

European Tax Newsalert

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Ukraine increases its attractiveness for foreign investment

The Ukrainian government has announced new incentives for investment in priority industries that result in job creation. The announcement comes soon after the government introduced incentives for the information technology (IT) industry in August. Those incentives increased the country's attractiveness for IT outsourcing.

The new incentives would apply from January 1, 2013, through December 31, 2022.

The list of qualifying industries will be defined by the Cabinet of Ministers of Ukraine (CMU), and is likely to include the technology, eco-friendly, manufacturing, and export-oriented industries.

The new law will come into force after it is approved by the president.

US multinationals currently investing or considering investment in the region may wish to consider their eligibility for these incentives and assess the possible operational and investment benefits the new incentives could provide.

Details of the new incentives

Criteria

The incentives would be granted for both new investment projects and reconstruction or modernization of existing enterprises. Projects would have to meet the following criteria:

- investment of at least three million euros for large businesses, one million euros for medium-size businesses, and 0.5 million euros for small businesses
- creation of more than 150 new jobs for large businesses, 50 new jobs for medium-size businesses, and 25 new jobs for small businesses
- a new salary level more than 2.5 times the minimum salary set at January 1 of the reporting year.

Incentives

- Profit from the investment projects would be taxed at reduced rates of 0% through 2017, and 8% from 2018 through 2022.
- Equipment and components used in the investment projects may be exempted from customs duty upon special approval of the CMU.
- Eligible companies would be entitled to issue VAT promissory notes upon the import of equipment and components used in the investment projects. These notes would have to be settled within 60 days.

Incentives for the IT industry

The Ukraine has already positioned itself as an attractive country for IT outsourcing, competing successfully with the leading emerging markets in this sector. The incentives for the IT industry enacted in August will help the country become even more competitive.

The IT incentives include a substantial decrease in the corporate tax rate for qualifying IT companies from the current rate of 21% to 5% and an exemption from VAT for supplies (both cross-border and domestic) of software products.

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