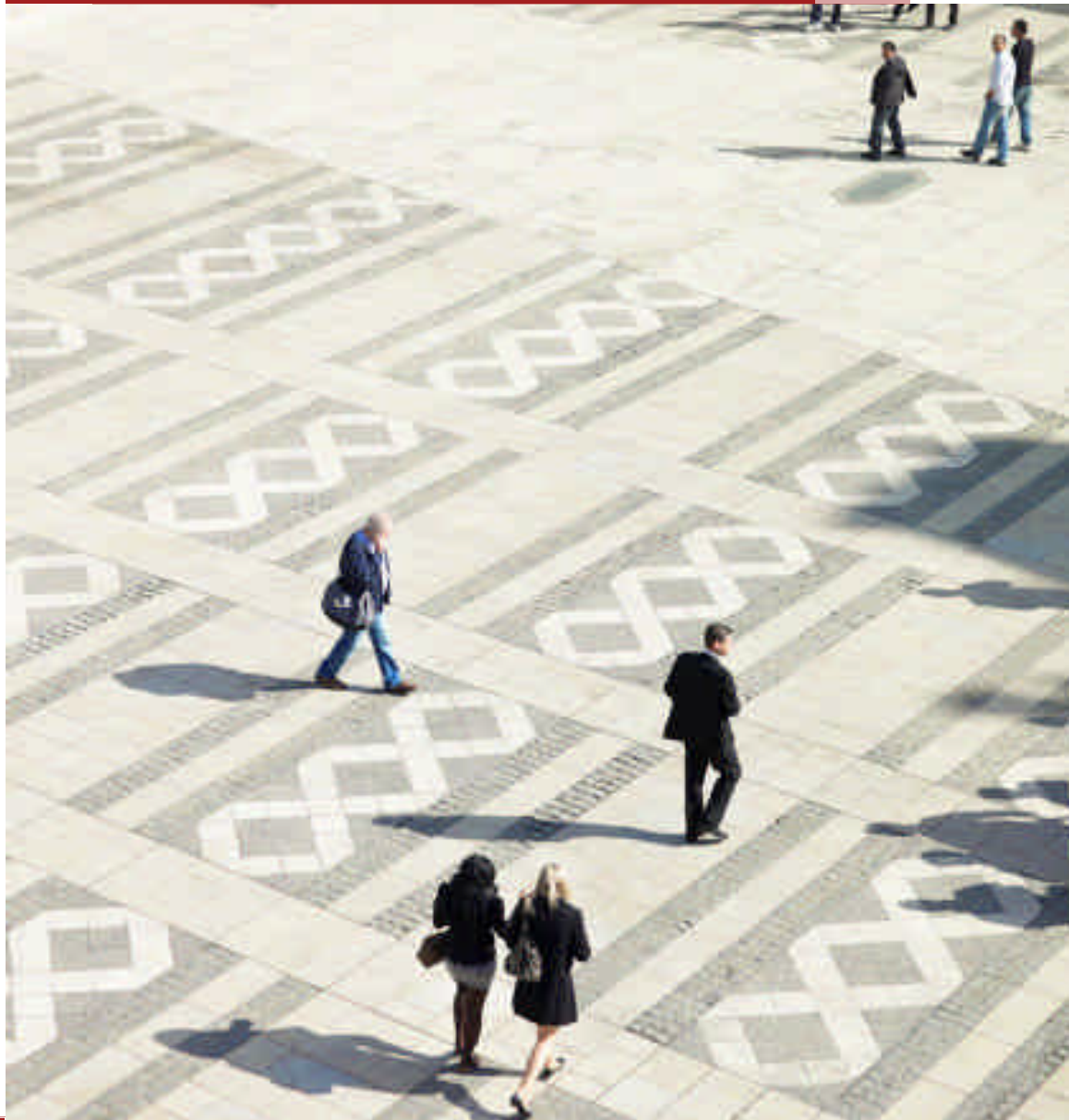


Tax Newsletter#1

Significant Changes to the Tax Code

2 April 2014

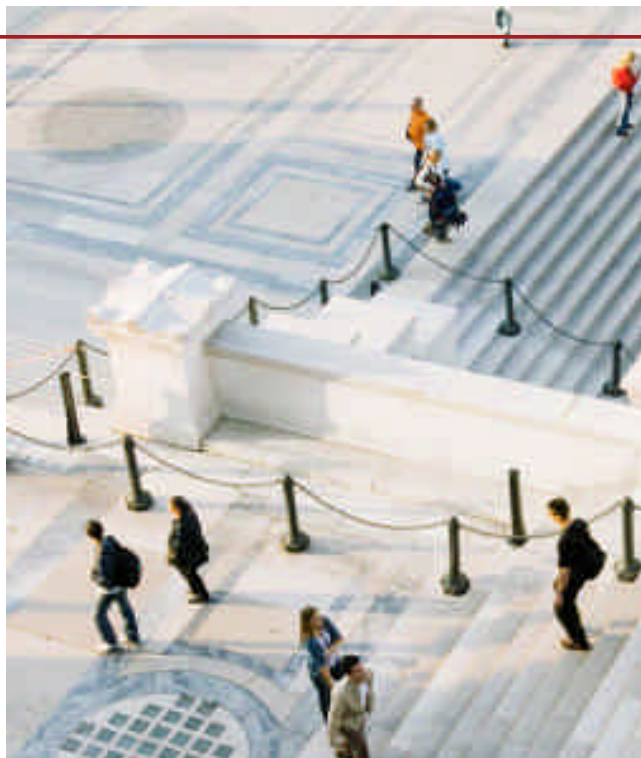


Significant Changes to the Tax Code

On 27 March, the Parliament of Ukraine passed an economic stimulus law that makes a number of important changes to the Tax Code.*

The final text of the law was published on 31 March 2014.

We explain below the major issues.



I. Personal income tax

- Interest, dividends (both Ukrainian and foreign), royalties and investment profit are taxable at rates of 15/20/25%, depending on the income level:
 - 15% applies to income up to 204 subsistence minimums per annum (i.e. approx. UAH 248,500 or USD 22,600 accordingly**);
 - 20% applies to the exceeding amount within a limit of 396 subsistence minimums per annum (i.e. UAH 482,300 or USD 43,800);
 - 25% applies to the remaining income.
- Interest income is subject to an exemption in the amount of 17 subsistence minimums per annum (i.e. approx. UAH 20,700 or USD 1,880).
- Banks will not be required to withhold personal income tax from interest income they pay to individuals, but will be expected to report on such payments.
- Other tax agents will have both reporting and withholding obligations (at the 15% rate) in respect of interest income.
- Individuals will be obliged to file a personal income tax return, self-assessing tax due at 15/20/25% and make additional tax payments, if during the year they received interest (above the non-taxable threshold), on dividends, royalties, or investment profit.

- Salaries remain taxable at the standard rates of 15/17%.
- Pensions are taxable in the amount that exceeds UAH 10,000 per month (at the 15/17% level).
- Personal income tax changes are effective 1 July 2014.

II. Duty for the purchase of foreign currency

Starting 1 April 2014 the law re-introduced a compulsory 0,5% Pension Fund Duty for the purchase of foreign currency by legal entities and individuals.

III. Real estate tax from individuals

When calculating real estate tax, the total area of the asset will be used (previously – the living area). This will increase the amount of tax, and the possibility of assets that were previously exempt (i.e. not exceeding the limits in the Tax Code) may become taxable.

This provision is effective starting 1 April 2014.

(*) The Law "On prevention of financial collapse and creation of prerequisites for economic growth in Ukraine" No 1166-VII of 27 March 2014

(**) For illustrative purposes the amounts were calculated based on the subsistence minimum effective for able-bodied individuals on 1 January 2014 - i.e. UAH 1,218.

IV. Corporate profit tax

The CPT rate is confirmed at 18 % (no prescribed reduction in the future).

V. Value added tax

- The general VAT rate is confirmed at 20% (with no current possibility of any reduction in the future).
- Import and distribution of registered medicines and goods of medical purpose is subject to a 7% VAT (on each stage of supply) starting 1 April 2014 (i.e. VAT exemption was cancelled).
- Non-VATable limit for import of goods by post and express carriers (i.e. on-line purchases) was reduced from EUR 300 to EUR 150 .
- Traders, who purchased main grain and technical crops from agricultural producers, will not be entitled to recover input VAT in case of their further export (a VAT exemption to such export will apply) till 1 October 2014.
- Taxpayers engaged in both VATable and VAT-exempt transactions with such crops will be entitled to full recovery of input VAT on fixed assets used in VATable and VAT-exempt transactions (i.e. pro-rata is not required) till 1 October 2014.

VI. Excise taxes

Excise tax rates are increased as follows:

- alcohol beverages (except beer) – by 25% from 1 September 2014;
- beer – by 42,5% from 1 May 2014;
- tobacco products – by 25% from 1 July 2014;
- gasoil – by 31%-113% (list of excisable gasoil was amended) from 1 April 2014;
- new cars, car bodies – by 100% from 1 April 2014;
- motorcycles – by 100% from 1 April 2014.

VII. Subsoil usage

Fee rates of subsoil use for the production of all types of mineral resources were increased on 1 April 2014.

In particular, payments for condensate increased from 39% to 42% (if explored from a depth of less than 5,000 meters) and from 17% to 18% (if explored from a depth of more than 5,000 meters). The new rates for natural gas are 28% and 15% (depending of the depth of exploration).

VIII. Charges on environmental pollution

Environmental pollution charges were increased by approx. 8% for discharge of contaminants into the environment and by approx. 7-8% for disposal of waste.

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