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TAX REGULATION IN UKRAINE DURING THE WAR: CHALLENGES AND PROSPECTS

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Abstract. The article analyses the peculiarities of tax regulation in Ukraine under martial law, which is due to the need to ensure economic stability and finance defence needs. The study is based on the analysis of the basic legislation, the practice of applying tax exemptions and preferences, and international experience. The key challenges associated with the current legislative mechanisms are identified, in particular, the efficiency of the rule-making process in the context of limited public discussion, unequal conditions for taxpayers in different territories and the risks of tax evasion. The author considers the role of tax benefits and deferrals to support taxpayers, as well as the practice of law enforcement and liability for violation of tax legislation. The author suggests ways to improve the tax system based on international experience to maintain stability in the context of a protracted armed conflict. Further research into the adaptation of international experience to Ukrainian realities is promising.

Key words: tax law, martial law, tax regulation, tax benefits, economic stability, international experience.

Introduction. The relevance of the topic of tax regulation in wartime is due to the unprecedented challenges faced by Ukraine. During the period of hostilities, the state is forced to respond promptly to socio-economic shocks, ensure the proper functioning of the tax system, and at the same time support taxpayers who suffer losses or have lost the ability to conduct business in normal conditions (Ivanenko, 2020: 28). At the same time, the security component comes to the fore, as tax revenues are one of the main resources for financing defense needs, restoring destroyed infrastructure, and providing social guarantees to IDPs and the affected population. Effective legal regulation of tax relations during this period becomes extremely important for maintaining economic stability, attracting international assistance and supporting the state apparatus.

Martial law has a significant impact on both the overall economic situation and the ability of government agencies to respond to the growing needs of society in a timely and adequate manner. Amid the destruction of industrial and logistics facilities, a decline in tax revenues and a significant increase in defense spending, the government is forced to introduce special tax regimes, grant benefits and deferrals. At the same time, control over compliance with tax legislation is being strengthened, as the risk of tax evasion by entities trying to take advantage of the chaotic nature of the war period is increasing (Petrov, 2021: 34). All of this is happening in an environment of heightened uncertainty, which requires the state to be as flexible and responsive as possible in the rulemaking process, including the accelerated adoption of legislative changes.

To a large extent, these challenges are compounded by the fact that during the war it is often impossible to hold full public discussions of draft laws and to involve enough experts and business representatives to make a balanced assessment of the consequences. As a result, contradictions or gaps can creep into new tax regulations, making it difficult to implement them in the future. In addition, different groups of taxpayers may find themselves in unequal conditions depending on where they are located and how they have been affected by the hostilities. With the regaining of control over the previously occupied areas, the state faces the need to urgently settle tax debts, register new business entities or return some of those that were forced to go abroad.

The purpose of this article is to analyze the peculiarities of tax regulation during martial law in Ukraine, to outline the main challenges and problems associated with the current legislative mechanisms, and to propose ways to improve the tax system based on international experience.

Theoretical and legal basis of the tax system of Ukraine in the context of war

The tax system of Ukraine is primarily regulated by the Constitution, the Tax Code of Ukraine (TCU) and a number of specialized laws. In peacetime, it ensures stable budget revenues and finances basic state functions such as defense, education, healthcare, and social security (Tax Code of Ukraine, 2023: 11). However, with the outbreak of full-scale war, there was a sharp realignment of priorities. The main task was to maintain public finances at an adequate level for military operations, as well as to provide social and economic assistance to those who found themselves in the combat zone or forced to leave their homes.

In crisis conditions, the need to relocate resources increases dramatically: if the state could previously plan its budget based on relatively stable economic indicators, wartime is accompanied by unpredictable challenges. The destruction of industrial facilities, blocking of seaports, temporary occupation of territories, and mass migration of the population all have a negative impact on tax revenues (Petrenko, 2022: 77). This raises the question of balancing the need to increase defense spending and ensure minimal fiscal stability without putting excessive pressure on business.

Many companies are facing a critical decline in production and sales, as well as logistics problems, which affects the ability of taxpayers to fulfill their obligations on time and in full. In response, the state is trying to introduce mitigating measures, such as benefits, tax holidays, and deferrals, which should protect the economy from complete collapse and cessation of economic activity (Petrov, 2021: 36). At the same time, government agencies seek to prevent the abuse of such mechanisms by individuals who may use the special regime to evade taxation or engage in other illegal activities.

Despite the martial law, the legal nature of taxes remains unchanged: they are mandatory payments to the budget and have a public law nature. However, in times of war, the state receives an expanded «room for maneuver» thanks to the Law of Ukraine «On the Legal Regime of Martial Law» (Law of Ukraine, 2015). This law allows the government to quickly amend the Tax Code, establish new taxation procedures or, conversely, introduce moratoriums on certain regulations to support the economy.

Under martial law, the legislator may allow the government or other public authorities to adopt regulations that in peacetime could be issued only after a lengthy approval procedure or public discussion. All of this is done in order to respond quickly to problems that arise in real time: the supply of critical goods, preservation of jobs, assistance to internally displaced persons, etc. At the same time, excessive centralization of decision-making can lead to conflicts between different legal acts, especially when martial law lasts for a long time and is subject to numerous extensions.

As a result of these circumstances, the tax system becomes a kind of “field” for experiments, where different approaches to stimulating business or raising funds for urgent defense needs are tested. In practice, we have repeatedly seen situations where new amendments to the TCU contradicted previously adopted norms, which is why taxpayers and tax authorities could not reach a common position on the procedure for their application (Petrov, 2021: 38). Such problems demonstrate the need for a systematic and coordinated approach even in times of crisis, when speed is a priority.

Regulatory framework of tax law in times of war

Since the beginning of the war, the Tax Code of Ukraine (TCU) has undergone a series of amendments aimed at reducing the pressure on businesses that ensure the country's vital functions in difficult conditions and at expanding the economic base for financing military needs (Tax Code of Ukraine, 2023: 14). Below are the main areas of the military amendments:

• Preferential treatment for strategic industries. Production of military equipment, medical products, supply of dual-use goods, etc. In some cases, temporary VAT or income tax exemptions are provided to attract additional investment in the defense sector and stimulate imports of critical resources.

• Simplified procedures for registration and accounting of taxpayers. Relocated businesses or entities that have changed their place of business due to the hostilities can complete registration procedures with the tax authorities more quickly. This helps them resume economic activity without a long bureaucratic cycle (Brown, 2021: 102).

• Expanding the powers of the tax authorities to respond more quickly to changes, including checking for abuses of privileges. At the same time, the law provides for additional guarantees of taxpayers' rights to prevent the use of martial law for arbitrary actions by tax or law enforcement agencies.

These measures should be closely coordinated with other laws regulating economic activity, banking, and foreign economic operations. Due to the rapid adoption of "military amendments", there is sometimes a lack of technical coherence, and various provisions of the TCU become conflicting. The resolution of such conflicts is often relied on the State Tax Service's explanations or court decisions, which can delay the enforcement process.

In addition to the TCU, special laws and regulations adopted in the context of martial law play an important role. These may include:

• Laws on temporary tax deferrals. They establish the terms and conditions under which taxpayers can postpone tax payments without penalties, especially if their production facilities are destroyed or located in the area of active hostilities (Petrenko, 2022: 80).

• Regulatory documents on tax holidays for individual entrepreneurs participating in hostilities or performing military service. The state is interested in ensuring that people who are temporarily not engaged in active economic activity do not accumulate debts and are able to quickly recover after returning to civilian life.

• Resolutions of the Cabinet of Ministers of Ukraine. These often define specific mechanisms and procedures for granting tax benefits, applying preferential customs tariffs, and regulating the logistics of humanitarian and military aid from abroad.

Additional difficulties arise when some of these bylaws apply only to certain territories or to specific industries. Practice shows that due to rapid changes and numerous wartime challenges, gaps and contradictions may arise in the regulations. This requires constant monitoring and amendments to the legislation (Petrov, 2021: 39).

In addition, local governments are involved in the process, which, within their powers, may decide to reduce local taxes and fees, establish additional benefits for utilities, etc. As a result, the overall regulatory landscape becomes multi-level and fragmented. It is important for taxpayers to have access to comprehensive explanations and consultations in order to avoid violating the law or missing out on benefits.

Peculiarities of taxation and tax benefits under martial law

The introduction of wartime tax breaks is one of the key mechanisms by which the government seeks to keep the economy from stagnating and support the most vulnerable taxpayers:

• Tax deferrals. They are granted to both individuals and legal entities that are unable to fulfill their obligations on time due to hostilities, forced evacuation or mobilization of their management. An important role here is played by verification of documents confirming the inability to pay (acts of destruction of property, certificates from military administrations, etc.) (Tax Code of Ukraine, 2023: 18).

• Rate reductions and tax privileges. In some cases, the state grants temporary tax exemptions for certain types of activities. This can be justified if it concerns critical industries (e.g., production of clothing for the military, dual-use products, or supply of humanitarian goods). There is also a zero single tax rate for small and medium-sized businesses that continue to operate in areas close to hostilities.

- Compensation mechanisms. Sometimes, the state or international donors offer financial assistance (grants, interest-free loans), which is intended to compensate for part of the tax payments, provided certain criteria are met (job preservation, localization of production, etc.) (Ivanenko, 2020: 31).

All of this should reduce the risk of mass closures and job losses. However, too wide a range of benefits can lead to budget imbalances, when revenues from traditional taxes fall sharply and expenditures rise. Therefore, the challenge is to define clear criteria for granting privileges and at the same time ensure control over their targeted use.

A separate category includes military personnel, reservists, and volunteers who are directly involved in military activities or in organizing humanitarian aid. The legislator may provide for them:

- Exemption from personal income tax for certain types of income, such as charitable assistance or insurance payments (Brown, 2021: 105).
- Simplification of reporting for mobilized individual entrepreneurs so that they do not accumulate penalties and are not forced to spend additional time on accounting procedures.
- «Preferential import conditions» for military goods: some volunteer organizations may be exempt from paying customs duties and VAT when importing military equipment, medicines or equipment intended directly for the needs of the army.

Such rules are intended to facilitate the activities of socially useful structures that directly affect the country's defense capability. However, there are some issues of abuse: unscrupulous individuals may imitate volunteer activities to avoid paying duties or taxes. Therefore, the state introduces mechanisms for registering volunteers and verifying the intended purpose of imported goods (Petrov, 2021: 40). In this way, the government tries to maintain a balance between encouraging honest participants and preventing illegal activities.

Law enforcement, liability for tax law violations and international experience

The martial law does not suspend the functions of the state to control compliance with tax legislation, but significantly affects the mechanisms of their implementation. The State Tax Service (STS) and other financial control bodies operate in difficult conditions, when scheduled inspections are complicated due to the inaccessibility of the territories covered by hostilities or due to risks to the life and health of auditors (Petrov, 2021: 38). In addition, communication with taxpayers may be limited due to the temporary occupation or relocation of many business entities. There is also an increased risk of fraud, as some entities may abuse exemptions or deferrals by referring to military circumstances without sufficient grounds.

In this regard, legislation or bylaws may provide for «spot» checks based on risk analysis, information from open sources, or citizens' statements. If the taxpayer really could not fulfill its tax obligations for objective reasons (destruction of property, seizure of facilities), mechanisms of exemption from liability or postponement of payment are applied (Petrenko, 2022: 83). However, it should be borne in mind that at the same time, the number of cases when the state is forced to punish deliberate tax evasion or the use of benefits beyond their intended purpose is increasing.

The Tax Code and other regulations provide for a comprehensive system of liability for tax offenses. The war has made certain adjustments to this system, primarily in terms of the form and scope of sanctions. For example, some types of administrative and financial liability may be mitigated or postponed if the violation occurred under the influence of objective circumstances. However, deliberate tax evasion, especially if the funds received can be used to support armed aggression, is considered a serious offense that can be qualified under the Criminal Code (Tax Code of Ukraine, 2023: 19).

Practice shows that during wartime, the number of crimes in the financial sector increases: from illegal schemes for exporting capital abroad to financing illegal armed groups. To prevent this, the state is strengthening cooperation between the State Tax Service, customs authorities, police, and the Security Service of Ukraine (Smith, 2019: 47). International channels of information exchange are also used to help identify assets hidden abroad. One of the most effective tools is the technology for monitoring banking operations and cryptocurrency transactions, which is increasingly being used by both Ukrainian law enforcement agencies and partners abroad.

Against the backdrop of the war, the Ukrainian tax system has found itself in conditions partly similar to the experience of other countries that have gone through large-scale armed conflicts or prolonged emergencies. In particular, Israel, being under the constant threat of terrorist attacks and armed clashes, has developed mechanisms for short-term tax incentives for regions affected by rocket attacks (Cohen, 2017: 98). In Bosnia and Herzegovina, the key task after the war was to quickly revive industry, which required the introduction of preferential duties on equipment for the reconstruction and restoration of infrastructure.

For Ukraine, the experience of attracting external financing and foreign investors for reconstruction is extremely relevant, as the scale of destruction is becoming catastrophic. International organizations, such as the IMF or the World Bank, often condition loans or grants on the adoption of transparent tax rules and effective anti-corruption policies. In this context, tax reforms should take into account not only the internal challenges of war, but also the requirements of international partners (Brown, 2021: 107). Particular attention is paid to electronic services that simplify reporting and minimize the human factor, reducing the possibility of corruption risks.

To summarize, the application of international experience in Ukraine is possible only through its adaptation to our realities: heterogeneity of regions, a significant number of IDPs, risks of repeated or prolonged hostilities, and the need to rebuild critical infrastructure. All this requires a combination of flexible legislation, advanced digital tools, and effective public management. It is this synergy that will allow not only to survive the war with minimal losses for the economy, but also to create the preconditions for future sustainable development.

Conclusions. During the war in Ukraine, tax regulation is undergoing significant changes aimed at supporting economic activity, ensuring defence capability and social protection of citizens. The state is taking a range of measures: introducing preferential tax regimes, providing deferrals and tax holidays for businesses, and intensifying cooperation with international partners to raise resources for reconstruction. At the same time, law enforcement and control over compliance with tax legislation continue, which should prevent the expansion of the shadow economy.

One of the key challenges is to find a balance between the need to fill the budget to finance defence and to prevent excessive tax pressure on businesses that are already in a crisis situation. An additional complication is the large number and fragmentation of legislative acts adopted on an ad hoc basis. This can lead to conflicts and inconsistencies in law enforcement. Therefore, it is important to ensure a systematic approach and harmonisation of the Tax Code with other legislative acts.

In the future, after the end of active hostilities, Ukraine will face the task of creating a stable and transparent tax environment that will form the basis for post-war recovery and attracting foreign investment. In this context, it is advisable to consider the best international practices of taxation in crisis situations, adapting them to national realities. In particular, it may be useful to introduce electronic tax administration systems that will reduce bureaucratic barriers and increase trust between the state and taxpayers. Thus, martial law reveals both problem areas and potential areas for reforms in the tax area that should be implemented to strengthen Ukraine's economic sovereignty.

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