

TAX GUIDE UKRAINE

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GENERAL RULES AND IMPORTANT POINTS IN THE TAX SYSTEM OF UKRAINE

The Ukrainian tax system is closely linked to accounting principles based on the International Financial Reporting Standards (IFRS) and the Law of Ukraine “On Accounting and Financial Reporting in Ukraine.” The Tax Code of Ukraine (the “TCU”) also significantly impacts accounting practices in Ukraine.

Every accountant in Ukraine must have extensive knowledge of tax regulations. Typically, accounting is almost always responsible for ensuring proper tax reporting and compliance with Ukrainian tax laws. This also means that accounting practices are largely focused on proper record-keeping to comply with tax legislation.

Given the bureaucracy caused by an overly regulated tax system, it can be assumed that the role of a tax specialist / accountant in Ukrainian tax practices / accounting is significantly broader than under similar conditions in Western countries. Proper tax planning and also well-prepared tax reporting and accounting play a crucial role in reducing the tax burden on Ukrainian taxpayers.

In this brochure, we have attempted to summarize and review the key elements of the Ukrainian tax system: the nature and basics of the “most common” taxes, such as Corporate Income Tax (CIT), Value Added Tax (VAT), payroll taxes and contributions, and non-resident taxation. This brochure also includes our comments on the activities of a Permanent Establishment (PE) and the principles of transfer pricing, as all these have a significant impact on the tax activities that any legal entity in Ukraine must undertake.

Please note that the rules and practices we have followed in this brochure are general in nature and should be applicable to most taxpayers in Ukraine.

CORPORATE INCOME TAX (CIT)

CIT applies to taxable profits earned by resident legal entities both in Ukraine and abroad, as well as non-residents with a Permanent Establishment (PE) in Ukraine. Resident entities are taxed on their worldwide income, while non-resident entities are taxed on income earned in Ukraine.

CIT is paid on profits (income minus expenses) derived from sources in Ukraine and abroad, determined by adjusting (increasing or decreasing) the pre-tax financial result (profit or loss) as reported in the financial statements of the enterprise according to Ukrainian National Accounting Standards (NAS) or International Financial Reporting Standards (IFRS), with adjustments specified by the TCU.

Business entities-residents, foreign legal entities earning income from sources in Ukraine, and PEs of foreign companies are subject to CIT at 18% rate, calculated from the financial results according to NAS or IFRS, adjusted for tax differences.

Starting from 2024, the general CIT rate for banks increases to 25%.

In addition to the general CIT rate of 18%, insurance companies also pay a special income tax at 0% and 3% rate on their income. Payments under long-term life insurance, insurance contributions under voluntary pension programs, and contributions under voluntary health insurance are taxed at 0% rate; 3% rate applies to all other insurance premiums (except reinsurance contributions, premiums, and payments) received by the insurance company. These 0%- or 3%-income tax amounts reduce the tax base of the insurance company subject to the standard 18% rate.

For lottery organizations, an additional income tax is levied at 28% rate in 2020 and 30% from 1 January 2021; operation of slot machines is taxed at 10% rate; and 18% rate applies to betting offices and other gambling activities (including casinos). Unlike CIT for insurance companies, 10% or 18% CIT paid on gambling income does not reduce the taxable profit of the gambling company (the standard 18% rate applies to the full amount of taxable profit).

The following enterprises are exempt from CIT:

- Non-profit organizations (budget organizations, charitable organizations, and political parties);
- Entities that have opted for the Simplified Taxation System (with an annual transaction income of approximately UAH 6,480,000, ~ EUR 162,000);
- Agricultural producers.

Corporate income taxpayers are divided into two main categories according to the return form:

1. Quarterly taxpayers are companies that are required to submit a tax return on a quarterly basis. These are enterprises whose income for the last annual reporting period exceeds UAH 40 million (~ EUR 890 thousand) or those engaged in specific types of activities that require more frequent reporting. Such enterprises report their income four times a year—separately for each quarter.
2. Annual taxpayers are companies that are permitted to submit a tax return once a year. This category includes enterprises whose income for the last annual reporting period does not exceed UAH 40 million (~ EUR 890 thousand) or those engaged in activities that allow for reporting only once a year.

All taxpayers, whether quarterly or annual, are required to submit an annual CIT return. This must be done within 60 calendar days after the end of the reporting (tax) year. For example, the return for 2024 must be submitted by 28 February 2025.

As a general rule, the taxpayer is obliged to pay the tax liability amount specified in the submitted tax return within 10 calendar days following the last day of the relevant deadline provided by the TCU for the submission of the tax return, except in cases established by the TCU.

Table No. 1 presents a comparison of CIT for Ukraine, Poland, and Germany.

Table No. 1
Comparison of CIT for Ukraine, Poland, and Germany

	Ukraine	Poland	Germany
CIT rate	18%	19% (standard) 9% (for small enterprises)	15% (standard CIT rate) approximately 30-33%, including municipal tax
Tax rate for sole proprietors	5% (simplified system) 18% (general system)	17%-32% (progressive scale for individuals)	Progressive scale up to 45% (depending on income)
Tax groups for sole proprietors (Ukraine)	Group 1: up to UAH 1.085 million (~ EUR 27,125); Group 2: up to 5,421 million UAH (~ EUR 135,525); Group 3: up to UAH 7.585 million (~ EUR 196,125) (with different tax rates)	No specific tax groups for sole proprietors	No specific tax groups for sole proprietors
Discounts for small businesses	None	9% (for enterprises with income up to EUR 2 mil.)	None
Tax year	Calendar year	Calendar year	Calendar year or fiscal year
Loss carryforward	1 year forward	5 years forward	Unlimited forward carry, limited backward carry
Incentives for foreign investors	Mechanisms for stimulating investment and development (industrial parks, special investment agreements), mechanisms of state support for certain sectors of the economy, and state support for investment projects with significant investments (in accordance with the Law of Ukraine „On State Support of Investment Projects with Significant Investments in Ukraine“).	Tax rebates and incentives for foreign investors	Tax rebates and incentives for foreign investors
Tax credits and incentives	Tax holidays, benefits for IT companies	Tax credits for research and innovation projects	Tax credits for research and innovation projects

VALUE ADDED TAX (VAT)

According to Ukrainian legislation, there are four VAT rates: 20%, 14%, 7%, and 0%. 20% rate applies to all VAT-taxable transactions, except for certain operations that are taxed at 14%, 7%, or 0% rates.

14% rate applies to the import and supply of certain agricultural products in Ukraine (plant-based products such as corn, soybeans, sunflower seeds, and some other goods).

The reduced 7% rate applies to the supply and import of qualifying pharmaceuticals and special medical goods.

0% VAT rate applies to the export and re-export of goods, international transportation, toll manufacturing for re-export, and certain other services.

Providing services to a non-resident is not considered zero-rated. Such services are subject to 20% VAT or are considered outside the scope of VAT (effectively exempt without the refund of input VAT), depending on the place of supply determined by law.

Starting from 1 January 2022, the supply of B2C digital services to Ukrainian customers by non-residents is subject to 20% VAT, unless a specific VAT exemption applies (currently, only certain online education services might potentially be exempt). For these purposes, “digital services” are defined as services provided over the Internet automatically using information technology and mostly without human interaction, including by installing special programs on smartphones, tablets, or other devices (with certain exceptions).

Non-VAT taxable operations include the issuance and exchange of securities, debt transfers, certain leasing activities, financial services, insurance, and reorganization of legal entities and other types provided by law.

VAT-exempt operations cover transit of goods and passengers, imports for international aid, and certain goods for military purposes during martial law and other types provided by law.

Table No. 2 shows a comparison of VAT taxation in Ukraine and European countries.

Table No. 2
Comparison of VAT taxation in Ukraine and European countries

	Ukraine	Poland	Germany	France
Taxpayer	Legal entities, individual entrepreneurs	Legal entities, individual entrepreneurs	Legal entities, individual entrepreneurs	Legal entities, individual entrepreneurs
VAT Rate	20% (standard) 7% (reduced)	23% (standard) 8% 5% (reduced)	19% (standard) 7% (reduced)	20% (standard) 10%, 5.5%, 2.1% (reduced)
VAT on Exports	0%	0%	0%	0%
VAT on Imports	20% (if reduced rates do not apply)	23% (if reduced rates do not apply)	19% (if reduced rates do not apply)	20% (if reduced rates do not apply)
VAT for Non-residents	Applied on equal terms with residents	Applied on equal terms with residents	Applied on equal terms with residents	Applied on equal terms with residents

PAYROLL TAXES AND CONTRIBUTIONS

In Ukraine, the following main taxes are deducted from wages:

- 18% - Personal Income Tax (PIT). Tax base: the total income of an employee, including salary, bonuses, etc.
- 1.5% - Military Tax. Tax base: the total income of an employee.

In addition, there is Unified Social Contribution (USC) accrued at the rate of 22% on top. Tax base: the payroll fund, including base salary, additional payments, bonuses, and other income subject to PIT.

The employer (company) must withhold all three taxes no later than the time of wage payment. Additionally, banks are required to monitor this obligation. The tax payment must be indicated on the payment order itself. Unlike other countries, the USC is an additional obligation that the employer pays. Thus, a company must increase its costs for each employee by 22%. It should be considered when calculating the financial structure and expenses in Ukraine.

At the same time, the amount payable to the employee is reduced by the amount of the Military Tax and PIT (total 19.5%), which are considered deductions from the employee's wage. Therefore, under Ukrainian law, the employer is a tax agent and is obliged to withhold and remit certain taxes to the state budget of Ukraine.

Wages are paid based on the employment contract. The minimum wage in Ukraine, as at 1 April 2024, is UAH 8,000. This means that it is not legally permissible to hire an employee in Ukraine and pay less than this amount. There is also a requirement to pay wages twice a month: an advance payment for the current month must be made between the 15th and 20th day of each month, and the remaining salary must be paid between the 1st and 7th day of the following month.

Table No. 3 Ukrainian simulation of payroll taxation, EUR.

Table No. 3
Ukrainian simulation of payroll taxation, EUR

Gross salary		Rate	621 €	1,863 €	3,727 €	%, for 500 €	%, for 1,000 €	%, for 3,000 €	Average %
PIT	Personal Income Tax	18%	112 €	335 €	671 €				
MT	Military Tax	1.5%	9 €	28 €	56 €				
Net salary			500 €	1,000 €	3,000 €	80.5%	80.5%	80.5%	80.5%
USC	Unified Social Contribution	22%	137 €	410 €	578 €				
Total employee			121 €	363 €	727 €	19.5%	19.5%	19.5%	19.5%
Total employer			137 €	410 €	578 €	22%	22%	15.5%	19.8%
Total taxes			258 €	773 €	1,304 €	41.5%	41.5%	35%	39.3%

WITHHOLDING TAX (WHT)

The TCU provides 15% tax rate on the income of non-residents, which is withheld by the resident or PE of the non-resident from any income received from Ukrainian sources, unless otherwise provided by the relevant bilateral Double Tax Treaty (DTT). Ukraine is a party to more than 70 DTTs. A special 18% rate applies to profits received by non-residents from interest-free (discounted) treasury bonds.

Income from Ukrainian sources includes:

- Interest and discount income paid to non-residents, including interest on loans and debt obligations issued by a resident
- Dividends paid by a resident
- Royalties
- Freight and income from engineering services
- Leasing / rental payments made by residents to non-residents – lessors / landlords under operational lease / rental agreements
- Income from the sale or other alienation of real estate or an indivisible object of unfinished construction / future real estate object or divisible object of unfinished construction located or which, after putting into operation, will be located in Ukraine and belong to a non-resident
- Profit from transactions involving the sale or other alienation of the following investment assets.

Income from Ukrainian sources in the form of profit from the sale of shares or corporate rights pertains only to those issued by Ukrainian companies. Therefore, the sale of shares or corporate rights issued by non-residents is currently not subject to the non-resident income tax in Ukraine.

A resident or PE of a non-resident is obliged to withhold non-resident income tax at a rate of 15% when paying income from Ukrainian sources to a non-resident (including the payment of such income to non-residents' accounts held in national currency).

In 2019, Ukraine ratified the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting (MLI). Thus, if Ukraine and another country decide to apply the MLI to their DTT, the MLI provisions will modify the DTT provisions.

Ukraine denounced its Double Tax Treaties with the Russian Federation in May 2022, with Belarus - in November 2022, and with Syria - in September 2023, which have since ceased to be effective.

Table No. 4: WHT in Ukraine.

Table No. 4 WHT in Ukraine

Notes:

DTT refers to Double Tax Treaties, which are agreements between two countries to avoid double taxation. The specific provisions and benefits depend on the particular treaty in force between Ukraine and the non-resident's country of residence.

WHT rates may vary under specific circumstances or exemptions as detailed in the applicable DTT.

Type of a Non-Resident's Income	Tax Rate as per the TCU	DTT Application
Dividends	15%	Reduced rates or exemption possible, if a DTT applies 0%-15% (depending on DTT)
Royalties	15%	Reduced rates or exemption possible, if a DTT applies 0%-10% (depending on DTT)
Interest	15%	Reduced rates or exemption possible, if a DTT applies 0%-10% (depending on DTT)
Freight Income	6%	Can be reduced to 0% under certain DTTs
Income from the Sale of Property in Ukraine	15%	DTT may allow for taxation in the resident country only
Advertising Services	20%	Exemption or reduction under certain DTTs is possible
Rent for the Use of Real Estate	15%	DTT may allow for a lower rate or exemption
Agency Fees	15%	Reduced rates or exemption possible, if a DTT applies
Capital Gains	15%	DTT may allow taxation in the resident country only
Fees for Artistic, Sports, and Public Performance	15%	DTT may provide for a reduced rate or exemption
Insurance Premiums	15%	DTT may allow for a lower rate or exemption

PERMANENT ESTABLISHMENT (PE)

The Ukrainian definition of a PE generally aligns with the definition in the OECD Model Tax Convention, but with stricter criteria for agencies. Specifically, a non-resident's PE is defined as a fixed place of business through which the business activities of a non-resident entity are wholly or partially conducted in Ukraine. A PE includes, among other things, a place of management, branch, office, server, etc.

The TCU includes the concept of a service PE, according to which the provision of services (other than personnel services), including consultancy services, by a non-resident through its employees or other personnel in Ukraine constitutes a Ukrainian PE of that non-resident, if such activity (within the framework of a single project) lasts more than 183 days within any 12-month period.

A construction site in Ukraine can also lead to a taxable presence of a non-resident in Ukraine in the form of a PE, if the duration of construction activities (within one or more related projects) performed by the non-resident through its employees or other engaged personnel exceeds 12 months.

The TCU also provides for the concept of an independent agent, meaning that a Ukrainian agent acting on behalf of more than one non-resident in the course of its ordinary activities should not be considered a PE in Ukraine.

However, there is a list of exceptions to the definition of a PE. In particular, under the TCU, auxiliary and preparatory services provided by a non-resident, as well as their combination, should not result in the creation of a PE. However, in practice, Ukrainian tax authorities often interpret the term "business activity" very broadly and, without DTT protection, may consider any type of activity as leading to a taxable presence (i.e., a PE) of a foreign entity in Ukraine.

Furthermore, a non-resident's PE may also be recognized, if several related non-residents conduct activities in Ukraine, and such activities collectively go beyond preparatory or auxiliary in nature for such a group of non-residents. However, this applies only to cases where the activities of related non-residents in Ukraine together constitute closely connected functions of a business process.

Additionally, if the activity of a non-resident leads to the creation of a PE, the Ukrainian tax authorities have the right to enforce mandatory tax registration of such a non-resident in Ukraine. A non-resident conducting business activities in Ukraine through its PE must also register with the Ukrainian tax authorities as a CIT payer.

Transactions carried out between a non-resident and its PE in Ukraine are considered controlled for transfer pricing purposes if their value exceeds UAH 10 million (~ EUR 243,902) (excluding indirect taxes) for the relevant tax (reporting) year.

TRANSFER PRICING

Transfer pricing (TP) rules were introduced in Ukraine on 1 September 2013.

Tax control over TP is based on the “arm’s length principle,” an international standard agreed upon by OECD member states and non-member states (over 130 countries worldwide) as a recommended standard for establishing transfer prices for tax purposes. This principle requires the tax obligations of related parties to be adjusted to the level of tax obligations of unrelated parties, provided that the commercial and/or financial conditions of the transactions they conduct are comparable.

Tax control over TP involves adjusting a taxpayer’s tax obligations to the level calculated under commercial and/or financial conditions that occurred during comparable transactions between unrelated parties.

The determination of the price in controlled transactions is carried out using the methods established in the TCU to verify the correctness and completeness of the accrual and payment of CIT.

The price in a controlled transaction is considered market-based for tax purposes, if the central executive authority responsible for forming and implementing state tax and customs policy has not proven otherwise, or if the taxpayer has used the price specified in the mutual agreement procedure during controlled transactions and the price specified in such an agreement cannot be challenged in the manner prescribed by the TCU.

If a taxpayer applies prices during controlled transactions that do not correspond to the market prices for the relevant goods (works, services) and if this discrepancy leads to an understatement of tax liability, the taxpayer has the right to independently adjust the tax liabilities and paid tax amounts.

Table No. 5 provides a comparison of TP rules for Ukraine, Poland, and Germany.

Table No. 5
Comparison of TP rules for Ukraine, Poland, and Germany

	Ukraine	Poland	Germany
Application	Controlled transactions with non-residents	Controlled transactions with non-residents	Controlled transactions with non-residents
Methods for Price Determination	5 methods: comparable uncontrolled price, resale price, cost-plus, profit split, transactional net margin	5 methods: comparable uncontrolled price, resale price, cost-plus, profit split, transactional net margin	5 methods: comparable uncontrolled price, resale price, cost-plus, profit split, transactional net margin
Documentation	Mandatory	Mandatory	Mandatory
Thresholds for Application	UAH 150 million (~ EUR 4 million) annual income and transaction amount exceeding UAH 10 million excl. VAT	From EUR 10 million annual income and transaction amount exceeding EUR 2 million (separate reports) or EUR 10 million (consolidated reports)	Annual income exceeding EUR 500,000, transaction amount exceeding EUR 100,000
Form of Reporting	Report on controlled transactions, local file (upon request by the Tax Service), master file, country-by-country reporting)	Local file, master file, country-by-country reporting)	Local file, master file, country-by-country reporting)
Penalties for non-compliance	Failure to submit a report / documentation: 300 minimum subsistence levels (approx. UAH 900,000, ~ EUR 22,500) Inaccurate data in the report / documentation: 1%-3% of the amount of controlled transactions, but not more than 300 minimum subsistence levels (UAH 900,000)	Inaccurate data in the report / documentation: up to PLN 5 million (~ EUR 11 million)	Inaccurate data in the report / documentation: 5%-10% of the amount of incorrectly declared transactions
	Additional penalties for understating profit or price mismatches: 3% of the transaction amount but not more than 200 minimum subsistence levels (~ UAH 600,000)	Additional penalties for understating profit or price mismatches: up to 30% of the undeclared tax liabilities	Additional penalties for understating profit or price mismatches: additional tax liabilities + possible penalty in case of significant violations
Transfer Pricing Audit	By request	Annual	Annual

**Form of Act of works performed / services rendered
Act of works performed / services rendered
to the Agreement**

Date _____

_____ (hereinafter - the „Customer“), represented by _____ ,
acting on the basis of _____ , on the one hand, and

_____ (hereinafter - the „Contractor“), represented by _____ ,
acting on the basis of _____ , on the other hand,

(hereinafter collectively - the „Parties“ and each individually - a „Party“) have entered into this Act of Works Performed / Services Rendered (hereinafter - the „Act“) as follows:

According to the Agreement _____ concluded between the Parties on _____ 20
(hereinafter - the „Agreement“), the Contractor provided the Customer with legal services and consulting services on legal matters for the Customer’s projects, and the Customer accepted the provided Services in full without any claims against the Contractor.

The total cost of services is _____ (_____) UAH.

This Act is made in two copies, one for each Party.

The Act, signed by both Parties, serves as the basis for payment for the provided Services.

SIGNATURES OF THE PARTIES

For the CUSTOMER:

For the CONTRACTOR:

Date

Date

YOUR CONTACTS



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Founded by Ulf Schneider in 2003, SCHNEIDER GROUP is an international consulting company providing services and expertise to support companies as they enter markets and grow their business in Eastern Europe, Central Asia and the Caucasus. With offices in 13 countries, the company has excellent opportunities to work with clients operating in different sectors and industries, and can leverage its extensive experience to provide a full range of business services across the region.

Over the next decade, international companies can be directly involved in a long-term rebuilding of the infrastructure, housing, construction, health care, agriculture and green transformation of the Ukrainian economy. The efforts of international governmental and private organizations to combine financing, know-how, innovation and technology are already underway to help Ukraine build back efficiently.

As Olaf Scholz told during 6th German-Ukrainian Business Forum:
Everyone who invests in Ukraine now is investing in a future EU member!

* Key facts about our office

- * Office is established in 2006
- * >40 employees, including 6 legal experts, 20 tax experts
- * ~ 60 clients (95% from Europe and North America)
- * Most of clients have retained since February 2022
- * Membership in EBA and AHK
- * Company is registered in The State financial monitoring service of Ukraine
- * All the Professional risks are insured