

HR & Tax Alert



Quality In Everything We Do

The Ukraine – Changes for Personal Taxation in 2007

March 2007

Executive summary

With effect from 1 January 2007, various new rules on personal income taxation and payroll fund contributions have come into effect in Ukraine. This Alert outlines the main changes that need to be taken into account. The changes will bring an increase in the total Personal Income Tax and Social Security contributions on most employees' wages, but will also result in tax savings on income from the sale of real estate and tax on gifts and inheritances.

Changes of individual income tax and social security rates

The main individual income tax rate has been increased from 13% to 15%. The total percentage of mandatory social security contributions payable by employers remains the same, but there has been a redistribution of the percentages payable to different social security funds. In particular, the temporary disability fund contribution rate payable by employers has been decreased to 1.5% (compared to 2.9% in 2006), while pension fund contribution rate has been increased to 33.2% (31.8% in 2006)

With regard to employee Social Security, the rate of Pension Fund contributions payable by employees whose salary is under the "subsistence minimum", the official average minimum cost of living, has been decreased to 0.5% (1% in 2006). The computation of Pension Fund contributions payable by the employees whose salary exceeds the subsistence minimum has also been changed.

The 0.5% rate applies to the part of the salary up to the subsistence minimum, while the remainder of the salary up to the 'payroll cap' is subject to a 2% contribution. Contribution rates to the Unemployment Fund and the Accident-at-Work Fund remain unchanged. Details of the subsistence minimum and payroll cap in 2007 follow.

New rules on taxation of income derived from the sale of real estate

New simplified taxation rules for income derived from the sale of real estate have come into effect. With effect from 1 January 2007, the same taxation rules apply to income derived from the sale of all real estate regardless of the date of initial purchase of this real estate. Previously, different taxation rules applied to income obtained from the sale of real estate purchased before 1 January 2004 or after 31 December 2003.

The rate of personal income tax from the sale of real estate has also been decreased and will now be between 0 and 5% depending on the size of real estate and the number of real estate sale transactions per year (compared to a rate of up to 15% under the old rules). In addition, the Ukrainian taxation of such income of both tax Residents and Non Residents has been aligned and the law now clearly stipulates that the income of non-residents derived from the sale of real estate in Ukraine is now taxed under the same rules as those outlined above that are applicable to tax residents of Ukraine.

New rules on taxation of gifts and inheritance

In addition, simplified and more favourable rules have been introduced for the taxation of gifts and inheritances. In Ukraine, tax is imposed on gifts and inheritances, and the rate of tax due depends on the residency of the donor and their relationship to the donee. Any gifts received from an individual's parents, children, spouses and spouses' parents or children will be tax exempt if the donor is resident in Ukraine, where previously only gifts of certain items were tax exempt. Gifts received from any other Ukrainian resident individual will be subject to tax at 5% (compared to a rate of up to 15% under the previous legislation).

Gifts received from non Ukrainian resident individuals will be subject to tax at 15%, as opposed to the previous 30% rate. Certain items of inheritance are now tax exempt for particular groups of individuals, such as the disabled, orphaned children or children deprived of parental care.

Increase of payroll cap, subsistence minimum, and statutory monthly minimum wage

The subsistence minimum, as mentioned above, is the official average minimum cost of living, and earnings in excess of this level are subject to increased social security contributions. In contrast the 'payroll cap' provides an overall cap to the amount of earnings that are subject to Social Security contributions.

The subsistence minimum for 2007 has been increased from UAH 505 to UAH 525 per month (approximately EUR 80) with effect from 1 January 2007. This will increase during 2007 and will be raised to UAH 535 with effect from 1 April 2007 and UAH 548 with effect from 1 October 2007. The payroll cap for 2007 has also been increased to 15 times subsistence minimum, i.e. UAH 7,875 with effect from 1 January, increasing to UAH 8,025 and UAH 8,220 from 1 April 2007 and 1 October 2007 respectively. This will result in a gradual increase of social security costs for both employer and the employee.

The statutory monthly minimum wage previously at UAH 375, has been set at UAH 400 with effect from 1 January 2007, and will rise to UAH 420 with effect from 1 July 2007 and UAH 450 with effect from 1 December 2007. It is possible that the statutory monthly minimum wage may further increase in the 2nd quarter of 2007 and we will continue to keep you updated of further developments via future Alerts.

Next steps

Companies with employees in Ukraine should ensure that they are budgeting for these increasing Social Security costs, and are taking advantage of any applicable Social Security planning. Individuals who are subject to Ukrainian taxes should be aware of the further changes and seek individual advice as necessary.

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