Chapter 8

Refugees' Personal Income Taxation under Russian Federation Military Aggression Against Ukraine

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8.1. Introduction

The Russian invasion of Ukraine on February 24, 2022, triggered a significant outflow of the working-age population abroad. According to the World Bank (2024), approximately 5.7 million Ukrainians left the country in 2022. In response to this crisis, many countries launched assistance programmes for vulnerable Ukrainian groups which, under Ukrainian legislation, are exempt from taxation (Verkhovna Rada of Ukraine, 2022). However, some of the refugees secured formal employment abroad, bringing to the forefront critical issues such as determining the appropriate jurisdiction for tax payment, defining tax residency, and avoiding double taxation. There are more than 70 international bilateral treaties for the avoidance of double taxation in force between Ukraine and other countries (Ministry of Finance of Ukraine, 2024), nevertheless the primary challenge lies not in the absence of such agreements, but in the lack of public awareness regarding personal income tax obligations and compliance.

This study explored the critical issues related to tax residency, including its definition and determination, the applicable personal income tax (PIT) rates in countries hosting the largest numbers of Ukrainian refugees, and the effectiveness of communication strategies employed by tax authorities to ensure compliance. Furthermore, it incorporated a detailed case analysis of the avoidance double taxation applied to Ukrainian refugees residing in the Czech Republic.

8.2. Taxpayer Obligations and Rights: Tax Residence, Double Taxation, and Income Tax Rates in Ukraine and the EU

Being a citizen of any country grants individuals a range of opportunities and rights. However, it also imposes certain responsibilities, among which are tax obligations. As Benjamin Franklin, one of the founding fathers of the United States, famously remarked in a letter (Franklin, 1907): "in this world nothing can be said to be certain, except death and taxes".

This principle applies equally to citizens residing within their home country and those working abroad, underlining the universal nature of tax responsibilities regardless of location.

In peacetime the main sources of income for citizens working abroad are employment and property, both of which are subject to taxation under the applicable tax rules, however in times of war, additional sources of income, such as social benefits, often come to the forefront. With the outbreak of the war many Ukrainians were displaced, seeking refuge in various countries and receiving social assistance. This displacement has raised critical legal and practical issues, particularly with regard to which types of income are subject to taxation.

In response, during the first year of the conflict, the Ukrainian legislature clarified the taxation of displaced persons abroad. Two key points were emphasized.

First, social assistance provided to displaced persons is exempt from taxation. This norm was added to the Tax Code of Ukraine (Verkhovna Rada of Ukraine, 2024):

> The total monthly (annual) taxable income of a taxpayer for the 2022 and 2023 tax (reporting) years, as well as for subsequent tax (reporting) years until December 31 of the year in which the martial law introduced […] is terminated or cancelled, does not include income:
>
> - in the form of funds or gratuitously provided goods (services) (hereinafter referred to as assistance) that are provided at the expense of budgetary funds of foreign states and their state funds to such taxpayers and their first-degree relatives as individuals affected by the armed aggression of the Russian Federation against Ukraine and who have exercised their right to temporary protection in accordance with the legislation of such a foreign state.
> - all forms of the specified assistance, including when received as an additional benefit, as well as from foreign companies and organizations that, according to the legislation of the relevant foreign jurisdiction, engage in charitable activities.
>
> If a taxpayer has received income as specified in this point, their obligation to submit a declaration of property status and income (tax declaration) is considered fulfilled, and the tax declaration is not required to be submitted. However, if the taxpayer is obliged to submit a declaration of property status and income (tax declaration) in accordance with other provisions of the Tax Code of Ukraine, the income specified in this point must be included alongside other income in the declaration.

Second, all other forms of income remain taxable, depending on the individual's tax residence status (Verkhovna Rada of Ukraine, 2024).

These provisions underline the importance of understanding tax residency rules and their implications for refugees. In general, tax residency refers to a country where an individual is obligated to pay taxes, yet it is different from citizenship, while migration or other factors take place. According to the most common practices, the simplest way to determine tax residency is, if a person stayed and conducted business activities in a certain country during half a year continuously (183 days).

For example, in Poland a tax resident is a person who has been staying in the country for more than 183 days or whose centre of economic or personal interest is in the territory of Poland. In Vietnam, a tax resident is a person who stays in the country for more than 183 days, who holds a temporary or permanent residence card, or who rents property in the country for more than 183 days per year (Rutkowska-Tomaszewska et al., 2023). On the other hand, in the UK an individual is considered a tax resident not only according to the 183 days rule, but also if at least one period of 91 consecutive days when owning the UK home, or more than 75% of the total number of days in the 365 day period when an individual does more than 3 hours of work in the UK (Global Financial Planning Institute, 2022).

This is a general rule of thumb, but some countries can apply different or additional norms. In Ukraine, a tax resident is a domiciled person in the country. In addition, if a taxpayer has a residence in a foreign country, then as long as their permanent residence is in Ukraine, or it is in Ukraine where they have close personal or economic ties, they are treated as a tax resident of Ukraine. Moreover, there is an additional norm in the Tax Code of Ukraine (Verkhovna Rada of Ukraine, 2024) that states: "If it is impossible to determine the residency status of an individual using the previous provisions of this subparagraph, the individual is considered a resident if they are a citizen of Ukraine."

In practice, situations arise where multiple countries may recognize the person as their tax resident, for example, many Ukrainians have obtained temporary protection abroad. Certain countries automatically classify such individuals as tax residents from the day temporary protection is granted or after 183 days of residence in that country (DTKT, 2023). However, Ukraine does not have a procedure for renouncing residency status, meaning these individuals remain tax residents of both Ukraine and the other country simultaneously. Even if individuals had lost all ties with Ukraine and all taxes are paid in the country where they have become a tax resident, residential status for Ukrainian Tax authorities will be still active, while Ukraine does not have an official procedure for losing or cancelling tax residency status. Thus, even if a person renounces Ukrainian citizenship or moves to another country for permanent residence, they will not lose their tax residency status in Ukraine officially. Individuals can still request Ukraine's tax authorities to recognize them as a non-resident proving that their tax residency in another country overrides their Ukrainian residency. In such cases, the situation is resolved under the Double Taxation Avoidance Agreement (DTAA) between Ukraine and the country where the individual resides, if such an agreement exists.

However, the status of temporary protection does not directly affect tax residency status, whilst tax authorities in some countries may make exceptions for Ukrainians (DTKT, 2023). Those who arrived on work visas may face stricter treatment than refugees. In disputed cases, where an individual has spent approximately equal time in both countries, the 'centre of vital interests' criterion under the convention rules (i.e. the place with the closest social and property ties) can help Ukrainians abroad avoid being classified as tax residents of another country and continue paying taxes in Ukraine – the key is to prove this to the tax authorities. For this reason an individual can obtain a certificate of Ukrainian tax residency online via the Taxpayer's Cabinet.

Due to the Russian Federation military aggression against Ukraine, almost 4.8 million Ukrainians became refugees in European countries. Although they settled in various countries, the majority are concentrated in ten of them, with numbers ranging from 100 000 to over 1 million (Tab. 8.1).

Table 8.1. Estimated number of refugees from Ukraine in European countries by July 2024

Country	Ukrainian refugees
Germany	1 178 610
Poland	957 505
Czech Republic	353 510
United Kingdom	244 560
Spain	202 690
Italy	170 925
Moldova	123 295
Slovak Republic	122 925
Netherlands	114 380
Ireland	108 540
EU Total	4 793 800

Source: compiled by the authors based on (Statista, 2024).

Table 8.2. Income tax rates in selected EU countries

Country	Income range	PIT rates	DTAA	Additional tax burden
Germany (EUR)	single: 11 604	0	+	< 18%
	married: 23 208			
	single: 11 604 to 66 760	14-42		–
	married: 23 208 to 133 520			
	single: 66 760 to 277 825	42		> 18%
	married: 133 520 to 555 650			
	single: 277 825 and above	45		> 18%
	married: 555 650 and above			
Poland (PLN)	to 120 000	12% of the base less the amount decreasing tax (PLN 3 600)*	+	< 18%
	over 120 000	PLN 10 800 + 32% excess over PLN 120 000		> 18%
Czech Republic (CZK)	less than 36 times the average monthly salary	15	+	< 18%
	above 36 times the average monthly salary	23		> 18%
Spain (EUR)	the first 6000	19	+	> 18%
	6 000 to 50 000	21		> 18%
	50 000 to 200 000	23		> 18%
	200 000 to 300 000	27		> 18%
	over 300 000	28		> 18%
Italy (EUR)	28 000 and below	23	+	> 18%
	28 001 to 50 000	35		> 18%
	above 50 000	43		> 18%
Slovak Republic (EUR)	to 41 445,46	19	+	> 18%
	above 41 445,46	25		> 18%

Netherlands (EUR)	0 to 38 098	9.32	+	< 18%
	38 098 to 75 518	36.97		> 18%
	over 75,518	49.5		> 18%
Ireland (EUR)	42 000 and below (single and widowed person: no dependent children)	20	+	> 18%
	51 000 and below (married couple: one income)			
	84 000 and below (married couple: two incomes)			
	above 42 000 (single and widowed person: no dependent children)	40		> 18%
	above 51 000 (married couple: one income)			
	above 84 000 (married couple: two incomes)			

Grey refers to a certain income tax rates that are less than 18% of the income tax rate, thus obligating individuals to pay an excess part to Ukrainian tax authority

Source: compiled by the authors based on (Ministry of Finance of Ukraine, 2024; PwC, 2024).

Some Ukrainian refugees found work in the new place of residence and are receiving not only social assistance, but also a salary or wages, which are still, as described above, a subject of Ukrainian taxation. According to DTAA signed by Ukraine, there should be a recalculation of the tax burden in line with the already paid taxes. Thus, if an individual paid more than Ukrainian PIT rate – no additional payments should be made, whilst if this was less – the difference should be paid to Ukrainian tax authority.

In Table 8.2 tax rates from selected EU countries with highest number of Ukrainian refugees are presented to highlight the additional tax obligations.

8.3. Case Study: Avoiding Double Taxation for Ukrainian Refugees in the Czech Republic

A specific example of the application of double taxation avoidance measures was analysed through the case of a Ukrainian refugee residing in the Czech Republic, where the income of tax residents is subject to a progressive taxation system. Gross annual income, calculated as 36 times the average monthly salary, is taxed at a rate of 15%. Income exceeding this threshold is taxed at a higher rate of 23% (PwC, 2024). To ensure compliance with double taxation avoidance regulations, several key factors must be considered. If a refugee's income is subject to a 23% tax rate in the Czech Republic, which exceeds the 18% personal income tax rate in Ukraine, no additional personal income tax liability arises in Ukraine. However, the obligation to pay the military tax of 1.5% on the total personal income remains mandatory. Conversely, if the refugee's income is taxed at the lower 15% rate in the Czech Republic, the taxpayer is required to remit the difference in personal income tax to Ukraine while also fulfilling the obligation to pay the 1.5% military tax.

This section examines the second scenario, which necessitates the additional payment of personal income tax and the military tax. While the calculation may appear straightforward, the practical implementation involves significant complexities. The primary difficulty includes the requirement to provide documented evidence of income earned in the Czech Republic.

Second, given that tax obligations in Ukraine must be fulfilled in the national currency, income earned in Czech korunas must be accurately converted into Ukrainian hryvnas.

Regarding documentary confirmation, the following documents are required in accordance with the Tax Code of Ukraine (Verkhovna Rada of Ukraine, 2024):

> To obtain the right to credit taxes and fees paid outside Ukraine, the taxpayer is required to obtain a certificate from the authorized state body of the country where such income (profit) is earned. This certificate must specify the amount of tax and fee paid, as well as the tax base and/or taxable object. The certificate is subject to legalization in the respective country and by the relevant foreign diplomatic mission of Ukraine unless otherwise provided by Ukraine's current international treaties.

At this stage, significant obstacles to the optimal execution of tax obligations begin to emerge. The first challenge is obtaining the required certificate. Since the individual is not a tax resident of the Czech Republic, they cannot automatically obtain such a certificate. In practice, to acquire it, the individual must independently submit a tax declaration to the relevant tax authority and request a copy of the document.

The second challenge is the legalization process. Given the large number of Ukrainian refugees and the limited resources of Ukrainian consulates, this is a complex task. Additionally, it is likely to involve additional expenses, for example, the cost of a notarial translation alone starts at 30 euro and the legalization process is likely to incur further costs.

At this stage, legislative amendments should be considered to streamline the process of recognizing foreign income. This could include the possibility of using income statements provided by employers abroad, which confirm both income received and taxes paid. There is a further rationale for this recommendation: such statements typically include a breakdown of income by month. This detail is critical because the Tax Code of Ukraine explicitly states (Verkhovna Rada of Ukraine, 2024):

> When calculating (receiving) income in the form of foreign currency assets or other assets (the value of which is expressed in foreign currency or international settlement units), such income is converted into hryvnias at the exchange rate of the National Bank of Ukraine in effect at the time of calculation (receipt) of such income.

This critical importance is further emphasized by the significant depreciation of the Ukrainian hryvnia between 2022 and 2024 (see Fig. 8.1).

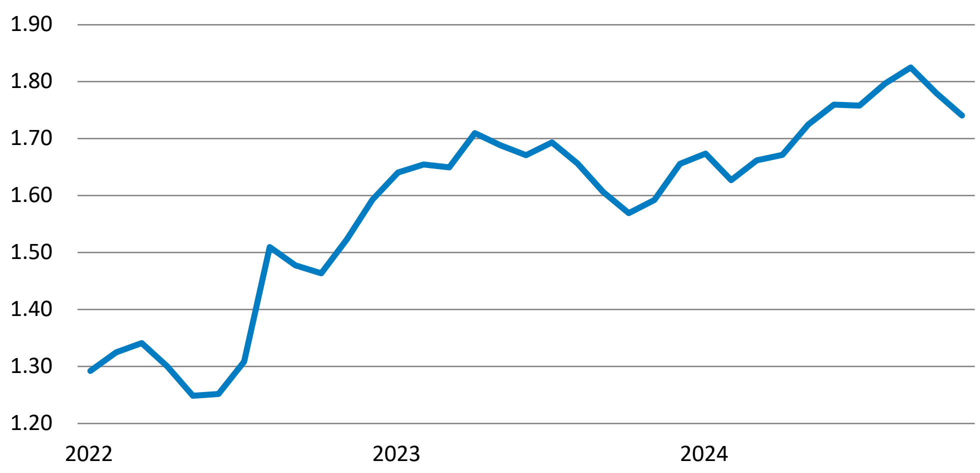

Fig. 8.1. Foreign exchange rate of UAH/CZK, January 2022 – November 2024

Source: (National Bank of Ukraine, 2024).

If the calculation of taxes owed is based solely on annual income totals, this could result in the unfair treatment of taxpayers. The monthly breakdown provided by income statements ensures a more accurate conversion of foreign income into Ukrainian hryvnas at the applicable exchange rates for each period, thereby mitigating potential disparities and ensuring equity in the taxation process. At the same time, another important issue relates to the exchange rate, which is tied to the date the income is received. This date may fall in the middle or at the end of the month, potentially creating discrepancies. It would be advisable in such cases to use the average exchange rate for the relevant period, which is also provided by the National Bank of Ukraine.

Table 8.3 presents a detailed example of tax calculation and payment by a Ukrainian tax resident on income earned in the Czech Republic. Analysing this case reveals several important considerations.

First, the process is highly time-consuming, involving multiple stages such as interactions with the tax authority in the host country, document translation, consulate legalization, and submission to the tax authority in Ukraine, and on average this process takes approximately one month. Moreover, it entails additional expenses, particularly for the translation of documents, which adds to the overall complexity and cost of compliance.

Second, despite the availability of the Taxpayer's Cabinet, completing a tax declaration remains a complex process for individuals unfamiliar with tax regulations. This process requires significant improvements, in particular introducing a simplified interface with straightforward questions for taxpayers. For example, the system could ask which types of income were earned (with a dropdown menu), the amount of income, and the country where the income was received. Based on these responses, the tax reporting could be automatically generated. The goal is to ensure that any taxpayer, regardless of their level of financial literacy, can fulfil their tax obligations through simple steps. A validation group representing diverse demographics – age, income levels, and education – should be established to ensure the system's usability across different population groups.

Currently, only well-informed taxpayers can file their tax reports accurately and avoid penalties. Under wartime conditions, the focus should shift from penalizing taxpayers to clarifying and simplifying tax obligations. Given the high level of digitalization in Ukraine, these challenges could be addressed in a relatively short time frame.

This approach is crucial for broadening the tax base. In many cases, people fail to pay taxes not out of unwillingness but due to a lack of knowledge or an inability to complete the necessary documentation. Addressing these barriers is essential to fostering compliance and ensuring fair tax administration.

Third, the issue of fairness arises, particularly concerning taxpayers with low incomes. These individuals, who often have the least financial resilience, are required to pay additional taxes in Ukraine. This is especially problematic considering their status as refugees, many of whom have no homes to return to due to the occupation of Ukrainian territories.

Furthermore, the cost of living in host countries must be taken into account, including expenses for housing, food, etc. Refugees' incomes are further reduced by social contributions, such as mandatory health insurance payments. These factors exacerbate the financial strain on low--income taxpayers, highlighting the need for a more equitable approach to taxation under these extraordinary circumstances. Addressing these disparities is essential to ensuring that tax policies do not disproportionately burden the most vulnerable, particularly those who have been displaced by war. That is why the authors propose reconsidering this taxation rule, and further demonstrate that it may be reasonable to retain only the military tax for refugees.

Table 8.3. PIT calculation example for income earned by Ukrainian refugees in the Czech Republic to avoid double taxation, 2022

Indicators		Raw mark	Calculation	2022									
				April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Salary in the Czech Republic	in CZK	A	–	10000	10000	10000	10000	10000	10000	10000	10000	10000	90000
	Official foreign exchange rate of UAH/CZK	B	–	1.2512	1.2747	1.244	1.5033	1.4912	1.4405	1.4884	1.5588	1.6101	–
	in UAH	C	A × B	12512	12747	12440	15033	14912	14405	14884	15588	16101	128622
PIT according to Czech Law	15%	D	A × 15%	1500	1500	1500	1500	1500	1500	1500	1500	1500	13500
	in UAH	E	D × B	1876.80	1912.05	1866.00	2254.95	2236.80	2160.75	2232.60	2338.20	2415.15	19293.30
PIT according to Ukrainian Law	18%	F	C × 18%	2252.16	2294.46	2239.20	2705.94	2684.16	2592.90	2679.12	2805.84	2898.18	23151.96
Military tax	1,50%	G	C × 1.50%	187.68	191.21	186.60	225.50	223.68	216.08	223.26	233.82	241.52	1929.33
Gap in PIT to be paid in Ukraine	in UAH	I	F – E	375.36	382.41	373.20	450.99	447.36	432.15	446.52	467.64	483.03	3858.66
Total taxes to be paid in Ukraine	in UAH	–	I + G	563.04	573.62	559.80	676.49	671.04	648.23	669.78	701.46	724.55	5787.99

Source: own elaboration.

Fourth, the increase in the military tax to 5% for individuals could significantly enhance the state budget during wartime. However, this measure would only be effective if accompanied by proper communication from the tax authorities with Ukrainian refugees and the implementation of previous recommendations to simplify the submission of necessary documents. Clear and accessible communication is essential to ensure compliance and prevent resistance to the proposed changes.

Fifth, taxation policies are critical to the country's strategy for encouraging the return of refugees. Overly complex tax procedures, unjustified increases in tax rates, or the reintroduction of progressive taxation – which has previously proven ineffective – could discourage refugees from maintaining their tax residency in Ukraine. This could result in a shift of tax residency to other countries, leading to a loss of taxpayers for Ukraine. Therefore, any adjustments to the taxation system must carefully balance the need for revenue generation with the goal of fostering economic reintegration and retaining the taxpayer base.

8.4. Conclusions

The taxation of income earned by Ukrainian refugees is a complex issue, arising from differences in the taxation regimes, calculation methodologies, and administrative procedures across jurisdictions. These disparities create significant challenges in filing tax declarations, legalizing income, and ensuring compliance with both Ukrainian and international tax laws.

Digitalisation is critical to streamline tax procedures. A centralized platform for processing foreign income should be developed and integrated with international tax systems, facilitating seamless data exchange and reducing administrative burdens.

Special simplified tax procedures should be introduced for Ukrainian refugees to address bureaucratic barriers and minimize the time and costs. For instance, tax calculations could focus solely on the military tax, utilizing average exchange rates and simplified income declarations provided by employers. This would ensure fair and efficient taxation without overburdening displaced individuals.

Ukraine should enhance its collaboration with EU member states to establish efficient information-sharing mechanisms regarding the tax status of refugees. Such cooperation would help prevent cases of double taxation, promote compliance, and support the alignment of tax policies with international standards.

Targeted information campaigns and access to legal assistance are essential to help refugees understand their tax obligations and navigate complex procedures. Educational materials, hotlines, and dedicated online resources should be made available to address common questions and concerns.

Most Ukrainian refugees fail to pay taxes not out of intent but due to the complexity of the process. Simplifying procedures and improving communication between taxpayers and authorities will encourage compliance and foster trust in the tax system.

By implementing these measures, Ukraine can better address the challenges faced by refugees in meeting their tax obligations, while also ensuring equitable and efficient tax administration in the context of international migration and conflict.

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