Diia City framework

Taxes, requirements and joining procedure, gig contracts and more
## Contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory environment</td>
<td>3-4</td>
</tr>
<tr>
<td>What is Diia City (DC)?</td>
<td>5</td>
</tr>
<tr>
<td>Tax rules for DC residents</td>
<td>6-7</td>
</tr>
<tr>
<td>Requirements for DC residency</td>
<td>8-12</td>
</tr>
<tr>
<td>Employment contract, gig contract, civil contract</td>
<td>13-15</td>
</tr>
<tr>
<td>Reporting</td>
<td>16-17</td>
</tr>
<tr>
<td>Contacts</td>
<td>18</td>
</tr>
</tbody>
</table>
Regulatory environment
The Law introduces the Diia City framework, outlines organizational, legal and financial principles underlying the framework, such as requirements for residents, economic activities covered by the Law, a mechanism for joining the Diia City, and principles of cooperation between residents and regulators. Furthermore, the Law regulates matters related to employees, gig workers and individual entrepreneurs, the specifics of cooperation between these parties and a DC resident, as well as other matters.

The Law amended the tax legislation of Ukraine to establish a special taxation model for DC residents.
What is Diia City (DC)?

The Diia City legal framework is introduced to stimulate the development of the digital economy in Ukraine by creating favorable conditions for innovative business, building digital infrastructure, raising investment, and attracting talent.
Tax rules for Diia City residents
Corporate taxation

DC residents can choose from the following taxation models:
- Special taxation model – 9% tax on withdrawn capital
- General taxation model – 18% income tax

Taxing employee pay and gig worker remuneration

<table>
<thead>
<tr>
<th>Employee</th>
<th>Gig worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 5% personal income tax from the salary</td>
<td>• 5% personal income tax from the remuneration</td>
</tr>
<tr>
<td>• 1.5% military tax from the salary</td>
<td>• 1.5% military tax from the salary</td>
</tr>
<tr>
<td>• 22% unified social tax from the minimum salary set in Ukraine</td>
<td>• 22% unified social tax from the minimum salary set in Ukraine</td>
</tr>
</tbody>
</table>

The reduced rate of personal income tax is applied to the amount of annual income not exceeding the equivalent of EUR 240 thousand. The part of the income exceeding the specified amount is taxed on general grounds at the rate of 18%.

The DC framework provides for preferential terms for transactions with founder dividends for those residents who have chosen the special taxation model, namely:
- the founders are given the opportunity to withdraw dividends once every 2 years without taxation;
- are exempt from the obligation to pay advance payments of income tax when dividends are paid;
- reinvestment of dividends in Ukrainian startups is tax-free; also allows to withdraw dividends for such purposes more than once every 2 years.
Requirements for DC residency
Requirements for DC residency

A DC resident may be a legal entity registered on the territory of Ukraine in the manner prescribed by the legislation of Ukraine, regardless of its location and place of business, which meets all of the following requirements:

• carries out one or more activities defined by the Law “On Stimulating the Development of the Digital Economy in Ukraine”, which is specified in its charter and/or records about such legal entity in the Unified State Register

Requirements to be guaranteed at the time of application and further compliance with these requirements shall be confirmed after a three-month “trial period”

• the average monthly remuneration for the employees and gig workers involved is not less than the equivalent of EUR 1200;
• the average number of employees and gig workers is not less than 9 people;
• the amount of qualifying income of the legal entity earned for the first three calendar months following after the calendar month in which the legal entity acquired the status of a DC resident is not less than 90 percent of its total income for such period, and the amount of qualifying income earned for each calendar year of being a DC resident, is not less than 90 percent of the total income of the legal entity for the same period.

IMPORTANT!!!
Once the ‘trial period’ is over, the Resident is required to submit a report in the prescribed form, confirmed by an independent audit opinion.
In case of non-compliance with the residency requirements upon completion of the ‘trial period’, the authorized body may decide to terminate the status of a DC resident for that very legal entity.
Procedure for obtaining DC residency

1. An application is submitted to the authorized body – the Ministry of Digital Transformation of Ukraine.
2. The application to obtain the status of a DC resident is reviewed and assessed for compliance. The application review period is 10 business days from the date of its receipt. The absence of a decision to leave the application without a review or to refuse in obtaining the status within the period prescribed by law means that the application has been accepted (implied consent is assumed).
3. The authorized body sends a positive or negative decision on giving the entity a DC resident status to the State Tax Service of Ukraine, as well as the information, if any, on the applicant selecting an income tax payer as its taxation model.
4. A respective entry is made in the Diia City register.
Qualifying activities

- Computer programming, consultancy and related activities, computer facilities management activities.
- Publishing of computer games, as well as other software publishing.
- Providing software products, including computer games, online and providing web services for the delivery of software applications, including the distribution of copies of software in electronic form.
- Educational activities in the field of IT.
- Data processing and related activities, other than the provision of data processing and hosting infrastructure, hosting services, and web portal activities.
- Research and experimental development services in the area of natural and technical science in respect of IT and communication technologies.
- Conducting marketing campaigns and providing advertising services using software developed with the participation of a DC resident, on the Internet and/or on users’ devices.
- Activities of organizers of e-sports competitions, e-sports teams, specialized computer centers and/or clubs designed for e-sports competitions, as well as studios for broadcasting e-sports competitions.
- Activities of a service provider related to the circulation of virtual assets.
- Ensuring cybersecurity.
- Activities for the design (construction), research, testing of technologies, devices and systems of robotics using computerized control systems.
A DC resident that has obtained the status without meeting all the residency requirements shall submit the following documents to the competent authority no later than on the last day of the sixth calendar month following the calendar month in which the DC residency was obtained:

- a report on compliance with all the requirements set by the Law of Ukraine “On Stimulating the Development of the Digital Economy in Ukraine”, based on three full calendar months following the month in which the DC residency was obtained (initial compliance report).

IMPORTANT!
A legal entity that does not meet all the requirements necessary to obtain residency has the right to remain a Diia City resident, but for no longer than 31 December of the calendar year following after the calendar year in which it obtained the DC residency.

If that is this case, the following requirements shall be met to remain a DC resident:
- the entity carries out activities covered by the Diia City framework;
- the amount of qualifying income is 90% of the total income of the legal entity;
- the creation of a legal entity was registered with the state not earlier than 24 calendar months before the date on which the application for a DC residency was submitted.

If after the expiration of the above period the legal entity meets all the mandatory requirements, it shall continue to be a DC resident.
Employment contract, gig contract, civil contract
<table>
<thead>
<tr>
<th>Employment contract</th>
<th>Gig contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is concluded with an employee</td>
<td>Is concluded with a gig worker</td>
</tr>
<tr>
<td>Is regulated by the labor legislation</td>
<td>Is regulated by a specific law</td>
</tr>
<tr>
<td>A loss of the DC residency by the employer does not lead to termination of employment</td>
<td>Loss of legal status of a DC resident leads to termination of the gig contract on the last day of the 3rd calendar month following the calendar month in which the record confirming the loss of Diia City residency entered into the Diia City register, unless the gig contract indicates a shorter period</td>
</tr>
</tbody>
</table>

**Gig contract** is a civil contract whereby the gig worker commits to perform work and/or provide services in accordance with the tasks of a DC resident (who acts as a customer), while a DC resident commits to pay for the work performed and/or services provided and ensure proper conditions for the gig worker to perform work and/or provide services, as well as social guarantees provided by the Law “On Stimulating the Development of the Digital Economy in Ukraine”

**Gig worker** is an individual who acts as a contractor under a gig contract.
There are no restrictions on cooperation with single tax payers for residents who have chosen the general taxation model – 18% income tax, and if their annual income does not exceed UAH 40 million.

However, the law provides for a transition period, which consists of the following stages:

1. Until 2024, there are no restrictions for residents to cooperate with single tax payers.
2. During 2024, the expenses of DC Residents for cooperating with single tax payers shall not exceed 50% of the Resident’s total expenses.
3. After 2025, the expenses of DC Residents for cooperating with single tax payers shall not exceed 20% of the Resident’s total expenses.
DC Residents are required to report annually for compliance with residency requirements.

The annual compliance report shall be accompanied by an independent opinion submitted by an auditing entity on the verification of the statements made by the DC resident set out in its annual compliance report.

The first annual compliance report shall be submitted for the period from the date of obtaining the DC residency status until December 31 of the respective calendar year.

The compliance report should include:

1) an assurance of the DC resident’s compliance with all requirements;
2) a statement on the amount of the average monthly remuneration to employees and gig workers (if any were engaged) for each calendar month of the reporting period;
3) a statement on the average number of employees and gig workers (if any were engaged) of a DC resident for each calendar month of the reporting period;
4) a statement on the amount of the share of the DC resident’s qualifying income earned for the reporting period in its total income earned during the reporting period;
5) a statement on the amount of income of a DC resident that has obtained the resident status without meeting all the requirements.
Contact us:

GLOBAL OFFICE
6th Floor
2 London Wall Place
London EC2Y 5AU
United Kingdom
T: + 44 (0) 20 3882 2000

CENTRAL OFFICE
28 Fizkultury St.,
Kyiv, 03150
Ukraine
T: + 380 (44) 284 18 65
F: + 380 (44) 284 18 66

SOUTH OFFICE
39/1 Uspenska St.,
Odesa, 65014
Ukraine
T: + 380 (48) 734 71 83
F: + 380 (48) 734 71 83

EAST OFFICE
Soborniy Avenue 160,
Zaporizhzhya, 69005
Ukraine
T: + 380 (61) 220 23 82
F: + 380 (61) 220 23 82

ACCOUNTING SERVICES
36 D E.Konovaltsa St.,
Kyiv, 01133
Ukraine
T: + 380 (44) 237 78 07
F: + 380 (44) 237 78 06

Baker Tilly Ukraine Accounting Services LLC trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.