

TO: Clients and Friends of the Firm

FR: Frishberg & Partners

RE: Payroll Taxes

## I. Tax Base/Rates

Salary or similar employment compensation payable to domestic employees by Ukrainian entities or by branches or subdivisions of foreign companies located in Ukraine is subject to the following payroll taxes:

Social Insurance Fund	Tax Rate (%)	
	Employer's contribution (accrued by the employer on the amount of compensation paid)	Employee's contribution (withheld by the employer from the compensation paid)
Temporary Disability Fund	1.5 <sup>1)</sup>	0.5 – 1.0 <sup>1)</sup>
Unemployment Fund	1.3 <sup>1)</sup>	0.5
Pension Fund	33.2 <sup>1)</sup>	0.5 of the current minimum standard of living level for employable citizens (as of April 1, 2007 – 561 UAH and as of October 1, 2007 – 568 UAH) PLUS 2% from the difference between the amount of gross salary and the amount of the current minimum standard of living level for employable citizens.
Professional Accident and Sickness Fund <sup>2)</sup>	0.66 – 13.6 (depends on level of risk at workplace)	
<b>Total</b>	<b>36.66 - 49.6</b>	<b>Approx. 2.5 – 3.5</b>

<sup>1)</sup> Special lower rates apply to handicapped employees and organizations employing a certain number of handicapped individuals.

<sup>2)</sup> Rates vary for enterprises with different classes of professional accident and sickness risk.

## II. Tax Base Cap

The taxable base for the above payroll taxes is currently capped at UAH 2,660 (approximately USD 500) per employee's monthly salary or other similar compensation.

### **III. Requirements for Hiring Disable Persons**

Irrespective of the organizational form, every company is required to hire disabled individuals. The number of handicapped persons should constitute at least four percent of the average amount of the workforce of the company for one year. In cases where the organization employs between 8 and 25 individuals, at least one handicapped person should be employed, unless otherwise provided by specific laws.

Employers that do not comply with the above rules are required to pay annual penalties. The penalty is calculated as the average annual salary of employees of that company for each work place that should be but is not occupied by a disabled person.

### **IV. Tax Administration**

The employer is normally responsible for assessing, withholding and paying employees' payroll tax contribution. The employer is also responsible for assessing, accruing and paying its payroll tax contribution. This is sometimes referred to as the PAYE (pay-as-you-earn) system.