



THE AGN EUROPEAN REGION -- 2004 Salary Tax Survey --

Accountants Global Network (AGN) International is an association of separate and independent accounting and consulting firms, represented in 80 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys on corporate taxes, value added taxes (VAT), salary taxes and social security charges and inheritance taxes and holding company jurisdictions with particular attention being paid to the taxation of dividend receipts and capital gains on the sale of participations.

The objective of the 2004 Salary Tax and Social Security survey is to make a practical comparison of the income tax and social security charges, for both the employer and the employee, payable in the various European countries.

As Europeans become more mobile, and increasingly work in various countries, these comparisons will be of particular interest to individuals who can choose their country of employment and residence. Larger employers who send their staff to work abroad, and often operate a tax equalisation policy to adjust gross salary to ensure that the employee's net pay remains the same, will also find the survey useful to identify those countries where additional costs may be incurred.

The survey covers 21 European countries: Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Gibraltar, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom.

The 2004 Survey

The calculation of the amount of personal income tax and social security charges an employee and employer must pay in 2004 is based on a married individual with two children. It is assumed that this person earns a gross salary of Euro 100,000 per annum, has a company car, which costs Euro 40,000 when new, and pays mortgage interest of Euro 7,500 per annum.

The 2004 results show some substantial variations between countries.

Gross Employer Cost: The cost to the employer (gross salary plus employer's social security) of the employee, expressed as a percentage of employees' net salary ranges from 142% in Cyprus to 285% in Slovenia. Belgium is at 278%, Germany at 216% Luxembourg and Russia are at 151% Gibraltar at 145%.

Net Salary: The percentage of gross salary that the employee keeps as his net salary also varies significantly, ranging from 43% in Slovenia to 90% in Russia. There are also big differences within the narrower confines of the European Union, ranging from 49% in Belgium and in Finland to 74% in Cyprus and 72% in Luxembourg.

Income Tax versus Social Security: With entrance into the European Community on May 1st, Cyprus got one of the top competitive European places for tax. The survey emphasises the importance of looking at social charges as well as income tax. For example, France has the lowest income tax costs, but these are dwarfed by the social charges, which amount to more than three and half times the tax. Conversely, Sweden has one of the lowest social charges, but the tax amount is the second highest after Finland. The Netherlands knows a similar situation with some low social charges and an important income tax.

Compared to 2003: A comparison with the survey done for 2003 shows some interesting changes. In Russia, for example, the overall cost to the employer as a percentage of net salary rose from 121% to 151%, as result of increases of 750% for employer social charges. In a general way, we notice an increase of employers' social security contributions comparing with 2003, except for Austria, Croatia, Finland and Spain and an important increase of employee social security contributions are partially offset by a decrease of income tax (or inversely). Finally, Croatia has increased the employees' net salary most in 2004, by almost Euro 19,000 following by France with Euro 5,000. Germany, however, has reduced the net left in the pocket of an employee from 2003 by almost Euro 4,000.

Tax Deductions: The 2004 survey also outlines the key items which can be deducted to reduce taxable income in each country – for example, personal allowances, personal loan interest, mortgage interest, medical insurance, pension contributions, as well as investment and education allowances.

- **Austria** allows only a deduction for pension insurance but the deduction is unlimited.
- **Cyprus** gives deductions only for life, medical, 3rd party insurances and pension insurance.
- **Gibraltar** and **Switzerland** give deductions for all the items mentioned.
- **Luxembourg, Spain** and **Sweden** give a tax deduction for personal loan (non mortgage) interest paid.
- **Germany Slovenia** and **UK** give no mortgage interest deductions.
- **Finland, France, Italy, Netherlands, Russia, Sweden** and **United Kingdom** give no allowance for insurance premiums paid.
- **Germany, Netherlands**, and **Russia** give no allowance for personal pension contributions but **United Kingdom** give a very generous allowance and **Austria** allows the employee an unlimited deduction.
- **France, Germany, Gibraltar, Luxembourg Switzerland** and **Portugal** give a tax deduction for certain savings type products but Switzerland limits the deduction to 3%.
- **France, Germany, Gibraltar, Greece, Portugal, Russia** and **Switzerland** give a tax deduction for education expenses.

To conclude, **Switzerland** provides the highest level of tax deductions since personal loan interest, mortgage loan interest and pension insurance are fully deductible. Moreover, Switzerland also allows the highest deduction for education allowance.

Benefits in Kind: The tax treatment of benefits in kind, such as company cars, accommodation, mobile phones and share options, was also examined.

- **All countries, except Greece**, charge additional tax on those who have company cars and the amount of tax is generally worked out with reference to the catalogue price of the vehicle. The business mileage is important in Belgium, whereas in the UK the rules take account of the catalogue cost and the pollution caused by the engine, with larger, less efficient engines resulting in the tax being based upon a higher percentage of the catalogue cost.
- Only **Czech Republic** does not tax the benefit of company provided accommodation.
- **Belgium, Croatia, Czech Republic, Finland, Gibraltar, Greece, Netherlands, Slovenia** and **Sweden** do not tax the benefit of company pension schemes or insurances paid for the employee.
- **Austria, Germany, Ireland, Italy** and **United Kingdom** do not tax pension schemes but tax insurance premiums paid by the employer. In United Kingdom, the tax is limited to 10%.
- Only **Greece** does not tax the benefits arising out of share option schemes and the point of taxation (on exercise or grant) varies enormously between countries.
- **Austria, Germany Greece, Spain** and **United Kingdom** do not tax the benefit of a mobile phone provided by the employer and those who do tend to tax a percentage of the call cost.
- **Germany, Greece, Italy, Portugal** and **United Kingdom** tax meal and hotel allowances generally if they exceed a certain monetary limit and cannot be justified as business expenses
- **Belgium, France** and **Ireland** tax the benefit of a computer provided by the employer.



Taxation of Expatriates: Only Austria, Belgium, Croatia, Cyprus and France have a special deduction or tax regime for expatriates. In the United Kingdom resident but not domiciled expatriates are only taxed on a remittance basis.

Before taking or refraining from action in relation to salary, taxes and benefits, specific professional advice should be obtained covering the individual's residence and domicile, and the place where the employee's work is actually done.

Further details of the AGN 2004 Salary Tax survey, including a chart comparing the countries surveyed, can be obtained free of charge from AGN Europe's head office at 5-6 Francis Grove, London SW19 4DT, telephone +44 (0) 20 8947 4888, e-mail info@agn.org or downloaded from the internet at www.agn.org.

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