

## RECENT CHANGES IN TAX LEGISLATION

The law of Ukraine №1166-VII "On Prevention of the Financial Disaster and Creation of the Grounds for Economic Growth in Ukraine" was adopted by the parliament on 27.03.2014 and signed by acting president on 31.03.2014. As a general rule, the Law comes into effect starting as of April 1, 2014 (date of official publication), except for some sections which are to come into effect on the later dates.

The Law introduces some notable changes to the Ukrainian Tax code and other laws. The most important changes are:

### Corporate profit tax and VAT

- Standard CPT rate remains at the level of 18% and its contemplated reduction in the following years to 16% has been cancelled.
- Standard VAT rate remains at the level of 20% and its contemplated reduction to 17% has been cancelled.
- Supply of pharmaceuticals is no longer VAT exempt and is subject to a reduced VAT rate of 7%. It is not clear yet which VAT rate is to be applied to importation of pharmaceuticals, as the literal wording of the amended law suggests that 20% should apply. It is yet to be seen whether this was an intention of legislators or a technical omission in the text of the law.
- Supply of medical devices in Ukraine is subjected to a standard VAT rate of 20%, except for a special list of medical devices which is yet to be adopted by the Cabinet of Ministers. Devices on the list will be subjected to a reduced VAT rate of 7%.
- Supply of grain and certain other crops by traders who purchased it from agricultural producers will remain VAT exempt till 01.10.2014. Thus, upon export of grain traders will not be allowed to recover respective input VAT incurred during its purchase.  
Non-VATable threshold for movement of goods across the Ukrainian customs border has been increased from €100 euro to €150 euro.
- Non-VATable threshold for importation of goods by mail and express delivery has been decreased from €300 euro to €150 euro.

### Personal income tax (changes will take effect from 01.07.2014)

- Pensions (and other lifetime support monthly payments from the pension fund or the budget) are included into monthly income subjected to PIT but only in the part that exceeds 10 000 uah per month.
- Interest accrued on bank accounts and other types of passive income such as dividends, royalty and investment profits will be subjected to PIT at a progressive scale at the following rates:
  - 15% (applies to income up to 204 minimum living wages per annum ie approx. 248 500 uah);
  - 20 % (applies to exceeding amount limited by 396 minimum living wages ie approx. 482 300 uah); and
  - 25% (applies to the remaining part of income). At that interest income is exempt in the amount of 17 minimum living wages (approx. 20 500 uah) per annum.
- Interest income is to be reported by an individual in his/her annual PIT return. Banks shall report to the tax authorities the amount of interest income paid to their clients. It is yet to be clarified if banks should withhold 15% tax at source of payment as the provisions of the law are extremely confusing in this regard;
- Other types of passive income (dividends, royalty and investment profits) will be subjected to 15% PIT at source of payment, with a subsequent true up/reassessment of annual tax payable according to a progressive scale, at the point of filing an annual PIT return by an individual.
- Importantly, PIT rate applicable to salary stays intact (i.e. 15/17%).

### **Other taxes and levies**

- Pension fund levy on any hard currency purchase transaction has been re-introduced, applying to individuals and legal entities at the rate of 0.5%.
- Excise rates for various goods have been increased, particularly for spirits, alcohol beverages (by 25%), beer (by 42.5 %), tobacco products (by 25%), petroleum products (including fuel components), motor vehicles and motorbikes.
- Rates of ecological tax have been increased.
- Changes into land fee rules in certain cases results into its increase (regardless if paid as a land tax or as lease payment).
- Base of application of fixed agricultural tax is now subject to indexing of prices resulting into increase of total tax due.
- The total area of real estate (instead of only living area) is now used for calculation of the real estate tax from individuals resulting into increase of the total tax due and subjecting to tax of a wider scope of real estate objects.
- Rates of various levies have been increased, particularly of levy for first registration of vehicle, levy for use of radio frequencies and levy for special use of water.
- Importation of and production of natural gas for own use is now clearly indicated as object for application of additional levy on consumers of natural gas.

### **Other changes**

Banks are now obliged to provide tax authorities with bank secret information if such is requested (as to existing bank accounts of individuals and legal entities) or upon reporting due to accrual/repayment of interest income to individuals (as to the amount of interest income).

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