

# How to establish an IT-office in Ukraine?

This one-pager provides some tips and advices on how to establish an IT office in Ukraine. The one-pager is based on the report "Ukraine: IT business guide" (hereinafter "KPMG-report") conducted by KPMG Ukraine and KPMG Norway for the Norwegian-Ukrainian Chamber of Commerce (NUCC). NUCC has written the one pager and is responsible for the content.

## Ukraine as an IT destination

Ukraine is about to establish itself as a leading IT and outsourcing destination in Europe. The Global Sourcing Association (GSA) UK nominated Ukraine as the offshoring destination of the year in 2017.

**The main advantages are:**

- Access to highly skilled IT-specialists. More than 16 000 IT graduates per year.
- Low price level. Salaries for Ukrainian IT-specialists are about 1/4rd of Norwegian salaries and you can rent an office for a reasonable price. Average monthly salary for an IT-engineers in Ukraine is 1700 USD in 2017, compared to 7300 in Norway.

## How to prepare?

Consult a legal counsellor who knows the peculiarities of the Ukrainian legal system. A specialist can also assist in choosing the right business model.

To get an overview over the risks and opportunities of doing business in Ukraine you can contact the Norwegian-Ukrainian Chamber of Commerce (NUCC).

## Where to locate?

The largest IT-hubs in Ukraine are: Kyiv, Kharkiv, Lviv, Dnipro and Odessa. Most of the international IT-companies are in one of these cities. Here you will also find most IT-specialists: 4 out of 5 IT-specialists works here. Kyiv is the largest and most accessible city but a bit more expensive.

## How to structure your business?

**There are several alternatives:**

1. Registration of a Ukrainian subsidiary is the most relevant option for Norwegian companies. A LLC or a JSC are the most common forms, where LLC is the simplest and involves less regulatory requirements.
2. Entering a Joint Venture with a Ukrainian IT-company might be an option if you find a trusted partner.
3. Have an agreement with an IT-company to set up an IT-team (outstaffing), who you will take over the responsibility for after a given period of time.

## How to engage Ukrainian specialists?

There are two ways to engage IT-specialists in Ukraine:

- Hire employees under the labor code of Ukraine
- Conclude civil agreements with Private Entrepreneurs (PE)

Ukraine currently has an advantageous tax regime for private entrepreneurs (approximately 5 percent income tax). Please note that the involvement of PEs is limited under Ukrainian law by several conditions, including due to the nature of the performed works.

Ukrainian specialists conducting work in Norway have to register at the Norwegian tax office. If the stay is less than 14 days the employees can be exempted from personal attendance, and file an electronic application.

## Protection of IP-rights and transfer of data

IP-rights registered in Norway are protected in Ukraine and vice versa as both countries are the parties to the Bern convention. If you have a business idea that is not transformed into a product or a prototype, it is recommended to include a non-disclosure section in the contract the employees/PEs (or alternatively sign a non-disclosure agreement (NDA)).

Include a clause on transfer of IP-rights in the contract with your employees and/or subcontractors (private entrepreneurs etc.). This is necessary to secure the property rights for the software being developed.

Include a clause in the contract which describes in detail the procedure of collection, transfer, processing, access and storage of data.

Please make sure to have a system for handling and transfer of data satisfying the EUs General Data Protection Regulations (the GDPR).

## Taxation

The IT-industry in Ukraine has quite favorable conditions, when it comes to tax and customs regulations. IT-specialists working for a company as private entrepreneurs are subject to 5% income tax under simplified rules.

Export of services from Ukraine is not subject to the customs regulation and is usually not subject to currency control regulations.

Export of services treated as supplied at the customer's place of registration, such as development and testing of digital products, is not subject to VAT.

A Norwegian office in Ukraine is subject to pay corporate tax to Ukraine if it is regarded as a permanent establishment. The corporate tax rate is 18 percent.

Norway and Ukraine have signed a tax treaty, which is dealing with a potential double taxation.