



The V4 and Ukraine Fight with Tax Frauds and Money Laundering

edited by

Mariia Balytska, Hana Bohušová and Piotr Luty



Publishing House of Wrocław University of Economics and Business

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Foreword

The monograph entitled *The V4 and Ukraine Fight with Tax Fraud and Money Laundering* presents a comprehensive exploration of the mechanisms, challenges, and strategies employed by the Visegrad Group countries (V4 – Poland, Hungary, Slovakia, and the Czech Republic) and Ukraine to combat tax fraud and money laundering. Against the backdrop of increasing global financial interconnectedness, these nations face unique yet interconnected challenges in addressing fiscal risks, safeguarding financial integrity, and ensuring equitable taxation.

The book delves into the transformative potential of blockchain technology as a tool to combat money laundering within the V4 countries and Ukraine. It highlights the need for harmonized AML (anti-money laundering) regulations, international cooperation, and investments in advanced technologies to strengthen oversight. Educational initiatives are emphasized as critical to bridging knowledge gaps among financial institutions and regulators, enabling the effective implementation of blockchain-based AML measures.

The authors focus on the methods used to measure and evaluate tax aggressiveness in corporate taxation. The monograph explores key channels of profit shifting, such as transfer pricing and the exploitation of double taxation treaties, providing a detailed analysis of how these mechanisms are used to evade taxes. It also discusses the importance of addressing these issues in the Ukrainian context and identifies indicators that can be adapted to local conditions to improve tax compliance.

The authors provide an analysis of FATF (Financial Action Task Force) compliance, and examine how the V4 countries and Ukraine align with FATF recommendations. Mutual evaluations reveal the strengths and weaknesses in their AML frameworks. They also highlight areas for improvement, particularly in technical compliance and effectiveness, while acknowledging national efforts to address these challenges.

Tax security, defined as the state's ability to ensure fiscal stability and counteract risks, is the focal point of one of the chapters, which evaluates key indicators, identifying excessive fiscal burdens, inefficiencies in tax administration, and uneven tax policies. The findings underline the need for reforms to enhance tax elasticity, reduce administrative costs, and address the growing tax debt.

The book explores the impact of the *švarcsystém* – a tax-avoidance mechanism – on Czech public finances. It discusses the economic implications of flat-rate expenses for self-employed individuals and proposes reforms to create a more equitable taxation system. Recommendations include adjusting flat-rate expenditure thresholds and combating non-reporting of income through digital tools.

The book also provides an analysis of value-added tax (VAT) carousel fraud, identified as a major challenge for EU countries, including the V4. The authors examine the mechanisms of VAT fraud, its economic impact, and the regulatory tools available to combat it. Emphasis is placed on the European Court of Justice's role in shaping legal responses and the need for enhanced collaboration among EU member states to address this pervasive issue.

The next crucial issue examined in the book concerns the taxation of Ukrainian refugees. The taxation of income earned by Ukrainian refugees presents complex challenges due to differing tax regimes and administrative procedures. The development of centralized digital platforms and simplified tax procedures is proposed to address these issues. Collaborative efforts between Ukraine and EU member states are recommended to ensure fair taxation and compliance while reducing bureaucratic barriers.

The final chapter revisits tax aggressiveness, focusing on international dimensions such as the use of tax havens and the exploitation of double taxation treaties. It evaluates the role of debt, intangible assets, and transfer pricing in profit shifting, offering strategies to mitigate these practices in Ukraine.

The monograph is divided into nine chapters, each dedicated to a specific aspect of the overarching issue. Together, they offer insights into the legal, technological, and economic frameworks that shape the fight against financial crime in this region, emphasizing the importance of regional collaboration and innovation.

Afterword

The monograph offers an in-depth exploration of key financial integrity challenges and the opportunities presented by emerging technologies and policy innovations. It outlines the critical role of blockchain in anti-money laundering (AML), the indicators of tax aggressiveness, the effectiveness of compliance with FATF standards, and the urgent need to reform tax security systems in Ukraine. Additionally, it discusses VAT fraud prevention, refugee taxation challenges, and the global fight against international tax aggressiveness. The monograph highlights the importance of future research and international collaboration to address these multifaceted issues effectively.

Blockchain technology has transformative potential for combating financial crimes such as money laundering. Its ability to ensure transparency and traceability can significantly enhance AML efforts, however its widespread adoption faces barriers, including a lack of harmonized regulations, limited international cooperation, and insufficient investment in advanced analytics. Unlocking blockchain's potential requires a unified approach across jurisdictions and increased focus on its practical applications, particularly in real-time transaction monitoring and automated compliance processes.

Addressing corporate tax evasion necessitates identifying and measuring tax aggressiveness. Profit-shifting mechanisms, such as transfer pricing and the misuse of debt, require targeted policies and rigorous enforcement. Comparative studies across jurisdictions could provide valuable insights into the effectiveness of existing measures. Such analyses can help policymakers refine strategies to curb aggressive tax practices and promote fiscal equity.

Despite efforts to align with the Financial Action Task Force (FATF) standards, significant gaps remain in the implementation and effectiveness of AML measures. Technical compliance alone is insufficient; innovative approaches are needed to enhance enforcement and accountability. Peer-reviewed evaluations and collaborative efforts among nations could play a pivotal role in fostering a culture of continuous improvement in AML initiatives.

Ukraine's tax security landscape reveals critical inefficiencies that undermine fiscal stability and economic growth. Systemic reforms are urgently needed to address these challenges. Future research should focus on assessing the long-term impacts of proposed reforms on economic resilience, equity, and growth. Such studies would provide policymakers with actionable insights to design sustainable tax systems.

VAT carousel fraud remains a persistent issue, causing significant revenue losses. Strengthened preventive measures and enhanced international collaboration are crucial to curbing this form of tax evasion. The integration of AI-driven analytics and blockchain technology is promising in terms of detecting and preventing fraud. Exploring the potential of these technologies could lead to more robust and cost-effective solutions.

Ukrainian refugees face unique challenges in fulfilling their tax obligations, highlighting the need for innovative solutions to simplify taxation for displaced individuals. Research into best

practices for digitalizing tax systems and creating refugee-friendly tax policies could guide global efforts to address similar crises. Ensuring equitable treatment and accessibility in tax systems is essential for fostering financial inclusion and stability.

The exploitation of international tax laws and treaties for profit-shifting purposes underlines the need for a unified global response. Multilateral agreements and coordinated policy measures are critical in curbing aggressive tax practices. Future research should focus on the effectiveness of these agreements and explore strategies to promote fiscal equity across nations.

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Project partners



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