

The Russo-British Chamber of Commerce (RBCC)  
Survival Guide for Expats in Russia 2008

# Provision of Expatriate Benefits in Russia\*

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# Contents

- Local employment contracts and associated problems with provision of certain expatriate benefits
- Tax reporting and filing issues faced by expatriates and their employers
- Practical solutions with regard to provision of expatriate benefits

# Local employment contracts and associated problems

# When expatriates are moved to local contracts with a Russian company, the following questions arise

- Will it be possible to continue participation in foreign social security and pension plans?
- What will happen with medical insurance and other benefits supported by foreign providers?
- How tax equalisation policy will now work?
- How easy will it be to convert Roubles into foreign currency and transfer abroad?



## Social security and pensions in home country

For the Russian employer it is very difficult if not impossible to continue to fund participation of a foreign employee in home social security or pension plans, plus in some countries it is necessary to hold local employment contract to be able to make contributions.

To solve this serious problem some employers choose to use dual or split employment arrangements keeping home country agreement in place and continuing to make social or pension contributions from the home company.

## Social security and pensions in home country, cont.

Compensation of foreign employees is subject to Unified Social Tax and Accident Insurance Contributions. Obligatory Pension Contributions are not payable with respect of foreigners temporary staying in Russia.

However, in the absence of effective Totalisation Agreements between Russia and other countries social taxes paid in Russia are not counted in social security systems of other countries.

Therefore, the majority of companies end up paying social security in both Russia and home country.

Tax reporting and filing issues  
faced by expatriates and their  
employers

When compensation is paid locally, the following tax issues arise

Different tax rules and rates (13% vs 30%) applicable to tax residents and non-residents, due to recent changes in tax residence rules tax status may vary in the course of the year which makes it difficult to operate tax withholding.

Tax equalisation policy or fixing salary on a “net” basis are difficult to use in practice, taxes may be paid by individuals only personally and in Roubles.

# Taxation of expatriate benefits

Almost all types of traditional expatriate benefits are subject to personal income tax in Russia, no special “expatriate tax regime” which is known in some countries is introduced in Russia.

Certain benefits, which are not directly associated with performance of work of expatriate (such as various family allowances, school fees, clubs membership, etc.) will be taxable for expatriate but may be not deductible for corporate tax purposes for the Russian company, which makes such benefits more expensive for the employer.

Due to very strict regulations of the Russian tax law, certain business expenses (for example those exceeding statutory norms or not properly documented) would be regarded as personal income and will not be tax deductible for the company.

# Practical solutions with regard to provision of expatriate benefits

## Necessity to keep home country employment agreement

In order to continue participation in foreign social security or pension plans employers choose to keep a home country employment agreement and make such payments from the head office or home office of expatriate.

It should be noted that such social security or pension contributions should be reported in the Russian tax return of an expatriate as they are considered taxable income in Russia.

# Provision of local benefits

With regard to housing it is necessary for the employer to decide on whether lease agreement would be with the company as a tenant or with the expatriate since tax consequences would be different.

If an expatriate is provided with a company car, private use of this car may lead to creation of taxable liability for the individual.

Such benefits as school allowance, family home leave, clubs membership would be more efficient from financial standpoint if structured as a part of regular salary, otherwise their profits tax deductibility for the local employer is likely to be challenged.

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