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SIMPLIFIED TAXATION REGIMES FOR SMALL AND MEDIUM-SIZED ENTERPRISES: EXPERIENCE OF EU COUNTRIES AND TRANSFORMATION IN UKRAINE

ABSTRACT

The reform of the simplified taxation system is one of the important goals of the state's financial policy, as set out in the National Revenue Strategy until 2030 and Ukraine's integration into the European economic area. The current simplified taxation system in Ukraine is not in line with European practice and is used by large businesses to minimise tax liabilities.

The purpose of the article is to substantiate the options for the simplified taxation system reform in Ukraine in accordance with the National Revenue Strategy until 2030, taking into account the European experience.

The main results of the study. The systematisation and substantiation of the essence of special VAT schemes for SMEs in the EU countries, as provided for by Council Directive 2006/112/EC, were further developed. This made it possible to study the thresholds for VAT registration and application of certain schemes determined by the European Commission and the OECD, and to substantiate practical recommendations and warnings regarding changes in the threshold for VAT registration in Ukraine.

It is proven that simplified taxation of entrepreneurs' income is a rare occurrence in European practice, but in Ukraine, it should be preserved to maintain a favourable business environment and stimulate entrepreneurial activity.

The approaches to the simplified taxation system reform have been improved. They include reducing the number of taxpayer groups by consolidating them; cancelling the possibility to be on the simplified taxation system for legal entities; optimising the amount of net income that gives the right to use this system; and introducing a new methodology for determining the single tax rate for taxpayers of the first group based on the average or minimum wage. The latter innovation will help minimise the effect of artificial business splitting to reduce tax liabilities, stimulate entrepreneurial activity, and generate additional budget revenues. In developing the final parameters of the simplified taxation system reform, it is important to take into account the restrictive effect of the military tax and to provide financial support schemes for SMEs.

Keywords: simplified taxation system, single tax, value added tax, small and medium-sized enterprises, public finance, special taxation regimes, minimum wage, average wage

JEL Classification: H21, H25

INTRODUCTION

Small and medium-sized enterprises (hereinafter – SMEs) represent the most important business sector of any economic system. In 2023, they accounted for 99.8% of all non-financial businesses in the EU. This year, 25.8 million SMEs employed 88.7 million people. This confirms that SMEs significantly contribute to employment and value-added in the EU27 (Katsinis et al., 2024). The results of the institution of SMEs in the EU countries prove their effectiveness. Such enterprises stimulate the intensification of entrepreneurial activity, ensure the filling of budgets at all levels, increase the range of goods and

services, strengthen the competitive environment, improve the tax culture, etc. Therefore, EU governments are increasing support for SMEs in their national development strategies. Introducing simplified taxation regimes is one of the areas of such support.

EU member states do not apply a uniform approach to the taxation of SMEs, as they differ in terms of economic development and sectoral and regional characteristics. At the same time, each country has its own fiscal and economic needs, which are taken into account when establishing tax policies to support SMEs. The political will of each country and its strategic goals in business and economic development are also taken into account. The study of the experience of SME taxation methods and organisation in the EU countries is necessary and relevant for Ukraine. Our country has proclaimed its European integration course of development, and therefore, the country needs to take into account European practices when reforming the Ukrainian simplified system of taxation, accounting and reporting for small businesses (hereinafter – STS).

Reforming the taxation system for SMEs in Ukraine is currently one of the most important tasks of the state's financial policy. Not only the survival of the business environment but also its progressive development in the context of the war and post-war recovery depends on a positive solution. It is difficult to identify clear directions for reforming the STS in Ukraine. This problem is exacerbated by the fact that the reforms are taking place in the context of a full-scale war with Russia when established production, distribution, and logistics links between business entities are being destroyed, problems arise with relocating businesses to relatively safe regions of Ukraine, the national currency is being moderately devalued, there is a shortage of credit, financial, and labour resources, and energy and critical infrastructure is being destroyed. In such circumstances, it is necessary to study and justify the possibility of using the best European practices of SME taxation.

The relevance of theoretical research and the development of practical directions for the transformation of the STS is also confirmed by the fact that in December 2023, the National Revenue Strategy of Ukraine until 2030 was approved (Ministry of Finance Official Site, 2025). Thus, Ukraine has fulfilled its obligations under the Memorandum with the International Monetary Fund. This strategic document defines a plan to strengthen the state's financial system, reform the tax service, improve tax administration procedures and, in particular, the STS in stages until 2030.

LITERATURE REVIEW

The use of simplified approaches to the taxation of business entities in fiscal practice has attracted the attention of scholars to its study. Working documents of many international organisations are devoted to it: The World Bank (Díaz et al., 2018; Engelschalk and Loeprickl, 2015; The World Bank Group, 2007), the International Monetary Fund (Bulutoglu, 1995; Wen, 2023), the International Labour Organisation (ILO Official Site, 2021) and the Organisation for Economic Cooperation and Development (Mas-Montserrat et al., 2023; OECD Official Site, 2021). These publications reflect the general approaches to the simplified taxation regimes' development and the social and economic effects of their introduction, especially in developing economies. The research also focuses on how simplified taxation regimes affect the formalisation of business and employment. For example, studies by foreign scholars (Aditya, 2020; Engelschalk, 2004; ILO Official Site, 2021) show that the introduction of simplified regimes contributes to the legalisation of business, but the effect of legalisation weakens over time. This suggests that simplified taxation regimes have the greatest impact on the legalisation of taxpayers whose practice is closest to the official one. Many scientific publications have investigated the problems of determining the tax base when developing simplified regimes (Bird and Wallace, 2004; Logue and Vettori, 2011; Thuronyi, 2004). Most of the problems in this area are reduced to the development of methods for assessing the income of SMEs for further taxation. Despite the problems of developing simplified taxation regimes, the works of (Engelschalk, 2004; Iordachi and Tirlea, 2016) substantiate the positive effects and expediency of using simplified taxation, especially in developing economies.

The key aspects of tax support for SMEs at the EU level are covered in the supranational legislation of the Community. The most important rules in this area are the head office taxation (HOT) mechanism, which is regulated by a separate Proposal (European Union Official Site, 2023), and special VAT schemes provided for by Council Directive 2006/112/EC (European Union Official Site, 2006). However, most of the supranational instruments that regulate corporate income taxation in the EU are aimed at large corporations. Therefore, most of these documents have no impact on the taxation of SMEs at all, only some of them have an indirect impact.

The STS for SMEs has been in place in Ukraine for a long time and has been the subject of many scientific studies. Scientific publications reflect discussions on the feasibility of such a system in general, the scope of its application, the mechanism of its operation, etc. These issues have become increasingly important during the periods of successive single-tax reforms. At the stage of the 2016 tax reform, it is worth highlighting the studies by V. Synchak (2015, 2020), I. Kovova (2015) and

O. Bondarenko (2015), who assessed changes in the single tax rules and the development of small businesses. Before and during the spread of the COVID-19 pandemic, the problems of the STS were studied by L. Oleinikova and I. Tochilina (2019); T. Tuchak and O. Linnyk (2020); T. Calinescu and S. Ponomariova (2020). In particular, L. Oleinikova and I. Tochilina argue that due to the weakness of state institutions and lack of financial resources for non-tax forms of small business support, the STS is the most effective tool for supporting SMEs. T. Tuchak and O. Linnyk studied the results of the STS under the conditions of the COVID-19 pandemic and proposed to introduce additional incentives for small entrepreneurs that would increase the flexibility of the STS. T. Calinescu and S. Ponomariova developed a differentiated approach to single taxpayers belonging to the fourth group. They proposed to divide this group into subgroups and set a separate single tax rate for each of them. The problems of the STS functioning under martial law in Ukraine are highlighted in the work of S. Ihnatenko (2023). The scholar notes that the single tax innovations introduced at the beginning of a large-scale war were too liberal and led to significant budget losses. They were also not beneficial for single taxpayers belonging to the third group. The reform of the STS at the present stage, taking into account the priorities of the National Revenue Strategy until 2030, was partially studied by T. Tuchak (2024). She drew special attention to the possible consequences if the powers to administer the single tax are transferred to local governments.

The issues of simplified taxation regimes are also of considerable interest in foreign scholarship. They relate to the design of the simplified taxation system for SMEs, possible manifestations of discrimination against taxpayers in its application, as well as fiscal and other consequences. M. Bruhn and J. Loeprick (2016), using the example of Georgia, have shown that the introduction of a preferential tax regime for small and microbusinesses leads to a one-time increase in the number of registrations of such taxpayers, but a rather long-term decrease in the level of tax discipline (as taxpayers use the differentiation of the tax burden to reduce tax payments). This problem is more typical for small businesses than for microbusinesses. M. Abdellaif and B. Tran-Nam (2022) compared the simplified tax regimes for SMEs in Australia and Egypt. They argue that the criterion for granting this regime should be a clear definition of small and medium-sized businesses based on annual turnover. In their opinion, special taxation conditions for SMEs should be included in the regular tax legislation. They should include fiscal incentives for expanding the scale of activities of these enterprises. N. Bhalla, I. Kaur and R. K. Sharma (2022) found that the introduction of technological changes in the taxation of SMEs, as well as the spread of tax literacy, significantly increases the efficiency of such enterprises and their level of tax discipline. FY. Mpofu (2022) examines the prospects for introducing taxes on digital services and warns that preferential tax treatment for small businesses can be seen as tax discrimination based on business size. It can also hinder the development of small businesses, which will be interested in not reaching the maximum turnover threshold and not losing tax benefits. V. Bucci (2020) studies the impact of the introduction of simplified tax regimes on taxpayer behaviour. She considers two models of presumptive taxation methods, namely indirect tax assessment methods and presumptive minimum taxes. V. Bucci proves that the use of the turnover tax rate for SMEs increases the level of voluntary tax payment, as well as affects the volume of tax revenues and the size of the shadow economy. V. Lavic (2023) argues that a special tax regime for start-ups and SMEs stimulates an increase in their registration. In her opinion, the benefits of the special tax regime should be universal, so as not to cause discrimination against taxpayers and other negative consequences.

Despite the existence of many publications on this topic, it is important to substantiate the optimal tax mechanisms for SMEs that will take into account the problems of their functioning and ensure maximum efficiency of their activities in the context of overall economic development. An analysis of foreign experience in the methodology and organisation of this process in the EU countries is advisable, as Ukraine has declared its course towards European integration. When reforming the STS, the country needs to use European practices in this area.

AIMS AND OBJECTIVES

The purpose of the article is to substantiate the options for reforming the STS in Ukraine in accordance with the National Revenue Strategy until 2030 and with due regard to the European experience. This goal is complex and requires the solution of certain tasks: studying the European experience of introducing special VAT taxation regimes for small and medium-sized enterprises, including setting annual turnover limits for activities that qualify for such regimes; evaluating the European practice of simplified income taxation for enterprises; developing options for reforming the single tax in Ukraine and assessing the fiscal consequences of their implementation.

METHODS

The global fiscal practice shows (Thuronyi, 2004) that the most common are simplified regimes based on turnover taxation of business entities. One of the most important issues in their design is whether turnover taxation covers VAT or whether

it should be levied on SMEs separately. Because of this dilemma, this study examines the European experience of applying simplified approaches to the taxation of SMEs' income and special VAT schemes that can be applied by SMEs. The information base for the study of this aspect of VAT is the EU supranational tax legislation, as well as national sources of tax law of individual countries. However, supranational rules in the EU practically do not regulate the taxation of SMEs' turnover.

In the study of European approaches to simplified taxation of SMEs' income and special VAT schemes, the author used the methodological techniques of description, analysis, synthesis and comparison. These methods were used to study and compare the experience of individual EU countries and to critically compare it with Ukrainian fiscal practice. This made it possible to substantiate the conclusions on the application of the best European practices of taxation of SMEs' income and special VAT schemes in Ukraine. The research methodology is based on the analysis of official statistics and information materials of international organisations and national authorities.

The initial methodological determinant of the reform of the STS in Ukraine is that it is used for tax evasion and optimisation of SMEs' tax liabilities. As a basic approach to reform, we use the proposals of the National Revenue Strategy until 2030, which envisage the merger of the second and third groups of the STS. Accordingly, for further scientific substantiation of the peculiarities of reforming the STS in Ukraine, we propose to use the following names of taxpayer groups:

1. The first group of the STS is an analogue of the current first group.
2. The second group of the STS – the combined second and third existing groups.
3. The third group of the STS is an analogue of the current fourth group.

The methodological criteria for reforming the STS in Ukraine are the level of tax burden on the taxpayer and the amount of tax revenues to the budget. Thus, using the method of expert estimates, the first group of the single tax is defined as an alternative to working as an employee. Therefore, the tax burden on this group is assumed to be at the level of taxation of income in the form of wages. The notional tax base is the average monthly nominal wage in the country.

However, using the average monthly nominal wage to calculate the unified tax involves greater administrative difficulties. Therefore, we propose to consider two variants of the single tax calculation methodology for entrepreneurs of the first group of the STS in Ukraine:

1. Based on the average monthly nominal wage.
2. Based on the minimum wage adjusted for inflation.

Approach to levying the single tax on the first group of the STS based on the average monthly nominal wage

The tax burden of an entrepreneur consists of a single tax and a single social contribution (excluding the military fee, which is a temporary payment and is undergoing reform). The basic rate of the SSC is 22%. According to the "Law of Ukraine 'On Collection and Accounting of the Single Contribution for Obligatory State Social Insurance' dated 08 July 2010 No. 2464-VI" (Verkhovna Rada of Ukraine Official Site, 2010), the minimum income from which the contribution is paid cannot be less than the minimum wage. As a rule, entrepreneurs pay a single social contribution to the minimum wage. Therefore, when calculating the tax burden in the form of a single tax (ST) for the first group, it is advisable to deduct the amount of the unified social contribution from the minimum wage. Under these conditions, the formula for calculating the amount of the single tax will look like this:

$$ST = AW \times PIT - MW \times SSC \quad (1)$$

where *AW* is the average monthly wage as of the first January of the reporting tax year; *PIT* is the personal income tax rate; *MW* is the minimum wage as of the first January of the reporting tax year; *SSC* is the single social contribution rate.

In the methodology for determining the income eligibility criterion, it is advisable to include such a basic indicator as the level of net income of an entrepreneur. Using this approach, we set the conditional tax base for the first group to be the average monthly salary, which we equate to the entrepreneur's net income. However, it is not advisable to limit the income in the first group to this level to stimulate entrepreneurial activity. The monthly amount of net income for the first group should be increased to two average monthly wages. Under this mechanism, the second average monthly salary would not be taxed. This would be a kind of reward for entrepreneurial activity. When the level of net income reaches two average monthly salaries, the tax burden on the entrepreneur from the notional tax base will be halved.

To move from the net income to its total level (they differ by the amount of expenses), it is advisable to use the profitability

indicator. According to international experience, the profitability of small businesses is around 30%. Under such conditions, the formula for annual total income as an eligibility criterion for the first group of the single tax will look like this:

$$AW \times 2 \times 12 \times 3.33 \quad (2)$$

where *AW* is the average monthly salary as of the first day of January of the tax year under review.

Simple mathematical transformations and rounding reduce the formula to the following form:

$$AW \times 80 \quad (3)$$

Approach to levying the single tax on the first group of the STS based on the minimum wage

An alternative option for levying the single tax on the first group of the STS is to calculate it according to the minimum wage. This option has the advantage of simpler administration of the single tax. For this option of levying the single tax, when the tax base is the minimum wage, the approach to the tax burden at the level of taxation of the average wage is also relevant. When applying the approach based on the average monthly nominal wage, the tax burden on an entrepreneur of the first group of the STS is equivalent to 25% of the minimum wage. Therefore, in this approach, we propose to set the single tax rate at this level. The tax base would be the minimum wage as of the first day of the reporting year. However, the biggest drawback of using the minimum wage as a tax base is that it does not take into account market trends. Therefore, when the minimum wage does not increase as of the first of January, we propose to adjust the tax base for inflation. Thus, the single tax for the taxpayers of the first group of the STS under this approach will be determined by the following formulas:

- In case of an increase in the minimum wage as of the first January of the reporting year:

$$ST = MW \times 25\% \quad (4)$$

where *MW* is the minimum wage as of the first January of the reporting tax year.

- If the minimum wage is not increased as of the first January of the reporting year:

$$ST = MW \times CPI \times 25\% \quad (5)$$

where *CPI* is the consumer price index as of the first January of the reporting year for the previous year.

If we use the mechanism for determining the income eligibility criterion from the previous approach, such income is equivalent to 213 minimum wages. Therefore, when the minimum wage increases, we propose to limit the income eligible for the first group of the STS. It should be equal to 213 minimum wages as of the first day of January of the year in question. In case the minimum wage remains unchanged, this amount should be adjusted by the consumer price index as of the first January of the reporting year for the previous year.

RESULTS

Supranational rules and national experience of the EU countries in the field of VAT taxation of SMEs

The harmonisation of VAT in the EU is regulated by "Council Directive 2006/112/EC of 28 November 2006 on the Common System of Value Added Tax (VAT Directive)" (European Union Official Site, 2006). Section 12 of this Directive provides for the possibility of applying special schemes by business entities (Table 1).

Table 1. Special VAT schemes in the EU countries provided for in Council Directive 2006/112/EC. (Source: compiled by (European Union Official Site, 2025; European Union Official Site, 2006))

Scheme	Coverage in each EU country	Entities, activities or transactions covered by the scheme	The essence of the scheme
For small businesses	NO	Small businesses	Simplified VAT calculation and collection
For small businesses	NO	All small businesses with a turnover below a certain amount	Exemption or gradual assistance
Taxation of farmers at a fixed rate	NO	Agriculture, forestry and fisheries	Exemption plus flat rate to compensate for input VAT
For travel agents	YES	Travel agents and other tour operators	Output VAT on profit margin
For the sale of second-hand goods, works of art, etc.	YES	Taxable traders in these goods	Output VAT on profit margin
For public auctions	NO	Auctioneers	Output VAT on profit margin
For investment gold	YES	Transactions with investment gold	Exemption with the possibility of taxation
For telecommunications, broadcasting and electronic services	YES	Supplies by unregistered companies	Single window for registration and payment of output VAT

Articles 281-293 of the VAT Directive provide for 3 schemes that are directly aimed at small businesses:

1. Simplified VAT calculation and payment.
2. Exemption.
3. Graduated relief.

The scheme for simplified VAT calculation and payment is set out in Article 281 of the VAT Directive. According to this article, "where Member States have problems applying the normal VAT arrangements for small businesses due to the activities or structure of such businesses, they may apply simplified procedures for the calculation and collection of VAT (e.g., a flat rate scheme) after consultation with the VAT Committee" (European Union Official Site, 2006). A condition for the application of such schemes is that they should not result in a reduction of VAT charges. This scheme applies to small businesses in accordance with the EU criteria and is established by national legislation. It provides for the simplification of VAT liabilities for small businesses. The extent of the simplification is determined by each EU country separately and may include, for example, a single rate. The scheme is not aimed at reducing the tax burden.

The small business VAT exemption scheme applies to business entities that have an annual turnover below the threshold set out in the national legislation. The scheme provides that a small business entity does not register and does not accrue VAT. It does not apply to:

- sales by businesses located in other EU countries;
- casual business activities;
- exempt sales of new vehicles to customers in another EU country;
- any other transactions specified by an EU country" (European Union Official Site, 2006).

The analysed scheme is not mandatory for businesses (a company can choose a simplified scheme or a differentiated tax benefit if it is allowed by the country's legislation).

The graduated relief scheme stipulates those small businesses eligible for the scheme (which may include businesses that exceed the threshold for the exemption scheme) must register as VAT payers. At the same time, they receive a VAT exemption for a part of their turnover. This exemption gradually decreases as the turnover increases (up to the threshold set by the country's legislation). Thus, the tax burden on businesses is partially reduced.

Analysing the use of these VAT schemes in the EU countries, we present the thresholds for them as of 1 January 2021 (Table 2).

Table 2. VAT thresholds (1 January 2021) in the EU Member States and Ukraine. Notes: ¹ See Article 3(2)(a) of Directive 2006/112/EC, as amended. ² See Article 34 of Directive 2006/112/EC, as amended. ³ See Articles 284 to 287 of Directive 2006/112/EC, as amended. This scheme is reserved for taxable persons established within the territory of the Member State in which the VAT is due. ⁴ Euro foreign exchange reference rates as published by the European Central Bank for 31 December 2020. ⁵ The flat rate for farmers is 5.59% for some products (milk, cereals, etc.) and 4.43% for others. ⁶ From 1 January 2021 until 31 December 2022. For fiscal years of 2019 and 2020, the threshold was set at EUR 30,000. ⁷ The national currency in Hungary is HUF; however, the VAT law specifically provides for an amount in EUR for this threshold. ⁸ Where the EUR 35,000 threshold applies to entities carrying out economic activities consisting principally in the supply of goods; the EUR 24,000 threshold applies to entities carrying out economic activities consisting principally in the supply of services with a relatively low value added; the EUR 14,000 threshold applies to entities carrying out other types of economic activities. ⁹ The thresholds are expressed in national currency calculated from the EUR values at the exchange rate on the date of accession, i.e., 1.1.2007. ¹⁰ The seller is not liable to tax if the annual turnover of the business does not exceed EUR 10,000 and he has not opted for taxation. When this threshold for VAT liability is exceeded, the enterprise receives a relief, which gradually decreases with the increase of turnover. The full amount of tax is levied when the annual turnover reaches EUR 30,000" (Source: European Union Official Site, 2021).

State	Limit value for applying the special scheme to purchases made by taxable entities without input tax deduction rights and by legal persons not subject to taxation ¹		Limit value for applying the special scheme for distance selling ²		Exemption for small enterprises ³	
	National currency	Euro equivalent ⁴	National currency	Euro equivalent ⁴	National currency	Euro equivalent ⁴
Belgium	EUR 11200		EUR 35000		EUR 25000	
Bulgaria	BGN 20000	EUR 10226	BGN 70000	EUR 35791	BGN 50000	EUR 25565
Croatia	HRK 77000	EUR 10196	HRK 270000	EUR 35753	HRK 300000	EUR 39725
Czech Republic	CZK 326000	EUR 12423	CZK 1140000	EUR 43442	CZK 1000000	EUR 38106
Denmark	DKK 80000	EUR 10752	DKK 280000	EUR 37630	DKK 50000	EUR 6720
Germany	EUR 12500		EUR 100000		EUR 22000	
Estonia	EUR 10000		EUR 35000		EUR 40000	
Ireland	EUR 41000		EUR 35000		None	
Greece	EUR 10000		EUR 35000		EUR 10000	
Spain	EUR 10000		EUR 35000		None	
France	EUR 10000		EUR 35000		EUR 82800 or EUR 42900 or EUR 33200 or EUR 177005	
Italy	EUR 10000		EUR 100000		EUR 65000	
Cyprus	EUR 10251,61		EUR 35000		EUR 15600	
Latvia	EUR 10000		EUR 35000		EUR 40000	
Lithuania	EUR 14000		EUR 35000		EUR 45000	
Luxembourg	EUR 10000		EUR 100000		EUR 350006	
Hungary	EUR 100007		EUR 350005		HUE 12000000	EUR 33977
Malta	EUR 10000		EUR 35000		EUR 35000 or EUR 240000 or EUR 140008	
Netherlands	EUR 10000		EUR 100000		EUR 20000	
Austria	EUR 11000		EUR 35000		EUR 35000	
Poland	PLN 50000	EUR 10966	PLN 160000	EUR 35091	PLN 200000	EUR 43863
Portugal	EUR 10000		EUR 35000		EUR 12500	
Romania ⁹	RON 34000	EUR 7291	RON 118000	EUR 25305	RON 300000	EUR 47,180
Slovenia	EUR 10000		EUR 35000		EUR 50000	
Slovakia	EUR 14000		EUR 35000		EUR 49790	
Finland	EUR 10000		EUR 35000		EUR 1000010	
Sweden	SEK 90000	EUR 8970	SEK 320000	EUR 31891	SEK30000	EUR 2990
Ukraine	-	-	-	-	UAH 1000000	EUR 28785

As can be seen from Table 2, all EU countries have a threshold for applying for the special scheme for acquisitions. It is set for taxpayers who do not have the right to deduct input tax; other legal entities that do not pay tax. The threshold for applying the special scheme for distance selling is also set.

Comparing the European norms with the Ukrainian VAT practice, the VAT exemption in Ukraine for single taxpayers of the first, second and third (at a rate of 5%) single tax groups are not inconsistent with the provisions of the VAT Directive. However, the amount of income that allows not to register as a VAT payer under the STS does not comply with European trends. Thus, in 2025, legal entities with an income of no more than UAH 9,336,000 (1,167 times the minimum wage as of 1 January of the reporting year) may be registered under the third group of the single tax in Ukraine. If such entities choose the 5% single tax rate, they are not subject to VAT. Translated into euros as of 1 January 2025, this amounts to EUR 213,709.4. No EU country allows business entities to avoid paying VAT on up to this amount of income.

At the same time, the vast majority of the EU member states use the small business exemption, which provides for the possibility of not registering as a VAT payer up to a certain turnover limit. Only Ireland and Spain do not have such an exemption. To establish the equivalent of the euro in non-Euro area countries, we used the reference exchange rates published by the European Central Bank as at 31 December 2020. We used the official NBU exchange rate as of that date and established that the VAT registration threshold for Ukraine is EUR 28785. This figure is within the average value for EU member states (see Table 2: Exemptions for small businesses).

Instead, OECD uses a different methodology of converting the national currency into dollars to determine the turnover for VAT registration and collection (Table 3).

Table 3. Annual turnover exemptions for VAT registration and collection in OECD countries in 2023. Notes: ¹ Exchange rates for conversion to dollars are purchasing power parity rates for 2021 GDP. The letter "R" indicates countries where the registration threshold applies, i.e., where suppliers with a turnover below the threshold are not required to register as VAT payers and are exempt from the obligation to charge and pay VAT. The letter "C" refers to countries where a collection threshold applies, i.e., where all suppliers are required to register as VAT payers but are not obliged to charge and remit VAT until they exceed the collection threshold" (Source: OECD Official Site, 2023).

	Registration/ collection thresholds, USD			Voluntary registration	Minimum registration period
	Registration or collection threshold	Total threshold	Other thresholds		
Australia	Reg.	52817	105634	Yes	1 year
Austria	Reg.	47945		Yes	5 years
Belgium	Col.	33784		Yes	None
Canada	Reg.	24390	40650	Yes	1 year
Chile	None				
Colombia	Reg.		95625	Yes	
Costa Rica	None				
Czech Republic	Reg.	155039		Yes	1 year
Denmark	Reg.	7813	26563	Yes	2 years
			46875		
Estonia	Reg.	68966		Yes	None
Finland	Reg.	18519	37037	Yes	None
France	Reg.	131286	52571	Yes	2 years
			63571		
Germany	Col.	30137	68493	Yes	5 years
Greece	Col.	18868		Yes	1 year
Hungary	Col.	73171		Yes	1 year
Iceland	Reg.	13986		Yes	None
Ireland	Reg.	96154	48077	Yes	None
Israel	Col.	29027		No	None
Italy	Col.	134921		Yes	None
Japan	Reg.	102459		Yes	2 years
Korea	Col.	57692		No	None
Latvia	Reg.	76923		Yes	None
Lithuania	Reg.	91837		Yes	None
Luxembourg	Col.	41667		Yes	None
Mexico	None				
Netherlands	Col.	26316		Yes	3 years
New Zealand	Reg.	41096		Yes	None
Norway	Reg.	5631	337838	Yes	2 years
			74074		
Poland	Reg.	105820		Yes	None
Portugal	Col.	24107		Yes	5 years
Slovakia	Reg.	92204		Yes	1 year
Slovenia	Reg.	89286		Yes	5 years
Spain	None				
Sweden	Reg.	9143		Yes	3 years
Switzerland	Reg.	95238	238095	Yes	1 year
Turkey	Reg.				
United Kingdom	Reg.	125000		Yes	None

The exchange rates for conversion to USD are the purchasing power parity rates for GDP in 2021. According to the International Monetary Fund, the exchange rate of the Ukrainian hryvnia to the dollar at purchasing power parity in 2021 was 7.995 (International Monetary Fund Official Site, 2025). At this rate, the threshold for VAT registration in Ukraine is USD 1,25078. According to this methodology, this value is one of the highest compared to the EU member states. Only three EU member states have a higher threshold - the Czech Republic (USD 155,039), France (USD 134,921) and Italy (USD 134,921). Therefore, one should be cautious about the proposal set out in paragraph 4.3.1 of the National Revenue Strategy until 2030, which provides for an increase in the VAT registration threshold. In this case, we believe that it is advisable to consider two options for reforming the VAT registration rules:

1. Develop mechanisms to exempt from VAT taxpayers who will remain on the STS. This is in line with the provisions of the VAT Directive and is a common practice in EU member states (Table 1).
2. If a decision is made to make VAT registration mandatory for all business entities, the fiscal losses of VAT and the risks of tax evasion should be taken into account when raising the threshold for such registration.

European experience in applying simplified approaches to income taxation

Income taxation of SMEs in the EU is practically not regulated by supranational rules. This makes it possible to apply various simplifications in this area. However, the practice of such simplifications is not widespread in EU member states. Table 4 provides information on turnover taxation in selected EU countries as of 1 January 2022.

Table 4. Turnover taxation systems in selected EU countries as of 1 January 2022. (Source: (Wen, 2023)).

Country	Threshold for the system application	Turnover tax rate (%)
Romania	EUR 1 million	1 (3 if no employees)
Austria	EUR 35000	11-27.5 (goods), 16-40 (services)
France	EUR 82800	1.7 (industry/commercial), 2.2 (non-commercial)
Italy	EUR 65000	15 (5 during the first five years of operation)
Portugal	EUR 200000	2.175-5.8 (hotels), 10.9-29.2 (professional services)
Poland	EUR 2 million	2% - 17% depending on the activity type

As a rule, the threshold for turnover taxation corresponds to the threshold for VAT registration. However, the rate of turnover tax varies significantly from country to country. The average threshold is close to EUR 100,000, and the most common turnover tax rates are between 1% and 2%.

The mechanism of taxation of small businesses in developed EU countries involves taxation of the income of individuals engaged in entrepreneurial activities. In Belgium, the object of taxation is the net income of self-employed persons after the deduction of social security contributions and professional expenses (Expatica, 2025; Worldwide Tax Summaries Online, 2025). Portugal applies progressive rates to personal income and allows for simplified accounting. It also applies coefficients to income from different types of activities, which reduces the tax base (European Commission Official Site, 2025). France taxes net profit, which is determined by a lump-sum deduction of expenses from the total turnover, taking into account the specifics of the activity (commercial, service or professional). In all three countries, the emphasis is on the income of individuals, and small entrepreneurs are provided with simplified accounting and reduced tax burdens.

In Poland, there are three types of taxation for small and medium-sized businesses:

1. Ogólne zasady – a system of taxation on a general basis.
2. Podatek liniowy (so-called flat tax) – a linear system.
3. Ryczałt (so-called lump tax) – simplified taxation system.

Ryczałt, or the simplified form of business taxation, provides for a one-time payment of tax on the accounted income. Tax rates depend on the type of business and range from 2% to 17%. This system is available to individuals whose income in the previous tax year did not exceed the limit of EUR 2,000,000. The calculation is based on "the average euro exchange rate announced by the National Bank of Poland on the first business day of October of the previous year" (Biznes.gov.pl, 2025).

Thus, simplified approaches to SME taxation are used not only in Central and Eastern Europe but also in Western Europe. Therefore, it is important for Ukraine to maintain a competitive business environment. Tax support for SMEs is an important

factor in this. Neighbouring countries use tax incentives for SMEs, so a complete abolition of the STS in Ukraine would only increase the migration of business capital and people from the country. Given the global experience, it is necessary to reform the STS in Ukraine, namely, to minimise the risks of its use for tax evasion.

Directions and effectiveness of reforming the STS in Ukraine

Based on the proposed research methodology, we have presented in Table 5 our proposals for reforming the STS in Ukraine. For comparison, the table shows the current legal provisions of this taxation system.

Table 5. Comparison of the main elements of the current STS in Ukraine with proposals for its reform.			
Criterion	Current taxation system	Reform proposals	
General approaches			
Number of groups of single taxpayers	1, 2, 3, 4 (agricultural producers)	1, 2, 3 (agricultural producers). The second and third groups are merged into one	
Extension of the STS to legal entities	Yes	No	
Extension of the VAT system	Not applicable to taxpayers of: <ul style="list-style-type: none">▪ Groups 1 and 2;▪ Group 3 at the rate of 5% of the single tax. It applies to single taxpayers of group 3 at a rate of 3%.	The threshold for VAT registration is increased. Applies to all single taxpayers of the second group who will receive income within the threshold for VAT registration. Does not apply to single taxpayers of the first group	
The first group of the single-tax			
		An approach based on the average monthly nominal wage	An approach based on minimum wage
Target group of taxpayers	Self-employed persons without employees	Self-employed persons without employees	Self-employed persons without employees
Maximum amount of income	167 minimum wages as of 1January of the reporting year (UAH 1,336,000 in 2025)	80 average monthly wages as of 1 January of the reporting year (UAH 1,717,840 in 2025)	213 minimum wages as of 1 January of the reporting year (UAH 1,704,000 in 2025)
Rate	Up to 10% of the subsistence minimum for able-bodied persons as of 1 January of the reporting year. Set by local self-government bodies (UAH 302.80 as of 2025)	$ST = AW \times PIT - MW \times SSC$, Where <i>SSC</i> is UAH 2105.14 as of January 2025.	In case of an increase in the minimum wage as of 1 January of the reporting year: $ST = MW \times 25\%$, Where <i>MW</i> is UAH 2000.00 as of January 2025. In case of no increase in the minimum wage as of 1 January of the reporting year: $ST = MW \times CPI \times 25\%$,

The STS in Ukraine applies to legal entities, which often use this system to evade taxes. Therefore, we propose to provide for the use of the future first and second groups to pay the single tax only for individuals.

The list of taxes to be included in the unified tax is debatable. In particular, for taxpayers belonging to the first group of the STS, there are discussions about the collection of VAT. The National Revenue Strategy until 2030 states that 'the threshold for VAT registration in Ukraine will be effectively applied to all taxpayers of the simplified taxation system. If this threshold is reached, it will ensure that all taxpayers of the first group and the combined second group of the STS are registered in the VAT system. However, it is doubtful whether such a threshold will be reached concerning the extension of VAT to the first group of taxpayers. VAT administration is carried out in an electronic system and involves accounting. This is incompatible with the activities of self-employed persons. It will lead to administrative problems for these taxpayers and increase the cost of accounting services. On the other hand, if the income level for entrepreneurs of the first group is to increase slightly to be in this group, the VAT registration threshold should also increase slightly for this group. The last time the VAT registration threshold was increased since 2014, from UAH 300,000 to UAH 100,000, i.e., by 3.3 times. Over the past 10 years, this threshold has remained unchanged. Given that the inflation rate has increased by approximately 130% since 2014, this threshold should increase at least 2-fold. If the VAT registration threshold is raised by this amount, entrepreneurs in the first group of the STS will not be required to register as VAT payers. However, if the VAT registration threshold is not indexed, the income criterion for the first group may reach and exceed the VAT registration threshold in

a few years due to the growth of the average salary. Therefore, we propose to exempt entrepreneurs of the first group from paying VAT. This will prevent administrative problems and increased costs for entrepreneurs in the first group.

Let us calculate the single tax for entrepreneurs of the first group according to the methodology that uses the average monthly nominal wage. For this purpose, we take the average monthly and minimum wages as of 1 January 2025 (The State Statistics Service of Ukraine Official Site, 2025). The calculated amount of the single tax will be UAH 2105.14 for this group. If we compare this figure with the single tax rate applicable in Ukraine in 2025 (UAH 302.80), it is 7 times higher. However, we believe that the estimate of the likely income of entrepreneurs in the first group is adequate for the current situation in Ukraine. If the tax burden is increased, it will discourage the artificial division of business when employees are registered as entrepreneurs of the first group. This innovation will also stimulate entrepreneurial activity. If an entrepreneur has a low level of net income, their tax burden will be higher than that of an employee. However, if the entrepreneur's net income increases, the tax burden will decrease.

Some scholars may criticise our position, arguing that entrepreneurship involves greater risks than traditional employment and should therefore be taxed less. This viewpoint has been taken into account. Under our approach, if an entrepreneur's net income surpasses the national average wage, their tax burden will indeed be lower.

According to the proposed methodology, the level of income that gives the right to be in the first group of the single tax in 2025 will be UAH 1,717,840. This is UAH 3,81840 more than the actual figure in 2025, which is set according to the requirements of the Tax Code of Ukraine.

Table 6 calculates the fiscal effect of reforming the single tax based on the minimum wage. We used data from the State Tax Service of Ukraine from 2019 to 2023 (The State Tax Service of Ukraine, 2024) to analyse the fiscal efficiency. The calculations show that the absolute effect of these changes could range from UAH 1.9 billion in 2019 to UAH 3.5 billion in 2023, which is from 543.1% in 2019 to 624.1% in 2023.

Table 6. The fiscal effect of reforming the first group of the single tax.

No.	Indicators	2019	2020	2021	2022	2023
Fiscal efficiency of the single tax under the current taxation system						
1	Number of single taxpayers in the 1st group	191657	195511	199994	201820	208063
2	Maximum single tax rate for the first group of STS (per month), UAH	192,10	210,20	227,00	248,10	268,40
3	The annual amount of the single tax per taxpayer, UAH ($r2*12$)	2305,2	2522,4	2724	2977,2	3220,8
4	Estimated amount of the single tax, UAH million ($r3*r1$)	441,81	493,16	544,78	600,86	670,13
5	The income of single taxpayers of the first group, UAH million	18938,61	22065,78	37022,48	31029,98	42384,98
6	Actual amount of the single tax, UAH million	419,84	448,68	314,75	375,48	428,52
7	Tax burden, % ($r6/r5$)	2,33	2,23	1,47	1,94	1,58
Fiscal efficiency of the unified tax under the minimum wage-based reform approach						
8	Single tax rate in accordance with the minimum wage reform approach, %	25	25	25	25	25
9	Minimum wage as of 1 January, UAH	4173	4723	6000	6500	6700
10	Estimated amount of the single tax per year per taxpayer, UAH million	12519	14169	18000	19500	20100
11	Estimated amount of the single tax in total, UAH million ($r9*r8/100*12*r1$)	2399,35	2770,20	3599,89	3935,49	4182,07
12	Tax burden, % ($r11/r5$)	12,67	12,55	9,72	12,68	9,87
Fiscal effect of the single tax under the minimum wage-based reform approach						
13	Absolute value, UAH million ($r11 - r4$)	1 957,54	2 277,04	3 055,11	3 334,63	3 511,94
14	Relative indicator, % ($r11/r4*100$)	543,1	561,7	660,8	655,0	624,1

When determining the eligibility criteria for the second group in terms of the number of employees and the amount of income, it is first of all necessary to justify the purpose and objectives of the STS. It should be noted that any simplified taxation regimes are preferences for business entities and taxpayers, respectively. In our opinion, the main purpose of the STS in Ukraine is to support and develop small businesses (or micro-entrepreneurship, following international practice).

According to this logic, the eligibility criteria for the second group of the STS in terms of income and number of employees should be the same as for micro-entrepreneurship, following EU and Ukrainian legislation. According to the European

Commission Recommendation of 6 May 2003 (Official Journal of the European Union, 2003) and the Commercial Code of Ukraine (Verkhovna Rada of Ukraine Official Site, 2003), the criteria for micro-entrepreneurship are a revenue of EUR 2,000,000 and 10 employees.

The number of employees of 10 is in line with the current provisions of the Tax Code of Ukraine regarding the eligibility criteria for the second group of the STS. However, the amount of income of EUR 2,000,000 is significantly higher than the amount used in fiscal practice (834 minimum wages).

This amount of income is reasonable, as it is in line with European standards. In addition, it is necessary to take into account the practice of setting tax rates in neighbouring EU member states. The tax base for the second group of the single tax should be the amount of income to which interest rates will be applied, depending on the profitability of the activity (following the provisions of the National Revenue Strategy until 2030, ranging from 3% to 17%). Therefore, the state will not incur large fiscal losses from expanding the number of single taxpayers. Moreover, if there is proper accounting and control of revenues, the state may even benefit from such innovations.

DISCUSSION

The reform of the STS is one of the important goals of the state's financial policy at the current stage of development. This is set out in the National Revenue Strategy until 2030. The main issues with this system are its lack of alignment with European fiscal practices and its function as a loophole for domestic businesses to evade taxation. This causes significant budgetary losses to the state. Based on the assessment of the European experience of applying special VAT schemes for SMEs and simplified corporate income taxation, this paper presents options for reforming the STS in Ukraine. They contain elements that prevent tax evasion and provide a significant increase in tax revenues to the budget. In particular, the proposal to change the methodology for calculating the single tax for entrepreneurs of the first group of the STS is aimed at eliminating the main drawback of this system - its use by large businesses to reduce tax liabilities. The article proposes to calculate the amount of the single tax for this group based on salary (average or minimum) instead of the subsistence minimum. This ensures an increase in the tax burden on entrepreneurs with low net income compared to the tax burden on the income of an employee. This innovation will discourage artificial division of business through the registration of employees as entrepreneurs of the first group. The proposed taxation scheme will also encourage entrepreneurs to increase the volume of their activities, as the tax burden on their income will then decrease. It is also important to harmonise the eligibility criteria for the STS, in particular, the VAT exemption, with European standards.

CONCLUSIONS

This study seeks to outline pathways for reforming the domestic STS, drawing on the best European practices for SME income taxation and specialised VAT schemes. An analysis of the global practice of applying special VAT schemes for SMEs has shown that the most common of these are (1) a special scheme for purchases by taxpayers not entitled to input tax deduction and other tax-exempt legal entities, (2) a special scheme for distance selling, and (3) an exemption for small enterprises. The thresholds for the first two schemes are applied by all EU countries, while the third is exempted only by Ireland and Spain. In Ukraine, the 5% tax exemption granted to single taxpayers in the first, second, and third groups can be considered equivalent to the small business exemption scheme. However, the threshold for such exemption in Ukraine is too high, which is not in line with European trends. This confirms that when reforming the STS in Ukraine, it is advisable to extend the VAT collection to the second group of the STS, which, in the process of reforming, should unite the existing second and third groups of taxpayers. It is proposed to retain the right to exemption from VAT registration only for single taxpayers of the first group.

In European fiscal practice, simplified taxation systems for SMEs are not universal, but such precedents are observed in some countries and are not prohibited by supranational tax regulations. In Ukraine, the challenging business environment is combined with the negative impact of a full-scale war, which hinders the development of SMEs. Under these circumstances, it is important to preserve the simplified taxation of SMEs in Ukraine, which plays a key role in maintaining the resilience of the economy. The abolition of the STS in Ukraine will only increase the migration of business capital and population from the country. However, this system needs to be reformed to make it impossible for fraudulent transactions where large businesses use single taxpayers to minimise their tax liabilities. The study proposes a comprehensive approach to reforming the STS, which provides for restrictions on the right to use it for legal entities, and optimisation of net income for single taxpayers. The developed new methodology for calculating the single tax based on the average or minimum wage instead of the subsistence minimum strengthens the link between the amount of this tax and the scale of the

entrepreneur's activity. It is proposed to increase the maximum income threshold that entitles a taxpayer to apply the STS to the equivalent of 80 average monthly salaries (alternatively, 213 minimum wages). Instead of the current single tax rate of 10% of the subsistence minimum, it is proposed to determine the amount of this tax based on the personal income tax rate minus the minimum unified social contribution (for the STS model based on the average monthly salary) or 25% adjusted by the consumer price index (for the STS model based on the minimum wage). This will make it possible to equalise the level of tax burden for taxpayers of different categories, increase the fiscal efficiency of its collection, and reduce opportunities for tax avoidance. In particular, such changes will discourage the artificial business fragmentation aimed at lowering tax liabilities. This innovation will also stimulate entrepreneurial activity. In determining the amount of income to be included in the second group of the simplified taxation system, it is proposed to focus on European standards.

However, specific variants of the STS should be chosen after a more thorough statistical analysis of the tax burden, taking into account the types of activities, and an assessment of tax evasion or shadow turnover. For example, it is advisable to take into account such a factor as the introduction of a military fee for individual entrepreneurs. Law No. 4015 (Verkhovna Rada of Ukraine Official Site, 2024) introduces a military tax in the amount of 10% of the minimum wage for entrepreneurs of the first and second groups of the single tax, and 1% of the turnover for entrepreneurs of the third group starting from 2025. Therefore, further research should include an assessment of whether the proposed reforms, together with the increase in the military tax, will create excessive tax pressure on SMEs and hinder their development.

The proposed areas of reform should be combined with non-tax support for business entities, such as the European State aid programme (European Commission Official Site, 2025). In other words, single taxpayers should receive state aid along with the increased tax burden, such as concessional lending, free training for business development, grant support, etc. Further research should also focus on how the European experience of state support for SMEs development can be adapted to wartime realities. This assistance should be in line with EU rules, according to which the government can provide this kind of support to ensure overall economic development.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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The Authors declare that there is no conflict of interest.

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СПРОЩЕНІ РЕЖИМИ ОПОДАТКУВАННЯ МАЛИХ І СЕРЕДНІХ ПІДПРИЄМСТВ: ДОСВІД КРАЇН ЄС І ТРАНСФОРМАЦІЯ В УКРАЇНІ

Проведення реформи спрощеної системи оподаткування належить до важливих завдань фінансової політики держави, які визначені Національною стратегією доходів до 2030 року, а також курсом на інтеграцію України до європейського економічного простору. Чинна в Україні спрощена система оподаткування не узгоджується з європейською практикою, а також її використовує крупний бізнес для мінімізації податкових зобов'язань.

Мета дослідження полягає в обґрунтуванні варіантів реформування спрощеної системи оподаткування в Україні відповідно до Національної стратегії доходів до 2030 року та з урахуванням європейського досвіду.

Основні результати дослідження. Отримали подальший розвиток систематизація та обґрунтування сутності спеціальних схем ПДВ для SMEs у країнах ЄС, передбачених Директивою Ради Європи 2006/112/ЄС. Це дало змогу дослідити порогові значення для реєстрації платників ПДВ та застосування окремих схем, визначених за методиками Єврокомісії й ОЕСР і обґрунтувати практичні рекомендації та застереження щодо зміни порогу реєстрації платників ПДВ в Україні. Обґрунтовано, в Україні сума доходу, яка дозволяє не реєструватися платником ПДВ на спрощеній системі, є надто завищеною й потребує корегування. Доведено, що спрощене оподаткування доходу підприємств у європейській практиці має поодинокий характер, але в Україні доцільність його збереження пояснюють потребою підтримання сприятливого бізнес-середовища й стимулювання підприємницької активності.

Удосконалено підходи до реформування спрощеної системи оподаткування, які передбачають: скорочення кількості груп платників шляхом їх укрупнення; скасування можливості перебувати на спрощеній системі оподаткування юридичних осіб; оптимізацію обсягу чистого доходу, який дає право на використання цієї системи; упровадження нової методики визначення ставки єдиного податку для платників першої групи на базі показників середньої або мінімальної заробітної плати. Остання новація дасть можливість мінімізувати ефект від штучного поділу бізнесу для зменшення податкових зобов'язань, стимулюватиме підприємницьку активність, а також забезпечить додаткові доходи до бюджету. При виробленні остаточних параметрів реформування спрощеної системи оподаткування важливо враховувати рестриктивну дію військового збору, а також передбачити схеми фінансової підтримки SMEs.

Ключові слова: спрощена система оподаткування, єдиний податок, податок на додану вартість, малі та середні підприємства, публічні фінанси, спеціальні режими оподаткування, мінімальна заробітна плата, середня заробітна плата

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