



Payroll Accounting in Ukraine

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 is 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 Ukrainian hryvnias.

Salary accruals can be divided on such groups:

1. Remuneration for worked time is 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 for other cases.

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.

There are 3 salary taxes which should be applied:

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 Single Social Tax then only maximum amount 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.

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.

1. Unified Social Security Contribution (USSC) is paid by company only. USSTC rates are 22% and 8.41% relating to the disable person. The taxable base for the USSC is capped by 25 minimum wages. i.e. the cap for the USSC calculation will be:

- UAH 34,450 from January 1 to April 30, 2016 and
- UAH 36,250 from May 1 to December 31, 2016.

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.

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.

Example:

Employee has gross salary UAH 15.000. The calculation of net salary will be following:

PIT 18% 15.000*18%=2.700

MT 1.5% 15.000*1.5%=225

Net salary 15.000-2.700-225=12.075

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, should be submitted reports 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.



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