

Draft Law Might Add to Foreigners' Taxes

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On top of paying relocation fees and higher salaries, companies could face paying insurance fees for foreign workers starting next year.

A bill that has passed its first reading in the State Duma proposes to lower the insurance fee from 34 to 30 percent, but add a 10 percent fee for those who earn more than 512,000 rubles (\$16,600) per year. Now it is up for a second reading, amended to require companies to pay insurance fees for long-term foreign workers, who are currently exempt from them.

Companies pay a 34 percent insurance fee for Russian employees. The fee goes to a medical services fund, social insurance — to create social infrastructure, such as kindergartens and schools — and the pension fund, which could face a deficit of up to 1.75 trillion rubles next year.

The insurance fees' predecessor, the unified social tax, required companies to pay taxes on all

employees, regardless of nationality. When the insurance fees system replaced the unified social tax at the start of this year, foreign workers were exempt.

The insurance fees system puts Russians at a disadvantage, since it is cheaper for companies to hire foreigners, Ildar Gabdrakhmanov, deputy chair of the Duma labor and social policy committee, told Vedomosti last week.

While companies do not currently pay insurance fees for foreign workers, hiring foreigners is never cheap, said Lyudmila Shirayeva, Ernst & Young human capital executive director. Foreign specialists are usually top-level management with very high salaries. The company must also pay for visas and relocation fees.

The amendments are an unexpected development for companies since they were only made public last week, Shirayeva said. If the bill becomes law, companies will have to scramble to adjust their 2012 budgets.

"The investment and business image of Russia will suffer," Shirayeva said.

Temporary foreign workers rarely see any returns from the funds, Shirayeva said. Foreigners usually do not use the dilapidated government-funded medical facilities, since companies pay for their medical insurance. They also do not receive pensions.

Requiring fees for foreign workers is logical, said Yevgeny Nadorshin, National Bank Trust chief economist.

If foreigners stay here for an extended period of time, they end up using at least some aspect of the social infrastructure, such as kindergartens for their children.

Charging insurance fees for guest workers will make the Russian specialist equal with the foreigner.

"It will level out the playing field," Nadorshin said. "Why do companies need to go out of their way to hire a foreigner when there are enough qualified workers here?"

The amendments will not affect unskilled labor, Nadorshin said. Hiring unskilled laborers from China and the former CIS and paying the fees is cheaper than hiring Russians.

Many unskilled laborers work illegally and are not likely to be affected by changes in the law.

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