

KINSTELLAR

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Defence City: New opportunities for the defence industry



21 August 2025 – two laws adopted on the creation of Defence City.*



Defence City – a special tax and legal regime that provides a number of benefits and easements for companies working in Ukraine's defence industry.



Entry into force – one month after the date of publication of the respective laws following their signing by the President of Ukraine.



Term of validity – until 1 January 2036, or until Ukraine joins the EU (whichever comes first).

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* The versions of the laws approved by the Ukrainian Parliament are not freely available as of the date of this publication.



I. Tax incentives and simplified customs procedures:

1

Exemption from income tax if the following conditions are met:

- profits must be reinvested in business development (material and technical base, R&D, innovation, defence industry);
- dividends or equivalent payments are prohibited;
- transfer pricing requirements apply;
- CFC rules apply.

2

Exemption from environmental tax;

3

Exemption from land tax on:

- plots with production facilities;
- plots that are not used during the relocation of residents.

4

Exemption from real estate tax on:

- facilities used for the residents' activities or residence of their employees;
- industrial buildings that are not used during the relocation of residents.

5

Simplification of key customs procedures :

- the terms of authorisation for customs regimes for end use and processing are not fixed, but are linked to actual operations with goods.

II. Simplified exports:

1

The export of military goods without obtaining authorisation from the Cabinet of Ministers of Ukraine (CMU);

2

A simplified document review procedure (to be determined by the CMU) for obtaining a permit or determination to carry out international transfers of goods under Ukrainian international agreements.



III. Information protections:

1

Restricted access to information on Defence City residents in public electronic registers, in particular in:

- the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Organisations;
- the State Register of Proprietary Rights to Real Estate;
- the State Land Cadastre; and
- other public registers.

2

Use of a legal address which is different from the actual place of business;

3

Cancellation of the obligation for Defence City residents to publish financial statements or an audit report during martial law.

02 | Residency procedures



File an application with the Ministry of Defence of Ukraine acc. to a procedure to be determined by the CMU

Consideration of applications – **10 business days**

Decisions on granting Defence City resident status

03 | Persons eligible to become Defence City residents



✓ A legal entity registered in Ukraine with the relevant qualified income

✓ **Qualified income** for the previous calendar year is at least 75% of the legal entity's total income (50% for aircraft manufacturers).

Qualified income - income from the sale of defence goods, the performance of related works and/or the provision of services

Diia City

Defence City residents may also be residents of Diia City.

However, in this case, the tax exemptions provided for residents of Defence City do not apply to such persons.



A legal entity may not be a resident of Defence City if it:

- Is not registered in Ukraine;
- is recognised as insolvent;
- is in the process of termination, except for conversion;
- is not an income tax payer;
- is located or operates in the temporarily occupied territories;
- has tax debts and/or arrears in the payment of unified social security contributions, the total amount of which exceeds 10 minimum salaries (UAH 80,000, which is approximately equal to USD 2,000);
- is included in the Register of Non-Profit Institutions and Organisations;
- has violated the legal requirements regarding the disclosure of information about ultimate beneficial owners (UBOs);
- includes the aggressor state (i.e. the Russian Federation) or a legal entity registered under its laws, or a citizen of such a state as a direct or indirect shareholder (participant), or is controlled by the aggressor state;
- includes sanctioned persons or persons registered under the laws of the North Korea, Iran or Myanmar as direct or indirect shareholders (participants);
- has been established within the last **12 months** that such a legal entity has violated its obligations under a state contract (agreement), as confirmed by a court decision.

05 | Reporting



The submission of an annual compliance report accompanied by:



annual financial statements



an audit report



Deadline for submission – by **1 June** of the year following the given reporting year.



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