



**USAID**  
FROM THE AMERICAN PEOPLE

**UKRAINE**

# SUCCESS STORY

## Saving the Tourist Season

### **A tax compromise preserves Ukraine's status as a tourist destination**



Photo: BIZPRO

The Swallow's Nest is a popular tourist destination in Crimea.

***Ukrainian tour operators and agents have learned how to effectively maintain a dialogue with government authorities and protect their interests.***

In March 2005, Ukrainian tour operators and agents were astonished to learn that the latest amendments to the state budget law would introduce a value added tax — VAT — on inbound tourism services in Ukraine for the first time ever. As long-term contracts for the upcoming season had already been signed, tour operators faced two options: increase the price of each contract by up to 26 percent, or pay the VAT out of their own pockets. The first option would most likely lead to termination of contracts and make Ukraine far less attractive for tourists from abroad; the second option would drive many operators and agents out of business. Ukraine's reputation as a tourist destination was at stake.

As part of its effort to increase the competitiveness of the Ukrainian economy, USAID identified the VAT as a serious threat to the tourism sector and its elimination as tourism's most urgent regulatory problem. At a conference it sponsored in Yalta, USAID helped stakeholders draft and send letters to government officials to draw their attention to the problem and urge a moratorium on VAT for the upcoming tourist season. They also presented their comments to the European Business Association, the American Chamber of Commerce and Ukraine's State Tourism Administration. These efforts initiated a much-needed discussion between entrepreneurs and state officials.

As a result, a law was passed on June 3, 2005, that stipulates that all contracts signed before March 31, 2005, will be taxed according to legislation that was in force before that date. The new rules on taxation of tourism services will come into effect on September 1, 2005, which will prevent a surge in prices during the summer season and allow tour operators and agents to honor their contracts.

This important compromise has saved Ukraine's reputation as a popular and affordable tourist destination, and Ukrainian tour operators and agents have learned how to effectively maintain a dialogue with government authorities and protect their interests.

#### **Telling Our Story**

U.S. Agency for International Development  
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<http://stories.usaid.gov>