

Overview of tax system and tax administration

Ukraine's tax system is constantly evolving. At the time Ukrainian tax system contains a wide range of *national taxes and compulsory payments*. Below we outline the main Ukrainian taxes.

Corporate profits tax applies at a 25% rate to taxable profits earned by resident entities and permanent establishments of foreign companies.

VAT is levied at 20% rate on domestic supplies of goods and services and imports of goods, and at 0% on export of goods, supply of processing and repair services to non-residents, international transport services.

Personal income tax applies to income of individuals. Current tax rate for tax residents is 13% (15% from 1 January 2007). Income received by non-residents is subject to tax at the double standard tax rate (i.e., 26% and 30% from 1 January 2007), except for interest, royalty, dividends and salary incomes paid through Ukrainian payroll.

Pension and social security contributions. Ukrainian employers are liable to pay social security contributions in respect of their Ukrainian and foreign national employees at the following rates based on gross remuneration:

- 31.8% to the Pension Fund;
- 2.9% to the Social Security Fund;
- 1.3% to the Employment Insurance Fund;
- 0.66 – 13.6% to the Fund for Social Insurance regarding Accidents at Work. The tax rate depends on the level of risk of accident for enterprises belonging to certain sectors of the economy.

Ukrainian and foreign national employee's contributions based on gross remuneration are as follows:

- 2% to the State Pension Fund;
- 1% to the Social Security Fund; and
- 0.5% to the Employment Insurance Fund (for Ukrainian national employees only).

In 2006 the taxable base for both the employer's and employee's payroll taxes (including social security and pension contributions) is capped per employee per month at UAH 4,830 (EUR 800) for the first quarter 2006. The cap will increase to UAH 4,960 (EUR 822) for the second and third quarter 2006 and UAH 5,050 (EUR 837) for the fourth quarter 2006.

Customs duty is payable by importers upon customs clearance of imported goods and applies in accordance with the Customs Tariff. Duty rate depends on customs classification of goods and country of origin.

Excise tax applies to certain goods imported into, or produced in, Ukraine. Excisable goods include alcoholic beverages, beer, tobacco and tobacco products, cars, and petrol and diesel fuel.

Other principal taxes include land tax, tax on owners of motor vehicles, stamp duty, charge on environmental pollution, and royalties for extraction of oil, natural gas and gas condensate.

In addition there are 14 different *local taxes* that may be levied at the discretion of the local authorities. The principal local taxes, applicable to business entities, include advertisement tax and municipal tax.

In order to check the compliance of an entity's activities with the tax legislation the tax authorities may carry out scheduled and out-of-scheduled *tax audits* of business entities. Scheduled audits should be carried on maximum once a year.

Non-compliance with tax legislation is subject to *finer and late payment interest*.

Limitation period in respect of tax liabilities is *1,095 days* (i.e., 3 years) following the last day of filing a tax return.