

## Client Alert

# REMUNERATION OF FOREIGNERS EXEMPT FROM THE MAJORITY OF SOCIAL CONTRIBUTIONS

January 2010

According to the Federal law No. 212-FZ dated 24 July 2009, the Russian Unified Social Tax has been replaced by social contributions to several state funds as from 1 January 2010.

For 2010, the amount of social contributions payable is 26% of salary up to RUB 415,000 gross annual salary. No social contributions are payable on any part of the salary over that amount. This rate of 26% will be increased to 34% in 2011.

One of the most striking provisions of the law is that social contributions (except for accidents at work and work-related illness) are no longer payable on remuneration to foreigners temporarily qualified as non-resident for immigration purposes (i.e. foreign citizens living in Russia on the basis of a visa).

In other words, all salaries, bonuses, premiums and indemnities received by foreign employees who do not have a Russian residence permit (*вид на жительство*) or a temporary residence permit (*разрешение на временное проживание*) are exempted from social contributions (except for accidents at work and work-related illness).

However, it is worth noting that medical insurance still applies to foreigners working under employment contracts and/or residing in Russia for more than 183 days during a tax year. As a consequence, they are entitled to be provided with urgent medical assistance free of charge and with routine medical assistance on a payment basis.

It does seem clear that the legislators have introduced discrimination against, or in favour of, foreigners (depending on the point of view). But from either viewpoint, the exemption of foreigners' remuneration from the majority of social contributions appears to contradict the stream of measures recently taken to face the economic crisis. We can therefore expect further legislation on social contributions (or taxation) of non-residents in Russia.

If you have any questions on the matters referred to in this Alert, please do not hesitate to contact CMS Partner *Charles-Henri Roy* at +7 (495) 786 4000 or your regular contact at CMS.

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