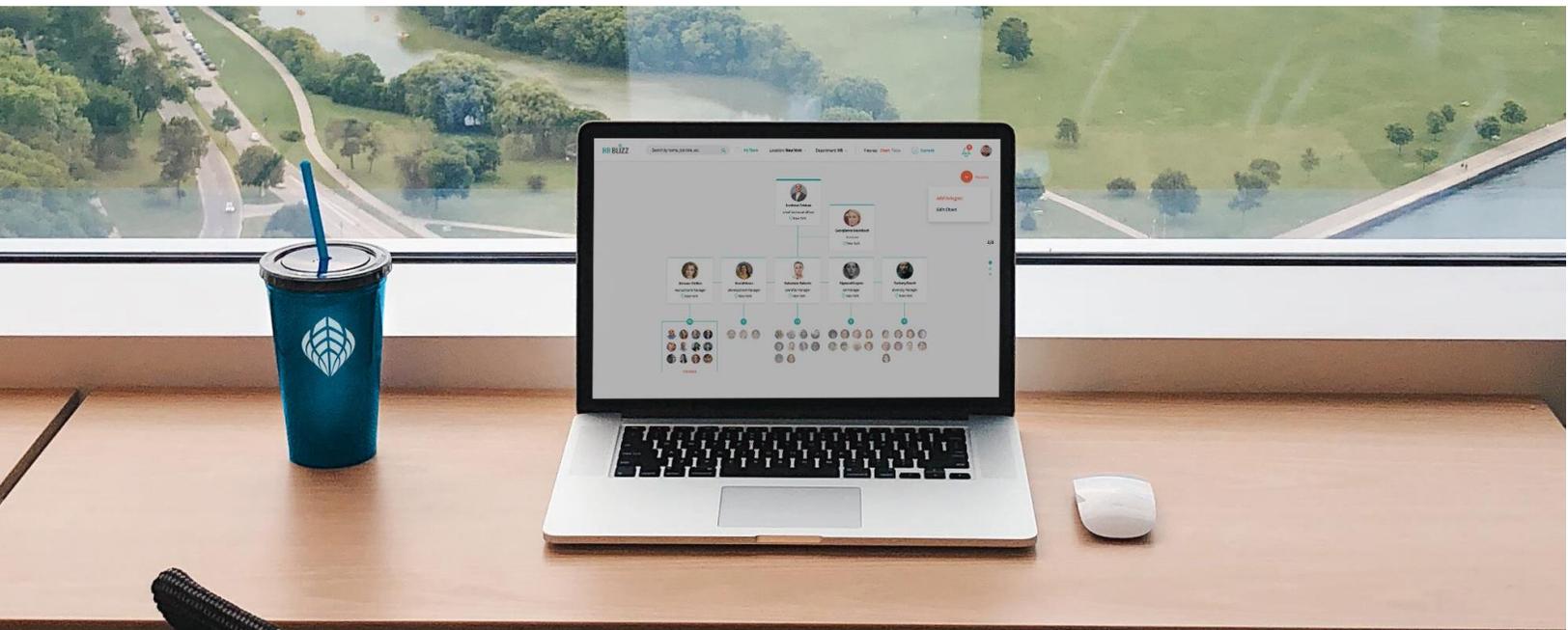




Simplifying Employment
Tasks Worldwide

Payroll & Tax Highlights

2020 Global Payroll Country Guide for Ukraine



UKRAINE



May 11, 2020



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Thank you for trusting Mercans to outsource your HR and Payroll functions. We propose HR consulting services, actionable solutions, and cost-effective global payroll processing tools to energize your human capital management in real-time and augment your performance. We are dedicated to becoming your business growth facilitator.



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Rationalize your HR budgets, monitor your data, and optimize your global payroll tasks in real-time. Systematize processes and streamline HRM lifecycles with HR Blizz™, our unified SaaS platform, to ensure your employees are paid accurately and on time.



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Mercans at a Glance

140+

Countries

20

Years of Success

500+

Specialists

5k+

Customers Worldwide

97%

Client Retention Rate

1.5X

Annual Revenue Growth

25k+

Largest Single Payroll

2.5M+

Pay Slips per Annum

0

Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.





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WORK REGISTRATION PERMIT20



Ukraine – Country with a Complex Economy

Ukraine gained its independence in 1991 after collapse of Soviet Union and has been long known as “Breadbasket of Europe” because of its fertile black soil.

Agricultural sector contributes about 10% of the GDP and employs 15% of the working population. Ukraine is major grain exporter (wheat, corn, barley etc.). In 2018-19, Ukraine exported a record 50 million tons of grain and 2019-20 season that began last July, export has been up 21% y-o-y.

The Ukrainian industrial sector employs about 25% of the population and accounts for 24% of the GDP. The sector is dominated by heavy industries such as iron and steel, but followed by coal mining chemicals, mechanical products and shipbuilding.

The service sector contributes 50% of the GDP with 60% employment of working population.

Ukraine has been well known for its energy transit, historically it has been transporting through its territory Russian and Caspian oil and gas to Western Europe. However, Ukraine’s role as the main transit corridor has diminished, with Russia seeking alternative routes.

Ukraine is a very open economy, with a share of foreign trade in the country's GDP of 99% in 2018 (World Bank).

Ukraine’s main trading partner is EU – 42.6% by destination and 40.4% by origin (WTO). The EU and Ukraine have provisionally applied their Deep and Comprehensive Free Trade Agreement (CCFTA) since January 2016.

EU is followed by Russia with 7.7% of exports and 14.2% of imports. Other main export partners are Turkey, China, India and main import partners are China, Belarus and USA.

In 2019, Ukrainian economy showed stable growth of 3.2% and the hryvnia was the best-performing currency in the world, appreciating 19 percent in relation to the US dollar. Inflation has eased to 2.4% in February 2020 and real wages increased by 10% in 2019.

In previous years there has been a large wave of migration of workers from Ukraine to Poland. It is estimated that about 2 million Ukrainian migrants have arrived in Poland since 2014. Now unemployment rate in Ukraine has fallen under 9% and Ukrainian firms have been seeking for workers.

Due to the current uncertain times of world economy and COVID-19 impact, International Monetary Fund is expecting Ukraine’s economy to subtract by 7.7% in 2020, but to turn back to growth of 3.6% in 2021.

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Doing Business in Ukraine

Ukraine enjoys opportune geographic location in Europe between east and west. It is rich in natural resources and known for its fertile soil.

Ukraine is the 50th largest export economy in the world and the 39th most complex economy according to the Economic Complexity Index (ECI).

The information technology services industry is among the fastest growing areas of Ukraine's economy, with entrepreneurs taking advantage of the large number of the country's workers who are highly educated in technical fields. Last year saw Ukraine make a whopping \$2.5 billion from providing IT services abroad.

Basic Facts

Official State Name	Ukraine (Україна)
Population	42 million
Capital	Kyiv
Major Languages	Ukrainian
Currency	Ukrainian hryvnia (UAH)
Main Industries & Export Articles	Ferrous and non-ferrous metals, chemicals, machinery, fuel and petroleum products, transport equipment and food products, seed oils, corn, wheat, sunflower products.
GDP Growth	3.2%
Internet Domain	.ua
International Dialing Code	+380
Dates & Numbers	dd.mm. yyyy. Space is used as grouping character, grouping of 3 is used. Decimal character is comma. (999 999 999,00)



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Entity Registration & Incorporation Requirements

Type of Business

The types of companies in Ukraine:

- limited liability company;
- joint stock company;
- joint venture;
- private entrepreneur;
- representative office and branch office (applicable for foreign companies only).

Most common of the above-mentioned options are joint stock companies (“JSCs”) and limited liability companies (“LLCs”), both of which embody the concept of limited liability for investors.

Business Setup Steps

1. Register the company at the State Registrar or Notary. Following documents must be submitted:
 - Form 1 "Application for registration of legal entity" (format approved by the order of Ministry of Justice of Ukraine);
 - original or notarized copy of the decision of founders on establishment of the entity (Minutes of General Meeting of Participants);
 - LLC company's charter executed by the founders;
 - the founder's meeting minutes.

Online option available (<https://kap.minjust.gov.ua/>, <http://rp.irc.gov.ua/>).

2. Prepare a seal. Seal is not obligatory in Ukraine, nevertheless some normative acts still require a seal.
3. Notarize signature card. To do so, an authorized person should submit to a notary documents proving person's right to represent the company and execute documents on its behalf.
4. Opening permanent bank account.
List of required documents for opening of the bank account for the Legal Entity includes:
 - a copy of the charter of the LLC;
 - a notarized signature card or a notarized copy of the signature card;
 - completed bank questionnaire;
 - completed application form to open a bank account and activate the online banking system;
 - other agreements may be required by the bank;
 - due to anti-money laundering rules, the bank will require disclosure of the whole group structure of the founder(s) down to the natural persons who are the ultimate beneficial owners of the founder(s) (if any).



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5. Register VAT at the State Tax Authority and obtain a VAT number. Application on registration of a VAT payer may be submitted simultaneously with the registration of a legal entity at the State Registrar. The state registrar or notary submits electronic copy of such an application to the District Tax Office together with the information on the registration of a legal entity.
6. Register employees with the State Fiscal Service at least one day prior to commencement of work. Filing can be completed online using electronic digital signature.

Limited Liability Company

LLC can be established by at least one person, either physical person or legal entity, irrespective of the residency. However following restrictions apply:

- an individual or a legal entity (either foreign or Ukrainian) may not be the sole founder of and/or the sole participant in more than one LLC in Ukraine;
- a wholly owned subsidiary in the legal form of an LLC may not be established by another wholly owned subsidiary (either foreign or Ukrainian);
- the maximum number of founders of an LLC may not exceed 100 legal entities or individuals.

The activity of LLC and corporate relationships between shareholders are governed by the Law of Ukraine "On Limited Liability and Additional Liability Companies," company's Articles of Association and shareholders' agreement.

There is no requirement of minimum share capital.

Limited Liability Companies are required to submit monthly, quarterly and annual tax returns as well as monthly returns on social contributions and quarterly and annual financial statements.

Joint Stock Company

There are public and private joint stock companies. Public joint stock companies are established by public offering. Both, private and public JSC shares must be registered with the State Commission of Securities and Stock Market.

There are some restrictions that apply for JSCs: The following restrictions apply:

- a wholly owned subsidiary in the legal form of a JSC may not be established by another wholly owned subsidiary (either foreign or Ukrainian);
- a JSC may not have among its shareholders only legal entities that are wholly owned by the same person.

Shareholders of JSC are liable for JSC's obligations only in the amount of their equity contributions to its charter capital.

Limited Liability Companies are required to submit monthly, quarterly and annual tax returns as well as monthly returns on social contributions and quarterly and annual financial statements.



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Minimum share capital of JSC is 1,250 times the officially established minimum monthly salary as of the date of the formation of the JSC, currently appr. 220 thousand USD.

Joint Venture

Joint Venture is not a legal entity, but joint activity of foreign investor and Ukrainian partner, which is formally referred to as “joint activity agreement”. Such contractual joint ventures must maintain separate accounting records and must establish separate bank accounts for their joint operations.

Profit and risk distribution have to be agreed upon in the joint activity agreement. All Joint Venture parties are fully liable for the debts of the Joint Venture.

Joint Venture with foreign investor is subject to registration with local state authorities of Ukraine for small registration fee.

Private Entrepreneur

Private Entrepreneur form (available for foreign and Ukrainian residence) is simple to register and maintain and it is subject to Simplified Tax Regime (in case of income up to 5 million UAH per year), which can offer significant tax savings. Simplified Tax Regime offers tax rate of up to 5% of the income.

Private individual registered as Private Entrepreneur bears full personal responsibility for all business risks. Private Entrepreneur can open bank account and hire employees.

Even though foreign individual can register as Ukrainian Private Entrepreneur, it cannot be grounds for obtaining residency permit in Ukraine.

Representative Office and Branch Office

Foreign companies may establish in Ukraine Representative Office or Branch Office.

Representative Office may carry out marketing, promotional, and other similar functions on behalf of the foreign company.

There are two types of representative offices:

- Representative Office - non-commercial representative office can only function to represent its headquarters with no right of business activity on the territory of Ukraine; and
- Branch Office - commercial representative office (or permanent establishment) can conduct business and gain profit.

Representative office is not a separate legal entity and operates in Ukraine on behalf of the foreign company it represents.

Registration of representative offices of foreign companies is managed through the Ministry for Economic Development and Trade in Ukraine. A representative office should then also be registered with the Statistics Department, the tax authorities and pension fund.



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Representative offices are required to submit monthly, quarterly and annual tax returns and financial statements, even if they do not carry out business activity.

Financial Statements

All companies registered in Ukraine are obliged to file annual financial statements. Annual financial statements are to be filed to state statistics service or to the state tax service until February 28th and March 1st of the following year respectively.

Law required different amount of data to be published, depending on the size of the company. Size is measured by company's revenue and number of employees.

Micro-size companies with revenue up to 2 million EUR and average number of employees up to 10 have to submit simplified form of balance sheet and profit and loss report.

Companies with revenue up to 10 million EUR and average number of employees up to 50 have to submit balance sheet and profit and loss report.

Larger companies have to add cash flow statement, equity statement and notes.

Reporting of financial statements in Ukraine is subject to the Accounting Act and other regulations.

Depending on the company type, either the IFRS or national accounting standards are used. Companies using the IFRS submit their financial statements in full form.

Audit Requirement

Law "On Accounting and Financial Reporting in Ukraine" establishes criteria for classification of companies as "micro", "small", "medium" and "large". For the classification, the company must meet at least two of the following criteria:

	"Micro"	"Small"	"Medium"	"Large"
Balance sheet value of assets	up to 350 thousand EUR	up to 4 million EUR	up to 20 million EUR	over 20 million EUR
Net sales revenue	up to 700 thousand EUR	up to 8 million EUR	up to 40 million EUR	over 40 million EUR
Average number of employees	up to 10 persons	up to 50 persons	up to 250 persons	over 250 persons

It is required to post annual financial statements with an auditor's report on company's webpage on April 30th of the year following the reporting year for following companies:

- "Large" companies that issue securities;
- Companies issuing securities listed in stock exchanges;
- Banks, insurance companies, private pension funds, other financial institutions (other than "micro" and "small" companies);



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- Natural monopolies in the national market;
- Mining companies of the national significance.

By June 1st of the year following the reporting year for following companies have to post annual financial statements with an auditor's report on company's webpage:

- "Large" companies that do not issue securities;
- "Medium" companies;
- Financial institutions which are "micro" or "small" companies.

As a result, financial statements of the aforementioned companies which are subject to the obligation to disclose their financial statements and auditor's report shall be subject to mandatory audit.

New Hires

Company can hire people either as salaried employees with labor agreement under the Labor Code or as freelancers with sub-contractual agreements governed by Civil Code.

Freelancers are registered as Private Entrepreneurs and taxed according to Simplified Tax Scheme. Their employment is not regulated by Labor Code.

Employment contracts for regular salaried employees can be:

- For indefinite term (most common)
- For fixed term
- For seasonal work (in order to perform services on a seasonal base)

Employment contract should include at least identification details of employer and employee, type of work, contract duration, the place where the work is performed, remuneration, working time, vacation days, probationary period and notice period.

Terms of employment contracts should be at the same level or better than conditions guaranteed under the Labor Code.

Tax Office Registration

State Tax Services have to be given notice of hiring employee prior to the start date. Notice of hiring employee is formal notice including following information:

- Date of issuance of company internal order for hiring;
- Date of employment,
- Date of formation of notice.

Notice of employment is considered part of employment contract.

Notice of employment can be submitted in one of the following ways:

- By electronic communication with electronic signature or responsible persons;
- On paper together with electronic form;
- On paper only.



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Not registering employee before employee starts work is a violation of labour legislation and is subject to fine.

Banking

The banking system of Ukraine is supervised by the National Bank of Ukraine that defines and pursues the monetary policy in Ukraine, issues the national currency and oversees its circulation, as well as regulates banks' activities in the territory of Ukraine.

National Bank of Ukraine has faced many challenges over the years including shady banks being involved in money laundering and oligarchic deals. By today, the banking sector has gone through many reforms and appears in better shape.

3 largest banks in Ukraine are state-owned PrivatBank, Oschadbank, Ukreximbank.

Normal banking hours are from 09:00 until 17:00 Monday through Friday.

Working Hours

Generally, the length of a working week is restricted to 40 hours over five-day working week. In some cases, employer may introduce a six-day working week, and, in this case, employees may not work more than seven hours per day. Some categories of employees are entitled to work shorter weeks.

Employers must also, if requested, grant a short workday or workweek (with proportional payment) to a pregnant woman or to a woman having a child under the age of 14, a disabled child or for those who take care for sick family member based on a medical recommendation.

Employees under harmful working conditions and employees under 18 are entitled to work shorter workweeks (up to 36 hours per week).

Workdays before national holiday is shortened by one hour.

Labour Law

The Code of Laws on Labor of Ukraine dated 10 December 1971, as amended, is the principal but not the sole legislative act governing employment relationships in Ukraine.

In case the relationship is between employer and a freelancer, it is regulated by Civil Code of Ukraine.

In addition to Labor Law working conditions, remuneration and social privileges are commonly left to collective bargaining agreements provided that the agreements do not limit the guarantees established for employees, by law.



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Tax & Social Security

Overview

All legal entities must register with State Registrar. Businesses owned by foreign citizens or non-resident companies have the same legal status as Ukrainian companies. Main legislative acts are Tax Code of Ukraine and Customs Code of Ukraine.

All taxes are classified either as national or local.

The main taxes are:

- Corporate income tax (CIT)
- Value added tax (VAT)
- Personal income tax (PIT) and single contribution to mandatory social security fund.

Corporate Income Tax

Corporate Income Tax payers are:

- Resident business entities that generate profits from their activity both within and outside the territory of Ukraine;
- Foreign legal entities that derive profits from Ukrainian sources;
- Permanent establishments of non-residents that draw their income from the Ukrainian sources or act as agents.

The basic CIT rate is 18% from the gross income. However, small legal entities in Ukraine may choose a simplified taxation, which has different groups of payers and tax rates.

For the purposes of the CIT calculation the reporting tax period is considered to be a one-year period starting from the 1st of January until the 31st of December of the related reporting year, except for the producers of agricultural goods for which the annual reporting period shall start on the 1st of July of the current reporting period and end on the 30th of June of the following reporting period.

The tax return must be submitted to the tax authorities prior to the 1st of June of the following year. Tax return should include tax calculation of the advance contribution to be paid with 12 months from June to May in the subsequent year on monthly basis.

Ukraine-sourced income received by a non-resident is taxed in the amount of 15% of the income sum, unless otherwise specified by the effective international double taxation treaties of Ukraine concluded with the countries of residence of persons the income is paid to.

Value Added Tax

All legal entities have to pay VAT if they have sold goods subject to VAT with value exceeding 1 million UAH within 12 last calendar months, import goods or services or supply goods or services in Ukraine via computer network.



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Basic VAT rate is 20% of cost of goods/work/services. The reduced rate of 7% is applied to the sale and import of medicine and medical devices. A 0% tax rate is provided by the Tax Code for the export of goods. The VAT reporting period is one calendar month. The single taxpayers shall have a right to choose a VAT reporting period on a quarterly basis. The VAT return has to be submitted to the State Fiscal Service within 20 calendar days following the last calendar day of the reporting (tax) month. The specified tax amount due shall be paid within 10 days following the deadline for submission of the tax return.

Personal Income Tax

Personal income Tax is levied on tax residents (physical persons) all income and on non-residents income derived from Ukraine.

PIT agents are considered to be persons who accrue and pay income for the benefit of individuals, such as employers, banks during the interest payment, lessees, issuers during the dividend payment, etc. Tax agents are liable to withholding and payment of PIT.

A tax resident of Ukraine is an individual who has a permanent residence in Ukraine. In cases where the individual has a place of residence in a foreign country, he or she is considered to be a resident if such a person has a permanent residence in Ukraine; if the person has a permanent residence in a foreign country, he or she is considered to be a resident if there are close personal or economic ties (centre of vital interests) in Ukraine. If it is impossible to determine the state of the person's centre of vital interests, or if physical person does not have a permanent place of residence in one of the states, he or she is considered to be a resident if he or she resides in Ukraine for at least 183 days (including the day of arrival and departure) during the fiscal year period(s).

Employment Income

PIT base includes income in the form of a salary, proceeds of performance of works under civil law and employment contracts, benefits-in-kind, over-expenditures of funds granted for business trip expenses.

Cost of free healthful and dietary meals, milk or equivalent foodstuff, special clothing and other personal protection equipment provided under the Law of Ukraine "About a Labour Safety" is not subject to PIT

Personal Income Tax rates

The general tax rate is nonprogressive and amounts to 18%.

Personal Deduction

Tax Code allows an individual resident taxpayer to claim as non-taxable deductions certain expenses made during the taxable year, provided that such expenses can be confirmed by the relevant documents.

Individual resident taxpayer will be able to claim a deduction for the following:

- part of the interest payments made under a loan secured by a mortgage, provided that the loan is used to finance the purchase or construction of the taxpayer's primary place of residency;
- charitable contributions of not more than 4% of the taxpayer's annual taxable income;
- a certain amount of expenses paid to educational institutions for a professional or higher education;



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- a certain amount of expenses paid to health institutions for personal medical needs.

Tax deductions have to be indicated on annual tax returns and are only provided to resident taxpayers. The total amount of tax deductions cannot exceed the total amount of taxable income in the form of salary.

Reporting and Payment

Employers are deemed to be tax agents with respect to the personal income tax due on the wages and salaries payable to their employees. The relevant tax returns are filed by tax agents quarterly and the remittance is made at the time of payment of income.

Unified Social Contribution

The unified contribution on compulsory state social insurance is collected to the compulsory state social insurance system.

All employees are covered with social security benefits including a pension. Employer makes Unified Social Contribution payments to State Pension Fund, which in return divides the contributions between Pension Insurance Fund, Temporary Disability, Birth, and Burial Fund, Unemployment Insurance Fund, and Industrial Accident and Professional Disease Disability Insurance Fund.

The Unified Contribution is paid by the employer is not deducted from the employees' salaries. Unified Contribution is payable at the rate of 22%. The maximum taxable base for the purposes of Unified Contribution constitutes 25 times the minimum statutory monthly salary (currently 4,723 UAH).

The Unified Contribution is payable by the employer at the time of payment of income.



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Payroll

The salary in Ukraine is payable to employees twice per month with an interval between payments not exceeding 16 days (advance payment and final salary payment).

It is mandatory to keep timesheets for all employees, irrespective of company size. Salary calculations are based on timesheets reflecting the days (hours) worked by each employee. It should contain information on vacation days, sick leave, business trips, overtime, and work on weekends and holidays, etc.

Employer is obliged to provide payslips to employees, either in electronic form or in hardcopy.

All the employee's salary and related payments should be made in local currency (UAH). It is impossible for Ukrainian companies to pay salary in foreign currency.

If the salary payment day falls on a weekend day, a holiday or a day off, the salary shall be paid on the working day before.

Final Pay

The Final Pay has to be paid on the last working day of the employee. Employer has to pay the employee salary for the days worked in the exit month, compensation for unused annual leave days, and other payments the employee may be entitled to (bonuses, allowances).

Sick Pay

In case of Sick Leave, employee is obliged to provide employer sick leave certificate. An employer compensates the first five calendar days of a sick leave, and the other sick leave days are compensated by the Social Security Fund of Ukraine for Temporary Disability.

In Ukraine all calendar days of sick leave are payable, including holidays and non-working days. Employee's sick leave allowance depends on employee's social security record and is calculated as an employee's average salary x number of sick leave days x percentage of sick leave allowance.

Social Security Record	Sick leave allowance, %
less than 3 years	50%
3-5 years	60%
5-8 years	70%
more than 8 years	100%

Maternity and Childcare

An employee has to provide employer with a sick leave certificate, which is issued from the 30th week of pregnancy on 126 calendar days (70 days before the childbirth and 56 after).



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Leave for the reason of pregnancy and childbirth is 100% compensated by the employer (without application of percentage scale). A childcare leave for a duration not exceeding three years could be provided to the employee upon request (the respective application is required from the employee's side), this kind of leave is unpaid.



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Employment Law

Labor relations and working conditions in Ukraine are regulated by the Labor Code of Ukraine dated December 10, 1971 and collective bargaining agreements.

Employment Agreement

Businesses may engage individuals in Ukraine to either employment agreements concluded in accordance with the Labor Code, or so-called “civil law contracts” concluded in accordance with the Civil Code (eg, an independent consultant agreement). In the latter case, the individual should register as an entrepreneur with the local tax office prior to signing the civil law contract.

Employment agreements have to be concluded for an unlimited period. In some cases law allows to conclude agreement for a limited period agreed upon by the parties or for a period required to complete a given amount of work.

Working Conditions

In general, working week in Ukraine is limited to 40 hours, with a five-day working week. An employer may introduce a six-day working week; however, employees may not work more than seven hours a day. Under the law, overtime is restricted. The amount of overtime may not exceed four hours in any two-day period or 120 hours in a year. The law also requires overtime to be paid at double rates.

Leaves

Employee are entitled to an annual leave of 24 calendar days per year. Employee has the right to take leave after 6 months of employment with the company. Employee is also entitled to have 15 calendar days of unpaid vacation.

Employment Termination

The employment may be terminated due:

- staff reduction;
- liquidation;
- discharge for the violation of labour agreement, labour law, internal rules etc. but only in accordance with the procedure set by the labour law
- voluntary termination of one’s labour agreement with previous two-week notification of Employer
- by default, at the date specified in the contract, in the case of a fixed-term agreement



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Immigration

Immigration permits to Ukraine are granted within the immigration quotas.

Visa

Citizens of Armenia, Azerbaijan, Georgia, Moldova and Uzbekistan can enter Ukraine without a visa for an indefinite stay.

Citizens of 67 countries (including European countries, Russia, USA, Canada, etc) can enter Ukraine without visa for a stay up to 90 days within any 180-day period.

Temporary Residence Permit

There are 3 types of Temporary Residency Permits for Ukraine – for employment, study or marriage purpose. Person can apply for Residence Permit for Employment purpose once the person has started working in Ukraine and fulfilled all Work Permit requirements.

Employee must be physically present in Ukraine to apply for temporary residency permit. There are 3 steps in order to receive temporary residency permit:

- arriving in Ukraine on special visa (type “D”);
- applying for Temporary Residence Permit;
- of Residential Address in Ukraine.

Work registration Permit

Application of work permit is made by employer, not employee. Work permit is issued for specific employer and specific position, not general work permits.

Ukrainian law defines minimal salary requirements for foreign employees, these depend on the category of position. Work permit application with supporting documents are submitted by employer with local authorities of State Employment Service of Ukraine or Central Provision of Administrative Services. Processing time is approximately 10 working days.

Work Permits can be renewed unlimited number of times.



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Mercans cloud-based SaaS Products, HR Blizz™ & Mesar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

Trailblazing Cloud-Based SaaS Products

HR Blizz & Mesar, our Software-as-a-Service platforms, both propose a preconfigured API integration capability with all the major global HRMS platforms, including SuccessFactors, Workday, Oracle HCM, and MS Dynamics. All Mercans systems and processes are GDPR compliant, ISO 9001, 20000, 27001 certified, and SOC 1 and SOC 2 audited. A registered Finpro expert, Mercans is also a member of the Global Payroll Association and the Global Payroll Management Institute.



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