

Key results

The personal tax system plays an important role in old-age support. Pensioners often do not pay social security contributions. Personal income taxes are progressive and pension entitlements are usually lower than earnings before retirement, so the average tax rate on pension income is typically less than the tax rate on earned income. In addition, most income tax systems give preferential treatment either to pension incomes or to pensioners, by giving additional allowances or credits to older people.

Slightly more than half (18 out of 34) OECD countries provide older people with additional basic relief under the personal income tax. Generally, this takes the form of an extra tax allowance or tax credit. In many cases – Canada and the United Kingdom, for example – this additional relief is phased out for older people with higher incomes.

A significant number of countries offer tax relief for particular source of retirement income. Relief from income tax for public pensions, either full or partial, is available in 12 OECD countries. For example, between 15% and 50% of income from public pensions (social security) in the United States is not taxed, depending on the total income of the pensioner. Another four countries offer reliefs for private-pension income. In Australia, for example, benefits derived from pension contributions and investment returns that have been taxed are not taxable in payment for over 60s. (This therefore applies to the mandatory defined-contribution scheme and voluntary contributions to such plans.)

Overall, 24 OECD countries have some concession for older people or pension income under their personal income taxes. In only ten is the tax treatment of pensions and pensioners the same as it is for people of working age.

Virtually all OECD countries levy employee social security contributions on workers: Australia and New Zealand are the only exceptions. In addition to these two countries, a further 17 do not levy social security contributions on pensioners. The rate of contributions in the 15 countries that do levy social security contributions on retirees is always lower than the rate charged on workers. Typically, older people do not pay contributions for pensions or unemployment (for obvious reasons). However, pensioners can be subject to levies to pay for health or long-term care and, in some cases, are liable for “solidarity” contributions to finance a broad range of benefits.

Empirical results

The charts show the percentage of income paid in taxes and contribution by workers and pensioners.

Starting with pensioners, countries have been ranked by the proportion of income paid in tax at the replacement rate that an average earner would see in retirement (as set out in the indicator of “Gross pension replacement rates” above). In five OECD countries and five other major economies, such a pensioner would not pay an income tax in retirement. In some cases, such as the Slovak Republic and Turkey, this is because pensions are not taxable. In others, such as Ireland, it is because the pension income would be less than the basic income-tax reliefs offered to older people. Pensioners with the gross replacement rate for an average earner would pay 11.8% of their income in taxes and contributions.

The other two bars in the charts aim to show directly the impact of different tax and contribution treatment of earnings and pensions. The longer bar shows the amount of taxes and contributions paid by a worker with average earnings. This averages 26.4% in OECD countries and 12.8% in other major economies.

The middle bar shows how much a pensioner would pay with the same income: that is, a pension worth the same as average earnings. This averages 18.2% in OECD countries, some 8.2 percentage points less than workers pay with the same level of income.

The difference between this 18.2% rate for pensioners with an income equal to average earnings and the 11.8% paid in taxes and contributions paid on incomes equal to the gross replacement rate for an average earner illustrates the impact of progressivity in income-tax systems.


Reference

Keenay, G. and E.R. Whitehouse (2003), “The Role of the Personal Tax System in Old-age Support: A Survey of 15 Countries”, *Fiscal Studies*, Vol. 24, No. 1, pp. 1-21.

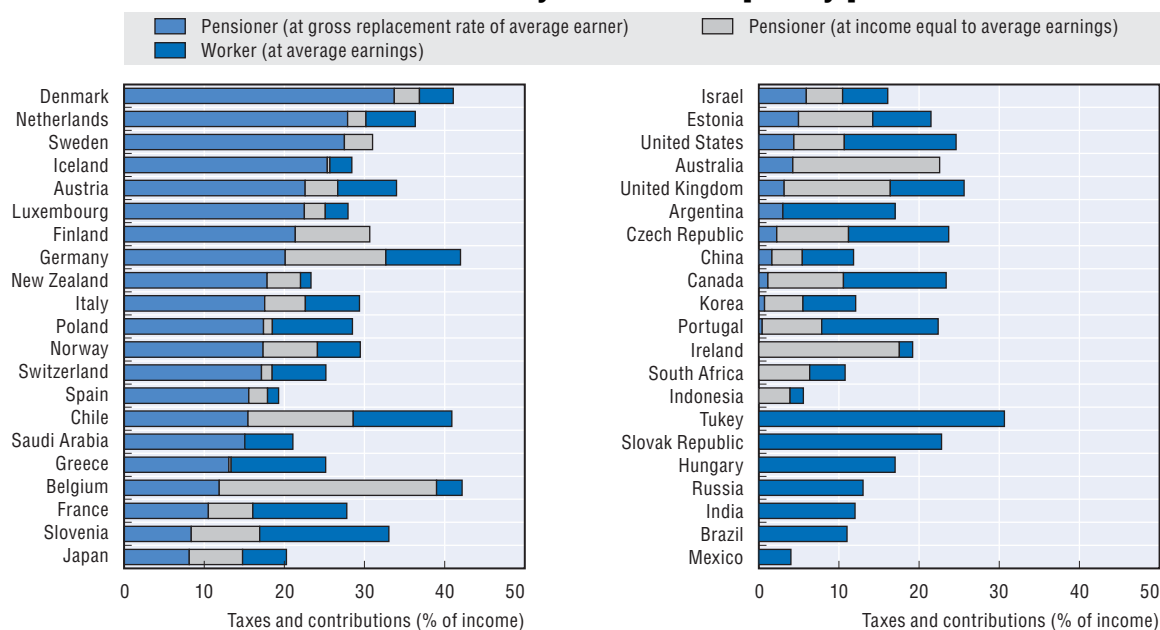
Treatment of pensions and pensioners under personal income tax and social security contributions

	Extra tax	Full or partial relief for pension income		Social security contributions		Extra tax	Full or partial relief for pension income		Social security contributions
	Allowance/credit	Public scheme	Private scheme	Pensions		Allowance/credit	Public scheme	Private scheme	Pensions
OECD members					OECD members (cont.)				
Australia	✓	✓	✓	None	New Zealand				None
Austria				Low	Norway	✓	✓		Low
Belgium		✓		Low	Poland				Low
Canada	✓	✓	✓	None	Portugal	✓			None
Chile	✓			None	Slovak Republic		✓		None
Czech Republic	✓	✓		None	Slovenia	✓			Low
Denmark				None	Spain		✓		None
Estonia	✓			None	Sweden				None
Finland		✓		Low	Switzerland				Low
France				Low	Turkey		✓		None
Germany		✓	✓	Low	United Kingdom	✓			None
Greece				Low	United States	✓	✓		None
Hungary				None					
Iceland				None	Other major economies				
Ireland	✓			Low	Argentina		✓		None
Israel	✓			Low	Brazil		✓		None
Italy	✓		✓	None	China				
Japan	✓			Low	India	✓			None
Korea	✓	✓		None	Indonesia				None
Luxembourg	✓			Low	Russian Federation				Low
Mexico	✓			None	Saudi Arabia				Low
Netherlands	✓			Low	South Africa	✓			None

Source: Online country profiles available at www.oecd.org/els/social/pensions/PAG.

StatLink  <http://dx.doi.org/10.1787/888932370854>

Personal income taxes and social security contributions paid by pensioners and workers



Source: OECD pension models; OECD tax and benefit models.

StatLink  <http://dx.doi.org/10.1787/888932370854>



From:
Pensions at a Glance 2011
Retirement-income Systems in OECD and G20 Countries

Access the complete publication at:
https://doi.org/10.1787/pension_glance-2011-en

Please cite this chapter as:

OECD (2011), "Tax Treatment of Pensions and Pensioners", in *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/pension_glance-2011-17-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

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

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.