



Tax Alert

Ukrainian Parliament approved the Law “On amendments to the Tax Code of Ukraine regarding the improvement of value added tax administration”

Adopted on 16 July 2015, this legislative act was intended to improve the electronic VAT administration system. Unfortunately, certain novelties may give rise to quite negative consequences.

The Law (except certain provisions) is effective from **29 July 2015**.

Below you may find a brief summary of key provisions.

Key provisions of the Law on the improvement of electronic VAT administration

Formula for calculating the threshold for VAT invoice issuance

- **According to the Law, the threshold for VAT invoice issuance is to be recalculated on the third business day following the effective date of the Law. In effect, as of the specified date, all elements of the formula are reset to zero (except some elements, in particular, $\sum_{\text{Invoices Received}}$, $\sum_{\text{Invoices Issued}}$ and \sum_{Customs} , which have been accrued starting from 01 July 2015).**

- The formula includes new elements introduced under the Transitional Provisions of the Tax Code. In particular, with effect from 01 July 2015, the threshold amount shall include:
 - a) Funds remaining on the taxpayer's electronic account. Accrual date: **the third business day following the effective date of the Law**;
 - b) Average monthly amounts of VAT paid to the government (the so-called "overdraft"). The companies have the right to "overdraft" only if they have been registered as VAT payers for more than 12 months. Accrual date: **the third business day following the effective date of the Law**;
 - c) Amounts of erroneously and/or excessively paid VAT liabilities. Accrual date: **within 10 calendar days from the effective date of the Law**;
 - d) VAT carried forward as of 30 June 2015. Accrual date: **by 31 July 2015**. In case of established fact of overstatement of VAT carried forward included in the formula, a penalty shall be applied at the rate of 10% of the relevant amount.

For the time being, it remains unclear how VAT amounts claimed for refund into the settlement account are supposed to be used. There is a risk that the taxpayers will be unable to use these amounts to settle their VAT liabilities or issue VAT invoices.

Furthermore, the Law provides for the right to claim VAT for refund in VAT Return for June 2015, without reference to the threshold set by the formula.

VAT invoice

- The term during which VAT invoices having not been registered in due time may be entered in the Unified Register of VAT Invoices has been extended up to 365 days. The same term applies to the right to VAT input with respect to VAT invoices which have been prepared and registered in a timely manner;
- The peculiarities of registration procedure for VAT invoices and adjustments thereto have been incorporated in the Tax Code;
- Moreover, the Tax Code provides for the possibility of drawing up consolidated VAT invoices (one VAT invoice may be drawn up at the end of the reporting period) for the following transactions:
 - Continuous and regular transactions (the requirements to power industry companies to prepare VAT invoices covering the period of every 10 days have been removed);
 - "Compensations" of VAT input not related to business activities, and with respect to non-VAT-able / VAT-exempt transactions;
 - Apportionment of VAT input.

VAT input

- The Law introduces the concept of recognition of VAT input by default for all transactions.
- Regrettably, the requirement to apportion, on an annual basis over the period of three years, the VAT input related to fixed assets purchased before 01 July 2015, has not been removed.

Special tax treatments

The Law partially regulates the issue related to the accumulation of funds on special accounts of agricultural companies.

In this Alert we did not cover other less significant amendments made by the Law.

Contacts

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