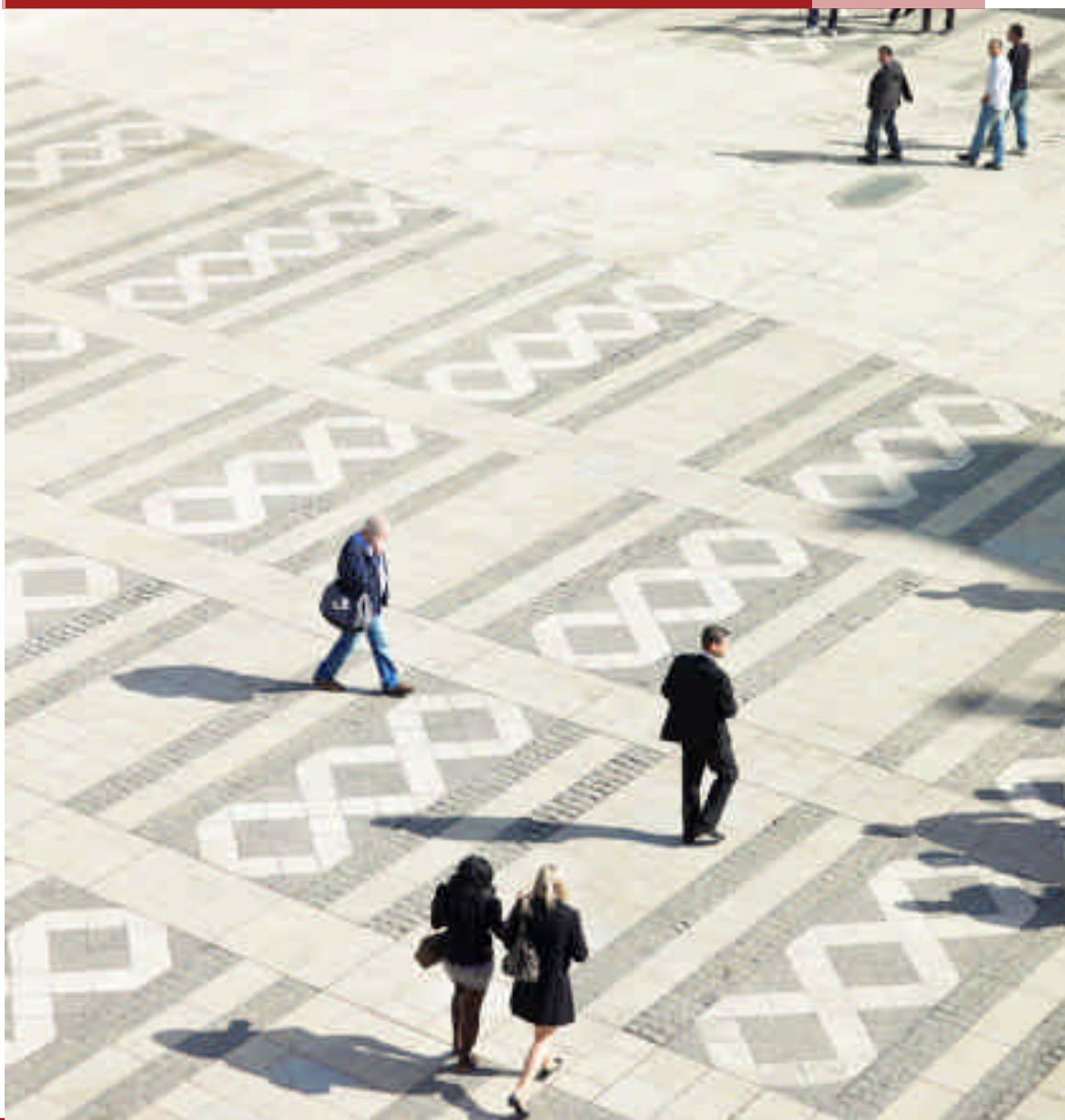


# ***Tax Newsletter#3***

Changes to the Tax Code: pension fund duty, property taxes, simplified tax regime etc

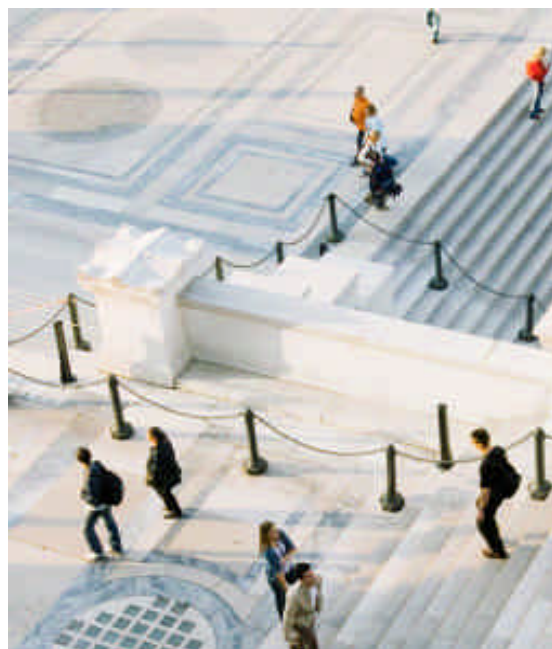
14 January 2015



# ***Changes to the Tax Code: pension fund duty, property taxes, simplified tax regime, etc***

*The Parliament of Ukraine passed a law on tax reform\* that makes a number of important changes to the Tax Code.*

*We explain below the issues in respect of pension fund duty, property taxes, simplified tax regime, rent payments and excise taxes.*



## **I. Duty for purchases of foreign currency by individuals**

- Starting from 1 January 2015 the duty for purchases of foreign currency is increased from 0.5% to 2%.
- This pension fund duty should not longer apply to legal entities and does not apply to the purchase of foreign currency by individuals to repay hard currency loans.

## **II. Real estate tax (RET)**

- Starting from 1 January 2015, almost all residential and non-residential property owned by individuals and legal entities are subject to RET.
- RET paid by legal entities are available as a credit against CPT liabilities.
- The following properties are exempt from RET:
  - industrial buildings (i.e. production buildings, workshops, storehouses of industrial entities);
  - buildings and facilities of agricultural producers, which are intended for use for agricultural activity;
  - non-residential premises which are used by small and medium business entities, conducting their activities at ‘small architectural structures’ (i.e. kiosks, stalls, pavilions etc.) and markets.
  - property owned by state authorities and the non-profit organizations established by them;
  - objects located in the territories (zones) suffered from the aftermath of Chernobyl catastrophe;
  - family-type children's homes;
  - hostels;
  - uninhabitable residential property (recognized as such by local government);
  - certain residential real estate belonging to orphans, children deprived of parental care, and disabled children being raised by single mothers (parents);
  - residential and non-residential property, owned by public organizations of disabled people and their businesses.
- There is a specific partial RET exemption for residential property for individuals, whereby the first 60sq.m for flats or 120sq.m for housing is not subject to RET.
- Local governments may provide additional exemptions. The RET rate is set by local government but generally cannot exceed 2% of the minimal salary per sq.m (for 2015 the maximum is UAH 24.36 per sq.m).
- However, for 2015 the maximum rate per sq.m for non-residential property is 1% of the minimum salary (i.e. UAH 12.18 per sq.m).

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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

### III. Simplified (unified) tax regime

- Starting from 1 January 2015 the number of categories was reduced from six to four (see table below).
- Taxpayers registered in groups 3 thru 6 before 1 January 2015 were transferred to new group 3 starting from 01 January 2015.
- A special tax regime for agricultural producers (i.e. fixed agricultural tax) should continue to apply as a 4th group of simplified tax.
- The level of maximum annual income for taxpayers groups 1,2 were increased.
- The maximum amount of annual income allowed for the taxpayers on Unified tax is UAH 20 million (group 3).
- The maximum tax rates were decreased to 2%/4% for individual and legal entities (group 3).
- The tax rates of simplified tax for agricultural producers (group 4) were increased by three times (compared to fixed agricultural tax rates in 2014).
- Taxpayers of group 1 may not use cash recorders in their activity. Such possibility also exists for private entrepreneurs in groups 2 and 3 if they perform their activity at market or in the course of small-scale mobile retail trade.
- In all other cases:
  - taxpayers of group 3 are obliged to start using cash recorders from 1 July 2015;
  - taxpayers of group 2 – from 1 January 2016.
- If these taxpayers start using officially cash recorders before 1 July 2015, they will not be subject to tax audits regarding usage of cash recorders until 2017.

Rules	Group 1	Group 2	Group 3	Group 4
Taxpayers	Private entrepreneurs (PEs)		PEs and legal entities	Agricultural producers (legal entities and individual farmers)
Max. income p.a./ Income criterion	UAH 300k	UAH 1.5m	UAH 20m	The main criterion requires that income from the sale of their own agricultural products constitutes not less than 75% of their total gross revenue of the previous tax (reporting) year
Max. employees	nil	10 employees	no limit	no limit
Major activities	Following types of activities (unless specifically excluded): <ul style="list-style-type: none"> <li>Trading in markets</li> <li>Specified consumer services</li> <li>Services (including consumer) to payers of Unified tax and /or individuals</li> <li>Manufacturing / Production</li> <li>Sale of goods</li> <li>Restaurants</li> </ul>			Sale of agricultural products produced and processed (other than specifically excluded)
Tax rates	up to 10% of min salary per month	up to 20% of min salary per month	2% of turnover (income under the Unified tax) 4% of turnover, if not VAT registered	The amount of tax due depends on the size of the agricultural land plot owned or rented by the agricultural producers. The tax rates vary from 0.45% to 3%, apply to the normative monetary value of one hectare of agricultural land, and depend on the type of such land.

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#### **IV. Transport tax**

- Transport tax was re-introduced for passenger cars with engine volume exceeding 3,000 cubic centimetres and not older than 5 years.
- A tax of UAH 25,000 for each car per year shall be paid by the car owner.

#### **V. Rent payments for use of mineral resources**

- The increased rates for rent payments for use of mineral resources for extraction of natural gas not sold to households, which were introduced as a temporary measure in 2014, will continue to apply.

#### **VI. Excise taxes**

- A new excise tax on wholesale supply of electric power was introduced.
- Retail sales of excisable products (i.e. alcoholic drinks, beer, fuel, tobacco products) are also now subject to an extra 5% excise tax.
- Excise tax on transactions with securities will no longer apply.
- The excise tax rates on cigarettes, oil products, cars, motorbikes, and alcohol drinks were increased.

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