



Business in Ukraine

As Ukraine works towards achieving its EU status, it is poised to enhance business opportunities and expand its market integration. While not an OECD member state, Ukraine, to a greater extent, implemented OECD's tax standards, including within the BEPS framework.

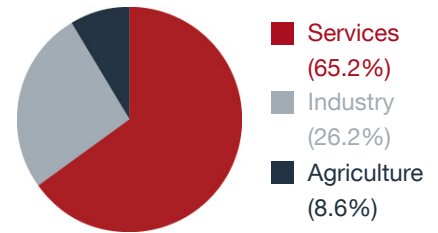


Population

41 million



GDP Breakdown by Sector



Currency

Ukrainian hryvnia (₴)

Foreign Direct Investment

532 billion (USD)

GDP Growth (2023)

3.4%

Business Climate

Ukraine, situated in Eastern Europe, is the continent's largest country entirely within its borders, spanning approximately 603,500 square kilometres. With a population of around 44 million, Ukraine boasts cultural diversity among its various ethnic groups. It shares its borders with Belarus to the north, Russia to the east and northeast, Poland, Slovakia, Hungary, Romania to the west, and Moldova to the southwest. Additionally, Ukraine has a southern coastline along the Black Sea.

Ukraine is the 58th largest globally, with a nominal GDP of USD 160 billion per year (2022, World Bank).

The economy of Ukraine is an emerging, lower-middle income, mixed economy located in Eastern Europe. Ukraine is a world player in agriculture, developed energy, metallurgy, chemicals, manufacturing, a massive innovative industrial base, booming IT, and high-tech sector. Ukraine is set to become the world's food security guarantor. Ukraine is already well known for being one of the top world producers and exporters of cereal grains and vegetable oils, honey and walnuts, poultry meat, and butter. However, it experienced big fiscal reallocations toward defences to sustain the war against the Russian Federation efforts.

In April 2020, the World Bank reported that economic growth was solid at 3.2% in 2019, led by a good agricultural harvest and sectors dependent on domestic consumption. GDP is projected to grow by 0.5% in 2023 after contracting about 30% in 2022 due to the 2022 Russian invasion of Ukraine. The National Bank of Ukraine estimates the economy to grow by 4.1% in 2024 and 6.4% in 2025.

According to the National Bank of Ukraine, the main assumption of the macroeconomic forecast is that security risks will start to ease significantly at the beginning of 2024, thanks to successful operations by the Ukrainian army. This will contribute to the full unblocking of seaports, decrease sovereign risk premiums, and return displaced persons to Ukraine. The forecast is also based on the assumptions of entering a new IMF program, pursuing coordinated monetary and fiscal policies, and gradually neutralizing quasi-fiscal imbalances, particularly in the energy sector.

With candidate-state status granted by the EU, Ukraine has already completed 63% of its market-integration agreements.

International Trade

Trade Regulations, Customs & Standards

Ukraine has been a WTO member since May 16, 2008. Additionally, Ukraine has concluded 18 free trade agreements (FTA) with 47 different countries and enjoys privileges set out by Japan and Canada's Generalised System of Preferences schemes. In response to the war, some of the EU, Canada, the UK, and the US have suspended import tariffs, entry price systems, tariff quotas, anti-dumping and/or safeguard duties.

The primary legal act regulating customs matters in Ukraine is the Customs Code of Ukraine, and Ukraine will change the latter to make it fully compliant with the EU acquis. Moreover, Ukraine adopted the Law On Joining the Convention on the Common Transit Procedure (with effect as of October 1, 2022).

Trade Agreements

Ukraine has effective FTAs with the UK, Israel, the EU, Canada, Montenegro, the CIS, the EFTA, Macedonia, Azerbaijan, Georgia, Turkmenistan, Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

In February 2022, Ukraine completed negotiations with Turkey on the conclusion of the FTA. However, this FTA has not been ratified because economic conditions have changed considerably after the war's commencement. Thus, now Ukraine is trying to renegotiate the FTA with Turkey. Moreover, Ukraine is currently negotiating the conclusion of the FTAs with Indonesia, Tunis, the UAE and the CTPPT.

Foreign Direct Investment

Ukraine's foreign direct investment policy emphasises non-discrimination and free establishment, treating foreign and domestic investors equally. Incentives include tax benefits, such as preferential rates and exemptions, to attract investment in specific industries and regions. The state also offers grants and subsidies to support investment projects, while investment-friendly policies aim to create a conducive environment for foreign investors seeking opportunities in the country.

Since 2017, Ukraine has adhered to the OECD Declaration on International Investment and Multinational Enterprises.

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Tax Regime

Main Direct Taxes Applicable in Ukraine:

- **Corporate Income Tax (CIT):** CIT applies to worldwide income of resident entities. A company is considered a tax resident in Ukraine if it is incorporated under Ukrainian law or has its place of management in Ukraine. CIT also applies to non-resident companies carrying out business activity in Ukraine through a permanent establishment. The Standard CIT rate is 18%.
- **Personal Income Tax (PIT):** PIT applies to the worldwide income of resident individuals at a fixed rate of 18%. Certain passive income may be subject to lower rates. There are no separate wealth, inheritance, or gift taxes. However, a military levy of 1.5% applies to the same income base.
- **Non-Resident Income Tax:** Income of non-resident individuals and entities sourced in Ukraine may be subject to CIT (through permanent establishment), PIT or withholding tax.

Main Indirect Taxes Applicable in Ukraine:

- **Value Added Tax (VAT):** Commercial supplies of goods and/or services and imports of goods will be subject to VAT at the standard VAT rate of 20%. Reduced rates are available for certain agricultural goods (14%), medical devices, medicines,

excursion services for museum visitors, screening of original works, adapted films, and temporary accommodation services (7%). Certain transactions are exempt from VAT (i.e., financial and insurance transactions, certain services, and supply of goods).

- **Excise Tax:** Companies producing, selling, or importing certain products such as electricity, gas, vehicles, alcoholic beverages, and tobacco products may be subject to excise tax in certain cases.

Other Significant Taxes:

- Rent (levied for the use of mineral resources, radio frequency resources of Ukraine, water, forest, transportation of oil and oil products through pipelines, and for the transit transportation of ammonia through the territory of Ukraine)
- Transport tax (imposed on certain vehicles)
- Real Estate tax (imposed on real estate located in Ukraine)
- Land tax (imposed on land plots located in Ukraine)

Establishing a Business

The most frequently used legal forms for conducting business in Ukraine are limited liability companies (LLCs) and joint stock companies (JSCs), representing the idea of limited liability for investors. Additionally, representative offices and in certain cases branches can be established by foreign companies. LLCs offer relatively uncomplicated incorporation procedure, streamlined management, and fewer administrative requirements. JSCs are suitable for larger enterprises seeking to raise capital through stock issuance.

No minimum capitalization is required for an LLC. The minimum charter capital for a JSC is 200 times the officially established minimum monthly salary as of the date of the registration of the JSC (UAH 1,340,000 in 2023, or approximately USD 37,000).

One or more persons (legal persons or individuals) may establish an LLC, the charter capital of which is divided into participatory interests. The charter capital of a JSC is divided into shares of equal nominal value. The participants in an LLC and the shareholders in a JSC are liable only to the extent of their respective contributions to the charter capital.

Employment Affairs

Labour rights and guarantees are established by the Constitution of Ukraine, the Labour Code of Ukraine and a number of special laws. The main principle of Ukrainian labour law is that any provision of agreements worsening the rights and interests of employees as compared to statutory rules shall be deemed void and unenforceable by operation of law.

Employment relationships shall be documented with at least an employee's hiring application and an employer's hiring order. In addition, the employer is required to notify the state tax authorities about each new hire. Failure to comply with such requirements may entail applying rather severe fines.

Generally, employment relationships shall be established for the indefinite term. Fixed-term employment is permitted only in exceptional cases expressly set out by the law.

The salary amount is usually negotiated between the employer and the employee but shall not be less than the statutory minimum salary. Any incentives are not mandatory.

Dismissals are limited to the exhaustive list of grounds established by the law. The employee is entitled to resign without any reason by informing the employer in writing at least two weeks before the requested dismissal date. In contrast, dismissals at the employer's initiative are, as a rule, difficult to implement from legal and practical perspectives. Besides, the employee is entitled to challenge in court any dismissal for whatever reason.

Single social security contribution paid by employers and employees covers sick leaves, professional injuries, unemployment compensations and retirement wages.

The Ukrainian employer shall obtain a work permit to employ foreigners other than those holding a permanent residence permit in Ukraine. Foreign employees shall further comply with the Ukrainian migration law requirements.

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