



LAW OF UKRAINE

On Taxation of Company Profit

(The Official Journal of the Verkhovna Rada (OJVR) 1995, No. 4, page 28)

{Enacted pursuant to Resolution of the Verkhovna Rada No. 335/94-BP of 28.12.94, OJVR, 1995, No. 4, page 29}

{As amended pursuant to Laws

- No. 397/95-BP of 20.10.95, OJVR, 1995, No. 38, page 286
- No. 143/96-BP of 24.04.96, OJVR, 1996, No. 25, page 101
- No. 303/96-BP of 10.07.96, OJVR, 1996, No. 41, page 192
- No. 483/96-BP of 12.11.96, OJVR, 1996, No. 52, page 302}

{In the edition of Law No. 283/97-BP of 22.05.97, OJVR, 1997, No. 27, page 181}

{As amended pursuant to Laws

- No. 535/97-BP of 19.09.97, OJVR, 1997, No. 47, page 294
- No. 607/97-BP of 04.11.97, OJVR, 1998, No. 2, page 7
- No. 639/97-BP of 18.11.97, OJVR, 1998, No. 10, page 35
- No. 793/97-BP of 30.12.97, OJVR, 1998, No. 18, page 94
- No. 25/98-BP of 15.01.98, OJVR, 1998, No. 25, page 147
- No. 98/98-BP of 10.02.98, OJVR, 1998, No. 26, page 151
- No. 269-XIV (269-14) of 20.11.98, OJVR, 1999, No. 1, page 1
- No. 285-XIV (285-14) of 01.12.98, OJVR, 1999, No. 2-3, page 21
- No. 309-XIV (309-14) of 11.12.98, OJVR, 1999, No. 4, page 33
- No. 312-XIV (312-14) of 11.12.98, OJVR, 1999, No. 4, page 35
- No. 317-XIV (317-14) of 16.12.98, OJVR, 1999, No. 2-3, page 22
- No. 320-XIV (320-14) of 17.12.98, OJVR, 1999, No. 5-6, page 39
- No. 371-XIV (371-14) of 29.12.98, OJVR, 1999, No. 8, page 55
- No. 393-XIV (393-14) of 14.01.99, OJVR, 1999, No. 9-10, page 66
- No. 403-XIV (403-14) of 15.01.99, OJVR, 1999, No. 15, page 83
- No. 484-XIV (484-14) of 16.03.99, OJVR, 1999, No. 17, page 114
- No. 515-XIV (515-14) of 18.03.99, OJVR, 1999, No. 18, page 140
- No. 568-XIV (568-14) of 06.04.99, OJVR, 1999, No. 28, page 229
- No. 722-XIV (722-14) of 03.06.99, OJVR, 1999, No. 32, page 264
- No. 934-XIV (934-14) of 14.07.99, OJVR, 1999, No. 38, page 338
- Law is valid until 01.01.2002
- No. 971-XIV (971-14) of 15.07.99, OJVR, 1999, No. 38, page 352
- No. 973-XIV (973-14) of 15.07.99, OJVR, 1999, No. 39, page 356
- No. 977-XIV (977-14) of 15.07.99, OJVR, 1999, No. 39, page 357
- No. 1133-XIV (1133-14) of 07.10.99, OJVR, 1999, No. 48, page 418
- No. 1157-XIV (1157-14) of 19.10.99, OJVR, 1999, No. 50, page 435
- No. 1160-XIV (1160-14) of 19.10.99, OJVR, 1999, No. 50, page 437
- No. 1278-XIV (1278-14) of 03.12.99, OJVR, 2000, No. 2, page 16
- No. 1288-XIV (1288-14) of 14.12.99, OJVR, 2000, No. 5, page 34
- No. 1375-XIV (1375-14) of 13.01.2000, OJVR, 2000, No. 10, page 78
- No. 1458-III (1458-14) of 17.02.2000, OJVR, 2000, No. 14-15-16, page 121
- No. 1523-III (1523-14) of 02.03.2000, OJVR, 2000, No. 20, page 149
- No. 1559-III (1559-14) of 16.03.2000, OJVR, 2000, No. 22, page 172
- No. 1606-III (1606-14) of 23.03.2000, OJVR, 2000, No. 25, page 197
- No. 1608-III (1608-14) of 23.03.2000, OJVR, 2000, No. 26, page 209
- No. 1694-III (1694-14) of 20.04.2000, OJVR, 2000, No. 32, page 254
- No. 1715-III (1715-14) of 11.05.2000, OJVR, 2000, No. 32, page 260
- No. 1749-III (1749-14) of 01.06.2000, OJVR, 2000, No. 35, page 283
- No. 1805-III (1805-14) of 08.06.2000, OJVR, 2000, No. 39, page 333

No. 1807-III (1807-14) of 08.06.2000, OJVR, 2000, No. 38, page 318
 No. 1812-III (1812-14) of 08.06.2000, OJVR, 2000, No. 38, page 319
 No. 1841-III (1841-14) of 22.06.2000, OJVR, 2000, No. 46, page 393
 No. 1926-III (1926-14) of 13.07.2000, OJVR, 2000, No. 43, page 363
 No. 1953-III (1953-14) of 14.09.2000, OJVR, 2000, No. 45, page 375
 No. 1954-III (1954-14) of 14.09.2000, OJVR, 2000, No. 43, page 370
 No. 1969-III (1969-14) of 21.09.2000, OJVR, 2000, No. 45, page 377
 No. 1991-III (1991-14) of 21.09.2000
 - enters into force on 01.01.2001, OJVR, 2000, No. 48, page 406
 No. 2120-III (2120-14) of 07.12.2000, OJVR, 2001, No. 2-3, page 10
 No. 2136-III (2136-14) of 07.12.2000, OJVR, 2001, No. 4, page 17
 No. 2181-III (2181-14) of 21.12.2000
 - enters into force on 1 April 2001, OJVR, 2001, No. 10, page 44
 No. 2199-III (2199-14) of 21.12.2000, OJVR, 2001, No. 7, page 36
 No. 2211-III (2211-14) of 11.01.2001, OJVR, 2001, No. 11, page 46
 No. 2323-III (2323-14) of 22.03.2001, OJVR, 2001, No. 20, page 96
 No. 2355-III (2355-14) of 05.04.2001, OJVR, 2001, No. 23, page 114
 No. 2406-III (2406-14) of 17.05.2001, OJVR, 2001, No. 32, page 169
 No. 2410-III (2410-14) of 17.05.2001, OJVR, 2001, No. 30, page 143
 No. 2711-III (2711-14) of 20.09.2001, OJVR, 2002, No. 2, page 11
 No. 2712-III (2712-14) of 20.09.2001, OJVR, 2002, No. 2, page 12
 - enters into force on 01.01.2002
 No. 2744-III (2744-14) of 04.10.2001, OJVR, 2002, No. 5, page 31
 No. 2779-III (2779-14) of 15.11.2001, OJVR, 2002, No. 9, page 68
 No. 2831-III (2831-14) of 29.11.2001, OJVR, 2002, No. 8, page 63
 No. 2866-III (2866-14) of 29.11.2001, OJVR, 2002, No. 10, page 78
 - enters into force on 01.01.2002
 No. 2905-III (2905-14) of 20.12.2001, OJVR, 2002, No. 12-13, page 92
 No. 2921-III (2921-14) of 10.01.2002, OJVR, 2002, No. 16, page 114
 No. 2975-III (2975-14) of 17.01.2002, OJVR, 2002, No. 17, page 122
 No. 3045-III (3045-14) of 07.02.2002, OJVR, 2002, No. 29, page 192
 No. 3073-III (3073-14) of 07.03.2002, OJVR, 2002, No. 31, page 214
 No. 3118-III (3118-14) of 07.03.2002, OJVR, 2002, No. 33, page 238}

{For official interpretation of the Law see Resolution of the Constitutional Court No. 11-rp/2002 (v011p710-02) of 13.06.2002}

{As amended pursuant to Laws

No. 40-IV (40-15) of 04.07.2002, OJVR, 2002, No. 36, page 266
 No. 43-IV (43-15) of 04.07.2002, OJVR, 2002, No. 35, page 259
 No. 349-IV (349-15) of 24.12.2002, OJVR, 2003, No. 12, page 88
 - see additionally Law No. 1344-IV (1344-15) of 27.11.2003
 No. 380-IV (380-15) of 26.12.2002, OJVR, 2003, No. 10-11, page 86
 No. 429-IV (429-15) of 16.01.2003, OJVR, 2003, No. 10-11, page 87
 No. 440-IV (440-15) of 16.01.2003, OJVR, 2003, No. 14, page 99
 No. 601-IV (601-15) of 06.03.2003, OJVR, 2003, No. 24, page 162
 No. 762-IV (762-15) of 15.05.2003, OJVR, 2003, No. 30, page 247
 No. 777-IV (777-15) of 15.05.2003, OJVR, 2003, No. 30, page 249
 No. 849-IV (849-15) of 22.05.2003, OJVR, 2003, No. 33-34, page 267
 No. 856-IV (856-15) of 22.05.2003, OJVR, 2003, No. 36, page 280
 No. 889-IV (889-15) of 22.05.2003, OJVR, 2003, No. 37, page 308
 No. 911-IV (911-15) of 05.06.2003, OJVR, 2003, No. 39, page 334
 No. 973-IV (973-15) of 19.06.2003, OJVR, 2003, No. 45, page 363
 No. 1096-IV (1096-15) of 10.07.2003, OJVR, 2004, No. 6, page 38
 No. 1158-IV (1158-15) of 15.10.2003, OJVR, 2004, No. 8, page 67
 No. 1300-IV (1300-15) of 20.11.2003, OJVR, 2004, No. 14, page 195
 No. 1344-IV (1344-15) of 27.11.2003, OJVR, 2004, No. 17-18, page 250
 No. 1624-IV (1624-15) of 18.03.2004, OJVR, 2004, No. 26, page 360
 No. 1701-IV (1701-15) of 11.05.2004, OJVR, 2004, No. 35, page 412
 No. 1702-IV (1702-15) of 11.05.2004, OJVR, 2004, No. 32, page 393
 No. 1801-IV (1801-15) of 17.06.2004, OJVR, 2004, No. 43-44, page 493
 No. 1868-IV (1868-15) of 24.06.2004, OJVR, 2004, No. 46, page 511
 No. 1957-IV (1957-15) of 01.07.2004, OJVR, 2004, No. 52, page 563
 No. 2229-IV (2229-15) of 14.12.2004, OJVR, 2005, No. 4, page 103

No. 2245-IV (2245-15) of 16.12.2004, OJVR, 2005, No. 5, page 114
No. 2285-IV (2285-15) of 23.12.2004, OJVR, 2005, No. 7-8, page 162
No. 2377-IV (2377-15) of 20.01.2005, OJVR, 2005, No. 11, page 198
No. 2505-IV (2505-15) of 25.03.2005, OJVR, 2005, No. 17, No. 18-19, page
267
No. 2642-IV (2642-15) of 03.06.2005, OJVR, 2005, No. 27, page 363
No. 2705-IV (2705-15) of 23.06.2005, OJVR, 2005, No. 33, page 427
No. 2711-IV (2711-15) of 23.06.2005, OJVR, 2005, No. 33, page 430
No. 2771-IV (2771-15) of 07.07.2005, OJVR, 2005, No. 34, page 441
No. 2772-IV (2772-15) of 07.07.2005, OJVR, 2005, No. 34, page 442
No. 2960-IV (2960-15) of 06.10.2005, OJVR, 2006, No. 2-3, page 35
No. 3235-IV (3235-15) of 20.12.2005, OJVR, 2006, No. 9, No. 10-11, page 96
No. 3317-IV (3317-15) of 12.01.2006, OJVR, 2006, No. 18, page 155
No. 3333-IV (3333-15) of 12.01.2006, OJVR, 2006, No. 22, page 182}

{Within text of the Law words "entrepreneurial activity", "production activity", "main activity" (except for words "main activity" in points 5.2.5, 5.3.1, 5.4.10, and 12.2.3, subparagraphs 5.4 and 7.11, and Article 14) in all cases were replaced with words "business activity" in respective cases pursuant to Law No. 639/97-BP of 18.11.97}

(The Law became inapplicable to agricultural producers - participants in experiment on introduction of a uniform tax on the territory of Hlobynsk District of the Poltava Oblast, Starobeshivsk District of the Donetsk Oblast, and Uzhgorod District of the Transcarpathian Oblast, in part pertaining to taxation matters pursuant to Law No. 25/98-BP of 15.01.98)

(The Law became inapplicable to agricultural producers - payers of fixed agricultural tax in part pertaining to taxation matters with the exception of subparagraphs 7.7, 7.8, and 13.1, 13.2, 13.6, 13.7, and 13.8 pursuant to Law No. 320-XIV (320-14) of 17.12.98)

(Higher depreciation standards established pursuant to Law No. 349-IV (349-15) of 24.12.2002 are suspended for 2004 concerning fixed assets of groups 1, 2, 3, except for application of these standards to depreciation of expenses which taxpayer incurred after 1 January 2004 in connection with acquisition (manufacture) of new fixed assets of groups 1, 2, 3 used in taxpayer's production activity and which have never been used before, and also costs of improvement of said newly acquired (manufactured) fixed assets which taxpayer incurred after 1 January 2004 pursuant to Law No. 1344-IV (1344-15) of 27.11.2003)

Article 1. Definition of Terms

For the purposes of this Law, the terms mentioned herein shall be used with the following meanings:

1.1. Tangible asset means fixed and circulating assets of any kind, different from cash, securities, derivatives, and intangible assets.

1.2. Intangible asset means objects of intellectual property including industrial property, and also other similar rights recognized as object of taxpayer's ownership right in accordance with procedure established by appropriate law.

1.3. Funds mean Ukrainian Hryvnia or foreign currency.

1.4. Security means document which certifies right of ownership or loan relations, and meets the requirements established by legislation on securities.

1.5. Derivative means standard document which certifies right and/or obligation to purchase or sell securities, tangible or intangible assets, and also funds in future on terms determined by said document. Standard (typical) form of derivatives and procedure of their issuance and circulation shall be established by law.

Derivatives include:

1.5.1. Forward contract - standard document which certifies an entity's obligation to purchase (sell) securities, goods, or funds at a predetermined time and on predetermined terms in future, with price of such sale fixed at the time of execution of such forward contract.

In this case, any party to forward contract has right not to perform said contract exclusively upon consent of the other party to this contract or in cases defined by civil law.

Claims regarding failure to fulfill or improper fulfillment of forward contract may be presented to the issuer of such forward contract only.

Seller of forward contract cannot transfer (sell) its obligations upon this contract to other entities without consent of the buyer of forward contract.

Buyer of forward contract has right to sell such contract to any other entity including seller of such forward contract at any time before expiration (liquidation) of forward contract without consent of the other party to contract.

1.5.2. Futures contract - standard document which certifies obligation to purchase (sell) securities, goods, or funds at a predetermined time and on predetermined terms in future, with prices fixed at the time of fulfillment of obligations by parties to such contract.

In this case, any party to futures contract has right not to perform said contract exclusively upon consent of the other party to this contract or in cases defined by civil law.

Buyer of futures contract has right to sell such unexpired contract to any other entity without reconciling terms of such sale with seller of contract.

1.5.3. Option - standard document which certifies right to purchase (sell) securities (goods, funds) on predetermined terms in future, with prices fixed at the time of execution of such option or at the time of such purchase upon agreement between parties to contract.

First seller of the option (issuer) bears unconditional and non-repayable obligation to sell securities (goods, funds) on terms of the option contract.

Any buyer of option has right to decline purchase of such securities (goods, funds) at any time.

Claims regarding failure to fulfill or improper fulfillment of obligations upon option contract may be presented to the issuer of such option only.

Unexpired option may be sold to any other entity without limitations.

1.5.4. Depending on type of valuables, derivatives can be divided into:

a) stock derivative - standard document which certifies right to sell and/or purchase security on predetermined terms in future. Regulations concerning issuance and circulation of stock derivatives shall be established by government authority which deals with securities market regulation;

b) currency derivative - standard document which certifies right to sell and/or purchase currency valuables on predetermined terms in future. Regulations concerning issuance and circulation of currency derivatives shall be established by the National Bank of Ukraine;

c) commodity derivative - standard document which certifies right to sell and/or purchase exchange commodity (other than securities) on predetermined standard terms in future. Regulations concerning issuance and

circulation of commodity derivatives shall be established by government authority which deals with commodity exchange market regulation.

1.6. Goods mean tangible and intangible assets, and also securities and derivatives used in any type of operations except for operations on their issuance and redemption.

1.7. Goodwill means intangible asset whose value is determined as a difference between the balance value of company's assets and its regular value as an integral property complex accrued as a result of use of the best managerial qualities, dominant position on the market of goods (works, services), new technologies, etc. Value of goodwill cannot be depreciated and is not taken into account when determining taxpayer's gross expenses.

1.8. Corporative right means right of ownership to the authorized fund (capital) of legal entity or share in it including right to manage such legal entity and receive appropriate part of profit earned by it, and also right on assets in the event of its liquidation in accordance with law regardless of whether such legal entity was created in form of business company, enterprise founded on the property of one legal entity or individual, or in any other organizational and legal form. (Article 1 (1.8) in the edition of Law No. 1523-III (1523-14) of 02.03.2000)

1.9. Dividend means payment which legal entity - issuer of corporate rights or investment certificates makes in favor of the owner of such corporate rights (investment certificates) as a result of distribution of part of the profit received by such issuer and calculated upon accounting rules.

Payment which state, unincorporated, or municipal enterprise makes in favor of the state or local self-governing authority respectively as a result of distribution of part of the profit received by such enterprise, and payment made to the owner of certificate of real estate operations fund as a result of distribution of revenues received by real estate operations fund shall be also regarded as dividend. In this case, availability or unavailability of profit calculated in accordance with tax accounting rules cannot have bearing on adoption or non-adoption of decision concerning accrual of dividends. (Indent two of Article 1 (1.9) as amended pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)
(Article 1 (1.9) as amended pursuant to Law No. 2831-III (2831-14) of 29.11.2001, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

1.10. Interest means income which borrower pays (accrues) in favor of creditor in form of payment for use of loaned funds or property during the predetermined period. Interest includes: (Indent one of Article 1 (1.10) as amended pursuant to Law No. 639/97-BP of 18.11.97)

- payment for use of funds or financed goods (works, services);
- payment for use of deposited funds;
- payment for installment purchase of goods.

(Indent five of Article 1 (1.10) is deleted pursuant to Law No. 977-XIV (977-14) of 15.07.99)

Interest is accrued in form of percentage on the principal amount of debt or in fixed amounts. If funds are borrowed by selling bonds, treasury obligations, or savings (deposit) certificates issued by borrower, amount of interest shall be determined by the accrual of percentage on the nominal value of such security, payment of fixed premium or winning, or by determining the difference between the offering price and the redemption price of such security (amount of discount).

Payments upon other civil and legal agreements cannot be regarded as interest regardless of whether they were determined at absolute (fixed) prices or as a percentage charged on the amount of agreement or another cost base.

1.11. Loan means funds and material valuables which residents or nonresidents provide for use by legal entities or individuals for the predetermined period and at the interest. Loans may be divided into financial loan, commodity loan, investment tax credit, and loan collateralized by securities which certify loan relations: (Article 1 (1.11) as amended pursuant to Law No. 285-XIV (285-14) of 01.12.98)

1.11.1. Financial loan - funds provided by resident or nonresident bank qualified as a banking institution according to law of the country where the nonresident is located, or by residents and nonresidents which have status of non-banking financial institutions according to appropriate laws, and also by foreign governments or their official agencies or international financial organizations and other nonresident creditors as a loan to legal entity or individual for the predetermined period, for target use, and at the interest. Regulations concerning provision of financial loans shall be established by the National Bank of Ukraine (pertaining to bank loans) and also by the Cabinet of Ministers of Ukraine (pertaining to non-banking financial organizations) in accordance with law. (Article 1 (1.11) (1.11.1) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002)

1.11.2. Commodity loan - commodities which resident or nonresident transfers into the ownership of legal entities or individuals on terms of agreement which provides for deferment of final payment for the predetermined period and at the interest.

Commodity loan provides for transfer of right of ownership to goods (work results, services) to buyer (client) at the time of signing of the agreement or at the time of actual receipt of goods (works, services) by such buyer (client) regardless of debt repayment deadline.

1.11.3. Loan collateralized by securities which certify loan relations - funds borrowed by legal entity - debtor from other legal entities or individuals as compensation for the value of bonds or deposit certificates issued by such debtor. Rules concerning issuance, sale, and redemption (buyout) of said securities, and also requirements to their issuers shall be established by the appropriate legislation.

1.11.4. Investment tax credit - deferment of payment of profit tax, provided to subject of entrepreneurial activity for the predetermined period to allow the latter increase its financial resources to implement innovational programs with subsequent compensation of deferred amount in form of additional tax revenues received as a result of general growth of profit from implementation of innovative programs. (Article 1 (1.11) is supplemented with point 1.11.4 pursuant to Law No. 285-XIV (285-14) of 01.12.98)

1.12. Installment selling means business operation which provides for sale of goods by resident or nonresident to individuals or legal entities with final payment is made in installments, for the predetermined period, and at the interest.

Installment selling provides for transfer of goods at the disposal of buyer at the time when down payment was made, with transfer of right of ownership on such goods after the final payment is made.

Rules for installment selling to individuals who are not payers of this tax shall be established by the Cabinet of Ministers of Ukraine. (Indent three of Article 1 (1.12) as amended pursuant to Law No. 639/97-BP of 18.11.97)

1.13. Deposit means funds which individuals or legal entities provide to resident defined as financial organization according to Ukrainian law or to nonresident into the management, for the predetermined period, and at the interest. Deposits may be attracted by issuance of savings (deposit) certificates. Regulations concerning deposit operations shall be established: for bank deposits - by the National Bank of Ukraine in accordance with law; for deposits with other financial institutions - by state authority determined by law.

Security payment which serves as guarantee of contractual obligations of one party to the agreement before the other party cannot be considered as deposit.

(Article 1 (1.13) as amended pursuant to Law No. 639/97-BP of 18.11.97)

1.14. Pawn operation means operation whereby individuals or legal entities receive funds from legal entity qualified as financial institution according to Ukrainian law against the pawned goods or currency valuables. Pawn operations are considered the type of collateralized loan.

1.15. Residents mean legal entities and business entities of Ukraine which do not have status of a legal entity (affiliate, representative office, etc.), created and operating in accordance with Ukrainian law, and located on Ukrainian territory.

Diplomatic missions, consular offices, and other official missions which represent Ukraine abroad and have diplomatic privileges and immunity, and also affiliates and representative offices of Ukrainian companies and organizations abroad which do not carry on business activity.

1.16. Nonresidents mean legal entities and business entities which do not have status of a legal entity (affiliate, representative office, etc.), located outside Ukraine, and created and operating in accordance with laws of another country.

Diplomatic missions, consular offices, and other official missions of foreign countries, international organizations and their representative offices located in Ukraine and which have diplomatic privileges and immunity, and also representative offices of other foreign companies and organizations which do not carry on business activity according to Ukrainian law.

1.17. Permanent representative office of the nonresident in Ukraine (hereinafter referred to as permanent representative office) means permanent location through which the nonresident fully or partially carries on its business activity in Ukraine. In particular, permanent representative offices include: administrative location, affiliate, office, works, factory, workshop, mine, oil or gas well, open pit or other place of exploration or extraction of useful minerals. For the purpose of taxation, permanent representative offices shall include residents authorized to act on behalf of a nonresident which results on nonresident's accrual of civil rights and obligations (to make agreements (contracts) on behalf of nonresident; keep (store) stock of goods which belong to nonresident and from whose warehouses goods are delivered on behalf of nonresident, with the exception of residents which have status of customs warehouse). Residents regarded as permanent representative offices for the purpose of taxation are not required to register additionally with tax authorities as taxpayers. (Article 1 (1.17) in the edition of Law No. 639/97-BP of 18.11.97)

1.18. Leasing (rental) operation means business operation (except for operations on freighting (chartering) sea vessels and other vehicles) of an individual or a legal entity (lessor), which provides for provision of fixed assets or land into use by other individuals or legal entities (lessees) in exchange for lease payments and for the predetermined period. Operations on leasing (rental) of integral property complexes of state-owned enterprises shall be regulated by appropriate laws. (Indent one of Article 1 (1.18) as amended pursuant to Laws No. 977-XIV (977-14) of 15.07.99, No. 349-IV (349-15) of 24.12.2002)

Leasing (rental) operations may be divided into operative leasing (rental), financial leasing (rental), reverse leasing (rental), land lease, and lease of residential facilities.

1.18.1. Operative leasing (rental) means business operation of an individual or a legal entity which provides for transfer of property to lessee according to the operative leasing (rental) agreement, while such

property falls under the definition of fixed asset pursuant to Article 8 hereof, which lessor acquired or manufactured on terms other than those provided by financial leasing (rental). (Article 1 (1.18) (1.18.1) in the edition of Law No. 349-IV (349-15) of 24.12.2002)

1.18.2. Financial leasing (rental) means business operation of an individual or a legal entity which provides for transfer of property to lessee according to the financial leasing (rental) agreement, while such property, which lessor had acquired or manufactured, falls under the definition of fixed asset pursuant to Article 8 hereof, and also transfer of all risks and rewards related to right to use and own the object of leasing.

Leasing (rental) shall be considered financial if the leasing (rental) agreement contains one of the following conditions:

object of leasing is transferred for period during which no less than 75 percent of said object's initial value is depreciated according to the rate of depreciation determined by Article 8 hereof, and the lessee shall purchase the object of leasing during the period of validity of the leasing agreement or at the time of its expiration at the price determined in such leasing agreement;

amount of lease (rent) payments from the beginning of rent period shall be equal to, or exceed the initial value of the object of leasing;

if the object transferred into leasing was part of the lessor's fixed assets during period of first 50 percent of depreciation of its initial value, total amount of lease payments shall be equal to, or exceed 90 percent from the regular price of such object of leasing effective as of the beginning of leasing agreement's period of validity, increased by the amount of interest calculated based on the rate of the National Bank of Ukraine determined as of the effective date of leasing agreement and for the duration of said agreement;

property transferred into financial leasing was manufactured at the order of lessee (tenant) and, based on its technological and qualitative characteristics, cannot be used by any entities other than lessee (tenant) after expiration of leasing agreement.

For the purposes of this point, term "period of financial leasing" means period which begins on the date when property was transferred to lessee (tenant) and ends on the date of accrual of the ownership right on such property or the date of last lease payment made by lessee, whichever occurred first.

When concluding an agreement, parties to the agreement may consider leasing operation as an operative leasing irrespective of whether or not such leasing operation is regarded as financial leasing according to norms of this point, in which case the status of this operation cannot be changed afterwards before expiration of the appropriate agreement. (Indent eight of Article 1 (1.18) (1.18.2) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

(Article 1 (1.18) (1.18.2) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

1.18.3. Reverse leasing (rental) means business operation of an individual or a legal entity which provides for sale of fixed assets to financial organization with simultaneous reverse receipt of such fixed assets by such individual or legal entity into operative or financial leasing.

1.18.4. Land lease means business operation in which the lessor provides land for use by other legal entity or individual for the predetermined period, for target use, and in exchange for lease payments.

Regulations concerning land lease shall be determined by appropriate legislation.

1.18.5. Lease of residential facilities means business operation in which the owner of residential building or apartment provides it for use by other individual or legal entity for the predetermined or unlimited period, for target use, and in exchange for lease payments.

Maximal amount of lease payments which individuals make for the rent of residential facilities to be used as a place of permanent residence shall be regulated according to the procedure determined by the Cabinet of Ministers of Ukraine.

Amount of lease payments which individuals make for the rent of residential facilities to be used for purposes other than place of permanent residence, and also amount of lease payments made by legal entities is not subject of legislative regulation.

Procedure of operations on rental of residential facilities shall be established by the Cabinet of Ministers of Ukraine in accordance with provisions of the Housing Code of Ukraine.

Other buildings and facilities may be leased (rented) on terms stipulated in leasing (rental) agreement.

1.19. Barter means business operation which provides for payment for goods (works, services) in any form other than monetary including any forms of crediting and paying off mutual debts as a result of which no funds will be credited to seller's accounts to compensate the cost of such goods (works, services).

1.20. Regular prices

1.20.1. Unless otherwise established by this subparagraph, price of goods (works, services) determined by parties to the agreement shall be considered their regular price. Unless proved otherwise, it is considered that such regular price corresponds to the level of fair market prices.

Fair market price means price at which goods (works, services) are transferred to another owner under condition that seller wants to transfer such goods (works, services) while buyer wants to receive them without any compulsion, both parties are mutually independent de jure and de facto, and have sufficient information about such goods (works, services) and also about the current prices on the market of identical (or similar if the former is unavailable) goods (works, services).

Market of goods (works, services) means sphere of circulation of goods (works, services) determined based on buyer's (seller's) real ability to purchase (sell) goods (works, services) without significant additional costs at the nearest territory in respect of any party to the agreement.

Identical goods (works, services) mean goods (works, services) which have equal main properties typical for them. When determining identity of goods, in particular, the following shall be taken into consideration: their physical characteristics which do not affect their qualitative characteristics and do not have essential importance when determining properties of the product, quality and market reputation, country of origin, and manufacturer. Insignificant differences in their external appearance may be disregarded.

Similar goods (works, services) mean goods (works, services) which are not identical, have similar characteristics, and consist of analogous components which allows them perform the same functions and (or) to be interchangeable. When determining similarity of goods (works, services), in particular, the following shall be taken into consideration: their quality, trademark availability, market reputation, country of origin, and manufacturer.

1.20.2. In order to determine regular price of goods (works, services), information about agreements with identical (similar) goods (works, services) on comparable terms effective at the time of sale of such goods (work, service) shall be used. In particular, the following agreement terms shall be taken into account: quantity (volume) of goods (for example, consignment volume), agreement performance terms, and payment terms typical for such operation, and also other objective conditions which may affect the price. In this case, terms of agreements on the market of identical (or similar if the former is unavailable) goods (works, services) shall be regarded as comparable if the difference between such conditions has no substantial effect on the price or may be substantiated economically. In this case, price surcharges or discounts used in usual practice when agreements are made between non-related entities shall be taken into account. Such discounts include (but are not limited to) discounts related to seasonal and other fluctuations of consumer demand for goods (works, services), loss of products' quality or other properties; expiration (close expiration) of shelf life (usage, sale term); sale of illiquid or low-liquid goods; marketing policy including market promotion of goods (works, services); provision of test models and product samples for consumers' peruse.

If goods (works, services) identical (or similar if the former is unavailable) to goods (works, services) on which the regular price is being determined, are offered for sale publicly, or have their price established on the organized securities market, or have exchange price (exchange quotation), procedure of determining regular price as per indent one of this point shall take into consideration the following factors.

1.20.3. If goods (works, services) are sold with public announcement of terms of their sale, regular price shall be considered the price containing in such public announcement.

1.20.4. If goods (works, services) are sold using tender, auction, exchange offer, or offer on the organized securities market, or if goods are sold (alienated) in compulsory order according to law, regular price shall be considered the price received during such sale.

1.20.5. If prices of goods (works, services) are subject of government regulation in accordance with law, regular price shall be considered the price established according to principles of such regulation. This rule is not applicable if minimum sale price is determined - in this case, regular price shall be considered the fair market price.

1.20.5-1. If regular price cannot be determined using the norms of previous points of this subparagraph, rules determined based on national accounting standards and also national standards of appraising property and proprietary rights shall be used to substantiate it. For the purposes of taxation, terms "fair value", "market value", and "net sale value" used in national accounting standards and national standards of appraising property and proprietary rights shall be used in the same meaning as the term "regular price" defined herein. (Subparagraph 1.20 is supplemented with point 1.20.5-1 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.20.5-2. Central executive authority which regulates financial services markets shall establish the method of determining regular price of insurance tariff. (Subparagraph 1.20 is supplemented with point 1.20.5-2 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.20.6. If no operations with identical (or similar if the former is unavailable) goods (works, services) are carried on the appropriate market of goods (works, services) or if their price is impossible to determine because of the unavailability or inaccessibility of the appropriate information, regular price shall be considered agreement price.

1.20.7. Regular deposit interest rate means interest rate determined upon taxpayer's decision depending on term and amount of deposit, which shall be made public and establish the same rules concerning deposit agreement with any categories of entities taking into consideration limitations established by law. Procedure of publicizing information concerning terms of deposit agreement shall be determined: for banking institutions - by the National Bank of Ukraine, for non-banking financial institutions - by government authority determined by law. Amount of security payment which serves as guarantee of contractual obligations of one party to the agreement before the other party cannot be considered as deposit.

1.20.8. Tax authority shall be responsible for proving, in accordance with procedure established by law, that the agreement price does not correspond to the level of regular prices in cases stipulated in this Law. During the audit of taxpayer, tax authority has right to make an inquiry while taxpayer shall substantiate the level of agreed-upon prices or make reference to norms of indent one of point 1.20.1 of this subparagraph.

1.20.9. In addition to rules for determining regular price established by this subparagraph, Cabinet of Ministers of Ukraine has right to establish methodology to determine regular price of goods (works, services) sold (provided) by taxpayers defined as natural monopolists according to law, based on the following rules:

a) if the price of goods (works, services) is impossible to determine because of unavailability or inaccessibility of the appropriate information, regular price shall be determined based on the method of resale (subsequent sale) price of such goods (works, services). In this case, price of goods (works, services) sold by taxpayer shall be determined at the level of price at which such goods (works, services) are resold by their buyer in the event of subsequent sale taking into consideration the actual expenses which this buyer incurred during sale and market promotion of these goods (works, services) and determined using regular prices, and also buyer's profit usual for this type of activity (excluding price at which buyer purchased goods from seller);

b) if method of resale price of goods (works, services) is impossible to use, the "expenses plus" (expense-incurred) method shall be applied; according to it, price of goods (works, services) sold by taxpayer shall be determined as the sum of actual (incurred) expenses and profit typical for such type of activity. In this case, costs related to production (purchase) and (or) sale of goods, their transporting, storage, insurance, or other similar costs determined based on the regular prices shall be taken into account.

1.20.10. Tax authority shall adjust taxpayer's tax liabilities (after regular prices were determined) using indirect methods in accordance with procedure established by law for accrual of tax liabilities, and if taxpayer is recognized as natural monopolist according to law - also in accordance with price regulation principles established by such law.

Tax authority has right to apply regular prices to determine base of taxation in cases provided by law regardless of type of business operation carried on by payer of this tax or tax status of the other party to such operation. (Indent two of point 1.20.10 in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)
(Article 1 (1.20) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

1.21. Income with source of its origin located in Ukraine means any income received by residents or nonresidents from any type of their activity carried on the territory of Ukraine including interest, dividends, royalties, and any other types of passive income paid by Ukrainian residents, income received from leasing (renting out) property located in Ukraine to residents

or nonresidents, including vehicles registered in Ukrainian ports, income from sale of immovable property located in Ukraine, income received in form of risk insurance and reinsurance payments and premiums which covers risks on the territory of Ukraine, and also income which resident insurers receive from insuring risks of insured resident entities outside Ukraine, other income received from business activity inside customs territory of Ukraine or on territories under control of customs service of Ukraine (in customs control zones, in specialized licensed customs warehouses, etc.).

1.22. Financial assistance means non-repayable financial assistance or repayable financial assistance.

1.22.1. Non-repayable financial assistance means:

funds transferred to taxpayer upon gift agreements and other similar agreements which do not provide for appropriate compensation or refund of such funds (with the exception of budget subsidies), or without such agreements;

amount of bad debt which borrower compensated to creditor after it was written off, if such bad debt was previously included in the amount of creditor's gross expenses;

amount of debt which taxpayer has before other legal entity or individual, which remained uncollected after expiration of the statute of limitation;

principal amount of loan or deposit provided to taxpayer without specified terms of repayment of such principal amount, with the exception of loans secured by unlimited-term bonds and deposits with banking institutions available for immediate withdrawal, and also amount of interest accrued on such principal amount but not paid (debited);

amount of interest conditionally accrued on the amount of repayable financial assistance which was not repaid as of the end of the reporting period, in the amount of rate of the National Bank of Ukraine calculated for each day of the actual use of such repayable financial assistance.

1.22.2. Repayable financial assistance means funds which were transferred to taxpayer to be used during the predetermined period in accordance with agreements which do not provide for accrual of interest or provision of other types of compensation as payment for use of such funds. (Article 1 (1.22) in the edition of Law No. 349-IV (349-15) of 24.12.2002)

1.23. Goods (works, services) provided at no cost mean:

goods which taxpayer provides upon gift agreements and other agreements which do not provide for monetary or other compensation of the cost of such material valuables and intangible assets or their return, or without such agreements;

works and services which taxpayer provides without requiring compensation of their cost;

goods transferred to legal entity or individual for the responsible storage and used by such entity/individual for production or business purposes.

1.24. Responsible storage means business operation of the taxpayer, which provides for transfer of material valuables upon storage agreements to be kept by another entity without right of their use in business activity of such individual or legal entity and subsequent return of these material valuables to the taxpayer without changing their qualitative or quantitative characteristics.

1.25. Bad debt means debt which meets to any of the criteria listed below:

debt upon obligations with the expired statute of limitation;
debt overdue which was unpaid because of the insufficient value of individual's property, under condition that actions of the creditor aimed at compulsory collection of borrower's property did not result in complete debt repayment; (Indent three of Article 1 (1.25) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

debt which was unpaid because of the insufficient value of property of: (Article 1 (1.25) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

individual, on which collection may be placed according to law; (Article 1 (1.25) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

individual - subject of entrepreneurial activity or legal entity declared bankrupt in accordance with procedure established by law or upon its liquidation (termination of registration as a subject of entrepreneurial activity); (Article 1 (1.25) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

debt which was unpaid because of the insufficient amount of funds received from open auction (public) sale of borrower's property collateralized as a security of said debt, under condition that other legal actions of the creditor aimed at compulsory collection of borrower's other property did not result in complete debt repayment;

debt, collection of which was rendered impossible because of the circumstances of insuperable force, acts of God (force majeure circumstances) confirmed in accordance with procedure provided by law;

past due debts of deceased individuals, and also individuals whom court recognized as missing, deceased, or incapable, and also past due debts of individuals sentenced to prison.
(Subparagraph 1.25 as amended pursuant to Law No. 639/97-BP of 18.11.97)

1.26. Related entity means entity which/who meets to any of the criteria listed below:

a legal entity which maintains control over taxpayer, or is controlled by such taxpayer, or is under common control with such taxpayer;

an individual or his family members who maintain control over taxpayer. Family members of an individual shall be regarded his husband or wife, direct relatives (children or parents) of both the individual and his husband or wife, and also husband or wife of any direct relative of the individual or his husband (wife);

taxpayer's official authorized to carry on legal actions on behalf of taxpayer aimed at establishment, change, or termination of legal relations, and also his family members.

Maintenance of control means ownership of the largest share (stock) in taxpayer's authorized fund, directly or through the majority of related individuals or legal entities, or management of the largest number of votes in administrative body of such taxpayer, or ownership of the share (stock) in the amount no less than 20 percent of taxpayer's authorized fund.

In case of an individual, total amount of share in taxpayer's authorized fund (number of votes in administrative body) shall be determined as the total amount of corporate rights owned by such individual, family members of such individual, and legal entities controlled by such individual or his family members.

1.27. Share-issuing income means the excess amount of revenues which the issuer received from sale of its own shares or other corporate rights and investment certificates over the nominal value of such shares or other corporate rights and investment certificates (in case of their initial offer) or over the price of their purchase back in case of repeated offer of investment certificates and investment fund shares. (Article 1 (1.27) in the edition of Law No. 2831-III (2831-14) of 29.11.2001)

1.28. Investment means business operation which provides for acquisition of fixed assets, intangible assets, corporate rights, and

securities in exchange for funds or property. Investments can be divided into capital investments, financial investments, and reinvestments.

1.28.1. Capital investment means business operation which provides for acquisition of buildings, facilities, other objects of immovable property, other fixed assets and intangible assets which shall be depreciated according to this Law.

1.28.2. Financial investment means business operation which provides for acquisition of corporate rights, securities, derivatives, and other financial instruments. Financial investments can be divided into direct investments and portfolio investments.

Direct investment means business operation which provides for deposit of funds or property into the authorized fund of a legal entity in exchange for corporate rights issued by such legal entity.

Portfolio investment means business operation which provides for acquisition of securities, derivatives, and other financial assets for funds at the stock market (with the exception of operations on buying up shares by both the taxpayer directly and the related entities in the volume exceeding 50 percent from the total amount of shares issued by another legal entity, which belong to direct investments). (Indent three of Article 1 (1.28) (1.28.2) as amended pursuant to Law No. 639/97-BP of 18.11.97)

1.28.3. Reinvestment means business operation which provides for capital or financial investment made using the income (profit) received from investment operations.

1.29. Tax, taxation, taxpayer means, respectively, company profit tax, taxation of company profit, payer of company profit tax. Certain types of tax defined in this Law, such as taxes defined in Article 13 hereof and also tax on winning payoffs, income from insurance activity, other taxes withheld at the time of payment of income (profit) shall be regarded as types of profit tax and cannot be considered as newly introduced taxes. (Article 1 (1.29) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 349-IV (349-15) of 24.12.2002)

1.30. Royalties mean payments of any kind received as remuneration for use of, or provision of right to use any copyright for works of literature, art, or science including computer software, other records on information media, video or audio cassettes, motion pictures, or films for radio or television broadcast; for acquisition of any patent, registered product and service mark or trademark, design, secret drawing, model, formula, process, right to information concerning industrial, commercial, or scientific experience (know-how).

Payments in exchange for receipt of objects of property defined in part one of this subparagraph into the ownership or management, or if terms of use of such objects of ownership provide the user with right to sell or otherwise alienate such object of property or publicize (disclose) secret drawings, models, formulas, processes, rights to information concerning industrial, commercial, or scientific experience (know-how) are not considered as royalties, with the exception of cases when such publicizing (disclosure) is mandatory according to Ukrainian law. (Article 1 (1.30) in the edition of Law No. 1523-III (1523-14) of 02.03.2000)

1.31. Sale of goods means any operation carried on pursuant to purchase and sale, exchange, delivery agreements and other civil and legal agreements which provide for transfer of ownership rights to such goods for payment or compensation regardless of when it was provided, and also operations on provision of goods free of charge.

Operations on provision of goods upon commission, storage (responsible safekeeping), agency agreements and other civil and legal agreements which do not provide transfer of ownership rights to such goods cannot be considered as sale.

Sale of results of works (services) means any operation of civil and legal nature related to provision of results of works (services) with right to use or manage goods including intangible assets and objects of property other than goods in exchange for compensation, and also operations on provision of results of works (services) free of charge. Sale of results of works (services) includes, in particular, provision of right to use goods upon leasing (rental) and sale agreements, transfer of right upon copyright or license agreements, and also other ways of transferring objects of copyright, patents, product and service marks, other objects of right to intellectual (including industrial) property.
(Article 1 is supplemented with subparagraph 1.31 pursuant to Law No. 639/97-BP of 18.11.97)

1.32. Business activity means any activity of an entity aimed at receiving income in monetary, material, or non-material forms if direct participation of such entity in organization of such activity is regular, continuous, and essential. Direct participation means the aforementioned activity of an entity through its permanent representative offices, affiliates, branches, other detached divisions, and also through the attorney, agent, or any other entity acting on behalf and in favor of first entity.
(Article 1 is supplemented with subparagraph 1.32 pursuant to Law No. 639/97-BP of 18.11.97)

1.33. Lottery means business operation which provides for sale of right to participate in prize drawing with random probability of winning to player for funds or in exchange for other valuables, and also receipt of such prize into ownership at no cost, if such player was declared the winner.

Prize fund means the total amount of prizes which shall be paid out to lottery winners in accordance with published terms and conditions of said lottery.

(Article 1 is supplemented with subparagraph 1.33 pursuant to Law No. 1969-III (1969-14) of 21.09.2000)

1.34. Institutes of Mutual Investment (IMI) mean investment funds and mutual funds of investment companies, corporate investment funds, and unit investment funds created according to law.

(Article 1 is supplemented with subparagraph 1.34 pursuant to Law No. 2831-III (2831-14) of 29.11.2001)

1.35. Freight

1.35.1. Freight means remuneration (compensation) paid upon transportation, ship or vehicle (or parts thereof) lease or sublease agreements for the purpose of:

transportation of cargo and passengers by sea or air;

transportation of cargo by railroad or road transport.

(Article 1 (1.35) (1.35.1) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

1.35.2. Income which nonresidents receive as freight shall be taxable using the rules established by Article 13 (13.5) hereof.

1.35.3. For the purposes of this Law, the term "base freight rate" means the amount of freight including product loading, unloading, reloading, and warehousing (storage) costs increased by the cost of trip of a ship or other vehicle payable (compensable) by freighter in accordance with freight agreement.

(Article 1 is supplemented with subparagraph 1.35 pursuant to Law No. 349-IV (349-15) of 24.12.2002)

1.36. Engineering means provision of services (fulfillment of works) related to preparation of requirement specifications, performance of

scientific research, preparation of design proposals, performance of technical and economic examination and engineering survey works for construction purposes, preparation of technical documentation, design and workup of technical and technological objects, consultation and supervision of installation and setup works, and also consultations of economic, financial, or other nature related to such services (works). (Article 1 is supplemented with subparagraph 1.36 pursuant to Law No. 349-IV (349-15) of 24.12.2002)

1.37. Long-term life insurance agreement means life insurance agreement made for 10 years and more which contains condition for payment of insurance premiums during no less than 5 years and provides for insurance payoff if the insured individual was alive at the time of expiration of the insurance agreement or the event provided in the insurance agreement, or reached the age stipulated in the agreement. Such agreement cannot provide for partial payoffs during first 10 years of its validity, with the exception of payments made in the event of occurrence of insured cases related to death of the insured individual or the accident or illness of the insured individual which resulted in the 1st group of incapacitation of the insured individual, in which case insurance payoff is made regardless of term of payment of insurance premiums. (Article 1 is supplemented with subparagraph 1.37 pursuant to Law No. 349-IV (349-15) of 24.12.2002, in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

1.38. Certificate of real estate operations fund means investment certificate which confirms right of its owner to receive income from investing in real estate operations according to law. (Article 1 is supplemented with subparagraph 1.38 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.39. Mortgage certificate (including mortgage certificate of participation and mortgage certificate with fixed yield) means special type of security backed up by mortgage assets or mortgages according to law. (Article 1 is supplemented with subparagraph 1.39 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.40. Consolidated mortgage debt means obligation upon mortgage agreement, reformed by creditor according to law. (Article 1 is supplemented with subparagraph 1.40 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.41. Bank management fund means funds of members of bank management funds and other assets placed under trust management of authorized bank according to law. (Article 1 is supplemented with subparagraph 1.41 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.42. Non-governmental pension security means pension security provided by nongovernmental pension funds, insurance organizations, and banks according to Law of Ukraine "On Non-Governmental Pension Security" (1057-15). (Article 1 is supplemented with subparagraph 1.42 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

1.43. Other terms shall be used with the meanings defined by laws on taxation and also by national accounting standards in cases defined by this Law and which do not contradict this Law and the other laws on taxation in part pertaining to definition of terms. (Article 1 is supplemented with subparagraph 1.43 pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

Article 2. Taxpayers

2.1. The following entities shall be considered taxpayers:

2.1.1. Among the residents - subjects of business activity, budget, public, and other companies, institutions, and organizations which carry on activity aimed at receiving profit both in Ukraine and abroad.

2.1.2. Among the nonresidents - individuals or legal entities created in any organizational and legal form and receiving income with source of its origin located in Ukraine, with the exception of institutions and organizations which have diplomatic status or immunity according to international treaties of Ukraine or Ukrainian law.

2.1.3. Affiliates, branches, and other detached divisions of taxpayers (hereinafter referred to as affiliates) mentioned in point 2.1.1 of this subparagraph which do not have status of a legal entity and located on the territory of territorial community other than such taxpayer.

Taxpayer which has such affiliates can make decision regarding payment of consolidated tax and pay tax to budgets of territorial communities where its affiliates are located, and also pay tax calculated according to norms of this Law and reduced by the amount of tax paid to budgets of territorial communities where its affiliates are located to budget of territorial community upon its own location.

Amount of tax on profit received by affiliates during the appropriate reporting (tax) period shall be determined by calculation based on the total amount of tax accrued by taxpayer and distributed proportionally to the specific weight of the amount of affiliate's gross expenses and depreciation deductions accrued on fixed assets of such taxpayer located at the affiliate in the total amount of gross expenses and depreciation deductions of such taxpayer.

Taxpayer shall individually select the procedure of payment of profit tax determined by this point before 1 July of year preceding the reporting year and notify tax authorities which have jurisdiction over location of such taxpayer and its affiliates (detached divisions) about it. Change of tax payment procedure during the reporting year is not allowed. In this case, affiliates (detached divisions) shall submit estimate of tax liabilities concerning payment of consolidated tax to tax authority which has jurisdiction over its location; form of the estimate shall be established by the central body of State Tax Service of Ukraine based on provisions of this point.

(Indent four of Article 2 (2.1) (2.1.3) in the edition of Law No. 1523-III (1523-14) of 02.03.2000)

Responsibility for timely and full payment of tax to budget of territorial community where the affiliate is located shall be placed onto the taxpayer to whom such affiliate belongs.

(Article 2 (2.1) (2.1.3) in the edition of Law No. 639/97-BP of 18.11.97)

2.1.4. Permanent representative offices of nonresidents which receive income with source of its origin located in Ukraine or perform agent's (representative) functions concerning such nonresidents or their founders.

2.2. Payers of tax on profit received from business activity of railroad transport are railroad administrations. List of works and services classified under business activity of railroad transport shall be approved by the Cabinet of Ministers of Ukraine.

2.2.1. Revenues which railroads receive from business activity of railroad transport shall be determined within the limits of revenues redistributed among railroads in accordance with procedure be approved by the Cabinet of Ministers of Ukraine.

2.2.2. Payers of tax on profit received not from business activity of railroad transport are railroad transport enterprises and their structural divisions.

2.3. National Bank of Ukraine and its institutions (except for self-financing institutions which are taxed on general terms) shall pay the amount

of excess of gross revenues of consolidated balance over gross expenditures and part of gross expenditures of years which precede reporting year (if the latter wasn't covered by gross revenues of such years) to the State Budget of Ukraine after the end of financial year. If at the end of the year approved expenditures of the National Bank of Ukraine exceed the revenues received during such year, the resulting deficit shall be covered from the State Budget of Ukraine.

2.4. Institutions of penitentiary system and their enterprises which use work of the special contingent shall channel the revenues received from activity determined by the State Department of Prisons of Ukraine on financing of business activity of such institutions and enterprises, including such revenues to the appropriate estimates of their financing approved by the State Department of Prisons of Ukraine. (Article 2 (2.4) as amended pursuant to Laws No. 312-XIV (312-14) of 11.12.98, No. 2377-IV (2377-15) of 20.01.2005)

2.5. Before commencing its business activity, permanent representative office shall register with tax authority which has jurisdiction over its location according to procedure established by central body of state tax service of Ukraine. Permanent representative office which commenced its business activity before registering with tax authority shall be regarded as tax evader while revenues received by it shall be regarded as concealed from taxation. (Article 2 (2.5) in the edition of Law No. 639/97-BP of 18.11.97)

Article 3. Object of Taxation

3.1. Object of taxation is considered profit determined by reducing the amount of adjusted gross revenues of the reporting period calculated according to subparagraph 4.3 hereof by:

the amount of taxpayer's gross expenses determined by Article 5 hereof;

the amount of depreciation deductions accrued according to Articles 8 and 9 hereof.

Article 4. Gross Revenues

4.1. Gross revenues means total amount of taxpayer's revenues from all types of activity received (accrued) during reporting period in monetary, material, or non-material forms both in Ukraine (including its continental shelf and exclusive (marine) economic zone) and abroad.

Gross revenues include:

4.1.1. Total revenues received from sale of goods (works, services) including auxiliary and servicing production facilities which do not have status of legal entity, and also revenues received from sale of securities, derivatives, mortgage certificates of participation, mortgage certificates with fixed yield, certificates of real estate operations funds (with the exception of operations on their initial issuance (distribution), operations on their final redemption (liquidation), and operations with consolidated mortgage debt in accordance with law).

(Article 4 (4.1) (4.1.1) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

4.1.2. Revenues received from banking, insurance, and other operations related to provision of financial services and trade in currency valuables, securities, debt obligations and demands.

4.1.3. Revenues received from operations provided by Article 7 hereof.

4.1.4. Revenues received from joint activity and in form of dividends paid by nonresidents, interest, royalties, ownership of debt demands, and also revenues from leasing (rental) operations.

4.1.5. Revenues not taken into account during calculation of gross revenues in periods which precede reporting period, which were discovered in the reporting period.

4.1.6. Revenues received from other sources, including but not limited to:

non-repayable financial assistance which taxpayer received during the reporting period, cost of goods (works, services) which taxpayer was provided free of charge during the reporting period except for their provision to nonprofit organizations according to Article 7 (7.11) hereof and as part of such operations between taxpayer and its detached divisions which do not have status of a legal entity, with the exception of cases determined in Article 3 (4) of the Law of Ukraine "On Writing-Off the Cost of Unpaid Volumes of Natural Gas" (911-15); (Indent two of Article 4 (4.1) (4.1.6) as amended pursuant to Law No. 911-IV (911-15) of 05.06.2003)

amount of repayable financial assistance which taxpayer received during the reporting period and which as of the end of such reporting period was not paid back by entities which are not payers of this tax (including nonresidents) or entities entitled to benefits concerning this tax according to law including right to apply tax rate lower than that established by Article 7 (7.2) or Article 10 hereof. If taxpayer will repay such repayable financial assistance (or part thereof) to entity which provided it in future tax periods, such taxpayer shall increase the amount of gross expenses by the amount of such repayable financial assistance (or part thereof) upon results of tax period in which such repayment took place. In this case, gross expenses of such taxpayer are not increased by the amount of conditionally accrued interest, and tax liabilities of entity which provided repayable financial assistance will remain unchanged both at the time of its provision and at the time it was paid back. As an exception from the rule determined by this indent, operations on receipt (provision) of financial assistance carried on between taxpayer and its affiliates, branches, and other detached divisions located in Ukraine and which do not have status of a legal entity do not result in change of the amount of their gross expenses or gross revenues;

amount of unused part of funds repaid from insurance reserves according to procedure provided by Article 12 (12.2) hereof;

amount of debt which shall be included in gross revenues according to Article 12 (12.3) and (12.4) hereof;

amount of insurance reserve used for purposes other than intended;

cost of material valuables transferred to taxpayer upon storage (responsible safekeeping) agreements and used by such taxpayer for its own production or business purposes;

amount of penalties and/or forfeits or fines actually received upon decision of parties to the agreement or decision of appropriate government authorities or court;

amount of state fees previously paid by plaintiff and refunded to him according to court decision;

amount of excise duties paid (accrued) by buyers of goods liable to excise duty (with their own funds) in favor of payer of such excise duty authorized to pay said excise duty to budget by law, rent payments, and also amount of duty in form of target surcharge on the effective electricity and

heating rates; (Indent ten of Article 4 (4.1) (4.1.6) as amended pursuant to Law No. 849-IV (849-15) of 22.05.2003)

revenues received from sale of electric power (including reactive energy);

amount of subsidies paid to taxpayer from mandatory state social insurance funds or budgets. (Article 4 (4.1) (4.1.6) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004) (Article 4 (4.1) (4.1.6) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

4.2. The following is not included in gross revenues: (Indent one of Article 4 (4.2) in the edition of Law No. 639/97-BP of 18.11.97)

4.2.1. Amount of value added tax received (accrued) by payer of value added tax and accrued on the sale price of goods (works, services), with the exception of cases when company-seller is not a payer of value added tax. (Article 4 (4.2) (4.2.1) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

4.2.2. Amount of funds or value of property which taxpayer received as compensation for compulsory alienation of taxpayer's other property by the state in cases provided by law.

4.2.3. Amount of funds or value of property which taxpayer received upon court decision or as a result of satisfaction of claims according to procedure established by law in form of compensation of direct expenses or losses which such taxpayer incurred as a result of infringement of its rights and interests protected by law, if such taxpayer did not include such compensation in its gross expenses or it was not reimbursed from insurance reserves. (Article 4 (4.2) (4.2.3) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 762-IV (762-15) of 15.05.2003)

4.2.4. Amount of overpaid taxes and duties (mandatory payments) refundable or which shall be refunded to taxpayer from budgets, is this amount was not included in gross expenses. (Article 4 (4.2) (4.2.4) as amended pursuant to Law No. 639/97-BP of 18.11.97)

4.2.5. Amount of funds or value of property which taxpayer receives in form of direct investments or reinvestments in corporate rights issued by such taxpayer, including payments in cash or property, according to agreements on joint activity in Ukraine without creating the legal entity.

4.2.6. Amount of revenues which state executive and local self-governing authorities receive from provision of state services (issuance of permits (licenses), certificates, references, registration, and other services imposed by law), if such revenues are credited to appropriate budgets.

4.2.7. Amount of funds in form of payments:

a) received by taxpayers which carry on non-governmental pension security in accordance with law from depositors of pension funds and pension deposit accounts, and also persons who made insurance agreements according to Law of Ukraine "On Non-Governmental Pension Security" (1057-15);

b) received by insurers which provide long-term life insurance from the insured;

c) accumulated on pension deposit accounts and accounts of members of bank management funds according to law;

funds received by nonprofit institutions and organizations in accordance with requirements of Article 7 (7.11) hereof. (Article 4 (4.2) (4.2.7) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

4.2.8. Mutual investment funds, namely funds received from investors of institutes of mutual investment (IMI), revenues from operations with IMI assets and revenues accrued on IMI assets, and also funds received from holders of certificates of real estate operations funds, revenues from operations with assets of real estate operations funds and revenues accrued on assets of real estate operations funds created according to law. (Article 4 (4.2) (4.2.8) in the edition of Laws No. 977-XIV (977-14) of 15.07.99, No. 2831-III (2831-14) of 29.11.2001, No. 1957-IV (1957-15) of 01.07.2004)

(Article 4 (4.2) (4.2.9) is deleted pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

4.2.10. Nominal value of registered but unpaid (unredeemed) securities which certify the loan relations, and also payment documents issued by debtor in favor (name) of taxpayer as security or confirmation of debt of such debtor before such taxpayer (bonds, savings certificates, treasury bonds, promissory notes, debt notes, letters of credit, checks, guarantees, bank orders, and other similar payment documents).

4.2.11. Revenues from joint activity in Ukraine carried on without creating a legal entity, dividends which taxpayer received from other taxpayers and which were taxed according to procedure established by Article 7 (7.7) and (7.8) hereof.

4.2.12. Funds or property refunded/returned to owner of corporate rights issued by legal entity after complete and final liquidation of such legal entity-issuer or upon expiration of agreement on joint activity, but the value of said funds or property cannot exceed nominal value of shares.

4.2.13. Funds or property received in form of international technical assistance provided by other countries according to international treaties which entered into force according to procedure established by law.

(Article 4 (4.2) (4.2.14) in the edition of Law No. 40-IV (40-15) of 04.07.2002 is deleted pursuant to Law No. 2505-IV (2505-15) of 25.03.2005)

4.2.14. Funds provided to taxpayer - subject of innovative activity by specialized state and municipal innovation financial and credit institutions according to Law of Ukraine "On Innovative Activity" (40-15) and according to procedure determined by the Cabinet of Ministers of Ukraine. (Article 4 (4.2) (4.2.14) in the edition of Law No. 40-IV (40-15) of 04.07.2002 - suspended for 2003 pursuant to Law No. 380-IV (380-15) of 26.12.2002; suspended for 2004 pursuant to Law No. 1344-IV (1344-15) of 27.11.2003; suspended for 2005 pursuant to Law No. 2285-IV (2285-15) of 23.12.2004)

4.2.15. Value of fixed assets which taxpayer received at no cost for the purpose of operating them in cases provided by law:

if such fixed assets were received according to decision of central executive authorities;

if received by specialized companies operating objects of electric power, gas, heat, and water supply and sewerage networks according to resolutions of local and council executive authorities adopted within limits of their authority;

if municipally-owned enterprises received objects of social infrastructure mentioned in Article 5 (5.4) (5.4.9) hereof, which were on the balance of other companies and supported from their funds.

Fixed assets received in cases provided by this point shall be put on the balance at their balance value.

Procedure of no-cost transfer of such fixed assets shall be established by the Cabinet of Ministers of Ukraine. (Article 4 (4.2) is supplemented with point 4.2.15 pursuant to Law No. 793/97-BP of 30.12.97)

4.2.16. Funds or property provided as non-repayable assistance to public organizations of disabled people and to companies and organizations determined by Article 7 (7.12) hereof. (Article 4 (4.2) is supplemented with point 4.2.16 pursuant to Law No. 1926-III (1926-14) of 13.07.2000)

4.2.17. Other revenues determined directly by norms of this Law.

4.2.18. Until 1 January 2003, funds which enterprises of mining and smelting complex receive from separate special account of the State Treasury of Ukraine for implementation of investment projects including restructuring and pulling excessive and ineffective production capacities out of operation according to Article 3 of the Law of Ukraine "On Further Development of Mining and Smelting Complex" (2975-14). (Article 4 (4.2) is supplemented with point 4.2.18 pursuant to Law No. 2975-III (2975-14) of 17.01.2002)

4.2.19. Amount of funds or value of property which founder of court of arbitration received as arbitration fees or to cover other expenses related to dispute resolution by court of arbitration according to law. (Article 4 (4.2) is supplemented with point 4.2.19 pursuant to Law No. 1701-IV (1701-15) of 11.05.2004)

4.2.20. Amount of funds which taxpayer credited to special account in accordance with Law of Ukraine "On Regulation of Matters Related to Nuclear Safety" (1868-15). (Article 4 (4.2) is supplemented with point 4.2.20 pursuant to Law No. 1868-IV (1868-15) of 24.06.2004 - amendments are suspended for 2006 pursuant to Law No. 3235-IV (3235-15) of 20.12.2005)

4.3. Adjusted gross revenues means gross revenues determined according to subparagraph 4.1 of this Article excluding revenues mentioned in subparagraph 4.2 of this Article. (Article 4 (4.3) as amended pursuant to Law No. 639/97-BP of 18.11.97)

Article 5. Gross Expenses

5.1. Gross production and circulation expenses (hereinafter referred to as gross expenses) means amount of any taxpayer's expenses expressed in monetary, material, or non-material form and incurred as compensation of cost of goods (works, services) acquired (produced) by such taxpayer for the purpose of their subsequent use in its own business activity.

5.2. Gross expenses include:

5.2.1. Amount of any expenses paid (accrued) during the reporting period in connection with preparation, organization, and maintenance of production, sale of goods (works, services) and labor safety measures including cost of purchase of electric power (including reactive power), taking into consideration limitations established by subparagraphs 5.3 to 5.7 of this Article. (Article 5 (5.2) (5.2.1) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 349-IV (349-15) of 24.12.2002, No. 1957-IV (1957-15) of 01.07.2004)

5.2.2. Amount of funds or cost of goods (works, services) which were transferred (provided) to the State Budget of Ukraine or budgets of local self-government and nonprofit organizations determined in Article 7 (7.11) hereof on a good will during the reporting year; funds transferred to legal entities including nonprofit organizations - founders of permanent court of

arbitration in the amount exceeding two percent but not exceeding five percent of the taxable profit received during previous reporting year, with the exception of contributions provided by point 5.6.2 of subparagraph 5.6 of this Article and contributions provided by point 5.2.17 of this subparagraph. (Indent one of Article 5 (5.2) (5.2.2) as amended pursuant to Laws No. 1957-IV (1957-15) of 01.07.2004, No. 2505-IV (2505-15) of 25.03.2005)

(Indent two of Article 5 (5.2) (5.2.2) is deleted pursuant to Law No. 2505-IV (2505-15) of 25.03.2005)

(Article 5 (5.2) (5.2.2) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002, as amended pursuant to Law No. 1701-IV (1701-15) of 11.05.2004)

5.2.3. Amount of funds which enterprises of all-Ukrainian associations of persons who suffered as a result of Chernobyl catastrophe (with no less than 75 percent of said persons having such enterprises as their primary place of employment) transferred to these associations to finance their charitable activity, but not exceeding 10 percent of the taxable profit received during previous reporting period. (Article 5 (5.2) (5.2.3) as amended pursuant to Law No. 639/97-BP of 18.11.97)

5.2.4. Amount of funds deposited into insurance reserves according to procedure provided by Article 12 hereof.

5.2.5. Amount of paid (accrued) taxes and duties (mandatory payments) established by Law of Ukraine "On Taxation System" (1251-12) (with the exception of those not mentioned directly in the list of taxes and duties (mandatory payments) determined by said Law) including excise duty and rent payments and also dues in form of target surcharge on the effective electricity and heating rates, with the exception of taxes and duties (mandatory payments) provided by points 5.3.3 and 5.3.4 and fines, penalties, and forfeits provided by point 5.3.5 of this Article. (Indent one of Article 5 (5.2) (5.2.5) as amended pursuant to Laws No. 349-IV (349-15) of 24.12.2002, No. 849-IV (849-15) of 22.05.2003)

Taxpayers whose main type of activity is agricultural production shall include payment for land not used for agricultural production purposes in their gross expenses.

5.2.6. Amount of expenses not included in gross expenses incurred during past reporting tax periods because of the loss, destruction, or damage of documents required by tax accounting regulations and confirmed by such documents in the reporting tax period.

5.2.7. Amount of expenses not taken into account during past tax periods because of the errors in calculation of tax liabilities which were discovered in the reporting tax period.

5.2.8. Amount of bad debt not included in gross expenses, if appropriate measures aimed at collection of such debts did not yield positive result. In case of banks and other non-banking financial institutions, norms of this point shall apply taking into consideration norms of Article 12 hereof. (Article 5 (5.2) (5.2.8) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 1957-IV (1957-15) of 01.07.2004)

5.2.9. Amount of expenses upon operations provided by subparagraph 5.9 of this Article and Article 7 hereof.

5.2.10. Amount of expenses related to improvement of fixed assets within limits established by Article 8 (8.7) (8.7.1) hereof and amount of excess of balance value of fixed assets and intangible assets over their sale value determined according to procedure established by Article 8 hereof. (Article 5 (5.2) (5.2.10) as amended pursuant to Law No. 639/97-BP of 18.11.97)

5.2.11. Amount of expenses related to provision of coal to employees of coal industry and non-working pensioners with experience of working at coal industry enterprises no less than 10 years on underground works or no less than 20 years on the ground, persons who became disabled as a result of injuries or professional illness received while working at these enterprises, and also families of employees of coal industry who died at work, which receive pension because of the loss of breadwinner, at no cost for household purposes according to norms established pursuant to procedure determined by the Cabinet of Ministers of Ukraine. (Article 5 (5.2) is supplemented with point 5.2.11 pursuant to Law No. 1133-XIV (1133-14) of 07.10.99)

5.2.12. Amount of funds which authorized banks allocate to additional special reserve which insures pension fund of bank management in accordance with Law of Ukraine "On Amending the Law of Ukraine "On Experiment in Housing Construction Held on the Basis of Holding Company Kyivmiskbud" (3044-14). (Article 5 (5.2) is supplemented with point 5.2.12 pursuant to Law No. 1694-III (1694-14) of 20.04.2000, in the edition of Law No. 3045-III (3045-14) of 07.02.2002)

5.2.13. Amount of funds or value of property transferred (provided) to scientific, educational, and cultural institutions, preserves, and museums-preserves on a good will for target use as a protection of cultural heritage which exceeds two percent but not exceeds ten percent of taxable profit received during previous reporting period. (Article 5 (5.2) is supplemented with point 5.2.13 pursuant to Law No. 1805-III (1805-14) of 08.06.2000 - enters into force on 1 January 2001, as amended pursuant to Laws No. 349-IV (349-15) of 24.12.2002, No. 1957-IV (1957-15) of 01.07.2004, No. 2245-IV (2245-15) of 16.12.2004, No. 2505-IV (2505-15) of 25.03.2005)

(Article 5 (5.2) (5.2.14) is deleted pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

5.2.15. Amount of expenses related to confirmation of conformance of products, quality systems, quality management systems, environment management systems, and personnel with the established requirements according to Law of Ukraine "On Confirmation of Conformance" (2406-14). (Article 5 (5.2) is supplemented with point 5.2.15 pursuant to Law No. 2406-III (2406-14) of 17.05.2001)

5.2.16. Amount of expenses related to exploration (supplementary exploration) and construction of oil and gas fields (with the exception of expenses related to construction of any wells used to develop oil and gas fields, and also other expenses related to acquisition (production) of fixed assets which shall be depreciated on terms of Article 8 hereof). (Article 5 (5.2) is supplemented with point 5.2.16 pursuant to Law No. 2712-III (2712-14) of 20.09.2001 - enters into force on 01.01.2002, in the edition of Law No. 2505-IV (2505-15) of 25.03.2005)

5.2.17. Amount of funds or value of property transferred (provided) on a good will to employer organizations and associations created according to law which regulates these matters in form of registration, membership, and target fees but not exceeding 0.2 percent from the amount of taxpayer's labor remuneration fund calculated for the reporting year. (Article 5 (5.2) is supplemented with point 5.2.17 pursuant to Law No. 349-IV (349-15) of 24.12.2002)

5.2.18. Amount of funds or value of property used as financial assistance in production and/or showing national films. {Article 5 (5.2) is supplemented with point 5.2.18 pursuant to Law No. 3317-IV (3317-15) of 12.01.2006}

5.2.19. Amount of funds or value of property used for acquisition, creation, and production of audio and visual works. {Article 5 (5.2) is supplemented with point 5.2.19 pursuant to Law No. 3317-IV (3317-15) of 12.01.2006}

5.3. The following expenses are not included in gross expenses:

5.3.1. Expenses not related to business activity, namely:

organization and holding of receptions, presentations, celebrations, entertainment, and leisure, purchase and distribution of gifts (with the exception of charitable contributions and donations to nonprofit organizations determined by Article 7 (7.11) hereof and expenses related to advertising activity regulated by norms of point 5.4.4 of this Article). Limitations of part two of this point do not apply to taxpayers whose main type of activity is organization of receptions, presentations, and celebrations at the request and at the expense of other persons;

purchase of lottery tickets and participation in gambling activities;
financing of personal needs of individuals, with the exception of payments provided by subparagraphs 5.6 and 5.7 of this Article and in other cases provided by norms of this Law.

5.3.2. Acquisition, construction, reconstruction, modernization, repair, and other improvement of fixed assets, and other expenses related to extraction of useful minerals and also to purchase of intangible assets which shall be depreciated according to Articles 8 and 9 and Article 7 (7.9) (7.9.4) hereof. (Article 5 (5.3) (5.3.2) as amended pursuant to Law No. 639/97-BP of 18.11.97)

5.3.3. Payment of company profit tax, real estate tax, and also taxes established by Articles 7 (7.8), 10 (10.2), and 13 hereof; payment of value added tax included in price of goods (works, services) which taxpayer purchases for production or non-production use, payment of individual income tax withheld from the amount of such income according to law of Ukraine on individual income tax.

Payers of company profit tax not registered as payers of value added tax shall include in their gross production (circulation) expenses the amount of value added tax paid as part of the purchase price of goods (works, services) cost of which is included in gross expenses of such taxpayer.

If payer of profit tax registered as payer of value added tax carries on simultaneously operations on sale of goods (works, services) taxable with value added tax and relieved from taxation or are not object of taxation with this tax, value added tax paid as part of expenses related to purchase of goods (works, services) included in gross expenses and fixed assets and intangible assets that shall be depreciated, shall be, respectively, included in gross expenses or the balance value of the appropriate group of fixed assets shall be increased by the amount not included in the amount of tax credit of such taxpayer according to Law of Ukraine "On Value Added Tax" (168/97-BP).

(Point 5.3.3 is supplemented with indent three pursuant to Law No. 639/97-BP of 18.11.97)

5.3.4. Payment of trade patent fees counted towards reduction of taxpayer's tax liabilities according to procedure provided by Article 16 (16.3) hereof.

5.3.5. Payment of penalties and/or forfeits or fines upon decision of parties to the agreement or resolution of appropriate state authorities or court. (Article 5 (5.3) (5.3.5) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002)

5.3.6. Maintenance of administrative bodies of taxpayer associations including maintenance of holding companies which are separate legal entities.

The term "holding companies" means legal entities which are the owners of other legal entities or maintain control over such legal entities as

related entities according to Article 1 (1.26) hereof. (Point 5.3.6 is supplemented with indent two pursuant to Law No. 639/97-BP of 18.11.97)

(Article 5 (5.3) (5.3.7) is deleted pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

5.3.8. Payment of dividends.

5.3.9. Payment of royalties or other types of incentives to individuals or legal entities related to such taxpayer, if there is no documentary evidence that such payment or incentive was made as compensation for the actually provided service (hours actually worked). If said documentary evidence is available, actual amount of payments (incentives) shall be included in gross expenses but not larger than the amount calculated at regular prices.

Amount of taxpayer's losses incurred as a result of sale of goods (works, services) to entities related to such taxpayer or their exchange at prices lower than regular cannot be included in gross expenses.

If the amount of payments (incentives) or part thereof made to related individuals is not recognized as gross expenses, such amount (or part thereof) shall serve as the basis for accrual of payments for social measures provided by subparagraph 5.7 of this Article.

Any expenses not confirmed by appropriate estimates, payment and other documents which shall be maintained and kept according to tax accounting regulations cannot be included in gross expenses.

In case of loss, destruction, or damage of the aforementioned documents, taxpayer has right to notify tax authority in writing about it and undertake necessary measures to restore such documents. Written notice shall be send before/or together with filing the estimated tax liability for the reporting period. If taxpayer will fail to submit written notice during this time and fail to restore said documents before the end of tax period which follows the reporting period, expenses not confirmed by appropriate documents cannot be recognized as gross expenses and the fine will be charged on the amount of unpaid tax in the amount of rate of the National Bank of Ukraine multiplied by 1.2.

If taxpayer will restore said documents during the following periods, confirmed expenses (including fine paid) will be included in gross expenses of tax period in which such restoration took place.

(Article 5 (5.3) (5.3.9) as amended pursuant to Law No. 639/97-BP of 18.11.97)

5.4. Specifics of including the double-purpose expenses in taxpayer's gross expenses.

Gross expenses include:

5.4.1. Taxpayer's expenses related to provision of hired employees with special clothing, footwear, and uniforms necessary to perform their professional duties, and also special nutrition products according to list determined by the Cabinet of Ministers of Ukraine.

5.4.2. Expenses (with the exception of those subject to depreciation) related to scientific and technical support of business activity, invention and rationalization of business processes, research, development, and design works, production and study of models and samples related to main type of taxpayer's activity, payment of royalties and acquisition of intangible assets (with the exception of those subject to depreciation) for their subsequent use in taxpayer's business activity. Norms of this point shall apply to expenses related to the aforementioned measures regardless of whether or not such measures resulted in increase of taxpayer's revenues.

Expenses related to purchase of literature for informational support of taxpayer's business activity (including literature on the matters of law) and subscription to specialized periodical publications, and also performance of audit according to Ukrainian law including audit conducted upon taxpayer's own goodwill decision. (Indent two of Article 5 (5.4) (5.4.2) in the edition of Law No. 639/97-BP of 18.11.97)

Taxpayer's expenses related to professional training, education, retraining, or improvement of skills of persons who have labor relations with such taxpayer; expenses related to education and (or) professional training at national institutions of higher and vocational education of other persons who do not have labor relations with such taxpayer but made a written agreement (contract) with him according to which they agreed to work for this taxpayer upon graduation from institution of higher and (or) vocational education and receiving degree (qualification) for no less than three years; expenses related to organization of practical scientific and production work of persons studying at institutions of higher and vocational education upon profile of taxpayer's main type of activity or at structural divisions which support its business activity. Said expenses are included in gross expenses in the amount of up to 3 percent from the amount of labor remuneration fund of the reporting period. (Indent three of Article 5 (5.4) (5.4.2) in the edition of Law No. 2229-IV (2229-15) of 14.12.2004)

(Indent four of Article 5 (5.4) (5.4.2) is deleted pursuant to Law No. 639/97-BP of 18.11.97)

Responsibility for proving connection between expenses on purposes stipulated in this point and taxpayer's main type of business activity shall be placed onto such taxpayer.

In the event of disagreement between tax authority and taxpayer regarding connection between expenses on purposes stipulated in this point and taxpayer's main type of business activity, such tax authority shall contact Ministry of Science and Technologies of Ukraine and request their expert conclusion which will serve as the ground for tax authority to make decision.

Taxpayers may appeal decisions of tax authorities made based on expert conclusion of the Ministry of Science and Technologies of Ukraine according to general procedure.

5.4.3. Any expenses related to warranty repair (servicing) or warranty replacement of goods sold by taxpayer, amount of which is not compensated at the expense of buyers of such goods, does not exceed the amount which corresponds to level of warranty replacements established (publicized) by taxpayer and is not higher than 10 percent from the aggregate cost of such goods which were sold and whose warranty term has not expired. (Indent one of Article 5 (5.4) (5.4.3) as amended pursuant to Law No. 639/97-BP of 18.11.97)

In case of warranty replacement of goods, taxpayer shall maintain a separate list of defective goods returned by buyers and a list of buyers who received such replacement or repair (maintenance) services according to procedure established by central tax authority.

Replacement of goods without receiving defective goods back or without proper maintenance of the aforementioned lists does not give the seller of such goods right to increase its gross expenses by the cost of replacements.

Warranty repair (servicing) or warranty replacement procedure, and also list of goods covered by warranty service shall be determined by the Cabinet of Ministers of Ukraine based on the norms of law on protection of consumer rights.

The term "publicizing" means seller's obligations concerning terms and conditions of warranty service distributed through inclusion of such obligations in the content of advertising, technical documentation, agreement, or other document.

5.4.4. Taxpayer's expenses related to implementation of presale and advertising measures concerning goods (works, services) sold (provided) by such taxpayers.

Expenses related to organization of receptions, presentations, and celebrations, purchase and distribution of gifts including free giveaway of product samples or provision of free services (work for free) for advertising purposes, amount of which does not exceed two percent from the amount of taxpayer's taxable profit received during previous reporting (tax) year.

(Indent two of Article 5 (5.4) (5.4.4) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 349-IV (349-15) of 24.12.2002)

5.4.5. Any taxpayer's expenses related to maintenance and operation of assets with have environmental protection purpose (with the exception of expenses subject to depreciation or compensation according to norms of Articles 8 and 9 hereof) owned by such taxpayer, expenses related to individual storage, processing, and disposal, or payment for services on storage, processing, disposal, and liquidation of waste of taxpayer's business activity by third organizations, purification of sewage, other expenses related to preservation of ecological systems which experience adverse effect of taxpayer's business activity.

In the event of disagreement between tax authority and taxpayer regarding connection between expenses on environmental protection measures and taxpayer's business activity, such tax authority shall contact Ministry of Environmental Protection and Nuclear Safety of Ukraine and request their expert conclusion which will serve as the ground for tax authority to make decision.

5.4.6. Any expenses related to insurance of risks of loss of harvest and transportation of taxpayer's products; civil responsibility related to operation of motor vehicles included in taxpayer's fixed assets; ecological and nuclear damage which taxpayer may cause to other entities; taxpayer's property; taxpayer's credit and other risks related to carrying on its business activity within limits of regular insurance rates for the appropriate type of insurance effective on the date of such insurance agreement, with the exception of insurance of life, health, or other risks related to work of individuals who have labor relations with taxpayer not required by law, or any expenses related to insurance of outside individuals or legal entities.

(Indent one of Article 5 (5.4) (5.4.6) as amended pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

If insurance terms provide for payment of insurance compensation in favor of taxpayer - insurer, insured losses incurred by such taxpayer shall be included in its gross expenses for tax period in which they were incurred, and the amount of insurance compensation for such losses shall be included in gross revenues of such taxpayer for tax period in which they were received.

Insurance-related expenses (with the exception of expenses related to medical, pension, and mandatory types of insurance) may be included in taxpayer's gross expenses in the amount which does not exceed 5 percent from the amount of gross expenses for the reporting tax period accumulated from the beginning of year, and in case of agricultural enterprises - for the reporting tax year.

(Article 5 (5.4) (5.4.6) is supplemented with indent pursuant to Law No. 2505-IV (2505-15) of 25.03.2005; as amended pursuant to Laws No. 2642-IV (2642-15) of 03.06.2005, No. 2771-IV (2771-15) of 07.07.2005)

5.4.7. Any expenses related to procurement of licenses and other special permits issued by state authorities to carry on main type of activity including fees for registration of company with state registration authorities, in particular, with local self-governing authorities and their executive authorities, with the exception of expenses related to purchase of trade patents established by Law of Ukraine "On Patenting Certain Types of Entrepreneurial Activity" (98/96-BP). Expenses related to procurement of licenses and other special permits to catch fish and seafood outside Ukraine, and also to provide transportation services. (Article 5 (5.4) (5.4.7) as amended pursuant to Law No. 639/97-BP of 18.11.97)

5.4.8. Expenses related to business trips of individuals who have labor relations with such taxpayer or are members of administrative bodies of the taxpayer, within limits of actual expenses of person who was on business

trip which include round-trip fare (including transportation of baggage), cost of hotel (motel) accommodations and also cost of meals or household services (laundry, dry cleaning, repair, and ironing of clothing, footwear, or linen) included in hotel (motel) bills, rent of other residential facilities, telephone bills, procurement of passports for foreign trip, entry permissions (visas), mandatory insurance, cost of translation and interpreting services, other documented expenses related to regulations concerning entry and stay in destination place of the business trip including any taxes and dues payable in connection with such expenses. (Indent one of Article 5 (5.4) (5.4.8) as amended pursuant to Law No. 639/97-BP of 18.11.97)

The aforementioned expenses may be included in taxpayer's gross expenses only upon availability of confirmation documents which evidence the amount of these expenses in form of transportation tickets or transportation invoices (baggage receipts), hotel (motel) bills or bills from other entities which provide services related to booking and accommodation of individuals, insurance policies, etc. Cash spent for purposes defined in points 5.3.1 and 5.4.4 of this Article and also for purposes not related to reimbursement of personal expenses of individual who was on a business trip cannot be included in taxpayer's expenses.

Cost of alcoholic beverages and tobacco products, tips (with the exception of cases when such tips are included in bills according to laws of country of stay), and also payment for entertainment events are not permitted to be included in expenses on meals.

In addition, expenses defined in indent one of this point include non-documented expenses related to cost of meals and financing of other personal needs of an individual (daily allowances) incurred in connection with business trip of such individual, within limits established by the Cabinet of Ministers of Ukraine for each full day of business trip including days of departure and arrival.

Said limits are established in Ukrainian Hryvnias:

as a lump sum in case of trips abroad regardless of country of destination and status of locality;

as a lump sum in case of trips within Ukraine regardless of status of locality.

Cabinet of Ministers of Ukraine shall separately determine maximum amount of daily allowances for members of ship (other vehicle) crews while on business trip or the amount spent on meals for such crew members instead of daily allowances in the event when such ships (other vehicles): (Article 5 (5.4) (5.4.8) is supplemented with indent eight pursuant to Law No. 639/97-BP of 18.11.97)

carry on commercial, industrial, scientific research, or fishing activity outside territorial sea (waters) of Ukraine; (Article 5 (5.4) (5.4.8) is supplemented with indent nine pursuant to Law No. 639/97-BP of 18.11.97)

perform international voyages/flights for the purpose of carrying on navigational activity or transportation of passengers or cargoes in exchange for payment outside air or customs borders of Ukraine; (Article 5 (5.4) (5.4.8) is supplemented with indent ten pursuant to Law No. 639/97-BP of 18.11.97)

are used for emergency rescue and search and rescue works outside customs borders or territorial sea (waters) of Ukraine. (Article 5 (5.4) (5.4.8) is supplemented with indent eleven pursuant to Law No. 639/97-BP of 18.11.97)

Amount of daily allowance is determined:

in case of business trips within Ukraine and to countries with which there is no border control or the border control is simplified - based on notes made by sending and receiving parties in business trip document, form of which shall be approved by central tax authority;

in case of business trips to countries with which there is a full border customs control - based on stamps made by border control authorities in passport or document which substitutes it.

If the aforementioned notes/stamps are unavailable, amount of daily allowances cannot be included in taxpayer's gross expenses.

Any business trip expenses may be included in taxpayer's gross expenses upon availability of documents confirming connection between such business trip and main type of business activity of such taxpayer: invitations from the receiving party whose activity matches activity of taxpayer; valid agreement (contract); other documents which establish or prove desire to establish civil and legal relations; documents which prove participation of individual sent on business trip in negotiations, conferences, or symposiums topic of which matches main type of taxpayer's activity.

Upon request of representative of tax authority, taxpayer shall ensure translation of reporting and confirmation documents issued in foreign language at its own expense.

Amount and composition of expenses related to business trips of government employees and also other persons sent on business trips by companies, institutions, and organizations fully or partially maintained (financed) from budget funds shall be determined by the Cabinet of Ministers of Ukraine. Amount of daily allowances for such categories of individuals cannot exceed the amount which indent two of this point established for other persons sent on business trip. Owner or person authorized by owner may establish additional limitations concerning amount and purposes of use of funds provided for business trips.

5.4.9. Gross expenses include taxpayer's expenses related to maintenance, operation, and support of main type of activity of the following objects of social infrastructure which were on the balance and maintained at the expense of such taxpayer on the moment of entry of this Law into force (with the exception of capital expenses subject to depreciation): (Indent one of Article 5 (5.4) (5.4.9) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002)

- day nurseries or kindergartens;
- institutions of secondary and secondary vocational education and institutions of skill improvement of employees of such taxpayer;
- children's, music, and art schools if said schools do not provide paid services and do not carry on other commercial activity;
- healthcare institutions, stations of free medical examination, prevention, and assistance to employees;
- sports halls and grounds used for physical health improvement and psychological rehabilitation of employees free of charge, clubs and cultural establishments if they are not used for provision of paid services and other commercial activity (with the exception of holiday homes, tourist centers, and other similar establishments);
- facilities which taxpayer uses for provision of meals to employees of such taxpayer;
- multi-apartment housing stock including dormitories, single-apartment housing stock in rural area and objects of housing maintenance and utilities service which are on the balance of legal entities concerning which taxpayer made documented decision to transfer to the balance of local councils;
- children's recreational camps, under condition that said camps are not rented out and not used to provide paid services or other commercial activity. (Article 5 (5.4) (5.4.9) is supplemented with indent nine pursuant to Law No. 639/97-BP of 18.11.97)

5.4.10. Taxpayer's gross expenses include expenses related to maintenance, operation, and support of main type of activity (with the exception of those subject to depreciation): (Indent one of Article 5 (5.4) (5.4.10) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002)

- stations of medical examination of hired employees availability of which is required by law or collective agreements made in accordance with law; (Article 5 (5.4) (5.4.10) is supplemented with indent two pursuant to Law No. 349-IV (349-15) of 24.12.2002)

- housing stock facilities owned by legal entities whose main type of activity is provision of paid services on tourist servicing of outside

persons or renting out (leasing) of such facilities to outside persons or organizations according to procedure determined by this Law;

cars, household aircrafts, motorboats, speedboats, and yachts intended for leisure and owned by taxpayers whose main type of activity is provision of paid transportation or tourist services to outside persons or organizations, and also if said vehicles belong to sport organizations and are used as sports equipment.

(Indent of Article 5 (5.4) (5.4.10) in the edition of Law No. 639/97-BP of 18.11.97)

Taxpayer's expenses (with the exception of labor expenses) related to maintenance and operation of housing stock facilities (with the exception of housing stock defined in point 5.4.9 of this Article), household aircrafts, motorboats, speedboats, and yachts intended for leisure and used for purposes other than those mentioned in this point or by taxpayers other than those mentioned in this point; expenses related to parking of cars, and also 50 percent of expenses related to purchase of fuel and lubricant materials for cars and operative car rental are not included in gross expenses. In this case, taxpayer shall be relieved from responsibility of proving connection between such expenses and its business activity.

(Indent of Article 5 (5.4) (5.4.10) in the edition of Law No. 639/97-BP of 18.11.97; as amended pursuant to Laws No. 977-XIV (977-14) of 15.07.99, No. 349-IV (349-15) of 24.12.2002)

Limitations established by this point do not apply to taxpayers whose main type of activity is provision of services on maintenance and operation of housing stock facilities, household aircrafts, motorboats, speedboats, and yachts intended for leisure and owned by other entities, upon orders and at the expense of such other entities.

5.5. Specifics of determining composition of taxpayer's expenses in case of payment of interest charged on debt obligations.

5.5.1. Any expenses related to payment or accrual of interest upon debt obligations (including any loans and deposits) during reporting period are included in gross expenses if such payments or accruals were made in connection with taxpayer's business activity. (Article 5 (5.5) (5.5.1) as amended pursuant to Law No. 977-XIV (977-14) of 15.07.99)

5.5.2. If 50 or more percent of taxpayer's authorized fund (stock, other corporate rights) is owned or managed by nonresident(s), expenses related to payment or accrual of interest upon loans and other debt obligations in favor of such nonresidents and entities related to them are allowed to be included in gross expenses in the amount which does not exceed amount of revenues of such taxpayer received during reporting year in form of interest from distribution of its own assets increased by the amount equal to 50 percent of taxable profit of the reporting period excluding amount of such interest received. (Article 5 (5.5) (5.5.2) as amended pursuant to Laws No. 639/97-BP of 18.11.97, No. 977-XIV (977-14) of 15.07.99, in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

5.5.3. For the purposes of taxation, legal entities relieved from paying this tax in accordance with provisions of Article 7 (7.11) to (7.13) and (7.19) hereof or legal entities which, according to law, pay this tax at the rates other than those established in Article 7 (7.2) or Article 10 hereof also shall be regarded as nonresidents defined in point 5.5.2. (Article 5 (5.5) (5.5.3) as amended pursuant to Laws No. 977-XIV (977-14) of 15.07.99, No. 349-IV (349-15) of 24.12.2002, in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

5.5.4. For the purposes of point 5.5.2, taxable profit excluding interest shall be determined as adjusted gross revenue received during reporting period excluding revenues of the reporting period received in form of interest reduced by the amount of gross expenses of the reporting period

with the exception of gross expenses of the reporting period related to payment of interest.

5.5.5. Expenses related to payment of interest which meet requirements of point 5.5.1 but were not included in production (circulation) expenses during the reporting period according to provisions of point 5.5.2 shall be carried over to the results of future tax periods with limitations provided by point 5.5.2 still applicable.

5.6. Specifics of determining composition of labor remuneration-related expenses.

5.6.1. Considering norms of subparagraph 5.3 of this Article, taxpayer's gross expenses shall include expenses related to remuneration of labor of individuals who have labor relations with such taxpayer (hereinafter referred to as employees), which include expenses related to payment of main and additional salaries and other forms of incentives and payments based on wage rates, in form of premiums, incentives, reimbursement of cost of goods (works, services), expenses related to payment of royalties and payments for performed works (services) upon civil and legal agreements, any other payments in cash or in kind made upon agreement between parties (with the exception of financial assistance relieved from taxation according to norms of law which regulates matters of taxation of individual income (law which establishes rules for taxing individuals with profit tax). (Article 5 (5.6) (5.6.1) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002)

5.6.2. In addition to payments provided by point 5.6.1 of this Article, taxpayer's gross expenses shall include mandatory payments and also reimbursement for cost of services provided to employees in cases provided by law, taxpayer's deductions for mandatory life or health insurance of employees in cases provided by law, and also deductions defined by indent two of this point.

If according to agreement on long-term life insurance or any type of non-governmental pension security payer of this tax makes goodwill payments for insurance (non-governmental pension security) of individual hired by such taxpayer from its own funds, this taxpayer has right to include amount of such payments which does not exceed on aggregate 15 percent from the amount of salary credited to such hired individual during tax year which includes such tax periods in gross expenses of each reporting tax period (as progressive total).

In this case, amount of such payments cannot exceed the amount determined in Article 6 (6.5) (6.5.1) of the Law of Ukraine "On Individual Income Tax" (889-15) during such tax period. (Article 5 (5.6) (5.6.2) as amended pursuant to Law No. 349-IV (349-15) of 24.12.2002, in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

(Article 5 (5.6) (5.6.3) is deleted pursuant to Law No. 639/97-BP of 18.11.97)

5.7. Specifics of inclusion of deductions for social measures in gross expenses.

5.7.1. Deductions for mandatory state pension insurance and deductions for mandatory state social insurance accrued on payments mentioned in point 5.6.1 of this Article shall be included in taxpayer's gross expenses in the amount and according to procedure established by law. (Article 5 (5.7) (5.7.1) in the edition of Law No. 429-IV (429-15) of 16.01.2003)

5.7.2. If hired person requests employer to make deductions for long-term life insurance or any type of non-governmental pension security from the amount of labor payment to such hired person included in taxpayer's gross expenses according to point 5.6.1 of subparagraph 5.6 of this Article or to make deductions to pension deposit according to Article 22 (22.25) of this Law, such employer does not include amount of such deductions in its gross

expenses and the base for accrual of the amount of deductions for pension and other types of mandatory state (social) insurance. (Article 5 (5.7) (5.7.2) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

(Article 5 (5.8) is deleted pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

5.9. Taxpayer shall maintain tax accounting of increase (decrease) of balance value of goods (with the exception of goods subject to depreciation and securities), raw materials, materials, component parts, semi-finished products, items of low value (hereinafter referred to as stock) in warehouses, in unfinished production, and the balance of finished products, expenses related to purchase and improvement (transformation, storage) of which are included in gross expenses according to this Law (with the exception of those received for free).

Value of stock which taxpayer-buyer paid for but not received (did not post to balance) is not included in stock increase.

Value of stock which taxpayer-seller received payment for but not shipped (did not take off balance) is not included in stock decrease.

If balance value of such stock as of the end of reporting period exceeds its balance value as of the beginning of the same reporting period, the difference shall be included in taxpayer's gross revenues in such reporting period.

If balance value of such stock as of the end of reporting period is less than its balance value as of the beginning of the same reporting period, the difference shall be included in taxpayer's gross expenses in such reporting period.

For agricultural producers defined in Article 14 hereof, norms of this subparagraph are applicable for tax period equal to twelve calendar months beginning from 1 July of current reporting (budget) year. (Indent six of Article 5 (5.9) as amended pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

If taxpayer decides to discount (increase) the value of stock according to accounting regulations, for the purpose of tax accounting such discounting (increase) does not change the balance value of stock and gross revenues or gross expenses of such taxpayer related to acquisition of such stock.

For the purpose of tax accounting, taxpayer shall evaluate reduction of stock using one of the following accounting methods determined in the appropriate standard at his own discretion:

(Indent eight of Article 5 (5.9) in the edition of Law No. 1957-IV (1957-15) of 01.07.2004)

identified value of the appropriate unit of stock; (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

weighted average value of similar stock; (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

value of stock received first (FIFO); (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

normative expenses; (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

sale value of stock (applies exclusively to stock sold through retail network). (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

Only one of the aforementioned methods shall be applied to all tax accounting units of stock which have similar purpose and similar conditions of usage. (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

After taxpayer will select certain method to estimate the value of stock reduction, it is not allowed to change this method during tax year for the purposes of tax accounting. (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004)

Tax accounting of increase (reduction) of balance value of stock used to produce electric power upon list determined by the cabinet of Ministers of Ukraine shall be made upon results of reporting (tax) year, and the remainder of stock shall be adjusted according to general procedure. (Article 5 (5.9) is supplemented with indent pursuant to Law No. 1957-IV (1957-15) of 01.07.2004, in the edition of Law No. 2505-IV (2505-15) of 25.03.2005) (Article 5 (5.9) as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

5.10. If after goods (works, services) were sold there was any change in the amount of compensation for their cost including recalculation in case of return of goods sold or right of ownership on such goods (results of works, services) to seller, taxpayer-seller and taxpayer-buyer shall make the appropriate recalculation of the amount of gross revenues or gross expenses (balance value of fixed assets) in the reporting period in which such change of the amount of compensation took place.

This subparagraph does not regulate rules for determining and adjusting gross expenses and gross income as a result of procedures of settling doubtful or bad debts or recognition of buyer's debt as bad; said rules are determined in Article 12 hereof. (Article 5 is supplemented with subparagraph 5.10 pursuant to Law No. 349-IV (349-15) of 24.12.2002)

5.11. It is not allowed to establish additional limitations concerning inclusion of expenses in taxpayer's gross expenses other than those established in this Law.

Article 6. Procedure of Taking into Account Negative Value of Object of Taxation in the Results of Future Tax Periods

6.1. If object of taxation of resident taxpayer has negative value (including amount of depreciation deductions) upon results of tax year, the amount of such negative value shall be included in gross expenses of first calendar quarter of the following tax year. Calculation of object of taxation upon results of half-year, three quarters, and the year shall take into account negative value of object of taxation of the previous year in the amount of gross expenses of such tax periods in form of progressive total until such negative value will be fully cleared.

6.2. Tax authority cannot refuse to accept tax declaration which contains negative value of object of taxation for the reasons of presence of such negative value.

6.3. If taxpayer declares negative value of object of taxation during four consecutive tax periods, tax authority has right to conduct extraordinary audit to verify correctness of determination of object of taxation. In other cases, presence of negative value of object of taxation cannot serve as sufficient reason to conduct such extraordinary audit. (Article 6 as amended pursuant to Law No. 639/97-BP of 18.11.97, in the edition of Law No. 349-IV (349-15) of 24.12.2002)

Article 7. Taxation of Special Transactions

7.1. Taxation of Barter Transactions

7.1.1. Income and expenses from barter transactions shall be determined on the basis of the contractual price of such a transaction, but which is not less than its regular price. (Sub-clause 7.1.1 of Clause 7.1 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

(Sub-clause 7.1.2 of Clause 7.1 of Article 7 was deleted on the basis of Law No. 349-IV (349-15) of 24.12.2002)

7.2. Taxation of Insurance Activities

7.2.1. Income of legal entities-residents from insurance activities shall be exempt from tax at the rate established by Clause 10.1 of Article 10 of this Law and taxable at the following rates: (Paragraph 1 of Sub-clause 7.2.1 of Clause 7.2 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004)

at the rate of 0% - if income is received from performance of contracts of long-term life insurance and pension insurance within non-state pension provision, in case of performance of the requirements to such contracts set by Clause 1.37 and Clause 1.42 of Article 1 of this Law; (Sub-clause 7.2.1 of Clause 7.2 of Article 7 was supplemented with the paragraph under Law No. 1957-IV (1957-15) of 01.07.2004) and

at the rate of 3% - if income is received from performance of other insurance contracts. (Sub-clause 7.2.1 of Clause 7.2 of Article 7 was supplemented with the paragraph under Law No. 1957-IV (1957-15) of 01.07.2004)

For the purpose of taxation of insurance activities, taxable income shall be defined as the amount of insurance payments, insurance contributions and insurance premiums (*hereinafter referred to as the amount of gross contributions*) received/accrued by insurers-residents under insurance and re-insurance contracts in the territory of Ukraine or abroad during a reporting period, reduced by the amount of insurance payments/insurance contributions/insurance premiums paid by the insurer under re-insurance contracts with a resident. (Paragraph 4 of Sub-clause 7.2.1 of Clause 7.2 of Article 7 as amended under Laws No. 1957-IV (1957-15) of 01.07.2004 and No. 2505-IV (2505-15) of 25.03.2005)

7.2.2. The insurer shall maintain fiscal accounting records of transactions, which, pursuant to Sub-clause 7.2.1 of this Clause, are taxable at different rates under regulations set by the Law for establishment of a relevant tax-return form. (Sub-clause 7.2.2 of Clause 7.2 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004)

7.2.3. If the insurer receives income from sources, other than those set forth in Sub-clause 7.2.1 of this Clause, such income shall be taxable at the rate established by Clause 10.1 of Article 10 of this Law. Costs incurred by the insurer in the course of carrying out insurance/re-insurance transactions shall not be included in gross expenses related to such income. (Paragraph 1 of Sub-clause 7.2.3 of Clause 7.2 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

Investment income received by the insurer from investment of funds of life insurance reserves shall be taxable to the extent that belongs to the insurer. The insurer's part of investment income received from investment of funds of life insurance reserves shall be defined as the difference between the amount of income from investment of funds of life insurance reserves and amount of insurer's expenses for the transaction, which may not exceed 15% of the investment income received.

If the insurer makes deductions to mathematical life insurance reserves, the amount of investment income that belongs to the insurer shall be reduced by the amount of deductions to such mathematical reserves, which may not exceed 85% of the amount of insurer's investment income.

Income received by a ceding insurer from re-insurers under re-insurance contracts in the reporting period shall be reduced by the amount of insurance compensations/insurance indemnity paid by the ceding insurer to the extent/within shares that the re-insuree is liable under re-insurance contracts with the ceding insurer. Such income shall be taxable in accordance with the common procedure at the rate set by Clause 10.1 of Article 10 of this Law.

7.2.4. In case of violation of the requirements of the long-term life insurance contract set by Clause 1.37 of this Law or contract of non-state pension provision concluded in compliance with the Law of Ukraine "On Non-State Pension Provision" (1057-15), including their early termination, income

received by the insurer under such contracts shall be taxable at the rate of 3% in the reporting period, in which such a violation took place. A penalty shall be charged on the amount of tax debt calculated from the beginning of the fiscal period following the fiscal period, in which such income was received by the insurer, up to the date of its inclusion in gross income of such an insurer under this sub-clause. (Paragraph 1 of Sub-clause 7.2.4 of Clause 7.2 of Article 7 read as Laws No. 889-IV (889-15) of 22.05.2003 and No. 1957-IV (1957-15) of 01.07.2004)

If a contract of long-term life insurance or non-state pension provision is terminated before expiration of its minimum validity period or occurrence of a relevant insured event for any reasons established by this Law or another legislation, resulting in partial insurance compensation, payment of surrender values or full termination of insurer's liabilities to such a taxpayer under this contract, the taxpayer, which increased gross expenses as envisaged by Sub-clause 5.6.2 of Clause 5.6 of Article 5 of this Law, shall include the amount of such payments/contributions/premiums paid preliminarily, increased by the amount of penalty charged on the amount of tax debt, in its gross income of the relevant reporting period. The amount of tax debt shall be calculated from the beginning of a fiscal period following the period, in which such a taxpayer increased its gross expenses by the amount of such insurance payments within the contract for the first time, until the date of presentation of a tax return under the results of the reporting period, in which such preliminary termination or violation of such other requirements took place. Herein, the surrender value or its part, which the insurer returns to the taxpayer, shall not be included in gross income of such a taxpayer. (Paragraph 2 of Sub-clause 7.2.4 of Clause 7.2 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004)

No penalty sanctions for understatement of taxation object in cases set forth in this sub-clause shall be applied to the insurer and taxpayer. (Clause 7.2 of Article 7 as amended under Law No. 639/97-BP of 18.11.97, read as Law No. 349-IV (349-15) of 24.12.2002)

7.3. Taxation of Foreign Currency Transactions

7.3.1. Income received/accrued by a taxpayer in foreign currency due to sales of goods/works/services during a reporting period shall be translated into hryvnas at the official exchange rate of the National Bank of Ukraine ruling on the date of receiving/accruing such income. Such income shall not be recalculated due to the change of hryvna exchange rate during such a reporting period.

The book value of foreign currency received by a taxpayer in the result of such a sale (revenues in foreign currency) shall be determined at the exchange rate indicated in Paragraph 1 of this Sub-clause.

7.3.2. Costs incurred/charged by a taxpayer in foreign currency during a reporting period due to acquisition of goods/works/services, the cost of which is included in gross expenses of such a taxpayer, shall be determined in the amount that must be equal to the book value of such foreign currency determined in compliance with the provisions of sub-clauses 7.3.1, 7.3.4 and 7.3.6 of this Article. Such costs shall not be re-calculated due to the change of hryvna exchange rate during such a reporting period.

7.3.3. The book value of debt, the main amount of which is expressed in foreign currency (interest, commissions and fees not included), shall be recognized in fiscal accounting records of a taxpayer by translating its amount in hryvna at the official exchange rate of the National Bank of Ukraine ruling on the date of its capitalization/accrual.

In case of sale/repayment of the debt/its part expressed in foreign currency during a reporting period, its book value shall be determined by translating the amount of such a debt/its part into hryvna at the official exchange rate of the National Bank of Ukraine ruling on the date of such sale/repayment.

The debt expressed in foreign currency that was not repaid during a reporting period shall be recognized as conditionally sold/repaid on the last day of the reporting period at the official exchange rate of the National Bank of Ukraine ruling on such a date. The book value of such a debt shall be determined on the basis of such translation in the next reporting period.

In case of sale/repayment of the debt/its part, as set forth in Paragraph 2 of this Sub-clause, or conditional sale/repayment of the debt, as set forth

in Paragraph 3 of this Sub-clause, the taxpayer shall recognize profit or loss from the transaction, which is calculated as a difference between the book value of the debt/its part as of the beginning of the reporting period or on the date of its capitalization/accrual, depending on what was later, and book value of such a debt/its part on the date of sale/repayment. The profit gained from such translation shall increase gross income of the taxpayer-creditor and gross expenses of the taxpayer-debtor, while the loss from such translation shall increase gross expenses of the taxpayer-creditor and gross income of the taxpayer-debtor of the reporting period, during which such sale/repayment took place.

The book value of the foreign currency received as an advance or revenue or due to carrying out any other transactions, including direct or portfolio investment, which is recorded in bank accounts of the taxpayer or in its cash on the expiry date of the reporting period, shall be recalculated under the same procedure.

For the purposes of this sub-clause, debt shall be defined as:

The principal amount/outstanding amount of the principal of a financial loan or deposit;

The amount of interest accrued on such a principal of the financial loan or deposit, which expired on the expiry date of the reporting period;

The cost/outstanding amount of the cost of a financial lease object;

Payments for such a financial lease object, which expired on the expiry date of the reporting period; and

The book value of securities evidencing debt relations, as well as of commodities or fund derivatives, unless otherwise is established by this Law. (Sub-clause 7.3.3 of Clause 7.3 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.3.4. In case of purchase of foreign currency for hryvna, gross expenses or income of the taxpayer shall not change. The amount of hryvnas paid by the taxpayer due to such purchase (not allowing for commissions or cost of other services of entities, which carry out conversion/exchange transactions by order of the taxpayer), shall be recognized as the book value of such foreign currency.

In case of purchase of one foreign currency for another foreign currency the book value of the purchased foreign currency shall be recognized at the level of the book value of the sold foreign currency.

7.3.5. In case of sale of foreign currency for hryvnas, gross expenses of the taxpayer shall be increased by the amount of hryvnas received from the buyer due to such sale, while gross expenses of such a taxpayer shall be increased by the amount of book value of such foreign currency.

7.3.6. A taxpayer shall solely choose a method of valuation of book value of foreign currency at the weighted average cost or identified cost. For the purposes of fiscal accounting no replacement of the method of valuation of book value of foreign currency during a fiscal year shall be permitted. (Sub-clause 7.3.6 of Clause 7.3 of Article 7 read as Laws No. 349-IV (349-15) of 24.12.2002 and No. 1957-IV (1957-15) of 01.07.2004)

(The paragraph of Sub-clause 7.3.6 of Clause 7 became invalid due on the basis of Law No. 934-XIV (934-14) of 14.07.99 to its expiration)

7.3.7. Any expenses related to payment of services of other entities, which carry out conversion/exchange foreign currency transactions, shall be also included in gross expenses of the taxpayers-foreign exchange market entities.

7.3.8. Banks shall maintain fiscal accounting records of results from foreign currency transactions, other than those of the other taxpayers. (Paragraph 1 of Sub-clause 7.3.8 of Clause 7.3 of Article 7 as amended under Law No. 639/97-BP of 18.11.97)

Records of foreign currency sales or purchase transactions performed by order and at the expense of clients of such banks shall be kept separately from the records of foreign currency sale or purchase transactions performed upon a decision of the bank out of other/own sources.

In the course of carrying out transactions of foreign currency sales or purchase by order and at the expense of clients, amounts of commission/brokerage and other similar fees received/accrued by the bank due to carrying out such transactions in a reporting period shall be included in gross income of the bank, while expenses of the bank incurred/charged due to

carrying out such transactions in a reporting period - to gross expenses. (Paragraph 3 of Sub-clause 7.3.8 of Clause 7.3 of Article 7 as amended under Law No. 639/97-BP of 18.11.97)

In the course of carrying out foreign currency sales or purchase transactions upon a decision of the bank, the final financial result from exchange/conversion transactions under results of the reporting period shall be included in gross income or expenses.

Under results of the reporting period the final financial result from exchange/conversion transactions shall be calculated as the amount of financial results from exchange/conversion transactions under results of each banking day. The difference between gross income received/accrued by the bank from sales of foreign currency during a banking day and gross expenses incurred/charged by the bank due to purchase of foreign currency during a banking day shall be defined as the financial result of exchange/conversion transactions under the results of the banking day.

Amounts of commission/brokerage or other similar fees paid or received/accrued by the bank due to carrying out such exchange/conversion transactions, which are generally included in gross income or expenses of the bank, shall not be allowed for in calculation of the financial result from exchange/conversion transaction. (The paragraph of Sub-clause 7.3.8 of Clause 7.3 of Article 7 was deleted on the basis of Law No. 349-IV (349-15) of 24.12.2002)

7.4. Taxation of Related-Party Transactions

For taxation purposes:

7.4.1. Income received by a taxpayer from sale of goods/works/services to related parties shall be determined on the basis of contractual prices, but which are not less than regular prices for such goods/works/services ruling on the date of such sale. (Sub-clause 7.4.1 of Clause 7.4 of Article 7 as amended under Law No. 639/97-BP of 18.11.97)

7.4.2. Expenses incurred by a taxpayer due to purchase of goods/works/services from a related party shall be determined on the basis of contractual prices, but which do not exceed regular prices ruling on the date of such purchase.

7.4.3. The provisions of Sub-clauses 7.4.1 and 7.4.2 shall also apply to the transactions with persons, which are not payers of the tax established by Article 10 of this Law or which pay profit tax at the rates, other than those of the taxpayer. (Sub-clause 7.4.3 of Clause 7.4 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

7.4.4. Expenses of a taxpayer for payment of interest on deposits, lease payments, amounts under civil and legal contracts to related parties shall be determined on the basis of contractual prices/deposit interest rates, which do not exceed regular prices/regular deposit interest rates.

7.5. Profit from sales/exchange/other types of disposal of fixed assets or intangible assets subject to depreciation, as set forth in Article 8 of this Law, shall be included in the taxpayer's gross income.

7.6. Taxation of Transactions with Securities and Derivatives (Paragraph 1 of Clause 7.6 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

7.6.1. A taxpayer shall keep separate fiscal accounting records of financial results from transactions with securities, including mortgage participation certificates, mortgage certificates with fixed income and certificates of real estate funds, and derivatives by certain types of securities, as well as fund and commodities derivatives. The records of transactions with shares shall be kept together with other corporate rights, but securities. (Paragraph 1 of Sub-clause 7.6.1 of Clause 7.6 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004)

If during a reporting period costs of acquisition of each of certain types of securities, as well as derivatives, incurred/charged by a taxpayer, exceed income from sale/disposal of securities or derivatives of the same type during such a reporting period, the negative financial result shall be carried forward to reduce financial results from transactions with the same securities or derivatives of future reporting periods in accordance with the procedure set by Article 6 of this Law.

If during a reporting period income from sale of each of certain types of securities, as well as derivatives, received/accrued by a taxpayer, exceed expenses incurred/charged by the taxpayer due to acquisition of the same securities or derivatives, allowing for the negative financial result from transactions with the same securities or derivatives of past periods, the profit shall be included in gross income of such a taxpayer under the results of such a reporting period.

All other expenses and income of such a taxpayer, but expenses and income from transactions with securities/corporate rights and derivatives set forth by this sub-clause, shall take part in determining the object of taxation of such a taxpayer under common conditions established by this Law.

The standards of this clause shall not apply to the transactions of issue of corporate rights or other securities performed by a taxpayer, as well as their repurchase or repayment by such a taxpayer. (Sub-clause 7.6.1 of Clause 7.6 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.6.2. The standards of this Clause shall apply to taxpayers - traders of securities and derivatives, as well as to any other taxpayers, which carry out securities or derivatives trade transactions.

The same shall apply to the accounting of such taxpayers' transactions of acquisition or sale of corporate rights, other than shares. (Sub-clause 7.6.2 of Clause 7.6 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.6.3. The term "expenses" shall be defined as the amount of money or cost of property paid/accrued by a taxpayer to the seller of securities and derivatives as compensation for their cost.

The amount of any debt of the buyer from such an acquisition shall be also included in expenses.

7.6.4. The term "income" shall be defined as the amount of money or cost of property received/accrued by a taxpayer from sale, exchange or other disposal of securities and derivatives increased by the cost of any tangible or intangible assets, which are transferred to the taxpayer in the result of such sale, exchange or disposal. (Paragraph 1 of Sub-clause 7.6.4 of Clause 7.6 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

The amount of any debt of the taxpayer, which is repaid due to such sale, change or disposal, shall be also included in income.

7.6.5. The standards of this Clause shall also apply to determine book losses or profit of a taxpayer from transactions with corporate rights, other than securities. (Sub-clause 7.6.6 of Clause 7.6 of Article 7 was deleted on the basis of Law No. 349-IV (349-15) of 24.12.2002)

7.7. Taxation of Joint Activity in the Territory of Ukraine without Establishment of a Legal Entity

7.7.1. Joint activity without establishment of a legal entity shall be carried out on the basis of a joint venture agreement, which provide for consolidation of funds or property of members for achievement of joint economic purpose.

7.7.2. In accordance with the conditions of the agreement, a taxpayer authorized by the other parties shall keep records of the results of the joint venture separately from records of its own economic results.

7.7.3. Payment/accrual of a share of profit gained by the joint venture members shall be taxable at the rate set by Clause 10.1 of Article 10 of this Law by the persons authorized to keep records of the results of the joint venture before or during such payment. (Sub-clause 7.7.3 of Clause 7.7 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002, read as Law No. 1957-IV (1957-15) of 01.07.2004, as amended under Law No. 2505-IV (2505-15) of 25.03.2005)

7.7.4. If the profit from joint activity is not distributed during a reporting period for taxation purposes, it shall be deemed as distributed between the members under the conditions of the joint venture agreement at the end of the reporting period and taxable under Sub-clause 7.7.3 of this Article. (Sub-clause 7.7.4 of Clause 7.7 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004)

7.7.5. If during a reporting period expenses from joint activity incurred by a taxpayer exceed income received from such transactions, book losses shall be carried forward to reduce income of future fiscal periods from such joint activity during terms set forth in Article 6 of this Law.

7.7.6. For taxation purposes, economic relations between members of joints activity shall be equal to the relations based on special civil and legal contracts.

7.7.7. The procedure for fiscal accounting and reporting results from joint activity shall be established by the central tax authority.

7.8. Taxation of Dividends

7.8.1. In case of taking a decision on payment of dividends, the issuer of corporate rights, on which dividends are accrued, shall make the above payment to the owners of such corporate rights in proportion to their shares in the authorized fund of the enterprise-issuer of such corporate rights, irrespective of whether the activity of such an enterprise-issuer was profitable during a reporting period, if there are other own sources for dividend payment, as well as irrespective of whether there is profit calculated according to the fiscal accounting rules. (Sub-clause 7.8.1 of Clause 7.8 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

7.8.2. Except for cases envisaged by Sub-clause 7.8.5 of this Clause, the issuer of corporate rights, which takes a decision on payment of dividends to its shareholders/owners, shall charge and pay to the budget an advance profit tax instalment in the amount of the rate set by Clause 10.1 of Article 10 of this Law charged on the amount of dividends payable without reduction of the amount of such a payment by the amount of such a tax. The above advance instalment shall be paid to the budget before or simultaneously with dividend payment.

If dividends are paid in the form, other than cash, apart from cases envisaged by Sub-clause 7.8.5 of this Clause, the cost of such payment calculated at regular prices shall be the bases for charging the advance instalment in accordance with Paragraph 1 of this Sub-clause.

Any issuer of corporate rights, which is a resident, irrespective of whether it or a recipient of dividends is a profit tax payer or has profit tax benefits granted by this Law or other legislative acts, or benefits in the form of a tax rate, other than that established by Clause 10.1 of Article 10 of this Law, except for payers of this tax, to which Clause 7.2 of Article 7 or Sub-clause 10.2.3 of Clause 10.2 of Article 10 of this Law applies, shall charge and pay the advance instalment of this tax at the rate set forth in Clause 10.1 of Article 10 of this Law.

This rule shall also apply to state, public or public utility enterprises, which transfer dividends in the amount established by the state or local executive body managing such enterprises respectively, to the state or local budget correspondingly.

If, pursuant to the legislation, this tax is an integral part of the single tax/special trade patent, an entity - payer of such a single tax/special trade patent shall charge an instalment and pay it to the budget, to which such a single tax/cost of a special trade patent is transferred, in case of dividend payment, under the rules established by this Sub-clause for payment of the advance tax profit instalment. Such an entity shall not have right to apply the standards of Sub-clause 7.8.3 of this Clause.

If any payment made by any entity is defined as dividend, such a payment shall be taxable, in case of such payment, in accordance with the standards established by Paragraphs 1, 2 and 3 of this Sub-clause, irrespective of whether the entity is a profit tax payer. (Sub-clause 7.8.2 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.3. A taxpayer - issuer of corporate rights and state, public or public utility enterprise shall reduce the amount of profit tax charged in a reporting period on the amount of the advance instalment paid in advance during such a reporting period due to distribution of dividends in accordance with Sub-clause 7.8.2 of this Clause. No offset shall be permitted with the tax envisaged by Clause 7.2 of Article 7 or Clause 10.2 of Article 10 of this Law. (Sub-clause 7.8.3 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.4. If under the results of a reporting period the amount of tax liabilities of a taxpayer is negative, the amount of advance instalment paid in advance during a reporting period due to distribution of dividends shall be added in order to increase such a negative value.

If the amount of such an advance instalment exceeds the amount of tax liabilities of the enterprise - issuer of corporate rights in respect of tax on profit of such a reporting period, the difference shall be carried forward to reduce tax liabilities of the next fiscal period. If a tax liability of such a next period has a negative value, the difference shall be carried forward to reduce tax liabilities of future fiscal periods. (Sub-clause 7.8.4 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.5. No advance instalment envisaged by Sub-clause 7.8.2 of this Clause shall be paid in case of payment of dividends in the form of shares/interests issued by the enterprise that distributes dividends, provided that such payment does not change proportions/interests of all shareholders/owners in the authorized fund of the enterprise - issuer, regardless of whether such shares/interests were duly registered (in the form of amendments to the constituent documents) or not, as well as also in case of payment of dividends in favour of joint investment institutions. (Sub-clause 7.8.5 of Clause 7.8 of Article 7 as amended under Laws No. 977-XIV (977-14) of 15.07.99 and No. 2831-III (2831-14) of 29.11.2001, read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.6. The legal entities - residents, which receive dividends, shall not include their amount in gross income, apart from permanent representative offices of non-residents.

If a taxpayer-resident receives dividends from a non-resident, the taxpayer shall include the amount of received dividends in gross income of the reporting period, in which such dividends are received.

The procedure for taxation of dividends received by individuals shall be set in accordance with the rules set by the Law on Taxation of Income of Individuals. (Sub-clause 7.8.6 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.7. Payment of dividends to individuals, including non-residents, under shares/other corporate rights with privileged or another status that provides for payment of a fixed amount of dividends or amount higher than the amount of payments calculated on any other share/corporate right issued by such a taxpayer, shall be equated to the payment of salary with relevant taxation and inclusion of the amount of payment in gross expenses of the taxpayer for taxation purposes.

The advance instalment set forth by Sub-clause 7.8.2 of this Clause shall not be paid and such payment shall not be taxable as a dividend in compliance with the standards of the Law on Taxation of Income of Individuals. (Sub-clause 7.8.7 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.8. The advance instalment in respect of the corporate income tax paid due to distribution/payment of dividends shall be a part of corporate income tax. It shall not be deemed as a tax paid in case of repatriation of the dividends/their payment in favour of non-residents in compliance with the standards of Article 13 of this Law or international treaties of Ukraine. (Sub-clause 7.8.8 of Clause 7.8 of Article 7 read as Law No. 349-IV (349-15) of 24.12.2002)

7.8.9. If during distribution of funds or property of a taxpayer, which is liquidated, by a liquidation commission, the owner of corporate rights receives the funds or property, the amount/regular cost - for property of which differs from the amount of expenses incurred by such a taxpayer for acquisition of such corporate rights, the amount of such excess shall be included in gross income of such a taxpayer, while the negative amount shall be included in its gross expenses. Such distribution shall not be deemed as payment of dividends. (Clause 7.8 of Article 7 was supplemented with Sub-clause 7.8.9 under Law No. 349-IV (349-15) of 24.12.2002)

7.9. Taxation of Transactions with Claims and Debentures

7.9.1. Allowing for peculiarities set by this Law, funds or property shall not be taxable and included in gross income, if they were raised by a taxpayer in the following cases:

receiving financial loans by a taxpayer from other creditors, as well as repayment of the principal amount of financial loans granted to other debtor by the taxpayer, receiving a part of consolidated mortgage debt by owners of mortgage participation certificates, and replacement of one part of the

consolidated mortgage debt with another; (Paragraph 2 of Sub-clause 7.9.1 of Clause 7.9 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004) raising funds or property by a taxpayer in trust management, funds as deposits, including by issuance of saving/deposit certificates/mortgage certificates with fixed income, or funds on other fixed-term or trust accounts, including by issue of bonds, as well as repayment to the taxpayer funds or property from trust management, as well as a principal amount the deposit, including by repayment/repurchase of saving/deposit certificates/mortgage certificates with fixed income, or from other fixed-term or trust accounts opened by other entities in favour of such a taxpayer, including by redemption of bonds; (Paragraph 3 of Sub-clause 7.9.1 of Clause 7.9 of Article 7 read as Law No. 977-XIV (977-14) of 15.07.99, as amended under Laws No. 2831-III (2831-14) of 29.11.2001, No. 349-IV (349-15) of 24.12.2002, read as Law No. 1957-IV (1957-15) of 01.07.2004)

raising property by a taxpayer on the basis of contract of concession, commission, consignment, trust or custody/safekeeping, as well as other civil and legal contracts that do not provide for transfer of ownership rights for such property, allowing for the provisions of Sub-clause 7.9.6 of this Clause. (Paragraph 4 of Sub-clause 7.9.1 of Clause 7.9 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

7.9.2. Allowing for peculiarities set by this Law funds or property provided by a taxpayer shall not be included in gross expenses in the following cases: repayment of a principal amount of loan, including a part of the consolidated mortgage debt in case of repayment of the mortgage participation certificate, but within the amount paid for acquisition of such a certificate, to other creditors by the taxpayer, as well as giving a loan to other debtors or repurchase/replacement of one part of the consolidated mortgage debt with another in accordance with the law;

taxpayer's return of funds or property from trust, repayment of the principal amount of deposits, including funds raised by issuance of saving/deposit certificates, mortgage certificates with fixed income or funds from other fixed-term and trust accounts opened in favour of such a taxpayer, including by purchase of bonds; and

providing property by the taxpayer on the basis of contract of concession, commission, consignment, trust or custody/safekeeping, as well as other civil and legal contracts that do not provide for transfer of ownership rights for such property to another entity, allowing for the provisions of Sub-clause 7.9.6 of this Clause.

The term "principal amount" shall be defined as the amount of loan or deposit/fixed-term deposits/trust accounts without interest/fixed payments/premiums/gains, and the amount of the consolidated mortgage debt to the extent that complies with the price of the liability. (Sub-clause 7.9.2 of Clause 7.9 of Article 7 as amended under Laws No. 977-XIV (977-14) of 15.07.99, No. 2831-III (2831-14) of 29.11.2001 and No. 349-IV (349-15) of 24.12.2002, read as Law No. 1957-IV (1957-15) of 01.07.2004)

7.9.3. The amounts of interest in respect of interest-bearing securities issued by a taxpayer shall be included in its gross expenses in a reporting period, during which such interest was or had to be paid. Book values from placement of discount securities issued by a taxpayer shall be included in its gross expenses in a reporting period, during which such securities were repaid/repurchased.

A taxpayer, who carries out fiduciary transactions with trustees' funds or property, shall include the final financial result from such a fiduciary transaction in its gross income. The final financial result shall be determined under consequences of the reporting period, during which a part of income actually received by the authorized person from placement of the trustee's funds or property is returned to the trustee. It shall be equal to the fee for performance of such fiduciary transactions retained in favour of the authorized person out of payment of such income. (Sub-clause 7.9.3 of Clause 7.9 of Article 7 read as Law No. 977-XIV (977-14) of 15.07.99)

7.9.4. Taxation of transactions with irredeemable securities shall be made in accordance with the procedure envisaged for taxation of dividends.

This sub-clause shall not apply to securities which certify corporate rights.

Irredeemable securities are securities, which have no established maturity or the maturity of which is over 10 years from the date of their issue, or which, pursuant to the terms of issue, provide for the issuer's right to take a sole decision on extension/liquidation of such securities, irrespective of the total validity period of such securities.

Expenses incurred by a taxpayer due to acquisition of irredeemable securities shall not be included in gross expenses and shall not be subject to depreciation as intangible assets under Article 8 of this Law. This sub-clause shall not apply to securities that certify corporate rights.

7.9.5. In case of disposal of property pledged for securing a full amount of claim, gross expenses and gross income of the pledger and pledge shall be determined in accordance with the following procedure:

disposal of the object of pledge for the pledger shall be equal to the sale of such an object in the fiscal period of such disposal, while the principal amount of the loan and interest accrued on it, which were not repaid to the creditor/guarantor, - a selling price of such collateral;

if, according to the terms of the contract or law, the object of pledge is disposed to the property of the pledgee in consideration for redemption of debentures, such redemption shall be equal to the purchase of such an object of pledge by the pledgee in a fiscal period of such disposal, while the principal amount of the loan and interest accrued on it, which were not repaid to the creditor/guarantor, - the purchase price of such collateral;

if the creditor further sales the object of pledge to other persons, its income or losses shall be recognized in accordance with a common procedure;

if, pursuant to the terms of the contract or law, the object of pledge is subject to sale in an auction/public auction for redemption of debentures, pledgee's gross income and expenses shall be recognized in accordance with the procedure set by Sub-clause 12.3.4 of this Law and Law of Ukraine "On Pledge" (2654-12).

The procedure for granting and redemption of debentured secured with pledge shall be established by the relevant legislation.

7.9.6. Taxation of leasing transactions shall be made in accordance with the following procedure:

transfer of property to operating lease shall not change tax liabilities of the lessor and lessee. The lessor shall increase the amount of gross income, while the lessee shall increase the amount of gross expenses by the amount of lease payment charged under the results of a fiscal period, in which such a lease payment was charged. Taxation of transactions on lease of land and residential premises shall be made in the same procedure;

transfer of property to financial lease for taxation purposes shall be equal to its sale on the date of such transfer. The lessor shall herein increase gross income. In case of transfer of property, which was a part of fixed assets of the lessor, to financial lease, the lessor shall change a relevant group of fixed assets in accordance with the rules set forth in Article 8 of this Law for their sale, while the lessee shall increase a relevant group of fixed assets by the cost of financial lease object, not allowing for interest or commissions, which were or will be charged on the cost of the financial lease object under the contract, under the consequences of a fiscal period, in which the financial lease object is transferred. In case of charge of a lease payment the lessor shall increase gross income, while the lessee shall increase gross expenses by such a part of the lease payment, which is equal to the amount of interest or commissions charged on the cost of financial lease object, not allowing for the part of lease payment given as compensation for the part of the cost of the financial lease object, under the consequences of a fiscal period, in which such payment was charged. If the lessee returns the financial lease object to the lessor in future fiscal periods without taking possession of such an object, for taxation purposes such transfer shall be equal to resale of such an object to the lessor by the lessee at a regular price ruling on the date of such resale, but which is not less than initial cost of such a fixed asset less depreciation, in compliance with the standards of Article 8 of this Law. If the cost of the financial lease object, which is taken into use for the first time, is envisaged by the contract in the amount that is less than its acquisition or construction

costs, the tax authority shall be entitled to carry out extraordinary examination in order to determine its regular price;

Housing or land shall be leased out in accordance with the rules of the operating lease. (Clause 7.9 of Article 7 was supplemented with Clause 7.9.6 under Law No. 349-IV (349-15) of 24.12.2002)

7.10. The Procedure for Taxation of Income from Performance of Long-Term Contractual Liabilities

7.10.1. A taxpayer may choose a special procedure for taxation of results of activity performed under a long-term contract.

7.10.2. The term "long-term contract" shall be defined as any contract for production, construction, installation or mounting of tangible assets, which will be a part of fixed assets of the customer or components of such fixed assets, as well as for creation of intangible assets related to the production, construction, installation or mounting, namely: engineering services, scientific and research and research and construction works and developments, provided that such a contract is not to be performed earlier than 9 months from the date of first expenses or receiving an advance/prepayment.

7.10.3. The executor shall solely determine income and expenses accrued/charged during a reporting period due to performance of a long-term contract on the basis of the rating of performance of such a long-term contract.

7.10.4. The rating of performance of the long-term contract shall be defined as ratio of the amount of actual expenses of the reporting period to the amount of total expenses planned by the executor in the course of performance of the long-term contract.

7.10.5. Executor's income in the reporting period shall be defined as a product of total contractual price of the long-term contract by rating of performance of the long-term contract.

7.10.6. Executor's expenses in the reporting period shall be defined as actually paid/charged expenses related to performance of the long-term contract in such a reporting period.

7.10.7. Expenses and income incurred/accrued by the executor of the long-term contract during a reporting period shall be included in the executor's gross expenses or gross income under the results of such a period in the amounts set forth in sub-clauses 7.10.5 and 7.10.6 of this Article.

7.10.8. For the purposes of taxation the amounts of advances or prepayments received by the executor of the long-term contract shall be included in the executor's gross income only within the amounts set forth under Sub-clause 7.10.5 of this Clause. (Sub-clause 7.10.8 of Clause 7.10 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

7.10.9. After the long-term contract expires, the executor shall recalculate the amounts of tax liabilities, determined by it preliminarily under the results of each fiscal period during the performance of such a long-term contract. The executor shall recognize the actual rating of performance of the long-term contract as the ratio of expenses of the relevant previous reporting periods to actual total expenses incurred/charged by the executor in the course of performance of the long-term contract. The income of such periods shall be recognized as the product of the final contractual price of the object of the long-term contract to the actual rating of performance of the long-term contract.

If according to the results of recalculation the taxpayer is revealed to overstate or understate the amount of tax liabilities calculated under the results of any previous fiscal period during the performance of the long-term contract, the above overstatement or understatement shall be included respectively in reduction or increase of gross income of such a taxpayer in the fiscal period, in which the long-term contract ended. The interest in the amount of 120% of the rate of the National Bank of Ukraine ruling on the date of such recalculation shall be applied to the amount of revealed difference for the term of such overpayment or underpayment.

The period of limitation shall start from the fiscal period, in which the long-term contract expires.

7.10.10. Tax returns as to results of the activity of the executor of the long-term contract under the results of each fiscal period shall be submitted to the tax authority in the form established by the central tax authority.

7.10.11. If the object of the long-term contract is attributed to fixed assets of the customer, the customer shall increase the book value of the relevant group of fixed assets, tangible or intangible assets subject to depreciation, which were given to the executor as advances/prepayments or cost of the object of the long-term contract or its part transferred to the customer's books, in accordance with the procedure set by Article 8 of this Law.

If the object of the long-term contract is not included in customer's fixed assets, the customer shall increase gross expenses of the reporting period by the amount of funds, tangible or intangible assets given to the executor in the form of advances/prepayments or cost of the object of the long-term contract or its part transferred to the customer's books in such a reporting period. (Sub-clause 7.10.11 read as Law No. 639/97-BP of 18.11.97)

7.10.12. Sub-clauses 7.10.3 - 7.10.8 of this Article shall be also applied to recognition of income and expenses of the relevant reporting period from transactions on subscription for periodicals, operating lease, lease of land and residential premises, in case of prepayment of such transactions for the period not exceeding the reporting period.

In such cases the standards of Sub-clause 7.10.9 shall be not applied.

7.11. Taxation of Non-Profit Institutions and Organizations

7.11.1. This Article shall be applied to the following non-profit institutions:

a) state authorities of Ukraine, local authorities and institutions or organizations established by them, which are financed out of funds of relevant budgets; (Up to 1 April 2001 non-profit organizations, except for political parties, their blocks or associations, set forth in Paragraph "a" of Sub-clause 7.11.1 of Clause 7.11 of Article 7 shall enjoy rights of charitable organizations set be the Decree of the Cabinet of Ministers of Ukraine "On Citizens' Profit Tax" (13-92) under Law No. 2136-III (2136-14) of 07.12.2000)

b) charitable funds and charitable organizations established in accordance with the procedure set by the law for carrying out charitable activity, including public organizations established for implementation of environmental, health care, amateur sports, cultural, educational and scientific activity, as well as creative unions, political parties, public organizations of the disabled and their local centres, established under the Law of Ukraine "On Associations of Citizens", scientific and research institutions and higher educational institutions of III-IV levels of accreditation entered to the State Register of Scientific Institutions supported by the state, reserves and museums-reserves; (Paragraph "b" of Sub-clause 7.11.1 of Clause 7.11 of Article 7 as amended under Laws No. 639/97-BP of 18.11.97, No. 285-XIV (285-14) of 01.12.98, No. 1805-III (1805-14) of 08.06.2000- comes into force on 1 January 2001, No. 2136-III (2136-14) of 07.12.2000 and No. 349-IV (349-15) of 24.12.2002)

c) pension funds and credit union established in accordance with the procedure set by the legislation;

d) legal entities, other than those set forth in paragraph "b" of this Sub-clause, the activity of which does not provide for gaining profit under the standards of the relevant laws;

e) unions, association and other associations of legal entities financed only out of contributions of their shareholders, which do not carry out economic activities, except for receiving passive income; (Paragraph "e" of Sub-clause 7.11.1 of Clause 7.11 of Article 7 as amended under Laws No. 639/97-BP of 18.11.97 and No. 2866-III (2866-14) of 29.11.2001 - comes in force on 01.01.2002)

f) religious organizations registered in accordance with the procedure envisaged by the legislation;

g) housing cooperatives, associations of co-owners of blocks of flats established in accordance with the procedure set by the law; (Sub-clause 7.11.1 of Clause 7.11 of Article 7 was supplemented with paragraph "g" under Law No. 2866-III (2866-14) of 29.11.2001 - comes into force on 01.01.2002)

(Up to 1 April 2001 non-profit organizations, apart from political parties, their blocks or associations, set forth in paragraph "f" of Sub-clause 7.11.1 of Clause 7.11 of Article 7 shall enjoy the rights of charitable organizations set by the Decree of the Cabinet of Ministers of Ukraine "On Citizens' Profit Tax " (13-92) under Law No. 2136-III (2136-14) of 07.12.2000) and

h) trade unions, their associations and organizations established in accordance with the procedure set by the Law. (Sub-clause 7.11.1 of Clause 7.11 of Article 7 was supplemented with paragraph "h" under Law No. 1096-IV (1096-15) of 10.07.2003)

7.11.2. Income of non-profit organizations set forth in paragraph "a" of Sub-clause 7.11.1 shall be exempt from tax, if it was received in the following form:

Funds or property received free of charge or in the form of gracious financial aid or voluntary contributions;

Passive income;

Funds or property received by such non-profit organizations as compensation for cost of received state services, including income of state vocational educational institutions received from production or sale of goods/performance of works/rendering services, related to their main activity set by the Charter; (Paragraph 4 of Sub-clause 7.11.2 of Clause 7.11 of Article 7 as amended under Law No. 1158-IV (1158-15) of 15.10.2003)

Grants or subsidies received from the state or local budgets, state specialized funds or within charitable aid, including humanitarian or technical assistance, granted to such non-profit organizations, pursuant to the terms of international treaties, by which the Verkhovna Rada of Ukraine agreed to be bound, except for grants for regulation of prices for paid services rendered to such non-profit organizations or through them to their recipients under the legislation for reduction of the level of such prices. (Sub-clause 7.11.2 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.3. Income of non-profit organizations set forth in Paragraph "b" of Sub-clause 7.11.1 shall be exempt from tax, if it was received in the following form:

Funds or property received free of charge or in the form of gracious financial aid or voluntary contributions;

Passive income;

Funds or property received by such non-profit organizations from their main activity allowing for the provisions of Sub-clause 7.11.11 of this Article;

Grants or subsidies received from the state or local budgets, state specialized funds or within charitable aid, including humanitarian or technical assistance granted to such non-profit organizations, pursuant to the terms of international treaties, by which the Verkhovna Rada of Ukraine agreed to be bound, except for grants for regulation of prices for paid services rendered to such non-profit organizations or through them to their recipients under the legislation in order to reduce the level of such prices. (Sub-clause 7.11.3 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.4. Income of non-profit organizations set forth in Paragraph "c" of Sub-clause 7.11.1 shall be exempt from tax, if they were received in the following form:

Funds received from credit union and pension funds in the form of contributions for non-state pension insurance or contributions for other needs envisaged by the legislation; (Paragraph 2 of Sub-clause 7.11.4 of Clause 7.11 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

Income from transactions with assets, including passive income, of non-state pension funds and credit unions, transactions with pension contributions and accounts of members of bank management funds in compliance with the relevant law; (Paragraph 3 of Sub-clause 7.11.4 of Clause 7.11 of Article 7 read as Law No. 1957-IV (1957-15) of 01.07.2004) and

Grants or subsidies from the state or local budgets, state specialized funds or within charitable aid, including humanitarian or technical assistance, granted to such non-profit organizations, pursuant to the terms of

international treaties, by which the Verkhovna Rada of Ukraine agreed to be bound, except for grants for regulation of prices for paid services rendered to such non-profit organizations or through them to their recipients under the legislation in order to reduce the level of such prices. (Sub-clause 7.11.4 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.5. Income of non-profit organizations set forth in Paragraph "g" of Sub-clause 7.11.1 shall be exempt from tax, if it was received in the form of funds or property received by such non-profit organizations from their main activity and in the form of passive income;

Grants or subsidies from the state or local budgets, or within charitable aid, including humanitarian or technical assistance, granted to such non-profit organizations, pursuant to the terms of international treaties, by which the Verkhovna Rada of Ukraine agreed to be bound, except for grants for regulation of prices for paid services rendered to such non-profit organizations or through them to their recipients under the legislation in order to reduce the level of such prices. (Sub-clause 7.11.5 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.6. Income of non-profit organizations set forth in Paragraph "e" of Sub-clause 7.11.1 shall be exempt from tax, if it was received in the following form:

One-time or regular contributions of founders and members; (Paragraph 2 of Sub-clause 7.11.6 of Clause 7.11 of Article 7 as amended under Law No. 639/97-BP of 18.11.97)

Passive income;

Grants or subsidies from the state or local budgets, or within charitable aid, including humanitarian or technical assistance, granted to such non-profit organizations, pursuant to the terms of international treaties, by which the Verkhovna Rada of Ukraine agreed to be bound, except for grants for regulation of prices for paid services rendered to such non-profit organizations or through them to their recipients under the legislation in order to reduce the level of such prices. (Sub-clause 7.11.6 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.7. Income of non-profit organizations set forth in paragraph "f" of Sub-clause 7.11.1, if it was received in the following form:

Funds or property received free of charge or in the form of gracious financial aid or voluntary contributions;

Passive income; and

Any other income from rendering religious services, as well as passive income.

Income of non-profit organizations set forth in Paragraph "g" of Sub-clause 7.11.1 shall be exempt from tax, if they were received in the form of contributions, funds or property received by such non-profit organizations for meeting the needs of their main activity, and in the form of passive income. (Sub-clause 7.11.7 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 2866-III (2866-14) of 29.11.2001 - comes into force on 01.01.2002)

Income of non-profit organizations set forth in Paragraph "h" of Sub-clause 7.11.1 shall be exempt from tax, if it is received in the form of membership fees, deductions of enterprises, enterprises, institutions and organizations for cultural, sports and health promotion activity, grantious financial aid or voluntary contributions and passive income. (Sub-clause 7.11.7 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 1096-IV (1096-15) of 10.07.2003)

7.11.8. Income or property of non-profit organizations, except for non-profit organizations set forth in paragraphs "a" and "c" of Sub-clause 7.11.1 shall not be distributed among their founders, shareholders or members and used for the benefit of any founder, shareholder or member of such a non-profit organization or its officials, except for their labour remuneration and social deductions. (Paragraph 1 of Sub-clause 7.11.8 of Clause 7.11 of Article 7 as amended under Law No. 1096-IV (1096-15) of 10.07.2003)

Income of non-profit organizations set forth in Paragraph "a" of Sub-clause 7.11.1, including income of educational, cultural and health care institutions and establishments, as well as duly licensed state-financed archive institutions and rehabilitation institutions for disabled persons and disabled children, shall be included in the estimate/special account for funding such non-profit organizations used only for financing expenses of such an estimate, including for financing production activity under their Charters, calculated and approved in accordance with the procedure set by the Cabinet of Ministers of Ukraine. (Paragraph 2 of Sub-clause 7.11.8 of Clause 7.11 of Article 7 read as Law No. 639/97-BP of 18.11.97, as amended under Law No. 2772-IV (2772-15) of 07.07.2005)

If under the results of a reporting/fiscal year income of the estimate for financing the above organizations exceeds estimated expenses, the exceeding amount shall be included in the estimate of the next year. (Paragraph 3 of Sub-clause 7.11.8 of Clause 7.11 of Article 7 read as Law No. 639/97-BP of 18.11.97)

Profit tax envisaged by Clause 10.1 of Article 10 shall not be charged on the amounts of excess of income over expenses of the above non-profit organizations. (Paragraph 4 of Sub-clause 7.11.8 of Clause 7.11 of Article 7 read as Law No. 639/97-BP of 18.11.97)

The Cabinet of Ministers of Ukraine shall determine a list of paid services, which may be rendered by the above institutions.

Income of non-profit organizations set forth in Paragraph "c" of Sub-clause 7.11.1, shall be distributed only between their founders/shareholders in accordance with the procedure set by the relevant legislation.

7.11.9. If as of the end of the first quarter following a reporting year income of a non-profit organization received from the sources set forth by Sub-clause 7.11.5 during the reporting/fiscal year exceeds 25% of total gross income received during such a reporting/fiscal year, the non-profit organization shall pay a tax on the amount of retained earnings at the rate set by Clause 10.1 of Article 10 of this Law up to the amount of such excess. The above tax shall be paid to the budget under the results of the first quarter following the reporting year within the term established for other taxpayers. (Paragraph 1 of Sub-clause 7.11.9 of Clause 7.11 of Article 7 as amended under Law No. 349-IV (349-15)) of 24.12.2002)

Irrespective of the provisions of Paragraph 1 of this Sub-clause, if a non-profit organization receives income from sources, other than those set forth in relevant Sub-clauses 7.11.2 - 7.11.7 of this Clause, such a non-profit organization shall pay a profit tax, which is defined as the amount of income received from such other sources reduced by the amount of expenses, which are related to receiving such income, but do not exceed it.

When calculating the amounts of excess of income over expenses under Paragraph 1 of this Sub-clause and determining the amounts of taxable profit under Paragraph 2 of this Sub-clause, the amount of depreciation shall not be included. (Sub-clause 7.11.9 of Clause 7.11 of Article 7 read as Law No. 639/97-BP of 18.11.97)

7.11.10. For taxation purposes, the central tax authority shall keep the register of all non-profit organizations exempt from tax under the provisions of this Article.

The state registration of non-profit organization shall be performed in accordance with the procedure envisaged by the relevant legislation.

7.11.11. In case of liquidation of a non-profit organization, its assets shall be transferred to another non-profit organization of a relevant type or included in income of the budget. In case of liquidation of a non-state pension fund, its assets shall be distributed in compliance with the law that regulates non-state pension provision. (Paragraph 1 of Sub-clause 7.11.11 of Clause 7.11 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

Assets of a non-profit organization defined in Paragraph "h" of Sub-clause 7.11.1 in case of its liquidation/dissolution shall be used in accordance with the law on such an organization allowing for the provisions of Sub-clause 7.11.8. (Sub-clause 7.11.11 of Clause 7.11 of Article 7 was supplemented with Paragraph 2 under Law No. 1096-IV (1096-15) of 10.07.2003)

7.11.12. The central tax authority shall establish the procedure for accounting and presentation of tax returns on use of funds of non-profit organizations (non-profit organization set forth in Paragraph "h" of Sub-clause 7.11.1 in part of accounting and presentation of tax returns on taxable income) and take a decision on their exclusion from the register of non-profit organization and taxation of their income in case of their violation of the provisions of this Law and other legislative acts on non-profit organizations. Decisions of the central tax authority may be appealed to a court. (Paragraph 1 of Sub-clause 7.11.12 of Clause 7.11 of Article 7 as amended under Law No. 1096-IV (1096-15) of 10.07.2003)

An organization shall acquire a status of a non-profit organization in the course of its first registration. Such a non-profit organization shall be re-registered in cases envisaged by the law without charging such a non-profit organization. (Sub-clause 7.11.12 of Clause 7.11 of Article 7 was supplemented with the paragraph under Law No. 349-IV (349-15) of 24.12.2002)

7.11.13. State services shall be defined as any compulsory paid services in accordance with the legislation that are rendered to legal entities and individuals by executive bodies, local authorities and institutions and organizations established by them, which are financed out of relevant budgets. State services shall not include taxes and duties/compulsory payments set by the Law of Ukraine "On Taxation System" (1251-12).

Passive income shall be defined as income received in the form of interest, dividends, insurance indemnifications and indemnities, as well as royalty.

Main activity shall be defined as any activity of non-profit organizations on rendering charitable aid, rendering educational, cultural, scientific and other similar services and creation of systems of social security of citizens, such as non-state pension funds, credit unions and other similar organizations. Main activity shall also include sale of goods/services by a non-profit organizations, which promote principles and ideas, for protection of which such a non-profit organization was established, and which are closely related to its main activity, if the price of such goods/services is lower than a regular price or if such a price is regulated by the state. Main activity shall not include operations on providing goods/rendering services by non-profit organizations defined in paragraphs "c" - "e" of Sub-clause 7.11.1 of this Clause, to persons, other than founders/members/shareholders of such organizations. The Cabinet of Ministers of Ukraine may introduce temporary limitations on application of standards of this Clause to the sale of certain goods or rendering certain services by non-profit organizations, if they endanger or contradict the rules of competition of such goods in the market and there are sufficient evidences of such a violation provided by persons, on which this tax is imposed and which provide such goods/render such services. The constituent documents of non-profit organizations may contain a detailed list of types of their activity. (Paragraph 3 of Sub-clause 7.11.13 of Clause 7.11 of Article 7 as amended Law No. 639/97-BP of 18.11.97; read as Law No. 349-IV (349-15) of 24.12.2002; the second sentence of Paragraph 3 of Sub-clause 7.11.13 of Clause 7.11 of Article 7 was suspended for 2004 under Law No. 1344-IV (1344-15) of 27.11.2003; as amended under Law No. 1957-IV (1957-15) of 01.07.2004; the second sentence of Paragraph 3 of Sub-clause 7.11.13 of Clause 7.11 of Article 7 was suspended for 2005 under Law No. 2285-IV (2285-15) of 23.12.2004 and No. 2505-IV (2505-15) of 25.03.2005)

7.11.14. Income of non-profit organizations received as arbitral duty shall be tax-exempt. (Clause 7.11 of Article 7 was supplemented with Sub-clause 7.11.14 under Law No. 1701-IV (1701-15) of 11.05.2004, read as Law No. 2505-IV (2505-15) of 25.03.2005)

7.12. Peculiarities of Taxation of Enterprises and Associations of Public Organizations of the Disabled

7.12.1. The profit of enterprises and organizations established by public organizations of the disabled and fully owned by them shall be exempt from taxes, if it was gained from sale of goods/works/services, except for excisable goods and services on supply of excisable goods received within contracts of commission/consignation, suretyship, agency, trust management and other civil and legal contracts, that authorize such a taxpayer to supply goods on behalf of and by order of another person without transfer of title

for such goods, and profit from gambling. During a previous reporting/fiscal period the number of the disabled employed at such enterprises and organizations on a full-time basis shall not be less than 50% of average staffing number of the accounting personnel for the year, provided that for the reporting period the labour remuneration fund of the disabled is not less than 25% of total labour remuneration costs included in gross expenses of the production/turnover.

The above enterprises and associations of public organizations of disabled persons shall be entitled to use this privilege, provided that they have a permit to use such a privilege, which is granted by the inter-departmental Commission for Activity of Enterprises and Associations of Public Organizations of Disabled Persons in compliance with the Law of Ukraine "On Fundamentals of Social Security of the Disabled in Ukraine" (875-12).

In case of violation of the requirement of this Article, the above public organizations of the disabled, their enterprises and organizations shall pay the amounts of tax for a relevant period, that were indexed allowing for the level of inflation, as well as a fine under the law.

Enterprises and organizations, to which this Sub-clause applies, shall be registered in the relevant tax authority in accordance with the procedure envisaged for such taxpayers. (Sub-clause 7.12.1 of Clause 7.12 of Article 7 read as Law No. 2960-IV (2960-15) of 06.10.2005) (Clause 7.12 of Article 7 read as Law No. 1926-III (1926-14) of 13.07.2000)

7.13. Peculiarities of Taxation of Certain Taxpayers

7.13.1. The profit of enterprises from sales of own baby food products in the customs area of Ukraine, which is used for production expansion and reduction of retail prices for such products, shall be exempt from taxes.

The list of special baby food products shall be set by the Cabinet of Ministers of Ukraine. (Sub-clause 7.13.1 of Clause 7.13 of Article 7 as amended under Law No. 639/97-BP of 18.11.97)

7.13.2. The profit of Chernobyl Nuclear Power Station shall be exempt from taxes for the period of preparation to laying off and laying off power units of Chernobyl Nuclear Power Station and making "Shelter" object an ecologically safe system, if these funds are used for financing the works on preparation to laying off and laying off Chernobyl Nuclear Power Station and making "Shelter" object an ecologically safe system.

In case of violation of intended use of funds, the taxpayer shall determine the profit exempt from taxes due to tax benefits and impose taxes on it in the next fiscal period, as well as pay a penalty in the amounts and for the period established by the legislation of Ukraine. (Clause 7.13 of Article 7 was supplemented with Sub-clause 7.13.2 under Law No. 309-XIV (309-14) of 11.12.98)

7.13.3. The profit of enterprises shall be exempt from taxes, if it was received due to international technical assistance granted free of charge or at the expense of funds provided for in the state budget as a contribution of Ukraine to Chernobyl's Fund "Shelter" for implementation of the international Program - Plan of Actions at Shelter object in compliance with the provisions of the Framework Agreement between Ukraine and European Bank of Reconstruction and Development (996_004), further exploitation, preparation to laying off and laying off power units of Chernobyl Nuclear Power Station, making "Shelter" object an ecologically safe system and ensuring social security of the personal of Chernobyl Nuclear Power Station. (Paragraph 1 of Sub-clause 7.13.3 of Article 7 as amended under Laws No. 722-XIV (722-14) of 03.06.99 and No. 856-IV (856-15) of 22.05.2003)

In case of violation of intended use of the international technical assistance, its recipient shall increase its tax liabilities, as well as pay a penalty charged on the amount of granted benefits on the basis of 120% of the rate of the National Bank of Ukraine ruling on the date of liability increase and for the period starting from the date of receiving benefits to the date of increase in liabilities in accordance with the procedure set by the legislation. (Clause 7.13 of Article 7 was supplemented with Sub-clause 7.13.3 under Law No. 309-XIV (309-14) of 11.12.98)

(Sub-clause of Article 7 was deleted on the basis of Law No. 722-XIV (722-14) of 03.06.99)

(Sub-clause 7.13.4 of Clause 7.13 of Article 7 was deleted on the basis of Law No. 1957-IV (1957-15) of 01.07.2004)

(Sub-clause 7.13.5 of Clause 7.13 of Article 7 was deleted on the basis of Law No. 1957-IV (1957-15) of 01.07.2004)

(Sub-clause 7.13.6 of Clause 7.13 of Article 7 was deleted on the basis of Law No. 1957-IV (1957-15) of 01.07.2004)

7.13.7. The profit of publishing houses, publishers and printing enterprises from production of book products, except for erotic products, in the territory of Ukraine shall be temporarily exempt from taxes until 1 January 2009. (Paragraph 1 of Sub-clause 7.13.7 of Clause 7.13 of Article 7 read as Law No. 2505-IV (2505-15) of 25.03.2005)

A business entity - taxpayer shall direct the amounts of funds released due to tax benefits shall at re-equipment of production and polygraphic base, development and implementation of innovative technologies and expansion of book production in accordance with the procedure set by the Cabinet of Ministers of Ukraine. (Clause 7.13 of Article 7 was supplemented Sub-clause 7.13.7 under Law No. 601-IV (601-15) of 06.03.2003, read as Law No. 1300-IV (1300-15) of 20.11.2003) (Sub-clause 7.13.7 of Clause 7.13 of Article 7 was suspended for 2004 under Law No. 1344-IV (1344-15) of 27.11.2003; Sub-clause 7.13.7 of Clause 7.13 of Article 7 was restored under Law No. 1801-IV (1801-15) of 17.06.2004)

(Sub-clause 7.13.8 of Clause 7.13 of Article 7 was deleted under Law No. 1957-IV (1957-15) of 01.07.2004)

(Clause 7.14 of Article 7 was deleted on the basis of Law No. 1957-IV (1957-15) of 01.07.2004)

7.15. The procedure for attributing special baby food products to the products of own production as envisaged by Sub-clause 7.13.1 of this Article shall be set by the Cabinet of Ministers of Ukraine. (Paragraph 1 of Clause 7.15 of Article 7 read as Law No. 607/97-BP of 04.11.97)

Tax reporting of the enterprises set forth in Clauses 7.12 and 7.13 of this Article shall be performed in accordance with the procedure set by the central tax authority. (Paragraph 2 of Clause 7.15 of Article 7 as amended under Law No. 1957-IV (1957-15) of 01.07.2004)

7.16. The funds received by the State Administration of Railway Transport of Ukraine (Ukrzaliznytsya) and railways from enterprises, organizations and their structural subdivisions functionally subordinated to Ukrzaliznytsya and railways, which they transfer out of net profit of such enterprises under the results of the reporting period after payment of all liabilities, including taxes and duties/compulsory payments that became due, shall not be included in gross income.

If Ukrzaliznytsya takes a decision to transfer the equipment of railway public transport from one subdivision to another or from one railway to another, the book value of the relevant group of fixed assets envisaged by Article 8 of the Law shall not change. Such a transfer shall not be deemed as a transaction on transfer of goods/works/services free of charge and shall not increase gross income of the taxpayer.

7.17. Peculiarities of Taxation of Profit from Performance of Production-Sharing Agreements

To resolve that taxes on profit received by a taxpayer from performance of an production-sharing agreements shall be imposed allowing for the peculiarities set by the Law of Ukraine "On Production-Sharing Agreements" (1039-14). (Article 7 was supplemented with Clause 7.17 under Law No. 1807-III (1807-14) of 08.06.2000)

(Clause 7.18 of Article 7 was deleted on the basis of Law No. 2505-IV (2505-15) of 25.03.2005)

(Clause 7.19 of Article 7 was deleted on the basis of Law N 2505-IV (2505-15) of 25.03.2005)

7.20. Taxpayers set forth in Clauses 7.11 and 7.13 of this Article shall keep special records of income, which is not included in gross income or exempt from taxes under the standards of the above clauses. At the same time: (Paragraph 1 of Clause 7.20 of Article 7 as amended under Law No. 349-IV (349-15) of 24.12.2002)

Gross expenses of such taxpayers shall not include expenses incurred due to receiving such tax-exempt income;

Book value of purchased goods, materials, raw materials, component parts and semi-finished products in stock, unfinished production and finished product remains used for receiving such tax-exempt income shall not be taken into account in calculation of gain/loss of the book value under Clause 5.9 of Article 5 of this Law;

The amount of depreciation charged on a relevant group of fixed assets used for receiving such tax-exempt income shall not be taken into account in reduction of adjusted gross income under Clause 3.1 of Article 3 of this Law. If fixed assets are used for receiving both tax-exempt and other income, which must be included in gross income under this Law on common bases, the adjusted gross income of the taxpayer shall be reduced by the part of total amount of depreciation, which relates to the total amount of depreciation in the same way as the amount of income that must be included in gross income under this Law on common bases, relates to the total gross income allowing for tax-exempt income.

Separate records of results of financial and economic activity under the income allowed for in determination of the taxation object, on which a tax is imposed at the rate less than that set by Clause 10.1 of Article 10 of this Law, shall be kept in accordance with the same procedure. (Article 7 was supplemented with Clause 7.20 under Law No. 2410-III (2410-14) of 17.05.2001, as amended under Law No. 2505-IV (2505-15) of 25.03.2005)

Article 8. Amortization

8.1. Definition of amortization

8.1.1. Amortization with regard to capital assets and intangible assets shall be interpreted as a gradual referral of expenses of the acquisition, manufacture or improvement thereof to a taxpayer's reduced and adjusted revenues within the provisions of amortization deductions established by this Article.

8.1.2. The following expenses shall be subject to amortization:

acquisition of capital assets and intangible assets for own production usage, including expenses incurred in the purchase of pedigree livestock, purchase, planting, and growing of perennial plantations prior to fructification;

independent manufacture of capital assets for own production needs, including expenses on the payroll of labor employed in the production of such assets;

all types of repair, renovation, modernization, and other improvements of capital assets;

(Article 8 (1) (2) (5) deleted according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

capital improvement of land that is not related to construction, and including irrigation, drainage, enrichment, and other similar capital improvement of land. (Indent of Article 8 (1) (2) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.1.3. The following expenses of taxpayers shall not be subject to amortization and shall in their entirety be referred to such taxpayers' gross expenses in a given accounting period:

the purchase and feeding of commercial livestock;

growing perennial fruit-bearing plantations;

acquisition of capital assets or intangible assets with the aim of further selling them to other persons or use as components (component parts) of other capital assets meant to be sold to other persons; (Article 8 (1) (3) (4) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

maintenance of capital assets that are temporarily closed down;

production and (or) purchase of audiovisual works. (Article 8 (1) (3) (6) added according to the Law of Ukraine No. 3317-IV (3317-15) of 12 January 2006)

8.1.4. The following shall not be subject to amortization and shall be carried on account of appropriate sources of financing:

budget spending on construction and maintenance of public amenities and housing, purchase and maintenance of library stocks and archives;

budget allocations for the construction and maintenance of highways;

expenses for the purchase and maintenance of the National Archive Fund of Ukraine, as well as library stocks formed and preserved at the expense of budgets, library and archive funds;

expenses on the acquisition, repair, reconstruction, and modernization or other improvements of non-production assets (Article 8 (1) (4) (5) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

Non-production assets shall be capital assets that are not used in the taxpayer's business activities. Such non-production assets shall include: (Article 8 (1) (4) (6) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

capital assets (or structural components thereof) identifiable under group 1 of the capital assets according to Article 8 (2) (2) of this Law, including leased assets (Article 8 (1) (4) (7) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

capital assets identifiable under groups 2, 3 and 4 of the capital assets according to Article 8 (2) (2) of this Law, being an inalienable component and placed or used to secure activities of non-production assets, identifiable under group 1 of capital assets or detached from the location of taxpayer's business activities and transferred gratuitously to persons that are not qualified as payers of this tax. (Article 8 (1) (4) (8) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

The order of accounting with regard to non-production assets shall be determined by the Ministry of Finance of Ukraine. Such accounting shall be carried out separately from tax accounting and shall have no effect on the taxpayer's tax obligations. (Article 8 (1) (4) (9) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

When selling non-production assets, the taxpayer's gross revenues shall include revenues received from (accrued on) sales, and that of gross expenses shall include the amount of expenses involved in the acquisition (production) of such non-production assets (regardless of amortization) and their improvement. (Article 8 (1) (4) (10) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.2. Definition of capital assets and groups thereof

8.2.1. The notion capital assets shall be interpreted as tangible assets that are designated by a taxpayer to be used in business activities of the taxpayer during a period that exceeds 365 calendar days from the date of commissioning of such tangible assets, and the value of which exceeds UAH 1,000 and gradually decreases due to physical and functional depreciation. (Article 8 (2) (1) (1) as amended according to the Laws of Ukraine No. 349-IV (349-15) of 24 December 2002, No. 1957-IV (1957-15) of 1 July 2004)

Expenditures for purchase of any material values over UAH 1,000 to be used for the taxpayer's business activities shall be entered in the taxpayer's gross expenditures in accordance with the general procedure and taken into consideration for the purposes of application of Article 5 (9) of this Law. (Article 8 (2) (1) (2) in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

8.2.2. Capital assets shall be subdivided into the following groups:

group 1 - buildings, constructions, their structural components and transmission devices, including housing buildings and their components (apartments and premises of general use), the cost of capital land improvement; (Article 8 (2) (2) (2) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

group 2 - vehicles and components (spare parts) thereof, furniture, household electronic, optical, and electric mechanical appliances and tools, other office equipment and appliances; (Article 8 (2) (2) (3) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

group 3 - any other capital assets not included in groups 1, 2, and 4; (Article 8 (2) (2) (4) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

group 4 - computers, other machines for automatic processing of information, their software, information reading or printing devices, other information systems, computer programmes, phones (including cell phones), microphones and portable radio transmitters, the cost of which exceeds the cost of low value goods (items). (Indent of Article 8 (2) (2) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002, in wording of the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

The notion "computer program" should be understood as defined by legislation on protection of copyright and related rights. (Indent of Article 8 (2) (2) added according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

8.3. The order of determining and accruing amortization payments

8.3.1. The sums of amortization deductions in the accounting period shall be determined as such accrued for each calendar quarter that are included in such an accounting period (hereinafter - payment quarters).

The sum of amortization deduction in a quarter, when calculations are carried out (payment quarter), shall be determined through application of amortization provisions established by Article 8 (6) of this Law to the balance sheet cost of capital assets by the beginning of such payment quarters.

Sums of amortization deductions shall not be subject to withdrawal from the budget, nor can they constitute the basis for calculating any taxes, duties (obligatory payments) (point of Article (8) (3) (1) as amended according to the Laws of Ukraine No. 371-XIV (371-14) of 29 December 1998, No. 568-XIV (568-14) of 6 April 1999, in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.3.2. The book cost of a group of capital assets (an individual object of group 1 capital assets) by the beginning of an accounting period shall be determined using the following formula:

$$B(a) = B(a-1) + P(a-1) - C(a-1) - A(a-1), \text{ where:}$$

B(a) indicates the book cost of the group (an individual object of group 1 capital assets) by the beginning of the accounting period;

B(a-1) indicates the book cost of the group (an individual object of group 1 capital assets) by the beginning of the period preceding the given accounting period;

P(a-1) indicates the amount of expenses incurred in acquisition of capital assets, major repairs, reconstruction, modernization, and other improvements of capital assets that are subject to amortization during the quarter preceding the given accounting quarter;

C(a-1) indicates the amount of capital assets out of commission (an individual object of group 1 capital assets) during the quarter that preceded the given accounting quarter;

A(a-1) indicates the amount of amortization deductions accrued in the quarter that preceded the given accounting quarter.

(Subparagraph of Article 8 (3) (2) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.3.3. Taxpayers of all forms of ownership shall have the right to annually adjust the book costs of the groups of capital assets and intangible assets by the indexing coefficient that is determined according to the following formula:

$$K_i = [I(a-1) - 10] : 100, \text{ where:}$$

$I(a-1)$ indicates the annual inflation rate in the year of adjustment. (indent of Article 8 (3) (3) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

No indexing shall be performed if the K_i value does not exceed 1.

(Article 8 (3) (3) (5) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 8 (3) (3) (6) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 8 (3) (3) (7) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.3.4. The book cost of capital assets qualified as referring to group 1 shall be accounted per each building, structure or structural component thereof and group 1 at large as the total book values of individual objects of such a group.

8.3.5. The book cost of capital assets qualified as referring to groups 2, 3, and 4 shall be accounted on an aggregate balance sheet value of the given group of capital assets regardless of when such assets were commissioned. No separate accounting shall be made with regard to any individual object's value included in groups 2, 3 or 4 of the capital assets. (Article 8 (3) (5) as amended according to the Law of Ukraine No. 1957-IV (1857-15) of 1 July 2004)

8.3.6. The order of book value accounting with regard to the above groups of capital assets shall be established by the Ministry of Finance of Ukraine.

8.3.7. Amortization of an individual object included in group 1 of capital assets shall be carried out until its book value reaches 100 tax-free minimum citizen incomes. The residual value of this object shall be referred to gross expenses according to the results of the given tax period, while its value shall be equal to zero.

8.3.8. Group 2 and 3 capital assets shall be subject to amortization until the group's book value reaches zero.

8.3.9. The linear amortization method shall be applied to intangible assets, whereby each type of intangible assets is amortized in equal portions based on its original cost, taking into account indexing according to Article 8 (3) (3) of this Law during the period that is determined by the taxpayer at his (its) own discretion, based on the term of beneficial use of such intangible assets or the taxpayer's period of activities, but not exceeding 10 years of continuous operation.

Amortization deductions shall be carried out until the residual value of intangible assets reaches zero.

8.4. The procedure according to which the book value of capital assets' groups is increased and decreased.

8.4.1. When purchasing capital assets, the book value of the corresponding group shall increase by the amount spent as the acquisition cost, taking into account transportation and insurance payments, as well as other expenses incurred by acquisition thereof, minus VAT paid, provided the company income taxpayer is registered as a VAT payer.

8.4.2. In the event of taxpayers incurring expenses to produce capital assets for their own production needs, the book value of the given group of

capital assets shall increase by the amount of all production costs incurred by taxpayers in connection with manufacturing and commissioning thereof, as well as expenses spent when making such capital assets using other finance sources, minus VAT paid provided the company income taxpayer is registered as a VAT payer.

8.4.3. When selling individual objects of group 1 capital assets, thus deactivating them, the group 1 book value shall decrease by the sum of the book value of such objects.

The surplus amount of proceeds from the sale of individual group 1 capital assets over the book cost of such tangible and intangible assets shall be referred to that taxpayer's gross revenues, and the excess amount of book value over the proceeds from such a sale shall be referred to that taxpayer's gross expenses. (Point of Article 8 (4) (3) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.4.4. When selling groups 2, 3, and 4 capital assets, the book cost of each group shall decrease by the amount of sale of such assets (production costs, those of works and services received by a taxpayer within barter (commodity exchange) transactions). If the total amount of capital assets equals or exceeds the book value of the corresponding group, its book value shall be considered to be zero, with the excess amount referred to that taxpayer's gross revenues in the given accounting period. (Point of Article 8 (4) (3) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.4.5. When de-commissioning an individual object of group 1 capital assets or its transfer to the non-production assets according to the taxpayer's decision, the book value of such an object shall be equated to zero for the purpose of amortization thereof. In such cases, amortization payments shall not be accrued.

The same order shall apply to de-commissioning of capital assets due to alienation thereof upon a court decision.

Reverse inclusion of such objects to capital assets shall take place in the order established by Article (8) (4) (2) of this Law. (Point of Article 8 (4) (5) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.4.6. In the event of de-commissioning of some assets of groups 2, 3, and 4 for any reason (except for sale thereof) the book value of such groups shall not change.

Reverse commissioning of such capital assets after repair, reconstruction, and modernization thereof shall increase the balance sheet of the group only by the amount of expenses related to such works. (Point of Article 8 (4) (6) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.4.7. If by the beginning of the accounting quarter groups 2, 3, and 4 of capital assets do not contain financial values, their book value shall be referred to that taxpayer's gross expenses in such an accounting period. The provisions of this sub-item shall not apply when a taxpayer determines amortization payments with regard to the amount of improvements of the capital assets held on operational leasing terms. (Point of Article 8 (4) (7) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.4.8. In the event of liquidation of capital assets upon a decision by the taxpayer or for reasons beyond that taxpayer's control, such capital assets (or a part thereof) are destroyed, stolen, or subject to liquidation, or when the taxpayer is forced to abandon use of such assets due to a threat or inevitability of replacement thereof, destruction or liquidation, the taxpayer shall, in the accounting period when such circumstances occur:

a) increase gross expenses by the book value of an individual object of group 1 capital assets with this object being equated to zero;

b) make no changes to the balance sheet value of group 2, 3, and 4 capital assets. (Point of Article 8 (4) (8) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.4.9. In cases when an insurance company or other legal entity or individual that are recognized guilty of damage indemnify the taxpayer's losses incurred by the circumstance established in Article 8 (4) (8) of this Law, such taxpayer shall, in the tax period when such indemnification occurs:

a) increase the gross revenues by the amount of such indemnification for group 1 capital assets (an individual object of group 1 assets);

b) decrease the book value of the relevant group of assets by the sum of indemnification for groups 2, 3, and 4 of capital assets. (Point of Article 8 (4) (9) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.4.10. If a taxpayer decides to liquidate an individual object of group 1 capital assets and availability of appropriate documents on the destruction, disassembling or other restructuring thereof, due to which such an object cannot be used in the future for its original purpose, the book value of such individual object of group 1 capital assets shall be referred to gross expenses. (point of Article 8 (4) (10) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.4.11. For the purposes of this point:

transactions with the transfer of such capital assets and intangible assets into such other person's authorized capital shall be equated to selling of capital assets and intangible assets;

transactions with the acceptance of such capital assets and intangible assets into such other person's authorized capital shall be equated to purchase of capital assets and intangible assets with further inclusion of capital assets into the relevant groups.

(Article 8 (4) (11) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.5. The order of accounting of leased (rented) capital assets

8.5.1. The book value of the corresponding group of capital assets shall not be decreased by the value of the taxpayer's capital assets in operational leasehold (rent).

8.5.2. The book value of the corresponding group of capital assets shall be reduced by the cost of capital assets in financial leasehold (rent) in the order established for the sale of capital assets. In such cases the lessee shall increase the book value of the relevant group of capital assets in the order established for the acquisition of capital assets. (Point of Article 8 (5) (2) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.6. Amortization rates

8.6.1. Amortization rates shall be established in the percentage of the balance sheet value of each capital assets group at the beginning of the accounting (taxation) period, in the following amounts (per calendar quarter):

group 1 - 2 percent;

group 2 - 10 percent;

group 3 - 6 percent;

group 4 - 15 percent;

A taxpayer can make a decision to apply other amortization rates not exceeding the rates determined by this point.

Such a decision:

shall be made by a taxpayer before the beginning of the accounting tax year and cannot be changed during such a year;

shall be sent for information to a taxation body together with a tax report for the first quarter of such an accounting tax year.

For the taxpayers recognized as monopolists in accordance with the legislation, the amount of amortization payments is not an obligatory component of tariffs and other kinds of prices for their services.

(Article 8 (6) (1) in wording of the Laws of Ukraine No. 639/97-VR of 18 November 1997, No. 349-IV (349-15) of 24 December 2002)

(Article 8 (6) (2) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.6.3. Temporarily, until 1 January 2009, an annual 20 percent norm for accelerated amortization of capital assets of group 3 shall be set for subjects of space activity.

In such cases, the capital assets of group 3 shall be amortized until the book value of the group is zero. (Article 8 (6) (3) added according to the Law of Ukraine No. 1559-III (1559-14) of 16 March 2000)

8.6.4. For technological parks, their participants and joint ventures when completing the projects of technological parks registered in accordance with the Law of Ukraine "On Special Regime of Innovation Activity of Technological Parks" (991-14) an annual 20 percent norm for accelerated amortization of capital assets of groups 3 and 4 shall be set.

In such cases, the capital assets of group 3 shall be amortized until the book value of the group is zero. (Article 8 (6) (4) added according to the Law of Ukraine No. 3333-IV (3333-15) of 12 January 2006)

8.7. Maintenance and major repair, reconstruction, modernization, re-equipment and other improvements made to capital assets

8.7.1. Taxpayers shall have the right within any given accounting period to refer to gross expenses any expenses involved in the improvement of capital assets subject to depreciation including the expenditures for improvement of the leased fixed assets, provided their amount does not exceed 10 percent of the aggregate book value of capital assets of all groups by the beginning of such accounting period. (Article 8 (7) (1) (1) as amended according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

Expenses in excess of the said amount shall be distributed proportionally to the amount of expenditures actually incurred by the taxpayer for improvement of fixed assets of groups 2, 3 and 4 or individual objects of group 1 and increase the book value of fixed assets of the fixed assets of relevant groups or individual objects of group 1 as of the beginning of the reporting quarter. (Article 8 (7) (1) (2) as amended according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

Decommissioning of capital assets of any group shall be carried out on the basis of the order of the head of the taxpayer or in the event of enforced alienation or confiscation thereof in accordance with legislation.

Performance of any works connected with improving capital assets without the aforementioned documents shall not be evidence of de-commissioning of such capital assets.

(Article 8 (7) (1) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.8. Amortization of expenses on the improvement of capital assets held on operational leasing (rent) terms.

8.8.1. In the event that the operational leasing (rent) contract obliges or allows the lessee to make improvements in the operational leasing object, the lessee may include a part of value of such improvements in the

expenditures that exceed the amount for improvement of fixed assets determined according to Article 8 (7) (1) in the book value of:

the relevant group of fixed assets if the lessee's balance sheet accounts the group of fixed assets including the leased object;

the relevant group of fixed assets created by such lessee if the lessee's balance sheet does not account the group of fixed assets that includes the leased object.

In this case, the lessee does not include the book value of the operational leasing object accounted on the lessor's balance sheet.

(Article 8 (8) (1) in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 8 (8) added according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

8.8.2. In the event that the lessee returns the object of operational leasing to the lessor due to the termination of the leasing (rent) contract, and also in case of destruction, abduction, or ruin of the object of operative leasing (rent), such a lessee shall apply rules determined by Article 8 (4) (8) for replacement of capital assets. In such cases, the lessor shall not change the balance sheet value of capital assets or gross revenues (gross expenses) by the amount of the expenses incurred by the lessee on improving such an object. (Article 8 (8) (2) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

8.9. Accounting of transactions with land and capital improvement thereof

8.9.1. The taxpayer shall keep separate accounts of transactions regarding the sale or purchase of land as a separate object of property. The expenses connected to such a purchase shall not be subject to inclusion thereof in the gross expenses of the accounting tax period or to a group of capital assets with the aim of amortization. If such a separate object of property is sold in the future, the taxpayer shall include in gross revenues the positive difference between the amount of proceeds from such a sale, and the amount of expenses connected with the purchase of such a separate object of property, with each being increased by the indexing coefficient determined in Article 8 (3) (3) of this Law.

In the event of expenses (including indexing) incurred in connection with the purchase of such an object of property exceeding proceeds that are received from sale thereof, the loss from such a transaction shall not be included in the gross expenses and not covered at the expense of such a taxpayer's own sources.

8.9.2. With the sale of land that has been received into property during privatization, the taxpayer shall include in gross revenues the positive difference between the amount of proceeds received from such a sale and the sum of the assessed value of such land, determined according to the established methodology of land evaluation, including coefficients of the functional use of such land at the time of such sale.

8.9.3. In the event that the real estate object (real estate) is purchased by the taxpayer together with land under such object or this is the precondition of functional use of such object of real estate in accordance with the provisions determined by legislation, the aggregate value of such capital asset and such land shall be subject to amortization in accordance with the provisions determined by this Article for capital assets of group 1.

In such cases, the provisions of Article 8 (9) (1), (2) and (4) of this Laws shall not apply.

8.9.4. If land as a separate object of property is sold or otherwise alienated, the balance sheet value of a separate object of group 1 capital assets, which has reflected the cost of capital improvements to the quality of such land, shall refer to the gross expenses of such taxpayer by the results of the tax period, when such a sale occurs.

(Article 8 (9) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 8 (9) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Article 9. Amortization of expenses involved in producing minerals

9.1. Any expenses involved in prospecting (additional prospecting), arrangement, and development of any deposits (fields) of minerals (except for expenses envisaged in Article 5 (2) (16) of this Law) shall be referred to a separate group of the taxpayer's expenses with regard to taxpayers, on whose balance sheets such deposits (fields) are placed, and which are subject to amortization. (Article 9 (1) in wording of the Law of Ukraine No. 2712-III (2712-14) of 20 September 2002, comes into effect on 1 January 2002)

9.2. The list of expenses that are included in a separate group of expenses for the taxpayer shall be established by the Cabinet of Ministers of Ukraine. (Article 9 (2) in wording of the Law of Ukraine No. 2712-III (2712-14) of 20 September 2002, comes into effect on 1 January 2002)

9.3. Accounting of the book cost of expenses involved in the production of minerals shall be carried out separately for each deposit (quarry, mine, borehole). The Ministry of Finance of Ukraine shall establish such an accounting procedure.

9.4. The sum of amortization deductions in the accounting period for expenses incurred in the production of minerals (except for boreholes that are used to develop oil and gas fields) shall be calculated using the following formula: (Article 9 (4) (1) as amended according to the Law of Ukraine No. 2712-III (2712-14) of 20 September 2002, comes into effect on 1 January 2002)

$S(a) = B(a) \times O(a) : O(t)$, where:

$S(a)$ – the amount of amortization payments during the accounting period;

$B(a)$ – the book value of the group by the beginning of the accounting period, that is equal to the book value of this group at the beginning of the period preceding the accounting period, multiplied by the amount of expenses on prospecting (additional prospecting) and arrangement of deposits (fields) of minerals that were incurred during the previous period;

$O(a)$ – volume (actual size) of minerals actually produced during the accounting period;

$O(t)$ – total rated volume (actual size) of minerals production at a given deposit that shall be determined on the basis of the methodology approved by the Cabinet of Ministers of Ukraine. (Article 9 (4) (6) in wording of the Law of Ukraine No. 2712-III (2712-14) of 20 September 2002 comes into effect on 1 January 2002)

Taxpayers of all forms of ownership shall have the right to annually adjust the book value of expenses involved in the production of minerals to the indexing coefficient that is calculated on the basis of the following formula:

$K_i = [I(a-1) - 10] : 100$, where

$I(a-1)$ – the inflation index by the results of which indexing is carried out.

(Article 9.4 (8) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

No indexing shall be carried out if the K_i value does not exceed 1.

In the event of a taxpayer applying the indexing coefficient, such a taxpayer shall be obliged to recognize capital revenues in the amounts equal to the difference between the book value of expenses involved in the

production of minerals, which is determined at the beginning of the accounting year, using this indexing coefficient, and that of such expenses prior to this indexing.

The said capital revenues shall be referred to that taxpayer's gross revenues in each accounting period of the accounting year in the amount that is determined as the result of multiplying the amount of capital revenue by the coefficient equal to $O(ay) : O(t) : 4$, where:

$O(ay)$ – volume (actual size) of minerals actually produced during the year preceding the accounting year;

$O(t)$ – total rated volume (actual size) of mineral production at a given deposit.

(Article 9 (4) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

9.5. Provisions of amortization for boreholes, which are used for prospecting of oil and gas fields, shall be established as a percentage of their original cost in the following sums (calculated per one year):

1st year of operation – 10 percent;

2nd year of operation – 18 percent;

3rd year of operation – 14 percent;

4th year of operation – 12 percent;

5th year of operation – 9 percent;

6th year of operation – 7 percent;

7th year of operation – 7 percent;

8th year of operation – 7 percent;

9th year of operation – 7 percent;

10th year of operation – 6 percent;

11th year of operation – 3 percent.

During an accounting year taxpayers shall have the right to refer to the gross expenses any expenses connected with the repair, reconstruction, modernization, and other improvements of boreholes that are used for developing oil and gas fields in the amount that does not exceed 10 percent of the original cost of an individual borehole.

Expenses that exceed the specified amount shall be included in the corresponding group of capital assets. (Article 9 (5) (14) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Indexing the balance sheet cost of boreholes that are used for development of oil and gas fields shall not be applied.

(Article 9 (5) in wording of the Law of Ukraine No. 2712-III (349-15) of 24 December 2002)

9.6. In cases when activities related to prospecting (additional prospecting) of deposits minerals yield no results or when the taxpayer resolves to abandon further prospecting or developing of such deposits (fields) due to their inexpediency, expenses involved in such prospecting (additional prospecting) may be referred to gross production (turnover) costs in the current tax period of such taxpayer. And the balance sheet value of this group of expenses involved in producing minerals shall be zero.

Article 10. Taxation rate

10.1. Taxpayers' revenues, including enterprises under individual ownership, shall be taxable at 25 percent for the taxation object. (Article

10 (1) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002, comes into effect on 1 January 2004)

(Indent of Article 10 (1) lost its efficacy according to the Law of Ukraine No. 934-XIV (934-14) of 14 July 1999 as a result of the termination of the period of its validity)

10.2. Taxation of proceeds from gambling

(Article 10 (2) (1) deleted according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 10 (2) (2) deleted according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 10 (2) (3) deleted according to the Law of Ukraine No. 1160-XIV (1160-14) of 19 October 1999)

10.2.3. Government lottery wins shall be tax-exempted. Government lottery shall be lotteries with available prize pools of at least 50 percent of the amount of revenues received, as well as deductions to the State Budget of Ukraine in the amount of at least equal to the tax rate established by Article 10 (1) of this Law applied to the revenues left after allocations to the prize pool. (Article 10 (2) (3) (1) as amended according to the Laws of Ukraine No. 1969-14 of 21 September 2000, No. 1957-IV (1957-15) of 1 July 2004)

The Ministry of Finance of Ukraine shall specify the requirements of the procedure of financial control of activities related to issuing and drawing lotteries, and establish requirements as to the authorized capital of operators that cannot be less than those that are set by the National Bank of Ukraine concerning banks operating on all the territory of Ukraine. The profit tax provided for in Article 10 (1) of this Law, shall not be levied on the amount of the excess of revenues over expenses related to issuing and drawing government lotteries. (Article 10 (2) (3) (2) in wording of the Laws of Ukraine No. 1969-III (1969-14) of 21 September 2000, No. 349-IV (349-15) of 24 December 2002)

(Article 10.2 in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

Article 11. Accounting rules

11.1 For the purposes of this Law, the following tax periods shall be used: a calendar quarter, six months, three quarters, a year.

The tax period begins on the first calendar day of the tax period and comes to an end on the last calendar day of the tax period, except for the agricultural producers specified in Article 14 of this Law, for which the annual tax period starts on 1 July of the current reporting (budget) year. (Article 11 (1) (2) as amended according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

In cases when a person is registered by a tax body as the payer of this tax within a tax period, the first accounting tax period shall begin on the date of the beginning of such accounting, and end on the last calendar day of the following tax period.

If the taxpayer is liquidated (including before the end of the first tax accounting period), the last tax period shall be the period (that comes to an end on the date of such liquidation), to which the date of such liquidation belongs. (Indent of Article 11 (1) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

11.2. Date of increase of gross expenses

11.2.1. The date of increase of gross production (turnover) costs shall be the date of an accounting period when any of the following events occur, whichever takes place earlier:

either the date of drawing from a taxpayer's bank account the amount payable for goods (works, services), or when buying any of these for cash, the date of such payment made by the taxpayer's cash department;

or the date on which a taxpayer receives goods, and for works (services) the date of actual receipt of the results thereof.

11.2.2. In cases when a taxpayer acquires goods (works, services) using credit or debit cards or commercial checks, the date of increase of gross expenses shall be the date of drawing up of the appropriate bill (purchase receipt).

11.2.3. The date of increase in the gross expenses of the taxpayer at the sale of transactions with persons who are:

a) non-residents;

b) residents who either pay this tax at a rate lower than that specified in Article 10 of this Law (except for the taxpayers specified in Article 7 (2) of this Law), or pay this tax within the single or fixed tax, or are relieved from paying this tax, or are not subject thereto according to legislation, -

shall be the date of the receipt by the taxpayer of the goods (and in case of import thereof - also the works (services) accompanying or assisting such import of goods), and for works (services) - the date of actual receipt thereof from such persons, irrespective of the fact of payment (including partial or advance payment).

Any person determined by Article 11 (2) (3) (b) of this Law, shall be obliged at the conclusion of a contract with the taxpayer upon the latter's requirement to make a notice in such contract about such person having the status of the payer of this tax on general grounds stipulated by this Law. If such a person fails to make a notice in such a contract about such status or if the goods (services) are provided without a written contract, with the aim of determining the date of increase of gross expenses of the buyer, it shall be considered that such goods (services) have been provided by the persons relieved from this tax. If the person, who does not have the status of the payer of this tax on general grounds stipulated by this Law, makes a notice in the contract, that he (it) is such a taxpayer, it shall be considered that such a person is deliberately evades taxation in the amount of the advance payment (preliminary payment) received by him (it). In such a case, the taxpayer who is a buyer of the goods (services) shall not bear liability for an increase in gross expenses, carried out on the date of preliminary payment (advance payment) of the cost of goods (services) on the basis of unreliable information about the status of the taxpayer specified in the contract.

(Article 11 (2) (3) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997, in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

11.2.4 Gross costs of shipbuilding enterprises made with regard to fulfillment of contracts on building sea and river vessels, should be included to gross costs in that tax period when the increase in gross revenues stipulated by Article 11 (3) (7) of this Law takes place. (Article 11 (2) (4) added according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

11.3. Date of increase of gross revenues

11.3.1. The date of increase of gross revenues shall be the date of an accounting period, when any of the following events occur, whichever takes place earlier:

either the date on which the buyer's (customer's) money was entered the taxpayer's bank account as payment for goods (works, services) to be sold; when selling goods (works, services) for cash, this date shall be the date on which such an amount was received by the taxpayer's cash department - and in the absence of a cash department, the date of collection of this amount in cash by the taxpayer's bank;

or the date of shipment of goods, and in the case of works (services) the date on which their results became actually available to the taxpayer.

(Article 11 (3) (1) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

11.3.2. When trading in products (currency values) or works (services) with use of vending machines or other such equipment that does not presuppose the presence of cash registers that are supervised by an authorized individual, the date of increasing gross revenues shall be the date of cash withdrawal from such vending machines or other such equipment.

The National Bank of Ukraine shall establish the rules of such collection.

In cases when such products (works, services) are dispensed by vending machines using tokens, cards or other substitutes for hryvnyas, the date of increase in gross revenues shall be the date of sale of such tokens, cards or other substitutes for hryvnyas.

(Article 11 (3) (2) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

11.3.3. In cases when such goods (works, services) are sold using credit or debit cards, traveler's, commercial, personal or other checks, the date of increase in gross revenues shall be the date of drawing up appropriate bills (purchase receipts).

(Article 11 (3) (4) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

11.3.5. When selling goods (works, services) with payments financed by the budget, the date of increase in gross revenues shall be the date of remittance of such budget money to the taxpayer's clearing account or the date on which an appropriate compensation in any other form is received, including reduction of such taxpayer's budget liabilities.

(Article 11 (3) (5) as amended according to the Laws of Ukraine No. 639/97-VR of 18 November 1997, No. 2921-III (2921-14) of 10 January 2002)

11.3.6. The date of increase of the creditor's revenues from crediting and depositing transactions shall be the date of accrual of interest (commissions) within the terms determined by the loan agreement.

The date of increase of gross revenues of the holder of mortgage certificate for participation on transactions with such mortgage certificate shall be the date of accrual of income during a relevant reporting period on consolidated mortgage debt (decreased by the amount of reward for management and servicing of mortgage assets).

If the borrower (debtor) delays repayment of interest or commissions, the creditor regulates such debts in accordance with Article 12 (1) of this Law.

In this case, the accrual method for determining of the creditor's tax liabilities on such loan (deposit) shall not apply until the full repayment or write-off of the debts of a part thereof to the creditor's losses in accordance with the procedure established by this Law.

(Article 11 (3) (6) in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

The sums of advanced payments received by shipbuilding enterprises from the customers of the sea or river vessels should be included to gross revenues of such enterprises at the date of signing the act on delivery of sea or river vessels to the customer, upon condition of purposeful usage of the mentioned payments in accordance with the procedure stipulated by the Cabinet of Ministers of Ukraine.

(Article 11 (3) (7) added according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

Article 12. Bad debt

12.1. Order for regulating doubtful and bad debts

12.1.1. Taxpayers selling goods (works, services) shall have the right to increase gross expenses in the accounting period by the cost of shipment of goods (works and services provided) in the current or previous tax accounting periods in cases when the buyers of such goods (works, services) delay payments of their cost (other types of compensation) without prior agreement with these taxpayers. The said right to increase total expenses shall arise if during such accounting period any of the following occurs:

a) a taxpayer files a claim (application) with a court on collecting a debt from such a buyer or initiating bankruptcy proceedings, or claiming such a buyer's pledged property;

b) the said delay in payment (provision of other kinds of compensation) exceeds 90 calendar days and the taxpayer who is a seller either receives from the buyer the latter's recognition of the claim that has been sent to him before in the order pre-trial settlement of dispute, or does not receive a response to such a claim during the term set by legislation;

c) upon the seller's application the notary makes a writ of execution on collecting the debt from the buyer or collecting the pledged property (except for tax liabilities). (Article 12 (1) (1) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997, in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

12.1.2. The taxpayer who is a seller shall be obliged to increase the gross revenues of the corresponding tax period by the amount of debt (or part of it), which preliminary was referred by it (him) to the gross expenses in accordance with Article 12 (1) (1) of this Law or compensated at the expense of the insurance reserve according to Article 12 (3) of this Law, in cases when any of the following occur during such a tax period:

a) the court does not satisfy the claim (application) of the seller or satisfies it in part, or dismisses the claim (application), or satisfies the claim (application) of the buyer on recognition of the claim concerning payment of such a debt or part of it to be void;

b) the parties of the contract reach agreement in the pre-trial order concerning extension of the payment term or writing off the total amount of the debt or part of it (except for cases of conclusion of an amicable agreement within the procedure of solvency restoration of a debtor or bankruptcy recognition determined by legislation);

c) the seller who has not received a response to the claim during the term determined by the legislation or has received from the buyer the response about recognition of such claim, but does not receive payment (other kinds of compensation on account of payment of debts) during the term specified in such a claim, and does not apply to a court (commercial court) during the following 90 days with an application on collecting the debt or initiating bankruptcy proceedings, or claiming such a buyer's pledged property.

For the amount of the additional tax obligation, calculated following such an increase, a fine shall be accrued in the amount determined by legislation for delayed payment of the tax obligation. The said fine shall be calculated for the term from the first day of the tax period following the period, when the increase in gross expenses occurred according to Article 12 (1) (1) of this Law, until the last day of the tax period, when the increase of the gross revenues occurred, and shall be paid irrespective of the value of the tax obligation of the taxpayer in the corresponding accounting period. The fine shall not be charged on the debt (part of it), which is written off or spread out following the conclusion of an amicable agreement according to legislation on bankruptcy, from the date of such amicable agreement.

(In the year 2005 the fine provided by Article 12 (1) (2) (5) of this Law shall be subject to treble annual discount rate of the National Bank of

Ukraine effective on the date of the tax obligation occurred in accordance with the Laws of Ukraine No. 2285-IV (2285-15) of 23 December 2004, No. 2502-IV (2505-15) of 25 March 2005)

(In the year 2006 the fine provided by Article 12 (1) (2) (5) of this Law shall be subject to treble annual discount rate of the National Bank of Ukraine effective on the date of the tax obligation occurred in accordance with the Law of Ukraine No. 3235-IV (3235-15) of 20 December 2005)

If in the future (in view of the statutory period of limitation), such a seller applies to a court, it (he) shall have the right to increase gross expenses by the amount of the debt claim.

(Article 12 (1) (2) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

12.1.3. In cases when the taxpayer appeals against a court's ruling in the order established by legislation, the increase in gross revenues established in Article 12 (1) (2) of this Law shall not occur until the final decision of an appropriate judicial body.

12.1.4. Notification about an increase in gross revenues or gross expenses with reference to appropriate provisions of Article 12 (1) (1) and (2) of this Law shall be submitted by the taxpayer-seller to a tax body together with the tax return in the accounting period and other primary documents confirming accounts payable and accounts receivable. (Article 12 (1) (4) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002, as amended according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

12.1.5. The taxpayer who is a buyer shall be obliged to increase the gross revenues by the amount of outstanding debts (a part thereof), that is confirmed in the order of pre-trial settlement of disputes, or by a court, or by a writ of execution from a notary, in the tax period, when any of the events occurred earlier:

a) or 90th calendar day from the day of the payment deadline of such a debt (a part thereof), stipulated by the contract or by the recognized claim;

b) or the 30th calendar day from the day of the court's decision on recognizing (collecting) such a debt (a part thereof) or execution of a writ by the notary.

The terms determined by the indent (a) of this point shall also apply to cases when the buyer has not provided a response to the claim sent by the seller in the terms determined by the legislation on commercial procedure.

The terms determined by Article 12 (1) (5) (b) of this Law shall be applied irrespective of whether the officer of the court or a person equal to him began actions to enforce collection of the debt according to legislation.

The increase in the gross revenue of the buyer specified in this point shall not be made concerning a debt (a part thereof) that is redeemed by such a buyer before the terms determined by Article 12 (1) (5) (a) and (b) of this Law.

If in the following tax periods the buyer redeems the amount of the recognized debt or a part thereof (independently or according to the procedure of enforced collection), such a buyer shall increase the gross expenses by the amount of such debt (a part thereof) by the results of the tax period when such redemption occurs.

The debt that has been preliminarily referred to the gross expenses according to Article 12 (1) (1) of this Law or redeemed at the cost of the insurance reserve according to Article 12 (3) of this Law, which is recognized bad due to a lack of assets on the part of the buyer, who is recognized bankrupt in the established manner, or due to its writing-off in accordance with the conditions of the amicable agreement made according to legislation on bankruptcy, shall not change the tax obligations of the buyer and the seller in connection with such recognition.

(Article 12 (1) (5) added according to the Law of Ukraine No. 639/97-VR of 18 November 1997, in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

12.2. Specifics of covering bad debt by banks and non-banking financial institutions

12.2.1. Any bank and also any non-banking financial institution, set up in the order established by legislation, except for insurance companies and non-state pension funds (hereinafter – financial institutions), shall be under obligation to form insurance reserves to indemnify such losses as may be incurred on the principal debt (less interest and commission fees) under all types of loans (including consolidated mortgage debts), as well as guarantees, sureties, purchased securities (including mortgage certificates with fixed income rate), and other active banking transactions that referred to such institutions' business activities in accordance with legislation.

(Article 12 (2) (1) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002, in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

12.2.2. With regard to the provisions of Article 12 (2) (3) of this Law such insurance reserves shall be formed by each financial institution independently, in an amount sufficient to fully cover the risk of non-return of the principal debt under loans, guarantees, sureties, purchased securities, and other liabilities, as may be recognized non-standard using methods established by the National Bank of Ukraine for banks, and by a specially authorized body of the executive power in the area of financial services regulation, as well as loans, guarantees, sureties, purchased securities, and other liabilities recognized as bad debt according to the provisions of this Law. (Article 12 (2) (2) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

12.2.3. The sum of such insurance reserves that is formed by increasing the gross expenses of such financial institutions shall not exceed:

10 percent of the debt liabilities with regard to commercial banks, in particular in terms of the aggregate debt under loans, guarantees, sureties that are actually provided (issued in favour of) debtors as of on the last business day of the accounting period;

the sum established by the legislation on non-banking financial institutions, but not in excess of 15 percent of the amount of debt liabilities, in particular, in terms of the aggregate debt of debtors to such non-banking financial institutions as on the last business day of the tax accounting period.

The amount of said liabilities shall not include debtors' liabilities arising from transactions that are not part of the given financial institution's main business activities.

The notion of "main business activities" shall be interpreted as transactions defined by Article 47 of the Law of Ukraine "On Banks and Banking" (872-12), and by relevant articles of the Laws on non-banking financial institutions. (Article 12 (2) (3) (5) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Indent of Article 12 (2) (3) as amended according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

12.2.4. In cases when reducing the aggregate amount of non-standard or bad loans (other liabilities) as results of the given accounting period, due to their transfer to the standard category or referral to gross expenses of the taxpayer according to the procedures set out in Article 12 (3) of this Law, or when reducing the amount of debt liabilities used as the basis for restrictions according to Article 12 (2) (3) of this Law, the excess amount of insurance reserve shall be used to increase the gross revenue of such a financial institution according to the results of such an accounting period.

12.2.5. The manner and sources of formation and use of insurance reserves (funds) to insure deposits of individuals shall be established by a separate statute.

12.3. Procedures for indemnification of bad debts at the expense of taxpayers' insurance reserves

12.3.1. Amount of debt shall be referred to the creditors' gross expenses, provided the period of limitation under the given loan agreement with the debtor has expired by the time this Law comes into effect. In the same period, the debtor shall increase the gross revenues by the same amount.

The debt that the creditor does not apply to court for its compulsory collection before expiry of the period of limitation shall not be included in gross costs according to Article 12 (1) (1) of this Law and cannot be compensated at the cost of its insurance reserves. (Article 12 (3) (1) (2) in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

The principal debt that cannot be compulsorily collected from the debtor due to conclusion of an amicable agreement according to the procedure of solvency restoration or recognition of such debtor bankrupt, determined by the legislation, shall be not included in the gross expenses of the creditor according to Article 12 (1) (1) of this Law but can be compensated at the cost of his (its) insurance reserves created according to this Article. (Article 12 (3) (1) (3) added according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 12 (3) (1) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

12.3.2. Bad debts under contracts envisaging the issue of a promissory note for the creditor's benefit as the guarantee of the debtor's obligations, shall be reimbursed at the expense of that creditor's insurance reserve, provided the protested promissory note remains unpaid for 30 calendar days from the date of the protest, and provided the payee of the promissory note has initiated bankruptcy proceedings against the issuer of the promissory note.

In such cases, the issuer of the promissory note shall have his (its) gross revenues increased by the amount of the protested promissory note in the accounting period, when the 30th day after the protesting of such a note occurs.

12.3.3. The bad debt of a debtor who is recognized bankrupt in the manner established by legislation shall be indemnified at the expense of the creditor's insurance reserve after the decision on such a debtor's bankruptcy. Money received by the creditor after liquidation proceedings and sale of the debtor's property shall be referred to that creditor's gross revenues in the tax period when such money is received.

Creditors giving loans to debtors already involved in bankruptcy proceedings by the time of signing of such loan agreements and the publication of information about such proceedings (except for cases when such loans are provided within debtor recovery procedures and are secured by such a debtor's corporate rights) shall have to reimburse bad debts using their own funds.

In such cases, the gross revenues of a debtor that is recognized bankrupt in the order established by legislation shall not be increased by the amount of the said bad debts.

In cases when the creditor cannot appeal to a court with an application to initiate bankruptcy proceedings because the indisputable claims of such a creditor to the debtor total less than 300 minimum wages, the sum of claims shall be included in the gross expenses of the creditor in the manner determined by Article 12 (1) (1) (b) of this Law. (Indent of Article 12 (3) (3) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 12 (3) (3) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

12.3.4. Secured debts shall be redeemed in the order envisaged by provisions of the Law of Ukraine "On Pledge" (2654-12).

The pledgee shall have the right to use the insurance reserve to cover that part of the debt which remains unredeemed due to insufficient proceeds the creditor receives from the sale of the debtor's pledged property, and provided other legal actions of the creditor aimed at exacting the creditor's other property failed to fully cover the debt. Pledged property shall be sold (traded) only at public auctions. When alienating pledged property using other methods, the creditor shall cover losses by revenues left at the creditor's disposal after taxation.

The order of holding public auctions shall be established by the Cabinet of Ministers of Ukraine. (Article 12 (3) (4) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

12.3.5. Bad debts arising from the debtor's inability to pay caused by acts of God or force majeure circumstances shall be indemnified using the creditor's insurance reserve, provided there are any of the documents listed below:

statement from the Chamber of Commerce and Industries of Ukraine attesting to force majeure circumstances or acts of God on Ukraine's territory or

statements issued by authorized bodies of other countries that are legalized by Ukraine's consular offices, in cases of force majeure circumstances or acts of God occurring on such a country's territory;

Decree of the President of Ukraine instituting an emergency ecological situation in individual areas of Ukraine, approved by the Verkhovna Rada of Ukraine or a resolution of the Cabinet of Ministers of Ukraine designating specific areas of Ukraine to be disaster areas in the event of flood, drought, fire, and other calamities, including resolutions designating areas with crops damaged by weather to the extent of 30 percent of the average yields in the past five calendar years.

In such cases, the debtor's gross revenues shall not be increased by the amount of liabilities arising from that debtor's inability to pay due to acts of God or force majeure circumstances for the total duration of the said force majeure circumstances.

12.3.6. The outstanding debts of enterprises, institutions and organizations whose property is immune from debt claims (or in the case of enterprises exempted from privatization) in accordance with Ukrainian legislation shall be indemnified using creditor's insurance reserves, provided the said liabilities were not redeemed or otherwise covered within 30 calendar days from the overdue date by the State Budget of Ukraine or by relevant local budgets.

In such cases, the creditor, within the period determined by legislation, shall be under obligation to address a court claiming damages incurred by such a loan. If the creditor fails to address a court within the period determined by the legislation, or if the court dismisses the case or disregards the application, the creditor shall be obliged to increase his (its) gross revenues by the amount of such bad debts in the appropriate tax period.

12.3.7. The overdue debts of individuals who are found by a court to be missing or dead shall be reimbursed by the creditor's insurance reserve, provided that the court ruling recognizing the debtor missing or dead occurs at a later time than the date of the loan agreement.

In such cases, the creditor shall perform legal actions aimed at collecting bad debts from the individual's legacy within the limits and according to the procedures established by legislation.

12.3.8. Overdue debts under contracts found by a court to be completely or partially invalid because of the debtor's fault shall be indemnified from the creditor's insurance reserve provided the debtor fails to redeem the liability within a period of 30 days from the date of the court ruling recognizing such a contract wholly or partially invalid.

In such cases, the debtor's gross revenues shall be increased by the amount of such liabilities in the tax period, when the court ruling recognizing the contract wholly or partially invalid because of the debtor's fault occurs.

12.3.9. Overdue debts under contracts or sections thereof that are judicially found invalid because of the creditor's fault or because of both parties thereto shall be redeemed by the amount of the debt redeemed by the debtor, and if no such amount is provided within 30 calendar days, by the revenues left at the creditor's disposal after taxation.

In such cases, the debtor's gross revenues shall be increased by the amount of the debt in the tax period when the court ruling recognizing such a contract or a section thereof invalid because of the parties thereto is made.

12.3.10. Overdue debts of individuals that are on wanted lists in the order stipulated by the Code of Criminal Procedure of Ukraine shall be indemnified from the creditor's insurance reserve, provided the debtor's whereabouts are not ascertained within 180 calendar days.

12.3.11. Overdue debts of legal entities, whose executives are on wanted lists in the order established by the Code of Criminal Procedure of Ukraine, shall be indemnified from the creditor's insurance reserve provided that these executives are not located within 180 calendar days.

12.3.12. When all measures taken to collect bad debts according to Article 12 (3) of this Law have failed to succeed, banks and non-banking financial institutions shall refer such debts to gross expenses inasmuch as they were not indemnified at the cost of the insurance reserve, formed in accordance with this Article.

12.4. Additional provisions

12.4.1. In the event of the debtor wholly or partially redeeming the bad debt previously referred by the creditor to that creditor's gross expenses or indemnified using the insurance reserve, according to provisions Article 12 (1) and (3) of this Law, the creditor shall increase his (its) gross revenues by the amount of compensation received from the debtor and refer it to the tax period when the said debt was wholly or partially indemnified.

12.4.2. In the event that a duly authorized body determined according to Article 12 (3) (5) of this Law finds the force majeure circumstances, acts of God to be temporary and incapable of influencing the debtor's solvency after their termination, the creditor shall have the right to claim redemption from the debtor. If the debtor fails to cover the said liability or if the creditor fails to bring an action on collecting such liability within the period established by legislation, that creditor's and that debtor's gross revenues shall be increased by the amount of such liability. (Article 12 (4) (2) as amended according to the Law of Ukraine No. 2705-IV (2705-15) of 23 June 2005)

12.4.3. If the individual-debtor who was recognized by a court to be missing or dead, appears, the creditor shall be under obligation to take measures to collect the debt from such a person. Should such an individual pay the debt, which the creditor previously referred to gross expenses or had indemnified it from the insurance reserve, the creditor shall increase the gross revenues by the amount received from such debtor in the tax period when such redemption occurred.

12.4.4. In the event that when, in accordance with legislation, a ruling on the invalidity of a contract because of the debtor's fault is cancelled, and the creditor does not contest this ruling within a period determined by legislation, the creditor shall increase the gross revenues by the amount of

the liability previously referred to the gross expenses or indemnified from the insurance reserve, in the accounting period, when such a period of appeal expired.

12.4.5. If an individual who is on wanted lists has been discovered and pays a debt previously referred to the creditor's gross expenses or indemnified at the cost of the insurance reserve, the creditor shall increase the gross revenues by the amount received from the debtor in the accounting period when such redemption (a part thereof) occurred.

12.4.6. In cases when legal entities or individuals that are found guilty of damage according to the provisions of the Code of Civil Procedure of Ukraine (1540-06) pay such an individual's debts as may have been referred by the creditor to the gross expenses or indemnified from the insurance reserve, the creditor shall increase gross revenues by the amount received from the debtor in the accounting period when such redemption (a part thereof) occurred.

(Article 12 as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Article 13. Taxation of non-residents

13.1. Any revenues received by non-residents from sources in Ukraine from business activities (including by non-residents' accounts in hryvnyas) shall be taxed in the order and at rates set out in this Article.

For the purposes of this Article revenues received by non-residents from sources in Ukraine shall be:

a) interest, discount incomes payable to non-residents, including interest on debt instruments issued by a resident; (Article 13 (1) (a) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

b) dividends that are paid (accrued) by residents;

c) royalties, freight proceeds, revenues from engineering-type services; (Article 13 (1) (c) as amended according to the Laws of Ukraine No. 793/97-VR of 30 December 1997, No. 349-IV (349-15) of 24 December 2002)

d) leasing (rent) payment that is paid (accrued) by residents or permanent establishments for the benefit of the non-resident lessor;

e) proceeds from the sale of real estate located on the territory of Ukraine and is owned by the non-resident, including property of the non-resident's permanent establishment;

f) profits from transactions with securities or other corporate rights determined according to provisions of this Law;

g) revenues from joint business activities on the territory of Ukraine and revenues from long-term contracts on the territory of Ukraine;

h) remuneration (reward) for non-residents' (or their authorized persons) cultural, educational, religious, sports, and entertainment activities on the territory of Ukraine;

i) brokerage, commission or agency fees received from residents or other non-residents' permanent establishments in return for brokerage, commission, or agency services rendered by non-residents or their permanent establishments to residents on the territory of Ukraine;

j) risk insurance or reinsurance contributions and premiums in Ukraine (including life insurance policies) or such risk insurance of residents outside Ukraine;

k) revenues in the form of gambling wins (prizes), lottery (except for government lotteries), from casinos and other gambling places (houses)

located on the territory of Ukraine, revenues from organizing and operating the gambling business and lotteries (except for government lotteries);

l) revenues in the form of charitable contributions and donations for the benefit of non-residents;

m) other proceeds from business carried out by non-residents (permanent establishments thereof) on the territory of Ukraine, except for revenues in the form of proceeds or other types of compensation of the cost of goods (works, services) transferred (performed, rendered) to residents from such non-residents (permanent establishments), including the cost of services of international communications or provision of international information. (Article 13 (1) (m) as amended according to the Laws of Ukraine No. 793/97-VR of 30 December 1997)

13.2. A resident or a non-resident's permanent establishment making any payments to the non-resident or authorized person from income sources in Ukraine, resulting from business activities (including such payments to the non-resident's accounts in hryvnyas), except for revenues indicated in Article 13 (3) to (6), shall be obliged to deduct and pay a tax on such income as specified in Article 13 (1) at the rate of 15 percent of the amounts and at their cost that is paid to the budget at the time of such payment, unless otherwise provided by provisions of valid international agreements. (Article 13 (2) as amended according to the Laws of Ukraine No. 977-XIV (977-14) of 15 July 1999, No. 349-IV (349-15) of 24 December 2002)

13.3. (Article 13 (3) (1) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Revenues of non-residents received as income on interest-free (discount) bonds or treasury liabilities shall be taxed at the rates established in Article in accordance with the following procedure: (Article 13 (3) (2) as amended according to the Laws of Ukraine No. 349-IV (349-15) of 24 December 2002, No. 1957-IV (1957-15) of 1 July 2004)

the taxation base shall be income calculated as the difference between nominal value of interest-free (discount) securities paid (accrued) by their issuer and the purchase price on the primary or secondary stock market;

for the purposes of tax control, securities specified in this item may be sold or purchased on behalf and at the cost of a non-resident exclusively by its permanent representation or a resident operating on behalf, at the cost and by authorization of said non-resident;

the said resident or permanent representation thereof shall be held liable for full and timely accrual and payment to the budget of the taxes deducted in the course of payment of revenues to the non-resident from possession of interest-bearing or interest-free (discount) securities. The central tax body of Ukraine shall establish the procedure for calculation by non-residents or permanent representations thereof of the non-resident's tax liabilities and submission of reports on deduction or entering of the taxes established by this Article to the relevant budgets.

Residents operating on behalf, at the cost and by authorization of the non-resident on the market of interest-bearing or interest-free (discount) bonds or treasury liabilities shall independently submit reports to the tax authority at their location on deduction and entering of the taxes established by this Article to the relevant budgets.

13.4. Revenues received by non-residents as interest or yields (discounts) on government securities sold (placed) by non-residents outside Ukraine through authorized non-resident agents, or as interest paid to non-residents on loans (credits or external government loans) provided to Ukraine, recorded in the State Budget of Ukraine or the cost estimates of the National Bank of Ukraine, shall be tax-exempt.

13.5. The incomes of non-residents paid by residents as compensation for transporting freight shall be taxable at the rate of 6 percent at the source

of payment of such incomes and at the expense thereof. (Article 13 (5) in wording of the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

In such cases:

the taxation base shall be the prime rate of such freight;

the persons authorized to collect this tax and to transfer it to the budget, shall be a resident, who pays such incomes irrespective of whether he (it is the payer of this tax, or whether he (it) is the subject of the simplified taxation. (Article 13 (5) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

13.6. Insurers (other residents), who make payments within contracts on insurance or re-insurance of risks (including life insurance) for the benefit of non-residents, shall be obliged to tax the amounts of such insurance or re-insurance in the following order:

for insuring or re-insuring risks with non-resident insurers and re-insurers, whose financial solvency rating (stability) meets the requirements established by the central body of executive power on regulation of financial market on the basis of the public announcement of the ratings of such companies – at a rate of 0 percent;

in other cases – at a rate of 3 percent of the amount of such payments at own cost for the moment of their payment.

Residents who make payments to non-residents from the rendered advertising services on the territory of Ukraine, shall pay tax at a rate of 20 percent of the amount of such payments at their own cost.

(Article 13 (6) in wording of the Laws of Ukraine No. 349-IV (349-15) of 24 December 2002, No. 1957-IV (1957-15) of 1 July 2004)

(Article 13 (7) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

13.8. The revenues of non-residents operating on the territory of Ukraine through their permanent establishments shall be taxable on general terms. For taxation purposes, such permanent establishments shall be equal to a taxpayer operating independently of such a non-resident.

In cases when a non-resident operates inside and outside of Ukraine and does not declare income received through a permanent establishment in Ukraine, the amount subject to taxation in Ukraine shall be determined on the basis of a separate balance sheet of financial and business activities composed by such a non-resident in coordination with the tax body at the location of the permanent establishment.

When a non-resident's incomes from sources in Ukraine cannot be determined by direct calculation, such incomes shall be ascertained by the tax bodies as the difference between gross revenues and gross expenses, applying a coefficient of 0.7 to the gross revenue thus obtained (accrued).

13.9. Residents that provide agency, commission and other such services related to the sale or purchase of goods (works, services) at the expense and for the benefit of non-residents (including conclusion of contracts with other residents on behalf and for the benefit of such non-residents) shall deduct and pay to the relevant budget the tax accrued on the incomes received by such non-residents from sources in Ukraine, determined in the order established for taxation of non-residents' incomes, when non-residents operate in Ukraine through their permanent establishments. In such cases, such residents shall not be subject to additional registration with tax bodies as payers of income tax.

(Article 13 (9) (2) deleted according to the Law of Ukraine No. 393-XIV (393-14) of 14 July 1999)

Types of profit tax mentioned in this Article, except for the repatriation tax set by Article 13 (2) of this Law, shall be the part of the internal enterprise profit tax and their rate shall not be subject to

international agreements regarding the issues of avoidance of double taxation that regulate the rates of income repatriation tax.

(Article 13 (9) (2) of this Law shall not apply to incomes and expenses obtained and incurred prior to 1 July 1997 according to the Law of Ukraine No. 393-XIV (393-14) of 14 January 1999)

(Article 13 in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

Article 14. Taxation of agricultural producers

14.1. Enterprises, whose main business activity is agricultural production, shall pay income tax in the amounts and in the manner determined by this Law in accordance with the results of the tax year.

Gross revenues and costs of agricultural manufacturers received and incurred during the tax year shall be subject to indexing based on the official inflation rate during the period from the month following the one when such losses (revenues) occurred till the end of the tax year.

The amount of accrued tax shall be reduced by the amount of tax on land that is used in agricultural production turnover.

(Article 14 (1) (4) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

14.2. Article 14 (1) of this Law shall not apply to enterprises whose main business activities include production and (or) sale of products of floral-ornamental gardening, wild plants, wild animals and birds, fish (except fish caught in rivers and isolated reservoirs), furs, alcohol products, beer, wine and materials for wine production (except such materials sold for further processing). Such enterprises shall be taxed on general terms. (Article 14 (2) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

14.3. In cases of sale of goods directly involved in agricultural technologies of agricultural production to producers of such agricultural products on commercial credit terms, the creditor's gross revenues shall be increased in the tax period when the debt matures in accordance with the terms of such a credit contract.

Should such a commercial credit apply to goods, the expenses on which are referred to gross expenses, the borrower's gross expenses shall be increased as of the date of payments to redeem liabilities under such a commercial credit.

Should this commercial credit apply to goods, the expenses on which are subject to amortization, according to Article 8 of this Law, the date of increasing the balance sheet value of the appropriate group of capital assets shall be the date when the borrower makes payments to redeem liabilities under such a commercial credit.

(Article 14 added according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

Article 15. Order of amendments to the Law

Income tax rates, tax privileges, taxation objects, order of calculation of taxable income, terms and order of payments and remittances to budgets shall be established and changed only by introduction of changes to this Law.

Article 16. Order of accrual and terms of payment of tax

16.1. Taxpayers shall independently determine the amounts taxed and payable.

16.2. Income tax shall be accrued at the rate indicated in Article 10 of this Act on revenues that are subject to tax computed according to Article 3 (1) of this Law in view of the provisions of Article 7 (12), (13), (14), (14) (1), (16) (9), and Articles 6 and 13 of this Law.

(Article 16 (2) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

16.3 The taxpayer fulfilling activities subject to patenting in accordance with the Law of Ukraine "On Patenting of Certain Kinds of Entrepreneurial Activities" (98/96-VR) shall be obliged to define the income tax separately for each kind of such activities, as well as define the income tax for other activities. For this purpose such taxpayers keep separate records for:

gross revenues from the activities subject to patenting;

total costs incurred with regard to such activities;

balance-sheet cost of goods, materials, raw material, components and semimanufactures in stock, work-in-process and remains of integrated products (hereinafter referred to as store) that are used for the accomplishment of activities subject to patenting. At that the balance-sheet cost of such store shall not be a part in calculating the growth (loss) of balance-sheet cost in accordance with Article 5 (9) of this Law, for defining the taxation object of other activities;

amortization payments, calculated for the appointed group of capital assets that are used for the accomplishment of activities subject to patenting.

In cases when capital assets are used for the accomplishment of activities subject to patenting as well as for other activities, for the purpose of defining the taxation object for separate kinds of activities the method of proportional allotment of capital allowances dependant on the specific amount of incomes with respect to each kind of activities. In accordance with this method the taxpayer's gross revenue from certain kinds of activities subject to patenting shall be decreased by the part of general sum of capital allowances for the accounting period, as the sum of revenue gained from the certain kinds of activities subject to patenting refers to the general sum of gross revenue. Amortization payments regarding the activities subject to patenting and other activities at the same time shall be exercised in the similar manner.

Profit tax as results from the activities subject to patenting according to the Law of Ukraine "On Patenting of Certain Kinds of Entrepreneurial Activities" (98/96-VR) shall be remunerated to the budget in the sum assessed by this Law decreased by the cost trade license for this kind of activity.

(Article 16 (3) in wording of the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

16.4. Tax shall be paid by the payer thereof to the appropriate budget in the term established by the legislation for an accounting quarter. (Article 16 (4) (1) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Taxpayers shall submit to tax bodies within periods specified by the legislation their tax returns on revenues in the accounting period computed as a progressive total including negative values of the taxation object in the previous tax period, if any, according to Article 6 (1) of this Law. In such cases, taxpayers shall submit the simplified tax return for an accounting quarter, a six-month period, and three quarters, and the full tax

return - by the results of the accounting year. Forms of tax returns for this tax shall be established by the central tax body in coordination with the Committee of the Verkhovna Rada of Ukraine responsible for Taxation Policy. (Article 16 (4) (2) as amended by the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000 comes into effect on 1 April 2001, in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Should a taxpayer believe it is necessary to explain some of the results of business and financial activities indicated in the tax return, such a taxpayer may send such explanations to the tax body composed in any form that the taxpayer chooses. The tax body shall have no right to demand a tax report form or accounting form other than that directly stipulated by this Law, including other than balance sheets and accounting reports concluded according to the accounting rules and stipulated by this Law. Statistical and accounting reports shall be submitted to state statistical bodies in accordance with legislation. The accounting reports shall be submitted by enterprises to the bodies, to whose remit they belong in accordance with legislation. This rule shall also apply to any other taxes, duties (mandatory payments), included in the system of taxation. In this connection, the taxpayer shall not bear tax liability for delay, failure to submit, or submission of incomplete accounting reports. (Article 16 (4) (3) in wording of the Laws of Ukraine No. 639/97-VR of 18 November 1997, No. 349-IV (349-15) of 24 December 2002)

Enterprises whose main business activity is agricultural production, shall submit a tax return on their income within periods specified by legislation for the annual reporting period, using the form established by the central tax body of Ukraine. (Article 16 (4) (4) in wording of the Law of Ukraine No. 739/97-VR of 30 December 1997, as amended according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000 comes into effect on 1 April 2001)

For taxation purposes, the category of enterprises whose main business activity is agricultural production, shall include enterprises who receive over 50 percent of their gross income yielded from the sale of agricultural products produced by themselves during the previous accounting (tax) year. (Article 16 (4) (5) in wording of the Law of Ukraine No. 739/97-VR of 30 December 1997)

Should the gross revenues from the sale of agricultural products in the accounting (tax) year not exceed 50 percent of their total revenues, their income from the sale of products (works, services) other than agricultural products shall be taxable on general terms. (Article 16 (4) (6) in wording of the Law of Ukraine No. 739/97-VR of 30 December 1997)

(Article 16 (5) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 16 (6) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 16 (7) deleted according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

(Article 16 (7) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 16 (8) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

16.9. The amount of tax paid into the budget by taxpayers in the insurance business shall be determined in the manner set out by Article 7 (2) of this Law.

16.10. Budget organizations shall pay income tax accrued on revenues received from economic activities on a quarterly basis with progressive total from the beginning of the tax year.

Non-profit organizations determined by Article 7 (11) of this Law shall pay income tax on revenues from non-operating activities on general terms.

16.11. Non-residents operating in Ukraine through their permanent establishments shall keep accounts and reports in accordance with Ukrainian legislation, and shall submit quarterly tax returns to tax bodies at the locations of their establishments on their incomes from sources in Ukraine, and income tax accruals using the form established by the central tax body.

In cases of termination of such permanent establishments before the end of the accounting quarter, the said documents shall be sent to the tax body within 15 calendar days from the date of termination.

16.12. Non-residents' income tax shall be computed quarterly by the taxpayer and shall be subject to approval by the tax body at the location of the permanent establishment. (Article 16 (12) (1) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Non-residents shall receive annual letters in Ukrainian from tax bodies confirming payment of income tax.

Annual audits of non-residents' financial and business activities shall be carried out in accordance with legislation.

16.13. Responsibility for deduction and transfer to the budget of personal income tax, payments to social programs, taxes specified in Article 13 (7) (8) and (10) (2) of this Law, shall rest with the taxpayers who make the appropriate payments.

Remittance of taxes indicated in Article 13 (7) (8) shall be carried out prior to and (or) simultaneously with such payments. (Article 16 (13) (2) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

Tax payments indicated in Article 10 (2) of this Law shall be remitted within three banking days starting from the date of such payments. (Article 16 (13) (3) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

(Article 16 (13) (4) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

16.14. Tax payments shall not be made by persons other than taxpayers.

16.15. The order of execution and submission of tax reports, tax returns on revenues of enterprises, and calculation of the tax shall be established by the central tax body.

16.16. Excess tax payments to the budget accrued for the accounting period using a progressive total starting from the beginning of the year shall be taken on account of subsequent payments or refunded to the taxpayer no later than 10 working days after the date of the written application submitted by such taxpayer. (Article 16 (16) (2) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

(Article 16 (16) (2) deleted according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

Article 17. (Article 17 lost validity for the year 2003 according to the Law of Ukraine No. 380-IV (380-15) of 26 December 2002) (Article 17 lost validity for the year 2002 according to the Law of Ukraine No. 2905-III (2905-14) of 20 December 2001) (Article 17 lost validity for the year 2001 according to the Law of Ukraine No. 2120-III (2120-14) of 7 December 2000) (Article 17 lost validity in the part regulating the sum of profit tax deductions exclusively to the local budgets for the year 2000 according to the Law of Ukraine No. 1458-III (1458-14) of 17 February 2000) Tax remittance to the budget

The tax shall be remitted to the budgets according to the Budget Code of Ukraine.

(Article 17 in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

Article 18. Special rules

18.1. If an international agreement ratified by the Verkhovna Rada of Ukraine contains rules other than those stipulated by this Law, the rules of the international agreement shall apply.

18.2. When making contracts with non-residents, the said contracts shall contain no tax clauses obliging enterprises paying income tax to assume such non-residents' income tax liabilities.

18.3. When making contracts envisaging payment for goods (works, services) for the benefit of non-residents with offshore status, or when making payments through such non-residents or their bank accounts, regardless of whether such payments (in the pecuniary or other forms) are made directly or through other residents or non-residents, the expenses of taxpayers on such goods (works, services) shall be included in that taxpayer's gross expenses in the amount equal to 85 percent of the cost of such goods (works, services). (Article 18 (3) (1) as amended according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

The rule determined by this subparagraph shall be applied starting in the calendar quarter following the quarter when the official publication of the list of the offshore zones established by the Cabinet of Ministers of Ukraine is published. (Article 18 (3) (2) in wording of the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

For the purposes of this subparagraph non-residents with offshore status shall be non-residents located on the territory of offshore zones, except for the non-residents located on the territory of offshore zones, who have provided to the taxpayer an excerpt from their foundation documents, legalized by an appropriate consular establishment of Ukraine, which testifies to the usual (not offshore) status of such a non-resident. If there are agreements determined by the first paragraph of this item, the taxpayer shall refer to the specified excerpt that is attached to the tax return. (Article 18 (3) added according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 18 (3) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

Article 19. Prevention of double taxation

19.1. Income tax amounts received from foreign sources and paid by business entities abroad shall be offset when they pay income tax in Ukraine. In such cases, such offset amounts, which are accrued, shall be calculated according to the rules established by this Law.

19.2. The amount of income tax payable from foreign sources during the accounting period shall not exceed the tax amount subject to payment by such a taxpayer in Ukraine during such a period.

19.3 The following taxes paid in other countries shall not be accepted on account of a fall in tax liabilities:

capital (property) and capital increment tax;

postage tax;

sales tax;

other indirect taxes, regardless of whether they are qualified as income tax, or are taxed by separate taxes in accordance with the legislation of foreign countries;

amounts paid as passive income tax (on dividends, interest, insurance, royalty).

19.4. Amounts paid as income tax outside the customs border of Ukraine shall be recognized provided that there is written confirmation issued by a tax body of a foreign country as to the actual payment of such a tax, and provided Ukraine is a party to an international agreement on prevention of double taxation that has been ratified by the Verkhovna Rada of Ukraine.

Article 20. Taxpayers' responsibilities

20.1. Taxpayers shall be responsible for the correctness of accrual and timeliness of the tax payments, and for the adherence to tax legislation in the order and in amounts established by legislation. (Article 20 (1) as amended according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (2) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (3) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (4) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (5) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (6) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

(Article 20 (7) deleted according to the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

Article 21. Other provisions

21.1. The amounts of hidden (understated) revenues and penalties shall be collected for the entire period of tax evasion.

21.2. After expiry of the specified periods for the payment of the tax to budgets, the amounts which have failed to be transferred shall be collected with the charging of a fine in accordance with legislation. (Article 21 (1) in wording of the Law of Ukraine No. 2181-III (2181-14) of 21 December 2000, comes into effect on 1 April 2001)

21.3. Excessive tax payments to the budget resulting from erroneous calculation or the taxpayer's violation of set payment procedures shall be refunded from such budget within 10 business days from the date on which the tax body receives an appropriate application by such taxpayer, or shall be taken on account of subsequent payments to such budget, if the taxpayer decides so, provided this happens within the period of limitation set by legislation. (Article 21 (3) (1) as amended by the Law of Ukraine No. 639/97-VR of 18 November 1997)

Submission of the application on the return of the excessive amount of tax shall interrupt the period of limitation

21.4. Excess tax remittances to the budget resulting from erroneous calculation (recalculation) on the part of the tax body shall be refunded from such a budget with due regard to the amounts paid as financial penalties or shall be left on account of subsequent payments to such budget, according to the application submitted by the taxpayer to such tax body, provided that this occurs before the end of the period of limitation. Starting on the date of remittance of the amounts to the budget and ending on the date of refunding (offsetting) the amount shall be subject to 120 percent of the

National Bank of Ukraine discount rate effective on the date of refunding (offsetting).

21.5. Acts of the central tax body shall be binding for taxpayers only when issued in cases directly stipulated by this Law and registered with the Ministry of Justice of Ukraine.

Article 22. Final provision

22.1. The Law of Ukraine "On Changes to the Taxation of Profit of Enterprises" shall come into effect on 1 July 1997.

(Article 22 (2) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

22.2. In the 2005 budget year, the attribution to the capital assets of any expenses established by Article 8 (7) (1) (1) of this Law and concerned with the improvement of capital assets of groups 2 - 4 that are subject to amortization, including expenses for the improvement of rented capital assets, shall be subject to payment in the sum not exceeding 10 percent of aggregate balance sheet value of the capital assets of groups 2 - 4 for the beginning of the accounting period, and for the objects of capital assets of group 1 the expenses not exceeding 10 percent of aggregate balance sheet value of the object under repairing for the beginning of the accounting period shall be included to the capital assets.

(Article 22 (2) in wording of the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (3) deleted according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 22 (4) deleted according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

22.5. Until legislative acts are brought into conformity with this Law, they shall apply in as far as they do not contradict this Law.

(Article 22 (5) (2) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (3) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (4) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (5) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (6) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (7) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (8) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (9) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (10) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (11) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (12) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (13) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (14) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (15) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (16) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) (17) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (5) as amended according to the Laws of Ukraine No. 639/97-VR of 18 November 1997, No. 793/97-VR 30 December 1997, No. 403-XIV of 15 January 1999, No. 515-XIV of 18 March 1999, No. 722-XIV (722-14) of 3 June 1999, No. 971-XIV (971-14) of 15 July 1999, No. 973-XIV (973-14) of 15 July 1999, No. 1278-XIV (1278-14) of 3 December 1999, No. 1375-XIV (1375-14) of 13 January 2000, No. 1606-III (1606-14) of 23 March 2000, No. 1608-III (1608-14) of 23 March 2000, No. 1715-III (1715-14) of 11 May 2000, No. 1749-III (1749-14) of 1 June 2000, No. 2199-III (2199-14) of 21 December 2000, No. 2323-III (2323-14) of 22 March 2001, No. 2355-III (2355-14) of 5 April 2001, No. 2744-III (2744-14) of 4 October 2001, No. 3118-III (3118-14) of 7 March 2002, No. 40-IV (40-15) of 4 July 2002, No. 380-IV (380-15) of 26 December 2002, No. 1344-IV (1344-15) of 27 November 2003, No. 1702-IV (1702-15) of 11 May 2004, No. 2285-IV (2285-15) of 23 December 2004)

22.6. A proposal shall be made to the President of Ukraine to have valid laws issued by the President of Ukraine brought in conformity with this Law.

22.7. Penalties that may be imposed on taxpayers for violations of provisions of instruments of the Cabinet of Ministers of Ukraine or the central tax body, issued within the periods set forth by this Article in cases directly stipulated by this Law, shall apply to such taxpayers according to the results of the tax period following the tax period when such instruments are published.

Scheduled inspections of the observance of taxpayers of this Law shall be carried out in the manner established by the legislation, starting on 1 February 1998. (Article 22 (7) (2) added according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

22.8. The balance sheet value of capital assets, which according to Article 8 of this Law belong to Group 1, 2, and 3, commissioned before this Law comes into effect shall be assessed at the level of their residual cost as of the date, when this Law is enacted, and shall be included in the appropriate groups of capital assets with the aim of amortization. (Article 22 (8) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

22.9. The balance sheet value of intangible assets, which are commissioned before this Law comes into effect, shall be determined at the level of their initial balance sheet value as of the date when this Law is enacted, and shall be subject to further amortization. (Article 22 (9) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

22.10. The balance sheet value of expenses involved in the production of minerals, which fall into the definition of Article 9 of this Law and referred to the taxpayer's balance sheet before the enactment of this Law, shall be determined as their residual cost as of the date, when this Law comes into effect and shall be subject to further amortization. (Article 22 (10) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

22.11. With regard to deposits partially developed by the time of enactment of this Law, the total rated value of output shall be determined at

the level of residual minerals thereof as of the date when this Law is enacted.

22.12. Provisions of Article 12 (1) of this Law shall not apply to liabilities arising from delays in payments for goods (works, services) sold (shipped, provided, rendered) before enactment of this Law.

The procedure of regulation for bad debts by banks at the expense of the insurance funds determined by Article 12 of the Law of Ukraine "On Enterprise Profit Tax" shall be applied for the purpose of taxation of the debts referred to the creditor's insurance funds starting from 1 July 1997.

(Article 22 (12) (2) added according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

22.13. For the period of transition, the following insurance reserve quotas shall be established with regard to aggregate bank requirements according to Article 12 (2) (3) of this Law: 40 percent till 31 December 1999 inclusive; 30 percent till 31 December 2001 inclusive; 20 percent starting from 1 January 2002.

(Article 22 (14) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 22 (15) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

22.16. Tax on incomes resulting from the ownership of government securities and local bonds shall be applied concerning such government securities and local bonds purchased by taxpayers after enactment of this Law. (Article 22 (16) in wording of the Law of Ukraine No. 639/97-VR of 18 November 1997)

(Article 22 (17) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

22.18. Provisions of Article 5 (7) of this Law shall come into effect after relevant statutes are passed. Provisions of Article 6 (3) of this Law shall apply starting on 1 January 1999. (Article 22 (18) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997, No. 1957-IV (1957-15) of 1 July 2004)

(Article 22 (19) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

22.20. Due to the introduction of obligatory registration of non-residents' permanent establishments as taxpayers, no state registration shall be required after enactment of the Law, including such registration with the Ministry of Foreign Trade Relations and Trade of Ukraine or other bodies of state power. (Article 22 (20) as amended according to the Law of Ukraine No. 639/97-VR of 18 November 1997)

(Article 22 (21) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

(Article 22 (22) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 22 (23) deleted according to the Law of Ukraine No. 793/97-VR of 30 December 1997)

22.23. For the period from 1 January 1999 to 1 January 2002, a taxpayer's gross revenue shall not include money accrued (received) as part of the selling price for electricity and heat being a targeted extra charge to current rates for electricity and heat aimed at financing the cost of the final construction phase of power units at power plants and combined heat-and-power plants of Ukraine, the list of which is established by the Cabinet of Ministers of Ukraine.

The said money shall be remitted to a special account and used exclusively to finance the construction of such power units.

The State Tax Administration of Ukraine shall establish the order of accounting and additional reporting with respect to money aimed at financing the final construction of power units at power plants and combined heat-and-power plants of Ukraine, the list of which is established by the Cabinet of Ministers of Ukraine.

In the event of misuse of the said money, it shall be referred to the taxpayer's gross revenue and taxed on general terms. (Article 22 (23) added according to the Law of Ukraine No. 317-IV (317-14) of 16 December 1998)

(Article 22 (24) deleted according to the Law of Ukraine No. 568-XIV (568-14) of 6 April 1999)

22.24 In the period from 1 January 1999 till 1 January 2009 the tax period for subjects of space activity of Ukraine shall be the tax year. (Article 22 (24) added according to the Law of Ukraine No. 1559-III (1559-14) of 16 March 2000)

22.25 For the period determined by the Law of Ukraine "On Housing Construction Experiment on the Basis of the Kievskbud Holding Company"(3044-14) the money contributed by taxpayers to accounts of participants of the bank management fund shall be included in the gross expenses of the taxpayer in the amount that does not exceed 10 percent of the gross income of such taxpayer over the accounting period. (Article 22 (25) added according to the Law of Ukraine No. 1694-III (1694-14) of 20 April 2000, in wording of the Law of Ukraine No. 3045-III (3045-14) of 7 February 2002, as amended by the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 22 (26) deleted according to the Law of Ukraine No. 1957-IV (1957-15) of 1 July 2004)

(Article 22 (27) deleted according to the Law of Ukraine No. 349-IV (349-15) of 24 December 2002)

(Article 22 (28) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

22.29. The company profit tax for enterprises that implement investment projects in Turkmenistan shall be collected in view of specifics of Article 1 of the Law of Ukraine "On Implementation of Investment Projects in Turkmenistan" (Article 22 (29) added according to the Law of Ukraine No. 43-IV (43-15) of 4 July 2002)

(Article 22 (30) deleted according to the Law of Ukraine No. 2505-IV (2505-15) of 25 March 2005)

22.31. For the period of offset of debt according to the Law of Ukraine "On Measures Aimed at Ensuring Sustainable Operation of Enterprises of Fuel and Energy Complex" (2711-15) regarding the taxpayers - participants of the accounts stipulated by this Law the procedure of their income taxation shall be determined with regard to the characteristics, established by Law of Ukraine "On Measures Aimed at Ensuring Sustainable Operation of Enterprises of Fuel and Energy Complex".

Provisions of Article 12 of this Law shall not apply to the liabilities if the mechanism of the debt amortization is applied thereto in accordance with the Law of Ukraine "On Measures Aimed at Ensuring Sustainable Operation of Enterprises of Fuel and Energy Complex" (2711-15).

For the technological parks, their participants and joint ventures when accomplishing projects of technological parks stipulated by the Law of Ukraine "On Special Regime of Innovation Activity of Technological Parks" (991-14) the taxation of their income shall be accomplished considering the provision of the Law of Ukraine "On Special Regime of Innovation Activity of Technological Parks". (Article 22 (31) (3) added according to the Law of Ukraine No. 3333-IV (3333-15) of 12 January 2006)

(Indent of Article 22 added according to the Law of Ukraine No. 2711-IV (2711-15) of 23 June 2005)

22.32. The Cabinet of Ministers of Ukraine shall:

consider the proposals on the specifics of taxation of innovation activities and submit the relevant proposals to the Verkhovna Rada of Ukraine by 1 October 1997;

make relevant decisions within a month to ensure execution of this Law within the direct competence established by this Law;

submit proposals to the Verkhovna Rada of Ukraine to bring legislative acts of Ukraine into conformity with this;

bring the decisions of the Government into conformity with this Law within one month.

President of Ukraine L.KUCHMA
Kiev, 28 December 1994
No.334/94-VR