

UKRAINIAN TAXBIZ COMPANION

2019



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2019 UKRAINIAN TAXBIZ COMPANION

Information contained in this publication is based on the current tax laws and practices including the amendments to the Tax Code of Ukraine as of **1 January 2019**. Due to the fast-changing environment in Ukraine and new legislative initiatives, more changes in Ukrainian tax law may be expected future. We therefore encourage you to follow our news and tax alerts on **www.mazars.ua**.

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LIST OF ABBREVIATIONS

- APA – Advance pricing agreement
- CMU – Cabinet of Ministers of Ukraine
- CPT – Corporate profit tax
- FAT – Fixed agricultural tax (simplified tax system of the 4th group)
- GAAP – Generally Accepted Accounting Principles
- IFRS – International Financial Reporting Standards
- NBU – National Bank of Ukraine
- PIT – Personal income tax
- SIC – Social insurance contribution
- TCU – Tax Code of Ukraine
- TP – Transfer pricing
- VAT – Value added tax
- WHT – Withholding tax

1. MAIN TAX CHANGES AS OF 1 JANUARY 2019

On 23 November 2018, the Parliament of Ukraine adopted Law No. 2628-VIII on tax changes, which was signed by the President on 7 December 2018 and officially published on 12 December 2018. This Law entered into force on 1 January 2019.

We would like to draw your attention to a brief overview of tax changes introduced by this Law:

- **Corporate profit tax (CPT):**
 - Accelerated 2-years depreciation is prolonged for machinery and equipment purchased in 2019.
- **Transfer pricing (TP):**
 - Substance over form principle is introduced.
- **Value added tax (VAT):**
 - VAT exemption for import of certain equipment for renewable energy (wind power units, PV cells, transistors, convertors etc.) is introduced for the period from 1 January 2019 until 31 December 2022.
 - VAT exemption for waste paper and metal scrap is prolonged until 31 December 2021.
 - VAT exemption for import of electric cars is prolonged until 31 December 2022.
- **Other points:**
 - Increase of excise duties (for instance, by 9% for cigarettes).
 - Increase of ecological tax rates for CO2 emission.
 - Increase of rent tax rates for oil and gas extraction, ore mining.
 - Amendments to the electronic excise system for petroleum sales will be introduced on 1 July 2019.

The main tax rates and indicators in 2019 are as follows:

KEY STATEMENTS	RATES/INDICATORS	COMMENTS
Corporate profit tax	18%	Flat CPT rate
Withholding tax	15%	May be decreased or waived according to double tax treaties
Value added tax	20%/7%/0%	General/pharma/export
Personal income tax	18% + 1.5%	Flat PIT rate + flat military tax rate
Social insurance contribution – employer’s contribution	22%/0%	Salaries are taxed in amount up to the cap
Social insurance contribution – employee’s contribution	-	No employee’s SIC
SIC cap	UAH 62,595	15 minimum salaries

2. SYSTEM OF TAXATION

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TAX LEGISLATION OF UKRAINE

Tax legislation of Ukraine consists of:

- Constitution of Ukraine.
- Tax Code of Ukraine (the TCU).
- Law of Ukraine on Social Insurance Contribution.
- Customs Code of Ukraine.
- Other customs legislation which regulates import or export taxation.
- International treaties ratified by the Parliament of Ukraine.
- Supervisory authority acts which regulate tax issues.

If an applicable international treaty ratified by the Parliament of Ukraine stipulates differently from the TCU, the international treaty should prevail.

Tax is defined as a mandatory and unconditional payment to relevant budget that is levied from a taxpayer. Fee (payment, duty) is defined as a mandatory payment to a relevant budget that is levied from a payer under condition of acquiring a special benefit, including services provided by public bodies, bodies of local self-governments, other authorized bodies and entities.

MAIN TAXES AND DUTIES

The list of Ukrainian taxes and duties is established by the TCU. In accordance with the TCU all taxes and duties are classified as:

- National (established in the TCU and are mandatory within the whole territory of Ukraine).
- Local (set in compliance with the list and within the boundary rates as specified in TCU by local, rural and municipal councils according to their mandates, and which are mandatory for payment within the territories of respective communities).

The TCU provides the following 11 taxes and duties:

- Corporate profit tax (CPT).
- Personal income tax (PIT).
- Value added tax (VAT).
- Excise tax.
- Ecological tax.
- Rent tax.
- Customs duties.
- Property tax (including land fee, real property tax and movable property tax).
- Single tax.
- Fee for parking of vehicles.
- Tourist tax.

In addition to the taxes and duties stipulated by the TCU, Ukrainian taxpayers are required to remit other taxes and duties:

- Mandatory social insurance contributions (SIC).
- Military tax.
- Contribution to the Pension Fund levied on mobile communication services.

According to the TCU and Law of Ukraine on Mode of Foreign Investment, investment, taxation and other economic activities by foreign investors in Ukraine are subject to

national treatment. Foreign investors and companies are thus neither entitled to preferential treatment, nor may be subjected to discriminatory practices.

TAX AUTHORITIES

There are three levels of tax authorities in Ukraine.

The State Fiscal Service of Ukraine is the central executive body superior to regional offices that, in their turn, are superior to state tax inspections in districts, cities, city districts, etc.

The main task of the upper two levels of tax authorities is to organize operation of their subordinate tax agencies, carry out rule making, generalize experience, provide explanations, etc. Direct control over tax payments, inspections, taxpayers' registration and amounts paid in taxes, etc. are carried out by local state tax inspections.

There are separate tax inspections for large taxpayers, defined as entities with income for the last 4 quarters exceeding EUR 50 million and/or taxes paid to the state budget exceeding EUR 1 million (of which at least EUR 0.5 million consists of taxes not related to customs payments).

TAX PERIODS

Tax period is a time interval, for which the taxes are accrued and paid.

Basic tax periods	Deadline for return submission	Deadline for tax liabilities payment
Calendar year*	60	10 calendar days following the last day of a respective deadline for the tax return submission
Calendar half a year (6 months)	40	
Calendar quarter	40	
Calendar month	20	

* A calendar year is the tax period specified for individuals, however, special terms are set for submitting reports and paying taxes		
For individuals	not later than 1 May of the following year	not later than 1 August of the following year

TAX CONTROL

Tax authorities may carry out desk, documentary (scheduled and unscheduled; remote and field) and ex post tax audits.

Desk tax audit is an inspection carried out at the office of tax authority based on the data included in tax returns.

Ex post (actual) tax audit is an inspection carried out at the taxpayer's location to control the compliance with requirements for cash turnover, settlements and cash operations, employment relationships, due state registration of business activity, availability of required licenses, patents.

Documentary tax audit is an inspection that can be carried out either at the office of tax authority (remote) or at the taxpayer's location (field) to inspect timeliness, credibility, completeness of accruals and payments of all taxes and fees, compliance with tax legislation, etc. Such inspection is carried out based on financial statements and tax returns, accounting information and primary documents.

Documentary inspection may be scheduled, in other words, previewed in a schedule, or unscheduled, in other words, not previewed in a schedule and carried out exclusively when specific conditions stipulated in the TCU are met.

Type of inspection	Duration of inspection depending on a category of taxpayer, working days		
	Large taxpayers (annual income exceeding EUR 50 million) ¹	Others (annual income between EUR 10 and EUR 50 million)	Small business entity (annual income less than EUR 10 million) ²
Documentary	30	20	10

scheduled			
May be extended by	15	10	5
Documentary unscheduled	15	10	5
May be extended by	10	5	2
Ex post (actual)	10		
May be extended by	5		

- 1) Large taxpayers – entities with income for the last 4 quarters exceeding EUR 50 million and/or taxes paid to the state budget exceeding EUR 1 million (of which at least EUR 0.5 million consists of taxes not related to customs payments).
- 2) Small business entity – private entrepreneurs and legal entities with less than 50 employees and income less than EUR 10 million for the year.

Tax authorities are entitled to carry out tax audits and assess tax liabilities (including penalties) no later than within 1095 days (3 years) after the deadline for submission of the respective tax return.

Transfer pricing is subject to special tax audits. Statute of limitation for such transfer pricing audits is 2555 days (7 years) after deadline for submission of the respective tax return. Special transfer pricing audits may last up to 18 months and may be extended for additional 12 months. Special transfer pricing audits may be conducted simultaneously with general tax audits.

Results of tax audit are presented in the form of a tax audit act, which indicates all identified breaches or specifically notes the absence thereof.

DECISIONS OF TAX AUTHORITIES

According to the results of a tax audit, tax authorities may levy additional tax liabilities, revise declared deductions or tax losses and/or recover amounts of VAT as outlined in the tax audit report issued upon completion of the audit. Taxpayers are entitled to submit an objection to such tax audit report to the tax authority, which conducted respective tax audit, within 10 business days from the day after the receipt of tax audit report. The tax authority should consider such objection within 7 business days from the date of its receipt.

For transfer pricing audits, taxpayers may submit an objection within 30 business days from the day after the receipt of tax audit report. The tax authority should consider such objection within 30 business days from the date of its receipt.

Tax authority adopts a tax notification-decision within 3 business days after the answer to the objection. If a taxpayer does not send the objection, the tax authority adopts a tax notification-decision within 15 business days from the day of receipt of the tax audit report by the tax payer.

Tax amounts specified in the tax notification-decision should be paid by the taxpayer within a 10-day period or appealed.

The TCU stipulates 2 procedures of appealing the tax notification-decision: administrative appeal and litigation.

Administrative appeal has 2 levels. Primary appeal is submitted to the tax authority, which conducted respective tax audit, within 10 business days from the day of receipt of the tax notification-decision. In case the appeal is not satisfied, a repeated appeal may be submitted to the State Fiscal Service of Ukraine within 10 calendar days from the day following receipt of the respective decision. The standard term for consideration of the appeal is 20 calendar days, which may be extended to 60 calendar days.

In case the repeated appeal is not satisfied, a taxpayer may file a court claim. Litigation procedure is usually time-consuming and may pass through 3 court instances (a court of first instance, a court of appeal and the Supreme Court).

During the period of appealing tax notification-decision by administrative or litigation procedure, additionally charged tax liability is considered as unreconciled and may therefore not be subject to enforcement measures.

If a taxpayer fails to pay tax amounts in time, after agreed tax liabilities have been determined in tax notification-decisions, such taxpayer may be sent a tax claim and then a tax lien may arise (prohibition to dispose of property without permission of tax authorities).

Under above administrative and litigation procedure, a taxpayer may appeal any decision of the tax authority.

RESPONSIBILITY

Taxpayer may be charged with fines and/or penalty interest for late payment:

Type of breach	Amount of fine in case of:	
	First breach	Repeated breach (within a certain period)
Breach of registration procedure (registration, re-registration)	UAH 510	UAH 1,020 (over a year)
Breach of procedure for providing information on income paid to individuals	UAH 510	UAH 1,020 (over a year)
Non-submission (late submission) of tax returns	UAH 170	UAH 1,020 (over a year)
Breach of terms regarding keeping of primary documents	UAH 510	UAH 1,020 (over a year)
Understating tax liabilities (or overstating amounts of tax refund) found by tax authorities	25% of additionally charged amount	50% of additionally charged amount (for 1095 days)
Non-payment/delayed payment of agreed tax liability	10% of debt amount for up to 30-day delay 20% of debt amount for over 30-day delay	
Failure to calculate, withhold and/or pay taxes when paying income to certain taxpayers (tax on income of non-residents, private individuals, etc.)	25% of taxes due	50% of taxes due (second violation for 1095 days) 75% of taxes due (third and further violation for 1095 days)
Late registration of VAT invoices	10% of VAT amount for up to 15-day delay 20% of VAT amount for up to 30-day delay 30% of VAT amount for up to 60-day delay 40% of VAT amount for up to 365-day delay 50% of VAT amount for over 366-day delay	
Disposal of property in tax lien without permission of a tax authority	100% of property value	

In addition, penalty interest for late payment is applied to late payment of tax liabilities (including penalties) at the rate of 120% of the discount rate of the NBU (100% rate for late payment of self-estimated tax liabilities).

TAX RULING

Taxpayers may apply for an individual tax ruling by tax authorities to clarify certain provisions of tax legislation. Tax authorities are obliged to provide a tax ruling within 25 calendar days from the date of application. A tax ruling has a binding effect only for the benefit of the applicant and may be used only by the taxpayer, to whom such advice was provided. Obtaining an individual tax ruling is free of charge for taxpayers.

Taxpayer acting in compliance with the tax ruling may not be liable for the breach of tax legislation. A taxpayer may file a court claim to appeal the tax ruling if such ruling does not comply with effective tax legislation.

3. CORPORATE PROFIT TAX (CPT)

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TAX RATES

CPT in Ukraine is at the standard flat rate of 18%.

Insurance companies are liable to pay additional 0% or 3% income tax for life insurance and other insurance respectively.

Companies with annual income not exceeding UAH 3 million and each employee's salary exceeding at least twice the minimum salary may apply 0% CPT rate for 2017-2021 if they are:

- Established after 1 January 2017, or
- Previously established with annual income for the previous 3 years not exceeding UAH 3 million and average number of employees between 5 and 20, or
- Previously established as single tax payers with annual revenue for the previous 3 years not exceeding UAH 3 million and average number of employees between 5 and 50.

TAX PAYERS

CPT payers are:

- **Residents**, legal entities who carry out business activity both on territory of Ukraine and abroad.
- **Non-residents**:
 - Legal entities who receive income from Ukrainian sources.
 - Representative offices of non-residents who receive income from Ukrainian sources or provide agent (representative) and other functions to such non-residents or their founders.

TAX PAYMENTS

The deadlines for submission of the tax returns and tax payments are as follows:

- Reporting periods for CPT are a quarterly, half yearly, three consecutive quarters and yearly.
- Reporting period for newly created companies, agricultural producers and companies with revenue less than UAH 20 million is a calendar year.
- Quarterly tax returns should be submitted within 40 calendar days after the end of the reporting quarter, annual tax returns (both for companies with quarterly and yearly reporting period) should be submitted within 60 calendar days after the end of the reporting year.
- CPT should be paid within 10 calendar days following the deadline for submission of the respective tax return.
- Following amounts should be subtracted from total CPT liability:
 - Advance CPT payments on dividends.
 - CPT paid abroad.

Ukrainian tax legislation envisages advance CPT payments on dividends that should be paid before or along with the payment of dividends, if the amount of distributed dividends exceeds the amount of reported taxable profit for the respective period. Single tax payers (including agricultural producers using FAT system) should not pay advance CPT payments on dividends.

GENERAL TAX ACCOUNTING RULES

Tax base is calculated as follows:

- **For residents** – financial profit before tax (reported in the P&L statement according to Ukrainian GAAP or IFRS) adjusted by a number of tax differences specified by the TCU. If the company's annual income for the last reporting year does not exceed UAH 20 million, such taxpayer is entitled not to make any adjustments (except for tax losses carry forward).
- **For non-residents** – profit received from Ukrainian sources and calculated in accordance with specific rules.

TAXATION OF RESIDENT ENTITIES

Taxable profit is calculated as financial profit before tax (reported in the P&L statement according to Ukrainian GAAP or IFRS) adjusted by a number of tax differences, as follows:

- Tax losses carryforward.
- Difference between depreciation of fixed assets and amortization of intangibles in financial and tax accounting, devaluation of fixed assets.
- Accruals and provisions, except for vacation and payroll costs.
- Bad debts.
- Thin capitalization.
- Trade in securities.
- Investment income and losses.
- Transfer pricing.
- Transactions with non-residents.
- Transactions with non-profit organisations.
- Transactions with non-CPT payers and companies applying 0% CPT rate.

Tax losses carryforward

Tax losses may be carried forward indefinitely without any limitation. The carryback of losses is not permitted.

Depreciation of assets

Depreciation of fixed assets and amortization of intangibles should be recalculated according to the tax rules. These rules provide a list of assets not subject to depreciation in tax accounting, the minimum useful lives of assets and minimum cost of asset subject to depreciation. Impairment of the assets is not deductible for CPT purposes. Special rules for calculation of residual value of fixed and intangible assets are specified for their disposal or liquidation.

Taxpayers may apply accelerated depreciation in tax accounting (2 years of useful life instead of 5 years) for equipment set in operation in 2017-2019.

Accruals and provisions, except for vacation and payroll costs

Provisions for future expenses are deducted at the period when relevant expenses are incurred, and the provision is utilized. Provisions for vacations and payroll costs, including SIC payments, are deducted at the period of their accrual.

Bank reserves are recognised in tax accounting according to specific rules.

Bad debts

Write-off of bad debts may be deducted if certain conditions are met (limitation period has expired, etc.). Bad debts provisions are deducted at the period when the provision is realized under the same conditions.

Thin capitalization rules

Thin capitalization rules should apply to companies whose financial debts to non-resident related parties exceed their net assets more than 3.5 times. Tax deduction of interest under the thin capitalization rules is limited to 50% of earnings before interest, tax, depreciation and amortization (EBITDA) for the current year. The amount not deducted within the reporting period may be carried forward indefinitely, but with an annual reduction of 5% of the residual amount.

Trade in securities

The financial result of securities transactions should be determined separately from the financial result of other activity. Losses from securities transactions may be deducted only from the profits of other securities transactions. A fall in the valuation of securities is not deductible.

Investment income and losses

Investment income from other CPT payers and single tax payers (including dividends received from other CPT payers) is recognized as non-taxable income.

Investment losses in associates, subsidiaries and joint ventures are recognized as non-deductible for tax purposes.

Transfer pricing

The value of controlled transactions, which is not in compliance with arm's length level, should be adjusted. Only upward adjustments are possible.

Transactions with non-residents, non-profit organizations and non-CPT payers

Expenses on goods and services are deducted in the amount of 70%, if purchased from the following suppliers:

- Non-residents from low-tax jurisdictions.
- Non-profit organizations.
- Non-residents, who are considered non-CPT payers.

The list of low-tax jurisdictions is approved by Cabinet of Ministers of Ukraine (CMU) and currently contains 79 countries and territories.

The list of non-residents' legal forms, who are considered non-CPT payers, is approved by the CMU. This list includes legal forms from 26 countries.

Deduction of royalty payments to non-residents (including non-residents from low-tax jurisdictions) is limited to 4% of the previous year's revenue.

The aforementioned limitations are not applicable to controlled transactions or may be waived if taxpayer confirms the arm's length price according to transfer pricing rules.

Deduction of royalty payments is not allowed if:

- Paid to non-resident non-beneficiary owners.
- Paid to a non-resident exempted from tax on royalties.
- Paid to a non-resident for intellectual property rights originating in Ukraine.
- Paid to non-CPT payers and companies applying 0% CPT rate.

Deduction of expenses on goods and services provided free of charge to non-profit organizations, as well as deduction of charity payments, is limited to 4% of the previous year's taxable profit (8% for organizations, acting in the sphere of physical culture and sports).

Non-repayable financial aid to non-CPT payers and companies applying 0% CPT rate are considered as non-deductible expenses.

Contractual penalties paid to non-CPT payers and companies applying 0% CPT rate are considered as non-deductible expenses.

Special conditions

Tax legislation also contains special conditions of tax accounting for several types of operations:

- Insurance.
- Cinematography.
- Production sharing agreements.
- Sports betting and gambling.
- Lottery business.
- Joint investment funds.
- Non-state pension funds.

TAXATION OF NON-RESIDENT ENTITIES

Special rules for taxable profit calculation

Non-resident entities are subject to taxation of two types of incomes received on the territory of Ukraine:

- Active income (income received from commercial activity on the territory of Ukraine through the representative office).
- Passive income (income received from Ukrainian source).

Active income

Tax legislation provides 2 methods available for calculation of CPT for representative offices:

- Direct method.
- Indirect method.

The **direct method** (the same as for resident entities) is used when the entity can easily determine the amount of income attributable to the activities or assets of its representative office.

The **indirect method** is used by companies who could not easily determine the amount of attributable income under the direct method. To calculate attributable taxable income, a 30% profit margin is applied to gross income attributable to the representative office. This margin is then subject to tax. A 30% margin may be high compared to probable arms-length economic return, but it simplifies the bookkeeping.

Passive income

The following types of passive income received by non-residents from Ukrainian source are subject to withholding tax (hereinafter referred as WHT):

- Interest.
- Dividends.
- Royalty.
- Freight.
- Engineering services.
- Lease payments under operative lease contracts.
- Income from sale of real estate located in Ukraine.
- Profit from sale or disposal of securities.
- Income from joint ventures (operations) and long-term contracts
- Fees earned from cultural, educational, religious, sports, and entertainment activity.
- Compensation of brokerage, commission or agency services provided by non-residents.
- Contributions and premiums for insurance and re-insurance of risks in Ukraine (including insurance of life risks) or insurance of residents against risks beyond the borders of Ukraine.
- Charity contributions in favour of non-residents.

- Other income of non-residents except for sales of goods/works/services.

Standard WHT rate is 15% (6% for freight; 0%/4%/12% for insurance), but it may be reduced or waived according to the double tax treaties ratified by Ukraine.

Advertising surtax

Residents, which make payments to non-residents for the production and/or distribution of advertisements, should pay separate 20% surtax of the amount of such payments at their own expense at the moment of payment.

Since such tax liability is not withheld from the payment to non-resident and instead is assessed by the resident itself, it may not be considered WHT, but instead constitutes an additional surtax on certain advertising services.

DOUBLE TAX TREATIES

More than 70 countries have signed double tax treaties with Ukraine. Respective reduced WHT rates for various types of payments are as follow:

Country	WHT Rates		
	Dividends (%) ¹	Interest (%)	Royalty (%)
Algeria	5(25)/15	10	10
Armenia	5(25)/15	10	0
Austria ²	5(10)/10	2/5	0/5
Azerbaijan	10	10	10
Belarus	15	10	15
Belgium	5(20)/15	2/5	0/5
Bulgaria	5(25)/15	10	10
Brazil	10(25)/15	15	15
Canada	5(20)/15	10	10
Croatia	5(25)/10	10	10
China	5(25)/10	10	10
Cyprus	5(20)/15	2	5/10
Czech Republic	5(25)/15	5	10

Country	WHT Rates		
Denmark	5(25)/15	0/10	10
Egypt	12	12	12
Estonia	5(25)/15	10	10
Finland	5(20)/15	5/10	5/10
France	0(50)/5(20)/15	2/10	0/5/10
Georgia	5(25)/10	10	10
Germany	5(20)/10	2/5	0/5
Greece	5(25)/10	10	10
Hungary	5(25)/15	10	5
Iceland	5(25)/15	10	10
India	10(25)/15	10	10
Indonesia	10(20)/15	10	10
Iran	10	10	10
Ireland	5(25)/15	0/5/10	5/10
Israel	5(25)/10/15	5/10	10
Italy	5(20)/15	10	7
Japan	15	10	10
Jordan	10(20)/15	10	10
Kazakhstan	5(25)/15	10	10
Korea	5(20)/15	5	5
Kuwait	5	0	10
Kyrgyzstan	5(50)/15	10	10
Latvia	5(25)/15	10	10
Lebanon	5(20)/15	10	10
Libya	5(25)/15	10	10
Lithuania	5(25)/15	10	10
Luxembourg	5(20)/15	2/10	5/10
Macedonia	5(25)/15	10	10
Malaysia	15	15	10/15
Malta	5(20)/15	10	10
Mexico	5(25)/15	10	10
Moldova	5(25)/15	10	10

Country	WHT Rates		
Mongolia	10	10	10
Montenegro	5(25)/10	10	10
Morocco	10	10	10
Netherlands	0(50)/5(20)/15	2/10	10
Norway	5(25)/15	10	5/10
Poland	5(25)/15	10	10
Portugal	10(25)/15	10	10
Romania	10(25)/15	10	10/15
Russian Federation	5/15	10	10
Serbia	5(25)/10	10	10
Singapore	5(20)/15	10	7.5
Slovakia	10	10	10
Slovenia	5(25)/15	5	10/5
South Africa	5(20)/15	10	10
Spain	18	0	5
Sweden	0(25)/5(20)/10	10	0/10
Switzerland	5(20)/15	0/10	0/10
Syria	10	10	18
Tajikistan	10	10	10
Thailand	10(25)/15	10/15	15
Turkey ²	10(25)/15	10	10
Turkmenistan	10	10	10
UAE	5(10)/15	3	10
UK ²	5(20)/10	0	0
USA	5(20)/15	0	10
Uzbekistan	10	10	10
Vietnam	10	10	10

- 1) As for dividends, figures in brackets “()” mean the minimum amount (in percentage) in share capital entitling non-residents to apply favourable WHT rates that are noted before the brackets. Rates indicated followed by a slash “/” mean different rates depending on the conditions specified in the double tax treaty.
- 2) Amendments to double tax treaties with Austria, Turkey and UK were signed in 2017. However, they have not been ratified yet.

4. TRANSFER PRICING (TP)

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CONTROLLED TRANSACTIONS

TP rules apply to the following controlled transactions in Ukraine:

- Transactions with non-resident related parties.
- Sales and/or purchase of goods through non-resident commission agents.
- Transactions with non-residents registered in low-tax jurisdictions.
- Transactions with non-residents, who are considered as non-CPT payers.
- Transactions between non-residents and their permanent establishments in Ukraine.

Transactions with the counterparty are treated as controlled transactions, if both criteria are met:

- Total income of the taxpayer exceeds UAH 150 million for the relevant year.
- Volume of the transactions exceeds UAH 10 million for the relevant year.

As an exception, transactions between non-residents and their permanent establishments in Ukraine are treated as controlled for transfer pricing purposes, just if the volume of the transactions exceeds UAH 10 million for the relevant year.

The list of low-tax jurisdictions is approved by CMU and currently contains 79 countries and territories.

The list of non-residents' legal forms, who are considered non-CPT payers, is approved by the CMU. This list includes legal forms from 26 countries.

TP REPORTING

The reporting period for TP purposes is the calendar year. Taxpayers should submit to the tax authorities the following documents prepared in Ukrainian:

- Report on controlled transactions – by 1 October of the following year.
- Transfer pricing documentation – within 30 calendar days from the date of the request of tax authorities, such request may be sent not earlier than 1 October of the following year.

Ukraine has not yet adopted the country-by-country reporting standards and masterfile reporting standards in local legislation.

TP METHODS

Ukrainian tax legislation provides that the method used to test the appropriateness of related party prices should be that method which produces the most reliable measure of arm's length results. However, it establishes a hierarchy of TP methods and defines cases for application of each method:

- Comparable uncontrolled price (based on the price of identical/similar goods).
- Resale price method (based on the price of the resale to a non-related party).
- Cost plus method (based on the cost of a purchase from a non-related party and a sale in a controlled transaction).
- Net margin method (used in the cases of absence or lack of information for the application of other methods).
- Profit split method (used in the cases of interdependent controlled transactions and/or essential intangible assets owned by the parties).

Special rules apply to cross-border transactions involving the sale of goods traded on commodity exchanges, under which the comparable uncontrolled price method is preferred.

In order to identify the arm's length range, the taxpayers should consider the interquartile approach, based on weighted average figures.

TP PENALTIES

For non-submission or non-reporting of certain controlled transactions the following penalties may be incurred:

- 300 costs of living (approximately UAH 556 thousand) – for non-submission of report on controlled transactions.
- 1% of the value of the controlled transactions (but not more than 300 costs of living – approximately UAH 556 thousand) – for failure to include a controlled transaction in the submitted report on controlled transactions.
- 3% of the value of the controlled transactions (but not more than 200 costs of living – approximately UAH 371 thousand) – for the failure to provide TP documentation.
- 5 costs of living (approximately UAH 9 thousand) for each day of non-submission of a report on controlled transactions and/or TP documentation after the expiry of 30 days following the last day of the deadline for paying the fines, described above.

For untimely submission of reports the following penalties may be incurred:

- 1 cost of living (approximately UAH 1.9 thousand) for each day of delay (but not more than 300 costs of living – approximately UAH 551 thousand) – for late submission of report on controlled transactions.
- 1 cost of living (approximately UAH 1.9 thousand) for each day of delay (but not more than 300 costs of living – approximately UAH 551 thousand) – in case of late declaration of controlled transactions in report on controlled transactions.
- 2 costs of living (approximately UAH 3.7 thousand) for each day of delay (but not more than 200 costs of living – approximately UAH 371 thousand) – for late submission of TP documentation.

If the price/profitability of a controlled transaction is out of the range determined by TP documentation, additional charges should be calculated based on the minimum or

maximum of the arm's length range (for self-identified adjustments) or based on the median of the arm's length range (for adjustments calculated by tax authorities following special tax audit).

ADVANCE PRICING AGREEMENT (APA)

APA procedure allows the taxpayer and the tax authorities to avoid future TP disputes by signing respective APA, which specifies appropriate TP methodology for a respective taxpayer's controlled transactions.

APA may be signed between a large taxpayer and State fiscal service of Ukraine (unilateral APA), involving foreign tax administration (bilateral APA) and involving several foreign tax administrations (multilateral APA).

Application for APA is free of charge in Ukraine.

Taxpayer may apply to tax authorities for preliminary consideration of the APA. Tax authorities should inform the taxpayer about the result of preliminary application within 60 calendar days. Taxpayer is not obliged to sign the APA after preliminary consideration.

Taxpayer and tax authorities may terminate the procedure of APA. In case tax authorities terminate the procedure, the taxpayer may file an objection within 15 calendar days.

The term of an APA may not exceed 5 years, and the taxpayer has the possibility to prolong an APA for 5 more years.

After signing an APA, the taxpayer should submit the report on implementation of APA to tax authorities on an annual basis.

To the best of our knowledge, no Ukrainian companies have signed an APA with tax authorities as of 1 January 2019.

5. VALUE ADDED TAX (VAT)

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Tax Rates
Tax Payers
General Tax Accounting Rules
Tax Base
Electronic VAT System
Suspending Registration of VAT Invoices
Special Rules for Import
VAT Refund
VAT Incentives

TAX RATES

The standard rate of VAT in Ukraine equals 20%.

Transactions may be divided into the following groups for VAT purposes:

- VAT-able transactions at the standard rate of 20%.
- VAT-able transactions at the reduced rate of 7% (pharmaceuticals and medicinal products, that are included in the State register of medical devices and equipment).
- VAT-able transactions at the rate of 0% (mainly export transactions).
- Transactions exempted from VAT (e.g. baby food products, education services, health care, and charity, etc.).
- Transactions which are not subject to VAT (e.g. issue of securities, operating lease, insurance services, banking services, salary payment, etc.).

TAX PAYERS

VAT payers are:

- Persons or entities engaged in business activities and registered as a taxpayer on a voluntary basis.
- Persons or entities registered or subject to mandatory registration as a taxpayer.
- Persons or entities importing goods to the customs territory of Ukraine (where the value of goods exceeds certain thresholds).

VAT registration is required (for residents and non-residents) if VAT-able turnover exceeds UAH 1 million during any rolling 12-month period. A legal entity may apply for voluntary registration without any limitations.

GENERAL TAX ACCOUNTING RULES

VAT is imposed on the following transactions:

- Supply of goods within the customs territory of Ukraine.
- Supply of services within the customs territory of Ukraine.
- Import of goods and auxiliary services into the customs territory of Ukraine under the import or re-import customs regimes.
- Export of goods and auxiliary services from the customs territory of Ukraine under the export or re-export customs regimes.
- International transport services.

There is no concept of B2B and B2C services in Ukraine. Under general rules, the place of supply of services is where the supplier is registered. However, there are following exemptions:

- Place of actual supply – for services related to movable property (handling, evaluation, transportation, repair, other services) and for services related to culture, art, education, science, sports, entertainment, etc.
- Place of property location – for services related to immovable property.

- Place where the customer is registered – for advertising, consulting, engineering, legal, accounting, audit, IT, telecommunication, radio and television, data processing, actuarial, outstaffing services, lease of movable property, granting of intellectual property rights, freight forwarding.

Under the general rule, VAT should be recognized following the “**first event rule**”:

- **VAT liabilities (VAT output)** arises from sales:
 - VAT liability on the sale of goods is generally recognized at the date the goods are delivered to the customer or at the date the payment is received from a supplier, whichever is earlier.
 - VAT liability on the sale of services is generally recognized at the date of the document evidencing delivery of the service or the date of receipt of the payment from customer, whichever is earlier.
- **VAT credit (VAT input)** arises from purchases and is generally recognized on the date of payments to suppliers or on the date which the goods/services are received, whichever is earlier.

Taxpayers should submit VAT returns for each monthly (mainly) or quarterly (for single tax payers) reporting period and make respective monthly or quarterly tax payments:

- **Monthly** VAT returns should be submitted within 20 days of the last calendar day of each reporting period. Monthly tax payments should be made within 30 days after the end of a reporting period.
- **Quarterly** VAT returns should be submitted within 40 days of the last calendar day of each reporting period. Quarterly tax payments should be made within 50 days after the end of a reporting period.

If the filing deadline date falls on a holiday or a weekend, it is automatically moved to the following business (banking) day.

TAX BASE

According to the general rule, the tax base for VAT is determined as the contractual value of goods/services, including customs duties, excise and other mandatory taxes and payments. However, tax base may not be lower than the fair market price for self-

produces goods or services, less than purchase price for resold goods or services or less than net book value for fixed assets.

Also, there are special conditions for defining tax base for VAT in the following cases:

- **Import** - the contractual value of goods imported into the customs territory of Ukraine is considered as tax base, but may not be less than the declared customs value, determined in accordance with the Custom Code of Ukraine (including excise tax and import duties).
- **Financial lease** - for financial lease purposes, the VAT base is determined on a contractual basis, but may not be less than the purchase price of the object of the financial lease.
- **Free of charge supplies** - in case of non-cash settlements and free of charge supplies, the fair market price is determined as taxable base.
- **Non-taxable supplies / non-business activity** (in case VAT credit was previously deducted) – VAT base is determined as net book value of fixed assets (non-current assets) or purchasing price of goods.

ELECTRONIC VAT SYSTEM

The electronic VAT system was implemented in Ukraine on 1 July 2015. Special VAT accounts for each VAT payer were opened with the State Treasury of Ukraine. The purpose of such accounts is to guarantee the fulfilment of VAT liabilities by taxpayers.

VAT invoices should be registered with the electronic register kept by tax authorities. Deadlines for registration of VAT invoices are as follows:

- For VAT invoices issued within first part of the month (first 15 days) – till the last day of the calendar month.
- For VAT invoices issued within second part of the month (from 16th to the last day of the month) – till 15th of the next month.

Total period for registration of VAT invoices in electronic VAT system is 1095 calendar days after the date when the tax liabilities occurred.

All VAT invoices should include product code, specified in accordance with Ukrainian classification rules. For most cases, it is enough to specify only first 4 symbols of the code.

All VAT reporting should be submitted electronically within the total amounts of input VAT under VAT invoices issued by suppliers, "import" VAT paid during customs clearance of the imported goods and funds transferred to the VAT account.

VAT invoices are registered within limitation by the VAT amount calculated under the formula:

+ \sum VAT total amount of input VAT under received VAT invoices

+ \sum VAT paid during customs clearance of imported goods

+ \sum total transfers of taxpayer funds from current account to VAT account

- \sum total amount of output VAT in VAT invoices issued

- \sum VAT declared for refund

- \sum positive difference between VAT liabilities reported in VAT return and VAT liabilities according to the Unified Register of VAT Invoices

+ \sum overdraft (average monthly amount of VAT liability reported for the last 12 months)

If the amount of VAT in invoices to be registered surpasses the VAT amount calculated according to the above-mentioned formula, the supplier will have to transfer the amount of funds necessary to cover the difference from its business bank account to its special VAT account. The VAT account is used for paying VAT to the budget according to the VAT returns.

Excess funds paid to the budget, may be returned to the VAT account.

VAT invoices, issued and registered after 1 July 2017, should be a sufficient basis for VAT credit, and the taxpayer does not need any additional confirmation.

SUSPENDING REGISTRATION OF VAT INVOICES

The respective procedure was introduced on 1 April 2017, so that registration of VAT invoices and adjustments in the electronic VAT system could be suspended for invoices which meet the criteria of high risk.

On 10 November 2018, this procedure was amended. Suspending registration of VAT invoices and adjustments in the electronic VAT system depends on criteria for taxpayer risk and transaction risk, as well as indicators of the taxpayer's positive tax history.

In order to restore the registration, the affected taxpayer should submit an application to the tax authority with evidence confirming the questioned transaction. The regional tax authority has 5 working days to satisfy or to refuse the application. For taxpayers with VAT-able turnover exceeding UAH 30 million in the reporting month, the decision of the regional tax authority should be confirmed or rejected by the central tax authority within working 7 days.

If the tax authority does not make a decision within the prescribed period, the invoice will be automatically restored for registration.

SPECIAL RULES FOR IMPORT

If a company imports goods to Ukraine in taxable quantities, it is obliged to pay VAT during the customs clearance process (VAT on imported goods is payable by the importer). Then, the entity may offset this amount against VAT from sales.

Reverse-charge mechanism is a special mechanism for VAT taxation of operations related to services provided by non-residents to residents on the territory of Ukraine.

Generally, Ukrainian VAT rules are based on Council Directive No. 2006/112/EC dated 28 November 2006. However, the amendments made by VAT Directive EC 2008/8/EC since 2008 regarding the place of supply have not been implemented in Ukrainian tax law. There is no conception of B2B and B2C services in Ukraine, and the place of supply of certain services is the place where the supplier is registered (which is contrary to the Directive's general rule). Therefore, double VAT taxation of services supply is possible.

VAT REFUND

Automatic VAT refund is available under the unified register with chronological order of repayment.

The register should be updated daily on the website of State Fiscal Service of Ukraine (except weekends, holidays and non-working days).

State Treasury of Ukraine provides VAT refunds based on the amount of funds available on the treasury accounts.

Tax authorities may carry out desk tax audits regarding VAT refunds within 30 calendar days from the deadline for the submission of VAT returns. As well, tax authorities may carry out documentary tax audits within 60 calendar days from the deadline for the submission of VAT returns if:

- VAT to be refunded was accumulated before 1 July 2015 and was not subject to tax audit.
- VAT to be refunded was accumulated before 1 January 2017 on transactions with agricultural producers which apply special VAT regime.

VAT INCENTIVES

Tax legislation provides for a number of VAT-exemptions for transactions in IT, space industry, aircraft, energy efficiency and alternative energy, shipbuilding, cinematography, etc.

There are also temporary exemptions for the following transactions:

- Supply of software (including computer programs, websites, online services, applications, etc.) is VAT exempted until 1 January 2023.
- Export of soybeans is VAT exempted from 1 September 2018 till 31 December 2021.
- Export of rapeseeds from 1 January 2020 until 31 December 2021.

- Supply (including import and export) of ferrous and non-ferrous scrap metal, waste paper is VAT exempted until 1 January 2022.
- Import and sale of electric cars is VAT exempted until 1 January 2022.
- Import of certain equipment for renewable energy (wind power units, PV cells, transistors, convertors, etc. defined by customs codes 8502 31 00 00, 8541 40 90 00, 8504 23 00 00 and 8504 40 88 00) is VAT exempted until 1 January 2022.
- Supply of coal (defined by customs codes 2701, 2702, 2704 00) is VAT exempted until 1 January 2022.
- Production and screening of movies is VAT exempted until 1 January 2023.
- Import of goods for space industry is VAT exempted until 1 January 2023.
- Import of goods for aircraft industry is VAT exempted until 1 January 2025.

VAT incentives aimed on supporting priority industries and attracting investment include:

- Possibility to pay VAT on import of certain equipment for manufacturing purposes by monthly instalments for up to 24 months (till 31 December 2020).
- Possibility to defer payment of import VAT for business entities, implementing investment projects in priority industries in Ukraine by issuing a tax receipt to tax authorities (till 31 December 2022).

6. PERSONAL INCOME TAX (PIT)

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Tax Payers
Tax Residence
General Tax Accounting Rules
Tax Credit (Discount)
Tax Rates
Taxation of Passive Income
Tax Reporting
Temporary Military Tax

TAX PAYERS

Tax payers of PIT are:

- Individual residents receiving incomes at source originating from Ukraine and abroad.
- Individual non-residents receiving incomes at source originating from Ukraine.
- Tax agents – legal entity, self-employed person, representative office of non-resident obliged to charge, withhold and pay PIT to the budget on behalf and at the expense of individuals or entities from the income paid to such individuals or entities.

TAX RESIDENCE

There are several criteria for determination of tax residence of the individual:

- An individual is a tax resident in Ukraine if he/she has a permanent residence (home) in Ukraine.

- If an individual has a permanent residence (home) in more than one country, he/she is considered a tax resident in Ukraine if he/she has closer personal and economic ties (centre of vital interests) with Ukraine.
- If it is impossible to determine residence under either of the preceding criteria, an individual will be deemed to be tax resident in Ukraine if he/she is staying in Ukraine at least 183 days cumulatively during a calendar year (including both the days of arrivals and the days of departures).
- If tax residence still cannot be determined, the individual will be deemed a tax resident, if he/she is citizen of Ukraine.
- Presence of the individual's family in Ukraine also is a factor in determining tax residence.

GENERAL TAX ACCOUNTING RULES

Tax residents of Ukraine pay PIT on their worldwide income. Non-resident individuals pay PIT on their Ukrainian source income.

Basic PIT rate for both residents and non-residents is 18%. For the specific types of passive income, the tax rates of 5% and 0% may be applied.

The tax base is net annual taxable income that is defined by reducing the total taxable income for the amount of tax credit of the reporting year. Total taxable income of a taxpayer includes salary, remunerations and other payments accrued (paid) in accordance with the stipulations of civil law agreements, income from sale of property and non-property rights, income in the form of the value of property inherited or obtained as a gift, passive income, etc.

TAX CREDIT (DISCOUNT)

The taxpayer has the right to include in tax credit as a reduction of taxable income the following expenses incurred by him/her during the reporting year:

- Part of the amount of interest paid by such taxpayer for use of a mortgage housing loan.

- Amount of funds or property cost passed in the form of donations or charity contributions to non-profitable organizations in the amount that does not exceed 4% of the amount of his/her total taxable income for such reporting year.
- Amount of funds paid to Ukrainian educational facilities to cover the cost of education of such taxpayer or his/her family members of first-degree affinity (i.e. parents, spouse, children/adopted children).
- Amount of funds paid by the taxpayer for the benefit of medical facilities for compensation of the cost of payable services of medical treatment of such taxpayer or his/her family member of first-degree affinity.
- Insurance contributions and pension contributions paid by the taxpayer under long-term life insurance agreements, non-state pension provision, etc.

TAXATION OF PASSIVE INCOME

For the taxation of passive income (interest, dividends, royalties, etc.) special rates are applied:

- Interests, royalties, investment profits are subject to 18% PIT.
- Dividends are subject to 9% PIT, except for dividends distributed by Ukrainian CPT payers that are subject to 5% PIT.
- Rent, lease or sublease are subject to 18% PIT.
- Real estate sales:
 - Income received from the sale of real estate is not taxable if property is sold once during tax reporting year and provided that the property has been owned for longer than 3 years or obtained as inheritance.
 - Income earned from the second and any further sale of real estate within a tax reporting year is subject to 5% PIT.
- Movable property sales:
 - Income received from the sale of movable property is not taxable if property is sold once during tax reporting year.
 - Income earned from the second and any further sale of movable property within a tax reporting year is subject to 5% PIT.
- Inheritance and gifts received from individuals are subject to:
 - 0% PIT, if the recipient is a resident classified as a family member of first-degree or second-degree affinity (i.e. parents, grandparents, spouse, parents of spouse, sisters, brothers, children/adopted children).

- 5% PIT, if the recipient is a resident not classified as above-mentioned family member.
- 18% PIT, if the recipient or testator is a non-resident.

TAX REPORTING

PIT reporting for employers is quarterly with regards to taxes withheld on employee salaries. Employer PIT returns should be submitted within 40 days after the end of the reporting quarter.

PIT reporting for individuals should be submitted annually. The deadline for the submission of the PIT return is 1 May of the following year. PIT should be paid by 1 August of the following year.

TEMPORARY MILITARY TAX

Military tax applies to the same tax base as PIT at the rate of 1.5%. This duty is temporary until the completion of the military reform in Ukraine.

7. SOCIAL INSURANCE CONTRIBUTION (SIC)

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Accrual Base
SIC Payers
General SIC Accounting Rules
Responsibility

ACCRUAL BASE

Depending on the income received, there are three types of accrual base:

- Accrued wages including basic and additional wage, other incentives and compensatory payments under civil agreements.
- Amounts of compensation to individuals for delivered works (services) under civil agreements.
- Income (earnings) received by self-employed individuals or private entrepreneurs.

Minimum SIC payment per month is 22% of minimum monthly salary, which equals UAH 918 as of 1 January 2019.

Maximum chargeable amount for SIC per month is 15 minimum monthly salaries (total of UAH 62,595 as of 1 January 2019), meaning that the maximum SIC payment equals UAH 13,771.

SIC PAYERS

- Employers (legal entities and private entrepreneurs) employing staff under labour agreements or civil agreements.
- Self-employed individuals, private entrepreneurs and private farms.

GENERAL SIC ACCOUNTING RULES

Basic reporting period is a calendar month for employers, and calendar year – for self-employed individuals, private entrepreneurs and private farms.

Employers should pay SIC within 20 days after the reporting period. SIC should be paid at the same time as wages, but not later than this deadline.

Private entrepreneurs (both applying general and simplified tax regime), self-employed individuals and private farms should pay SIC quarterly – within 20 days after the end of each quarter.

SIC is levied on non-residents under application of the same rules as for residents.

SIC rate is 22% for employers, self-employed individuals, private entrepreneurs and private farms. Employees are not liable to pay SIC.

Private entrepreneurs who apply the general tax regime or are included in the 1st, 2nd or 3rd group of the simplified tax regime and self-employed individuals should accrue SIC each month, in amount not less than the minimum SIC payment (UAH 819 on 1 January 2017).

SIC is charged regardless of the financial results of the taxpayer.

RESPONSIBILITY

Untimely payment of SIC is subject to a fine amounting to 20% of the outstanding amount.

Arrears in SIC contributions are also subject to penalty interest set at 0.1% of the amount in arrears, per each day of delay in payment, etc.

8. SIMPLIFIED TAXATION

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Taxpayer Group
Single Tax Rate
Other Characteristics

The Tax Code of Ukraine contains rules regarding simplified tax regime, the respective accounting and reporting system and payment of single tax. Depending on the status of a business entity (legal entity or individual), number of employees, income, type of activity, etc. taxpayers are divided into 4 groups. More details on the 4th group (agricultural producers) are provided in the Chapter 11 “Special regime for agricultural enterprises”.

CHARACTERISTIC	TAXPAYER GROUP		
	FIRST	SECOND	THIRD
Status of a business entity	Individuals		Individuals or legal entities
Number of employees	0	0-10	Unlimited
Maximum annual income	UAH 300 thousand	UAH 1.5 million	UAH 5 million
Restrictions on types of activities	Retail sales in markets or providing consumer services to individuals only. General restrictions established for 3rd group should also be	Providing services to single tax payers and/or individuals, selling goods, restaurant business. General restrictions established for 3rd group should also be considered.	Entities and individuals carrying out gambling business, currency exchange, business related to excisable goods (excluding certain operations), precious metals, stones, minerals, management of enterprises, antiques, works of art, carrying out

	considered.		financial transactions and providing financial services, non-residents, etc. may not be single tax payers.
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CHARACTERISTIC	TAXPAYER GROUP		
	FIRST	SECOND	THIRD
Additional restrictions	<p>Individuals carrying out engineering tests and research, providing audit services, renting out land plots with total surface area exceeding 0.2 hectare, housing premises with total area exceeding 100 square meters, non-housing premises (constructions, buildings) and/or their constituent parts with a total surface area exceeding 300 square meters may not be single tax payers.</p> <p>Entities with authorized capital, in which aggregate parts owned by legal entities not being single taxpayers constitute at least 25%, may not be single tax payers.</p>		
Tax base	<p>Tax is accrued on the basis of the minimum wage or cost of living as of 1 January of the tax year.</p> <p>Income is controlled for compliance with the maximum annual income requirement.</p>		<p>Any income in a monetary form (cash and/or non-cash); tangible or intangible form, including written-off credit debts and assets received free of charge. In case of services, works under contract of agency, transport and forwarding contracts, or contracts of agency, income corresponds to the amount received as compensation of forwarder (agent). With regard to fixed assets, legal entities include sales profit in their income. Individuals are not</p>

		permitted to include passive income (in the form of interest, dividends, royalties, insurance payments and coverage, and income received from selling movable property and real estate owned by the individual and used in the business activity) into their income as single tax payers.
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CHARACTERISTIC	TAXPAYER GROUP		
	FIRST	SECOND	THIRD
Basic tax rate	Up to 10% of the monthly cost of living	Up to 20% of the minimum monthly wage	3% of income - for VAT payers 5% of income - for non-VAT payers
Reporting period	Calendar year		Calendar quarter
Terms of reporting	60 calendar days after reporting period end		40 calendar days after end of the reporting period
Terms of payment	By advance payment not later than the 20th day of a current month		10 days after deadline for submission of reports

SINGLE TAX RATE

SINGLE TAX RATE IS INCREASED			
Applied:	<ul style="list-style-type: none"> • In case maximum annual income for respective group is exceeded. • When applied to income from activity not entitling application of the single tax system or not provided for in a certificate. 		
Size	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">15% of income</td> <td>15% of income for individuals and double tax rate (6%/10%) for legal entities</td> </tr> </table>	15% of income	15% of income for individuals and double tax rate (6%/10%) for legal entities
15% of income	15% of income for individuals and double tax rate (6%/10%) for legal entities		
Terms of payment	10 days after deadline for submission of quarterly reports		
Grounds for cancellation of a single tax payer certificate	<ul style="list-style-type: none"> • When applied to income in case of settlements in non-monetary form. • Failure to pay tax debt during two consecutive quarters. • Carrying out activity excluded from application of the single tax system or noncompliance with requirements of organizational and legal forms of business activity. • Exceeding maximum number of persons employed by taxpayer under both civil and labour contracts. • Exceeding income thresholds for application of the single tax system in the tax (reporting) quarter (calendar year) in the preceding tax (reporting) quarter (calendar year). 		

OTHER CHARACTERISTICS

OTHER CHARACTERISTICS		
Exemption from certain taxes and fees	<p>Single tax payers are exempted from paying CPT; PIT (except as withholding tax for employed individuals); VAT (except for individuals and legal entities in the 3rd group who pay single tax at 3% rate); land tax (except for a land tax on land plots not used for economic activity).</p> <p>Charging, paying and reporting of other taxes and fees are carried out in the amount and according to procedures stipulated by the tax legislation.</p> <p>In case of importing goods to the customs territory of Ukraine, taxes, fees and customs duties are paid on general grounds.</p> <p>Under the tax legislation, a single tax payer acts as a tax agent paying (assigning) income subject to PIT under civil agreements.</p>	
WHT obligation	<p>Starting from 1 January 2018, single tax payers are obliged to withhold WHT from payments to non-residents of income received on the territory of Ukraine.</p>	
Cash register (in case of cash settlements)	Not established	Mandatory usage if the amount of cash income exceeds UAH 1 million

9. SIMPLIFIED TAX REGIME FOR AGRICULTURAL PRODUCERS

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Tax Payers
Tax Base
Tax Rates
Tax Exemptions
Tax Payment Procedure
Special VAT Regime for Agricultural Enterprises
State Subsidies

Agricultural producers (legal entities and private entrepreneurs) may apply the simplified tax regime as taxpayers of the 4th group.

TAX PAYERS

Legal entities may apply the simplified tax regime, on the condition that the production of agricultural commodities equals or exceeds 75% of their activities for the preceding tax year.

Newly established legal entities may apply the simplified tax regime starting from the following year, provided that the production of agricultural commodities equals or exceeds 75% of their activities for the preceding tax year.

In case the 75% ratio is no longer met, the entity should migrate to the payment of taxes on the basis of the general tax system starting from the month following the month in which the condition was no longer fulfilled.

The following entities may not apply the simplified tax regime:

- Agricultural producers, for whom the sale of ornamental plants wild animals, birds, furs make up more than 50% of overall income for the previous year.
- Agricultural entities which produce excisable goods.
- Agricultural entities which have tax debt as of 1 January of the reporting year.

Private entrepreneurs operating family farms may apply the simplified tax regime without regard for the restrictions above, subject to certain conditions.

TAX BASE

The area of agricultural lands (arable land, hayfields, pastures and perennial plantations) and/or water fund lands (intra-farm water pools, lakes, ponds and reservoirs) owned by the taxpayer or granted to the taxpayer for use, for instance on lease conditions, is the tax object for agricultural producers.

Tax base under the simplified tax regime for agricultural producers is the land plot valuation per hectare of agricultural land subject to the indexation rate as of 1 January of reporting year.

TAX RATES

Tax rates per hectare of agricultural land and/or water fund surface area depend on the category (type) of land/surface area and its location and may range from 0.19% to 6.33% of the tax base.

TAX EXEMPTIONS

Agricultural producers which are registered as payers of fixed agricultural tax are not subject to the following taxes and duties:

- Corporate profit tax.
- Land tax (except for the land tax on land plots not used for the production of agricultural commodities).

TAX PAYMENT PROCEDURE

The reporting period for the purposes of the tax is a calendar year.

Agricultural enterprises should independently calculate amount of tax due on an annual basis by 1 January and submit the tax return for the current year to the appropriate branch of the state tax service agency both at the taxpayer's place of registration and the location of the land plot (where these are not identical) by 20 February of the current year.

The tax should be paid quarterly within 30 calendar days following the last calendar day of the reporting quarter on the basis of the annual tax amount at the following rates:

- 10% in Quarter I.
- 10% in Quarter II.
- 50% in Quarter III.
- 30% in Quarter IV.

STATE SUBSIDIES

For the period from 1 January 2017 to 1 January 2022 agricultural producers may obtain state subsidies for the development of agricultural sector and increase of agricultural commodities production.

Agricultural producers included in the Register of recipients of state subsidies should submit a VAT return with the application indicating the amount of VAT liabilities arising from agricultural activities and the calculation of the percentage of agricultural commodity production with regard to the producer's overall business activity (should exceed 75% for previous 12 consecutive months).

State subsidies for agricultural producers in 2019 are budgeted in amount of UAH 5.7 billion.

10. EXCISE TAX

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Excisable Goods
Tax Payers
General Tax Accounting Rules
Tax Payment Procedure
Electronic Excise System for Petroleum Sales

EXCISABLE GOODS

Excisable goods are:

- Ethyl alcohol and other alcohol distillates, alcoholic beverages, beer.
- Tobacco products, tobacco and industrial tobacco substitutes.
- Petroleum products.
- Passenger cars, car bodies, trailers and semi-trailers, motorcycles.
- Electricity.

TAX PAYERS

Excise tax payers are:

- Entity producing excisable commodities on the customs territory of Ukraine, for instance from customer-provided raw materials.
- Entity or individual importing excisable commodities into the customs territory of Ukraine.
- Entity selling forfeited or found ownerless excisable commodities.
- Entity selling excisable goods in retail.
- Wholesale suppliers of electricity.
- Producers of electricity who sell outside the wholesale electricity market.

- Owners of imported vehicles that remodel them into passenger cars.
- Sellers of petroleum products.

GENERAL TAX ACCOUNTING RULES

Taxable income for excise tax includes earnings received from:

- Selling excisable goods manufactured (produced, extracted) in Ukraine.
- Importing excisable goods into the customs territory of Ukraine.
- Any other transfers of ownership including own consumption, consumption by employees, industrial processing, losses of excisable goods that exceed the established loss allowances.
- Sale of the electricity, except for energy obtained from renewable sources.

There are ad-valorem and specific tax rates.

In case of the specific rates, the weight, the volume, the quantity of the goods, the car engine displacement volume or other in-kind indicators serve as the taxable amount.

In case of the ad valorem rates, the maximum retail prices set by the manufacturer or the importer serve as the taxable amount.

Excise rates are defined by tax legislation and depend on the type of goods.

TAX PAYMENT PROCEDURE

The basic tax excise period is the calendar month, excise tax returns should be submitted within 20 days following the last day of reporting month. Tax amounts should be paid within 10 calendar days following the deadline for submission of the respective excise tax return.

The tax on excisable commodities (products) imported into the customs territory of Ukraine should be paid before or on the date as the submission of the respective customs declaration.

Amounts of excise tax on alcoholic beverages should be paid upon acquisition of required excise tax stamps.

Legislation also establishes a minimum retail prices for cigarettes.

The owner of finished goods produced from customer-provided raw materials on a tolling basis should pay the excise tax to the producing (processing) entity not later than on the date of the shipment of finished goods to the owner.

Excise rates are provided by the TCU for a wide range of excisable goods according to detailed product codes.

ELECTRONIC EXCISE SYSTEM FOR PETROLEUM SALES

The electronic excise system for sales of petroleum products was implemented on 1 March 2016. Excise taxpayers are obliged to issue excise invoices on the day of sale. Excise invoices should be registered with the electronic register maintained by tax authorities. Excise invoices should be registered within the established time limits depending on the excise amount calculated according to the specified formula.

Amendments to the electronic excise system for petroleum sales are expected on 1 July 2019.

11. PROPERTY TAX

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Land Tax
Land Rent
Real Property Tax
Movable Property Tax

Property tax in Ukraine consists of land fee, real property tax and movable property tax.

Land fee may be paid in form of land tax or land rent. Land rent is paid if the taxpayer concluded rental agreement with the local authorities.

LAND TAX

Land tax payers

Land tax payers are:

- Owners of land plots and land shares (units).
- Land users.

Objects of taxation:

- Land plots being owned or used.
- Land shares (units) being owned.

Land tax rates

Taxable amount should be determined based on:

- Monetary valuation of the land plot subject to the indexation rate.
- Surface area of land plots which have not yet received a valuation.

Land tax rates depend on the land category and the location of land plot:

- Not more than 3% of the land value – for evaluated land plots.
- Not more than 1% of the land value – for evaluated public land plots.
- Not less than 0.3% and no more than 1% of the land value – for evaluated agricultural land plots.
- Not more than 0.1% of the land value - for evaluated forest land plots.
- Not more than 12% of the land value – for land plots in sustained use.
- Not more than 5% of cropland value in the relevant region – for non-evaluated land plots.
- Not less than 0.3% and no more than 5% of cropland value in the relevant region – for non-evaluated agricultural land plots.
- Not more than 0.1% of the value in the relevant region - for non-evaluated forest land plots.

The exact land tax rates within the specified limits should be established by local authorities.

Land fee payment procedure

A calendar year is the reporting period for the purposes of land fee. Taxpayers who submit land tax returns on a monthly basis are thereby exempt from additionally submitting annual land tax returns.

Land tax payers (other than individuals) should submit a land tax return to the tax authority at the land plot's place of registration by 20 February of the reporting year. Tax liability should be paid in equal instalments on a monthly basis within 30 calendar days following the end of each month.

Individuals obtain tax notification-decisions from tax authorities not later than 1 July of the reporting year. If individual did not obtain tax notification-decision from local authorities by this date, such taxpayer would be relieved from fines for untimely

payment of tax liabilities. Tax should be paid within 60 days following the receipt of a tax notification-decision.

LAND RENT

Tenants of land plots pay land rent instead of land tax. Rate of land rent is stipulated in the respective rental agreement with the local authorities on an annual basis. Rate of land rent depends on the land category:

- May not be less than land tax.
- May not be more than 12% of the land value (except for cases where land rent is set on a competitive basis).
- Land rent for sublease may not exceed the initial land rent.

REAL PROPERTY TAX

Individuals and legal entities should pay real property tax annually. Individuals pay real property tax if any of the following conditions is met:

- Area of apartment or apartments exceeds 60 square meters.
- Area of dwelling house or houses exceeds 120 square meters.
- Total area of apartments and dwelling houses exceeds 180 square meters.

The excess over the specified area (for both residential and non-residential real property, including warehouses and industrial property) is subject to real property tax at the rate of up to 1.5% of minimum salary as of 1 January of the reporting year (UAH 63) per square meter. The exact tax rates within the specified limit should be established by local authorities. If an individual or legal entity owns real estate with a smaller area than mentioned above, such property is not subject to real property tax. If individual did not obtain tax notification-decision from local authorities by this date, such taxpayer would be relieved from fines for untimely payment of tax liabilities.

Owners of apartments with area exceeding 300 square meters or houses with area exceeding 500 square meters should pay additional annual real property tax in the amount of UAH 25 thousand for each such apartment or house.

Legal entities should submit a real property tax return not later than 20 February of the reporting year. Tax should be paid by advance payments within 30 days following the end of each quarter.

Individuals obtain tax notification-decisions from tax authorities not later than 1 July of the following year. Tax should be paid within 60 days following the receipt of the respective tax notification-decision.

MOVABLE PROPERTY TAX

Individuals and legal entities should pay movable property tax annually, if they own a car and the following conditions are met:

- Car is not older than 5 years.
- Average price of the car exceeds 375 minimum wages (UAH 1,565 thousand). Average price is calculated according to the methodology, approved by the Cabinet of Ministers of Ukraine.

The above-mentioned cars are subject to the annual movable property tax in the amount of UAH 25 thousand.

Legal entities should submit a moveable property tax return not later than 20 February of the reporting year. Tax should be paid by advance payments within 30 days following the end of each quarter.

Individuals obtain tax notification-decisions from tax authorities not later than 1 July of the following year. Tax should be paid within 60 days following the receipt of the respective tax notification-decision.

12. CURRENCY CONTROL

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Key Currency Control Restrictions as of 1 January 2019

Currency Liberalisation from 7 February 2019

KEY CURRENCY CONTROL RESTRICTIONS AS OF 1 JANUARY 2019

Ukraine maintains a rather restrictive regime of cross-border payments and currency exchange transactions, that are subject to control by National Bank of Ukraine (the NBU).

Payments on the territory of Ukraine may be performed only in Ukrainian national currency – hryvnia (UAH).

As of 1 January 2018, the following key restrictions are effective:

- Purchase of currency is limited to business activity purposes (import of goods or services, repayment of loan and interest, payment of dividends, etc.).
- Mandatory sale (conversion into UAH) of 50% of foreign currency inflow (not applicable to capital contributions).
- 180-day limit for import and export settlements in foreign currency (not applicable to export of services, except for transport and insurance).
- Mandatory registration of foreign loans with the NBU.
- Maximum annual interest for loans received from non-residents may not exceed the following rates:
 - 9.8% (for loans with maturity up to 1 year).
 - 10% (for loans with maturity from 1 year up to 3 years).
 - 11% (for loans with maturity exceeding 3 years).
 - 3-month USD LIBOR interest rate + 7.5% (for loans with floating interest rate).
- Monthly maximum threshold for early loan repayment abroad is set in amount of equivalent of USD 2 million.

- Monthly maximum threshold for dividend repatriation is set in amount of equivalent of USD 7 million.
- Monthly maximum threshold for repatriation of investments is set in amount of equivalent of USD 5 million.
- Currency control over the settlements of cross-border liabilities.

CURRENCY LIBERALISATION FROM 7 FEBRUARY 2019

On 21 June 2018, the Parliament adopted the Law on Currency and Currency Transactions No. 2473-VIII. This Law entered into force on 7 July 2018 and should take effect 7 months after this, i.e. on 7 February 2019. This is a framework law, which is designed to introduce a new liberalised currency control regime. Freedom of currency transactions should be the main principle of new currency regulation.

The NBU announced the key changes to the currency control system, which should be introduced together with the new Law on the Currency on 7 February 2019. The main changes provided are as follows:

- Simplification of currency control for import transactions not exceeding UAH 150 thousand.
- 365-day limit for import and export settlements in foreign currency, that replaces 180-day limit applicable as of 1 January 2019.
- Abolition of mandatory registration of foreign loans with the NBU.
- Abolition of licensing requirements for Ukrainian legal entities and individuals making investments abroad (instead e-limits system is introduced).
- Authorization for Individuals to purchase foreign currency and precious metals in the amount not exceeding UAH 150 thousand per day online.

However, certain restrictions are prolonged without changes, including requirement for mandatory sale of 50% of foreign currency inflow, limits for repatriation of dividends and investments, control over the settlement of cross-border liabilities, etc.



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