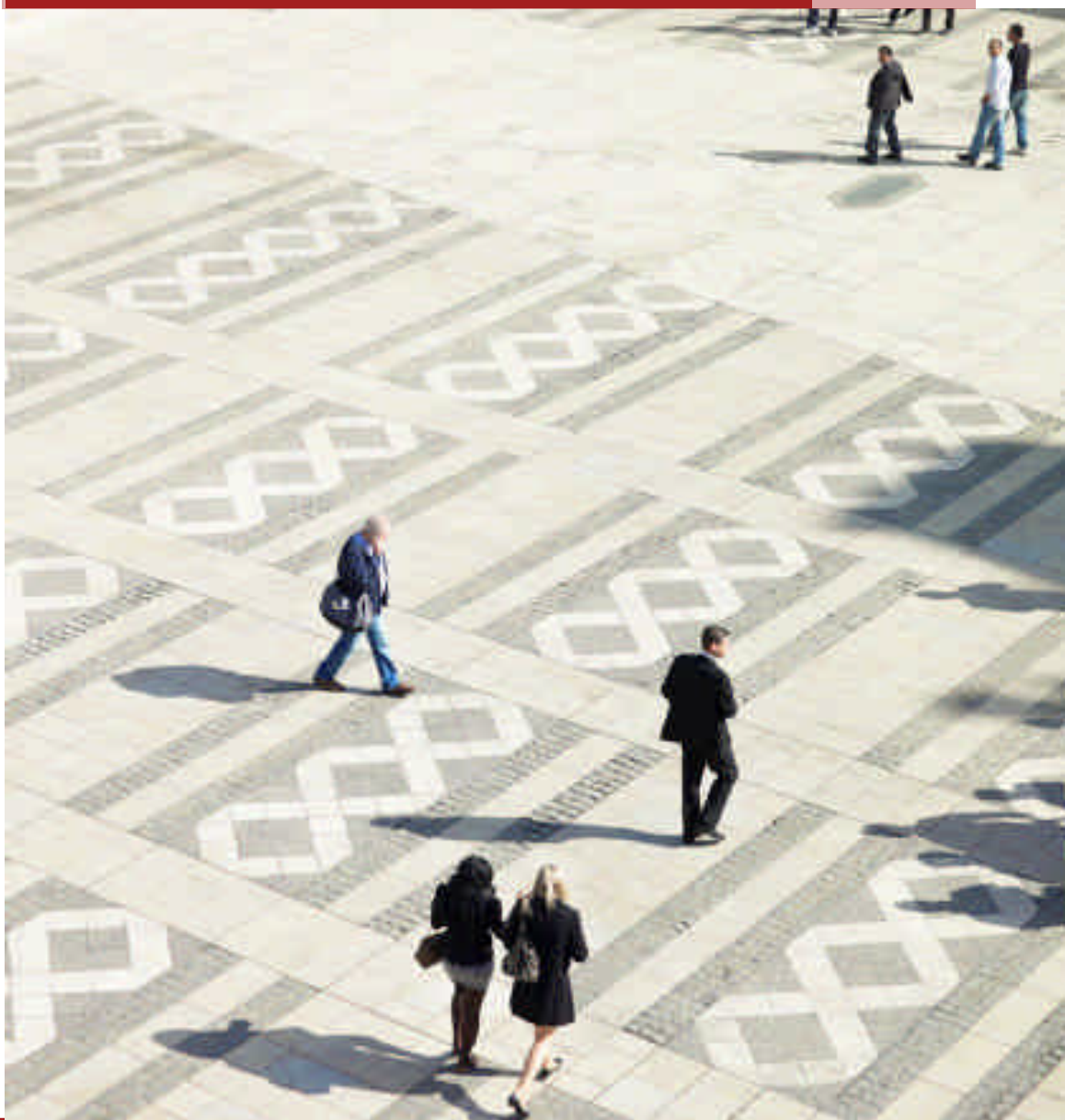


# ***Tax Newsletter#2***

## ***Significant Changes to the Tax Code: VAT issues***

13 January 2015

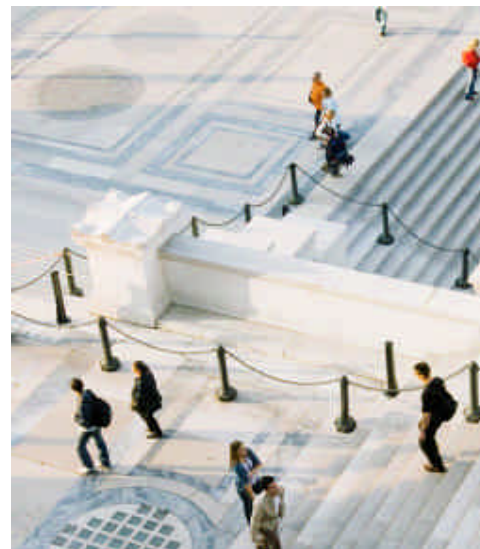


# Significant changes to the Tax Code: VAT issues

*On 28 December 2014, the Parliament of Ukraine passed a law on tax reform\* that makes a number of important changes to the Tax Code.*

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

*We explain below the major issues in respect of value added tax (VAT).*



## I. Electronic VAT administration system

- The intent of the changes is to postpone the implementation of the electronic VAT administration system till 1 February 2015. However, the law does not clearly state this as the article of the Law on the implementation of the electronic VAT administration system is effective from 1 January 2015.
- From 1 February 2015 till 1 July 2015 the electronic VAT administration system will operate in a test mode. During this period:
  - the registration of VAT invoices in the Unified Register will be available even if the supplier does not have a sufficient balance in its electronic VAT account;
  - no penalties will apply to suppliers for non-registration of VAT invoices in the Unified Register.
- From 1 July 2015 failure to register a VAT invoice in the Unified Register on time will be subject to 10-50% fines depending on the overdue period.
- Non-utilised VAT refund claimed as an offset against future VAT liabilities, as well as VAT receivables, accumulated as of 1 February 2015 can, upon the choice of the taxpayer, increase the VAT account balance or be refunded under rules effective in 2014. The law is not clear if the same rule applies for an outstanding cash refund.
- VAT overpayment accounted as of 1 July 2015 will increase the VAT account balance automatically.

- Taxpayers will be able to return excess cash from their VAT accounts to their current bank accounts.
- On 1 July 2015 the VAT account balance will be automatically increased for every taxpayer by the average monthly amount of VAT payable declared by each taxpayer during the last 12 months. Such “overdraft” will be reconsidered on a quarterly basis.

## II. Minimum VAT base

- From 1 January 2015 the VAT base for taxable supplies cannot be lower than:
  - For purchased goods/services - the purchase price;
  - For produced goods/services – the cost of goods sold;
  - For non-current assets - the net balance value per accounting books at the beginning of the reporting period.

## III. VAT refund

- A taxpayer may qualify for an automatic VAT refund even if it does not have noncurrent assets of a net balance value 3 times exceeding the amount of VAT claimed for a refund. For this purpose the taxpayer should provide a one-year guarantee from an authorised bank (provided all other mandatory criteria are met). The authorised banks should be determined by the Government.

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(\*) The Law "On introducing amendments to the Tax Code and other laws of Ukraine regarding tax reform" No 71-VIII dated 28 December 2014

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- Large taxpayers can qualify for an automatic VAT refund even if they declared tax losses for the previous year.
- The tax authorities would not be entitled to conduct unscheduled field tax audits to confirm VAT refunds claimed for the tax periods after 1 July 2015.

### **IV. VAT credit**

- Rules for VAT credit accounting are changed:
  - From 1 July 2015 all amounts of input VAT should be included into the VAT credit irrespective of further usage of purchases in taxable transactions within the business activity of the taxpayer.
  - If reported input VAT does not relate to VATable transactions performed within the business activity of a taxpayer, the taxpayer is required to self-assess output VAT based on the purchase price of the respective goods/services or net balance value of the respective noncurrent assets.
  - If goods/services or noncurrent assets are used in both VATable transactions performed within the business activity and other transactions, the respective VAT liabilities should be recognised using the respective pro-rata coefficient. The procedure for calculation and application of a pro-rata coefficient has not been changed.
  - In order for a taxpayer to have the right for input VAT, the respective VAT invoice should be registered by the supplier no later than 180 days after the VAT invoice date.

### **V. Other changes**

- Export of grain and industrial crops is exempt for both traders and agricultural producers from 1 January 2015 till 31 December 2017.
- VAT exemption for supply of metal scrap and waste paper will be effective till 1 January 2017.