

Reference date for all information is July 1st 2008

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

NEW ZEALAND 2008

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Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at www.oecd.org/els/social/workincentives.

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1. Overview of the tax-benefit system

The provision of social security benefits in New Zealand is funded from general taxation and not specific social security contributions. Social security benefits for the unemployed are not funded from specific employee/employer contributions and there are no minimum working hours or earnings required in order for a person to be covered. All New Zealanders regardless of their employment history are covered by the benefits provided under the Social Security Act 1964. All benefits are payable without a fixed duration. In addition to the specific qualifying criteria for each benefit, provision is subject to a New Zealand residence requirement and personal income (joint income in the case of married, civil union and de facto couples).

Working for Families Tax Credits (Family Tax Credit, In-Work Tax Credit, Parental Tax Credit and Minimum Family Tax Credit) are available to families with dependent children. Minimum Family Tax Credit provides a guaranteed minimum family income to working non-beneficiary families¹.

The tax unit is the individual but eligibility for Working for Families Tax Credits is based on combined family income (children's income is not counted). The average annual taxable income of personal taxpayers for 2007 was NZD 32 633²

1.1. Average Worker wage (AW)

The 2008 AW level was NZD 43639³.

2. Unemployment insurance

In New Zealand there is no unemployment insurance.

3. Unemployment assistance

3.1 Conditions for receipt

A person is entitled to an Unemployment Benefit provided they are available and willing to undertake full time paid employment. A person must have resided in New Zealand continuously for at least two years and be at least 18 years old, or alternatively be at least 16 years old and married, in a civil union or de facto relationship, with one or more dependent children. They must not be in full time employment (defined as working 30 or more hours per week), but available for and taking reasonable steps to find suitable employment. These latter provisions are known as the "work test". A stand down period of between zero and two weeks is applied to new applicants. The length of stand down is determined by a formula which takes account of household structure and gross income in either the 6 or 12 months prior to the date of benefit entitlement, whichever results in the shorter stand down⁴.

Striking workers and full time students are not entitled to the Unemployment Benefit.

¹ Working for Families Tax Credits are administered as transfer payments paid through the tax and benefit systems. They were renamed as "Working for Families Tax Credits" in 2007. See section 12.2 for details.

² This data is based on a sample of individual taxpayers as at 31 March 2007. It includes all those who filed a return (or received a personal tax summary) and all those from whom PAYE was deducted. It does not include non-filers unless they had PAYE-related earnings. It does include some people with losses, who hence have zero taxable income. The 2008 figure will not be available until June 2009.

³ AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see *Taxing Wages 2007-2008*, OECD, 2009, part 5, sections 2 and 3.

⁴ This came into effect on 2 July 2007.

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3.1.1 *Employment conditions*

If an applicant (or their work tested partner) has left their job of their own free will, without a good and sufficient reason, the stand down period applied is 13 weeks from the date their employment ceased.

3.1.2 *Contribution conditions*

None.

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

Entitlement is based on the family, not the individual. Each partner of a married, civil union or de facto couple usually receives half of the total benefit but their benefit can be differently apportioned in some circumstances.

Unemployment Benefit rates as at 1 April 2008	
<i>Family type</i>	<i>Gross rate (NZD per four weeks)</i>
Single 18-19 at home	577.76
Single 18-19 away from home	722.16
Single 20-24	722.16
Single 25 and over	877.00
Sole parent	1280.08
Married, civil union or de facto couple (with or without children)	1444.32

3.2.1.1 *Irregular additional payments*

There are a range of payments or advances available to provide assistance in a financial crisis, including special needs grants, advance payments of benefit, recoverable assistance, or temporary additional support. The amounts available depend on individual circumstances and needs

3.2.1.2 *Obligations of family members*

Work test obligations apply to the partners of people receiving the unemployment benefit where there are no dependent children or where the youngest child is 18 years of age. Where partners have a youngest child aged 6 years or over but under 18 years part-time work test obligations apply. No work test obligations apply to partners with a youngest child under 6 years.

If the partner fails without good and sufficient reason to comply with their work test obligations, the unemployment benefit may be stopped.

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3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

Net Unemployment Benefit payments are abated at a rate of 70 cents for each dollar after NZD 80 gross weekly earnings before tax. The unit of income assessment is personal income for single people, or joint income for married, civil union and de facto couples.

3.3 *Tax treatment of benefit and interaction with other benefits*

Unemployment Benefit is taxable with each spouse receiving half of the benefit entitlement for taxation purposes.

3.4 *Benefit duration and waiting periods*

Unemployment Benefit is payable indefinitely.

3.5 *Treatment of particular groups*

3.5.1 *Young persons*

There is no unemployment assistance for people under 18 years old, unless they are 16 or 17 years old and married, in a civil union or de facto relationship with one or more dependent children. Unemployed 16 and 17 year olds who have lost the support of their parents may be entitled to an Independent Youth Benefit.

3.5.2 *Older workers*

Universal Superannuation is payable from age 65. There is no compulsory retirement age.

3.5.3 *Others if applicable*

There are a range of work test exemptions that can be applied. For example a client (or partner) serving a sentence of home detention can be exempted from the work test for this period.

Pregnant jobseekers may be exempt from their work test obligations from the day they provide proof of pregnancy from a health professional. Once the jobseeker is 27 weeks pregnant they can be transferred to the non-work tested Sickness Benefit.

A person who is sick, injured or disabled may be eligible to receive an Invalid's Benefit or a Sickness Benefit. These benefits are not work tested but partners may be subject to a work test depending on their circumstances.

Unemployed sole parents and caregivers may be entitled to a Domestic Purposes Benefit (see section 9).

4. *Social assistance*

None.

5. *Housing benefits for rented accommodation*

5.1 *Conditions for receipt*

Accommodation Supplement provides assistance towards accommodation costs, including private rent, board and home ownership costs. A person does not have to be receiving a benefit to qualify for Accommodation Supplement.

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5.2 Calculation of benefit amount

The calculation of the Accommodation Supplement is based on actual accommodation costs.

5.2.1 Calculation of gross benefit

Accommodation Supplement provides for 70 per cent of accommodation costs above the entry threshold, up to a maximum amount.

- The entry threshold is 25 per cent of a person's net rate of benefit (30 per cent if they own their own home) plus the first child rate of Family Tax Credit for people with children.
- For non-beneficiaries, the entry threshold is 25 per cent of the relevant Unemployment Benefit (30 per cent if they own their own home) plus the first child rate of Family Tax Credit for people with children.

Accommodation Supplement payments are capped according to median rents in different parts of the country. For example a greater maximum amount of Accommodation Supplement is available in Auckland, reflecting the higher accommodation costs in that city.

Accommodation Supplement weekly maxima as at 1 April 2008 (NZD)				
<i>Family type</i>	<i>Area 1</i>	<i>Area 2</i>	<i>Area 3</i>	<i>Area 4</i>
1 person	145	100	65	45
2 people	160	125	75	55
3 or more people	225	165	120	75

5.2.2 Income and earnings disregards

Beneficiaries do not have their Accommodation Supplement abated. Non-beneficiaries have their Accommodation Supplement reduced by 25 cents for each dollar of gross income above the relevant income threshold shown below.

Accommodation Supplement income thresholds for non-beneficiaries as at 1 April 2008	
<i>Family Type</i>	<i>NZD per four weeks</i>
Single 16-17 years	1376
Single 18 years and over	1376
Married, civil union or de facto couple	2076
Sole parent	1828

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A cash assets test is also applied. Single beneficiaries without dependent children cannot receive an Accommodation Supplement if they have assets exceeding NZD 8 100. The asset limit for beneficiary couples and beneficiaries with dependent children is NZD 16 200.

Single non-beneficiaries have every NZD 100 of their cash assets over NZD 2 700 treated as NZD 1 per week income for Accommodation Supplement abatement purposes. Non-beneficiary couples and non-beneficiaries with dependent children have every NZD 100 of their cash assets over NZD 5 400 treated as NZD 1 per week income for abatement purposes.

5.2.3 *Costs eligible for housing benefits*

5.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

5.4 *Treatment of particular groups*

Tenants who live in a state house receive an Income Related Rent subsidy, and are not eligible for an Accommodation Supplement. People receiving an Income Related Rent subsidy pay 25 per cent of their net income in rent.

5.4.1 *Young persons*

Young people aged 16-17 years are not eligible to receive an Accommodation Supplement unless they are financially independent.

5.4.2 *Older workers*

People receiving New Zealand Superannuation or Veterans Pension cannot receive an Accommodation Supplement if they have other income exceeding the appropriate income limit.

5.4.3 *Others if applicable*

Generally students studying full-time cannot access Accommodation Supplement but may receive an Accommodation Benefit if they qualify for a Student Allowance.

6. *Family benefits*

6.1 *Conditions for receipt*

Family Tax Credit is available to families with dependent children.

- Beneficiary families are paid Family Tax Credit weekly or fortnightly with their benefit.
- Family Tax Credit is paid to non-beneficiary families by the Inland Revenue Department, either weekly or fortnightly, (with an end of year “square up”) or in one lump sum at the end of the tax year.

Non-beneficiary families may also be entitled to other Working for Families Tax Credits (see section 10.1.1.2 below).

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6.2 Calculation of benefit amount

Family Tax Credit rates depend on the number of children, the age of the children and family income.

6.2.1 Calculation of gross benefit

Gross Family Tax Credit rates as at 1 April 2008 (NZD per four weeks)	
<i>Family Type</i>	<i>NZD per four weeks</i>
First or only child aged 0-15 years	328.00
First or only child aged 16-18 years	380.00
Second or subsequent child aged 0-12 years	228.00
Second or subsequent child aged 13-15 years	260.00
Second or subsequent child aged 16-18 years	340.00

* Note: Gross Family Tax Credit rates did not alter between April 2007 and April 2008.

6.2.1.1 Irregular additional payments

Nil.

6.2.2 Income and earnings disregards

Each dollar of gross income in excess of NZD 35,000 reduces Family Tax Credit by 20 cents.

6.3 Tax treatment of benefit and interaction with other benefits

Not taxable.

6.4 Treatment of particular groups

None.

6.4.1 Young persons

None.

6.4.2 Older workers

None.

6.4.3 Others if applicable

None.

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7. Childcare for pre-school children

As at 1 July 2008 there were 176,993 enrolments in licensed early childhood education services, with 110,576 of these in the 3-4 years age group.⁵

Schooling is compulsory by age six in New Zealand, although the majority of children start school immediately after their fifth birthday (only 1,223 five year olds were enrolled in licensed early childhood services as at 1 July 2008).

From 1 July 2007 three and four year old children attending a teacher-led early childhood service became entitled to access up to 20 hours of free childcare per week. This funding was intended to cover the average cost of meeting the regulated requirements for ECE provision. Some providers may choose to offer additional features above and beyond the regulations. Parents may be requested to pay an additional charge if they wish to purchase these additional features. Free ECE funding is paid directly to ECE providers who have opted into the scheme.

7.1 Out-of-pocket childcare fees paid by parents

Government provides universal funding of between NZD 3.20 and NZD 10.54 per hour per child to assist with early childhood education fees. The payment is made by the Ministry of Education direct to the provider of the service and varies according to the age of the child (under 2 or over 2) and the type of service.

Childcare Tax Rebate is available for some working parents, who can claim a maximum rebate of NZD 310 per year. The maximum rebate is available to families who paid NZD 940 or more for childcare.

7.2 Child-care benefits

7.2.1 Conditions for receipt

Childcare Subsidy is a non-taxable payment which assists low- and middle-income families to pay for their under five year old children (and some under six year olds) to attend licensed preschool facilities.

A person may be entitled to a Childcare Subsidy of up to 9 hours per week if they meet the income test. People who are in work related activities or undertaking training may access up to 50 hours Childcare Subsidy per week for the time they are engaged in those activities. The payment is made to the provider of the service on behalf of the parent.

7.2.2 Calculation of benefit amount

7.2.2.1 Calculation of gross benefit

The following table shows Childcare Subsidy income abatement thresholds and maximum rates from 1 April 2008.

⁵ Source: July 2008 annual census of children and staff at licensed and/or chartered early childhood education (ECE) services and license-exempt playgroups, conducted by the Ministry of Education.

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Childcare Subsidy income abatement thresholds and rates as at 1 April 2008 (NZD)		
<i>Number of children</i>	<i>Gross weekly income</i>	<i>Childcare Subsidy (per hour)</i>
1	Less than 1,200	3.51
	Less than 1,300	2.44
	Less than 1,400	1.35
	1 400 or more	nil
2	Less than 1 380.00	3.51
	Less than 1,490	2.44
	Less than 1,600	1.35
	1 600.00 or more	nil
3 or more	Less than 1 540.00	3.51
	Less than 1,670	2.44
	Less than 1,800	1.35
	1 800.00 or more	nil

7.2.2.2 Income and earnings disregards

Benefits are reduced according to gross income (see section 7.2.2.1).

7.2.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

7.2.4 *Treatment of particular groups*

None.

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8. Employment-conditional benefits

In-Work Tax Credit, Minimum Family Tax Credit and Parental Tax Credit are available only to non-beneficiary families. In-Work Tax Credit and Minimum Family Tax Credit require the parent (or at least one parent in the case of couples) to meet an hours of work test (see section 10).

9. Lone-parent benefits

9.1 *Conditions for receipt*

Sole parents 18 years or older may qualify for Domestic Purposes Benefit if they are the primary carer for a qualifying dependent child.

There is no work test for the Domestic Purposes Benefit. Instead, Domestic Purposes Benefit recipients participate in a planning process that promotes goal setting for the time when their circumstances allow them to successfully combine parenting and work. While most sole parent beneficiaries receive a Domestic Purposes Benefit, other benefits (Unemployment, Sickness and Invalid's) can also be paid at a sole parent rate.

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

As at 1 April 2008 the weekly gross rate of the sole parent Domestic Purposes Benefit was NZD 320.02.

9.2.1.1 *Irregular additional payments*

As mentioned in 3.2.1.1 there are a range of payments or advances available to provide assistance in a financial crisis, including special needs grants, advance payments of benefit, recoverable assistance, or temporary additional support. The amounts available depend on individual circumstances and needs.

9.2.2 *Income and earnings disregards*

The net rate of Domestic Purposes Benefit is abated by 30 cents for each dollar of weekly earnings between NZD 80 and NZD 180. Earnings above NZD 180 per week abate the benefit by 70 cents for each dollar earned. The default is an annual income assessment, though the beneficiary may choose to have a weekly assessment.

9.3 *Tax treatment of benefit and interaction with other benefits*

The Domestic Purposes Benefit is taxable.

9.4 *Benefit duration*

Sole parents lose eligibility for Domestic Purposes Benefit when their youngest dependent child turns 18 or at the end of the secondary school year in which their youngest child turned 18.

9.5 *Treatment of particular groups*

9.5.1 *Young persons*

Some 16 and 17 year old sole parents may be eligible for Emergency Maintenance Allowance.

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9.5.2 *Older workers*

None.

9.5.3 *Others if applicable*

None.

10. Tax system

10.1 Income tax

10.1.1 *Tax allowances and credits*

10.1.1.1 Standard allowances

None.

10.1.1.2 Standard tax credits

Tax credit for income under \$9 880

The Transitional Tax Allowance is available to persons with income under NZD 9 880. This rebate is limited to those in full-time employment or who would have been in full-time employment but for sickness or accident. The rebate is NZD 728, reduced by 20 cents on each dollar earned over NZD 6 240 – thus the rebate runs out at NZD 9 880. The Transitional Tax Allowance is not available if the taxpayer receives an income tested benefit or if any of the universal cash transfers apply. In addition, the amount of the rebate depends on the proportion of weeks in the year where 20 hours or more have been worked.

Family Tax Credit

See section 6.

In-Work Tax Credit

In-Work Tax Credit is available to non-beneficiary families who normally work a minimum number of hours each week.

- A sole parent qualifies if they work at least 20 hours per week.
- A two-parent family qualifies if the two parents work a combined 30 hours per week.

In-Work Tax Credit is up to NZD 60 week per for families with three children or fewer, increasing by NZD 15 for each additional child after the third. Eligibility for In-Work Tax Credit also depends on family income.

Families receiving the following government transfers can still qualify for In-Work Tax Credit, provided the family works the required hours:

- NZ Superannuation
- Veteran's pension
- a foster, orphan's or unsupported child's benefit
- accident compensation for incapacity provided the person normally worked the required hours each week prior to their injury and had an accident after 1 January 2006

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- paid parental leave or Parental Tax Credit provided the family worked the required hours before taking leave due to the birth of a child.

Minimum Family Tax Credit

Minimum Family Tax Credit is available to working non-beneficiary families.

- A sole parent qualifies if they work at least 20 hours per week.
- A two-parent family qualifies if the two parents work a combined 30 hours per week.
- Self-employed people are not eligible.

Minimum Family Tax Credit ensures a minimum net income of NZD 355 per week (including ACC deduction, NZD 18,460 per annum) before Family Tax Credit and In-Work Tax Credit are included.

Parental Tax Credit

Families may be entitled to a Parental Tax Credit of NZD 150 per week for the first eight weeks after they have a new baby. They cannot receive a Parental Tax Credit if they are receiving Paid Parental Leave.

10.1.2 Income tax schedule (central government income tax)

NZ income tax schedule	
<i>Gross taxable income as at 1 April 2008 (NZD per year)</i>	<i>Statutory tax rate (%)</i>
0-38 000	19.5
38 000-60 000	33
Above 60 000	39

Until 1 October 2008 a 'low income rebate' was applied to people earning less than \$38,000 per year. This meant that while income below 38,000 was taxed at 19.5%, people earning less than this amount could receive a rebate - reducing their tax rate. The table below shows how income below \$9,500 was subject to a 4.5% low income rebate which abated for income between \$9,500 and \$38,000.

INCOME BRACKET	TAX RATE PER DOLLAR	LOW INCOME REBATE/ (ABATEMENT)
\$0- \$9,500	19.5%	4.5%
\$9,501- \$38,000	19.5%	(1.5%)
\$38,001- \$60,000	33%	-
\$60,001 and over	39%	-

The effective marginal tax rates (taking into account the Low Income Rebate) were:

Income not exceeding \$9,500	15 cents
Income exceeding \$9,500 but not exceeding \$38,000	21 cents
Income exceeding \$38,000 but not exceeding \$60,000	33 cents
Income exceeding \$60,000	39 cents

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10.1.3 State and local income taxes

New Zealand has no state or local income tax.

10.2 Treatment of family income

Family members are taxed as individuals.

10.3 Social security contributions and payroll taxes

New Zealand has no compulsory social security contributions to schemes operated within the government sector.

It should be noted that there is an accident compensation scheme administered by the Accident Compensation Corporation for residents and temporary visitors to New Zealand. This scheme is funded in part by premiums paid by employees and employers. Employees pay a premium of 1.3% of their gross earnings. Employers pay a premium depending on their total payroll and their assessed accident risk (the average rate is 0.9%).

10.4 Treatment of particular groups

10.4.1 Young persons

Children who are under the age of 15, or under the age of 18 and attending primary or secondary school, or who turned 18 in the preceding income year and are still at school, are eligible to receive a Child Tax Rebate. Eligible children are allowed to earn income (less interest and dividends) up to NZD 2 340 per annum, tax-free.

10.4.2 Older workers

None.

10.4.3 Others if applicable

None.

11. Part-time work

11.1 Special benefit rules for part-time work

People must be working less than an average of 30 hours per week to be eligible for Unemployment Benefit.

11.2 Special tax and social security contribution rules for part-time work

None.

12. Policy developments

12.1 Policy changes introduced during 2008

12.1.1 Changes to income tax rates from 1 October 2008:

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NZ income tax schedule	
<i>Gross taxable income as at 1 October 2008 (NZD per year)</i>	<i>Statutory tax rate (%)</i>
to 14 000	12.5
to 40 000	21
to 70 000	33
over 70 000	39

12.1.2 Changes to Working for Families tax rates from 1 October 2008:

Weekly rate	Rates from 1 October 2008 NZD
First child if under 16	86.29
First child if 16 or over	99.96
Subsequent child rate if under 13	59.98
Subsequent child rate if 13 to 15	68.40
Subsequent child rate if 16 or over	89.44
Income threshold	36 827

12.1.3 ReStart package

The ReStart package of initiatives provides financial and job-search assistance for people who have been made redundant, or are no longer self employed, due to the economic downturn. It includes:

- ReCover – a payment for families with children no longer eligible for the in-work tax credit. It provides NZD 60 a week for families with one to three dependent children and NZD 15 a week for each extra child.
- RePlace – provides extra help with accommodation costs and is available to anyone who has been made redundant and is receiving the maximum amount of Accommodation Supplement. It is available to single people, sole parents and couples (with or without children). RePlace provides up to NZD 100 extra a week, depending on circumstances. People who receive more than NZD 25,000 as a redundancy payment will not be eligible for RePlace.

From 8 November 2008 applications for the ReStart package were taken from people who had been made redundant, with payments commencing from the second week of January 2009.

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12.1.4 Changes to special needs grants

From 4 August 2008 the annual amount of financial assistance available through special needs grants for food doubled. The time period in which the maximum limits applied was reduced from 52 to 26 weeks, effectively doubling the entitlements allowed.

In addition, the limit for Special Needs Grants for the ‘Other Emergency’ category was increased from NZD 200 to 500.

ANNEX

DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD Revenue Statistics.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors’ pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasi-compulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes

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negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.