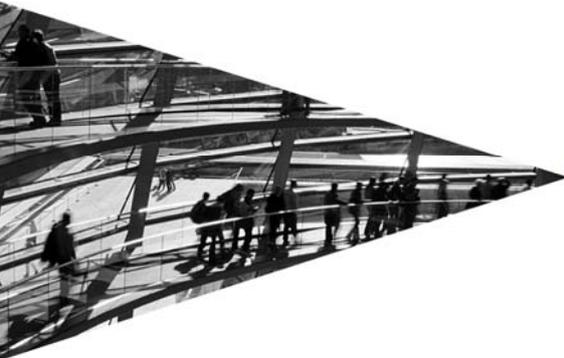


HR and tax alert



Ukraine

Changes in personal income taxation due to adoption of the new Tax Code effective 1 January 2011

Executive summary

On 18 December 2010 the Tax Code of Ukraine was adopted, which came into force starting from 1 January 2011. The Tax Code introduces personal income tax changes including:

- ▶ New 17% tax rate for income in excess of EUR945 per month
- ▶ Equal tax rate for Ukrainian tax residents and tax non-residents
- ▶ Deadline for filing Ukrainian annual personal income tax return is 30 April of the year following the end of the Ukrainian tax year

Key changes

The main changes introduced by the Tax Code are as follows:

- ▶ The main personal income tax rate remains at 15%, however, the Tax Code introduces a new 17% personal income tax rate for individuals whose monthly income exceeds ten times the monthly minimum wage. The minimum wage amount is set on 1 January of the reporting tax year and is approximately EUR94.50 per month from 1 January 2011. The tax rate of 17% applies to the excess amount, i.e., to income in excess of EUR945 per month.
- ▶ The Tax Code provides for a uniform personal income tax rate of 15% (or 17%, as above) for Ukrainian tax residents and non-residents. The Ukrainian tax residence status of foreign individuals will no longer influence the tax rate applicable to their income, but will define their taxable base (i.e., worldwide income

for tax residents and Ukrainian-source income for non-residents).

- ▶ Under the previous rules, individuals who received any income taxable in Ukraine from which tax had not been withheld were required to file personal income tax returns. The new Tax Code extends the obligation to file to individuals who received from two or more tax agents income exceeding ten times the minimum wage in any of the months during the reporting year. If income exceeding this amount is received from only one tax agent, the requirement to file a tax return is not triggered.
- ▶ The new deadline for filing an annual Ukrainian personal income tax return is 30 April following the reporting year.
- ▶ Under the new Tax Code it is possible to extend the deadline for filing an annual Ukrainian personal income tax return until 31 December of the year following the reporting one. This is possible where the extension is needed to wait for a certificate of income earned and taxes paid by the individual in a foreign country with which Ukraine has a Double Tax Treaty. This is required in order to claim a foreign tax credit in Ukraine to avoid double taxation.
- ▶ Accommodation and other benefits provided to the employee (or reimbursements) in connection with performance of their employment duties and agreed in the employment contract or collective agreement are not subject to personal income tax.

- ▶ Dividend income shall be taxed at a personal income tax rate of 5%.
- ▶ Interest on deposits shall be taxed at a tax rate of 5% from 1 January 2015.
- ▶ Income from the sale of real estate is not subject to tax, provided the property has been owned by the taxpayer for at least three years and the individual has not made more than one sale of real estate during the year of sale.
- ▶ Investment assets inherited by an individual or received as a gift are considered to be purchased at a price equal to the state duty and personal income tax paid in respect of such an inheritance or receipt of a gift.

Next steps

Employers and individuals should be aware of the changes in the Ukrainian tax law in order to be compliant with the new requirements and carry out appropriate tax planning.

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