

ClientAlert

Tax

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From 1 January 2012 the mandatory social contributions rules change significantly.

- For the period of 2012 – 2013 the tariffs applicable to social contributions to the Pension Fund are going to change, increasing significantly the employer's burden with regard to employees with annual an employment income over *RUB 512,000* (the "Threshold"):
 - with regard to employee's annual income up to and including *RUB 512,000* – tariff will be reduced from 26% down to 22% (and by taking into account tariffs of social contributions to the Social Security Fund and the Medical Insurance Fund, the aggregate tariff is reduced from 34% down to 30%);
 - with regard to employee's annual income over *RUB 512,000* – a tariff of 10% is introduced.
- The obligation to pay social contributions to the Pension Fund is also introduced with regard to *foreign citizens*, who (a) temporarily stay in Russia (i.e., on a visa, if applicable), (b) work under an employment contract (for an unlimited term or for a term exceeding 6 months), and (c) do not enjoy the "highly-qualified-specialist" status. For the period of 2012 – 2013 the following tariffs will apply with regard to such foreign employees:
 - with regard to employee's annual income up to *RUB 512,000* – 22% (although the law is ambiguously drafted and permits a reading that a tariff of 16% applies);
 - with regard to employee's annual income over *RUB 512,000* – 10%.

The table below compares social contribution tariffs applicable in 2011 with those which are introduced for 2012-2013.

For more information, please contact:

Irina Dmitrieva

Partner

+ 7 495 787 3003

idmitrieva@whitecase.com

White & Case LLP
4 Romanov Pereulok
125009 Moscow
Russia
+ 7 495 787 3000

Year		2011		2012 – 2013	
Employee's citizenship		Russians	Foreigners	Russians	Foreigners
Threshold		RUB 463,000	n/a	RUB 512,000	RUB 512,000
Tariff of contributions to Pension Fund	within the Threshold	26%	0%	22% (max. RUB 112,640)	22% (max. RUB 112,640)
	over the Threshold	0%	0%	10%	10%
Tariff of contributions to Social Security Fund	within the Threshold	2.9%	0%	2.9%	0%
	over the Threshold	0%	0%	0%	0%
Tariff of contributions to Medical Fund	within the Threshold	5.1%	0%	5.1%	0%
	over the Threshold	0%	0%	0%	0%
Aggregate tariff of social contributions		only within the Threshold: 34% (max. RUB 57,420)	0%	within the Threshold: 30% (max. RUB 153,600) plus over the Threshold: 10%	within the Threshold: 22% (max. RUB 112,640) plus over the Threshold: 10%

- The list of employers which pay social contributions at reduced tariffs and only within the Threshold, is extended as follows:
 - tariff of 20% (payable only to the Pension Fund) for the period of 2012-2013: for employers which apply the simplified tax regime and are engaged in certain business activities (the list of qualifying activities is extended and now includes transportation, communication, retail trade with pharmaceuticals and medical goods) as well as for charitable or non-commercial organizations (with certain exemptions);
 - tariff of 14% for the period of 2012-2017: for “residents” of tourist-recreation zones or technical-innovative zones with regard to remuneration of employees working, in particular, in a cluster of tourist-recreation zones or in industrial-production zones respectively;
 - aggregate tariff of 30% for the period of 2012-2013: for engineering companies (other than residents of the technical-innovative special economic zone and under certain conditions);
 - tariff of 0% for the period of 2012-2017: with regard to employment remuneration for crew members of vessels registered in the Russian international vessels registry.
- Certain other insignificant amendments are introduced, in particular, aimed at the adjustment of control over collection of contributions.

These changes are being introduced by the Federal Law No. 379-FZ, dated 3 December 2011, and will apply to employment remuneration accrued after 1 January 2012.