

Міністерство освіти і науки України

Національний університет харчових технологій

**80 МІЖНАРОДНА НАУКОВА
КОНФЕРЕНЦІЯ
МОЛОДИХ УЧЕНИХ,
АСПІРАНТІВ І СТУДЕНТІВ**

*“Наукові здобутки молоді –
вирішенню проблем харчування людства
у XXI столітті”*

Частина 4

10–11 квітня 2014 р.

Київ НУХТ 2014

24. Benefits for IT companies

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Introduction: Starting from January 1, 2013, amendments to the Tax Code of Ukraine regarding the taxation of companies working in the IT sphere, which were adopted on July 5, 2012, will finally come into effect. The legislation being referenced here is Law of Ukraine no 5091 “On Amendments to section XX “Transitional Provisions” of the Tax Code of Ukraine regarding particularities of the taxation of businesses in the software products industry”.

Resources and methods: As with most research, accounting research begins with the researcher making an observation, seeing a potential pattern, or wondering how an action or event may affect a future action or event. The analytical method was used.

Results: Let us briefly recall the background to this question. In Ukraine, the IT industry has already gone through a phase of changes and reform in 2011, at which time services pertaining to the development, delivery, software testing and other services were not subject to payment of value-added tax (VAT). The life of this standard rule did not last long, in fact, it lasted for only the first half of 2011. However, in the short time of existence, it did manage to significantly complicate the lives of IT managers and accountants of such companies in dealing with such questions as the redistribution of VAT, keeping separate records for transactions that are subject to VAT payment and those that exempt from VAT. This is not even a comprehensive list of the challenges they actually encountered in their business practices. Now, in 2013, the IT industry is once again faced with the need to deal with new amendments, which unfortunately points to the instability of the taxation system in Ukraine. The final version of the adopted Law stipulates that benefits are only provided with respect to two types of taxes – value added tax and corporate income tax. The main changes that are being implemented are as follows:

1) Value added tax – from January 1, 2013 to January 1, 2023, the distribution of specific software products shall be exempt from VAT, which, for the purposes of this benefit, only includes the following:

- The result of computer programming in the form of an operating system, or else system, application, entertainment and/or educational computer software (components), as well as Internet sites and/or online services;

- Cryptographic means of protecting information.

2) Corporate income tax – for the period January 1, 2013 to January 1, 2023, the tax rate on business profits for companies operating in the software industry is set at 5%. The following business activities will allow companies to benefit from these exemptions for income tax:

- Developing and implementing information technology systems;

- Data processing, posting information on websites and related activities.

Additional difficulties in taking advantage of tax benefits lies in the fact that business entities require a separate record of income and expenses while conducting activities in the IT industry, as well as the requirement to allocate incoming VAT.

Conclusions: Therefore, in this regard, a company should not hurry, but rather take the time to weigh all the “pros” and “cons” due to the fact that using tax incentives is a very serious responsibility – penalties in the case that the law is violated can be significant. On

the other hand, there are not so many advantages entailed in the adopted legislation in comparison to its previous version.

References

1. EBS: Benefits for IT companies [Electronic source] // Mode of access: http://www.ebskiev.com/digest/?news_id=604.
2. Tax Code of Ukraine [Electronic resource] // Mode of access: <http://zakon4.rada.gov.ua/laws/show/2755-17>.

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