

Special tax update: replacement of unified social tax with social contributions

August 2009



On 24 July 2009 the President signed Federal Laws No. 212-FZ and 213-FZ which abolished the unified social tax ("UST") and replaced it with social contributions as of 1 January 2010.

UST was introduced in 2001 and replaced and consolidated social contributions. At that time, social contributions were collected by five off-budget funds - the Pension Fund ("PF"), the Social Insurance Fund ("SIF"), the State Employment Fund, the Federal Fund for Mandatory Medical Insurance ("FFMMI") and Territorial Funds for Mandatory Medical Insurance ("TFMMI"). In the year 2000, in aggregate, these contributions amounted to 38.5% from employers plus 1% from employees.

When UST was established, with its regressive rate schedule decreasing from 26% down to 2% on annual earnings in excess of 600,000 rubles, it considerably reduced the burden of social contributions on Russian employers and had the effect of encouraging some to institute appropriate reporting and payment of salaries.

As of 2010, Russia will return to the old system of collection and administration of social contributions. However, unlike under the old regime, social contributions will be payable only on annual earnings up to a specific amount (RUB 415,000, subject to annual indexing). Such capping of the assessment base should mitigate the negative effect of flat rates for employees with higher salaries.

Below we briefly summarize the new social contributions regime effective as of 1 January 2010.

Types of social contributions

Social contributions will be payable to the following off-budget funds:

- PF - for mandatory pension insurance;
- SIF - for mandatory social insurance for cases of temporary disability and maternity; and
- FFMMI and TFMMI - for mandatory medical insurance.

Principles of assessment, payment and administration

Like UST, social contributions will be levied on remuneration accrued/payable to individuals on the basis of labor contracts or works/services contracts.

Social contributions will be paid solely at the expense of the company acting as employer or customer. As is the case with UST, social contributions will be calculated monthly and paid to each off-budget fund separately.

Social contributions will be administered and controlled by the off-budget funds (unlike UST, which is controlled by tax authorities only). Local bodies of the funds will be responsible for collection of quarterly reports and conduct of external (field) audits.

Rates (tariffs)

Unlike UST, social contributions will be levied at fixed rates. In 2010, these rates will amount to 26% (which equals the maximum rate under the current UST regressive schedule). Beginning in 2011, these rates will go up to 34%.

Social contribution will however apply to the individual's annual earnings only up to a specific cap amount equaling RUB 415,000, subject to annual indexing.

Key Contacts

Igor Ostapets

iostapets@whitecase.com

Irina Dmitrieva (Tax)

iridmitrieva@whitecase.com

White & Case LLC

Tel +7 495 787 3000

Fax +7 495 787 3001

www.whitecase.ru

www.whitecase.com

Special tax update: replacement of unified social tax with social contributions

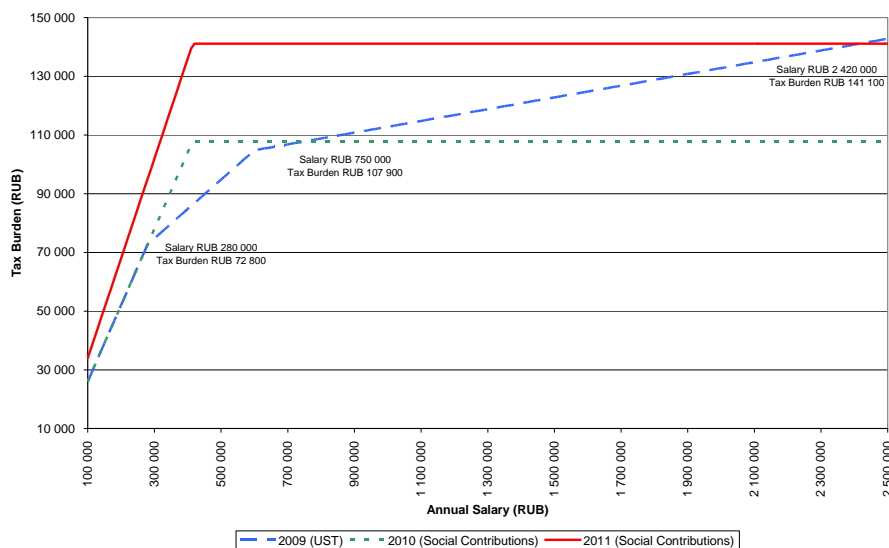
August 2009



The rates (tariffs) of social contributions in 2010 and after will be as follows:

<u>Individual's annual income</u>		<u>PF</u>	<u>SIF</u>	<u>FFMMI</u>	<u>TFMMI</u>	<u>Total</u>
<u>Up to RUB 415,000</u>	2010	20%	2,9%	1.1%	2%	26%
	as of 2011	26%		2.1%	3%	34%
<u>Over RUB 415,000</u>	2010	RUB 83,000	RUB 12,035	RUB 4,565	RUB 8,300	RUB 107,900
	as of 2011	RUB 107,900		RUB 8,715	RUB 12,450	RUB 141,100

The following graph helps to compare the overall burden of social contributions with the current UST.



The graph shows that in 2010 the burden will slightly increase with respect to employees earning less than RUB 750,000 annually, but it will considerably decrease for those who earn more.

Starting with 2011, the new assessment rules will increase the tax burden with respect to the vast majority of the employees, but will be beneficial with respect to those who earn more than RUB 2,420,000 annually.

Social contributions with respect to foreign citizens

Payments to foreign citizens who stay in Russia temporarily and work on the basis of visa and work permits will be exempt from social contributions. This is remarkable change as Russian employers currently pay UST with respect to all employees regardless of their nationality and status of their stay in Russia.

Foreign citizens who reside in Russia permanently or temporarily (i.e., those who have residence permit or permission to temporarily reside) will continue to be treated in the same way as Russian citizens.

White & Case Moscow's Special Updates appear in the Legislative Update section of our website. You may also choose to receive our free Special Updates and Weekly Updates by e-mail. To subscribe, simply complete the form on our website: www.whitecase.ru.

This update is a general summary of recent legislative developments and should not be treated as legal advice. Readers should seek the advice of legal counsel on any specific question. All translations of terminology in this update are unofficial.

© 2009 White & Case LLC.