State tax administration strives to squeeze more tax revenues from individuals

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The state tax administration (STAU) has opined that the salary received by a foreigner from a Ukrainian payroll is taxed at 15% only if such an individual has opted for Ukrainian tax residence status. In all other cases, Ukrainian-sourced income of non-residents (except for interest, dividends and royalty) should be taxed at 30%.

This requirement contradicts the rules (STAU's generalised letter and order no 50) which allow for 15% income tax on the local payroll salary regardless of the employee's tax residence.

The tax administration intends to amend order no 50 to reflect the new approach.

As a result, expatriate workers will be offered the unsavoury choice of reporting their worldwide income in Ukraine (according to legislation, a foreigner may voluntarily opt for Ukrainian tax residence status even though the substantive criteria are not met) or having their local salaries taxed at 30%.

Retroactive revision of tax liabilities and disputes are feared.

Cabinet resumes efforts to restrict VAT credit

In July 2009, the Ukraine cabinet passed two unlawful orders restricting a taxpayer's right to VAT credit and establishing additional grounds for cancelling VAT registration. The president of Ukraine suspended these measures after massive protests by the business community.

On September 9 2009, the government passed a new order no 1120-p where it cancelled the controversial provisions but introduced other, though less aggressive, novelties. Notably, the tax authorities will have the right to cancel VAT registration of a taxpayer issuing VAT invoices but failing to report VAT liabilities.

Furthermore, delay in recording VAT credit will trigger an unscheduled tax audit. The tax administration tends to construe the order unfavourably for the taxpayers.