

Newsletter #03

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The National Bank of Ukraine reduces discount rate ones again

For the second time this year the National Bank of Ukraine (NBU) has made a decision to reduce the discount rate by 0.5% to 6.5% per annum. The new rate came into effect on 13.08.2013.

The last time NBU changed the discount rate also by 0.5% to 7% per annum on 10.06.2013.

The NBU explained such reduction by the low level of consumer inflation and improvement in market expectations. Experts hope that this reduction will have a positive impact on the credit market and will lead to reduction of credit rates for businesses and people.

Administration of Single Social Contribution shifted to Ministry of Income and Charges

Administration of Single social fund contribution (SSC) is done by the Pension Fund of Ukraine till September 30, 2013. Starting from October 1, 2013, the Social Fund Contribution accounting and reporting becomes a responsibility of Ministry of Income and Charges (former Tax authority).

Thus, with the adoption of this law, the Ministry of Income and Charges (MinIncome) becomes the main body in the system of Executive power authorities in questions of forming:

- ✓ tax policy;
- ✓ customs policy;
- ✓ policy on SSC administration.

The Pension Fund should preserve the following functions:

- ✓ conducting the record of the insured persons;
- ✓ analysis and forecast of the single social contribution proceeds;
- ✓ organization of information on payment and accounting of SSC exchange between MinIncome and other state bodies.

Business expectations

Positive:

- reduction of the SSC rate – the main expectation of the business
Although the MinIncome is planning the reduction of the SSC rate from 36,76-49,7% to 18%, it is very unlikely that government will accept such innovation, as it will cause decrease of the revenues to the Pension Fund.
- reporting simplification;
- number of inspections reduction;

Negative:

- advance payments implementation (similar to CPT advance payments);
- tougher inspections;
- technical problems at the initial stage, that will influence tax payers (reports submitting, certificates receiving, etc.);

Law projects

Recently a few law projects have been presented to Verkhovna Rada of Ukraine for consideration. Below we lightened up projects which we consider the most important.

1. Special permits for out-staffing companies [Project #2118a of 23.05.2013]

Starting from 01.01.2013 the Law of Employment №5067-VI has come into force. The law foresees that the legal entities specializing in providing employees to other companies (out-staffing) have to obtain special permissions for such activity.

However because of absence of legislative regulations of such licensing, these norms of the Law are still not enforced.

The law project introduces changes into legislation that will regulate the licensing procedure.

Out-staffing schemes are quite popular in Ukraine. Such schemes allow companies to reduce costs on personnel and save some money on social payments.

The largest segment of the outsourcing market in Ukraine is IT-outsourcing.

Permits receiving will definitely slow the development of the outsourcing market; nevertheless a significant decrease of such services will never happen.

2. VAT rates reduction and turnover tax implementation

On 23rd of July 2013 the Ministry of Income and Charges published on its web site the project of the law that concerns changes introduction into the Tax code aimed at VAT taxation improvement.

The project foresees the following changes:

Positive:

- cancellation of the "first event" rule for VAT
Prepayments for goods (services) won't have VAT tax consequences
- VAT rate reduction to 9%

Negative:

- turnover VAT implementation (1-2% of turnover)
Increasing of tax burden for:
 - *export companies (with 0% VAT rate);*
 - *companies with VAT credit higher than VAT obligations;*

Such companies won't feel a positive influence of VAT rate reduction, but will have to pay an additional turnover tax.

- VAT obligations for agro companies.
Agro companies will have to pay 10% of special regime VAT obligation to the budget.
- Complication of VAT accounting
Companies will have to manage two different approaches in accounting and reporting of the main and additional VAT.

In case of the implementation of the VAT reforms, the Ministry of Income and Charges plans to increase a profitable part of the budget by 22 billion UAH.

3. Tax on currency exchange introduction

The National Bank of Ukraine does not exclude the introduction of tax on currency exchange in Ukraine starting from 1st of January 2014.

The amount of such fee to the Pension Fund from foreign cash exchange transactions can be up to 10%.

The respective law project is now being developed by the Ministry of Income and Charges together with NBU experts.

Only the operations connected with payment of interests and private foreign currency transaction of physical persons will be exempt from taxation.

Focus on the details

Transfer pricing Law came into force on 1st of September 2013.

There has been recently published and disseminated quite a lot of information concerning new transfer pricing rules.

With the following link you can download a comprehensive summary:

[LINK](#)

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