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On the January 13, 2015 Oleksandr Koriak, Junior Tax Consultant of the international audit firm Mazars Ukraine, commented on the hot topic of reduction of the unified social contribution rate for the news website “The Insider”. In the article you may find:

- **Introduction of the new law**
- **Conditions for the USC reduction in 2015**
- **Reduction of the USC in 2016**
- **Increase of penalties**

HOW TO REDUCE THE UNIFIED SOCIAL CONTRIBUTION RATE

On January 1, 2015 the law aimed at the reformation of the mandatory state social insurance and legalization of payroll No 77-VIII dated December 28, 2014 (the “**Law**”) came into force.

Being aimed at salary legalizing the Law provides for the considerable decrease of the effective rates of the unified social contribution (the “**USC**”).

Currently the rate of the USC paid by employers varies from 36.76% to 49.7%, depending on the level of the professional risk, and for the remuneration under the civil contracts – 34.7%.

Starting from January 1, 2015 legal entities and private entrepreneurs who employ people may apply the reducing coefficient of 0.4 to the above mentioned USC rates. It means that the amount of the USC may be reduced by 2.5 times.

For instance, if the employer paid the USC at the rate of 37% in 2014, it will pay 14.8% when applying such coefficient in 2015.

It is important to note that the reducing coefficient mentioned above is non-applicable to the rate of the USC paid by the employees and, therefore, such contributions will be deducted from their salaries at the rate of 3.6% as previously.

Conditions for the USC reduction

At the same time, it is provided that the reduction of the USC rate is possible only if all below listed conditions are met.



First, the total taxable base for the USC for a month of 2015 should exceed the average monthly taxable base in 2014 by 2.5 times.

Please be reminded that the USC is assessed on the amount of salary or remuneration to individuals under the civil contracts, but not more than on the amount of 17 minimum living wages. At present, this amount equals UAH 20,706.

If the above mentioned condition is not met, then the reducing coefficient, which is calculated by dividing the total average monthly taxable base for USC for 2014 by the taxable base for USC for a month of 2015, should be used (rather than the 0.4 coefficient). However, in any case, the reducing coefficient should not be lower than 0.4.

For example, if the total average monthly base for USC for 2014 is UAH 3,000, and the total base increases up to UAH 4,000 in January 2015, then the 0.75 coefficient should apply to the USC rate, *i.e.* the amount of the contribution will be reduced by approximately 1.5 times.

Second, the average salary in the company should increase at least by 30% as compared to the average salary in 2014.

Third, after the application of the coefficient the average payment of the USC per one person should not be less than UAH 700.

Fourth, the average salary in the company should not be less than the amount of three minimum salaries. As of January 1, 2015, it equals UAH 3,654.

Reduction for everybody from 2016

Thus, to reduce the amount of the USC, the state requires a substantial increase of payroll. For the companies paying unofficial salaries, this will happen automatically after they legalize such hidden payments.

It is expected that such companies will choose the official payment of salary and USC to the Pension Fund and eliminate costs of converting funds into unofficial cash.

At the same time, it is worth to note that the companies paying the official salaries are not likely being ready to increase salaries to the necessary level during the economic crisis. As a result, they will not be able to enjoy the decrease of the USC rates in 2015.

According to the Law, the 0.6 coefficient should be used instead of 0.4 starting from January 1, 2016. It will decrease the USC rates by approximately 1.5 times.

The taxpayer will not be required to meet any conditions set for 2015. Therefore, all employers will be able to enjoy the reducing coefficient.

Therefore, if the employer paid the contributions at the rate of 37% in 2014, it will pay them at a rate of 22.2% in 2016.

Business is offered to legalize salaries and, provided that the respective conditions are met, to pay the USC at the rate of approximately 15% instead of 37% in 2015, and 22% - starting from 2016.



Employers paying official salaries are unlikely be able to meet the requirements in 2015 and, therefore, will be able to enjoy the USC reduction starting from January 1, 2016 only.

Increase of penalties

Besides the reduction of the USC, the Law also increased the rates of penalties.

For the failure to pay or late payment of the USC, the penalty rate was increased from 10% to 20% of the amounts due to the state.

For the additional assessment of the USC by the tax authorities or taxpayer, the penalty rate increased from 5% to 10% for each reporting period but not more than 50% of the additionally assessed amount.

In addition, there has been introduced the penalty for non-submission of the report, its late submission or submission in the wrong format. The taxpayer will have to pay the penalty amounting to 10 non-taxable minimums of individuals' income (UAH 170) for such violations

For the repetitive violations, the penalty in the amount of 60 non-taxable minimums of individuals' income (UAH 1,020) should apply.

The idea to reduce the USC is aimed at a useful purpose – elimination of unofficial salaries and replenishment of the Pension Fund budget.

At the same time, there is the risk of the deficiency of such budget as a result of the reduction of the USC rates.

However, since the amounts of unofficial salaries exceed significantly the official ones, it is expected that their, even partial, legalization will provide the necessary replenishment of the Pension Fund as soon as in 2015.