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Net Social Expenditure, 2005 Edition: More Comprehensive Measures of Social Support

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SUMMARY

This is the 2005 edition of a Net Social Expenditure paper that contains information on *net* (after tax) public *and* private social expenditure. These indicators supplement the detailed historical information on *gross* (before tax) publicly mandated social expenditure in the *OECD Social Expenditure Database* by accounting for the varying roles of voluntary private social spending and the tax system on social policy across OECD countries.

Government intervention through the tax system affects social spending as governments levy direct taxes and social security contributions on cash transfers, and indirect taxes on goods and services bought by benefit recipients. In addition, governments may award tax advantages similar to cash benefits and/or grant tax concessions aiming to stimulate the provision of private social benefits. Through compulsion and tax relief public policy contributes to private pension plans, and such arrangements are generally considered within the social domain.

This document refines the methodological framework previously developed per earlier editions of net social expenditure and presents indicators based on a common questionnaire for twenty-three OECD countries for which information on taxation of benefits in 2001 is now available: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Norway, the Slovak Republic, Sweden, Spain, the United Kingdom and the United States.

Accounting for the impact of the tax system and private social expenditure leads to a greater similarity in social expenditure to GDP ratios across countries and to a reassessment of the magnitude of welfare states. Usually, Denmark and Sweden are seen as the biggest social spenders. After accounting for the impact of taxation social expenditure to GDP ratios appear highest in France, Germany and Sweden.

RÉSUMÉ

Ce document est l'édition 2005 du rapport sur les Dépenses sociales nettes (après imposition) publiques et privées. Ces indicateurs ont été développés afin d'apporter un supplément aux informations historiques détaillées des dépenses sociales publiques brutes (avant imposition) obligatoires disponibles dans la *Base de données des dépenses sociales de l'OCDE (SOCX)*, en tenant compte des différentes fonctions des dépenses sociales privées volontaires et l'impact du système d'imposition sur les politiques sociales dans les pays OCDE.

L'intervention des gouvernements au travers du système d'imposition a un impact sur les dépenses sociales. En effet, ils perçoivent à la fois des impôts directs et des cotisations de sécurité sociale sur les transferts en espèces, mais aussi des impôts indirects sur les marchandises et les services achetés par les bénéficiaires. De plus, les gouvernements peuvent accorder des déductions fiscales similaires à des prestations en espèces et/ou accorder des allégements fiscaux dans le but d'inciter les agents (instituts et/ou individus) privés à avoir recours aux assurances sociales. Par ces obligations et allègements fiscaux, les politiques publiques encouragent la couverture privée des risques ; de telles dispositions relèvent du domaine social.

Ce document redéfinit le cadre méthodologique développé dans les éditions précédentes des dépenses sociales nettes, et présente des indicateurs issus d'un questionnaire envoyé à vingt-trois pays pour lesquels les informations sur l'imposition des prestations pour 2001 sont désormais disponibles : Allemagne, Australie, Autriche, Belgique, Canada, Corée, Danemark, Espagne, États-Unis, Finlande, France, Islande, Irlande, Italie, Japon, Mexique, Norvège, Nouvelle-Zélande, Pays-Bas, République tchèque, République slovaque, Royaume-Uni et Suède.

L'ajustement « impôt et dépenses privées » montre une plus grande similitude en terme de dépenses sociales en pourcentage du PIB entre pays, et donne aussi une nouvelle vision de l'ampleur des états protecteurs. Habituellement, le Danemark et la Suède sont considérés comme les pays aux dépenses sociales les plus importantes. Après ajustement, ce sont ici la France l'Allemagne et la Suède qui apparaissent en tête.

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1. Introduction

1. Public social expenditure to GDP ratios are often used for international comparisons of welfare states. However, a comparison of budgetary allocations with a social purpose does not give a full picture of collective social effort across countries, for two main reasons. First, gross (before tax) spending data on budgets and in national accounts do not account for the impact of tax systems on the value of social expenditures. Second, information on public budgets does not capture private social arrangements to which (parts of) the population is obliged to subscribe, or which social policy objectives encourages by means of financial support, often through the tax system. The importance of both these effects varies across countries, and not accounting for these effects thus distorts international comparisons.

2. There are three features of tax policy that can affect social expenditure: i) governments can levy direct taxes and social security contributions on cash transfers; ii) governments can levy indirect taxes on goods and services bought by benefit recipients; and, iii) governments can also pursue social policies through the tax system, by giving tax reliefs that are either similar to cash benefits, or by awarding tax advantages aimed at stimulating the provision of private social benefits. The *net public social expenditure* indicator accounts for these effects and provides a picture of what governments 'really' devote to social spending.[2]

3. The provision of social protection is not restricted to governments. In fact, many governments are often keen for private agents to provide social benefits, as this allows for diversity of investment risks, may lower costs, and may generate greater innovation in service delivery and programme design (which could lead to administrative gains). Private providers may also be better placed to cater for individual needs, while community-based NGOs may be better informed about local needs (Martin and Pearson, 2005). Private social arrangements can provide close substitutes for public social policy measures, but can also complement existing arrangements, e.g. when employers 'top-up' statutory payments during maternity leave. Private arrangements can also have similar effects to public programmes. For example, when there is no public insurance or assistance in the event of a particular contingency, it is likely that individuals will seek higher wages to ensure that they have sufficient resources, affecting labour costs in a similar way as taxes. Capturing the size of public and private social benefits as well as the impact of the tax system, allows to assess what part of an economy's domestic production recipients of social benefits draw on and provides estimates of *net total social expenditure*.

1 . The authors thank Martine Durand, Chris Heady, Mark Pearson, Peter Scherer, and Peter Whiteford for helpful comments and are very grateful to Elma Lopes for all her assistance with preparing this document.

2 . International comparisons of social expenditure to GDP ratios are also affected by cross-country differences in the stage of the economic cycle, which to a certain extent could be captured by relating social expenditure to trend GDP, see for a fuller discussion Adema *et al.*, (1996).

4. The OECD started to explore these issues in the mid-1990s leading to an initial publication on net public social expenditure for 6 countries (Adema *et al.*, 1996). Since then the number of countries for which relevant information has become available and the coverage of spending items gradually increased (Adema and Einerhand, 1998, and Adema, 1999 and 2001). This document reflects another important step in the development of Net Spending Indicators: it presents indicators on net public and private social expenditure for 23 OECD countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Norway, the Slovak Republic, Sweden, Spain, the United Kingdom and the United States. For the first time, data on taxation of benefits and tax breaks with a social purpose have been collected on the basis of a standardised questionnaire under the auspices of Working Party No. 2 on Tax Policy Analysis and Tax Statistics of the Committee on Fiscal Affairs. With financial support from the governments of Denmark and Sweden this process has already led to marked improvements in quality and coverage of the indicators. Nevertheless, both data on the impact of tax systems on social spending and private social benefits are largely based on estimates rather than administrative information. Therefore its quality is not as high as the information on budgetary allocations with a social purpose recorded in the *OECD Social Expenditure Database* (OECD, 2004a) or on tax revenue as recorded in the *OECD Revenue Statistics* (OECD, 2004b).

5. The next section of this document explains what social expenditure is and what it is not, discusses demarcation issues(identifying spending items as 'public', 'private social', or exclusively private'), and illustrates the important role of social expenditure in today's economies. The second section describes how the tax system affects social spending and how this is measured, while the third part of this paper draws together the information on public and private social spending and the impact of the tax system, and presents international comparisons of net total spending indicators.

2. What is social expenditure?

6. To facilitate cross-country comparisons of social expenditure, the first step is to demarcate what spending is 'social' and what is not. The OECD defines social expenditures as:

> "The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer.[3]"

7. Social benefits include cash benefits (e.g. pensions, maternity payments, social assistance), social services (e.g. childcare, care for the elderly and disabled) and tax breaks with a social purpose (e.g. tax expenditures towards families with children, or favourable tax treatment of contributions to private health plans).

3 . Social spending is an aggregate of all (or a group of) social benefits. It does not include contributions and other payments by households that finance social programmes. Such payments are considered to be 'social contributions' although they are an expenditure item from the perspective of the contributor. Since only benefits provided by institutions are included in the social expenditure definition, transfers between households - albeit of a social nature, are not. Social expenditure or social spending also does not include remuneration (wages and salaries) for work, as it does not cover market transactions, *i.e.* payments in return for the simultaneous provision of services of equivalent value. Employer costs such as allowances towards transport, holiday pay, etc. are part of remuneration in this sense.

2.1 Social vis-à-vis non social expenditure

8. Two main criteria have to be simultaneously satisfied for an expenditure item to be classified as social. First, the benefits have to be intended to address one or more social purposes. Second, programmes regulating the provision of benefits have to involve either a) inter-personal redistribution, or b) compulsory participation.

2.1.1 Towards a social purpose

9. The *OECD Social Expenditure Database* groups benefits with a social purpose in *9 policy areas* - with examples: *Old-age* - pensions, early retirement pensions, home-help and residential services for the elderly; *Survivors* - pensions and funeral payments; *Incapacity-related benefits* - care services, disability benefits, benefits accruing from occupational injury and accident legislation, employee sickness payments; *Health* - spending on in- and out-patient care, medical goods, prevention; *Family* - child allowances and credits, childcare support, income support during leave, sole parent payments; *Active labour market policies* – Employment services, training youth measures subsidised employment, employment measures for the disabled; Unemployment – unemployment compensation, severance pay, early retirement for labour market reasons; *Housing* – housing allowances and rent subsidies; and, *Other social policy areas* - non-categorical cash benefits to low-income households, other social services.

10. The borderline of the social domain is not always clear-cut at first sight because policy objectives differ across countries, while sometimes decisions on what is social and what not are closely-related to data issues. Tackling child poverty is an important policy objective in all OECD countries, and support for children (either through cash transfers, services or through the tax system) is considered as social. However, favourable tax treatment of marital status is not considered as social support here, as there is no OECD-wide agreement on whether such support reflects the pursuit of social policy objectives, or whether it rather reflects differing views on the basic economic unit which is the appropriate basis for taxation.

11. When saving programmes are earmarked towards income support in retirement (or towards contingencies covered by other social policy areas), they are considered to be ‘social’, but general savings programmes are considered to be outside the social domain even though part of these savings are likely to be used in retirement, disability, etc. Life insurance programmes which are often tax-advantaged can also perform a social function, including provision of survivors’ benefits and accident insurance among the contingencies covered (see below). However, such policies are often taken up to cover mortgage policies, and there is no data available on a cross-country basis that allows for a comprehensive demarcation. Therefore, life insurance saving is not included in the social domain.

12. Rent subsidies are considered social, as is residential support for the elderly, disabled and other population groups (as recorded under Old-age, Incapacity-related benefits, etc). Mortgage relief for low-income households has some similarities with such programmes. However, it is unclear up to what level of income, or what level of property value, support should be considered social. Moreover, a comprehensive dataset is not available for countries. For these reasons, mortgage relief is not considered here as a tax break with a social purpose (see below).

2.1.2 Inter-personal redistribution or compulsion

13. Expenditure programmes are considered ‘social’ if participation is compulsory, and if entitlements involve inter-personal redistribution of resources among programme participants; in other words, if entitlements are not the result of direct market transactions by individuals given their individual risk profiles. Social services and social insurance and social assistance programmes practically always involve redistribution across households. Such programmes are either financed through general taxation or

social security contributions, which lead to the redistribution of resources across the population or within population groups (*e.g.* all members of an unemployment insurance fund).

14. Inter-personal redistribution in private programmes is often introduced by government regulation or fiscal intervention. Governments may force individuals and/or employers to take up protection provisions regardless of their risk-profiles or the prevailing market prices. For example, through risk-sharing (*e.g.* through forcing insurance companies to have one price for both sick and healthy people) public policy can subsidise sick people, and thus ensure redistribution between households. Public fiscal intervention to stimulate private take-up on a collective or individual basis also means that the take-up decision is not fully determined by the individual risk-profile or prevalent market prices[4] (the same holds for social benefits derived from collective agreements or taken out by employers on a collective basis). There is a high degree of similarity between legally-stipulated private arrangements and tax-advantaged plans.

15. Social benefits are also defined to include some (public and private) pension programmes that in theory do not necessarily involve redistribution of resources across households as, for example, the compulsory government managed individual savings scheme in Singapore (Ramesh, 2005).[5] This is because just as with the provision of tax relief, compulsion reflects a policy judgement that coverage of these plans is desirable, and hence, these programmes are considered social.

2.1.3 Public, private social and exclusively private expenditure

16. The distinction between public and private is on the basis of whoever controls the relevant financial flows; public institutions or private bodies. Social benefits are regarded as public when general government (that is central, state, and local governments, including social security funds) controls relevant financial flows. Sickness benefits financed by compulsory employer and employee contributions to social insurance funds (receipts) are by convention considered public, whereas mandatory (or compulsory) sickness payments paid directly by employers to their employees are private. Here, all social benefits provided by governments to their own employees are considered to be public.[6] All social benefits <u>not</u> provided by general government are private.

17. Within the group of private social benefits, a further distinction is made concerning the nature of provision. Sometimes, governments mandate (i.e force by legislation) employers to provide benefits to their employees, or mandate individuals and/or employers to make contributions to private funds from which benefits accrue. All such benefits are known as 'mandatory private social benefits'. Private benefits with a social purpose made by employers on a non-mandatory basis, benefits provided by non-government organisations and benefits that derive from contributions to programmes that redistribute resources among the insured population, are considered as 'voluntary private social benefits'.[7]

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4. Individual pension plans such as 'individual retirement accounts' in the US, and pension payments deriving from compulsory contributions to private plans (e.g. Superannuation in Australia) are considered social.

5 . Queisser and Whitehouse (2005), *forthcoming*, argue that in practice all existing notionally defined (pension) contribution schemes result in interpersonal redistribution.

6. The National Accounts consider sickness payments by the government to its employees as public, and some pension payments (e.g. those paid through capitalised funds) to its former employees as private. The next issue of the Social Expenditure Database will be brought in line with this convention; here <u>all</u> social benefits to public employees and former public employees are regarded as public.

7 . It is difficult to make an unambiguous categorisation between mandatory private benefits, voluntary private benefits, and, benefits that are not considered part of the social domain, when such benefits accrue from (past) contributions. In this case, entitlements can be based on different types of contributions: mandatory

18. Take-up of individual insurance, even with a social purpose, is a matter for the persons concerned, and premiums are based on the individual preferences and the individual risk profile. For example, if someone takes out private pension insurance which is actuarially fair, then there is no *ex ante* redistribution across households. The insurance company sets the price so that the individual can expect to receive back in compensation payments exactly what it costs him or her. Such spending is not considered social, but 'exclusively private'. Table 1 shows which expenditures are social and which are not.

19. There are significant differences across countries in the extent to which social policy goals are pursued through the tax system or in the role of private provision within nation social protection systems (see below). These differences point to substantial variance in the re-distributional nature of social systems. Some private social programmes may generate a more limited re-distribution of resources than public ones, and tax advantages towards private pension and health plans are more likely than not to benefit the relatively well-to-do. Private employment-related social benefits mostly re-allocate income between the (formerly) employed population, and the same holds largely true for fiscally-advantaged individual or group retirement plans. The income re-distribution in a high public spending country such as Denmark tends to be larger than in, for example, the US, where private social spending plays a much more substantial role (Förster and Mira d'Ercole, 2005).

Table 1. Categorisation of benefits with a social purpose

	Public		**Private**	
	Mandatory	*Voluntary*	*Mandatory*	*Voluntary*
Redistribution	Means-tested benefits, social insurance benefits	Voluntary participation in public insurance programmes. Self-employed 'opting in' to obtain insurance coverage.	Employer-provided sickness benefits, benefits accruing from mandatory contributions, to, for example, pension or disability insurance.	Tax-advantaged benefits, e.g. individual retirement accounts, occupational pensions, employer-provided health plans
No redistribution	Benefits from government managed individual saving schemes		Non tax-advantaged actuarially fair pension benefits	*Exclusively private*: Benefits accruing from insurance plans bought at market prices given individual preferences.

Note: The shaded cells reflect benefits that are NOT classified as social.

2.2 Social spending indicators

2.2.1 Spending trends

20. Since 1980 gross (before tax) total social expenditure increased to about a quarter of GDP in 2001 on average across the OECD, with social spending in France, Germany, Denmark, and Sweden (in ascending order) being closer to one-third of GDP (Chart 1). Spending trends show that total social expenditure to GDP ratios rose gradually in most countries during the 1980s (Chart 1), and shot up with the

contributions; 'top-up' contributions that are tax-financed or derive from collective agreements; and exclusively private contributions made by individual in line with his/her preferences (Adema, 2001, Annex 1 for more detail). For example, data on Superannuation benefits in Australia do not allow for separate identification of the benefit payments that are related to past mandatory or voluntary contributions. As Superannuation benefits deriving from mandatory contributions are currently relatively small all payments under this benefit programme have been recorded as voluntary private social expenditure.

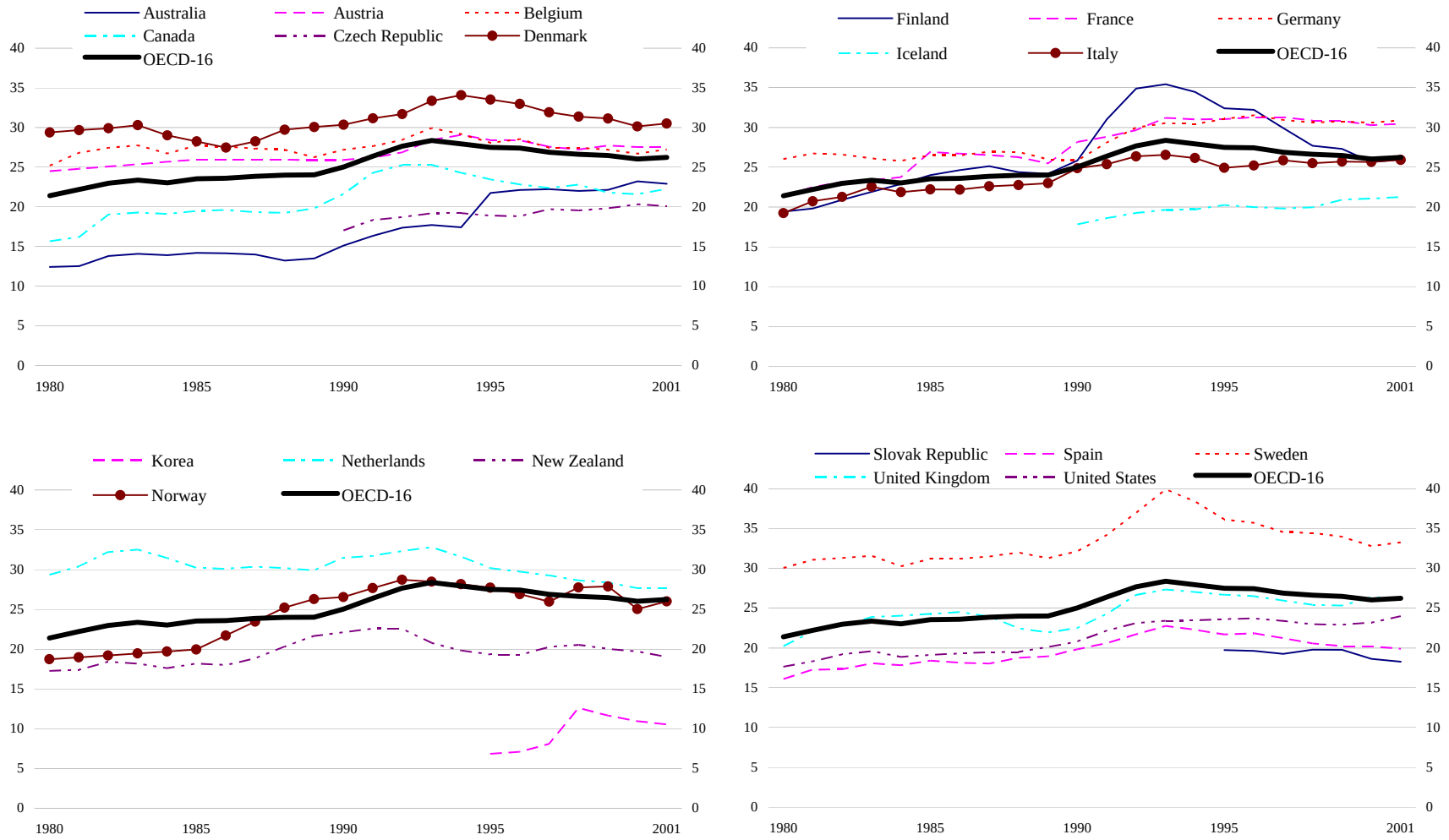
economic downturn in the beginning of the 1990s, especially in Finland and Sweden. The strong economic performance during the second half of the 1990s led to a decline in social spending to GDP ratios.

21. The underlying public and private social spending trends are very different. Public social expenditure doubled in nearly all OECD countries between 1960 and 1980, as public pension insurance schemes matured and sickness and disability provisions were extended (Annex 1). But since then, public spending trends seem more susceptible to fluctuations in the economic cycle and as public spending is the prominent form of social expenditure, this is reflected in recent total social spending trends (Chart 1).

22. Private social spending trends are different in that private spending has increased since 1980 for all countries for which such information is available. However, in most countries the increases were small (note that funded pension systems have yet to mature in OECD countries), except for the Netherlands and the US (Annex 1). In the Netherlands, this was related to reform in the mid-1990s when public budgets were cut by increasing employer responsibility for payments to employees who are absent from work because of sickness. In the US, where public health expenditure covers 44% of all health expenditure (OECD, 2004c), the upward trend in private spending is related to increasing health care costs, which in turn is widely regarded to be related to advances (new therapies and/or new technologies) in the capability to treat health conditions, while increased life expectancy and ageing populations are also an important consideration (OECD, 2004d and 2005a).

Chart 1 Growth of social expenditure was halted in the 1990s

Total social spending, in percentage of GDP, 1980-2001



Source : OECD Social Expenditure database (www.oecd.org/els/social/expenditure).

2.2.2 The importance of public and private social expenditure

23. Chart 2 shows that most social support is publicly provided. In most European countries, the share of public social spending in total social expenditure is around 90%, while this proportion is about 80% in the Netherlands and the UK. At over 9% of GDP, private social spending is most important in the US, where it constitutes about one-third of all social spending.

24. In 2001, public social spending accounted for 21% of GDP on average for all OECD countries (OECD, 2004a). In most OECD countries, public support for those in retirement and health expenditure makes up over half of all budgetary allocations with a social purpose. With more than 11% of GDP being spend on old-age cash benefits and survivor payments, Belgium, Germany, France, Austria, and in particular Italy can be regarded as 'Pensioner States'. The challenge to policy makers across the OECD will be to ensure that social protection systems involve solidarity between generations in a financially sustainable manner (OECD, 2005b).

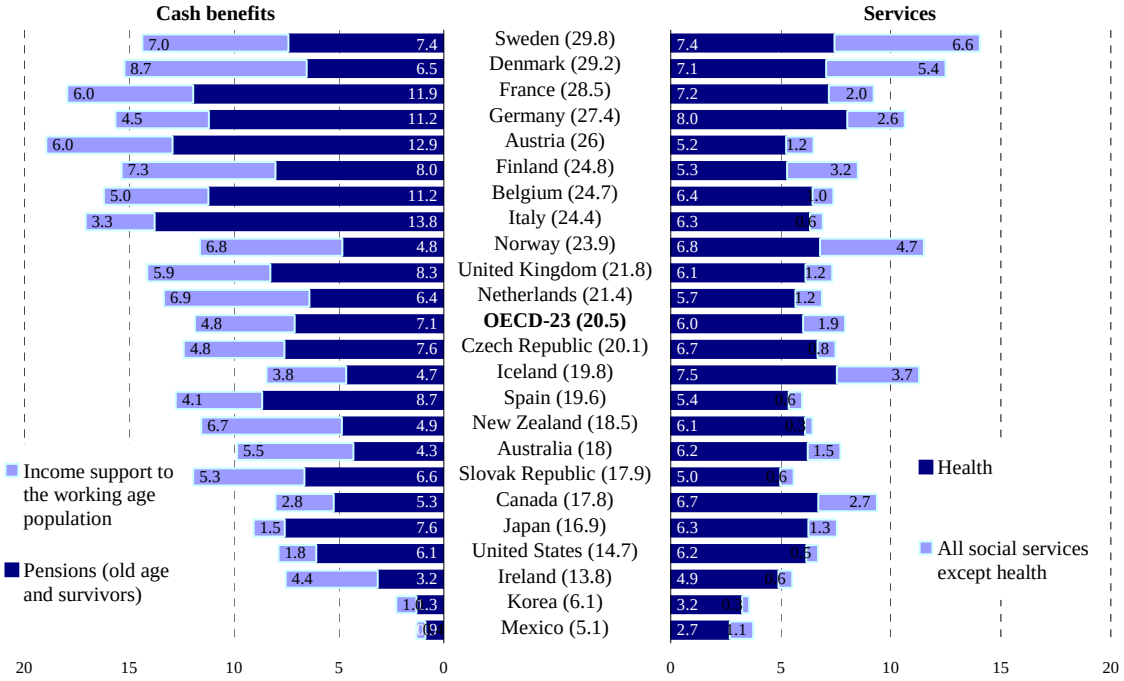
25. Public incapacity–related income support is high in the Netherlands (4.1%), Norway (4.8%), and highest in Poland at 5.5% of GDP (OECD, 2004a). On average, spending on income support during sickness and disability was 2.6% of GDP on average across the OECD: this is higher than public spending on unemployment compensation and Active Labour Market Policies (at 1.5% of GDP). Across OECD-countries, spending on housing support and miscellaneous (means-tested) social benefits amounted to less than 1% of GDP in 2001. The five Nordic countries seem to have a more balanced approach towards providing social support to senior citizens and the working age population (Chart 2): family-friendly policy support to working families is comprehensive at around 3 to 4% of GDP with policy design generating an equal role for cash transfers and service support, e.g. childcare support (OECD, 2002, and 2005c).

26. Pension benefits constitute a major component of voluntary private social benefits everywhere, but are most important in countries where the level of public pension benefits is comparatively low (Chart 2, compare panels A and B). Therefore, it is not surprising that private pension benefits are most important in Australia, Canada, the Netherlands, Japan, the UK and the US and range from 3.3 to 3.8% of GDP. These figures do not, however, fully reflect the importance of private pension programmes. Except for Japan[8], they refer to the *benefits* paid under funded or capitalized programmes, but many of these programmes have not yet fully matured. As current *contributions* exceed the magnitude of current benefits significantly in most countries, the importance of these private pension plans is expected to grow in the future with the maturing of pension plans.

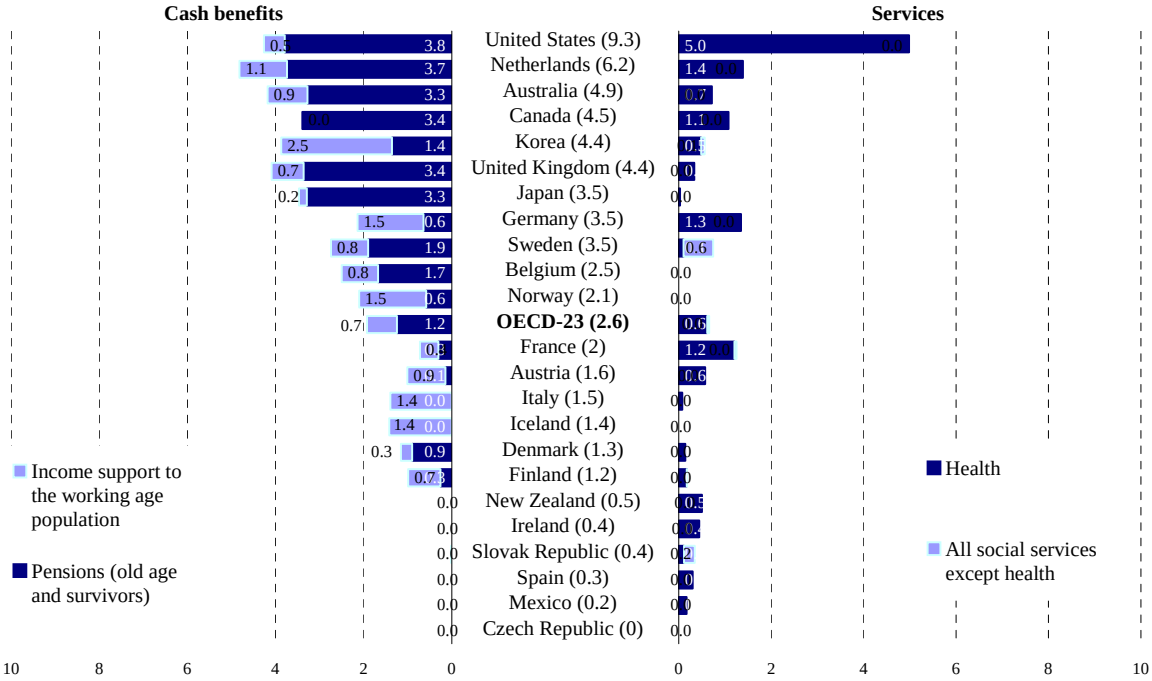
8 . Spending recorded for Japan largely involves retirement allowances paid by employers to retiring employees rather than benefits from capitalised private funds.

Chart 2. **Support for senior citizens and health benefits are key areas of social spending**

A. Public social expenditure by broad social policy area [a], in percentage of GDP, in 2001



B. Private social expenditure by broad social policy area, in percentage of GDP, in 2001



Note: Countries are ranked by decreasing order of total public social expenditure as a percentage of GDP. A cash/services disaggregation is not available for spending on Active Labour Market Programs (ALMPs). ALMPs are, however, included in total public spending in brackets.

a) For some countries there is an issue with items recorded as spending on services for elderly and/or the disabled provided by institutions other than hospitals also being included under public expenditure on health. Comprehensive information is not yet available, but initial estimates suggest that for 6 out 12 countries there exist overlap of spending data and that for Denmark, Iceland and Norway relevant spending may exceed 1 percentage point of GDP.

Source : OECD Social Expenditure database (www.oecd.org/els/social/expenditure).

27. Life insurance savings plans are considered outside the social domain as comprehensive information on that part of life insurance payments which is earmarked for social purposes is not available (in fact, there is no comprehensive information on life insurance benefits), but available information on life insurance premiums suggest that life insurance arrangements play an important role (OECD, 2003).[9] To a considerable extent life insurance polices are taken up to cover mortgage arrangements, but information provided by the Ministry of Finance of Japan illustrates that life insurance arrangements contain a considerable 'social element'. In Japan, payments through life insurance arrangements towards death, disability, and medical interventions amounted to 1.4% of GDP in 2001.

28. In the absence of a public health insurance system with universal coverage for workers, private health spending is most important in the US: employer-provided health benefits to their workers, dependents and retirees were estimated to be around USD 480 billion in 2001 or 5% of GDP (these expenditures do not include payments by individuals for health services). In 2001, health expenditure was highest in the US at 13.9% of GDP and Switzerland (10.9%) and Germany (10.7%), compared to 8.3% of GDP on average across the OECD (OECD, 2004g). Relatively high health expenditure in the US leads to total social spending in the US being close to the OECD average (Chart 1).

29. Non-health private social cash transfers to the working age population include mandatory employer-provided incapacity-related cash transfers – sickness, disability and occupational injury benefits – as, recorded for Australia, Austria, Denmark, Finland, Germany, Iceland, Korea, the Netherlands, Norway, Slovak Republic, Sweden, the UK and the US (in some states). Other examples of private social benefits include: supplementary unemployment compensation in the US, employer-provided childcare support in the Netherlands and employer payments during parental leave periods in many countries.[10]

3. The tax system and social benefits

30. Taxation is used to finance a wide variety of public outlays as for example debt repayments, spending on education, defence, etc. General tax revenue is also used to finance public social spending, and sometimes revenue streams (i.e. social security contributions) are earmarked for that purpose (OECD, 2004b). However, this study does not focus on the financing streams for public social expenditure, but on how tax systems affect the extent to which the indicators on gross social expenditure (both cash transfers and social services) discussed in the previous section fail to reflect the true extent of 'social effort'. Broadly speaking, tax systems affect social expenditure in three ways[11]:

1. **Direct taxation of benefit income** (section 3.1): Governments levy income tax and social security contributions on cash transfers to beneficiaries, in which case redistribution of resources is lower than suggested by gross spending indicators.

9 . Cross-national comparisons of information on contributions to life-insurance schemes are fraught with difficulty for different reason including: institutional differences, e.g. in contrast to other countries life insurance companies in the UK play a large role in private pension provision; and, recording practices: including reinsurance leads to double counting in the figures in OECD (2003).

10 . Non-governmental organisations (NGOs) also play an important role in the provision of social support. However, comprehensive data on benefits provided by NGOs that is comparable with the detailed information in the OECD Social Expenditure Database is not available, except for a few countries. For example, in Sweden the value of private social services amounted to 0.6% of GDP in 2001.

11 . These fiscal adjustments measure 'first round effects' concerning the net value of benefits. Hence, direct taxation of the earnings of those who provide services (*e.g.* staff in hospitals or childcare centres) is not included in the calculations.

2. **Indirect taxation of consumption by benefit recipients** (section 3.2): Benefit income is provided to finance consumption of goods and services. Indirect taxes reduce the consumption which can be financed out of a given level of benefit income.

3. **Tax breaks for social purposes** (section 3.3): Governments also make use of the tax system to directly pursue social policy goals. Fiscal measures with social effects are those which can be seen as replacing cash benefits (e.g. child tax allowances) or stimulating the provision of private benefits (e.g. tax relief towards the provision of private health plans). Tax breaks for social purposes can be directly awarded to households, but also includes tax relief for employers and private funds that ultimately benefit households (e.g. favourable tax treatment of employer-benefits provided to households, favourable tax treatment of private funds).

31. Usually, the value of the tax breaks awarded for social purposes is less than the amount that governments claw back through direct and indirect taxation of public benefits.[12] As a result, *net public social expenditure* is generally less than gross spending indicators suggest, and in many countries benefit income at the disposal of households is substantially smaller than suggested by gross indicators.

32. The effect of indirect taxation on social expenditure totals is computed using economic aggregates as in the OECD *National Accounts* and information in the OECD *Revenue Statistics* (see below). To measure the magnitude of direct taxes and TBSPs, delegates to the Committee on Fiscal Affair's Working Party No. 2 on Tax Policy Analysis and Tax Statistics, completed a questionnaire on the value of direct taxation (including social security contributions) paid by benefit recipients and tax breaks with a social purpose. Annex 2 contains the questionnaire and the key features of the responses for the following 22 countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, the Slovak Republic, Sweden, Spain, the United Kingdom and the United States. Estimates of net social spending for Korea were taken from Gho *et al.* (2003). The common questionnaire has led to greater cross-country comparability of results than in the past. Nevertheless, cross-country differences in estimating the amount of direct taxation of benefit income will always remain because of differences in tax systems and information systems.

3.1 Direct taxation of transfer payments

33. In some OECD countries benefits are taxed in the same way as earnings, while in other countries most benefits are taxed at a reduced rate. Yet in other countries, almost all benefits are paid net of direct taxation. Treatment of unemployment insurance benefits varies considerably across countries (Table 2). For example, in Austria the recipient of an unemployment benefit who previously had earnings equivalent to average earnings and who lives in a couple-family with two young children received the equivalent of EUR 13 828 in 2001, on which he or she did not pay tax. By contrast, a similar person in Sweden received annual income support of EUR 22 005 but paid EUR 5 853 in income taxes and social-security contributions so that net benefit income was EUR 16 152 (OECD, 2004e and 2004f). Thus, net income for such a family in Sweden is still higher than in Austria, but differences in net transfers are much smaller than gross payments. In aggregate spending terms, this means that countries that tax transfer incomes rather heavily divert a significant part of transferred income to flow back into the coffers of the Treasury. As a result, net *(after tax)* public spending on unemployment benefits is about 70% of the level suggested by gross indicators in Sweden (Annex 2).

12 . The adjustments for direct and indirect taxation of benefits do not affect service spending, even though such services, *e.g.* pharmaceutical products, can be subject to indirect taxation. Data on spending on social services that are subject to indirect taxation and at what rate is not available on a comprehensive basis.

34. Moreover there are considerable differences between how different types of benefits are being taxed (Table 2). In general, unemployment assistance, social assistance and housing benefits and family benefits are generally not taxed. In contrast, public and private retirement and disability pension payments are generally taxed, but frequently at reduced rates (OECD, 2005d), while continued wage payments in case of absence due to sickness are taxed as earnings (OECD, 2004d).

Table 2. **Tax treatment of benefits differs**
Tax and social security treatment of benefits in 2001

	Pension transfers (old-age, disability)	Child benefits	Unemployment	Housing	Social assistance
Australia	T(reduced)	N	T(n)S(n)	N	--
Austria	TS(reduced)	N	*	N	N
Belgium	T(n)	N	T(n)	--	N
Canada	T(reduced)	N	T	--	N
Czech Republic	T(reduced)	N	N	N	N
Denmark	T	N	TS(reduced)	N	TS(reduced)
Finland	TS(reduced)	N	TS(reduced)	N	N
France	TS(reduced)	N	TS(reduced)	N	N
Germany	TS(reduced)	tc	*	N	N
Iceland	T	N	TS	N	TS
Ireland	TS(reduced)	N	T(n)	N	N
Italy	T(reduced)	N	TS(reduced)	--	N
Japan	TS(reduced)	N	N	N	N
Korea	T(reduced)	--	N	--	N
Mexico	T(n)	N	--	--	--
Netherlands	T(reduced)S(reduced)	N	TS	N	*
New Zealand	T	N	--	N	--
Norway	T(reduced)S(reduced)	N	TS	N	N
Slovak Republic	T(n)	N	N	--	N
Spain	T	N	TS(reduced)	--	T(n)
Sweden	T	N	TS	N	N
United Kingdom	T(reduced)	N	T(n)S(n)	N	N
United States	T(reduced)	N	T	N	N

Notes:

T	Taxes are payable.	T(n) or S(n)	(Long-term) recipients will not pay the t
S	Social security contributions (SSC) are payable.		or SSC as the credits, allowances or zerc
N	Neither taxes nor SSC are levied.		rate bands exceed the benefit level.
--	No specific scheme or no information available.	(reduced)	A reduced rate is payable for beneficiari
*	Benefit is a proportion of after tax income (and thus not taxable).	tc	Non-wastable tax credit

Sources: OECD (2004e), *Benefits and Wages* ; OECD (2005d), *Pensions at a Glance.*

3.1.1 Methods and sources

35. Broadly speaking, there are two ways to adjust gross spending items (e.g. spending on unemployment compensation or old age cash benefits) for the impact of direct taxation. Sometimes, national sources provide concrete information on the value of tax paid on a particular (set of) benefit(s). Such information is the most reliable source, and is based on data from tax offices and/or social insurance

funds for social security contributions. However, such information is rare, and is restricted to information on payments of social security contributions by benefit recipients in Spain and Germany (Bundesministerium für Arbeit und Sozialordnung, 2001). In some other countries, the adjustment for direct taxation on cash benefits has been calculated on basis of estimates of tax paid by benefit recipients (over some items) based on administrative sources, including tax statistics (the Czech Republic, Germany, France, Italy, and Ireland, see Annex 2). For Belgium the amounts of tax and social security contributions paid on benefit income are based on the national tax statistics and national accounts, respectively.

36. For other countries the magnitude of direct tax paid by benefit recipients was determined while using estimates supplied by national sources on 'average itemised tax rates' (AITR): e.g. the average tax rate (including social security contributions) on particular a spending item, e.g. public pension benefit, unemployment compensation or parental leave payments. These AITRs were estimated on the basis of a variety of national sources including: administrative data on the basis of tax records (France, Iceland, Ireland, Japan, Spain and the US). Otherwise 'microsimulation-models' and micro data sets were used to generate itemised tax rates. Such information underlies the estimates of direct taxation of benefits in Australia, Canada, Denmark, Finland, Korea, the Netherlands, New Zealand, Norway, Sweden and the UK. Subsequently, these AITRs were applied to gross spending items as recorded in the *OECD Social Expenditure Database* (OECD, 2004a).

37. Countries where almost all benefit income is taxable and that use microsimulation models and microdata sets to estimate AITRs generally report such information at the greatest level of detail, have the greatest detail report the greatest number of AITRs for different transfer items, e.g. Denmark reports AITRs for 21 different transfer items benefits and Sweden for 13. Countries that have only a few taxable benefits, and (therefore) base their estimated AITR on administrative information (as related to the level of detail on the filed income tax form) report only a few different tax rates.

3.1.1.1 Estimating Average Itemised Tax Rates through 'Microsimulation'

38. The concept of AITRs has been developed to facilitate identification of different tax levies on different social benefits. The AITR can be defined as the total taxes paid by those receiving a given benefit, divided by the total income (from all sources) of those receiving that benefit.[13] Formally, the relevant calculations are:

$$AITR_i = \Sigma_{tu=1,n} TI_i / \Sigma_{tu=1,n} I_i$$

where: I is the amount of taxable income-type "i", and TI is the amount of tax paid on that particular amount of income, "i" is the type or category of income, "tu" is a tax unit with income-type "i", and "n" is the number of tax units in the sample with income of type "i". The broad income categories "i" include old-age cash benefits, unemployment compensation, wage income, etc (see table Q3).

39. Microsimulation-models and micro-data sets contain detailed information on both the incomes received by households and their taxation. Microsimulation techniques generate reliable estimates, but estimation procedures require assumptions on the way income is allocated. Here it is assumed that if a benefit is non-taxable, as are many child payments, then the relevant AITR is a priori considered to be equal to zero. If transfer income is the only income received, the average tax rate (including social security contributions) on this income can be used to calculate net transfer income. However, the calculation of direct taxation of benefit income is more complicated when different types of income are involved; people

13 . It is possible to further refine the AITR calculations by calculating Average Itemised Social Security Contribution rates in a similar vein. However, such calculations may not be facilitated by the sample size of the micro-data set and/or a large number of different social security contribution rates. Information of this nature is only available for Denmark (see Annex 2), where the role (and variety) of social security contributions is limited.

who receive either different benefits during a year, or whose annual income is a combination of earnings with, say, unemployment benefit, or a combination of transfers from different pension plans. In this situation it is necessary to allocate taxes paid to the various income-components, and it is assumed that the tax due is divided over the different income components according to the weight of each type of income. Hence, if benefits provide 75% of annual income and earnings 25%, 75% of total tax is assumed to be paid on benefit income.[14]

40. Furthermore, benefit income can be subject to a progressive tax schedule (possibly applied to the total of several income sources). In order to avoid an ordering of different parts of income and arbitrary decisions on what part of household income should be taxed at the higher or the lower rate, the average itemised tax rate should be calculated on basis of the tax rates that households face over a particular income (or group of incomes). Allocating income tax paid according to the relative weight of the different income components (see above) and grossing up for the households in the sample, AITRs can be calculated (Box 1).

Box 1. An example of calculating Average itemised Tax rates

It is straightforward to calculate average itemised tax rates (AITRs) on benefit income if households have only one source of income. For example, if a retiree receives a public pension payment worth 100 units per annum at a 'standard' tax rate of 10%, net annual transfer income is 90 units. If, in addition, all households in receipt of public retirement income had no income from other sources, the AITR on public pension income would be 10%. If among the retirees some were to receive non-taxable child supplements, this income would be disregarded for the calculation of the tax rate on his/her household income, while the AITR on child supplements would be nil.

Often pensioners receive income from different sources. Consider the case of a retiree who receives a public pension worth 50 units and a private pension worth 100 units. In the absence of progressivity in the tax system, the household tax rate would remain 10%, and net transfer income would be 135 units. However, a substantial increase of income may well lead to parts of incomes being taxed at a higher rate (see household 4 in Table Box 1), so that the 'average' tax rate increases. In this case 100 units of transfer income are taxed at 10% and 50 units are taxed at a rate of 15%. Total income tax is worth 17.5 units, which is allocated over public and private pension income components according to their relative weight in total household income (see Table Box 1). Thus, the methodology does not imply an ordering of different parts of income, whereby different income sources are taxed differently according to an arbitrary decision on which of income should be taxed at higher or lower tax rates. Differences in AITRs are associated with income groupings wherein benefit recipients typically find themselves.

Table Box 1: **Calculating AITRs on two types of income.**

Household	Public pension	Private pension	Total household income	Income tax rate	Tax paid	Allocation of tax over pension income components	
						Public	Private
1	50	25	75	10%	7.5	5.0	2.5
2	75	50	125	15%	13.8	8.3	5.5
3	100	0	100	10%	10.0	10.0	0.0
4	50	100	150	15%	17.5	5.8	11.7
5	50	250	300	15%	40.0	6.7	33.3
Total	**325**	**425**	**750**		**88.8**	**35.8**	**53**
AITR public pension income = tax paid over public pension/total public pension income						11.1%	
AITR private pension income = tax paid over private pension/total private pension income							12.5%

Assumed: standard tax rate is 10% when income is less than 100 Units, and 15% of income over and above the 100 unit threshold.

14 . For some aspects of taxation (*e.g.* deductible expenses related to work), there is a direct link between the income component and taxation. In these cases it is preferable to allocate such deductions only to the relevant income component.

41. As already noted, if benefit income of a particular type is non-taxable, then the relevant AITR is a priori equal to zero. However, it is possible that income derived from non-taxable benefits affects direct taxation of taxable benefit income in an indirect manner, as it is considered in the income-test of other benefit programmes, so receipt of non-taxable benefits may reduce the amount of other income transfers households may receive. In Canada, three social programmes (guaranteed income supplement, (provincial) social assistance, and workers compensation) affect the calculation of taxation of benefits in this manner. These three benefit payments are non-taxable, but relevant income is considered in the income-test for other benefits, and thus reduces payments under other benefit programmes to these recipients. In order to take this indirect effect into account, the Canadian authorities removed these three programmes as sources of income from their simulations to calculate an average (marginal) tax rate. This rate was applied to each of these three social transfers to determine the implicit tax paid, which was then divided by the amount of transfer spending for the three items to find the AITRs (see Annex 2).

3.1.2 The value of direct taxation of transfer income

42. There are large differences in the level of direct taxes and social security contributions paid by recipients of social benefits across countries. Chart 3, Panel A shows that in 2001, direct tax and social security contributions paid by benefit-recipients amounted to 27% and 25% of gross public spending on cash transfers in Denmark and Sweden, respectively. On average, almost 10% of public transfer income is clawed back through the tax system in OECD countries. Direct taxation of benefit income is below average in Germany, France, Canada (without accounting for provincial tax/benefit systems), the US and Iceland, while direct taxation of transfer income is below 5% in Ireland, Japan, Australia, the UK, Korea, the Czech republic, Mexico and the Slovak Republic. Private benefit income is generally taxed at a higher rate than public transfer income (on average about at around 13%): private benefit income is on average taxed at a rate in excess of 30% in Denmark, Iceland and Sweden.

43. Chart 3, Panel B shows that direct tax paid by benefit recipients in Denmark and Sweden amounted to around 4.5% of GDP in 2001, and the claw back of public transfer income through direct taxation in these two countries is close to 4% of GDP. Direct tax paid by public benefit recipients ranges from 1.8 to 2.6% of GDP in Austria, Belgium, Finland, Italy, Norway and the Netherlands. In Germany, France, New Zealand and Spain, direct taxation of public benefit income ranges from 1.2 to 1.5% of GDP, while this is less than 0.6% of GDP in Australia, Canada, Iceland, Ireland, Japan, the UK and the US. Tax paid by public benefit recipients in the Czech Republic, Korea, Mexico, and the Slovak Republic is negligible. As private transfer spending is considerably smaller than public transfers spending, the amount of tax paid over private benefit income is relatively small, being at its highest in the Netherlands at 1% of GDP.

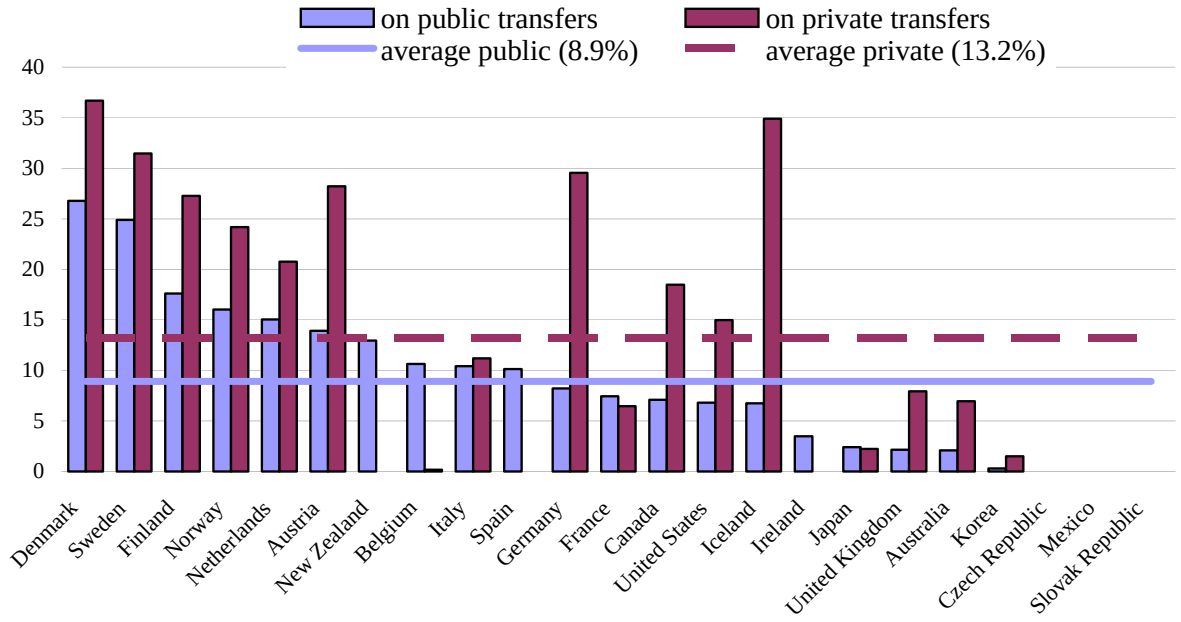
3.2 Indirect taxation of consumption out of benefit income

44. Social benefits are given in order to finance consumption of goods and services such as housing, food, clothing and so on. Governments tax the consumption of different goods and the amounts involved are substantial. For example, in Finland value added tax receipts were worth EUR 11. billion in 2001; in the same year in France, duties on the consumption of electricity and heating (gas) amounted to about EUR 1 billion, while those on water consumption were EUR 1.5 billion (OECD, 2004b).

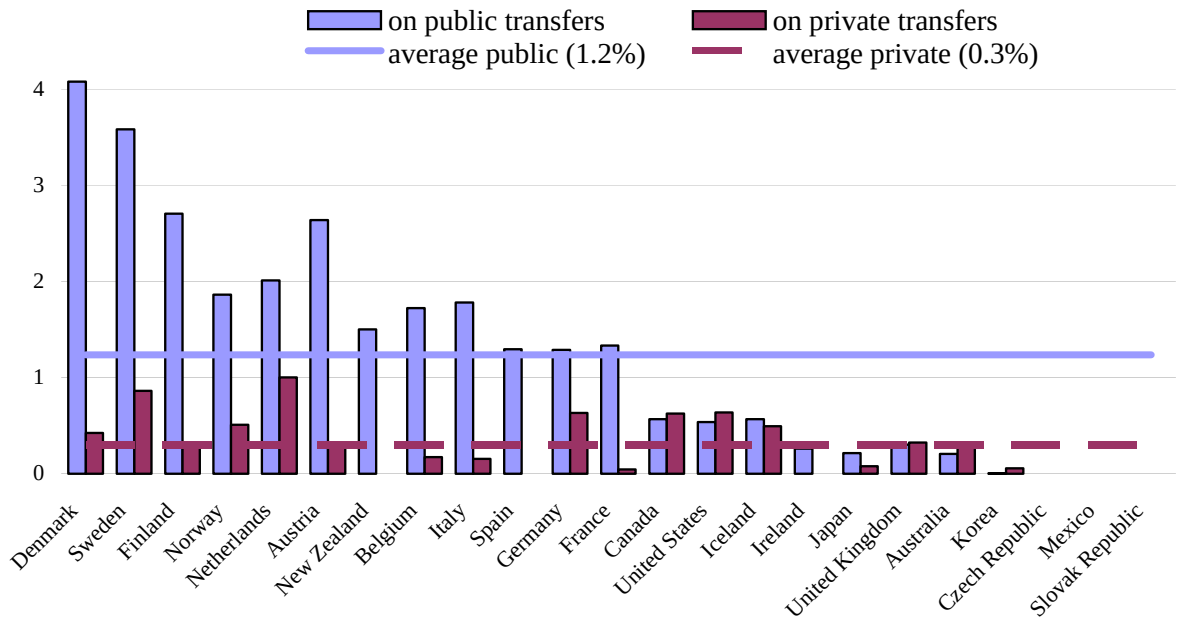
45. In some countries, policy explicitly recognises the impact of indirect taxation on the financial position of low-income households (many of whom receive transfer income). For example, when the Goods and Services Tax was introduced in Australia in July 2000 at a rate of 10% (with food being exempt), a compensation package for social protection benefit recipients was introduced at the same time. Similarly, Canada has a Goods and Services Tax rebate to support low-income households.

Chart 3. A large tax burden on benefit income in Denmark and Sweden

A. Direct taxes paid by recipients of public/private benefits,
in percentage of gross public/private social spending in cash, in 2001



B. Direct taxes paid by recipients of public/private benefits, in percentage of GDP, in 2001



Source : See Annex 2.

46. Consumption taxes reduce the real value of consumption which can be financed out of a given level of benefits, and (as with direct taxation of benefit income) establish another flow back in tax receipts to the government.[15] Similarly to differences in direct taxation of benefit income, cross-country differences in indirect taxation affect comparisons of welfare state spending. In countries where indirect taxation is relatively limited (i.e. in non-European OECD countries), gross spending levels can also be relatively low to generate the same net income level for benefit recipients in countries with high indirect tax rates. For example, in order to provide benefit recipients with a net income of 100 units, a country like the US with an average indirect tax rate of close to 5% needs to pay a gross benefit of about 106 units. In Denmark, where the average indirect tax rate is about 25% a gross payment would have to be around 133 units to have an equivalent net value. To some extent the relatively low social spending to GDP ratios in the US and in other non-European OECD countries are related to the low indirect tax levels that prevail in these countries, and accounting for this feature improves the quality of cross-country comparisons of social spending.

3.2.1 Methods and sources

47. Detailed information on consumption by benefit recipients is not available. Alternatively, household expenditure surveys allow for the analysis of different spending patterns across different income groups, but such information is not readily available for all countries on a comprehensive basis. Moreover, the results of such survey suggest that indirect tax payments are underreported as estimates of aggregate tax receipts on the basis of such surveys is well below actual tax receipts, see for example, Gho *et al*, (2003). Therefore, the approach followed here is to calculate an average implicit indirect tax rate based on aggregate data available for all countries as in the OECD *Revenue Statistics* and the OECD *National Accounts* (OECD, 2004b and 2004g). This approach, while approximate, is clear and transparent.

48. Table 3 contains three possible measures of indirect taxes. The first, as presented in line 3, captures the amount of indirect tax receipts through general consumption taxes and excise duties charged on particular goods. Line 4 in Table 3 includes these taxes as well as profits from fiscal monopolies, customs duties, taxes on services, and some other minor taxes. Line 5 adds additional taxes on the use of goods, such as licenses for motor vehicles and for the sale of alcohol. A case could be made for using any of these measures of indirect taxation, but the indirect tax concepts reflected in lines 4 and 5 of Table 3 include more items of indirect taxation that are not paid by the household sector than reflected in line 3 (and even this relatively limited measure includes some taxes not paid by the household sector). The indirect tax measure in line 3 of Table 3 includes the smallest margin of error, and is thus the most appropriate to use for calculating indirect taxes paid on consumption out of benefit income.

49. Private consumption as in the National Accounts is given in line 1 of Table 3. However, the OECD Revenue Statistics includes tax revenue collected by government from itself. For example, if one part of government purchases some goods and services, it may be charged indirect tax (which constitutes a tax flow within the government sector). To reflect this, government consumption expenditure is added to private consumption expenditure while subtracting that part of government consumption which consists of compensation of employees (line 2, Table 3). In this manner, a consistent approximation of the tax base of indirect taxes is found.

15 . The chosen methodology might be criticised for implicitly assuming that benefit recipients do not save but consume all their benefit income. Savings are, presumably, consumed at some point, and in any case the marginal propensity to consume out of benefit income is likely close to 1, limiting the scope for error.

Table 3. Average implicit indirect tax rates of consumption out of benefit income

Indirect taxes paid out of consumption of cash transfers, in millions [a] of national currency, in 2001

		AUS	AUT	BEL	CAN	CZE	DNK	FIN	FRA	DEU	ISL	IRL	ITA	JPN [a]	KOR	MEX	NLD	NZL	NOR	SVK	ESP	SWE	GBR	USA [a]	OECD-23
(1)	Private final consumption expenditure	428 260	121 602	138 564	608 549	1 155 631	626 519	67 978	807 494	1 232 660	408 413	53 582	732 679	286 240	326 209 873	4 056 830	213 121	71 744	656 990	560 237	381 583	1 102 627	658 125	6 987	-
(2)	Private consumption plus Government consumption minus Government wages	488 771	140 693	164 106	693 669	1 417 253	741 024	78 424	951 135	1 461 230	475 924	60 950	831 372	339 798	342 752 889	4 202 260	269 984	83 246	766 423	667 892	428 594	1 357 282	776 508	7 553	-
(3)	General consumption taxes plus excise duties (5110+5121) [b]	48 445	22 854	23 693	77 609	226 064	196 103	16 789	150 963	200 521	98 737	12 128	109 049	21 985	44 123 000	323 706	46 952	12 979	176 435	101 989	55 830	280 447	104 679	336	-
	5110 General taxes	28 180	17 301	18 060	58 093	149 271	128 550	11 118	110 727	138 935	77 232	7 999	77 796	12 241	25 835 000	208 408	32 509	10 742	127 221	73 587	38 969	206 916	68 082	224	-
	5121 Excises [c]	20 265	5 552	5 632	19 516	76 793	67 553	5 671	40 236	61 586	21 505	4 129	31 253	9 744	18 288 000	115 298	14 443	2 237	49 214	28 402	16 861	73 531	36 597	112	-
(4)	Taxes on production sale transfer (5100)	60 237	24 449	26 478	92 940	236 231	200 718	18 004	163 101	210 991	106 318	12 343	125 532	22 991	57 430 000	550 184	48 060	13 876	200 929	105 918	60 377	289 098	111 848	409	-
(5)	Taxes on Goods and Services (5000)	65 552	26 073	28 451	98 466	254 395	212 236	18 462	167 409	219 602	114 876	12 902	139 788	26 052	59 377 000	561 704	52 754	14 838	209 706	105 918	65 824	296 762	116 503	475	-
	Implicit average indirect tax rate on consumption out of benefit income																								
(6)	**using general consumption taxes plus excise duties (3)/(2)**	**9.9%**	**16.2%**	**14.4%**	**11.2%**	**16.0%**	**26.5%**	**21.4%**	**15.9%**	**13.7%**	**20.7%**	**19.9%**	**13.1%**	**6.5%**	**12.9%**	**7.7%**	**17.4%**	**15.6%**	**23.0%**	**15.3%**	**13.0%**	**20.7%**	**13.5%**	**4.4%**	**15.2%**
(7)	using a broad concept of the indirect tax base (5)/(2)	13.4%	18.5%	17.3%	14.2%	17.9%	28.6%	23.5%	17.6%	15.0%	24.1%	21.2%	16.8%	7.7%	17.3%	13.4%	19.5%	17.8%	27.4%	15.9%	15.4%	21.9%	15.0%	6.3%	17.6%
(8)	using a broad concept of the indirect tax base and ignoring government consumption (5)/(1)	15.3%	21.4%	20.5%	16.2%	22.0%	33.9%	27.2%	20.7%	17.8%	28.1%	24.1%	19.1%	9.1%	18.2%	13.8%	24.8%	20.7%	31.9%	18.9%	17.3%	26.9%	17.7%	6.8%	20.5%
Indirect taxes paid out of consumption of total cash transfers, in percentage of GDP		1.4%	2.9%	2.5%	1.2%	2.0%	3.5%	2.3%	3.1%	2.9%	1.8%	1.6%	2.2%	0.8%	0.8%	0.1%	2.8%	1.7%	2.8%	1.9%	1.6%	2.9%	2.4%	0.5%	2.0%

a) Totals in line 1 to 5 are in billions of national currency, except for Japan, and the United States.

b) The 4-digit codes in the second column refer to the categorisation used in the OECD Revenue Statistics.

c) Excises for Norway (5121) do not include excises on oil and gas products, while Excises for Korea do not include the special excise tax (e.g. on jewellery).

Sources: OECD (2004), National Accounts of OECD Countries: Main Aggregates, Volume I, 1991-2002, OECD, Paris (Lines 1 and 2) and OECD (2004), Revenue Statistics, OECD, Paris, (lines 3, 4, and 5).

3.2.2 The value of indirect taxation of consumption out of benefit income

50. The average implicit indirect tax rate is then the ratio of revenue from general consumption taxes plus excise duties to a broad consumption tax base, *i.e.* private consumption and government consumption minus government wages -- line 6, in Table 3. The implicit average indirect tax rates are lowest in the US (4.4%), Japan (6.5%) and Mexico (7.7%) and are around 10-11% in Australia and Canada. Indirect tax rates range from 13 to 21% in most European countries, and are highest in Norway (23%) and Denmark (26.5%). Indirect taxation levied on consumption of benefit income is about 2% of GDP on average across the OECD, and is highest in Denmark at about 3.5% of GDP, compared to 0.5% in the US, and only 0.1% of GDP in Mexico. This implies that net transfers from government to households, particularly in European countries are rather less than gross expenditure figures suggest. Since low indirect tax rates generally prevail in low social spending countries, this also leads to a reduction of variation in net spending levels across countries (see below).

3.3 Tax breaks for social purposes

51. Expenditures made through the tax system, or tax expenditures can take different forms: exemptions (income excluded from the tax base); allowances (amounts deducted from gross income); credits (amounts deducted from tax liability); rate reliefs (tax rate reduction for specific groups, e.g. senior citizens); and, tax deferrals. However, definitions of 'tax expenditures' vary across countries (OECD, 1996). In particular, there is no international agreement on what constitutes a 'benchmark' tax system – which can be used to identify tax expenditures. National benchmarks (the 'normal' structure of the tax system) against which tax expenditures are being measured vary considerably, which hampers the measurement of tax expenditures on a comparable basis across countries. However, that does not rule out a comparison of a sub-group of 'tax expenditures' – such as those related to social protection systems. This is because the approach followed here measures the amount clawed back in taxation over cash transfers and the value of direct support to benefit recipients provided through the tax system, for which reference to a 'benchmark' tax system is not required.

52. Many governments of OECD countries pursue social policy objectives through the tax system. Broadly speaking there are two groups of such measures. One is reduced taxation on particular sources of income or types of household. For example, some cash transfers could be taxed at a zero or reduced rate. This sort of tax relief is equivalent to a variation in direct taxation of benefit income and has already been accounted for in the section on direct taxation (see above). Thus, exemptions of benefits from taxation or reduced rates on benefit income are reflected in the calculations of direct taxation levied on benefit income (e.g. a zero tax rate is applied to spending on child benefits) and are not recorded here again as a Tax Break with a Social Purpose (TBSP) in order to avoid double counting. A tax allowance for dependent children (which is different from non-taxation of child benefits) are recorded as TBSPs (see below).

53. The second group of tax measures with social effects concern Tax Breaks for Social Purposes (TBSPs) and are defined as:

> "those reductions, exemptions, deductions or postponements of taxes, which: *a)* perform the same policy function as transfer payments which, if they existed, would be classified as social expenditures; or *b)* are aimed at stimulating private provision of benefits".

54. TBSPs which can be seen as replacing cash benefits often involve tax credits towards dependent children. TBSPs that aim to stimulate the provision of private expenditures include tax relief for non-commercial non-government organisations, tax advantages towards private health insurance contributions, and favourable tax treatment of private pensions.

3.3.1 Methods and sources

55. Information on the value of tax breaks with a social purpose can often be found in so-called 'tax expenditure reports' as published by national authorities, for example, Commonwealth of Australia (2005), Department of Finance Canada (2004), Government of Ireland (2003), and the US OMB (2004). Such reports generally present estimates on the revenue forgone trough tax measures: i.e. the amount by which tax revenue is reduced because of the presence of fiscal measures. Such reports generally cover favourable tax treatment by central/federal governments, but do not account (and neither does this report) for tax assistance by sub-national levels of government, as in for example, Canada, Japan and the United States. Comprehensive information across countries is not (yet) available, but the value of sub-national TBSPs in Canada could be close to 0.4% of GDP.[16]

56. Tax expenditure reports in many countries do aggregate different measures to give an overall picture of the importance of tax expenditures. Strictly speaking this causes methodological problems, since tax expenditures (and TBSPs) are interdependent. For example, consider the combined existence of a tax allowance for sole parents and another separate tax relief towards the cost of childcare. The value of these two fiscal measures would normally be calculated (and presented) separately. However, if one of the two TBSPs were to be eliminated, then some taxpayers may end up in a higher marginal tax rate category, thereby increasing the value of the other TBSP (unless the claimant already received the maximum amount of relief). The value of both schemes considered jointly would be greater than the sum of the separate measures, since each is calculated assuming the other remains in force. Whereas individual revenue forgone estimates overstate the cost of TBSPs (they take no account of behavioural effects which can be expected to reduce (future) tax payments) the aggregate of such estimates understate the overall costs.

57. There are different ways of calculating the value of TBSPs (OECD, 1996). The already mentioned 'revenue forgone' method is an ex post measure of the amount by which tax revenue is reduced because of a particular measure.[17] Another approach is the 'outlay equivalent' method which measures the cost of providing the same monetary benefit as the TBSP through direct spending. However, because of the relative ease of computation most countries use the revenue forgone method and the results in this study are based on that method.

58. Table 4 shows that depending on the measurement technique the estimated value of the tax break can vary significantly. The outlay equivalent method generally leads to larger estimates of the value of TBSPs that the revenue forgone method. As Table 4 shows, calculating the present value of favourable treatment of pension plans does not necessarily lead to estimates that are larger than the revenue forgone and outlay equivalent methods that do not account for deferred pension earnings on current contributions or tax paid over benefits in future. While the present value of favourable tax treatment of individual retirement accounts is well below results generated by the other two methods, this effect is far less pronounced for Keogh Plans, and the opposite holds for pension contributions and earnings-employer plans. This suggests that participants of individual retirement plans do have very favourable tax treatment on their contributions relative to their future tax payments on relevant income transfers. In fact, participants in individual retirement accounts can choose as to whether they wish to pay tax on current contributions or future payments: it appears that many choose the latter option.

16. In Canada estimates of direct and indirect taxation of benefit income account for the impact of both federal and provincial taxes, where provincial taxes are about 50% of federal taxes. Using the latter as a rule-of-thumb the real value of TBSPs may well be around 1% of GDP in 2001 rather than 0.7% of GDP -- the value of Federal TBSPs.

17 . Another measurement technique is the revenue gain method: an ex ante measure of the expected increase in revenues were particular tax concessions to be abolished. However, this method is rarely used as it requires making assumptions about the behavioural changes in face of tax reform.

Table 4. Value of selected tax breaks for pensions, the United States, 2001

	Calculation Method		
	Revenue Forgone	Outlay Equivalent	Present value
	Value (in million US dollars)		
Exclusion of Pension contributions and earnings-employer plans	93 220	109 010	121 100
Exclusion of contributions and earnings for Individual Retirement Accounts	15 920	21 350	5 930
Exclusion of contributions and earnings for Keogh Plans	5 830	7 400	4 320

Source: US OMB (2002), Analytical Perspectives, Budget of the United States Government, Fiscal year 2002.

59. Social expenditure and TBSPs can both be calculated on a cash or on an accruals basis. The former approach estimates the effect on government cash flows, the latter on the tax liabilities accruing to government in a particular period. Except for TBSPs for pensions, there is likely to be little difference between estimates calculates on these two bases.[18] Favourable tax treatment of funded pension payments also has to account for the effect that tax treatment of current pension contributions may have on future tax payments. For example, a pension contribution in 2001 would cause a deferral of tax-payments on wages in 2001 and on pension earnings on this contribution (*e.g.* interest, capital gains) in later years. However, in some future year the 2001 pension contribution and accrued earnings will be paid out and taxes will be due: these receipts are included in the present value estimate.

60. Tax breaks for pensions include tax exemptions for contributions to private pensions, and tax relief for investment income of capitalised pension funds. Because of the complexities of calculating of the value of these tax reliefs that are given at various stages of what is a form of contractual savings, there is no comparable data set available on the value of tax breaks for pensions across countries (Annex 2, Part I). Therefore, a comprehensive of analysis of Tax Breaks for Pensions is not yet possible, and estimates that are only available for a few countries are not included in the overview calculations in this report, but only presented as a *memorandum item* (see below).

3.3.2 The value of TBSPs in 2001

3.3.2.1 Tax breaks which mirror the effect of cash benefits

61. Tax breaks that are similar to cash benefits can be substantial and often concern support for families. For example, in the Slovak republic the value of tax allowances for families with children and handicapped dependants approximated SVK 3 billion or about 0.3% of GDP. Sometimes, fiscal support and cash transfers (i.e. non-wastable tax credits[19]) for families are an integral part of the same social programme, with cash payments recorded in the *OECD Social Expenditure Database*[20] and fiscal support in the *OECD Revenue Statistics*. For example, in Germany in 2001 tax relief for children amounted to EUR

18 . As most countries currently publish information on tax expenditures on a cash basis, that convention has been followed here. However, in line with recent changes to reporting to the *Revenue Statistics* it is expected that estimates on the value of TBSPs on an accrual basis will become available on a cross-national basis.

19 . In case of a 'wastable' (or 'non-refundable') tax credit, entitlements only accrue to the extent that they are off-set against tax liabilities, while 'non-wastable' or 'refundable' tax credits involve cash transfers to people (*e.g.* low income workers) whose tax liabilities are not large enough to make (full) use from a particular entitlement (tax credit). Non-wastable tax credits thus reinforce the re-distributive nature of a tax/benefit system.

20 . Despite its name the Canada Child Tax Benefit is delivered and recorded as a cash payment in SOCX as are child payments by the fiscal authorities in Austria are recorded as a cash transfer, not as fiscal support.

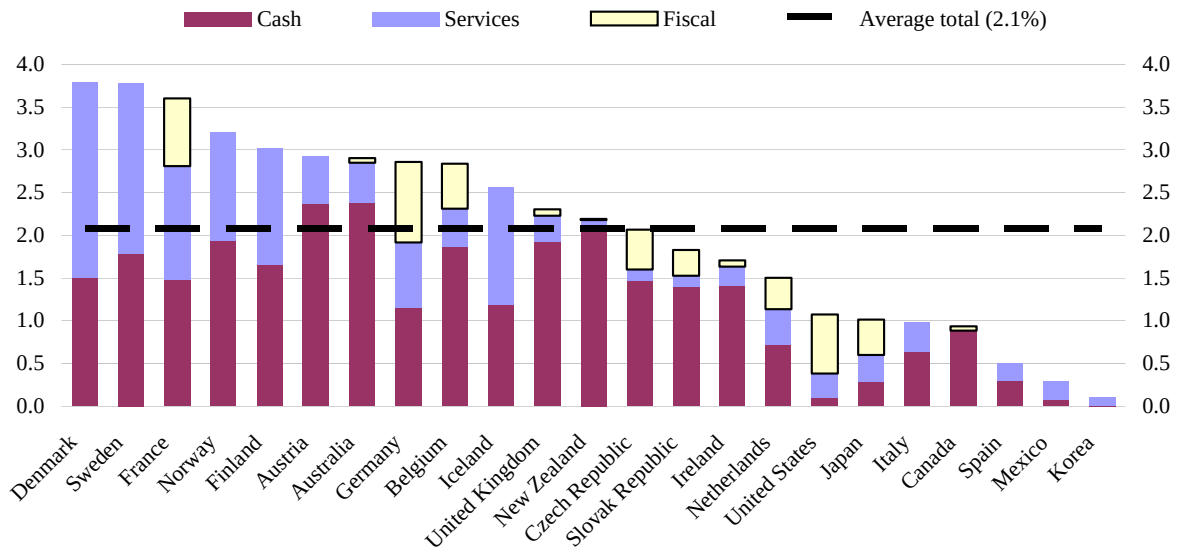
31.9 billion (Annex 2, Part II), of which EUR 19.6 billion was off-set against tax liabilities (and thus recorded as a TBSP) and EUR 12.3 billion paid out in transfer income, and thus recorded as a cash transfer. Similarly, for the UK GBP 0.8 billion spent under the WFTC/DPTC programme was recorded as a TBSP in 2001, while GBP 4.7 billion is recorded as transfer spending in the *OECD Social Expenditure Database*. In 2001, the cost of the Earned Income Tax Credit in the US amounted to USD 31.0 billion, of which USD 4.9 billion in the form of tax credits that mirror a cash benefit, while USD 26.1 billion concerned tax credits exceeding tax liabilities of recipients.

62. In many OECD countries (e.g. Germany and France) support for families with children is embedded in the tax unit. Although these measures may not be establish a deviation from the national standard tax system (and thus do not establish a tax expenditure in the strict sense), such support clearly establishes financial and social support and should thus be included in the reported TBSPs. However, support for married couples is not considered as social in all OECD countries, and fiscal measures in this regard are not considered as a TBSP. The appropriate analogy is that the presence of dependent children leads to eligibility to cash benefits in social protection systems, whereas a marriage contract does not. Hence, tax advantages for married people, as exist in for example, Belgium, France, Germany and Japan are not considered to serve a 'social purpose', and are therefore not included in the calculations (regardless of whether or not such measures are part of the basic tax structure). For example, value of support to children in France through the 'quotient familial' was reported to be around EUR 9.7 billion (Annex 2, Part II).[21]

63. Governments thus make ample use of tax systems to support families with children, and accounting for relevant fiscal support thus allows to consider public support on family benefits in a comprehensive manner, i.e. accounting for cash transfers, spending on services (e.g. childcare) and fiscal support. Chart 4 shows that accounting for fiscal support to families gives a more comprehensive view of cross-country spending on family benefits. In particular exclusion of fiscal family support leads to a very incomplete picture of public family support in France, Germany and the US, while the effect is also significant for Belgium, Canada, the Czech Republic, Ireland, Japan, the Slovak Republic, and the Netherlands. In all, public spending on family benefits was just over 2% of GDP on average in 2001, with Denmark, France, Norway and Sweden spending well over 3% of GDP.

21 . The French system of income taxation considers the household as the tax unit: favourable tax treatment of families is thus an integral part of the tax system. In this system a 'quotient familial' is applied to taxable household income, which allows incomes to be taxed at a lower rate on a progressive marginal rate schedule. The 'quotient familial' is obtained by dividing total taxable household income 'R' by a factor 'N' which is determined by household composition. This factor N is the sum of the different 'household parts': spouses count as one part each, while the first two children count as half a 'household part', from the third child onwards each child counts as one 'household part' (slightly different rules benefit sole parent families and families with handicapped dependants). For example, for a couple family with two children is 3, and for a couple-family with 3 children it is 4. Obviously, at a given income level the larger the family, the lower is the quotient familial (R/N).

Chart 4. Fiscal support for families is largest in France, Germany and in the Unites States
Family spending in cash, services and tax measures, in percentage of GDP, in 2001



Note: Public support accounted here only concerns public support that is exclusively for families (e.g. child payments and allowances, parental leave benefits and childcare support). Spending recorded in other social policy areas as health and housing support also assists families, but not exclusively, and is not included here.

Source: See Annex 2.

3.3.2.2 TBSPs aimed at stimulating take-up of private social benefits:

64. Governments sometimes also use the tax system to stimulate the take-up of private social insurance coverage by individuals and/or employment-related plans. These tax breaks can be categorised in two broad groups. First, there are 'Tax breaks towards *current* private social benefits', i.e. favourable tax treatment aimed at stimulating the provision of private social benefits in the current year such as voluntary private unemployment coverage or private health insurance. This type of tax break is important in Germany (where about 18% of the population is covered by private health insurance) and, particularly in the US where the exclusion of employer contributions for medical insurance premiums and medical care amounted to USD 82.8 billion in 2001 (equivalent to 0.8% of GDP). Tax breaks towards *current* private social benefits also include favourable treatment of contributions to and income of NGOs. Again this form of fiscal support is most prevalent in the US where deductibility of contributions to charities amounted to USD 32.4 billion in 2001, or 0.3% of GDP (Chart 5).

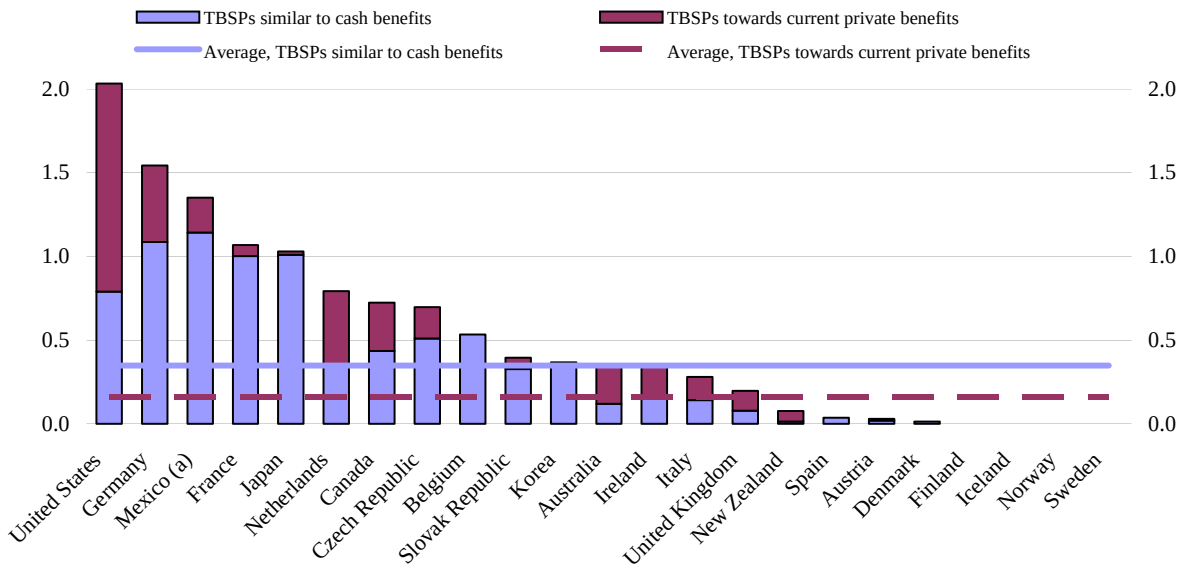
65. The second group of tax breaks towards private benefits is arguably the most important. However, as discussed above, there is no comparable data set available on the value of tax breaks for pensions. However, available information for 2001 (Annex 2, Part II) shows that the value of favourable tax treatment of private pension arrangements was in excess of 1% of GDP in Australia, Canada, Ireland, the UK and the US (estimates for previous years suggests this type of support is also important in the Netherlands). These are also the countries where private pension benefits are most important.[22] Therefore,

22. It is difficult to be precise on the extent to which tax advantages are instrumental in stimulating private coverage. Tax breaks certainly affect individual behaviour and provide governments with a tool to influence take-up of particular plans, but may not lead to much additional saving on a national basis. For example, in the late 1980s individual retirement accounts were introduced in the US. Favourable tax treatment certainly increased the coverage of this programme, but as in 1990 82% of all programme

these estimates are not included in the overview calculations in the following section, but are presented as a *memorandum item*.

Chart 5. A high value of TBSPs in the United States, while they are virtually non-existent in Scandinavian countries

Tax breaks with a social purpose, in percentage of GDP, in 2001 [a]



a) 2002 for Mexico.

Source: See Annex 2.

4. Net social spending across countries

4.1 The framework: a concise overview

66. A cross-country comparison of social expenditure indicators requires that information on gross spending and the role of the tax system in the pursuit of social policy is integrated in a framework that derives net social expenditure indicators. Table 5 presents a schematic overview of this framework (below, the numbers/letters in between brackets refers to the appropriate line in this Table).

67. First of all, direct taxes clawed-back by the Exchequer and the imputed value of indirect taxation on goods consumed out of public benefits are subtracted from gross public social expenditure (1) to obtain Net direct public social expenditure (2). Subsequently, as the value of tax breaks for social purposes (excluding pensions) that are similar to cash benefits (T1) is used for consumption, the imputed value of the indirect taxation on these items is subtracted to obtain Net TBSPs similar to cash benefits (4). The value of TBSPs towards current private benefits (T2) is added to obtain net current public social expenditure (6). From the government perspective, net public social spending gives a better impression of budgetary efforts in the social field and the proportion of net social output reallocated to benefit recipients.

68. In order to measure the social support that is provided under government control, mandatory private benefits should also be included, and account taken of the fact that these benefits are also subject to direct and indirect taxation. Net government-controlled social expenditure is captured under the heading of

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contributions were 'rollover contributions' from other employment-based pension plans, the effect on overall pension savings was limited (Adema and Einerhand, 1998).

net publicly mandated social expenditure (9). Finally, the gross voluntary private benefits are also adjusted for direct and indirect taxation: net direct voluntary private social expenditure (11).

69. Adding together these net public, mandatory private and voluntary benefits gives an indicator on net total social expenditure (13), which quantifies the proportion of an economy's domestic production at the disposal of recipients of social benefits. However, as noted above, the tax breaks towards current private social benefits (T3), are tantamount to financing private social benefits. Thus, while these TBSPs are clearly a public expenditure item, they finance private benefits and simply adding net public social expenditure to net private social expenditure would overestimate the amount of support received by households. Therefore, net total social expenditure (13) is the sum of net current public social expenditure (6) and net direct private social expenditure (12) minus TBSPs towards current private social benefits (T2).[23] Net total social expenditure identifies that proportion of an economy's domestic production to which recipients of social benefits lay claim.

Table 5. Deriving net social expenditure indicators: a concise overview

+/ -	Line number	Item
	1.	**Gross direct public social expenditure**
-		Direct taxes and social contributions paid out of public cash benefits
	2.	Net cash direct public social expenditure
-		Indirect taxes on private consumption financed by net cash transfers
	3.	Net direct public social expenditure
+	T1	Tax breaks for social purposes that mirror cash benefits
-		Indirect taxes on private consumption financed by tax breaks similar to cash
	4	Net TBSPs similar to cash benefits
+	T2	Tax breaks for social purposes towards current private social benefits
	5	Net TBSPs (not including pensions)
	6.	**Net current public social expenditure [3+5]**
	7.	Gross mandatory private social expenditure
-		Direct taxes and social contributions paid out of mandatory private cash benefits
-		Indirect taxes on consumption purchased out of net mandatory private cash benefits
	8.	Net direct mandatory private social expenditure
	9.	**Net publicly mandated social expenditure [6+8]**
	10.	Gross voluntary private social expenditure
-		Direct taxes and social contributions paid out of voluntary private cash benefits
-		Indirect taxes on consumption purchased out of net voluntary private cash benefits
	11.	Net direct voluntary private social expenditure
	12.	Net direct private social expenditure [8+11]
	13. [1]	**Net total social expenditure [6+12-T2]**

Tax adjustments in the shaded areas.

1. In order to avoid double counting, net total social expenditure is obtained by adding up net public and net private social expenditure while subtracting tax breaks towards current private benefits.

23 . Ideally, the value of tax breaks aimed at stimulating private benefit provision would be netted out against the direct and indirect taxes levied on the private benefits it generated. However, as noted above, it is not possible to determine to what extent these TBSPs actually affect take-up of private benefits, and therefore this calculation was not attempted.

70. Finally, the net social spending indicators are related to GDP at factor cost rather than GDP at market prices – the most frequently used indicator on the size of an economy. The reason for this is that, since adjustment has been made to benefits for the value of indirect taxation, the denominator (GDP) has to be adjusted similarly. As GDP at factor cost does not include the value of indirect taxation and government subsidies to private enterprises and public corporations, it seems the most appropriate indicator for international comparisons. Nevertheless, to facilitate comparisons with gross spending to GDP quota, Annex 3 includes the net spending indicators to GDP at market prices. This annex also relates net spending indicators to national (rather than domestic) income.

4.1.1 The overall impact of the tax system on social spending

71. Table 6 pulls together information on the importance of different tax items in each country:

- **Direct taxes and social security contributions.** The size of direct taxation of public benefit income in the Czech Republic, Korea, Mexico and the Slovak Republic is negligible, and the value of direct taxation of public benefit income is also below 1% of GDP at factor cost in Australia, Canada, Iceland, Ireland, Japan, the United Kingdom and the United States. Taxes and social security contributions on public cash transfers also do not exceed 2% of GDP at factor cost in Germany, France, New Zealand and Spain, and the value of direct taxation of public benefit income is around 2 to 3% of GDP in Austria, Belgium, Finland, Italy, the Netherlands and Norway. Public benefit income is taxed most heavily in Sweden and Denmark, amounting to 4.2 and 4.8% of GDP respectively. The value of direct taxation of private incapacity-related benefits (often taxed as wages) is significant in Australia, Austria, Denmark, Italy, the Netherlands, Norway, and Sweden, and was highest Norway, Germany and Iceland. Compared to practice in the other countries, the value of direct tax levied over private social benefits is highest in Sweden and the Netherlands at just below 1% of GDP.

- **Indirect taxes.** The value of benefit income clawed back through taxes on consumption is much larger in European countries and in Denmark in particular, than in Australia, Canada, and in particular, Japan, Korea, Mexico and the United States, where indirect tax rates on consumption out of benefit income is significantly lower.

- **Tax breaks for social purposes** (excluding pensions). These are generally least important in countries with relatively high direct tax levies: Denmark, Finland, Norway and Sweden, and its value is also minimal in Austria (where support for families though the tax system is paid out in cash), Iceland, New Zealand and Spain. Tax breaks similar to cash benefits (which largely concerns family support is worth around 0.5% of GDP in Belgium, Canada, the Czech Republic, Korea, the Netherlands and the Slovak Republic, and is worth around 1% of GDP in France, Germany and the United States. Tax breaks to current private spending arrangements (health insurance) are largest in Germany and the United States.

4.1.2 Government social effort

72. Gross public social expenditure indicators (Table 6, line 1) lead us to believe that public social expenditure in Nordic countries (30% of GDP at factor costs) and Europe in general (28%) is much higher than in non-European OECD countries (18%).

Table 6. From gross public to total net social spending, 2001

Social expenditure, in percentage of GDP at factor cost [a]

			Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Iceland	Ireland	Italy	Japan	Korea	Mexico	Netherlands	New Zealand	Norway	Slovak Republic	Spain	Sweden	United Kingdom	United States	OECD-23	Coefficient of variation
	1	**Gross public social expenditure** [b]	20.4	29.6	28.0	20.4	22.2	34.2	28.0	33.0	30.6	23.4	15.3	28.3	18.5	7.1	5.7	24.3	21.1	27.0	19.8	21.7	35.1	25.4	15.7	23.3	33%
-		Direct taxes and social contributions	0.2	3.0	2.0	0.7	0.0	4.8	3.1	1.5	1.4	0.7	0.3	2.1	0.2	0.0	0.0	2.3	1.7	2.1	0.0	1.4	4.2	0.4	0.6		
	2	Net cash direct public social expenditure	20.2	26.6	26.1	19.8	22.2	29.5	25.0	31.4	29.2	22.7	15.0	26.2	18.2	7.1	5.7	22.0	19.4	24.9	19.8	20.3	30.9	25.1	15.1		
-		Indirect taxes (on cash benefits)	1.1	3.1	2.5	1.0	2.2	3.9	3.3	3.3	2.3	1.9	1.7	2.4	0.6	0.4	0.1	2.5	1.9	2.7	2.1	1.8	2.9	2.2	0.4		
	3	Net direct public social expenditure	19.1	23.5	23.5	18.8	20.0	25.6	21.7	28.2	26.8	20.8	13.3	23.8	17.6	6.8	5.5	19.5	17.6	22.2	17.7	18.5	28.0	22.9	14.7		
+	T1	TBSPs similar to cash benefits	0.1	0.0	0.6	0.5	0.6	0.0	0.0	1.2	1.2	0.0	0.2	0.2	1.1	0.4	1.3	0.4	0.0	0.0	0.4	0.0	0.0	0.1	0.8		
-		Indirect taxes	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0		
	4	Net TBSPs similar to cash benefits	0.1	0.0	0.5	0.4	0.5	0.0	0.0	1.0	1.0	0.0	0.1	0.1	1.0	0.4	1.2	0.3	0.0	0.0	0.3	0.0	0.0	0.1	0.8		
+	T2	TBSPs towards current private benefits	0.3	0.0	0.0	0.3	0.2	0.0	0.0	0.1	0.5	0.0	0.2	0.2	0.0	0.0	0.2	0.5	0.1	0.0	0.1	0.0	0.0	0.1	1.3		
	5	Net TBSPs (not including pensions)	0.4	0.0	0.5	0.8	0.7	0.0	0.0	1.1	1.6	0.0	0.3	0.3	1.1	0.4	1.4	0.8	0.1	0.0	0.4	0.0	0.0	0.2	2.1		
	6	Net current public social expenditure	19.4	23.5	24.1	19.6	20.7	25.6	21.7	29.2	28.4	20.8	13.6	24.1	18.6	7.1	6.9	20.4	17.7	22.2	18.1	18.6	28.0	23.1	16.9	20.4	28%
	7	Gross mandatory private soc. Exp.[c]	1.0	1.0	2.0	0.0	0.0	0.3	0.1	0.0	1.5	1.7	0.0	1.6	0.8	3.0	0.0	0.8	0.0	1.5	0.3	0.0	0.7	0.6	0.4	0.8	
-		Direct taxes and social contributions	0.2	0.3	0.1	0.0	0.0	0.1	0.0	0.0	0.6	0.6	0.0	0.2	0.0	0.1	0.0	0.2	0.0	0.4	0.0	0.0	0.2	0.0	0.0		
-		Indirect taxes	0.1	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.2	0.1	0.4	0.0	0.1	0.0	0.3	0.0	0.0	0.1	0.1	0.0		
	8	Net current mand. private soc. exp.	0.8	0.6	1.6	0.0	0.0	0.1	0.1	0.0	0.8	0.9	0.0	1.2	0.8	2.6	0.0	0.5	0.0	0.9	0.3	0.0	0.4	0.5	0.4	0.5	
	9	**Net publicly mandated soc. exp. [6+8]**	20.2	24.1	25.7	19.6	20.7	25.7	21.8	29.2	29.2	21.7	13.6	25.4	19.4	9.7	6.9	20.9	17.7	23.1	18.4	18.6	28.3	23.6	17.2	20.9	27%
	10	Gross voluntary private soc. exp.	4.5	0.8	0.8	5.1	0.0	1.2	1.2	2.3	2.4	0.0	0.5	0.1	3.0	2.2	0.2	6.3	0.6	0.9	0.1	0.3	3.4	4.5	9.4	2.2	
-		Direct taxes and social contributions	0.2	0.0	0.1	0.7	0.0	0.4	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.9	0.0	0.2	0.0	0.0	0.8	0.3	0.6		
-		Indirect taxes	0.4	0.0	0.1	0.4	0.0	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.2	0.2	0.0	0.7	0.0	0.2	0.0	0.0	0.4	0.5	0.2		
	11	Net current voluntary private soc. exp.	4.0	0.8	0.7	4.0	0.0	0.7	0.8	2.1	2.1	0.0	0.5	0.1	2.7	2.0	0.2	4.7	0.6	0.5	0.1	0.3	2.3	3.7	8.6	1.8	
	12	Net current private soc. exp. [8+11]	4.8	1.3	2.3	4.0	0.0	0.8	0.8	2.1	3.0	0.9	0.5	1.3	3.5	4.5	0.2	5.1	0.6	1.4	0.4	0.3	2.6	4.2	9.0		
	13	**Net total social expenditure [6+12-T2]** [d]	24.0	24.8	26.3	23.3	20.5	26.4	22.6	31.2	30.8	21.7	13.9	25.3	22.1	11.7	6.9	25.0	18.2	23.6	18.4	18.9	30.6	27.1	24.5	22.5	26%
	Memorandum item																										
		TBSPs towards pensions	1.8	0.1	0.2	0.0	0.1	..	0.1	0.0	0.9	1.1	2.5	0.0	0.8	..	0.1	..	0.0	0.2	0.1	0.2	0.0	1.1	1.2		
		Average indirect tax rate	9.9	16.2	14.4	11.2	16.0	26.5	21.4	15.9	13.7	20.7	19.9	13.1	6.5	12.9	7.7	17.4	15.6	23.0	15.3	13.0	20.7	13.5	4.4	15.2	

a) Numbers in square brackets refer to line numbers in the second column; ".." cell with no information.

b) See footnote a) in Chart 2.

c) Benefit payments through life insurance plans that have a social purpose is not available on a comprehensive basis for OECD countries, which is why they are not recorded here. However, such payments can be significant. For example, in Japan, payments through life insurance arrangements towards death, disability, and medical interventions amounted to 1.4% of GDP in 2001.

d) In order to avoid double counting, the value of TBSPs towards "current" private social benefits has been ignored for the calculation of net total social expenditure.

73. In general, however, governments claw back more money through direct and indirect taxation of public transfer income than the value of the tax advantages awarded for social purposes. Thus, *net public social expenditure* is usually less than gross spending indicators suggest: average gross public spending amounts to 23.4% of GDP at factor cost for the countries for which data is available, and net public social spending averages 20.4%. In Austria, Belgium, Finland, France, Italy, the Netherlands, and Norway net spending is around 4% of more below gross spending levels, the adjustments for taxation imply that net public social spending as a proportion of GDP at factor costs in Denmark and Sweden is, respectively, 8.9 and 7.2 percentage points of GDP below gross spending levels. In Japan and Korea gross and public net spending levels are virtually the same while in Mexico and the United States gross public spending actually *underestimates* public social effort by more than 1 percentage point of GDP (Table 6, lines 1 and 6).

74. Table 6 also reveals that low gross public spending countries (around 20% of GDP or less) impose limited direct taxation on benefit income (Australia, Canada, Ireland, Japan, Korea, Mexico, Slovak Republic and the US), but that the opposite does not always hold true. Countries that significantly claw back less than 2% of GDP in direct taxation (the average) include Iceland, the UK, and particularly France and Germany (countries with gross spending above the average). Indeed, because France and Germany are high gross public spending countries with a relatively limited tax burden on benefit income compared to most other European countries, they have the highest level of net government social effort.

75. Accounting for the impact of the tax system on social benefits also increases the importance of social services (including health care) vis-à-vis cash transfers. The 'service to cash spending ratio' increases from on average 85% (gross public social expenditure) to just over 100% when net public social expenditure is considered. When fiscal measures are accounted for, the value of social services (including health) exceeds the value of transfers in Austria, Canada, Denmark, Iceland, Korea, Mexico, Norway and Sweden. Chart 2 showed that spending on public social transfers is about 60% of public spending on services before accounting for the tax system, while this proportion is similar in Denmark, Norway and Sweden after accounting for the tax system: tax financing of public services is an important source of redistribution within tax/benefit systems in Scandinavia.

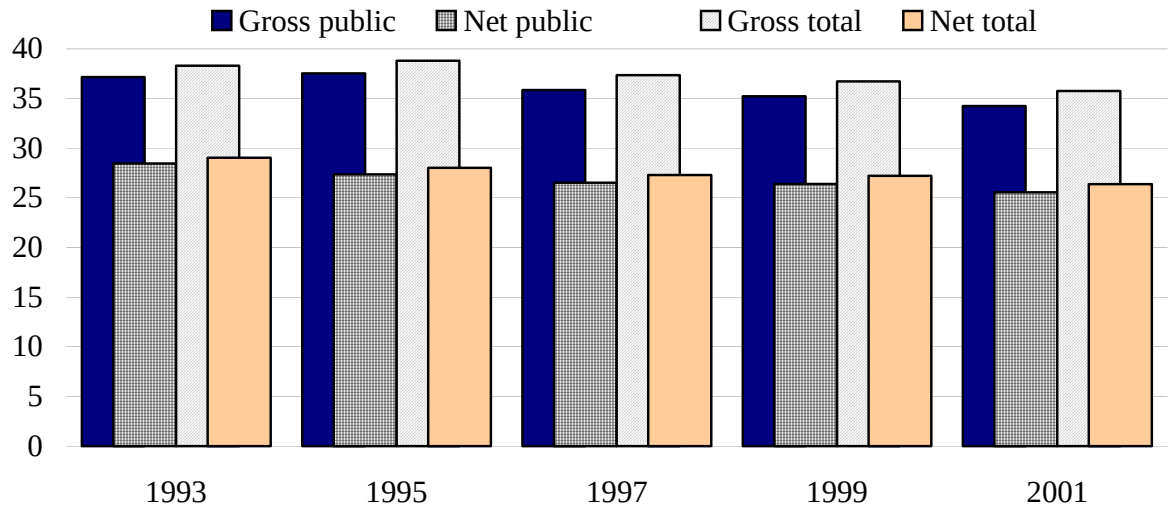
4.1.3 Social effort from the perspective of households

76. To get a picture of the amount of resources devoted to meeting social needs in a country, both *net public* and *net private* social benefits should be considered, although it should be borne in mind that the quality of data on the impact of tax systems and private social spending is not as high as the quality of information on budgetary allocations. Considering all social benefits and differences in relevant average tax rates facilitates the identification of that proportion of an economy's domestic production to which recipients of social benefits lay claim: *net total social expenditure* (Table 6, line 13). The highest proportion (31.2% of GDP at factor cost) is recorded for France, followed closely by Germany and Sweden at just over 30% of GDP at factor cost. Net total expenditure is lowest in Mexico and Korea at 7% and 11% of GDP at factor costs respectively, and ranges from 18 to 22% in the Czech Republic, Iceland, Ireland, New Zealand, the Slovak Republic and Spain. Recipients of social benefits in Australia, Austria, Belgium, Denmark, Finland, Italy, Japan, the Netherlands, Norway, the United Kingdom and the United States all claim about one quarter of the economy's domestic production (with a margin of variation of 3 percentage points of GDP either way). The similarity of net spending levels is driven by two factors: *a)* the inclusion of private social spending, which are particularly important in the United States; and *b)* the impact of the tax system. Considering all 23 countries for which information is available, the coefficient of variation in 2001 was 33% when looking at gross public social expenditure but 26% when considering net total social expenditure.

4.1.4 Reform of tax treatment of benefit income and trends in social spending

77. Significant changes in the tax treatment of benefit income does not occur frequently, and therefore, gross and net social expenditure trends often follow the same pattern (see Annex 4 and for Sweden, Eklind *et al*, 2003) However, as Chart 7 shows that accounting for the taxes and social security contributions paid on social transfers can also give a more accurate impression of social expenditure over time. Danish tax/benefit reform in 1994 meant that old-age cash benefits and social assistance benefits became taxable. However, gross payments were raised simultaneously in order to preserve their net value (Erhvervsministeriet, *et al.*, 1996). In all, gross expenditures on pensions and social assistance benefits increased by about USD 2.8 billion, while direct tax revenue on these benefits increased by USD 2.4 billion. Between 1993 and 1995, gross public spending *increased* by 0.3% of GDP at factor cost, while net public spending *decreased* by 1.1% of GDP over the same period (Chart 6).

Chart 6. Danish gross and net spending trends diverged around 1994 with tax/benefit reform
From gross public to total net social spending in Danemark,
in percentage of GDP at factor cost, from 1993 to 2001



Source : See Table 6.

5. Conclusions

78. A comprehensive cross-country analysis of social expenditure requires information on public and private social spending and the impact of tax systems on social expenditure. This study presents such information for 2001 for 23 countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Korea, Mexico, the Netherlands, New Zealand, Norway, the Slovak Republic, Sweden, Spain, the United Kingdom and the United States. For the first time, data on taxation of benefits and tax breaks with a social purpose have been collected on basis of a standardised questionnaire under the auspices of Working Party No. 2 on Tax Policy Analysis and Tax Statistics of the Committee on Fiscal Affairs. This process has led to marked improvements in quality and coverage of the indicators. Nevertheless, both data on the impact of tax systems on social spending and on private social benefits are mainly derived from estimates and their quality is not as high as the information on budgetary allocations with a social purpose recorded in the *OECD Social Expenditure Database*, or on tax revenue as recorded in the *OECD Revenue Statistics*. Methodological and data problems affect the measurement of tax breaks towards pensions.

79. Nevertheless, the results are sufficiently robust to draw the following general conclusions:

- Accounting for private social benefits and the impact of the tax system on social expenditure has an equalising effect on levels of social expenditure to GDP ratios across the countries considered.

- Except for Japan, Korea, Mexico and the United States, public social effort is significantly below the levels suggested by gross expenditure data. This is because most countries have significant taxes on social benefits.

- Accounting for both the tax system and the role of private social benefits reveals that the proportion of an economy's domestic production to which recipients of social benefits lay claim is similar in countries often thought to have very different expenditure levels. For example, total net social spending in Australia, Austria, Belgium, Denmark, Finland, Italy, Japan, the Netherlands, Norway, the United Kingdom and the United States are within a few percentage points of one another.

80. This does not mean that the re-distributional impact of tax/benefit systems is the same in these countries, but it does show that observations of social expenditure levels across countries that do not account for private social benefits and the impact of the tax system are prone to be misleading. Care is needed when making statements of the form: 'country X spends more than country Y" – all too often these statements are wrong.

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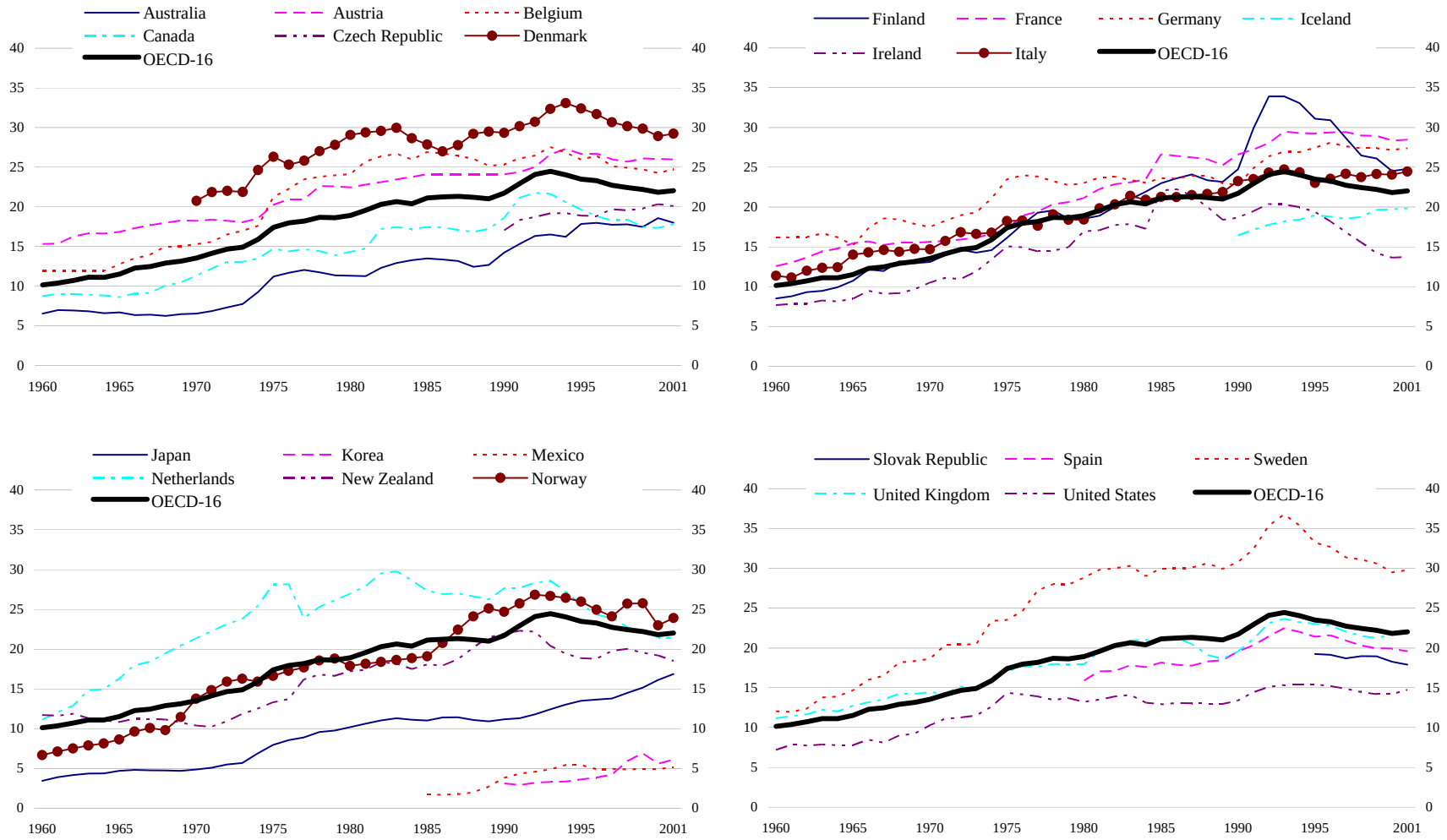
ANNEX 1: PUBLIC AND PRIVATE SOCIAL SPENDING TRENDS

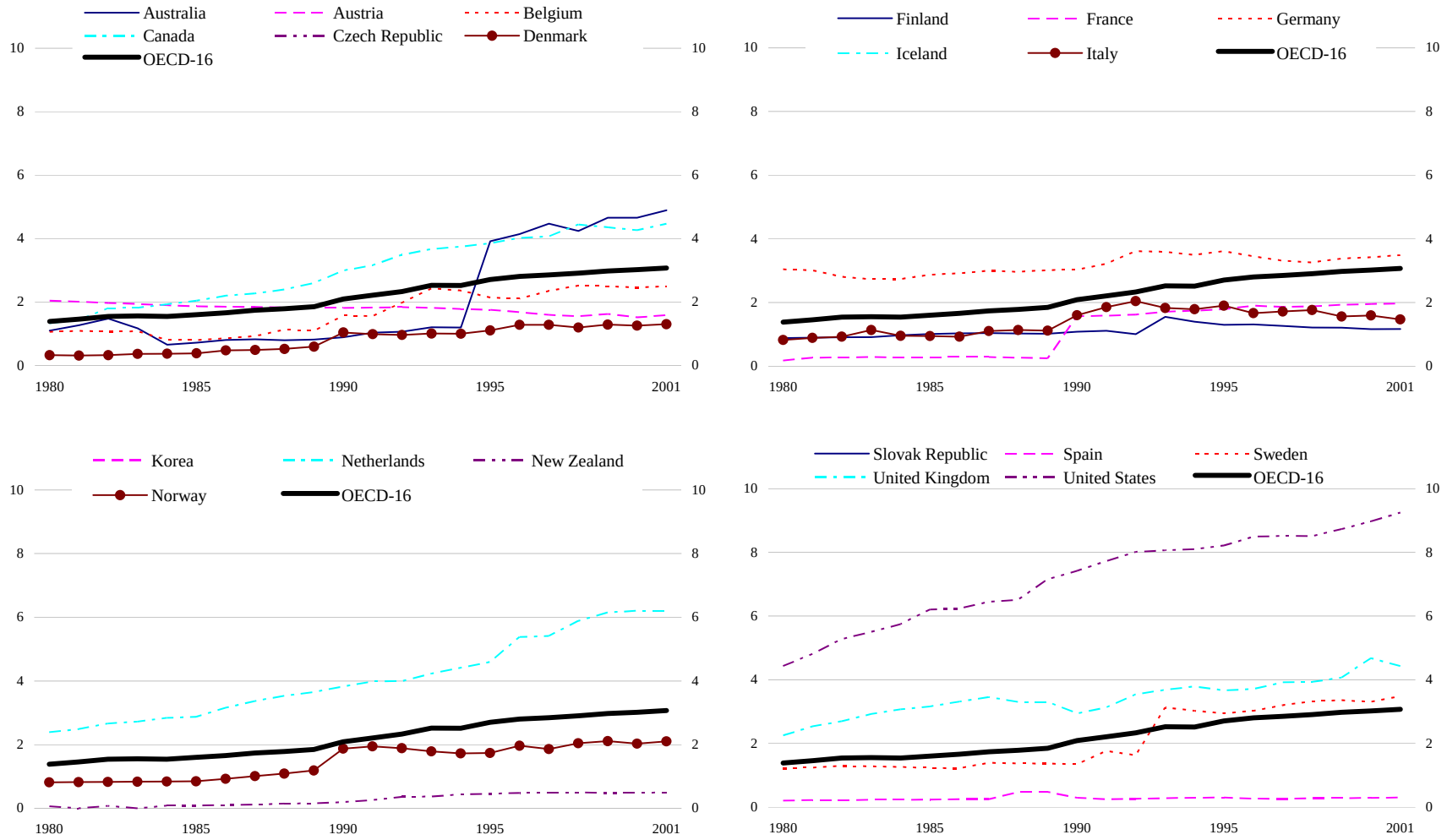
Chart Annex 1 Growth of social expenditure

A. Public social spending in percentage of GDP, from 1960 to 2001



Source : OECD Social Expenditure database (www.oecd.org/els/social/expenditure).

Chart Annex 1 Growth of social expenditure *(cont.)*
B. Private social spending, in percentage of GDP, 1980-2001



Note: Sudden increases in spending level can be directly related to improved recording of social expenditure programmes, e.g. the Australian, French, Swedish trends in the early 1990s.
Source : OECD Social Expenditure database (www.oecd.org/els/social/expenditure).

ANNEX 2: DIRECT TAXATION OF TRANSFER INCOME AND THE VALUE OF TAX BREAKS FOR SOCIAL PURPOSES: QUESTIONNAIRE AND COUNTRY RESPONSES

PART I: QUESTIONNAIRE

This section discusses the type of information that we would like to obtain from countries. The items to be considered are:

- Direct taxation of benefits;
- Tax breaks for social purposes;

Direct taxes and social security contributions on transfers

Across countries, information on direct tax (including Soc. Sec. Cont.) on transfer income can be obtained from a variety of sources. These include: official administrative information; microsimulation models based on annual or monthly income; microsimulation based on survey data; adjustments made on the basis of average tax rates based on microdatasets.

Administrative data

Ideally, administrative data is the preferred source of information of tax paid on benefit income as such information is likely to be the most reliable. It may be feasible to obtain such information when national social protection systems involve only a few taxable benefits, and/or when completed tax forms allow for identification of tax paid on (specified items of) transfer income. Administrative information may give a picture of the aggregate of taxes paid on all public social cash transfers, but not facilitate an allocation of tax paid on different types of transfers (e.g. unemployment vis-à-vis pension benefits).

Question 1: Do you have administrative information on direct tax (including social security contributions) paid on transfer income by benefit recipients. If yes, please complete Table Q1?

Table Q1.
Tax paid by benefit recipients over transfer income, 2001

	Amount (in national currency)
Total tax paid (including soc. sec. cont.) over public[1] transfer income	
of which:	
- Income tax	
- Social security contributions	
Total tax paid (including soc. sec. cont.) over private[1] transfer income	
of which:	
- Income tax	
- Social security contributions	

1) Public transfer income concerns all cash benefits paid by general government (different levels of government and social security institutions). Other social benefits, e.g. occupational pension payments, are considered private.

Question 2: Do you have administrative information on direct tax (including social security contributions) paid on specified transfer income items? If yes, please complete Table Q2 by providing information at the greatest possible level of detail (e.g. by items as listed in Table Q3).

Table Q2.
Tax paid by benefit recipients over specific transfer income items, 2001

	Amount of tax (including soc. sec. cont.) paid (in national currency)
Total tax paid (including soc. sec. cont.) over transfer income	
- item 1…	
- item 2…	
- item 3…	
- etc.	
For example, on basis of the US income-tax form, one could think of the following list of items:	
Total tax paid (including soc. sec. cont.) over transfer income	
- item 1… - all social security benefits (OASDI)	
- item 2… - unemployment compensation	
- item 3… - pensions and annuities	
- item 4 - Tax-advantaged individual retirement accounts	

Estimates based on microdata sets

In the absence of administrative data, 'microsimulation-models' and micro data sets which contain detailed information on both the incomes received by households and their taxation can be used to generate average itemised tax rates (AITRs): e.g. the average tax rate on public pension benefit or unemployment benefits. The concept of AITRs has been developed to facilitate identification of different tax levies on different social benefits. The AITR can be defined as the total taxes paid by those receiving a given benefit, divided by the total income (from all sources) of those receiving that benefit. Formally, the relevant calculations are:

$$AITR_i = \Sigma_{tu=1,n} TI_i / \Sigma_{tu=1,n} I_i$$

where: I is the amount of taxable income-type "i", and TI is the amount of tax paid on that particular amount of income, "i" is the type or category of income, "tu" is a tax unit with income-type "i", and "n" is the number of tax units in the sample with income of type "i". The broad income categories "i" include old-age cash benefits, unemployment compensation, wage income, etc (see table Q3).

As is clear from the formula, calculation of the AITR requires information on the tax paid on each particular benefit. If a benefit is non-taxable, then the relevant AITR is a priori considered to be equal to zero (see below). However, if it is subject to a progressive tax schedule (possibly applied to the total of several income sources), the calculation needs more care. The methodology that we ask countries to follow is to calculate the average tax rate a particular household faces on that income (or group of incomes). This tax rate is applied to all household benefit income subject to the progressive schedule. This methodology does not imply an ordering of different parts of income nor does it require a more or less arbitrary decision on what part of household income should be 'taxed' at a higher or lower rate.

As said, if benefit income of a particular type is non-taxable, then the relevant AITR is a priori equal to zero. However, it is possible that income derived from non-taxable benefits affects direct taxation of benefit income in an indirect manner, as it is considered in the income-test of other benefit programmes. In

this case, receipt of non-taxable benefit may thus reduce the amount of other income transfers that is paid to its recipients. In order to determine this implicit effect, the benefit income item can be removed from the microdata simulations to calculate a Average (Marginal) Tax Rate. This rate can then be applied to the social transfer item in question to determine the implicit tax paid, and this can then be divided by the amount of transfer spending for the relevant item to find its AITR.

Depending on the nature of national social protection systems (the number of different social programmes and taxable benefit payments) and the nature of information in microdatasets, the number of identifiable AITRs will vary from country to country. Please complete Table Q3 in line with what is possible given the source of information to which you have access.

Question 3: If your country has many taxable benefit items and administrative data do not allow for identification of tax paid by benefit recipients of broad income groups, we ask you to generate Average Itemised Tax rates per social expenditure programme (example line 1a in Table Q3) or if this level of detail is not available the suggested broad social expenditure categories (for example line 1 in Table Q3).

Table Q3.
Average Itemised Tax Rates, 2001

Item n°	Broad Income Category 'i' [1]	AITR (%)	Amount of tax (including soc. sec. cont.) paid (in national currency)
1	Old-age cash benefits		
1a	- public pensions [2]		
1b	- early retirement benefits		
1c	- private pensions [3]		
2	Old-age cash benefits		
2a	- public pensions [2]		
2b	- private pensions [3]		
3	Incapacity-related benefits		
3a	- Disability pensions		
3b	- Occupational Injury benefits		
3c	- Sickness payments [4]		
4	Family cash benefits		
4a	- Family benefits		
4b	- Maternity and parental leave payments		
4c	- Sole parent benefits		
5	Active labour market policies		
5a	- benefits while on training		
6	Unemployment		
6a	- unemployment insurance benefit		
6b	- unemployment assistance benefit		
7	Housing		
7a	- rent subsidies		
8	Other contingencies		
8a	- Low Income benefits		
9	Wage income [5]		

1) Certain broad income categories may not apply to your country, please indicate. Not dissimilarly, please indicate if pension income includes old-age cash benefits, survivor benefits and/or disability pensions.

2) Public transfer income concerns all cash benefits paid by general government (different levels of government and social security institutions). Other social benefits, e.g. occupational pension payments, are considered private.

3) All pension income (old-age cash benefits) paid by the state or a social security fund.

4) If sickness benefits paid through social insurance funds (please indicate whether or not his covers maternity and parental benefits in your data-set).

5) This category is included for reference purposes, but can be used to estimate tax paid by recipients of continued wage payments in case of absence because of illness.

In some countries, ignoring local taxation may lead to underestimating the value of tax paid by benefit recipients. In such cases, the preferred option is to 'model' the situation analogous to Taxing Wages (OECD, 2004d). For example, for Switzerland, the situation in Canton Zürich could be used to generate AITRs.

These AITRs are subsequently applied to the relevant spending items in the *OECD Social Expenditure Database* leading to estimates of tax paid on particular spending items. Information derived from microsimulation models/micro data sets can also be used to verify available administrative information, or enrich it by adding more detail to its aggregate nature (see the previous section). In general, the Secretariat will only publish aggregate indicators on net social expenditure, and differences taxes paid across broad social expenditure items to illustrate the different tax burdens on different benefits.

Tax breaks with a social purpose

Question 4: Please provide information on the revenue foregone (accruals basis) of Tax Breaks for Social Purposes (TBSPs) in your country in Table Q4. Please note if you have already accounted for TBSPs similar to cash benefits in the direct tax calculations, there is no need to record this item again. If appropriate, please do include information on provincial and/or municipal TBSPs and the revenue foregone related to including children in the tax unit.

Table Q4.
The value of Tax breaks for social purposes, 2001 [1]

	Amount (in national currency)
Tax breaks Similar to cash benefits [2]	
Item 1 *item 2* *Item 3* *etc.*	
Examples - *Child credits* - *Value of non-wastable tax credits for children off-set against tax liabilities (e,g. EITC, WFTC, etc.)* - *Childcare expense deduction* - *Healthcare expense deduction* - *Rebate for taxpayers supporting care-needing relatives* - *Adoption assistance* - *Additional personal allowance for one-parent families*	
- *Value of revenue foregone because of including children in the tax unit* [3]	
Tax breaks to stimulate private social protection (not including pensions)	
Item 1 *item 2* *Item 3* *etc.*	
Examples - *Exclusion of contributions to health and accident insurance* - *Exclusion of employer-provided health coverage, Occupational accident insurance, Childcare support, survivor benefits, etc.* - *Donations to (approved) NGOs* - *Expenses to remove architectural barriers to the handicapped* - *Low-Income housing investment* - *Reductions of social security contributions for employers hiring disadvantaged groups (long-term unemployed, disabled)*	

1) Examples are in *Italics*.
2) In order to avoid double counting it is essential, that age allowances or other relevant fiscal measures that were accounted for in the calculation of the Average Itemised Tax Rates are not included here again.

3) National tax systems can benefit married couples and their children by including spouses (and/or partners) and children in the tax unit. As support for children is considered a social purpose, fiscal support to children because their inclusion in the tax unit is considered a TBSP. However, (fiscal) benefits to married persons are not deemed to be part of the social domain (the presence of dependent children leads to eligibility to cash benefits in social protection systems, whereas a marriage contract does not). National authorities are asked to indicate the value of revenue foregone of including children in the tax unit.

Tax treatment of pensions

The notion of tax breaks with a social purpose includes those measures aimed at stimulating private pension take-up. However, tax breaks on occupational and individual pension programmes are difficult to deal with as intervention (taxation and/or tax reliefs) occurs at, various stages of this form of contractual savings. Tax treatment needs to be considered in three different areas:

- Contributions to programmes could be by employers or employees, out of taxed or untaxed income;
- The funds which invest the pension contributions on behalf of those contributing could be taxed or untaxed;
- The payment of pension or annuity or lump-sum benefits at the end of the contributions period could be taxed or untaxed.

Due to the complexity of calculations arising from these issues, there is no comparable data-set available on the value of tax advantages on pensions. Nevertheless, available information suggests, however, that the value of favourable tax-treatment of private pension arrangements can be considerable. We would, however, like to present the cost to public budgets of the current tax system in the current financial year on tax breaks for pensions, regardless of what effects the current tax system may have on revenues in future years. Because of the limitations in comparability of information, such information would be presented as a memorandum item only.

Question 5: Please provide information on the revenue foregone (accruals basis) of Tax Breaks for Pensions in your country in Table Q5.

Table Q5.
The value of Tax breaks for pensions, 2001

	Amount (in national currency)
Tax breaks to pensions	
- Deduction of contributions to private pensions (e.g occupational pension plans, individual retirement accounts, RRSPs, Superannuation, etc)	
- Non-taxation of investment of private pension funds	

PART II: COUNTRY RESPONSES

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001

Australia

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

			AITR %
1		Old-age cash benefits	
	1a	- public pensions	
		Age Pension	0.4
		Wife's Pension	0.4
		Widow's B Pension	0.3
	1b	- early retirement benefits	
	1c	- private pensions	
		Superannuation pension	16.8
		Superannuation Lump Sums	2.7
2		Survivors' benefits	
	2a	- public pensions	
		Veteran's Service Pensions	0.7
3		Incapacity-related benefits	
	3c	- Sickness payments	
		Sickness Allowance	0.4
4		Family cash benefits	
	4a	- Family benefits	
		Parenting Allowance	1.0
		Partner Allowance	0.2
	4c	- Sole parent benefits	
		Sole Parent	0.6
6		Unemployment	
	6b	- unemployment assistance benefit	
		Unemployment Benefits	1.1

The AITRs for wage income, superannuation pensions and superannuation lump sums were evaluated using a sample file of Australian tax returns in 2001. All other AITRs were calculated using the STINMOD model, a static microsimulation model developed by the National Center for Social and Economic Modelling (NATSEM).
The AITRs were evaluated by calculating the amount of tax paid in aggregate with and without the income streams. The difference between the taxes paid was then divided by the value of the income stream to reveal the value of the AITR.

Sources : STINMOD distributional model. Revenue Group of The Treasury, Australian Government.

B. Tax breaks for social purposes

	Millions of Australian dollars
Tax breaks similar to cash benefits	**849.0**
Tax offsets for taxpayers with dependants	16.0
Tax offset for housekeeper who cares for a prescribed dependant	360.0
Tax offset for low income earners	460.0
Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief	13.0
Tax breaks to stimulate private social protection (not including pensions)	**1 620.0**
Partial rebate for certain non-profit, non-government bodies	40.0
Deduction for gifts to approved donees	300.0
Capped exemption for public benevolent institutions (excluding public hospitals)	240.0
Various health-related items, see see Tax Expenditures Statement, 2004	
medical expenses tax offset (A18)	150.0
exemption from the Medicare levy for residents with a taxable income below a threshold (A19)	340.0
exemption for Medicare level for non-residents (A20)	55.0
30% tax offset for expenditure on private health insurance	590.0
medicare levy surcharge (negative tax expenditure for those above income threshold, but without insufficient private coverage)	-95.0
Memorandum Item	
Tax breaks for pensions	**11 045.0**
Concessional taxation of funded superannuation	9 215.0
Concessional taxation of unfunded superannuation lump sums	470.0
Concessional treatment of non-superannuation termination benefits	990.0
Capped taxation rates for lump sum payments for unused recreation and long service leave	210.0
Taxation of five per cent of unused longservice leave accumulated by 15 August 1978	135.0
Capital gains tax exemption on the sale of a small business at retirement	25.0

Source : Commonwealth of Australia (2004) Tax Expenditure Statement 2003, Canberra.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Austria

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		AITR %
1	Old-age cash benefits (1 +3) [a]	17.7
1a	- public pensions	
3	Incapacity-related benefits	
3a	- Disability pensions	
3c	- Sickness payments [b]	14-15

a) The Integrated Income and Wage Tax Statistics (IIWTSt) 2000 (2001 not yet available) show that income and wage tax of pensioners (those who have their main income from pensions) was equivalent to 4055 ME. About 96% of their income is from wages and pensions, i.e. the share on these sources is calculated at 3881 ME. The Wage Tax Statistics (WTSt) show all persons as pensioners where pensions are higher than wages or salaries (excl. income from other sources, which is not due to wage tax). Therefore, the number of pensioners is about 1% higher than in IIWTSt and the tax was increased by this percentage. After that the increase of the wage tax between WTSt 2000 and WTSt 2001 was added to get the 2001 figure and eventually the pensioners' SSC from WTSt 2001 (1242 ME) was added.

b) No SSC, but due to income tax as any other wage income (simplified wage taxation, but assessment). According to WTSt 2001, wage tax was 14,7% of gross earnings. Because of the absence of SSC, income tax is higher compared to a wage (gross) income of the same level, but as one can assume that incomes of persons who are sick for a longer time (because for some weeks they remain paid by the employer) are lower, the average tax will also be lower.

Source : Ministry of Finance (Bundesministerium fur Finanzen).

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	**42.0**
Appliances for the disabled (Befreiung für Versehrten- und Invalidenfahrzeuge) § 2 Abs.1 Z 5, 12	2.0
Special tax relief (Außergewöhnliche Belastungen) § 34, 35	40.0
Tax breaks to stimulate private social protection (not including pensions)	**20.0**
Contributions to health, accident and pension insurance (Versicherungsbeiträge) § 18 Abs. 1 Z 2	20.0

Source : Budget Accounts, Förderungsbericht 2001, Ministry of Finance.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Belgium

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Millions of euros
Income tax	*3 927.2*
Sickness	272.2
Unemployed	311.1
Others	3 343.8
Social securtiy contributions	*886.6*
Pensioners	734.4
Others	152.2

Time series data is available for the period 1988 - 2001: only 2001 data is presented.

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	**1 355.8**
Tax credit for children	1 275.6
Allowance "Agence locale pour l'emploi"	16.9
Allowance childcare expenses	63.3
Memorandum items	
Tax breaks for pensions	estimates
Pension savings (3rd pillar)	262.8
Pension savings (2d pillar)	100.5

Source : Ministry of Finance from IPP (Impôt des Personnes Physiques).

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Canada

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		AITR (%)
1	Old-age Cash Benefits	15.00
1a	- Public Pensions (OAS)	6.06
1b	- Private Pensions	18.49
2	Canadian Pension Plan (Retirement)	9.46
3	Canadian Pension Plan (Disability)	2.57
4	Employment Insurance	9.05
4a	- Regular Employment Insurance	9.68
4b	- Parental Leave Payments	6.27
5	Worker's Compensation	2.41
6	Guaranteed Income Supplement	0.52
7	Social Assistance	0.02

The sample used for the microdataset simulation was a stratified sample of approximately 450,000 records, weighted to represent all taxfilers in Canada. The sample is provided by Canadian Customs and Revenue Agency.

There were two calculations done to supply the appropriate information for this question. For the first four social transfers, the methodology that was laid out in the questionnaire was used. The Average Tax Rate (ATR) for all sources of income was found per taxfiler and applied to each specific social transfer to determine the amount of tax paid. This was then divided by the total amount of the social transfer paid out by the government to determine the Average Itemised Tax Rate (AITR).

For "Guaranteed Income Supplement" and "Social assistance" a different approach was taken. Since, by definition, this transfer is non-taxable, applying the ATR found from taxable sources of income would lead to a false amount of tax collected on this cash transfer. However, this transfer does affect the amounts of income-tested benefits received by the filer. To determine the implicit cost, this social transfer was removed as sources of income and the change in federal income taxes and repayments was found. This was used to find an Average (Marginal) Tax Rate as this income was considered to be added last. This rate was then applied to this social transfer to determine the implicit tax paid; this tax is then divided by the amount of the transfer to determine its AITR.

Source : Department of Finance Canada.

B. Tax breaks for social purposes

	Millions of Canadian dollars
Tax breaks similar to cash benefits	**4 788.0**
Medical expense tax credit	570.0
Medical expense supplement for earners	55.0
Disability Tax Credit	330.0
Non-taxation of employer paid premiums	2 980.0
Infirm dependant credit	6.0
Caregiver credit	57.0
Child care expense deduction	530.0
Deductibility of charitable donations from corporate income tax	260.0
Tax breaks to stimulate private social protection (not including pensions)	**3 200.0**
Non-taxation of employer paid health and dental benefits	1 710.0
Charitable donations credit	1 490.0
Memorandum Item	
Tax breaks for pensions (1+2+3)	**80.0**
Revenue foregone method:	
1 Pension Income Deduction	405.0
2 Registered retirement savings plans (RRSPs)	
Deduction for contributions	6 225.0
Non-taxation of investment income	-435.0
Taxation of withdrawals	-3 465.0
Net tax expenditure	2 325.0
3 Registered pension plans (RPPs)	
Deduction for contributions	4 575.0
Non-taxation of investment income	-810.0
Taxation of withdrawals	-6 415.0
Net tax expenditure	-2 650.0
Supplementary information:	
Present value of tax assistance for retirement savings plans *	7 265.0

Does not account for tax reliefs by Provinces.
* See Table 4 in text. The present-value estimates reflect the lifetime cost of a given year's contributions.

Source: Department of Finance Canada (2004), Tax Expenditures and Evaluations, Ottawa.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Czech Republic

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Amount of tax million CZK
Total tax paid (including soc. sec. cont.) on transfer income	1.0
old-age pensions	1.0

Source : Ministry of Finance, Tax Policy Unit; Czech Social Security Administation.

B. Tax breaks for social purposes

	Millions (national currency) CZK
Tax breaks similar to cash benefits	11 084.0
1. Tax breaks similar to cash benefits	
1.1 Tax exemptions (Personal Income Tax):	
* non-monetary benefits covered from the fund for cultural and social needs or profit after tax provided by an employer to his employee in form of recreational, health care, educational facilities, etc.	528.0
1.2 Allowances from the tax base (Personal Income Tax; social insurance contributions are deductible from the tax base):	
* per each dependent child living with the taxpayer in one household	10 000.0
* per each handicapped dependent child requiring an escort	188.0
* per handicapped spouse requiring an escort living with taxpayer in one household unless the spouse's own income exceeds low income limit	8.0
* per handicapped taxpayer requiring an escort	60.0
* gifts donated to municipalities or to legal entities for financing science, education, culture, schools, police, youth welfare, animal protection, environment, humanitarian projects etc.	300.0
Tax breaks to stimulate private social protection (not including pensions)	4 073.0
2.1 Corporate Income Tax	
* tax credits for disabled employees	3 973.0
2.2 Personal Income Tax	
* tax credits for disabled employee	100.0
Memorandum Items	
Tax breaks for pensions	1 990.0
1. Deduction of contributions to private pensions - income tax exemptions and allowances from the tax base	
* exemption of contributions of employers on behalf of their employees on pension insurance with state contribution from personal income tax up to a ceiling of 5 per cent of employer's gross wage	680.0
* deduction of contributions of employers on behalf of their employees on pension insurance with state contribution from employer's tax base up to a ceiling of 3 per cent of gross wage of the employee	760.0
* contributions of employees on their pension insurance with state contribution	430.0
2. Non-taxation of investment of private pension funds	
* there is income tax of 15 % from the returns of private pension funds - standard tax rate is 28 %	120.0

Source : Tax Statistics of Ministry of Finance, and the Association of Pension Funds of the Czech Republic.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Denmark

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		AITR %	Average Itemised Social Security Contribution Rate %	Total %
1	Social pension			
	- state old age pension	27.7	0.0	27.7
	- disability pension	26.8	0.0	26.8
	- anticipated old age pension	23.7	0.0	23.7
2	Supplementary pensions (ATP)	30.7	0.0	30.7
3	Civil servants pension	34.7	0.0	34.7
4	Early retirement pensions (Delpension)	31.5	0.8	32.3
5	Sickness benefit	31.8	4.5	36.3
6	Parental leave	24.2	4.6	28.8
7	Education allowance	27.0	5.2	32.2
8	Support for start of enterprise	21.6	3.4	25.0
9	Unemployment benefits	27.3	5.5	32.8
10	Early retirement benefits	28.3	1.1	29.4
13	Occupational accidents	36.0	0.1	36.1
14	Survivors	10.0	0.0	10.0
16	Childbirth benefit (barsel)	35.2	4.5	39.7
17	Items under active labour market policy			
	- Measures by regional labour market councils	26.0	0.8	26.84
	- Training leave	27.5	3.9	31.40
	- Employment measures for disabled	29.2	2.1	31.30
18	Other, war victims	35.3	0.0	35.3
19	Other, wage earn. Guar. Fond.	40.0	4.0	44.0

B. Tax breaks for social purposes

	Millions of Danish Kroner
Tax breaks similar to cash benefits	**182.0**
Capital tax reduction for older people (67+)	135.0
Housing for older people "Plejehjem"	47.0

Source : Ministry of Finance. Calculations are based on a micro simulation tax model.

The results for Denmark are based on a micro simulation tax model, the base of which is a sample of approximately 3.3 % of the Danish population (sample size is approximately three times as large as the sample used to calculate results for 1999). The sample contains information about taxable income and its composition, inluding a decomposition of income on various 'types' and all the deductions and allowances that are relevant for the tax calculation.

Danish tax legislation defines how total liable (accrued) tax is calculated. Legislation defines how to calculate total income tax for an individual based on a global income principle, as in a strict sense it is not possible to define a tax on e.g. unemployment benefits on the micro level. In order to nevertheless facilitate such a calculation it is necessary to 'attribute' total income tax to the various income sources (as said the tax legislation does not define such a key). In principle, the method followed here has been to divide the taxes proportionately to the sources of the taxable income. Taxable income is defined including a number of deductions, and implicitly or explicitly a number of negative tax rates will be calculated for the types of 'negative taxable income'. A number of deductions are closely linked to various types of income (e.g. deductions for transportation costs (from home to work) are closely associated to wage income). Deductions for unemployment insurance and trade union fees are divided on to various types of (non-capital) income. This is done proportionately (to the relevant types of income). Other types of deductions are not divided to any type of income. Average itemised tax rates (AITRs) are calculated for a rather large number of income variables, comparing the variables in the micro data set and in the OECD Social Expenditure Database.

Results include social security contribution rates for each income variable. Only 2 types of contributions are considered: 1) contributions to ATP (the supplementary pension scheme) and 2) contributions to unemployment insurance and '*efterløn*'. Contributions to ATP are paid 'directly' on each (relevant) income item. The contribution is not included in the taxable income of the individuals. Some contributions are paid directly by municipalities or similar bodies. As mentioned above such payments can be directly identified in a separate item in the SOCX data base. The part paid by the recipient / "ex-employee" can be calculated directly, and the rate does not interact with the calculation of other tax rates.

The methodology for calculating Social security contribution rates on unemployment insurance and efterløn follows the same approach as in the AITR-methodology. Contributions to unemployment insurance and efterløn are 'allocated' proportionately to (all) income items on the individual basis (using the micro tax data base). Subsequently, the sum was taken of the allocated fractions of the two types of contributions and finally the SSC-rates were calculated.

The Danish authorities have made similar calculations for 1993, 1995, 1997 and 1999.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Finland

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

			AITR %
1		Old-age cash benefits	
	1a	- public pensions	19.7
	1c	- private pensions	28.6
2		Survivors' benefits	
	2a	- public pensions	19.1
3		Incapacity-related benefits	
	3a	- Disability pensions	17.5
	3b	- Occupational Injury benefits	26.2
	3c	- Sickness payments	26.8
4		Family cash benefits	
	4a	- Family benefits	16.7
	4b	- Maternity and parental leave payments	21.7
5		Active labour market policies	
	5a	- benefits while on training	19.4
6		Unemployment	
	6a	- unemployment insurance benefit	20.5
	6b	- unemployment assistance benefit	18.6

The micro-simulation model used in the Ministry of Finance is based on a representative sample of some 25 000 individual taxpayers. The model is used for the planning of national tax policies and for estimating the effect of tax policy alterations on tax revenues and on the income tax liabilities of taxpayers at different income levels. The information is in principle collected for the Income Distribution Survey from Statistics Finland. The sample covers about 0,5% of the total taxpayer population, but the model has been made representative for the total taxpayer population. The data set is updated annually.

Source : Ministry of Finance.

B. Tax breaks for social purposes

Information on TBPS that were not accounted in the direct tax calculations is not available.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

France

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		Amount of social security contributions	Amount of income tax	Total
1-2-3a	Old-age, survivors' benefits, disability pensions	8 730.0	6 430.0	15 160.0
3b	Occupational Injury benefits	110.0	0.0	110.0
3c	Sickness payments	520.0	390.0	910.0
4a-4c	Family and sole parent cash benefits	230.0	50.0	280.0
4b	Maternity and parental leave payments	150.0	70.0	220.0
5	Active labour market policies	1 480.0	90.0	1 570.0
6	Unemployment	1 160.0	880.0	2 040.0
7	Housing	60.0	0.0	60.0

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	**14 790.0**
Vieillesse	
Foncier bâti : Dégrèvement partiel	50.0
Vieillesse - invalidité	
Foncier bâti : exonération totale	290.0
Vieillesse - invalidité-survie	
Taxe d'habitation : exonération totale	1 220.0
Famille-invalidité	
Impôt sur le revenu : quotient familial	9 700.0
Taxe d'habitation : abattement pour charge de famille	1 070.0
Taxe d'habitation : effet du quotient familial sur les dégrèvements partiels	100.0
Famille	
Impôt sur le revenu : déduction des pensions pour enfants majeurs étudiants	280.0
Impôt sur le revenu : réduction d'impôt pour enfants scolarisés	400.0
Impôt sur le revenu : réduction d'impôt pour frais de garde d'enfants de moins de 7 ans	190.0
Autres domaines de politique sociale	
Prime pour l'Emploi	1 250.0
Taxe d'habitation : dégrèvement total pour les titulaires du RMI	200.0
Impôt sur le revenu : réduction pour dons aux personnes en difficulté	40.0
Tax breaks to stimulate private social protection (not including pensions)	**970.0**
Logement	
Impôt sur le revenu : déductions pour la location à des ménages modestes	670.0
Impôt sur les bénéfices : exonération des offices HLM et OPAC	260.0
Autre domaine de politique sociale	
Impôt sur le revenu : réduction pour dons aux personnes en difficulté	40.0

Source : Amounts supplied by INSEE, based on estimates from various institutes:

Social security contributions: URSSAF (Union de Recouvrement des cotisations de Sécurité Sociale et d'Allocations Familiales), DSS (Direction de la Sécurité Sociale), ACOSS (Agence Centrale des Organismes de Sécurité Sociale), et CNAF (Caisse Nationale des Allocations Familiales).

Income tax and tax breaks for social purposes: Direction Générale des Impôts, INES model (Insee-Drees).

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Germany

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Millions of euros
Direct taxes and social contributions paid on public cash benefits	26 677.4
Social Contributions paid by recipients of benefits (unemployment, disability, etc.)	16 308.0
Income tax on pensions	4 900.0
Tax and social contributions on family wage supplements	2 577.0
Social security contributions	942.4
Soc. Sec. Cont. on pensions for farmers	218.7
soc sec cont on "versorgungswerke"	142.5
Supplementary Pensions in Civil Service	581.2
Progressionsvorbehalt	1 950.0
Direct taxes and social contributions paid on mandatory private cash benefits	10 552.8
Continued Wage Payments in case of sickness ('entgeltfortzahlung')	10 007.0
Direct taxes and social contributions paid on voluntary private cash benefits	2 562.7
Company pension and other employer-provided benefits	2 562.7

Source : Bundesministerium für Arbeit und Sozialordnung (2001), Materialband zum Sozialbudget 2001, Bonn.
Bundesministerium für Arbeit und Sozialordnung.
Calculated while using the nettolohnquote as in the national accounts.

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	22 530.1
Special expenses for owner-occupied homes	1.7
Child component in conjunction with sec.10 e EStG (sec. 34 f EStG)	460.0
Owner-occupied Homes Premium Law, total	8.1
Employee savings premiums for productive investment (sec. 19 a EStG)	41.0
Deduction of occupational training expenses	79.0
Motor vehicle tax exemption for physically disabled persons	135.0
Household allowance	869.0
Deduction for extraordinary financial burdens	465.0
Deduction for extraordinary financial burdens in special instances	1.3
Lump sum allowances for the physically disabled and others	798.0
Lump sum care allowance	72.0
Family benefits (child tax credit)	19 600.0
For information: Family benefits (Familienlastenausgleich: tax credit + cash benefits)	*(31 904.6)*
Tax breaks to stimulate private social protection (not including pensions)	9 480.0
Exclusion of contributions to health and accident insurance	8 400.0
Donations to (approved) NGOs and political parties [a]	1 080.0
Memorandum Items	
Tax breaks to pensions	
- Deduction of contributions to public pensions	14 300.0
- Deduction of private life insurances	2 300.0
- Lump sump taxation of contributions to occupational pension plans	900.0

a) Donation to political parties are not in the social domain. However, the value of these donations cannot be separately identified, but is considered smaller that the donations to NGOs, and therefore this item is included in the list here.

Source : Bundesministerium fur Arbeit und Sozialordnung (2002); Materialband zum Sozialbudget (2001).

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Ireland

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		Amount of tax in millions of euros
Total tax paid (including soc. sec. cont.) on transfer income		299.4
- item 1…	Social Security Pension	267.6
- item 2…	Social Security Disability Benefit	20.6
- item 3…	Social security Unemployment Benefit	11.2

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	**184.4**
Exemption of statutory redundancy payments	8.7
Widowed person's allowance (data do not cover non-tax payers)	71.1
Additional allowance to widowed person in year of bereavement	4.2
Additional bereavement allowance to widowed parent	3.9
Additional personal allowance for one parent family	78.9
Additional allowance for incapacitated child	2.7
Dependent relative allowance	0.8
Person taking care of incapacitated taxpayer	0.8
Donations to approved bodies	13.3
Tax breaks to stimulate private social protection (not including pensions)	**205.5**
Relief in respect of medical insurance premiums	168
Health expenses relief	36
Contributions under permanent health benefit schemes after deduction of tax on benefits received	1.5
Memorandum Item	
Tax breaks to pensions	**2 615.4**
Employee's Contributions to Approved Superannuation Schemes:	471.9
Employer's Contributions to Approved Superannuation Schemes:	646.2
Exemption of Net Income of Approved Superannuation Funds	1 292.3
Retirement Annuity Premiums (Individual private pensions)	205.0

Source: Office of the Revenue Commissioners.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Iceland

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Amount in millions of kronur
Total tax paid (including soc. sec. cont.) on public transfer income	4.2
of which:	
- Income tax	4.2
Total tax paid (including soc. sec. cont.) on private transfer income	3.7
of which:	
- Income tax	3.7

B. Tax breaks for social purposes

	Millions of Kronur
Memorandum Item	
Tax breaks for pensions	6 700.0

Source : Ministry of Finance, Economic Department.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Italy

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		Amount of tax (including social security contribution) paid (in Millions euros)
1	Old-age cash benefits	
1a	- public pensions (mandatory)	16 711.5
1b	- early retirement benefits	
1c	- private pensions (non mandatory)	471.7
2	Survivors' benefits	
2a	- public pensions (mandatory)	4 082.3
2b	- private pensions (non mandatory)	133.6
3	Incapacity-related benefits	
3b-1	- Occupational Injury benefits (mandatory)	2 206.6
3b-2	- Occupational Injury benefits (non mandatory)	15.7

B. Tax breaks for social purposes

	Millions Euros
Tax breaks similar to cash benefits	**1 729.9**
Tax credits:	
Healthcare expenses	1 493.3
Healthcare expenses for disabled	7.1
Other expenses for disabled (vehicles, dogs, …)	17.8
Education expenses	188.5
Tax deductions:	
Medical expenses for disabled [1]	23.3
Tax breaks to stimulate private social protection (not including pensions)	**1 691.8**
Tax credits:	
Donations to ONLUS	24.9
Contributions to mutual assistance associations	4.8
Contributions to health and accident insurance	1 662.2
Tax breaks to pensions	
- Deduction of contributions to private pensions (e.g occupational pension plans, individual retirement accounts, RRSPs, Superannuation, etc) [1]	102.9
- Non-taxation of investment of private pension funds [2]	3.7

1) The estimate is based on the amount of the relevant deductions as recorded in all individual tax returns, distributed in 30 income class. The revenue foregone is calculated applying to the deductions in each income class the corresponding P.I.T. average implicit tax rate.

2) The tax break in the year 2001 is the reduction of tax rate by 1.5%. The estimate is based on administrative data for the tax revenue from income of pension funds. The tax revenue without the tax break is estimated by applying the ordinary tax rate of 12.5% to the 2001 taxable income. The revenue foregone is then calculated as the difference between this estimated tax revenue and the actual tax revenue.

Source: Official administrative information from National Institute for Social Security (INPS).

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Japan

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Millions of Yens
Income tax rate of 1.12% + Health insurance contribution of 2.33%	
- public old pensions	1 097 156.9
- mandatory private old age pensions	66 849.0
- voluntary private old age pensions	326 416.2

B. Tax breaks for social purposes

	Millions of Yens
TBSPs similar to cash benefits	**5 104 700.0**
Deduction for dependent family other than spouses (General taxation)	2 100 000.0
Deduction for handicapped, survivors and working students (General taxation)	700 000.0
Deduction for medical expenses	564 700.0
Deduction for retirement income	1 740 000.0
Tax breaks to stimulate private social protection (not including pensions)	**105 000.0**
(4) Exclusion of income from social insurance medical services	105 000.0

Source : Ministry of Finance of Japan.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Korea

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Millions of Wons
Gross public social expenditure	
Social contributions	34 842.4
Gross mandatory private social expenditure	
Direct taxes	265 511.0
Social contributions	58 561.9

B. Tax breaks for social purposes

	Millions of Wons
TBSPs similar to cash benefits	2 024 445.0
TBSPs towards current private benefits	0.0

Source: Gho, K, Y. Chang and N. Lee (2003), Estimation of Social Expenditures in Korea on the Basis of the OECD Guidelines: 1990-2001, Korea Institute for Health and Social Affairs, Seoul, Korea.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Mexico (2002)

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		Amount of tax (including social security contribution) paid (in national currency)
1	Old-age cash benefits	Tax exempt
2	Survivors' benefits	Tax exempt
3	Incapacity-related benefits	Tax exempt
4	Family cash benefits	Tax exempt
5	Active labour market policies	Tax exempt
6	Unemployment	Tax exempt
7	Housing	Tax exempt
8	Other contingencies	Tax exempt

B. Tax breaks for social purposes

	In national currency (millions of pesos)
Tax breaks similar to cash benefits	66 590.0
- Fiscal subsidy (Art. 80-A, ITL 2001)	52 910.0
- Social prevision services (section VI, Art. 77, ITL 2001)	13 680.0
Tax breaks to stimulate private social protection (not including pensions)	12 167.0
- Income from saving funds (section VIII, Art. 77, ITL 2001)	12 010.0
- Reimbursement of medical, dental and funeral expenses (section IV, Art. 77, ITL 200	157.0
Memorandum Item	
Tax breaks for pensions	5 151.2

Source : Fiscal Expenditure Budget 2002 (Presupuesto de Gastos Fiscales, 2002) of the Ministry of Finance.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

The Netherlands

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		AITR (%)
1	Old-age cash benefits	14.6
1a	- public pensions	7.1
1b	- early retirement benefits	27.9
1c	- private pensions	16.8
2	Survivors' benefits	25.3
2a	- public pensions	23.5
2b	- private pensions	29.5
3	Incapacity-related benefits	
3a	- Disability pensions	20.4
6	Unemployment	20.8
6a	- unemployment insurance benefit	21.6
6b	- unemployment assistance benefit	14.6
8	Other contingencies	14.0
8a	- Low Income benefits	14.0

The micro-simulation model used is based on annual tax data from a representative sample of taxpayers (220 000 individuals, of whom 150 000 have income, or 1.5% of the taxpaying population). These tax data mainly comprise information from income and wage tax returns and assessments. It normally takes three years before sufficient tax data are available and the simulation model is adjusted, and before reliable up-to-date estimates can be made for current and future years. The data of a certain sample year have to be updated--based on relevant macroeconomic figures--to a more recent year for which micro-simulations are to be made.

Source : Ministry of Finance.

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	1 482.5
Child credits	163.9
Combination credit (combination of work and care for children)	225.5
Single parent credits	472.8
Young disability credit	
Deduction for medical, disability, chronically ill or handicapped expenses, child adoption	461.9
Deduction for support expenses for children	95.0
Deduction for child care contributions	45.4
Exemption for certain sign-on premiums	18.0
Tax breaks to stimulate private social protection (not including pensions)	1 920.0
Reduced wage tax for low wage employees	890.0
Reduced wage tax for long-term unemployed	207.0
Reduced wage tax for child care	92.0
Reduced wage tax for paid parental leave	18.0
Tax deduction towards employment/training of workforce	330.0
Deduction of charitable and other donations	214.0
Reduced succession duty for donations to institutions with a public interest	117.0
Temporary additional tax credit for home help	52.0

Source : Ministry of Finance.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

New Zealand

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	AITR %
Transitional Retirement Benefit	15.9
War Veterans' allowances	16.8
Widows Benefit	16.3
Invalids Benefit	16.3
Sickness benefit	16.3
Earners account (ACC)	7.4
Motor vehicle account (ACC)	7.4
Non earners account (ACC)	7.4
Medical misadventure account (ACC)	7.4
Occupational injury: residual claims account (ACC) (formerly Employers account)	7.4
Occupational injury: self-employed account (ACC)	7.4
Occupational injury: employers account (ACC)	7.4
Domestic Purposes Benefit for lone parents	17.3
Training Benefit	15.8
Unemployment Benefit and Emergency Unemployment Benefit	16.5
Independent Youth Benefit	15.5
Public social expenditure	8.1

B. Tax breaks for social purposes

	Million of New Zealand Dollars
Tax breaks similar to cash benefits	
Child Care	16.9
Tax breaks to stimulate private social protection (not including pensions)	
Charitable Donations	77.4

Source : Treasury of the New Zealand.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Norway

A. Average Itemised Tax Rates / Amount of direct tax pain on benefit income

			AITR %
1		Old-age cash benefits	18.3
	1a	- public pensions	16.5
	1b	- early retirement benefits	22.4
	1c	- private pensions	22.1
2		Survivors' benefits	19.4
	2a	- public pensions	19.4
3		Incapacity-related benefits	16.3
	3a	- Disability pensions	15.8
	3c	- Sickness payments	25.4
4		Family cash benefits	0.2
	4c	- Sole parent benefits	1.6
5		Active labour market policies	17.2
	5a	- benefits while on training	17.2
6		Unemployment	20.4
	6a	- unemployment insurance benefit	20.4

There is no information on TBSPs towards current private benefits or similar to cash benefits that have not been accounted for in the AITR claculations on the Labour Market policy dbase.

Source : Ministry of Finance.

B. Tax breaks for social purposes

Information on TBPS that were not accounted for in the direct tax calculations is not available.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Spain

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	Amount (in millions of euros)
Total tax paid (including social security contribution) on public transfer income	7 127.0
of which:	
- Income tax	6 424.0
- Social security contributions *	703.0
Total tax paid (including social security contribution) on private transfer income	1 321.0
of which:	
- Income tax	1 321.0

Personal Income Taxes paid by benefit recipients are estimates based on 2001 PIT statistics following the same methodology used for the PIT split carried out in the EC for the publication Structures of Taxation in the EU countries.

B. Tax breaks for social purposes

	Millions of euros
Tax breaks similar to cash benefits	
	238.0
Memorandum Item	
Tax breaks to pensions	1 208.0

Source : 2002 Tax Expenditures Budget, Ministry of Finance.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Sweden

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	AITR %
1. Old-age cash benefits	
a - public pensions	25.0
b - early retirement pensions	29.0
c - private pensions	32.1
2. Survivors benefits	
a - public pensions	22.3
b - private pensions	
3. Incapacity-related benefits	
a - disability pensions	24.8
b - occupational injury benefits	32.4
c - sickness payments	34.1
4. Family cash benefits	
a - family benefits	32.4
b - maternity and parental leave payments	33.8
c - sole parent benifits	
5. Active labor market policies	
a - benefits while in training	29.6
6. Unemployment	
a - unemployment insurance benefit	29.8
9. All above benefits	
aggregate	28.0
calculation	28.0

Source : Data supplied by Ministry of Finance based on the "storurval" using the FASIT-model.

B. Tax breaks for social purposes

Information on TBPS that were not accounted in the direct tax calculations is not available.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

Slovak Republic

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

All cash benefits paid by general government in Slavakia are tax free.

B.Tax breaks for social purposes

	Millions of SKK
Tax breaks similar to cash benefits	**3 304.3**
Child tax allowance*	3 038.6
Tax allowance for partially disabled people*	72.3
Tax allowance for disabled people*	193.4
* Child tax allowance and tax allowances for disabled people were deductible from tax base.	
Tax breaks to stimulate private social protection (not including pensions)	**681.6**
Donations to municipatlities and legal entities for selected purposes	
- donations given by individuals	302.7
- donations given by legal entities - social and health purposes	258.2
** tax deductibility limits for donations: taxpayer - individual - minimum 500 SKK and the value of donation	
Reduction of tax for employers hiring disabled people***:	
- taxpayers who filed tax return for personal income tax purposes	13.1
- taxpayers who filed tax return for corporate income tax purposes	107.6
*** Reduction of tax (tax relief) for employers hiring disabled people: 10 000 SKK/employee or 24 000	
Memorandum Item	
Tax breaks to pensions	
- Deduction of contributions to private pensions (e.g occupational pension plans, individual retirement accounts, RRSPs, Superannuation, etc)	939.1

Source : Data provided by Ministry of labour, social affairs and family of the Slovak Republic - aggregate data from filed tax returns (personal income tax and corporate income tax) in 2001.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

United Kingdom

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

		AITR (%)
1	Old-age cash benefits	
1a	- public pensions	3.0
1c	- private pensions	7.0
2	Survivors' benefits	
2a	- public pensions	8.0
	- Widows Pension	9.0
	- War Widows Pension	0.0
3	Incapacity-related benefits	
3a	- Disability pensions	0.0
3b	- Occupational Injury benefits	0.0
3c	- Sickness payments	4.0
	- Statutory sick pay	14.0
	- Inacapacity Benefit: Short-term	0.0
	- Inacapacity Benefit: Long-term	2.0
3d	- Disability Allowances	0.0
4	Family cash benefits	
4a	- Family benefits	0.0
4b	- Maternity and parental leave payments	11.0
	- Maternity Allowance	0.0
	- Statutory Maternity Allowance	12.0
4c	- Sole parent benefits	0.0
4d	- Child Benefit	0.0
5	Active labour market policies	
5a	- benefits while on training	0.0
6	Unemployment	
6b	- unemployment assistance benefit	1.0
7	Housing	
7a	- rent subsidies	0.0

Source : 2001-02 IGOTM Tax Benefit Model based on the Family Resource Survey 01/02 (sample size of approx 45 000 adults).

B. Tax breaks for social purposes

	UK million Pound Sterling
Tax breaks similar to cash benefits	**793.0**
Family	
Working families'Tax Credit (negative tax)	758.0
tax	758.0
cash	*4742.0*
total	*5500.0*
Other Income Maintenance	
Charitable donations under the payroll giving scheme	25.0
Outplacement counselling for redundant employees	10.0
Tax breaks to stimulate private social protection (not including pensions)	**1200.0**
Other	
Income of charities	860.0
Exemption to charities on death	340.0
Memorandum Item	
Tax breaks for pensions	**9375.0**
Total reliefs	16975.0
- Deduction of contributions to private pensions by employees and self-employed	5715.0
- Deduction of contributions to private pensions by employers	7210.0
- Non-taxation of investment of private pension funds	3700.0
-Relief on lump sum payments from unfunded schemes	350.0
- taxation of current pensions in payment	7600.0

Source : Estimates based on administrative data and information compiled from a variety of sources by the Office for National Statistics.

Table Annex 2. Detailed information on the impact of the tax system on social expenditure in 2001 *(cont.)*

United States

A. Average Itemised Tax Rates / Amount of direct tax paid on benefit income

	AITR %
Social Security Benefits	4.0
Unemployment compensation	8.0
Pension and IRA distributions	15.0

B. Tax breaks for social purposes

	Millions of US dollars
Tax breaks similar to cash benefits	**78658.0**
Deductibility of medical expenses	4990.0
Medical savings accounts	20.0
Additional deduction for the blind	41.0
Earned income credit	4940.0
Credit for child and dependent care expenses & exclusion for employer provided child care	3182.0
Exclusion. of certain foster care payments	500.0
Adoption assistance (adoption credit and exclusion)	130.0
Assistance for adopted foster children	190.0
Child credit (from 1998 onwards)	29312.0
Personal allowance for dependants (largely for children)	35353.0
Tax breaks to stimulate private social protection (not including pensions)	**123650.0**
Exclusion. of employer contributions for medical insurance premiums and medical care	82800.0
Self-employed medical insurance premiums	1520.0
Deductibility of charitable contributions (health)	4010.0
Special Blue Cross/Blue Shield deduction	270.0
Tax credit for orphan drug research	140.0
Credit for disabled access expenditures	50.0
Deductibility of charitable contributions, other than education or health	30150.0
Credit for low-income housing investment	3220.0
Empowerment zones, enterprise communities, renewal communities	380.0
New markets tax credit	10.0
Exclusion of hospital construction bonds	1100.0
Memorandum Item	
Tax breaks for pensions	**110990.0**
Employer plans	42070.0
401(K) plans	44080.0
Individual retirement accounts	18680.0
Keogh plans	6160.0

Source : US Department of Treasury.

ANNEX 3: NET SOCIAL EXPENDITURE INDICATORS RELATED TO GDP AT MARKET PRICES AND NATIONAL INCOME

As the construction of net social spending indicators involves adjusting for indirect taxation of consumption out of benefit income, net social expenditure is related to GDP at factor cost, as GDP at factor costs does not include the value of indirect taxation and government subsidies to private enterprises and public corporations. However, in order to facilitate comparison with gross social spending indicators which are usually related to GDP at market prices for international comparisons, Table A3.1 presents these indicators. As domestic product includes income that accrues to foreigners, it may be argued that national income is another appropriate measure. As net transfers to foreigners should be measured (foreign aid is often net of tax) and capital stock depreciation arguably should not be used to finance tax payments, Table A3.2 relates the net spending indicators to Net Disposable National Income at factor prices.

Table Annex 3. From gross public to total net social spending, 2001

A. Social expenditure, in percentage of GDP at market prices [a]

		Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Iceland	Ireland	Italy	Japan	Korea	Mexico	Netherlands	New Zealand	Norway	Slovak Republic	Spain	Sweden	United Kingdom	United States	OECD-23
	1 **Gross public social expenditure** [b]	18.0	26.0	24.7	17.8	20.1	29.2	24.8	28.5	27.4	19.8	13.8	24.4	16.9	6.1	5.1	21.4	18.5	23.9	17.9	19.6	29.8	21.8	14.7	20.4
-	Direct taxes and social contributions	0.2	2.6	1.7	0.6	0.0	4.1	2.7	1.3	1.3	0.6	0.3	1.8	0.2	0.0	0.0	2.0	1.5	1.9	0.0	1.3	3.6	0.3	0.5	
	2 Net direct public social expenditure	17.8	23.3	23.0	17.2	20.1	25.1	22.1	27.1	26.1	19.3	13.5	22.7	16.7	6.1	5.1	19.4	17.0	22.0	17.9	18.3	26.2	21.5	14.2	
-	Indirect taxes (on cash benefits)	1.0	2.7	2.2	0.9	2.0	3.3	2.9	2.8	2.1	1.6	1.6	2.1	0.6	0.3	0.1	2.2	1.6	2.4	1.9	1.6	2.5	1.9	0.3	
	3 Net direct public social expenditure	16.8	20.6	20.8	16.4	18.1	21.8	19.2	24.3	24.0	17.6	11.9	20.6	16.1	5.8	5.0	17.2	15.4	19.6	16.0	16.7	23.7	19.6	13.9	
+ T1	TBSPs similar to cash benefits	0.1	0.0	0.5	0.4	0.5	0.0	0.0	1.0	1.1	0.0	0.2	0.1	1.0	0.4	1.1	0.3	0.0	0.0	0.3	0.0	0.0	0.1	0.8	
-	Indirect taxes	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	4 Net TBSPs similar to cash benefits	0.1	0.0	0.5	0.4	0.4	0.0	0.0	0.8	0.9	0.0	0.1	0.1	0.9	0.3	1.1	0.3	0.0	0.0	0.3	0.0	0.0	0.1	0.8	
+ T2	TBSPs towards current private benefits	0.2	0.0	0.0	0.3	0.2	0.0	0.0	0.1	0.5	0.0	0.2	0.1	0.0	0.0	0.2	0.4	0.1	0.0	0.1	0.0	0.0	0.1	1.2	
	5 Net TBSPs (not including pensions)	0.3	0.0	0.5	0.7	0.6	0.0	0.0	0.9	1.4	0.0	0.3	0.3	1.0	0.3	1.3	0.7	0.1	0.0	0.3	0.0	0.0	0.2	2.0	
	6 Net current public social expenditure	17.1	20.6	21.2	17.1	18.7	21.8	19.2	25.2	25.4	17.6	12.2	20.9	17.1	6.1	6.3	18.0	15.5	19.6	16.4	16.7	23.7	19.8	15.9	17.9
	7 Gross mandatory private soc. Exp.	0.9	0.9	1.8	0.0	0.0	0.3	0.1	0.0	1.4	1.4	0.0	1.4	0.8	2.6	0.0	0.7	0.0	1.3	0.3	0.0	0.6	0.5	0.4	0.7
-	Direct taxes and social contributions	0.1	0.3	0.1	0.0	0.0	0.1	0.0	0.0	0.5	0.5	0.0	0.2	0.0	0.1	0.0	0.2	0.0	0.3	0.0	0.0	0.2	0.0	0.0	
-	Indirect taxes	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.2	0.0	0.3	0.0	0.1	0.0	0.2	0.0	0.0	0.1	0.1	0.0	
	8 Net current mand. private soc. exp.	0.7	0.5	1.4	0.0	0.0	0.1	0.1	0.0	0.8	0.7	0.0	1.1	0.7	2.2	0.0	0.4	0.0	0.8	0.2	0.0	0.3	0.4	0.4	0.5
	9 **Net publicly mandated soc. exp. [6+8]**	17.8	21.1	22.6	17.1	18.7	21.9	19.3	25.2	26.2	18.4	12.2	21.9	17.8	8.3	6.3	18.4	15.5	20.4	16.6	16.7	24.0	20.2	16.2	18.4
	10 Gross voluntary private soc. exp.	4.0	0.7	0.7	4.5	0.0	1.0	1.0	2.0	2.1	0.0	0.4	0.1	2.7	1.9	0.2	5.5	0.5	0.8	0.1	0.3	2.9	3.9	8.9	1.9
-	Direct taxes and social contributions	0.2	0.0	0.1	0.6	0.0	0.3	0.2	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.8	0.0	0.2	0.0	0.0	0.7	0.3	0.6	
-	Indirect taxes	0.3	0.0	0.1	0.3	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.2	0.2	0.0	0.6	0.0	0.1	0.0	0.0	0.3	0.4	0.2	
	11 Net current voluntary private soc. exp.	3.5	0.7	0.6	3.5	0.0	0.6	0.7	1.8	1.9	0.0	0.4	0.1	2.5	1.7	0.2	4.1	0.5	0.5	0.1	0.3	1.9	3.2	8.1	1.6
	12 Net current private soc. exp. [8+11]	4.2	1.2	2.0	3.5	0.0	0.7	0.7	1.8	2.6	0.7	0.4	1.2	3.2	3.9	0.2	4.5	0.5	1.2	0.4	0.3	2.2	3.6	8.5	
	13 **Net total social expenditure [6+12-T2]** [c]	21.1	21.8	23.2	20.3	18.5	22.5	20.0	27.0	27.6	18.4	12.5	21.9	20.2	10.0	6.2	22.1	15.9	20.9	16.7	17.0	26.0	23.3	23.1	19.8
	Memorandum item																								
	TBSPs towards pensions	1.5	0.1	0.1	0.0	0.1	..	0.1	0.0	0.8	0.9	2.3	0.0	0.7	..	0.1	..	0.0	0.2	0.1	0.2	0.0	0.9	1.1	
	Average indirect tax rate	9.9	16.2	14.4	11.2	16.0	26.5	21.4	15.9	13.7	20.7	19.9	13.1	6.5	12.9	7.7	17.4	15.6	23.0	15.3	13.0	20.7	13.5	4.4	15.2

a) Numbers in square brackets refer to line numbers in the second column; ".." cell with no information.

b) See footnote a) in Chart 2.

c) In order to avoid double counting, the value of TBSPs towards "current" private social benefits has been ignored for the calculation of net total social expenditure.

Table Annex 3. From gross public to total net social spending, 2001 *(con't.)*

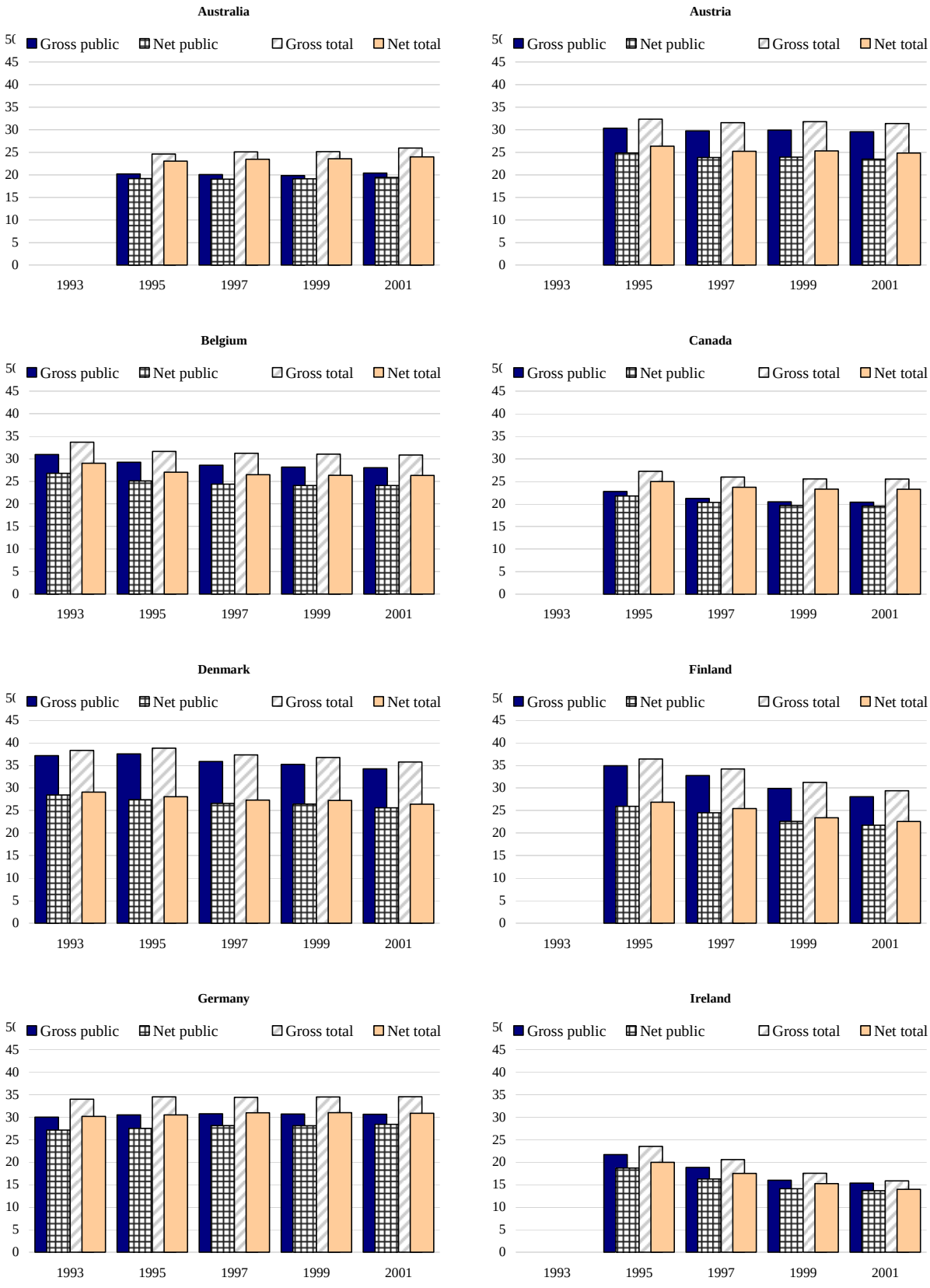
B. Social expenditure, in percentage of Net national disposable income at factor cost [a]

		Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Iceland	Ireland	Italy	Japan	Korea	Mexico	Netherlands	New Zealand	Norway	Slovak Republic	Spain	Sweden	United Kingdom	United States	OECD-23
	1 **Gross public social expenditure** [b]	25.9	36.0	33.6	25.0	27.8	44.3	35.2	39.6	37.6	28.8	21.6	33.9	23.2	7.4	6.4	30.0	26.3	32.9	26.2	26.2	42.4	28.9	17.7	28.6
-	Direct taxes and social contributions	0.3	3.7	2.3	0.8	0.0	6.2	3.8	1.9	1.8	0.8	0.4	2.5	0.3	0.0	0.0	2.8	2.1	2.6	0.0	1.7	5.1	0.4	0.6	
	2 Net cash direct public social expenditure	25.6	32.4	31.2	24.2	27.8	38.1	31.4	37.7	35.8	28.0	21.2	31.4	22.9	7.4	6.4	27.2	24.1	30.4	26.2	24.4	37.3	28.5	17.1	
-	Indirect taxes (on cash benefits)	1.4	3.8	3.0	1.2	2.8	5.0	4.1	3.9	2.9	2.4	2.5	2.9	0.8	0.4	0.1	3.0	2.3	3.3	2.7	2.1	3.5	2.5	0.4	
	3 Net direct public social expenditure	24.2	28.6	28.2	23.0	25.0	33.1	27.3	33.8	32.9	25.6	18.7	28.5	22.1	7.0	6.3	24.1	21.8	27.0	23.5	22.3	33.8	26.0	16.7	
+ T1	TBSPs similar to cash benefits	0.2	0.0	0.7	0.6	0.7	0.0	0.0	1.4	1.5	0.0	0.3	0.2	1.4	0.4	1.4	0.5	0.0	0.0	0.5	0.0	0.0	0.1	1.0	
-	Indirect taxes	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.2	0.2	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	
	4 Net TBSPs similar to cash benefits	0.2	0.0	0.6	0.5	0.6	0.0	0.0	1.2	1.3	0.0	0.2	0.2	1.3	0.4	1.3	0.4	0.0	0.0	0.4	0.0	0.0	0.1	0.9	
+ T2	TBSPs towards current private benefits	0.3	0.0	0.0	0.4	0.3	0.0	0.0	0.1	0.6	0.0	0.3	0.2	0.0	0.0	0.3	0.6	0.1	0.0	0.1	0.0	0.0	0.2	1.5	
	5 Net TBSPs (not including pensions)	0.5	0.0	0.6	0.9	0.9	0.0	0.0	1.3	1.9	0.0	0.5	0.4	1.3	0.4	1.6	1.0	0.1	0.0	0.5	0.0	0.0	0.2	2.4	
	6 Net current public social expenditure	24.7	28.7	28.8	23.9	25.9	33.1	27.3	35.1	34.8	25.6	19.2	28.9	23.4	7.4	7.9	25.2	21.9	27.0	24.0	22.4	33.8	26.2	19.1	25.0
	7 Gross mandatory private soc. Exp.	1.3	1.2	2.4	0.0	0.0	0.4	0.2	0.0	1.9	2.1	0.0	1.9	1.1	3.1	0.0	1.0	0.0	1.8	0.4	0.0	0.8	0.7	0.5	0.9
-	Direct taxes and social contributions	0.2	0.4	0.2	0.0	0.0	0.2	0.0	0.0	0.7	0.7	0.0	0.2	0.0	0.1	0.0	0.2	0.0	0.5	0.0	0.0	0.3	0.0	0.0	
-	Indirect taxes	0.1	0.1	0.3	0.0	0.0	0.1	0.0	0.0	0.2	0.3	0.0	0.2	0.1	0.4	0.0	0.1	0.0	0.3	0.0	0.0	0.1	0.1	0.0	
	8 Net current mand. private soc. exp.	1.0	0.7	1.9	0.0	0.0	0.2	0.1	0.0	1.0	1.1	0.0	1.5	1.0	2.7	0.0	0.6	0.0	1.0	0.4	0.0	0.4	0.6	0.4	0.6
	9 **Net publicly mandated soc. exp. [6+8]**	25.7	29.4	30.8	23.9	25.9	33.2	27.4	35.1	35.9	26.7	19.2	30.4	24.4	10.1	7.9	25.8	21.9	28.1	24.3	22.4	34.2	26.8	19.5	25.6
	10 Gross voluntary private soc. exp.	5.8	1.0	1.0	6.3	0.0	1.6	1.5	2.7	2.9	0.0	0.7	0.1	3.8	2.3	0.2	7.7	0.7	1.1	0.2	0.4	4.1	5.2	10.7	2.6
-	Direct taxes and social contributions	0.2	0.0	0.1	0.9	0.0	0.5	0.3	0.1	0.2	0.0	0.0	0.0	0.1	0.0	0.0	1.2	0.0	0.2	0.0	0.0	0.9	0.4	0.7	
-	Indirect taxes	0.4	0.0	0.1	0.4	0.0	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.2	0.2	0.0	0.8	0.0	0.2	0.0	0.0	0.4	0.6	0.2	
	11 Net current voluntary private soc. exp.	5.1	0.9	0.8	5.0	0.0	0.9	0.9	2.5	2.6	0.0	0.7	0.1	3.4	2.0	0.2	5.8	0.7	0.6	0.2	0.4	2.7	4.2	9.7	2.2
	12 Net current private soc. exp. [8+11]	6.1	1.6	2.7	5.0	0.0	1.0	1.1	2.5	3.6	1.1	0.7	1.6	4.4	4.7	0.2	6.4	0.7	1.7	0.5	0.4	3.2	4.8	10.2	
	13 **Net total social expenditure [6+12-T2]** [c]	30.5	30.3	31.5	28.5	25.6	34.1	28.3	37.5	37.8	26.7	19.6	30.3	27.8	12.1	7.8	30.9	22.6	28.7	24.4	22.8	37.0	30.8	27.8	27.5
	Memorandum item																								
	TBSPs towards pensions	2.2	0.1	0.2	0.0	0.1	..	0.2	0.0	1.2	1.3	3.6	0.0	1.0	..	0.1	..	0.0	0.2	0.1	0.2	0.0	1.2	1.3	
	Average indirect tax rate	9.9	16.2	14.4	11.2	16.0	26.5	21.4	15.9	13.7	20.7	19.9	13.1	6.5	12.9	7.7	17.4	15.6	23.0	15.3	13.0	20.7	13.5	4.4	15.2

a) Numbers in square brackets refer to line numbers in the second column; ".." cell with no information.
b) See footnote a) in Chart 2.
c) In order to avoid double counting, the value of TBSPs towards "current" private social benefits has been ignored for the calculation of net total social expenditure.

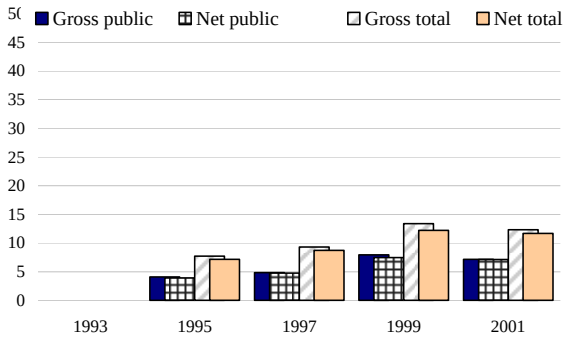
ANNEX 4: GROSS AND NET SOCIAL EXPENDITURE TRENDS

Annex 4. Gross and net social expenditure trends
Percentage of GDP factor cost

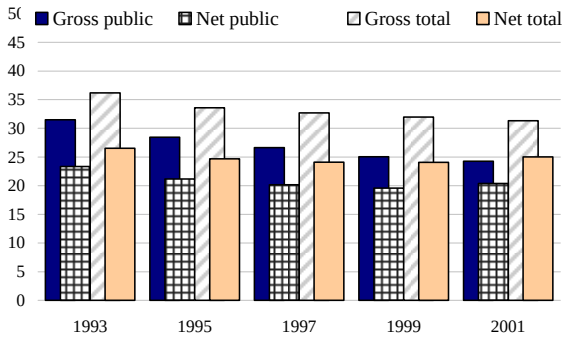


Annex 4. Gross and net social expenditure trends *(cont.)*
Percentage of GDP factor cost

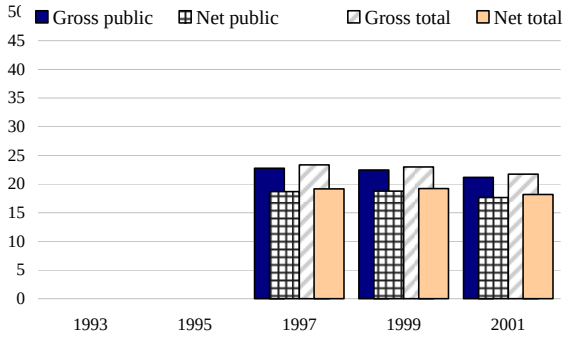
Korea



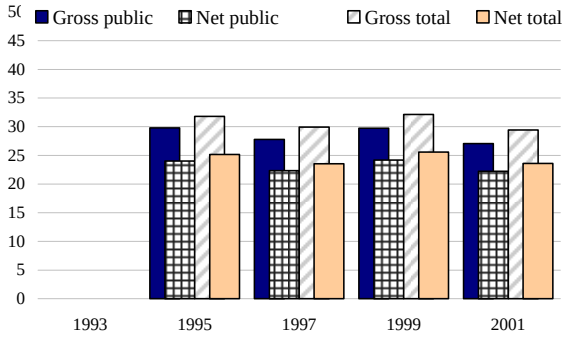
Netherlands



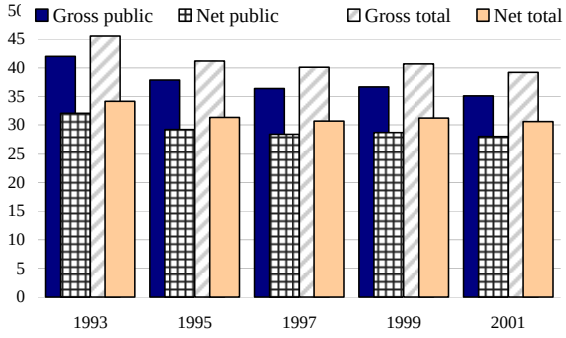
New Zealand



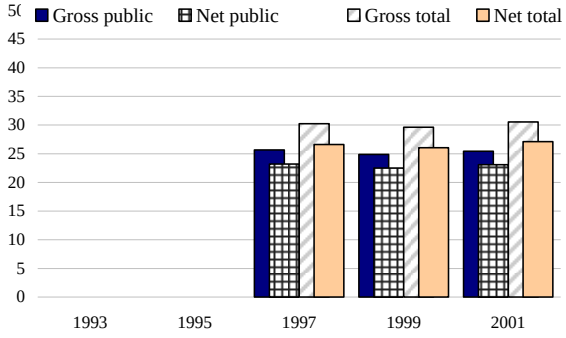
Norway



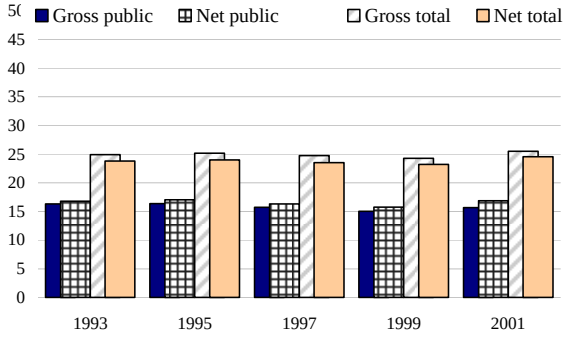
Sweden



United Kingdom



United States



Source: See Table 6.

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