



Replacement of Unified Social Tax (UST) by insurance contributions

On 17 July 2009, the State Duma adopted the law *On Insurance Contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation and the Compulsory Medical Insurance Funds*. On 18 July 2009, the draft law was approved by the Federation Council and on 24 July 2009 it was signed by the President.

Serious changes will be made in the taxation and related accounting systems when the law enters into force. Unified social tax will no longer be charged, and the previous system of making insurance contributions to the state non-budgetary funds will be used again.

The law is intended to develop the pension system as well as the compulsory medical insurance system. It determines the procedure for calculating and paying insurance contributions to the state non-budgetary funds as of 1 January 2010 in lieu of the current unified social tax.

For employers, the base for calculating insurance contributions for each individual is subject to an annual cap of RUB 415,000.

The level of the annual cap of the base for charging insurance contributions is to be indexed (from January 1 of the respective year) in line with the growth of averages wages in the Russian Federation. There will continue to be no employee charges.

The currently used regressive scale for unified social tax will be replaced with fixed insurance contribution rates.

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In 2010, the rates of contributions to the various state funds will remain within the amounts of the maximum rates of unified social tax that are in force (20% to the Pension Fund, 1.1% to the Federal Compulsory Medical Insurance Fund, 2% to the territorial compulsory medical insurance funds, and 2.9% to the Social Insurance Fund, for a total of 26%), while additional financing will be received from the federal budget.

However, the combined contribution rates are to increase from 26% to 34% as of 1 January 2011. Allocations to the Pension Fund will increase by 6%, constituting 26%, and allocations to the compulsory medical insurance funds will increase by 1%, constituting 2.1% for the Federal Compulsory Medical Insurance Fund and 3% for territorial funds, while allocations to the Social Insurance Fund will remain at the previous level of 2.9%.

In 2011-2014, low insurance contribution rates will be applied to certain categories of employers.

As a result of the abolition of unified social tax, the insurance contributions charged will no longer be paid to the tax inspectorate, but to the relevant state funds. Therefore, the quarterly reports will also undergo substantial changes.

In this respect, the overseeing body will also change. The payment of contributions for

compulsory pension insurance and compulsory medical insurance will be supervised by the Pension Fund instead of the State Tax Inspectorate, and the payment of compulsory social insurance contributions, by the Social Insurance Fund.

The introduction of the new law will, in 2010, result in similar costs for enterprises where the employees' annual income is lower than RUB 280,000 (RUB 23,300 per month). Employers paying a salary of RUB 280,000 to 800,000 annually will bear a greater insurance contribution burden. Employers who pay salaries of more than RUB 800,000 annually will save on insurance contributions in comparison with unified social tax.

As of 2011, the increase in the insurance contribution rates from 26% to 34% will result in greater outlays on insurance contributions in respect of all categories of employees in comparison with 2010. However, employers paying a salary of over RUB 2,410,000 annually will still save on such outlays in comparison with 2009.

The law foresees exemption from accrual of social contributions on payments and other compensations under employment or civil law contracts in favor of foreign citizens and stateless persons temporarily located in Russia.