

**Chandrawat
& Partners**



DOING BUSINESS IN UKRAINE

A comprehensive guide

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INTRODUCTION

Ukraine, located in eastern Europe, is Europe's second-largest nation after Russia. The second-largest European country, it covers 603,628 square kilometres. Poland, Slovakia, Hungary, Moldova, Romania, Russia, Belarus, and the Black Sea and Sea of Azov border it. Ukraine has 24 regions and Crimea. Ukraine declared independence on August 24, 1991. Despite Russia's illegal annexation of Crimea and the eastern Ukraine conflict, the Ukrainian economy is showing signs of recovery. Petroleum, natural gas, coal, and renewable energy are abundant in the nation. Another lucrative market is the nuclear industry.

The country's fast-growing economy with huge consumer market potential requires investment and is attractive for both strategic and financial investors. If we talk about the agricultural sector then, Ukraine boasts over 30% of the World's reserves of most fertile black soils. Agricultural infrastructure such as field granaries and port grain elevators are becoming increasingly demanded by the fast developing farming sector and growing international demand for food. Banking remains one of the most attractive sectors in any growing economy.



Modern retail banking technologies and superior client service practices can still make any new player in the market a winner in a very short period of time. The buying power decrease however has only temporarily affected the real estate market with a new cycle of development expected . Following the revival and rehabilitation of the economy subsequent to the war, Ukraine's regional and worldwide significance shall be redefined in light of its new aspirations and capabilities. All facets of Ukrainian society, including but not limited to business, finance, education, healthcare, law, and government, are presently undergoing reform. As Ukraine continues to execute the necessary reforms to achieve its European Union status, the potential for business opportunities will inevitably increase.

The National Recovery Plan of Ukraine was highly anticipated and well-received by the international community. The aforementioned statement fails to differentiate between the tasks of re-establishing the damage inflicted by the war and accelerating Ukraine's enduring economic development, with the objective of securing over USD 750 billion in accumulated investment and a minimum of 7% annual growth in GDP by the year 2032.



ECONOMIC OVERVIEW

In Eastern Europe, Ukraine has a mixed economy with strong private and public sectors. Ukraine has struggled economically due to political instability, corruption, and Russia.

Ukraine's GDP has grown moderately in recent years. There are signs of recovery after the COVID-19 pandemic. Domestic consumption, exports, and foreign investment affect GDP growth. GDP is expected to grow 0.5% in 2023 after contracting 30% in 2022. Domestic consumption, exports, and foreign investment affect GDP growth.

The World Bank raised 50% of Ukraine's financial aid. The IMF's Executive Board approved Ukraine's \$15.6 billion financial arrangement through 2027. The Extended Fund Facility ("EFF") agreement is part of a \$115 billion international financial package to support the authorities' policies to stabilize the economy during the war and implement more comprehensive reforms to speed recovery afterward. The authorities' new IMF-supported program seeks macroeconomic and financial stability, external financing, and a framework for structural policies that lay the groundwork for post-war recovery, reconstruction, and EU accession.

Real GDP is expected to drop this year. When viewed from a macroeconomic perspective, the domestic demand, physical capital, labor force, internal economic ties, and logistics of international trade negatively impact GDP. The cessation of hostilities, the partial restoration of infrastructure, and the adaptation to martial law are all expected to assist in the recovery of economic activity in 2023.

The real growth in GDP ranges from 1% to 4.5%. However, Ukraine faces many economic challenges, including corruption, political instability, infrastructure deficits, and the eastern conflict. However, the country's agricultural capacity, labor force, and strategic location between Europe and Asia offer expansion opportunities.

FOREIGN DIRECT INVESTMENT POLICY

- Ukraine's regulatory framework ensures national treatment for foreign economic operators and has specific provisions for investors in electricity, oil & gas, and energy efficiency sectors.
- Foreign Direct Investment in Ukraine increased by 566 USD million in the first quarter of 2023, with a maximum growth of 6502 USD million and a minimum of -3200 USD million.
- The Foreign Investment Regime Law guarantees equal treatment between national and foreign citizens/entities, with exceptions defined by national legislation and international agreements (Article 7)
- Ukrainian laws define enterprises with foreign investments (Article 116), foreign enterprises (Article 117), and foreign investors (Article 390) in the Economic Code of Ukraine.
- The Ukraine Invest agency supports both foreign and domestic investors by providing information, contacts, and project management assistance.
- Expropriation of immovable property in Ukraine is limited to exceptional circumstances, based on social necessity, and requires advance and full compensation (Article 41 of the Constitution).
- Ukraine has established investment promotion agencies and specialised entities to attract and support foreign direct investment.



KEY SECTORS IN UKRAINE



Agriculture: The land in Ukraine is rich and fertile, and the country has a long history of farming. This makes it one of the biggest agricultural producers in Europe. People know the country for the grains, sunflower oil, vegetables, fruits, and livestock it makes.

Information Technology ("IT"): Ukraine has a very skilled IT workforce and a thriving IT industry. Software development, outsourcing services, cybersecurity, data analytics, and artificial intelligence are all things that Ukrainian IT companies are known for. The expertise of Ukrainian IT professionals has garnered global recognition, prompting several to establish internet-based enterprises and software firms within Ukraine.

Banking : Banking remains one of the most attractive sectors of the growing economy of Ukraine. It is within the realm of possibility for a growing newcomer to the retail banking industry to achieve rapid success through the utilisation of contemporary technological advancements and the implementation of exceptional customer service protocols.

Energy: Ukraine has many different sources of energy, such as coal, natural gas, oil, and renewable energy. There are opportunities in the energy sector for exploring, extracting, making, and distributing energy. The escalation of solar and wind energy generation in Ukraine is primarily attributed to a formidable impetus, namely, a substantial "green" tariff.

Manufacturing: Automotive, aerospace, machinery, chemicals, and textiles are just some of the things that Ukraine is good at making. The country has a skilled labor force and low production costs, which make it a good place for manufacturing.

ADVANTAGES OF DOING BUSINESS IN UKRAINE

- With over 40 million people, Ukraine has a large consumer market for various goods and services. The nation's middle class is growing, increasing purchasing power and demand for high-quality goods and services.
- Ukraine has abundant arable land, minerals and energy resources. Agriculture, mining, and energy are promising investment areas.
- Ukraine is a competitive option due to its lower labor costs compared to Western Europe and the US. Commercial enterprises may benefit from the cost advantage in operational and manufacturing costs.
- Ukraine has a highly educated and skilled workforce, especially in IT, engineering, sciences, and agriculture. Technical education in the country has produced many skilled professionals.
- Ukraine is known for outsourcing IT and software development.
- The government offers tax exemptions, financial aid, and endowments to key industries like agriculture, information technology, sustainable energy and manufacturing.
- Advantageous incentives as well as special economic zones and industrial parks attract foreign direct investment.
- The Ukrainian government prioritizes transportation, energy, and logistics infrastructure development. Projects and infrastructure upgrades aim to improve connectivity and transport goods and services.

TYPES OF BUSINESS

Limited Liability Company ("LLC"): The LLC is the most popular and widely used form of business entity in Ukraine. It offers limited liability for shareholders and can be established with a minimum capital requirement.

Joint Stock Company ("JSC"): A JSC is a type of business entity that can be publicly or privately held. It allows for the issuance of shares and raising capital through the stock market.

Representative office: A representative office is a non-commercial entity that serves as a local representative of a foreign company. It is not allowed to engage in commercial activities but can perform marketing, research and liaison functions on behalf of the parent company.

Sole Proprietorship: A sole proprietorship is a business owned and operated by a single individual. The owner has unlimited personal liability for the business's debts and obligations.

Partnership : General partnerships have unlimited liability, while limited partnerships have limited liability for limited partners. Both types are called "partnerships."

Production Cooperative : A production cooperative is a legal entity that is formed by individuals who pool their resources and efforts in order to engage in production or economic activities.

Limited Liability Partnership ("LLP"): An LLP is a hybrid entity that combines elements of a partnership and an LLC. LLPs in Ukraine provide limited liability protection to owners (participants) and are governed by Ukrainian laws.

Professional Partnership : A professional partnership is a specialized form of business entity that is typically utilized by professionals, such as lawyers, accountants, and architects.



MINIMUM ELIGIBILITY CRITERIA

Tax requirements

In Ukraine, businesses are categorized under either the general taxation system or the simplified tax regime, as stated by the tax code of Ukraine. While the general taxation system is the default for companies, the simplified tax system is available for those who meet specific criteria.

To qualify for the simplified tax system, companies must meet specific requirements based on factors such as annual turnover, type of business, and the number of employees. This system primarily aims to support small businesses with a unified tax rate applying to companies under this system.

On the other hand, the general taxation system involves multiple taxes, including value-added tax ("VAT"), which applies to specific businesses, goods, and services at varying rates.

Taxes under this system are usually filed quarterly but can also be annual. Moreover, non-residents' income, insurance, gambling, banking, and other specific companies have special taxation rules.

Share capital

While share capital is required when setting a company in Ukraine, there is no minimum requirement. The minimum amount required for share capital in Ukraine is just 1 UAH.

Registered office

As per the regulations for company incorporation in Ukraine, every company must have a registered address within the country. This address is the official location of the company's office and management and from where it conducts all its activities.

Directors

To start a business in Ukraine, a company can have one or more directors, either local or foreign individuals. However, foreign individuals must obtain work and temporary residence permits before serving as directors. Corporate directors are not allowed. Directors are appointed through a general meeting of shareholders, who hold the power to appoint directors.

SETTING UP OF A BUSINESS

- **Determine the business structure:** Choose between LLC, sole proprietorship, or joint-stock company.
- **Select a unique business name:** Check name availability with the State Registrar of Legal Entities and Individual Entrepreneurs ("USR").
- **Register the business:** Submit necessary documents along with company's charter to the State Registrar of Legal Entities and Individual Entrepreneurs (USR).
- **Obtain a taxpayer identification number ("TIN"):** This number is required for tax reporting and other financial transactions. You can obtain a TIN from the State Tax Service of Ukraine by applying at the State Tax Service.
- **Register with the State Statistics Service:** Within 30 days, register for statistical codes, which is a mandatory process.
- **Open a bank account:** Open a business bank account in a Ukrainian bank. You'll need to provide the necessary documents, including the company's registration certificate, TIN, and identification documents.
- **Obtain necessary licenses and permits:** Research and apply for industry-specific licenses like Trade License, Construction permit, Food safety and hygiene permits etc depending upon the business.
- **Register with the State Employment Service:** If hiring employees, register with the Employment Service.
- **Comply with tax obligations:** Understand tax requirements, including VAT registration, tax returns, and record-keeping.



TAXATION

Taxation in Ukraine is governed by the Tax Code of Ukraine. The State Tax Service of Ukraine ("STS") and the State Customs Service ("SCS") are the main authorities responsible for tax collection and control. They report to the Ministry of Finance of Ukraine, which in turn reports to the Cabinet of Ministers of Ukraine.

- **Corporate Income Tax ("CIT"):** Standard rate is 18% for resident and non-resident companies. It applies to resident and non-resident Ukrainian companies' taxable profit.
- **Personal Income Tax ("PIT"):** Expected to reach 18% by 2023 according to Trading Economics global macro models and analysts' expectations.
- **Sales Tax Rate - VAT:** Currently 20%, with reduced rates of 7% and 0% for specific goods and services.
- **Withholding Tax:** Unless a double-taxation treaty applies, non-resident companies receive Ukraine-sourced income (dividends, interest, capital gains, and royalties) at 15% withholding tax. A Ukrainian resident must pay a 20% WI-FT from its own funds on non-resident marketing and advertising income from Ukraine. Ukrainian companies or their representative offices pay 0%, 4%, or 12% tax on (re)insurance contributions and premiums to non-resident (re)insurers.
- **Payroll Taxes:** Ukrainian legal entities and/or permanent establishments act as tax agents in Ukraine with respect to their employees. Employers withhold 18% for personal income tax and 1.5% for temporary military tax from employee salaries. Employers also pay 22% as the Uniform Social Tax.
- **Stamp Tax:** There are no stamp taxes, but nominal stamp duty exists for certain actions such as notarizing contracts and court filings. Commodity exchanges and real estate sales incur a 1% stamp duty.

ACCOUNTING STANDARDS

The Law on Accounting and Financial Reporting introduced National Accounting Regulations Standards on January 1, 2000. Despite the law, these local standards differ from IFRS. IFRS aims to standardize financial statements worldwide. IFRS-compliant financial statements are a "quality mark" and guarantee of accuracy.

Ukraine has some accounting and financial reporting requirements beyond IFRS.

Key points:

- 1. National Accounting Standards:** Ukraine has adopted IFRS for financial reporting, but some entities and industries must follow national accounting standards. These national standards may include Ukraine-specific guidance.
- 2. Financial Reporting:** Ukrainian companies must file annual financial statements, including balance sheets, income statements, cash flow statements, and notes. These statements should follow accounting standards.
- 3. Currency:** Ukrainian companies must report financial statements in UAH, the national currency. Foreign currency transactions must be recorded and converted into UAH using exchange rates.
- 4. Disclosure Requirements:** Ukrainian accounting regulations may mandate certain financial statement disclosures. These disclosures give stakeholders more information.
- 5. Tax Reporting:** Ukrainian companies must report taxes as well as finances. This includes filing tax returns, keeping supporting documents, and meeting tax deadlines.

EMPLOYMENT AND LABOUR LAWS

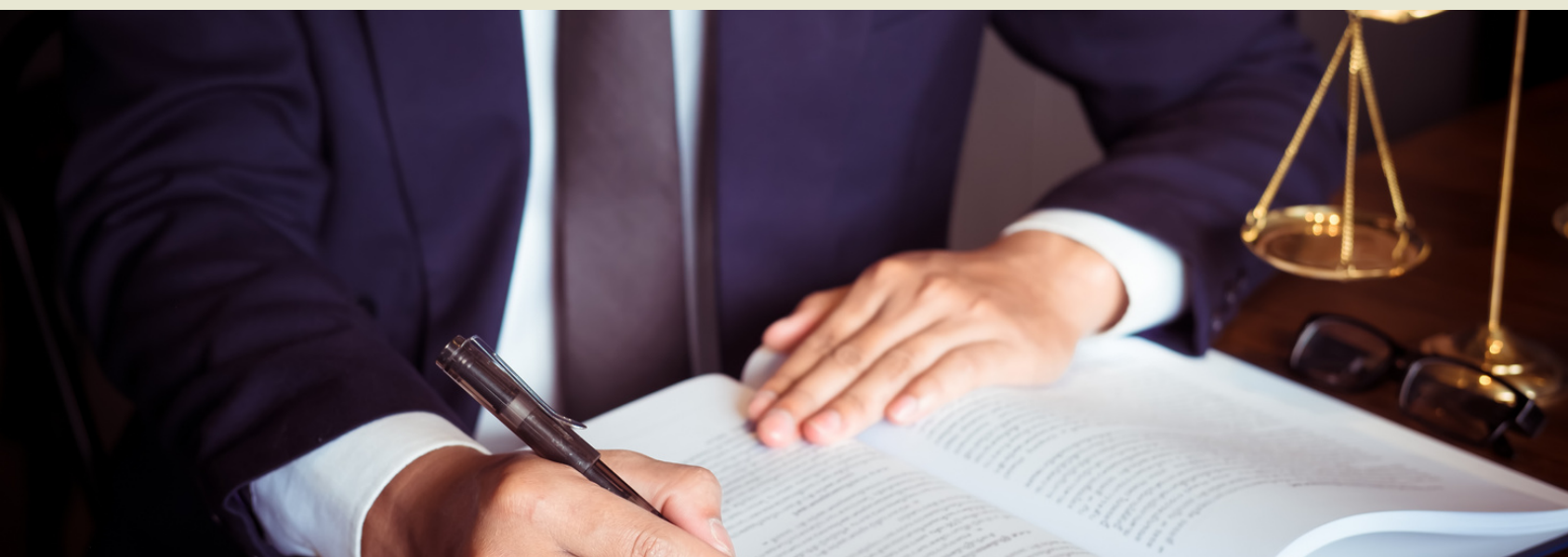
- **Remuneration - Statutory minimum wage:** Monthly or hourly workers cannot be paid less than the minimum wage. Law sets minimum wage. May 2023 Ukraine National Minimum Wage was 6,700.000 UAH. 6,700.000 UAH for Apr 2023 remained unchanged. Ukraine National Minimum Wage data is updated monthly, averaging 960.000 UAH from Jan 2000 to May 2023.
- **Wage reductions-** are a material term of an employment agreement and require the employee's consent. However, a new organisational scheme may require the employer to adjust remuneration to reflect the new working conditions. The employer must notify employees two months before the proposed organisational changes of the intention to reduce their salary. The employer can fire workers who refuse a pay cut.
- **Working Time:**

1- Remuneration. Monthly or hourly workers must be paid at least the minimum wage. Legal minimum wage. May 2023 Ukraine National Minimum Wage was 6,700.000 UAH. 6,700.000 UAH remained for Apr 2023. From 2000 to 2023, the Ukraine National Minimum Wage averaged 960.000 UAH.

2- Employees must consent to wage reductions. A new organisational scheme may require the employer to adjust remuneration to reflect new working conditions. Employees must be informed of salary reductions two months before organisational changes. Refusing a pay cut can get you fired.



- **Working during the weekend and public holidays :** Weekend and holiday work is prohibited. If the company has a trade union, weekend work may require union approval. Weekend workers must receive double their hourly rate. An employer may offer weekend workers extra days off.
- **Night and holiday work premium :** A collective bargaining agreement must pay at least 20% of the basic hourly rate for night work (10 p.m.–6 a.m.). Holiday workers must be paid double. The employee may request extra time off for working public holidays.
- **Paid annual leave :** After six months, employees receive 24 days of paid annual leave. Before this six-month period, employees can take paid annual leave pro rata for their time worked. Ukrainian law mandates longer minimum paid annual holidays for certain professions, industries, and young workers under 18.
- **Sick Pay :** Employees receive compensation for sickness or temporary disability certified by a medical practitioner. The employer pays for the first five days, and the State Temporary Disability Fund covers the remaining period. The allowance is based on a percentage of the employee's average salary.
- **Termination of Employment:** Minimum notice period is two months for redundancy. Written notice is required, except in certain cases. Employees can also give two weeks' notice to terminate voluntarily. Employers must provide a written dismissal order, pay all outstanding payments, and provide the employee's labor book.
- **Employees protected from Termination:** Certain employees, such as pregnant women, young workers (up to 18 years old), employees on maternity, annual, or sick leave, and trade union officials, cannot be terminated without their consent or prior approval from relevant authorities



HOW WE CAN HELP ?

- Our team of experts is adept at conducting extensive market research, aiding enterprises in comprehending their intended audience, prevalent industry trends, and potential competitors.
- Our proficient specialists can establish well-defined objectives, delineate feasible measures, and pinpoint prospects for both development and enlargement.
- Our team possesses the ability to perform evaluations of risks, pinpointing potential threats and vulnerabilities within a business. Subsequently, they can propose strategies for risk mitigation to safeguard against unfavorable occurrences.
- Our experts proffer guidance regarding the most suitable legal structure for a venture, be it a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. They expound upon the tax ramifications of each choice, while also helping in selecting the optimal option based on objectives and circumstances.
- Our team is competent in delving into and recognizing any necessary licenses, permissions, or registrations requisite within the client's particular sector or industry. The business aids in the application process and ensures the organization's adherence to all legal prerequisites.



SERVING CLIENTS WORLDWIDE



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