

# Our Salary in 2012. Labor Market Changes

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Let's pay attention to the most recent amendments in the scope of labor remuneration expenses published on Dec. 5, 2011 on the official legal web resource (Federal law No. 397-FZ), adopted by the State Duma and approved by the Federation Council, in particular on Nov. 25, 2011, the Federation Council approved a bill on the introduction a regressive scale on the insurance contributions effective since 2012, as well as the extension of the group of the insured persons.

Among the important and basic novations in the part of insurance burden on the employers, the following items may be highlighted.

First, introduction of the regressive scale on the insurance contributions. For the companies with a general taxation regime, the dynamics of regress will be 4 percent (from 34 percent to 30 percent) providing the compliance with a certain term — the cumulative income shall not exceed 512,000 rubles and in case of its increase there shall apply the rate of 10 percent.

Second, extension of the group of the insured persons regarding pension insurance. These novations will increase the burden for those employers who hire foreign citizens and stateless persons temporary residing on the territory of the Russian Federation and working under a labor contract for a term exceeding six months or pursuant to an indefinite labor contract. The burden will apply to the accrual of contributions only on the insurance part of labor pension from this category of employees providing that cumulative income doesn't exceed 512,000 rubles and 22 percent tax rate and in case of this limit exceeding the appliance of additional rate of 10 percent. The only exception was provided by the legislator to the employers who hire the highly qualified specialists, in particular that their payments won't be subject to taxation of newly adopted law amendments.

And third, additional areas of preferential taxation. The legislator has extended a list

of activity types for the companies those are small business entities with a simplified taxation system and for which a preferential tax rate of 20 percent shall apply. They include pharmacy organizations, retailers in the sphere of pharmaceutical and medical goods, nonprofit organizations in the sphere of social services provision to the population, etc.

Overall, in order to understand the dynamics of changes on the labor market by means of new amendments introduction, let's apply to the legislative purposes of the bill:

### **First goal – Migration balance**

It's not a secret that the use of inexpensive work power in kind of migrants' labor entails confrontations in the international relations, social and cultural spheres, as well as stimulates the stagnation of the technological and economic development of the country. These novations will enable to correct the imbalance between foreign and Russian work power on the labor market.

### **Second goal – Liquidation of dumping on the labor market**

This measure is also aimed to reduce the use of inexpensive nonqualified work power that will allow using the internal resources as much as possible.

### **Third goal – Increase of the budget deficit of the Pension Fund**

So far, the Pension Fund has a large deficit of incomes in order to fulfill its current obligations, therefore the introduction of additional burden on the employer in kind of payment the insurance part of contributions will provide the federal Pension Fund with a new source of additional resources that will enable to complete the joint system and balance the existing deficit.

But is there a balance between the insurance burden on the incomes of foreign citizens and the state protection with respect to this type of citizens in kind of the right to receive labor pension in Russia?

The answer is ambiguous as one of the options provides this possibility only in case of receipt a residence permit by a foreigner, and the second option allows for this possibility in kind of a planned consolidation of the right approved by international treaties.

In order to answer this question, let's review the following example:

Let's take for example an employee's gross salary of 46,000 rubles and 60,000 rubles and calculate the sums of insurance contributions based on the new insurance limit of 512,000 rubles (this limit is indexed every year taking into account the growth of average wage) along with insurance tariffs in 2011–12.

On the level of income of 46,000 rubles (cumulative annual income is 552,000 rubles), we get the sum of insurance contributions of 174,080 rubles according to the tariffs of 2011 and sum of insurance contributions of 157,000 rubles according to the tariffs of 2012.

We may conclude here that within the level of income at the amount of 46,000 rubles the companies have economy in 2012 on the insurance burden at the rate of 9 percent.

And now let's consider the income of 60,000 rubles (cumulative annual income is 720,000 rubles), the sum of insurance contributions for 2011 will be 174,080 rubles and for 2012 it will be 174,400 rubles.

Therefore, on the level of income at the amount of 60,000 rubles there's no any additional insurance burden for the organizations in 2012.

In light of the above, we may conclude as follows. Increase of tax burden will be sufficient in the "rich" sectors of economy where the average wage will exceed 60,000 rubles — the oil, gas and financial sectors. And there will be the increase of insurance burden to the employees by means of salary growth stagnation. But, as you might ask, are there any ways of expenses optimization in the "rich" sector of economy?

Thus, the business constantly acts as the creditor of the state in the part of financing the permanent deficit of budget and it is forced to ask itself the same question — how to refocus and reallocate the internal processes for the purpose of compensation the ever increasing burden?

One of the most popular solutions on this issue is the review of internal routine processes along with their transfer to outsourcing. Many companies have already assured in the correctness of this choice, which has enabled them to reduce the current costs and enhance its market stability and competitiveness. Clearly, the outsourcing model is gaining popularity in Russia.

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