Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

2015

OECD

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STOCKTAKING OF THE TAX TREATMENT OF FUNDED PRIVATE PENSION PLANS IN OECD AND EU COUNTRIES

1. Introduction

The OECD project on Financial Incentives and Retirement Savings aims at determining the cost effectiveness of tax and other financial incentives to promote private pension savings and assessing what is the most efficient way of using public money to increase savings for retirement, retirement income and replacement rates.[1] [2] As part of this project, the OECD Secretariat has undertaken a stocktaking exercise on the tax treatment of funded private pension plans for all OECD and non-OECD EU countries.[3]

This document provides the results of the stocktaking exercise. The information refers to 2015 or the latest year with available data. It covers all types of funded private pension plans in each country. The Secretariat used publicly available documentation to pre-fill a questionnaire previously validated by the Working Party on Private Pensions and sent the pre-filled questionnaire to all countries for validation and completion of missing information.[4]

The analysis of the tax treatment of funded private pension plans shows that many countries apply a variant of the "Exempt-Exempt-Taxed" (EET) regime, where both contributions and returns on investment are exempted from taxation while benefits are treated as taxable income upon withdrawal. Yet, a wide range of tax regimes can be found as well, from the EEE regime where contributions, returns on investment and pension income are tax-exempt, to regimes where two out of three streams are taxed. In addition, in a majority of countries, a disparity of tax treatments exists at the national level between different types of plans, contributions (i.e. mandatory or voluntary) and contribution sources (i.e. employer or individual), potentially creating confusion for people who may not have the ability to understand the differences and choose the best option for them. The confusion resulting from this complexity has led some countries to introduce more direct financial incentives, which this document reports as well.

The document is organised as follows. Section 2 gives a general overview of the tax treatment of private pension plans under the personal income tax system. The following sections then go into more details regarding the tax treatment of contributions to private pension plans (section 3), returns on investment and accumulation of funds (section 4), and private pension income (section 5). Besides the personal income tax system, social contributions (e.g. those financing public health care insurance, public

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1. The full description of the project is described in the OECD website www.oecd.org/daf/fin/private-pensions/Fiscal-Incentives-Retirement-Savings.pdf.

2 . This project benefits from the financial support of the European Commission.

3 . This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name or any territory, city or area.

4 . The accompanying document provides country profiles with detailed information on the tax treatment of funded private pension plans.

pensions, unemployment insurance, or disability insurance) may be levied on contributions to private pension plans and private pension benefits. Section 6 therefore describes for each country whether contributions to private pension plans are excluded from the income base used to calculate social contributions and whether social contributions are levied on private pension income. Section 7 presents the different forms of financial incentives introduced by selected countries to promote savings in private pension plans. Section 8 concludes.

2. General overview of the taxation of funded private pension plans in OECD and EU countries

This document covers the tax treatment of all types of funded private pension plans, whether mandatory or voluntary, occupational or personal, defined benefit or defined contribution. This section refers to the taxation of private pension plans under the personal income tax system, while section 6 addresses other taxes such as social contributions levied on private pension contribution and private pension income.

When providing a general overview of the taxation of funded private pensions (Table 1), the focus is first on the tax treatment of the predominant plan in terms of population coverage in countries where the tax treatment differs across different types of pension plans. Sections 3 to 5 address cases when the personal income tax system applies different rules to different types of plans. Secondly, it considers that contributions in occupational pension plans are taxed if either employee or employer contributions are taxed when these two sources of contributions have a different tax treatment. Finally, the tax treatment of pension income refers to cases when individuals withdraw at their official age of retirement. Section 5 looks at the impact on the tax treatment of pension income of the age at which benefits are withdrawn.

Many OECD and EU countries apply a variant of the "Exempt-Exempt-Taxed" (EET) regime to funded private pension plans, meaning that both contributions and returns on investment are exempted from taxation and benefits are treated as taxable income upon withdrawal. Out of 35 OECD countries, 18 follow this regime as well as 13 out of 28 EU Member States (see Table 1).

Table 1. Country grouping according to the general tax treatment of private pension plans

General tax treatment	OECD countries	Non-OECD EU Member States
EET	Canada, Chile, Estonia, Finland, Germany, Greece, Iceland, Ireland, Japan, Latvia, Netherlands, Norway, Poland, Slovenia, Spain, Switzerland, United Kingdom, United States	Croatia, Romania
TEE	Czech Republic, Hungary, Luxembourg, Mexico	Lithuania
ETE		Cyprus
TET	Austria, Belgium, France, Israel, Korea, Portugal	Malta
ETT	Denmark, Italy, Sweden	
TTE	Australia, New Zealand, Turkey	
EEE	Slovak Republic	Bulgaria

Note: In the case of France, the tax treatment considers the personal income tax system, the General Social Contribution (CSG) and the Social Debt Reimbursement Contribution (CRDS). There is a debate on how to classify the CSG. The French Law considers it as a tax because it does not entitle workers to any right or benefit (as opposed to social security contributions). The Justice Court of the European Union considers it as a social contribution because the money is only used to finance the social security system and is levied on wages (although not only). Following French interpretation, both CSG and CRDS are considered as taxes in this analysis, rather than as social contributions.

Six other tax regimes can be found among other OECD and EU countries. Occupational pension plans in Austria, Belgium, France, Israel, Korea, Portugal and Malta are taxed according to a TET regime, usually with part of the contributions exempt from taxation. The Czech Republic, Hungary, Luxembourg, Mexico and Lithuania follow a TEE regime, where part or all of individuals' contributions are taxed.

Returns on investment are taxed in four groups of countries. In Denmark, Italy and Sweden, contributions are tax-exempt but returns on investment and pension income are taxed. Returns on investment are however not subject to progressive income tax rates but rather to flat tax rates. In the case of Italy, returns on investment are not subject to double taxation during the accumulation phase and at withdrawal. Only the part of pension income that has not been already taxed during the accumulation phase is taxed at withdrawal. In Australia, New Zealand and Turkey, only pension income is tax exempt.[5] In Cyprus, interest income earned by provident funds is taxed at the flat rate of 3% (special contribution for defence).[6] [7]

Finally, two countries have more favourable taxation regimes for pension funds. In the Slovak Republic and Bulgaria, mandatory contributions to so-called pillar 2 pension plans (personal pension plans into which part of social security contributions are paid) enjoy an EEE tax regime, meaning that contributions, returns on investment and pension income are tax-exempt.

Table 2 provides more detailed information about the tax treatment of contributions, returns on investment and pension income by country. It disaggregates information between different types of plans, different types of contributions (i.e. mandatory or voluntary) and different sources of contributions (i.e. employer or individual) when these are subject to different tax treatments. Sections 3 to 5 develop further the information provided in Table 2.

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5 . In the case of Australia, most pension benefits paid to people over 60, whether lump sums or income streams, are tax-free. However, benefits that come from a fund that has not been subject to tax on contributions are subject to tax when they are paid to the individual.

6 . Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people in the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

7 . Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Table 2. General tax treatment of funded private pensions in 2015

Country	Type of plan / contribution	Source of contribution	Tax treatment		
			Contributions	Returns	Withdrawals
Australia	Concessional contributions	All	15%	15%	E
	Non-concessional contributions	Individual	T	15%	E
Austria	Occupational plans	Individual	T/PE	E	T/PE
	Occupational plans	Employer	E	E	T
	Personal plans	Individual	T/PE	E	T
	State-sponsored retirement provision plans	Individual	T	E	E
Belgium	All	Individual	T/TC	E	T/PE
	Occupational plans	Employer	E	E	T/PE
Canada	All	All	E	E	T
Chile	All	Individual	E	E	T
Czech Republic	Supplementary plans	Individual	T/PE	E	E
	Supplementary plans	Employer	E	E	E
Denmark	"Age savings" plans	All	T	15.3%	E
	Other plans	All	E	15.3%	T
Estonia	Mandatory contributions	All	E	E	T/PE
	Voluntary contributions	Individual	T/TC	E	E
Finland	Voluntary personal plans set up by the employee	Individual	T/TC	E	T
	Other plans	All	E	E	T
France	Occupational plans	Employer	T/PE	E	T/PE
	"Perco" plans	Individual	T	T/PE	T/PE
	Other plans	Individual	T/PE	E	T/PE
Germany	Private pension insurance	Individual	T	E	T/PE
	Other plans	All	E	E	T
Greece	All	All	E	E	T
Hungary	All	Individual	T	E	E
	All	Employer	E	E	E
Iceland	All	All	E	E	T
Ireland	All	All	E	E	T/PE
Israel	All	Individual	T/TC	E	T/PE
	All	Employer	E	E	T/PE
Italy	All	All	E	20%/12.5%	T/PE
Japan	All	All	E	E	T/PE
Korea	Occupational plans	Employer	E	E	T/PE
	All	Individual	T/TC	E	T/PE
Latvia	Mandatory contributions	Individual	E	E	T
	Voluntary contributions	Individual	E	10%	E
	Voluntary contributions	Employer	E	10%	T
Luxembourg	Occupational plans	Employer	20%	E	T/PE
	All	Individual	E	E	T/PE
Mexico	Mandatory contributions	Individual	T	E	T/PE
	Mandatory contributions	Employer	E	E	T/PE
	Long-term voluntary contributions	Individual	E	E	T/PE
	Short-term voluntary contributions	Individual	T	T	E
Netherlands	All	All	E	E	T
New Zealand	All	Individual	T	10.5% - 28%	E
	All	Employer	10.5% - 33%	10.5% - 28%	E
Norway	All	Individual	T/PE	E	T
	Occupational plans	Employer	E	E	T
Poland	"OFE" plans	Individual	E	E	T
	"IKZE" plans	Individual	E	E	10%
	"PPE" and "IKE" plans	All	T	E	E
Portugal	Occupational plans	Employer	E	E	T
	All	Individual	T/PE	E	T/PE
Slovak Republic	"Pillar 2" plans	Individual	E	E	E
	"Pillar 3" plans	All	T/PE	T	E
Slovenia	All	All	E	E	T
Spain	All	All	E	E	T
Sweden	"Premium Pension"	Individual	E	E	T
	Other plans	All	E	15%	T

Table 2. General tax treatment of funded private pensions in 2015 (continued)

Country	Type of plan / contribution	Source of contribution	Tax treatment Contributions	Returns	Withdrawals
Switzerland	All	All	E	E	T
Turkey	Personal plans	All	T	T	E
United Kingdom	All	All	E	E	T/PE
United States	"Roth" contributions	Individual	T	E	E
	Other plans	All	E	E	T
Bulgaria	All	All	E	E	E
Croatia	Mandatory contributions	Individual	E	E	T
	Voluntary contributions	Individual	T	E	T
	Voluntary contributions	Employer	E	E	T
Cyprus	Provident funds	All	E	3%	E
Lithuania	"Pillar 2" plans	All	T	E	E
	"Pillar 3" plans	Individual	E	E	E
Malta	All	Individual	T/TC	E	T/PE
	Occupational plans	Employer	E	E	T/PE
Romania	All	All	E	E	T/PE

Notes: T = Taxed; E = Exempt (usually up to a limit); T/PE = Taxed but partially exempt; T/TC = Taxed but tax credit.

3. Taxation of contributions to funded private pension plans

This section provides more details on the tax treatment of contributions to private pension plans. It reviews cases when the tax treatment varies for different types of plans, different types of contributions (i.e. mandatory or voluntary) or different sources of contributions (i.e. employer or individual). It also reports about limits on contributions attracting tax relief or on the tax deductibility of contributions, as well as about the tax treatment of contributions above those limits. Finally, it examines the requirements that must be met in different countries to become eligible for tax relief on contributions.

3.1. Disparity of tax treatments across different types of contributions

An identical tax treatment applies to all types of contributions and pension plans in only a minority of countries. This is the case in 12 OECD countries (Canada, Greece, Iceland, Ireland, Italy, Japan, the Netherlands, Slovenia, Spain, Switzerland, Turkey and the United Kingdom) and 3 non-OECD EU Member States (Bulgaria, Cyprus and Romania). In these countries, employee and employer contributions, whether voluntary or mandatory, are subject to the same tax treatment and contributing to a personal or occupational plan does not modify the general tax treatment, even though different limits may apply to the amount of contributions attracting tax relief.

In Chile, all types of contributions can be deducted from income but workers making voluntary contributions can actually choose between two tax treatments for these contributions. Voluntary contributions are from after-tax income. Thereafter, workers can decide whether to deduct these contributions from their taxable income or not. If they do, benefits are considered income for the year the withdrawals are made and are subject to a special additional tax. If they do not deduct contributions, the individual is only required to pay taxes on the returns obtained from the amount withdrawn.

As shown in Table 2, contributions from employers and individuals within the same type of plan are treated differently in the income tax system of Austria, Belgium, the Czech Republic, France, Hungary, Israel, Korea, Luxembourg, Mexico, New Zealand, Norway, Portugal, Croatia, and Malta. In most of these countries, employer contributions to private pension plans are usually not considered as taxable income for

the individual.[8] Conversely, individuals' contributions are made from after-tax income and may only enjoy partial tax exemption (for example, contributions to personal pension plans in Austria can be treated as special expenses and attract a 25% tax relief up to a limit) or a tax credit (for example, employee contributions in Israel are subject to a 35% non-refundable tax credit up to a limit). In New Zealand, both employer and individual contributions are taxed, but the rate applied differs (between 10.5% and 33% depending on the employee's salary for employer contributions and the individual's marginal rate of income tax for employee contributions). In Luxembourg, employer contributions are taxed at a rate of 20%, while employee contributions are tax-deductible, up to a limit. In Latvia, employer and employee voluntary contributions are tax-deductible, up to a limit, but upon withdrawal, employer contributions are taxed while employee contributions are tax-exempt.

The tax treatment may also vary according to the type of plan in which the individual is a member. This is the case in Austria, Denmark, Finland, France, Germany, Mexico, Poland, the Slovak Republic, Sweden, the United States and Lithuania. In the Slovak Republic, plans receiving part of the social security contributions attract a different tax treatment than other plans. In Sweden, all plans follow an ETT regime, except the mandatory personal pension plan system (PPM) in which returns on investment are tax-exempt. In the other countries, the difference in the tax treatment is not related to any plan category (occupational or personal, mandatory or voluntary). For example, Poland has two types of supplementary personal pension plans (IKE and IKZE) with two different tax regimes applying (TEE and EET respectively).

In Australia, Estonia, Latvia, Mexico and Croatia, the important criterion to determine the tax treatment of contributions is whether they are mandatory or voluntary. In Australia, non-concessional contributions are usually voluntary contributions and paid from after-tax income, while concessional contributions are usually mandatory contributions (either paid by the employer or by the individual in case of self-employed workers) and generally taxed at a flat rate of 15%. In Estonia and Croatia, contributions are tax-exempt in plans receiving part of the social security contributions, while they are taxed in supplementary voluntary personal plans.

The tax rate applied to contributions may depend on the income level of the individual. In the Netherlands, the tax treatment is the same for all types of contributions and pension plans but varies according to the income of the individual member. The maximum income for the EET system is set at EUR 100,000 in 2015. For the income that exceeds EUR 100,000 a TEE system can apply. In Australia, for high-income earners with an adjusted taxable income of more than AUD 300,000, the tax rate on concessional contributions that are considered above the AUD 300,000 threshold is 30% instead of 15%.[9] In addition, the state refunds the tax paid on concessional contributions for low-income individuals in the form of a matching contribution.[10] In New Zealand, employers' contributions are also liable for tax. The tax rate is calculated based on the employee's salary or wages in the previous tax year (including gross pension employer contribution) and varies between 10.5% and 33%.

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8 . In the case of Austria, an extra insurance tax (2.5% or 4% depending on the type of plan) is levied on individual and employer contributions to certain plans. In the case of Belgium, the employer must pay an annual 4.4% tax on contributions paid to an insurance company under the group insurance agreement. This tax is not due in the case of a social pension scheme.

9. See the country profile of Australia in the annex for detailed explanations on how the 30% rate is triggered.

10 . The Australian state provides a Low-Income Super Contribution (LISC) of up to AUD 500 annually for eligible individuals on adjusted taxable income of up to AUD 37,000. The amount payable is calculated by applying a 15% matching rate to concessional pension contributions made by, or for individuals (it is effectively a refund of the tax paid on concessional contributions). The payment of LISC has been maintained in respect of mandatory contributions made up to and including 30 June 2017. It will cease afterwards.

Finally, contributions made by the state are always tax exempt. This is the case in Australia (super co-contribution and low-income super contribution), Austria (matching contributions in state-sponsored retirement provision plans), Chile (subsidies for women, matching contributions for young workers on low income and matching contributions for voluntary contributions), the Czech Republic (matching contributions), Germany (subsidies in Riester plans), Hungary (tax refund), Mexico (state contribution in mandatory accounts, social quota and solidarity savings), New Zealand (matching contributions in KiwiSaver plans), Turkey (matching contributions), the United Kingdom (matching contributions), Croatia (matching contributions) and Lithuania (matching contributions).

3.2. Caps or limits to the amount of contributions attracting tax relief

Table 3 presents limits to the amount of contributions attracting tax relief and the tax treatment of excess contributions by country. Different limits may apply to different types of contributions within a country.

In only eight countries, an overall limit applies to the sum of employer and employee contributions in private pension plans (Canada, Italy, Latvia, Mexico, Slovenia, Spain, the United Kingdom and the United States). In that case, excess contributions, when permitted, are considered as taxable income for the individual and taxed at his/her marginal rate of income tax. In the other countries, employer contributions are not limited or have separate limits to the ones applying to employee contributions.

Tax relief is only granted for a part of the contributions made by individuals in four countries: Austria, Belgium, the Czech Republic and Portugal. For example, in Portugal, 20% of overall employee contributions to private pension plans (both occupational and personal) are tax deductible, within age-dependent limits. In the Czech Republic, only contributions above CZK 12,000 per year are tax-deductible.

Partial tax relief can also be granted in the form of a tax credit. Tax credits reduce the amount that the individual owes in tax (in contrast to tax deductions which reduce taxable income). It is calculated as a proportion of the contributions made, up to a limit. Eight countries provide tax credits: Australia, Belgium, Estonia, Finland, Israel, Korea, the United States and Malta. The proportion of contributions used to calculate the tax credit varies from 13.2% in Korea to 35% in Israel. In the case of voluntary personal plans taken by the employees in Finland, the tax credit is provided only if the capital income earned in the year is lower than the amount of deductible contributions.

Limits to the amount of contributions attracting tax relief can be defined as a proportion of the individual's income. This limit is usually associated with a maximum amount in national currency in order to put a ceiling on the tax relief granted to high-income people. Such definition of limits is used in Canada, Finland, France, Iceland, Ireland, Israel, Latvia, Luxembourg, Mexico, the Netherlands, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, the United States, Bulgaria, Cyprus, and Lithuania. For example, employee contributions to voluntary occupational plans in Finland are deductible from the employee's earned income up to the lesser of (i) 5% of salary or (ii) EUR 5,000 per year.

Conversely, the limit to the amount of contributions attracting tax relief can be defined as an amount in national currency, usually a multiple of a reference value in the country. Such definition of limits can be found in Australia, Austria, Belgium, Chile, the Czech Republic, Denmark, Finland (for voluntary personal plans), France, Germany, Italy, Japan, Luxembourg, Mexico, Norway, Poland, Portugal, the Slovak Republic, Sweden, Switzerland, Bulgaria, Croatia and Romania.

Finally, in a majority of countries, excess contributions are taxed at the individual's marginal tax rate. They are subject to a specific tax rate in Australia, Canada (for Registered Retirement Savings Plans),

Denmark and the United States (for Individual Retirement Accounts, IRAs). Excess contributions are not permitted in Iceland, Ireland, Japan, Luxembourg (for employer contributions), Poland, Spain and Switzerland.

Table 3. Limits to the amount of contributions attracting tax relief and tax treatment of excess contributions

Country	Type of plan / contribution / source of contribution	Part of contributions attracting tax relief	Contribution limit	Taxation of excess contributions
Australia	Concessional contributions	All	AUD 30,000 (AUD 35,000 for those aged 50 and over)	Marginal income tax rate + excess concessional contribution charge
	Non-concessional contributions	No tax relief	AUD 180,000 per year; Option of AUD 540,000 over three years for those aged 65 and under	Effective top marginal tax rate (49% in 2015) if the individual does not withdraw the excess contributions. If they do, notional earnings on excess contributions are taxed at marginal tax rate.
Austria	Individual	25%	EUR 2,920 per year for a single person and EUR 5,840 for a married couple if the spouse's income does not exceed EUR 6,000	Marginal income tax rate
Belgium	Individual	Tax credit: 30%	EUR 940 (for 2013) on individual contributions paid into a pension saving account	Marginal income tax rate
Canada	Registered Retirement Savings Plans (RRSP)	All	Employee + employer contributions: 18% of earnings up to CAD 24,930 minus actual or estimated RPP contributions	Marginal income tax rate + penalty tax of 1% per month for excess over-contributions made to an RRSP or a PRPP (i.e. contributions in excess of CAD 2,000 over the applicable RRSP/PRPP limit).
	Pooled Registered Pension Plans (PRPP)	All	Contributions must be made within an individual's available RRSP limit	
	Registered pension plans (RPP) - DC	All	Employee + employer contributions: 18% of earnings up to CAD 25,370	Excess contributions are not permitted
	Deferred Profit-Sharing Plans (DPSP)	All	Employee + employer contributions: 18% of earnings up to one-half of the RPP limit (CAD 12,685).	
Chile	Mandatory contributions	All	73.2 UF (Unidad de Fomento in Spanish, a price-indexed unit of account)	Marginal income tax rate
	Agreed deposits	All	900 UF	
	Voluntary contributions	All	50 UF per month or 600 UF per year	
Czech Republic	Individual	> CZK 12,000 / year	CZK 12,000 per year	Flat income tax rate (15%)
	Employer	All	CZK 30,000 per year	
Denmark	Programmed withdrawals	All	DKK 51,700	20%
Estonia	Voluntary contributions	Tax credit: 20%	Maximum tax credit: 15% of gross income up to EUR 6,000	Flat income tax rate (20%)
Finland	Voluntary occupational plans	All	5% of salary up to EUR 5,000 per year	If the employee contributes more than the employer, the excess amount is not deductible
	Voluntary personal plans set up by the employer	All for employer contributions. No tax relief for employee contributions	Employer contributions: EUR 8,500 per year	Marginal income tax rate
	Voluntary personal plan taken by the employee	Deductible from capital income	EUR 5,000 per year or EUR 2,500 if the employer also provides a voluntary personal plan for its employees. Tax credit of 30% if capital income is too low	Marginal income tax rate
France	Article 83 and company retirement savings plan (PERE)	All	8% of gross earnings, with gross earnings capped at 8 times the annual social security ceiling	Marginal income tax rate
	Article 83, PERE, popular retirement savings plan (PERP) and PREFON	All	Common limit for voluntary contributions: 10% of gross earnings of the previous year, with gross earnings capped at 8 times the annual social security ceiling	
	Collective retirement savings plan (PERCO)	All for employer contributions. No tax relief for employee contributions	Employer contributions: 16% of the annual social security ceiling or 3 times the employee contributions; Employee contributions: 25% of gross earnings of the previous year	
	Madelin contracts	All	Depends on taxable profit, minimum 10% of the annual social security ceiling, maximum 10% of 8 times the annual social security ceiling plus 15% of 7 times the annual social security ceiling	
Germany	Pension funds and direct insurance	All	Plans set up after 2005: 4% of the social security contribution ceiling plus EUR 1,800 in certain cases	Marginal income tax rate
	Riester plans	All	EUR 2,100 per year (including the subsidy)	
	Basisrente plans	All	From 2025: The maximum contribution to the Federal Miners' Insurance for single individuals (double for married couples)	
Greece	All	All	Information not available	
Hungary	Individual	No tax relief		
Iceland	Individual	All	4% of taxable income	Excess contributions are not permitted
Ireland	Individual	All	Between 15% of earnings for individuals younger than 30 and 40% of earnings for individuals 60 and older, with earnings capped at EUR 115,000	Excess contributions are not permitted
Israel	Individual	Tax credit: 35%	Maximum tax credit: 7% of the salary, with the gross salary capped at the national average salary	Marginal income tax rate
	Employer	All	7.5% of the salary, with a cap on gross salary of 4 times the national average salary for employees and 2 times the national average salary for self-employed people	

Table 3. Limits to the amount of contributions attracting tax relief and tax treatment of excess contributions (continued)

Country	Type of plan / contribution / source of contribution	Part of contributions attracting tax relief	Contribution limit	Taxation of excess contributions
Italy	All	All	Employee + employer contributions: EUR 5,164.57 per year; This limit is extended up to EUR 2.582,29 per year for contributions paid in the first 5 years of participation by individuals who have been hired for the first time as from 2007	Marginal income tax rate
Japan	Individual-type DC plans	All	Employees: JPY 23,000 per month; self-employed workers: JPY 68,000 per month	Excess contributions are not permitted
	DB corporate plans	All	JPY 40,000 per year	
Korea	Individual	Tax credit: 13.2%	Maximum tax credit: KRW 4,000,000 per year	Marginal income tax rate
Latvia	Voluntary contributions	All	Employee + employer contributions: 10% of annual taxable income	Flat income tax rate (23%)
Luxembourg	Employer	All	20% of salary	Excess contributions are not permitted
	Individual	All	EUR 1,200 in occupational pension plans. Between EUR 1,500 and EUR 3,200 in personal pension plans according to the age of the individual	Marginal income tax rate
Mexico	Complementary contributions	All	10% of taxable income up to 5 times the minimum wage. General deduction limit applies (10% of taxable income up to 4 times the minimum wage).	Marginal income tax rate
	Long-term voluntary contributions	All	10% of taxable income up to 5 times the minimum wage. General deduction limit applies.	
	Contributions to special "savings for retirement" accounts	All	MXN 152,000. General deduction limit applies.	
	Occupational plans	All	Employee + employer contributions: 12.5% of salary. General deduction limit applies.	
	Voluntary personal plans	All	10% of taxable income up to 5 times the minimum wage. General deduction limit applies.	
Netherlands	Personal plans	All	13.8% of the annual income up to EUR 100,000 minus a threshold for the public pension	Marginal income tax rate
New Zealand	All	No tax relief		
Norway	Personal plans	All	NOK 15,000	Marginal income tax rate
Poland	IKZE	All	120% of the national projected average monthly salary	Excess contributions are not permitted
	PPE	All	450% of the national projected average monthly salary	
	IKE	All	300% of the national projected average monthly salary	
Portugal	Individual	20%	EUR 400 per month under 35 years old, EUR 350 between 35 and 50 years old, and EUR 300 above 50 years old.	Marginal income tax rate
Slovak Republic	Volunyary contributions in "Pillar 2" plans	All	2% of the salary, up to 2% of 60 times the average monthly salary	Marginal income tax rate
	"Pillar 3" plans	All	Employer contributions: 6% of salary; Employee contributions: EUR 180	
Slovenia	All	All	Employee + employer contributions: 5.844% of gross salary up to EUR 2,819.09 per year	Marginal income tax rate
Spain	All	All	Employee + employer contributions limit: EUR 8,000. Tax-deductibility limit: 30% of earnings up to EUR 8,000	Excess contributions are not permitted
Sweden	Voluntary personal	All	Employee: SEK 1,800 per year (abolished from 2016); self-employed workers: 35% of eligible income up to 10 basic amounts	Marginal income tax rate
Switzerland	Personal plans	All	If the individual has an occupational pension scheme: CHF 6,768; If not: 20% of annual earnings up to CHF 33,840	Excess contributions are not permitted
Turkey	Personal plans	No tax relief		
United Kingdom	All	All	Employee + employer contributions: 100% of the individual's income up to GBP 40,000	Marginal income tax rate
United States	401(k) and 403(b) plans	All	Employee + employer contributions: 100% of earnings up to USD 53,000	Marginal income tax rate
	457(b) plans	All	Employee + employer contributions: 100% of earnings up to USD 18,000	Marginal income tax rate
	Simplified Employee Pension Plans (SEP)	All	Employee + employer contributions: 25% of earnings up to USD 53,000	Marginal income tax rate
	Individual Retirement Accounts (IRA)	All	100% of taxable earnings up to USD 5,500	6% per year, as long as the excess amounts remain in the plan
Bulgaria	Voluntary individual contributions	All	10% of annual taxable income	Flat income tax rate (10%)
	Voluntary employer contributions	All	BGN 60 per month	
Croatia	Voluntary employer contributions	All	HRK 6,000 a year	Marginal income tax rate
Cyprus	Provident funds	All	1/6th of annual income	Marginal income tax rate
Lithuania	Voluntary contributions	All	25% of taxable income	Flat income tax rate (15%)
Malta	Personal plans	Tax credit: 15%	Maximum tax credit: EUR 150 per year	Marginal income tax rate
Romania	Voluntary contributions	All	EUR 400 per year	Flat income tax rate (16%)

3.3. Eligibility criteria for tax relief on contributions

In most countries, people not paying income taxes do not get any relief on their contributions into private pension plans. The United Kingdom may be an exception, as individuals not paying taxes can benefit from basic rate tax relief (20%).[11]

People with an income above a certain threshold cannot claim a deduction on their pension contributions at all in Austria (EUR 60,000 per year) and the United States for IRAs (USD 71,000 per year for a single individual also participating in an occupational pension plan).

Tax relief on contributions may be granted until a certain age. The age limit to be eligible for tax relief on contributions is 65 years old in Belgium (for personal plans) and 75 years old in the United Kingdom.

Finally, plan members may be eligible for tax relief on contributions if they comply with certain rules, such as:

- contributing for a minimum period: ten years in Belgium (for personal plans), five years in Estonia (for voluntary personal plans), ten years in Luxembourg;
- not retiring before a certain age: 60 in Belgium (for occupational plans), 68 in Finland, 62 in Germany (in principle for Riester pension plans and Basisrente plans), 60 in Luxembourg, 55 in Sweden (for voluntary personal plans);
- taking benefits in a certain form: minimum withdrawal period of ten years in Finland (for personal plans), monthly lifelong payments in Germany (for Basisrente plans), maximum 50% of assets withdrawn as a lump sum in Luxembourg, at least two-thirds of the benefits paid as an annuity in Portugal (for occupational plans), minimum withdrawal period of five years as an annuity in Sweden (for voluntary personal plans).

4. Taxation of returns on investment and of the funds accumulated

4.1. Taxation of returns on investment

Most countries exempt from taxation returns on investment in private pension plans (see Table 2). Returns on investment are taxed, for some or all types of pension plans, contributions (voluntary or mandatory) and contribution sources (employee and employer), in ten OECD countries (Australia, Denmark, France, Italy, Latvia, Mexico, New Zealand, the Slovak Republic, Sweden and Turkey) and seven EU Member States (Cyprus, Denmark, France, Italy, Latvia, the Slovak Republic and Sweden).[12]

In Australia, investment earnings on pension assets are taxed at a rate of 15% during the accumulation phase. In addition, funds are eligible for imputation credits for dividend income and for a one-third capital gains tax reduction on assets held for at least 12 months. In 2011-12, pension funds received AUD 5.7 billion in imputation credits while the capital gains tax discount reduced net tax by around AUD 90 million.

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11 . The procedure for these individuals to get the tax relief is not clear however.

12 . In Portugal and the United Kingdom, generally, the income generated by private pension assets is tax exempt. However, in Portugal, dividends received from the shares of Portuguese companies held less than 12 months are subject to a tax rate of 23% corporate income tax. In the United Kingdom, there is no tax relief on dividend payments received by pension funds.

The taxation of returns on investment depends on the type of asset classes in Italy. Investment income from pension funds is taxed at a 20% standard rate, but income from government bonds held by the pension fund is taxed at a more favourable rate of 12.5%.

A flat tax rate applies to returns on investment in Denmark (15.3%), Latvia (10%), Sweden (15%) and Cyprus (3%). In the case of Sweden, the 15% tax rate applies on an imputed return on investment rather than on the actual return on investment generated by the assets of the pension plan. The imputed return corresponds to the previous year's average government borrowing rate.

In France, Mexico, the Slovak Republic and Turkey, returns are taxed when the individual retires and not during the accumulation phase. The part of pension income originated from returns is taxed separately. In France, returns on investment in PERCO plans are subject to social taxes at the rate of 15.5% upon withdrawal if the individual chooses a lump sum (the lump sum is divided into a "capital component" and a "return on capital component", and only the "return on capital component" is subject to the 15.5% tax). In Mexico, the real interests earned from investing short-term voluntary contributions are considered as taxable income upon withdrawal. In the Slovak Republic, returns on investment in supplementary pension plans (pillar 3) are taxed at the rate of 19% upon withdrawal (only the part of pension income originated from returns is taxed). In Turkey, only the part of pension income originated from returns is taxed upon withdrawal and the tax rate depends on the age at withdrawal (younger or older than 56 years old) and on the length of membership in the plan (more or less than ten years).

Finally, in New Zealand, the taxation of investment income depends on the type of scheme and on the taxable income of the plan member. If the scheme is an occupational pension plan, investment earnings are taxed at 28%. If the scheme is a Portfolio Investment Entity (PIE), the tax rate for investment earnings varies from 10.5% for taxable income equal to or below NZD 14,000 to 28% for taxable income higher than NZD 48,000.[13]

4.2. Taxation of funds accumulated

Some countries tax during the accumulation period the total amount of funds accumulated, which includes returns on investment and past contributions. Belgium, Ireland and Japan are the only three countries imposing a tax on assets accumulated in private pension plans. In Belgium, there is an 8% tax on long-term savings. If the pension savings account has been opened when the individual was younger than 55, the tax is due at age 60 on the capital accumulated until then. If the pension savings account has been opened when the individual was 55 or older, the tax is due when the contract reaches ten years on the capital accumulated until then. Contributions can be paid into the account after the tax has been paid and no further tax on long-term savings is due. In Ireland, a temporary pension levy of 0.6% of pension fund assets was payable for each of the 4 years from 2011 to 2014. In 2014, an extra levy of 0.15% was introduced for 2014 and 2015. In Japan, assets in Employees' Pension Funds (EPFs), DB and DC plans are taxed at an annual rate of 1.173%. However, this tax has been temporarily stopped since 1999.

Other countries tax the total amount of funds accumulated once it exceeds a lifetime limit. Ireland and the United Kingdom do this when the individual retires. Since 1 January 2014, the limit in Ireland is EUR 2 million. Upon withdrawal, the amount of assets in excess of this limit is subject to an upfront income tax charge at the higher rate of income tax (currently 40%). The limit in the United Kingdom is currently set at GBP 1.25 million (GBP 1 million in 2016 and then uprated by the consumer price index from April 2018). Individuals building up pension savings worth more than the limit pay a tax charge on the excess upon withdrawal. The rate depends on how this excess is paid to the individual. If the amount over the limit is paid as a lump sum, the rate is 55%. If it is paid as an annuity, the rate is 25%. In Canada, while there is no

13. All of the KiwiSaver default schemes are PIEs.

ceiling or cap on pension plan assets, the tax rules require that employer contributions to a defined benefit pension plan be suspended if surplus assets exceed 25% of going-concern liabilities.

5. Taxation of pension income

5.1. Distinct tax treatments of pension income according to the pay-out option

The tax treatment of pension income is identical across different types of pay-out options in half of the OECD countries (Canada, Finland, Germany, Greece, Hungary, Iceland, Israel, Italy, Latvia, the Netherlands, New Zealand, Norway, Poland, the Slovak Republic, Slovenia, Sweden, Turkey, and the United States) and six non-OECD EU Member State (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania).[14]

Lump sums may be tax-free up to a certain amount or may be only partially taxed. This tax treatment for lump sums can be found in Australia (if withdrawn from the preservation age), Austria, Chile (provided the individual can finance a certain minimum benefit with the assets accumulated), Denmark (for Age savings plans), Hungary (provided the account has been opened for a long enough period), Ireland, Korea, Latvia, Luxembourg, Mexico, New Zealand, Poland (for PPE and IKE plans), Portugal, the Slovak Republic, Spain (for people who have contributed before 2007), the United Kingdom, the United States (Roth contributions), Bulgaria (if the annuity payment from universal pension funds is less than 20% of the public social retirement pension), Cyprus, Lithuania (provided the account has been opened for at least five years and withdrawal is not earlier than five years before the statutory retirement age) and Malta.[15] As compared to annuities and programmed withdrawals, lump sum payments can be quite large, potentially increasing the individual's marginal income tax rate the year of withdrawal. Allowing for a partial tax-exemption of lump sums (while annuities and programmed withdrawals are fully taxed as income), may help reaching a more neutral tax treatment across the different pay-out options.

Only two OECD countries incentivise people to annuitize their pension income through a more favourable tax treatment for annuities as compared to programmed withdrawals: the Czech Republic and Estonia. In the Czech Republic, annuities are always tax-exempt, while programmed withdrawals are tax-exempt only when they are paid for at least a duration of ten years (otherwise, they are taxed at the flat rate of income tax of 15%). In Estonia, pension payments from voluntary pension plans from age 55 are tax-free for life annuities and taxed at a rate of 10% for programmed withdrawals. It is also worth mentioning that many countries do not allow pension payments as programmed withdrawals.

Finally, early withdrawals are taxed less favourably in some countries. The age limit defining early withdrawals differ in each country and there may be more than one limit to define different tax treatments. For example, in Australia, annuities are taxed at the individual's marginal tax rate before preservation age, there is a 15% tax offset between the preservation age and 59 years old, and annuities are tax-free from age 60. Other countries distinguishing the tax treatments for early withdrawals include Belgium, Denmark, Estonia, France (PERCO plans), Hungary, Italy, Turkey, the United States and Lithuania (voluntary contributions).

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14. In Iceland, Israel and Sweden, only annuities are allowed. In Cyprus, pension benefits paid by provident funds only take the form of lump sums. In Romania, there is no pay-out product legislation yet, so the only way members can receive pension income is through lump sums.

15 . In Australia, the preservation age is 55 years old for a person born before 1 July 1960; 56 years old for a person born during the year 1 July 1960 to 30 June 1961; 57 years old for a person born during the year 1 July 1961 to 30 June 1962; 58 years old for a person born during the year 1 July 1962 to 30 June 1963; 59 years old for a person born during the year 1 July 1963 to 30 June 1964; and 60 years old for a person born after 30 June 1964.

Table 4. Tax treatment of pension income according to the pay-out option

Country	Type of plan / contribution / source of contribution	Tax treatment		
		Annuities	Programmed withdrawals	Lump sums
Australia	Concessional contributions	- Before preservation age (PA): Taxed at marginal rate - PA to 59: Taxed at marginal rate with 15% tax offset - From 60: E	- Before PA: Taxed at marginal rate - PA to 59: Taxed at marginal rate with 15% tax offset - From 60: E	- Before PA: Taxed at marginal rate - PA to 59: E up to AUD 185,000; then taxed at min {marginal rate; 15%} - From 60: E
	Non-concessional contributions	E	E	E
Austria	Occupational - Employer	Taxed at marginal rate	Not allowed	Taxed at marginal rate
	Occupational - Individual	Only 25% taxed at marginal rate	Not allowed	Only 25% taxed at marginal rate
	State-sponsored retirement provision	E	Not allowed	25% tax on capital gains
	Other personal plans	Taxed at marginal rate	Not allowed	Taxed at marginal rate
Belgium	Individual	Taxed at marginal rate	Not allowed	Taxed at 10%
	Employer	Taxed at marginal rate	Not allowed	- At 60: Taxed at 20% w/o retirement; 16.5% with retirement - At 61: Taxed at 18% w/o retirement; 16.5% with retirement - From 62: Taxed at 16.5%
Canada	All	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
Chile	All	Taxed at marginal rate	Taxed at marginal rate	E up to a limit provided that the individual can finance a certain minimum benefit
Czech Republic	All	E	- E if for more than 10 years - Taxed at flat rate (15%) otherwise	Flat tax rate (15%) on returns and employer contributions
Denmark	"Age savings" plans	E	E	E
	Other plans	- Early withdrawal: Taxed at 60% - At retirement: Taxed at marginal rate	- Early withdrawal: Taxed at 60% - At retirement: Taxed at marginal rate	- Early withdrawal: Taxed at 60% - At retirement: Taxed at 40%
Estonia	Mandatory contributions	Taxed at flat rate (21%)	Taxed at flat rate (21%)	Taxed at flat rate (21%)
	Voluntary contributions	- Before 55: Taxed at 20% - From 55: E	- Before 55: Taxed at 20% - From 55: Taxed at 10%	- Before 55: Taxed at 20% - From 55: Taxed at 10%
Finland	Voluntary personal plans taken by employees	Taxed as capital income (30%) up to EUR 40,000; Excess taxed at 32%	Taxed as capital income (30%) up to EUR 40,000; Excess taxed at 32%	Taxed as capital income (30%) up to EUR 40,000; Excess taxed at 32%
	Other plans	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
France	Article 83, PERE, PREFON and Madelin contracts	Taxed at marginal rate after a 10% deduction + 8.4% social taxes	Not allowed	Not allowed
	Article 39	Taxed at marginal rate after a 10% deduction + 8.4% social taxes + additional tax (rate depends on monthly pension)	Not allowed	Not allowed
	PERCO	- 50 to 59: Only 50% taxed (marginal rate + 15.5% social taxes) - 60 to 69: Only 40% taxed (marginal rate + 15.5% social taxes) - From 70: Only 30% taxed (marginal rate + 15.5% social taxes)	Not allowed	Only return on capital component taxed at 15.5% (social taxes)
	PERP	Taxed at marginal rate after a 10% deduction + 8.4% social taxes	Not allowed	Taxed at marginal rate after a 10% deduction + 7.1% social taxes (other fiscal options available if more advantageous for the individual)
Germany	Private pension insurance	Only return on capital component taxed at marginal rate	Only return on capital component taxed at marginal rate	Only return on capital component taxed at marginal rate
	Other plans	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
Greece	All	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
Hungary	All	- Account opened before 01/01/2013: E after 3 years of membership - Account opened from 01/01/2013: E after 10 years of membership	- Account opened before 01/01/2013: E after 3 years of membership - Account opened from 01/01/2013: E after 10 years of membership	- Account opened before 01/01/2013: E after 3 years of membership - Account opened from 01/01/2013: Gradual reduction of the portion of withdrawals taxed at flat rate (16%) between 10 and 20 years of membership (E after 20 years of membership)
Iceland	All	Taxed at marginal rate	Not allowed	Not allowed
Ireland	All	Taxed at marginal rate	Taxed at marginal rate	- Below EUR 200,000: E - EUR 200,001 to EUR 500,000: Taxed at 20% - Above EUR 500,000: Taxed at marginal rate
Israel	All	Taxed at marginal rate. Pensioners receive a tax credit equal to 35% of the annuity	Not allowed	Not allowed
Italy	All	Taxed at 15% with a reduction of 0.3% for every year of participation after 15 years (max reduction 6%)	Not allowed	- Early withdrawal: Generally taxed at 23% - At retirement: Taxed at 15% with a reduction of 0.3% for every year of participation after 15 years (max reduction 6%)
Japan	All	Taxed at marginal rate after a deduction which depends on total pension income (including public pensions)	Taxed at marginal rate after a deduction which depends on total pension income (including public pensions)	Taxed at marginal rate

Table 4. Tax treatment of pension income according to the pay-out option (continued)

Country	Type of plan / contribution / source of contribution	Tax treatment		
		Annuities	Programmed withdrawals	Lump sums
Korea	All	Taxed at marginal rate after a deduction capped at KRW 9 million which depends on total pension income (including public pensions)	Not allowed	Taxed at marginal rate after two tax deductions, one of them dependent on the number of years of contributions
Luxembourg	Occupational plans	Only the part from the insured period before 01/01/2000 is taxed at marginal rate	Not allowed	Only the part from the insured period before 01/01/2000 is taxed at marginal rate
	Personal plans	Only 50% taxed at marginal rate	Not allowed	Taxed at half the marginal rate
Latvia	Mandatory contributions	Taxed at flat rate (23%)	Taxed at flat rate (23%)	Taxed at flat rate (23%)
	Voluntary - Employer	Taxed at flat rate (23%)	Taxed at flat rate (23%)	Taxed at flat rate (23%)
	Voluntary - Individual	E	E	E
Mexico	Short-term voluntary contributions	Not allowed	Not allowed	E
	Other plans	- Below 15 times the minimum wage: E - Above: Taxed at marginal rate	- Below 15 times the minimum wage: E - Above: Taxed at marginal rate	- Below 90 times the minimum wage annually: E - Above: Taxed at average rate
Netherlands	Up to EUR 100,000	Taxed at marginal rate	Not allowed	Not allowed with the exception of small pensions (taxed at marginal rate)
	Above EUR 100,000	E	Not allowed	E
New Zealand	All	E	E	E
Norway	All	Taxed at marginal rate	Taxed at marginal rate	Not allowed
Poland	"OFE" plans	Taxed at marginal rate	Taxed at marginal rate	Not allowed
	"IKZE" plans	Taxed at 10%	Taxed at 10%	Taxed at 10%
	"PPE" and "IKE" plans	E	E	E
Portugal	Employer	Taxed at marginal rate	Not allowed	- 1/3 of the capital component is exempt from taxation up to a maximum of EUR 11,704.70. The remainder is taxed at marginal rate - The return on capital component is taxed at 4% or 8%
	Individual	- Capital component: E - Return on capital component: Taxed at marginal rate	Not allowed	- Capital component: E - Return on capital component: Taxed at 4% or 8%
Slovak Republic	"Pillar 2" plans	E	E	E
	"Pillar 3" plans	Only return on capital component taxed at 19%	Only return on capital component taxed at 19%	Only return on capital component taxed at 19%
Slovenia	All	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
Spain	All	Taxed at marginal rate	Not allowed	40% of pension income arising from contributions made before 2007 can be taken as a lump sum and E
Sweden	All	Taxed at marginal rate	Not allowed	Not allowed
Switzerland	All	Taxed at marginal rate	Not allowed	Taxed as capital income (1/5 of the income tax which could be generated if lump sums were separately taxed as income)
Turkey	Personal plans	Only return on capital component taxed: - At 5% if withdrawal from 56 years old and the contract duration has been at least 10 years - At 10% if withdrawal before 56 years old and the contract duration has been at least 10 years - At 15% if the contract duration has been less than 10 years	Only return on capital component taxed: - At 5% if withdrawal from 56 years old and the contract duration has been at least 10 years - At 10% if withdrawal before 56 years old and the contract duration has been at least 10 years - At 15% if the contract duration has been less than 10 years	Only return on capital component taxed: - At 5% if withdrawal from 56 years old and the contract duration has been at least 10 years - At 10% if withdrawal before 56 years old and the contract duration has been at least 10 years - At 15% if the contract duration has been less than 10 years
United Kingdom	All	Taxed at marginal rate	Taxed at marginal rate	- Up to 25% of the total value of assets accumulated: E - Above: Taxed at marginal rate
United States	"Roth" contributions	E	E	E
	Other plans	- Before 59.5: Taxed at marginal rate + 10% extra tax - From 59.5: Taxed at marginal rate	- Before 59.5: Taxed at marginal rate + 10% extra tax - From 59.5: Taxed at marginal rate	- Before 59.5: Taxed at marginal rate + 10% extra tax - From 59.5: Taxed at marginal rate
Bulgaria	All	E	E	E
Croatia	Mandatory contributions	Taxed at marginal rate	Not allowed	Not allowed
	Voluntary contributions	Taxed at marginal rate	Taxed at marginal rate	Taxed at marginal rate
Cyprus	Provident funds	Not allowed	Not allowed	E
Lithuania	Mandatory contributions	E	Not allowed	Not allowed
	Voluntary contributions	- If the contract duration has been at least 5 years and the individual withdraws no more than 5 years before the statutory age of retirement: E - Otherwise: Taxed at flat rate (15%) excluding the part of contributions that have not been deducted from taxable income	- If the contract duration has been at least 5 years and the individual withdraws no more than 5 years before the statutory age of retirement: E - Otherwise: Taxed at flat rate (15%) excluding the part of contributions that have not been deducted from taxable income	- If the contract duration has been at least 5 years and the individual withdraws no more than 5 years before the statutory age of retirement: E - Otherwise: Taxed at flat rate (15%) excluding the part of contributions that have not been deducted from taxable income
Malta	All	Taxed at marginal rate	Taxed at marginal rate	- Up to 30% of the total value of assets accumulated: E - Above: Taxed at marginal rate
Romania	All	Not allowed	Not allowed	Taxed at flat rate (16%) above RON 1,000 of total pension income (including public pensions)

5.2. Interaction with the tax treatment of public pensions

Pension income paid out by public pay-as-you-go pension schemes is considered as taxable income for the individual in a majority of countries. The only exceptions are Hungary, the Slovak Republic, Turkey, Bulgaria and Lithuania, where public pensions are fully tax-exempt. These are countries where private pension income is also tax-exempt, at least under certain circumstances or for certain types of plans (see Table 4).

Pension income in general benefits from a different tax treatment than work income in many countries. Tax credits - deductions on the tax due - are provided to pensioners in Australia, Austria, Belgium, Canada, Ireland, Italy, the Netherlands, Norway, Slovenia and the United States.[16] Tax allowances are income limits under which individuals do not pay taxes. Individuals get special allowances for their pension income in the Czech Republic, Estonia, Finland, Ireland, Italy, Luxembourg, Mexico, Norway, Spain, Sweden, Switzerland, Croatia, Latvia and Romania. Finally, tax deductions apply to pension income in France, Germany, Japan, Korea and the United States.

6. Are social contributions levied on private pension contributions and private pension income?

Besides the personal income tax system, contributions to private pension plans and benefits paid by these plans can be subject to social contributions. These social contributions are usually levied on gross salaries and wages to finance among others, health care insurance, unemployment insurance, public pensions and disability pensions.

Table 5 describes for each country whether social contributions are levied on private pension contributions and on private pension income. In general, contributions paid by individuals from their after-tax income to voluntary personal pension plans are also subject to social contributions. This is because these pension contributions are paid from an income on which social contributions have been levied.

In ten countries (Austria, Canada, the Czech Republic, Denmark, Ireland, Portugal, Slovenia, Turkey, the United Kingdom and Romania), employee contributions to private pension plans are subject to social contributions while employer contributions are not. In all these countries, employer contributions are not considered as taxable income in the hands of employees. They are not included either in the income base to calculate social contributions. A counter-example is Norway, where employer contributions to mandatory occupational pension plans are not considered as taxable income to the employees, but employers still have to pay social contributions on these occupational pension contributions.

In Belgium, Hungary, Italy and Sweden, employer contributions to occupational pension plans enjoy a reduced rate for social contributions. For example in Sweden, a reduced social contribution of 24.26% (instead of 31.42%) applies on contributions to occupational pensions paid by the employer. In Finland, employee and employer unemployment insurance contributions are levied on private pension contributions, but not employee health insurance contributions.

16 . In addition, in Canada, seniors and pensioners are permitted to allocate up to one-half of their eligible pension income to their spouse or common-law partner for tax purposes.

Table 5. Social contributions and private pensions

Country	Are social contributions levied on	
	Pension contributions	Pension income
Australia	No	Below age 60: Yes (Medicare levy) From age 60: No
Austria	Employee contributions: Yes Employer contributions: No	Pensioners do not pay most social security contributions but do pay for sickness insurance
Belgium	Employee contributions: Yes Employer contributions: Reduced rate	- Pensioners with a pension above a minimum threshold pay a social security contribution for health and disability insurance. - 'Solidarity' contributions are levied on all pensions exceeding a certain threshold
Canada	Employee contributions: Yes Employer contributions: No	No
Chile	Yes	Pensioners pay for health coverage
Czech Republic	Employee contributions: No for contributions above CZK 12,000 per year Employer contributions: No	No
Denmark	Employee contributions: Yes Employer contributions: No	No
Estonia	Yes	No
Finland	Yes for employer and employee unemployment insurance contributions, no for employee health insurance contribution	There are no contributions on pension income for pension or unemployment insurance. There are separate contributions for health care insurance and earned income insurance
France	Article 39: No Other plans: Yes	No
Germany	Occupational plans: No within certain limits Personal plans: Yes	- Pensioners have to pay health and long-term care insurance from their occupational pension payments. - Payments made in retirement from Riester, Basisrente and personal pension insurance are not subject to social insurance contributions
Greece	Information not available	Information not available
Hungary	Employee contributions: Yes Employer contributions: Reduced rate	No
Iceland	No	No
Ireland	Employee contributions: Yes Employer contributions: No	Pension benefits are subject to the Universal Social Charge
Israel	No	Old-age pensions are subject to health insurance contributions
Italy	Employee contributions: Yes Employer contributions: Reduced rate	No
Japan	No	Contributions to health insurance and long-term care insurance are levied on pension income
Korea	Information not available	Pensioners pay health insurance contribution on 20% of their pension income
Luxembourg	Yes	Yes
Latvia	Voluntary contributions: Yes Mandatory contributions: No	No
Mexico	Yes	Information not available
Netherlands	EET-system: No TEE-system: Yes	Pensioners pay for the general insurance for certain health costs and survivors' pensions
New Zealand	No	No
Norway	Employers pay social security contributions on their occupational pension contributions	Pension income is subject to social security contributions at a lower rate than other types of income
Poland	Employer contributions into PPE are not included into income subject to social contributions	Pension income is not subject to contributions for pensions, unemployment insurance etc. However, there is a tax-deductible health insurance contribution.
Portugal	Employee contributions: Yes Employer contributions: No	No, but extraordinary solidarity contribution, so-called CES, is paid on pensions above a certain threshold
Slovak Republic	Yes Employer contributions to "pillar 3" plans are only subject to health insurance contributions	No
Slovenia	Employee contributions: Yes Employer contributions: No within certain limits	Information not available
Spain	Yes	No
Sweden	A reduced social security contribution is applied on contributions for occupational pensions paid by the employer	No
Switzerland	Yes	No
Turkey	Employee contributions: Yes Employer contributions: No up to 30% of the minimum wage	No
United Kingdom	Employee contributions: Yes Employer contributions: No	No
United States	Yes	No
Bulgaria	Yes	Information not available
Croatia	Yes	Information not available
Cyprus	Information not available	No
Lithuania	Yes	No
Malta	Information not available	Information not available
Romania	Employee contributions: Yes Employer contributions: No	Social contributions are levied on pension income, but not on pension income which is less than RON 740.

Private pension income is usually not subject to social contributions. Yet, part of the social contributions usually levied on wages and salaries can also be levied on pension income. For example, in Australia, Austria, Belgium, Chile, Finland, Germany, Israel, Japan, Korea, the Netherlands and Poland only health-insurance related social contributions are levied on pension income.[17] Pension income is not subject to any social contributions in 19 of the countries covered by this analysis (Canada, the Czech Republic, Denmark, Estonia, France, Hungary, Iceland, Italy, Latvia, New Zealand, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States, Cyprus and Lithuania).

7. Financial incentives to promote participation and contribution in the private pension system

Financial incentives to encourage people making voluntary contributions to private pension plans or to increase participation in private pension plans can take a different form than preferential tax treatment. The tax treatment of private pension plans, as described in sections 2 to 5 (tax exemptions, tax deductibility and tax credits), may constitute in itself an incentive to contribute in such plans if it is more fiscally favourable to contribute to a private pension plan rather than to contribute to a traditional savings vehicle.[18]

Other forms of financial incentives include matching contributions from the state or from the employer and state subsidies. These incentives are provided to eligible individuals who actually participate or make voluntary contributions to the private pension system. Both matching contributions and state subsidies are paid in the pension account, thus increasing the assets accumulated to finance retirement.

Matching contributions are the most common type of financial incentive used by OECD and EU countries to promote saving and participating in private pensions. In the 14 countries listed in Table 6, matching contributions are meant to encourage voluntary contributions into private pension plans. State matching contributions are found in all these countries except Iceland, Italy and the United States. Employer matching contributions can be found in Iceland, Italy, New Zealand, the United Kingdom and the United States. Usually, the matching contribution is conditional on the individual contributing and corresponds to a certain proportion of the individual's own contribution, up to a maximum amount.[19] The generosity of the match rate varies greatly across countries, from 3% in Austria to 325% in Mexico (solidarity savings programme for civil servants). A match rate of 50% can be found in Australia, Iceland and New Zealand.

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17 . In Chile, since 2011, pensioners eligible for a solidarity pension (who must belong to the 60% poorest population, among other requirements) are exempt to pay contributions for health insurance. Further, since 2012, pensioners that belong to the 80% poorest population and are not eligible for a solidarity pension, pay a reduced contribution for health insurance (5%).

18. The purpose of this paper is not to assess the tax incentive for individuals to contribute to a private pension plan rather than to a traditional savings vehicle in different countries. This will be the main objective of a future document.

19. In the case of the United Kingdom, employees automatically enrolled in an occupational pension plan may not have to contribute to receive state and employer contributions. There is a minimum level for the total contribution rate and for the employer contribution rate. The employee only needs to contribute the difference between the minimum total contribution level and the employer and state contributions (if there is a shortfall).

Table 6. Form of financial incentives to promote private pensions in OECD and EU countries

Financial incentives	OECD countries	Non-OECD EU Member States
Matching contributions	Australia, Austria, Chile, Czech Republic, Hungary, Iceland, Italy, Mexico, New Zealand, Turkey, United Kingdom, United States	Croatia, Lithuania
State subsidies	Chile, Germany, Mexico	

Only three countries use state subsidies to promote private pensions. State subsidies are fixed amounts and have therefore the particularity of being of greater value to low-income individuals, as the fixed amount represents a higher share of their income. In Chile, state subsidies are provided to encourage participation in the private pension system. Although the system is mandatory for employees, large informality prevents universal coverage of the system. Subsidies target specifically women with a deposit for each live birth. In Germany, state subsidies are paid into Riester pension plans (voluntary private pension plans). The maximum subsidy is available to active members of a public pension scheme and is paid each year in the account if the individual contributes at least 4% of his/her previous year's annual income. Additional subsidies are available to young individuals and to parents receiving child allowances. In Mexico, the state pays a so-called social quota in mandatory pension accounts.

8. Conclusion

This document has shown that about half OECD countries and half EU Member States apply a variant of the "Exempt-Exempt-Taxed" (EET) regime to funded private pension plans, where both contributions and returns on investment are exempted from taxation and benefits are treated as taxable income upon withdrawal. However, a full range of possible tax regimes applies in other countries, including the extreme EEE regime.

Straightforward and simple tax rules applying to the private pension system as a whole may increase people's confidence and help increasing participation in and contributions to private pension systems. A majority of countries impose different tax treatments to different types of plans or contributions at the national level. This may create confusion for people who may not have the ability to understand the differences and choose the best option for them.

The tax treatment of contributions to private pension plans may change according to the source of the contribution (the employee or the employer), their mandatory or voluntary nature, and the type of plan in which they are paid (personal or occupational plans). In addition, limits to the amount of contributions attracting tax relief may also differ for different types of contributions within a country. In most countries, people not paying income taxes do not get any relief on their contributions into private pension plans.

A different tax treatment between mandatory and voluntary contributions may be justified. Incentives to save for retirement through the income tax system may be necessary in voluntary pension arrangements as a way to encourage people to save in complementary funded private pension plans. In mandatory pension arrangements, the reasons for providing incentives may be less clear. Incentives may be useful in order to make people accept the policy of compelling them to save for retirement. Moreover, in countries with high informality, incentives may also be needed to increase contribution densities.

Most countries exempt from taxation returns on investment in private pension plans. When returns are taxed, they are usually taxed every year during the accumulation phase. However, some countries tax returns upon withdrawal only. Tax rates may vary according to the duration of the investments, the type of asset classes, or the income of the plan member. Most countries do not tax the accumulation of funds and impose no lifetime limit on the total amount that can be accumulated in a private pension plan.

The tax treatment of pension income is identical across different types of pay-out options (life annuity, programmed withdrawal or lump sum) in half of the OECD countries and six non-OECD EU Member States. Only two OECD countries incentivise people to annuitize their pension income through a more favourable tax treatment for annuities as compared to programmed withdrawals. Conversely, lump sums are tax-free up to a certain amount or only partially taxed in nearly half of the OECD countries and four non-OECD EU Member States in order to reach a more neutral tax treatment across the different pay-out options. A minority of countries discourage early withdrawals through the tax system.

Besides the personal income tax system, contributions to private pension plans and private pension benefits can be subject to social contributions. In general, contributions paid by individuals from their after-tax income to voluntary personal pension plans are also subject to social contributions. Private pension income is usually not subject to social contributions or only a part of the social contributions usually levied on wages and salaries is levied on pension income.

The confusion resulting from the complexity of the tax system may have led some countries to introduce more direct financial incentives to encourage participation and contribution to the private pension system, especially for low-income people. Financial incentives considered herein include matching contributions from the state or from the employer and state subsidies. These incentives are provided to eligible individuals who actually participate or make voluntary contributions to the private pension system. Such incentives can be found in 13 OECD countries and 2 non-OECD EU Member States.

This stocktaking exercise will be extremely useful for the next steps of the project on Financial Incentives and Retirement Savings. This information will be used as input to calculate comparable indicators across countries assessing the value of the tax incentive to save in private pension plans as opposed to traditional savings vehicles. Such indicators would allow for the examination of which design features may lead to higher incentives for individuals, whether these incentives are efficient to promote retirement savings in private pension arrangements, and how much they may cost the Treasury.

Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries

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