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**RE: LEGAL MEMORANDUM IN RESPECT OF ESTABLISHING BUSINESS  
ACTIVITY IN UKRAINE WITH PARTICULAR EMPHASIS OF LIMITED  
LIABILITY COMPANY**

**I. Business activity forms in Ukraine:**

Ukraine law allows many legal forms of conducting business activity for foreigners. However, **the most popular form of economic activity in Ukraine is Limited Liability Company – “TOV”. Polish equivalent of TOV is Sp. z o.o. – Spółka z ograniczoną odpowiedzialnością.** Among the other legal entities, the LLC (TOV) is most popular among investors due to the clearer legal frameworks and the limited liability of participants – like in Poland in view of Sp. z o.o.. **Hereby legal opinion will be focused on Limited Liability Company in Ukraine (hereinafter referred to as “the LLC” or “The TOV”).**

**II. TOV Specification**

The legal frame work of a limited liability company in Ukraine is quite detailed, regulated and originates from German LLC - GmbH standards, like Polish LLC (Sp. z o.o.).

**a) Share capital:**

There are no legal restrictions on the amount of authorized share capital of an LLC. Shareholders are obliged to pay the full value of their shares within one year from the company's state registration. **The minimal amount of share capital is 1 UAH.**

**b) Shareholders:**

Participants in an LLC have limited liability, which does not exceed their contribution to the company's authorized share capital. Individuals and legal entities, as well as the state or the territorial community owning shares, are recognized as shareholders of the company. **There are no restrictions regarding the residence or nationality of the shareholders. However it has to be noted that the President of the Management Board has to have work permit in Ukraine – (more - c point 1 below)**

Just like in Poland, LLC in Ukraine **can be established by one or more natural person.**

**c) Procedure of incorporation:**

**Forming an LLC in Ukraine is more formalized compared to Anglo-Saxon model.** It is obligated to register LLC in the Unified State Register of Enterprises and Organizations of Ukraine (similar to Polish KRS – National Court Register).

**Formation of LLC in Ukraine is multistage:**

1. First of all, if the President of the Management Board of the newly formed company is foreigner, he or she **has to obtain work permit before the company is established.** Upon Ukrainian law, exercising of the management functions in TOV is equal to performing work on the territory of Ukraine. If the perspective President of the Management Board refrain from obtaining work permit he or she may be given **heavy financial penalties.**

**Frame time: Obtaining work permit by foreigner last one month.**

2. Secondly, also mandatory before foundation of the LLC in Ukraine it is choosing specific address of its office – like in Poland it may be “Virtual Office” (PO box);

**3. Currently, the LLC founders to enforce its registration with the state must submit to the Companies Registrar the following documents:**

- a. application form;**
- b. original (copy or notarized copy) of the founders' decision on establishment of the LLC;**
- c. 2 copies of the LLC company charter executed by the founders;**

There is no need to prepare draft of “Articles of Association” in the form of notary deed. Moreover LLC can be open via Internet. Unfortunately, I could not gather more information about registering company online – the service is only in Ukrainian language.

**Frame time: Entering of the company into register lasts approximately 7 days.**

**Summary frame time: one month (work permit) and 7 days to fully establish TOV in Ukraine.**

**d) Accountancy:**

**Similar to Polish LLC, Ukrainian Companies require full book keeping.**

Ukrainian entities must prepare financial statements based on either International Financial Reporting Standards (IFRS) or Ukrainian National Accounting Standards (Ukrainian GAAP, developed on the basis of IFRS in 1999). Moreover, as in Poland, it is required to maintain close contact with Tax Officers, which allow to react quickly to all urgent needs of Tax Department.

**III. Taxes:**

**a. VAT:**

If the total amount of transactions with delivery of goods or/and services, including the use of local or global computer network, charged (paid) during last 12 calendar months, totally exceeds UAH 1 million (excluding VAT), such company is obliged to register as VAT taxpayer, except single tax payer company. Actually, Art. 182 of the above mentioned Tax Code also provides option for voluntarily VAT taxpayer registration.

**Rate of VAT: 20%.** This applies to all turnover from the sale of goods and services in Ukraine.

**b. Income Tax (CIT)**

Ukrainian entities and foreign entities doing business in Ukraine through a permanent establishment are liable for corporate profit tax.

**Rate of Income Tax: The corporate Tax Law established a basic corporate tax rate of 18%.** Software industry entities pay only 5% tax.

This is a standard rate from the net income for the entities and natural persons - private entrepreneurs. Insurance companies and agricultural producers pay reduced corporate tax rate subject to terms. Small legal entities may choose the simplified taxation paying up to 5% of their turnover. There are tax incentives for companies performing approved investments in priority sectors as defined by law.

Summary: **In comparison to Poland the tax rates are only slightly lower.**  
**Poland: VAT: 23%; CIT; 19%;**

**IV. Estimated Costs /by local partners:**

**1. Obtaining work permit:**

**a. Legal assistance: 450 EUR;**

**b. Fee: 250 EUR**

**Summary: 700 EUR;**

**2. Establishing LLC: 700 EUR;**

**3. Assistance with opening bank account: 60 EUR;**

**Total costs of opening TOV in Ukraine for foreigner: 1460 EUR;**

**4. Rental of Virtual Office: 25 EUR per month;**

**5. Accountancy: 300 EUR per month (30 invoices per month)**

**Approximately costs of TOV maintenance per month (without unforeseen scenarios):  
325 EUR per month.**

**Above amounts are net of VAT (20%)**

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