

# Overview of legislative initiatives impacting international business in Ukraine

## UBTA Legal & Policy Alert Nr.4

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### I. SUMMARY:

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1. Legislative draft Nr. 7232 **on increased tax liabilities in Ukraine of Russia-related entities** passed the first reading.
2. Legislative draft Nr. 7277 proposes **to suspend rights to dividends and divestments of capital** in Ukraine-registered companies for natural/legal persons with connections to Russia.
3. Legislative draft Nr. 7219 proposes **to introduce ‘martial charge’** on companies – Ukrainian residents, subsidiaries of international companies which are also present or do business with Russia.

### II. FACTS:

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1. **Increased tax liabilities.** On April 1, Legislative draft Nr. 7232 successfully passed the first reading in the Ukrainian Parliament. Members of Parliament are invited to submit another round of amendments to the draft law (second reading stage). It is expected that the second reading will proceed at an accelerated procedure.

Key elements of the draft law:

- Increase of the tax rates by 1,5 times for company income tax, environmental tax, property tax and natural resources extraction charge (rent).
  - Establishment of a registry of companies subject to increased tax liabilities. Procedural and administrative aspects of the registry will be determined by the Cabinet of Ministers through secondary legislation.
  - Increased authority of law-enforcing agencies to control compliance with reporting obligations.
2. **Suspension of rights of shareholders connected with Russia.** Legislative draft Nr.7277 (submitted on April 12, 2022) proposes a number of limitations to the rights of shareholders in limited liability companies and joint stock companies in cases where shareholders or final beneficiaries of shareholders are proven to be Russian natural or legal persons.

Key elements of the draft law:

- Introduction of a right of the general meeting of shareholders to exclude a shareholder on the basis of proven evidence that the shareholder or its final beneficiary is a Russian natural or legal person;
  - A shareholder or its final beneficiary proven to be a Russian natural or legal person is not allowed to divest its share of capital in a company.
  - The draft law does not cover other forms of legal persons (except limited liability companies and joint stock companies).
3. **Martial charge on companies.** Legislative draft Nr. 7219 (submitted on 28 March 2022) introduces a ‘martial charge’ to legal persons – Ukrainian non-residents which have branches, subsidiaries or representation offices registered on the territory of the Russian Federation according to the Russian law or undertake business activities in the Russian Federation. The martial charge is payable on revenues of legal persons.

### III. RISKS

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The legislative drafts introduce several risks to international companies operating in Ukraine on condition of evidence of their connection to business activities or assets in Russia, specifically:

- risk of significant increase of tax liabilities affecting a considerable proportion of revenues;
- risk of disruptive shareholder activism leading to impairment or loss of shareholder rights to the capital of most common legal forms of corporate governance, such as limited liability and joint stock companies;
- risk of legal uncertainty regarding the powers of law-enforcement agencies charged with overseeing compliance (legislative draft Nr. 7232 among others).

All three legislative drafts are still pending in the Ukrainian Parliament, although their accelerated adoption remains a distinct possibility. Hence, companies are advised to closely follow the parliamentary deliberations to understand the scope of eventual amendments.

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UBTA Legal & Policy team offers advice regarding current political, policy and legal developments in Ukraine arising in the context of the ongoing Russia’s aggression against Ukraine. The information provided above does not constitute a legal advice.

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