



GMS Flash Alert



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Ukraine – Tax Regime Largely Unaltered Despite War, Some Changes However

This *GMS Flash Alert* highlights a couple of recent tax legislative developments in Ukraine and helps explain some of the ongoing tax issues affecting individuals (and companies) subject to tax in Ukraine that have arisen given the state of war in the country and the impact on companies and their workforces. Such tax issues include whether individual income tax or social security concessions are being applied and changes to the regime for charitable contributions – which includes recently-adopted measures introducing a number of additional tax incentives for taxpayers during the imposition of martial law in Ukraine.

WHY THIS MATTERS

With the refugee crisis, evacuations, and displacements/relocations consequent to the armed conflict, the cross-border “movement” of employees (including international assignees), and the dire situation for businesses and the self-employed as Ukraine’s economy is devastated, many questions have been raised about what tax rules are applicable in these extraordinary circumstances and whether there might be some relief introduced or even suspension of normally-applicable tax law.

How Is Salary/Income Being Taxed?

PIT

At present, there are no specific individual income tax concessions that apply to salary. Salary continues to be subject to general taxation at an 18-percent Personal Income Tax (PIT) and 1.5-percent Military Duty.

Under Law No 2120-IX, based on the results of the tax year, an **individual may claim a tax relief (reduction of**

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taxable income) for the amount of donations or charitable contributions made for the benefit of authorised non-profit organisations / some state authorities in the amount not exceeding 16 percent of his/her taxable income (currently this limitation is 4 percent).

War-Related Charitable Contributions

Under Ukrainian tax law (Law No 2120-IX), during the period of martial law certain types of charitable assistance are exempt from the PIT and Military Duty, namely:

- charitable assistance granted to combatants, employees of enterprises, civil defence forces involved in ensuring national security, and residents of the territories where hostilities take (took) place for special needs as defined by the law;
- charitable assistance granted by international charitable organisations within the list determined by the Cabinet of Ministers of Ukraine to residents of the territories where hostilities take (took) place;
- any charitable assistance granted during this period of martial law, through a state or local budget or bank accounts of charitable organisations to victims of Russian aggression carried out in this war.

Social Security

Employer's social security contributions at a 22-percent rate still apply. However, some employers applying the Simplified Taxation Regime, including employers that opted for a new Simplified Taxation Regime (2-percent turnover tax), have the right not to pay social security contributions for employees conscripted into the army / similar bodies. Such social security contributions will be paid from the state budget based on a special calculation.

During this period of martial law and for the next three months, there is a moratorium for "documentary" social security contribution audits. Moreover, fines and late payment interest do not apply.

What About Hardship Allowances for Employees?

There have been no preferential tax measures introduced for hardship allowances paid to affected employees in Ukraine. Hardship allowances are generally subject to a 18-percent PIT and 1.5-percent Military Duty.

Carve Out for Conscripted Members of the Military and Their Families

However, under Ukrainian tax law, the amount of state financial assistance (including, in-kind) provided to conscripts or members of their families and compensatory payments from the budget are not subject to the PIT and Military Duty, as long as they are within the average earnings of said conscripts.

Are Penalties Being Applied in Cases of Non-Compliance?

If a taxpayer does not have the ability to fulfil his/her/its tax obligations, including submission of tax reports and other filings, payment of tax liabilities, etc., during the period of martial law, fines and late payment interest do not apply to such taxpayer provided that the taxpayer will perform his/her/its tax obligations within a three-month period after the end of martial law.

Are There Any Changes to Taxation of Companies?

A special Company Income Tax (CIT) adjustment is allowed in case of supplies of funds/goods/services – according to the list defined by the Cabinet of Ministers of Ukraine – to the Armed Forces of Ukraine, other bodies, institutions,

organisations in the field of defence of Ukraine; State Emergency Service; state or municipal health-care facilities, and transfers of funds to the special accounts of the National Bank of Ukraine to support the Armed Forces of Ukraine.

New Measures Enacted

On 15 March 2022, the Rada adopted certain measures introducing additional tax incentives for taxpayers during martial law in Ukraine.

Among others, under Law No 2120-IX, starting from 1 April 2022 and until the end of the period of martial law, certain taxpayers whose turnover does not exceed UAH 10 billion during the calendar year may enjoy the Simplified Taxation Regime with a tax charged at a rate of 2 percent of turnover (instead of an 18-percent CIT).

Are There Any Special Concessions Related to Indirect Taxation?

There will be no penalties for failure to fulfil timely payment of tax, submit tax reporting, registering for VAT and excise tax invoices.

In terms of VAT:

- The provision of goods and services to the Armed Forces of Ukraine, other bodies, institutions, organisations in the field of defence of Ukraine, State Emergency Service, state or municipal health-care facilities, does not constitute a “supply” for VAT purposes and thus is not subject to VAT. Exceptions thereto are cases where such goods or services are subject to a 0-percent rate. In case of provision of the above-mentioned goods/ services purchased with VAT, the VAT payer will retain the right to a VAT credit.
- Taxpayers will have the right to claim a VAT credit during the period of martial law in cases of destruction of goods due to *force majeure* or transfer of goods into state or municipal ownership, to other persons for the purposes of defence of Ukraine.
- A VAT credit may be recognised based on the primary documents, subject to registration of a respective VAT invoice in the Unified Register of VAT Invoices within six months after the end of martial law and correction of the VAT credit based on such invoice.

Other

Starting from March 2022 until December 31 of the year following the year in which the period of martial law terminates, no land tax will be charged on land plots located where hostilities take (took) place or on temporarily occupied territories, territories contaminated with explosives, and/or where fortifications were built according to the list of territories adopted by the Cabinet of Ministers of Ukraine.

KPMG NOTE

The situation in Ukraine is very fluid at the moment and employees and companies subject to tax in Ukraine are advised to consult with their qualified tax service providers or contact the team with KPMG in Ukraine (see Contact Us section).

For additional information on Ukrainian tax law affecting individuals, see [Taxation of International Executives: Ukraine](#), a publication of KPMG International.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in Ukraine:



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