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Ukrainian taxation system

Pursuant to the Tax Code of Ukraine, all taxes and duties in Ukraine are classified into state and local ones. The most important state taxes and duties in Ukraine are as follows: a corporate income tax, a value added tax, a personal income tax, a single social contribution, an excise tax, an ecological tax and rent payments. The local taxes and duties of particular importance include a property tax, a single tax, a vehicle parking place duty and a tourist duty.

6.1. Corporate income tax

Currently, a flat rate of 18% is established for all corporate income tax (CIT) taxpayers.

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, 0%, 4% and 12% for non-resident insurers based on an 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, making payments to non-residents from the income derived from Ukrainian sources of origin, 20% for residents, making payments to non-residents for advertising production or its distribution.

6.1.1. Taxpayers and tax base

CIT is paid by resident companies, receiving income both in Ukraine and abroad. CIT is also paid by non-resident companies, receiving income from Ukrainian sources.

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

6.1.2. 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, proceeds of engineering, leasing and rent, profits from sale of real estate, securities and corporate rights, proceeds of joint activities and entertainment activities, etc.

In relation to the income from Ukrainian sources of origin, the following rates are applied: dividends – 15%, interest – 15%, royalty – 15%, freight – 6%, and other profits from Ukrainian sources of origin – 15%.

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

6.1.3. Transfer pricing

For the purposes of correct CIT taxation, control has been established over related-party transactions. In addition, such a control is exercised over transactions with non-residents in low-tax jurisdictions.

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;
- states, the competent authorities of which do not provide timely and complete exchange of tax and financial information.

The transfer pricing control is exercised over transactions, where:

- the taxpayer's revenue exceeds UAH 150 million (approximately USD 5.4 million) for the tax year;
- the annual volume of the transactions with one counterparty (a related person) exceeds UAH 10 million (approximately USD 340,000).

6.1.4. 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 a non-resident exceeds the equity ratio by more than 3.5 times.



Taxes in Ukraine 2017

This brochure deals with general information about tax rates, objects and bases of taxation in Ukraine, as well as peculiarities of taxation of certain categories of taxpayers. Taxation of non-residents is considered in detail.

View [Taxes in Ukraine 2017](#).

6.2. Value-added tax

The value-added tax (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.

6.2.1. Taxpayers

The taxpayer is obliged to register as a VAT payer if the aggregate value of supplied goods or services exceeds UAH 1 million (approximately USD 35,700) for the last 12 months. However, if the value of taxable transactions does not exceed UAH 1 million (approximately USD 35,700), voluntary registration as a VAT payer is available.

6.2.2. Tax base

VAT is applied to transactions on supply of goods and services on the customs 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 up to the amount less than EUR 150;
- payment under lease or concession agreements;
- reorganization (merger, accession, division, separation and transformation) of legal entities.

6.3. Simplified tax system

With the aim of facilitation and easement of small and medium business accounting, Ukraine introduced special taxation terms for such businesses. 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
Taxpayer	private entrepreneur	private entrepreneur	private entrepreneur/ legal entity
Number of employees	0	up to 10	no restrictions
Max. profit per one calendar year	UAH 300,000 (approx. USD 10,700)	UAH 1.5 million (approx. USD 53,600)	UAH 5 million (approx. USD 178,600)
Single tax rate	up to 10% of subsistence minimum	up to 20% of minimal salary	3% of income (VAT excluded) or 5% of income (VAT included)

The IV group is designed for agricultural producers. The tax rate depends on the category of land, its location and amounts. 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 acquisition. In this case, it is possible to become a single tax payer in the year of the incorporation, if the share of agricultural commodity production for the previous tax year by all commodity producers involved in their incorporation 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 become single tax payers from the next year, if the share of agricultural commodity production obtained for the previous tax year equals to or exceeds 75%.

6.4. Personal income tax

The personal income tax (PIT) is 18%, while the PIT rate for dividend payments is 5%. The personal income tax is paid by resident and non-resident individuals.

PIT is applied to the resident's:

- 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.

PIT is applied to the non-resident's:

- 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 National Bank of Ukraine;
- 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 a non-bank financial institution;
- the income of a 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 authorized capital of a legal entity;
- the charity aid amounts.

6.5. Single social contribution

The single social contribution is paid by employers, private entrepreneurs, self-employed citizens. The single social contribution rate is established at 22%. However, the maximum taxable amount of the single social contribution shall not exceed 25 minimal salaries.

6.6. Military duty

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

The military duty is paid by residents and non-residents. The military duty is paid from salaries, 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 for 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 and for non-residents 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).

6.7. Property tax

The property tax is paid for real estate and movable property.

6.7.1. Buildings and land plots

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

6.7.2. Vehicles

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

6.7.3. Tax rate and tax base

The amount of real estate tax on buildings is determined by the municipal authorities. However, the tax rate shall not exceed 1.5% of the minimal salary per 1 sq. m. of residential and non-residential property.

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.

The additional tax rate in the amount of UAH 25,000 (approximately USD 900) is applied for apartments of more than 300 sq. m. and houses of more than 500 sq. m.

The amount of the 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.

The tax base is land plots in ownership or use.

The rate of transport tax is established in the amount of UAH 25,000 (approximately USD 900) per year per each vehicle. 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 375 minimal salaries (approximately USD 43,000).

6.8. Duties

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

- a customs duty, which includes:
 - an import duty;
 - an export duty;
 - a seasonal duty;
 - specific kinds of a duty: special, anti-dumping, countervailing.
- a tourist duty;
- a 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.