

Clarification regarding the tax consequences of dividend reinvestment

On 6 October 2016, the State Fiscal Service of Ukraine issued a letter, which gave explanations on income taxation of dividend reinvestments, targeted at increasing of the company's share capital.

Thus, reinvestment of dividends is one of possible way of company's share capital replenishment, which, in particular, were charged to non-residents. It should be noted that the tax consequences of such transactions will depend on whether the capitalization of dividends is performed by non-resident individual or legal entity.

In the context of non-resident legal entity, the non-resident owner of equity rights should contribute advanced installment of income tax to the budget, as well as, unless otherwise provided by international agreements, so-called withholding tax of 15%. Thus, non-resident income with Ukrainian origin in the form of dividends is liable for taxation irrespective of such income usage, including reinvestment.

With regard to non-resident individuals, a completely different procedure of reinvested earnings taxation is provided. Consequently, non-resident individuals' income in the form of dividends is liable for taxation on the same basis as income of residents (with some exceptions). Thus, non-resident, the owner of equity rights should contribute an individual income tax (the rate is 18% or 5%) and military fee of 1,5%.