

FLASH REPORT

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28 February 2008: VAT refund procedure to be improved

It appears that the authorities are finally becoming serious about the problem of VAT refunds. On 25 February 2008 the President of Ukraine has enacted a Decision of the National Security Council on improving VAT administration. This document suggests a number of actions to facilitate VAT refund procedures. In this respect the Government is required to prepare amendments to the VAT Law and to submit them to Verhovna Rada by 15 March 2008.

The following specific actions were identified:

- The law should specify grounds for out-of-schedule audits to reconfirm amounts of VAT refund. Currently the tax authorities carry on these audits "if there are sufficient grounds to conclude that computation of the VAT refund does not comply with law";
- Total duration of audits to reconfirm amounts of VAT refund should be limited to 60 days. In practice the tax authorities significantly exceed this limitation, and thus delay VAT refund;
- The state would be required to pay penalty for not refunding VAT on time. Currently the state is not liable for untimely VAT refund;
- Import VAT promissory notes should be repaid in cash or through offset against VAT refund due. It appears that entities that do not claim VAT refund would not be able to use available VAT credit to repay import VAT promissory notes;
- Electronic filing of returns should be improved.

The Government has been instructed to simplify VAT refund for "stable enterprises" and to allocate more funds for VAT refund in 2008.