

Tax Newsletter # 4

Changes to the Tax Code – 2017: Personal income tax, Real estate tax

12 January 2017



Changes to the Tax Code - 2017

In December 2016 Verhovna Rada of Ukraine adopted laws amending the effective Tax Code of Ukraine.*

Below is a summary of the most significant changes in personal income tax ("PIT"), real estate tax, and some other taxes and duties, that became effective on January 1, 2017.



I. Personal income tax

Tax rates

- The tax rate for most types of income remains unchanged – **18%**. Dividends paid by resident payers of CPT are taxed at **5%**.
- Dividends paid by non-residents, collective investment schemes (mutual investment funds) and non-payers of CPT will be taxed at the reduced PIT rate of **9%** of current 18%. This provision will become effective once the law on Fiscal Investigations Service police (which should be set up instead of the tax police) comes into force.

Tax base and tax payments

- From now on, currency exchange differences (if any) are added to the calculation of individuals' investment profit, received from the sale of a particular investment asset. The expenses on acquisition of such investment assets must be properly documented.
- A taxpayer is allowed to extend quarterly tax payments up to a **three** year period on income resulting from a forgiven debt related to residential mortgage (starting from the year when such tax due was/is reported). This provision regulates the forgiveness of debt by a creditor before the end of the statutory limitation period based on its own decision unrelated to bankruptcy proceedings.
- From now on, payments or the value of goods (services) are non-taxable if provided as financial/material aid for medical purposes by an employer not only to employee, but also to the employee's immediate family members (parents, spouse, children, including adopted children).
- The non-taxable amount of tuition paid to Ukrainian institutions of higher or professional education by any legal entity or private individual for education, training or retraining of a taxpayer went up. From January 1, 2017 this

amount became equal to the sum of three amount of the statutory minimum wage (salary) ("**SMW**") in effect as of January 1 of the reporting year (UAH 3 200 x 3 = UAH 9 600). Besides that, the requirement of 3-year employment with the legal entity that paid for such education was abolished.

- Non-taxable amounts linked to the SMW were cut in half (e.g. gift amounts, forgiven debt amounts, charitable aid). Considering the doubling of the SMW amount to UAH 3 200 from January 1, 2017, these amounts will remain essentially the same as in previous year.
- The deadline for payment of PIT by tax agents in respect of individual's income received in-kind or in cash form, is extended to 3 banking days.

Business trips

- The non-taxable per diem amounts were changed. From January 1, 2017, (i) for domestic business trips per diem amount is set at the equivalent of 0.1 times of the SMW (i.e. UAH 320), while (ii) the non-taxable per diem amount for trips outside of Ukraine is limited to EUR 80.
- Ukrainian border control stamps serving as proof of international business trips are no longer required. They may be replaced by any documents confirming individual's business trip (including travel documents, housing receipts, etc.)
- The use of electronic tickets as proof of travel was simplified: now boarding pass can be used only if it is required by transport regulations. Instead, an electronic tickets receipt will suffice.

* Law of Ukraine "On changes to the Tax Code of Ukraine regarding improvement of investment climate in Ukraine" # 1797-VIII dated 21.12.2016 and Law of Ukraine "On changes to the Tax Code of Ukraine regarding securing of budget revenues on 2017" # 1791-VIII dated 20.12.2016.

** For certain provisions special enforcement period shall apply (see in the text of this newsletter).

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Tax deduction

- The limits on the deduction of tuition paid to Ukrainian institutions for professional or higher education of a taxpayer and/or his immediate family members, declared via the tax return, were abolished.

II. Taxation of entrepreneurs

- For the first group of private entrepreneurs the rate of single tax will be a percentage of the statutory subsistence minimum set for able-bodied individuals as of January 1 of the reporting year. Previously it was linked to the SMW.
- The rates of single tax for the forth group – agricultural producers were increased (an average of 14% and up as compared with the preceding year's rates, depending on the type of the land).
- The list of deductible expenses of a private entrepreneur on general tax system was clarified, including the following:
 - ✓ taxes and duties related to business activity (excepting VAT for private entrepreneurs – VAT payers, excise tax, personal income tax on the entrepreneurial income and taxes on property), licensing fees;
 - ✓ depreciation of acquired / produced fixed assets and intangible assets used for business activity (except for dual purpose fixed assets such as land plots, residential real estate, cars and trucks), subject to (i) appropriate accounting of depreciation (ii) using the straight-line method (iii) in the context of each object (iv) within its defined useful life.

III. Real estate tax, other taxes and duties

- Due to the significant increase in the SMW on January 1, 2017, the following indicators were cut in half:
 - ✓ the maximum real estate tax rate was reduced to 1.5% of the SMW per 1 sq. m.;
 - ✓ the criteria of the average market value of a car that is subject to the transportation tax was reduced to 375 times of the SMW (i.e. UAH 1.2 million for 2017).
- It is expected that on or before February 1, 2017 the Ministry of Economic Development and Trade of Ukraine will publish on its web-site a list of vehicles that are subject to the transportation tax (including brand, model, year of production, engine displacement, fuel type).
- The mandatory Contribution to the Pension Fund on purchase of foreign currency was abolished starting from January 1, 2017.