

Tax News

by Konnov & Sozanovsky


**KONNOV &
SOZANOVSKY**
ATTORNEYS AT LAW

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Overview of the New Personal Income Taxation Act

On May 22, 2003 the Ukrainian Parliament adopted the *Ukrainian Personal Income Taxation Act*. According to the Act, both residents and non-residents are considered taxpayers.

The non-residents tax base includes the income received from the sources on the territory of the Ukraine. The income received by non-residents that have diplomatic privileges is non-taxable (on the reciprocity basis). The Act provides new understanding of residency, which is the «strong personal and economic bonds of person and state (center of vital interests)». Besides the 183 days term remains as the residency indicator. The Act levies «punishment» on persons with dual citizenship by establishing double taxation.

The tax base for non-residents includes: (1) gross monthly income received from the sources in the Ukraine; (2) gross annual income received from the sources in the Ukraine; (3) the income from the sources in the Ukraine that is taxable at the time of payment and is not included in the gross income.

When the income is accrued in foreign currency or other assets nominated in foreign currency, it shall be converted to UAH at the NBU's exchange rate as of the date of the income actual receipt.

23 Shota Rustaveli Street,
Suite 5, Kiev, 01023, Ukraine
Tel.: +380 (0)44 490-5400
Fax: +380 (0)44 490-5490
E-mail: info@konnov.com
www.konnov.com

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The gross monthly income includes the following: salary (received under either labor agreement or civil agreement); income received from alienation of intellectual property rights, copyright remuneration, other payments received for usage of intangible assets (scientific, art, or literature works), royalty; price of gifts (with certain exceptions); insurance premiums (with certain exceptions); income received from property transactions; rent payments; income received from securities transactions and investment activities.

The tax rate for the 2004-2007 term is 13 % of tax base. Starting from January 1, 2007 the tax rate shall be 15 % of taxable base.

The Act provides the taxpayer with the right of tax credit. The tax credit includes interests of mortgage, donations to non-profit organizations (minimum 2 % and maximum 5 %), and payments to educational institutions.

The interest on bank deposits is taxed at 5 % rate. The doubled tax rate shall be levied on the income received as lottery prize (except for state lottery).

It is expected that the Act will come into force on January 1, 2004 after it is signed into law by the President of the Ukraine.

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