

Human Capital News

Effective 1 July 2014, the new rules for personal income taxation came into force¹

We have informed you previously about the new rules for personal passive income taxation in our Newsletter dated 11 June 2014. However, once the Law was adopted, the Ukrainian tax authorities issued a number of clarifications regarding the new rules implementation. Hereby we inform you on the most important clarifications.

It is worth noting that the new rules set no changes to taxation of salary or compensations under the civil-law agreements and shall only be applied to *interest, dividends, royalties and investment income*.

Different rules of tax calculation and settlement are prescribed for different types of income, however, the below progressive tax rates are applied depending on the total amount of annual income:

- 15% - for the part of income, which does not exceed UAH 248,472
- 20% - for the part of income from UAH 248,472 to UAH 482,328
- 25% - for the part of income exceeding UAH 482,328

► Taxation of passive income in 2014

Effective 1 July 2014 progressive tax rates are applied to all types of passive income, however subject to several exceptions:

- Dividend income is taxed at a 5% tax rate during the whole 2014 year
- Interest income (excluding deposit interest income) and investment income **accrued** before 1 July 2014, irrespective of the period of payment, are taxed at regular rates of 15%/17%

¹ Within the Law of Ukraine №4576 «On preventing financial catastrophe and creating preconditions for economic growth in Ukraine» (hereinafter - the Law), which amends the Ukrainian Tax Code



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▶ **Rules for a dividend income taxation**

- Even though the Law stipulates that a 5% tax rate applies to dividend income **accrued** in favour of the taxpayer before 1 January 2015, from tax authorities' standpoint expressed in their clarification letters, this preferential rate only applies to dividends actually **received** during 2014 calendar year (irrespective of the period, during which an enterprise's profit distributed via dividends was generated)

▶ **Rules for a deposit income taxation**

- Effective 1 July 2014 taxpayers, whose total annual deposit income exceeds UAH 20,706, are obliged to declare such income in an annual tax return and pay a corresponding tax at the progressive rates
- In order to accurately calculate the tax due, an individual should receive a certificate of interest income from each bank, where he/she has an interest generating bank account
- Banks, in turn, are obliged to report to the tax authorities the amounts of interest income per each client (indicating individual taxpayer's identification number)

▶ **Other matters**

Rules for pension income taxation

- Effective 1 July 2014 monthly pension income in excess of UAH 10,000 will be taxed at 15/17% tax rates
- Ukrainian Pension Fund is obliged to withhold and remit personal income tax from Ukrainian sourced pensions, while individuals are obliged to pay tax on pensions received from outside Ukraine (for the part of a pension exceeding UAH 10,000 monthly)

Residential property taxation

- Effective 1 July 2014 residential property tax will be assessed based on the "total" property area, as opposed to the previous rules where "residential" area tax base was referred to
- Even though the new rules come into force in 2014, the tax is due for settlement only in 2015 (for the second half of 2014)
- The tax for 2013 should have already been assessed by the tax authorities before 1st July 2014 and the respective tax assessments should have already been provided by the tax authorities and taxpayers must settle their liabilities before 28 August 2014



Matters which require further clarification

Even though a number of tax clarifications were issued, lack of proper regulations exist, which require further elaboration, including but not limited to:

- Progressive taxation of passive income applies to annual taxable income thresholds, however, it is still unclear how such thresholds will be determined for the half of a year
- In order to apply preferential tax rate for particular type of income, the taxpayer should obtain corresponding supporting documents certifying the period of income origination, however, explicit list and types of such documents are not yet defined
- New rules come into force in the middle of the tax year, therefore, there may be the situation, when the same income will be taxed under the different rules, however, declared in the same tax return

Summarizing the above, it may be concluded that there are many ambiguities with respect to practical implementation of the new rules. In addition, several draft laws were developed, which might potentially amend or enhance the new regulations. We will continue to monitor the situation and keep you updated.

If you wish to discuss how the new rules effect your personal compliance position or address any matter from this newsletter, please give us a call or send an email and we will return to your immediately.



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