WITHHOLDING TAX AND NEW TAX AVOIDANCE RULES IN UKRAINE: QUANTITATIVE ANALYSIS OF PASS-THROUGH HOLDING STRUCTURES FOR DIVIDEND DISTRIBUTIONS

by

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ATAD the European Union Anti-Tax Avoidance Directive

BEPS OECD's Base Erosion and Profit Shifting

CIT Corporate Income Tax

DCF Discounted Cash Flow

DTT Double Tax Treaty

EU European Union

EUR Euro

ETR Effective Tax Rate

GAAR General Anti-Abuse Rules

MLI Multilateral Instrument

NPV Net Price Value

NBU National Bank of Ukraine

OECD Organization for Economic Co-operation and Development

PIT Personal Income Tax

TCU Tax Code of Ukraine

UAH Ukrainian Hryvnia

VAT Value Added Tax

WHT Withholding Tax

CHAPTER 1. INTRODUCTION

Dividend distributions were always the key channel used by business for cash repatriation to its shareholders. Both multinational groups and local businesses used available legal options to reduce tax burden on dividend flows. Ukrainian business used intermediary holding jurisdictions in Cyprus. Cyprus granted access to double tax treaty (DTT) network and lower withholding tax (WHT) rates than Ukrainian domestic WHT rate subject to compliance with legal requirements provided by the Ukraine-Cyprus DTT.

However, starting from 2015-2017 the global tax landscape changed fundamentally. Base Erosion and Profit Shifting (BEPS) initiatives (2015), Anti-Tax Avoidance Directive (ATAD) (2016) and Multilateral instrument (MLI) (2017) introduced stricter anti-abuse provisions. DTT benefits were no longer granted only upon compliance with legal requirements envisaged by DTT. Now availability of economic substance accompanied with economic business activity in the holding jurisdiction is required.

Ukraine followed above mentioned global initiatives and amended its local tax rules. It added additional criteria to "beneficial owner" test, "business purpose test" and "principal purpose test". These criteria are now applicable to foreign recipient of Ukraine-sourced dividends to avail DTT benefits. As a result, Ukrainian business now face a new type of set-up problem. This problem is not of purely legal nature as it was before, but is of the financial one. Indeed, availability of substance in the intermediary company provides access to reduced WHT rates envisaged by the respective DTT. However, it also triggers recuring compliance and operational costs that affect effective tax rate (ETR) of the dividend distribution structure.

Therefore, a balance between tax savings and recurring substance costs is now a trade-off for business. This concerns Ukrainian business already having intermediary companies and still thinking about establishing one refocusing from legal compliance issue to financial optimization issue. This shift is a core motivation for the present research.

Based on my professional experience and observations of Ukrainian tax consulting market, the effect of economic substance on Ukrainian dividend tax treatment has been discussed by the Ukrainian tax practitioners exclusively from a legal and compliance costs perspective. Such analysis focuses on calculation of the ETR and comparison of WTH rates under the Ukrainian domestic tax rules and DTT. This approach allows to quantify immediate tax savings, but completely ignores dynamic financial factors affecting the Ukrainian distribution company. These factors include the time value of money, future dividend flows, increase of compliance costs, risk of penalty assessment etc.

Such limited analysis has little decision-making value for the Ukrainian business since it does not provide any overview of the aggregated tax savings and compliance costs over a multiple-year period. It also does not reflect the uncertainty of future parameters.

The aim of this research is to propose a forward-looking quantitative financial model addressing these limitations. The model incorporates tax parameters with corporate finance techniques such as discount cashflow (DCF), sensitivity analysis. It is also designed to capture uncertain future parameters influencing the decision-making process. This model allows to evaluate a 5-year financial efficiency of using intermediary holding structure established in Cyprus under different tax scenarios.

In line with this aim, the study assesses ETR and financial performance of the Cyprus structure under three alternative tax scenarios - (i) application of the reduced WHT under the Ukraine–Cyprus DTT, (ii) application of domestic 15% WHT rate and (iii) distribution to a Ukrainian resident shareholder subject to 5% personal income tax (PIT) and 5% military tax. It covers a five-year period and uses corporate finance tools such as DCF and sensitivity analyses. Also, it takes into account possible tax audit risks. The results of the study are summarized via SWOT analysis of the most feasible scenario.

Combination of tax analysis with financial modeling in this research eliminates the existing gap between legal compliance approach and financially justified decision-making framework.

The study also addresses key questions faced by the top-management of the Ukrainian business when considering establishment or maintenance of a Cyprus intermediary holding company: In particular, it examines what is the effect of substance requirements on tax burden applicable to Ukraine-sourced dividend payments within 5-years term period. It also determines under which financial conditions Cyprus intermediary holding company with substance are economically beneficial for the Ukrainian business. Furthermore, the study assesses how sensitive the structure to dividend size, increase in substance costs. Finally, it analyzes what is the strategic attractiveness of the structure once all financial and risk factors are gathered together.

Empirical part of this study relies on financial and tax data collected from Ukrainian operating company, seven Cyprus service providers, Ukraine-Cyprus DTT and the Tax Code of Ukraine (TCU). Quantitative inputs include expected Ukraine-sourced dividend outflow, statutory tax rates envisaged by the Ukraine-Cyprus DTT and the TCU, benchmark costs to be incurred upon establishing and maintaining economic substance on Cyprus. These inputs are incorporated into forward-looking five-year financial model and tested under three alternative tax scenarios of dividend distribution. This model uses corporate finance techniques such as ETR, DCF, sensitivity analysis, clawback-adjusted DCF reflecting uncertainty and enforcement risk. Obtained results provide overview of the comparative financial efficiency of the considered scenarios.

The study is structured as follows. Chapter 2 gives an overview of the industry context accompanied with academic researches on treaty shopping, substance requirements and General Anti-Abuse Rules (GAAR). Chapter 3 covers research methodology and describes modeling framework. Chapter 4 presents data sources, main assumptions and parameters of DCF used during modeling. Chapter 5 provides overview of the empirical results. Chapter 6 concludes the study, provides practical recommendations for the top-management of the Ukrainian business and highlights potential issues to be further researched.

CHAPTER 2. INDUSTRY OVERVIEW AND RELATED STUDIES

2.1. Tax and Regulatory Context: Outbound Ukraine-Sourced Dividends

Staring from early 2000s Cyprus is one of the most popular holding jurisdictions for dividend repatriation and international corporate structuring in the Ukrainian business environment. Its attractiveness was formed due to combination of tax, legal, and practical advantages. As a result, Cyprus became a central hub for investing inside and outside Ukraine.

According to the National Bank of Ukraine (NBU) in 2010-2017 up to 50% of all inbound foreign direct investment were originated from Cyprus [NBU, 2018]. Most recent data still confirm this trend since as of Q3 2024 Cyprus made 26.1% of inbound foreign direct investment in Ukraine and still remained among top countries investing in Ukraine [Lloyd's Bank Trade, 2024].

Key benefits of Cyprus as a holding jurisdiction includes a favorable DTT network, exemption from withholding tax on outbound dividends, beneficial corporate income tax (CIT) regime and predictable legal system. The Ukraine–Cyprus DTT effective since 2013 provides reduced WHT rates on dividend distributions. Dividends paid from Ukraine to a Cyprus parent company may be subject to WHT at 5% if the Cyprus entity directly holds at least 20% of the capital of the Ukrainian subsidiary and has invested a minimum of EUR 100,000 into its equity. Otherwise, WHT rate at 10% applies. Both rates are lower than 15% WHT envisaged by the TCU. This difference results in tax savings for the intermediary structure.

Cyprus domestic law exempts outbound dividend payments made to non-resident shareholders from WHT. Respective exemption allows Cyprus to be a "pass-through" jurisdiction allowing further repatriation of profits without additional tax burden.

Cyprus applies a 12.5% CIT that appears to be one of the lowest in the European Union (EU). In addition, dividend income received by Cyprus company from foreign

subsidiaries is treated as tax exempt. This exemption applies due to participation exemption. However, this exemption is subject to certain anti-abuse conditions.

Cyprus has English common law legal system, which is treated by the corporate world as predictable and investor-friendly. The EU membership strengthened Cyprus credibility and ensured access to EU common market.

Regardless of the fact that Cyprus still remains attractive for Ukrainian business, recent tax legislative developments both on the global level and in Ukraine may limit benefits of using Cyprus as an intermediary jurisdiction. The most notable changes are specified below

First, to comply with international initiatives such as BEPS, ATAD and MLI, Cyprus introduced stricter substance requirements. Holding companies must demonstrate economic presence in Cyprus, have local directors, maintain office premises, employ relevant staff and have local operating expenses. Failure to comply with these requirements triggers the risk of denying DTT benefits by the Ukrainian tax authorities. Denial is made on the basis of "beneficial owner" test, "business purpose test" and "principal purpose test".

Second, Ukrainian tax authorities precisely examine Cyprus holding structures, where the Cyprus entity is regarded as lacking beneficial ownership of the income. Ukrainian court examined multiple instances in which the application of reduced WHT rates was rejected due to insufficient substance.

Third, Cyprus banks complicated their Know-Your-Customer and Anti-Money Laundering procedures applicable to local and foreign business structures. As a result, maintenance of bank accounts for passive holding entities become more challenging and expensive. Such amendments increased the operational burden and decreased attractiveness of using so-called "empty shell" companies that lack business activities in Cyprus.

Thus, regardless of the fact that Cyprus still offers tax advantages through the Ukraine-Cyprus DTT and local tax regime, application of these advantages now depends not only on legal form but also on cost-benefit considerations. For Ukrainian business now

it means that each euro of Cyprus substance cost must be economically justified by the respective tax saving. Such justification should not be viewed as a snap shot for one year but rather on a long-term basis. Further this research will examine how tax and regulatory changes turn compliance requirements into financial variables to be considered in the financial modeling.

2.2. Substance Requirements in Practice: OECD, EU ATAD and Local Rules

Starting from 2015 the concept of economic substance was transformed from a legal term into economic variable. It is now used for determining financial efficiency of the business set up through measuring cost component influencing dividend repatriation decisions. Traditionally, holding companies were established in low-tax jurisdictions to access reduced WHT rates under DTTs. There were no requirements to demonstrate economically significant/relevant operations in the jurisdiction of incorporation. However, BEPS initiative, ATAD and MLI reconsidered respective approach. They introduced specific requirements upon compliance with which treaty benefits may be granted.

The BEPS Action Plan introduced some measures to prevent treaty abuse, through Action 6: Preventing the Granting of Treaty Benefits in Inappropriate Circumstances.

This action provides for compliance with two key principles:

First principle - Beneficial Ownership Test.Treaty benefits may only be granted in cases when the recipient of income is deemed to be true beneficial owner of the respective income. It cannot be a conduit or agent acting on behalf of another party.

Second principle - Principal Purpose Test. Treaty benefits may be rejected if one of the principal purposes of an arrangement or transaction is receipt of tax incentives via treaty advantages. Such benefits are denied when there is no sufficient economic justification.

In other words, companies cannot rely on formal structures alone. To be able to apply reduced WHT rates, they must demonstrate that they have presence in the

jurisdiction. They also need to show that their activities have commercial purpose beyond tax avoidance. In other words, substance from declarative condition is transformed into quantifiable compliance cost. Respective costs include recurring directors' fees, office rental fees and payments to local personnel required to support economic activity of the company that appear to be a key to DTT benefits. At the same time respective costs are in fact constitute trade-off between tax savings and operational costs to be incurred in this regard.

The EU introduced substance requirements through the ATAD I and II, as well as adoption of the MLI.

ATAD introduced into the EU tax framework such concepts as GAAR, controlled foreign companies (CFC), and exit tax triggering strengthening of the requirement for availability of substance.

MLI, signed by both EU and non-EU states, introduced common notion of principle purpose test across treaties that ensured that all EU member states would apply substance tests consistently.

In fact, from economic perspective such unification created a "minimal substance requirements" for holding companies within the EU. It means that in each EU member state business will have almost the same recurring cost structure. Accordingly, lower ETR will be connected to the level of the recurring cost structure.

Thus, all above mentioned initiatives switched focus from formal incorporation requirements into quantifiable component of corporate financial efficiency.

Above mentioned initiatives were incorporated into the domestic tax regimes of Cyprus and Ukraine.

After BEPS, ATAD and MLI implementation on the EU level, Cyprus was forced to introduce stricter substance requirements. Now Ukrainian business seeking to rely on treaty benefits are expected to demonstrate real economic presence by:

- engaging Cyprus resident directors that must participate in decision-making,
- have physical office premises,
- employ qualified staff
- incur operating expenses related to the type of activities, and

- engage local service providers such as auditors and accountants.

In fact, above mentioned components are minimal substance requirements that from economic perspective are deemed to be recurring substance costs.

Ukraine also followed international trends in taxation. The TCU requires foreign recipients of Ukrainian-source dividends to comply with the beneficial ownership test. In fact, compliance with this test means that the recipient entity has the right to use and enjoy such income independently and is not deemed to be an intermediary chain. Where an entity is of an intermediary nature, DTT relief is denied and standard 15% WHT applies. Starting from 2022, the adoption of controlled foreign companies (CFC) rules increased compliance obligations of the Ukrainian resident entities. These rules provide for a necessity to disclose foreign-controlled entities. They also require taxation of undistributed profits in Ukraine. Such taxation can be avoided only if sufficient substance abroad is demonstrated by the taxpayer responsible for reporting.

Thus, substance requirements are no longer a formality but an economic necessity. Director fees, office rent, payroll, and professional services are now to be treated as recurring cash outflow to be considered in a long-term perspective.

2.3. Review of Academic Literature on Treaty Shopping and Substance

Academic literature investigated treaty shopping and its economic implications for several decades. Early contributions focused primarily on the legal interpretation of DTTs. These studies analyzed the practice of routing income through intermediary jurisdictions to benefit from favorable treaty provisions. As a result, distortionary effects of treaty shopping were identified, leading to the introduction of anti-abuse concepts such as "beneficial ownership." The 1987 report of the Organization for Economic Co-operation and Development (OECD) on Double Tax Conventions and the Use of Conduit Companies is considered a seminal source. It clarified the notion of beneficial ownership and established it as a safeguard against abusive practices.

With the launch of the OECD/G20 BEPS project in 2013, studies shifted its focus from formal structures to the role of real economic substance. Authors such as Lang, Pistone, and Schön concluded that access to treaty benefits should depend on the existence of real business need/activity rather than formally structured mere legal arrangements. These conclusions were followed by the development of new anti-abuse tools that are now known as principal purpose test (PPT) and limitation of benefit (LOB) clauses. Currently in focus of the studies is the right balance between preventing abuse and ensuring legal certainty for taxpayers.

More recent studies such as works done by Baerentzen et al. (2020) indicate the declining tendency in maintaining conduit holdings in the EU along with neutralization of treaty advantages in case of the substance absence.

Simultaneously with legal analysis, there were some efforts to evaluate impact of treaty shopping. Van't Riet and Lejour (2018) in their study proposed 'treaty shopping network index' focusing on certain jurisdictions used by EU business as hubs for dividend, interest, and royalty payments. Unfortunately, Cyprus was not subject to their study and is not present in the mentioned study.

At the same time in the internet there are numerous reports published by KPMG (2021) focusing on small countries with extensive treaty networks. Unfortunately, respective reports lack quantitative analysis and include only legal side of the issue. During my preliminary research I found out that there are rather limited studies that used cost–benefit assessments to evaluate whether treaty-based planning remains efficient for business in the new reality. Specifically, there is a lack of quantitative models that evaluate at which point the recurring costs of maintaining substance outweigh the tax savings granted under the DTT. This research gap is particularly relevant for Ukraine since outbound dividend taxation probably has a significant channel of capital flows.

CHAPTER 3. METHODOLOGY

The research aims to employ the forward-looking quantitative financial model that includes tax parameters along with corporate finance techniques like DCF. The modelling horizon is a five-year period. In addition, sensitivity analysis and enforcement adjustment are performed to capture uncertain future parameters that influence decision-making process.

The modelling of Year 1 analysis starts from the expected dividend outflow accumulated as a result of the commercial activity performed by the Ukrainian company during 2024. These dividends will be further distributed to the shareholder either a non-resident legal entity incorporated in Cyprus or to individual shareholder, resident of Ukraine. This distribution appears to be a starting point for financial modeling. It may be routed under three scenarios with different tax treatment depending on the business needs. In particular, the dividends may be distributed to (1) intermediary holding company in Cyprus or (2) the individual shareholder within Ukraine. First option allows to accumulate funds abroad and use intermediary holding company either as a tax optimization tool or finance hub for further investment either outside or into Ukraine. Second option allows to accumulate funds in Ukraine to be further used locally.

Since one of the key decision driving tools in business is tax efficiency, the financial model evaluates two outlined above ways to distribute dividends under each of the tax regime

In particular, three scenarios are considered. Scenario A (benchmark) implies that dividends are distributed by the Ukrainian company to the non-resident legal entity incorporated in Cyprus. This entity has credible substance compliant with BEPS, ATAD and MLI requirements. Under the Ukraine–Cyprus DTT, this allows to apply reduced 5% WHT to outbound Ukraine-sourced dividend.

Scenario B stipulates that dividends are distributed by the Ukrainian company to the non-resident legal entity incorporated in Cyprus without substance. In such case a standard 15% WHT rate is applied to outbound Ukraine-sourced dividend.

Scenario C implies that dividends are distributed to an individual resident of Ukraine and are subject to 5% PIT and 5% military tax.

Considered scenarios are summarized in Table 1:

Table 1: Summary of the Three Scenarios

Scenarios	**Recipient**	**Applicable tax rate**
Scenario A	Cyprus entity with substance	5% WHT
Scenario B	Cyprus entity without substance	15% WHT
Scenario C	Individual shareholder in Ukraine	5% PIT and 5% military tax

Since the purpose of the analysis is to estimate the most tax efficient scenario from the business perspective, the three scenarios are analyzed using the ETR tool. This approach allows to quantify the portion absorbed by taxes and additional costs such as substance costs under Scenario A or maintenance costs under Scenario B, for instance.

The generic formula for calculating ETR is:

$$ETR_i = \frac{(DD * t_k + Costs)}{DD} \quad \text{for } i = \text{A, B or C} \tag{1}$$

where

DD – distributed dividends,
t_k – is tax rate applied (WHT rate equal to 5% or 15%, or PIT and military tax)
Costs – are substance or other costs

The resulting ETRs for each scenario are as follows:

$$ETR_{Scenario\ A} = \frac{(Distributes\ dividends * 5\%\ WHT + Substance\ cost)}{Distributed\ dividends} \tag{2}$$

$$ETR_{Scenario\ B} = \frac{Distributes\ dividends * 15\%\ WHT + Maintenance\ cost}{Distributed\ dividends} \tag{3}$$

$$ETR_{Scenario\ C} = \frac{(Distributes\ dividends * (5\%\ PIT + 5\%\ military\ tax))}{Distributed\ dividends} \tag{4}$$

Since substance/maintenance costs for Year 1 and Year 2 – 5 vary due to one-time payments made during Year 1, the ETR needs to be calculated separately for Year 1 and Year 2-5 to avoid over headings. Subsequently, an average ETR for five-year horizon is to be calculated for each scenario and be compared.

Once the ETR for each scenario is determined, the break-even dividend scale need to be calculated. Break-even dividend allows to identify the minimum level of outbound Ukraine-sourced dividend to make discussed scenarios feasible and worth implementing. Respective calculations are made for the pairwise comparison of Scenario A vs Scenario B and Scenario A vs Scenario C under the following formula:

Break-even Dividend Scale = Substance cost/difference in WHT rates

Since substance costs for Year 1 and Year 2 – 5 vary due to onetime payments made during Year 1, the Break-even Dividend Scale needs to be calculated separately for Year 1 and Year 2-5. This allows preliminary understand at which dividend level, the Scenario A potentially generates the lowest tax burden.

The average ETR is a useful summary measure for the current year but has limited decision-making power within 5-year horizon since it does not take into account factors that may influence tax efficiency of the structure (namely, dividends growth, substance cost indexation, challenging application of the reduced tax rates under the Ukraine-Cyprus DTT by the Ukrainian tax authorities). In order, to include respective factors into analysis, appropriate corporate finance instruments are used in the modeling.

Discounted cash flow analysis

One of such tools is DCF analysis, which allows to compare economic effect of three scenarios over a five-year horizon through converting annual cash difference under each scenario into present values using the same discount rate.

To apply this tool, I first deduct total cash outflow under benchmark Scenario A from the total cash flows of remaining two scenarios separately for each year, namely:

Scenario B - Scenario A:

(dividends * 15% WHT + Maintenance cost) - (5% WHT * dividend + Substance cost)

Scenario C - Scenario A:

(dividends * 10% WHT) - (5% WHT * dividend + Substance cost)

Each difference is subsequently converted into present value by applying simple discounting for each year flows. Annual results are then summed up and give us the net present value (NPV) of the difference between scenarios (in particular, NPV for Scenario A vs Scenario B and NPV for Scenario A vs Scenario C). Obtained results are interpreted as follows:

- if NPV of the difference is positive, Scenario A generates lower tax associated losses over the five-year horizon and should be preferred.
- if NPV is negative, Scenario A should be discarded in favor of another scenarios (Scenario B or Scenario C).

Below important assumptions used for the DCF analysis are outlined.

Year 1 DCF analysis uses expected dividend outflow and includes onetime payments related to substance costs. For Year 2-5 DCF analysis I assume the dividends are subject to annual growth at 3% and hence apply recurring substance cost excluding onetime payments subject to indexation at 2% per year.

To capture these dynamics, the DCF model applies the following formula:

$$DCF_t = \frac{(DD*(1+g_d)^{t-1})-(SC*(1-g_d)^{t-1})}{(1+r)^t} \quad (5)$$

where

DD – distributed dividends,
SC – recurring cost in Year 1 (excluding onetime payments)
g_d – annual dividend growth rate (3%)
g_s – annual substance cost indexation rate (2%)
r – discount rate (WACC)

Such approach allows to include dynamic parameters into considered scenarios and ensure consistency between planned cash flows and varying costs. Since application of the reduced 5% WHT rate under the Scenario A may be challenged by the Ukrainian tax authorities during the tax audit, the model needs to include an enforcement adjustment (clawback adjustment). This adjustment in fact is the potential reversal of the tax benefit if the Ukrainian tax authorities deny application of the reduced 5% WHT rate under the Ukraine-Cyprus DTT due to insufficient substance. In particular, it represents additional

taxes, penalties and statutory interest that the Ukrainian company would have to pay retrospectivety if 5% reduced WHT rate is disallowed during the tax audit. Therefore, this adjustment reduces tax savings once the Ukraine-Cyprus DTT benefits are denied under Scenario A. Expected clawback for each year is calculated as follows:

$$Clawback\ adjustment = (WHT_B - WHT_A) * (1 + p) * (1 + s)n * Pr_{audit} \quad (6)$$

where

WHT_b – withholding tax rate under Scenario B
WHT_a – reduced withholding tax rate under Scenario A
p – penalty rate applied upon reassessment
s – statutory interest rate applied for late payment
n – number of years between dividend distribution and tax assessment (assessment lag)
Pr_{audit} – probability of tax audit

This approach allows the model to capture the enforcement risk and quantify its impact on the effective tax burden under Scenario A.

Calculated amount is then subject to discounting in the same way as it was done for DCF analysis. Discounted clawback is than subtracted from present value for the respected year. Received difference is then summarized and represents clawback NPV for Scenario A vs Scenario B and Scenario A vs Scenario C. As a result, we can make conclusion whether enforcement risk affects attractiveness of Scenario A.

Sensitivity analysis

With the help of sensitivity analysis, I test robustness of the conclusions that allows to identify key drivers of the NPV. In particular, the drivers/variables include dividend scale, substance cost indexation and enforcement probability.

The dividend scale is in the range from EUR 600,000 to EUR 1,000,000 to reflect realistic dividend distribution levels that may be expected within 5-year horizon under different business performance scenarios of the Ukrainian company. The upper limit of this dividend scale aligns with the current restriction of the NBU. This restriction limits the

amount of Ukraine sourced dividends to be repatriated outside Ukraine to no more than EUR 1,000,000 per year.

The substance cost indexation is tested within the range from 0% to 4% to include potential inflation and administration increase on Cyprus affecting the given cost. This range is in line with the average inflation rate in Cyprus: inflation on average was 2.02 percent over the period 1997 to September 2025[1].

The enforcement probability is tested taking into account different audit-risk assumptions from low-risk (namely, 10-20%) to a high-risk (namely, 70%-80%). Probability is expressed in percentages that follows risk-likelihood assessment approach used by consulting firms during tax risk assessment.[2]

The last step is to conduct SWOT analysis of the most tax efficient option to make the decision-making process easier for the top management through identifying strength, weakness, opportunities and threats of one scenario comparing to others.

[1] https://www.theglobaleconomy.com/Cyprus/inflation_annual/

[2] https://assets.kpmg.com/content/dam/kpmg/us/pdf/2017/10/tnf-wnit-gaap.pdf

CHAPTER 4. DATA

In this chapter I describe data used as inputs for financial modeling. The modeling incorporates tax parameters within standard corporate finance techniques for evaluation of the use of the Cyprus intermediary holding company for outbound distribution of the Ukraine-sourced dividends. The data includes the following:

1. Financial information from the Ukrainian operation company paying outbound dividends to the Cyprus intermediary company (namely, dividend base);
2. Cyprus substance and maintenance cost benchmark taken from the Cyprus service providers;
3. Current tax rates envisaged by the Ukraine-Cyprus DTT and the TCU.

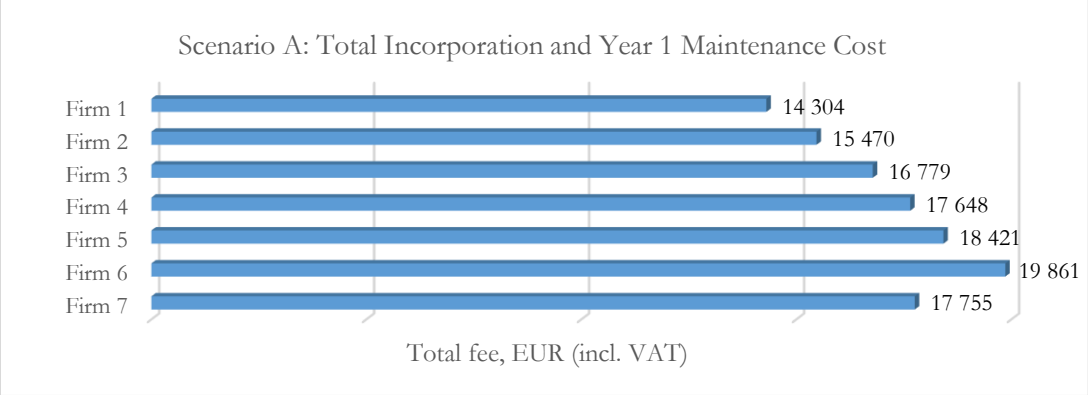
In this chapter I also present numerical values of the assumed parameters for modeling DCF and clawback DCF, as well as discuss their validity.

All monetary inputs were provided by Cyprus service providers and are specified in EUR.

The input data on the expected dividend outflow accumulated as a result of the commercial activity performed by the Ukrainian company during 2024 was taken from the financial statement as of the end of 2024. The retained earnings subject to the distribution is estimated to be approximately EUR 800,000 in 2025.

The data on the Cyprus substance costs for Scenario A was collected from Cyprus providers of legal, accounting and tax services. Information on Cyprus entity incorporation and first-year maintenance costs was provided net of Cyprus value added tax (VAT). To estimate the final fee respective data was adjusted to include 19% Cyprus VAT amount to be paid by the Cyprus holding entity (Figure 1).

Figure 1. Scenario A: Total Incorporation and Year 1 Maintenance Cost

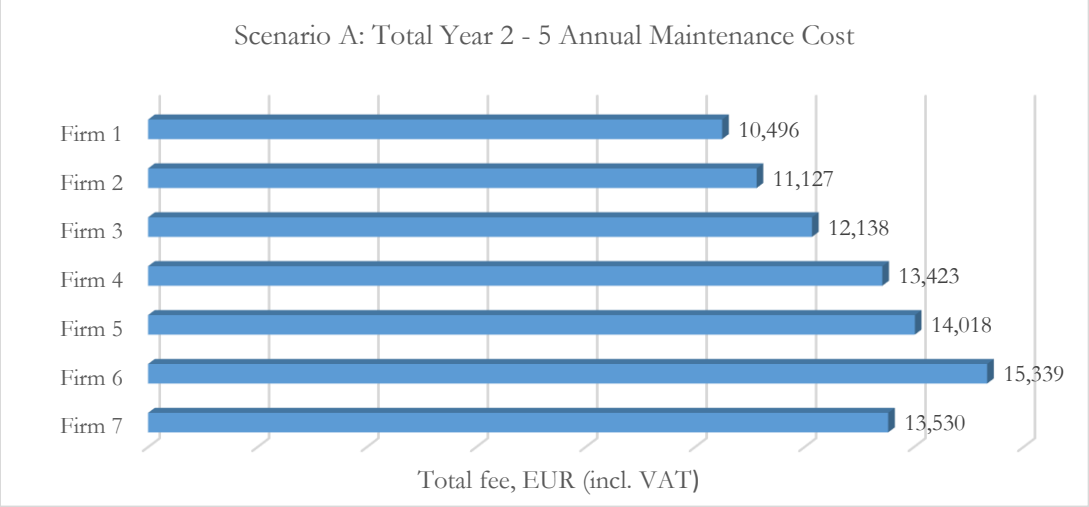


Source: Author's estimates based on seven Cyprus service providers' offers

Review of the collected data showed that some providers (namely, Firm 1 and Firm 6) offered much lower or much higher fees compared to other companies. However, since there is a limited sample size I decided not to exclude Firm 1 and Firm 6. Instead, I calculated average and used average of EUR 17,177 to represent total incorporation and Year 1 maintenance cost for modeling purposes

Calculated average of EUR 17,177 representing total incorporation and Year 1 maintenance cost cannot be applied to Year 2-5 since it includes one-time incorporation fees. Therefore, for Year 2 – 5 I adjusted annual maintenance cost by excluding incorporation and other set-up fees. Obtained data is summarized in Figure 2.

Figure 2. Scenario A: Total Year 2 – 5 Annual Maintenance Cost

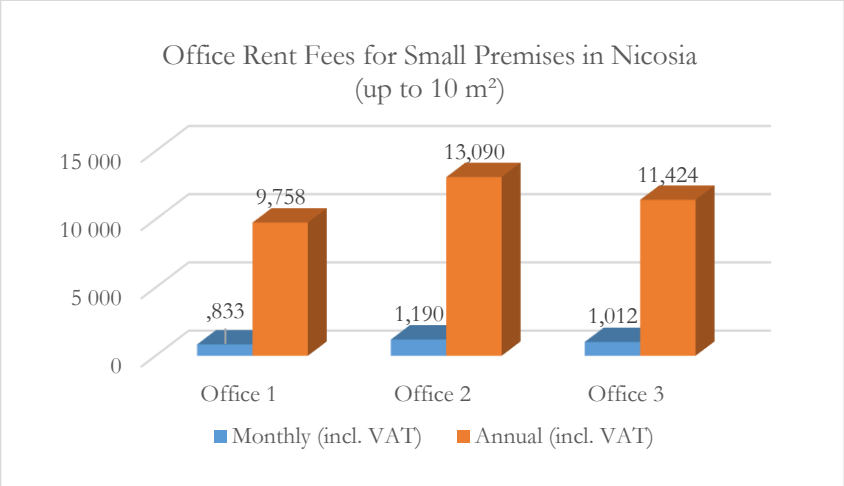


Source: Author's estimates based on seven Cyprus service providers' offers

The same approach towards the outliers was used and the average value of EUR 12,867 was further taken for modeling purposes.

Data on office rent fees was collected for small commercial premises (up to 10 m^2) in Nicosia based on commercial offers from the respective service providers. Data was provided net of Cyprus VAT and was adjusted by 19% Cyprus VAT to reflect the total amount to be paid. Provided data ranges between EUR 9,758 and EUR 13,090 depending on location. Due to limited number of service providers the average office rent fee – EUR 11,424 was further taken for the purposes of financial modeling (Figure 3).

Figure 3. Office Rent Fees for Small Premises in Nicosia (up to 10 m^2)

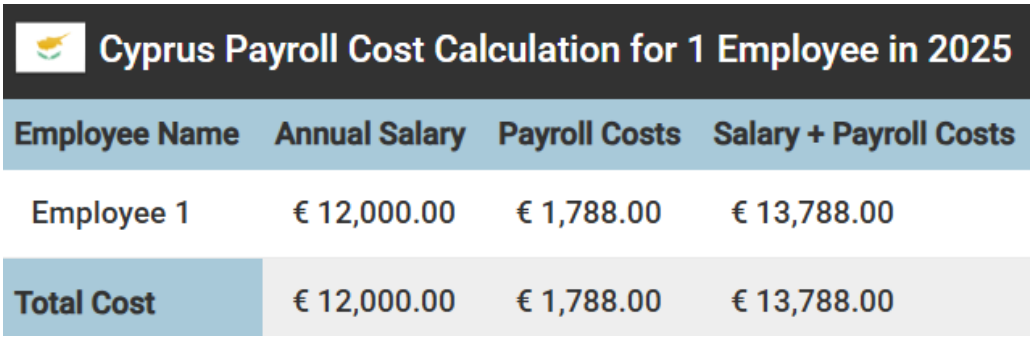


Source: Author's estimates based on Cyprus service providers' offers

Payroll costs were calculated as one minimum monthly salary for a full-time employee in Cyprus in the amount of EUR 1,000.[3] Payroll obligations payable by the employer were added to the minimum monthly salary to represent the total minimum cost to be incurred by the Cyprus intermediary holding company per single employee. For financial modeling purposes, I assumed that the Cyprus intermediary holding company employes one person. This result in total annual payroll cost per one employee of EUR 13,788 (Figure 4).

[3] https://pyrgouvakis.com/articles/minimum-wage-wage-protection-in-cyprus-a-must-read-overview-for-employers

Figure 4. Cyprus Payroll Cost Calculation for One Employee in 2025



Cyprus Payroll Cost Calculation for 1 Employee in 2025

Employee Name	Annual Salary	Payroll Costs	Salary + Payroll Costs
Employee 1	€ 12,000.00	€ 1,788.00	€ 13,788.00
Total Cost	€ 12,000.00	€ 1,788.00	€ 13,788.00

Source: https://cy.icalculator.com/cyprus-payroll-calculator

Based on the analysis of the substance input, the annual substance cost to be incurred by the Cyprus holding entity under Scenario A are provided in Table 2 below.

Table 2: Components of Annual Substance Costs on Cyprus under Scenario A

Substance costs	**EUR incl.VAT**
Incorporation and Year 1 Maintenance Cost	17,177
Year 2-5 Annual Maintenance Cost	12,867
Office Rent Fees for Small Premises in Nicosia	11,424
Payroll Cost for One Employee	13,788

Year 1 cost includes onetime payments related to setting up legal entity and its registration with the state authorities (namely, incorporation fess, registry filings, tax/VAT registration, accounting onboarding etc.). These payments are non-recurring and using Year 1 cost to estimate substance costs for Year 2-5 will be incorrect since it will overstate ongoing requirements. Accordingly, for Year 2-5 onetime payments related to the setting up legal entity and its registration with the state authorities were excluded to ensure availability of only recurring substance costs. After excluding respective payments from registration and 1 year maintenance fees the following total substance cost is to be used for the purposes of further modeling (Table 3).

Table 3: Total Substance Costs on Cyprus under Scenario A

Total substance costs	**EUR incl.VAT**
Substance cost for Year 1	42,389
Substance cost for Year 2-5	38,079

The data on the Cyprus maintenance costs for Scenario B was collected from the same seven Cyprus service providers and adjusted on 19% Cyprus VAT following the same approach as applied under Scenario A. Year 1 costs include one-time incorporation fees which were excluded for Year 2-5 like in Scenario A. Total maintenance costs on Cyprus under Scenario B are summarized in Table 4.

Table 4: Total Maintenance Costs on Cyprus under Scenario B

Total maintenance costs	**EUR incl.VAT**
Maintenance cost for Year 1	10,652
Maintenance cost for Year 2-5	8,476

WHT rates used in the study are deemed to be effective WHT rates envisaged by the Ukraine-Cyprus DTT and the TCU. To estimate the economic effect of different WHT rates applicable on outbound Ukraine-sourced dividends the following scenarios with the respective WHT rates were modelled and summarized in Table 5.

Table 5. Summary of the Scenarios and Applicable WHT Rates

Scenario	Description	Applicable tax rate	Conditions/Noted
Scenario A	Application of the reduced WHT rate under the Ukraine-Cyprus DTT	5% WHT	Cyprus holding entity must (i) hold at least 20% of the Ukrainian subsidiary's capital, (ii) invest a minimum of EUR 100,000 in its equity, and (iii) have sufficient substance in Cyprus.
Scenario B	Application of the standard WHT rate under the TCU.	15% WHT	Applies to outbound Ukraine-sourced dividends where no treaty or preferential conditions are met
Scenario C	Direct distribution of dividends to a Ukrainian tax-resident individual shareholder	5% PIT and 5% military tax	Applies to dividends received by an individual resident of Ukraine in 2025.

DCF modeling was made based on a number of assumptions. All assumptions used for DCF analysis are in Table 6 below.

The discounted rate of 10% is used in the model and represents nominal weighted average cost of capital for emerging markets with operation in high-risk jurisdictions according to Damodaran's 2025 country risk premium dataset. Respective dataset provides a range from 8% to 12%, I opted for median value for my study.[4]

Annual dividend growth rate of 3% used for the modeling is the median of the medium-term GDP growth outlook for Ukraine provided by the World Bank. The range given by the World Bank is 2-4% over 2025-2026 under baseline recovery scenario.[5]

[4] https://people.stern.nyu.edu/adamodar/pdfiles/eqnotes/valpacket1spr25.pdf

[5] https://openknowledge.worldbank.org/server/api/core/bitstreams/9b18a520-9e9a-4e71-af8d-cf04b499fa18/content

The substance cost indexation of 2% used in the model is based on the forecasts made by the European Central Bank for the mid-term inflation.[6]

Table 6. Assumptions Used for DCF analysis

Discount rate	10%
Annual dividend growth rate	3%
Substance cost indexation in Cyprus	2%

Clawback-adjusted DCF analysis was also made based on a number of assumptions that seem to be relevant considering legal framework in Ukraine. All assumptions used for clawback-adjusted DCF are summarized in Table 6 below.

The enforcement probability is chosen considering that Cyprus intermediary holding company in full compliance with the substance requirements. Accordingly, low-risk 20% probability was taken for the purposes of modeling. Respective approach aligns with the risk-likelihood assessment approach used by consulting firms during tax risk assessment. More precise probability percentage may be provided by the consulting firms after careful review of the Cyprus intermediary holding company substance. Amendments may be made at any stage.

Penalty rate included in the model is 25%. This is statutory penalty rate envisaged by Article 123 of the Tax Code of Ukraine.[7]

Statutory interest rate considered in the model is 18.6%. Article 129.4. of the TCU provides for statutory interest rate at 120% of the NBU discount rate. As of October 2025, the NBU rate is 15.5% which results in effective annual interest rate of 18.6%.[8]

Limitation period tested in the model is 3 years. This term aligns with the general limitation period envisaged by Article 102 of the TCU.[9]

[6] https://www.ecb.europa.eu/home/html/index.en.html

[7] https://zakon.rada.gov.ua/laws/show/2755-17#n2416

[8] https://zakon.rada.gov.ua/laws/show/2755-17#n2416

[9] https://zakon.rada.gov.ua/laws/show/2755-17#n2416

Discount rate established by the NBU used in this analysis is 15.5%.[10]

Table 7. Assumptions Used for Clawback-adjusted DCF Analysis

Probability of audit	20%
Penalty rate	25%
Interest rate	18.6%
Limitation period	3 years
Discount rate	15.5%

[10] https://bank.gov.ua/ua/monetary/archive-rish

CHAPTER 5. RESULTS

5.1. Effective Tax Rate and Break-even Dividend Scale

Based on the performed analyses ETR on Ukraine-sourced dividends payments amounting to EUR 800,000.00 in Year 1 and Year 2-5 depends on the scenario opted.

For Year 1: ETR under Scenario A is 10.3% in comparison to 16.33% under Scenario B and 10% under Scenario C and equals to the total tax liabilities of EUR 82,388 for Scenario A, EUR 130,562 for Scenario B and EUR 80,000 for Scenario C.

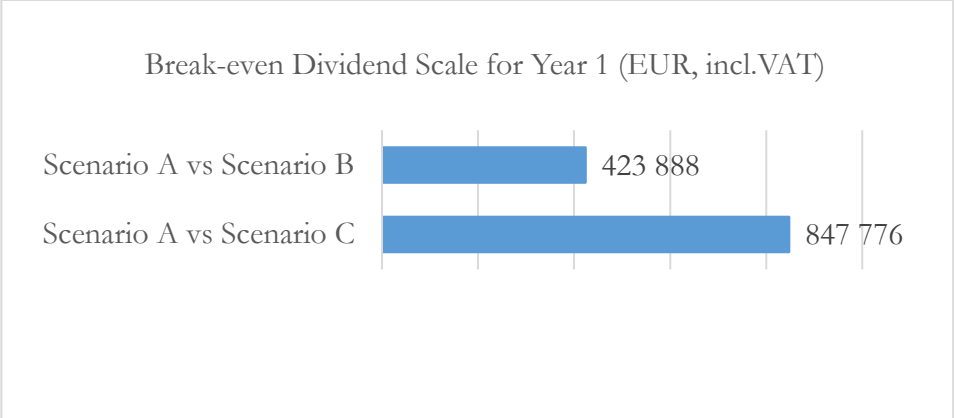
Thus, in Year 1 application of reduced 5% WHT rate + substance cost result in EUR 48,263 saving comparing to 15% WHT but is on EUR 2,389 above the Ukrainian direct distribution (Table 8).

Table 8. Effective Tax Rate and Tax Liabilities Payable in Year 1

Scenarios	**ETR (Year 1)**	**Tax liabilities (Year 1), EUR**
Scenario A	10.30%	82,399
Scenario B	16.33%	130,652
Scenario C	10.00%	80,000

The break-even dividend scale for Scenario A vs Scenario B in Year 1 is EUR 423,888, while for Scenario A vs Scenario C is EUR 847,776 for Ukraine-sourced outbound dividend amounting to EUR 800,000.

Figure 5. Break-even Dividend Scale for Year 1



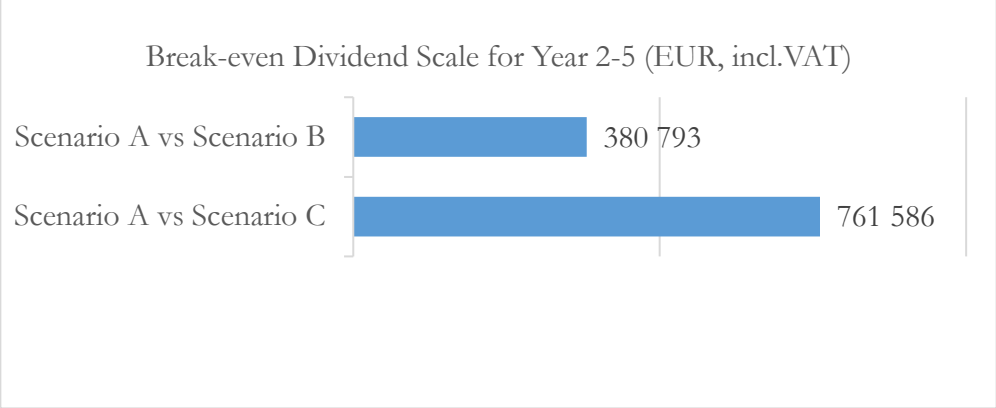
For Year 2–5: ETR under Scenario A is 9.76% in comparison to 16.06% under Scenario B and 10% under Scenario C and equals to total tax liabilities of EUR 78,079.30 for Scenario A, EUR 128,476 for Scenario B and EUR 80,000 for Scenario C. Thus, in Year 2–5 application of reduced 5% WHT rate + recurring substance cost results in EUR 50,397 saving comparing to 15% WHT, and is by EUR 1,921 below the Ukrainian direct distribution (Table 9).

Table 9: Effective Tax Rate and Tax Liabilities Payable in Year 2-5 (per year)

Scenarios	**ETR (Year 1)**	**Tax liabilities (Year 1), EUR**
Scenario A	9.76%	78,079
Scenario B	16.06%	128,476
Scenario C	10%	80,000

The break-even dividend for Scenario A vs Scenario B in Year 2–5 is EUR 380,793, while for Scenario A vs Scenario C is EUR 761,586 for Ukraine-sourced outbound dividend amounting to EUR 800,000. (Figure 6).

Figure 6. Break-even Dividend Scale for Year 2-5

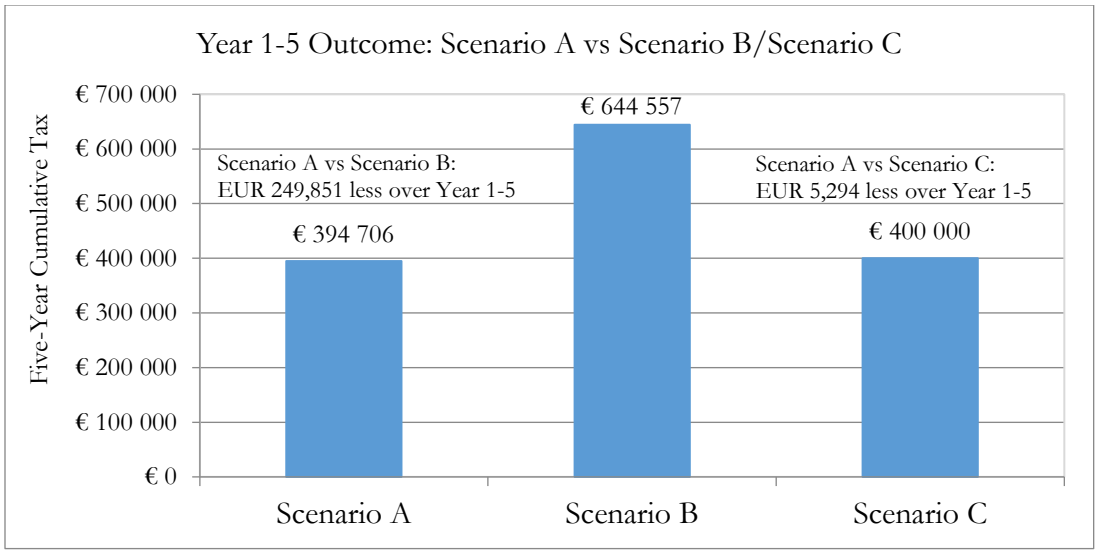


Based on the results over Year 1 – 5, Scenario A appeares to be the best choice for a representative company.

Compared to Scenario C, Scenario A allows company to save about EUR 6,353 over five years.

Compared to Scenario B, Scenario A allows company to save about EUR 299,386 over five years. Accordingly, for five-year horizon Scenario A has the lowest ETR about 9.87% (vs 10.00% for Scenario C and 16.11% for Scenario B) on EUR 4,000,000 of dividends (Figure 7).

Figure 7. Year 1 – Outcome: Scenario A vs Scenario B/Scenario C



5.2. Discounted Cashflow Analysis

According to the DCF calculations undiscounted additional cash flow to be incurred by the Ukrainian subsidiary upon implementation of Scenario A vs Scenario B rises from EUR 37,611 in Year 1 to EUR 49,631 in Year 5 and vs Scenario C - from EUR (2,389) in Year 1 to EUR 4,610 in Year 5 (Table 10).

Table 10. Undiscounted Additional Cash Flows

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Scenario A vs B, EUR	37,611	44,320	46,031	47,800	49,631
Scenario A vs C, EUR	(2,389)	3,120	3,595	4,091	4,610

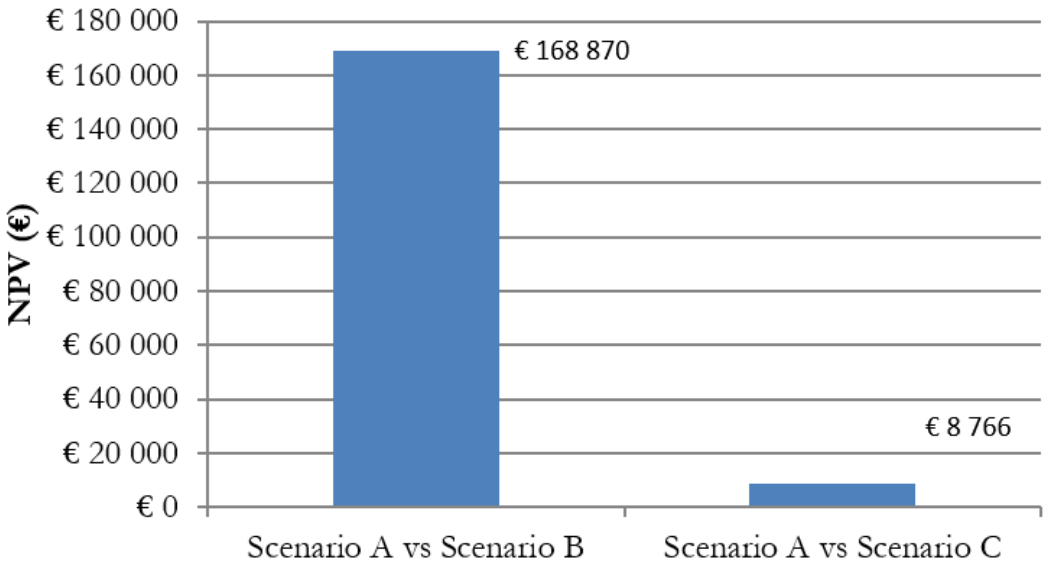
Discounting produced the following present value for Scenario A vs Scenario B ranging from EUR 34,192 (Year 1) to EUR 30,817 (Year 5) and for Scenario A vs Scenario C - from EUR 2,172 to EUR 2,863 over the same period (Table 11).

Table 11. Discounted Cash Flows (Present Value)

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Scenario A vs B, EUR	34,192	36,628	34,583	32,648	30,817
Scenario A vs C, EUR	2,172	2,579	2,701	2,794	2,863

Summarizing net present values over five-year horizon gives us EUR 168,869.62 for Scenario A vs Scenario B and EUR 8,765.61 for Scenario A vs Scenario C. Thus, in five years Scenario A gives positive discounted gain versus Scenario B and modest but positive discounted gain against Scenario C (Figure 8).

Figure 8. DCF Analysis – NPV for Year 1 -5



Thus, Scenario A maximizes shareholder value over five-year horizon since it shows the lowest discounted tax burden with significant gains compared to Scenario B and more moderate gains compared to Scenario C.

5.3. Sensitivity Analysis

In sensitivity analysis two factors were used (1) increase in dividend (from EUR 600,000 to EUR 1,000,000) and (2) indexation of substance costs (from 0% to 4%).

For Scenario A vs Scenario B: NPV appeared to be positive across the entire grid, ranging from EUR 85,668.77 (for EUR 600,000.00 dividend, 4% indexation) to EUR 251,991.80 (for EUR 1,000,000, 0% indexation). It may be concluded that higher dividends increase NPV and higher substance cost indexation reduces it, but NPV still remains to be positive. Thus, Scenario A is preferred over Scenario B (Table 12).

Table 12. NPV: Scenario A vs Scenario B

168 870	0%	1%	2%	3%	4%
600 000	91 888	90 362	88 818	87 253	85 669
700 000	131 914	130 388	128 844	127 279	125 695
800 000	171 940	170 414	168 870	167 305	165 721
900 000	211 966	210 440	208 896	207 331	205 747
1 000 000	251 992	250 466	248 922	247 357	245 773

For Scenario A vs Scenario C: NPV varies depending on the parameters:

At dividend scale EUR 600,000.00 – EUR 700,000.00 NPV is negative ranging from EUR (28,190) till EUR (8,177) at 0% substance cost indexation and EUR (34,409) to EUR (14,396) at 4% substance cost indexation. Considering this it may be concluded that Scenario C is preferred at lower dividend payments.

When the dividend scale reaches EUR 800,000.00 NPV becomes positive but decreases with increase in substance costs indexation: from EUR 11,835 at 0% to EUR 5.616 at 4%.

At dividend level EUR 900,000.00 – EUR 1,000,000.00 Scenario A becomes significantly more beneficial since NPV ranges from EUR 25,629 – EUR 31,848 to EUR 45,642 – EUR 51,861 depending on indexation (Table 13).

Table 13. NPV: Scenario A vs Scenario C

8 766	0%	1%	2%	3%	4%
600 000	-28 190	-29 716	-31 260	-32 825	-34 409
700 000	-8 177	-9 703	-11 247	-12 812	-14 396
800 000	11 836	10 310	8 766	7 201	5 617
900 000	31 849	30 323	28 779	27 214	25 630
1 000 000	51 862	50 336	48 792	47 227	45 643

Thus, at EUR 800,000.00 dividend scale and 2% indexation of substance costs Scenario A gives in NPV about EUR 8,765. This is a little more tax efficient than Scenario C. However, upon increase in the dividend scale Scenario A becomes more and more tax efficient.

5.4. Clawback-adjusted Discount Cashflow Analysis

Clawback-adjusted Discount Cashflow Analysis allows us to include enforcement risk into DCF analysis and assess how it influences NPV. The following parameters were taken to estimate the effect: probability of audit 20%, penalty = 25%, interest rate = 19%, lag = 3 years and discount rate = 10%. Application of the above-mentioned parameters brought the following results:

Scenario A vs Scenario B – clawback NPV amounts to EUR 81,876 which means that still after risk crystallization Scenario A gives value and decision to proceed with Scenario A is justified.

Scenario A vs Scenario C – clawback NPV is EUR (-34,731) which means after risk crystallization Scenario A does not give any value and decision to proceed with Scenario A is not justified (Table 14).

Table 14. Clawback-Adjusted DCF Results

Comparison	**Clawback-adjusted NPV (EUR)**
Scenario A vs Scenario B	81,876
Scenario A vs Scenario C	-34,731

Thus, based on risk-adjusted results Scenario A is more efficient than Scenario B since it generates positive NPV. However, when comparing with Scenario C – Scenario A loses its advantage and results shows that potential losses to be incurred under Scenario A will outweigh tax benefits resulting in negative NPV.

5.5. SWOT Analysis

Strengths. This section describes the main advantages of Scenario A compared to Scenarios B and C. In particular, implementation of Scenario A allows to have the lowest tax burden within 5 -year horizon comparing to Scenario B and Scenario C. Average ETR under this scenario is 9,87% on EUR 4,000,000.00 dividend scale within 5-year horizon

comparing to 15% rate for Scenario A and 10% for Scenario C. In total within 5-year horizon Scenario A allows to pay on EUR 246,359 less taxes than under Scenario B and on EUR 6,352 less than under Scenario C.

DCF analysis confirmed strong advantage of Scenario A over Scenario B and moderate advantage over Scenario C. At the same time DCF analysis with clawback-adjustment showed that with credible substance and increase in dividend scale within more than 5-year horizon may more tax efficient than Scenario C.

Weaknesses. Specified weaknesses shows limitations and sensitivities of Scenario A. In Year 1 Scenario A performs worse than Scenario C due to set-up costs. The main tax savings occur in Year 2-5 and onward. The structure under this scenario is sensitive to dividend scale, enforcement risk and substance cost indexation and also may be subject to overheads in substance costs. Synergy of this parameter makes respective structure under Scenario A at least tax neutral comparing to Scenario C or even worse assuming that there is no credible substance.

Opportunities. This section describes the factors that potentially may trigger benefits as a result of Scenario A applicability. Increase of dividend scale and longer horizon increase attractiveness of Scenario A. Improvement of substance credibility reduce enforcement risk and help to achieve tax savings as presumed during modeling. Potential optimization of substance costs through engaging cheaper service providers and cheaper rent cost will also increase tax savings under the Scenario A. In addition, respective structure may be used for tax optimization of other payments made outside Ukraine for example royalty payments or interest payment.

Threats. Identified threats summarize potential risks that may negatively affect the efficiency of Scenario A. Cristalization of the enforcement risk appears to be the worst-case scenario since it automatically makes Scenario Clawback-adjustment analysis shows that NPV drops on EUR 81,877 in Scenario A against Scenario B and on EUR (34,731) in Scenario A against Scenario C. Also, potential global trends aimed on unification of the minimal CIT over the EU states, as well as amendment of the provision of the

Ukraine-Cyprus DTT may eliminate the tax saving advantage currently to be provided within Scenario A (Table 15).

Table 15: Summary SWOT

Strength	Weakness
1. Lowest total tax liabilities within 5-year horizon with average ETR of 9.87% on EUR 4,000,000.00 dividend scale 2. Strong economic	1. Negative NPV in Year 1 due to set-up costs 2. Potential overheads on substance costs 3. Sensitivity to assumptions (dividend growth, substance cost indexation, enforcement riks)
Opportunities	**Threats**
1. Increase in dividend level and longer horizon imporove significantly tax efficiency of the structure. 2. Credible substance decreases enforcement risk. 3. Substance cost optimization is possible 4. Optimization of other costs (interest and royalty costs	1. Crystallization of enforcement risk during tax audit triggering imposition of penalties 2. Sensitivity to assumptions (dividend growth, substance cost indexation, enforcement riks) 3. Change of the legislation

Scenario A appeared to be more efficient from cost saving perspective than Scenario B. If company's strategy assumed positive dividend scaling and credible substance governance Scenatio A is also justified, otherwise, the company may consider using Scenario C.

CHAPTER 6. CONCLUSIONS AND RECOMMENDATIONS

In this paper I analyzed tax efficiency and financial performance of different Ukraine-sourced outbound dividend structures currently available to Ukrainian business. These structures include either direct payment to Ukrainian resident shareholder in Ukraine or routing through intermediary holding company incorporated in Cyprus.

Performed analysis combines corporate finance valuation tools and international tax modelling including ETR, DCF, sensitivity analysis and clawback-adjusted enforcement analysis over a five-year horizon. The model includes such parameters as tax rates, substance costs, dividend growth and audit risk-probability that allows to evaluate NPV under three considered scenarios and determine which dividend structure grants higher after-tax return.

Over a five-year horizon Scenario A allows to achieve on 31.34% lower tax burden on Ukraine-sourced dividend payment comparing to Scenario B and on 2.99% lower tax burden comparing to Scenario C. Although in the first year Scenario A is less efficient due to initial registration and setup costs but within five-year horizon tax burden under Scenario A reduces assuming that dividend payments are constant and initial structure is in place.

The DCF analysis confirms respective conclusions indicating that Scenario A generates higher value over 5-year horizon than Scenario B and Scenario C.

However, if risk adjustment is added, in particular, tax audit risk triggering payment of 10% tax liabilities difference, 25% penalty, statutory interest and three-year lag, the picture becomes different. Under this risk adjustment Scenario A is better than Scenario B but worse than Scenario C.

Results of sensitivity analysis show that the structure is most sensitive to two parameters (1) dividend scale and (2) probability of risk revealing (namely, tax audit probability triggering imposition of penalty and interest). Increase of the dividend scale or more than five-year horizon speaks in favor of choosing Scenario A for the structure. Indexation of substance cost and increase in the discount rate are treated as second-order parameters compared to the one mentioned before. In fact, indexation of substance cost

decrease tax savings and discount rate increase decreases the value of money in future. But none of these parameters appeared to be so powerful as dividend scale or enforcement.

Therefore, this brings two main recommendations for the Ukrainian business:

First, Scenario A should be preferred over Scenario B since it grants a lower five-year tax burden and positive NPV. These results remain robust once audit probability, penalties, and interest with 3-year limitation period are added. Thus, Scenario A with credible substance appeared to be more economically preferred option for the Ukrainian business over a five-year horizon than Scenario B.

Second, Scenario A should be preferred over Scenario C only when enforcement exposure is low enough to keep clawback-adjusted NPV positive or when dividend scale or planning horizon are large (up to 10 and more years) enough to be able to offset potential enforcement penalties against tax savings. In other words, if dividend scale in a five-year horizon or more is expected to be more than EUR 800,000.00 and accompanies with solid substance with economic justification Ukrainian business should take a decision in favor of Scenario A. However, if none of the specified conditions are met or there are some doubts towards credibility of substance confirmed by the tax advisers Scenario C appeared to be safer since expected costs of potential clawback may outweigh tax savings incurred upon implementation of Scenario A.

If regardless of the concerns raised Scenario A is still adopted, then monitoring on ongoing basis is highly recommended. In particular, management should track sensitive parameters such as dividend scale, audit probability, indexation of substance costs and discount rate to be able to reassess that structure and take operating decisions. Quarterly dashboards and reassessment of the clawback-adjusted NPV might be enough to detect the point for amending the structure and shifting to Scenario C if clawback-adjusted NPV is negative within several reporting periods.

Regardless of the useful insights this study has certain limitations.

First limitation is that financial model is based on fixed data and assumptions regarding tax rates, substance costs, dividend growth rate that reflect specific company's data and legal framework regulation currently effective in Ukraine and on Cyprus.

However, these parameters may change due to future regulatory or macroeconomic ranges. Respective changes may affect the overall outcomes of the study triggering the necessity to reperform/reevaluate the model.

Second limitation – enforcement risk parameter. Respective parameter assumes rules-based tax administration. Ukrainian tax authorities are rather known for the pro-fiscal approach in interpreting Ukrainian tax rules. Probably in a post-war framework the Ukrainian tax authorities may adopt more aggressive approach driven by the need to increase budget revenues. As a result, real audit probability and penalty exposure may reduce tax savings of Scenario A vs Scenario B.

Third limitation – five-year horizon. Respective horizon for stable business may be viewed as a medium-term perspective and not a long-term one. Chosen period is based on my observations and assessment of the current trends in international tax planning associated with introduction of tax amendments 1 per 5-7 years. This assessment remains subjective. Researchers or practitioners with more optimistic views may extend the analysis to up to 10-year horizon. Such extension will provide broader overview of the tax costs.

Further research could make the model more advanced through adding additional new types of risks that become relevant for Ukrainian business such as CFC risk. Recognition of CFC income may dramatically effect overall tax efficiency of Scenario A and Scenario B.

Also, further analysis may include post-war economic changes that potentially might happen in Ukraine – inflation, exchange rate movements, introduction of progressive tax rates, focus on tax revenues increase etc. It will also have effect on tax efficiency of the considered scenarios.

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