

Tax and Legal News

Content

- ▶ **New version of draft Law on amending the Tax Code of Ukraine prepared, providing for implementation of a range of tax system reform initiatives**

We have obtained the new version of the draft Law of Ukraine "On introduction of amendments to the Tax Code of Ukraine and other legal acts of Ukraine" ("Draft"), which provides for implementation of a range of tax reform initiatives.

Inter alia, the Draft envisages:

- ▶ Introduction of additional VAT (a turnover tax, in reality);
- ▶ A progressive scale for personal income tax;
- ▶ Abolishing numerous VAT and CPT incentives;
- ▶ Changing the VAT refund procedure;
- ▶ Lowering the unified social tax rate and simultaneously abolishing the maximum tax base for the unified social tax;
- ▶ A duty on obligatory state pension insurance for foreign currency exchange.

We will not provide technical comments on the Draft as it will undergo significant revision in the course of its preparation for adoption by the Verkhovna Rada.

This Newsletter will offer you an overview of the major changes the Draft envisages. We recommend staying alert to subsequent changes and proposals that come up during tax system reform.

We encourage you evaluating the effect on your business of the proposed changes and speaking up should you feel strongly about some of the proposals made. We will be happy to answer your follow-up questions.

Contacts at Ernst & Young

Vladimir Kotenko
+380 (44) 490 3006
Vladimir.Kotenko@ua.ey.com

Olga Gorbanovskaya
Tel: +380 (44) 490 3022
Olga.Gorbanovskaya@ua.ey.com

Jorge Intriago
+380 (44) 490 3003
Jorge.Intriago@ua.ey.com

Igor Chufarov
+380 (44) 492 8231
Igor.Chufarov@ua.ey.com

VAT at an additional rate ("turnover tax")

The Draft introduces VAT at an additional (separate) rate, which in substance constitutes a turnover tax.

All VAT-able transactions will be subject to this tax.

The turnover tax will be introduced on 1 January 2013. It will be 2.5% until 30 June 2013; from 1 July 2013 it will be 2%.

The turnover tax should be added to the value of goods/services. It will be deductible for corporate profit tax purposes.

Miscellaneous changes to VAT

The Draft envisages that VAT refund for tax periods before 1 January 2013 is to be conducted via the issue of domestic government bonds.

Changes to PIT rates

The Draft establishes the following scale for personal income tax (PIT):

- ▶ If the PIT base does not exceed 20 minimum wages in the calendar month, the PIT rate will be 10%;
- ▶ If the PIT base does not exceed 30 minimum wages in the calendar month, PIT will be 15% on monthly income in excess of 20 minimum wages;
- ▶ If the PIT base exceeds 30 minimum wages in the calendar month, PIT will be 20% on the amount exceeding 30 minimum wages.

The minimum wage as of 1 January of the year in question should be used in order to calculate PIT base.

Changes to the unified social tax regime

The suggested amendments to the Law of Ukraine "On collection and accounting of the unified tax for obligatory state social insurance" provides for the following changes:

- ▶ Establishment of a blended 15% unified social tax rate;
- ▶ Abolishment of the maximum value of the base for assessing the tax and application of

the tax rate to the appropriate base without restrictions.

Duty on obligatory state pension insurance for foreign currency exchange

The Draft amends the Law of Ukraine "On the duty on obligatory state pension insurance" and establishes a duty for purchase of foreign currency.

- ▶ Payers of this duty shall be legal entities that purchase foreign currency with Ukrainian hryvnyas;
- ▶ The duty rate is 3%;
- ▶ The duty is levied on transactions to purchase foreign currency for acquisition of goods and/or repayment of loans that were used to acquire goods;
- ▶ The charge is not assessed in cases of "redemption of foreign currency which was received as currency proceeds and sold to meet the requirement of the National Bank of Ukraine."

The wording of some of these provisions is obscure, the editorial changes are needed to comprehend the authors' proposals.

Abolishment of tax incentives

The Draft abolishes numerous VAT and CPT incentives.

Below are the most important incentives that will be abolished.

VAT:

- ▶ Supply of infant food (197.1.1.);
- ▶ Supply of dwelling (197.1.14.);
- ▶ Granting charity aid (197.1.15.);
- ▶ Supply of payable state services to individuals or legal entities (197.1.18.);
- ▶ Supply (subscription) of periodical publications in printed media and book form (197.1.25.);
- ▶ Supply of pharmaceuticals (197.1.27.);
- ▶ Transactions involving import of cultural values into the customs territory of Ukraine (197.7.);

- ▶ Transactions of banks and other financial institutes on supply of pledged (mortgaged) property obtained from persons that are not VAT-payers (197.12.);
- ▶ Transactions of banks involving sale (transfer) or purchase of deposit liabilities (197.13.);
- ▶ Transactions involving import into the customs territory of Ukraine of facilities that work using renewable energy sources, energy saving equipment and materials, facilities, components used for manufacturing appliances that work on renewable energy, energy saving equipment, etc. (197.16.);
- ▶ The specifics of VAT payment by processing entities are abolished (paragraph 1 of subsection 2 of section XX);
- ▶ Import and supply of machinery, equipment and facilities defined by the Law of Ukraine "On alternative kinds of fuel" (paragraph 2 of subsection 2 of section XX);
- ▶ VAT exemption for the aircraft industry (paragraph 4 of subsection 2 of section XX);
- ▶ VAT exemption for the publishing industry (paragraph 5 of subsection 2 of section XX);
- ▶ VAT exemption for national film production and distribution of national films and Ukrainian dubbed films (paragraph 12-13 of subsection 2 of section XX);
- ▶ VAT exemption of transactions on supply (including import) of waste and ferrous and non-ferrous metal and wood scrap (paragraph 23 of subsection 2 of section XX).

Abolishment of CPT incentives is envisaged for the following:

- ▶ For biofuel manufactures - exemption for profits from the sale of biofuel (paragraph 15 of subsection 4 of section XX);
- ▶ For profits from generating energy with the help of biofuels (paragraph 15 of subsection 4 of section XX);
- ▶ For profits of manufacturers of machinery, equipment and facilities defined by the Law of Ukraine "On alternative kinds of fuel" (paragraph 15 of subsection 4 of section XX);
- ▶ For profits from rendering hotel services (paragraph 17 of subsection 4 of section XX);
- ▶ For profits from the main activity of light industry entities (paragraph 17 of subsection 4 of section XX);
- ▶ For profits from the main activity of electro-energy entities that produce electric energy exclusively from renewable sources (paragraph 17 of subsection 4 of section XX);
- ▶ For profits from the main activity of shipbuilding industry entities (paragraph 17 of subsection 4 of section XX);
- ▶ For profits from the main activity of aircraft industry entities and from their performance of research scientific and research design works (paragraph 17 of subsection 4 of section XX);
- ▶ Abolishment of incentives for publishing houses, publishing organizations and cinematography and multiplication entities (paragraph 18-19 of subsection 4 of section XX).

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young expands its services and resources in accordance with clients' needs throughout the CIS. 4000 professionals work at 18 offices in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Kazan, Krasnodar, Togliatti, Yuzhno-Sakhalinsk, Almaty, Astana, Atyrau, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Yerevan, and Minsk.

Ernst & Young established its practice in Ukraine in 1991. Ernst & Young Ukraine now employs more than 500 professionals providing a full range of services to a number of multinational corporations and Ukrainian enterprises.

For more information, please visit www.ey.com/ua.

Contacts

Kyiv
+380 (44) 490 3000

The information contained in this publication is for general guidance only. You should neither act, nor refrain from acting, on the basis of such information. The application of laws and regulations will vary depending on particular circumstances and may also undergo frequent change. You should take appropriate professional advice relating to your particular circumstances and the current status of the laws and regulations. Ernst & Young disclaims all responsibility, including negligence, for all consequences of any person acting on, or refraining from acting in reliance on, information contained in this publication.

