

Flash Report

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VAT on medicines



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VAT for pharmaceutical industry: practical issues

As an update to our Flash Report dated 1 April 2014 and Tax Newsletter dated 2 April 2014, we inform you on the following:

a) Import of medicines

Based on our information as of today, the customs authorities are often requiring importers to pay a 20% VAT on the import of medicines. Their argument is that the new law* has cancelled the VAT exemption, but it does not directly allow the application of a 7% VAT on import transactions.

An official clarification by the Ministry of Revenue and Duties is expected in the near future.

In our opinion, such an approach is arguable. Moreover, it contradicts the WTO's non-discrimination principle under which local taxes cannot be applied to imported and domestic goods in a way that protects domestic production.

b) Transactions with goods of medical purpose

While the new law provides for a 7% VAT to the distribution of goods of medical purpose, there is no list of such goods subject to the 7% VAT approved by the Government. Therefore, the tax and customs authorities may require paying a 20% VAT on the import, as well as local supplies, of all goods of medical purpose.

We will monitor the issues and update you on further developments.

**The Law "On prevention of financial collapse and creation of prerequisites for economic growth in Ukraine" No1166-VII of 27 March 2014*