

The State Tax Service clarified certain issues related to completion of a corporate income tax return for 2020 in light of Law No. 466

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The State Tax Service issued a letter dated 4 June 2020 No. 8939/7/99-00-07-02-01-07 to clarify certain specifics of completing a corporate income tax return (the "Tax return") for reporting periods of 2020 in light of entering into force of the Law of Ukraine "On Amendments to the Tax Code of Ukraine on Improving Tax Administration, Removing Technical and Logical Mismatches in Tax Legislation" No. 466-IX dated 16 January 2020 (the "Law").

In particular, the letter provides for the following:

- ▶ Starting from half-year 2020, permanent establishments are recommended to submit the Tax return instead of the special calculation for permanent establishments. At the same time, the letter lacks any further guidelines for permanent establishments on the approach to completing the Tax return.
- ▶ The obligation to submit audited financial reporting and clarified calculation to the respective Tax return to the tax authorities no later than 10 June will apply for the first time in 2021 to financial reporting for 2020 year.
- ▶ Taxpayers with less than UAH 40 million annual income may opt not to apply tax adjustments in the annual Tax return for 2020 and are entitled to choose the annual reporting period starting from 2021. Further, based on the clarification, taxpayers with more than UAH 20 million annual income as a result of 2019 should continue filing quarterly Tax returns and applying tax adjustments in interim periods of 2020.
- ▶ Business entities administering withholding tax (legal entities and private entrepreneurs on simplified taxation system, private entrepreneurs and individuals carrying out independent professional activity) are entitled to report on transfer of income to non-residents in the Tax return for 2020 reporting year.
- ▶ Agricultural producers are entitled to apply a special annual period to report for 1 July 2020 - 30 June 2021.
- ▶ Production method of tax depreciation may be applied starting from 2nd quarter of 2020 as long as the taxpayer carries out an inventory of respective assets as of 1 April 2020. Depreciation of the excess of the tax balance sheet value over the accounting value of such assets (if any) should be reflected for the first time in the AM Annex to the Tax return for half-year 2020.

- ▶ The new value requirement for fixed asset recognition of UAH 20,000 applies to items put into operation starting from 23 May 2020. Fixed assets put into operation before that date retain their status and are subject to depreciation regardless of their residual value.
- ▶ Accelerated depreciation for the 3rd (transmitting devices), 4th (machines and equipment), 5th and 9th groups of fixed assets may apply starting from the half-year 2020 reporting period.
- ▶ Until relevant changes are introduced, new tax adjustments prescribed by the Law must be reflected in the Tax return as follows:
 - ▶ Tax adjustments on income from equity participation in non-resident entities and dividend income from non-residents (para. 140.4.3), as well as tax adjustment on expenses incurred by a taxpayer under transactions with non-residents without business purpose (para. 140.5.15) should be reflected in any convenient line of the PI Annex to the Tax return while indicating this fact in the special field of the Tax return ("**Additional information**")
 - ▶ Legal successor's tax adjustment on the amount of negative taxable base of the reorganized taxpayer (para. 140.4.5) should be reflected in line 3.2.4 of the PI Annex to the Tax return
 - ▶ Tax adjustment on reimbursement of losses and lost income (in favor of non-payers or zero-rate payers of corporate income tax) and tax adjustment on fines and penalties charged by the state authorities (para. 140.5.11) should be reflected in line 3.1.11 of the RI Annex to the Tax return.

Although the letter addresses quite a variety of questions, many technical issues related to practical implementation of conclusions it provides, as well as many other concerns regarding application of the provisions of the Tax Code of Ukraine as amended by the Law remain unclear and require further clarifications from the tax authorities.

We would be glad to address any questions you may have with regard to the above.

We will continue monitoring the developments and will inform you of further important changes

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