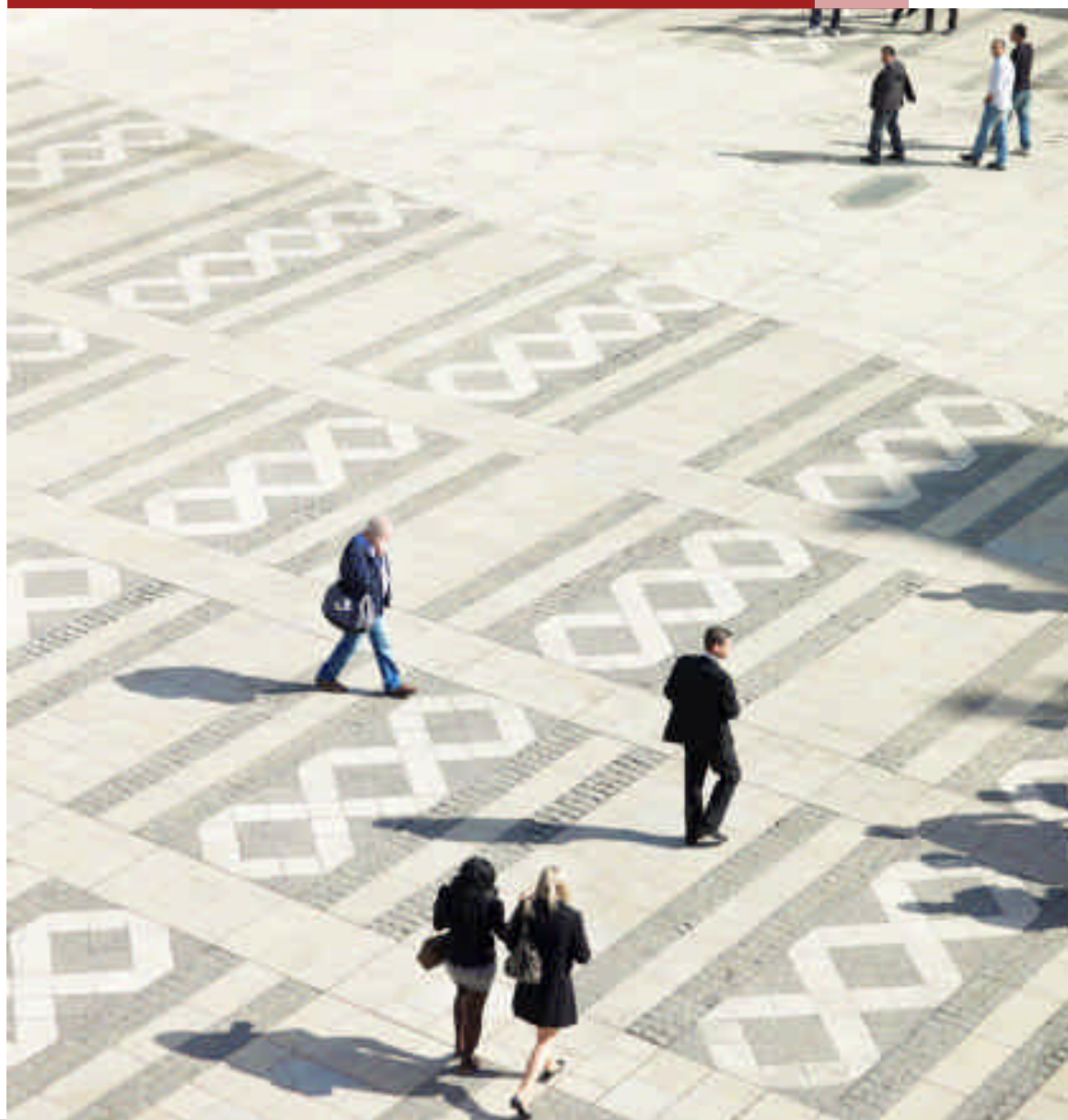


Tax Newsletter#1

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Significant changes of Ukrainian PIT, Military Tax and Unified Social Contributions rules

On 1 January 2015 a number of significant changes in Ukrainian Personal Income Tax (PIT), Military Tax and Unified Social Contributions rules are enacted. We summarise them below.



I. Personal Income Tax (PIT)

- There are now two marginal rates of personal taxation:
 - the basic 15% rate applies to income from salaries and based on civil agreements on amount up to 10 times the minimum salary. For 2015 this is UAH 12,180.
 - a 20% rate applies to salaries and payments under civil agreement for amounts in excess of UAH 12,180, and all passive income (other than dividends received from Ukrainian legal entity CPT payer)
- Dividends received from Ukrainian legal entity CPT payer (other than collective investment arrangement) are subject to 5%
- Special PIT rate for miners (10%) is abolished. Their income is subject to the above rates.
- Rent payments to an individual are subject to withholding PIT at the time of either accrual or cash payment, whatever occurs earlier.
- Excess of pensions from the Ukrainian sources over 3 minimal salaries (i.e. UAH 3,840 for 2015) per month is subject to 15/20% tax. Pensions from foreign sources are taxed in full, unless otherwise is provided by a respective international treaty.
- The list of allowable tax deductions for private entrepreneurs on general tax system is introduced.

- The Government is instructed to draft and submit for the consideration of the Parliament by 1 March 2015 the law on one off declaration of assets by individuals, and introduction of indirect methods of control over income and expenses of individuals.

II. Unified Social Contributions (USC)

- In 2015 the Employer's USC rate is reduced by 60%, provided all of the following four conditions are met:
 1. The USC base (i.e. salary and/or remuneration under the civil agreements) increases by at least 2.5 times, compared to the average monthly USC base in 2014;
 2. Average monthly salary at the company is increased by at least 30%, compared to 2014;
 3. Average USC payment per employee is not less than UAH 700;
 4. Average monthly salary at the company is at least three times a minimal salary (i.e. UAH 3,654 for January – November 2015, and UAH 4,134 for December 2015).
- If the company meets conditions 2-4 above but fails to meet condition 1, and nevertheless there is a salary/ remuneration increase in 2015, the company can reduce the 2015 USC rate proportionally to the percentage of the salary increase.

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- From 1 January 2016 the Employer's USC rate is reduced by 40% compared to 2014 rates for all employers unconditionally.
- Employee's USC rate remains unchanged.
- The base for USC continues to be capped by 17 sustenance minimums (i.e. UAH 20,706 for January – November 2015, UAH 23,426 for December 2015).
- The monthly employer's USC per individual cannot be less than the contribution calculated from the minimum wage (i.e. from UAH 1,218 for January – November 2015 and UAH 1,378 for December 2015). This does not apply to remuneration under civil agreements.
- Penalties for (1) non-payment or late payment of declared USC and (2) assessment or self-assessment of USC are increased by 2 times.
- A new penalty in the amount of UAH 170 is introduced for violations of reporting procedure (UAH 1,020 for a repeated violation during a year).

III. Military Tax

- Military Tax continues to apply until the reform of the Ukrainian Military Forces is completed. The completion should be confirmed by respective decision of the Parliament.
- Starting from 1 January 2015 the tax base for the military tax is the same as for PIT. This means that income which was not subject to Military Tax in 2014 (i.e. passive income, foreign source income, lease payments, etc.), is now taxable.
- Tax rate remains unchanged (i.e. 1.5% of the tax base).

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