

Tax Regulation in War

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1. Tax authorities, as well as financial system, work **properly**
2. Taxpayers **should pay taxes** unless there is force-majeure related to martial law
3. Ukrainian Parliament is extremely effective nowadays

All the terms, established by the tax legislation **are suspended**

A **moratorium** has been established on documentary tax audits and on audits re unified social contribution

Only **two types** of tax audits are allowed:

In-house tax audit for the VAT
refund

Actual tax audits, which may
cover the issues of:

- existence of required licenses
- legislation on cash registers and cash circulation
- employment legislation

Taxpayers are released from:

- liability for non-fulfillment of tax obligations;
- Fines;
- Penalties

Tax authorities released from:

- liability if the damage was caused by the legal regime of martial law;
- penalties for the unreimbursed amount of budget reimbursement of VAT.

Special tax regime: 2% rate from turnover for business

From April 1, 2022, **taxpayers (companies and private entrepreneurs)** have the opportunity to switch to a special tax regime at a rate of **2%**

- **no restrictions** on the number of employees;
- **no VAT, no import duties** (except for imports of goods from the territory or manufactured by the aggressor country and import of excisable products such as tobacco, alcohol, etc.);
- **no corporate income tax**;
- **special application** to the tax authority is needed, prior to usage of such regime

Diia City

- Diia City provides a **unique tax and legal regime** for IT businesses.
- Diia City **is working now**. Everyone who complies with the requirements **can apply to join it**.

Benefits of Diia City Residents:

Decreased Payroll Taxes:

- 5% personal income tax
- Minimal social contribution (approx. EUR 40 per month)
- 1.5% military tax

Corporate Tax:

- 9% exit capital tax or 18% income tax

Pending initiative of Ukrainian Parliament

(Draft Law No. 7232): **additional taxation for the taxpayers having economical ties with the Russian Federation**

The list of taxpayers which have economic ties with Russia is quite extensive and includes:

- legal entities - residents of Ukraine, **founded (co-founded) by Russia or its citizens;**
- legal entities - residents of Ukraine who receive **income in any form with a source of origin from Russia;**
- legal entities - residents of Ukraine, which are **members of an international group of companies**, if the parent company or any other member of such international group of companies receives **income with a source of origin from Russia** or provide economic support to Russia;

The increased coefficient of 1.5 will apply to the tax liability of taxpayers.

This approach will only apply **to some taxes**, in particular:

- corporate income tax (except for withholding tax),
- environmental tax,
- rent and
- property tax.

1.5% of the amount of income (revenue) of the taxpayer will be used for each tax (reporting) period when the taxpayer did not use the increase coefficient.

Exemptions from applying the increased taxes:

- the Government will develop criteria according to which some taxpayers related to the Russia may be exempted from applying the increase coefficient.

For example, the exemption will apply to taxpayers whose economic activities **are of social, humanitarian or economic importance to Ukraine**, in particular if they supply goods, equipment and facilities that are not manufactured and have no analogues in Ukraine.

- **public announcement** of the company (its headquarter) on stop of operations in Russia, which will make it possible not to apply the increase coefficient for 18 calendar months from the date of entry into force of the Law

Changes in other taxes

Single tax for individual entrepreneurs:

- For individual entrepreneurs, single taxpayers of group I and group II, **the payment of the single tax becomes voluntary.**

Unified social contribution:

- Individual entrepreneurs, persons engaged in independent professional activities, and members of the farm **have the right not to and not pay a unified social contribution for themselves.**
- Individual entrepreneurs and legal entities who have chosen the simplified taxation system and are single taxpayers of groups II or III, have the right **not to pay a unified social contribution** for employees called up for military service **in the Armed Forces of Ukraine.**

VAT:

During the war period, goods purchased with VAT **are not considered to be used in taxable transactions or non-economic activities** in case if such goods:

(1) destroyed (lost) due to force majeure;

(2) transferred to state or communal ownership, for the benefit of voluntary formations of territorial communities, as well as provided for the benefit of others for the needs of ensuring the defense of Ukraine during martial law.

Proper documenting of such transactions is important.

VAT (continuation):

The transfer of goods (provision of services) **is not considered to be a supply** and VAT **is not taxed**:

- *in favor of Armed Forces of Ukraine, other agencies created for protection of public safety, and the interests of the state;*
- *in favor of The State Emergency Service of Ukraine, civil protection forces and/or health care institutions of state and/or communal property, and/or structural units for health care of regional, Kyiv and Sevastopol city state administrations.*

This does not apply in cases where such transactions for the supply of goods and services **are taxed at 0 %**.

Charity payments to individuals

Aids paid to individuals **are not included in taxable income** and shall not be taxed by the recipient respectively if such aids are provided to individuals, who suffered from armed aggression of the Russian Federation within the period of war.

Such charity **should be distributed** through state or municipal budget or via bank accounts of charitable organizations, Red Cross Society of Ukraine, registered in the Register of non-profitable organizations and entities.

The charity payments shall not be taxable if it were **received for the medical purposes** in particular, medical treatment, medical care, for compensation of the costs on acquisition of medicines, donor components, paid treatment etc.

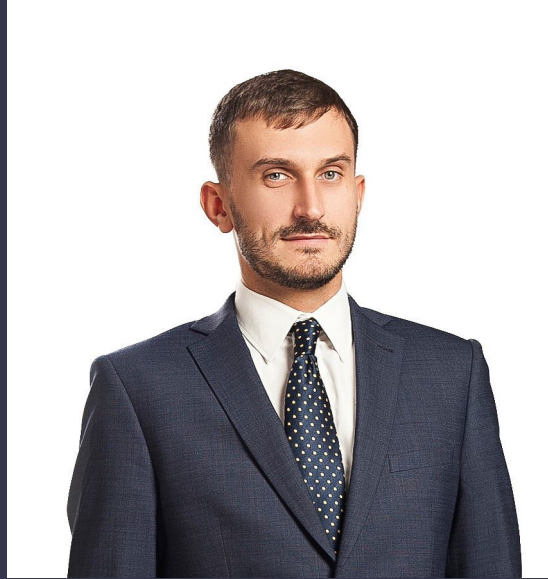
And in case if individuals residing or having resided in the area, which is subject to military operations during the war receive payments not from local grantors, **but from international charity organization such charity shall not be taxably in full** depending on the direct purposes.

Corporate income tax in case of charity

For companies that provide charitable assistance, **does not lead to an increase in taxable income** by providing with:

- cash;
- special personal protective equipment ;
- technical means of observation;
- medicines and medical devices;
- personal hygiene products;
- food;
- items of material support;
- other goods

if such **funds, goods, or services are voluntarily transferred to the Armed Forces of Ukraine and other institutions or organizations maintained at the expense of the state budget** for the needs of state defense in connection with the military aggression of the Russian Federation against Ukraine.



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