

## **Budget Law 2010: a surprise could be in the works**

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On the eve of 2010, there was as yet no working draft of the Budget Law in Parliament. This generates questions about applying those laws that have been suspended during the budget process (when temporary tax rules are in effect). It was unclear, for example, whether the law on royalties for oil, gas and gas condensate would be effective on 1 January 2010.

### **Tax and regulatory changes: mixed feelings**

Notwithstanding the procedural deficiencies, the long debated Law #1533 finally took effect on 24 November 2009. The Law introduces a number of changes to the laws on taxation, currency control and banking. The Law's wording is frustratingly imperfect and involves a number of ambiguities.

The tax-related novelties are generally positive for banks. The provisions covering foreign investment and trade, however, add a bundle of tighter and more bureaucratic rules to an already unfriendly Ukrainian environment.

The provisions include channeling investments through Ukrainian banks in UAH, mandatory registration of investments, decreasing the maximum settlement term under foreign trade contracts from 180 to 90 days and prohibiting early repayment of foreign currency loans to non-residents.

A number of questions regarding the law's interpretation arise. There is a draft bill to amend some controversial provisions (parliament approved it in the first hearing).

### **Further steps toward stripping non-residents of 30% of their incomes**

In line with its recent approach, on 18 December 2009 the STAU terminated Order No.50, which allowed for a 15% income tax on local payroll salaries, regardless of the employees' tax residence. Foreigners employed in Ukraine may face a 30% tax burden (with a risk of retroactive revision of their tax liabilities). Prudent structuring is vital to circumventing the pitfalls and ensuring a 15% tax on foreigners' incomes.