

Tax Guide for Ukraine

2024



Content

Taxation	4
Overview of main taxes rates	4
Business taxation	6
Taxation of individuals	10
Military fee (MF)	11
Unified social contribution (USC)	11
Taxation of individual entrepreneur's income	12
General taxation system for individual entrepreneur	12
Other taxes	13
Environmental tax	13
Property tax	13
Immovable property tax	13
Land tax	14
Transport tax	14
Simplified (unified) tax regime	15
Transfer pricing	17
Controlled foreign companies	21
Indirect taxes	23
Value Added Tax (VAT)	23
Excise tax (ET)	25
Currency control	27
Customs duties	28
Import/Export Regulations	29
Financial Statements	31

The information that is given in this **Brief Guide to Doing Business in Ukraine** is valid as of **January, 2024**

Dear Readers,

Our Tax Guide offers brief overview of the tax system in Ukraine for the year 2024 both for individuals and legal entities which is based on the Ukrainian tax legislation effective as of the date of this Guide.

The crucial factor that influenced all types of business and people in Ukraine during the last two years is Russia's invasion of Ukraine. The war impacts all spheres, including activities of enterprises operating in Ukraine and relevant legislative norms. Today the war has a vital effect on the tax, customs and currency policies of Ukraine. Due to imposition of martial law in Ukraine on February 24, 2022 certain temporary norms were introduced, including tax privileges for enterprises that are unable to perform their tax obligations, VAT exemption for certain types of transactions (special personal protective equipment, defense goods, some medicines and medical devices), etc.

Despite the war, Ukrainian business continues working, new legal entities are being registered, and new investments are coming to Ukraine even in such extremely turbulent time. Pre-war initiatives are being implemented, in particular, Diia.City regime which provides for tax privileges for IT-companies. CFC rules were introduced as of January 1, 2022 and first CFC reports were filed in April 2023.

In 2022 Ukraine acceded to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (the "CRS MCAA") and CRS are expected to be implemented shortly. In 2023 Automatic Exchange of Financial Account Information was introduced and in 2024 the first exchange will take place for the first half of 2023.

In 2023 Ukrainian tax authorities resumed tax audits, including documentary audits, moreover tax penalties were restored.

Our Tax Team will be pleased to assist you in any tax issues and provide practical solutions tailored to your needs.

We will be happy to be of service to you.

Olena Voznyuk

Partner, Tax & Legal Services

Taxation

Overview of main taxes rates

<i>Corporate Income Tax (CIT)</i>	Tax rate
General tax rate	18%
Insurance companies	0%, 3%
Non-residents' income:	
✓ Insurance payments	0%, 4%, 12%
✓ Freight	6%
✓ Interest, dividends, royalty, engineering income, rent, sale of property etc.	15%
Profit of a Controlled foreign company	18%
Taxation of Diia.City regime residents	9%
Lottery	30%
Banks (profits, CFC, dividends)	25%
<i>Value Added Tax (VAT)</i>	
Standard tax rate (supply of goods / services with the place of supply within the territory of Ukraine)	20%
Electronic services supplied by non-residents to individuals on the customs territory of Ukraine	20%
Supply of certain types of agricultural products	14%
Supply of medicines and medical products	7%
Supply of services in relation with a show of performances, cinematic premieres, films, cultural and artistic events, conducting excursions	7%
Supply of hotel services	7%
Export of goods and services, certain other services	0%
<i>Personal Income Tax (PIT)</i>	
Standard tax rate (both for residents and non-residents)	18%
Royalty income	18%
Interest income	
Dividends:	

✓ on shares / corporate rights of the resident issuers (CIT payers)	5%
✓ on preferred shares, equivalent to salary payments	18%
✓ on shares / investment certificates paid by joint investment institutions	9%
✓ on shares / corporate rights paid by non-resident issuers	9%
✓ on shares / corporate rights paid by resident issuers (non-payers of CIT)	9%
Prizes / awards (including winnings in a lottery) payable to residents and non-residents	18%
Profit of a Controlled foreign company	18%, 9%
Real estate transactions – individuals	
Sale of house, apartment, or their parts, etc (one item per year) if owned by a taxpayer for longer than 3 years before disposal	0%
Sale of 2 real estate item per year	5%
Sale of 3 and more real estate item per year	18%
Sale of real estate items by non-resident individual	18%
Military fee (MF)	
Income subject to Personal Income Tax	1.5%
State Social Insurance Contribution	
Employment-related income and remuneration under civil law agreements payable to individuals	22%
For people with disabilities	8,41%
Simplified (unified) tax regime	
I group	up to 10% of the minimum amount of cost of living (approx. EURO 7 in 2024)
II group	up to 20% of minimum salary (approx. EURO 34 in 2024)
III group	3% of gross income (for VAT payers) 5% of gross income (for VAT non-payers)
IV group	0.19-6.33% of the normative monetary value of the area of agricultural lands and/or water resources

Business taxation

Corporate income tax (CIT)

CIT payers – residents

CIT payers are legal entities that operate in Ukraine and abroad, except for:

- legal entities using the simplified tax regime;
- organizations financed by the State and municipal authorities;
- charity funds, non-governmental organizations, political parties, pension funds and other non-profit organizations.

However, organizations of the second and third groups are CIT-exempt only if they are included in the State Register of Non-Profit Organizations.

Branches and separate units of a company do not qualify as independent taxpayers. CIT for all branches is calculated and paid by the parent company.

CIT payers – non-residents

The list of non-residents that are subject to CIT includes the following:

- legal entities – non-residents that receive income from Ukrainian sources (except for institutions and organizations with diplomatic privilege or immunity under international treaties);
- Non-residents who carry out economic activity on the territory of Ukraine through a permanent establishment and/or receive income with a source of origin from Ukraine. A non-resident shall be registered with the controlling body at the location of its permanent establishment before the beginning of its economic activity through such a PE. A non-resident who commenced its economic activity through its permanent establishment before registration with the controlling body is considered to be tax-evading and the income received by it is considered to be hidden from taxation.

Tax base

Tax base is Net Profit Before Tax (NPBT) as per accounting records according to either Ukrainian accounting standards or International Financial Reporting Standards (IFRS), adjusted for tax differences defined in the Tax Code of Ukraine (TCU) as shown in Table 1.

Table 1

Calculation of CIT base



NPBT is adjusted for the tax differences. Major differences affecting financial profit (loss) before tax include:

- depreciation of non-current assets;
- provisions for incurred and probable expenses (excluding provision for unused vacations and payroll related payments);
- differences related to financing transactions (thin capitalization rules);

- transfer pricing adjustments;
- deductibility restriction for certain payments to non-residents;
- transactions with not-for-profit organizations;
- other differences.

Deduction of depreciation expenses associated with non-production fixed assets and non-production intangible assets has been disallowed. Non-production assets are defined as assets which are not used in the taxpayer's business activity. Depreciation is also not accrued at the time of modernization, reconstruction, completion, retrofitting and conservation of fixed assets.

Revaluation of fixed assets and intangible assets is non-deductible for CIT purposes.

Temporarily until December 31, 2030, accelerated tax depreciation for machinery, equipment, vehicles, transmission devices may be applied is subject to certain conditions.

Thin Capitalization Rule

The "thin capitalization" rule applies if the taxpayer's debt to all non-residents exceeds its equity by 3.5 times.

Interest accrued in accounting for all debt obligations to non-residents may be included in the tax accounting of the reporting period in the amount not exceeding 30% of the amount of the calculated object of taxation of the reporting period, increased by the amount of financial expenses and depreciation according to tax reporting. Interest that has been capitalized as part of the value of non-current assets is taken into account only in the share of depreciation for the relevant period.

If the amount of interest expense on controlled transactions exceeds the level determined in accordance with the "arm's length" principle, the "thin capitalization" rules apply only to the amount of interest that corresponds to the "arm's length" principle.

The "thin capitalization" rule does not apply to financial institutions and companies engaged exclusively in leasing activities, and does not apply to interest accrued on loans from international financial institutions or foreign banks, loans guaranteed by the state.

Tax losses

Tax losses may be carried forward for an indefinite period but may not be carried backwards. Restrictions on the amount of tax losses allowed for tax deduction were imposed in particular prior tax periods. Big taxpayers are entitled to carry forward 50% of tax losses.

CIT return filing

Generally, the reporting period for 2024 is a calendar quarter. Agricultural producers can choose an annual reporting period that begins from July 1 of current year and finishes on June 30 next year.

Annual tax (reporting) period is set for the following taxpayers:

- newly established companies;
- agricultural producers;
- taxpayers, whose annual revenue for the previous year does not exceed UAH 40 million (approx. EURO 963 855 in 2024).

Income tax is calculated in the CIT return that is submitted by quarterly payers within 40 calendar days after the end of the reporting quarter, and by annually payers - within 60 calendar days after the end of the reporting year.

Tax rate

The basic CIT rate is 18%. The reduced rates of 0% or 3% apply to qualified insurance activities.

Non-residents' income

The Ukrainian-sourced income payable to non-resident recipients is subject to Ukrainian withholding tax (WHT). WHT at 15% rate applies to the majority of income payments to non-residents unless a reduced rate / exemption is provided by the relevant double taxation treaty signed by Ukraine (DTT). WHT is payable to the state budget when the payment to non-resident is made.

Tax exemption (reduction) under the relevant DTT is applied based on a tax residency certificate (or its legalized copy) to be provided by a non-resident that proves that non-resident is a tax resident of the relevant country with which Ukraine has effective DTT.

Profit from transactions with investment assets

Income originating in Ukraine includes profit from the sale or other alienation of investment assets:

- of a foreign legal entity, if 365 days before the sale the value of such legal entity by 50 or more percent is formed by shares in a Ukrainian legal entity, and the value of a Ukrainian legal entity by 50 or more percent is formed by Ukrainian real estate owned by such Ukrainian legal entity or used on the basis of an operating or financial lease agreement;
- of a Ukrainian legal entity, provided that 365 days before the sale the value of the legal entity was formed by Ukrainian real estate owned by such legal entity or used by it on the basis of an operating or financial lease agreement.

A non-resident - buyer is obliged to withhold an income tax from the alienation of the investment asset at a rate of 15%, declare and pay it to the budget.

Prior to the date of the first payment for the acquired investment asset, such a non-resident must register with a controlling body at the location of the Ukrainian legal entity, shares / corporate rights of which form the value of the investment asset being the subject of such transaction.

The amount of freight paid by resident to non-resident as per freight contracts is taxed at the rate of 6%. Income of non-residents who carry out their activities in Ukraine through a permanent representative office is taxed under general rules.

Taxation of dividends

Dividends received by a local company from another local corporate income taxpayer are not subject to CIT. Dividends received by a local company from non-resident shareholder qualify as taxable income at a standard rate of 18%.

Dividends payable by a Ukrainian subsidiary are subject to an advance CIT (ACT) at the general 18% CIT rate. The tax base for ACT is the excess amount of dividends over the amount of taxable income for the year in which such dividends are payable. ACT must be paid at the time the dividends are paid. If CIT liability for the relevant year has not been settled, ACT is calculated based on the entire amount of dividends payable.

A Ukrainian subsidiary may use ACT paid to reduce its current CIT liability. The amount of ACT paid on dividends is not refundable to the taxpayer and may not be offset against other taxes. ACT does not apply to certain dividends (i.e. dividends paid by a holding company that pays dividends out of dividends received from subsidiaries, dividends paid by company out of tax-exempt profits, dividends paid to individuals).

Tax payment

Taxpayers shall settle their CIT liability within 10 calendar days after the deadline for filing CIT return.

Taxation of Diia.City residents

Companies operating in the IT-sphere may register as residents of Diia.City provided certain requirements are met and may apply corporate income tax under special regime (so-called "exit capital tax"). The taxable base for such taxpayer shall include:

- dividends
- return of investments
- value of free-of-charge received property
- financial assistance
- payments to non-residents
- sales to taxpayers that do not apply "exit capital tax"

- payments to “single tax” payers
- transfers to own accounts abroad, etc

The taxable period is a calendar year.

The tax rate is 9% based on the taxable amount, except for income received in controlled transactions which does not comply with the “arm’s length” principle and profits of CFC, which are subject to 18% tax.

Taxation of individuals

Personal Income Tax (PIT) base for Ukrainian and foreign individuals depends on their tax residency status. Tax residency status is determined based on the criteria established by the TCU and/or DTT.

Resident - individual person, that:

- has a place of residence in Ukraine;
- has a place of residence in a foreign country, but the place of permanent residence is in Ukraine;
- has a permanent place of residence in a foreign country, but has close personal or economic relations (centre of vital interests) in Ukraine;
- resides in Ukraine at least 183 days (including the day of arrival and departure) during the period (periods) of the tax year, provided the country which is his/her centre of vital interests cannot be determined, or if he/she has no permanent place of residence in any of the countries;
- independently identified the main place of residence on the territory of Ukraine in order specified in the TCU;
- is registered in Ukraine as a self-employed person.

Residents are subject to PIT based on their income from Ukrainian source as well as based on their world-wide income.

Non-residents - individuals who do not qualify as residents of Ukraine and pay PIT only based on income from Ukrainian sources.

Foreign citizens can immigrate to Ukraine for permanent residence, for employment on a fixed term or for temporary stay. Accordingly, they shall receive permanent or temporary residence permit.

Income tax, personal tax rates, other taxes

If an individual receives income from person who is not a tax agent (see below), such individual is obliged to declare such income and pay PIT on self-assessment basis.

The reporting period is a calendar year. The annual PIT return shall be submitted until May 1 of the year following the reporting one and PIT shall be settled by August 1 of the same year.

PIT on salaries

Employers paying employment-related income to their employees, as well as legal entities paying compensation to individuals based on the civil law contracts qualify as tax agents in respect of such income.

Tax agents are obliged to withhold and pay PIT to the state budget on behalf of the individuals, to maintain tax records, to submit income reports and are responsible for the violation of these obligations. PIT rate on salary and other employment-related income both for residents and non-residents is 18%.

PIT for Diia.City residents is fixed at 5% rate for the following types of payments

- Salary payable to all types of employees
- Remuneration under Gig-contracts
- Author's remuneration for creation of the product or its transfer

Military fee (MF)

Nationwide MF payment for strengthening the defence capability of Ukraine applies to:

- individuals - residents who receive income from Ukrainian sources as well as foreign income;
- individuals – non-residents who receive income from Ukrainian sources;
- tax agents (in particular employers of individuals-employees).

The MF has been extended indefinitely, until its abolishment by the respective legislative act.

The tax base of MF is the same amount of income that is subject to PIT.

The tax rate of MF is 1.5% of individual's taxable income.

If MF payer is a tax agent, he/she maintains and pays MF in order and within the time frames provided for PIT.

Unified social contribution (USC)

USC is a consolidated insurance fee and is paid to the system of compulsory state social insurance.

The employer calculates the USC as a percentage of overall payroll amount for the period. USC rate is 22%; for disabled workers the rate is 8.41%, for Diia.City residents – minimum insurance contribution which is UAH 1 562, approx. EURO 38 for FY2024. USC accrued by the employer is deductible for CIT purposes. Employees are relieved from paying this contribution. The base for

the USC is capped at fifteen minimum monthly salaries and equals in 2024 UAH 106 500 (UAH 7 100 x 15); EURO 2 566.

Minimum obligatory amount of USC in 2024 per month is UAH 1 562 (UAH 7 100 x 22%), equivalent to approx. EURO 38.

Taxation of individual entrepreneur's income

Individual entrepreneurs may be taxed either under the general or simplified tax regime.

General taxation system for individual entrepreneur

The taxable base is net income, which is the difference between overall taxable income (in monetary and non-monetary form) and business expenses, supported with relevant documentation. The tax rate is 18%.

If an individual entrepreneur receives income other than from business activities within the types of activities chosen by him/her (registered in the unified register), those types of income shall be taxed according to the general rules of Taxation of Individuals.

Individual entrepreneurs shall pay advance tax payments that are calculated on a self-assessment basis per each calendar quarter and shall be paid to the state budget by the 20th of the month following the reporting quarter.

Individual entrepreneurs under the general taxation system and those performing works / rendering services under civil law contracts pay USC themselves at the rate of 22% based on the remuneration amount, but not less than the minimum monthly fee amount (see above).

Individual entrepreneurs calculate *military fee* themselves on the basis of results of the reporting tax year at the rate of 1.5% based on the net taxable income, record this amount into the annual tax return and pay the fee within the same time frames as stipulated for PIT.

Individual entrepreneurs, who are simultaneously being employed by a tax agent, have the right not to pay USC for themselves, provided that the employer has paid USC for them in the amount of not less than the minimum insurance contribution.

Taxation of individual entrepreneurs under the simplified tax regime is described in the following sections.



Other taxes

Environmental tax

Environmental tax is accrued on the amount of actual emissions into the atmosphere from stationary sources, pollutants dumped into water, waste disposal, generation and storage of radioactive waste.

The taxpayers are legal entities and non-residents' institutions.

The taxpayers shall calculate the tax amount by themselves for each type of pollution (pollutant, waste) and pay it to the state budget on a quarterly basis.

Property tax

The property tax includes the following components:

- Immovable property tax;
- Land fee;
- Transport tax.

Immovable property tax

Immovable property tax is a tax on real estate (except for land plot) paid by owners of residential and non-residential properties located on the territory of Ukraine, both by residents and non-residents, both by individuals and legal entities.

The tax base is the size of the residential and non-residential property, including their parts. Tax rates and additional privileges established in the TCU in respect of tax payments are set by local authorities at the location of the property. The maximum tax rate for the year 2024 is UAH 106,5 per square meter.

Individuals do not pay tax, if the size of real estate does not exceed:

- 60 square meters for apartment/apartments regardless of their quantity;
- 120 square meters for house/houses regardless of their quantity;
- 180 square meters for various types of residential properties, including their parts.

- If an individual / legal entity owns a property which size exceeds 300 square meters (for an apartment) and/or 500 square meters (for a house) the tax liability increases by UAH 25'000 per year (EURO 602) for each mentioned above object of residential property (its parts).

Individuals pay tax on the basis of the tax notification letter that is issued by tax authority until July 1 of the year following the reporting one and tax shall be paid within 60 days from the date of receipt of the notification letter. Legal entities calculate the tax amount by themselves and pay immovable property tax in advance on a quarterly basis.

Land tax

Land tax applies to land owners and users of state or municipal land plots in the form of land tax and lease fee.

The tax base is a normative monetary value of land plots (adjusted for the annual indexation) or the area of land plots for which the normative monetary valuation is not set.

Maximum tax rates on land with effective normative monetary valuation are stipulated in the TCU as follows:

- As a general rule not more than 3% of the normative monetary value of a land plot.
- Not more than 1% of the normative monetary value of the land plots of common usage;
- From 0,3% to 1% of the normative monetary value of agricultural land plots.

The amount of lease fee of state or municipal land plots shall be established in the relevant lease agreement at the rate not less than land tax rate determined for such kind of land plots but not more than 12% of the normative monetary value of land plots.

Individuals pay land tax on the basis of tax notification letter that is issued by tax authority until July 1 of the current reporting year during 60 days after the date of receipt of the notification letter.

Legal entities calculate land tax amount themselves and pay it in advance on a monthly basis.

Transport tax

Transport tax is levied in respect of cars with the market value exceeding 375 minimum monthly salaries established on January 1 of the reporting year (approx. EURO 64 156 in 2024) which are less than 5 years old held by individuals (both residents and non-residents of Ukraine). The amount of tax is UAH 25 000 (EURO 602) per each car.

Transport tax is paid by individuals annually on the basis of notification letter issued by tax authority by July 1 of the reporting year and tax amount shall be settled during 60 days after receipt of the notification letter. Legal entities pay the tax by making advance payments on a quarterly basis by the 30th of the month following the reporting quarter.

Simplified (unified) tax regime

Individual or legal entity that meets certain legal requirements can choose the simplified tax regime.

Simplified tax regime provides for a simplified accounting and reporting.

There are four groups of simplified tax payers:

- private entrepreneurs only – I and II group;
- legal entities and private entrepreneurs – III group;
- agricultural producers – IV group.

Table: I – III groups of simplified tax payers for 2024

	I group	II group	III group
Maximum annual income	UAH 1,186 million EURO 28.6 thousand	UAH 5,921 million EURO 142.7 thousand	UAH 8,286 million EURO 199.7 thousand
Maximum number of employees	0	from 0 to 10	without limits
Permitted activities	<ul style="list-style-type: none"> ▪ retail sale of goods on markets; ▪ domestic services 	<ul style="list-style-type: none"> ▪ services rendered to single tax payers and/or to individuals; ▪ production and/or sale of goods; ▪ restaurant industry 	without limits
VAT	does not apply	does not apply	may register as a VAT payer
Rates	up to 10% of monthly cost of living (UAH 302,8/EURO 7 in 2024)	up to 20% of minimum monthly salary (UAH 1 420/EURO 34 in 2024)	3% of income + VAT or 5% of income (excl. VAT)
Payment	Monthly advanced contributions		Quarterly

Private entrepreneurs - single tax payers pay USC at the rate of 22% of the amount determined themselves, but not less than the minimum USC rate per month. They are obliged to pay USC every month regardless of the amount of profit.

Individual entrepreneurs - single tax payers, who are at the same time in an employment relationship, have the right not to pay USC for themselves, provided that the employer has paid USC for them in the amount of not less than the minimum insurance contribution.

Military fee is not paid by private entrepreneurs - single tax payers.

There are limitations on usage of the simplified tax regime for certain types of activities and for certain types of legal entities. For example, legal entities with the shareholder who is not registered as a single tax payer and has minimum 25% share in its charter capital cannot use simplified tax regime. Non-residents also cannot be payers of a unified tax.

Other taxes

Other types of taxes / duties in Ukraine include:

- rent payment (which is charged for mineral resources usage, usage of radio frequency resource, for the special usage of water and forest resources, as well as for the transportation of oil, petroleum products, natural gas and ammonia on the territory of Ukraine).

Local councils can also establish fee for the parking of vehicles and tourist tax on their territories.



Transfer pricing

Transfer pricing (TP) regulations were first introduced in Ukraine on September 1, 2013. The legal basis of the TP regulations is Article 39 of the TCU which is generally in line with OECD TP Guidelines.

If a Ukrainian company meets the following criteria:

- has annual income from all activities (on the basis of financial accounting) that exceeds UAH 150 million / EURO 3,615 million for the reporting tax year; and
- has annual volume of business transactions with a specific counterparty in the amount exceeding UAH 10 million / EURO 241 thousand

it is required to comply with TP regulations.

The following transactions qualify as controlled transactions for TP purposes:

- with related non-residents;
- with a non-resident, who is registered / is a tax resident of a low tax jurisdiction and Crimea or with special types of legal entities (regardless of relation with the Ukrainian company) (there are two lists effective as of January 1, 2019: list of low-tax jurisdictions and list of special types of legal entities);
- with non-resident commissioner, regardless of relation with the Ukrainian company;
- with related non-resident if between them several unrelated persons are interposed that do not perform significant functions / assume significant risks;
- between non-resident and its permanent establishments registered in Ukraine.

Transactions between non-resident and its permanent establishment in Ukraine qualify as controlled transactions if their volume exceeds UAH 10 million / EURO 241 thousand per year.

TP regulations apply to corporate income tax only.

There are 5 transfer pricing (TP) methods which are applied in order to substantiate the price/profit margin in the controlled transaction:

- comparable uncontrolled price;
- resale price;
- cost-plus;
- net income;
- profits distribution.

The priority of TP methods' application is as follows:

- comparable uncontrolled price method prevails over any other TP method,
- "resale price" and "cost plus" methods prevail over "net income" or "profits distribution" TP methods.

If the price in the controlled transaction falls beyond the range of prices/profit margins, the median value of the price range shall be used for tax purposes.

Taxpayers who performed controlled transactions in 2023:

- shall submit a Report on Controlled Transactions (until October 1, 2024), and
- shall prepare and maintain TP documentation.

Member of Multinational enterprises group (Ukrainian parent company and subsidiary company in some cases), if its consolidated income is equal to or exceeds UAH equivalent of EURO 750 million:

- shall submit a country-by-country TP Report (until December 31, 2024 for FY 2023).

Also, member of Multinational enterprises group, if its consolidated income is equal to or exceeds UAH equivalent of EURO 50 million:

- shall prepare and maintain TP Master File.

The following fines apply for violation of the TP rules:

- 300 subsistence minimums (equivalent to approx. EURO 22 thousand for FY 2024) for failure to file a TP Report and TP Master File;
- 1000 subsistence minimums (equivalent to approx. EURO 73 thousand for FY 2024) for failure to file a country-by-country TP Report for Multinational enterprises group;
- 50 subsistence minimums (equivalent to approx. EURO 3,7 thousand for FY 2024) for failure to notify regarding participation in Multinational enterprises group;
- 1% of undeclared in the Report transactions, but not more than 300 subsistence minimums for all undeclared transactions for failure to declare all transactions in a TP Report;
- for non-reflected in country-by-country TP Report information about member of Multinational enterprises group - 1% of the income (revenue) of such member of Multinational enterprises group, but not more than 1000 subsistence minimums;
- 3% of the value of non-documented transactions for failure to submit TP Documentation, but not more than 200 subsistence minimums (approx. EURO 14,6 thousand for FY 2024);
- 25% / 50% of the assessed CIT liabilities.

There are also prescribed fines for failure to timely submit Report on Controlled Transactions or transfer pricing Documentation, Notification of participation in Multinational enterprises group, country-by-country TP Report for Multinational enterprises group, Masterfile.

Fines, as a result of transfer pricing audits, shall be applied in the amount stipulated by the law applicable as of the date when decision on application of fine is made.

The statute of limitations for transfer pricing audits is seven years from the last date of filing the Report on Controlled Transactions, or from the actual date of filing the Report on Controlled Transactions, in case it is filed later.

The List of Low Tax Jurisdictions

If a non-resident company – counterparty of a Ukrainian company – is registered in the country/territory that is included in the list, the transactions with such non-resident shall qualify as controlled transactions (provided that the thresholds mentioned above are met, regardless of relation between a non-resident and Ukrainian company). If a transaction does not qualify as a controlled transaction (when thresholds are not exceeded) a Ukrainian company shall adjust its financial result by 30% of the value of goods / works / services purchased from such a supplier or sold to a resident from low-tax jurisdiction or substantiate that the cost is at arms' length.

Financial result before tax will be increased by the full amount of the value of goods, including non-current assets (except for assets under the right of use according to lease agreements), works and services purchased from non-residents or sold to non-residents from low-tax jurisdictions, if such transactions do not have a business purpose.

The list of low-tax jurisdiction includes 79 countries. Cyprus, Hong Kong, Dominican Republic, Islamic Republic of Iran, Republic of Cuba, Lebanese Republic, Republic of Mauritius, Kingdom of Morocco, Principality of Monaco, United Arab Emirates, Puerto Rico, Republic of Singapore, and some others are in the list.

The List of Special Types of Legal Entities

There is also the List of Special Types of Legal Entities that do not pay CIT or are fiscally transparent entities. If a non-resident company – counterparty of a Ukrainian company – is established in a special legal form that is mentioned in the list – the transactions with such non-resident could qualify as controlled transactions (provided that the thresholds mentioned above are met, regardless of relationship between a non-resident and Ukrainian company). If a transaction does not qualify as controlled transaction (when thresholds are not exceeded) a Ukrainian company shall adjust its financial result by 30% of the value of goods / works / services purchased from such a supplier or sold to non-residents from the List of Special Types of Legal Entities or substantiate that the cost is at arms' length.

The financial result before tax will be increased by the full amount of the value of goods, including non-current assets (except for assets under the right of use under lease agreements), works and services purchased from non-residents or sold to non-residents from the List of Special Types of Legal Entities, if such transactions do not have a business purpose.

The list of special types of legal entities includes, inter alia, Australia (GP, LP), Austria (OHG, OEG, KG, KEG, GesbnR, GmbH & Co.KG), the United Kingdom (LP, LLP), Israel (GP, LP), Canada (GP, LP, EPC), Malta (Partnership en commandite, Partnership en nom collectif), Germany (GbR, Stille Gesellschaft, KGaA, KG, OHG, GmbH & Co.KG, AG & Co.KG, UG & Co.KG, GmbH & Co. KGaA, AG

& Co. KGaA, GmbH & Co. OHG), USA (States of Delaware, California, Nevada, New Jersey, New York, Texas, Florida – GP, LLP, LLC), France (S.N.C., S.C.S., G.I.E., Societe civile, Societe en Participation, Fonds Commun de Placement a Risques).



Controlled foreign companies

A controlled foreign company is any foreign legal entity under the control of a natural person - resident of Ukraine or a legal entity - resident of Ukraine. In some cases, a controlled entity without the status of a legal entity, in particular, partnerships, trusts, funds, may also qualify as a controlled foreign company.

A foreign company is recognized as controlled if the controller:

- a) owns a share in a foreign legal entity of more than 50%, or
- b) owns a share in a foreign legal entity in the amount of 10% and more, provided that several persons - residents of Ukraine own shares in a foreign legal entity, the total amount of which is at least 50%, or
- c) separately or together with other residents of Ukraine - related parties exercise actual control over a foreign legal entity.

A person **is not recognized** as a controlling person if his possession is realized through direct or indirect possession in another legal entity - a resident of Ukraine, provided that the latter is recognized as a controlling person.

The payer of income tax of a controlled foreign company is the controlling person.

The taxable base for personal income tax or corporate income tax of the controlling person is the part of the adjusted profit of the controlled foreign company, proportional to the share owned or controlled by such person. The specified part of the profit of the controlled foreign company:

- is included in the total annual taxable income of the controlling person, or
- increases the object of taxation by corporate income tax of the controlling person.

Adjusted income of a controlled foreign company is recognized as the profit of a controlled foreign company before taxation in accordance with its unconsolidated financial statements, in accordance with the accounting standards applied by the controlled foreign company.

Adjusted profit of a controlled foreign company **is not included in the income** if there is an agreement between Ukraine and the jurisdiction of the controlling company on the avoidance of double taxation or on exchange of tax information and:

- a CFC pays income tax at **an effective rate of at least 13%**. It is calculated by dividing the amount of expenses for the payment of corporate income tax by the amount of profit before tax; or
- **the share of passive income** of the CFC is not more than 50%; or

- if such a CFC has a substance.

Also, adjusted income is not included into income of a controlling person if:

- the total aggregate income of all CFCs does not exceed **EUR 2 000 000**; or
- a CFC is **a public company** whose shares are traded on the stock exchange; or
- a CFC is **a charitable organization**.

Controller shall submit a CFC Report together with personal income tax return before May 1 of the year following the reporting one.



Indirect taxes

Value Added Tax (VAT)

VAT is an indirect tax that is included in the price of goods (services) and is paid by the buyer, but transferred to the state budget by the supplier (tax agent).

Taxpayers are residents, both individual persons and legal entities, which operate in Ukraine (including a permanent establishment of non-resident) and persons that import goods into the customs territory of Ukraine.

VAT is also paid by the persons that are receiving consulting, engineering, legal, advertising and other services from non-resident with place of supply within the customs territory of Ukraine.

"Threshold" for mandatory **registration** as a VAT payer is set at the amount of UAH 1 million of taxable supplies during the last 12 calendar months. Other entities (except for simplified tax payers of the 1st and the 2nd groups) may also opt for a voluntary registration, irrespective of the volume of taxable supplies.

Transaction on supply of goods (services) within the customs territory of Ukraine (carried out by both residents and non-residents) and import of goods into the customs territory of Ukraine (including in the form of rent or leasing) and export of goods from the customs territory of Ukraine qualify as VAT-able transactions.

There are some transactions that are not subject to VAT. There are also temporary benefits for supply and import of scrap metal, etc.

VAT base is determined as contractual value of goods or services, but not lower than the purchase price (or lower than market prices) of such goods/services or book value of fixed assets. The taxable amount shall include all state taxes, with some exceptions.

For imported goods, the tax base is contractual value, but not lower than customs value of the goods (that includes import duties and excise tax).

There are three **VAT rates** – standard (20%), reduced (14%, 7%) and zero (0%).

Zero tax rate applies to export of goods and export-related services, etc.

14% VAT rate applies to supply or import to the customs territory of Ukraine of certain types of agricultural products, including: barley, soybeans, cattle, milk, wheat, malt, corn, sugar-beet, linseed, rape, sunflower seeds, etc.

7% tax rate applies to:

- supply of medicines and medical equipment and their import into the customs territory of Ukraine;
- supply of services related to demonstration of performances, cinematic premieres, cultural and artistic events, conducting excursions, adapted films for persons with visual and hearing impairments;
- selling tickets on huge sports events;
- supply of hotel services.

VAT exemption for certain types of transactions:

- import of waste and scrap of ferrous and non-ferrous metals and paper and cardboard for disposal;
- supply films and supply services of film production in Ukrainian;
- special personal protective equipment, defense goods, some medicines and medical devices), etc.

The taxpayer reduces the amount of "output" VAT accrued during the reporting period by the amount of "input" VAT paid to its suppliers supported by VAT invoices received from them or by the import customs declaration.

VAT invoice is electronically formed by the supplier (counterparty) for each supply and shall be registered in the tax authority database.

Reverse-charge mechanism applies to services received from non-residents (if the place of supply is the customs territory of Ukraine). This mechanism implies self-assessment of 20% VAT by the Ukrainian recipient of services in the tax period (month) of their receipt. In the same tax period the recipient is entitled to credit input VAT which effectively results in no VAT payment in the relevant tax period. The reverse-charge mechanism does not apply if a non-resident service provider has a permanent establishment registered as a VAT payer in Ukraine. In this case, the representative office is in charge of assessing VAT liabilities, offsetting them against the input VAT, and transferring the positive difference to the state budget.

Ukrainian tax authorities are entitled to suspend a taxpayer's right to register VAT invoices and adjustments to the registered VAT invoices if a transaction meets the criteria for suspicious transactions.

VAT on Electronic Services

Non-residents with no permanent establishments in Ukraine who supply electronic services on the customs territory of Ukraine in favour of individuals, including granting access to electronic services through electronic interface, granting technical, organizational, informational and other possibilities using information technologies and systems to establish contacts and entering into agreements between sellers and buyers and / or supply such electronic services under agency agreements in their own name but for the benefit of the supplier of electronic services qualify as VAT payers in Ukraine (so-called "google tax"). Such non-resident is required to register as a VAT taxable person in Ukraine if the total volume of supplies of electronic services on the customs territory of Ukraine in favour of individuals for the previous calendar year exceeds the threshold of UAH 1 million. Such non-resident supplying electronic services in favour of individuals may also voluntarily register as a VAT taxable person in Ukraine.

Non-residents with no permanent establishment in Ukraine supplying goods or services, other than electronic services, do not qualify as VAT payers in Ukraine.

VAT refund

Taxpayers are entitled to claim the amount of excessive VAT paid to be refunded from the state budget.

VAT return should be submitted only in electronic form.

The tax is paid on the basis of the result for the reporting period, which is a calendar month. VAT returns are submitted to the tax authorities within 20 calendar days following the end of each reporting month.

Negative difference between the amount of output VAT (charged on taxable supplies) and input VAT (paid on taxable purchases) represents the amount of VAT refund.

Electronic system of VAT administration

The system provides that the payable VAT amounts are accumulated at the respective taxpayers' accounts at the State Fiscal Service of Ukraine. The system also provides a special order of funds spending from this account. All taxpayers' transactions that have an impact on VAT records shall be registered in the electronic database of the State Fiscal Service of Ukraine.

Excise tax (ET)

ET is an indirect tax on consumption of excisable goods (products) that is included in the price of such goods (products).

Excisable goods include:

- spirit and alcohol, alcohol distillates, beer (except for «live» fermented kvass);
- tobacco and tobacco products;
- raw tobacco, tobacco waste;
- liquids used in electronic cigarettes
- cars, car-trailers, motorbikes and other vehicles for freight;
- electricity;
- fuel.

ET payers are mainly manufacturers and importers of excisable goods, retailers selling the above products, as well as those that sell fuel.

The object of excise tax is the sale of excisable goods (products), as well as their import into the customs territory of Ukraine. The object of taxation is also volume and value of lost excise goods due to the taxpayer's fault.

There is a wide range of transactions that are not subject to ET or are exempt from ET, e.g., transactions on export of excisable goods (products) by the taxpayer from the customs territory of Ukraine.

Tax base differs depending on the applicable rates:

- ad valorem (relative) rate – a percentage of the value of goods. It applies to electricity;
- specific (absolute) rate – is fixed amount per unit in kg, litre, cm³, items, etc. It is applicable to ethyl spirit, alcoholic beverages, petroleum products, vehicles and fuel;
- combined rate – both percentage of the value of goods and fixed amount per sold unit of goods (products). It applies to tobacco and tobacco products.

Absolute excise tax rates are reviewed annually taking into account consumer price index, producer of industrial production price index and prices of industrial products producers.

Tax liability on excisable goods (products) produced in the customs territory of Ukraine arise on the date when the product is sold by producer, and in case of import of excisable goods (products) to the customs territory of Ukraine – on the date of their customs clearance.

The tax is paid by ET payers on a monthly basis based on the volume of taxable sales. For alcoholic beverages containing ethyl ET is payable upon acquisition of the ET stamps.

For imported excisable goods (except for ET stamped products) tax is paid before or on the day of submission of customs declaration. Importers of excisable stamped goods pay excise tax when buying ET stamps (with additional payment as of the date of tax return submission, if necessary).

There are certain ET peculiarities set forth for alcoholic beverages and tobacco products. Obligatory condition for the sale of such excisable goods is that they should contain ET stamp thereon. In order to ensure completeness of the excise tax liabilities payment, there are excise warehouses created within the company's premises which produce such products.



Currency control

Due to imposition of martial law in Ukraine the NBU has introduced a number currency limitations by its Resolution No 18 of February 24, 2022 «On Banking System during the Martial Law». Among them is prohibition of cross-border currency transfers from Ukraine / to the correspond accounts of non-resident banks in UAH/foreign currency opened in resident banks, including transfers made upon clients' authorizations. However, there is a list of transaction that are allowed, and this list is increasing.

In particular, banks shall not make transfers abroad under the following transactions:

- payment for goods or services purchased before 23.02.2021,
- payment for services that are not specifically allowed by the NBU,
- payment of dividends,
- repayment of the credit facilities under the loan received before 20.06.2023. and certain others.

There are some exceptions, such as:

- payment for goods purchased after 23.02.2021 or services, specified in special List;
- transferring payments for vehicle leasing and vehicle rental agreements;
- transferring funds to branches of legal entity, representative offices and other separate divisions (under certain conditions);
- repayment for credits, under certain conditions (loan after 20.06.2023, max 12% rate and etc.), and certain others

It is prohibited to withdraw cash in the amount exceeding UAH 100'000 per day (approx. Euro 2 400).

Payments under cross-border transactions shall be made within 180 calendar days. This term does not apply to payments in currency for the amount up to currency EURO 9 600. Set-off of counterclaims is not allowed.

Servicing of the accounts of the residents of the Russian Federation / Republic of Belarus, as well as legal entities (except banks) with the ultimate beneficial owners being residents of the Russian Federation / Republic of Belarus is prohibited.



Customs duties

Movement of goods across the customs border of Ukraine are taxed by the following customs charges:

- duty;
- excise tax;
- Value Added Tax (VAT).

Besides, state duty may be applied.

The customs value of goods that determined on the basis of the main (as per contractual value) and secondary methods (5 methods) is a basis for customs charges accrual.

Ukrainian Harmonized System (hereinafter UHS) was adopted for customs charges accrual. UHS is based on the Harmonized Commodity Description and Coding System and the Combined Nomenclature of the European Union.

UHS consists of 97 commodity groups. For each group a ten-digit code is assigned. The Law of Ukraine on "Customs Tariff of Ukraine" determines three types of import duties: preferential, privileged and full for each type of goods.

Export duties apply only to certain limited categories of goods and raw materials, in particular to:

- waste and scrap of ferrous and non-ferrous metals,
- some oil seed crops,
- livestock and leather materials.

Excise tax and VAT are paid only based on the value of goods imported into the customs territory of Ukraine.

An entity that imports goods into the customs territory of Ukraine determines the amount of payable import duties depending on the type, base and rates stipulated by the Customs Code of Ukraine (CCU) and the Tax Code of Ukraine (TCU). With the aim to determine, accrue and pay VAT and customs duty the importer is required to define the customs regime for goods' import into the customs territory of Ukraine. Under the CCU there are 14 customs regimes for this purpose.

The self-assessed customs duties are payable by taxpayers directly to the state budget, i.e. to the state treasury single account, before or on the date of submitting the customs declaration; in some cases, in some cases customs duties can be paid in cash.

Import/Export Regulations

Movement of goods across the customs border of Ukraine is carried out at the checkpoints across the state border of Ukraine, listed by the Cabinet of Ministers of Ukraine.

The CCU stipulates that movement of goods across the customs border of Ukraine may be carried out by means of:

- air transport,
- water transport,
- automobiles,
- railways,
- pipelines,
- power lines,
- multimodal transport.

In case of import of goods into the customs territory of Ukraine an import applicant or a person authorized by the applicant shall inform the state customs authorities about its intention to import the goods in advance.

Taxes on goods that are transported by individuals across the customs border of Ukraine

There are a two-channel system for individuals to cross the customs border of Ukraine:

- green corridor - with no customs duty liabilities,
- red corridor - in all other cases.

Citizens passing through the "green corridor" are exempt from filing a written declaration. Exported goods with the total invoiced value more than EUR 10'000 are subject to filing the written declaration and are subject to customs duty (if applicable).

The following goods are exempt from customs duties:

- goods imported by citizens not more than once during the day across air transport checkpoints on the state border of Ukraine in the accompanied baggage and/or hand baggage, and with the total invoiced value that does not exceed EUR 1'000;
- goods imported by citizens not more than once during the day across other than air transport checkpoints on the state border of Ukraine in the accompanied baggage and/or hand baggage, and with the total invoiced value that does not exceed EUR 500 or total weight of goods does not exceed 50 kg;

- goods (excluding those that are subject to excise duty) with the total invoiced value that does not exceed EUR 150 which are sent to the address of one recipient through international delivery or which are transported to Ukraine not in the accompanied baggage.

Certain products have restrictions on import into the customs territory of Ukraine.

Due to the war, import of certain products are exempt from customs duties or have preferential regime in taxation and carrying across the border.



Financial Statements

The following companies are required to prepare financial statements and consolidated financial statements under IFRS:

- Public joint stock companies, banks and insurance companies
- Large enterprises
- Other financial institutions which are larger than "small enterprises"
- Enterprises whose shares are listed on stock exchange or whose shares are publicly offered
- Enterprises performing extraction of nationwide raw materials (gas, oil, main ores, coal, etc)
- Parent company of the group which has entities that qualify as Public Interest Enterprise
- Parent company of the large group which do not qualify as the large enterprise itself.

Public Interest Enterprises, public joint stock companies, natural monopolies of the state market and enterprises operating in the extraction sphere, as well as medium sized companies shall publicly disclose on their web-site their annual financial statements along with the audit report, report on management, consolidated report on management, report on payments to the state.

Medium size enterprise shall meet simultaneously two of the following criteria:

- Book value of assets shall be up to Euro 20 million
- Annual turnover shall be up to Euro 40 million
- Average number of employees shall be up to 250 persons

Large enterprise shall meet simultaneously two of the following criteria:

- Book value of assets shall exceed Euro 20 million
- Annual turnover shall exceed Euro 40 million
- Average number of employees shall exceed 250 persons



Contact Nexia DK in Ukraine



Olena Voznyuk

Partner. Tax and Legal Services

T: 067 243 42 29

E: OlenaVoznyuk@nexia.dk.ua

www.nexia.dk.ua

www.nexia.com

NEXIA DK is a member firm of the Nexia network. Nexia International Limited does not deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia network (including those members which trade under a name which includes the word NEXIA) are not part of a worldwide partnership. Member firms of the Nexia network are independently owned and operated. Nexia International Limited does not accept any responsibility for the commission of any act, or omission to act by, or the liabilities of, any of its members. Nexia International Limited does not accept liability for any loss arising from any action taken or omission on the basis of the content in this **short guide to doing business in Ukraine** or any documentation and external links provided. The trademarks NEXIA and the NEXIA logo are owned by Nexia International Limited and used under license. References to Nexia or Nexia International Limited or to the "Nexia" network of firms, as the context may dictate. For more information, visit www.nexia.com.