Ukraine – current opportunity

How bad is current economy or is it any bad at all?

- Q2 GDP growth accounted 5.9%, with 4% growth estimated for 2010
- Moody’s, Fitch and Japan’s R&I already upgraded ratings, all with stable outlooks
- As of July 28th IMF granted a 15.2 bn. USD loan to Ukraine
Foreign investment in Ukraine

**What it is like?**

- Ukraine is a member of WTO
- 10% of foreign investments in a charter fund qualify as an "enterprise with foreign investments"
- Foreign investors carry out their activities same as domestic investors
- Enterprises with foreign investments are taxed on a par with Ukrainian ones
- Foreign investments are mandatory to be registered by the state authorities
- Currency investments has to be made in local currency through special accounts within local banks

![Diagram showing the process of converting funds from a domestic account to an investment purposes account](image)

**What are the privileges?**

- Protection against changes in legislation
- Protection against nationalization
- Guarantee for compensation and reimbursement of losses
- Guarantee in the event of the termination of investment activity
- Guarantee of repatriation of profits
- In-kind contributions into charter fund are exempt of custom duties
- A treaty on the mutual protection of foreign investments with Finland is in force
Establishing a legal presence in Ukraine

**Overview**

- Large variety of investment and business vehicles (business entities)
- The most common are:
  - Limited Liability Company (LLC)
  - Joint Stock Companies (JSC)
  - Representative office (Rep)

**Limited Liability Company (LLC)**

- A legal entity, similar to German GmbH
- Wholly-owned subsidiary in form of LLC can’t be established by another wholly-owned subsidiary
- Individual/legal entity can’t be sole founder/participant in more than one LLC
- Foreign owned LLC may not own land
- May have maximum 10 participants
- Meetings assembly require quorum of 60% of votes
- Most resolutions are approved by a simple majority of votes
- A minimum capitalization is ~83€

**Joint Stock Company (JSC)**

- A legal entity, similar to German AGs
- May be Public or Private
- The shares of Private JSC may not be sold/purchased through stock exchange
- A Public JSC is obliged to list the shares in one of Ukrainian stock exchanges
- May be established by a single founder or a group of founders
- Wholly-owned subsidiary in form of JSC can’t be established by another wholly-owned subsidiary
- May not have only legal entities as shareholders if these legal entities belong to a single person
- Foreign owned JSC may not own land
- Meetings assembly require quorum of 60% of votes
- Voting rights are “1 share – 1 vote”, except for cases of cumulative voting
- Most resolutions are approved by a simple majority of votes
- A minimum capitalization is ~104,00€
Establishing a legal presence in Ukraine

**Representative office (Rep)**

- Not having a status of a legal entity
- The most simple form of presence
- May not conduct any trade operations
- Allowed to carry out promotional and marketing activities
- The manager of Rep acts on basis of a power of attorney issued by the founding enterprise
- One time registration fee is 2,500$

Taxation in Ukraine

**Overview**

- Mutual double taxation avoidance treaty with Finland is in force
- Foreign legal entities and persons are taxed on “Ukrainian source” incomes
- Tax residency determination is similar to OECD Model Tax Convention
- With the exception of agricultural enterprises, the fiscal year for tax payers follows the calendar year
- A middle sized company may spend up to 2,000 hours per year to comply with its tax compliance requirements
- Corporate income tax is levied on “profits” at tax rate of 25%
  - Dividends are withholding tax at the rate of 5%
  - VAT is 20%
  - Personal Income Tax (PIT) is 15%
Taxation in Ukraine

Payroll taxes

- A legal entity serve as a "tax agent" and responsible for charging, collection and remittance of payroll taxes from it's employees to the state

Payroll taxes

<table>
<thead>
<tr>
<th>Employer remits to state</th>
<th>Employer withdraws from employee and remits to state</th>
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</thead>
<tbody>
<tr>
<td>36.8%-49.7%</td>
<td>3.1%-3.6%</td>
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- Taxable base is 770€ OR Gross salary if less than 770€
- Taxable base is gross salary

Overview

- UAH is the only lawful means of payment in Ukraine
- Trade in foreign currency allowed only in inter-bank currency market through Ukrainian commercial banks
- Any foreign currency transfer abroad has to be licensed by central bank
- Export contracts foresee collection of foreign currency within 180 days from custom clearance
- Import contract foresee goods to be custom cleared within 180 days from prepayment date
- Legal entities may acquire non-cash foreign currency from licensed Ukrainian commercial banks in case they are planning:
  - Purchase of goods/services from non-resident
  - Repayment of loan issued by non-resident
  - Payment of dividends
Customs regulation

**Overview**

- Ukraine is a member of the International Convention on Harmonized Commodity Description and Coding System
- Customs legislation is being harmonized with WTO principles, rules and procedures
- An experienced local customs broker is suggested to be hired, a good specialist can save a considerable amount of time and money
- Business entities are able to store goods imported into Ukraine without customs clearance obligations at bonded warehouses
- Business entities may enter a “black” or “white” list of Customs Office depending on their history of customs clearance procedures
- At the moment mandatory local certification and control is required

Working in Ukraine

**Overview**

- Every foreigner intending to work in Ukraine needs a work permit
- Local lawyers are able to ease the procedure of obtaining work permit
- Work permits are issued for 1-3 years with the possibility of extension
- Business entities are able to store goods imported into Ukraine without customs clearance obligations at bonded warehouses
- Business entities may enter a “black” or “white” list of Customs Office depending on their history of customs clearance procedures
- At the moment mandatory local certification and control is required
Summary

_Do_

- Do expect the unexpected (in a good meaning)
- Do be in touch with local business communities and associations
- Do meet people in person

_Don’t_

- Don’t let partners choose you, choose partners yourself
- Don’t think local businesses are not smart enough
- Don’t act alone doing the initial steps, have local consultants at your side

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