

STRATEGIC
VISION

2021

FISCAL SECURITY OF UKRAINE

THREATS / RISKS / VULNERABILITIES

Fiscal Security of Ukraine – Threats, Risks, Vulnerabilities: Strategic vision/
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I am pleased to present the publication on the results of the Strategic Analysis of Risk Assessment and Fiscal Security Threats.

Building an efficient and competitive national economy involves a systemic reform of public financial management as part of the public administration system generally, the problems and inconsistencies of which pose a serious risk to economic growth.

The task of the Ministry of Finance of Ukraine is to financially ensure the implementation of public functions on the basis of prudent fiscal policy, creating conditions for stable economic development by managing public finances on the principles of balance, efficiency, impartiality, integrity, stability and transparency.

The fiscal security of the state, as a key component of financial security controlled by the Ministry of Finance of Ukraine, depends on a sufficient level of financial resources of the state that are needed to perform its administrative, economic and social functions.

The potential level of security of the public finance sector is determined by the ability of the state to neutralize or mitigate the negative impact of existing criminal factors on its ability to meet its proper internal and external obligations in a timely and complete manner.

Assessing fiscal risks and improving their management practices to take into account their impact on budget indicators and taking minimization measures is an important way to increase the sustainability of public finances, ensure macroeconomic stability and full and timely financing of key government obligations.

Timely monitoring of the level of fiscal security of the state allows to track possible negative financial phenomena and potential threats that contribute to the strengthening of negative economic trends. It also provides an opportunity to identify sources of leakage of existing threats in order to respond quickly and in a timely manner, to implement the necessary measures to improve the functioning of the fiscal sector. And as a result, it will have a positive impact on the development of the financial system of the state as a whole.

With the advent of modern information and telecommunications technologies, under the conditions of the global spread of criminalization of the economy, including increasing criminal risks in the fiscal sphere, the nature, complexity and scope of criminal challenges, the system of financial and law enforcement institutions need a fundamental change in methodology and approaches. They determine the importance of using risk-oriented approaches,

methods of analytical work not only as a tool to ensure awareness of government institutions, but also as a resource for strategic planning, which provides vital directions for the deployment of strategies and resources to ensure their implementation.

The risk-oriented approach in the activities of the institutions of the fiscal system requires constant improvement of analytical practice and awareness of the management of regulatory and law enforcement agencies on the specifics of the use of analytical materials in the process of management and procedural decision-making. That is why it is especially important to focus on the concepts and key processes of risk management, in particular intellectual analytical work and a better understanding by analysts and especially by heads of state institutions of the new paradigm in combating criminal threats in the fiscal sphere. The work prepared by the expert community at the initiative of the Taxpayers Association of Ukraine, which demonstrates the results of the Strategic Analysis of Risk Assessment and Fiscal Security Threats, is an important step to address the above-mentioned issues.

Minister of Finance of Ukraine
Serhiy MARCHENKO



The Taxpayers Association of Ukraine, established more than 20 years ago, is the most powerful business association in Ukraine to protect the legal rights and interests of taxpayers, namely: small, medium and large businesses in all key sectors of the economy throughout Ukraine, it has territorial branches in all regions of Ukraine without the exception and in the city of Kyiv, uniting 3254 taxpayers – members of the Association, which are employing about 2.4 million citizens of Ukraine. The Association vigorously develops international activities as a member of the World Taxpayers Associations and the Taxpayers Association of Europe.

The Taxpayers Association of Ukraine takes a clear patriotic state-oriented position on an issue of building an effective tax system in Ukraine and forming a prudent fiscal policy on its' basis, which combined together would provide maximum opportunities for the state to implement its' functions, yet be based on stimulating domestic business development, improving the investment climate, raising tax culture, etc.

In order to create the most favorable conditions for doing business in Ukraine, in 2016 the Association initiated the adoption of a new Tax Code of Ukraine. From December 2016 to May 2017 in 15 regions of Ukraine and the city of Kyiv, we held 19 meetings of round tables, conferences, working meetings, forums with representatives of the legislature and the executive and regulatory authorities, Ukrainian

business, NGOs, scientists, including discussing issues of concern to the business environment, such as the concept and model of the new tax system, fiscal security issues, forms and methods of combating economic crime.

The result of these discussions were the draft of the new «Tax Code of Development», which includes such fundamental changes as the replacement of income tax with withheld capital tax, reduction of the number and rates of taxes, reduction of the burden on the wage fund, special tax regulation of free industrial zones, one time «zero

declaration» of the income of citizens and radical changes in the system of combating economic crimes, namely: a new model of law-enforcement – the single analytical body with law-enforcement functions to combat economic crimes.

Important is the fact that these two models are offered by the business environment of the country and satisfy them, and accordingly, they are ready to conduct their work transparently according to these rules.

I am deeply convinced that a systematic approach to these issues will give a powerful impetus to the development of the country's economy.

In order to clearly understand what hinders the economy from developing, in the summer of 2020 our team initiated a study on the country's fiscal security, which took place during August–October 2020, and on condition of «anonymity» we involved 7090 representatives from the State Tax Service, the State Customs Service, the State Fiscal Service of Ukraine and business – large, medium and small, of all regions of Ukraine without exception, by the way, for the first time in modern Ukrainian history, a large-scale and meaningful analysis of the assessment of risks and threats to Ukraine's fiscal security was made. According to the results of the survey, 243 threats in the field of fiscal security were identified, the main of which are: VAT fraud, «schemes» to minimize tax payments, lobbying by government officials of certain groups and of companies to promote favorable tax (customs)

conditions (preferences), «shadowing» of certain types of businesses, information attacks to discredit the fiscal system, manifestations of corruption in the fiscal sphere.

I would like to briefly dwell on a very important topic for society today – the creation of the Bureau of Economic Security. I am convinced that we need to make a very important choice – the introduction of a new model of policing. This model really is quite new to us, but in European countries, the United States, it has been tested for a long time. Analytics-driven policing (so-called ILP – Intelligence Led Policing) is a cornerstone of modern law-enforcement practice, which emphasizes proactive and preventive general methodology, and which allows law-enforcement to be one step ahead of criminals. The ILP model allows law-enforcement to identify and mark trends and patterns that link different crimes, individuals and locations, which in turn makes it possible to respond much faster and more effectively and prevent crimes.

I understand well that implementing new methods is always very difficult. But I understand that the working group created in 2019 on the initiative of President of Ukraine Volodymyr Zelensky, which includes authoritative scholars and practitioners of criminal law, proceduralists on criminal justice reform in Ukraine, will be able to adapt our legislation to modern European level.

I would like to take this opportunity to wish success to this working group under the President of Ukraine.

At the same time, I would like to thank our team for their excellent work and contribution to the process of solving problems related to the country's fiscal security.

President of the UNGO TAU

Grigol KATAMADZE

*Ambassador Extraordinary
and Plenipotentiary*

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FOREWORD

At the bottom of modern development of information society is not material production, but production of knowledge and information. Society faced an explosive growth of information concerning the environment, human interaction, and interaction of objects and systems.

According to sociological theory of modern society (Ulrich Beck) post-industrial (informational) society – is a risk society, which is characterized primarily by distribution of threats of different origins and the risks caused by them, by the emergence of more and more negative factors, that are accumulating and are unevenly distributed among members of society. It is the distribution of risks that becomes the main component of civilizational security.

The risk construct is a complex combination of determining the content of a particular threat and assessing its scale, of probability and of absolute or relative value of the occurrence or failure of such an event.

Risk is associated with the activities of management entities in a situation of uncertainty, with the dynamics of the management object and the environment in which it exists. But, in any case, risk is seen as a permanent attribute of management activity.

The realities of our time dictate the need for statesmen of a new level of thinking, which envisages adequate perception of risk and its use, as it is an essential component of the analysis of the future. A human and society can eliminate risk, reinterpret it, push it out of consciousness, ignore it, and so on. Given this, risk can be seen as a special method of cognition and management, which acts as a set of ways to make decisions.



Risk management in the era of globalization must be based first of all on the fact that each of the subjects of the management process in the formation and implementation of public policy should resort to forecasting of the future conditions of its implementation and the consequences of its implementation.

Another problem refers to the actual lack of knowledge and systematicity in work, even in the case of a sincere desire to predict the future conditions and consequences of a particular program. However, the availability of a system of necessary knowledge is not always a guarantee of the effectiveness of management risk forecasting. There is a mixed relationship between competence in one area or another and with the ability to predict. In addition, competence in modern conditions must be combined with modern risk management methodology, using appropriate techniques and technological tools.

Ukrainian society needs not only state support, but also civil society initiatives to create its own futurological infrastructure for analyzing and forecasting scenarios of socio-political development of the state in an information society.

In view of the above, it is appropriate to state the need for orientation during the important decision-making for society on scientifically sound forecasts, since they are one of the guarantees of the expected development of specific events and social processes in general. It is difficult to disagree with this, because in modern conditions, the inability to predict means the inability to carry out reforms.

Implementing one of the key parts of risk management, the Taxpayers Association of Ukraine launched the project, providing an analytical component, and brought together academics, fiscal officials and NGOs in order to conduct fiscal security risk assessments.

Materials and analytical conclusions based on statistically significant and representative empirical data, provide not only a sufficient level of knowledge on key aspects of fiscal security of Ukraine, but also form the basis for expanding the competence level of management of fiscal authorities. A logical continuation is the further in-depth study of certain areas and the formation of appropriate and sound public policy in the fiscal sphere.

OUR TEAM WISHES EVERYONE SUCCESS!



**Oleksandr
KORYSTIN**

Doctor of Law, Professor,
Honored Worker of Science
and Technology of Ukraine



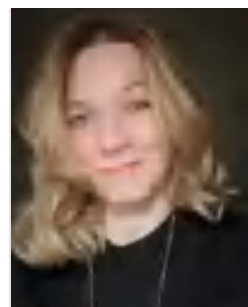
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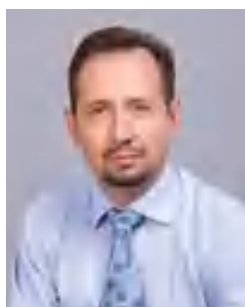
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GENERAL PROJECT INFORMATION AND METHODOLOGY

ON THE INITIATIVE OF **THE ASSOCIATION OF THE TAX PAYERS OF UKRAINE**, WHICH WAS SUPPORTED BY ALL KEY ENTITIES OF FISCAL SECURITY STRATEGIC ANALYSIS IN THE FIELD OF FISCAL SECURITY HAVE BEEN INITIATED.



TASKS:

- identification, rating and ranking of **THREATS** in the field of fiscal security;
- analysis and **ASSESSMENT OF RISKS** of spread threats in the field of fiscal security;
- assessing the **ABILITY / VULNERABILITY** of the fiscal system to minimize the level of risks of the spread of **THREATS**;
- assessment of external **OPPORTUNITIES** to increase the level of fiscal security;
- formation of basic modeling approaches and **RISK MANAGEMENT** forecasting

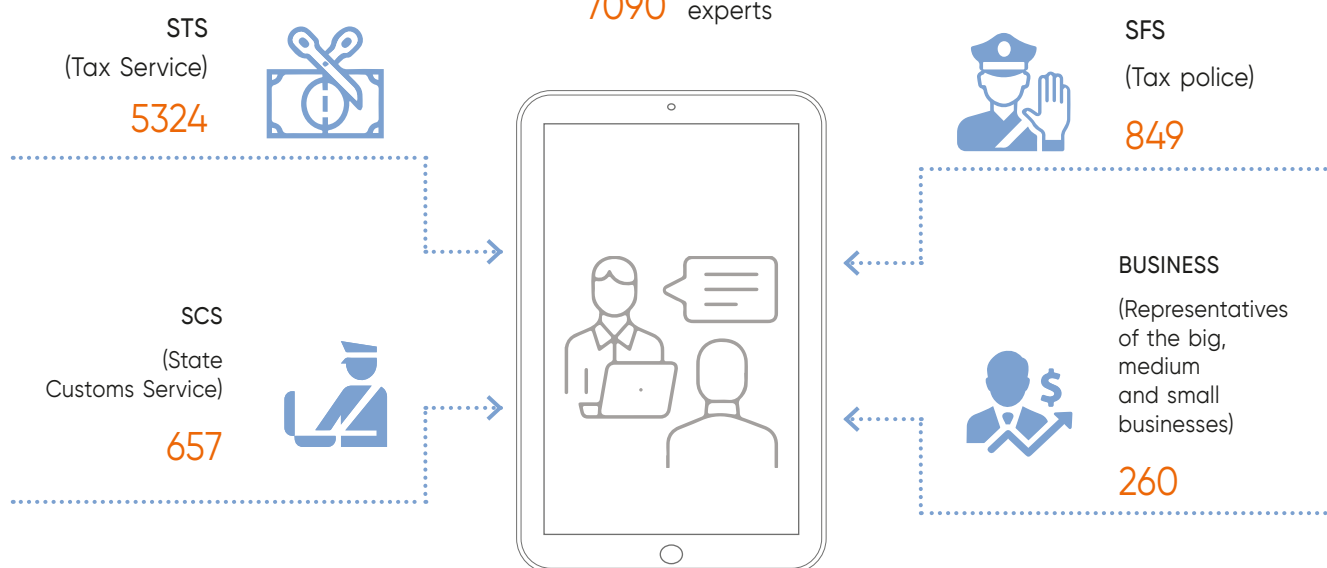
The survey was conducted in ON-LINE mode by filling out questionnaires in compliance with the confidentiality regime and without disclosing the individual data of respondents. The general population is represented by an expert community in the field of fiscal security of Ukraine, the data sample is formed by a continuous survey. Peer review reflects the representatives' own experience and awareness of a particular subject.

The survey covered employees of the State Tax Service of Ukraine, of the State Fiscal Service of Ukraine, of the State Customs Service of Ukraine and of business representatives.

The developed questionnaires provide for the selection of certain groups of respondents on the basis of belonging to the subject of the fiscal system, region, age, gender and length of service in the system.

GENERAL EXPERT SET

7090 experts



DATA SET

EXPERT SURVEY

- ▶ period: 4 months
- ▶ on-line
- ▶ two sessions
- ▶ anonymously

DATA STRUCTURE

a total of **414** indicators:

threats	243
opportunities	52
Ability/ vulnerability	119

In order to limit the sampling to the most qualitative and reliable data, the verification of the obtained data was used, in particular on the subject of the logical errors of the respondents.

The statistical justifications for the sample restriction procedure are based on the fact that due to the large volume of the questionnaire, experts could make mistakes in the answers, as the complexity of the questions and the short time of their comprehension leads to instable attention.

In order to extract the most reliable information from the obtained data, questionnaires were selected only from those experts which provided logically consistent answers. Sampling constraints ensured further analytical use of statistically significant, reliable, and representative data.

REGIONAL EXPERT INVOLVEMENT

The general expert body is represented by all of the regions of Ukraine (the State Tax Service of Ukraine, the State Fiscal Service of Ukraine and businesses), and also bearing in mind the organizational structure of the State Customs Service of Ukraine.

Most regions are represented by a sufficient number of experts (with the exception of a few, which gives a basis for assessing the level of competencies of regional management).

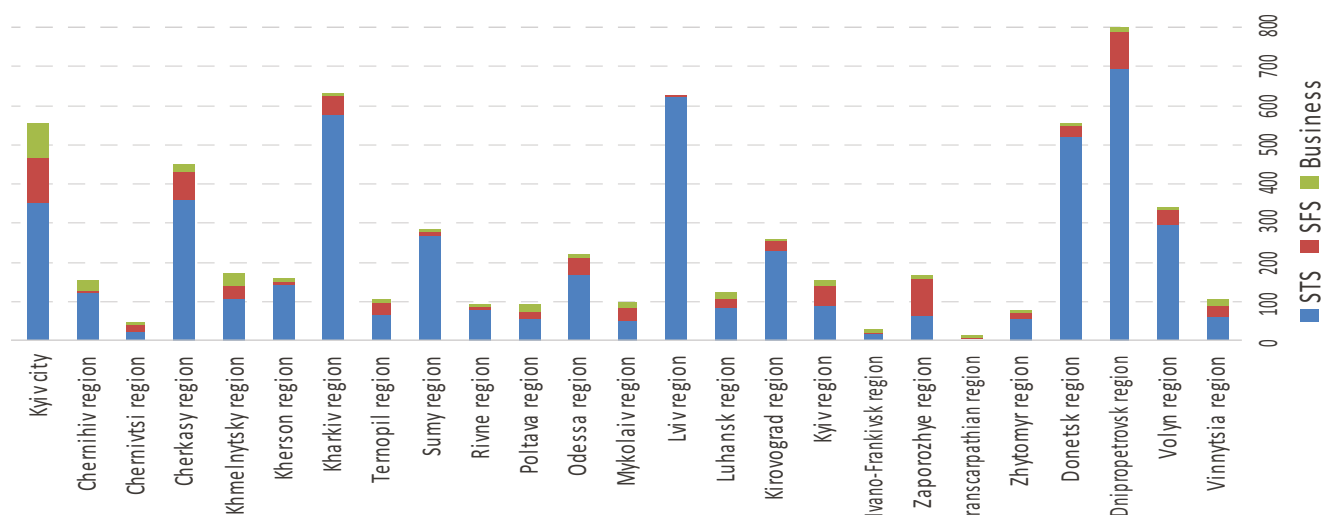
This creates all the opportunities for regional strategic analysis. This content of analytical work is a constant process, which is being monitored both at the state level and at the regional level (level of a regional body).

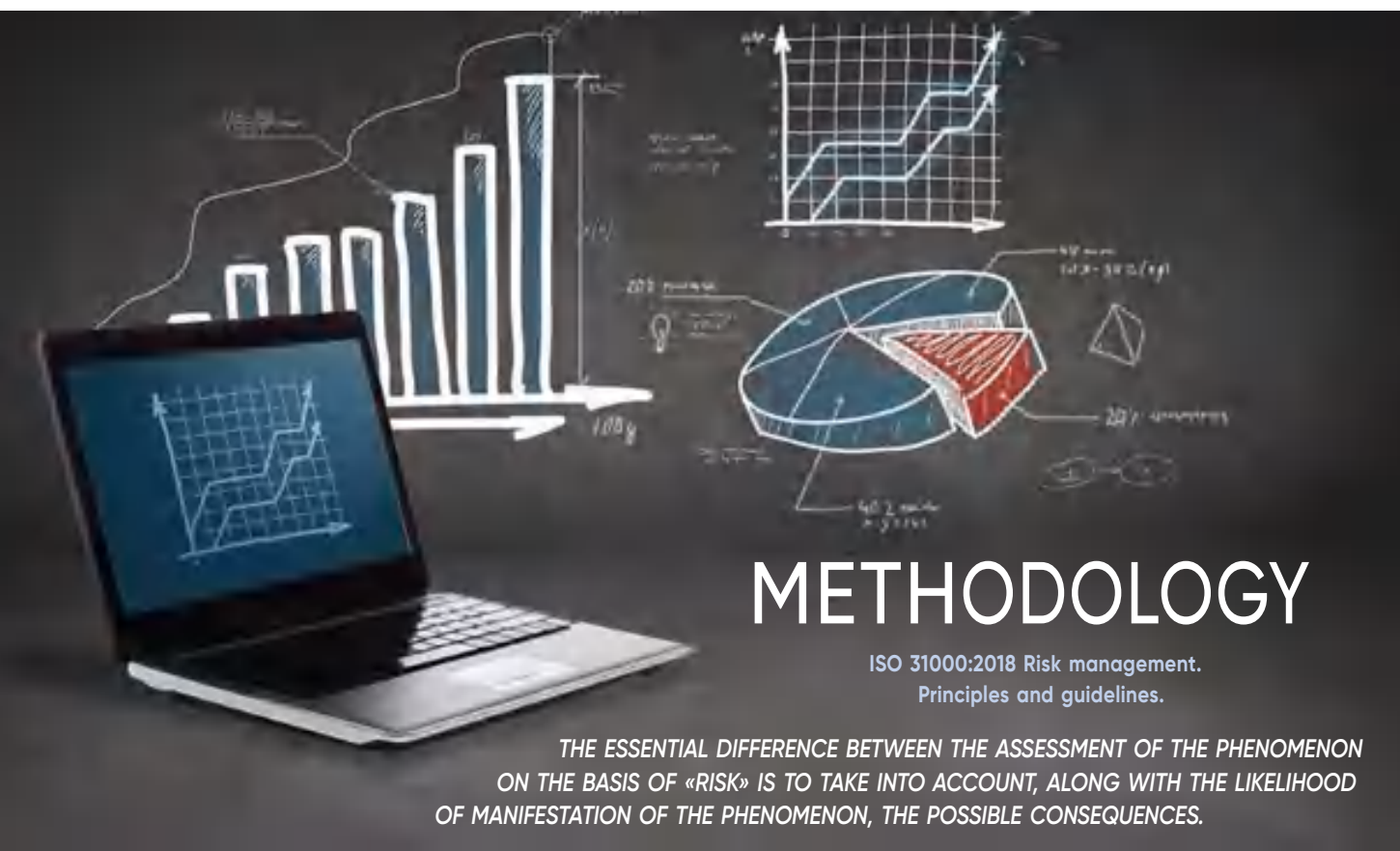
Today it is innovation, and tomorrow it is an element of corporate culture, so expert involvement and reliability

of data will increase. Regional management representatives will plan work based on nationwide problems and on the peculiarities of their manifestation in the region.

SCS	
Kyiv customs	52
Odessa customs	62
Black Sea customs	23
Energy customs	1
Azov customs	30
Bukovyna customs	50
Volyn customs	6
Galician customs	135
Dnieper customs	95
Transcarpathian customs	30
Northern customs	43
Podolsk customs	14
Slobozhansk customs	8
Eastern customs	28
Coordination and monitoring customs	71
Polissya customs	9
TOTAL	5324

REGIONS	STS	SFS	BUSINESS
Vinnitsia region	60	29	16
Volyn region	296	36	7
Dnipropetrovsk region	692	94	12
Donetsk region	520	28	6
Zhytomyr region	53	19	6
Transcarpathian region	4	1	5
Zaporozhye region	62	94	10
Ivano-Frankivsk region	17	3	7
Kyiv region	88	50	15
Kirovograd region	229	27	2
Luhansk region	83	23	16
Lviv region	622	2	1
Mykolaiv region	50	32	15
Odessa region	167	43	8
Poltava region	55	17	20
Rivne region	77	7	6
Sumy region	268	11	5
Ternopil region	64	32	8
Kharkiv region	577	48	4
Kherson region	141	9	10
Khmelnitsky region	106	34	31
Cherkasy region	358	72	19
Chernivtsi region	21	20	4
Chernihiv region	123	4	27
Kyiv city	352	113	88
Central office	80	***	***
Office of the STS for work with large taxpayers	165	36	27
TOTAL	5324	849	260



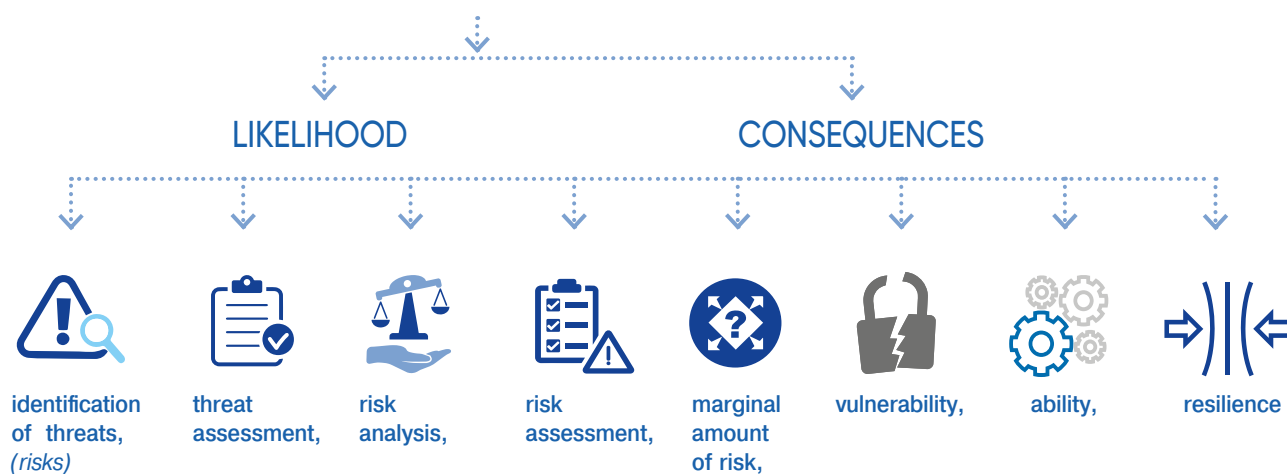


Risk management – is an area that operates with its concepts, methods and tools and requires understanding, perception, knowledge and practical skills namely the **formation of appropriate competencies**.

Using the tools of risk management, methods of response to the level of risk are chosen: perception, reduction, evasion, redistribution, i.e. bringing the amount of risk to the allowable marginal limit.



RISK ANALYSIS



FISCAL RISK MANAGEMENT – A COORDINATED MANAGEMENT ACTIVITY AIMED AT MINIMIZING THE RISKS OF THE SPREAD OF FISCAL SECURITY THREATS, AS WELL AS INCREASING THE ABILITY OF FISCAL ACTORS TO COUNTER THESE THREATS.

OVERALL THREAT RATING

THREATS IN THE FIELD OF FISCAL SECURITY OF UKRAINE – PROBABLE UNDESIRABLE (NEGATIVE) PHENOMENA (ACTIONS) THAT DIRECTLY AFFECT THE REDUCTION OF FISCAL (TAX) REVENUES TO BUDGETS

The rating of threats is formed based on the level of risk of the relevant threat. Given the probability limits and consequences of the spread, all threats were divided into four groups:

GROUP 1 – 32 most significant threats (red segment) – require urgent measures to reduce the risk of their spread;

GROUP 2 – 116 significant threats (orange segment) – need the control of top management;

GROUP 3 – (92) – require attention, but not paramount;

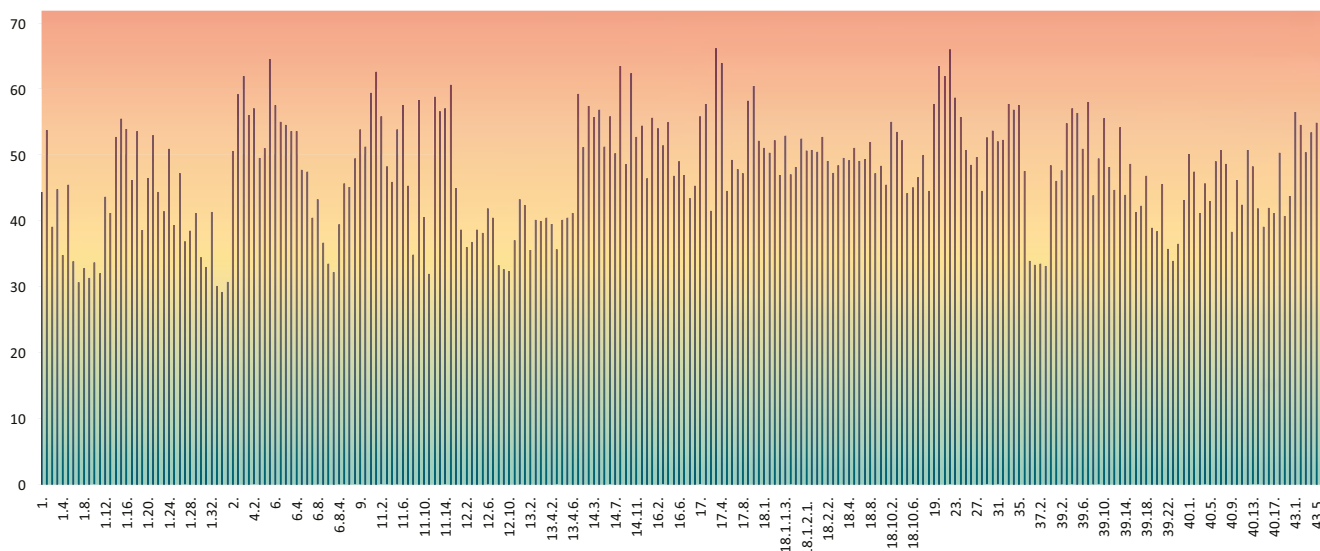
GROUP 4 – (3) – require

VARIABILITY
IN THE RATING OF THREATS -
ADEQUACY IN TERMS
OF REPRESENTATIVENESS
OF DATA AND RESULTS

The diagram shows the matrix analysis. In the range of 50–60% – significant threats (orange level), and above 60% – the most significant (red level).

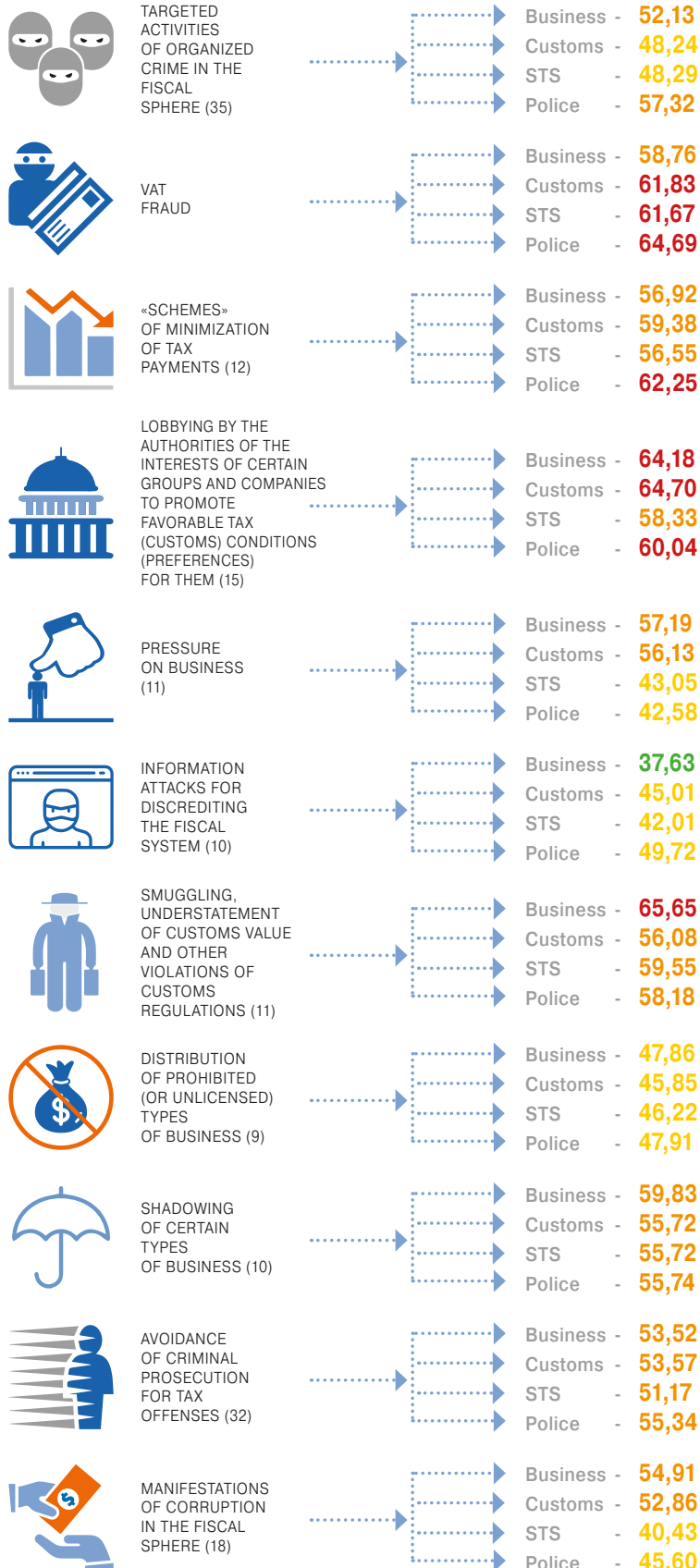
	POSSIBLE CONSEQUENCES								
PROBABILITY OF THREAT REALIZATION	LIQUIDATION	CRITICAL CONDITION				SEVERE CONDITION			MINOR CONSEQUENCES
HIGH		T 1.1	T 6.1	T 14.2	T 19				
		T 1.21	T 6.2	T 14.8	T 20				
		T 3	T 6.3	T 14.10	T 21				
		T 4	T 11	T 16.1	T 22				
		T 4.1	T 11.1	T 16.4	T 33				
		T 4.2	T 11.9	T 17	T 34				
		T 5	T 11.12	T 17.3	T 39.7				
		T 6	T 11.15	T 17.4	T 39.10				
MODERATE	T 1	T 14.3	T 18.3	T 39.6	T 1.2	T 12	T 17.5		
	T 1.14	T 14.4	T 18.4	T 39.8	T 1.3	T 12.1	T 17.6		
	T 1.15	T 14.6	T 18.5	T 39.9	T 1.4	T 12.2	T 18.9		
	T 1.16	T 14.7	T 18.6	T 39.11	T 1.5	T 12.3	T 18.10.1		
	T 1.17	T 14.11	T 18.7	T 39.13	T 1.6	T 12.4	T 18.10.5		
	T 1.18	T 15	T 18.8	T 39.15	T 1.7	T 12.5	T 18.10.6		
	T 1.20	T 16.2	T 18.10	T 40	T 1.8	T 12.6	T 18.10.9		
	T 1.24	T 16.3	T 18.10.2	T 40.1	T 1.9	T 12.7	T 28		
	T 1.26	T 16.5	T 18.10.3	T 40.2	T 1.10	T 12.8	T 37		
	T 2	T 17.1	T 18.10.4	T 40.3	T 1.11	T 12.9	T 37.1		
	T 4.3	T 17.7	T 18.10.7	T 40.4	T 1.12	T 12.10	T 37.2		
	T 4.4	T 17.8	T 18.10.8	T 40.5	T 1.13	T 12.11	T 37.3		
	T 6.4	T 17.9	T 23	T 40.6	T 1.19	T 13	T 39.12		
	T 6.5	T 17.10	T 24	T 40.7	T 1.22	T 13.1	T 39.14		
	T 6.6	T 18	T 25	T 40.8	T 1.23	T 13.2	T 39.16		
	T 6.8	T 18.1	T 26	T 40.10	T 1.25	T 13.3	T 39.17		
	T 7	T 18.1.1	T 27	T 40.11	T 1.27	T 13.4	T 39.18		
	T 8.2	T 18.1.1.1	T 29	T 40.12	T 1.28	T 13.4.1	T 39.19		
	T 9	T 18.1.1.2	T 30	T 40.13	T 1.29	T 13.4.2	T 39.20		
	T 10	T 18.1.1.3	T 31	T 40.16	T 1.30	T 13.4.3	T 39.21		
	T 11.2	T 18.1.1.4	T 32	T 40.18	T 1.31	T 13.4.4	T 39.22		
	T 11.3	T 18.1.1.5	T 35	T 43.1	T 1.32	T 13.4.5	T 39.23		
	T 11.4	T 18.1.2	T 36	T 43.2	T 1.35	T 13.4.6	T 39.24		
	T 11.5	T 18.1.2.1	T 38	T 43.3	T 6.7	T 14.5	T 40.9		
	T 11.6	T 18.1.2.2	T 39.1	T 43.4	T 6.8.1	T 14.9	T 40.14		
	T 11.7	T 18.2	T 39.2	T 43.5	T 6.8.2	T 16	T 40.15		
	T 11.13	T 18.2.1	T 39.3	T 43.6	T 6.8.3	T 16.6	T 40.17		
	T 11.14	T 18.2.2	T 39.4		T 6.8.4	T 16.7	T 41		
T 14	T 18.2.3	T 39.5		T 8.1	T 16.8	T 42			
T 14.1	T 18.2.4			T 11.8	T 16.9	T 44			
					T 11.10	T 17.2			
LOW					T 1.33				
					T 1.34				
					T 11.11				

RATING OF THREATS IN THE FIELD OF FISCAL SECURITY IN UKRAINE (243)






KEY THREAT GROUPS

THREATS IN THE FIELD OF FISCAL SECURITY OF UKRAINE – PROBABLE UNDESIRABLE (NEGATIVE) PHENOMENA (ACTIONS) THAT DIRECTLY AFFECT THE REDUCTION OF FISCAL (TAX) REVENUES TO BUDGETS



SPECIFICS OF THE ANALYSIS BY GROUPS:

-  criminal law bloc, organized crime - **SFS**
-  pressure on business, corruption - **BUSINESS**
-  smuggling - **SCS**

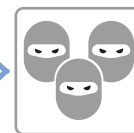


THE GENERALIZED APPROACH IDENTIFIES SIGNIFICANTLY HIGH RISK GROUPS:

VAT fraud	- 58-65 %
«schemes» of minimization of tax payments	- 56-62 %
lobbying of certain interests in the fiscal sphere	- 58-64 %
shadowing of certain types of business	- 55-60 %
corruption in the fiscal sphere	- 40-55 %

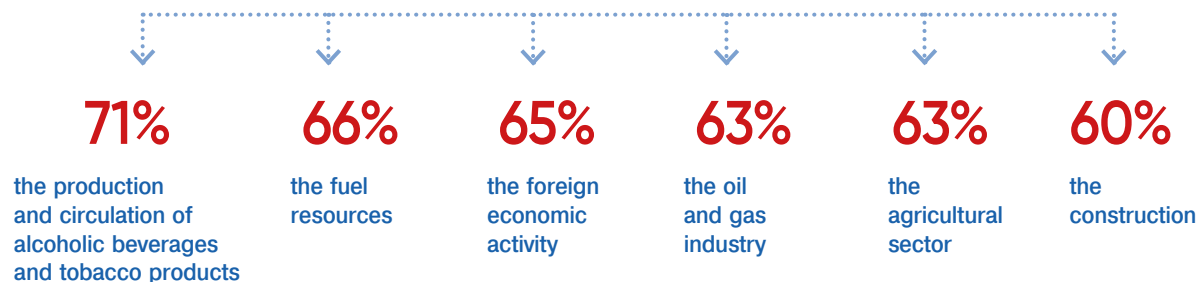
Information attacks to discredit the fiscal system are less risky for fiscal security

INTENTIONAL ACTIVITY OF ORGANIZED CRIME IN THE FISCAL SPHERE



BY AREAS OF ECONOMIC ACTIVITY

the highest risk (red level) of the spread of organized crime in order to minimize tax revenues is characterized by:



In the general expert population, the SFS is a law enforcement body (pre-trial investigation body and is a subject of operational and investigative activities), which makes it a key expert group in assessing the threat of organized crime.

By types of taxes, the most significant threat to the activities of organized crime in Ukraine is VAT (red risk level - 68%), and significant (orange risk level) - corporate income tax (53%), excise tax (59%) and customs duties (57 %).

THE HIGH LEVEL OF RISK (ORANGE SECTOR) IN RELATION TO THE INTENTIONAL ACTIVITY OF ORGANIZED CRIME IN UKRAINE IN THE FISCAL SPHERE IS ASSOCIATED WITH:

the banking activity	54%
the non-bank financial institutions	52%
the energy sector	55%
the forestry	55%
the pharmaceutical industry	54%
the trade	52%

FURTHER **STRATEGIC GOAL** SHOULD BE A QUALITATIVE AND QUANTITATIVE DESCRIPTION OF ORGANIZED CRIME IN UKRAINE IN THE FISCAL SPHERE, **THE FORMATION OF A RISK PROFILE** AND THE FOCUS OF LAW ENFORCEMENT ON «PROFESSIONAL» ORGANIZATIONS THAT MIMIC VARIOUS BUSINESSES OR ECONOMIC ACTIVITIES AND PROVIDE CRIMINAL SERVICES TO THE REAL SECTOR OF THE ECONOMY

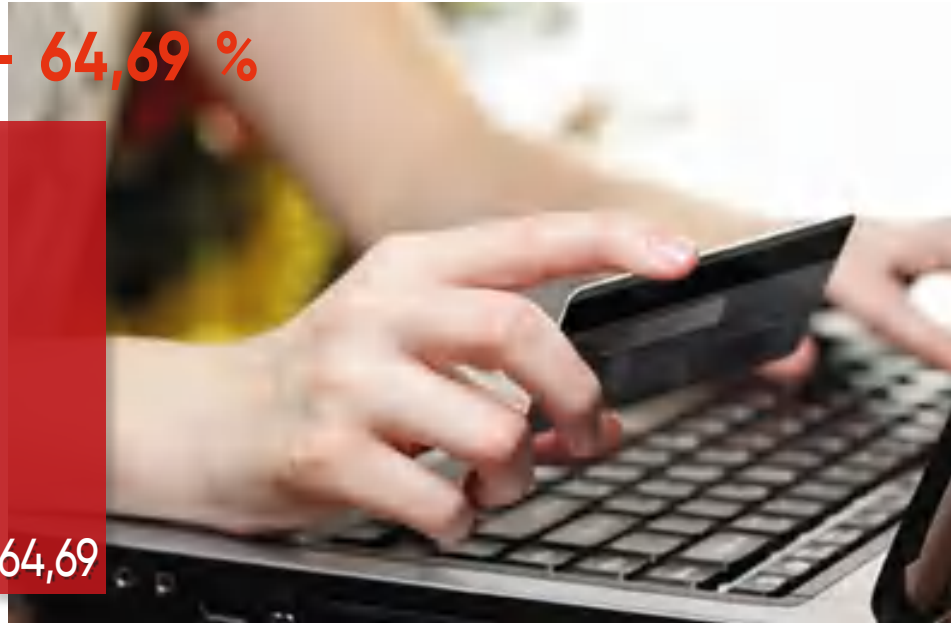
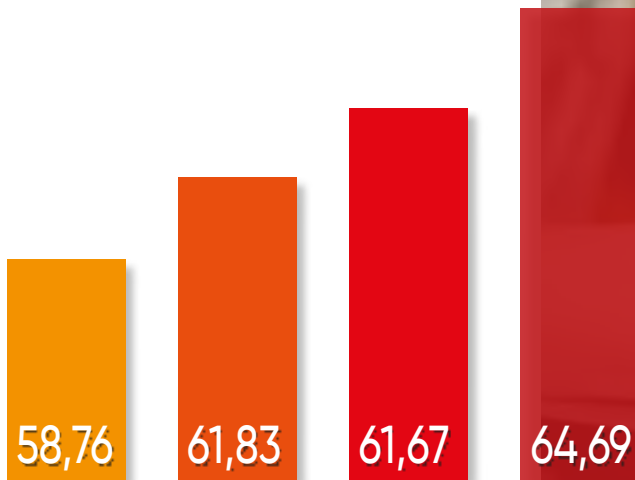
OVERALL CONCLUSION: activities of organized crime have heavily affected the fiscal relations.

INTENTIONAL ACTIVITY OF ORGANIZED CRIME IN THE FISCAL SPHERE IN RELATION TO	SFS
1.1. the VAT	67,95
1.2. the corporate income tax	53,15
1.3. the excise tax	59,16
1.4. the personal income tax	46,18
1.5. the customs duties	56,55
1.6. the single social contribution	37,69
1.7. the single tax	34,35
1.8. the rent	32,26
1.9. the tax on real estate other than land	28,67
1.10. the payment for land	35,28
1.11. the environmental tax	34,18
1.12. the banking activity	54,26
1.13. the non-banking financial institutions	51,51
1.14. the energy sector	55,45
1.15. the oil and gas industry	63,41
1.16. the fuel resources	66,10
1.17. the agricultural sector	62,72
1.18. the forestry	55,19
1.19. the water management	37,57
1.20. the foreign economic activity	65,32
1.21. the production and circulation of alcoholic beverages and tobacco products	70,75
1.22. the metallurgical industry	49,54
1.23. the machine-building industry	46,56
1.24. the pharmaceutical industry	54,31
1.25. the chemical industry	43,49
1.26. the construction	60,37
1.27. the IT sector	40,28
1.28. the transport	43,12
1.29. the trade	51,94
1.30. the hotel business	30,26
1.31. the restaurant business	29,46
1.32. the real estate transactions	43,63
1.33. the tourism	27,14
1.34. the mail and courier activities	31,13
1.35. areas of other services (not listed)	27,80

VAT FRAUD



VAT FRAUD 58,76 – 64,69 %

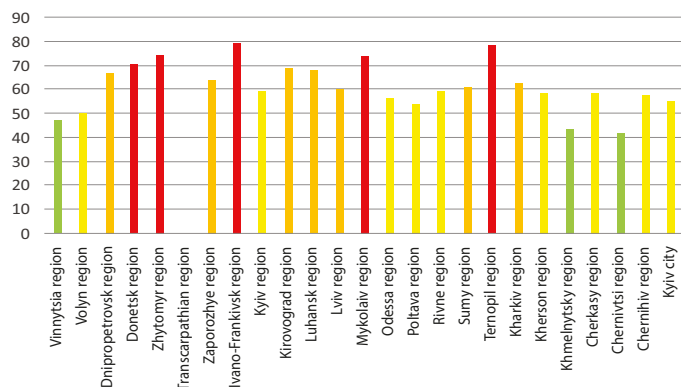
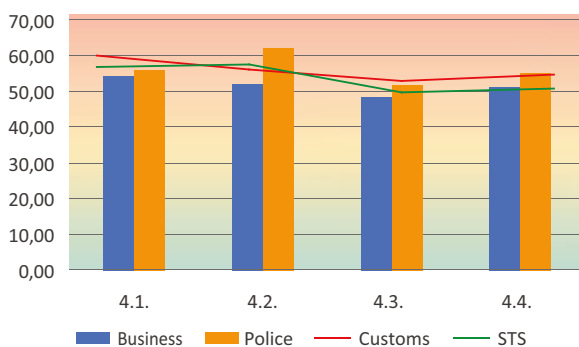


BUSINESS CUSTOMS STS POLICE

THE MOST SIGNIFICANT LEVEL OF RISK (RED SECTOR) IS DETERMINED BY ALL EXPERT GROUPS (STS, SFS, SCS) EXCEPT BUSINESS.

VAT FRAUD		BUSINESS	CUSTOMS	STS	POLICE
VAT fraud (generalized)	4.	58,76	61,83	61,67	64,69
illegal VAT refund	4.1.	54,25	59,03	55,89	56,27
Unreasonable formation of a VAT tax credit	4.2.	52,18	55,04	56,50	62,20
Unreasonable formation of a VAT tax credit	4.3.	48,63	51,99	48,78	51,88
illegal reduction of the VAT tax base	4.4.	51,52	53,57	49,71	55,29

It is possible to characterize this specificity at the regional level. Only three regions report a low level of risk of VAT fraud (within 40-50%). But in 5 regions the risk level exceeds 70%.



There are specified VAT fraud features such as (4.2) - unreasonable formation of a VAT tax credit - the most significant level of risk (57%), and the SFS notes 62%.

The diagrams also show that businesses rate this problem slightly lower, and the SFS higher.

«SCHEMES» OF MINIMIZATION OF TAX PAYMENTS



There is a homogeneity of different groups of experts in assessing the threats of this group, although there is a slight discrepancy in assessing the level of risk.

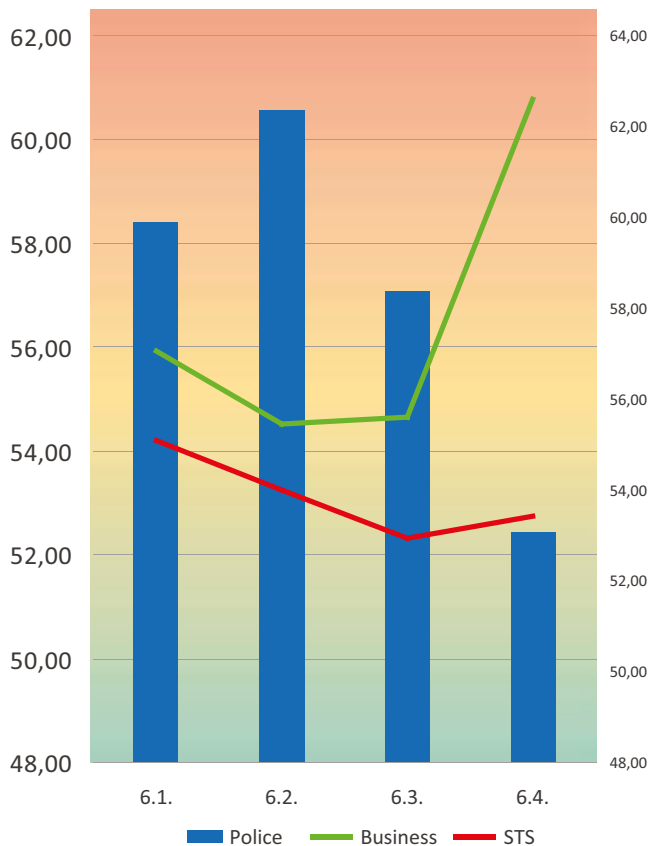
Higher risks of spreading threats in this group are at the top of the table (50–62% – red-orange palette), and less affected are the indicators at the bottom (30–48% yellow-green palette).

“SCHEMES” OF MINIMIZATION OF TAX PAYMENTS:		BUSINESS	CUSTOMS	STS	POLICE
«Schemes» of minimization of tax payments (generalized)	6.	56,92	59,38	56,55	62,25
Change of the nomenclature of the goods on a chain of purchase and sale	6.1.	55,94	52,90	54,20	59,91
Use of legal entities with signs of fictitiousness “and / or” fictitious natural persons	6.2.	54,52	51,49	53,25	62,38
Abuse of a situation where large companies use a business scheme with an individual entrepreneur	6.3.	54,65	55,99	52,31	58,40
Use of non-resident entrepreneurs, register in offshore zones and countries with low tax burden	6.4.	60,79	57,66	52,75	53,09
Understatement of the tax base by corporate income tax	6.5.	54,42	51,81	45,53	53,58
Unreasonable formation of expenses of economic activity	6.6.	50,88	50,66	46,00	51,60
Illegal receipt of tax benefits and other preferences	6.7.	45,22	47,94	38,75	42,60
Illegal interference in the work of information and telecommunication systems of the State Tax Service of Ukraine in order to substitute data and information	6.8.	49,14	44,26	41,86	46,83
Illegal interference in the work of information and telecommunication systems of the State Tax Service of Ukraine in order to substitute data and information: Tax block	6.8.1.	45,38	43,15	34,08	42,52
Illegal interference in the work of information and telecommunication systems of the State Tax Service of Ukraine in order to substitute data and information: Electronic cabinet	6.8.2.	38,54	36,30	31,57	39,26
Illegal interference in the work of information and telecommunication systems of the State Tax Service of Ukraine in order to substitute data and information: The Single Window of representation of the electronic reporting	6.8.3.	35,54	35,15	30,21	38,56
Illegal interference in the work of information and telecommunication systems of the State Tax Service of Ukraine in order to substitute data and information: Unified register of tax invoices	6.8.4.	42,18	38,39	37,84	46,21

THE FIRST FOUR THREATS ARE IN THE GROUP OF THE MOST SIGNIFICANT AND SIGNIFICANT. THERE IS SOME DISAGREEMENT BETWEEN GROUPS OF EXPERTS REGARDING THE DIFFERENT RISKS OF THE SPREAD OF THESE THREATS: THE SFS RATES HIGHER AND THE STS THE LOWEST AMONG EXPERT GROUPS.



«SCHEMES» OF MINIMIZATION OF TAX PAYMENTS



- ▶ **change of the nomenclature** of the goods on a chain of purchase and sale 54-60%
- ▶ use of legal entities with signs of «**fictitiousness**» and/or «**fictitious individuals**» 53-62%
- ▶ **abuse of a situation** where large companies use a business scheme with an individual entrepreneur 52-58%
- ▶ use of non-resident entrepreneurs, register in **offshore zones** and countries with low tax burden 52-60%

The said indicators' peculiarity is noteworthy 6.1 (change of the nomenclature of the goods on a chain of purchase and sale), the level of risk at which the SFS and Business is assessed higher than the STS, and 6.4 (use of non-resident entrepreneurs, register in offshore zones and countries with low tax burden), the level of risk at which Business estimates 7-8% higher than the STS and the SFS.



THIS FORMS THE BASIS FOR GREATER ATTENTION OF STATE FISCAL AUTHORITIES TO THE PROBLEM OF USING OFFSHORE JURISDICTIONS IN SCHEMES TO MINIMIZE TAX PAYMENTS.

LOBBYING BY THE AUTHORITIES OF THE INTERESTS OF CERTAIN GROUPS AND COMPANIES TO PROMOTE FAVORABLE TAX (CUSTOMS) CONDITIONS (PREFERENCES) FOR THEM



Significant homogeneity of opinion of expert groups, among which it is necessary to highlight the expert group of the SCS, the red palette of which is the most common level of risk.

LOBBYING OF TAX (CUSTOMS) CONDITIONS (PREFERENCES):		BUSINESS	CUSTOMS	STS	POLICE
The Verkhovna Rada of Ukraine	11.1.	62,15	69,38	62,45	59,81
Central executive bodies	11.2.	59,59	61,81	54,84	55,61
Local authorities	11.3.	55,76	52,12	46,99	49,37
Fiscal authorities	11.4.	54,97	50,60	43,72	49,38
Law enforcement authorities	11.5.	59,86	60,58	53,49	49,12
Courts	11.6.	58,71	61,33	58,32	51,31
International institutions	11.7.	51,84	47,53	44,47	45,02
Regarding social groups in need of state support	11.8.	36,23	36,98	34,58	34,31
Regarding big businesses	11.9.	62,47	62,37	57,60	57,57
Regarding medium businesses	11.10.	39,08	42,40	40,14	41,97
Regarding small businesses	11.11.	32,49	33,57	31,24	33,62
Regarding the monopolists in the spheres of economics	11.12.	64,95	65,13	57,80	57,44
Regarding the implementation of criminal schemes	11.13.	61,44	62,08	55,93	54,35
Regarding criminal groups	11.14.	57,70	60,80	56,25	57,80
Regarding economic entities that are monopolists	11.15.	66,11	63,83	59,99	59,62

TWO KEY BLOCKS DESERVE SPECIAL ATTENTION:



THE LOWEST LEVEL OF ASSESSMENT (34-37%)
– REGARDING SOCIAL GROUPS
IN NEED OF STATE SUPPORT
AND SMALL BUSINESS

31-34%



THE HIGHEST LEVEL OF THREAT –
LOBBYING THE INTERESTS OF MONOPOLISTS,
IMPLEMENTATION OF CRIMINAL SCHEMES AND
THE INTERESTS OF CRIMINAL GROUPS.

55-66%

PRESSURE ON BUSINESS

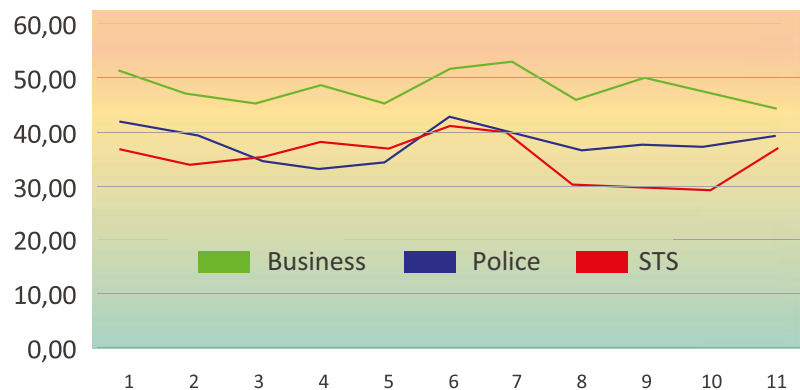


The data obtained indicates significant differences between the general expert population (by groups) in assessing the risks of pressure on business.

In the given table, in general, the palette of the green segment prevails (low risk of spreading the threat of pressure on business).

It is clear that the line of business and the lines of the State Tax Service and the State Fiscal Service will «never intersect», i.e., the interests will always differ in terms of taxation. Nevertheless, the general trend of risk assessment by the Business Expert Group is more in line with the current perception of this threat in society.

PRESSURE ON BUSINESS BY:	BUSINESS	STS	POLICE
12.1. «Provision of planned revenues to the budget» at the expense of a conscientious payer	51,24	36,16	40,53
12.2. «Offer» to pay taxes in advance »	47,29	33,56	38,43
12.3. Unreasonable entry of materials into the Unified register of pre-trial investigations	45,81	34,70	34,00
12.4. Groundless start of operative-search case	49,06	37,54	32,40
12.5. Blocking the economic activity of enterprises, by unjustified seizure of office equipment, financial and economic documents, etc.	45,44	36,73	33,40
12.6. Unreasonable blocking of registration of tax invoices/adjustment calculations	51,44	40,83	41,47
12.7. Unreasonable inclusion of the business entity in the list of «risky» taxpayers	51,18	39,28	38,20
12.8. Unreasonable organization of inspections by regulatory authorities	44,29	30,20	35,35
12.9. Unfounded interpretations of tax legislation by regulatory authorities	50,31	29,07	36,19
12.10. Biased decisions of fiscal authorities	47,90	28,81	36,00
12.11. Technical problems with the operation of the STS server for the submission of electronic reports and the register of VAT invoices	45,10	35,97	37,24

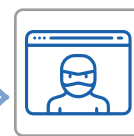


OF THE 11 INDICATORS, 6 IDENTIFIED SIGNIFICANT LEVELS OF RISK (50-51,5%)

- ▶ «Provision of planned revenues to the budget» at the expense of a conscientious payer **51%**
- ▶ groundless start of operative-search case **49%**
- ▶ unreasonable blocking of registration of tax invoices/adjustment calculations **51%**
- ▶ unreasonable inclusion of the business entity in the list of «risky» taxpayers **51%**
- ▶ unfounded interpretations of tax legislation by regulatory authorities **50%**



INFORMATION ATTACKS TO DISCREDIT THE FISCAL SYSTEM



AN IMPORTANT GROUP OF INDICATORS IN THE CONTEXT OF HYBRID WARFARE AND POSSIBLE EXTERNAL INTERFERENCE IN INTERNAL FISCAL RELATIONS. AT THE SAME TIME, THE GENERAL ASSESSMENT OF THE RISKS OF THE SPREAD OF THIS GROUP OF THREATS IS NOT RELEVANT AT PRESENT.



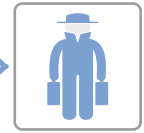
INFORMATION ATTACKS TO DISCREDIT THE FISCAL SYSTEM		BUSINESS	CUSTOMS	STS	POLICE
13.1.	Formation of a negative image in the tax platform	37,33	45,65	40,67	50,63
13.2.	Misinformation about innovations in the tax sphere	32,69	39,73	34,51	39,16
13.3.	Dissemination of distorted, unreliable and biased information, which harms the activities of regulatory authorities and creates a negative image for them	33,10	43,40	38,63	47,68
13.4.	Discrediting the subjects of fiscal relations through the media	35,73	46,02	37,90	47,94
13.4.1.	Discrediting through the state media	43,57	47,66	38,82	42,82
13.4.2.	Discrediting through the media of central executive bodies	41,40	46,26	37,44	44,89
13.4.3.	Discrediting local authorities through the media	35,76	40,43	33,96	40,92
13.4.4.	Discrediting fiscal bodies through the media	40,04	51,22	37,80	44,04
13.4.5.	Discrediting law enforcement through media	42,46	44,76	38,70	45,40
13.4.6.	Discrediting the courts through the media	44,26	45,31	40,18	42,10

Although the general situation of using information attacks to discredit the fiscal system is not characterized by a high level of risk (absence of the most significant threats), the State Customs Service and the State Fiscal Service are in greater danger (41-51% – orange-yellow level of risk), while the State Tax Service does not feel such pressure as a threat and the level of risk in the green segment (33-40%).

Business notes a certain risk of spreading information attacks to discredit certain subjects of the fiscal system (40-44% – yellow segment), rather than the fiscal system on the image and innovation as a whole (33-37%).



«SMUGGLING» (ILLICIT TRANSFER OF INVENTORY ACROSS THE CUSTOMS BORDER), UNDERSTATEMENT OF CUSTOMS VALUE AND OTHER VIOLATIONS OF CUSTOMS RULES



A significant level of threats in the field of fiscal security of Ukraine is confirmed by smuggling (illicit transfer of inventory across the customs border), understatement of customs value and other violations of customs regulations. The vast majority of indicators in the segment of significant threat (above 50%). In general, this is how this segment of the fiscal sphere in society is perceived by both the public and professionals.

In contrast to the mostly «dangerous» expert assessment of this problem, the expert group of a key fiscal entity (relative to the given group of indicators) of the State Customs Service of Ukraine determines the level of risk of these threats in the range of 45-54% – mostly yellow threat level.

This gives grounds to draw conclusions about the unrepresentativeness of the data on risk assessment of the spread of threats by the expert group of the State Migration Service in relation to a certain sector of fiscal security – smuggling. Although the obtained data may form a well-founded opinion about the general «corporate» perception of «smugglers» as a permissible phenomenon in Ukrainian society.

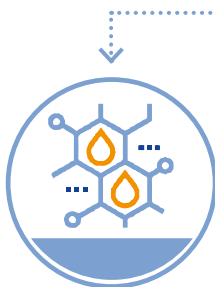
Regarding certain segments of smuggling, risk assessment in the group of the most significant threats in the red sector (61-65%):



SMUGGLING, UNDERSTATEMENT OF CUSTOMS VALUE, VIOLATION OF CUSTOMS RULES OF:		BUSINESS	CUSTOMS	STS	POLICE
Consumer goods	14.1.	51,63	47,69	51,36	52,96
Tobacco products	14.2.	59,42	54,44	57,78	57,91
Spirit and alcoholic beverages	14.3.	57,63	49,39	56,71	55,55
Petroleum products	14.4.	60,52	50,97	58,13	54,22
Cars	14.5.	50,07	46,26	52,64	49,10
Drugs and medical equipment	14.6.	56,38	47,45	57,88	51,78
Highly liquid computer technologies, household technologies, means of communication	14.7.	50,49	50,06	50,20	50,47
Forest and timber	14.8.	65,14	65,80	64,17	58,63
Jeweler products, watches, other luxury items	14.9.	46,35	45,00	49,30	48,56
Amber	14.10.	63,93	62,46	63,27	57,81
Prohibited for import of goods and commodities (inventory)	14.11.	55,14	49,87	53,69	49,84

«SMUGGLING»

(illicit transfer of goods across the customs border),
understatement of customs value and other violations of customs rules



60%

Petroleum products



66%

Forest and timber



64%

Amber

DISTRIBUTION OF PROHIBITED (OR UNLICENSED) TYPES OF BUSINESS



IN GENERAL, THIS SEGMENT OF THE FISCAL SYSTEM IS CHARACTERIZED BY SIGNIFICANT RESERVES, PROVIDED THAT THE RISKS OF THE SPREAD OF RELEVANT THREATS ARE REDUCED. MOSTLY THREATS CORRESPOND TO THE GROUP OF «SIGNIFICANT» - THE ORANGE LEVEL (50-59%).



DISTRIBUTION OF PROHIBITED (OR UNLICENSED) TYPES OF BUSINESS			BUSINESS	CUSTOMS	STS	POLICE
16.	Distribution of prohibited (or unlicensed) types of business	16.	53,32	48,66	46,80	50,61
16.1.	Gambling business	16.1.	64,59	61,02	60,17	55,73
16.2.	Manufacture, sale of narcotic drugs	16.2.	62,77	59,31	56,08	54,94
16.3.	Manufacture and sale of tobacco products	16.3.	57,92	54,77	55,89	56,52
16.4.	Manufacture and sale of alcoholic beverages	16.4.	62,14	59,09	57,81	59,39
16.5.	Construction	16.5.	46,93	48,56	55,99	51,68
16.6.	Manufacture and sale of fuels and lubricants	16.6.	56,79	52,32	56,41	52,81
16.7.	Provision of intimate services	16.7.	56,95	48,11	55,44	50,00
16.8.	Financial transactions using cryptocurrencies	16.8.	46,48	43,63	43,76	46,52
16.9.	Financial transactions in the securities market	16.9.	43,46	48,31	45,92	49,48

OUTSIDE THIS SEGMENT

threats related to the circulation of **cryptocurrencies** 44-46%



threats related to the circulation of **securities** 43-49%



illicit proliferation of **the gambling business** (red threat level) 60-65%



RISKS OF SPREADING THREATS

In addition to the gambling business, there are significant risks of the threat of using a prohibited (or unlicensed) business in relation to:



cultivation (manufacture and sale) of **narcotic drugs**

55-63%



manufacture and sale of **tobacco products**

55-58%



manufacture and sale of **alcoholic beverages**

58-62%



manufacture and sale of **fuels and lubricants**

52-57%

SHADOWING OF CERTAIN TYPES OF BUSINESS AND ECONOMIC ACTIVITY BY AREAS



By type of business, and specific and mostly illegal types of business have been identified in some way, those extremely affected by shadow economic activity are:

64-72%



illegal **mining**
(amber, granite, sand, oil, coal, etc.)
(mostly the highest level of risk),

58-64%



illegal **discharge of pollutants**
into water bodies

55-66%



illegal **emissions of pollutants**
into the atmosphere

61-71%



illegal **deforestation** and further
timber exports (though the group
is one, it's the most
significant threat)

56-60%



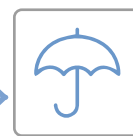
offshorization of foreign
economic activity

**BY
TYPE OF
BUSINESS**

THERE IS A CERTAIN EXPERT HOMOGENEITY BY GROUPS REGARDING THE VARIABILITY OF INDICATORS AND THE LEVEL OF RISK (COLOR PALETTE)

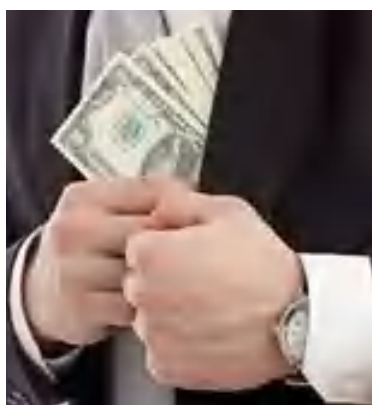
SHADOWING OF CERTAIN TYPES OF BUSINESS:		BUSINESS	CUSTOMS	STS	POLICE
Offshorization of foreign economic activity (export, import)	17.1.	59,88	56,02	57,89	57,75
Recycling of household waste	17.2.	49,68	43,90	40,76	41,21
Illegal deforestation and further timber exports	17.3.	70,97	69,85	66,33	61,21
Illegal mining (amber, granite, sand, oil, coal, etc.)	17.4.	71,72	66,96	64,52	56,50
Organization of passenger and cargo transportation by road	17.5.	48,74	44,19	44,28	45,07
Use of unaccounted land plots in agricultural activities	17.6.	51,58	50,37	49,81	45,36
Illegal use of water resources	17.7.	54,95	52,85	47,33	44,73
Purchase from the population and sale (including for export) of highly liquid agricultural products	17.8.	51,62	47,97	45,09	54,96
Illegal emissions of pollutants into the atmosphere	17.9.	59,07	66,16	57,80	55,10
Illegal discharge of pollutants into water bodies	17.10.	64,14	69,46	59,59	57,63

SHADOWING OF CERTAIN TYPES OF BUSINESS AND ECONOMIC ACTIVITY BY AREAS



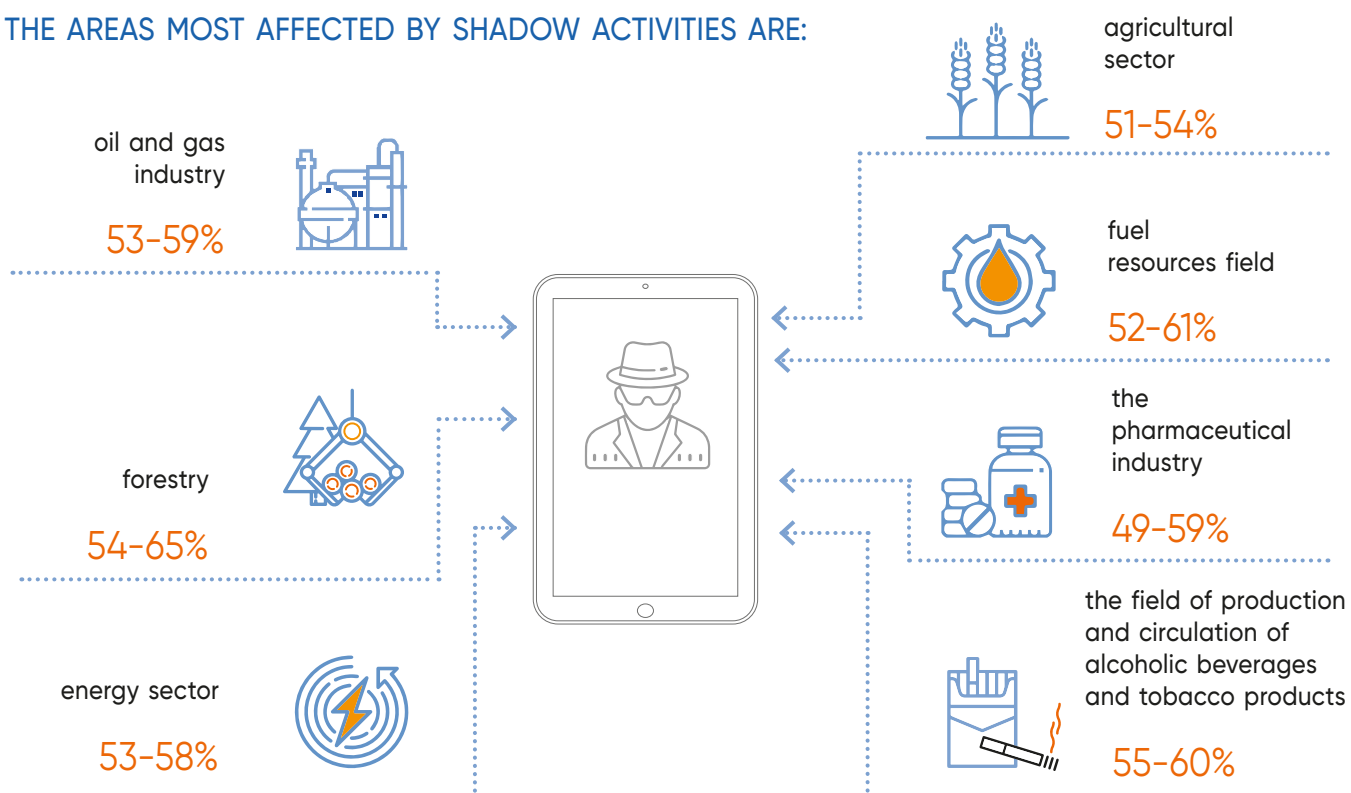
THE LEVEL OF SHADOWING OF ECONOMIC ACTIVITY ASSESSED THE RISK OF THE SPREAD OF THREATS TO FISCAL SECURITY IN 24 SECTORS OF THE ECONOMY.

There is also some expert homogeneity in terms of variability by groups of indicators and level of risk (color palette of the table).

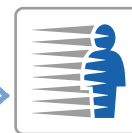


THE LEVEL OF «SHADOWING» OF THE ECONOMIC ACTIVITY	BUSINESS	CUSTOMS	STS	POLICE
39.1. In the field of banking	41,79	52,22	44,94	49,15
39.2. In the field of non-banking financial institutions	51,37	51,95	46,81	47,68
39.3. In the energy sector	57,54	56,89	54,87	52,62
39.4. In the oil and gas industry	58,55	58,89	57,58	52,97
39.5. In the field of fuel resources	60,63	59,17	56,61	52,06
39.6. In the agricultural sector	52,58	52,70	50,02	53,79
39.7. In the field of forestry	63,79	65,30	57,61	53,98
39.8. In the field of water management	46,04	50,07	42,99	43,17
39.9. In the field of foreign economic activity	47,65	48,47	48,65	54,03
39.10. In the field of production and circulation of alcoholic beverages and tobacco products	59,79	55,88	55,13	56,36
39.11. In the metallurgical industry	52,01	48,53	47,84	48,20
39.12. In the engineering industry	44,61	47,64	44,29	45,12
39.13. In the pharmaceutical industry	58,42	58,94	54,50	48,72
39.14. In the chemical industry	50,84	45,64	43,12	44,65
39.15. In the field of construction	53,90	49,45	47,47	52,52
39.16. In the IT sector	43,28	38,87	40,76	44,81
39.17. In the field of transport	45,51	44,97	41,26	44,63
39.18. In the field of trade	46,84	48,60	45,97	50,16
39.19. In the hotel business	42,76	38,27	38,52	40,11
39.20. In the field of restaurant business	42,54	39,21	38,14	37,65
39.21. Regarding real estate transactions	48,35	47,62	45,09	45,79
39.22. In the field of tourism	38,56	36,13	35,33	36,46
39.23. In the field of mail and courier activities	34,42	35,64	33,05	36,91
39.24. In the field of other services (not specified in the list)	40,41	41,79	35,21	38,21

THE AREAS MOST AFFECTED BY SHADOW ACTIVITIES ARE:



AVOIDANCE OF CRIMINAL LIABILITY FOR TAX OFFENSES



In general, according to the specifics of the SFS, the avoidance of criminal liability for tax offenses is assessed as a **significant level of risk** – more than 57% and requires the control of senior management.

It is characterized by a large group of indicators – 32, which are also divided into subgroups and evaluated differently.



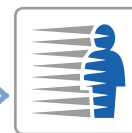
AVOIDANCE OF CRIMINAL LIABILITY	POLICE
18. Avoidance of criminal liability for tax offenses	57,10
18.1. Avoidance of criminal prosecution for tax offenses on the basis of imperfection of the Criminal Code of Ukraine	57,54
18.2. Avoidance of criminal prosecution based on gaps in criminal procedural law	59,55
18.3. Avoidance of criminal prosecution on the basis of imperfect tax legislation norms	53,21
18.4. Avoidance of criminal prosecution on the basis of imperfect customs legislation norms	52,37
18.5. Avoidance of criminal prosecution based on inefficient activities of the prosecutor's office	43,43
18.6. Avoidance of criminal prosecution on the basis of inefficient organization of operational and investigative activities	43,91
18.7. Avoidance of criminal prosecution on the basis of inefficient organization of pre-trial investigations	53,02
18.8. Avoidance of criminal prosecution on the basis of ineffective consideration of materials of criminal proceedings in courts	44,23
18.9. Avoidance of criminal prosecution based on inefficient activities of expert organizations and institutions	48,80
18.10. Avoidance of criminal prosecution based on counteraction to criminal prosecution	43,56

KEY SUBGROUPS 10, AMONG WHICH ARE ASSESSED BY THE LEVEL OF **SIGNIFICANT RISK (5)**, AVOIDANCE OF CRIMINAL LIABILITY ON THE BASIS OF:

- ▶ imperfections of the CCU norms;
- ▶ gaps in the CPC;
- ▶ imperfections of tax legislation norms;
- ▶ imperfections of customs legislation norms;
- ▶ ineffective organization of pre-trial investigation

ALONG WITH THIS, THE INEFFICIENCY OF OPERATIVE-SEARCH ACTIVITY, ACTIVITY OF THE PROSECUTOR'S OFFICE, CONSIDERATION OF MATERIALS OF CRIMINAL PROCEEDINGS IN COURTS, COUNTERACTION TO CRIMINAL PROSECUTION IS MOSTLY DENIED. BUT IN GENERAL, ACCORDING TO SOME CLARIFYING INDICATORS IN THE SUBGROUPS, THE RISK ASSESSMENT CAN VARY SIGNIFICANTLY.

AVOIDANCE OF CRIMINAL LIABILITY FOR TAX OFFENSES



REGARDING THE IMPERFECTION OF THE CRIMINAL CODE OF UKRAINE NORMS:

the most significant level (red) risk for:

- decriminalization of Article 203 of the CCU – Engaging in prohibited economic activities **62%**
- decriminalization of Article 208 of the CCU – Illegal opening or use of foreign currency accounts outside Ukraine **62%**
- imperfections of the mechanism of prosecution under Art. 212 of the CCU **63%**

AVOIDANCE OF CRIMINAL PROSECUTION FOR TAX CRIMES		POLICE
18.1.	Avoidance of criminal liability for tax offenses based on the imperfection of the Criminal Code norms	57,54
18.1.1.	Decriminalization of illegal acts	53,62
18.1.1.1.	according to Article 201	48,87
18.1.1.2.	according to Article 203	62,05
18.1.1.3.	according to Article 205	52,40
18.1.1.4.	according to Article 207	48,47
18.1.1.5.	according to Article 208	61,81
18.1.2.	Imperfection of the mechanism of prosecution for tax crimes (Article 212 of the Criminal Code) in	62,52
18.1.2.1.	Absences in the sanctions of Art. 212 in the Criminal Code of Ukraine of criminal punishment in the form of imprisonment	63,90
18.1.2.2.	A significant increase in the minimum thresholds for tax evasion	56,84

AVOIDANCE OF CRIMINAL LIABILITY		POLICE
18.2.	Avoidance of criminal liability based on gaps in criminal procedural law	59,55
18.2.1.	Over-bureaucratization of procedures in court for approval of investigative actions in criminal proceedings	60,36
18.2.2.	Impossibility to appoint tax audits on pre-trial investigation by an investigator or prosecutor (Articles 36, 40 of CPC)	51,31
18.2.3.	Insufficient regulation of procedural actions by operational units on behalf of the investigator	56,60
18.2.4.	Gaps in Criminal Procedure Legislation: Prohibition of Arrest of VAT Limits (Amendments to Article 170 CPC)	55,54

REGARDING THE IMPERFECTION OF THE CRIMINAL PROCEDURAL CODE OF UKRAINE NORMS:

the most significant level (red) is the risk of over-bureaucratization of coordination procedures in courts for investigative actions in criminal proceedings (over 60%).

However, there are significant risks of unresolvedness or gaps in Articles 26, 40, 170 of the CPC and insufficient regulation of procedural actions by operational units on behalf of the investigator (56.6%).

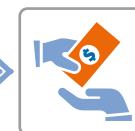
REGARDING THE FIGHT AGAINST CRIMINAL PROCEEDINGS:

Although the overall assessment attributes the risk to the yellow level, some indicators indicate a significant level of risk: in relation to a counterclaim (over 57%) and corruption collusion in the courts (over 53%).

AVOIDANCE OF CRIMINAL LIABILITY FOR TAX CRIMES		BUSINESS	STS	POLICE
18.10.	Avoidance of criminal liability based on counteraction to criminal prosecution	40,58	45,96	43,56
18.10.1.	By a counterclaim	55,31	54,51	57,11
18.10.2.	By corrupt collusion in the courts	54,97	53,27	53,21
18.10.3.	By corrupt collusion with prosecutors	56,30	53,17	46,31
18.10.4.	By corrupt collusion with law enforcement officers	44,63	44,82	38,50
18.10.5.	By forcible pressure on law enforcement and judicial officials	45,49	45,20	42,49
18.10.6.	By administrative pressure on law enforcement and judicial officials	46,20	46,68	44,76
18.10.7.	By putting pressure on the participants in the criminal proceedings	51,28	49,43	49,48
18.10.8.	By destroying the evidence base	41,91	43,12	47,01
18.10.9.	By pressure through the media	49,18	46,08	48,79



MANIFESTATIONS OF CORRUPTION IN THE FISCAL SPHERE



IN GENERAL, ASSESSING THE RISKS OF CORRUPTION THREATS IN THE FISCAL SPHERE IS AN EXTREMELY IMPORTANT ISSUE, WHICH IS DIRECTLY RELATED TO OTHER NEGATIVE MANIFESTATIONS, INCLUDING PRESSURE ON BUSINESS, THE SPREAD OF CRIME, AND SO ON.

An understood problem for modern society has also found itself in the aspect of fiscal security.

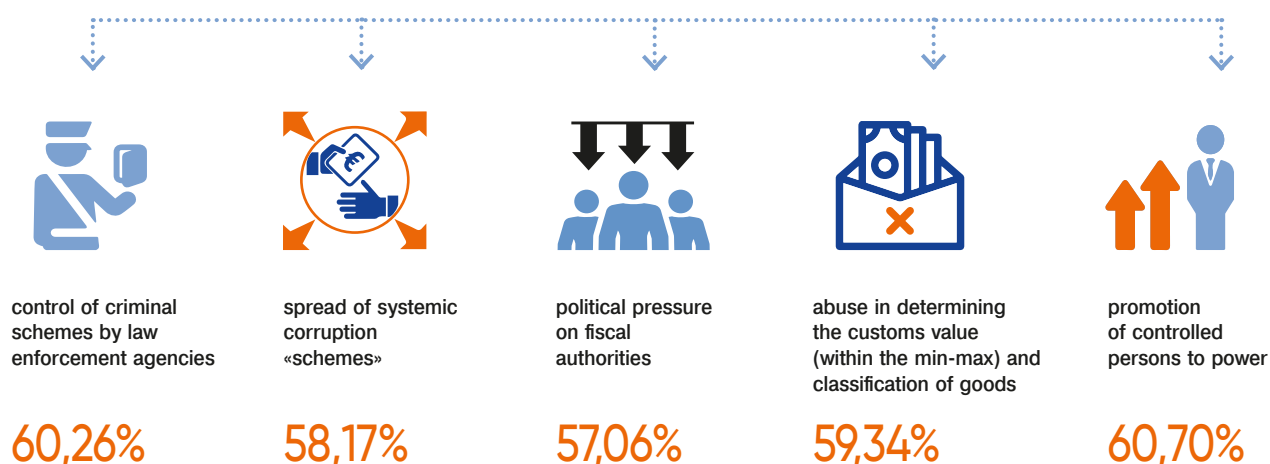
In general, assessing the risks of corruption threats in the fiscal sphere is an extremely important issue, which is directly related to other negative manifestations, including pressure on business, the spread of crime, and so on.

There is a place for threats of significant level of risk (orange) and the most significant (red).

But again, the peculiarity of assessment by groups is manifested: business more fundamentally assesses the risks of corruption, although according to some indicators, the subjects of the fiscal system are almost in solidarity with business.

MANIFESTATIONS OF CORRUPTION IN THE FISCAL SPHERE	BUSINESS	CUSTOMS	STS	POLICE
Bribery of persons in the legislature	59,81	57,74	48,13	50,81
Bribery of persons in executive bodies (central and local level)	59,60	54,85	44,97	49,84
Bribery of employees of fiscal authorities	53,46	51,86	37,66	45,63
«Conspiracy» to get a percentage from shadow operations	54,64	53,32	43,15	48,49
«Remuneration agreement» during inspections	49,82	54,28	39,91	47,00
Merging power with organized crime	56,34	59,11	46,49	51,35
Control of criminal schemes by law enforcement agencies	60,26	61,70	49,10	47,67
Spread of systemic corruption «schemes»	58,17	57,48	46,28	50,68
Loyalty of managers to the illegal actions of subordinates	53,69	45,64	35,56	40,53
Political pressure on fiscal authorities	57,06	58,20	42,10	52,27
Manipulation of public influence	47,76	54,85	39,07	47,44
Use of the judicial system to avoid liability for tax offenses	55,33	57,97	48,57	54,13
Abuse in determining the customs value (within the min-max) and classification of goods	59,34	46,32	46,88	51,73
Abuse in the assessment of risk payers	50,90	49,28	39,53	44,94
Abuse when renewing the status of «VAT payer»	48,79	48,73	36,34	42,67
«Manual mode» of the electronic VAT administration system	49,16	49,27	39,33	46,46
«Manual intervention» in the operation of automated systems	49,72	46,91	38,78	45,15
Promotion of controlled persons to power	60,70	61,86	47,35	52,25

MANIFESTATIONS OF CORRUPTION IN THE FISCAL SPHERE



IN GENERAL, **CORRUPTION** AND ANTI-CORRUPTION MEASURES IN THE FISCAL SPHERE ARE AN EXTREMELY **SENSITIVE AREA** THAT REQUIRES A **DEEP ENOUGH UNDERSTANDING** OF THE PHENOMENON, POLITICAL WILL AND SYSTEMATIC RESPONSE.

THREATS OF MACROECONOMIC NATURE AND INDIVIDUAL CONTENT



Shadow economy (53–59%) – this percentage does not reflect the level of the shadow economy compared to GDP (as usual), we can only talk about the level of risk of the spread of shadow economic activity and its impact on fiscal security.

Other macroeconomic threats are just as destructive of fiscal security:

- ▶ monopolization of markets and industries (55–62%),
- ▶ decline in production in the country (58–67%),
- ▶ reduction in the official labor market (58–68%),
- ▶ labor migration, outflow of labor abroad (61–70,4% – customs officers assessed this risk as the most vulnerable).

INDICATORS		BUSINESS	CUSTOMS	STS	POLICE
3.	Activities of «conversion centers»	57,54	56,95	58,75	63,20
5.	The level of the shadow economy	67,15	66,87	64,07	64,71
9.	Business is involved (due to the conditions prevailing in the state) in the shadow economic activity	57,23	59,41	52,73	54,55
19.	Monopolization of markets and industries	61,33	62,14	57,50	54,72
20.	Decline in production in the country	65,10	67,30	64,00	57,74
21.	Decrease in the official labor market	59,97	68,30	62,21	57,59
22.	Labor migration, outflow of labor abroad	65,84	70,40	66,48	61,14
23.	Labor relations with employees without legal registration	52,77	61,32	59,26	56,51
24.	Raiding	56,25	64,06	55,82	49,75
25.	High transaction costs in the business process	51,55	57,53	50,45	47,54
26.	Low level of tax culture of taxpayers	45,74	52,06	47,70	51,25
27.	Capital outflows to other jurisdictions	52,30	54,29	48,91	49,54
28.	Lack of «zero» declaration of income, other property and property rights	45,79	47,36	44,00	45,01
29.	Instability of the state tax policy	60,87	59,27	50,69	55,81
30.	Unequal business conditions compared to those who use tax minimization schemes	58,45	59,03	52,23	56,22
31.	The level of legalization of shadow income	55,37	57,85	50,09	56,83
32.	Underestimation of economic activity results by non-fiscal cash settlements	49,92	55,68	51,79	53,65
33.	Wages «under the table»	51,80	57,39	58,18	58,02
34.	«Kickbacks» in business transactions	56,27	60,83	56,50	56,62
35.	Unavailability of cheap bank loans and replacement with alternative resources (shadow)	60,68	60,47	57,50	55,17
36.	Difficulty of labor relations administration for business entities	52,02	53,00	46,19	49,15
37.	The complexity of the accounting procedure for small businesses	39,95	46,43	30,82	41,51
37.1.	The complexity of the accounting procedure for small businesses: tax	41,39	46,97	30,38	38,66
37.2.	The complexity of the accounting procedure for small business: accounting	41,10	44,84	30,69	39,93
37.3.	The complexity of the accounting procedure for small business: labor	41,21	42,45	30,59	38,62
38.	Easy access to shadow income legalization schemes	47,65	50,06	47,65	51,36

THE MOST SIGNIFICANT THREATS (RED LEVEL) – REQUIRE IMMEDIATE MEASURES TO REDUCE THE RISK OF THEIR SPREAD

THREATS OF INDIVIDUAL CONTENT:

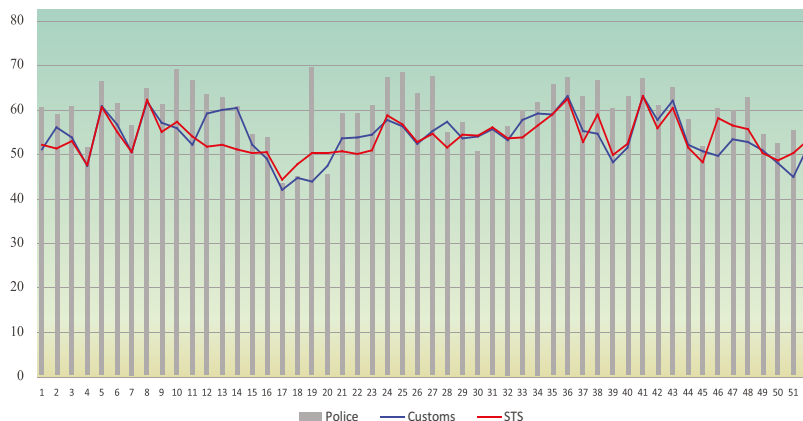
- ▶ activities of «conversion centers» (57–63%);
- ▶ raiding (56–64% – only the tax police do not accept this threat);
- ▶ legalization of shadow income (50–58%);
- ▶ wages «under the table» (52–58%);
- ▶ «kickbacks» in business transactions (56–61%);
- ▶ unavailability of cheap bank loans and replacement with alternative resources (shadow) (55–61%).

OPPORTUNITIES TO INCREASE THE LEVEL OF FISCAL SECURITY OF UKRAINE

EXTERNAL FACTORS IN THE FISCAL SYSTEM THAT WILL HELP INCREASE THE EFFICIENCY OF THE FORMATION OF THE REVENUE SIDE OF BUDGETS, AND THEIR IMPLEMENTATION (REALIZATION) MAY TAKE PLACE IN THE FUTURE

In order to assess the ABILITIES of the fiscal system, 52 indicators were used, which determined the probability of the introduction of opportunities and their impact on the fiscal security of Ukraine. The evaluation results are presented as a percentage – the level of risk of realization of OPPORTUNITIES for the development of the fiscal system.

The level of risk in most indicators is defined above 50%, which determines the positive value of these opportunities, despite the heterogeneous assessment by different expert groups. The SFS (tax police) is more positive about opportunities.



AMONG A NUMBER OF SELECTED OPPORTUNITIES ARE THE FOLLOWING:



55-68%

Creation of a single **law enforcement agency** in the economic sphere (heterogeneous assessment by different subjects of fiscal security);



51-63%

Deprivation of authority to investigate criminal offenses of an economic nature: the National Police of Ukraine;



51-62%

Deprivation of authority to investigate criminal offenses of an economic nature: the Security Service of Ukraine

OPPORTUNITIES TO INCREASE THE LEVEL OF FISCAL SECURITY OF UKRAINE

It is significant that against the background of high assessment (over 66%) of the development of information and analytical prospects (access to data, databases, foreign practices, etc.) (paragraphs 5, 15, 18.3, 18.4), the introduction of a model of law enforcement driven by intelligence analysis (ILP) in the field of fiscal security is estimated at just over 60% – SFS, and other entities not much more than 50%.

Despite the fact that such a model provides all the above abilities of the information-analytical unit, which are developing as part of the ILP model.

THERE IS A NEED TO RAISE AWARENESS OF EMPLOYEES ABOUT THE PRIORITIES, COMPONENTS AND MECHANISMS OF IMPLEMENTATION OF THE ILP AND THEIR APPLICATION IN PRACTICE

OPPORTUNITIES		BUSINESS	CUSTOMS	STS	POLICE
5.	Introduction of a system of automatic exchange of customs and tax information in the implementation of foreign economic activity	63,86	60,15	59,90	65,92
6.2.	Involvement of international technical and financial assistance for technical re-equipment of system bodies	57,93	61,12	61,58	64,45
7.	Creation of a single law enforcement agency in the economic sphere	62,94	55,15	56,61	68,72
8.	Assigning responsibility for the implementation of state policy in the field of fiscal security (regarding threats of a criminal nature) to a special law enforcement agency	60,84	51,47	53,32	66,08
9.1.	Deprivation of authority to investigate criminal offenses of an economic nature: the National Police of Ukraine	56,48	58,55	51,04	62,98
9.2.	Deprivation of authority to investigate criminal offenses of an economic nature: the Security Service of Ukraine	54,88	59,29	51,54	62,36
14.	Implementation of a model of law enforcement led by analytical intelligence (ILP) in the field of fiscal security	54,14	53,65	50,32	60,55
15.	Creation of a single information-analytical system (Database) of state bodies	60,47	57,04	58,15	66,97
18.2.	Access to best foreign practices: practical activities	56,93	58,58	55,84	61,38
18.3.	Access to best foreign practices: information and analytical support	57,58	58,28	58,38	65,40
18.4.	Access to best foreign practices: technical equipment	60,23	62,38	61,90	66,92
19.	Professional analysis of criminal law support of fiscal security and implementation of substantiated proposals for amendments and additions to the laws on criminal liability	57,16	54,52	52,02	62,61
20.	Introduction of criminal liability for tax fraud	62,08	53,96	58,26	66,24
30.	Optimization of the pre-trial investigation process	57,86	52,15	55,07	62,46

ABILITIES / VULNERABILITIES

**ABILITY /
VULNERABILITY -**
INTERNAL FACTORS
THAT CHARACTERIZE
VARIOUS ASPECTS OF
THE FISCAL SYSTEM
(ASSESSMENT OF THE
CURRENT STATE OF
AFFAIRS).



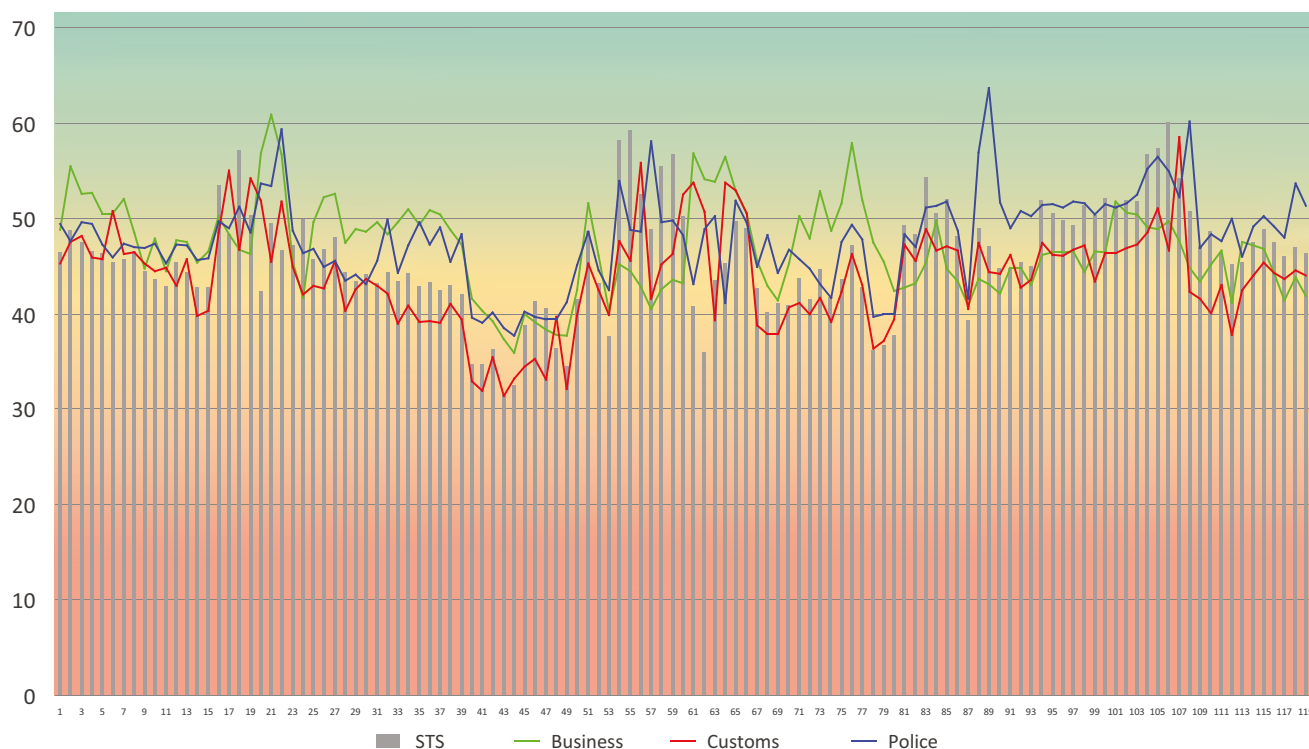
A total of 119 ability indicators were identified and assessed. The general picture is quite variable, somewhat blurred by expert groups, although there is a general trend of perception by the general population of the expert environment, which requires detailed analysis.

The calculation algorithm is used, according to which the indicators of ability to assess the risk above 50% are characterized by a positive level, and below 50% - negative

(as an insufficient level) and the content is more consistent with the vulnerability of the system.

Subsequently, performance indicators are presented in subgroups with a percentage determination of the level of risk. The advantage of the brown color palette is the vulnerability of the system, and the advantage of green is the ability.

FISCAL SECURITY ABILITY / VULNERABILITY RATING



**MOST ABILITY INDICATORS CHARACTERIZE
MAINLY THE VULNERABILITY OF UKRAINE'S
FISCAL SECURITY SYSTEM**

ADMINISTRATION, SERVICE, COMMUNICATIONS

ADMINISTRATION, SERVICE AND COMMUNICATIONS	BUSINESS	CUSTOMS	STS	POLICE
7.1. The level of administration in the tax sphere	50,21	48,49	53,52	49,71
7.2. The level of administration in the customs sphere	48,33	54,98	48,35	49,01
8.1. The level of service provision in the tax sphere	46,74	46,69	57,20	51,21
8.2. The level of service provision in the customs sphere	46,24	54,22	50,37	48,51
11. The level of public reporting of fiscal authorities to the public	45,43	44,89	47,22	48,70
12.1. The level of communication between fiscal authorities and the public	41,69	42,04	50,00	46,41
12.2. The level of communication between fiscal authorities and law enforcement agencies	49,65	42,92	45,77	46,83
12.3. The level of communications between the STS and the SCS	52,25	42,69	46,85	44,89
12.4. The level of communications between the STS and the SFS	52,59	45,52	48,04	45,52
12.5. The level of communications between fiscal authorities and the State Financial Monitoring Service of Ukraine	47,47	40,30	44,37	43,50
12.6. The level of communication between fiscal authorities and border guards	48,90	42,55	43,38	44,08
12.7. The level of communication between the fiscal authorities and the SSU	48,58	43,66	44,22	43,15
12.8. Level of communications between fiscal authorities and the Ministry of Internal Affairs	49,61	42,93	43,18	45,53
12.9. The level of communication between the fiscal authorities and the prosecutor's office	48,33	42,17	44,35	49,86
12.10. Level of communications between the SFS and the State Financial Monitoring Service of Ukraine	49,62	38,98	43,42	44,30
19. Level of advisory support for payers	42,62	45,23	55,51	49,59
19.1. The level of advisory support in the tax sphere	43,59	46,23	56,78	49,83
19.2. Level of advisory support in the customs sphere	43,21	52,51	50,20	48,25



Capacity risks are positively characterized in terms of administration in the system of fiscal authorities (48-54%), services (46% – business, and more than 50% of the STS and SCS), as well as consulting services (46-66%) (along with the fact that the business does not recognize such consulting services as reliable (42-43%).

But the level of communication, according to all expert groups, is a vulnerability of the fiscal system, which can directly affect its efficiency as a whole.

THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE



In reality the level of cooperation in the field of VULNERABILITY (40-49%). The expert assessment of the SFS (45-49%) as a body of pre-trial investigation of money laundering and the main (from the list of fiscal security entities) user of analytical materials of the State Financial Monitoring Service of Ukraine is no exception.

THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE	BUSINESS	CUSTOMS	STS	POLICE
13.1. The level of proactive use of financial information of the SFMSU by fiscal authorities	50,93	40,83	44,29	47,16
13.2. The level of proactive use of financial information of the SFMSU by the tax police	49,35	39,17	42,89	49,64
14.1. The level of use of analytical abilities of the SFMSU by fiscal authorities	50,87	39,22	43,34	47,31
14.2. The level of use of analytical abilities of the SFMSU by the tax police	50,45	39,02	42,47	49,11
15.1. The level of use by law enforcement agencies of generalized materials of the SFMSU by fiscal authorities	48,77	41,00	43,06	45,46
15.2. Level of use by law enforcement agencies of generalized materials of the SFMSU by the tax police	47,24	39,42	42,05	48,38

INFORMATION AND ANALYTICS

INFORMATION AND ANALYTICS	BUSINESS	CUSTOMS	STS	POLICE
42.1. The level of awareness of the risk-oriented approach	44,86	42,72	45,39	50,75
42.2. The level of awareness of risk assessment methods at the operational level	43,03	43,53	44,98	50,26
50. The level of use of analytical tools in the activities of fiscal authorities	47,17	44,02	47,55	49,12
50.1. Of methods of information analysis	46,80	45,37	48,90	50,21
50.2. Of analytical computer programs	44,31	44,29	47,52	49,16
50.3. Of analytical intelligent systems	41,41	43,65	46,06	48,03
50.3.1. Of analytical intelligent systems at the operational level	43,86	44,56	47,03	53,65
50.3.2. Of analytical intelligent systems at the strategic level	41,84	44,01	46,35	51,29



The expert opinions of Business and SCS (on VULNERABILITY – in the range of 41-44%) are more reasonable.

Relatively more positive assessment by the tax police (46-53%) of information and analytical activities, more indicates the lack of relevant competencies and modern understanding and content of this area.

PERSONNEL

PERSONNEL	BUSINESS	CUSTOMS	STS	POLICE
32. The level of wages of employees	47,43	36,32	36,19	39,70
33. The level of social protection of employees	45,50	37,15	36,75	40,00
34. The level of motivation of employees	42,41	39,41	37,81	39,97
41.1. Level of professional investigation of crimes: SFS	43,08	44,35	47,07	63,68
41.2. Level of professional investigation of crimes: prosecutor's office	42,13	44,16	44,86	51,68
43. Compliance of professional training with the requirements of practice	46,15	47,49	51,93	51,39
43.2. Compliance of professional training with the requirements of practice in departmental institutions of higher education	46,47	46,05	49,77	51,10
47.1. Professional level of employees of the STS	49,73	46,64	60,09	54,92
47.2. Professional level of employees of the SCS	47,65	58,56	54,24	52,21
47.3. Professional level of tax police officers	44,87	42,27	50,82	60,19
48.1. The level of improving the selection of new employees of the STS	45,16	40,01	48,71	48,38
48.2. The level of improving the selection of new employees of the SCS	46,67	43,03	46,40	47,62
48.3. The level of improving the selection of new employees of the SFS	41,13	37,78	45,21	49,95

UNANIMOUS EXPERT OPINION

37-47%

low motivation of employees of the fiscal system

42-47%

Business, the State Customs Service and the State Tax Service consider the professional level of the tax police to investigate tax crimes to be **VULNERABLE**

46-51%

Low level of professional education in departmental institutions of higher education

38-48%

Low level of selection of fiscal workers in all bodies without exception

LEVEL OF VULNERABILITY

THIS IS A GROUP OF INDICATORS, WHICH BY THEIR WORDING DETERMINE THE NEGATIVE CONTENT OF THE PHENOMENON (ACTIVITY) AND ABILITY IS NOT CHARACTERIZED EVEN IF ESTIMATED AT 10%: BUREAUCRACY, PRESSURE ON BUSINESS, PURELY ADMINISTRATIVE MANAGEMENT STYLE

LEVEL OF VULNERABILITY	BUSINESS	CUSTOMS	STS	POLICE
9.1. The level of bureaucracy in the provision of services	56,84	51,87	42,39	53,64
9.2. The level of bureaucracy in the provision of services in the customs sphere	60,89	45,45	49,50	53,45
10. The level of bureaucratic obstacles in the performance of functional duties by employees	56,74	51,74	46,60	59,37
20. The level of pressure on business	56,82	53,76	40,77	43,15
20.1. The level of pressure on business by representatives of the STS	54,14	50,72	35,99	48,88
20.2. The level of pressure on business by representatives of the SCS	53,88	39,31	43,47	50,29
20.3. The level of pressure on business by the tax police	56,45	53,76	45,32	41,12
20.4. The level of pressure on business by representatives of the prosecutor's office	52,99	52,98	49,70	51,83
20.5. The level of pressure on business by court representatives	50,50	50,49	49,00	49,53
45. The level of use of administrative (team) style in management	51,75	46,33	51,43	51,15



51-61%

Among expert groups, **business** stands out, noting the significant vulnerability of these indicators



57-61%

The level of bureaucracy in the **provision of services** (57%), especially in the **customs sphere** (61%);



47-59%

Bureaucracy in the **performance of official duties** is negatively characterized by expert groups of all subjects of fiscal security



56-54%

Assessing the **pressure on business**, stands out not from the best side of the **SFS** (56%), all other entities are equidistant, but in the **segment of high-risk pressure** (54%)



47-52%

A purely **administrative style of governance** is present in all bodies and at all levels, as confirmed by all experts

MODEL & FORECAST

WHEN ASSESSING RISKS, IT IS IMPORTANT NOT ONLY TO COMPARE WITH THE LIMITS OF RISKS. IT IS IMPORTANT TO ANALYZE AND DRAW CONCLUSIONS ABOUT THE VULNERABILITY OF THE SYSTEM TO THE SPREAD OF CERTAIN THREATS IN THE FISCAL SPHERE. TO WHAT EXTENT THE SYSTEM IS ABLE TO COUNTER THREATS, AND WHETHER THE FISCAL SYSTEM IS ABLE TO REDUCE THE LEVEL OF RISK OF THE SPREAD OF A PARTICULAR THREAT.



INCREASING THE ABILITY OF THE SELECTED INDICATORS IS POSSIBLE **TO PREDICT RISK REDUCTION**

ON «SCHEMES» OF MINIMIZATION OF TAX PAYMENTS:		ON VAT FRAUD:	
increasing ability by 10% (still red level);	55,10%	59,41%	increasing ability by 10% ;
increasing ability by 20% (already orange level);	50,86%	54-27%	increasing ability by 20% (orange level)
increasing ability by 25% (yellow level - less significant threat);	48,74%	49-13%	increasing ability by 30% (yellow level)