

Ukraine

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1. Types of tax

Ukraine has no specific inheritance or gift taxes. According to Ukrainian law, a transfer of property – either inherited or received as a gift – is subject to personal income tax. In addition, state duties may apply in certain cases, such as verification of testaments and issuance of certificates on the right to inheritance, and verification of certain gift agreements.

Personal income tax

In general, current Ukrainian tax law provides the same personal income tax implications with respect to income received as a gift or inheritance.

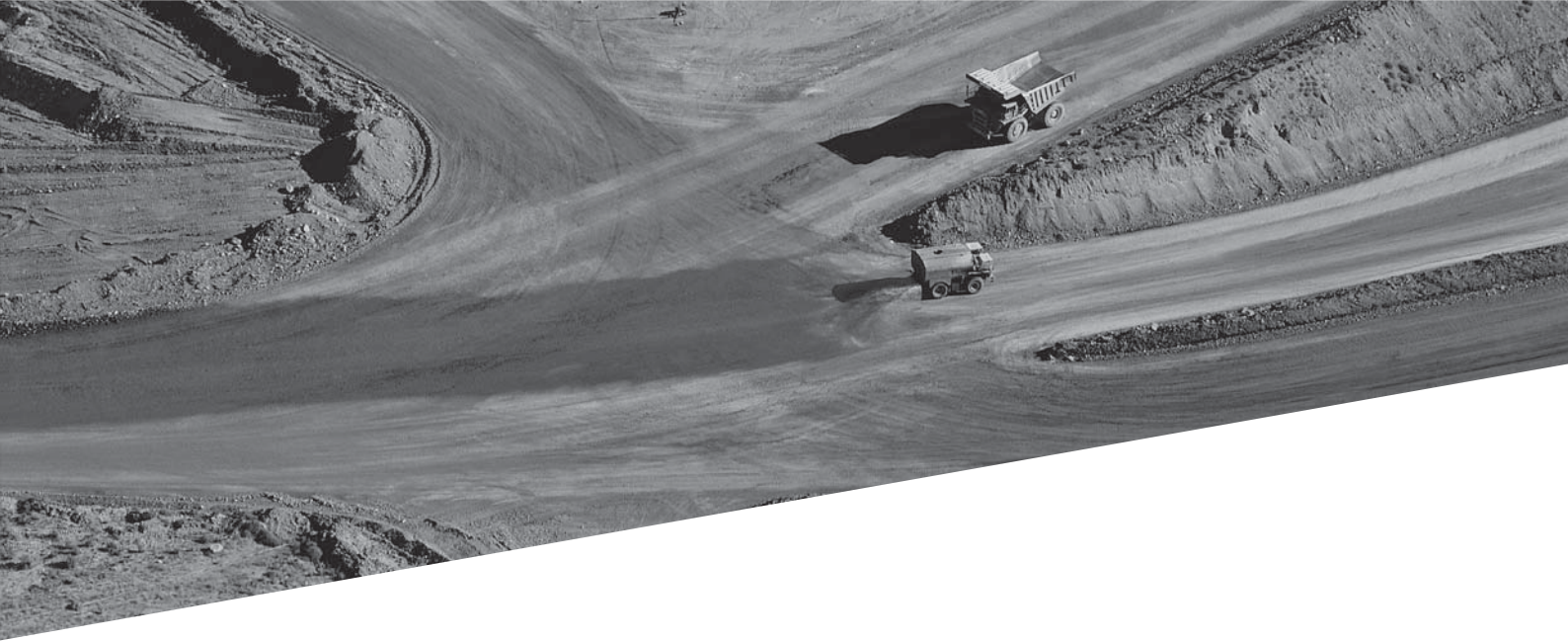
According to the clarifications from the Ukrainian tax authorities, the taxable event for the heir occurs at the moment he or she obtains the certificate on the right to inheritance. Such a certificate can be obtained as late as six months after the inheritance commencement date, which is the actual date of the testator's death. It should be noted that inheritance of immovable property in Ukraine requires further state registration of the ownership rights to it. Thus, the moment when the individual obtains inheritance and is liable for paying taxes on it, and the moment when he or she becomes its actual owner, do not always coincide.

The state duty

The state duty is imposed for verification of testaments at the rate of 0.05% of the non-taxable minimum (i.e., UAH 0.85 or €0.03 at the current exchange rate*) per each testament. It is also imposed for the issuance of the certificate on the right to inheritance at the rate of two non-taxable minimums (i.e., UAH 34 or €1.2 at the current exchange rate) per each certificate.

If there are several heirs, the state duty is calculated for each of their shares (portions).

*Due to constant local currency rate fluctuations in Ukraine, it is recommended that readers contact an EY advisor for correct rates.



The law stipulates that if a subject matter of a gift agreement is an immovable property or any currency valuables amounting over UAH 850 (€29 at the current exchange rate) it must be notarized. The state duty in such a case amounts to 1% of the contractual price, but not less than one non-taxable minimum (i.e., UAH17/€0.6) per contract.

The state duty on verification of succession agreements amounts to 1% of the value of the transferred property, but not less than one non-taxable minimum (i.e., UAH17/€0.6) per the agreement.

1.1 Inheritance tax and tax on gifts during lifetime

There are no inheritance or gift taxes in Ukraine.

1.2 Gift tax

There is no gift tax in Ukraine.

1.3 Real estate transfer tax

There is no real estate transfer tax in Ukraine.

1.4 Endowment tax

There is no endowment tax in Ukraine.

1.5 Transfer duty

There is no transfer duty in Ukraine.

1.6 Net wealth tax

Even though there is currently no net wealth tax in Ukraine, effective 1 January 2016, the Ukrainian Parliament introduced a new tax for owners of motorcars manufactured no earlier than five years ago with average market value exceeding 750 minimum wages established for 1 January of the reporting year (currently, UAH1,033,500/€34,450). The tax rate is UAH25,000/€835 per year for each car that meets the above criteria.

Moreover, if the taxpayer owns the object (objects) of residential real estate, where the total area exceeds 300 sq. m. (for an apartment) and/or 500 sq. m. (for a house), the amount of applicable real estate tax of 3% of the minimum wage established for 1 January of the reporting tax year per square meter (currently, UAH41.34/€1.4 per sq. m.) should be increased by UAH25,000/€835 annually per each residential real estate object.

As of now there is no net wealth tax in Ukraine; however, amendments to the tax law introducing the net wealth tax are currently being considered.



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2. Who is liable?

2.1 Residency

Generally, taxation in Ukraine depends on an individual's tax residence status, source of income and type of income.

In defining tax residency status, Ukrainian law uses the tiebreaker residency test.

An individual is considered a tax resident of Ukraine if he or she:

- ▶ Has a place of residence in Ukraine
- ▶ Has a permanent place of residence in Ukraine (if he or she also has a place of residence in a foreign state)
- ▶ Has close personal or economic links (center of vital interests) in Ukraine (in case he or she also has a place of residence in a foreign country)
- ▶ Spent fewer than 183 days in Ukraine (including arrival and departure days) (if the state in which an individual has a center of vital interests cannot be defined)
- ▶ Is a citizen of Ukraine (despite the actual time he or she spent on Ukrainian territory during the reporting period)

Regardless of the test, according to the practical approach of the Ukrainian tax authorities, the number of days spent by an individual in Ukraine within the calendar year is considered the main criterion for the determination of tax residence status.

Ukrainian tax residents are taxed on their worldwide income, while Ukrainian tax nonresidents are taxed only on Ukrainian-source income, that is, on the inherited assets located on Ukrainian territory or that have their source there. In Ukraine, income tax on inheritance and/or gifts depends on the relationship that the heir, legatee and/or donee has to the testator/donor and on the tax residency status of both parties. Tax residents have to pay income tax on inheritance and/or gifts, irrespective of the location of the acquired assets.

2.2 Domicile

Domicile is identified in Ukraine with an individual's permanent place of residence and is applicable for determining the individual's tax residence status. See Section 2.1.



3. Rates

The general personal income tax rate in Ukraine is 18%. Ukrainian tax law provides for special tax rates applicable to income received in the form of gift or inheritance, which are as follows:

	First degree of kinship (spouse, parents and children), %	Other family members and all other Ukrainian tax residents, %	Disabled individual of the first category, an orphan child, %	Ukrainian tax nonresident, %
Real estate	0	5	0	18
Movable property	0	5	0	18
Commercial property*	0	5	5	18
Insurance payouts	0	5	5	18
Monetary assets	0	5	0	18
Property owned by a Ukrainian tax nonresident	18	18	18	18

* For further taxation purposes investment assets (e.g., securities, dividends) received as a gift or inherited are considered to have been acquired at the value of the state duty and personal income tax paid in connection with such acquisition.

Additionally, the military levy at a rate of 1.5% of gross value of the received assets applies to any income subject to personal income tax (i.e., taxed at rates other than 0%).

4. Exemptions and reliefs

According to Ukrainian tax law, a 0% tax rate applies to the income received by Ukrainian tax residents from a Ukrainian tax resident in the form of:

- ▶ Assets received by the heirs, legatees and/or donees of the first degree of kinship
- ▶ Immovable and movable property, monetary assets (both cash and funds available on the bank accounts) received by a disabled individual of the first category or an orphan child
- ▶ Immovable and movable property received by a disabled child
- ▶ Money deposits stored in the former USSR savings bank and state insurance institutions, as well as funds invested into the former USSR governmental securities



5. Filing procedures

Income in the form of an inheritance or a gift has to be disclosed in the annual tax return. A filing exemption applies to individuals who received property taxed at a 0% tax rate or those who paid taxes prior to obtaining the certificate on inheritance or verification of the gift agreement by a notary (e.g., tax nonresidents).

According to current Ukrainian tax law, an annual tax return has to be filed by 30 April of the year following the reporting year. The deadline for settlement of personal income tax liability is 31 July of the year following the reporting year.

Ukrainian tax residents who intend to leave Ukraine permanently are liable to file departure tax returns two months prior to the date of departure.

Ukrainian tax nonresidents should calculate and pay the income tax liability arising from income received in the form of an inheritance prior to issuance of the inheritance certificate by a notary, but they are not obliged to file the annual tax return with respect to the inherited assets (provided that there was no other income subject to taxation in Ukraine in the respective year).

6. Assessments and valuations

According to Ukrainian law, the term “estate” refers to the special object of civil rights and is defined as an item of property or as an accumulation of items, property rights and duties.

Even though an inheritance consists of the rights and duties of the deceased, a taxable base in case of income received in the form of an inheritance or a gift is defined as the gross value of the received assets, and no deductions are applicable (e.g., those related to formalizing the right to inheritance or debts).

For inheritance taxation purposes, the following types of assets comprise an estate:

- ▶ Immovable property
- ▶ Movable property (e.g., jewelry, transportation vehicles)
- ▶ Commercial property (e.g., securities, corporate rights, intellectual property and business ownership rights)
- ▶ Insurance payouts
- ▶ Monetary assets (both cash and funds in bank accounts)

According to Ukrainian law, valuation of property for taxation purposes is conducted mostly by independent certified appraisers based on the statutory prescribed methodology for each type of asset. The valuation process is aimed to verify the fair market value (FMV) of a particular piece of property. For movable property such as cars, motorcycles and motor bicycles, the law provides for the possibility of determining the value of inherited/donated assets based on mid-market prices for the same kind of property published quarterly by Ukraine’s Cabinet of Ministers.



7. Trusts, foundations and private purpose funds

Ukrainian law does not clearly define what a trust is. What the world defines as a “trust” is carried out in Ukraine by means of conclusion of the estate administration agreement. Under such an agreement, an owner conveys estate to a legal entity or a private entrepreneur who in return is obliged to manage the estate for the benefit of either the owner himself or herself or the owner-appointed beneficiary, based on an agreed-upon fee. The taxation of the income conferred on the beneficiary is subject to taxation in Ukraine at an 18% flat tax rate. See Section 3.

Under an estate administration agreement, a transfer of limited property ownership rights is restricted because the estate administrator cannot alienate the estate without the owner’s consent.

According to Ukrainian law, an estate administration agreement automatically terminates with the owner’s death. Therefore, a creation of a testamentary trust to facilitate transfer of property to the potential heirs is not possible.

8. Grants

This is not applicable in Ukraine.

9. Life insurance

By general rule, an amount of life insurance payout is included in a decedent’s estate. Such compensation is payable once an heir or legatee presents his or her certificate on the right to inheritance to an insurance company.

However, if the life insurance contract appoints a certain individual as a sole beneficiary of the insurance payout, this asset is not included in the estate and is not subject to inheritance. The insurance company should act as a tax agent of the life insurance payouts made to the heirs, by withholding personal income tax on behalf of the individual and remitting it to the Ukrainian Treasury.

10. Civil law on succession

10.1 Estate planning

Estate planning opportunities in Ukraine are rather limited. The assets of a decedent are taxed at fixed tax rates, irrespective of the type of property. Transfer of property among individuals in Ukraine is mostly executed through sale-purchase agreements, gift agreements or an inheritance, and income thus received is subject to personal income tax applied to its gross value.

It should be noted that rules for taxation of gifts in Ukraine are the same as those established for taxation of an inheritance. Therefore, there isn’t any way to avoid inheritance taxation by giving away assets as gifts prior to death.

The estate planning process in Ukraine narrows down to tracing an individual’s residence status where possible (as tax rates provide for a less favorable tax regime for tax nonresidents). It also might be considered to transfer a property via succession agreement instead of conducting a will in order to ensure that the assets are excluded from the inheritance pool and a designated individual obtains ownership rights to the property after the owner’s death, regardless of any subsequent claims from heirs.



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10.2 Succession

Ukrainian law determines two main types of succession: intestate (by-law) succession and testament succession.

By general rule, the individuals specified in the will have the right to succession. The law therefore determines by-law succession as a secondary type of succession (after a testament). According to the general intestate procedures, by-law heirs inherit the portion of the assets not covered in the will. The legatees are admitted to inheritance of this portion of assets on the general basis along with the by-law heirs.

By general rule, the place of a commencement of inheritance is the last place a testator lived. If that place is unknown, the place of commencement is the place in which the testator's real estate (or the majority of it) is located. If he or she had no real estate, the place is where his or her movable property is located.

An heir who accepts an inheritance that includes real estate must obtain and register a certificate on right to the inheritance. Each heir receives his or her own certificate that specifies the names and shares of the other heirs. These certificates are issued six months after the inheritance begins. The heir becomes the owner of the real estate at the moment of its state registration.

Testate succession

According to Ukrainian law, a will represents an individual's personal instructions in the event of his or her death. The individual must draft the will himself or herself as representation is not allowed. The testator can include either the entire estate or a part of it in the will.

The testator may institute as an heir any individual or legal entity, Ukraine as a state, the autonomous Republic of Crimea, local authorities, foreign countries and other subjects of public law. He or she can also divest any of the by-law heirs of the right to succession without specifying reasons for doing so.

According to the law, people who intentionally hinder the testator in making, changing or cancelling the will in order to become legatees or to increase their shares or other people's shares are divested of the right to succession.

The testator may institute a bequest in favor of an individual or a legal entity and designate a legatee who shall grant to the bequestee a certain scope of the ownership rights with respect to the inherited assets (e.g., the right to inhabit a real estate for a lifetime). The bequestee can claim his or her rights with respect to the estate, starting from the moment of commencement of the inheritance and retain these rights in the event of any changes of the real estate owner.

The testator may grant easements to individuals or entities under the will, authorizing them to use the real estate for certain defined purposes. The testator may also define certain criteria that have to be met before an individual can inherit the estate.

Succession agreement

According to Ukrainian law, individuals or married couples can conclude succession agreements regarding their property. Under such agreements, an acquirer is obliged to undertake actions specified by the alienator(s) in return for ownership rights to the assets after the owner's death. The alienator(s) can appoint an individual to control the execution of the agreement after his or her death.



10.3 Forced heirship

10.4 Matrimonial regimes and civil partnerships

Ukrainian law does not recognize same-sex marriages and civil partnerships. However, individuals who live as part of the testator's family for at least five years before the inheritance commences are granted the right to inherit the assets of the deceased (see Section 10.5).

According to Ukrainian law, the by-law heirs inherit the assets if:

Only private individuals can be heirs by law. To execute the right to succession, a by-law heir should provide documented evidence of his or her family or matrimonial relations with the testator and perform all the actions necessary to register ownership rights to the inheritance.



The first priority	The testator's children (including children conceived during the lifetime and born after the death of the testator), spouse and parents
The second priority	The testator's brothers and sisters and both paternal and maternal grandparents
The third priority	The testator's aunt and uncle
The fourth priority	Individuals who lived as part of the testator's family for at least five years before the inheritance commenced
The fifth priority	Other relatives of the testator up to the sixth degree of kinship (Note: the tax law provides for only two degrees of kinship) and the testator's dependents other than his or her family members

An heir can renounce succession within six months of the date of commencement of the inheritance. If he or she does, the other by-law heirs of the same priority divide his or her share in equal parts. An heir can also refuse his or her share in favor of any of the by-law heirs, irrespective of the priority turn.

10.6 Probate

In particular, the law establishes a six-month period for the heirs or legatees to accept the estate and a possibility for a testator to appoint the testamentary executor, which can be either a legal entity or an individual. The appointed testamentary executor's written consent is usually reflected in the testament or added to it. Under certain circumstances heirs or a notary can also be empowered to authorize the testamentary executor.

1. To protect the inheritance
2. To inform heirs, legatees and creditors about the commencement of the inheritance
3. To claim fulfillment of obligations by the testator's debtors
4. To administer the inheritance
5. To ensure that each legatee receives the shares that the will determines
6. To ensure that forced heirs receive their portions of inheritance; furthermore, the executor performs the actions to which they are obliged according to the will

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In addition, Ukrainian tax law clearly prescribes that the following foreign taxes cannot be credited against Ukrainian income tax:

- ▶ Capital gains taxes, estate taxes
- ▶ Post taxes
- ▶ Sales taxes and other indirect taxes irrespective of whether they fall under the profit tax category or should legally be considered separate types of taxes

Considering the above, the foreign tax credit method of avoiding double taxation of property received via gifts or as an inheritance in the majority of cases will not be applicable in Ukraine.

Tax exemption

Ukrainian tax nonresidents may be eligible for exemption from taxation of Ukrainian-source income if a relevant double-tax treaty envisages it. Applying for a tax exemption involves filing a certificate substantiating that the individual concerned is a resident of a foreign state.

As in the case of a foreign tax credit, a tax exemption may be granted provided that the nature of taxes paid abroad and in Ukraine are the same. However, as a tax residence certificate (which has to be issued by the foreign tax authorities and subsequently duly legalized and officially translated into Ukrainian) does not make reference to the types of foreign taxes in question, but only confirms an individual's residency in a foreign state, technically a tax exemption may be possible even if the nature of the taxes being paid differed.

Envisaged by the law, such a tax exemption is thus theoretically possible. In reality, however, tax authorities have never applied it to individuals. Its feasibility for a Ukrainian nonresident individual is therefore questionable.

In addition, in case of tax payment deferrals in a foreign state, neither exemption nor credit applies in Ukraine.



There are no inheritance and estate taxes in Ukraine. Thus, Ukraine has not concluded any tax treaties for avoiding double taxation on estate, inheritance and gift taxes.

Double tax treaties with the following countries are currently in effect for Ukraine: Algeria, Armenia, Austria, Azerbaijan, Belarus, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Cuba, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Mexico, Moldova, Mongolia, Montenegro, Morocco, Netherlands, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Syria, Tajikistan, Thailand, Turkey, Turkmenistan, United Arab Emirates, United Kingdom, United States, Uzbekistan, Vietnam and former Yugoslavia.

Given the above, avoidance of double taxation is almost impossible due to the fact that there are no double tax treaties on inheritance and gift taxes in Ukraine and the fact that most of the countries levy inheritance or estate taxes on inheritance, while Ukraine levies income tax on inheritance. The relief may be sufficient only in those rare cases, in which the nature of taxes imposed on inheritance in Ukraine and in a foreign country coincide.