

# Ukrainian Parliament Introduces Tax and Customs Incentives for Industrial Parks

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**The Russian military aggression against Ukraine raises new challenges for Ukrainian society, businesses and the country's economy. The instruments designed to restore the national economy and create favourable business environment for the future are further developing out of the legal framework on industrial parks in Ukraine.**

On 21 June 2022 the Parliament of Ukraine passed two laws: (1) the Law of Ukraine "On Amendments to the Tax Code of Ukraine Regarding the Establishment of Favourable Conditions for Industrial Parks in Ukraine" no. 2330-IX (the "**Tax Code Amendments**"), and (2) the Law of Ukraine "On Amendments to the Customs Code of Ukraine to Create Favourable Conditions for Attracting Large-Scale Investments to Industrial Production" no. 2331-IX (the "**Customs Code Amendments**"). The Tax Code Amendments and the Customs Code Amendments have been signed by the President into law and are now effective.

## **Tax benefits**

The Tax Code Amendments introduce incentives to the taxation of the industrial parks' participants, the companies which operate the production and design business within an industrial park. These tax incentives are as follows:

- the participants of industrial parks are exempt from income tax for ten years provided that the participant is doing business only within the area of the industrial park and pays no dividends in favour of its shareholders.
- local authorities may provide tax incentives for real estate tax and land rent fee.
- industrial park participants are released from the value-added tax and import duties on specified types of equipment.

The above tax benefits shall be applicable only to participants of industrial parks in the following sectors:

- production of food, non-alcoholic beverages, mineral water and other bottled water;
- manufacturing of textile, clothing, leather products;
- paper and paper product manufacturing, pharmaceutical products, rubber and plastic products, chemicals and chemical products, non-metallic mineral products and furniture and plaiting materials;
- metallurgical production, machinery and equipment;
- production of computers, electronics, optical goods, and transport vehicles; and
- waste management.

One of the most important requirements for qualifying for this special tax regime is to reinvest costs saved on income tax into the industrial facilities of the park during the following year of exemption. If a participant fails to comply with this requirement, no further income tax exemption will be granted to this participant.

Importantly, the tax benefits shall not be applied to gambling companies, companies registered in the jurisdictions qualified as the offshore (tax haven) jurisdictions as well as the jurisdictions included in the FATF list.

## **Customs benefits**

The Customs Code Amendments provide for a number of conditions for the exemption from payment of customs duties for importing certain equipment and streamline the customs procedures. For instance, the Customs Code

will list the codes of the Ukrainian Classification of Goods of Foreign Economic Activity of the industrial machinery, vehicles, agricultural and food production equipment, etc. exempted from customs duties.

The industrial park participants will be able to enjoy the customs duty exemption provided that the equipment (machinery), (1) has been manufactured not earlier than three years before its importation into Ukraine, (2) is imported for the participant's own use within the territory of a respective industrial park, and (3) was not produced or imported from Russia.

If an industrial park participant loses its status before expiration of the 5-year term after the importation of the equipment into Ukraine, it will be required to pay customs duties that would be applicable otherwise.

Within the next three months the Ukrainian Government and other state authorities are expected to bring the other relevant laws and regulations in compliance with the Tax Code Amendments and Customs Code Amendments as well as introduce whatever bylaws are needed in order to practically implement the new tax and customs regime for industrial parks.

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