

2016

TAXES *IN* UKRAINE



TABLE OF CONTENTS

1. Corporate income tax	3
2. Value-added tax	8
3. Simplified tax system	11
4. Personal income tax	14
5. Single social contribution	16
6. Military duty	17
7. Excise tax	18
8. Real estate tax	19
9. Transport tax	21
10. Environmental tax	22
11. Rent payments	23
12. Duties	24
<i>Schedule 1. List of double taxation agreements of Ukraine</i>	26
<i>Schedule 2. List of offshore jurisdictions</i>	29

CORPORATE INCOME TAX

1



Taxpayers

Corporate Income Tax (CIT) is paid by the resident companies, which receive income in Ukraine as well as abroad. CIT is also paid by the non-resident companies, which receive income from Ukrainian sources.

Rate

Currently, a flat rate of 18% is established for all CIT taxpayers.

However, for some activities a separate rate is applicable. These include:

- 3% rate for insurance activities regarding the non-life insurance;
- 0% rate for insurance activities regarding the long-term life insurance, voluntary medical insurance and non-state pension schemes;
- 10% rate for lotteries and gambling activities using gaming machines;
- 0%, 4% and 12% for non-resident insurers based on insurance agreement (depending on the insurance accident case);
- 6% for a freight amount paid by a resident to a non-resident under freight contracts;
- 15% for residents or permanent representative offices in Ukraine, which make payments to non-residents from the income derived from Ukrainian sources of origin;
- 20% for residents, which make payments to non-residents for advertising production or its distribution.

Tax base

The CIT base is the income derived from Ukrainian sources of origin and abroad. The amount of tax is determined by adjustment of financial result (profit or loss) before tax, as calculated in accordance with the Ukrainian accounting standards or IFRS.

Peculiarities of taxation

Adjustment of financial results

Adjustment of financial results is possible by way of:

1) Amortization

The financial result before tax is increased by:

- the amount of the accrued depreciation of fixed assets or intangible assets pursuant to the Ukrainian accounting standards or IFRS;
- the amount of write-off and impairment of fixed assets and intangible assets, included in the expenses of the reporting period in accordance with the Ukrainian accounting standards or IFRS;
- the amount of residual value of a separate item of fixed assets or intangible assets defined by the Ukrainian accounting standards or IFRS, in the event of liquidation or sale of such asset.

The financial result before tax is decreased by:

- the amount of the depreciation of fixed assets and intangible assets;
- the amount of residual value of a separate item of fixed assets or intangible assets, defined by tax accounting in the event of liquidation or sale of such asset;
- the amount of revaluations and gains from the recovery of fixed assets and intangible assets value in the amount of losses from the previous period write-off and impairment of such assets in accordance with the Ukrainian accounting standards or IFRS.

2) *Reimbursement for future expenses*

The financial result before tax is increased by:

- the amount of expenses on accrued provisions for future expenses and payments in accordance with the Ukrainian accounting standards or IFRS.

The financial result before tax is decreased by:

- the amount of realization of accrued provisions or future expenses and payments, accrued in accordance with the Ukrainian accounting standards of IFRS;
- the amount of provision reduction if it has increased the financial profit (loss) before tax.

3) *Doubtful debts*

The financial result before tax is increased by:

- the amount of doubtful debts accrued in accordance with the Ukrainian accounting standards or IFRS;
- the amount of receivables write-off that does not fulfil the criteria of bad debt over debts allowance.

The financial result before tax is decreased by:

- the amount of doubtful debts allowance reduction if it has increased the financial result before tax in accordance with the Ukrainian accounting standards or IFRS.

Some types of profit are not included in the overall taxable income. These include:

- the income from the interest accrued on securities of the Ministry of Finance of Ukraine and the NBU's debt obligations;
- the income received by non-residents as the interest accrued on government securities or municipal bonds or debt securities guaranteed by the state;
- the body of the deposit at a bank or non-bank financial institution;
- the principal amount of repayable returnable financial aid provided by a taxpayer to other persons. The principal amount of repayable financial aid received by a taxpayer;

- the investment profit from transactions with debt obligations of the NBU and treasury obligations of Ukraine;
- the income from international financial organizations under the framework of implementation of energy efficiency and energy saving projects.

Taxation of non-residents

The income of non-resident legal entities derived from Ukrainian sources of origin is taxed by CIT at the rate of 15%. The CIT tax base is the income from dividends, royalties, freight, the proceeds of engineering, leasing and rent, profits from sale of real estate, securities and corporate rights, the proceeds of joint activities and entertainment activities, etc.

In relation to the income from Ukrainian sources of origin, the following rates apply:

Dividends	15%
Interest	15%
Royalty	15%
Freight	6%
Other profits from Ukrainian sources of origin	15%

In certain cases, the lower tax rate might apply under the double taxation agreements. Ukraine has valid double taxation agreements with approximately 75 countries (see Schedule 1). It should also be noted that double taxation agreements with specific countries may provide for more favourable taxation arrangements.

Transfer pricing

For the purposes of correct CIT taxation, the control has been established over related-party transactions. In addition, such control is exercised over transactions with non-residents in low-tax jurisdictions. The list of such countries is specified by the Cabinet of Ministers of Ukraine and provided in Schedule 2.

Low-tax jurisdictions are determined on the basis of the following criteria:

- the general CIT rate in such countries is by 5 or more percentage points lower than in Ukraine;
- Ukraine does not have any agreements on information exchange with such countries.

The transfer pricing control is exercised over transactions, where:

- the taxpayer's revenue exceeds UAH 50 million* for the tax year;
- the annual volume of the transactions with one counterparty (related person) exceeds UAH 5 million.

* As of 30 June 2016 the National Bank of Ukraine established its official currency exchange rate at UAH 24.85 per one US dollar.

Fines for failure to submit a report on the controlled transactions and respective documentation on transfer pricing are as follows:

- 300 minimal wages* for failure to submit the report on controlled transactions;
- 1% of the amount of transactions omitted from the report, but no more than 300 minimal wages for all undeclared transactions;
- 3% of the amount of transactions in respect of which transfer pricing documentation was not submitted, but no more than 200 minimal wages.

Thin capitalization rules

In order to prevent tax base erosion and profit outflow from the country, there are the thin capitalization rules effective in Ukraine.

Under the thin capitalization rules, expenses of the resident in the current tax period include the amount of interest paid on loans, which does not exceed 50% of profits, expenses on repayment of interests. It should be noted that a non-resident is deemed to be a related party if the amount of taxpayer's liabilities with such non-resident exceeds the equity ratio by more than 3.5 times.

* Currently, one minimal wage in Ukraine amounts to UAH 1,450. Starting from 01 December 2016 the minimal wage will amount to UAH 1,550. The minimal wage is specified each year in the state budget of Ukraine.

VALUE-ADDED
TAX

2



Taxpayers

The taxpayer is obliged to register as a VAT payer if the aggregate value of supplied goods or services exceeds UAH 1 million for the last 12 months. However, if the value of taxable transactions does not exceed UAH 1 million, the voluntary registration as a VAT payer is available.

Rate

The VAT rate is 20%. For pharmaceutical products, the VAT rate is 7%. It should be noted that 0% VAT rate is applied to export of goods in the customs regime from the territory of Ukraine.

Tax base

VAT is applied to transactions on supply of goods and services on the custom territory of Ukraine, as well as to transactions related to import and export of goods in Ukraine. In addition, services on international transportation of passengers and luggage by sea, river and air transport are also subject to VAT.

The following transactions are not subject to VAT:

- issue of securities by business entities;
- provision of insurance services by the licensed organizations;
- provision of services of payment systems related to transfer of funds,

encashment, cash management services, attraction, placement and refund under loans, deposit and securities management agreements, management and assignment of claims to financial institutions;

- payment of salary in cash;
- provision of educational services;
- provision of administrative services;
- provision of banking services;
- import and export of goods to the amount less than EUR 150;
- payment under lease or concession agreements;
- reorganization (merger, accession, division, separation and transformation) of legal entities.

Peculiarities of taxation

VAT refund

Following cancellation of automatic VAT refund in 2016, there are two registers of budget VAT refund.

The first is for the taxpayers, which meet the following criteria:

<p>are not subject to insolvency procedures.</p>	<p>are listed in the Unified State Register of Legal Entities and Individual Entrepreneurs with their profile containing no data on:</p> <ul style="list-style-type: none"> ● failure to provide confirmation of submitted data; ● failure to establish presence at the registered office location; ● adoption of resolution in relation to separation or termination of a legal entity; ● declaring constitutional documents or changes to constitutional documents of a legal entity as fully or partially null and void; ● termination of the state registration of a legal entity or individual entrepreneur. 	<p>have fixed assets with the residual book value exceeding the amount of tax claimed for refund by more than three times;</p> <p>or</p> <p>received a financial guarantee for up to one year from the banking institution;</p> <p>or</p> <p>perform transactions on export of goods from the customs territory of Ukraine under the customs regime, whose share in the previous reporting 12 consecutive tax periods (months) together is at least 40 percent of total shipments.</p>
--	--	--

The second register is aimed at taxpayers who do not meet the abovementioned requirements.

Special regime for agricultural producers

Special taxation regime for agricultural producers is valid until 1 January 2017. Such regime provides that:

- under transactions with agricultural goods/services (except for grain and industrial crops, as well as livestock transactions), 50% of VAT shall

be paid to the state budget and 50% of VAT shall be credited to the special VAT account of the agricultural producer;

- under transactions with grain and industrial crops, 85% of VAT shall be paid to the state budget and 15% of VAT shall be credited to the special VAT account of the agricultural producer;
- under transactions with livestock, 20% of VAT shall be paid to the state budget and 80% of VAT shall be credited to the special VAT account of the agricultural producer.

SIMPLIFIED TAX SYSTEM

3



With the aim of facilitation and easement of small and medium business accounting, Ukraine introduced special taxation terms for such businesses. The taxpayers, both private entrepreneurs and legal entities, may choose to apply for a simplified taxation system in one of the following categories:

	I group	II group	III group	IV group
Taxpayer	Private entrepreneur	Private entrepreneur	Private entrepreneur / legal entity	Private entrepreneur / legal entity
Number of employees	0	Up to 10	No restrictions	No restrictions
Max. profit per year	UAH 300,000	UAH 1.5 million	UAH 5 million	—
Tax rate	Up to 10% of minimal wage	Up to 20% of minimal wage	3% of income (VAT excluded); 5% of income (VAT included)	Depending on the category of land, its location and amounts (in per cent of the tax base): <ul style="list-style-type: none"> • for arable land, hayfields and pastures — 0.81; • for arable land, hayfields and pastures located in mountainous areas and marshy woodland areas — 0.49; • for perennial plantations — 0.49; • for perennial plantations located in mountainous areas and marshy woodland areas — 0.16; • for lands of water fund — 2.43; • for arable land, hayfields and pastures on closed soil — 5.4.
Type of activities	Retail sale of goods at market places, provision of consumer services to citizens	Provision of services (including consumer services) to the single tax payers and citizens; manufacturing and sale of goods; restaurant activities, etc.	All types of business activities permitted under single tax rules	Agriculture producers with the share of agricultural commodity production in the previous tax year at least 75%

Peculiarities of taxation

Agricultural producers

Legal persons have the right to choose the fourth group of the single tax provided that their share of agricultural commodity production in the previous year amounted to at least 75%. This is applicable to:

- all entities separately, which carry out merger or accession. In this case, it is possible to become a single tax payer in the year of creation, if the share of agricultural commodity production for the previous tax year by all commodity producers involved in their creation equals to or exceeds 75%;

- each individual entity created by split-up or spin-off. In this case, it is possible to become a single tax payer from the next year, if the share of agricultural commodity production for the previous tax year equals to or exceeds 75%;
- an entity created by transformation. In this case, it is possible to become a single tax payer in the year of transformation, if the share of agricultural commodity obtained for the previous tax year equals to or exceeds 75%.

Newly created agricultural commodity producers may be single tax payers from the next year, if share of agricultural commodity production obtained for the previous tax year equals to or exceeds 75%.

PERSONAL INCOME TAX

4



Taxpayers

The personal income tax (PIT) is paid by resident and non-resident individuals.

Rate

PIT rate is 18%, while PIT rate for dividend payments is 5%.

Tax base

Residents			Non-residents	
Monthly (annual) taxable income	Income from Ukrainian sources of origin, taxable at the time of its accrual (payments, compensation)	Income from foreign sources of origin	Monthly (annual) taxable income from Ukrainian sources of origin	Income from Ukrainian sources of origin, taxable at the time of its accrual (payments, compensation)

The monthly (annual) taxable income of taxpayer does not include:

- the interest accrued on certain state securities issued by the NBU;
- the alimony received in accordance with the court ruling or voluntary arrangement of the parties as provided by the Family Code of Ukraine;
- body of the deposit at a bank or non-bank financial institution;
- the income of private entrepreneur, which is subject to single tax;
- insurance payments, pension payments, etc., received under the long-term life insurance agreement;
- amounts forgiven (annulled) by the lender;
- the income from financial (including international) organizations under the framework of implementation of energy efficiency and energy saving projects;
- the amount of property and non-property contribution to the charter capital of a legal entity;
- the charity aid amounts.

SINGLE SOCIAL CONTRIBUTION

5

5. SINGLE SOCIAL CONTRIBUTION

Taxpayers

The single social contribution is paid by the employers, private entrepreneurs, self-employed citizens.

Rate

The single social contribution rate is established at 22%. However, the maximum taxable amount of the single social contribution shall not exceed 25 minimal wages.

Tax base

The single social contribution is paid from wages and bonuses of employees as well as income of private entrepreneurs.

MILITARY DUTY

6

6. MILITARY DUTY

Taxpayers

The military duty is paid by residents and non-residents.

Rate

The military duty has been made effective in Ukraine for two years now and in 2016 it amounts to 1.5%.

Tax base

The military duty is paid from wages, other incentive and compensation payments or benefits, which are paid to the taxpayer on the basis of his/her employment relations or civil agreements. These include:

	Residents		Non-residents	
Overall monthly (annual) taxable income	Income from Ukrainian sources of origin taxable at the time of its accrual (payments, compensation)	Income from foreign sources of origin	Overall monthly (annual) taxable income from Ukrainian sources of origin	Income from Ukrainian sources of origin taxable at the time of its accrual (payments, compensation)

EXCISE TAX

7. EXCISE TAX

Taxpayers

Excise tax is paid by individuals and legal entities, which:

- manufacture excise goods on the customs territory of Ukraine, including from tolling raw materials;
- import excise goods to the customs territory of Ukraine;
- distribute excise goods or transfer them into ownership or use.

Rate

Excise tax rates are specified in the Tax Code of Ukraine for each type of excise goods.

Tax base

The excise tax is levied upon excise goods, which include:

- ethyl alcohol and other distillates, alcoholic drinks, beer;
- tobacco products, tobacco and manufactured tobacco substitutes;
- fuel;
- cars, trailers and semi-trailers, body thereto, trailers, motorcycles, vehicles for transportation of 10 persons or more, vehicles for transportation of goods;
- electricity, except for the distribution of electricity generated by qualified cogeneration units and / or renewable energy sources.

REAL
ESTATE TAX

8



Buildings

Taxpayers

The real estate tax is paid by individuals and legal entities, including non-residents.

Rate

The amount of real estate tax on buildings is determined by the municipal authorities. However, the tax rate shall not exceed 3% of the minimal wage per 1 sq. m. of residential and non-residential property.

The additional tax rate in the amount of UAH 25,000 is applied for apartments of more than 300 square meters and houses of more than 500 square meters.

Tax base

The real estate tax is paid per each sq. m. of residential and non-residential property. Owners of apartments of less than 60 sq. m. and houses less than 120 sq. m. (or houses and apartments with a total area of 180 sq. m.) are exempt from tax.

Land plots

Taxpayers

The real estate tax on land plots is paid by individuals and legal entities, including non-residents, which own or use such land plots.

Rate

The amount of real estate tax on land plots is determined by the municipal authorities. The rate shall not exceed 3% of the normative evaluation of a land plot and 1% for agricultural land plots of general use. For land plots, which are under permanent use by business entities, the rate shall not exceed 12% of the normative evaluation.

Tax base

The tax base is land plots in ownership or use.

TRANSPORT TAX

9

9. TRANSPORT TAX

Taxpayers

The transport tax is paid by individuals and legal entities, including non-residents, who own vehicles that are registered in Ukraine.

Rate

The rate of transport tax is established in the amount of UAH 25,000 per year per each vehicle.

Tax base

The transport tax is paid per each vehicle, which has been used for up to five years from the date of its manufacture with the average market price of more than 750 minimal wages.

ENVIRONMENTAL TAX

10

10. ENVIRONMENTAL TAX

Taxpayers

The environmental tax is paid by individuals and legal entities, which carry out their activities on the territory of Ukraine.

Rate

Rates of environmental tax are provided in the Tax Code of Ukraine for each type of substances.

Tax base

The environmental tax is based on the amount and type of polluted substances that are released into the air or water objects in Ukraine during operational activities of legal entities.

RENT PAYMENTS

11

11. RENT PAYMENTS

23

Taxpayers

Rent payments are paid by individuals and legal entities, which conduct certain activities on the territory of Ukraine.

Rate

The amount of rent payments is specified in the Tax Code of Ukraine for each type of resource and its use.

Tax base

Rent payments are required for:

- the use of subsoil;
- the use of subsoil for the purposes not connected with mining;
- the use of radiofrequency in Ukraine;
- the special use of water;
- the special use of forest resources;
- transportation of oil and oil products via trunk lines and oil pipelines, transit pipeline transportation of ammonia on the territory of Ukraine.

DUTIES

12

12. DUTIES

In addition to the abovementioned taxes, the Tax Code of Ukraine provides for the following duties to be applied in Ukraine:

customs duty, which includes:

- import duty;
- export duty;
- seasonal duty;
- specific kinds of duty: special, anti-dumping, countervailing;

tourist duty;

vehicle parking place duty.

We also note that further to duties provided in the Tax Code of Ukraine, the state duty is charged in case of certain actions to be performed by the state authorities and their officials, such as for acts of public notary offices, public registration of civil acts, submission of legal claims, etc.



SCHEDULES



LIST OF DOUBLE TAXATION AGREEMENTS OF UKRAINE

Country	Date of agreement	Effective date	Dividends (%)	Interest (%)	Royalty (literary/industrial,%)
Algeria	14.12.2002	01.07.2004	5*/15	10	10/10
Armenia	14.05.1996	19.11.1996	5*/15	10	0/0
Austria	16.10.1997	20.05.1999	5*/10	2/5	5/0
Azerbaijan	30.07.1999	03.07.2000	10	10	10/10
Belarus	24.12.1993	30.01.1995	15	10	15/15
Belgium	20.05.1996	25.02.1999	5*/15	2/5	5/0
Brazil	16.01.2002	26.04.2006	10*/15	15	15/15
Bulgaria	20.11.1995	03.10.1997	5*/15	10	10/10
Canada	04.03.1996	22.08.1996	5*/15	10	0(10)/10
China	04.12.1995	18.10.1996	5*/10	10	10/10
Croatia	10.09.1996	01.06.1999	5*/10	10	10/10
Cyprus	08.11.2012	01.01.2014	5*/15	2	10/5
Cuba	27.03.2003	20.11.2003	5/15	10	0/5
Czech Republic	30.06.1997	20.04.1999	5*/15	5	10/10
Denmark	05.03.1996	21.08.1996	5*/15	10	10/10
Egypt	29.03.1997	27.02.2002	12	12	12/12
Estonia	10.05.1996	24.12.1996	5*/15	10	10/10
Finland	14.10.1994	14.02.1998	5*/15	5/10	10/5
France	30.01.1997	01.11.1999	5*/15	2/10	10/0
Georgia	14.02.1997	01.04.1999	5*/10	10	10/10
Germany	03.07.1995	04.10.1996	5*/10	2/5	5/0
Greece	06.11.2000	26.09.2003	5*/10	10	10/10
Hungary	19.05.1995	24.06.1996	5*/15	10	5/5
Iceland	08.11.2006	09.10.2008	5*/15	10	10/10

Country	Date of agreement	Effective date	Dividends (%)	Interest (%)	Royalty (literary/industrial,%)
India	07.04.1999	31.10.2001	10*/15	10	10/10
Indonesia	11.04.1996	09.11.1998	10*/15	10	10/10
Iran	22.05.1996	21.07.2001	10	10	10/10
Ireland	19.04.2013	17.08.2015	5*/15	5/10	5/10
Israel	26.11.2003	20.04.2006	5*/10*/15	5/10	10/10
Italy	26.02.1997	25.02.2003	5*/15	10	7/7
Japan	18.01.1986	27.11.1986	15	10	0/10
Jordan	30.11.2005	23.10.2008	10*/15	10	10/10
Kazakhstan	09.07.1996	14.04.1997	5*/15	10	10/10
Korea	29.09.1999	19.03.2002	5*/15	5	5/5
Kuwait	20.01.2003	22.02.2004	5	0	10/10
Kyrgyzstan	16.10.1997	01.05.1999	5*/15	10	10/10
Latvia	21.11.1995	21.11.1996	5*/15	10	10/10
Libya	04.11.2008	31.01.2010	5*/15	10	10/10
Lebanon	22.04.2002	06.09.2003	5*/15	10	10/10
Lithuania	23.09.1996	25.12.1997	5*/15	10	10/10
Macedonia	02.03.1998	23.11.1998	5*/15	10	10/10
Malaysia	31.07.1987	01.07.1988	15	15	15/10
Mexico	23.01.2012	01.01.2013	5*/15	10	10/10
Moldova	29.08.1995	27.05.1996	5*/15	10	10/10
Mongolia	01.07.2002	03.11.2006	10	10	10/10
Morocco	13.07.2007	30.03.2009	10	10	10/10
Netherlands	24.10.1995	02.11.1996	5*/15	2/10	10/0
Norway	07.03.1996	18.09.1996	5*/15	10	10/5
Pakistan	23.12.2008	30.06.2011	10*/15	10	10/10

Country	Date of agreement	Effective date	Dividends (%)	Interest (%)	Royalty (literary/industrial,%)
Poland	12.01.1993	11.03.1994	5*/15	10	10/10
Portugal	09.02.2000	11.03.2002	10*/15	10	10/10
Republic of South Africa	28.08.2003	23.12.2004	5*/15	10	10/10
Romania	29.03.1996	17.11.1997	10*/15	10	15/10
Russia	08.02.1995	03.08.1999	5/15	10	10/10
Saudi Arabia	02.09.2011	01.12.2012	5*/15	10	10/10
Singapore	26.01.2007	18.12.2009	5*/15	10	7.5/7.5
Slovakia	23.01.1996	22.11.1996	10	10	10/10
Slovenia	23.04.2003	25.04.2007	5*/15	5	10/5
Spain	01.03.1985	07.08.1986	18	0	0/5
Sweden	15.08.1995	04.06.1996	5*/10	10	10/10
Switzerland	30.10.2000	26.02.2002	5*/15	10	10/0
Syria	05.06.2003	04.05.2004	10	10	18/18
Tajikistan	07.09.2002	01.06.2003	10	10	10/10
Thailand	10.03.2004	24.11.2004	10*/15	10/15	15/15
Turkey	27.11.1996	29.04.1998	10*/15	10	10/10
Turkmenistan	29.01.1998	21.10.1999	10	10	10/10
United Arab Emirates	22.01.2003	09.03.2004	5*	3	10/0
United Kingdom	10.02.1993	11.08.1993	5*/10	0	0/0
USA	04.03.1994	05.06.2000	5*/15	0	10/10
Uzbekistan	10.11.1994	25.07.1995	10	10	10/10
Vietnam	08.04.1996	19.11.1996	10	10	10/10
Yugoslavia (Serbia and Montenegro)	22.03.2001	29.11.2001	5*/10	10	10/10

* reduced rate is applicable to qualified ownership rights in a Ukrainian company by a foreign shareholder

LIST OF OFFSHORE JURISDICTIONS

Guernsey	Isle of Man	Jersey	Island of Alderney	Bahrain	Belize
Andorra	Gibraltar	Monaco	Anguilla	Antigua and Barbuda	Aruba
Bahamas	Barbados	Bermuda	British Virgin Islands	Virgin Islands (US)	Grenada
Cayman Islands	Montserrat	Netherlands Antilles	Puerto Rico	Saint Vincent and the Grenadines	Saint Kitts and Nevis
St Lucia	Commonwealth of Dominica	Turks and Caicos	Liberia	Seychelles	Vanuatu
Marshall Islands	Nauru	Niue	Cook Islands	Samoa	Maldives



CONTACTS

DLF attorneys-at-law

Torus Business Centre
17 d Hlybochytska Street
04050 Kyiv, Ukraine

Tel.: +380 44 384 24 54

info@dlf.ua

www.dlf.ua

