



HWC – Payroll Accounting in Ukraine

Information Brochure – 1st July 2018 Update

Payroll Accounting

Payroll Accounting is a part of general accounting and covers all payments and relationships between company and its employees. There is no doubt that accounting and taxation in Ukraine is very complicated and dual in its law interpretation. And the payroll part of it is one of the hardest.

Take for **example** voluntary medical health insurance for company's employees. If company's willing to pay it to its employees apart from paid costs for such services to insurance company also Personal Income Tax (PIT) should be paid. That is because such payments are recognized as an additional benefit according to Ukrainian legislation. But the other fact is interesting – if company will pay PIT and decide not to withdraw this amount from employee's salary then it also will be recognized as additional benefit and PIT should be calculated again. This is just the small and popular example of Payroll Accounting complexity and duality of interpretation.

Salary in Ukraine should be paid twice per month with time difference not more than 16 calendar days. The payment deadline for the first part of the month (advance payment) is till 22nd each month, for the second payment – till 7th next month. There is no strict restriction in the amount of the advance payment - the payment for the first half of the month should be paid in amount not less than for worked time. Salary in Ukraine for Ukrainian residents should be paid only in Hryvnias

- The monthly salary in Ukraine is constrained on the low side by the Ukrainian government. Starting from January 1st till 31st of December 2018 the minimum salary is UAH 3,723 per month (approx. EUR 124).



Salary Accruals

Salary accruals can be divided on such groups:

1. Remuneration for worked time

It's calculated as estimated fee of employee for worked time during the month. Salary can be fixed in form of monthly wage (common practice with office employees) and hourly wage when salary is calculated on basis of worked hours per month (mostly used for shift work employees).

2. Income for the absence days

This part of salary consists of remuneration for the periods of absence that are secured by Ukrainian legislation – sick leave, annual vacation, maternity leave etc. Such reimbursement is calculated on the basis of average salary for certain period of time. The procedure of calculation average salary is different in each case.

3. Bonuses and additional benefits

Bonuses can be paid in any amount and should be proven only by company's order. The most common additional benefits are: voluntary medical health insurance, taxi reimbursement, mobile phone reimbursement, rent of apartment to employee etc. All these benefits considered as income in kind are subject of Personal Income Tax (PIT) and Military Tax (MT). PIT and MT should be paid the same date additional benefit was paid.

For example, **average salary for days of vacation** is calculated like sum of income (including salary and bonuses) for previous full 12 calendar months divided into sum of calendar days for previous full 12 calendar months excluding days of public holidays (for Ukraine it is 11 days per year). The average salary for vacation should be multiplied into calendar days of vacation. The normal vacation time is 24 calendar days (for every full worked month 2 days of vacation) and are estimated by Ukrainian legislation.

Average salary for sick leave is calculated in other way. It is sum of income for previous 12 months (excluding sick leave allowance, maternity allowance, average salary of conscript) divided by the number of calendar days for the same period (excluding the period of sick leave, maternity leave, unpaid vacation and military service due to mobilization). If salary of employee is higher than maximum base for USSC then only the max base can be taken for calculation. The average salary for sick leave should be multiplied by number of calendar days of sick leave when employee was absent. First 5 calendar days of sick leave should be paid by company; the rest of the days should be paid by Social Fund. To receive the reimbursement company should open special bank account and submit to Social Fund report about sick leave calculation.

Bonus Effects

By Ukrainian law, not all bonuses, perceived by the employees along a year can be taken into account in the field of estimation of the yearly average salary per working day. Their nature and the accounting dates influences significantly whether they must be taken into consideration or not, and this, obviously, has an impact on the perceived remuneration for the absence days (sick leave, annual vacation, maternity etc.).

Bonuses **not included** into average salary estimation:

- One-time Bonuses
- Bonuses for jubilee dates
- One-time Bonuses on the basis of a working year accounted for the same year (specific case for annual vacation retribution)
- Compensations for business trip or transfers.

Bonuses **Included** into average salary estimation:

- Production awards (monthly, quarterly or yearly)
- Saver of Fuel & Energy awards (monthly, quarterly or yearly)
- One-time Bonuses on the basis of a working year accounted for next one. It's taken into account for the estimation in the amount of 1/12 on a month basis (specific case for annual vacation retribution)
- Bonuses for night work, combinations of different tasks and positions, for intensive work etc.



Employer Responsibility & Reports

If quantity of employees in company is more than 8 persons, then company should hire disabled persons (Law# 875 from 21.03.91) otherwise pay penalty which is calculated like yearly average salary in company for every unemployed disabled person. The number of disabled person that should be employed is calculated in such way: yearly average number of employees *4%.

According to Clause 14.1.180 Tax Code of Ukraine employer is deemed to be a tax agent for its employees. That means that company should pay salary taxes for employee and submit salary reports to authorities:

- **USSC report** – submitted monthly to Tax Authority
- **PIT/MT report (1DF)** – submitted quarterly to Tax Authority.

Additionally, reports should be submitted in case of receiving some benefits from Social Fund (e.g. sick leaves, maturity leave etc.).

To calculate salary in accurate and proper way company also should understand that proper HR documents are needed in every step of salary calculation process.



Salary Taxes

1. Unified Social Security Contribution (USSC)

It's paid by company only. USSC rates are 22% and 8.41% relating to the disable person. The taxable base for the USSC is capped by 15 minimum salary;

i.e. the cap for the USSC calculation will be:

- UAH 55 845 from January 1 to December 31, 2018.

The USSC is to be paid simultaneously with the relevant income paid to the employees or other recipients.

2. Personal Income Tax (PIT)

According to Clause 167.1 Tax Code of Ukraine there is one standard rate of PIT – 18%.

The income in kind should be grossed up for PIT purposes.

Dividends of a CPT payer are subject to PIT at the rate 5%. Other passive income (incl. interests, royalties, dividends paid by a non CPT payer, etc.) are subject to PIT at the rate 18%.

3. Military Tax (MT)

The Military Tax effective from 3 August 2014 and would be applied until the reform of the Ukrainian Military Forces is completed. The MT rate is 1.5%.

In regard to monetary income the tax base for MT is the same as for PIT. The income in kind is not grossed up for MT purposes.

2018	
18%	Personal Income Tax (PIT)
22% Civil Law Agreements 22% Sick Leave Payments 8,41% Disabled Persons	Unified Social Security Contribution (USSC)
1,5%	Military Tax (MT)
USSC Employer CAP	
Jan – Dec 2018	UAH 55 845
Salary Levels	
Minimum Salary	UAH 3,723 (EUR 124)
Minimum Expats Salary: Employee of Public Associations And Charitable Organizations Others <i>Do not apply the following categories:</i> <i>Highly paid Professionals; Founders or beneficiaries of a legal entity in Ukraine; IT Professionals; Graduates from Uni in top 100; Creative Professional</i>	5 Min Salary UAH 18 615.00 (EUR 620.5) 10 min Salary UAH 37 230.00 (EUR 1240) None

Payroll Calculation Example 500 Euro – Exchange Rate EUR 1 = UAH 30

Basis For Computation
Other Rates & Numbers
Includes
xxx Rates Compared to the Basis

Gross to Net				Net to Gross				Total cost to Gross			
	Rates %	UAH	EUR		Rates %	UAH	EUR		Rates %	UAH	EUR
Salary Gross	100%	15 000.00	500.00	Salary Gross	124%	18 633.54	621.12	Salary Gross	82%	12 295.08	409.84
Deduction Included	19.5	2 925.00	97.50	Deduction Included	19.5	3 633.54	121.12	Deduction Included	19.5	2 397.54	79.92
PIT	18.0	2 700.00	90.00	PIT	18.0	3 354.04	111.80	PIT	18.0	2 213.11	73.77
MT	1.5	225.00	7.50	MT	1.5	279.50	9.32	MT	1.5	184.43	6.15
Salary NET	80.5%	12 075.00	402.50	Salary NET	100%	15 000.00	500.00	Salary NET	66%	9 897.54	329.92
USSC	22.0	3 300.00	110.00	USSC	22.0	4 099.38	136.65	USSC	22.0	2 704.92	90.16
Total costs	122%	18 300.00	610.00	Total costs	152%	22 732.92	757.77	Total costs	100%	15 000.00	500.00

	Gross	Net	T.Cost		Net	Gross	T.Cost		T. Cost	Net	Gross
Gross	100%	80.5%	122%	Net	100%	124%	152%	T. Cost	100%	66%	82%
Net	124%	100%	152%	Gross	80.5%	100%	122%	Net	152%	100%	124%
T.Cost	82%	66%	100%	T.Cost	66%	82%	100%	Gross	122%	80.5%	100%

Payroll Calculation Example 1 000 Euro – Exchange Rate EUR 1 = UAH 30

 Basis For Computation  Other Rates & Numbers  Includes  Rates Compared to the Basis

Gross to Net			
	Rates %	UAH	EUR
Salary Gross	100%	30 000.00	1 000.00
Deduction Included	19.5	5 850.00	195.00
PIT	18.0	5 400.00	180.00
MT	1.5	450.00	15.00
Salary NET	80.5%	24 150.00	805.00
USSC	22.0	6 600.00	220.00
Total costs	122%	36 600.00	1 220.00

Net to Gross			
	Rates %	UAH	EUR
Salary Gross	124%	37 267.08	1 242.24
Deduction Included	19.5	7 267.08	242.24
PIT	18.0	6 708.07	223.61
MT	1.5	559.01	18.63
Salary NET	100%	30 000.00	1 000.00
USSC	22.0	8 198.76	273.29
Total costs	152%	45 465.84	1 515.53

Total cost to Gross			
	Rates %	UAH	EUR
Salary Gross	82%	24 590.16	819.67
Deduction Included	19.5	4 795.08	159.84
PIT	18.0	4 426.23	147.54
MT	1.5	368.85	12.30
Salary NET	66%	19 795.08	659.83
USSC	22.0	5 409.84	180.33
Total costs	100%	30 000.00	1 000.00

	Gross	Net	T.Cost
Gross	100%	80.5%	122%
Net	124%	100%	152%
T.Cost	82%	66%	100%

	Net	Gross	T.Cost
Net	100%	124%	152%
Gross	80.5%	100%	122%
T.Cost	66%	82%	100%

	T. Cost	Net	Gross
T. Cost	100%	66%	82%
Net	152%	100%	124%
Gross	122%	80.5%	100%

Payroll Calculation Example 2 000 Euro – Exchange Rate EUR 1 = UAH 30

Basis For Computation
Other Rates & Numbers
Includes
xxx Rates Compared to the Basis

Gross to Net				Net to Gross				Total cost to Gross			
	Rates %	UAH	EUR		Rates %	UAH	EUR		Rates %	UAH	EUR
Salary Gross	100%	60 000.00	2 000.00	Salary Gross	124%	74 534.16	2 484.47	Salary Gross	82%	49 180.33	1 639.34
Deduction Included	19.5	11 700.00	390.00	Deduction Included	19.5	14 534.16	484.47	Deduction Included	19.5	9 590.16	319.67
PIT	18.0	10 800.00	360.00	PIT	18.0	13 416.15	447.20	PIT	18.0	8 852.46	295.08
MT	1.5	900.00	30.00	MT	1.5	1 118.01	37.27	MT	1.5	737.70	24.59
Salary NET	80.5%	48 300.00	1 610.00	Salary NET	100%	60 000.00	2 000.00	Salary NET	66%	39 590.17	1 319.67
USSC	22.0	12 285.90	409.53	USSC	22.0	12 285.90	409.53	USSC	22.0	10 819.67	360.66
Total costs	120% ↓	72 285.90	2 409.53	Total costs	145% ↓	86 820.06	2 894.00	Total costs	100%	60 000.00	2 000.00

	Gross	Net	T.Cost
Gross	100%	80.5%	120% ↓
Net	124%	100%	150% ↓
T.Cost	83% ↑	67% ↑	100%

	Net	Gross	T.Cost
Net	100%	124%	145% ↓
Gross	80.5%	100%	116% ↓
T.Cost	69% ↑	86% ↑	100%

	T. Cost	Net	Gross
T. Cost	100%	66%	82%
Net	152%	100%	124%
Gross	122%	80.5%	100%

Note! As soon as the Gross Salary exceeds 55 845 UAH, USSC applies only for that amount. Therefore, the Tot Cost rate will gradually decrease.

Payroll Calculation Example 3 000 Euro – Exchange Rate EUR 1 = UAH 30

Basis For Computation
Other Rates & Numbers
Includes
xxx Rates Compared to the Basis

Gross to Net				Net to Gross				Total cost to Gross			
	Rates %	UAH	EUR		Rates %	UAH	EUR		Rates %	UAH	EUR
Salary Gross	100%	90 000.00	3 000.00	Salary Gross	124%	111 801.24	3 726.71	Salary Gross	86% ↑	77 714.10	2 590.47
Deduction Included	19.5	17 550.00	585.00	Deduction Included	19.5	21 801.24	726.71	Deduction Included	19.5	15 154.25	505.14
PIT	18.0	16 200.00	540.00	PIT	18.0	20 124.22	670.81	PIT	18.0	13 988.54	466.28
MT	1.5	1 350.00	45.00	MT	1.5	1 677.02	55.90	MT	1.5	1 165.71	38.86
Salary NET	80.5%	72 450.00	2 415.00	Salary NET	100%	90 000.00	3 000.00	Salary NET	69% ↑	62 559.85	2 085.53
USSC	22.0	12 285.90	409.53	USSC	22.0	12 285.90	409.53	USSC	22.0	12 285.90	409.53
Total costs	114% ↓	102 285.90	3 409.53	Total costs	138% ↓	124 087.14	4 136.24	Total costs	100%	90 000.00	3 000.00

	Gross	Net	T.Cost		Net	Gross	T.Cost		T. Cost	Net	Gross
Gross	100%	80.5%	114% ↓	Net	100%	124%	138% ↓	T. Cost	100%	69% ↑	86% ↑
Net	124%	100%	141% ↓	Gross	80.5%	100%	111% ↓	Net	144% ↓	100%	124%
T.Cost	88% ↑	71% ↑	100%	T.Cost	72% ↑	90% ↑	100%	Gross	116% ↓	80.5%	100%

Note! As soon as the Gross Salary exceeds 55 845 UAH, USSC applies only for that amount. Therefore, the Tot Cost rate will gradually decrease.

Payroll Calculation Example 4 000 Euro – Exchange Rate EUR 1 = UAH 30

Basis For Computation
Other Rates & Numbers
Includes
xxx Rates Compared to the Basis

Gross to Net				Net to Gross				Total cost to Gross			
	Rates %	UAH	EUR		Rates %	UAH	EUR		Rates %	UAH	EUR
Salary Gross	100%	120 000.00	4 000.00	Salary Gross	124%	149 068.32	4 968.94	Salary Gross	90% ↑	107 714.10	3 590.47
Deduction Included	19.5	23 400.00	780.00	Deduction Included	19.5	29 068.32	968.94	Deduction Included	19.5	21 004.25	700.14
PIT	18.0	21 600.00	720.00	PIT	18.0	26 832.30	894.41	PIT	18.0	19 388.54	646.28
MT	1.5	1 800.00	60.00	MT	1.5	2 236.02	74.53	MT	1.5	1 165.71	53.86
Salary NET	80.5%	96 600.00	3 220.00	Salary NET	100%	120 000.00	4 000.00	Salary NET	72% ↑	86 709.85	2 890.33
USSC	22.0	12 285.90	409.53	USSC	22.0	12 285.90	409.53	USSC	22.0	12 285.90	409.53
Total costs	110% ↓	132 285.90	4 409.53	Total costs	135% ↓	161 354.22	5 378.47	Total costs	100%	120 000.00	4 000.00

	Gross	Net	T.Cost		Net	Gross	T.Cost		T. Cost	Net	Gross
Gross	100%	80.5%	110% ↓	Net	100%	124%	134% ↓	T. Cost	100%	72% ↑	90% ↑
Net	124%	100%	137% ↓	Gross	80.5%	100%	108% ↓	Net	138% ↓	100%	124%
T.Cost	91% ↑	73% ↑	100%	T.Cost	74% ↑	92% ↑	100%	Gross	111% ↓	80.5%	100%

Note! As soon as the Gross Salary exceeds 55 845 UAH, USSC applies only for that amount. Therefore, the Tot Cost rate will gradually decrease.

Labour Conditions

The main conditions of employment in Ukraine are governed by the Labor Code of Ukraine (further - the 'Labor Code'). The Labor Code envisages the main obligations and rights of employers and employees. The Ukrainian labor legislation is inherited from the Soviet times and therefore the emphasis is made on protecting the rights of the employees rather than of the employers.

The main requirements under the Labor Code are:

- The length of a working week is not to exceed 40 hours. Overtime work and work during holidays are generally prohibited by the Labor Code of Ukraine. Nevertheless, the Labor Code provides with the exhaustive list of the specific cases when the overtime work and work during holidays are permissible
- Working during holidays is reimbursed by mutual consent either by giving another day-off or by providing double monetary compensation. Overtime work during ordinary working days can not be compensated by providing with the day-off compensation but requires the double monetary compensation
- An employee's minimum annual vacation entitlement is 24 calendar days
- The Ukrainian labor legislation provides for certain social benefits: maternity leave, paid vacation time, paid sick leave, and some others
- The notice period in case of termination of the employment agreement by the employee is at least two weeks. The statutory termination notice for the dismissal of an employee upon the employer's initiative (the main grounds for this are the staff redundancy or reorganization of the company's structure) is two months
- In cases of severe misconduct at work (e.g., theft, alcohol or drug intoxication, etc.), the employee may be dismissed immediately. Nevertheless, the termination is normally subject to unfavorable judicial interpretation for an employer and, correspondingly, requires huge paperwork to protect the employer against further claims from the dismissed employee
- An employer should provide an employee with per diems advance for each day of business trip (including day of departure and arrive). The amounts of the per diems are limited by the Ukrainian government and are different for the business trips within the borders of Ukraine and for the business trips abroad. Still, the employer is free.

Labour Conditions

Disabled individuals

- In accordance with Ukrainian legislation companies with more than eight employees are required to be registered in the relevant fund and employ a minimum number of disabled people – 4% of their total headcount (for the companies with 8 to 25 employees this quota is one disabled person)
- If an employer does not meet the quota, it is required to make a one-time payment per year to the Fund for the Social Protection of Disabled People which is equivalent to the company's one employee's annual average salary (50% for companies with 8 to 15 employees) for each position that is not occupied by a disabled person.

Work permit

- A foreign national can be hired in Ukraine following receipt of a work permit issued by the State Employment Centre of Ukraine. A convincing statement of reasons for a foreigner (as opposed to a Ukrainian national) to be employed with a Ukrainian company is mandatory. It usually takes up to a calendar month to receive a work permit
- Work permits are usually granted for a period of one year, but can be prolonged for another year on an annual basis. A foreigner who is employed without a proper work permit can be immediately deported at the expense of his/ her employer.



PAYROLL SERVICES

HWC is able to provide its clients with the comprehensive payroll administration. For this purpose we have highly qualified professionals and special accounting software.

HWC is able to provide its clients with the salary computations in accordance with the client's policy, namely:

- *"Gross to net" salary approach*
- *"Net to gross" salary approach*
- *Foreign currency equivalent approach*
- *Foreign currency approach*
- *Other specific approaches (if any).*

Except the direct salary computation the HWC's payroll service includes:

- *Payroll related reporting to the tax and other fiscal authorities*
- *Handling of the queries of a client and/or its employees*
- *Meetings with a client and/or its employees*
- *Assistance in hiring and termination of employees*
- *Preparation of a labour contracts*
- *Preparation of a job descriptions*
- *Preparation of a standard handbook, etc.*
- *When payroll services provided by HWC, we ensure:*
 - *Strict confidentiality*
 - *Individual approach*
 - *Effective and efficient communications*
 - *Reasonable fees and costs.*



Reasons to work with HWC

- Strong and committed Team
- Team Member with experience in Big 4 or international/ global player
- We communicate with our clients and partners in English, German, Russian and Ukrainian
- Both HWC-Partner combine more than 30 years working experience in different leading positions in Ukraine
- German business attitudes
- Experience with Global Players and with SME/ Hidden Champions
- Modern and state of the art IT Infrastructure and Office
- Office next to Metro Minska (50 meter) and only 12 minutes to the very Center of Kyiv (Maidan)
- Well experienced in different business sectors e.g. IT, Agriculture, Oil & Gas, Energy, Heavy industry, Logistics, Machinery and Equipment, Engineering, Retail, Metal Industry, Services and others
- Allianz-insured.

Memberships/ Service Provider Listings



Our Services at a glance

Business Set Up Advice

Market Analysis & Research

**Tax Compliance & Tax
Advisory**

Recruiting/ Executive Search

**Feasibility
Studies**

Business Planning

**Accounting Outsourcing &
Reporting**

HR & Payroll Solutions

Outstaffing

**Strategy
Consulting**

Interim Management
*(General Director/ CFO/
Chief Accountant)*

**Legal Address, Business
Address
& Virtual Office**

Office Sublease

**Due Diligence
& Transaction Services**
(Finance/ Tax/ Technical)

Restructuring

HWC LLC

04205 Kyiv, Ukraine

O-R Business Center

Obolonskyi Ave 26

+38 044 451 5154 Kyiv

+43 660 717 2456 Vienna

office@hwc.com.ua

www.hwc.com.ua

**Making your business work –
is what we do!**