

Solving the Double Taxation of Ukrainian Refugees as a Part of Support Measures

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There are more than 7 million Ukrainian refugees in EU countries. Among them, 4.3 million have applied for temporary protection¹ and need some means of living. **About 23 % of Ukrainian refugees have managed to keep their jobs in Ukraine, work remotely from Europe²**, and pay taxes in Ukraine.

Still, if a person spends more than 183 days in an EU country, they could be considered a tax resident, and unemployment benefits transferred from another country may be taxed there. Indeed, under many bilateral tax agreements, unemployment benefits are subject to tax only in the country of tax residence.

In this case, the income received before reaching this term is taxed. Poland and Germany have already officially announced such decisions^{2,3}, but according to general rules, this also applies to the rest of the EU countries.

Since salaries in Ukraine are relatively low and, in most cases, not enough to cover basic living costs in Europe, an additional tax burden might negatively affect Ukrainian refugees' living standards.

Currently, there are agreements between Ukraine and all EU countries on the avoidance of double taxation. However, this mechanism is quite complex and involves first paying taxes both in Ukraine and the host country upon acquiring tax residency. Then, by May 1st of the following year in Ukraine, the taxpayer must submit an annual income declaration with a request to the Ukrainian tax service for the return of overpaid personal income tax. A certificate must support this declaration from the tax authority of the host country about the amount of tax paid.

There were certain expectations that the states receiving Ukrainians would make concessions on this issue and cancel the requirement to pay income and other taxes. This would preserve Ukraine's revenue in the budget during a difficult war period. There was a precedent in 2020 among the EU countries when they mutually agreed not to recognize their citizens as tax residents if they were forced to stay in any country for more than 183 days. So far, only two countries have followed this path and will not require Ukrainians to pay taxes for 2022 to their budgets - Lithuania (until the end of the war) and Ireland (until the end of 2022). However, this decision was exceptionally voluntary.

Today, a Ukrainian refugee in Europe has two alternatives to avoid double taxation:

1. Employment at a new place of work in an EU country or re-registration of a business in that country. In fact, this path leads to the loss of a job in Ukraine and, in the future, to the gradual integration of a person into the society of the host country in the EU and the renunciation of Ukrainian citizenship;
2. If the individual would prefer to have a Ukrainian tax residency, the easiest way to avoid double taxation is by changing their host country every six months. In this case, tax authorities cannot claim tax collection. However, this option is associated with the need to constantly solve household issues and go through lengthy bureaucratic procedures.

1 <https://data.unhcr.org/en/situations/ukraine>

2 <https://www.money.pl/gospodarka/hojny-gest-polska-zrzeka-sie-poboru-podatkow-od-uchodzcow-ktorzy-pracuja-zdalnie-6808096034265632a.html>

3 <https://mind.ua/en/publications/20245542-involuntary-residents-why-refugees-will-have-to-pay-taxes-abroad>

The situation is complicated by the fact that there is currently no exchange of information on citizens' accounts between Ukraine and EU countries. The automatic exchange of tax information with Europe will not start before 2024, that is, in the best case, Ukrainian tax officials will be able to receive data only for 2023. Thus, Ukrainian tax officials have no tools that help them know the receipt of funds by Ukrainian refugees abroad. Nonetheless, regardless of where a person pays taxes, they need to prove to the other country that they do.

If, for example, a person has paid all taxes in Europe, they must bring certificates to Ukraine, legalize these documents at home (translate them into Ukrainian and verify their correctness), and then submit a tax declaration – a lengthy process.

Thus, the Ukrainian tax service will be able to obtain information on the financial income of Ukrainian refugees from foreign governments only in two ways:

1. From the declaration that Ukrainians must submit by May 1st, 2023, regarding income received in 2022, where Ukrainians can independently indicate their income abroad and the amount of assistance received from foreign countries.
2. By sending official requests to tax services of other countries for the information on income received (including financial assistance to individuals). At the same time, taking into account a possible number of requests that will have to be made, this method of obtaining information looks extremely difficult. In addition, it is unlikely that it will be possible to cover and check all persons who received income in another state at least once.

As a general rule, aid in the form of funds from foreign governments can be considered foreign income under the legislation of Ukraine. In the case of having tax residency in Ukraine, the person must declare such income and pay the corresponding taxes in their homeland.

Solving the problem of double taxation requires balanced steps, which must be taken now. On the one hand, the risks of double taxation should contribute to the return of Ukrainian refugees to their homes. However, the undecidedness of this issue may very likely cause a diametrically opposite reaction.

Proposals/suggestions

Under the existing conditions, changing the international conventions on double taxation is not advisable. First, it will take time to make necessary amendments and implement them. Second, it might negatively affect social tension in receiving countries.

Thus, the **only efficient measure now** is for European countries not to consider Ukrainian refugees (those who arrived in a European country after February 24th this year) as their tax residents as an act of goodwill. In this context, raising the tax-free minimum would also have positive outcomes.

These steps **can be considered a part of the support of Ukraine from Europe**, as it can lose up to 70 billion UAH (~1.8 billion Euros) if refugees choose other than Ukrainian tax residency.

In addition, there should be the possibility for refugees to choose their tax residency between Ukraine and an EU country.

From the Ukrainian side, the following measures should be taken:

- Make amendments to the relevant instructions of the National Bank of Ukraine and the State Tax Service to allow Ukrainian natural persons-entrepreneurs to open accounts in foreign banks.
- To make changes to the Ukrainian Tax Code, which would allow financial assistance from foreign governments to be considered as income that is not included in the total monthly (annual) taxable income. Accordingly, this would exempt refugees who received this assistance from taxation on personal income tax and military levy in Ukraine.

The creation of a Ukraine-European tax fund could also be considered a possible measure. This fund could accumulate taxes from refugees (either from Ukraine or EU countries, but not both at the same time) and could be directed to funding programs that improve their living standards. This fund should be governed by equal representativeness of EU institutions and the Ukrainian government to have equal access to these financial resources. However, establishing this fund might need to make amendments to European and Ukrainian tax legislation.