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PUBLIC TRIBUTES IMPOSED ON AGE-RELATED BENEFITS – A COMPARATIVE ANALYSIS

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Abstract: The comparison of pension systems often boils down to comparing the subjective scopes entitled to participate in the system, the number of benefits and their relation to other macroeconomic indicators or parameters of the pension system influencing system efficiency. In the comparative literature, however, less content is concerned with the principles of taxation of and accrual of contributions to age-related benefits. In view of the changes in the tax system that are currently taking place in Poland, this paper dwells upon the characteristics of solutions used in other countries, and also indicates similarities and differences, and specifies models of applying public tributes on age-related benefits.
Keywords: pension, tributes, tax, contributions, social security

INTRODUCTION

The level of age-related benefits is often the subject of public debate and is present in the literature. Among the main areas of comparative analysis, parametric aspects such as the benefit amount in relation to the average salary in the economy, the rules of acquiring a guaranteed (minimum) level of benefit or the conditions of becoming eligible for benefit supplements dominate. However, in addition to these comparisons, it is also worthwhile to analyse the taxation and contribution rules for benefits paid under social security schemes.

The objective of this paper is to compare the rules for the taxation of age-related benefits in selected countries. Meanwhile the specific objectives comprise:

– to present the rules for the taxation of benefits and identifying exemptions,
– to present the rules for applying contributory benefits and to show the differences in the countries under study,
– to synthesise and identify models of applying tributes on benefits.

The research issue addressed in this paper is to answer the question of how age-related benefits paid in selected countries are covered by public tributes. In this paper, the author has assumed a research hypothesis: there is no single leading model of public taxation of age-related benefits in the surveyed countries.

The subject of this paper is a comparative analysis of the tax treatment of age-related benefits paid in selected countries. The first part presents the principles and models of benefit taxation. The second part presents the principles of comparison and the analysis methodology. The third part of the paper focuses on presenting the final conclusions of the comparative analysis of public tributes imposed on age-related benefits in selected countries.

SOCIAL SECURITY AND TAXATION OF PUBLIC SCHEME BENEFITS

When analysing the public tribute treatment of age-related benefits, attention should be paid to the models that can be applied. Two concepts have been established in developed tax systems:

– Funds taxed at the contribution collection stage (TEE),
– Funds taxed at the benefit payment stage (EET).

The TEE model assumes that funds allocated for contribution are taxed and that both income during accumulation and final benefits are tax-free. The EET model, on the other hand, is based on the assumption that the contribution and the 'indexation' income are tax-free and only the benefit paid out is taxed (Whitehouse, 1999). Thus, if it were assumed that the tax rates charged on the contribution paid and the benefit paid would be the same, the insured would earn an identical net income. However, as S. Pieńkowska-Kamieniecka and A. Ostrowska-Dankiewicz rightly indicate, the belief that any tax reduces incentives for ex lege accumulation of funds should come along with a conclusion that the absence of tax at the time of accumulation of savings and the postponement of the collection of public tributes should contribute to the general perception of encouraging legal contribution. In effect, it makes the EET model more desirable (S. Pieńkowska-Kamieniecka et al., 2013, pp. 119–133).

However, taking a note of the significant internal variation within the EET model, it is worth pointing out the following criteria:

– Tax-free amount (tax-reducing amount),
– The tax rate and method of taxation of benefits paid (e.g. progressive tax scale),
– Entitlement to tax reliefs as well as joint settlement options.

It is also necessary to supplement the taxation rules with contributory rules applicable to the benefits. Among the solutions in place, the coverage of pensions by a health insurance contribution is predominant. It is also possible to subject pensions to compulsory contributions for long-term care risks, as well as to calculate and deduct solidarity contributions from the pension benefit.

The post-1999 pension system operational in Poland is based on a defined contribution model, which involves the obligation of the insured to pay contributions. The contribution amount due is calculated according to a percentage rate on the amount constituting the contribution assessment basis. Given that the pension insurance contribution is calculated from the amount representing the insured's income before deduction of tax and health contribution, the legislator also decided to include the health insurance contribution for the benefits paid under the pension security system. Still in 2021, it was still possible in Poland to deduct the health contribution under the pension system from personal income tax. However, under the new "Polish Deal" legislative package, from 2022 onwards, pensioners are obliged to pay personal income tax on the pension benefit following general principles (personal income tax rates of 12% and 32%), as

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well as to pay the health insurance contribution accounting for 9%. Importantly enough, while in the case of income tax there is a tax-reducing amount of PLN 3,600 per annum (which corresponds to PLN 30,000 of the tax-free amount), this does not apply to the health insurance contribution. It should be emphasised, however, that the health insurance system does have a mechanism for reducing the health insurance contribution to the amount of the hypothetical tax the insured would have to pay. Consequently, benefits paid in excess of approximately PLN 300 are reduced by the mandatory public tributes.

In this area, it should be emphasised that, pursuant to Art. 55(6) of the Personal Income Tax Act of 26 July 1991, the pension authorities were obliged to increase the national pensions effective from 1 January 1992 through their recalculation following the principle that after deduction of income tax, the pensions were not lower than before the recalculation. This meant that the pension after conversion could not be higher than 125% of the pension before conversion. It should therefore be pointed out that, as of 1 January 1992, all pensions due from that date were grossed-up in connection with the introduction of personal income tax, and this measure involved accounting, rather than actual taxation of benefits with income tax.

It is also worthwhile to bring here an example of the so-called "13th and 14th old-age pensions". In the case of the additional annual benefit for pensioners, the legislation applies, under which in 2020 and 2021 mandatory taxation and adding contribution to benefits were assumed. However, in 2022, the legislator decided to exempt 13th pension from personal income tax while leaving the obligation to pay a 9% health contribution. Meanwhile 14th pension was granted an exemption from personal income tax under Art. 15 of the Act of 26 May 2022 on consecutive annual additional cash benefit for pensioners in 2022. Also in this case, the benefit is subject to the payment of mandatory health insurance contribution.

In the case of benefit allowances, on the other hand, the rules on taxation and contribution payment are different. An attendance allowance which is obtained by persons entitled to an old-age or disability pension, who have been certified by a Social Insurance Institution (ZUS) certifying doctor that they are totally incapable of working and living independently, or by persons who are over 75 years of age, is free from income tax and does not represent base for accrual of health insurance contribution. Similarly, in the case of teachers who conducted secret teaching during the Nazi occupation, who receive, pursuant to Art. 90 of the Teachers' Charter Act, a pension supplement of 10% of the average monthly remuneration in the calendar quarter preceding the date of the last pension adjustment in 1995, if they do not receive such a supplement under any other title (Kolek, Sobolewski, 2021, 104). This supplement is also exempt from personal income tax.

COMPARATIVE ANALYSIS

One of the research methods in the social sciences area is comparative analysis. The fundamental premise of comparative analysis is to juxtapose objects distinguished by a specific factor, to observe it and to identify other differentiating aspects. The aim of comparative analysis is to identify the similarities and reveal the differentiating features of the variables under study. As part of the comparison, an attempt should also be made to identify differences, and it should result in a synthesis that allows an understanding of the phenomenon under study (Kolek, 2016).

For the purpose of this paper, a comparison of age-related benefits paid under government social security schemes was adopted. A common feature is the fact of payment of a certain benefit under the general system, and the differentiating features are the rules of taxation and contributory benefits. This means that the assumption formulated by J. Solorz concerning the selection of research objects is complied with.

Given the above, the following comparative criteria are distinguished for the comparative analysis (Solarz, 2014):
- the rules of taxation of age-related benefits,
- the rules of applying contributions to age-related benefits,
- the rules of exempting age-related benefits and contributions from taxation.

This implies that the assumptions made in the paper focus on demonstrating the similarities and differences existing between the entities under study with regard to the public tribute treatment of age-related benefits paid under the social security systems.

METHODOLOGY

It is possible to compare benefit taxation rules on the basis of data provided by the Mutual Information System on Social Protection in the European Union ((MISSOC) is an EU social protection information system providing detailed, regularly updated and comparable information on national social protection systems (EC, MISSOC).

The information database provided by MISSOC collects and makes available information on the social protection systems of the 27 EU Member States plus Iceland, Liechtenstein, Norway and Switzerland. The MISSOC database is updated twice a year and the gathered information comprises: financing, health care, sicknesses, maternity, disability, old age, survivors' pensions, workplace injuries and diseases, family, unemployment, retirement, guaranteed minimum resources and long-term care.

Along with data on age-related social benefits (old age benefits), data was also collected on the legal grounds, basic rules of the systems in force in individual countries, exemptions from compulsory insurance, benefit eligibility criteria, mechanisms for the benefit indexation, as well as the rules of benefit taxation and contribution payment. On this basis, a comparative analysis was made of the rules of age-related benefit taxation and contribution payment paid under the general pension system.

STUDY FINDINGS

Data on the taxation of age-related benefits covering 31 countries, including the 27 EU countries as well as Iceland, Liechtenstein, Norway and Switzerland, was taken for the analysis (table 1). Four models of age-related benefit taxation can therefore be distinguished in the under study:
- funds exempt from taxes and contributions,
- funds exempt from contributions,
- funds subject to general taxation,
- funds partially exempt from taxation and contributions.

The benefits that are exempt from taxes and contributions include pension supplements operated in Poland, supplementary benefits (Ergänzungsleistungen) in Liechtenstein, pension benefits for persons with disabilities in Romania, attendence allowance (pomoč in postrežbo), or housing allowance (bostadstillägg), as well as the elderly dependency support (äldreförsörjningsstöd) in the Swedish system (MISSOC).

Given the above and based on an analysis of the rules of public tribute taxation of age-related benefits, it is reasonable to distinguish five models of taxation and contribution payment specific to individual countries. It is legitimate to distinguish groups of countries in which age-related benefits:
- are exempt from taxes and contributions,

Table 1. *Taxation and contribution payment models for age-related benefits in selected countries*

Exempt from contributions			Burdened with contributions	
Tax-free	**Taxed**			
Benefits exempt from taxes and contributions	Benefits taxed but exempt from contributions	Benefits are partially exempt from taxation and exempt from contributions	Benefits taxed on a general basis and are subject to contribution payment	Benefits partially exempt from taxation and contribution payment
Bulgaria	Cyprus	Czechia	Austria	Belgium
Hungary	Denmark	Lichtenstein	Greece	Croatia
Lithuania	Estonia		Italy	Finland
Slovakia	Spain		Luxemburg	France
	Iceland		Poland	Germany
	Ireland		Slovenia	Norway
	Latvia		The Netherlands	Romania
	Malta			
	Portugal			
	Sweden			
	Switzerland			

Source: own analysis.

- are taxed but exempt from contributions,
- are taxed under the general system and subject to contributions,
- are partially exempt from taxation and contributions,
- are partially exempt from taxation and are non-contributory.

Only 4 out of 31 countries under study apply the exemption of age-related benefits from taxes and contribution payment: Bulgaria, Hungary, Lithuania and Slovakia. In these countries, the benefit paid does not represent neither a taxable base nor a calculation base for social security contributions. In 11 countries, benefits are taxed, but exempt from contributions. It should be noted here that in 9 countries the benefits are taxed in the same manner as income under other titles, and in two countries they benefit from tax reliefs:

- Latvia – pensions awarded prior to 1 January 1996 are not taxed, while pensions awarded or recalculated after 1 January 1996 are taxed. The system has a tax exemption limit for pensioners whose pensions were awarded or recalculated after 1 January 1996:
  - from 1 January 2022 to 30 June 2010: EUR 2,100 for half a year,
  - from 1 July 2022 to 31 December 2022: EUR 3,000 for half a year (MISSOC, Latvia).

  In the Latvian system, an additional tax exemption has also been introduced for politically repressed persons or members of the national resistance movement (EUR 1,848 per year) or for dependents (EUR 3,000 per year).
- Portugal – a specific free amount of EUR 4,104 is provided for under current legislation (MISSOC, Portugal).

Meanwhile in Czechia and Liechtenstein the benefits are partly exempt from taxation and exempt from contribution payment. In addition, in 7 countries benefits are taxed on a general basis and fully contributory. Poland should be included in this group of countries, with compulsory health insurance for beneficiaries. It should be also noted that in Austria, a sickness insurance contribution of 5.10 per cent of the assessment base is levied on benefits (MISSOC, Austria). In Greece, the general taxation rules provide for exemptions for the disabled, victims of war and their families, the blind and those suffering from paraplegia. The health contribution rate is 6% of the main pension, after deduction of the pensioners' social solidarity contribution. The pensioners' social solidarity contribution is levied on monthly pensions exceeding EUR 1,400.00 at a rate of:

- 3% for old-age pensions: EUR 1,400.01 - 1,700.00
- 6% for old-age pensions: EUR 1,700.01 - 2,000.00
- 7% for old-age pensions: EUR 2,000.01 - 2,300.00
- 9% for old-age pensions: EUR 2,300.01 - 2,600.00
- 10% for old-age pensions: EUR 2,600.01 - 2,900.00
- 12% for old-age pensions: EUR 2,900.01 - 3,200.00
- 13% for old-age pensions: EUR 3,200.01 - 3,500.00
- 14% for old-age pensions exceeding EUR 3,500.01

(MISSOC, Greece).

Meanwhile, the contribution rate in Italy for the National Institution for Italian Pensioners (Opera nazionale dei pensionati d'Italia, ONPI), is symbolic, amounting to just EUR 0.01 per month (13 times per year) (MISSOC, Italy). Meanwhile, in Luxembourg, the contribution rate for health care is 2.8% of the assessment base and for long-term care insurance it is 1.4% of the assessment base. In Slovenia, a health benefit contribution of 5.96% is financed by the health care system. However, it should be stressed that this contribution is not pension deductible, but the amount is calculated as if it had been paid out of individual pensions and is transferred to the Slovenian health insurance company. Under the Dutch system, health insurance contributions are deducted from the pension at a basic rate of 5.4% of the assessment base and transferred to the Government Health Insurance Fund (MISSOC, The Netherlands).

It should also be noted that in 7 countries, benefits are partially exempt from taxation and contribution payment, viz. Belgium, Croatia, Finland, France, Germany, Norway, Romania. Under the Belgian system, a contribution to sickness and disability insurance of 3.55% of the assessment base applies provided that the pension is not reduced below EUR 2,014.55, or when the recipient has no dependants – then to EUR 1,699.84 per month. Meanwhile the solidarity contribution for old-age pensions ranges from 0.5% to 2% depending on the family burden and the gross amount of all statutory and non-statutory pensions. The solidarity contribution is paid when the household income exceeds EUR 3,182.97, or EUR 2,753.14 in the case of single-person households (MISSOC, Belgium). Based on an example of Croatia, it should be noted that the individual exemption for pensioners is HRK 4 000 (EUR 532) per month. This amount is subject to an increase depending on the number of dependents, the degree of disability of the pensioner or his dependents. Meanwhile the Croatian old-age pensions exceeding the average net monthly salary in the country in the previous year (HRK 7 086.00 (EUR 942) in 2022) are reduced by a health insurance contribution of 3% of the gross pension amount (MISSOC, Croatia). In contrast, in Finland, the health insurance contribution is 1.65% of the pension and other social benefits (MISSOC, Finland). In France, if the old-age pension does not exceed EUR 3527.63 per year and is means-tested, it is tax-free, while income tax for pensioners is 10% and the deduction is subject to an annual limit of EUR 3912 per household. Meanwhile, under the French system, the health insurance contribution with reference to income tax is as follows: 8.3%, 6.6% or 3.8% or there is an exemption, and the social debt repayment contribution is 0.5% or there is an exemption; the additional solidarity contribution for people living independently is 0.3%, and for Agirc-Arrco pensions the health contribution is 1% of the assessment base. Meanwhile in Germany the taxable part of the pension is taxed on a general basis; the health insurance contribution for pensioners subject to compulsory insurance is 7.3% (half of the general statutory sickness insurance contribution rate of 14.6%). The remaining contribution of 7.3% is paid by the pension insurer. It should also be noted that a separate additional contribution must be paid depending on the health insurance company. This contribution is also borne equally by the pension insurance companies and the pensioners subject to the insurance obligation. In contrast, the pensioner's contribution to long-term care insurance is 3.05% of the pension and is paid by the pensioner (MISSOC, Germany). In Norway, certain relief and exemption provisions apply to pensioners. Pensioners who only receive the minimum pension do not pay taxes or social insurance contributions. Other pensioners pay social insurance contributions of 5.1% (for health care) (MISSOC, Norway). Using Romania as an illustration, it should be stressed that the benefit amount exceeding RON 2,000 (EUR 404) per month is taxable. Health insurance contributions at the rate of 10% are levied on pension, pension with reduced standard retirement age, early retirement pension and early partial retirement pension above RON 4,000 per month, for the portion exceeding RON 4,000 (MISSOC, Romania).

It should therefore be concluded that, among the countries surveyed, the burden of public tributes on pensions varies widely from exemptions from public tributes through tax relief and contribution exemptions to extensive contribution systems that burden the benefit received. The lack of harmonised rules for the imposition of public tributes on benefits is evident among both the EU countries and the remaining countries surveyed.

CLOSING REMARKS

When carrying out a comparative analysis of the rules of taxing age-related benefits, one should notice a wide diversity of solutions. The analysis carried out in this paper indicates a wide range of options of taxing benefits and paying contributions on them. Starting from the imposition of public tributes on pension benefits through a number of reliefs and exemptions from public levies to extensive systems of contributions, which burden the received benefit. The lack of harmonised rules for levying public tributes on benefits is evident both among the EU countries and the remaining countries surveyed. Thus, the research hypothesis posed in the introduction was verified positively and it was found that there is no single leading model for the taxation of age-related benefits in the countries under study. On the other hand, the research issue presented in the introduction to this paper and the research questions posed allowed the presentation of the rules of benefit taxation and the identification of exemptions, the identification of the rules of applying contributions to benefits and the identification of differences in the countries under study, as well as the synthesis and the identification of models of applying tributes to benefits.

NOTES

[1] Ustawa z dnia 27 sierpnia 2004 r. [Act of 27 August 2004] (…).
[2] Ustawa z dnia 26 lipca 1991 r. [Act of 26 July 1991] (…), art. 10.
[3] Ustawa z dnia 27 sierpnia 2004 r. [Act of 27 August 2004] (…), art. 66.
[4] Ustawa z dnia 26 lipca 1991 r. [Act of 26 July 1991] (…), art. 55(6).
[5] Ustawa z dnia 9 stycznia 2020 r. [Act of 9 January 2020] (…).
[6] Rozporządzenie Ministra Finansów z dnia 7 marca 2022 r. [Ordinance of the Minister of Finance of 7 March 2022] (…).
[7] Ustawa z dnia 27 sierpnia 2004 r. [Act of 27 August 2004] (…).
[8] Ustawa z dnia 26 stycznia 1982 r. [Act of 26 January 1982] (…), art. 90.

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