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INSIGHTS

Reduced pension and social insurance contributions for IT companies in Russia: who qualifies?

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Russia has introduced reduced pension and social insurance contribution rates for IT and technology companies, in addition to the reduced rates introduced in April 2020 for SMEs. This article provides details.

To create the most favourable possible environment for the intensive development of IT industry and pooling resources for the new projects, the Russian Government has adopted a Law (Federal Law dated 31 July 2020 N 265-FZ 'On amendments to the part two of the Tax Code of the Russian Federation') introducing a number of changes and tax incentives for the IT and Technology companies. These amendments took effect on 1 January 2021.

In particular, the Law provides for the reduced rate of insurance contributions for:

compulsory social insurance in the event of temporary incapacity or maternity of other income of foreign citizens or stateless individuals temporary living in Russia: 1,5% (previously 1.8% to 2%);

- compulsory medical insurance: 0.1% (previously 4%).

Please note that there are no amendments to accident insurance contribution rates. The applicable rate varies from 0.2% up to 8.5% and depends on the degree of professional risk that the employer's activity entails (about 0.2% to 0,6% for IT and Technology companies).

These amendments will apply for Russian IT and Technology (defined as companies designing and developing electronic component base products and (radio) electronic products) companies if they meet certain criteria relating to the structure of income, number of employees and others.

Note that the Law refers only to Russian companies, that is, companies incorporated under the laws of the Russian Federation. Branches and other subdivisions of non-Russian companies registered in Russia are not allowed to apply these incentives. At the same time, the Law does not restrict participation of non-Russian entities in IT and Technology companies.

In addition, the tax incentives apply only to IT companies dealing with software and databases:

- developed (or adapted/modified with respect to incomes from installing, testing and supporting) by them; and
- unrelated to advertising.

As a result, the following companies will not be entitled to apply the new incentives:

- companies reselling IP rights purchased from the other companies;
- companies testing and supporting software and databases not developed/adapted/ modified by them;

companies mainly developing advertising software (that is, software and databases used to distribute advertising information on the Internet or gain access to this information; to post offers for the purchase or sale of goods, works, services, or property rights on the Internet; and to search for potential buyers or sellers and conclude contracts).

Note that if an organisation does not meet the criteria specified by the Law, it may consider other incentives, e.g. special rules for small and medium–sized organisations (see below).

Special incentives for small and medium–sized organisations

As part of support measures taken in response to the COVID-19 pandemic, reduced insurance contributions rates were provided for small and medium size organisations (SMEs).

Organisations are considered as SMEs if they, in particular, meet the following criteria:

- There are special requirements for the structure of the authorised capital:
- the share of non-SME (Russian and foreign) organisations should not exceed 49%;
- the share of the state, regions or non-profit organisations should not exceed 25%;
- The number of employees should not exceed 250 individuals.
- The income for the previous calendar year should not exceed RUB 2 billion (approx. EUR 22,2 million.)

Instead of the requirements for the structure of the authorised capital, other criteria relating to required special types of shares, activity or other matters may apply.

According to a Law passed in April 2020 (Federal Law dated 1 April 2020 N 102-FZ

swiss are applied to the part of payments in favour of an individual exceeding the minimum wage (for 2021 this is RUB 12,792, approximately EUR 142, it is revised annually) and are as follows:

- for compulsory pension insurance: 10% regardless of the threshold (previously 22% + 10% for payments exceeding the threshold);
- for compulsory social insurance in case of temporary incapacity or maternity: 0% (previously 1.8% to 2.9%);
- for compulsory medical insurance: 5% (previously 5,1%).

These amendments came into force on 1 April 2020.

For payments not exceeding the minimum wage, insurance contributions are charged at the previously specified rates.

As for IT and Technology companies, there are no amendments to accident insurance contributions rates. The applicable rate varies from 0.2% up to 8.5% and depends on the degree of professional risk that the employer's activity entails.

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and social payments from 1 April until 1 October 2020. Employees affected by anti-epidemic measures were offered not to apply income tax and social tax. The 0 rate applied to mandatory pension contributions, social contributions, contributions and deductions for mandatory social medical insurance until 1 January 2021.

From 1 January 2021, Kazakhstan has introduced a voluntary special tax regime in the form of a retail tax of 3% of income for small-scale and medium-scale business entities suffering from the pandemic (in sectors determined by the Kazakhstan Government). This will remain in effect until 1 January 2023. Under this regime, taxpayers are exempt from paying VAT and social tax. The Kazakhstan legislation also provides for amendments relating to deductions and corporate income tax, reduction of the threshold for VAT registration and other tax benefits.

Kazakhstan has also introduced a new system of early use of pension savings from 2021 to improve the financial status of citizens. These savings may only be used early for special purposes (improvement of housing conditions and treatment). This possibility is available to:
working citizens (for the available amount of pension savings exceeding the 'availability threshold');
individuals with annuity contracts with insurance companies, under which they are ensured life-long annuity payments (limited to the amount of savings remaining in the pension fund);
current pensioners (no more than 50% of pension savings remaining in the pension fund).

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