



# **Taxpayer Compliance and Ukraine's Economic Recovery**

Ukrainian Parliamentary Institute

## “Taxpayer Compliance and Ukrainian Economic Recovery”

The “Ukrainians Are Taxpayers,” project, which produced this report, “Taxpayer Compliance and Ukrainian Economic Recovery,” is conducted under the leadership of Marc P. Berenson, PhD, of King’s College London together with the Ukrainian Parliamentary Institute (Kyiv) and the Razumkov Centre (Kyiv). Generous financial support has been provided by the King’s College London via the United Kingdom’s Economic and Social Research Council (ESRC) Impact Acceleration Account.

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The Ukrainian Taxpayer Compliance Attitudinal Surveys from 2005 to 2022, highlighted in Appendix II of this report, were conducted by the Razumkov Centre’s Sociological Service under the direction of Andrii Bychenko and by Dr Berenson.

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## Key Recommendations

In promoting tax compliance, policymakers must build citizens' trust in the state and promote the idea that taxes are not punitive but essential obligations of citizenship. To achieve this, Ukrainian policymakers should focus on the following key recommendations:

- **Build trust.** To increase taxes, the state should obtain an appropriate level of trust on the part of citizens who expect to receive security and services in return for taxes paid and who expect to be treated fairly by the government. Transparency and effective use of taxpayers' funds are critical.
- **Educate taxpayers to enhance public trust.** The government should explain to citizens the tax rules to raise awareness in taxpayers of the different aspects of tax, their rights, the ways of paying taxes as well as how their taxes are spent and affect the welfare state. Education should be implemented at an early age (through teaching in schools) to bring a long-term shift in attitudes, and separately taxpayer education that should be a strategic priority for the tax authorities.
- **Explain government decisions.** Taxpayers should be informed about the latest legislative changes through official channels of communication and outreach campaigns. Official explanations should be written in simple language.
- **Advocate the need to pay taxes and fees.** Paying taxes is an obligation. For tax culture to be high, the state is required to use moral suasion (for example through media) and detailed explanations of how paying taxes affects the achievement of common goals, such as victory in the war.
- **Enforce tax rules reliably and predictably, even in wartime.** A reliable and predictable tax system is more important for attracting investors and for focusing businesses on the longer term than the tax rate. The credibility of the tax system depends on a stable, unified tax policy.
- **Enhance oversight.** Tax administration audits should continue in wartime. And, an external watchdog – such as the Accounts Chamber – should have more influence and authority over the audit of tax expenditures, the results of which should be available for the public and be publicly discussed, to provide for a more effective administration and for gaining citizen trust. Parliamentary oversight also should be maintained, particularly at the committee level.

## Key Recommendations

-  Build trust
-  Explain government decisions
-  Educate taxpayers to enhance public trust
-  Advocate the need to pay taxes and fees
-  Enforce tax rules reliably and predictably, even in wartime
-  Enhance oversight

 Український парламентарний інститут

## Additional recommendations

-  Simplify the tax declaration form
-  Continue to promote the war bonds
-  Simplify legislation
-  Develop a mechanism for tax discounts due to donations and charitable contributions
-  Introduce Monthly Payslips for Ukrainian Employees

 Український парламентарний інститут

### Additional recommendations:

- **Simplify the tax declaration form.** The process of paying taxes should be easy, People do not need to feel that this process is something challenging or be afraid of doing this. After the end of active hostilities, consider the possibility of launching an user-friendly online income declaration system (for example online filling in electronic declarations) for all tax residents of Ukraine. The experience of the Unified State Register of declaration (for civil servants) can be taken as a basis. Moreover, it is necessary to use the principle of interoperability of registries so that such a declaration is generated automatically for the subject of the declaration based on data that the state or financial institutions already have. The subject should only verify it and, in case of disagreement, make corrections and approve with the help of the digital signature. An easy process of paying and declaring taxes could, in the long-term perspective, improve tax compliance.
- **Continue to promote the war bonds, make their purchase more accessible, explain main advantages.** As for October 2022 the state launched the possibility to buy the war bonds via DIA application, which is a positive step. However, there is a lack of greater awareness of citizens about this tool.
- **Simplify legislation.** The Tax Code is one of the most comprehensive and difficult for read law. The rules and tax rates should be clear and easy to understand for everyone, not just lawyers and accountants.
- **Develop a mechanism for tax discounts due to donations and charitable contributions.** In the USA, when donating to a public charity, you can take an income tax charitable deduction. The purpose of charitable tax deductions is to reduce taxable income and tax bills. It is necessary to improve the mechanism for obtaining tax discounts (for example, through the DIA application), as well as consider the possibility of introducing a separate tax regime for businesses and citizens who make donations and charitable contributions on a permanent basis
- **Introduce Monthly Payslips for Ukrainian Employees:** Ukraine should implement a nation-wide programme by which employers would distribute monthly payslips to

employees according to the approved form. Such payslips would accompany monthly salary payments and would detail (1) the amount of pre-tax salary, (2) the amount of taxes from salary that is paid by employers, and (3) the amount of take-home pay.

The main object of the research is to discover the behavioural patterns that pursue people to pay taxes during the war and provide advice on how to use this in favour of the state. Overall, they are an additional tool in the policy toolkit, which complement but does not substitute traditional measures to boost tax revenues that include changes to the tax legislation and reforms in the area of tax administration.

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# SECTION 1:

## Current Tax Collection/Revenue Plan Fulfilment data

The Ukrainian state spends around 5-6 billion USD a month on the war,<sup>1</sup> which has negatively impacted Ukraine's economy. Due to the missile attacks on energy infrastructure, the Dragon Capital forecast - 32 per cent GDP in 2022 and expects a 5 per cent decline in the economy in 2023.<sup>2</sup> According to official information, the fall in Ukraine's GDP in 2022 is estimated at 30.4% [ $\pm 2\%$ ], which is a better indicator than expected according to preliminary forecasts.<sup>3</sup> Continuation of hostilities, further destruction of critical infrastructure and logistics, increase in production costs, and a decrease in incomes of the population affected the decline of estimates Index of business activity expectations, which the National Bank calculates monthly. In November 2022, the Index decreased to 42.7 (from 44.9 in October).<sup>4</sup>

More than 7.9 million Ukrainians have left their homes and gone abroad.<sup>5</sup> The International Labour Organization (ILO) estimates that employment in 2022 will be 15.5 per cent (2.4 million jobs) below 2021 pre-conflict level. This projection is not as low as the ILO's estimate in April 2022, when ILO claimed that 4.8 million jobs would be lost. <sup>6</sup> The positive change is a consequence of the reduction in the number of areas of Ukraine under occupation or with active hostilities. However, this partial labour market recovery is modest and highly fragile, the ILO says. <sup>7</sup> Together with the substantial population

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<sup>1</sup> O.Delfinov, A.Shepeleva, *Ukraine spends up to 6 billion dollars every month because of the war*, Deutsche Welle, <https://www.dw.com/uk/ukraina-vytrachaie-do-shesty-miliardiv-dolariv-shchomisiatsia-cherez-viinu-usaid/a-62214004> (accessed 22.06.2022).

<sup>2</sup> Dragon Capital, Dragon Capital worsened the real GDP forecast to -32% y/y in 2022, expects a 5% y/y decline in the economy in 2023 and a moderate devaluation of the hryvnia to 43 hryvnias/dollar at the end of the year, [https://dragon-capital.com/ua/media/press-releases/dragon-capital-pogirshiv-pronoz-realnogo-vvp-do--32rr-v-2022-r-ochikue-padinnya-ekonomiki-na-5-rr-v-2023-r-ta-pomirnu-devalvatsiyu-grivni-do-43-grndol-naprikintsi-ro/?fbclid=iwar3n7bijfde\\_ud8vnjzveavnif4-3nizm6n6\\_vekkenqckzty64phckguks](https://dragon-capital.com/ua/media/press-releases/dragon-capital-pogirshiv-pronoz-realnogo-vvp-do--32rr-v-2022-r-ochikue-padinnya-ekonomiki-na-5-rr-v-2023-r-ta-pomirnu-devalvatsiyu-grivni-do-43-grndol-naprikintsi-ro/?fbclid=iwar3n7bijfde_ud8vnjzveavnif4-3nizm6n6_vekkenqckzty64phckguks) (accessed 22.11.2022).

<sup>3</sup> Ministry of Economy of Ukraine, The Ministry of Economy preliminary estimates the fall of GDP in 2022 at the level of 30.4%, <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=4470bafb-5243-4cb2-a573-5ba15d9c8107&title=MinekonomikiPoperedno> (accessed 05.01.2023)

<sup>4</sup> National Bank of Ukraine, Index of business activity expectations, <https://bank.gov.ua/ua/news/all/biznes-pogirshiv-otsinki-dilovoyi-aktivnosti-cherez-vtrati-vid-povnomasshtabnoyi-viyni--dani-opituvannya-pidpriyemstv-u-listopadi> (accessed 01.12.2022)

<sup>5</sup> IOM, Crisis response operational update, <https://mailchi.mp/3b9bbdc0add3/iom-ukraine-operational-weekly-sitrep-18-to-24-october-5791402?e=e771809828> (accessed 11.12.2022)

<sup>6</sup> ILO, Nearly 5 million jobs have been lost in Ukraine since the start of the Russian aggression, [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_844625/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_844625/lang--en/index.htm) (accessed 11.05.2022)

<sup>7</sup> ILO, Global labour market to deteriorate further as Ukraine conflict and other crises continue, [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_859191/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_859191/lang--en/index.htm) (accessed 31.10.2022)

decline resulting from refugee outflows during the conflict, employment will remain well below pre-conflict levels as long as it continues.<sup>8</sup>

**At the same time, according to official statistics, over the January - November of 2022, the tax revenue plan was exceeded by 13,1%<sup>9</sup>.** According to the Ministry of Finance, the key sources of financing for the state budget from February 24, 2022 to December 30, 2022 are military bonds, loans from international financial organizations, and bilateral loans and grants. The total amount of financing is USD 51 312 million.<sup>10</sup> According to the Head of the Budget Committee, 59% of the state budget's financing sources in 2022 are foreign aid.<sup>11</sup> Despite the fascinating importance of external financial assistance from other countries and donors, taxes are a significant part of income.

Despite the war, citizens continue to pay taxes, conscientiously supporting the state in difficult times. According to the State Treasury Service, in 2022, the general fund of the state budget received UAH 1,491.1 billion.<sup>12</sup> Thus, in 2022, the receipts (balance) to the consolidated budget for payments controlled by the State Tax Service amounted to UAH 1 091.4 billion. This is by UAH 98.2 billion, or 9.9 percent more than in 2021. The state budget received UAH 698.7 billion, which is UAH 46.6 billion, or 7.82 percent, more than last year's. UAH 392.7 billion was paid to local budgets. This is UAH 51.5 billion, or 15.1 percent more than during the 2021 period. Revenues (balance) to the state budget's general fund in 2022 amounted to UAH 694.6 billion, 13.1 percent or UAH 80.2 billion more than last year. Despite the possibility for a few categories of private enterprisers of voluntary payment of the united contribution to compulsory state social insurance (USC), the income from the unified social contribution in 2022 amounted to UAH 452.3 billion, which is UAH 76.2 billion, or 21.8 percent more than in 2021. Receipts for the USC in December 2022 amounted to UAH 49,5 billion, which is by UAH 10.9 billion or 28.2 percent more than in December 2021.<sup>13</sup>

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<sup>8</sup> ILO, ILO Monitor on the world of work. Tenth edition, Multiple crises threaten the global labour market recovery, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms\\_859255.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/briefingnote/wcms_859255.pdf) (accessed 31.10.2022)

<sup>9</sup> A.Zharikova, The Tax Office overachieved the budget plan by 13%, but in November the revenues "sag" - Hetmantsev, <https://www.epravda.com.ua/news/2022/12/1/694486/> (accessed 01.12.2022)

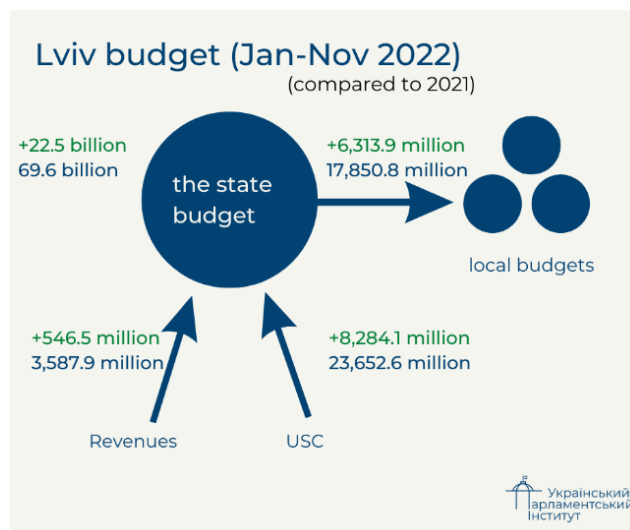
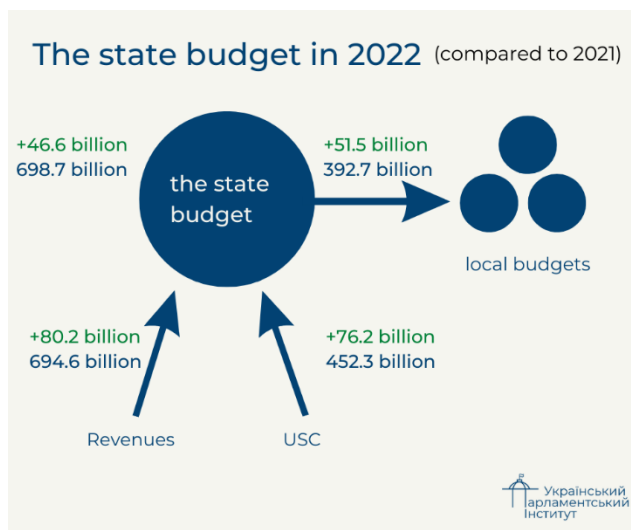
<sup>10</sup> Ministry of Finance, Funding of the state budget of Ukraine since the beginning of the full-scale war, [https://www.mof.gov.ua/storage/files/Фінансування\\_30\\_12\\_22.pdf](https://www.mof.gov.ua/storage/files/Фінансування_30_12_22.pdf), (accessed 30.12.2022)

<sup>11</sup> Press service of the Verkhovna Rada of Ukraine, 59% of the state budget deficit is filled from external sources, - Head of the Budget Committee Roksolana Pidlasa, [https://www.rada.gov.ua/news/news\\_kom/231453.html](https://www.rada.gov.ua/news/news_kom/231453.html) (accessed 16.12.2022)

<sup>12</sup> Ministry of finance of Ukraine, <https://www.mof.gov.ua/uk/news/derzhbiudzhzet-2022-do-zagalnogo-fondu-nadiishlo-1491-trln-griven-3790>

<sup>13</sup> Press service of the State Tax Service of Ukraine, In 2022, the state budget received 698.7 billion hryvnias, <https://tax.gov.ua/media-tsentr/novini/644526.html> (accessed 05.01.2023)





Some regions continue to increase the revenue side of the budget. It is especially true for safe areas that have become havens for citizens and businesses. For instance, 251 thousand internally displaced persons (IDPs) live in the Lviv region (the real number of IDPs living in the region is approximately twice as large, because many people are not registered officially)<sup>14</sup>, and situated 30 percent of all relocated enterprises.<sup>15</sup> According to the Lviv Regional State Administration, in the period January-November 2022, taxpayers from the Lviv region paid UAH 69.6 billion in taxes to the state budget, which is UAH 22.5 billion or 48 percent more compared to the same period in 2021.<sup>16</sup> Regarding personal income tax, receipts to local budgets amounted to UAH 17,850.8 million, which is UAH 6,313.9 million or 54.7 percent more than in January-November 2021.<sup>17</sup> Revenues from the single tax in January-November 2022 amounted to UAH 3,587.9 million, which compared to January-November 2021 is 18.0 percent or UAH 546.5 million more.<sup>18</sup> Receipts of the USC amounted to UAH 23,652.6 million, which is UAH 8,284.1 million or 53.9 percent more than in the same period in 2021.<sup>19</sup> According to the results of 2022, UAH 14.6 billion were paid to the state budget in Volyn region. This is UAH 3.3 billion

<sup>14</sup>Press service of the Lviv Regional State Administration, More than 251,000 IDPs were officially registered in Lviv Oblast: most of them per day, <https://loda.gov.ua/news/50664> (accessed 25.12.2022)

<sup>15</sup> Ministry of economy of Ukraine, Under the relocation program, 761 enterprises were relocated to safer regions, <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=d152dcfe-7bde-49df-a69a-8d7f9586fc13&title=ProgramaRelokatsii> (accessed 25.10.2022)

<sup>16</sup>Financial department of the Lviv Regional State Administration, During 11 months, the Lviv region replenished the state budget by UAH 69.6 billion, <https://loda.gov.ua/news/49277> (accessed 14.12.2022)

<sup>17</sup> Main Department of the State Tax Service in the Lviv region, Since the beginning of the year, the local budgets of the Lviv Oblast have received almost UAH 18 billion in personal income tax, <https://lv.tax.gov.ua/media-ark/news-ark/640615.html> (accessed 16.12.2022)

<sup>18</sup> Main Department of the State Tax Service in the Lviv region, Since the beginning of the year, the local budgets of the Lviv Oblast have received more than UAH 3 billion in single tax, <https://lv.tax.gov.ua/media-ark/news-ark/640654.html> (accessed 19.12.2022)

<sup>19</sup> Main Department of the State Tax Service in the Lviv region, Almost UAH 24 billion of the single contribution went to social funds from the payers of the Lviv region, <https://lv.tax.gov.ua/media-ark/news-ark/640260.html> (accessed 15.12.2022)

more compared to the last year.<sup>20</sup> 75,940 people came to the Volyn from other regions, 58 338 have the status of IDPs in Volyn.<sup>21</sup>

Moreover, during martial law, citizens actively continue to exercise the right to withdraw their assets from the "shadow economy." During the period of the voluntary declaration campaign (since September 1, 2021), the value of the amnestied assets exceeded UAH 6 billion. The amount of collection to the budget is UAH 372 million. Since February 24, 430 declarations have been submitted in the amount of more than UAH 3.74 billion, the amount collected to the budget is UAH 239.1 million.<sup>22</sup>

But what about social benefits? It is clear that military spending undermines spending on other social needs like health and education, which leads to some disproportion in public financing. Social welfare is no longer a top priority and, this trend will continue after the end of the war. The Exception will be made regarding the social welfare of veterans, their families, IDPs and people who lost their homes.

From February 24 to December 23, the Parliament of Ukraine adopted 10 laws on amendments to the Law of Ukraine "On the State Budget of Ukraine for 2022", which significantly increased spending on the state's defense and security and also allocated UAH 1,141.1 billion (or 18.2% of GDP) for the national security and defense of the country.<sup>23</sup> According to the Ministry of finance of Ukraine defense expenditures according increased 9.2 times to UAH 960 billion. The structure of consolidated budget expenditures for 11 months of 2022 is as follows: defense - 41,9 percent, security, social protection - 16,8 percent, law enforcement and judicial system- 15,7 percent, healthcare system - 6,7 percent, state debt service - 6.6 percent, interbudgetary transfers - 5,3 percent.<sup>24</sup>

State continues to fulfill obligations. For the period from January to November 2022, UAH 374.7 billion were allocated to social payments from the state budget.<sup>25</sup> These funds were directed to:

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<sup>20</sup> Main Department of the State Tax Service in the Volyn region, The contribution of Volyn taxpayers to the state budget exceeded UAH 14.6 billion, <https://vl.tax.gov.ua/media-ark/news-ark/644919.html> (accessed 05.01.2023)

<sup>21</sup> Volyn Regional State Administration, 23 internally displaced persons registered in Volyn, <https://voladm.gov.ua/new/volin-priynvala-sche-23-vnutrishno-peremischeni-osobi/> (accessed 16.12.2022)

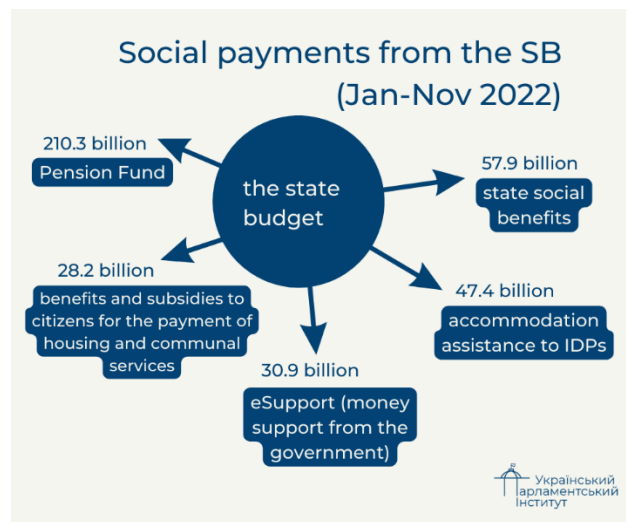
<sup>22</sup> A. Nedogybchenko Tax amnesty: Ukrainians declared 6 billion UAH, <https://minfin.com.ua/ua/2023/01/06/98538417/> (accessed 06.01.2023)

<sup>23</sup> Press department of the Verkhovna Rada of Ukraine Secretariat, Parliamentary results of 2022, <https://www.rada.gov.ua/news/Top-novyina/231794.html> (accessed 03.01.2023)

<sup>24</sup> Ministry of Finance of Ukraine, Information on the implementation of the Consolidated and State Budgets of Ukraine for January–November 2021-2022, [https://mof.gov.ua/storage/files/2\\_Довідка\\_листопад\\_2022\\_27\\_12\\_2022.docx](https://mof.gov.ua/storage/files/2_Довідка_листопад_2022_27_12_2022.docx) (accessed 10.12.2022)

<sup>25</sup> Ministry of Finance of Ukraine, More than UAH 36 billion was allocated to social benefits in November, <https://www.kmu.gov.ua/news/minfin-bilshe-36-mlrd-hrn-bulo-spriamovano-na-sotsvplyaty-u-lystopadi> (accessed 15.12.2022)

- UAH 57.9 billion for the payment of state social benefits, in particular to families with children, including;
- UAH 47.4 billion to provide accommodation assistance to IDPs;
- UAH 28.2 billion for the provision of benefits and subsidies to citizens for the payment of housing and communal services;
- UAH 210.3 billion to the Pension Fund;
- UAH 30.9 billion for eSupport (money support from the government).



According to the State Budget 2023 the state will allocate money for reconstruction and continue financing the military sector. Almost 90% of all taxes and fees paid by citizens and businesses will go to support the army in 2023.<sup>26</sup> In total, the state plans to allocate UAH 1.1 trillion for the Armed Forces. The money for the other three main expenditure items was distributed as follows: social programmes and pensions – almost UAH 450 billion; healthcare – UAH 176; education – UAH 156 billion.

<sup>26</sup> D.Shmyhal, the Prime Minister of Ukraine, Almost 90% of Ukrainians' taxes will go to support the army in 2023, Mind.ua, <https://mind.ua/news/20249169-majzhe-90-podatviv-ukrayinciv-pidut-na-zabezpechennya-armiyi-u-2023-roci> (accessed 06.11.2022)

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## SECTION 2:

### Suggested Explanations for Why Revenue Plans Have Been Fulfilled the Way They Have in Ukraine in 2022

The most reasonable explanation for why tax revenue plans are fulfilled is inflation, which amounted to, according to the State Statistics Service, in 2022, a record 26.6 percent (in annual terms).<sup>27</sup> Another explanation is a significant increase in the personal income tax, in particular, due to payments (salary) to the military and the employer's obligation to pay the average monthly salary to employees serving in the Armed Forces. The government already is planning to abolish the taxation of military income, which has become a mechanism for the flow of funds from the state to the local budgets (In particular, on August 19, 2022 the Verkhovna Rada adopted amendments to the Tax Code (Law № 2308-IX<sup>28</sup>), which canceled the payment of the military tax on income for: servicemen of the Armed Forces, the National Guard, the SBU, the Foreign Intelligence Service, the State Border Service). Moreover, according to Law 2352-IX<sup>29</sup> (adopted in July, 2022), enterprises are no longer have to pay salaries to mobilized employees, such employees get financial support at the expense of the State Budget of Ukraine. Control over the payment of excises and VAT, the de-shadowing of income, and the postponement of VAT refunds during the first months of the war also played significant roles. The introduction of the 2 percent tax for private entrepreneurs of the third group at the beginning of the war also helped prevent a decrease in state budget revenues.

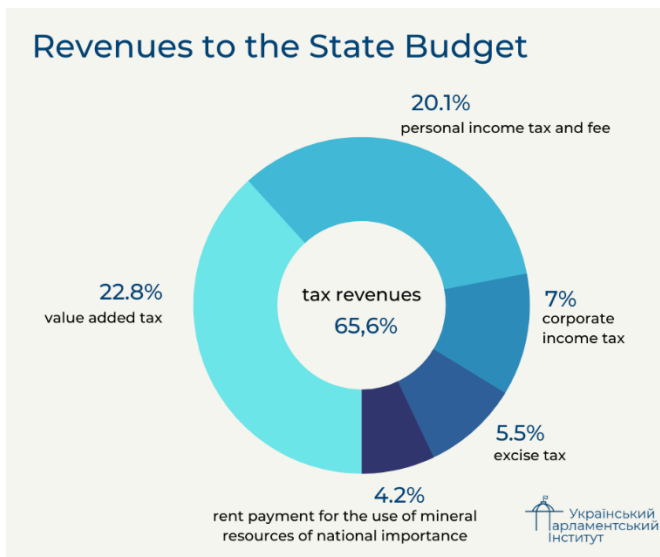
At the same time, the plan was fulfilled because businesses paid money in time to support the state. During the war, Ukraine proved that all governmental structures, including the State Tax Service (STS), operate in a regular mode, and that the state could maintain basic public services. The STS service keeps records of taxes, fees, and payments. The STS is headed by the Chairman, who is appointed and dismissed by the Cabinet of Ministers of Ukraine. The Service has a central apparatus and territorial branches in all regions and the city of Kyiv, as well as five interregional offices for work with large taxpayers.

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<sup>27</sup> O.Pavlysh, Inflation in Ukraine in 2022 was 26.6% - State Statistics Service, <https://www.epravda.com.ua/news/2023/01/10/695830/> (10.01.2023)

<sup>28</sup> Law № 2308-IX, <https://zakon.rada.gov.ua/laws/show/2308-IX#Text>

<sup>29</sup> Law №2352-IX, <https://zakon.rada.gov.ua/laws/show/2352-20#Text>



According to the results of the 11 months of 2022, the largest share in the total amount of revenues to the State Budget of Ukraine was tax revenues (65,6 percent), of them: value added tax - 22.8 percent; personal income tax and fee – 20.1 percent; corporate income tax - 7 percent; excise tax - 5,5 percent; rent payment for the use of mineral resources of national importance - 4.2 percent.<sup>30</sup>

Among the payments to the state budget<sup>31</sup> in 2022, the collection of which is controlled by the tax and customs authorities, the main revenues were received from:

- value added tax on goods imported into the customs territory of Ukraine - UAH 253 billion;
- value added tax on goods produced in Ukraine – UAH 213.9 billion (UAH 298.5 billion collected, UAH 84.6 billion reimbursed);
- personal income tax and military tax - UAH 148.4 billion;
- corporate income tax - UAH 117.0 billion;
- rent for the use of subsoil - UAH 81.0 billion;
- excise tax - UAH 78.9 billion;
- import and export duties - UAH 21.0 billion.

Despite many discussions about the legalization of certain types of business and the existence of a preferential rate of 2% for the gambling business the state budget in 2022 received more than a UAH 1,166 billion from gambling business entities, which is 98% of the pre-war plans.<sup>32</sup> Moreover, the total amount of revenue from gambling license fees (from January 2021 to October 2022) is UAH 2.436 billion.<sup>33</sup>

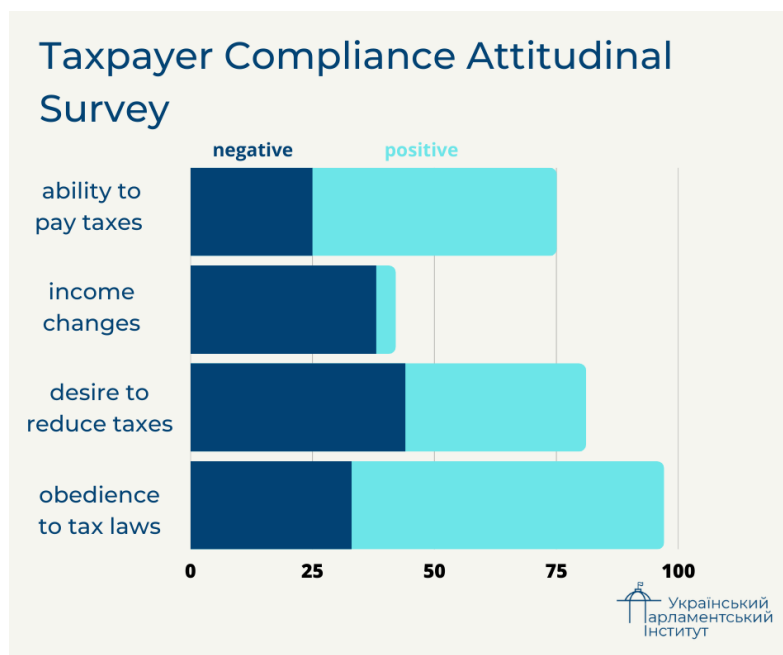
<sup>30</sup> Ministry of Finance of Ukraine, Information on the state of budget implementation, [https://www.mof.gov.ua/storage/files/2\\_Довідка\\_листопад\\_2022\\_27\\_12\\_2022.docx](https://www.mof.gov.ua/storage/files/2_Довідка_листопад_2022_27_12_2022.docx) (accessed 05.12.2022)

<sup>31</sup> Ministry of finance of Ukraine, State Budget 2022: 1.491 trillion hryvnias received in the general fund, <https://www.mof.gov.ua/uk/news/derzhbiudzhethet-2022-do-zagalnogo-fondu-nadiishlo-1491-trln-griven-3790> (accessed 03.01.2023)

<sup>32</sup> Commission for regulation of gambling and lotteries, CRGL directed more than 1.166 billion to the State Budget in 2022,, <https://www.gc.gov.ua/Informatsiini-povidomlennia/33769.html> (accessed 04.01.2023)

<sup>33</sup> Commission for regulation of gambling and lotteries, Receipts to the State Budget VS expenditures on CRGL <https://www.gc.gov.ua/ua/Informatsiini-povidomlennia/33558.html> (accessed 04.11.2022)

Appendix II presents the results of the Taxpayer Compliance Attitudinal Survey, designed by Marc P. Berenson and conducted by the Razumkov Centre for Economic and Political Studies in August 2022 in comparison to results from similar surveys conducted in Ukraine from 2005 to 2020 and in Ukraine’s neighbours, Poland and Russia, in 2004 and 2010. Half of the respondents in the August 2022 survey indicated that their ability to pay taxes hasn’t changed after February 24, 2022, while 25 percent of respondents replied that they have completely lost the ability to pay taxes (See Question 18 in Appendix II). After February 24, 2022, income decreased significantly for 38 percent of respondents and increased for only 4 percent of respondents (Question 26). 44 percent of respondents stated that taxes need to be reduced during the war while 37 percent of respondents answered that it is necessary to pay the same amount of taxes as before the war (Question 22). Perhaps, most surprisingly, Ukrainians’ willingness to pay their taxes has increased dramatically; in comparison to surveys undertaken in 2005, 2010, 2012, 2015 and 2020, the percent of Ukrainians who state that they would obey tax laws even if they deemed them to be unfair has increased by some 20 points to 64 percent (Question 10).



At the same time, a considerable role is played by the state agencies that to control economic activity and preclude tax laws from being violated. Even though the Bureau of Economic Security has not recruited staff for a full-fledged operations, and there is discussion about the inefficiency of this body, they continue to work. The Bureau of Economic Security of Ukraine, for example, analyzed the applications of more than 4,500 enterprises for VAT refunds. The legitimacy of budgetary VAT refund requests for UAH 3.3 billion was questioned in 2022, and thanks to preventive measures, illegal VAT refunds from the budget for UAH 1.3 billion have already been prevented.<sup>34</sup>

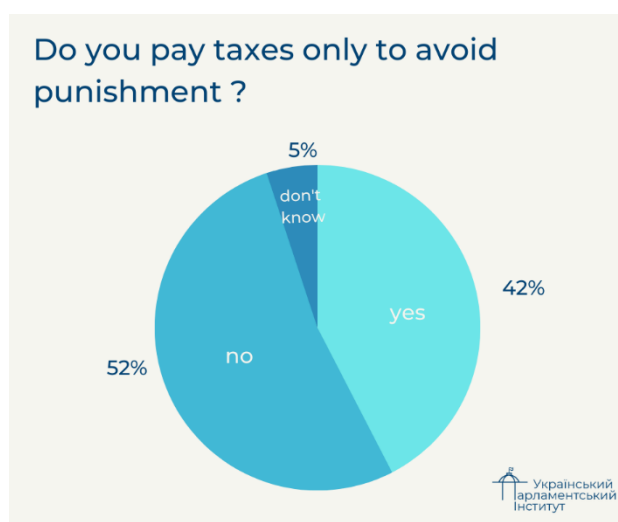
<sup>34</sup> Economic Security Bureau of Ukraine, ESBU prevented UAH 1.3 billion. illegal VAT reimbursement, <https://esbu.gov.ua/news/beb-uperedylo-13-mlrd-hrn-nezakonnoho-vidshkoduvannia-pdv> (accessed 05.10.2022)

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## SECTION 3:

### How Key Policy Recommendations Can Help Fulfil Revenue Plans

There is no magic bullet that could fulfil revenue plans during the war; only working enterprises, the inflow of investments can have a positive effect. What could be done is a solid advocacy campaign (on the part of the state and the civil society) to de-shadow incomes, to stimulate the payment of taxes that are currently not mandatory, and to increase state support for small and medium-sized businesses through grants and loans. As was mentioned before, the research and recommendations presented here are focused on outreach and educational activities that could help encourage taxpayers to fulfil their obligations.



The August 2022 Taxpayer Compliance Attitudinal Survey results demonstrate that the fear of punishment remains an essential driver of taxpayer behaviour in Ukraine (Question 8 in Appendix II). At the same time, the state must implement citizen-centric tax policies to ensure high levels of compliance and continue to build a culture of paying taxes. This can be done through education, advocacy and, of course, other efforts designed to increase trust in the state.

Tax compliance is both about revenue extraction for the benefit of the state and about an opportunity for citizens to enter into a trusting relationship with their state. “State–societal trust requires a unique and special relationship. ,” Marc P. Berenson has written in *Taxes and Trust*. “...A powerful interplay directly between citizens and their government will enable both state and society to mutually reinforce each other’s capacities so that policies can be implemented successfully.”<sup>35</sup>

Are coercive methods and punishment the most effective way to ensure taxes are paid? This issue is debatable, but the experience of other successful countries demonstrates the need for other instruments to focus. One effective approach could be to promote the idea

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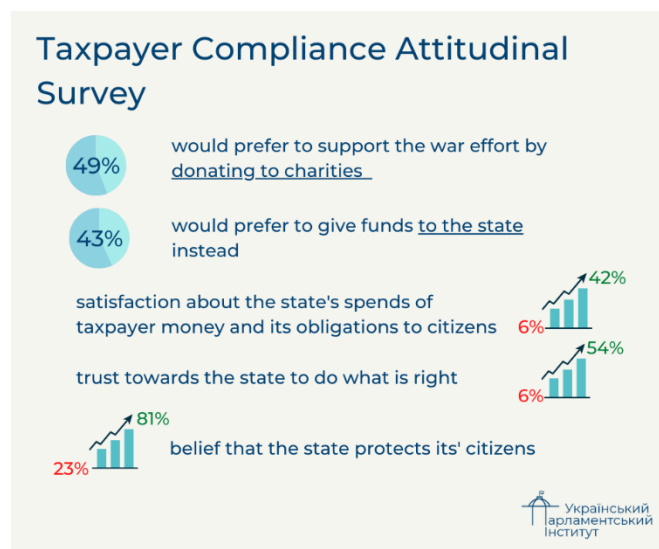
<sup>35</sup>Marc P. Berenson, *Taxes and Trust: From Coercion to Compliance in Poland, Russia and Ukraine*, (Cambridge, UK: Cambridge University Press, 2018), p. 259.

that tax payments comprise a vital tool in the struggle to win the war. Such an idea could be advanced through broad information campaigns, as was done in the United States during World War II (see section 4.3 below), that could explain exactly where tax revenues go in Ukraine with an emphasis on the financing of the military and the liberation of occupied territories. But for such advertising to work, trust in the state cannot be failing.

Taxation is an ongoing activity that requires continuous healthy relations between the government and its citizens. Recent studies, including those by the OECD, have indicated a link between tax morale (citizens' perceptions of tax issues) and citizens' perceptions of the quality of social expenditures. In other words, people who receive good quality public services are more willing to pay their taxes.<sup>36</sup> The process of paying should be easy and transparent; money transfers have to be on time. Meanwhile, public services must be provided and meet expectations. Thus, it is a win-win situation.

In today's Ukraine, it is a common perception that taxes are used to win the war. Tax evasion also includes a lack of awareness or confidence that the state collects taxes reasonably and efficiently or uses the proceeds for the benefit of citizens. Therefore, once again, it is important to talk about transparent communications on the activities and expenditures of the state, just as charitable foundations are required to do with respect to their spending. The government could start by providing all information about how taxes payments are use to move the country closer to winning the war.

In Ukraine, if given a choice, according to the August 2022 Taxpayer Compliance Attitudinal Survey, some 49 percent would prefer to support the war effort by donating to charities while 43 percent would prefer to give funds to the state instead (Question 24 in Appendix II). Meanwhile, the number of respondents who state that they are satisfied by how the states spends taxpayer money has increased dramatically from 6 to 10 percent in the 2010-2020 period to 42 percent in 2022 (Question 13). Similarly, some 43 percent of Ukrainians in 2022 state that their state fulfils its obligations to citizens – a sharp increase from figures of 6 to 10 percent in previous surveys from 2005 to 2020 (Question 14). 54 percent in 2022 trust their state to do what is right – a statement that some 6 to 11 percent could only agree with earlier



<sup>36</sup> OECD/ECLAC, *Latin American Economic Outlook 2012: Transforming the State for Development*, (Paris: OECD Publishing, 2011), accessed at <http://dx.doi.org/10.1787/leo-2012-en>.



(Question 15). And, 81 percent of Ukrainians in 2022 said in 2022 that their state protects them – at statement that only 23 to 28 percent concurred with earlier (Question 17). Clearly, the war has helped Ukrainians change their attitudes towards their state.

From February 24 - December 31, 2022, on the special bank account in the National Bank of Ukraine were received UAH 23,5 billion (only 7,9 billion of which were transferred from abroad in foreign currency).<sup>37</sup> This indicates that citizens trust state funds and are ready to donate when they understand that money will be spent on military support. Over the same period, the Ukrainian Come Back Alive Foundation received 5,6 UAH billion in donations.<sup>38</sup> The amount of donations to the Come Back Alive Foundation charity fund increased 580 times during the first seven months of the full-scale war.<sup>39</sup> At the same time, the independent funds collectively (and given donations in cryptocurrencies) raise an enormous amount of money in comparison to the government. One main reason for the public's trust in independent charities is the fact that they are required to provide transparent reporting on their spending as well as are expected to deliver fast results. In fact, the Come Back Alive Foundation publishes transparent reporting on all income and expenses on its website, significantly increasing trust.

Interestingly, before the war, the level of trust in charitable organizations was about 2.9 on a 5-point scale. The transparency of funds was a critical issue for the respondents. Thereby, undertaking reports for public view and conducting independent financial audits are essential steps toward building trust. The state can use the same approach.<sup>40</sup> The war has created a feeling of solidarity and shared sacrifice that government should recognise. The growth of the level of trust in society is also evidenced by the data on the high involvement of Ukrainians in helping their fellow citizens, their army and their state. For example, according to a survey conducted by Gradus Research in July 2022, 43 percent of respondents responded to calls for help on social networks, 39 percent transferred money to charitable foundations, and about a third of citizens provided money and assistance to strangers.<sup>41</sup>

Citizens must see the state as being capable of fulfilling its obligations by providing goods and services and by treating citizens fairly. Citizens are trustworthy when they understand

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<sup>37</sup> National Bank of Ukraine, In 2022, more than UAH 22.3 billion was transferred to defense needs from the special account opened by the National Bank., <https://bank.gov.ua/ua/news/all/u-2022-rotsi-zi-spetsrahunku-vidkritogo-natsionalnim-bankom-na-potrebi-oboroni-pererahovano-ponad-223-mlrd-grn> (accessed 03.01.2023)

<sup>38</sup> Come Back Alive, report, <https://savelife.in.ua/reporting/>

<sup>39</sup> Forbes Ukraine, Armed Forces of Ukraine is the best company of the year, Akhmetov and Novinsky suffered the biggest business losses. The main phenomena of the year according to Forbes, <https://forbes.ua/money/zsu-naykrashcha-kompaniya-roku-naybilshibiznes-vtrati-u-akhmetova-i-novinskogo-golovni-yavishcha-roku-za-versiyu-forbes-26122022-10708> (accessed 05.01.2023)

<sup>40</sup> Zagoriy Foundation, Report: Trust in charitable organizations in Ukraine, 16.07.2020 accessed at <https://zagoriy.foundation/wp-content/uploads/2020/07/dovira-do-blagodijnyh-organizacij-v-ukrayini.pdf>

<sup>41</sup> Gradus Research, Trust in Ukrainian society during the war, [https://gradus.app/documents/272/TRUST\\_IN\\_UKRAINIAN\\_SOCIETY\\_DURING\\_THE\\_WAR\\_UKR.pdf](https://gradus.app/documents/272/TRUST_IN_UKRAINIAN_SOCIETY_DURING_THE_WAR_UKR.pdf) (accessed 01.08.2022)

and are aware of their responsibilities, such as paying tax, and when they willingly volunteer to do so. Good governance requires both good citizens and a reliable state. This is where the recommendation on citizen education plays a crucial role. Taxpayer education includes government programs to encourage tax behaviour and civil society initiatives to engage citizens in political debates about the tax system.

Trust can be built through a planned tax policy aimed at stimulating the development of small businesses and the de-shadowing of income thereby helping government agencies focus on oversight and supervision, in turn directly increasing budget revenues. For example, with the introduction of martial law, in accordance with the Decree of the Cabinet of Ministers of Ukraine dated June 9, 2021, No. 590, several spending restrictions were imposed on local budgets. Over the past seven months, changes have been made to the document sixteen times, requiring local government to constantly track. Thus, due to unplanned policy, local governments spend their time following all changes instead of explaining the new tax legislation to businesses or oversight economic activities.

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## SECTION 4:

### Historical Case Studies

The case studies below include different countries that struggled through wars and conflicts and rebuilt their economy. They include the cases of Germany as an example of a country that lost a war but experienced an economic miracle during the post-war period, the United States as a country that did not have hostilities on its own territory but played a huge role in World War II and further post-war recovery of Europe, Japan as a country with a different culture and governmental system, the countries of Israel and Bosnia and Herzegovina as cases of more recent post-war economic recovery and reforms. Of course, the experience of these countries cannot be fully applicable to Ukraine, but they can inform on the essentials for post-war recovery recommendations.

Case studies provide insights into how and why countries have been better able to rebuild their economy after the war and conflicts and establish positive relationships between citizens and the state. Though the substantive focus in case studies is made on taxes reforms and Post-war (post-conflict) recovery, these case studies could teach us that the citizens could accept unpopular decisions such as high taxes because of a sense of public good and unity.

The research in this section includes case studies on post-war taxation reforms in different countries. The major challenge for research is the lack of reliable data on war and post-war economies. This partly reflects the weakening government's capacity to collect and process data during hostilities and on temporary occupied territories. Traditional behaviour patterns are not applicable during war and crisis conditions. There is a need to take into account the untypical behaviour of individuals. It is difficult to compare the impact of Russia's war on Ukraine with other wars and conflicts because of the differences in initial economic conditions and in the development of the industrial capacities of other countries. It is also hard to estimate the effect of the state policy due to the lack of operational data collection.

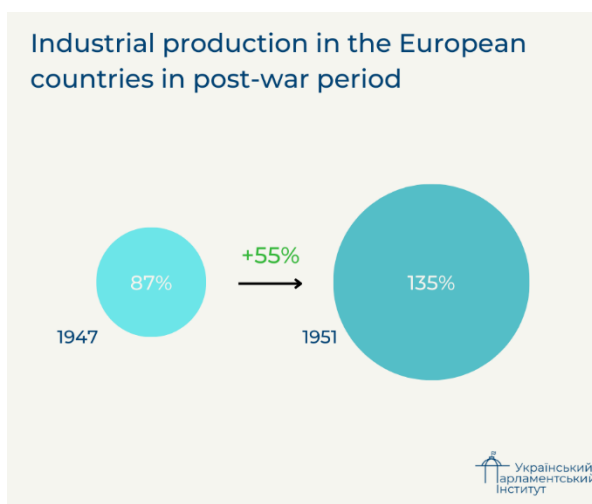
#### 4.1 War and post-war economy after World War II

During wartime, major economies experience a 'war boom' of production and employment. The market economy helps to mobilise resources and people. When World

War II broke out, many countries already had established military infrastructure because of their experiences in World War I.

The period after World War II is known for its unprecedented speed of economic recovery combined with an unbelievable scale of international cooperation. Post-war recovery was supported by the United Nations Relief and Rehabilitation Administration (UNRRA), the United States (through the Marshall Plan), and Canada in lesser amounts. International unity and, solidarity, and financial support have played an important role in development and reconstruction. Over the four years from 1948 through 1951, the United States transferred USD 13 billion (roughly USD 115 billion at current prices) to the war-torn nations of Europe under the Marshall Plan. The transfer represented approximately 2 per cent of US GDP and approximately the same share of the collective GDP of the recipient countries. The recipients, seemingly on the brink of economic collapse, mounted a strong recovery.<sup>42</sup> Moreover, the establishment of the European Payments Union in 1950, which used United States funds under the Marshall Plan, stimulated trade liberalization and enhanced the coordination of national recovery plans.

The post-war period is also known as the ‘golden age of economic growth’ in Europe as most economies returned to pre-war levels of output within five years. Industrial production in the European countries leapt from just 87 per cent of pre-World War II levels in 1947 to fully 135 per cent in 1951, a 55 per cent jump in just four years. <sup>43</sup> The number of consumers increased rapidly due to the baby boom after the war and easily affordable mortgages for the military and their families.



The reconstruction of Western Europe required the abolition of the command economy and the liberalisation of prices and wages; the elimination of the dollar shortage to enable countries ravaged by war to import the capital goods necessary to rebuild their infrastructure and restock their factories; the restoration of the labour policy; and international cooperation to support economy and remobilise industries. <sup>44</sup>

<sup>42</sup> B.Eichengreen, Lessons from the Marshall Plan, the World Development Report 2011 (April 2010), accessed at [https://web.worldbank.org/archive/website01306/web/marshall\\_plan.html](https://web.worldbank.org/archive/website01306/web/marshall_plan.html), p.1.

<sup>43</sup> B.Eichengreen, Lessons from the Marshall Plan, the World Development Report 2011 (April 2010), accessed at [https://web.worldbank.org/archive/website01306/web/marshall\\_plan.html](https://web.worldbank.org/archive/website01306/web/marshall_plan.html), p.1.

<sup>44</sup> T.Vonyó, Recovery and reconstruction: Europe after WWII, VoxEU.org (21.11.2019) <https://voxeu.org/article/recovery-and-reconstruction-europe-after-World-War-II> (accessed 02.09.22)

## 4.2 Taxation policy trends

One of the important changes during the war and post-war era is a change in the societal role of the government. Peacock and Wiseman called it the "ratchet effect," the growth and apportionment of public funding. The ratchet effect is an economic process that is difficult to reverse once it has already begun, when a process continues indefinitely and has difficulty reversing its direction. A ratchet is the equivalent of a mechanical ratchet that rotates one way but not the other, in an economic process that tends to only work in one direction. Peacock and Wiseman found that government spending increased like a ratchet after periods of crisis. Moreover, side effects of processes may create new expectations or interest for stakeholders in the new conditions. For example, it is difficult to collapse huge bureaucratic organizations, created initially for temporary needs, during a war or an economic crisis. Because a group of people is formed around them, interested in improving their positions in the organization, the status of the organization itself. They will influence public opinion in order to maintain, expand and strengthen the powers of bureaucratic organizations.

War causes an increase in the level of taxation, thereby expanding the available funding base. At war's conclusion, this pool of public funding, derived from the increased war taxation, became the more extensive base for post-war expenditures.<sup>45</sup> During "normal" times, the existence of a general notion of a "tolerable burden" is likely to restrict the pattern of practical implementation of public expenditure plans. However, suppose this restriction is weakened or destroyed during periods of social disturbance, which is when these notions of taxation are most easily dismantled. In that case, the gap between desirable growth of public expenditure and a "tolerable" tax burden may narrow.

There is no other government activity that requires as much revenue as fighting a war. And, of course, while taxes are never popular, they are never more popular than during war.<sup>46</sup> As such, war has led to remarkable income tax reforms in several countries as well as to heavier wealth taxation of individuals and corporations. There also were similar outcomes in some countries that remained neutral during World War II, like Sweden.<sup>47</sup>

At the turn of the 20th century the top earners in most countries faced almost zero taxation on the final part of their incomes; this changed drastically around 1910-1930, when high

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<sup>45</sup> Manuel Jaén-García, Displacement Effect and Ratchet Effect: Testing of Two Alternative Hypotheses, (SAGE Open January-March 2021: 1–18) accessed at <https://journals.sagepub.com/doi/pdf/10.1177/21582440211003577>, p.4

<sup>46</sup> Naomi Feldman and Joel Slemrod, "Chapter 8: When does patriotism overcome the free-rider impulse?" in Isaac William Martin, Ajay K. Mehrotra and Monica Prasad, *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*, (Cambridge, UK: Cambridge University Press, 2010), pp. 138-154.

<sup>47</sup> Walter Scheidel, Inequality: Total war as a great leveller, VoxEU.org, 02.09.19, <https://voxeu.org/article/inequality-total-war-great-leveller>

top marginal rates were introduced. Interestingly, however, this lasted only until about 1980, when again all countries substantially reduced rates. Today the levels are between half and a third of what they used to be at the highest points.<sup>48</sup>

Progressive taxes increased during wartime and played an important role in the post-war recovery. Income taxes were no longer considered as a “class tax,” but as a “mass tax” as every citizen became subject to taxation. Wartime inflation brought new taxpayers and incomes into the tax regimes, and this effect persisted into peacetime. Inflation was one of the essential channels through which wartime taxes contributed to the “levelling” of incomes in the first half of the twentieth century.

Changes were demanded not only in the name of economic efficiency but also in the pursuit of social solidarity, equality and justice<sup>49</sup> In western Europe, the sharp increase in the overall tax burden was a reflection of the growing importance of factors such as collective solidarity as well as regulation and subsidies. These changes led to a long-term increase in the role of public welfare (as evidenced by the increase in the share of tax revenues funded by social security). Economists also have seen a so-called “scale effect” in the functioning of tax systems: as the tax burden increases, governments seek to diversify the sources of government revenues.<sup>50</sup>

### **4.3 The US economic success story after World War II**

The United States’ greatest rapid economic growth occurred during the Second World War. The United States had a centrally planned economy, the War Production Board (established in 1942); the Office of War Mobilization (1943) played the main role in allocating resources and strategic wartime planning. The majority of investment was directed and financed by the federal government. The US introduced wartime rationing, including limits on such common goods as rubber, sugar, gasoline, fuel oil, coffee, meat, butter, milk, and soap.

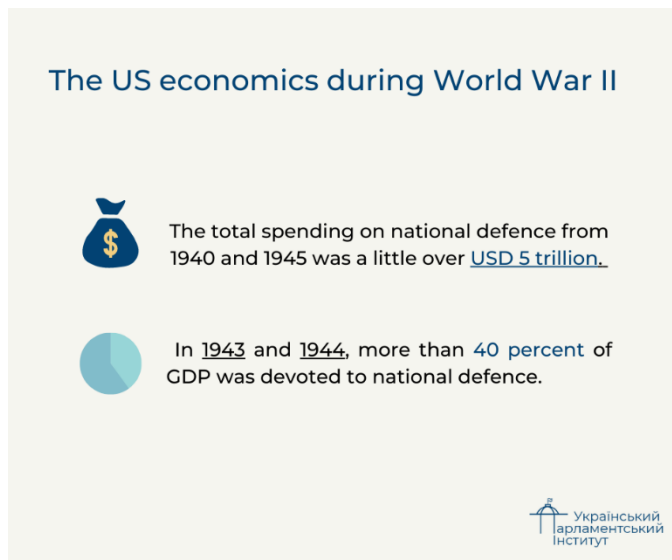
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<sup>48</sup> Esteban Ortiz-Ospina and Max Roser, Taxation, OurWorldInData.org, 2016, <https://ourworldindata.org/taxation>

<sup>49</sup> Dennis C. Mueller, ed., *Perspectives on Public Choice: A Handbook* (Cambridge, UK: Cambridge University Press, 1997.)

<sup>50</sup> Lawrence W. Kenny and Stanley L. Winer, “Tax Systems in the World: An Empirical Investigation into the Importance of Tax Bases, Collection Costs, and Political Regime,” Carleton Economic Paper, No. 01-03 (Ottawa: Carleton University, Department of Economics, May 2001.)

Government central planning was essential for developing and mobilizing resources for the war. The US established a huge military-industrial complex,<sup>51</sup> and automobile factories were transformed to produce military supplies. All stages of the war production were coordinated; the industry had a clear understanding of the needs, prices, and future contracts. The whole economy was organized in the same way. In 1943 and 1944, more than 40 percent of GDP was devoted to national defence. The total spending on national defence from 1940 and 1945 was a little over USD 5 trillion.<sup>52</sup>



The fast transformation of the peacetime economy to wartime brought new workplaces and expanded the economy. The war united people. Unity became a booster for the economy and put Americans back to work. Unemployment, which had reached 25 per cent during the Great Depression, had dropped to 1.2 per cent by 1944 – still a record low in the nation’s history.<sup>53</sup>

Roosevelt's administration understood, especially after Pearl Harbour, that citizens had to know why self-sacrifice was crucial to the self-preservation of the political community. There was perhaps no better way for lawmakers to convey the significance of self-sacrifice than through the fiscal policies that underwrote the World War II mobilization effort. The Department of the Treasury successfully implemented the first general income tax in American history and the sale of the famous "war bonds" to the public. Treasury's War Finance Committee supervised eight major bond drives that raised more than USD 157 billion, with roughly 85 million Americans investing in war bonds.<sup>54</sup> The US government’s Office of Price Administration (OPA) encouraged the public to save their money, particularly by buying war bonds. As a result, by 1945, Americans saved an average

<sup>51</sup> Kennedy Hickman, World War II: General Dwight D. Eisenhower, 01.07.2019, ThoughtCo.com, <https://www.thoughtco.com/general-dwight-d-eisenhower-2360505>

<sup>52</sup> Guillaume Vandenbroucke, Which War Saw the Highest Defense Spending? Depends How It’s Measured, stlouisfed.org, 04.02.2020, <https://www.stlouisfed.org/on-the-economy/2020/february/war-highest-defense-spending-measured>

<sup>53</sup> Christopher J. Tassava, The American Economy during World War II”, Economic History Association, <https://eh.net/encyclopedia/the-american-economy-during-world-war-ii/>

<sup>54</sup> Ajay K. Mehrotra, The Price of Conflict: War, Taxes, and the Politics of Fiscal Citizenship, Michigan Law Review Volume 108 Issue 6, 2010, <https://core.ac.uk/download/pdf/232697796.pdf>, p.1068

of 21 per cent of their personal disposable income, compared to just 3 per cent in the 1920s<sup>55</sup>

#### 4.3.1 The US World War II Post-War Recovery

Critically, on the US territory, no hostilities took place. Therefore, the territory and objects of civil or critical infrastructure were not affected. Moreover, there was a tremendous brain drain in the U.S.'s favour. Many educated and talented people emigrated from Europe to the US, where they could pursue their intellectual passions free of fear from the Nazi regime including Albert Einstein, Enrico Fermi, and Niels Bohr.<sup>56</sup>

The US took the lead in the post-war recovery of the European countries, particularly through the Marshall Plan, which opened European markets for US goods. The US started investing in developing international institutions to prevent future wars and promote global cooperation.

The post-war period needed maximum employment and production. The country had to return to everyday life, and the market had to change, driven by growing consumer demand. The government introduced the Federal Housing Administration (FHA) loans and the GI Bill, through which servicemen obtained numerous other economic benefits beyond their jobs, including educational assistance from the federal government and guaranteed mortgages and small-business loans, which provided an opportunity for the veterans to buy a home. Business was transformed quickly due to demand, and many companies that produced military supplies started to produce appliances and furniture for homes.

The US economic growth rate during the war and post-war years averaged 15 percent per year – not only at the expense of military products, but also thanks to the production of consumer goods, which provided the necessary conditions of full employment of the population and high salaries. Gross national product (GNP), which measured all goods and services produced, skyrocketed to USD 300 billion by 1950, compared to just USD 200 billion in 1940. By 1960, it had topped USD 500 billion.<sup>57</sup>

#### 4.3.2. Taxation policy

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<sup>55</sup> Lizabeth Cohen, "A Consumer's Republic: The Politics of Mass Consumption in Postwar America," *Journal of Consumer Research*, Vol. 31, No. 1 (June 2004), pp. 236-239.

<sup>56</sup> Brendan Beck, WWII Brain Drain: How Foreign Physicists Impacted the War in America, coursework for PH241, Stanford University, Winter 2018, <http://large.stanford.edu/courses/2018/ph241/beck2/>

<sup>57</sup> The Postwar Economy: 1945-1960, <http://www.let.rug.nl>, <http://www.let.rug.nl/usa/outlines/history-1994/Post-war-america/the-Post-war-economy-1945-1960.php>



War has been the most important catalyst for long-term, structural change in the United States' fiscal system. Indeed, the history of America's tax system can be written largely as a history of the country's wars.<sup>58</sup> During World War I the combat zone tax exclusion was introduced, and soldiers fighting the nation's wars were exempted from taxation on some or all of their income from wartime service. In addition, Congress has historically authorized a series of more narrowly-focused tax benefits that correspond to particular circumstances of combat service. Posthumous exemption from estate and unpaid income taxes fit this category, as do income tax exclusions for missing and captive service members.<sup>59</sup> During World War II Americans seemed willing to embrace the need for greater fiscal discipline and other sacrifices.

Post-war tax policy changes are typically motivated by one of three rationales: balancing the budget or reducing deficits, curtailing private spending to control inflation, and stimulating economic activity during business downturns or promoting growth.<sup>60</sup> Taxes were one of the stable and reliable sources of funding for the state budget; thus the government introduced new taxation rates. Congress converted the income tax from a tax mainly for those with high incomes to a "mass" tax that most Americans paid, enabled by a wage withholding system developed by the Treasury Department. The top marginal tax rate of the income tax reached its peak in 1944 with 94 percent.<sup>61</sup> In 1942 Irving Berlin wrote the song "I Paid My Income Tax Today," to help the federal government with what was expected to be "unprecedented income tax collections," according to Treasury documents.

Beginning in 1940, the US government extended the income tax to virtually all Americans and began collecting the tax via the now-familiar method of continuous withholdings from pay checks (rather than through lump-sum payments after the fact). The number of Americans required to pay federal taxes rose from 4 million in 1939 to 43 million in 1945. With such a large pool of taxpayers, the American government took in USD 45 billion in 1945, an enormous increase over the USD 8.7 billion collected in 1941 but still far short of the USD 83 billion spent on the war in 1945. Over that same period, federal tax revenue grew from about 8 percent of GDP to more than 20 percent. Americans who earned as little as USD 500 per year paid income tax at a 23 percent rate, while those who earned

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<sup>58</sup>Bank, Steven A. Stark, Kirk J., War and Taxes, *Journal of Scholarly Perspectives*, 4(01), 2010  
<https://escholarship.org/content/qt0562w1nq/qt0562w1nq.pdf?t=mnar8n> , pp.69-72

<sup>59</sup> Brandon R. Gould, Stanley A. Horowitz, History of the Combat Zone Tax Exclusion, 2011 Institute for Defense Analyses, [https://militarypay.defense.gov/Portals/3/Documents/Reports/SR10\\_Chapter\\_7.pdf](https://militarypay.defense.gov/Portals/3/Documents/Reports/SR10_Chapter_7.pdf), pp.267-299

<sup>60</sup> Shu-Chun Susan Yang, A Chronology Of Postwar U.S. Federal Income Tax Policy, CAEPR Working Paper #2007-021, 2007, <https://caepr.indiana.edu/RePEc/inu/caeprp/CAEPR2007-021.pdf> pp.18-19

<sup>61</sup> TOP MARGINAL INCOME TAX RATE (1939-2017), Our World In Data, Source: World Inequality Report (2018), <https://ourworldindata.org/grapher/top-income-tax-rates-piketty?time=1939..latest&country=JPN~USA~DEU>

more than USD 1 million per year paid a 94 percent rate. The average income tax rate peaked in 1944 at 20.9 percent.<sup>62</sup> The income tax rate rose not only during the war, but also after it. All tax money was used not only to stimulate domestic economic development, but also to finance post-war Europe recovery.

The Revenue Act of 1942 marked the start of a new era of fiscal policy. According to the law, individual income rates were reduced; married couples were permitted to split their income for tax purposes so that they could benefit from lower bracket rates. The Revenue Act of 1950 increased individual and corporate income taxes to balance the budget: individual income rates were restored to their 1945 levels, the top corporate income rate was raised to 42 percent in 1950 and to 45 percent in 1951, and an excess profits tax was reimposed. The Excess Profits Tax Act of 1950 raised the top corporate income rate to 47 percent.

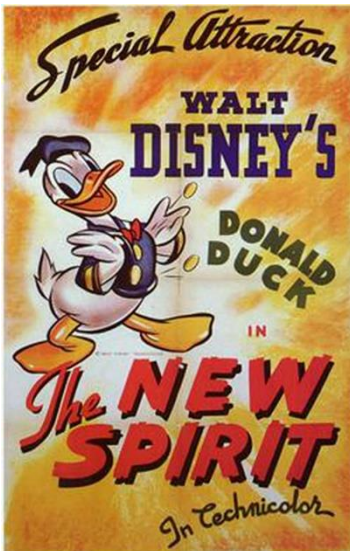
At the end of the 1950s, inflation became a major national concern. The Revenue Act of 1951 raised the normal corporate income rate from 25 to 30 percent so that the top corporate income rate, combining normal income taxes and surtaxes, reached 52 percent (the normal rate was scheduled to fall back to 25 percent on March 31, 1954.) Individual income rates were raised by 11 percent on the first USD 2,000 of net income and by 11.75 percent on the residue (until 1953).

Additionally, inflation was a powerful mechanism for the downward extension of the tax. Due to inflation, by the end of World War II, nearly 1.4 million US taxpayers started paying the tax because of the increases in their incomes. Thus, inflation brought 30 percent of the income tax revenue in the United States in 1946. This additional “inflation revenue” represented around 15 percent in the United States.<sup>63</sup>

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<sup>62</sup> U.S. Department of the Treasury, “Fact Sheet: Taxes,” n. d. Available at <http://www.treas.gov/education/fact-sheets/taxes/ustax.shtml>

<sup>63</sup> Sara Torregrosa-Hetland, Oriol Sabaté, Income tax progressivity and inflation during the world wars, *European Review of Economic History*, Volume 26, Issue 3, August 2022, Pages 311–339, <https://doi.org/10.1093/ereh/heab020>



A solid advocacy campaign was conducted by the US to cultivate a taxpaying culture. The federal government launched an all-out campaign to market the new tax changes, including Disney-produced animated shorts featuring Donald Duck. Treasury Secretary Henry Morgenthau tapped Walt Disney to crash-produce *The New Spirit*, a motivational film explaining income taxes to Americans in 1942. In the clip, a voice coming from Donald Duck's radio calls for "taxes to beat the Axis!" (Germany and Japan were known as the Axis powers during the war), reminding the cartoon icon that paying taxes should be seen as a privilege. Then, armed with a fountain pen, ink well, and stamp, Donald Duck lists three dependents — his adopted

nephews Huey, Dewey, and Louie — and pays a USD 13 tax on his income of USD 2,501 made from his Hollywood acting.<sup>64</sup> The campaign was a success. Asked in February 1944 whether they considered the amount of income tax they paid to be "fair," 90 percent of Americans answered yes.<sup>65</sup>

#### 4.4 West Germany's Wirtschaftswunder

After World War I, Germany's economy was in total collapse, but the country had an opportunity to rebuild, save and straighten its resources to start the next war. Between the two world wars, Germany had centralised authoritarian power. Through an independent monetary policy of sovereign credit and a full-employment public-works program, the Third Reich turned a bankrupt Germany into the most robust European economy within four years, even before armament spending began.<sup>66</sup> The government had imposed price controls in 1936 so that it could buy war supplies at artificially low prices. From 1935, a massive proportion of government spending was on the military. In 1933, Germany spent just 3 percent of its GDP on the military. By 1939, this had grown to 32 percent and 22 percent of the work force was directly employed in an industry somehow associated with military production.<sup>67</sup> In 1939 rationing was imposed. The Government tried to build an economy that would be entirely independent of foreign capital and could combat sanctions, blockades, and economic war.

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<sup>64</sup> OLIVIA B. WAXMAN, *The U.S. Government Used Disney Cartoons to Convince Americans That Paying Taxes Is a Privilege*, TIME, 2018, <https://time.com/5239332/tax-day-2018-history/>

<sup>65</sup> Karlyn Bowman, "Public Opinion on Taxes," *American Enterprise Institute (AEI) Studies in Public Opinion*, April 6, 2007, available at: <<http://www.aei.org/publicopinion6>>; Carolyn C. Jones, "Class Tax to Mass Tax: The Role of Propaganda in the Expansion of the Income Tax During World War II," *Buddalo Law Review*, Vol. 37, No. 3 (January 1988), pp. 685 – 737; and --, "A Short History of Taxation," *New Internationalist*, October 2, 2008, accessed at <<https://newint.org/features/2008/10/01/tax-history>>.

<sup>66</sup> Henry C K Liu, *World Order, Failed States and Terrorism*, Part 10 Nazism and the German economic miracle, *Asia Times*, 2005, <http://www.henryckliu.com/page105.html>

<sup>67</sup> C N Trueman "Nazi Germany And The Economic Miracle" *historylearningsite.co.uk*. The History Learning Site, 9 Mar 2015. 2 Jan 2023. <https://www.historylearningsite.co.uk/nazi-germany/nazi-germany-and-the-economic-miracle/>

#### 4.4.1 Post-war

After World War II, the German economy was at a standstill, and there was no central government to implement reforms. Germany was divided into four occupation zones by the victorious Allies - Britain, the US, the Soviet Union, and France. Later, three western zones formally joined to form the Federal Republic of (West) Germany, and the Soviet zone became the German Democratic Republic (East Germany). East Germany inherited highly specialised industrial districts, which were cut off from their major suppliers of intermediary inputs and their largest market. Economic reconstruction in West Germany lasted throughout the 1950s and became known as the *Wirtschaftswunder*. The ideology of the German *Wirtschaftswunder* was pretty liberal – the abolition of state monopolies and, at the same time, the stimulation of competition and investment and the launch of privatization mechanisms. West Germany's economic recovery began with the implementation of high income and corporate tax rates and wealth taxes, which later decreased gradually.

A few steps provided the pre-conditions for the 'economic miracle':

- **The Marshall Plan**

The European Recovery Program (ERP), more commonly known as the Marshall Plan (the Plan), was a program of U.S. assistance to Europe during the period 1948-1951. Cumulative aid from the Marshall Plan and other aid programs totalled only USD 2 billion through October 1954.

Not everyone agrees that the Marshall Plan was a success. One such appraisal was that Marshall Plan assistance was unnecessary. It is, for example, difficult to demonstrate that ERP aid was directly responsible for the increase in production and other quantitative achievements noted above. Even in 1948 and 1949, when aid was at its peak, Marshall Plan aid was less than 5 percent of German national income and therefore could have little effect. European economies, in this view, were already on the way to recovery before the Marshall Plan was implemented.<sup>68</sup> Some analysts, pointing out the experimental nature of the Plan, agree that the method of aid allocation and the program of economic reforms promoted under it were not derived with scientific precision. Some claim that the dollar gap was not a problem and that lack of economic growth was the result of bad economic policy, resolved when economic controls established during the Nazi era were eventually lifted.<sup>69</sup>

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<sup>68</sup> See Alan Milward, *The Reconstruction of Western Europe, 1945-1951*. Kostrzewa, Nunnenkamp, and Schmieding, *A Marshall Plan for Middle and Eastern Europe?* (p. 7.) report a statistical analysis which shows only weak positive correlation between aid receipts in percent of GNP and the growth of exports and GNP during the ERP

<sup>69</sup> Tyler Cowan, *The Marshall Plan: Myths and Realities*, p. 63-66

- **Price Controls' deregulation, de-monopolisation, and the elimination**

On June 20, 1948, as director of economics for the Economic Council for the American and British zones, Ludwig Erhard cancelled state control over prices on goods and 90 percent of the regulatory limitations of the business. The small and medium business has become an important subject of the economy. Thanks to its stability, Germany overcame the years of crisis.

- **Currency reform 1948**

The Reichsmark was the official currency for all business transactions. The degree of devaluation experienced by the currency can be illustrated by the fact that the price for one cigarette after the war was 10.00 RM, whereas in the pre-war days, it was 0.33 RM70. The basic idea of the currency reform was to substitute a much smaller number of deutsche marks (DM), the new legal currency, for reichsmarks. The Reichsmark was replaced by the deutsche marks (DM) at a rate of 100:6.5. As a result, the money supply in the country decreased by more than 93 percent.

- **The reduction of marginal tax rates in 1948 and in 1949.**

The post-war settlement saw income tax rates of up to 90 percent, a corporate income tax rate of up to 65 percent, and high wealth taxes, which were transferred over from the war economy. Simultaneously, strong investment incentives were introduced, in particular, depreciation allowances.

The corporate income tax rate ranged from 35 to 65 percent before settling on a flat 50 percent. Although the top rate on individual income remained at 95 percent, it applied only to income above the level of DM250,000 annually. In 1946, by contrast, the Allies had taxed all income above 60,000 reichsmarks (which translated into about DM6,000) at 95 percent. For the median-income German in 1950, with an annual income of a little less than DM2,400, the marginal tax rate was 18 percent. For example, if before the reform income in DM 2.4 thousand was subject to a marginal rate of 85 percent in 1948, then after the reform the same person would already pay at a rate of 18 percent. The top marginal tax rate of the income tax reached its peak in 1946 with 90 percent. The system of tax incentives for exporters had a considerable impact. To stimulate exports, the government provided tax incentives and financing for large contracts.<sup>71</sup>

#### 4.5 The Japanese “Miracle Recovery” (1948-1962)

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<sup>70</sup> H. Peter Holzer and Hanns-Martin Schönfeld, „The German Solution of the Post-War Price Level Problem,” *The Accounting Review*, Vol. 38, No. 2 (April 1963), pp. 377-381, accessed at <<https://www.jstor.org/stable/242929>>.

<sup>71</sup> Heller, Walter W. “Tax and Monetary Reform in Occupied Germany.” *National Tax Journal* 2, no. 3 (1949): 215–231.

After World War II, Japan was under US control till 1951, at the same time the Japanese government continued to exist and function. The human loss mounted to 1.85 million (about 4 percent of the entire population) with 680 thousand injured or missing. The material loss amounted to about 25 percent of the country's national wealth excluding military stock.<sup>72</sup> Industrial production dropped just after the war to one-tenth of the pre-war level (24 percent of the pre-war level in consumer products and only 8 percent in industrial input products). An increase in budgetary expenditure such as veterans' payment and compensation for the war damage, together with a commodity shortage, caused hyper-inflation. In 1945, government debts exceeded 200 percent of GNP.

The government created a system to mobilize and direct funds to key industries for rapid economic development. On a microeconomic front, the so-called 'Japanese-style market system' was established, which emphasized building long-running relationships between economic agents.

The basis of the Japanese "Miracle Recovery" can be found in its unique culture and way of life. Therefore, it is impossible to repeat the experience of Japan in the same way. Other factors that supported Japan's strong post-war economic recovery included high investment ratios backed by savings mobilization, technology progress, flexible labour supply, and favourable external conditions. In 1946 the monetary reform started. The state froze all the deposits in financial institutions and required people to exchange the old yen currency for the new yen. The purpose of the freeze on bank deposits was to contain inflation by reducing the money supply that had stimulated the excess purchasing power for goods. As a whole, the experiment demonstrated that attempts to control inflation without coherent measures for restraining the government budget and linking the current account deficit to the reduction of the money supply would not stabilize the situation. Liberalization of the economy and antimonopoly measures were introduced. The most important laws were the Anti-trust Law and the Securities Exchange Law, which were enacted to secure market competition and transparency.

In 1945, the law on eliminating the Zaibatsu conglomerates (industrial cartels) was adopted. The Anti-Monopoly Law was formed to prohibit all cartel activities and the Decentralization Law was created to force firms to reduce in size if any of the designated companies obtained market control. The Zaibatsu concentrated in their hands the shares of the largest companies in the military-industrial complex, which were the basis of the Japanese economy before the war. The United States conditionally established antitrust control. In 1947, the Antitrust Law was enacted and the Fair Trade Commission was established. Both helped to create a competitive business atmosphere. The existence of the

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<sup>72</sup> OTSUBO, T. Shigeru. *Post-war Development of the Japanese Economy* [online presentation]. Nagoya. University, April 2007 [Accessed 6.3.2021]. p. 4.

Zaibatsu was unfair to other small companies. For example, the Zaibatsu introduced new industries into Japan and made them successful in the new environment. Also, mass production of military materials during the war was made possible due to the Zaibatsu. With their breakup, competition within all industries became fierce and marked the beginning of rapid post-war economic growth.<sup>73</sup>

In 1948, the US reappointed Joseph Dodge to advise on the Japanese Economy (later, he became director of the Bureau of the Budget under President Dwight D. Eisenhower). Dodge compared the performance of the Japanese Economy to a person walking on bamboo stilts, one of which was US aid and the other hidden subsidies like the Reconstruction Finance Bank. He suggested that the stilts had to be removed because they were dangerously too high. To reduce American assistance, Dodge recommended that the Japanese government budget be balanced by tightening tax collections and cutting down expenditures; he advocated the adoption of a single exchange rate and stressed sound principles of public finance as well as the merits of the price mechanism.

On December 18, 1948, a nine-point directive on economic stabilization was issued. The first four points contained anti-inflationary provisions that became the nucleus of the Dodge Plan:

- 1) Balance the general budget;
- 2) Tighten up on tax collection;
- 3) Restrict credit; and
- 4) Stabilise wages.

The ensuing five points focused on further controls:

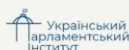
- 5) Strengthen and expand price controls;
- 6) Improve and reinforce trade and foreign exchange controls;
- 7) Upgrade the materials rationing system;
- 8) Increase domestic production of raw materials and manufactured goods;  
and
- 9) Improve food cargo collection.

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<sup>73</sup>Japan's Economic Miracle: Underlying Factors and Strategies for the Growth" by Masahiro Takada, published in New York in 1999, <https://www.lehigh.edu/~rflw1/courses/1999/spring/ir163/Papers/pdf/mat5.pdf>, pp.7-9

### The nucleus of the Dodge Plan:

- 1 Balance the general budget
- 2 Tighten up on tax collection
- 3 Restrict credit
- 4 Stabilise wages



### The ensuing five points focused on further controls:

- 5 Strengthen and expand price controls
- 6 Improve and reinforce trade and foreign exchange controls
- 7 Upgrade the materials rationing system
- 8 Increase domestic production of raw materials and manufactured goods
- 9 Improve food cargo collection



In 1949, a major reform of the tax system also was carried out following recommendations made by a team of experts headed by Carl Shoup. His recommendations became the basis of Japanese taxation in the post-war period. It was a system with a strong emphasis on direct taxes (income and corporate taxes), which had long been a key feature of the Japanese tax system. This reform focused mostly on direct taxes such as the personal income tax. The tight policy package strengthened the business environment and, in retrospect, provided the basis for economic development. However, in the short run, it pushed the Japanese Economy into a severe recession. It was this system with a heavy reliance on direct taxes, especially income and corporate taxes, that became a key feature of the Japanese tax system for a long time to follow. Japan did not have broad-based indirect taxes, such as VAT or general consumption tax, until 1989. The top marginal tax rate of the income tax reached its peak in 1948 with 85 percent.

In 1950, a budget reform was carried out that stopped compensation payments to military factories and gratuitous subsidies to unprofitable enterprises. The Japanese decided not to restore destroyed industry, but to build it again from scratch. The start of Korean war also boosted the Economy as the US used Japan as a supply base for procuring outstanding amounts of military and civilian goods.

After the United States left, the Japanese began to build a planned economy in Japan. State planning was indicative and recommendatory in nature, but the whole country followed it. Representatives of financial groups and corporations actively participate in drawing up plans. The drastic stabilization policy of the Dodge Line that followed the Korean War procurement boom let the Japanese Economy complete its reconstruction stage. A key element in the successful recovery of the country's economy was its good bet on high-technology.



## 4.6 The Western Balkans

After the Yugoslav wars in the 1990s, the World Bank commissioned a study to determine the (physical) damages in Kosovo and came up with an estimate of about USD 1.2 billion. Estimates of the costs of similar damages in the rest of Yugoslavia varied from less than USD 1 billion (Group 17) to USD 3-4 billion from a number of international observers to USD 30 billion from official sources.

For each of Yugoslavia's successor states, the first steps in transformation were quite similar - economic changes (liberalization and privatization) and political changes (democratization, party pluralism). The reforms of the tax systems of the Balkan countries were one of the most important components of their socio-economic transition, driven by the desire to become members of the European Union.

The experience of Bosnia-Herzegovina can provide some useful lessons regarding post-war reconstruction. The post-war population of Bosnia and Herzegovina was estimated to be around 3.8 million.<sup>74</sup> Serious reforms began there in 1996, after the war. The national government had limited power due to the decentralisation represented by two autonomous entities – the Federation of Bosnia and Herzegovina and Republika Srpska – along with the strong presence of the international community that served as an arbitrator right after the conflict. The decentralized structure of post-war Bosnia and Herzegovina and the existence of so many levels of government made tax reform more difficult.<sup>75</sup>

A huge amount of donor aid supported Bosnia and Herzegovina through the post-war period; an important role was played by the UN's High Representative. For example, there was a great deal of effort by the donor community put into both harmonising indirect tax rates and dealing with the allocation of excise revenues from one entity collected in another. The World Bank sponsored a fundamental tax reform and the reform of the customs system. However, the implementation of the reform was very slow due to obstructions by local partners as well as due to the lack of administrative capacity in the relevant bodies.

In the 1990s, the tax systems of post-communist countries were undeveloped. They were characterized by: 1) a lack of transparency, 2) differences in tax charges by means of which some activities and factors were discriminated against in favour of others, 3) an absence of balance between direct and indirect taxes; 4) frequent changes in taxation

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<sup>74</sup> Central Bank of Bosnia and Herzegovina, Annual Report, 2004, accessed at <https://cbbh.ba/Content/Archive/36?lang=en>

<sup>75</sup> Jean Tesche, "Tax Reform in Bosnia and Herzegovina and Serbia and Montenegro: Progress and Problems," *Zbornik Radova Ekonomskog Fakulteta u Rijeci (Proceedings of Rijeka School of Economics)*, Vol. 23, No. 2 (December 2006), pp. 293-310.

systems and in certain taxes (especially turnover rates) as a consequence of an unsustainable tax policy, 5) complex administrative procedures, 6) incompatibility with the tax systems of West European, and 7) a lack of flexibility and simplicity<sup>76</sup>.

Low tax education was a typical problem among the Balkan countries. The transition countries operated in environments where tax payments was not accepted as a kind and usual thing in the society. This was a primary reason for why evasion was so high.

Fiscal evasion in Kosovo after 1999 was very high as a consequence of smuggling, mainly in the northern part of the state; the institutional inability of the Kosovo Tax Administration to implement applicable law; a lack of financial police; and tax avoidance. All of which impacted the Kosovo Consolidated Budget and brought into question the capacity of the government.<sup>77</sup>

While many people and officials did not understand the need for reforms, the possibility of EU accession was a solid argument that united people behind the necessary changes. The existence of many different levels of government has made tax reform more complex and coordination weak and ineffective. The primary fiscal policy tasks were aimed at lower and thus sustainable budget deficits. Taxes should be simple, business- and employment-friendly as well as convergent with the EU, and VAT should be progressively adopted. The long-term sustainability of social security arrangements should be high on the agenda.

#### 4.7 Sweden

Sweden has had a unique experience of being a country with an open economy and limited government that had stayed out of two world wars. Sweden's greatest socio-economic successes were achieved during a period when there was a free economy and distributed wealth prevailed over a welfare state. In 1950, Sweden was one of the richest countries in the world. The total tax burden was still only 19 percent of GDP – lower than in the US and other European countries, and by 1965 did not exceed 30 percent of GDP. Sweden pursued a liberal trade policy, which meant low tariffs and a friendly attitude towards business. For example, the tax policy allowed very generous deductions for capital expenditures. Between 1960 and 1980, government spending almost doubled, rising from 31 percent to 60 percent of GDP, all of which was supplemented by high taxes. Sweden was transformed from a country with low tax rates to a country with high tax rates; at the same time citizens supported the government's tax policy as the Social Democratic Party (SDP) won the 1932 election and stayed in office for forty-four consecutive years.

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<sup>76</sup> Vito Tanzi, *Fiscal Policies in Economies in Transition* (2022), Chapters 5-11.

<sup>77</sup> Report of the Ombudsperson Institution of the Republic of Kosovo on Human Rights on the Impact of Fiscal and Tax Policy for United Nations, Special Rapporteur on Extreme Poverty and Human Rights.

One of the most important tax reforms was the introduction of the withholding tax system in 1947. This reform made taxes elementary as employers paid taxes of employees according to a table of wage levels.<sup>78</sup> If the employee paid too much or too little, the tax agency would either make a refund or charge more after a review had been undertaken. The control of the tax return was decentralized and held by a local committee, the taxeringsnämnd (TN), which consisted mostly of volunteers and laymen – the so-called fritidsgranskare, literally “spare-time reviewers.”

Swedes today are among the most heavily taxed people in the world. At the same time, Sweden also has the highest level of tax compliance. The SDP has played a significant role in the perception of taxes by citizens by creating, maintaining, and reforming policies oriented towards enhancing the perception that the tax system is fair. “If you want people to pay high taxes, do not make it hard for them to pay” became the signature feature of the SDP’s tax policy. The modern connection between national identity and the welfare state originated from a notion of “the People’s Home” (Folkhemmet), a concept that materialized after the SDP came into power in 1932. The result was a welfare state for all the people, not only for the working class. Thus, the contract between the state and its citizens became a contract of social security in return for taxes. To enable such politics, taxes had to be raised.<sup>79</sup>

As in many other countries, taxes were increased during World War II, and once the war was over, such taxes were made permanent. As a result, the 1950s became the “decade of the tax reduction debate.”<sup>80</sup> The SDP chose social reforms and higher taxes; to promote this idea among voters, the SDP decided to use enlightenment and propaganda. The main opinion of the party board in the early 1950s was that “if we only enlighten the working class about how the government is using the taxes, the fact that we are not reducing taxes further will be accepted” and “people will come to terms with the tax levels.” As long as the party could show how taxes were being used, Social Democrat voters did not mind the high tax rates. It was also important to communicate this message to citizens. Thus, education and enlightenment became the strategy to win support for the tax policy.<sup>81</sup> The

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<sup>78</sup> J. Peralta Prieto, *ADB i folkbokföring och beskattning: transkript av ett vittnesseminarium vid Tekniska museet i Stockholm den 17 januari 2008*. (Stockholm: KTH, Avdelningen för teknik- och vetenskapshistoria, 2002.)

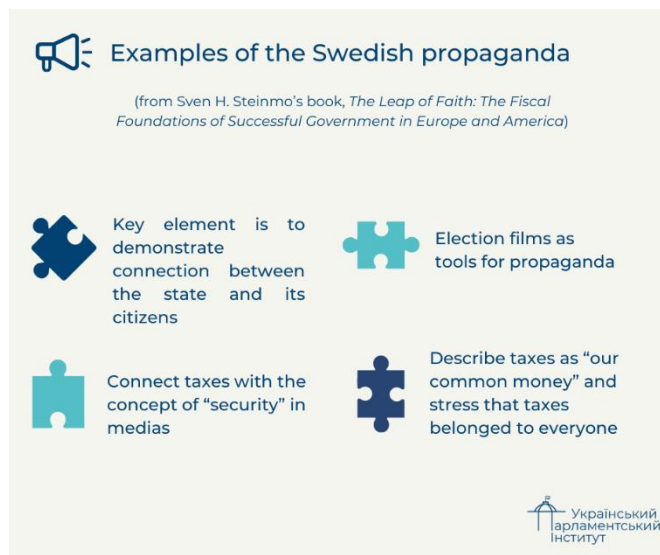
<sup>79</sup> Sven H. Steinmo, ed., *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, UK: Oxford University Press, 2018.)

<sup>80</sup> Elvander, N. (1972), *Svensk skattepolitik 1945–1970: en studie i partiers och organisationers funktioner*. Stockholm: Rabén and Sjögren.

<sup>81</sup> Partistyrelsen (1950), *Protokoll fört vid socialdemokratiska partistyrelsens extrasammanträde*, June 13, Sveriges socialdemokratiska arbetareparti/Protokoll partistyrelsen microfilm 1939–1951, ARAB, Stockholm. Partistyrelsen (1952), *Protokoll fört vid socialdemokratiska partistyrelsens sammanträde*, October 22, Sveriges socialdemokratiska arbetareparti/Protokoll partistyrelsen microfilm 1952–1959, ARAB, Stockholm. Partistyrelsen (1956c), *Protokoll fört vid sammanträde med Socialdemokratiska Partistyrelsens*, September 25, Sveriges socialdemokratiska arbetareparti/Protokoll partistyrelsen microfilm 1952–1959, ARAB, Stockholm

first decades after the war were mainly devoted to establishing a perception in which taxation was connected to the welfare state. Thus, the message conveyed in propaganda material produced by the SDP during the 1940s, 1950s, and 1960s can be summarized as “taxation is the foundation of the welfare state.”<sup>82</sup>

Hereby are a few examples of the Swedish propaganda material produced in the 1950s from Sven H. Steinmo’s book, *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America*:



- Most of the propaganda material produced in the 1950s looked quite similar. It starts by describing recent developments of the welfare state in Sweden, including the recently implemented reforms and the beneficiaries of these reforms. Then, the propaganda highlights that reforms couldn't be done without the taxes. The concepts of “taxes” and “taxation” are often used together with those of “child allowance,” “sickness insurance,” and “education”. Other key element is to demonstrate connection between the state and its citizens.<sup>83</sup> Prime Minister Erlander stated that “one must understand that the state is not an anonymous actor, we are the state. If you deceive the state, you are stealing from your neighbours and friends.”<sup>84</sup><sup>85</sup>
- Government used different tools for propaganda, one of the examples is election film that was produced by the party, titled “Skattefria Andersson” (Tax Evader Andersson)<sup>86</sup> filmed in 1954. The plot of the movie clearly demonstrated the connection between paying taxes and the output of the welfare state. In the film, the main character, Andersson, tries living as a self-reliant man. He does not pay taxes; instead, he has to pay for everything himself, such as schooling for the children, roads, hospital costs, and so forth. The film ends when Andersson wakes up from this

<sup>82</sup> Jansson, Jenny, “Creating Tax-Compliant Citizens in Sweden: The Role of Social Democracy,” in Sven H. Steinmo, ed., *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, UK: Oxford University Press, 2018.), accessed at <<https://doi.org/10.1093/oso/9780198796817.003.0003>> on October 8, 2022.

<sup>83</sup> Jansson, Jenny, ‘Creating Tax-Compliant Citizens in Sweden: The Role of Social Democracy’, in Sven H. Steinmo (ed.), *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, 2018; online edn, Oxford Academic, 20 Sept. 2018), Pages 56–78

<sup>84</sup> Jansson, Jenny, ‘Creating Tax-Compliant Citizens in Sweden: The Role of Social Democracy’, in Sven H. Steinmo (ed.), *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, 2018; online edn, Oxford Academic, 20 Sept. 2018), <https://doi.org/10.1093/oso/9780198796817.003.0003>, accessed 3 Jan. 2023. p.64

<sup>85</sup> *Aftonbladet* (1959), “Tre frågor till partiledarna om skatteskojet.” February 15.

<sup>86</sup> Socialdemokraterna (1954), *Skattefria Andersson*, election film, [www.youtube.com/watch?v=2\\_EWFlqDwdw](http://www.youtube.com/watch?v=2_EWFlqDwdw).

nightmare and expresses how grateful he is for everything the state provides for its citizens. The message of the film is simple, and explicitly spelled out at the end: Citizens are co-dependent, and cooperation has made it possible to build a welfare state that sets the average citizen free.<sup>87</sup>

- In different materials describing taxes very often connect taxes with the concept of “security.” Taxes are the foundation of and the guarantee for a working social security system. Security also included the right to take part in the welfare state system—that is, social citizenship.
- During the election campaign in 1960, SDP’s main idia was to demonstrate that welfare state costs money. The main message was that social reforms and social security were not compatible with tax reductions. Taxes were described as “our common money” and the SDP stressed that taxes belonged to everyone.<sup>88</sup> SDP issued the pamphlet where listed the costs of different levels of education, such as high school, college, and university education and concluded, that tax reductions proposed by the Liberals and the Right Party would endanger all the educational reforms SDP had brought in.<sup>89</sup>

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<sup>87</sup> Jansson, Jenny, 'Creating Tax-Compliant Citizens in Sweden: The Role of Social Democracy', in Sven H. Steinmo (ed.), *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, 2018; online edn, Oxford Academic, 20 Sept. 2018), <https://doi.org/10.1093/oso/9780198796817.003.0003>, accessed 3 Jan. 2023. p.64

<sup>88</sup> *Aftonbladet* (1959), “Tre frågor till partiledarna om skatteskojet.” February 15.

<sup>89</sup> Jansson, Jenny, 'Creating Tax-Compliant Citizens in Sweden: The Role of Social Democracy', in Sven H. Steinmo (ed.), *The Leap of Faith: The Fiscal Foundations of Successful Government in Europe and America* (Oxford, 2018; online edn, Oxford Academic, 20 Sept. 2018), <https://doi.org/10.1093/oso/9780198796817.003.0003>, accessed 3 Jan. 2023. pp.64-65

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## SECTION 5:

### Other Benefits from the Key Policy Recommendations

Among the main problems in Ukraine is shadow economy activity. The level of the shadow economy in Ukraine in January-September 2021 was 31 percent of GDP;<sup>90</sup> more than 20 percent of the employable population of Ukraine do not fully or partially declare their labour relations with an employer. According to official statistics, 3.54 million people were informally employed in 2018. To this indicator, it is necessary to add data on people who receive a non-official salary, do not apply for part-time work, and have other contracts instead of labour contracts, but there is no official state data on this. According to the OECD, among the key drivers of the shadow economy are included some difficulties in complying with the tax laws, as, for example, problems in registering for tax or in understanding tax liability can influence taxpayer behaviour. (In fact, in some countries difficulties in registering for tax can be a major driver of the informal economy itself.). A second driver of the shadow economy is low tax morale, which can impact on the propensity to comply in certain situations. Tax morale can decline if sanctions are seen as ineffective, if detection rates are low, or if there is wider dissatisfaction with the fairness of the tax system.<sup>91</sup> To tackle shadow economy activity effectively, tax administrations must focus on the perceptions as well as the behaviours of taxpayers.

Encouraging businesses to leave the “shadow economy” could be done, on the one hand, through simplifying rules for compliance as well as simplifying the registration and payments processes. On the other hand, promoting tax amnesties and creating a solid advocacy campaign that accentuates the positive rather than the punishment aspects of tax compliance can be beneficial. Explaining to businesses that being part of the European family means follow a rule-based order is also important. In addition, countering the “crowd effect” can be useful. Many are doing business illegally because everyone does it, negatively impacting citizens’ perceptions of the tax system as a whole. No one wants to be a black sheep and receive less income when everyone around is working in the shadows. If citizens perceive that others are “getting away with something” and not fulfilling their part, compliance will deteriorate.<sup>92</sup> This is where education and citizens’ attitude towards taxes can come into play. The more people believe that paying taxes and legal business is normal, the more people will condemn illegal business. The best way to encourage people

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<sup>90</sup> Ministry of Economy of Ukraine, General trends of the “shadow” economy, 2021, <https://me.gov.ua/Documents/Detail?lang=uk-UA&id=fc48bdd5-178c-47af-b64c-c7ee533cb4b0&title=ZagalniTendentsiiTinovoiEkonomikiVUkrainiUIKvartali2021-Roku>

<sup>91</sup> OECD (2017) *Shining Light On The Shadow Economy: Opportunities and Threats*, Paris: OECD, p 11

<sup>92</sup> Margaret Levi, “Are there Limits to Rationality?” *European Journal of Sociology/Archives Européennes de Sociologie*, Vol. 32, No. 1 (1991), pp. 130–141; and John T. Scholz, “Contractual Compliance and the Federal Income Tax System,” *Washington University Journal of Law & Policy*, Vol. 13, No. 1 (2003), p. 196.

to “leave the shadow” is to show that work must be official and explain to them how much money the state loses yearly due to the shadow economy, rendering the state less effective and capable than it could be.

For instance, in 2019, the Estonian Tax and Customs Board launched the ‘Thank you for paying taxes’ campaign. The campaign’s main objective was to reduce the payment of wages via cash envelopes by expressing gratitude to people for paying their taxes and stressing that the revenues from those taxes help fund hospitals, schools, roads and pensions. Another aim is to highlight the personal benefits from paying taxes; for example, a pension or a child’s school allowance could be lost if there were no honest taxpayers. The Estonia Tax and Customs Board created a web-site with valuable links to useful resources, such as tools where employees can check if they are officially registered, verify the tax behaviour of their employer and obtain information about how the government uses taxpayers’ funds. The campaign also communicated with the public via television, and YouTube videos.<sup>93</sup> The campaign successfully reached a wide audience, attracted the population's attention and provided opportunities for greater, interactive discussion via social media.

In a democratic society, the main question of taxpayers is not why they need to pay taxes but how are taxes spent. In the long-term perspective, education could help citizens support the country's tax policy and vote for the candidates who promote the policy that will benefit the state. Moreover, well-educated taxpayers will participate in the discussions and debates about changes in the tax policy and share knowledge among others.

When citizens are well-educated about the tax system, the tax administration will spend less time explaining the rules and procedures and could concentrate more on fighting outright tax evasion and avoidance as well as oversight. In addition, building civil society organisations’ capacity to conduct independent oversight will ensure transparency and increase trust in society.

Clear communication about recent legislation changes from the government could also help taxpayers save money. Learning more about new tax provisions that provide benefits or about new deadlines for submitting declarations will assist taxpayers. It will also enhance the level of trust in government institutions because citizens will understand adopted decisions more and will appreciate transparent interaction with officials. Alas, the STA’s explanatory letters still are written for lawyers, not for the average taxpayer.

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<sup>93</sup> Maksu- ja Tolliamet, Youtube.com, [https://www.youtube.com/channel/UCuID-\\_sPDACqooIoELbCd\\_g](https://www.youtube.com/channel/UCuID-_sPDACqooIoELbCd_g)

Predictable tax policy will attract investors and encourage people to start their own businesses, helping the economy grow.



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## SECTION 6:

### Proposed Changes to Ukraine's Tax System

The transition from war to peace encompasses the period between the cessation of hostilities and the establishment of political and socioeconomic “normalcy,” when some semblance of political order and stability has been restored and most of the terms of the peace accords have been (or are being) implemented.<sup>94</sup>

War costs are more severe in cases of geographically pervasive conflicts where the government has lost its capacity to collect taxes and provide basic services. Where “quasi-government” structures were able to maintain core functions, these costs have been limited to a certain extent. <sup>95</sup>

The main question is what will happen during the post-war phase: is it an opportunity to sweep away old laws and practices or are all changes just temporary tools to promote economic recovery? The state doesn't have a clear vision regarding taxation policy, different approaches are proposed and are being discussed.<sup>96</sup> Among the main proposals are reducing and simplifying taxes, increasing liability for violating tax laws, and revising benefits, and, what the most controversial is to restore tax policies to their pre-war setup.

One of the basic documents that was developed with the various stakeholders is the National Recovery Plan. In June 2022 in Lugano, Ukraine presented a draft National Recovery Plan. Taxation reform was included<sup>97</sup>. To enable enterprises to resume their activities as quickly as possible, ensuring the build-up of supply in the market, the government proposed to undertake the following:

- Introduce tax and customs privileges to aid in the recovery of destroyed/damaged industrial enterprises, similar to the privileges for industrial park members, including the channelling of income taxes towards rehabilitation projects (for ten years), the cancellation of VAT and import duties on new foreign equipment and components, reducing the cost of external financing through the provision of state guarantees, and covering part of the interest paid on business loans.

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<sup>94</sup> Krishna Kumar, *Rebuilding Societies After Civil War: Critical Roles for International Assistance*, (Boulder, CO: Lynne Rienner Publishers. 1997), pp. 2-3

<sup>95</sup> Gilles Carbonnier, *Conflict, Post-war Rebuilding and the Economy: A Critical Review of the Literature* (Geneva: Interpeace, March 1998), p. 16.

<sup>96</sup> Information as for December 2022.

<sup>97</sup> Draft National Recovery Plan, <https://www.kmu.gov.ua/storage/app/sites/1/recoveryrada/eng/economic-recovery-and-development-eng.pdf>

- Simplify the regulatory environment by expanding business support programs focused on small and medium-sized businesses.
- Reduce the tax loads on businesses by replacing the broad fiscalization (Electronic cash register) with fiscalization according to the criterion of the risk of exceeding the limits

The Minister of Finance rejected the idea of reducing the tax burden in wartime. At the same time, he said that he did not support the increase in taxes, "because business has suffered very badly and may not be able to withstand the additional burden."<sup>98</sup> He also mentioned, that "the tax reform with lower rates now will have negative consequences". The Minister admits that "a situation may arise that post-war Ukraine will need a completely opposite reform than the one being discussed now".<sup>99</sup>

At the same time, in autumn 2022 the Presidential Office announced a new tax model called "10-10-10". The main idea is to reduce the business income tax rate as well as the personal income tax (now 18 percent) to 10 percent, and VAT to 10 percent (now 20 percent). The USCs and military taxes are proposed to be cancelled. The new model also abolishes almost all benefits and increases liability for violating tax laws. Also, the taxation changes may include a provision regarding the access of taxation authorities to data on taxpayers' bank accounts. Another idea is to provide a tax stimulus for the development of the processing industry by abolishing VAT refunds on commodities.<sup>100</sup> As for December, the reform is still being discussed, and the inter-faction group was established in Parliament.<sup>101</sup> The official document was not presented, but according to the public information, the concept of the reform had slightly changed from the focus on the tax rate to the eradication of corruption in the tax authorities, fight with the tax evasion and tax minimization schemes.

The final version of the reform needs to be agreed with international donors and partners. In December 2022 the IMF Program Monitoring with Board involvement (PMB) for Ukraine was approved. According to the **Structural Benchmarks by IMF, Ukraine** will work on developing an integrated roadmap of tax policy and administration measures restoring in the short-term tax administration and policies to their pre-war setup. In the very near term, this will include submission of the following three draft laws to Parliament

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<sup>98</sup> S.Shevchuk, B.Davydenko, Tough negotiations with the National Bank, 30% of GDP for the war and the search for \$30 billion for the budget. Interview of Minister of Finance Serhiy Marchenko, Forbes.ua, 2022, <https://forbes.ua/inside/zhorstki-peregovori-z-natsbankom-30-vvp-na-viynu-ta-poshuk-30-mlrd-dlya-byudzhetu-intervyu-ministra-finansiv-sergiya-marchenka-15082022-7686>

<sup>99</sup> R.Shapravsky, Serhiy Marchenko: Western countries did not plan to give Ukraine funds because they did not plan a war, RBK-Ukraine, <https://www.rbc.ua/rus/news/sergiy-marchenko-zahidni-krayini-planovali-1672151174.html?fbclid=IwAR00vtm5Mb4xPvxvBPA17ZmNrRPuSWtNZBzYS6g6-laSb79oxDjWYAzd-oQ> (accessed 28.12.2022)

<sup>100</sup> S.Shevchuk, I.Krycka, "I am a supporter of radical tax changes." How the deputy head of the Presidential Office Rostislav Shurma plans to save the economy. Interview, Forbes.ua, 2022 <https://forbes.ua/inside/va-prikhilnik-radikalnikh-podatkovikh-zmin-yak-planue-ryatuvati-ekonomiku-zastupnik-golovi-op-rostislav-shurma-intervyu-16082022-7719>

<sup>101</sup> Y.Vinokurov, The VRU is working on an updated version of the "10-10-10" tax reform. Details, Ukrainska Pravda, 2022 <https://www.epravda.com.ua/news/2022/12/12/694887/> (accessed at 12.12.22)

(Structural Benchmark, end-January 2023): (i) on cancelling the moratoria on tax audits (effective July 1, 2023); (ii) on removing idiosyncrasies of the application of the simplified tax regime by taxpayers under the single tax of 2 percent, and restoring the pre-war regime for these taxpayers (effective 1 July, 2023); and, (iii) on ensuring full-scale enforcement of the usage of cash registers in retail outlets (and associated settlement and payment infrastructure), including restoring liability for violations (effective July 1, 2023). The estimated revenue gains in 2023 from the reversal of the simplified tax regime is assessed at about 0.13 percent of GDP for 2023. Ukraine also will work on the broader design of tax policies and measures for building a modernized revenue administration (including among other things limiting the possibility for PIT tax evasion from using simplified tax regime by group 3 taxpayers) that would help to achieve fiscal policy goals in the post-war environment.<sup>102</sup>



#### Submission of draft laws to the parliament

(i) on cancelling the moratoria on tax audits (effective July 1, 2023)

(ii) on removing idiosyncrasies of the application of the simplified tax regime by taxpayers under the single tax of 2 percent, and restoring the pre-war regime for these taxpayers (effective 1 July, 2023)

(iii) on ensuring full-scale enforcement of the usage of cash registers in retail outlets (and associated settlement and payment infrastructure), including restoring liability for violations (effective July 1, 2023)



European integration defines a specific framework for Ukraine and a clear indicator of where Ukraine and its financial legislation should be in two to three years. The EU countries have a common VAT system (Directive 2006/112 /EC), which makes it impossible for a country to integrate into the EU with a turnover tax. Ukraine's turnover tax should be sooner or later have to be abandoned in favour of VAT (in the EU - from 17 to 27 percent, with preferential rates for certain categories from 5 percent). Thus, the VRU announced that the next important step in taxation policy would be the implementation of Directive 2006/112 /EC. In terms of income tax, it is necessary to implement the provisions of several directives regulating transfer pricing and countering income tax evasion. Another important issue is the electronic audit and electronic risk-oriented work of the State Tax Service, aimed at identifying and preventing tax evasion, based on the analysis of documents and reports, and not on scheduled or unscheduled on-site inspections, as is happening now.<sup>103</sup>

<sup>102</sup> IMF, PROGRAM MONITORING WITH BOARD INVOLVEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UKRAINE, December 2022 <https://mof.gov.ua/storage/files/1UKREA2022003.pdf> p.63

<sup>103</sup> V.Obukh, D.Hetmatsev: For European integration, we will have to implement dozens of directives, the process will be public, Ukrinform, 2022, <https://www.ukrinform.ua/rubric-economy/3517600-danilo-getmancev-golova-komitetu-vr-z-pitan-finansiv-podatkovoi-ta-mitnoi-politiki.html> (accessed 29.06.22)

Restrictive measures to prevent future aggression need to be complemented by positive reconstructive measures so that the occupied can see that their own efforts are rewarded. The OECD/DAC guidelines also recommend ensuring consistency between reconstruction costs, the sum of resources likely to be available and a country's absorptive capacity.<sup>104</sup> Capacity building for economic policymaking and public finance management is a priority.<sup>105</sup>

According to the European Business Association (EBA), Ukrainian businesses largely believe that the idea of the "10-10-10" tax reform is quite interesting, but they are waiting for a specific bill to evaluate mathematically its effect for each sector of the economy.<sup>106</sup>

At the same time, according to the recent EBA survey, neither tax rates or tax reforms are first place business priorities. Ukrainian company heads ranked the top three tasks for the government for the next year, the first two of which have remained unchanged for several years, as (1) judicial reform and the establishment of the rule of law, (2) the fight against corruption, and (3) macroeconomic stability, given that economic security is the basis for the future renewal and restoration of the country.<sup>107</sup>



<sup>104</sup> OECD/DAC guidelines on Conflict, Peace, and Development Co-operation, (Paris: OECD, 1997), p. 51.

<sup>105</sup> Ibid.

<sup>106</sup> European Business Association, Tax reform 10-10-10 : business opinion, EBA.com.ua, 2022 <https://eba.com.ua/podatkova-reforma-10-10-10-dumka-biznesu/> (accessed 03.10.22)

<sup>107</sup> European Business Association, 47% of businesses in Ukraine expect growth next year despite the war, EBA.com.ua, 2022 <https://eba.com.ua/popry-vijnu-47-biznesiv-ochikuyut-zrostannya-u-2023-rotsi/> (accessed 20.09.22)

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## SECTION 7:

### Conclusion

To sum up, the importance of building and maintaining a mutually trusting relationship between the state and its citizens is undoubted. Transitioning from fear of punishment and distrust of state institutions to a high level of tax culture and transparency of relations between a citizen and the state is one of the most important goals. The challenge for the tax policy is to change attitudes towards paying taxes by providing top-quality services and honest, straightforward communication with taxpayers. Therefore, tax authorities should look for ways to become more "citizen-oriented".

#### 7.1 Building Trust

Ukrainians have demonstrated tremendous unity during the war. They donate money to buy satellites and continue to pay taxes in the Ukrainian budget even while living abroad. Building trust requires a clear understanding by each citizen as to how their taxes are spent. The focus should be on "procedural fairness" to improve regulatory compliance within the tax administration and across other government agencies and services. Trust cannot be built without judicial reform and anti-corruption reform.

It is vital to make budget spending transparent and understandable for every citizen. Although, since 2014, Ukrainians have been voluntarily donating money to the military, the outbreak of a full-scale war has proven that Ukrainians voluntarily will donate large sums if they know that such contributions will be targeted and go to the right place. Ukrainians trust organizations with a proven track record and transparent reporting. According to the survey conducted in the framework of the research (see Appendix II), half of the respondents are willing to pay military taxes to independent charitable foundations. This again confirms that Ukrainians often distrust their state because they do not understand whether their taxes are being used for their intended purposes.

All financial and performance audit reports should be available to the public. In addition to creating control departments within the tax administration for internal audits and inspections, it is also essential to develop the capacity and ability of NGOs to provide independent external oversight of state activity. To do this, all tax receipts and expenditures reports must be available to the public in a convenient, readable format. In addition, the parliament's oversight function should also be strengthened, especially in terms of cooperation with the Accounting Chamber.

#### 7.2 How Taxes Are Perceived

The state's ability to collect taxes and the manner by which collected tax monies are redistributed and spent directly affect how citizens perceive the tax system. Therefore, the government needs to explain both.

Indeed, since the survey in Appendix I shows that the willingness of Ukrainians to pay taxes is highly dependent on individual attitudes towards punishment and condemnation from others, it is crucial to build a culture of paying taxes based on voluntaryism and encouragement.

If governments want to pursue an unpopular tax policy, they will need to convince citizens to approve such a policy. Knowledge about the tax system, hence, becomes imperative as it influences how citizens perceive taxes. For example, if the generally accepted understanding of taxation is that it leads to free education and health care, citizens are willing to pay more. In the case of Ukraine, the public also should be informed on the fact that taxes are used to restore the liberation of territories, support the internal displacement of persons, and support the army.

Tax authorities can use outreach activities to engage better with the public in explaining how the tax system works and what new legislation is adopted by the Parliament. Such activities may include the creation of short and understandable explanations in the media and social networks, including social videos, that are not in legal language and the language of numbers, but in a language that is accessible to all Ukrainian residents.

According to the survey in Appendix I, most citizens do not directly pay taxes from their salaries. The accounting department pays their taxes at the place of work, acting as a tax agent. That is why it is essential to convey to citizens what their wages are before and after taxes, the tax rates and the withholding process as a whole. By learning how much and at what rate employers contribute, citizens will become more aware that they pay taxes and that the state should be held accountable to them. It is essential to explain to people what VAT is and how every citizen by purchasing goods and services becomes a participant in tax relations, even realising it.

Sending motivational letters to taxpayers could also lead to additional funds going to the budget.

### **7.3 A Citizen-Oriented Tax System**

The more citizens have positive tax experiences, the greater the impact on tax compliance. Making the process of paying taxes easier is the key. Tax declaration forms should be

significantly simplified. In addition, the tax service's "electronic office" that interfaces with taxpayers on the internet could be improved. And, as most small businesses cannot deal with tax reporting on their own and are forced to hire a separate tax accountants, as money mistakenly paid to the wrong tax account cannot be easily returned, and as citizens can easily feel intimidated by the tax service, there is great room for improvement.

Of course, the reform of the tax administration is an ongoing process that should never stop, and special attention should be paid to the local tax authorities. And, it is worth paying attention to the positive reforms already enacted in the tax system regarding administrative services (such as the digitalization and the creation of modern centres for the provision of administrative services) and bringing the work of the tax authorities as close as possible to taxpayers.

To greater understand the changing nature of the public's attitudes towards the state and its reforms, the tax administration should survey and engage in an open-ended conversation with citizens on a regular basis. Trust can only be improved and the greater good through a continuous dialogue between the state and its citizens.

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# Appendix I

## Ukraine's Tax System: Brief Explanation and Main Statistics

The State Tax Service (STS) of Ukraine is the central authority of executive power that implements the state's tax policy. The Cabinet of Ministers of Ukraine coordinates the activities of the STS through the Minister of Finance, which, in turn, develops and implements tax policy, customs policy, the state's policy on the administration of a united contribution to compulsory state social insurance (hereinafter - USC), the state's policy in the field of combating offences in the application of tax and customs legislation, and the state's policy in the field of transfer pricing controls. The main tasks of the STS are to control the receipt of taxes, fees, and payments; control the production and circulation of alcohol, alcoholic beverages, tobacco products, liquids used in electronic cigarettes, fuel, and the state policy on the administration of a USC to budgets and state trust funds; control over the timeliness of settlements in foreign currency as prescribed by law, compliance with the procedure for cash settlements for goods (services), settlement operations, and the availability of licenses for economic activities, which are subject to licensing in accordance with the law.

### 1. Basic Legislation

The tax legislation of Ukraine consists of the Constitution of Ukraine, the Tax Code, the Customs Code of Ukraine, laws on customs matters in terms of legal relations arising in connection with customs duties on the movement of goods across the customs border of Ukraine, current international agreements, regulations adopted based on and in pursuance of the Tax Code of Ukraine, laws on customs matters, and decisions of the Verkhovna Rada of the Autonomous Republic of Crimea and local authorities on local taxes and fees that have been adopted in accordance with the rules established by the Tax Code. If an international treaty, the binding nature of which has been approved by the Verkhovna Rada of Ukraine, establishes rules other than those provided by the Tax Code, the rules of the international treaty apply.

Relations arising in the field of the collection of taxes and fees, in particular, the determination of an exhaustive list of taxes and fees paid in Ukraine, and the procedure for their administration, list of taxpayers, their rights and responsibilities, the competence of controlling authorities, powers and responsibilities of tax officials during the administration of taxes and fees, as well as liability for violations of tax legislation are regulated by the Tax Code of Ukraine (No 2755-VI, dated December 2, 2010).

The types of taxes in Ukraine are determined by the Tax Code and include national and local taxes and fees. The procedures for paying the customs duty are determined by the Customs Code. A *tax* is a mandatory, unconditional payment to the appropriate budget, collected from taxpayers in accordance with the provisions of the Tax Code. A *fee* is a compulsory payment to the relevant budget, levied from payers of fees with the condition that they receive special benefits. *The national taxes and fees* are established by the Tax Code of Ukraine and are mandatory for payment throughout Ukraine, except in those cases provided by the Tax Code. *The Tax Code sets local taxes and fees.* Decisions of local councils and councils of territorial communities are obligatory for payment on the territory of the respective territorial communities.

The main budget-generating taxes are the following:

- 1) the Corporate Profit Tax**, which has a base rate 18 percent and is paid from the profits received from the sale of products (works, services), fixed assets, intangible assets, securities,



currency values, other types of financial resources and material values as well as from the profits from rental operations, royalties and non-sales operations;

**2) the Personal Income Tax (PIT)**, the main one of which is 18 percent and is applied to almost all types of income of citizens including salaries, scholarships, incentive payments and payments under civil law contracts;

**3) the Value-added Tax (VAT)**, which has a basic rate of 20 percent for imported and domestic goods, reduced rates of 7 and 14 percent for certain goods and services, and 0 percent for export transactions, is an indirect tax that is included in the price of goods and services and is paid by the buyer while the seller transfers it to the budget;

**4) the Excise Tax**, which is an indirect tax on the consumption of certain types of non-exporting goods, in particular, ethyl alcohol and alcoholic beverages, tobacco products, fuel, cars, electrical energy, etc.;

**5) the Environmental Tax**, a mandatory payment paid by legal entities and non-residents' institutions calculated by the taxpayers themselves from the actual volumes into the atmosphere from stationary sources, pollutants dumped into water, waste disposal, generation and storage of radioactive waste;

**6) Rent payments**, which consists of rent for the use of subsoil for the extraction of minerals, rent for the use of subsoil for purposes not related to the extraction of minerals, rent for the use of radio frequency resources of Ukraine, rent for special use of water, rent for special use of forest resources, and rent for transportation of oil and oil products by main oil pipelines and oil product pipelines, transit transportation by ammonia pipelines through the territory of Ukraine; and

## **7) State Duties.**

Local taxes and fees include 1) Property Taxes, consisting of taxes on immovable property, different from land, transport tax and pay for land; 2) a Unified Tax; 3) Parking Fees for vehicles; and 4) a Tourist Tax.

**Tax payments do not include the USC, the collection of which** is regulated by the Law of Ukraine "On the Collection and Accounting of the Unified Social Contribution for Compulsory State Social Insurance," No 2464-VI, dated July 8, 2010. At the same time, the State Tax Service of Ukraine monitors the payment of USCs by insurers and provides receipts for its payment.

To support small businesses and attract investments, Ukraine introduced a special simplified tax regime which was originally introduced in 1999 and then significantly amended in 2011. **Individuals or legal entities that meet certain legal requirements can choose the simplified tax regime**, which provides for simplified accounting and reporting as well as low effective tax rates. Entrepreneurs using a simplified system pay a fixed amount of tax or a fixed percentage of income such that single taxpayers are exempt from the obligation to charge, pay and file the respective tax reports regarding taxes and duties such as corporate income tax, value-added tax, property tax, and partially subsoil use tax. Four categories of taxpayers were established under this simplified tax regime: Private entrepreneurs comprised the first and second categories; legal entities and private entrepreneurs comprised the third category and agricultural producers comprised the fourth category. Category assignment depends on the types of activities, the level of income and the number of staff.

Residents are taxed on their worldwide income, subject to the restrictions set forth by any applicable Double Taxation Treaty. Non-residents are subject to Ukrainian tax only regarding their Ukrainian-source income and/or from any applicable investment profits from operations with non-Ukrainian investment assets if the issuers own Ukrainian subsidiaries. The same tax rates generally apply to tax residents and non-residents (with certain exceptions). Both residents' and non-residents' income is subject to 18 percent personal income tax.

Since 2014, an obligatory 1.5 percent **military tax** on personal income was introduced.

Before the war, to support business, Ukraine introduced a specific taxation system – **Diia City**, a special legal and tax regime that creates favourable conditions for IT companies, industrial parks, investors who are supported by the unique state program so-called the “Investment nannies,” and Industrial parks” systems so that Ukraine can become a high-tech digital state. During the war, all special taxation systems continue to operate and attract investments. Since February 24, 2022, the number of Diia City participants increased five times from 79<sup>108</sup> enterprises in the register to 428 at the end of December 2022.<sup>109</sup>The favourable tax system comprises an income tax of 18 percent or distributed profit tax of 9 percent, USC at the level of 22 percent of the minimum wage, personal income tax of 5 percent and military tax of 1.5 percent; flexible forms of cooperation with IT specialists - gig contracts that combine the benefits of freelance and social guarantees; guarantees of intellectual property protection; elements of English law that facilitate access to investment; and guarantees of protection of the person and property from the illegal intervention of security officers.<sup>110</sup>

The level of the **shadow economy** in Ukraine in January-September 2021 was 31 percent of GDP;<sup>111</sup> more than 20 percent of the employable population of Ukraine do not fully or partially declare labour relations with their employers. According to official statistics, 3.54 million people were informally employed in 2018. To this number, it is necessary to add those who receive a non-official salary, do not apply for part-time work, and have other contracts instead of labour contracts. However, there is no official state data on such workers.

## 2. Recent Legislation Changes.

Since February 2022 to December 31, 2022 Parliament adopted 97 laws in the area of economy, 44 in the military sphere, 26 in the social area.<sup>112</sup> The war in Ukraine demanded fast, effective decisions to support the economy and to establish the most favourable conditions for doing business, including a business relocation program; implementation of several crucial deregulation decisions (more than 500 different documents, such as permits, certificates, were cancelled or converted into a declarative form); a new tax policy aimed at reducing the fiscal burden on businesses; and simplified tax administration (with tax deferrals, subsidies and other measures aimed to support business and financial sectors). The state also introduced unprecedented measures to support the national economy, including tax benefits that allowed Ukrainian companies to use the simplified taxation system and

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<sup>108</sup> Opendatabot, The number of participants in Diia. City more than tripled during the war, <https://opendatabot.ua/analytics/diia-city-war>

<sup>109</sup> Register Diia city, <https://city.diia.gov.ua/registry/resident> (accessed 31.12.2022)

<sup>110</sup> Presidential Office, The launch of "Diia City" will allow Ukraine to become the largest IT hub in Europe - President <https://www.president.gov.ua/en/news/zapusk-diya-city-dast-ukrayini-zmogu-stati-najbilshim-it-hab-72753>

<sup>111</sup> Ministry of Economy of Ukraine, GENERAL TRENDS OF THE SHADOW ECONOMY IN UKRAINE IN JANUARY-SEPTEMBER 2021, <https://me.gov.ua/Documents/Detail?lang=uk-UA&id=fc48bdd5-178c-47af-b64c-c7ee533cb4b0&title=ZagalniTendentsiiTinovoiEkonomikiVUkrainiUIKvartali2021-Roku>

<sup>112</sup> Press-service of the Verkhovna Rada of Ukraine, Parliamentary results of 2022, <https://www.rada.gov.ua/news/Topnovyna/231794.html>

pay a lower unified tax, and the suspension of deadlines for taxpayers and regulatory authorities during the period of martial law. In March 2022, the Cabinet of Ministers presented further programmes to support Ukrainian business during the Russian aggression, including a moratorium on inspections of all types of businesses, exemption from payment of USCs for some taxpayers, the postponement of the use of cash registers for all simplified taxpayers, and the abolition of all governmental supervision measures, except for price regulations and pricing controls. Thus, small and medium-sized business sector completely switched to the voluntary payment of taxes to the budget while large companies got an opportunity to switch to a simplified tax system.

As a result of state policy changes during the period of martial law, the Tax Code has constantly been changing, and most of the changes have been made to the parts relating to VAT. At the same time, economic and taxation policy should be built on the principles of consistency and predictability. It is a vital principle for investment stimulation and business development. Businesses should understand that rules for doing business are clear and won't change so they can plan and attract investments.

Due to the war, many decisions have been made quickly without proper discussion and analysis. The main goal has been to save the economy from shock and prevent the freezing of all business processes. When businesses surpassed such a shock stage, the state began to reverse its decisions and change the game's rules while businesses did not fully recover. For example, the parliament rolled back the liberalization on imports in June by reviving duties and the VAT on imported goods; in June, the Cabinet of Ministers allowed unscheduled inspections of businesses during the war, although in early March, the government had suspended inspections during martial law, with the exception of unscheduled inspections to control price increases; the National Bank of Ukraine changed the discount rate from 10 percent to 25 percent, which drastically affects the “affordability” of loans that are provided by the state; and the Cabinet of Ministers has proposed to the Verkhovna Rada to reinstall the excise tax on fuel. As a result, business’ assessment of state policy has worsened. In July 2022, only 10 percent of business representatives rated the state’s policy positively (in May, it was 19 percent, and in June, 16 percent). According to experts, this means business is still waiting for clear signals from the state on the key rules of the economic structure during the war.<sup>113</sup>

According to the survey conducted by the International Organisation for Migration (IOM), the most important business needs in Ukraine are working capital (53,3 percent), tax breaks (48,4 percent) and access to the investment resources (42,3 percent). Businesses do not actively use the newly introduced simplified tax system due to its bureaucratic procedures and a lack of understanding it.<sup>114</sup>

A few decisions were criticised by the experts, civil society organisations and even some MPs. According to the explanatory note attached to the bill 2325-IX,<sup>115</sup> the average monthly loss of budget revenue from the abolition of the VAT and import duties has been about UAH 3 bln. In total, due to the exemption from import duties, excise taxes, and VAT, approximately UAH 13 billion were lost to the budget. Since the war’s onset, more than 119,000 cars have been imported. According to the Ministry of Finance, there is a risk that due to tax and customs benefits being provided for industrial parks, there will be lower income from the corporate income tax, VAT and duties.<sup>116</sup> According to the calculations of the chairman of the tax committee of the parliament, D.Hetmantsev, the volume of the benefit provided for the cancellation of import duties amounted to UAH 42.6 billion, of which

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<sup>113</sup>The Institute for Economic Research and Policy Consulting, IER conducted third issue of the Monthly Enterprises Survey, <http://www.ier.com.ua/ua/institute/news?pid=6973>

<sup>114</sup>IOM, Impact of war assesment, [https://ukraine.iom.int/sites/g/files/tmzbd11861/files/sme\\_assessment\\_presentation.pdf](https://ukraine.iom.int/sites/g/files/tmzbd11861/files/sme_assessment_presentation.pdf)

<sup>115</sup> <https://itd.rada.gov.ua/billInfo/Bills/Card/39708>

<sup>116</sup> <https://itd.rada.gov.ua/billInfo/Bills/pubFile/912594>

UAH 26.1 billion are taxes that Ukrainians did not pay for importing cars (February - July).<sup>117</sup> In 2022, customs revenues amounted to UAH 7 billion for March, UAH 8 billion for April, and UAH 9.5 billion for May.<sup>118</sup>

**Below is a short description of major changes in economy policy during February-July 2022.**

At present, it is not possible to conduct a detailed analysis of the effectiveness of the recent decisions in the field of taxes and the economy.

## **2.1 Tax Liberalisation for Businesses during Martial Law**

In order to provide state support for business, a number of laws were adopted that amended tax and customs legislation, including the Law of Ukraine No. 2118-IX, "On Amendments to the Tax Code of Ukraine and other legislative acts of Ukraine on tax reporting during martial law" (March 3, 2022); the Law of Ukraine No. 2120-IX, "On Amendments to the Tax Code of Ukraine and other legislative acts of Ukraine regarding the validity of norms for the period of martial law" (March 15, 2022); and Law of Ukraine No. 2142-IX, "On Amendments to the Tax Code of Ukraine and other legislative acts of Ukraine to improve legislation for the period of martial law" (March 24, 2022).

These laws introduced many significant changes in support of business:

- **Voluntary Payment of the USC: Individual entrepreneurs under both the simplified and the general taxation system, persons carrying out independent professional activities and members of a farm are exempted from paying USCs for themselves from March 1, 2022, until the end/cancellation of martial law and within 12 months after the end/cancellation of the martial law.** Moreover, during the period of mobilization, employers who have chosen a simplified taxation system, individual entrepreneurs of the second and third categories as well as legal entities belonging to the third category have the right not to make USC payments for employees who are mobilized for military by the Armed Forces of Ukraine. Penalties for USC payment violations are not applied until three months after the termination of martial law.
- **Voluntary Payment of the Unified Tax for Private Entrepreneurs:** The law № 2120-IX established that private entrepreneurs of the first and second categories have a right not to pay the single tax or submit a declaration from April 1 for the period of martial law. Private entrepreneurs of the third categories must pay tax on general grounds in case of receiving income.
- **A Turnover Tax Rate of 2 percent for Businesses:** A new unified tax format was introduced for firms of the third category as an alternative to paying VAT and income tax. Businesses with an annual turnover of up to 10 billion UAH and with any number of employees are given the right to switch to a simplified taxation system for accounting and reporting. Resident individuals and legal entities can pay a unified turnover tax at a rate of 2 percent instead of a 20 percent VAT and 18 percent income tax.
- **VAT Tax Credits Can Be Generated without Registered Tax Invoices:** For the period of martial law, VAT invoices on the supply of goods and services do not need to be registered in the Unified Register of Tax Invoices. During this time, taxpayers may recognise input VAT

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<sup>117</sup> Y.Vinokurov, For benefits, the war is over. The state returns peaceful taxation rules to business, <https://www.epravda.com.ua/publications/2022/12/1/694463/>

<sup>118</sup> <https://forbes.ua/inside/zhorstki-peregovori-z-natsbankom-30-vvp-na-viynu-ta-poshuk-30-mlrd-dlya-byudzhetu-intervyu-ministra-finansiv-sergiya-marchenka-15082022-7686>

on purchasing goods and services based on the available primary documents without registered VAT invoices. Taxpayers are obliged to ensure registration of all postponed VAT invoices and verification of the recorded input VAT within six months after martial law ends.

- **Land Fees, Environmental Tax and Real Estate Tax Exemptions:** The exemptions were introduced regarding land and objects located within the territories affected by military actions or temporarily occupied by Russian Federation forces. The Cabinet of Ministries has approved the list of territories.
  - **Revocation of Deadlines Previously Set by Tax Legislation:** Under martial law, the course of the deadlines previously set by legislation has been stopped. Once martial law ends, the such time limits resume, considering the time elapsed before they were stopped. In fact, term suspension allows taxpayers to delay the performance of certain actions when they are generally difficult or impossible to undertake. On March 7, 2022, Law No. 2115-IX came into force, which postponed the deadline for submission of any reporting documents for up to three months after the end of martial law.
  - **The Cancellation/Suspension of Planned Tax Audits:** At the beginning of the war, tax audits were delayed, and those audits that had begun were stopped. In May 2022, a few types of audits were renewed. Tax audits are not initiated during the war, and audits that have been started have been stopped except for cameral audits, unscheduled documentary inspections on specific grounds determined by the tax code and actual inspections.

The Verkhovna Rada of Ukraine also has introduced tax and customs benefits for industrial parks. VAT has been abolished on the import of new equipment, and residents of industrial parks have been exempted from income tax for ten years.

## 2.2. Customs Benefits

Changes also were made to the legal regulation on the customs clearance of goods and the work of customs authorities. During martial law, goods and vehicles have been exempted from import duties and VAT; and the import of goods, the final recipients of which are law enforcement agencies, the Ministry of Defence, the Armed Forces of Ukraine, and volunteer funds have been exempted from taxation by customs payments of operations. A simplified procedure for the exemption from VAT for medicines and medical devices and a simplified procedure for declaring goods also have been established.

Legislative acts, which established the tax and customs benefits during the period of martial law, were adopted under the assumption that these benefits would be valid until the abolition of the martial law regime. However, on June 21, 2022, the Verkhovna Rada adopted the Law of Ukraine No. 2325-IX, “On Amendments to the Tax Code of Ukraine and other legislative acts of Ukraine on the revision of certain tax benefits,” to ensure the proper fulfilment of the revenue side of the budget through the receipt of customs payments by resuming taxation for goods imported by unified tax taxpayers of the first, second and third categories; for enterprises that do not pay import duties; and for vehicles imported by citizens. This law entered into force on July 1, 2022, resuming certain duties, excises and the 20 percent VAT on imported goods.

## 2.3. Tax Liberalisation for Individuals

As of July 2022, citizens have not been required to submit property and income declarations if it has not been possible to file a declaration; citizens instead can do this within six months after the end of martial law. The same rules have been applied to civil servants who are required to submit an annual

declaration. The deadline for submitting the voluntary asset declaration for citizens has been extended to March 2023.

Citizens also have been permitted to not pay land fees and real estate taxes regarding land purchases and objects located within the territories affected by military actions or temporarily occupied by Russian Federation forces. Moreover, during martial law, it is prohibited to enforce decisions on recovering debts from an individual for housing and communal services. At the same time, citizens are obliged to pay for communal services and are not exempted from paying them. There were some exceptions to this; the Kharkiv mayor, for example, wrote off all payments for utilities from February 24 to June 1, 2022.<sup>119</sup>

As of November 1, according to data collected by the Ministry of Regions of Ukraine and Kyiv City Military Administration, citizens of Ukraine owed UAH 33.1 billion for housing and communal services services. This is 17% less than it was on January 1, 2022.<sup>120</sup>

The Law No. 2120-IX dated March 15, 2022, provides for exemption from personal income tax for certain categories of individuals including those participating in hostilities as well as members of their families, employees involved in measures to ensure national security and defence; individuals who have lived in the territory of hostilities. Charitable donations from international organizations that has been provided to residents and displaced persons located in the territories of hostilities is not subject to taxation. Targeted and non-targeted charitable assistance to persons affected by the armed aggression of the Russian Federation has been exempted from personal income tax during martial law.

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<sup>119</sup> Kharkiv city council, In Kharkiv, payment for communal services is resumed <https://www.city.kharkov.ua/uk/news/u-kharkovi-vidnovlyuetsya-splata-za-komunalni-poslugi-51010.html>

<sup>120</sup> Y. Zheleznyak, <https://t.me/yzheleznyak/3107>

## Appendix II:

### Ukraine Taxpayer Compliance Attitudinal Surveys 2004-2022

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The survey was conducted by the sociological service of the Razumkov Center from 23 to 30 August 2022. 1015 respondents aged 18 years and older were interviewed by telephone interview (CATI) in all Ukraine regions under the control of the Ukrainian government. The theoretical sampling error does not exceed 2.3%. Additional systematic deviations of the sample may be due to the consequences of Russian aggression, in particular, the forced evacuation of millions of Ukrainian citizens. The surveys from 2005 to 2020 were conducted face-to-face.

Poland, Russia and Ukraine Survey results from 2004 to 2015 provided here are from Marc P. Berenson, *Taxes and Trust: From Coercion to Compliance in Poland, Russia and Ukraine*, (Cambridge, UK: Cambridge University Press, 2018, 2020), pp. 271-291.

All survey responses are rounded to the closest percent.

n.a.= not asked

<b>1. Do you consider yourself to be a taxpayer?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	83	66	75	61	59	59	60	63	81
No	n.a.	15	30	22	30	35	35	33	30	15
Difficult to say	n.a.	2	4	3	9	6	7	6	7	4

<b>2. Who files your personal income taxes?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022

I, myself, do	54	22	13	17	7	7	8	9	8	17
My employer does	5	44	47	50	46	44	43	43	46	49
No one does	n.a.	6	6	7	13	13	12	12	10	8
Somebody else does	19	n.a.	4	6	6	8	9	7	7	8
I don't have to pay taxes	19	6	24	16	17	19	20	18	17	16
Other Situation	3	22	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Difficult to answer	1	2	6	5	11	9	8	10	12	3
<b>3. Are there many dishonest people who work in the tax service?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes, there are many dishonest tax service employees	21	23	42	35	52	53	55	47		40



No, there are few dishonest tax service employees	43	53	25	32	20	27	21	26		39
There are no such people	2	4	2	2	1	1	1	1		4
Difficult to say	33	20	31	30	28	20	24	26		17
<b>4. Have you had business with employees of the tax service?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes, in past 5 years	49	38	23	24	15	12	11	19	10	22
Yes, since February 2022	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		3
No	50	61	73	75	82	85	85	79	87	75
Difficult to say	1	2	4	1	4	3	4	3	4	n.a.

**5. Do many or few people evade taxes in your country?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Many	69	65	77	67	70	69	69	72		75
Few	17	21	8	18	14	21	16	16		19
There are no such people	1	n.a.	0	1	1	0	1	1		1
Difficult to answer	13	14	15	15	16	10	14	11		6

**6. What do you think encourages people more to pay taxes: a sense of civic responsibility or fear of punishment for evasion?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
A sense of civic responsibility	27	22	36	40	38	35	n.a.	40		61
A fear of punishment	69	73	49	52	49	54	n.a.	50		35
Difficult to Answer	5	5	15	8	14	11	n.a.	11		4

**7. Is it possible that you would evade taxes if you were sure that you could get away with it?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	53	47	40	45	34	38	29	39		18
No	34	45	38	40	40	43	47	41		79
Difficult to say	14	8	22	15	26	19	24	20		3

**8. Do you pay taxes only because you know that you will be punished by the state if you don't?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	55	n.a.	47	38	44	35	43		42
No	n.a.	37	n.a.	39	40	41	43	40		52
Difficult to say	n.a.	8	n.a.	14	22	16	22	17		5

**9. Should a citizen always follow the tax laws, even if s/he considers them to be unfair?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	79	81	71	74	57	64	59	61	47	85
No	14	12	17	18	28	24	25	25	32	14
Difficult to say	7	7	12	8	15	12	16	14	21	1

**10. Would you follow the tax laws even if you do not consider them to be fair?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	83	77	53	52	36	44	39	45	43	64
No	6	15	28	30	37	37	36	34	36	33
Difficult to say	10	18	19	18	27	20	25	22	22	3

**11. Are the tax laws in your country fair?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
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Yes	n.a.	21	n.a.	32	n.a.	19	16	12		58
No	n.a.	62	n.a.	45	n.a.	61	63	68		30
Difficult to say	n.a.	14	n.a.	23	n.a.	21	21	20		12
<b>12. If the state does not fulfil its obligations to its citizens, then is tax evasion justified?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	40	44	60	52	47	51	n.a.	48	43	54
No	44	44	23	33	31	33	n.a.	35	33	43
Difficult to say	16	12	18	14	21	16	n.a.	17	24	3

**13. How satisfied are you with how the state spends taxpayers' money?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Satisfied	n.a.	18	n.a.	18	n.a.	9	n.a.	6	10	42
Not Satisfied	n.a.	70	n.a.	61	n.a.	75	n.a.	77	74	43
Difficult to Say	n.a.	12	n.a.	21	n.a.	17	n.a.	17	16	15

**14. Does your state fulfil its obligations to its citizens?**

	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	21	n.a.	24	9	10	12	6	10	4 3
Sometimes yes, sometimes no	n.a.	50	n.a.	44	35	35	29	29	33	3 6
No	n.a.	26	n.a.	27	50	52	54	60	51	2 0
Difficult to say	n.a.	4	n.a.	5	5	3	5	4	6	2

<b>15. Do you think you can trust your state to do what is right?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	21	n.a.	26	9	10	11	6	9	54
Sometimes yes, sometimes no	n.a.	50	n.a.	52	32	49	40	43	33	29
No	n.a.	26	n.a.	13	51	34	43	44	51	13
Difficult to say	n.a.	4	n.a.	10	8	8	7	7	6	5
<b>16. Does the state relate to all citizens in an equal, fair manner?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	21	n.a.	20	n.a.	15	15	7	17	33
No	n.a.	75	n.a.	73	n.a.	81	79	87	66	64
Difficult to say	n.a.	4	n.a.	7	n.a.	5	7	6	18	3
<b>17. Does the state protect you?</b>										
	Poland 2004	Poland 2010	Russia 2004	Russia 2010	Ukraine 2005	Ukraine 2010	Ukraine 2012	Ukraine 2015	Ukraine 2020	Ukraine 2022
Yes	n.a.	43	n.a.	42	n.a.	28	28	23	27	81

No	n.a.	43	n.a.	48	n.a.	64	63	68	63	17
Difficult to Say	n.a.	13	n.a.	10	n.a.	8	10	9	9	2

**18. How has your ability to pay taxes changed since February 24, 2022?**

	Ukraine 2022
1. Ability to pay taxes has not changed	29
2. I have the opportunity to pay more taxes than before the war	2
3. I have the opportunity to pay the same taxes as before the war	21
4. I am able to pay less taxes than before the war	18
5. I lost the ability to pay taxes altogether	25
6. Difficult to answer	5

**19. Are you aware of the latest changes in martial law-related tax laws?**

	Ukraine 2022
1. Well informed	7
2. I know something	37
3. I do not know anything	56

**20. Do you use tax breaks and concessions from the state due to martial law?**

	Ukraine 2022
1. Yes	8
2. No	91
3. Difficult to answer	1



**21. How do you feel about people who have the ability to pay taxes in wartime, but evade paying taxes? (One answer)**

	Ukraine 2022
1. Positively	1
2. Negative	85
3. Don't care	12
4. Difficult to answer	1

**22. During a war, government spending on defense increases significantly, and the incomes of many people fall significantly. Do you think that in this situation it is necessary that citizens pay taxes in the same amount as before the war, or should the amount of taxes be changed?**

	Ukraine 2022
1. We need to pay the same taxes as before the war	37
2. Taxes need to be cut	44
3. Taxes need to be raised	9
4. Difficult to answer	10

**23. If the government now gave you the choice to pay or not pay the full amount of taxes, despite the circumstances, would you continue to pay taxes?**

	Ukraine 2022
1. Would continue to pay taxes in full	61
2. Would pay less taxes	32
3. Pay no taxes at all	4
4. Difficult to answer	3

**24. If you had the choice of paying a military levy to the state or donating it to charities that support the army, which would you choose?**

	Ukraine 2022
1. Would pay the state	43
2. Would pay to charities	49
3. Difficult to answer	8

**25. Do you pay for utilities?**

	Ukraine 2022
1. I pay in full	84
2. I pay but not in full	13
3. I don't pay	4

**26. How has your household income changed since February 24, 2022?**

1. Income has increased greatly	0,7
2. Income slightly increased	3,1
3. Income hasn't changed.	26,8
4. Incomes have declined slightly.	30,5
5. Incomes have been greatly reduced	38,4
6. Difficult to answer	0,5