

# EFFICIENCY OF PERSONAL INCOME TAXATION MODELS IN GERMANY AND UKRAINE

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**Abstract.** The article is devoted to a comparative analysis of the efficiency of personal income taxation models in Germany and Ukraine. The study examines in detail the specifics of the German model of personal income taxation, particularly the structure of tax classes, which influence the final tax burden depending on the taxpayer's marital status and income level. The progressive personal income tax scale in Germany is analyzed, which in 2025 ranges from 14% to 45%, and additional mandatory payments are also considered: the solidarity surcharge, which mainly applies to high-income individuals and actually increases the top tax burden to 47.5%, as well as the church tax (8-9%). The article examines the features and rates of mandatory social contributions in Germany and Ukraine. Key differences are identified in the approaches to financing social insurance systems, particularly in the distribution of the financial burden between employees and employers, as well as in the overall level of tax pressure. To assess the fiscal efficiency and tax fairness of personal income tax, a comparative analysis of the top personal income tax rates in EU countries and Ukraine is conducted. The research employs methods of analysis and synthesis, comparative analysis, system-functional approach, tabular and graphical analysis, abstract-logical method, and the method of analogies. The study concludes that the German tax system provides an individual approach to personal income taxation, takes into account the socio-economic status of taxpayers, and promotes a fair distribution of the tax burden. In contrast, Ukraine applies a proportional model of personal income taxation, which does not comply with the principle of tax fairness, as it does not take into account the solvency and social circumstances of taxpayers. The study establishes that such a model weakens the redistributive function of taxation and undermines trust in the tax system. Special attention is paid to mechanisms ensuring fiscal efficiency, in particular, the issues of digitalization of tax administration. It is established that Germany has a highly developed digital tax infrastructure that ensures transparency, reliability of income accounting, efficiency of procedures, and minimization of tax evasion. In Ukraine, however, despite some positive developments, the process of digitalization of tax administration is still in its formative stage and requires an expansion of institutional reforms to achieve high fiscal efficiency. The results of the study make it possible to formulate recommendations for improving tax policy of Ukraine, taking into account the best practices of the German tax system. The author proposes conceptual directions for reforming the mechanisms of personal income taxation in Ukraine aimed at enhancing tax discipline, ensuring social balance, and strengthening the fiscal sustainability of the state.

**Keywords:** taxation, personal income tax, progressive taxation, flat taxation, digitalization of income tax administration, Germany, Ukraine, European integration.

**JEL Classification:** H21, H24

## 1. Introduction

In the context of growing social inequality and limited budgetary resources, income taxation issues are becoming particularly important both in terms of ensuring sufficient government revenues and in terms of promoting social balance and stimulating economic development. An effective tax system should not only ensure the necessary level of budget revenues, but also

contribute to reducing social inequality, which in turn highlights the relevance and importance of personal income taxation in modern society.

Unlike many European Union countries, Ukraine faces a number of serious challenges. The high level of shadow economy, the absence of a progressive personal income tax scale, and the limited administrative efficiency of tax authorities significantly weaken

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the effectiveness of the tax system to fulfill its core functions. These structural problems require profound modernization and the introduction of fairer and more effective taxation mechanisms.

This problem becomes particularly acute in the context of ongoing military operations, which have exacerbated the need to revise tax policy in order to increase fiscal sustainability and social justice. Considering the European integration direction of Ukraine, it is necessary to modernize the tax system in accordance with EU standards, as well as to create incentives for post-war recovery and sustainable economic growth. In this context, personal income taxation is becoming one of the key areas of reform, as it not only directly affects the daily lives of citizens, but also plays a decisive role in ensuring the effectiveness of the tax system as a whole. It is precisely through the effectiveness of taxation mechanisms that it is possible to achieve a fair redistribution of income, reduce the shadow economy, and strengthen public confidence in state institutions.

An important step in reforming tax system of Ukraine is to study and adapt international best practices. Of particular interest is the tax model of Germany – one of the leading economies in the EU. German tax system is characterized by a high level of transparency, efficient administration, and a balanced approach to tax burden distribution. The progressive tax scale allows for the real financial capabilities of citizens to be taken into account, thereby ensuring a fair distribution of the tax burden. In addition, the German tax system actively prevents tax evasion and maintains a high level of tax discipline.

German experience can serve as a valuable reference point for Ukraine as it adapts to European economic and legal standards and develops an effective and fair personal income tax model capable of supporting both social stability and economic development in the country.

**The aim of the study** is to develop reasoned proposals for possible directions of reforming the personal income taxation model in Ukraine in the context of implementing the National Revenue Strategy until 2030, based on the experience of European countries, particularly Germany.

Achieving this goal requires a comprehensive approach and involves addressing the following **objectives**: studying European practices, especially the German approach to personal income taxation; assessing the current personal income tax model in Ukraine and identifying its main shortcomings in the context of modern challenges; and developing directions for transforming of the Ukrainian taxation model based on fiscal and social efficiency.

**Methodology.** The research process involved the use of a set of general scientific and specialized methods that allow for a comprehensive analysis of the tax

systems in Germany and Ukraine, particularly in the area of personal income taxation. These include: analysis and synthesis – to structure the theoretical material and identify the interrelationships between the elements of tax systems; comparative analysis – to identify similarities and differences in taxation approaches in Germany and Ukraine; system-functional analysis – to clarify the role of individual mechanisms (such as tax classes, progressive taxation, and social contributions) in ensuring tax fairness and fiscal efficiency; tabular and graphical analysis – for data visualization and better understanding of quantitative aspects; abstract-logical analysis – for forming theoretical conclusions and generalizations; and the method of analogies – to justify the possibility of adapting certain elements of the German model to the Ukrainian context.

## 2. Brief Literature Review

Personal income taxation is a focus of attention for both the academic community and practitioners, as the tax system directly impacts income redistribution, stimulates labor force participation, and fosters sustainable fiscal policy. The efficiency and fairness of tax models is becoming particularly pressing in the context of global economic instability, inflationary pressure, and growing social inequality.

Developing an effective fiscal policy requires a scientifically sound theoretical and methodological framework. The structure and level of taxes determine not only the volume of budget revenues but also the capacity of the state to finance strategically important programs, including education, healthcare, infrastructure, and social protection. As Abuselidze (2020) emphasizes, no other aspect of public policy has such a multifaceted impact on economic growth, poverty, and consumer behavior as the tax system.

Among the classical approaches to taxation developed by a number of influential economists, several fundamental principles can be identified. Smith (1776) formulated four tax principles that remain influential to this day: equality of taxation based on ability to pay, certainty of taxation, convenience of taxation for taxpayers, and fairness of tax collection for the state. Musgrave (1959), focusing on the functions of the tax system and its role in ensuring distribution and stabilizing of the economy, emphasized the need for efficient and fair taxation from the perspective of social welfare. Friedman (1962), representing the monetarist approach, emphasized the simplicity, transparency, and efficiency of the tax system, advocating for the introduction of a flat income tax rate above the tax-exempt minimum.

International experience demonstrates a spectrum of approaches to personal taxation – from complex progressive tax systems aimed at reducing inequality, to simpler tax schedules focused on administrative

simplicity and minimizing tax distortions (Peter et al., 2010), with the countries of Central and Eastern Europe being particularly active in this regard (Keen et al., 2008).

Nevertheless, in recent years, arguments in favor of strengthening the progressive elements in personal income tax systems have been growing, particularly in countries with high levels of social inequality. Research shows that such reforms not only promote equitable income redistribution but can also significantly increase tax revenues (Barrios et al., 2019).

Progressive taxation and social security contributions play an important role in supporting vulnerable groups and equalizing starting opportunities. In addition to fairness and efficiency, a good tax system should be consistent, simple, and easy to implement. The tax system should also be flexible and stable, for political and economic reasons, respectively (Popescu et al., 2019). At the same time, institutional and administrative features should be taken into account: progressive models require more complex and costly tax administration, as well as the availability of highly qualified personnel (Elshani et al., 2018).

Furthermore, research emphasizes the need to differentiate tax rates based on income: a higher tax burden on high-income groups promotes human capital growth, budget revenue growth, infrastructure development, investment, reduced unemployment, the creation of a healthy education and healthcare system, and stimulates economic growth. At the same time, tax reductions on low and middle incomes stimulate supply and production growth. Thus, progressive taxes are a powerful, proven, and successful method for eliminating inequality and poverty, increasing budget revenues, and promoting economic development in the country (Abuselidze, 2020).

Empirical data also suggests that progressive tax models contribute to long-term growth and social

stability, while flat taxation may be more effective in the short term, particularly during periods of economic growth. However, during periods of crises, the rationale for moving to a more progressive model increases (Elshani et al., 2018).

Despite the presence of a significant number of publications on taxation issue, the task of substantiating the efficiency of various models of personal income taxation remains relevant, taking into account the socio-economic characteristics of specific countries.

Within the framework of this study, a comparative analysis of taxation models in Germany and Ukraine is considered. Particular attention is paid to approaches to the distribution of the tax burden, the structure of tax rates, the system of tax benefits, as well as the organization of tax administration in both countries. The German experience is not viewed as a universal solution, but as a potentially relevant benchmark, allowing for the identification of possible directions for adaptation, taking into account the national realities of Ukraine in the context of convergence with the practice EU countries in the field of tax and budget policy.

### 3. Comparative Analysis of Taxation Models in Germany and Ukraine

In Germany, wage tax is a form of income tax that is automatically withheld by the employer from the employee's salary. There are six wage tax classes, which vary depending on marital status and the number of employment relationships (Table 1).

Unlike Ukraine, where a flat tax rate is applied, Germany uses a progressive income tax model. This means that the tax rate increases as the taxpayer's income rises. In each tax category, only the portion of income that exceeds the upper threshold of the previous category is taxed at the higher rate.

Table 1

#### Categories of Wage Tax in Germany

Tax class	Description
I	Applies to single, separated, widowed, or divorced employees, and employees whose spouses reside outside the EU.
II	Applies to single individuals who are entitled to a tax allowance for one child. This allowance increases for each additional child.
III	Applies to married couples or individuals in registered partnerships where one partner earns significantly more than the other. The higher-earning partner is assigned to Tax Class III, while the lower-earning partner falls under Tax Class V (III/V combination).
IV	Applies to spouses or registered partners with similar income levels or who, despite significant income differences, choose not to opt for the III/V tax class combination. The tax rates are the same as those in Tax Class I.
IV with coefficient	Unlike the III/V combination, this method distributes the tax burden more equally between spouses or partners. It also allows the lower-earning partner to retain a higher net income.
V	Associated with the Tax Class III and used by married couples or registered partners in which one partner earns significantly less than the other.
VI	Considered an additional tax class. It applies to employees with second or additional taxable employment relationships. In such case, the primary job is taxed under one of the first five tax classes, while the second job is taxed under Tax Class VI.

Source: Federal Ministry of Justice and Consumer Protection & Federal Office of Justice of Germany (2025)

In 2025, the personal income tax rate in Germany ranges from 14% to 45%. The basic tax-free allowance (Grundfreibetrag) has increased by EUR 312, amounting to EUR 12,096. This means that the first EUR 12,096 of an individual's income is exempt from taxation (Table 2).

According to the Income Tax Act of Germany (EStG), taxable income tax in Germany includes not only income from wages, but also other income received by individuals: income from agriculture and forestry, income from entrepreneurial activity, income from self-employment, capital income (such as interest, dividends, etc.), income from renting and leasing property, and other types of income (such as partly pensions, income from the sale of private property, rent payments, etc.) (Federal Ministry of Justice and Consumer Protection & Federal Office of Justice of Germany, 2025).

In addition to the wage tax, Germany imposes supplementary taxes such as the solidarity surcharge and the church tax.

The solidarity surcharge, introduced in 1991 to finance the costs associated with German reunification,

amounts to 5.5% of the income tax owed. Starting from 2025, taxpayers with an annual taxable income up to EUR 19,950 (for singles) and EUR 39,900 (for jointly assessed couples) are exempt from paying the solidarity surcharge. Employers withhold this surcharge directly from the payroll together with the income tax (Federal Ministry of Finance of Germany, 2025). As a result, the solidarity surcharge increases the top personal income tax rate in Germany from 45% to 47.5%.

The church tax is a levy that German taxpayers are required to pay if they belong to certain religious groups or churches. The amount of church tax varies by federal state; however, only two states – Bavaria and Baden-Württemberg, deviate from the uniform legislation, imposing a church tax rate is 1% lower than in other states where the rate is set at 9%.

For comparison, the top statutory personal income tax rates in EU member states and Ukraine in 2025 are illustrated in Figure 1.

In 2025, the average statutory top personal income tax rate among EU countries is 39.9%. The highest rates are observed in Denmark (55.9%), France (55.4%),

Table 2

**Personal income tax rates in Germany in 2025**

Annual gross income	Formula according to section §32 EStG
a) up to EUR 12,096:	0;
b) from EUR 12,097 to EUR 17,443:	$ESt = (932,30 * y + 1.400) * y; y = (zvE - 12.096) / 10.000$
c) from EUR 17,444 to EUR 68,480:	$ESt = (176,64 * z + 2.397) * z + 1.015,13; z = (zvE - 17.443) / 10.000$
d) from EUR 68,481 to EUR 277,825:	$ESt = 0,42 * zvE - 10.911,92;$
e) from EUR 277,826:	$ESt = 0,45 * zvE - 19.246,67.$

Source: Federal Ministry of Finance of Germany

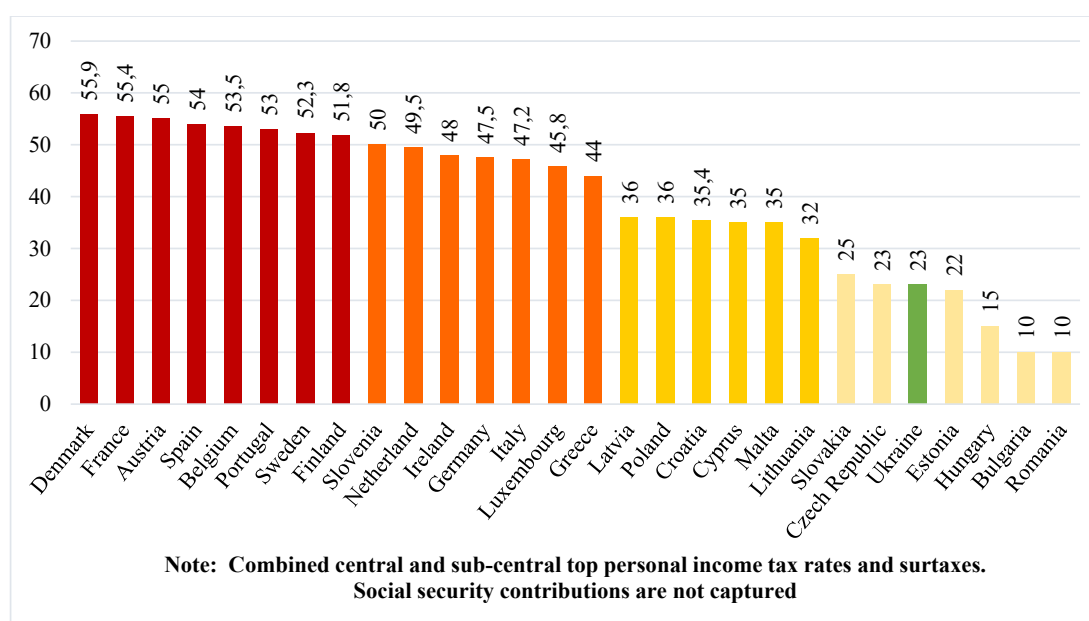


Figure 1. Top statutory personal income tax rates in EU countries and Ukraine in 2025, %

Source: European Commission (2025); Worldwide Tax Summaries (2025)

and Austria (55%). The lowest rates are in Hungary (15%), Estonia (22%), and Czech Republic (23%). In European countries that are not members of the OECD, personal income tax rates are generally lower and are often applied as a flat tax. The lowest rates are set in Bulgaria and Romania, both at 10%.

In Ukraine, until 2024, the total personal income tax rate was 19.5%, consisting of 18% personal income tax and a 1.5% military levy (Tax Code of Ukraine, 2025). According to Law of Ukraine No. 4015-IX (2024), as of December 1, 2024, the military levy was increased to 5% due to the ongoing war and growing defense budget needs. As a result, the overall personal income tax rate increased to 23%. However, for military personnel and security service employees, the rate remains unchanged at 19.5%.

In EU countries, in addition to personal income tax, individuals are also required to pay mandatory social security contributions, which significantly increase the overall tax burden on personal income. In Germany, for example, social security contributions are equally shared between the employee and the employer (Table 3). Each type of contribution is subject to a so-called contribution assessment ceiling, which is calculated annually. Income exceeding this threshold is exempt from further social security contributions. The rates and corresponding maximum contribution bases are established by federal authorities in Germany, including the Bundestag and relevant ministries.

In Ukraine, a unified social contribution of 22% is levied on the employee's gross salary, but it is not deducted from the employee's income; instead, it is paid directly by the employer. This contribution covers various types of social insurance, including pension insurance, temporary disability insurance, occupational accident insurance, and unemployment insurance, but excludes health insurance.

At the end of 2023, the Ministry of Finance of Ukraine (2023) approved the National Revenue Strategy until 2030, which outlines an ambitious course toward structural tax reform, including the reintroduction of a progressive personal income tax scale. However, at the current stage, the document remains declarative in nature and requires further clarification through concrete legislative initiatives.

Amid the ongoing war in 2024–2025, strategic reforms were deprioritized in favor of temporary fiscal measures of a mobilization nature, such as raising the military levy rates for individuals and entrepreneurs, as well as increasing the tax burden on the financial sector. These measures are aimed at the urgent replenishing of the state budget under conditions of limited resources. Thus, the strategy outlines the vector for tax policy development, but its implementation has been temporarily postponed in favor of emergency financial stabilization measures.

Overall, the current proportional tax model in Ukraine does not take into account differences in income levels and, in practice, places an equal nominal tax burden on both low-paid workers and high-income individuals. This raises questions of social justice, as applying a uniform tax rate to individuals with varying financial capacities results in a relatively heavier burden on those with lower incomes.

Exploring the personal income tax system in Germany, Bach (2021) concluded that increasing the tax burden on low-income groups has a disincentive effect and can lead to higher levels of tax evasion. At the same time, individuals with higher incomes are generally less sensitive to taxation, as their financial resources allow them to offset the associated tax expenses more easily. Moreover, a higher tax burden on wealthy individuals and companies allows the state to invest in education, scientific research, digital and transport infrastructure, which in turn expands the human capital base of the economy and fosters the growth of entrepreneurship and innovation.

However, progressive taxation alone does not guarantee economic growth. In cases of inefficient redistribution of tax revenues, for example in conditions of corruption or misuse of funds, the economic effect can be negligible or even negative. In other words, a progressive tax model will only be effective if it is accompanied by a balanced tax burden and efficient public governance. This is directly related to the quality of tax administration, particularly the ability of the state to collect taxes transparently, fairly, and with minimal delays for individuals and businesses.

The established German tax administration system, known for its high level of automation, procedural

Table 3

**Social security contribution rates in Germany in 2025**

Type of insurance	Contribution rate	Employee share	Employer share
Unemployment insurance	2.6%	1.3%	1.3%
Health insurance (general rate)	14.6%	7.3%	7.3%
+	+	+	+
Additional health insurance contribution (average)	2.5%	1.25%	1.25%
Long-term care insurance	3.6%	1.8%	1.8%
Pension insurance	18.6%	9.3%	9.3%

Source: Federal Ministry of Finance of Germany (2025)

transparency, and effective interaction between taxpayers and tax authorities, ensures the timely and transparent administration of income tax.

In Germany, the tax identification number (Steuer-ID) is automatically assigned at birth or upon registration of residence, and it is used for tracking income and administering income tax. A similar tax identification number also exists in Ukraine. The key difference lies in the level of integration: in Germany, the Steuer-ID is a clear example of centralized coordination among all government institutions (the tax authorities, pension and insurance funds, banks, and other organizations). This contributes to combating tax evasion and reducing corruption, making the income administration process transparent and efficient. In Ukraine, the use of the tax identification number across various government bodies is still insufficiently integrated, and the system requires further development to improve the effectiveness of inter-agency cooperation.

A key role in the income administration process in Germany is played by the digital platform Elster, which allows individuals and businesses to submit tax returns, receive notifications, and communicate with tax authorities in a digital format. The tax office (Finanzamt) collects and processes income and withholding tax data in advance, enabling taxpayers to complete their declarations with minimal effort due to pre-filled electronic forms. Submitting a tax declaration in Germany is mandatory, except in certain cases where it is voluntary (this often applies to tax classes I and II). The tax return must be filed annually by July 31 of the following calendar year. If a tax consultant is involved, the submission deadline is usually extended.

Taxpayers in Germany can claim deductions for expenses related to education, healthcare, child care, donations and charity, and professional expenses (such as home office costs, transportation, etc.). After reviewing the tax return, the Finanzamt sends a detailed notification outlining calculations, deductions, and the final amount (either payable or refundable). Tax audits are conducted randomly or in cases of suspected tax evasion. Penalties, interest charges, and criminal liability apply for undeclared income.

The German tax administration system is centralized but multi-tiered, allowing for regional considerations. Local tax authorities are responsible for all income tax matters, including filing the tax return, assessing the income tax, and settling (Federal Central Tax Office of Germany, 2025). Although income tax is not directly transferred to local budgets, around 15% of the total tax revenue is redistributed to municipalities through financial equalization mechanisms, mainly based on the taxpayer's place of residence (Federal Ministry of Justice and Consumer Protection & Federal Office of Justice of Germany, 2024).

In Ukraine, as of 2025, the rules for the distribution of personal income tax are as follows: 64% goes to the general funds of local budgets, 21% to the state budget, and the remainder to regional (oblast) budgets. Moreover, this tax allocated to the budget of the territorial community where the enterprise or institution is located, regardless of where the employee actually lives and works (Portal Decentralization, 2025). This approach is outdated and unfair, as it undermines the ability of small territorial communities to finance basic services, maintain infrastructure, and realize development strategies. Redirecting personal income tax to the taxpayer's place of residence could theoretically improve the local public finances and stimulate regional development, however it would also require substantial changes to tax policy and equalization mechanisms. Considering the current economic and social circumstances, the implementation of such a reform is likely to face significant challenges, including uneven regional development, administrative burdens, and the need for additional redistribution of funds.

The National Revenue Strategy of Ukraine (Ministry of Finance of Ukraine, 2023) also provides for the improvement of tax administration and the development of an effective information technology management system. This involves ensuring the confidentiality and protection of tax information within the Ministry of Finance of Ukraine, strengthening the integrity of the State Tax Service of Ukraine, improving tax compliance, and digitalizing the public finance management system.

Digitalization in the field of tax administration contributes to increased fiscal efficiency and enhances interaction between taxpayers and the State Tax Service. This aims to improve not only access to electronic services and the ease of tax payments, but also to curb corruption and significantly reduce bureaucracy (Tolkmitt & Ignatenko, 2024).

In Ukraine, official platforms of the State Tax Service (such as Electronic Taxpayer Cabinet, the "Diya" Portal, InfoTAX, etc.) have already been implemented, providing real-time online access to tax information and enabling filing of tax declarations. The Ukrainian personal income tax administration system already provides for partial automatic filling of tax declarations based on information from the State Register of Individual Taxpayers. However, the existing auto-completion is limited in the range of data sources and does not include all types of income (specifically, it does not include information regarding income received by the taxpayer from other individuals or foreign income) and is not always accompanied by clear explanations for the user. Further expansion of functionality through the implementation of fully automated declaration generation based on integration with banks, freelance platforms, and other state registries will significantly

simplify the declaration process, reduce errors, and improve the efficiency of interactions between taxpayers and regulatory authorities.

Antonenko et al. (2024) confirm that achieving greater efficiency in the state tax management depends on the voluntary compliance of taxpayers with their bonds. This not only increases government tax revenues but also reduces public spending. The likelihood of taxpayers violating tax legislation depends on the severity of the tax burden, the scale of penalties, and the risks of bringing violators to justice. A lack of balance between state interests and the its representatives can lead to collusion between officials and taxpayers, which in turn fosters corruption and the growth of the shadow economy. Under wartime conditions, economic shadowing tends to intensify due to the disruption of key market mechanisms. Researchers Bak et al. (2024) have confirmed the hypothesis that the shadow economy contributes to a decline in tax revenues to the state budget. This confirms the urgent need for comprehensive tax reform in Ukraine, focused not only on changing rates and administration mechanisms, but also on restoring trust between the state and taxpayers, and enhancing the transparency and fairness of the tax system.

#### 4. Conclusions

In the context of aligning tax policy of Ukraine with European standards, experience of Germany is particularly valuable. Germany has implemented a model of progressive income taxation based on the principles of fairness, redistribution, and social responsibility. The German system combines a progressive tax rate scale, a wide range of tax deductions, and the integration of tax administration with digital services. This experience confirms that the sustainability of a tax model directly depends on its ability to account for the individual circumstances of taxpayer (such as income, marital status, place of residence, etc.), while minimizing administrative barriers and maximizing automation of processes.

On this basic, it appears reasonable to test a pilot project in Ukraine to introduce a progressive tax scale as the first stage of a broader structural tax reform. Such a reform would aim to enhance social justice, reduce inequality, stimulate economic activity, and bring the Ukrainian tax system closer to EU standards. The model could initially be implemented for a limited group of taxpayers (e.g., civil servants or public sector employees), which would allow for an empirical assessment of the fiscal, behavioral, and administrative impacts.

Within the framework of implementing the pilot project in Ukraine, special attention should be given to the following elements:

1. Adaptation of the progressive tax rate taking into account the Ukrainian context.

2. Introduction of a system of tax classes – classification of taxpayers by income levels aimed at simplifying administration and increasing transparency.

3. Establishment of a non-taxable minimum income – in the context of the post-war economic recovery of Ukraine, it is important to support incentives for formal employment and consumption. A socially oriented non-taxable minimum can play a key role by reducing the tax burden on the least well-off segments of society and stimulating domestic demand.

4. Use of data on incomes, household composition, and other socio-economic characteristics of the population to accurately stratify taxpayers.

5. Concurrently carrying out reforms to expand the list of tax deductions, simplify the procedures for obtaining them, and encourage citizens to voluntarily declare their income in order to receive tax refunds.

A key condition for the success of both the pilot project and the broader tax reform in Ukraine is the deep digitalization of the fiscal system, specifically the development of a unified digital infrastructure integrated with state registries (the automated integration of data from banks, insurance companies, social assistance registries, and employers into a single electronic taxpayer account). Following the example of Germany, where tax returns can be automatically generated based on official sources, Ukraine should aim to develop a fully automated tax declaration system that taxpayers can easily review and submit with a single click. This would significantly simplify the process, reduce the burden on citizens, and increase the rate of voluntary compliance. In addition, the integration of the taxpayer identification number with state and financial accounting systems should be institutionalized, enabling the creation of an improved, unified digital taxpayer profile.

The implementation of the progressive personal income tax scale should be accompanied by the phased integration of the results of the pilot project. This process must be carried out with high-quality monitoring, independent auditing, and the evaluation of effectiveness at each stage of implementation.

Among the expected positive outcomes of introducing a progressive personal income tax scale in Ukraine are:

- enhanced social justice through a more balanced distribution of the tax burden;
- partial legalization of shadow incomes, driven by the introduction of tax deductions and the possibility of receiving tax refunds;
- increased voluntary tax compliance due to greater transparency, digitalization, and improved feedback mechanisms between public authorities and taxpayers;
- growth in budget revenues while maintaining macroeconomic stability.

At the same time, the implementation of such reforms inevitably entails certain risks and challenges that must be considered during the planning stage, these include:

- a potential increase in tax evasion among high-income groups, particularly in the absence of effective tax administration and accountability mechanisms;
- the functional inefficiency of a progressive tax scale in the case of low digitalization and lack of transparent control over financial flows;
- an additional barrier may be the absence of a well-established institutional framework for tax

deductions, which, in a number of EU countries, notably Germany, plays a key role in ensuring the flexibility, targeting, and fairness of taxation.

The combination of the phased implementation of progressive taxation with the digital transformation of tax administration and the adoption of best European practices (particularly the German model) provides a foundation for building a fair, effective, and sustainable tax system in Ukraine. Such a model has the potential not only to increase public trust in the fiscal system but also to ensure the fair distribution of the tax burden in the context of post-crisis recovery and European integration.

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