



# ***Foreign investments – tax incentives***



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The Ukrainian taxation regime was recently amended by introducing the new Tax Code of Ukraine, which was adopted on December 2, 2010 and came into force on January 1, 2011. The new Tax Code of Ukraine provides for certain tax incentives that can be of great benefit for foreign investors doing business in Ukraine.

## 1. General Incentives

Ukrainian law establishes the national tax regime for foreign investors and local enterprises with foreign investments. Thus, no special taxes are foreseen for foreign investments.

Newly created businesses in Ukraine, including those with foreign investments, may opt for the exemption from Corporate Income Tax (CIT). Companies created after April 1, 2011 whose annual income does not exceed UAH 3 mln. are taxed by CIT on the rate of 0% for the period from April 1, 2011 till January 1, 2016. However, such incentive does not apply to certain types of activities, e.i.:

- activities in the sphere of entertainment;
- production, wholesale, import and export of excisable goods, fuels and lubricants;
- extraction, production and manufacturing of precious metals and precious stones;
- financial activities, currency exchange;
- production and sale of minerals of national importance;

## 2. Sectoral Incentives

### 2.1. Energy Efficiency and Alternative energy

Ukrainian legislation provides for a number of tax advantages in the sector of energy efficiency and alternative energy production and usage.

Exemptions from CIT, Value Added Tax (VAT) and Import duties are demonstrated in Table 1.

Below is the non-exhaustive list and brief overview of the most significant tax incentives existing in Ukraine so far:

1. General Incentives;
2. Sectoral Incentives;
3. Regional Incentives;
4. Special Tax Regimes.

- real estate transactions;
- mail and communications services;
- organization of auctions for works of art, antiques;
- activities in the sector of TV and radio production;
- security services;
- external economic activities;
- production from raw materials;
- wholesale trade;
- production and distribution of electricity, gas and water;
- activities in the fields of law, accounting, engineering, provision of services for entrepreneurs.

Also, in-kind contributions into the charter capital made by foreign investor are exempt from import duties, unless such contributions are disposed within 3 years upon their importation.

The number of Ukrainian international treaties on science, technical or financial cooperation may provide additional incentives for qualified investments.

**Table 1.** Tax exemptions for alternative energy and energy efficient measures

	Activities	Exemptions from CIT for:	Exemptions from VAT for:	Exemptions from Import duties on:
1	Operations with equipment working on renewable sources of energy; materials and equipment used in generation of renewable energy or in producing of alternative types of fuel; energy efficient materials and equipment; means of measuring, controlling and managing of energy and fuel expenses	80% of income from sales	Import for use in own production*	Import for use in own production*
2	Operations with equipment, material, spare parts used for producing of goods, mentioned in above section 1		Import for use in own production*	Import for use in own production*
3	Adoption of energy efficient measures/projects 50% of income from such measures/projects**	50% of income from such measures/projects**		
4	Production of electricity from renewable sources of energy	General income – till 01.01.2021		
5	Operations with machinery and equipment indicated in the Law of Ukraine on alternative types of fuel, i.e:			
	equipment/machinery used for construction and reconstruction of enterprises producing biofuels		Sale and import* - till 01.01.2019	Sale and import* - till 01.01.2019
	equipment/machinery used for construction, reconstruction of vehicles consuming biofuels		Sale and import* - till 01.01.2019	Sale and import* - till 01.01.2019
	Equipment/machinery used for producing and redesigning of technical means and vehicles (including farming vehicles and energy installations) consuming biofuels	Income from sales – till 01.01.2020		
	Technical and transport vehicles working on biofuels			Import* – till 01.01.2019
6	Production of biofuels	Income from sales – till 01.01.2020		
7	Joint generation of electric and heat power and/or generation of heat power with usages of biofuels	Income from generation – till 01.01.2020		
8	Extraction and utilization of gas (methane)	General income – till 01.01.2020		

## 2.2. Agriculture

Qualified agriculture producers\* in Ukraine are subject to particularities in taxation, under which:

- CIT of such companies is paid on the basis of reporting period of a year (not on a quarterly basis);
- Amount of CIT due is reduced by the amount of land tax paid;
- VAT on products and services provided is accumulated but not transferred to the budget (funds

## 2.3. IT sector

Recent amendments to the Tax Code of Ukraine provided for new incentives in the sector of software development.

Qualified Ukrainian companies, whose main activities consist of software production and realisation, may benefit from:

## 2.4. Light Industry

For 10 years starting from January 1, 2011 income obtained by light industry producers from their main activities is exempted from CIT (except of producers working with raw materials).

## 2.5. Servicing

Private pre-school and secondary school institutions enjoy exemptions from CIT (for income obtained from provision of educational services) and from Land Tax. Educational services are not subject to VAT.

of accumulated VAT remain at the disposal of a company and should be directed for purposes of production).

Newly created farmers are subject to exemption from land tax for the period of 3 years (in some cases – 5 years).

Moreover, qualified agriculture producers may benefit from Fixed Agricultural Tax (read more in section 4. Special Tax Regimes).

- Reduced CIT rate – 5% on income received from particular economic activities;
- Exemption from VAT on particular products and services.

These incentives will be in force from January 1, 2013 till January 1, 2023.

Moreover, additional incentives are established for production of baby food. Income obtained from the sale of self-manufactured baby food is exempt from CIT. No VAT applies to supply of baby food and goods designated for kids.

Provision of medical services by healthcare institutions is also exempt from VAT.

Moreover, for 10 years starting from January 1, 2011 income obtained from the provision of hotel services in hotels with 5\*, 4\*, 3\* is exempt from CIT.

\*Please be advised, that qualification criteria for producers vary depending on type of incentive

## 2.6. Publishing Industry

Till January 1, 2015 Ukrainian companies operating in the sector of book publishing, supply of books published in Ukraine, supply of paper for publishing industry enjoy following incentives:

- Income obtained by such companies is exempt from CIT;

- Services of such companies are not subject to VAT.

Ukrainian law also provides for certain incentives for such sectors as machine building for agro-industry, shipbuilding, aircraft and spacecraft building and related R&D, supply of metal scrap, etc.

## 3. Regional Incentives

Based on the applicable Ukrainian tax laws, the local authorities may grant privileges regarding land tax.

## 4. Special Tax Regimes

There are two special tax regimes available under Ukrainian legislation: Unified Tax Regime and Fixed Agricultural Tax (FAT).

Small businesses whose annual income does not exceed UAH 20 mln and who have no more than 50 employees can opt for Unified Tax Regime. That allows them to pay one single tax instead of: CIT (Personal Income Tax for private entrepreneurs), VAT, Land Tax, special taxes for certain types of activities. The amount of Unified Tax is established in the fixed rates depending on the size of a business.

Qualified agriculture companies whose activities for 75% consist of agricultural production may choose to pay FAT in the form of single tax payment instead of: CIT, Land Tax, Tax for Usage of Water, special taxes for certain types of activities. The amount of FAT paid is calculated based on the size and type of land plot at the disposal of such company.

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