant threat to economic and social phenomena and processes and significantly destabilizes the development of the tax sphere, which requires the development of a set of effective countermeasures.

Thus, tax evasion causes significant damage to the economic and social spheres, violating the principles of fairness, undermining the competitive environment, hindering economic growth and increasing social inequality. Therefore, overcoming this phenomenon is a priority for governments around the world and requires a comprehensive approach that includes improving legislation, strengthening tax administration, increasing transparency and accountability of the authorities, and creating a culture of voluntary tax payment among citizens.

Tax evasion can be defined as the intentional concealment or understatement of tax liabilities, which is illegal and punishable by law (table 1).

Table 1

**Tax revenues to the consolidated budget in Ukraine in 2019-2023, UAH billion\***

Indicators	Years					Absolute deviation	
	2019	2020	2021	2022	2023	2023/2019	2023/2022
Total budget tax revenues, including:	1070,3	1136,7	1453,8	1343,2	1638,0	567,7	298,8
Personal income tax	275,4	295,1	349,8	420,6	496,3	220,9	75,7
Income tax	117,3	118,5	163,8	130,6	159,3	42	28,7
Value added tax	378,6	400,6	536,4	466,9	580,8	202,2	113,9
Excise tax	130,7	146,6	173	105,1	175,7	45	70,6

\*Note. Table 1 made on the basis of [6]

One of the key indicators of the effective functioning of the tax system is the stable filling of the state budget revenue through tax revenues. The amount of tax revenues and their structure not only reflect the overall state of the economy, but also serve as an indicator of the full payment of tax liabilities by taxpayers.

Tax revenues to the consolidated budget of Ukraine from 2019-2023 show a steady upward trend, namely by UAH 567.7 billion (or 53%), reaching UAH 1,638.0 billion in 2023 (fig. 1). The largest contribution to this growth was made by value added tax (VAT) and personal income tax (PIT), which increased by UAH 202.2 billion and UAH 220.9 billion, respectively. Despite a temporary decline in 2022, likely due to the outbreak of a full-scale war, in 2023 there was a significant recovery and growth of all major tax revenues, which indicates a certain resilience of the Ukrainian economy and the effectiveness of the tax system in difficult conditions.

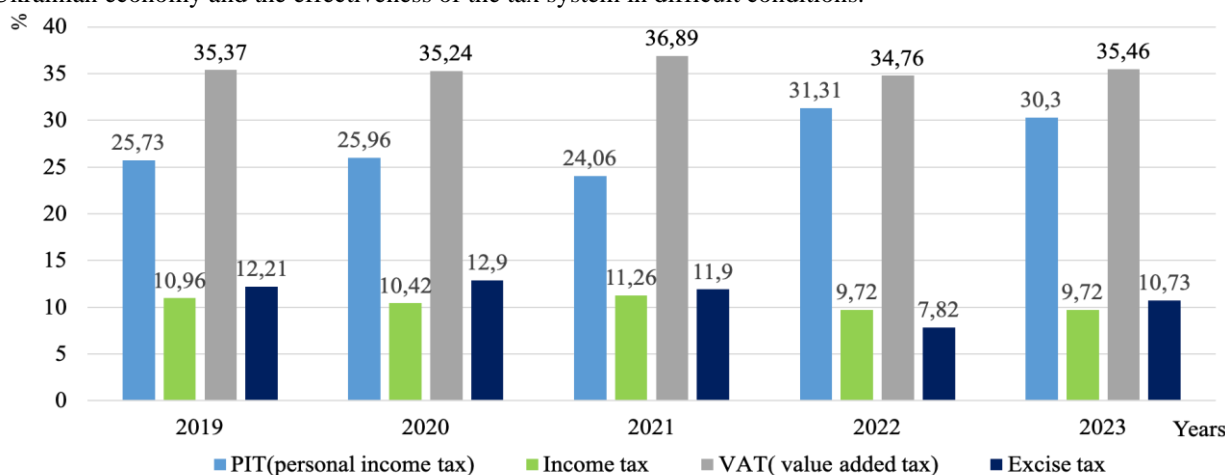


Fig. 1. Structure of tax revenues to the consolidated budget of Ukraine in 2019-2023, % (made on the basis of [6])

In turn, tax evasion has a negative impact on budget revenues and the state's ability to finance important areas and development programs.

An analysis of the structure of tax revenues to the consolidated budget of Ukraine from 2019-2023 shows that value added tax (VAT) is the largest source of revenues, accounting from 34% to 37% of total tax revenues. The second largest is the personal income tax (PIT), which accounts from 24% to 31% of revenues. Excise tax and corporate income tax have smaller shares, but still make up a significant part of the budget. There is an upward trend in the share of personal income tax (from 25.73% in 2019 to 30.3% in 2023), while the share of corporate income tax has slightly decreased from 10.96% in 2019 to 9.72% in 2023. The excise tax shows slight fluctuations, with the highest rate of 12.9% in 2020. These indicators indicate a stable structure of tax revenues with the dominance of indirect taxes (VAT and excise tax) and a significant role of direct taxation of personal income.

Tax evasion can take various forms, among the main ones are:

1. Concealment of income or understatement of income through the use of fictitious documents, false accounting, illegal tax minimization schemes, etc.
2. Overstatement of expenses and other deductions that reduce the tax base, in particular through double counting, fictitious contracts, forged receipts.
3. Use of offshore zones, shell companies and other schemes for illegal movement of capital to conceal tax revenues.
4. Illegal use of tax privileges and preferences by forging documents or providing false information.

According to the official data of the State Tax Service, annual losses from tax evasion reach at least USD 7.7 billion or UAH 282 billion per year, while independent experts also estimate a similar range of UAH 200-300 billion per year.

The discrepancy in estimates can be partially explained by the fact that experts identify up to 10 common types of tax evasion in Ukraine (payroll evasion (shadow employment and envelope wages), minimization of corporate income tax, fraud, etc).

The problem itself can be divided into two broad categories: tax evasion by legal entities and individual entrepreneurs doing business in Ukraine, and the shortfall in the collection of taxes from undeclared personal income.

Businesses in Ukraine resort to such mechanisms as paying salaries in "envelopes", "twists", conversion centers, etc. The most significant damage in terms of the amount of taxes not paid to the budget is caused by such ways of evasion as gray imports - UAH 63-93 billion per year, salaries in "envelopes" - UAH 25-74 billion per year, and offshore schemes - UAH 22-36 billion per year (fig. 2).

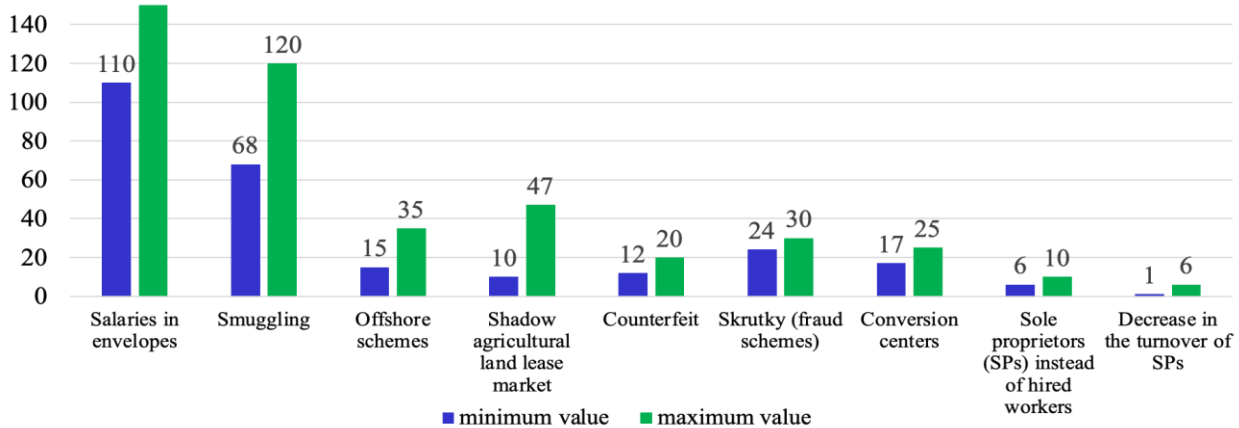


Fig. .2. The amount of lost tax revenues to the budget by types of tax evasion in Ukraine, billion hryvnias per year (made on the basis of [3])

The reasons for tax evasion are diverse and complex. The main reasons include the following (fig. 3):

1. Economic reasons:
  - High tax burden and complex taxation system.
  - Uneven distribution of the tax burden between different groups of taxpayers.
  - Low income and profits caused by economic crises or weak economic development.
2. Institutional and legal factors:
  - Imperfect tax legislation and the existence of gaps and loopholes.
  - Weak tax administration system and lack of effective control mechanisms.
  - Corruption in government and tax authorities.

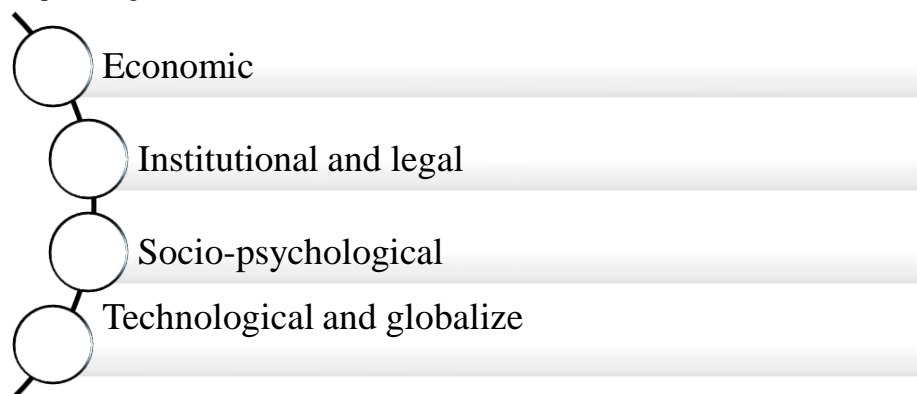


Fig. 3. The reasons for tax evasion (made on the basis of [9])

- Insufficient transparency and accountability of state institutions.
3. Social and psychological factors:
    - Low level of tax culture and awareness of citizens.
    - Distrust of the government and the belief that the taxes paid do not bring the expected benefits.
    - Perception of taxes as an excessive burden rather than a civic duty.
    - Widespread negative stereotypes in society and a propensity for risky behavior.
  4. Technological and globalization factors:
    - The development of information technology and the digital economy, which opens up new opportunities for evasion.

- Globalization of financial markets and the proliferation of offshore jurisdictions.
- Growth of cross-border transactions and complexity of their control.

A thorough understanding of the causes of tax evasion is important for developing effective strategies to counteract this negative phenomenon.

Tax evasion has significant social and economic consequences, namely:

- The budget does not receive tax payments.
- Suspension of state programs.
- Non-payment of salaries to public sector employees.
- Reducing budget expenditures for social purposes.
- Violation of competition laws.
- Decrease in the country's investment attractiveness.
- Rising levels of economic crime and corruption.
- The withdrawal of significant amounts of capital from the country.
- Decrease in GDP.

Measures to combat tax evasion:

1. Improving the procedures for administering taxes and mandatory payments, ensuring their transparency, eliminating bureaucracy, and reducing administrative costs.
2. Review of the existing tax administration procedure and its transformation in accordance with the leading international taxation standards.
3. Increase the institutional capacity of tax authorities, ensure effective tax control, and improve the quality of taxpayer services.
4. Increasing fiscal discipline and strengthening the taxpayers' tax culture, taking into account the conditions of political stability
5. Creating favorable conditions for conducting business activities, encouraging business entities to reflect the real indicators of the tax base.
6. Strengthening the requirements for compliance with tax laws, justified granting and use of tax benefits and preferences.
7. Preventing the creation, detection and liquidation of intermediary and fictitious enterprises.
8. Implementation of EU-related IT solutions to create new tools for the development of the risk analysis system.

## **CONCLUSIONS FROM THIS STUDY AND PROSPECTS FOR FURTHER RESEARCH IN THIS AREA**

The socio-economic consequences of tax evasion allow us to state that this economic phenomenon has a significant negative impact on the socio-economic, financial and tax systems, causing significant disparities and imbalances.

Research on tax evasion is increasingly interdisciplinary, integrating economic, legal, sociological, and psychological approaches. There is a growing need for studies dedicated to the impact of digitalization and globalization as methods for countering tax evasion. In connection with the war in Ukraine, particular attention is required for research on the impact of tax evasion on the country's financial stability and its defense capability.

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