

Tax Reform: Deregulation or Turmoil

At the very end of 2014 the Ukrainian Parliament adopted a certain number of legislative acts that once again significantly change the tax system in Ukraine. These acts include: *Act of Ukraine of 25 December 2014, No.63-VIII On Amendments to the Tax Code of Ukraine Regarding Distinctions of Adjusting Tax Liabilities of Corporate Income Tax and Value Added Tax in Case of Tax Settlement*; *Act of Ukraine of 28 December 2014, No.71-VIII On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Regarding Tax Reform*; *Act of Ukraine of 28 December 2014, No.72-VIII On Amendments to the Tax Code of Ukraine Regarding Improving of Tax Control Over the Transfer Pricing*; *Act of Ukraine of 28 December 2014, No.77-VIII On Amendments to the Certain Legislative Acts of Ukraine Regarding Reformation of Compulsory State Social Insurance and Legalization of Payroll*.

The wide scope tax reform touched upon almost all key taxes, notably simplified tax regimes, corporate income tax, personal income tax, single social contribution, VAT, real estate tax and transport tax, transfer pricing. In this panel discussion we asked experts to share their views on the recent changes.



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According to recently adopted changes to tax legislation, the number of taxes was reduced from 22 to 9, including 2 local duties. How does this affect tax administration?

Generally any step aimed at easing the tax burden and simplification of tax system should be welcomed. The commented initiative is of this range. At the same time, canceled and/or merged taxes either have relevance to a limited scope of businesses or their ratio in total tax payments is very low. In this situation the

government followed the path of least resistance and applied a technical rather than substantive approach.

Besides, a mere decrease in the number of taxes alone usually has a very limited effect on improving tax administration. More important are simplification of reporting procedures, introducing

“de-shadowing” stimuli, orderly arrangement of the inspection procedures and generally taking measures to increase the level of transparency and cooperation between tax authorities and taxpayers.

From that perspective major improvements in tax administration are still ahead of us.



SERGIY KIRICH,
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What is the impact of VAT reform on business? How would you comment on the coverage of VAT exemption treatment?

One of the main changes is the introduction of electronic VAT administration system. The system of electronic administration is being introduced gradually (from 1 January 2015 to 1 July 2015 – in test mode, and as from 1 July 2015 – on a regular basis). During the test mode taxpayers will not be subjected to penalties for failure to comply with the terms of registration of tax bills.

The system provides automatic accounting of the amounts paid by taxpayers, replenishment and balance of the funds on the accounts in the system of electronic administration, and so on.

This initiative will reduce the potential for abuse by taxpayers, complicate the way of obtaining illicit budgetary refund, and, accordingly, will provide filling of the budget. In this case the very system of electronic administration does not introduce significant changes to the general principles of VAT.

Changes in the *Tax Code of Ukraine* have abolished paper forms of tax bills and introduced VAT tax reporting in electronic form. The maximum amount of supply required for the registration of VAT payers has been increased from UAH 300,000 to UAH 1 million.

It is worth noting that on 1 January 2015 the budgetary refund will also extend to the negative VAT formed by the end of the fiscal month and, as a consequence, the VAT refund period is reduced compared with the rules that were in force prior to introduction of the changes. Also, changes have been made to the criteria for an automatic budgetary refund.

VAT exemption treatment for operations of supply of grain and industrial crops, supply of waste and scrap of ferrous and non-ferrous metals, have been prolonged.

Thus, the introduction of changes as to VAT administration will positively affect business in Ukraine.