

## ***LAW OF UKRAINE***

### **On amending Law of Ukraine “On Tax System”**

Supreme Rada of Ukraine hereby orders:

1. To introduce amendments to the Law of Ukraine “On Tax System” (Proceedings of Supreme Rada of Ukraine, 1994, #21, article 130) so that it reads as follows:

## **LAW OF UKRAINE**

### **On Tax System**

This Law sets forth underlying principles of the tax system in Ukraine, defines various taxes and fees (obligatory payments) as well as rights, obligations and duties of tax payers.

## **Section I**

### **GENERAL PROVISIONS**

#### **Article 1. Imposition and revocation of taxes and fees (obligatory payments) paid to the budgets and state special-purpose funds**

Imposition and elimination of taxes and fees (obligatory payments) to be paid to the budgets and state special-purpose funds, as well as related tax exemptions granted to tax payers, shall be carried out by Supreme Rada of Ukraine, Supreme Rada of Autonomous Republic of Crimea, rural, village and city councils, in accordance with provisions of this Law and other laws of Ukraine pertaining to taxes.

The Supreme Rada of the Autonomous Republic of Crimea and rural, village and city councils may provide for additional tax privileges and exemptions within the amounts transferred to their respective budgets.

Tax rates, procedures for administering taxes and fees (obligatory payments) and tax exemptions may not be introduced by Ukraine’s laws other than those on taxation issues.

Taxes and fees (obligatory payments), administering of which is not provided by this law, must not be paid.

Changes and additions to this law and other laws of Ukraine on tax issues that affect tax privileges, tax rates and levels of fees (obligatory payments), as well as mechanisms for payments of such, may be proposed no later than six months prior to the beginning of the next fiscal year and shall be made effective since the beginning of the fiscal year.

Any taxes and fees (obligatory payments) that are administered in accordance with Ukrainian laws must be specifically provided for in this Law. All other laws on taxes must be made consistent with principles underlined in this law.

## **Article 2. The concepts of taxes and fees (obligatory payments) paid to budgets and state special-purpose funds, and the concept of the tax system**

Taxes and fees (obligatory payments) paid to budgets and state special-purpose funds are obligatory contributions to budgets of respective levels or state special-purpose funds, that must be made by tax payers in accordance with terms and conditions specified in Ukraine's tax laws.

The state special-purpose funds are funds that are established in accordance with laws of Ukraine and formed from revenues from the specified by these laws taxes and fees (obligatory payments) paid by physical persons and juridical persons regardless of form of ownership.

The state special-purpose funds, excluding Pension Fund, are included in the State Budget of Ukraine.

All taxes and fees (obligatory payments) administered and paid to the State Budget of Ukraine in accordance with procedures established in applicable laws of Ukraine, constitute the tax system of Ukraine.

## **Article 3. Organizational principles and tasks of the tax system in Ukraine.**

The organizational principles of the tax system include:

facilitation of entrepreneurship, manufacturing and investment activities - introducing exemptions (privileges) with respect to taxation of profits (incomes) used for further business development (reinvestment);

obligatory payments - enforcement of requirements concerning taxes and fees (obligatory payments) established on the basis of reliable and accurate data on taxable entities over the taxable period and ensuring that tax payers shall be held accountable for violating tax laws;

uniformity and proportionality - taxes shall be withheld from juridical persons as certain part of their incomes, equal profits shall be taxes equally and the higher the income the higher shall be taxes and fees (obligatory payments);

fairness and nondiscrimination - all taxable entities (either legal or physical) shall be treated equally in the process of assessing their tax liabilities;

social justice - ensuring that social benefits shall be made available to the least well-off social groups through introduction of the economically sound guaranteed minimum personal income and application of differential and progressive tax schemes for taxing citizens with high and very high personal incomes;

stability - ensuring invariability of taxes and fees (obligatory payments) and rates and tax exemptions during the fiscal year;

economic feasibility - setting taxes and fees (obligatory payments) on the grounds of actual economic indicators and available financial resources and in light of the need to balance budget expenditures and revenues;

regular revenue collection - terms for collection of taxes and fees (obligatory payments) shall be established to ensure timely budget revenues necessary to finance expenditures;

competence - imposition and abolishment of taxes and fees (obligatory payments) and related privileges granted to payers of such shall be carried on in accordance with effective laws exclusively by the Supreme Rada of Ukraine, Supreme Rada of the Autonomous Republic of Crimea and rural, village and city councils;

unified and consistent approach - there shall be ensured a unified and consistent approach to drafting tax bills, including determining the payers of taxes and fees (obligatory payments), taxable amounts and entities, sources for payment of taxes and fees (obligatory payments), taxable periods, rates of taxes and fees (obligatory payments), terms and procedures for payments of taxes and grounds for granting tax exemptions;

clarity - there shall be ensured that regulations and provisions of tax laws are expressed in a way understandable for payers of taxes and fees (obligatory payments).

## **Article 5. Registries of payers of taxes and fees (obligatory payments)**

Registration of payers of taxes and fees (obligatory payments) shall be carried out by the state tax agencies and other state organs in accordance with effective laws. Banks

and other financial and lending institutions shall open accounts for payers of taxes and fees (obligatory payments) only if the latter produce documents evidencing their being registered with a state tax agency, and shall report to the state tax agency about having opened such an account within three days.

#### **Article 6. Objects of taxation**

Objects of taxation include incomes (profits), value that is added to products (services, work), costs of products (work, services), including customs value, special use of natural resources, property of physical and juridical persons and other objects specified in tax laws of Ukraine.

#### **Article 7. Procedures for establishing tax rates**

The rates of taxes and fees (obligatory payments) shall be established by the Supreme Rada of Ukraine, Supreme Rada of the Autonomous Republic of Crimea and rural, village and city councils in accordance with Ukraine's laws on taxation and shall not be altered during the fiscal year.

Changes in tax rates and the mechanism for administering taxes and fees (obligatory payments) may not be introduced in the Law on Budget for the respective year.

#### **Article 8. Procedures for including taxes and fees (obligatory payments) in the budgets and state special-purpose funds**

Procedures for including taxes and fees (obligatory payments) in the budgets and state special-purpose funds shall be established by the Supreme Rada of Ukraine, Supreme Rada of the Autonomous Republic of Crimea and rural, village and city councils in accordance with this and other applicable laws of Ukraine.

#### **Article 9. Responsibilities of payers of taxes and fees (obligatory payments)**

1. Payers of taxes and fees (obligatory payments) are required to:

1) keep accounting records, prepare reports and statements on their economic and financial activities and performance and preserve such during periods of time specified by laws;

2) submit to state tax agencies and other state organs, as required by applicable laws, returns, accounting reports and statements and other documents and statements related to assessment and payment of taxes and fees (obligatory payments);

3) pay required amounts of taxes and fees (obligatory payments) on specified dates and within periods of time as specified by laws;

4) let officers of state tax agencies examine their facilities used for generating incomes or used in connection with maintenance of an object of taxation, as well as conduct investigations related to assessment and payment of taxes and fees (obligatory payments).

2. During such examinations, senior managers and respective officers of juridical persons and physical persons are required to give their explanations in cases specified in laws and meet demands of the state tax agencies to ensure compliance with tax laws and sign an investigation act.

3. A tax (fee) liability of a juridical person is considered canceled either in the case of the payment or cancellation of the tax or fee (obligatory payment). In case of liquidation of a juridical person taxes and fees (obligatory payments) due shall be paid in accordance with procedures established by laws of Ukraine.

4. A tax (fee) liability of a physical person is considered canceled after the payment of the tax (fee, other obligatory payment), its cancellation, or in the event of the demise of the payer.

#### **Article 10. Rights of payers of taxes and fees (obligatory payments)**

Payers of taxes and fees (obligatory payments) have the right to:

1) submit to the state tax agencies the documents that substantiate their right to tax privileges in accordance with procedures established in Ukrainian laws;

2) have access to the acts of examinations (inspections) carried out by state tax agencies;

3) appeal, as provided by laws, against the decisions of the state tax agencies and their officials.

#### **Article 11. Responsibilities of payers of taxes and fees (obligatory payments) for violating tax laws**

Payers of taxes and fees (obligatory payments) shall be responsible for carrying out accurate assessment and timely payment of taxes and fees (obligatory payments), as well as for ensuring general compliance with tax laws as provided in applicable laws of Ukraine.

**Article 12. Responsibilities of banks and other financial and lending institutions**

1. Banks and other financial and lending institutions are required to submit to the state tax agencies, upon their requests, information on their customers' money kept on their accounts and transactions carried out by tax payers through these accounts.

2. Banks and other financial and lending institutions are required to execute payment orders of payers of taxes and fees (obligatory payments) authorizing them to transfer taxes and fees (obligatory payments) to the State budget of Ukraine and local budgets within a specified by Ukrainian laws period of time.

3. Senior officials and other employees of banks and other financial and lending institutions shall be held responsible in accordance with applicable laws of Ukraine if they fail to meet the requirements specified in preceding paragraphs 1 and 2, or if they fail to submit to the state tax agencies the information concerning opening bank accounts for business entities.

**Section II**

**CATEGORIES OF TAXES AND FEES (OBLIGATORY PAYMENTS) AND PROCEDURES TRANSFERING SUCH TO THE BUDGETS AND SPECIAL-PURPOSE FUNDS**

**Article 13. Categories of taxes and fees (obligatory payments) administered in the territory of Ukraine**

The following taxes and fees (obligatory payments) are administered in the territory of Ukraine:

state taxes and fees (obligatory payments) ;

local taxes and fees (obligatory payments).

**Article 14. State taxes and fees (obligatory payments)**

1. The state taxes and fees (obligatory payments) include:

- 1) value - added tax,
- 2) excise duty,
- 3) enterprise profit tax,
- 4) personal income tax,
- 5) customs duty,

- 6) state duty,
- 7) property tax (immovable property tax),
- 8) payment for land,
- 9) royalty payments,
- 10) tax on owners of transport means and other self-propelled machines and mechanisms,
- 11) self-employment tax,
- 12) payment for geological prospecting financed from the state budget,
- 13) payment for a special use of natural resources,
- 14) fines for environment pollution,
- 15) payments into the fund for conduct of measures to eliminate the consequences of the Chernobyl catastrophe and for social protection of the population,
- 16) mandatory social insurance,
- 17) mandatory pension insurance,
- 18) payment to the State Innovation Fund,
- 19) payment for licenses to carry out specific entrepreneurial activities.

2. State taxes and fees (Obligatory payments) shall be established by the Supreme Rada of Ukraine and shall be administered throughout the territory of Ukraine.

3. Procedures for transferring state taxes and fees (obligatory payments) to the State budget of Ukraine, the budget of the Autonomous republic of Crimea, to local budgets and state special-purpose funds shall be established in accordance with applicable laws of Ukraine.

4. Taxes and fees (obligatory payments) specified in items 7, 8, 10, 11, 13, 14 of part 1 of this article and which are administered in the territory of Crimean Republic, shall be established by the Supreme Rada of the Autonomous Republic of Crimea. Rates of taxes and fees (obligatory payments) shall be established within the margins specified in applicable laws of Ukraine.

#### **Article 15. Local taxes and fees (obligatory payments)**

1. Local taxes include:

- 1) advertisement tax;
- 2) communal taxes;

2. Local fees (obligatory payments) include:

- 1) hotel fee;
- 2) automobile parking fee;

- 3) market fee;
- 4) charges for issuance of documents granting right to occupy an apartment;
- 5) resort fee;
- 6) fee for participation in horse races at hippodrome;
- 7) fee for winnings through betting at hippodrome races;
- 8) fee for betting on horse races;
- 9) charges for permission to use local signs & symbols;
- 10) charges for permission to shoot motion pictures and TV programs;
- 11) fee for permission to conduct local auctions, competitive sales and lotteries;
- 12) charges for automobiles that head abroad crossing the oblasts adjacent to the state border;
- 13) fee for permission to set up trade or service outlets;
- 14) fee collected from dog owners.

3. Local taxes and fees (obligatory payments), mechanisms for their administration and procedures for their payments shall be established by local rural, village and city Radas in accordance with the lists and marginal rates established by applicable laws of Ukraine, except for the fee charged for the transit of automobiles through border regions, which is established by the oblast Radas. Taxes and fee (obligatory payments) specified in item 2 of part 1 and items 2 - 4, 13 and 14 of part 2 of this article must be imposed by rural, village and city councils provided there are taxable entities and necessary conditions for taxing them in place.

4. The amounts of taxes and fees (obligatory payments) specified in this article must be transferred to local budget in accordance with procedures set forth by rural, village and city councils (radas), unless otherwise is provided by laws of Ukraine.

#### **Article 16. Sources of payment of taxes and fees (obligatory payments)**

1. Sources of payment of taxes and fees (obligatory payments) shall be established under applicable laws on taxes and fees (obligatory payments).

2. The state and other target funds that are not provided for in this Law, shall be financed exclusively from enterprises' incomes after all taxes and fees (obligatory payments) are paid as provided under articles 14 and 15 of this Law. Contributions to these funds shall be voluntary.

### **Article 17. Procedures for payment of taxes and fees (obligatory payments)**

Payments of taxes and fees (obligatory payments) shall be carried in accordance with procedures established by this Law and other laws of Ukraine.

Taxes and fees (obligatory payments) that under the effective laws must be included in prices on goods (services), or in their costs, must be paid regardless of financial results of business activities.

### **Article 18. Preventing double taxation**

1. The amount of income or profit received by the juridical person or their branches or subsidiaries based abroad, shall be included in the total taxable income (profit) that shall be taxable in Ukraine.

The amounts of taxes paid on incomes (profit) earned outside of the territory of Ukraine, its continental shelf and exclusive (marine) zone, by legal entities, their branches and subsidiaries abroad in accordance with laws of respective countries, shall be taken into account while the tax payer is paying one's income (profit) tax in Ukraine. The amount of thus paid sums may not exceed the amount of the assessed income (profit) tax which is payable in Ukraine.

2. Incomes earned abroad by physical persons that are permanent residents of Ukraine shall be included in the total income taxable in Ukraine. The amounts of taxes on incomes of physical persons paid abroad in accordance with laws of the respective country shall be taken into account when the person will be paying one's income taxes in Ukraine. The amount of thus paid taxes may not exceed the amount of the assessed income (profit) tax payable in Ukraine.

3. The amounts of taxes on property (immovable property) paid abroad in accordance with the laws of the respective foreign country by physical persons that are permanent residents of Ukraine, for property held abroad, shall be taken into account (deducted) when the person will be paying one's property tax on property items held in Ukraine. The amount of thus paid taxes may not exceed the amount of the assessed tax payable in Ukraine.

4. Taxes paid abroad must be certified by tax agencies of the respective foreign country on condition that there is an applicable international agreement on preventing double taxation of incomes and property, as well as preventing tax evasion.

### **Article 19. International agreements**

If an international agreement signed by Ukraine and ratified by Supreme Rada provides for rules different from those provided for in laws of Ukraine on taxation, the rules contained in the international agreement shall take effect.

**Article 20. Control over administration of taxes and fees (obligatory payments)**

Control over accuracy and timeliness of payments of taxes and fees (obligatory payments) shall be carried out by state tax agencies and other state bodies within their jurisdictions specified by applicable laws.

Officers of state tax agencies and other state bodies shall be responsible, as provided in applicable laws, for collection of taxes and fees (obligatory payments) that are not specified in this law.

**II. Procedure for implementing the law of Ukraine On Amending the Law of Ukraine "On Tax System"**

1. The law of Ukraine On Amending the Law of Ukraine "On Tax System" shall take effect on the date of its publication.

2. This law shall apply to relevant legal relations in the sphere of social insurance and collection of social insurance payments before appropriate laws on social insurance shall be passed.

3. Delinquent payments of taxes, fees (obligatory payments), including contributions to sectoral and other funds that are not specified in articles 14 and 15 of this law, at the date of this law's taking effect shall be written off of payers of taxes and fees (obligatory payments) and shall not be payable.

4. Cabinet of Ministers of Ukraine shall:

submit to Supreme Rada the proposals on introducing amendments to legal acts of Ukraine that follow from the law of Ukraine On Amending the Law of Ukraine "On Tax System" within a month;

bring the decisions and rulings of the Government of Ukraine in line with this law before 1 May 1997.

**President of Ukraine**

**L.Kuchma**

**Kyiv**

**February 18, 1997**  
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