

Defence City: legal framework for the defence industry in Ukraine

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On 21 August 2025, the Parliament of Ukraine adopted a number of legislative changes to support defence industry enterprises. To this end, a special legal framework of Defence City has been introduced in Ukraine.

1. General principles of the Defence City legal framework

The purpose of the Defence City legal framework is to create favourable conditions for stimulating the development of Ukraine's defence industry, advancing the latest technologies, attracting investment into the industry, and providing the defence forces with modern weapons, military and special equipment.

The Defence City legal framework applies to legal entities with the status of Defence City residents, which are subject to a special taxation

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regime. The framework is effective from the date of entry of the first Defence City resident into the Defence City Register and will last until 1 January 2036.

The Defence City Register (hereinafter referred to as “the Register”) is a system for collecting, processing, recording, protecting and providing information on legal entities that are or have been Defence City residents. The Register is created by the Government of Ukraine and maintained by the Ministry of Defence of Ukraine.

The MoD of Ukraine ensures the formation and implementation of the state policy on Defence City, makes decisions on granting, terminating or revoking the status of a Defence City resident, monitors compliance by Defence City residents with the requirements established by law, and exercises other powers as envisaged by the legislation of Ukraine.

2. Status of a Defence City resident

A Defence City resident (hereinafter also referred to as “the Resident”) is a legal entity that has been granted Defence City resident status, as evidenced by a relevant entry in the Register, and which, according to the Register, continues to hold such status.

The MoD of Ukraine decides on granting Defence City resident status, provided that the applicant meets the established requirements, in particular:

1. The share of qualifying income for the previous calendar year:

- at least 75% of the total income of a legal entity, as a general rule;
- not less than 50% of the total income of a legal entity, for aircraft manufacturers.

Qualifying income means income derived from the sale (supply) of defence goods of own production, the performance of works (or provision of services) relating to the development, manufacture, repair, modernisation or disposal of defence goods, as well as other income received in cash as charitable assistance and used for the production and supply of defence goods.

2. Absence of circumstances excluding the possibility of Defence City residency:

- registration under the laws of a foreign country;
- the applicant is not a corporate income tax payer;
- tax debt or social security contributions in excess of 10 minimum wages (currently UAH 80,000 or about USD 1,945);

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- the applicant is included in the Register of Non-Profit Institutions and Organisations;
- violation of the requirement to disclose information about ultimate beneficial owners or the ownership structure of the legal entity;
- the owner of shares (stocks) in the authorised capital, a participant or beneficiary is an aggressor state, a legal entity or individual from such a state, or the applicant is controlled by a resident of the aggressor state;
- a participant or beneficiary is a resident or citizen of a jurisdiction on the FATF blacklist, or is included in the list of persons associated with terrorism or subject to international sanctions;
- special or international sanctions have been imposed on the applicant, its participants or ultimate beneficial owners, or the applicant is controlled by a person subject to sanctions;
- the applicant has been declared bankrupt or is subject to bankruptcy proceedings;
- the applicant is in the process of liquidation, except in cases of transformation;
- a court-confirmed breach of a state defence procurement contract within the last 12 months, resulting in early termination, penalties or damages (except in cases of voluntary full compliance with the decision);
- the applicant is registered or operates in the temporarily occupied territory of Ukraine.

Defence City resident status may be terminated:

upon the expiry of the Defence City legal framework;

voluntarily, based on a corresponding application by the Defence City resident.

Defence City resident status may be revoked based on a decision of the Ministry of Defence of Ukraine.

3. Tax benefits for Defence City residents

3.1. Income tax exemption

Conditions for exemption:

Defence City resident status;

absence of Diia City resident status;

the taxpayer does not accrue or pay dividends, except in cases of payment to the state or to entities wholly owned by the state;

no violations by the taxpayer of tax obligations regarding the submission of reports and/or documents (notifications) envisaged by legislation

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on transfer pricing and controlled foreign companies.

Note!1. Tax-exempt profits shall be used to develop the activities of the Defence City resident in the areas specified by Ukrainian legislation, no later than 31 December of the calendar year following the reporting year.2. The base tax rate applies to:the adjusted profit of a controlled foreign company if the taxpayer, being a Defence City resident, is a controlling person;the amount of deviation of the contractual price from the price determined on an arm's length basis in controlled transactions, except in the case of 'sole producers', including natural monopolies.

3.2. Land tax exemption

The exemption applies to:

land plots on which production facilities used in the economic activities of Defence City residents are located;

land plots temporarily not used in the economic activities of residents during relocation, provided they are not transferred for use to third parties.

3.3. Immovable property tax exemption

The exemption from property tax, other than land tax, applies to:

real estate located within the settlement selected for relocation, provided that it is not rented, leased or loaned (except to the Resident's employees) and is used in the Resident's economic activities and/or for employee accommodation;

industrial and warehouse buildings that, during relocation, are not used for their intended purpose in economic activities and are not rented, leased or loaned.

3.4. Environmental tax exemption

Defence City residents are also exempt from paying environmental tax.

Exception: taxpayers who also hold Diia City resident status.

4. Simplified mechanism for international transfer of defence products

Business entities that are developers or manufacturers of military goods and have Defence City resident status may export such goods

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without obtaining authorisation from the Government of Ukraine, which, as a general rule, is prescribed for information constituting state secrets.

The process for applying the simplified procedure for reviewing documents on granting the relevant permission or conclusion when transferring goods internationally under Ukraine's international agreements is determined by the Government of Ukraine.

5. Simplified customs procedures for Defence City residents

During the period of martial law in Ukraine and for one year from the date of its termination or cancellation, the placement of goods under customs import regimes (in part of the end-use procedure), temporary importation, processing in the customs territory, and processing outside the customs territory shall be carried out subject to authorisation based on a customs declaration and taking into account the following features:

1. the provisions of the Customs Code of Ukraine regarding cases in which authorisation to place goods under a customs procedure based on a customs declaration is prohibited shall not apply;
2. the term of authorisation for placing goods under the above customs procedures (except for temporary importation) is established taking into account the terms for carrying out operations with goods under the relevant customs procedure, as established by the customs authority in accordance with Ukrainian legislation. In this case, the provision regarding not exceeding 180 days from the date of completion of customs clearance does not apply;
3. exemption of Defence City residents from the obligation to provide information on the location and movement of goods between different places in the customs territory of Ukraine, as well as on the location of the accounting, commercial and transport documentation of the enterprise when submitting documents together with the customs declaration;
4. measures to assess the compliance of legal entities with the criteria and/or conditions for granting authorisation are carried out at the workplaces of customs officials without visiting the enterprise's premises;
5. legal entities shall declare their intention to transfer rights and obligations to another enterprise or to use equivalent goods by having the declarant enter the relevant information, including in the form of codes, into the customs declaration or by amending the customs declaration after receiving authorisation.

6. Facilitation of relocation and production facilities protection

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State authorities and local self-government bodies in Ukraine are obliged to facilitate the relocation of Defence City residents and the implementation of measures to increase the security of the production facilities of Defence City residents. This is done in order to reduce security risks to the facilities of Ukraine's defence-industrial complex and to ensure the continuous production of defence products.

The procedure for relocating Defence City residents and implementing measures to enhance the security of Defence City residents' production facilities is determined by the government of Ukraine.

Such assistance is provided using various sources of funding, including through the crediting of personal income tax paid (transferred) by residents of Defence City who are seeking relocation or applying for the implementation of measures to improve the security of production facilities to the MoD of Ukraine. Such crediting shall be carried out taking into account the peculiarities established by the Budget Code of Ukraine.

7. Protection of information about Defence City residents

During the period of martial law in Ukraine and for one year after its termination or cancellation, general access to public electronic registers of Ukraine is restricted by the holder of the relevant register with respect to information (data) about residents of Defence City, in the manner determined by the government of Ukraine.

In particular, this applies to the following registers:

- Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organisations;
- State Register of Real Rights to Immovable Property;
- State Land Cadastre;
- Unified State Register of Enterprises and Organisations of Ukraine;
- State Register of Industrial Designs of Ukraine;
- State Register of Trademark Certificates of Ukraine;
- State Register of Semiconductor Product Compositions of Ukraine;
- State Register of Inventions of Ukraine and State Register of Secret Inventions of Ukraine;
- State Register of Utility Arrangements of Ukraine and State Register of Secret Utility Arrangements of Ukraine;
- State Register of Certificates of Registration of Copyright in Works;
- State Register of Contracts Relating to Copyright in Works.

Defence City residents who are required to publish annual financial statements and annual consolidated financial statements together with

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the relevant audit reports, management report, consolidated management report, report on payments to the state and consolidated report on payments to the state, shall publish such reports in full within 3 months after the termination or cancellation of martial law (state of war) for the entire period of non-publication, but no later than 30 days after the termination or revocation of Defence City resident status.

During martial law (state of war), as well as within three months after its termination or cancellation, the financial reporting data of Defence City residents obtained by state statistics authorities and other providers of official statistics shall not be disclosed. Official state statistical information shall be circulated provided that it is impossible to directly or indirectly identify Defence City residents, taking into account the specific features determined by the State Statistics Service in agreement with the MoD.