

# Tax & Legal Alert

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## Happy New Year!

A number of new tax laws took effect on 1 January 2007. This Tax & Legal Alert summarises some of the more important changes.

For more information, please contact your client relationship manager or one of the individuals identified below.



## Tax law changes

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### Corporate profits tax

Various amendments to the corporate profits tax law took effect from 1 January 2007. The key changes are as follows:

- Dividends distributed by a company that derives more than 90% of its income as dividends from domestic entities under its control will no longer be subject to the 25% advance corporation tax.
- The tax on payments to foreign insurers or re-insurers whose rating of financial reliability does not meet requirements set by the authorised state agency has increased from 3% to 12%.
- Share premiums received by the issuer are exempt from corporate profit tax.
- In addition to quarterly corporate profits tax returns, an 11-month return must be filed by 20 December 2007, and the corresponding payment made by 30 December 2007.
- Losses accrued at 1 January 2006 may not be utilised during 2007. However, they remain available for use in 2008.

### Value-added tax

The value-added tax (VAT) law has been improved in respect of market value adjustments.

In principle, both output VAT payable by the seller and input VAT creditable to the buyer are based on the contractual value for a transaction.

To complicate matters, the VAT law also contains a market value test. Up to the end of 2006, if the market value for a transaction exceeded the contractual value, the tax authorities could assess the seller for VAT based on the market value. However, a lack of clear guidance made the law problematic for taxpayers and tax administrators alike.

The law has been amended so that market prices can be substituted only if the market price differs from the contractual price by more than 20%. The law still provides no clear guidance on how the market price for goods and services should be determined. However, taxpayers now have the comfort of knowing that only deviations of more than 20% from market value may be challenged by the authorities.

(Law No. 398-V of 30 November 2006)

# Social security contributions

The cap for pension and social security contributions for 2007 are set as follows:

- UAH 7,875 from 1 January 2007.
- UAH 8,025 from 1 April 2007.
- UAH 8,220 from 1 October 2007.

The rate for employer contributions to the Pension Fund increased from 31.8% to 33.2%, and the rate for contributions to the Social Security Fund decreased from 2.9% to 1.5%.

There have also been minor amendments to the way that employee pension contributions are calculated.

(Law Nos. 3483-V of 23 February 2006 and 489-V of 19 December 2006)

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## New tax treaties

New tax treaties with Brazil and Israel took effect on 1 January 2007.

The treaty with Brazil provides for a 10% tax rate for dividends when the recipient holds at least 25% of the capital in the company paying the dividends. Other dividends, interest and royalties are subject to 15% withholding tax.

The treaty with Israel provides for the following tax rates:

- 5% for dividends when the recipient holds at least 25% of the capital in the company paying the dividends. A 15% rate applies for other dividends.
- 10% for interest (5% if the interest is paid to a bank).
- 10% for royalties.

(Law Nos. 60-IV of 4 July 2002 and 3578-IV of 16 March 2006)

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