

## IT taxation in Ukraine

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**Abstract:** The proceedings are devoted to the issue of tax policy response to the challenges of war and post-war periods in the case of Ukraine in terms of taxation of IT industry. The current tendencies of fiscal revenues as well as cash and non-cash transactions in Ukraine are analyzed. Special tax regimes for IT industry in Ukraine and worldwide are presented.

**Key words:** Digital Service Tax, IT companies, Single Tax, Diia city

Ukrainian tax system as well as the whole economy faces the need to respond to the current war against Russia. The government revenues for the first month of the war (March) have decreased by almost 7.1% compared to what had been planned before. A significant number of taxpayers (both companies and individuals) are deprived of resources and therefore are unable to pay taxes. As a result, the flow of tax revenues will keep falling. This feature of the war and post-war time must be taken into account when developing tax policy.

At the same time we observe a rapid increase of e-commerce. Most Internet companies significantly increase their activities at present. During the war, the National Bank of Ukraine does not impose any restrictions on non-cash payments. In general, the recent years showed a rapid increase in non-cash transactions via cards issued by Ukrainian banks. Their total number, for example, in 2021 compared to 2020 increased by 35.1% - to 7,039.9 million units, and their amount - by 40.3% - to UAH 3,099.1 billion. In 2021, 9 out of 10 transactions were cashless (90.1% of the total number of transactions with payment cards). The share of non-cash transactions amounted to 60.9% of all transactions with payment cards. In 2020, these indicators were lower - 87% and 55.8%, respectively [1]. Therefore, it seems appropriate and justified to consider the possibility of accumulating additional budget resources by taxes on Internet service.

Over the past few years, several OECD countries, including Austria, Spain, Great Britain, Greece, Hungary, Japan, Poland and Turkey, have introduced so-called a Digital Services Tax (DST), which is a tax on the gross profit of large Internet companies. In February 2021, the state of Maryland (USA) adopted a tax on Internet advertising providers - companies which annual gross profit exceeds \$100,000. This is the first tax of its kind in the United States. Its rate varies from 2.5% for companies whose worldwide gross profit is less than \$1 billion to 10% for companies with worldwide gross profit of more than \$15 billion.

Ukraine has a long-lasting history of discussions around the implementation of special tax regime for IT companies. For example, in 2012 a draft law was submitted to the Verkhovna Rada of Ukraine with a proposition to reduce the corporate income tax rate for IT companies from 21% (current at that time) to 5%. However, this initiative was not implemented in practice as experts suggested that reducing the tax rate to such a low level would lead to a significant fall in tax revenues: according to preliminary estimates, budget losses could amount to about 700 million UAH per year.

At the end of 2019, the Ministry of Digital Transformation of Ukraine took the initiative to create a special tax regime for the IT sector. The proposed changes in taxation were aimed not only at IT companies, but also at employees of IT companies. Most IT companies in Ukraine hire private

entrepreneurs - single tax payers. In this sphere labour costs constitute about 70-80% of IT companies' expenses. Therefore, experts of the Ministry of Digital Transformation offered to exempt researchers, engineers, and other staff engaged in the R&D from paying social security contributions and income tax. If it had been implemented the level of income taxation of IT companies and their employees would have been cut by 80% from statutory level of taxation [2]. It would have been by far generous than in most OECD countries with special tax regimes for the IT industry where the average reduced tax rate is 8.4%, which is 60% less than the average basic tax rate. Only two countries impose preferential tax rates lower than the basic rate by more than 80% - Luxembourg and Belgium. Even in Ireland, which is considered to be a "tax haven" for IT companies, the preferential income tax rate is half the basic rate (6.25% compared to 12.5%).

Nowadays, IT companies in Ukraine can choose to pay the Single Tax of 3% (for VAT payers) and of 5% (for non-payers of VAT), which has been in existence in Ukraine for years. It is worth noting that the above mentioned Single tax is not a specific tax benefit for the IT industry. It is allowed to apply for by any Ukrainian company with up to UAH 5 million of income per year.

Since January 1, 2022 the Law of Ukraine "On Stimulating the Development of the Digital Economy in Ukraine" has been enforced. It introduced a new legal framework to boost the IT industry, which is commonly referred to as "Diia City"[3]. "Diia City" is a special tax regime for Ukrainian IT companies which offers favorable income tax of 18% or distributed profit tax of 9%, personal income tax of 5% and military tax of 1.5%. Thus the company that is registered as a Diia City resident can save more than 30% of payroll taxes [4]. To sum it up IT companies registered in Ukraine enjoy one of the lowest tax burden in the world.

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#### Қазақстандағы ауыл шаруашылығын ынталандырудағы салықтардың рөлі

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Түйіндеме: Жұмыста Қазақстан Республикасындағы маңызды салалардың бірі ауыл шаруашылығы қарастырылған. Соңғы үш жылдағы ауыл, орман және балық шаруашылығымен айналысатын жұмыс істеп тұрған заңды тұлғалар саны және жеке кәсіпкерлік субъектілерінің динамикасы келтірілген. Осы салаға салық салу зерттеледі. Қолданылатын салықтық режимдер мен жеңілдіктердің түрлері қарастырылады.

Кілт сөздер: ауыл шаруашылығы, арнайы салық режимі, салық, салық мөлшерлемесі, салықтық жеңілдіктер.

Экономиканың маңызды салаларының бірі ауыл шаруашылығы болып табылады, себебі ол елдің әлеуметтік-экономикалық дамуына әсер етеді. Қазақстан Республикасындағы ауыл шаруашылығының әлеуметтік-экономикалық маңыздылығы – оның халықты мемлекеттің азық-түлік және экономикалық қауіпсіздігі үшін маңызды болып табылатын өмірлік