Overview

Ukraine’s taxation system continues to develop and has become relatively complex. Tax legislation is amended often and sometimes retroactively. The practical application of Ukrainian tax legislation depends to a large extent on the position of tax authorities and existing court practice. Many tax issues remain in need of clarification and require a unified approach. All these factors lead to the risk of inconsistent application of the Tax Code by both state tax authorities and taxpayers and uncertainty in how it adapts to practical and economic realities.

Recent changes in Ukrainian tax law relate to the Organisation for Economic Cooperation and Development (OECD) base erosion and profit shifting (BEPS) requirements. There were changes in the following areas: information exchange, the introduction of a principal purpose test, mutual agreement procedures, rules for controlled foreign corporations, tax on withdrawn capital tax administration procedures, transfer pricing rules, principles of accounting and tax adjustments, reform of the StateTax Service of Ukraine, the introduction of a “single window” for efficient customs clearance, a reduction of the value-added tax (VAT) rate to 7% for medical goods and a deferral of VAT on the importation of certain goods, among other incentives. In May 2020 major parts of anti-BEPS provisions came into force. Tax regulations such as those related to controlled foreign corporations, effective place of management, and taxation of e-services came into force in January 2022.

In this chapter

- Legal system
- Taxation authorities
- Business vehicles
- Financing a company subsidiary
- Corporate income tax
- Cross-border payments
- Payroll taxes
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- Special tax regime during the state of martial law

Legal system

Ukraine operates under a civil law system based on a pandect system, where the main legislation sources are codified laws. It also has a well-structured hierarchy of normative acts. Generally, precedents of Ukrainian courts are referred to for practical interpretations of Ukrainian legislation, but they are not recognized as a source of law.
Moreover, Ukrainian courts may issue varying opinions, decisions and interpretations of the same law. In addition, courts in Ukraine lack established experience in comprehensive cross-border commercial dispute resolution. Many of the procedural remedies for enforcing and protecting legal rights typically found in Western jurisdictions are not available in Ukraine.

**Taxation authorities**

There are two main authorities responsible for tax collection and control in Ukraine: the State Tax Service of Ukraine (STS) and the State Customs Service (SCS) of Ukraine. Both report to the Cabinet of Ministers of Ukraine through the Ministry of Finance of Ukraine.

The tax system in Ukraine is administered by STS, which administers taxes in Ukraine as well as interprets and executes effective tax legislation. STS operates directly through its regional offices.

The customs system in Ukraine is administered by SCS, which interprets and executes effective customs legislation directly through its regional offices.

Since 2020, STS has been the central body of executive power that implements state tax policy in the areas of state tax and contributions to the obligatory state social insurance (united social contribution). SCS implements state customs policy.

**Business vehicles**

A non-resident may either (i) establish a Ukrainian legal entity to carry on business in Ukraine or (ii) operate directly through a representative office in Ukraine or managed from Ukraine.

Starting January 1, 2022, overseas legal entities that are established under the laws of other countries, but have an effective place of management in Ukraine, are generally recognized as corporate income tax payers in Ukraine.

Under Ukrainian law, companies may be incorporated in one of the following forms:

i. Limited liability companies
ii. Joint stock companies, either private or public
iii. Additional liability partnerships (companies)
iv. General partnerships
v. Limited partnerships.

The limited liability company (LLC) and the joint stock company (JSC) are the most commonly used forms of business organization in Ukraine.

The contribution of assets (non-cash contributions) into the charter capital of a Ukrainian legal entity are subject to VAT at a rate of 20%. Cash contributions are not subject to VAT.

**Limited liability companies**

An LLC is a company founded by one or more persons (legal or physical persons) with charter capital divided into participation interests (without the issuance of the shares) according to its charter. The LLC’s charter capital is formed by its founders or members in cash, securities or other assets contributed in the first six months starting from the date of state registration, unless otherwise stipulated by laws or the LLC’s charter. There are no limitations to the contribution amount of founders/members of the LLC and no limitations to the number of founders/members.

**Joint stock companies**

A JSC is a company in which the charter capital is divided into a certain number of shares with an equal nominal value. The JSC is liable for its obligations only to the extent of its assets. Under the Law of Ukraine “On Joint Stock Companies,” dated September 17, 2008, as amended, (the JSC Law), there are two types of JSCs: (i) public joint stock companies (publichne aktsionerne tovarystvo), of which the shares are publicly listed; and (ii) private joint stock companies.
Partnerships

Ukrainian law recognizes three types of partnerships:

i. An additional liability partnership is an entity in which the charter capital is formed from the contributions of its founders. The founders of an additional liability partnership jointly carry additional responsibility for partnership’s obligations with their property in the amount set by the partnership’s charter; the amount of such additional liability depends on the amount of the contribution made by each founder. From a tax law prospective, this type of partnership is considered a company. Also, the liability is not limited to the contribution of each participant, but is computed pro rata to the contribution of each participant.

ii. A general partnership is an entity in which the founders do business jointly and are held jointly liable for the obligations of the partnership with respect to all their property, beyond their contributions. A person may be a participant in one general partnership only.

iii. A limited partnership is an entity in which founders do business on behalf of the partnership; at least one founder is liable to the extent of all their property, beyond their contribution; and the liability of other founders is limited to their respective contributions to the partnership’s charter capital. The founders limited to their contributions do not participate in the activity of the partnership.

Representative offices

Under Ukrainian law, a representative office has no independent legal status separate from its foreign sponsor or parent company. It can be considered an “arm” of the parent company, and the parent company is liable for the obligations of its representative office. Based on the current taxation regime in Ukraine, the representative offices may be of two types: a non-commercial representative office and a commercial representative office.

A commercial representative office is a taxable permanent establishment that represents the parent company’s interests in Ukraine and that engages in commercial activities taxable in Ukraine. The commercial representative office may be subject to Ukrainian taxes (including excise taxes) depending upon the type of activities performed.

A non-commercial representative office normally is not subject to Ukrainian corporate income tax (CIT) due to provisions of applicable double-taxation treaties between Ukraine and the state of residence of the foreign parent company. Such treaties exempt from taxation the income of non-commercial representative offices.

Permanent establishment (PE)

The Ukrainian PE concept generally follows the PE definition from the OECD Model Tax Convention. A non-resident’s PE is created either (i) through a fixed place of business through which the business activities of such foreign entity are either fully or partially carried out in Ukraine (e.g., a place of management, affiliate, office, server, workshop, site, etc.) or (ii) through a dependent agent, commissioner or other resident entity acting in a similar capacity.

The Tax Code of Ukraine also contains the concept of a service PE. The provision of services (except for the provision of personnel) by a non-resident through its employees or other personnel in Ukraine shall constitute a PE of the non-resident in Ukraine, if such activities (within the framework of one project) last more than 183 days in any 12-month period.

A construction/installation site in Ukraine forms a PE only if the length of the construction/installation activities (within one or few related projects) performed by a non-resident through its employees or other personnel exceeds 12 months.

Ukrainian tax law also recognizes a list of activities of an auxiliary and preparatory nature (as well as their combination) that should not result in the creation of a non-resident’s PE in Ukraine. At the same time, a PE of a non-resident may also be recognized if several non-resident related parties carry out activities in Ukraine and such activities together go beyond the preparatory or auxiliary nature for such group of non-residents. However, this applies only in cases where the activities of non-resident related parties in Ukraine together constitute closely related functions of a business process.
Financing a company subsidiary

Contributing to the charter capital

Limited liability company

There are no legal restrictions on how the participation interests of an LLC may be distributed. This issue remains entirely within the discretion of the LLC’s founders and participants. There is no legislatively established minimum amount of the charter capital for an LLC under current Ukrainian law. Participants in the LLC can make their contributions to the charter capital in cash or in kind. The advantage of a cash contribution is that it is not subject to VAT.

The LLC is entitled to increase or decrease the amount of its charter capital. The charter capital may be decreased upon written notice thereof to all creditors of the LLC. In this case, the creditors may demand early termination or performance of relevant obligations from the LLC, such as securing relevant obligations by means of security agreement, or conclusion of a different agreement with the LLC. In the event an LLC fails to carry out any of the above demands, creditors may seek early termination or performance of the LLC’s obligations through judicial means.

The charter capital of the company may be increased by means of additional contributions from the LLC’s participants or from third parties. Each participant has a preemptive right to make additional contribution in proportion to their existing interest in the charter capital.

Joint stock company

A minimum capitalization of 1,250 times the officially established minimum monthly salary as at the date of the formation of the JSC is required to establish a JSC. The JSC law requires 100% of the total amount of shareholders’ contributions to be made prior to the date when the results of the first placement of shares are approved. An issuance of shares by both a private and a public JSC should be registered with the Ukrainian National Commission on Securities and Stock Market (the Securities Commission) by registering a report on the results of the placement of the shares and issuing a certificate for the registration of shares being issued.

A JSC’s share capital may be increased by increasing the nominal value of shares or placing additional shares under the procedure established by the Securities Commission. A JSC may increase its share capital after registration of reports on the placement of all previously issued shares. An increase of the share capital of a JSC involving additional contributions can be made by placing additional shares. All shareholders enjoy a preemptive right to acquire shares in the process of issuance by the JSC of additional shares, unless a decision not to exercise this right was made at the general meeting of shareholders. Increases of the share capital of a JSC not involving additional contributions must be made by increasing the nominal value of shares. An increase in a JSC’s share capital is not permitted for the purpose of covering losses. A JSC’s share capital may be decreased using the procedure set out by the Securities Commission by reducing the nominal value of shares or by cancelling the shares that were previously redeemed by the JSC and reducing their total number, if this is provided for in the JSC’s charter.

Debt financing

Tax and regulatory implications

Ukrainian corporations are permitted to borrow funds from related or third parties. Furthermore, there are no Ukrainian tax implications on the repayment of the principal amount of such debt. Interest payments (other than participating interest) made by a Ukrainian resident corporation to a non-resident with which it deals at arm’s length are generally subject to a withholding tax of 15% unless a tax treaty provides for a reduced rate or rate of zero. As previously mentioned, the withholding tax rate can be reduced or eliminated under an applicable double-taxation treaty.

Certain limitations (the thin capitalization) are established with respect to interest payments. Debt attributable to all non-resident creditors (related and unrelated) is compared to the relevant entity’s equity. If the debt is greater than 3.5 times the company’s equity, the relevant entity’s deductions for all interest (and economically equivalent payments) are limited to 30% of tax EBITDA. Interest expenses above the limit could be carried forward and deducted in computing corporate income tax in future years. Interest that has been capitalized as part of the value of non-current assets shall be included with interest expenses in proportion to the depreciation of such assets for the respective reporting period. If the amount of interest expense within a controlled transaction exceeds the amount determined in accordance with the arm’s-length principle, then the thin capitalization rules will apply only to the amount of interest
that corresponds with the arm’s-length principle. The non-deductible interest expense may be carried forward indefinitely but it is subject to an annual 5% disallowance.

Banks and finance leasing institutions (as debtors) are not subject to the new interest deduction limitation rule. Further, Ukrainian law canceled interest rate limitations for borrowing in a foreign currency from a non-resident lender.

Stamp tax

Ukraine does not impose a stamp tax in respect of debt or equity financing.

**Corporate income tax**

**Corporate income tax rate**

For 2022, the corporate income tax rate on general active business income is 18%. As a general rule, all expenses are deductible if they constitute expenses under financial accounting standards, unless they are defined as expenses having limited deductibility under the Tax Code. Certain adjustments also may be required in accordance with transfer pricing laws. Expenses are reported as deductible for tax purposes according to the Ukrainian Accounting Standards (UAS) or International Financial Reporting Standards (IFRS).

No special provisions limit the deductibility of costs to a Ukrainian subsidiary for remuneration of goods and services, unless the payment is performed to a company registered in a low-tax jurisdiction, defined by the Tax Code, or if the operation falls under transfer pricing rules or is subject to other limitations defined in the tax code (e.g., thin capitalization, royalty, etc.).

If the payment is performed with foreign companies established in a low-tax jurisdiction, or in specific legal forms, or with foreign counterparties that are not payers of corporate tax (the criteria and lists are defined by the applicable legislation), the payment might only receive limited tax deductibility (i.e., 70%).

New anti-BEPS regulations established special tax rules for a number of operations with a non-resident-seller and / or non-resident purchaser. Such regulations include the application of the principal purpose test (PPT), the concept of “deemed dividends” subject to taxation in Ukraine, the taxation of capital gains earned by a non-resident (directly or indirectly, from sale of shares or corporate rights in Ukrainian companies) limitations in respect of the application of tax benefits under tax treaties, and some other novelties.

**Capital gains**

A Ukrainian resident corporation, including a Ukrainian subsidiary of a foreign corporation, must include all capital gains in its taxable income. Taxable capital gains are taxed in the same manner as ordinary income.

A non-resident corporation is only taxed on gains arising from the disposition of “taxable Ukrainian property,” other than gains exempted under an applicable double-taxation treaty. Taxable Ukrainian property includes all of the following:

1. Real or immovable property situated in Ukraine.
2. Property (including goodwill) used or held by a taxpayer in a business carried in Ukraine.
3. Inventory forming part of a business carried in Ukraine.

Starting from July 1, 2020, capital gains derived by non-resident sellers from a direct or indirect (by sale or otherwise) alienation of shares, interests, corporate or other similar rights in a Ukrainian company that derives 50% of its value from real estate located in Ukraine at any time during the 365 days prior to the alienation is subject to a 15% withholding tax (WHT). The mechanism contemplates that non-resident buyers will act as tax agents with respect to the income of non-resident sellers and pay withholding tax from the seller’s capital gain to the Ukrainian treasury.

**Taxation of dividends**

Generally, dividends are not treated as taxable income for Ukrainian resident companies. Dividends payable by a Ukrainian resident company are generally subject to advance corporate tax (ACT), to be charged on dividends at the standard corporate tax rate of 18%. ACT is not withheld from the amount of dividends, but must be paid from a
Computation of taxable income

The ACT is computed as the excess of the amount of dividends to be paid over the taxable object computed for the period (tax year) for which such dividends are paid out, and which monetary obligations are discharged. At the end of the year, ACT can be offset against a taxpayer’s corporate profit tax liability.

However, ACT does not apply to dividends that are paid by holding companies out of dividend income received from subsidiaries, such as dividends paid out of tax-exempt profit and dividends paid to individuals.

A 15% withholding tax applies to Ukraine-sourced income (including dividends, interest, capital gains and royalties) received by a non-resident company, unless an applicable double-taxation treaty provides otherwise. The income received by a non-resident company from the sale of goods, works and services (subject to certain exceptions) does not qualify as Ukraine-sourced income subject to withholding tax.

Starting from January 1, 2021, the concept of constructive dividends (payments equated to dividends) was introduced. For corporate income tax purposes, the following would be deemed to be to dividends:

1. Payment in monetary or non-monetary form made by the Ukrainian legal entity in favor of its founder and/or participant(s) in connection with a distribution of net profits;
2. Incomes in the form of payments due for securities (corporate rights), paid in favor of a non-resident under controlled transactions, exceeding arm’s length price;
3. Compensation for goods (works, services), purchased from a non-resident under controlled transactions, exceeding the amount that complies with the arm’s length principle;
4. Understatement for goods (works, services), sold to a non-resident under controlled transactions that does not comply with the arm’s length principle.

As a result, the company should reclassify the “difference” into dividends and pay 15% withholding tax, or a lower rate if provided by an effective double taxation treaty (DTT).

Computation of taxable income

Taxable base

Gross worldwide income includes income from all types of activity in any form, except for specifically exempt items. A taxpayer is subject to tax on its profits from carrying on its business. Profit is generally considered to be its revenues less its deductible expenditures and depreciation allowances.

The Tax Code provides general rules for determining taxable income for taxpayers in Ukraine. Profit and loss before tax is calculated as the difference between income and expenses for the reporting period determined in accordance with UAS or IFRS subject to adjustments and limitations defined by the Tax Code. Taxpayers with an annual income of less than UAH 40 million may opt out of making the financial adjustments.

According to the Law “On Statutory Accounting and Financial Reporting,” the company and/or commercial representative office (i.e., the permanent establishment, or PE) should make a decision on the applicable standards (UAS or IFRS), unless the law directly requires the application of IFRS, which relates to companies of public interest, public joint stock companies, companies that perform extraction of subsoil resources of national standing or other types of activities specified by the Cabinet of Ministers. Public interest companies operating as issuers of securities listed on stock exchanges include banks, insurance companies, non-state pension funds and other financial institutions.

A taxpayer can generally deduct reasonable business expenses, unless such expenses are specifically disallowed, restricted or limited by law.

There are limitations with respect to interest payments (thin capitalization rules) as described above. Also, in certain cases, limitations with respect to deductibility of royalty payments exist. As a general rule, the deductibility of royalty is restricted to 4% of the previous year’s taxable profit increased by the current year’s income of a taxpayer from royalties, provided that the payment is made to a non-resident company and the transaction does not fall within the scope of the transfer pricing rules. Certain types of royalty payments are non-deductible.

Income tax reporting

Ukrainian resident corporations and non-resident corporations that carry on business in Ukraine through permanent establishments are required to file quarterly (in certain cases annual) corporate income tax returns and financial
Cross-border payments

Transfer pricing

For corporate profit tax purposes, transfer pricing regulations apply to control transactions that must be performed at arm’s length and that are subject to reporting to and control by tax authorities.

In 2022, the following transactions are deemed to be controlled if the volume of transactions with each counterparty exceeds UAH 10 million and the annual income of the Ukrainian taxpayer exceeds UAH 150 million.

i. Business transactions with foreign entities and/or related parties;
ii. Business transactions structured through agents (commissioners) and/or foreign companies;
iii. Business transactions with foreign companies residents of low-tax jurisdictions;
iv. Business transactions with foreign companies that are not payers of corporate tax; and
v. Business transactions between a foreign entity and its Ukrainian permanent establishment.

As of January 1, 2019, the Tax Code specifies the definition of business transactions as activities related to the production and/or sale of goods, works, or services directed at earning income and carried out independently, through a representative office or an agent. According to this principle, in the case of chain operations (export and import), the controlled/non-controlled status of the transaction is to be determined in accordance with the essential conditions of the transaction performed between the parties and/or participants of such chain transaction. Under transfer pricing rules, the taxable profit for the controlled transaction should be computed on the basis of the principles of the arm’s length value, determined based on one of the five transfer pricing methods (similar to those used by the OECD):

i. Comparable uncontrolled price method
ii. Resale price method
iii. Cost plus method
iv. Transactional net margin method or
v. Profit split method.

There are specific requirements regarding the selection of comparable transactions for benchmarking studies. Taxpayers that perform controlled transactions during the reporting year should file a report on such transactions. The report should be filed before October 1 of the year after the reporting year. There are penalties for failure to file such report.

Large Ukrainian taxpayers (i.e., taxpayers with revenues over UAH 1 billion, or the amount of taxes paid to the state exceeding UAH 20 million in the last 12 months) may apply the Advance Pricing Agreements (APAs) mechanism and enter into a preliminary agreement with tax authorities related to arm’s length pricing and apply the agreed principle in determining and reporting arm’s length prices. Tax authorities are authorized to conduct specialized transfer pricing audits. The audit may last for 18 months, and extend for another 12 months; the total audit period may last up to seven years.

From January 1, 2021, the concept of an international group of companies (IGC) was introduced for transfer pricing purposes. An IGC means two or more legal entities, that are tax residents of different countries and are related to each other due to the criteria of ownership or control (one legal entity is directly and/or indirectly (through related parties) owning the corporate rights of another legal entity in the amount of 25% and more). A three-level model of reporting related to controlled transactions of Ukrainian resident members of the IGC, will be introduced: i) Report on the controlled transactions; ii) Master-File; and iii) Country-by-Country Reporting. An inquiry regarding Master-File may be applied to a company, if the total consolidated income of the IGC is equal to €50 million or more. The Country-by-Country Report must be submitted by a company, if a total consolidated income of the international group of companies is equal to €750 million.

Withholding tax
Ukrainian withholding tax applies at the standard 15% rate to Ukraine-sourced income (including dividends, interest, capital gains and royalties) received by a non-resident company, unless an applicable double-taxation treaty provides otherwise. Ukrainian source income derived by a non-resident for production and distributions of marketing materials and advertising is subject to a 20% WI-FT payable by the Ukrainian resident from out of its own funds (i.e., not withheld).

A special tax rate is established for freight income (6%).

(Re)Insurance contributions and premiums payable by a Ukrainian company or a representative office of a foreign company registered in Ukraine to a non-resident (re)insurer are subject to 0%, 4% or 12% tax in Ukraine.

The amount of Ukrainian withholding tax payable on income derived by a non-resident from Ukrainian sources may be reduced or eliminated by tax treaties Ukraine has entered into with certain countries, which prevail over Ukrainian domestic law. Ukraine has a fairly extensive tax treaty network and has entered into double-taxation treaties with more than 70 countries (including the US, the UK, CIS countries and the majority of EU countries), most of which follow the OECD Model Convention. Ukrainian domestic law does not provide for unilateral double-taxation relief.

Ukrainian resident companies can claim foreign taxes as a credit on income received abroad against corporate profit tax due on such income in Ukraine, if it is provided for under an applicable double-taxation treaty. However, the amount of this credit is generally limited by the amount of corporate profit tax due on the foreign income (i.e., the ordinary credit method).

The concept of the principal purpose test (PPT) limits the application of double tax treaty benefits to transactions where it would be reasonable to conclude that "obtaining the benefit was one of the principal purposes” of the arrangement or transaction.

In 2020, a revised definition of “beneficial owner” was introduced to the Tax Code. A non-resident entity cannot be regarded as a beneficial owner if, though the formal owner, it is (i) an agent, (ii) a nominee receiver (owner) or (iii) simply acts as a conduit in relation to income earned in the following circumstances:

1. the non-resident receiver does not have authority to dispose of the income concerned; and/or
2. the non-resident receiver is obliged to forward the received income to another person; and/or
3. the non-resident receiver does not have qualified staff, leased or owned fixed assets, sufficient own capital that required to carry on activity related to the income concerned.

Multilateral Instrument

In 2019, Ukraine ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) and has agreed to adopt the minimum standards (principal purpose test and dispute resolution). On December 1, 2019, the MLI entered into force and is currently applicable to tax treaties with Canada, Cyprus, the UK and Russia.

Withholding tax on service fees

Income received by a non-resident company from the sale of goods, works and services (subject to certain exceptions) does not qualify as Ukraine-sourced income that is subject to withholding tax. Fees for engineering services provided within the territory of Ukraine by overseas service providers are subject to a 15% withholding tax, unless the relevant tax treaty provides otherwise.

Payroll taxes

Ukrainian legal entities and/or permanent establishments act as tax agents in Ukraine with respect to their employees. Employers are required to withhold from an employee’s gross salary 18% for personal income tax (PIT) and 1.5% for temporary military tax (TMT). In addition, the employer pays an amount equal to 22% of the employee’s gross salary as the Uniform Social Tax (UST).

Ukrainian legal entities and/or permanent establishments are required to withhold and remit these taxes to the state budget as of the date when the payment of remuneration is executed. The taxable base for 22% of the Uniform Social Tax contribution is capped. For 2021 the cap is set at 15 times the minimal salary; from January 1, 2021, through November 30, 2021, the cap is UAH 90,000; from December, 1 to 31, 2021, the cap is UAH 97,500 per month per
Indirect taxes

Value-added tax (VAT)

Ukrainian VAT at a rate of 20% applies to domestic supplies of goods or services and imports of goods into Ukraine. The VAT rate of 7% applies to supply of pharmaceuticals and health care products. The export of goods from Ukraine is taxed at a 0% VAT rate. Generally, VAT payers must submit VAT returns on a monthly basis.

VAT due to the budget or the state treasury is calculated as the positive difference between VAT liability (output VAT collected from the customers for goods, works and services sold) and VAT credit (the VAT paid to Ukrainian suppliers of goods, works or services and import VAT). The taxpayer has the right to report VAT credit if an electronic VAT invoice is issued and duly registered by the subcontractor in the electronic unified register of VAT invoices.

For VAT purposes, the taxable base should be determined based on contract value taking into account all of the mandatory state taxes. In certain cases, the taxable base should be determined based on usual prices, balance value, etc.

Starting in 2022, every non-resident must be registered as a VAT payer in Ukraine, if it supplies e-services in the territory of Ukraine to individuals/individual entrepreneurs that are not VAT payers and if the amount of such transactions exceeds UAH 1 million (approx. USD 36,100) per year. The “supply of e-services” includes streaming services, electronic magazines and paid resources, installation of paid mobile applications, downloading of paid software updates, provision of advertising services on the internet, downloading and watching online movies, books, and websites, photos, videos, databases, delivery of software, online games, cloud storage services, search engine services, etc.

A service is considered to be supplied in the territory of Ukraine if i.) the telecommunications provider is located in Ukraine and/or ii.) the customer is identified by the mobile SIM card code of a Ukrainian telecom operator (+380); and/or iii.) the means of communication are located in Ukraine; and/or iv.) Ukrainian payment address, details of a Ukrainian bank account, etc. are indicated.

Special Tax Regime for IT Sector

Starting in 2022, Ukrainian companies operating in the IT industry can enjoy special Diia City regime (Diia in Ukrainian means action), which provides for a preferential tax regime for IT companies having the status of Diia City residents and their employees and specialists (IT specialist).

An IT company registered as a Diia City resident can hire IT specialists and apply preferential taxation of salaries and other reimbursements payable to its personnel at the rate of 5% personal income tax, 1.5% military tax, and 22% single social contribution (SSC) of the minimum wage (in 2022, the SSC amounts to UAH 1,430 per month or approx. USD 52).

A Ukrainian company that is a Diia City resident may opt for the standard income tax system at the rate of 18% or apply the special withdrawal capital tax regime at the rate of 9%.

Dividends received by an individual from a Diia City resident company are exempt from taxation, provided that dividends are paid no more than once every 2 years.

Stamp tax

There are no stamp taxes in Ukraine, but a stamp duty is imposed on certain actions, such as notarizing contracts and filing documents with courts. In most cases, the amount of stamp duty involved is nominal. Operations on commodity exchanges and real estate sales incur a stamp duty of 1%.

Special tax regime during the state of martial law

From April 1, 2022 and until the termination of martial law, almost all Ukrainian companies are given the opportunity to
Corporate tax

be temporarily transferred to a 2% single tax rate which is levied on turnover and replaces the 18% regular corporate income tax and 20% VAT, as well as property tax. Turnover includes funds received in cash and in kind from the sale of goods, works or services. This regime excludes, among others, companies in the gambling sector, that provide currency exchange services, that trade in excisable goods, minerals or the import of cars (except financial institutions and insurers).

Any company meeting the above requirements can apply and be transferred to the single tax the next business day. For newly established enterprises, the transition will be from the date of their state registration, if the application is submitted within 10 business days from the date of state registration. The tax reporting period is a calendar month. A special tax return must be submitted within 20 calendar days following the reporting month, and taxes must be paid within 10 calendar days after the reporting deadline.

When the martial law terminates or is cancelled in Ukraine, the companies will automatically return to their previous tax regime from the first day of the month following the month of the termination or cancellation of martial law. A company transferred to this 2% single tax can withdraw from this tax regime any time by submitting the relevant application to the Ukrainian tax authority.

VAT

Starting from February 24, 2022 and during the state of martial law:

i. A VAT payer is allowed to keep input VAT accrued on goods purchased with VAT, but destroyed (lost) during the state of martial law or transferred for military defense needs;

ii. Goods and services transferred/provided to the Armed Forces of Ukraine and other military formations (their units/installations/elements) shall not be considered as supplies of goods and services, except for when such transactions on supplies of goods and services are subject to VAT at 0% rate;

iii. Fuel shall be subject to VAT at the 7% rate during the state of martial law. VAT receivable amounts incurred on fuel supplies (other than exports) shall not be subject to VAT refunds and shall be carried forward as input VAT.

During the state of martial law, VAT payers are allowed to include input VAT based on primary documents in respect of VAT invoices that have not been registered in the Electronic System. Those VAT invoices shall be registered in the Electronic System by a taxpayer within 6 months after the termination/cancellation of the state of martial law;

Charitable transactions conducted during 2022 by civil associations and/or charitable organizations shall not be taken into account for the purposes of the compulsory registration as a VAT payer.

Your Key Contacts

Global

Igor Davydenko
Partner, Kyiv
D+380 44 494 4774
igor.davydenko@dentons.com

Valeria Tarasenko
Tax Consultant, Kyiv
D+38044944774
valeria.tarasenko@dentons.com