On December 14, 2021, a preferential tax regime applying to IT companies with Diia City resident status, as well as to their employees and IT specialists (IT Specialists), was approved by the Parliament of Ukraine in the form of Law No. 1946-IX “On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine regarding the Stimulation of the Digital Economy Development in Ukraine.”

Who should be interested in the change?

Ukrainian and international companies operating in the IT industry or with in-house IT departments that provide IT services, software or R&D of IT products to their group companies, provided that they are registered as a Diia City resident (Diia City Resident).

Who can be a Diia City Resident?

Only those legal entities that are registered in Ukraine and at the same time comply with all of the following requirements are eligible to be Diia City Residents. (We note that the list of activities for the IT industry is quite extensive, so almost every company operating in the IT sector can become a Diia City Resident):

1. They carry out the following business activities:

   - Computer programming, computer consultancy, computer facilities management activities;
   - Production of computer games and other software;
   - Online provision of software products, including computer games, and provision of web-services for the delivery of software applications;
   - Educational activities in the field of information technology;
   - Data processing and web portal activities;
   - Research and experimental development in the field of natural and technical sciences on information and communication technologies;
   - Provision of advertising services with the use of software;
   - Activities of organizers of cybersports competitions;
   - Activities of a provider of services related to virtual assets flow;
2. The monthly remuneration paid to one IT Specialist amounts to no less than €1,200.

3. There are at least nine IT Specialists engaged with a Diia City Resident legal entity.

4. At least 90 percent of the total annual income earned by a Diia City Resident legal entity is net income from the sale of goods, works, services or royalties received as a result of the activities listed in point 1 above.

5. The owner and ultimate beneficial owners of a Diia City Resident legal entity cannot be:
   - On the sanction list
   - Residents or citizens of the Russian Federation
   - Registered in countries included in the FATF list.

### What tax privileges are granted to a Diia City Resident?

1. A Diia City Resident can choose how it will pay corporate tax:
   - 9 percent withdrawal capital tax, which is determined in accordance with the established rules, OR
   - 18 percent corporate income tax payable on general basis.

2. Distribution of profits (dividends) by a Diia City Resident paying 18% corporate income tax to a non-resident founder(s) is exempt from repatriation tax in Ukraine.

3. Specialists working for a Diia City Resident benefit from preferential taxation:
   - Under an employment contract concluded with a Diia City Resident
     - Personal income tax (PIT) at 5 percent, single social contribution at 22 percent of the minimum salary, military tax at 1.5 percent.
     - If a specialist’s remuneration amounts exceeds €240,000 per year, the amount of remuneration exceeding this limit will be subject to 18 percent PIT.
   - Under a special gig-contract concluded with a Diia City Resident
     - PIT at 5 percent, single social contribution at 22 percent of the minimum salary, military tax at 1.5 percent.
     - If an IT specialist’s remuneration exceeds €240,000 per year, all income exceeding this limit will be subject to 18 percent PIT.
   - Under a civil law agreement concluded with an IT specialist who is registered as a private entrepreneur (PE) paying a single tax
     - At 5 percent, a single social contribution— at 22 percent of the minimum salary during 2022–23 (the transitional period from PE models to gig-contracts and employment contracts).
     - The total annual income earned by such an IT specialist in 2022 may not exceed UAH 7,585,500 (approx.)
4. Dividends paid by Diia City Residents to their founders—individuals (both resident and non-resident in Ukraine)—will be exempt from taxation in Ukraine provided that dividends are paid no more than once every two years.

5. A tax incentive will be granted to individuals who are resident in Ukraine in connection with the purchase of a participation interest in a start-up company that is a Diia City Resident.

What legal privileges are granted to a Diia City Resident?

1. Diia City Residents benefit from a flexible system for attracting IT Specialists—they can work under an employment contract, a gig-contract or as the PE.

2. A new form of cooperation between Diia City Residents and IT Specialists. By working under “gig-contracts” IT Specialists are allowed to include such provisions as employees’ non-disclosure obligations, non-competition, remuneration in a foreign currency, which is currently prohibited by labor law.

3. The application for Diia City Resident status as well as the necessary documents attached thereto may be submitted both in writing and electronically. If the documents meet the established requirements and there are no grounds for refusal, the authorized state body is obliged to register the company as a Diia City Resident within 10 business days.

4. The Register of Diia City Residents is open and published on the official state website.

5. The debt of a Diia City Resident can be converted into a share in its capital as a condition for granting a loan by both Ukrainian resident and non-resident borrowers.

6. Diia City Residents benefit from additional guarantees (upon request) for the protection of intellectual property rights to objects created by IT Specialists.

7. The powers of the executive body (management functions) of a Diia City Resident may be performed by the director (directorate) or by a legal entity registered in Ukraine.

What additional guarantees are provided to a Diia City Resident?

The state guarantees that the current rules and regulations for Diia City Residents will not worsen for the next 25 years.

The law envisages a pre-trial procedure by a special commission for the consideration of complaints against a decision on loss of Diia City Resident status, within 30 business days. Loss of Diia City Resident status shall be entered in the Diia City Register only after such decision enters into force, including the court judgment.
When does the new law enter into force?

The above rules enter into force on January 1, 2022.

Your Key Contacts

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