

THE AGN EUROPEAN REGION

-- 2007 Salary Taxes, Social Security and Expatriate Taxation Survey--

AGN International is an association of separate and independent accounting and consulting firms, represented in 83 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, parent companies, corporate, value added (VAT), salary and social security and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons from year to year and from country to country and give an insight into trends.

Introduction: Europe is becoming smaller and smaller. The expansion of the EU brings new possibilities and threats. The basic rule in the EU is freedom of movement for workers by the abolition of all artificial barriers to entry into the labour market of another Member State. A migrant worker should therefore be able to accept a job in another Member State or to move to another Member State to seek work without thereby suffering any discrimination with regard to social security benefits. That is the basic rule. It sounds simple, but reality is much more complicated. Taxes in Member States are not harmonized at Community level. They are governed by national legislation and by the numerous bilateral and/or multilateral agreements, conventions and arrangements concerning taxation. But even in the absence of harmonization, such legislation or agreements must comply with basic principles of Community law, in particular free movement and equality of treatment of workers within the Union.

The objective of the survey is to establish how much of an employees gross salary is left for him/her to take home after income tax and social security charges. In addition we have asked the AGN member firms in the various countries covered by the European region to calculate the employer's additional social charges thereby allowing us to compare the cost of employment to an employer. The Salary Tax and social security cost survey is based on a married individual with two children. It is assumed that this person earns a gross salary of € 100,000, has a company car which cost € 40.000,- when new, and pays mortgage interest of € 7.500,- per annum.

Countries Covered: The 2007 survey covers 21 countries (18 members of the EU as well as Isle of Man, Russia and Switzerland).

Results of the 2007 Survey

Income Tax and Social Security: The survey shows that to make a good comparison, it is necessary to take into account the tax and the social charges. Our calculations show for example that the income tax in France is €5.400 and the employers social security € 42.116. In Cyprus the employers social security is €5.590 and the income tax €23.044. Employees social security in Cyprus amounts to € 2.827 and in France € 21.100. The net salary an individual retains in these two countries is almost the same, but the cost to the employer as % of the Net Salary is in Cyprus 142.44% and in France 193.36%. A big difference!

The treatment of benefits in kind, such as company cars, accommodation, mobile phones and share options, are also examined.

Company Cars: All countries, except Greece and Russia, 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, although in some countries the actual invoiced price is used.

Company Accommodation: All countries except Czech Republic, Finland, Italy, Malta, Romania tax the cost of providing employees with accommodation.

Company Pension Schemes: Premiums paid by employers for a company pension scheme are only taxed as a benefit in kind in : Cyprus, Estonia (38%), Portugal and Russia (13%). In Luxembourg a 20% tax at source is paid to the tax authorities and the final pension paid to the employee is then tax free.

Other Insurance Premiums: Premiums paid by employers for life, sickness and invalidity and surviving spouse benefits are not taxed as a benefit in kind in: Czech Republic, Finland, France, Greece, Malta, Netherlands, Romania, Spain and Sweden.

Share Options: These are not taxed only in Czech Republic, Isle of Man and Malta.

Mobile Phones: The provision of a mobile phone to an employee is a taxable benefit in Cyprus Czech Republic, Estonia, Italy, Romania.

Daily Meal Allowances: The following countries grant tax free meal allowances Austria (€26), Finland (€5), Germany (€24), Italy (€5), Luxembourg (€6) and Sweden (€22)

Lap-Top Computers and Internet costs: The provision of lap-top computers is generally not treated as a benefit in kind and only Sweden taxes the cost of an internet connection paid by the employer.

Personal Allowances: Most countries give some personal tax deductible allowances including mortgage interest deduction) which for a family with two children range from € 687 in Italy to € 71.048 in France. Only Austria, Cyprus, Malta do not give any personal deductions and the UK allows employees to put 100% of their annual salary in a pension scheme up to a maximum of £ 215.000 or € 316.000. Only Luxembourg gives an allowance for interest paid on personal non-mortgage related loans.

Expatriate Taxation: The survey also looks at the treatment of expatriates working in each country and what is a taxable benefit in kind. For example Finland, France, Malta, Spain and United Kingdom do not tax travel paid for by the employer so that the expatriate can go home and visit his family nor do they tax the payment of the employer of relocation costs. Austria and Cyprus also do not tax the payment by the employer of relocation costs. Only Cyprus (20%) and the Netherlands (30%) exempt from tax a certain percentage of the expatriates income. Also only Romania does not allow expatriates to buy houses there.

CONCLUSION:

The survey shows that Russia leaves the most money in the pocket of the employee (87%) and Slovenia the least (48%) however, cost of employment is highest in France adding another 42% on the salary cost of an employee in the form of employers social security charges but France leaves 73% of the gross salary in the hands of the employee. In Sweden the additional cost is 35% and they only leave 54% of the gross salary in the hands of the employee. In Slovenia the total cost of employing someone is 2.75 times the net salary, in Sweden 2.5 times and in France 1.9 times.

Before taking or refraining from action in relation to the above, specific professional advice should be taken.

Full details of the AGN surveys, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org Our Organisation Latest-Tax Surveys