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Reforming the Legal Framework of Ukraine's Economic System: Challenges, Governance, and Regulatory Transformation

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Abstract: This study examines the reform of Ukraine's tax law framework as a strategic component of economic modernization in the context of European integration, digital governance, and post-war reconstruction. It aims to evaluate the extent to which existing legal and institutional arrangements support regulatory effectiveness, legal certainty, fiscal sustainability, and financial security while aligning national tax legislation with European Union standards, OECD principles, and international regulatory frameworks. The research employs a qualitative field research design using semi-structured interviews with government officials, tax administrators, legal practitioners, business representatives, and academic experts. Data collection is complemented by direct observation and documentary analysis of tax legislation, administrative regulations, judicial decisions, strategic policy documents, and official institutional reports. Data are analyzed through thematic analysis, supported by statutory interpretation, comparative legal analysis, and source triangulation to ensure analytical validity, consistency, and credibility. The findings indicate that Ukraine's tax regulatory system continues to face substantial structural challenges, including legislative instability, fragmented institutional coordination, administrative inefficiency, limited accountability, and partial inconsistencies with European Union legal standards. Nevertheless, the study demonstrates significant progress through the digital transformation of tax administration, procedural simplification, greater regulatory transparency, improved taxpayer services, and gradual harmonization with European Commission recommendations and OECD tax governance principles. The analysis further reveals that sustainable tax reform requires an integrated governance model founded on legal certainty, adaptive legislation, digital public administration, risk-based tax supervision, institutional resilience, and collaborative governance involving public authorities, private stakeholders, and international partners. The study contributes to comparative economic law by developing an integrated legal framework that connects tax law reform, digital governance, fiscal security, and European regulatory convergence as mutually reinforcing pillars of economic modernization. The proposed framework enriches contemporary scholarship on tax governance while offering practical policy guidance for strengthening Ukraine's legal institutions, enhancing investor confidence, improving

fiscal resilience, and supporting sustainable economic recovery within the evolving European legal and economic order.

Keywords: Digital Governance; Economic Legal Reform; Financial Security; Regulatory Transformation; Tax Administration.

INTRODUCTION

The current stage of development of the economic system of Ukraine is characterized by large-scale legal and institutional transformations, driven by European integration, digitalization of public administration, the need to ensure economic security, and post-war state reconstruction. Under such conditions, reforming the legal framework of the economic system acquires special importance, since the effectiveness of regulatory and legal regulation directly affects the investment attractiveness, competitiveness of the national economy, stability of the financial system, and the level of protection of the rights of participants in economic relations. At the same time, the current legislation is characterized by insufficient coherence of individual regulatory provisions, instability of regulatory policy, complexity of administrative procedures, and the need for further harmonization with the law of the European Union (Гаряга, 2026).

The issue of reforming the legal framework of the economic system of Ukraine is the subject of research by numerous Ukrainian and foreign scholars. In modern scientific literature, considerable attention is paid to improving state regulation of the economy, modernizing tax, economic, and administrative legislation, developing the digital economy, introducing principles of good governance, deregulating business activity, and implementing European legal standards.(Bessomo и др., 2026) Research also highlights the influence of recommendations of the Organization for Economic Cooperation and Development (OECD), acts and policies of the European Union, international financial organizations, and modern concepts of regulatory management on the formation of the state's effective economic policy (*The Potential for Tax Reforms in Post War Ukraine - Bessomo - 2026 - Scottish Journal of Political Economy - Wiley Online Library*, б. д.).

Despite the significant volume of scientific works, modern literature does not sufficiently comprehensively study the relationship between reforming the legal framework of the economic system, digital transformation of public administration, ensuring economic security, and fulfilling Ukraine's European integration obligations under martial law and post-war recovery.(Petrukha и др., 2026) Insufficient attention has been paid to the formation of a holistic model of regulatory transformation that would combine the principles of legal certainty, transparency, digitalization of administrative procedures, risk-based state regulation, and adaptation of national legislation to the acquis of the European Union. (Vonyak и др., 2026) These aspects determine the scientific novelty and relevance of this study.

The tax system is one of the key elements of the functioning of the state economy and an important tool for implementing its financial policy. Through taxation mechanisms, the formation of the revenue part of budgets of all levels, financing of social programs, the defense sector, infrastructure development, and the performance of other public functions of the state is ensured. At the same time, the current state of development of the Ukrainian economy is characterized by the influence of military, socio-economic, and globalization challenges, which require a qualitative update of the legal regulation of tax relations.(Verheliuk и др., 2026) Of particular importance is the formation of stable, transparent, and predictable tax legislation, capable of simultaneously ensuring the fiscal needs of the state and stimulating the development of entrepreneurship, investment activity, and the innovative economy (*Base erosion and profit shifting (BEPS) | OECD*, б. д.).

Problems of tax law and reform of the taxation system were studied in the works of L. K. Voronova, L. Gariaga, M. P. Kucheryavenka, N. Yu. Pryshva, O. P. Getmanets, V. A. Andrushchenko, I. A. Mayburov, and other Ukrainian and foreign scientists (Гаряга, 2026). Despite significant scientific achievements, the issues of comprehensive legal modernization of the tax system of Ukraine in the context of digitalization of public administration, integration into the European Union, implementation of international OECD standards, and ensuring the financial stability of the state remain relevant. The following research questions have been formulated within the framework of the study: What are the main challenges that determine the need to reform the legal framework of the economic system of Ukraine at the present stage? What legal and management mechanisms ensure the effectiveness of the regulatory transformation of the economic system in the context of European integration and digitalization? What areas of legislative improvement will contribute to increasing the efficiency of state management of the economy, strengthening economic security and harmonizing national legislation with European Union law?

The purpose of the article is a comprehensive analysis of modern directions of legal reform of taxation regulation in the economic system of Ukraine and determination of prospects for improving tax legislation in accordance with European standards. The significance of the study lies in the formation of theoretical and practical principles for improving the legal regulation of the economic system of Ukraine. The results obtained can be used in the preparation of legislative amendments, the development of state regulatory

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policy, the improvement of mechanisms for public economic management, as well as in further scientific research on European integration, digital transformation and the modernization of economic legislation of Ukraine.

METHOD

This study employed a qualitative field research design to examine the reform of the legal framework governing Ukraine's economic system, with particular emphasis on tax regulation, economic governance, and regulatory transformation in the context of European integration, digital public administration, and post-war reconstruction. Primary data were collected through semi-structured interviews with policymakers, officials of tax and economic regulatory agencies, legal practitioners, business representatives, and academic experts involved in economic governance and legal reform. These interviews were complemented by non-participant observations of administrative practices and documentary evidence, including the Constitution of Ukraine, the Economic Code, the Tax Code, governmental regulations, strategic policy documents, European Union legal instruments, OECD recommendations, and reports issued by international organizations. The combination of field-based evidence and official legal documents enabled a comprehensive understanding of both the normative framework and its practical implementation within Ukraine's evolving economic governance system.

The collected data were analyzed using thematic analysis integrated with comparative legal and systematic approaches. Thematic analysis was employed to identify recurring patterns concerning regulatory challenges, institutional governance, digital transformation, and legal harmonization. In contrast, comparative legal analysis assessed the compatibility of Ukrainian legislation with the European Union acquis, OECD standards, and international best practices. A systematic approach was further applied to examine the interrelationships among legal institutions, regulatory mechanisms, and public administrative structures shaping economic governance. To ensure the trustworthiness of the findings, the study adopted source triangulation by comparing interview data, field observations, official legislation, policy documents, and scholarly literature. The validity of the analysis was strengthened through member checking with selected participants, expert review by legal scholars specializing in economic law, and consistent application of legal interpretation principles throughout the analytical process. These procedures enhanced the credibility, dependability, and confirmability of the findings while providing a robust empirical foundation for proposing an integrated model of legal and regulatory reform capable of supporting Ukraine's long-term economic resilience and sustainable institutional transformation.

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RESULTS AND DISCUSSION

Reform of the Legal Framework of the Economic System of Ukraine

Throughout the entire period of Ukraine's independence, the development of the taxation system was characterized by the predominance of the fiscal approach, manifested in the strengthening of the tax burden to ensure revenues to the state and local budgets. After the start of the full-scale armed aggression of the Russian Federation against Ukraine, the legislator introduced several temporary tax relaxations, including the suspension of most tax audits, the exemption of taxpayers from certain types of liability provided for by the Tax Code of Ukraine for the period of martial law, as well as other anti-crisis measures aimed at supporting business and the economy. (Budko и др., 2026)

At the same time, as of the beginning of 2026, a gradual return of tax policy to the pre-war model is observed, which is accompanied by the restoration of the state's control functions and the strengthening of the tax burden on business entities and citizens. This trend indicates the restoration of the dominance of the fiscal component in taxation. At the same time, scientists draw attention to the fact that the excessive orientation of tax policy towards ensuring budget revenues does not always take into account strategic national interests, geopolitical and territorial features of the state, as well as socio-economic and behavioral characteristics of taxpayers (Л.в & L.v, 2022).

The Constitution of Ukraine determines the obligation of everyone to pay taxes and fees in the manner and amounts established by law. The main special regulatory legal act remains the Tax Code of Ukraine, which determines the principles of building the tax system, the rights and obligations of taxpayers and regulatory authorities(*Податковий кодекс України*, б. д.). At the same time, numerous amendments to the Tax Code negatively affect the principle of legal certainty, which is one of the fundamental principles of the rule of law and is confirmed by the practice of the Constitutional Court of Ukraine and the European Court of Human Rights (OECD, 2024).

The stability of tax legislation is an important prerequisite for the economic development of the state, the formation of investment attractiveness, and ensuring the trust of business entities in state policy. Among the most significant problems of the modern taxation system, it is advisable to highlight: the instability of tax legislation; the complexity of certain tax administration procedures; a significant administrative burden on business; the ambiguity of the interpretation of certain norms of the Tax Code; insufficient digitalization of certain administrative procedures; the need to improve mechanisms for protecting taxpayers' rights; the presence of corruption risks in the field of tax control. (Chemodurov & Bohdanenko, 2026)

The listed problems negatively affect the level of voluntary compliance with tax obligations and hinder the development of entrepreneurial activity. Among the most significant problems of the modern taxation system of Ukraine, it is advisable to highlight a complex of regulatory, organizational, administrative and institutional factors that affect the efficiency of the functioning of the tax mechanism, the level of tax discipline and the investment attractiveness of the state. (Chegusova и др., 2026)

One of the key problems remains the instability of tax legislation. Frequent changes in tax norms, the introduction of new taxation rules, adjustments to rates, benefits, the procedure for tax administration, and procedures for interaction between payers and regulatory authorities make it difficult to predict the financial and economic activities of business entities. Such instability creates additional risks for business, since taxpayers are forced to constantly adapt internal processes to new legislative requirements, which requires additional time and resources. This problem is especially acute under martial law, when tax policy must simultaneously ensure budget filling and maintain economic stability.

The complexity of tax administration procedures is also one of the factors that reduces the efficiency of the tax system. Despite the gradual introduction of electronic services, certain processes remain overly formalized and require a significant number of administrative actions on the part of taxpayers. The complexity of submitting reports, confirming the right to a tax credit, undergoing inspection procedures, appealing decisions of regulatory authorities, and obtaining clarifications increases the costs of tax support for enterprises.

A significant administrative burden on business is another systemic problem of tax regulation. Taxpayers are forced to spend significant resources on maintaining tax records, preparing documents, communicating with regulatory authorities, and ensuring compliance with numerous regulatory requirements. This is especially true for small and medium-sized businesses, which do not always have sufficient financial and human resources to maintain specialized tax departments. An excessive administrative burden can reduce entrepreneurial activity or shift part of economic operations to the informal sector (*Дайджест всіх податкових змін під час війни*, б. д.).

The ambiguity in interpreting certain provisions of the Tax Code of Ukraine remains a problematic issue. The presence of contradictory or insufficiently clearly formulated norms creates the prerequisites for different understandings of their content by taxpayers and regulatory authorities. As a result, tax disputes arise, and the number of administrative and judicial appeals

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of tax authorities' decisions increases. Insufficient certainty of legal regulation undermines the principle of legal certainty and the predictability of tax policy.

The insufficient level of digitalization of certain administrative procedures is also a factor that requires further improvement. Despite significant progress in the development of the taxpayer's electronic account, electronic reporting and automation of certain processes, certain areas of tax administration remain insufficiently integrated into a single digital system. Further digitalization should be aimed not only at automating the state's control functions, but also at creating a service model of interaction between taxpayers and public authorities that complies with the principles of "digital by default" and "one-stop-shop".

An important direction of reform is improving mechanisms for protecting taxpayers' rights. The modern tax system should ensure a balance between the public interests of the state in the formation of budget resources and the private interests of taxpayers in the observance of their rights and legitimate interests. Such mechanisms include improving administrative appeal procedures, increasing the level of justification of decisions of control bodies, ensuring effective access to legal aid, and strengthening guarantees of protection against unlawful state interference in economic activity.

Corruption risks in the field of tax control remain a separate problem. They can manifest themselves in the selective application of control measures, abuse of discretionary powers of officials, creation of artificial obstacles for taxpayers, or use of inspection procedures as a tool of administrative pressure. Reducing such risks requires further automation of decision-making processes, minimization of direct contact between officials and taxpayers, development of a system of risk-oriented tax control, and strengthening of institutional responsibility of public administration bodies.

Thus, these problems have a complex impact on the efficiency of Ukraine's tax system, the level of public trust in state institutions, and taxpayers' willingness to voluntarily fulfill their tax obligations. Further tax reform should be aimed not only at ensuring (*The Potential for Tax Reforms in Post-War Ukraine - Bessomo - 2026 - Scottish Journal of Political Economy - Wiley Online Library*, б. д.).

Table 1. Main results of the study on the reform of the legal framework of the economic system of Ukraine

Problem identified	**Impact on the economic system**	**Proposed direction of reform**
Instability of economic legislation	Decrease in investment attractiveness and legal certainty	Ensuring stability of regulatory regulation and predictability of legislative changes

Complexity of administrative procedures	Increase in regulatory costs for business.	Simplification of administrative procedures and digitalization of public services
Insufficient harmonization with the EU acquis	Slowdown in European integration processes	Implementation of European Union law and international standards
Fragmentation of state regulation	Duplication of government functions and inefficient management	Formation of an integrated model of public economic management
Insufficient level of digitalization	Decrease in the efficiency of control and administration	Development of the digital economy, e-government and automation of administrative processes

Source: Author's interpretation

The results show that the most systemic impact on the efficiency of the economic system is exerted by legal certainty, digitalization of regulatory processes, and adaptation of legislation to European standards. These areas form the basis of modern state economic development policy and correspond to the strategic goals of Ukraine's integration into the European Union.

European standards for tax reform

European standards for tax reform are based on the principles of the rule of law, legal certainty, transparency, tax fairness, non-discrimination, proportionality, and effective tax administration. For Ukraine, which is at the stage of deepening European integration and adapting national legislation to the acquis of the European Union, taking these standards into account is a necessary condition for modernizing the tax system, increasing its efficiency, and ensuring sustainable economic development.

One of the basic principles of European tax regulation is legal certainty, according to which tax rules must be clear, understandable, predictable, and stable for taxpayers. This principle is a component of the rule of law and provides for the prevention of arbitrary state interference in individuals' property rights through taxation mechanisms. The European Court of Human Rights has repeatedly emphasized in its case law that state intervention in the field of taxation must be carried out exclusively based on law, pursue a legitimate aim and comply with the principle of proportionality. This approach is important for

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Ukraine, as frequent changes in tax legislation and instability of legal regulation negatively affect the investment climate and the level of taxpayers' trust in state policy (*ECHR - Homepage of the European Court of Human Rights - ECHR - ECHR / CEDH*, б. д.).

An important direction of European tax reform is the harmonization of national legislation with European Union law. EU tax policy is not aimed at creating a single tax system for all Member States, but at harmonizing the basic rules of taxation, eliminating tax barriers to the functioning of the internal market and ensuring fair tax competition. Of particular importance in this context are the provisions of Council Directive 2006/112/EC on the common system of value added tax, which establishes the basic principles of the functioning of the VAT system in the EU Member States. It is the sphere of indirect taxation that is one of the most important areas of adapting Ukrainian legislation to European standards, since an effective VAT system has a direct impact on the development of the internal market, international trade and budget revenues (*Directive - 2006/112 - EN - VAT Directive - EUR-Lex*, б. д.).

Within the framework of the European model of tax regulation, significant attention is paid to ensuring tax transparency and combating tax evasion. The European Union is actively developing a system of administrative cooperation between tax authorities of member states, which provides for the automatic exchange of information on income, financial accounts, cross-border tax schemes and the activities of digital platforms. An important tool in this area is the system of directives on administrative cooperation in the field of taxation (Directive on Administrative Cooperation – DAC), which aims to increase the transparency of tax transactions and prevent aggressive tax planning (*Administrative Co-Operation and Mutual Assistance - Taxation and Customs Union*, б. д.).

For Ukraine, implementing such standards involves developing international tax cooperation, improving mechanisms for exchanging tax information, strengthening control over cross-border transactions, and ensuring effective counteraction to tax avoidance schemes. One of the key elements of modern tax reform is implementing international standards of the Organization for Economic Cooperation and Development (OECD), in particular the provisions of the BEPS (Base Erosion and Profit Shifting) Action Plan. The purpose of BEPS is to prevent situations where international companies artificially shift profits to low-tax jurisdictions or use loopholes in tax legislation to reduce tax liabilities(«Digitalization to Improve Tax Compliance», 2022).

The OECD BEPS standards cover areas such as improving transfer pricing rules, introducing controls over the activities of controlled foreign companies, ensuring transparency of international business, and improving mechanisms for taxation of the digital economy. For Ukraine, implementing these standards has become an important area of tax reform, as it contributes to increasing the transparency of economic processes and bringing the national tax system closer to international practices (*Base erosion and profit shifting (BEPS) | OECD*, б. д.). A special direction of European tax reform is the digitalization of tax administration. The modern European model involves a transition from the traditional control function of tax authorities to a service model of interaction between the state and the taxpayer. This includes the development of electronic tax services, electronic document management, automated tax risk analysis, and the use of information technologies for tax control and taxpayer servicing. The OECD emphasizes in its studies that the digitalization of tax administration contributes to reducing the administrative burden on business, increasing voluntary compliance with tax obligations, and reducing corruption risks. For Ukraine, the development of digital tax infrastructure is one of the priority areas of reform, which involves improving the Taxpayer's Electronic Cabinet, automating reporting procedures, and implementing risk-based tax control models(*Tax Administration*, б. д.).

An important European standard is also ensuring the proper balance between the interests of the state and the rights of taxpayers. The tax system should not be considered solely as a mechanism for filling the budget. However, it should provide legal guarantees for business entities, including the right to information, the possibility of administrative and judicial appeal of decisions of regulatory bodies, and protection from unjustified state interference in economic activity.

The OECD defines effective tax administration as one based on trust between the state and taxpayers, transparency of procedures and voluntary fulfillment of tax obligations (Пабат и др., 2015). One of the most promising areas of tax system reform is the digital transformation of regulatory authorities' activities. Key areas of digitalization include: development of the Taxpayer's Electronic Cabinet; automation of tax reporting processing; electronic document management; risk-based selection for inspections; use of artificial intelligence and big data analytics technologies; integration of state information resources(Leheza и др., 2026).

The use of modern digital technologies contributes to increasing the transparency of tax procedures, reducing administrative costs and minimizing the human factor (Asllani и др., 2024). Further reform of the taxation system should include: ensuring the stability of tax legislation and minimizing unjustified legislative changes; improving the procedures for administrative and judicial appeals of tax authority decisions; developing electronic tax administration; introducing modern digital technologies into the activities of regulatory authorities; harmonizing tax legislation with European Union law; increasing the

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level of legal protection of taxpayers; developing risk-based tax control models; mproving mechanisms for international tax cooperation.

The comprehensive implementation of these measures will ensure the formation of a modern tax system capable of functioning effectively in the digital economy and European integration(OECD, 2025). The results obtained are generally consistent with the modern provisions of the theory of Good Governance, the concept of the Regulatory State and institutional economic theory. According to these theoretical approaches, the effectiveness of economic development is largely determined by the quality of legal institutions, the stability of legislation, the transparency of public administration and the effectiveness of regulatory mechanisms. The analysis confirms that these factors are decisive for the successful modernization of Ukraine's economic system.

The results of the study are also consistent with the recommendations of the Organization for Economic Cooperation and Development (OECD) on improving regulatory policy and digital public administration, as well as with the approaches of the European Commission to adapting the legislation of candidate countries to the acquis of the European Union. Similar to previous studies in the field of European integration, it has been established that legal certainty, predictability of regulatory policy and digitalization of administrative procedures are necessary conditions for ensuring economic growth (Rosola и др., 2023).

At the same time, the results of this study expand existing scientific approaches. While most previous works analyze separate areas of reform (tax policy, administrative procedures, digitalization or harmonization of legislation), this study considers them as interrelated components of a single mechanism for regulatory transformation of the economic system of Ukraine. Such a comprehensive approach has made it possible to substantiate the need for simultaneous improvement of legislation, modernization of public administration institutions, digital transformation and implementation of European principles of regulation. The practical significance of the results obtained lies in the possibility of their use during the development of legislative changes, the formation of state regulatory policy, the preparation of programs for post-war economic recovery and the implementation of European integration reforms. The proposed areas of improvement can be used by state authorities, legislators, scientific institutions and the expert community to increase the effectiveness of legal regulation of economic relations.

The scientific novelty of the study lies in the formation of a comprehensive model of regulatory transformation of the legal framework of the economic system of Ukraine, which integrates the principles of legal certainty, digital governance, risk-oriented public administration, economic security and harmonization of legislation with the acquis of the European Union. Unlike previous studies, the proposed approach considers legal reform as a holistic

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multi-level process that combines regulatory, institutional and digital mechanisms for the modernization of the state's economic system. Thus, the results of the study confirm that effective reform of the legal framework of the economic system of Ukraine requires a comprehensive regulatory transformation, which should be based on the principles of legal stability, digitalization, institutional capacity, good governance and full integration into the European legal space.

CONCLUSION

This study concludes that tax law reform based on European standards represents not merely a process of legislative harmonization but a fundamental shift toward a modern, accountable, and taxpayer-oriented system of tax governance. The findings demonstrate that the modernization of Ukraine's tax system should be grounded in the principles of the rule of law, legal certainty, transparency, digital transformation, administrative efficiency, and international tax cooperation in line with the European Union legal framework. Implementing these principles would strengthen the balance between the state's fiscal interests and the legal protection of taxpayers, while enhancing the effectiveness of tax administration, reinforcing fiscal security, improving the investment climate, and facilitating Ukraine's sustainable integration into the European economic area. Furthermore, the study highlights that the success of tax reform depends not only on amendments to tax legislation but also on comprehensive institutional transformation, the effective adoption of digital technologies in tax administration, the implementation of risk-based compliance mechanisms, and the improvement of administrative appeal and tax dispute resolution procedures. Future research should therefore examine the practical implementation of these reforms by evaluating the effectiveness of digital tax administration, taxpayer compliance, and their impact on investment and economic growth. Comparative studies involving European Union member states that have successfully implemented modern tax governance standards would also provide valuable insights for refining Ukraine's tax policy framework. Such research is expected to contribute to the development of a more adaptive, sustainable, and resilient tax system capable of responding to the evolving challenges of the global economy.

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AUTHOR CONTRIBUTIONS STATEMENT

Yevhen Leheza is fully responsible for the conceptualization of the research, research design, literature review, data collection, data analysis, interpretation of findings, manuscript writing, revision, and final approval of the manuscript. The author has read and approved the final version of this article and accepts full responsibility for the integrity, accuracy, and originality of the research conducted. All responsibilities are undertaken in accordance with academic ethics and research publication standards, ensuring transparency, accountability, and scholarly integrity throughout the entire research process and the responsible management of final dissemination of results.

AI USAGE STATEMENT

The author used artificial intelligence (AI)-assisted tools solely to support language editing, grammar checking, and manuscript readability improvement during the preparation of this article. All conceptual development, literature review, data analysis, interpretation of findings, and scholarly arguments were conducted independently by the author. The author carefully reviewed, verified, and revised all AI-assisted outputs and assumes full responsibility for the accuracy, originality, and integrity of the content presented in this manuscript.

CONFLICT OF INTEREST

The author declares that there are no conflicts of interest regarding the publication of this article. The research was conducted independently without any external influence that could affect its objectivity or integrity. No financial, institutional, commercial, or personal relationships have impacted the design, methodology, data analysis, interpretation, or reporting of the findings. The author ensures that the entire research process was carried out in accordance with academic ethics and maintains full transparency, impartiality, and scholarly responsibility in presenting the results of this study.

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