



"Diiā City": New Tax Regime for Tech Companies

General Eligibility Requirements



Applicant must be a Ukrainian company



More than 90% of income is derived from qualifying activities



Average monthly gig-contractors' and employees' compensation exceeds EUR 1,200



At least 9 employees or gig-contractors are engaged

Simplified Eligibility Requirements for Small Companies



Applicant must be a Ukrainian company



More than 90% of income is derived from qualifying activities

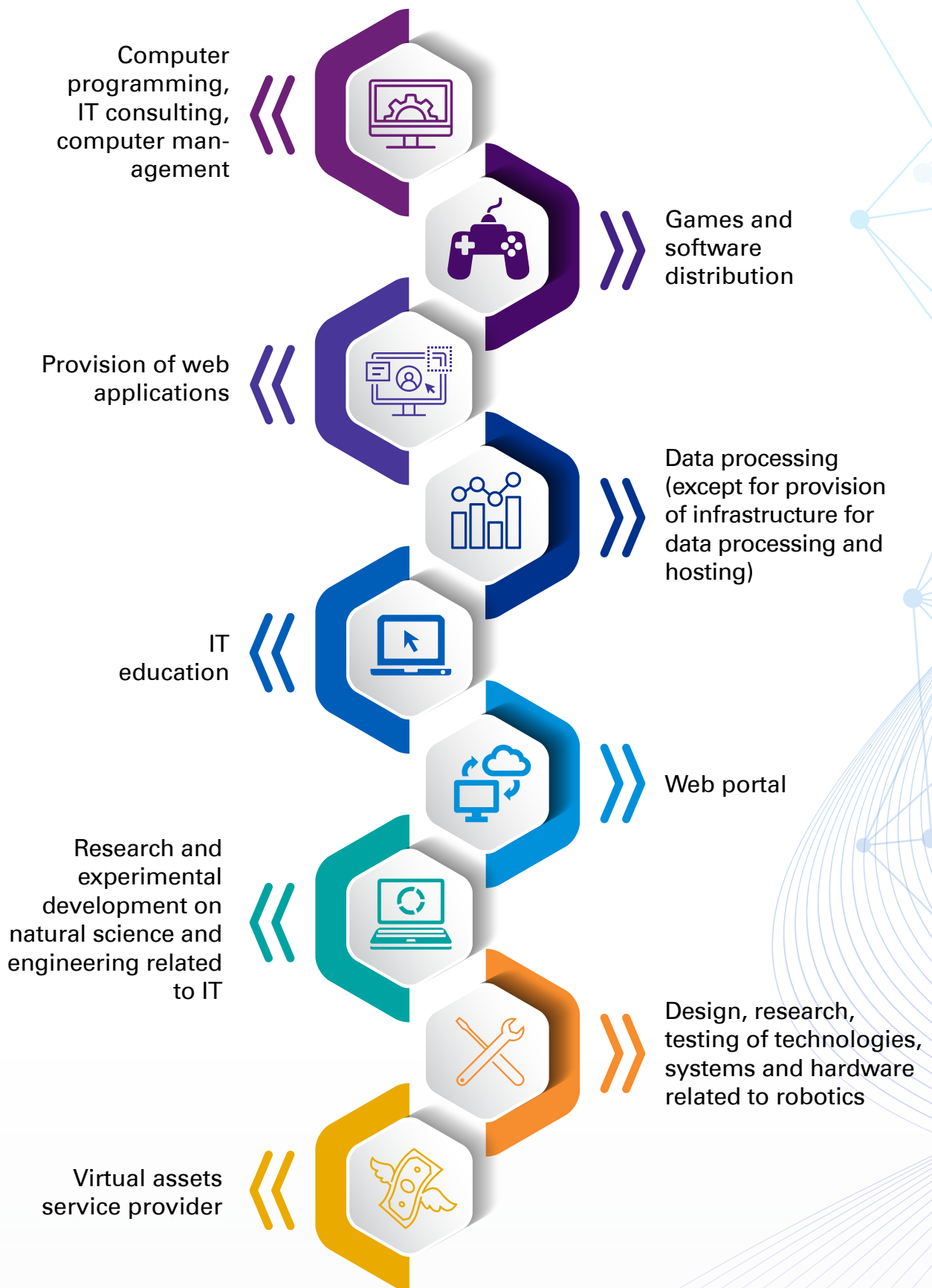


Company has already been registered for at least 24



Annual income does not exceed approximately EUR 235k (the threshold is linked to the statutory minimum wage that changes annually)

Key Qualifying Activities



Tax Incentives for Diia City Companies

Payroll taxes

Employees' and gig-contractors' compensation up to EUR 240k is subject to personal income tax at a preferential rate of 5% and military duty at a standard rate of 1.5%. Excess amount is subject to 18% personal income tax and 1.5% military duty.

Diia City company pays unified social contribution at a minimum statutory rate (EUR 45 for 2022).

Corporate taxation

Diia City company may opt to pay:

- 18% CIT on taxable income as a regular CIT payer **or**
 - 9% tax on profit distributions (dividends, divestment payments) or deemed profit distributions, including:
 - Payment of certain interest and royalties
 - Certain investment transactions
 - Gratuitous supply of goods and services etc
- 18% CIT applies to:
- Controlled foreign company's adjusted profit
 - Transfer pricing adjustments

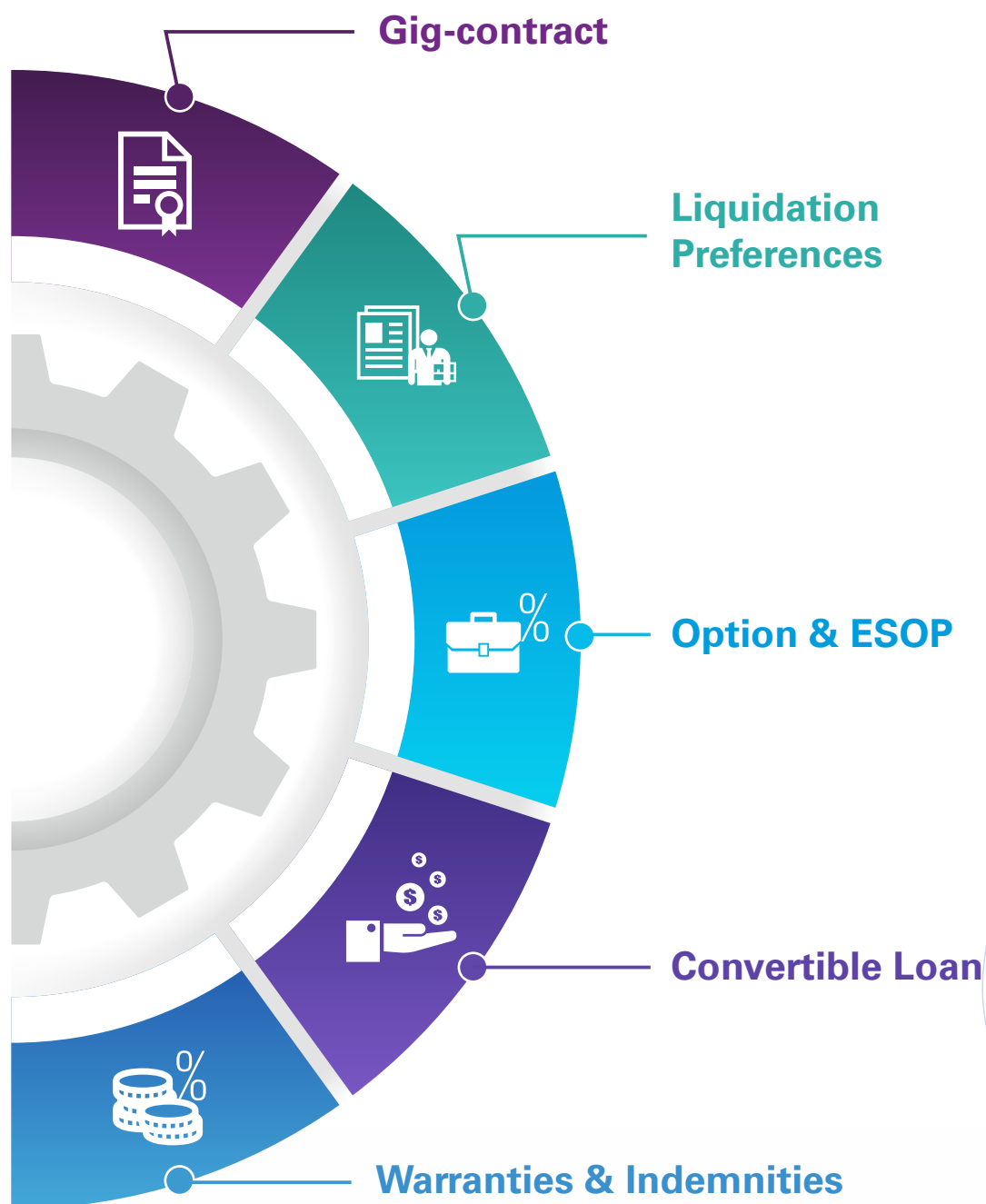
Tax incentives for individuals investing in Diia City company

The value of investment in Diia city company could be credited against personal income taxes of an individual investor (conditions and limitations apply).

Dividends received from Diia city company are tax exempt for individuals provided that:

- Diia City company opts to pay CIT on transactions
- Diia City company has not distributed dividends during the last two years

Additional Legal Instruments Available to Diia City



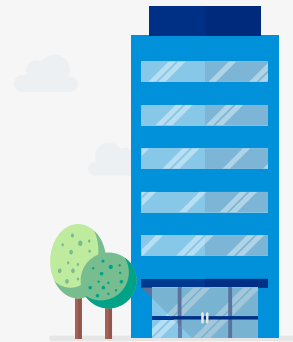
Relevance to Structures (1/3)

Ukrainian company engages independent contractors in Ukraine

Independent contractors



Ukrainian company



- ✗ Risk of recognition of independent contractors as de facto employees
- ✗ Risk of penalties for disguised employment and assessment of payroll taxes

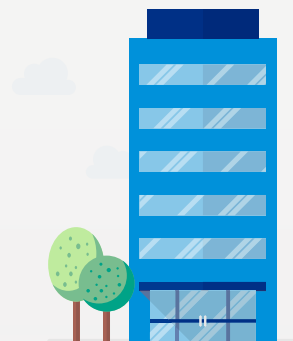


Diia City

Gig-contractor



Ukrainian company



- ✚ No risks of assessment of payroll taxes or penalties for disguised employment
- ✚ Comparable level of tax burden

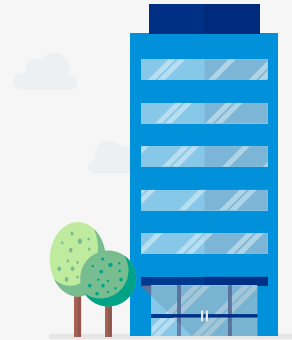
Relevance to Structures (2/3)

Ukrainian company engages IT specialists as employees

Employees

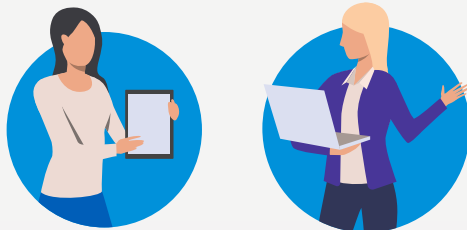


Ukrainian company

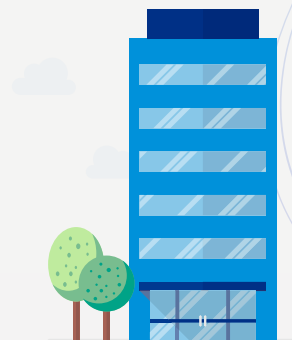


Diia City

Gig-contractor/ employee



Ukrainian company



Lower tax burden on wages and compensation



Engagement of gig-contractors could be subject to non-disclosure and noncompete clauses

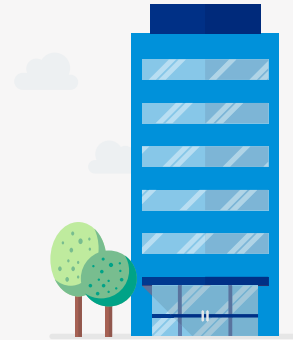
Relevance to Structures (3/3)

Foreign company engages independent contractors in Ukraine

Independent contractors



Foreign company

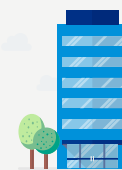


- ✗ Permanent establishment risk for foreign company in Ukraine
- ✗ Risk of foreign company's tax residency in Ukraine
- ✗ Risk of penalties for disguised employment



Diia City

Gig-contractor



Foreign company



Ukrainian company

- + Risks of foreign company's permanent establishment/ tax residency and taxation of attributable income are mitigated
- + Engagement of gig-contractors could be subject to non-disclosure and noncopete

How KPMG can help?



Feasibility study to assess opportunities to avail of Diia City regime. Simulation of the expected tax effect to determine the most favorable entry into Diia City regime (entry cost/benefit analysis). Structuring activities in scope of organizational matters and legal framework, in order to benefit from Diia City incentives in the most efficient way



Preparation of independent auditor's report required to apply Diia City regime



Support in the preparation of the documentation necessary for application for Diia City regime



Incorporation of a Ukrainian company applying for Diia City regime as well as preparation of constituent and corporate documents



Preparation of contracts, internal policies, job descriptions with regard to engagement of IT specialists as employees or gig-contractors



Tax compliance and statutory accounting outsourcing

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