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Tax Newsletter

Changes to the Tax Code from 1 January 2016

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Changes to the Tax Code - 2016

Dear readers,

On December 24, 2015 Verhovna Rada adopted the Law, which amends the effective Tax Code and some other legislative acts.

Below we describe the most significant novelties, which will be enforced from January 1, 2016.

I. Corporate income tax (CIT)

- The tax rate will remain unchanged comparing to 2015 (18%), as well as principles of tax base calculation
- Monthly advanced CIT payments will be eliminated, but quarterly reporting and tax payment terms shall be established for the majority of taxpayers. Reporting period for 2015 annual tax return shall be determined according to the general rules
- As an exception – it will be required to pay an advanced CIT payment in the amount of 2/9 of the tax liability for three quarters of 2016 by December 31, 2016
- Advanced CIT payments on dividends will remain unchanged
- Yearly reporting period will be available for newly established enterprises, agricultural producers and taxpayers, whose annual revenue for the previous year does not exceed 20 million hryvnias
- The list and structure of tax adjustments shall remain unchanged

II. Value added tax

- Both automatic regime of VAT refund (for eligible taxpayers) and general procedure were preserved. Under both procedures VAT should be refunded in the chronological order
- The following criteria for automatic VAT refund were changed:
  - ✓ investors without sufficient share of export transactions (40%) are not eligible for such refund anymore;
  - ✓ taxpayers with tax debt will become eligible
- Changes for agriculture:
  - ✓ VAT exemption of supply and export of grain was abolished
  - ✓ The amounts of VAT declared by the taxpayers applying special VAT regime in special VAT returns remain at disposal of such taxpayers depending on specialization of agricultural production as follows:

Production specialisation	Share remaining at disposal of a taxpayer
Grain	15%
Cattle breeding and diary industry	80%
Other	50%

- The taxpayers are entitled to recognise input VAT based on VAT invoices with minor mistakes
- Provisions governing application of VAT to transactions within financial restructuring were implemented
- VAT exemption for international technical assistance projects was extended
- Specifically defined that the taxpayers are not entitled to recover input VAT paid to supplier upon purchase of non-VATable goods/services when the supplier accrued VAT liabilities and registered respective VAT invoice.

III. Personal income tax (PIT)

- The tax rate will be 18% for most types of income, including passive income
- Dividends accrued by residents CIT payers will be taxed at 5%
- Monthly pension, in the amount which exceeds three minimal wages, will be taxed at 15%
- General social tax relief will be provided in the amount of 50% of the monthly living wage for an employed person per month
- Private entrepreneurs on the general tax system will pay advanced quarterly payments based on actual revenues and expenses

IV. Unified social contribution (USC)

- USC will be paid only by the employer. Employees are relived from paying of this contribution
- The general USC rate will be only 22% (except for special decreased rates for contributions regarding disabled people, etc.)

** This information was prepared based on the Draft Law "On changes to the Tax Code of Ukraine and some other legislative acts on maintaining a balance of budget revenues in 2016" № 3688 dated 22.12.2015 available at the web site of Verhovha Rada of Ukraine and information on results of its discussion.*

At the moment of preparation of this Newsletter, the final text of the Law was not yet available.

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- The maximal base for USC will be 25 times of the living wage for an employed person (instead of 17 times of the living wage for an employed person in 2015). The minimal base for income received at the main place of work will be one minimal wage for the respective month

V. Immovable property tax

- Local authorities will approve the tax rate, but not higher than 3% of the amount of the minimal wage established by the legislation as of January 1 of the reporting (tax) year per 1 sq. m. of the tax base
- The list of taxable objects will not be shortened comparing to 2015
- If the taxpayer has one or more residential property objects with the total area of one object more than 300 sq. m. (for an apartment) and 500 sq. m. (for a house), the amount of calculated tax will be increased at UAH 25 000 per year for each such object

VI. Simplified tax regime

- Simplified tax regime will remain available for individuals and legal entities, but the maximum level of revenue for taxpayers of Group III will be limited to UAH 5 million (instead of UAH 20 million in 2015)
- The tax rate for taxpayers of Group III will increase to 3% (for VAT-payers) and 5% (for not VAT-payers)

VII. Transport tax

- Passenger cars shall be subject to tax provided they are aged to 5 years and their market value exceeds 750 amounts of the minimal wage established by the legislation as of January 1 of the reporting (tax) year, (for 2015 – UAH 1.033 million). Tax rate shall be UAH 25 thousand for each such object
- The list of cars subject to tax, shall be determined by the Ministry of Economical Development and Trade of Ukraine and published on its official web-site

VIII. Excise tax

- The Law provides for increase of the tax rates (for spirits and alcoholic beverages, tobacco products, fuel
- System of electronic administration of fuel shall be introduced (starting from March 2016)
- Any operations with fuel will be allowed only through excise warehouses
- Minimal prices shall be set up for tobacco products
- Relief from taxation of sale of tobacco wastes for utilization/ disposal is prescribed by the Law as well

X. Rent payment

- The Law provides for increase of tax rates of rent payments for usage of natural resources not related to extraction of minerals, for usage of radiofrequencies of Ukraine, for special usage of water and for special usage of forestry
- Provisions regarding advanced rent payments are cancelled

XI. Administration of taxes

- Results of tax audits of other tax payers and receipt of tax information about violations of tax legislation committed by the taxpayer shall not be grounds for field unscheduled tax audits of the taxpayer