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Defence Group

Defence City:

**Tax & Legal
Preferential
Regime for
Defence Industry**

DENYS ERSOI, Managing Associate



August 21, 2025 – the Parliament adopted Draft Laws Nº 13420 and Nº 13421 (Bills) governing the Defence City

September 3, 2025 – the President signed the Bills

October 5 (24), 2025 – the Bills became effective

November 5, 2025 – deadline for the Government to adopt the detailed regulations





What is Defence City?

Special **legal regime designed for Defence industry** granting certain privileges (tax & legal benefits, simplification of export control, etc.)

Is it a mandatory registration procedure?

No. Registration as a Defence City resident is a **voluntary** procedure

Is this regime limited in time?

Yes. The Defence City regime will be active only until **January 1, 2036**. Though, tax benefits may be canceled even earlier if Ukraine joins the EU before this date

Who is the 'regulator'?

Ministry of Defence of Ukraine

Any statutory criteria / requirements?

Yes. Importantly, to claim tax benefits, the business must comply with additional requirements

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Who is Eligible for the Defence City Residence

Defence City residents must simultaneously meet certain criteria

**Registration
Criteria**

**Good Standing
Criteria**

**Industrial
Criteria**

Registration Criteria

- **Ukrainian legal entity** → **NO** Ukrainian private entrepreneurs ('FOP'), foreign-based entities and their Ukrainian branches
- **Ukrainian address** → **NO** registration or business activity in temporarily occupied territory
- **Corporate income taxpayer (CIT) registration** → **NO** privileged flat ('single') taxpayer (3%, 5%, etc.)
- No status of a **non-profit organization** (charity, NGO, etc.)

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Good Standing Criteria

- No tax debts **exceeding 10 minimum wages** (USD 2,000 for 2025)
- Properly **disclosed information about UBO** and **ownership structure** to the state register
- No **sanctions** (Ukrainian or non-Ukrainian) imposed on the **company, its shareholders** and **UBO**
- No **bankruptcy, insolvency or dissolution** procedure initiated
- No direct or indirect **shareholders and UBO (evidence of control)** from **russia, north korea, iran**

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Industrial Criteria

- No **breach of obligations under a state Defence procurement contract** resulting in its early termination and/or the imposition of fines and/or the compensation of damages, as confirmed by a court decision that has entered into legal force
- Company's **qualified income** for the previous year **is min. 75%** of its total income (or min. 50% for qualified aircraft industry)

'Qualified income' means income from

Sale (supply) of self-manufactured **defence goods**

Provision of services related to the development, manufacture, repair, modernization, or disposal of **defence goods**

Donations (in cash) received and used for the production and supply of **defence goods**

Qualified income of sub-contractor (supplier under the government contract for defence procurement)

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'Defence goods' means

Arms, military and special-purpose equipment (including unmanned systems, electronic warfare and intelligence equipment, and active countermeasures against technical reconnaissance)

Weapons and ammunition

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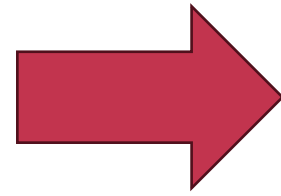
Defence City Application Process

2025

Application Filing

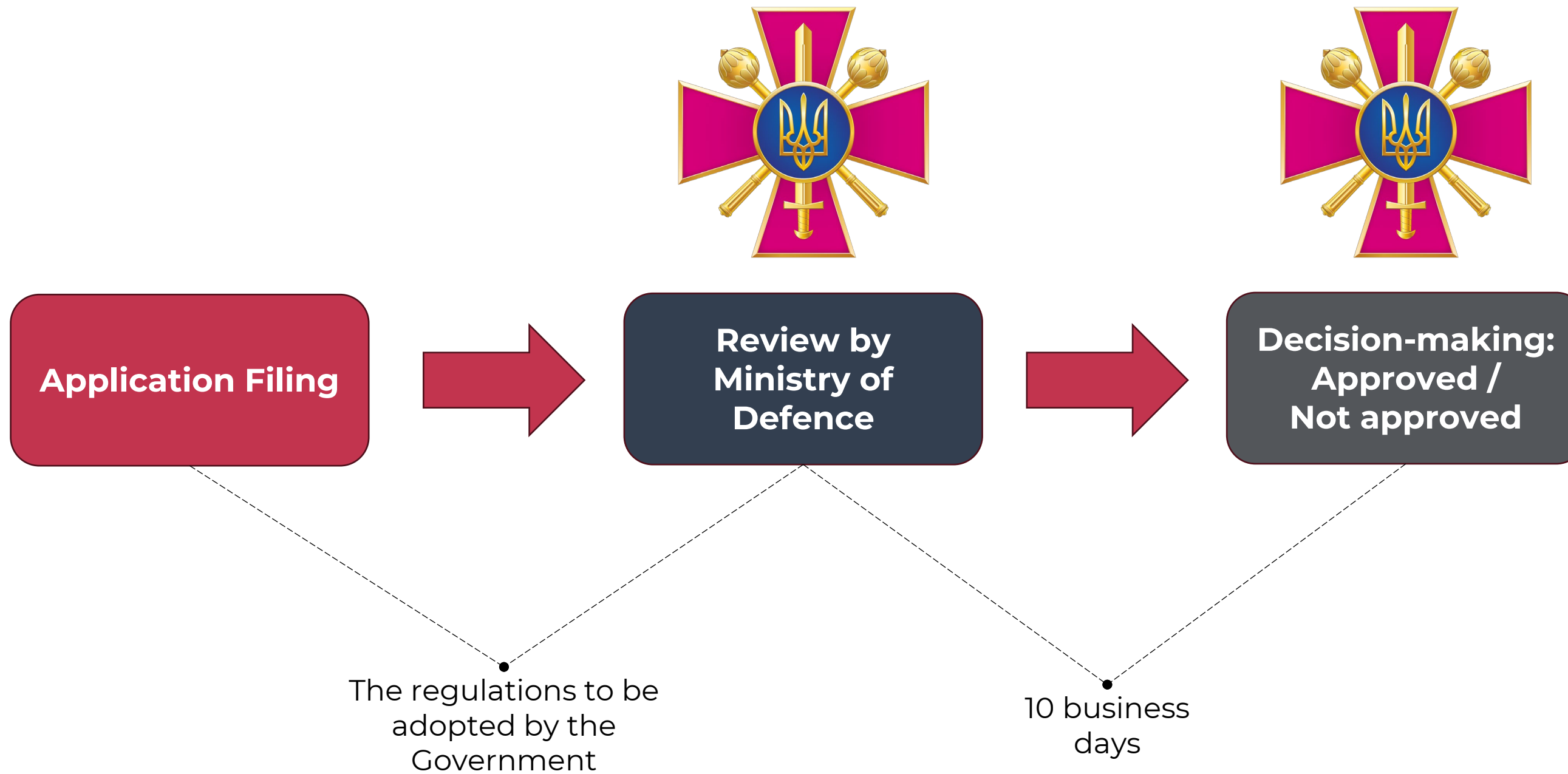


Application Filing



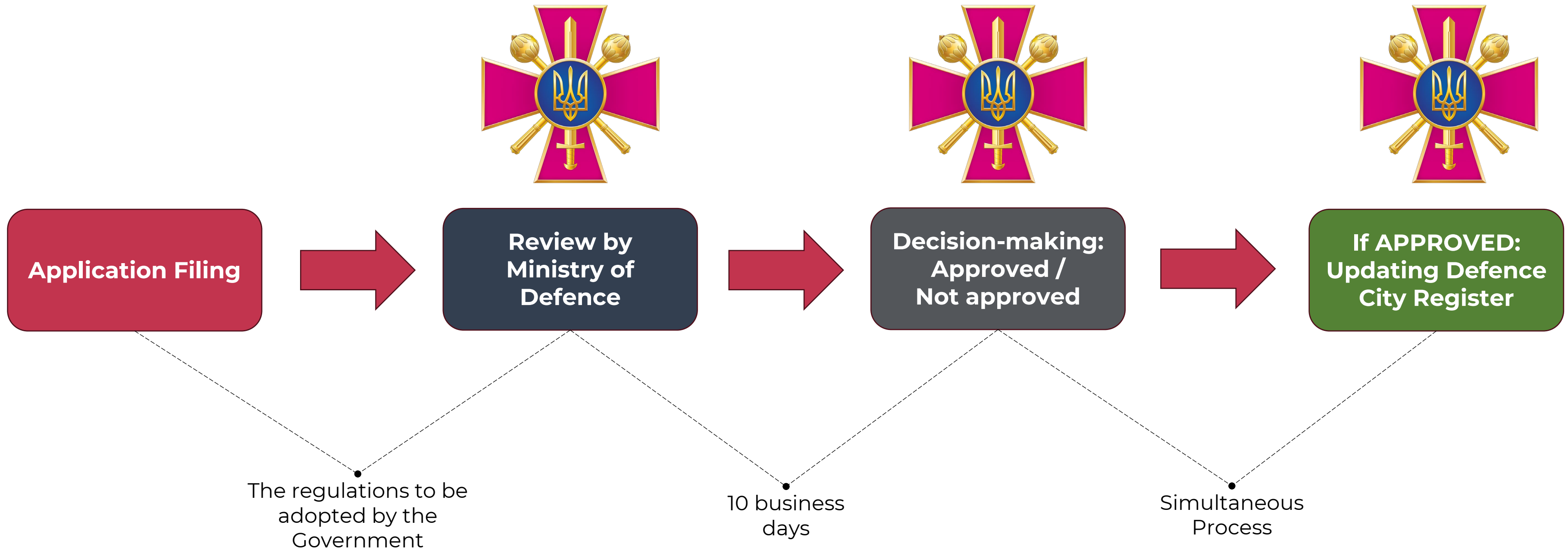
Review by
Ministry of
Defence

The regulations to be
adopted by the
Government



Defence City Application Process

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Statutory Requirements for Defence City Residents

2025

Defence City residents must **throughout their entire period of residency:**

Comply with the criteria of the Defence City regime

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Annually (no later than June 1) submit to the Ministry of Defence:

Defence City residency compliance report

Auditor's report on the verification of the compliance report

Financial statements

Other documents (TBD by the Government)

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Failure to comply

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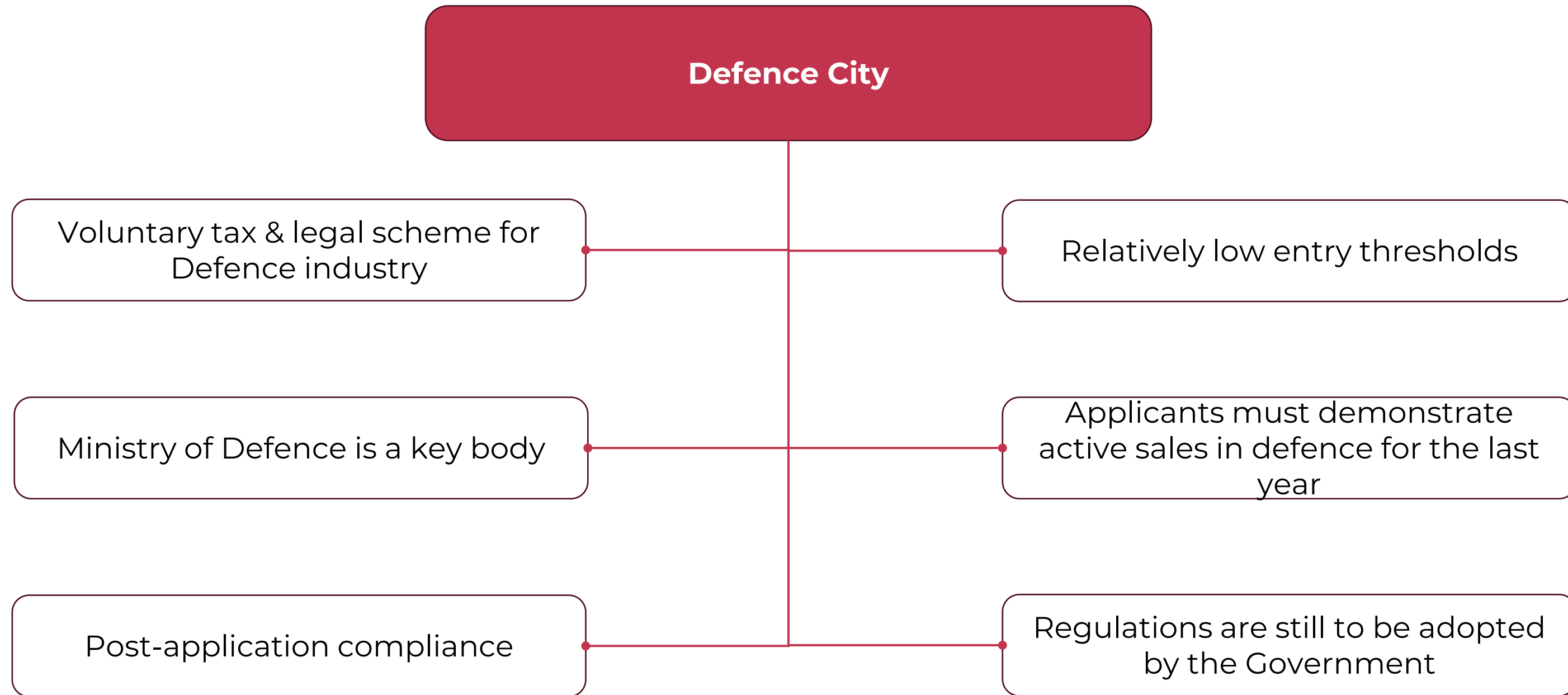
Failure to comply

Withdrawal of
Defence City resident
status

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Key Takeaways

2025





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