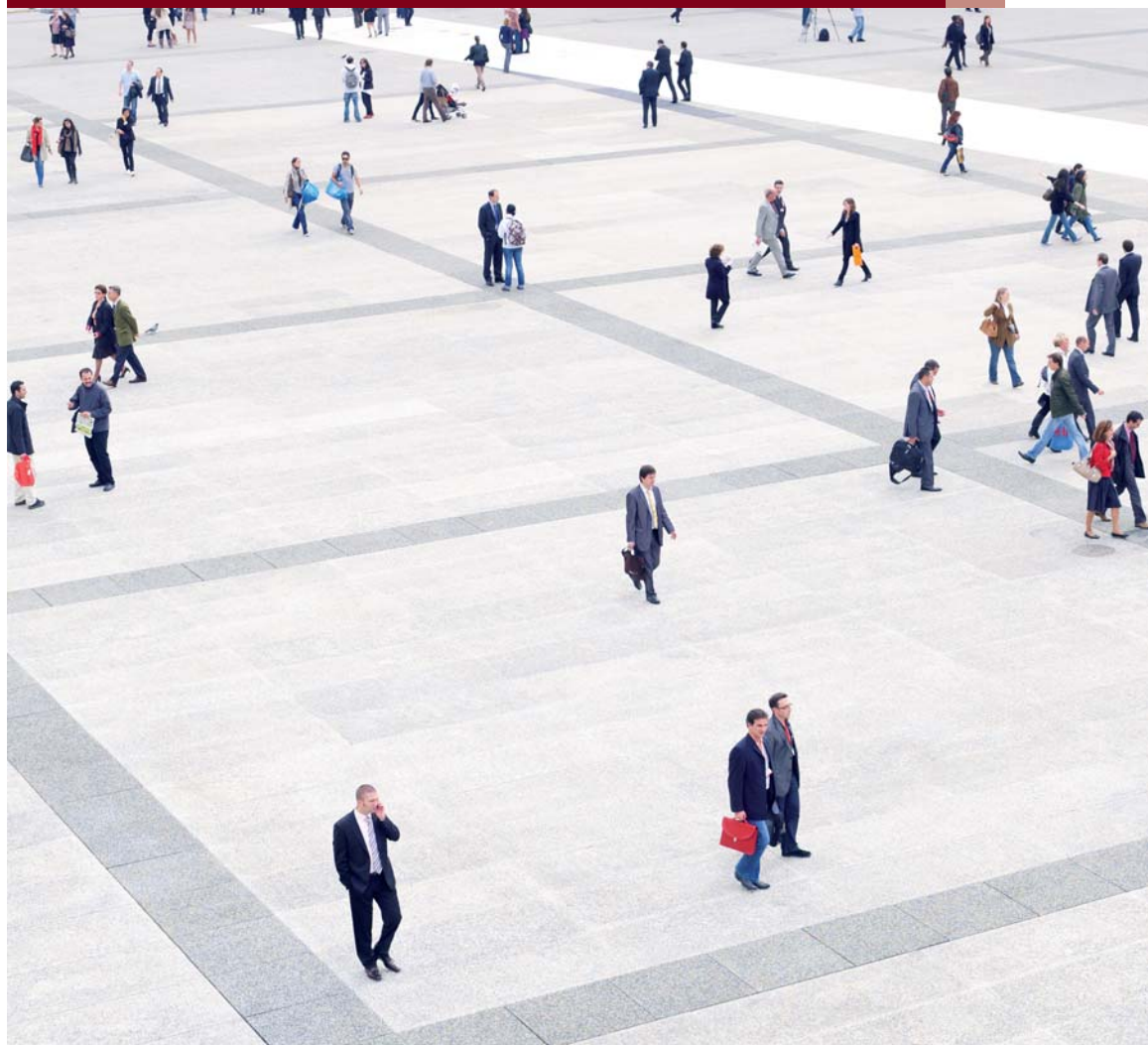


## *Personal tax in the European Union (including Norway, Iceland and Switzerland)*

How much do you get to take home from your pay packet and how do your European colleagues fare?

2010 Edition



# Table of Contents

Introduction	1
Highlights	2
Methodology	3
Overview of the national tax systems	5
Summary of high-level results	7
Scenario 1	7
Scenario 2	8
Scenario 3	9
Scenario 4	10
Summary of all four scenarios	11
Detailed consideration of the results	12
Impact of salary level on the tax and social security burden	12
Family tax reliefs	13
Flat tax rate	15
Employer's social security charges	16
Electronic tax filing	17
Summary	18
Contact details	19

# Introduction

*When we launched our comparative research into levels of “take home pay” across the European Union last year we were only able to make a simple comparative analysis between the member states.*

Without the history from previous years we were unable to highlight trends, put forward hypotheses or highlight differing approaches taken by member states to the task of generating tax revenues. Over time our ability to undertake such analysis will clearly increase and even in only the second year of this report we have been able to draw some inferences between the economy in a broader sense and adjustments to personal tax systems. At the same time, our focus also remains with the simple, practical aspects of personal tax systems which help answer the question: “How much net will I get from my gross salary?”

With the economy, taxation policy and legal solutions considering financial markets still holding centre stage in most member states it is surprising to see how little this financial tsunami that has continued to spread across Europe for the last two years has had on the area of personal taxation. This is, in part, due to the fact that free international economies are vulnerable to continual swings and tremors in overall business sentiment and confidence, which require rapid responses rather than adjustments to ponderous administrative and legal systems which take longer to have an impact. That having been said, some member states have clearly been looking at the longer term and have adjusted personal tax rates and allowances to some degree. In some states the most wealthy, or those in a particular industry, have been the target for tax increases while in others, for example Latvia, there is an across the board effect with the flat tax rate increasing from 23% to 26% in 2010. To some degree political necessity has played an equally important role as economic reality in the decisions around personal taxation with the full impact of such changes not to be realised for some time. Consequently, as will be seen in this report, for the vast majority of the European workforce little has changed between 2009 and 2010 in terms of the percentage of their pay being taken in tax and social security. Whether this continues to hold true over the coming years, only time will tell.

Additionally, we would like to emphasize that our research has been conducted within the strict boundaries of four specific scenarios and the assumptions underpinning them (individuals earning an average salary, individuals earning 5 times the average salary). Given this, the results of the current survey are not groundbreaking and show rather stability than change in European personal tax jurisdictions. As mentioned, the results are similar to those from the previous year which substantiates the thesis that individuals’ net salaries were probably more affected by the crisis itself (in nominal terms) than by the personal tax systems. On the one hand this could be seen as a very positive outcome for the workforce, however, with a number of member states increasing the rate of the politically softer target VAT, the picture may not be quite so rosy.

Finally, it is worth mentioning that our current survey includes certain countries that are not members of the EU but which are important players in the European economy, being Norway, Iceland and Switzerland.

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# Highlights

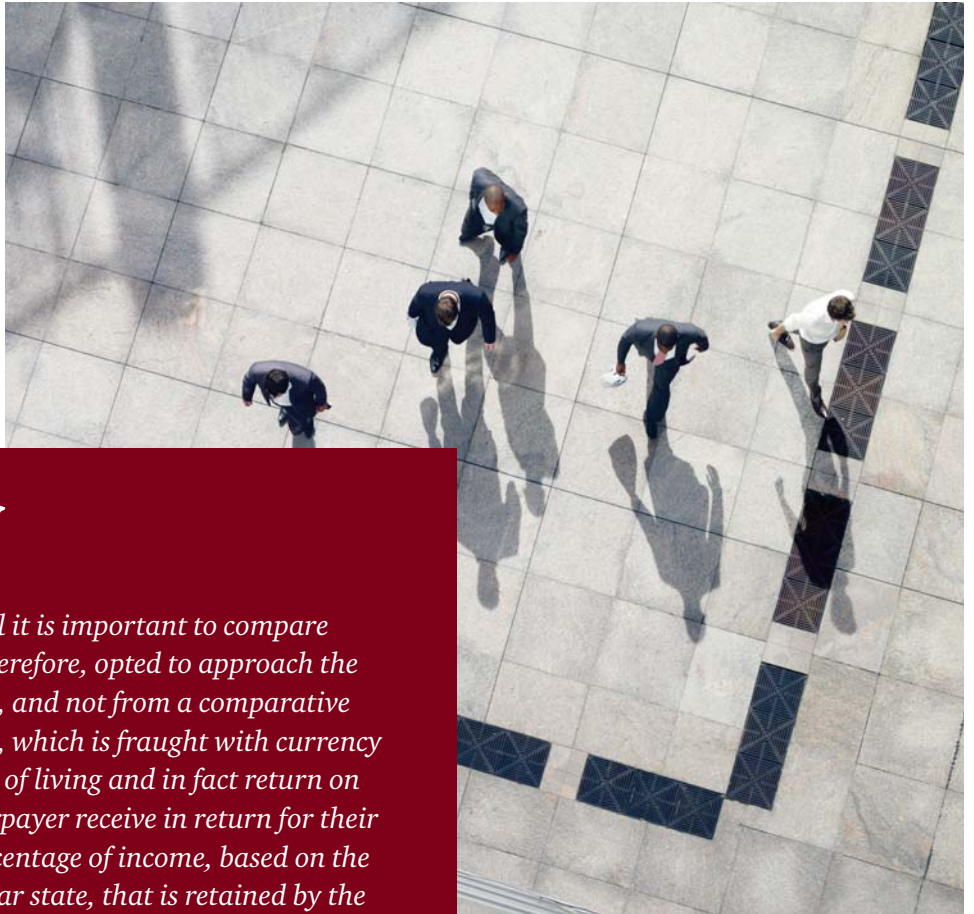
- The average net salary received by residents of the surveyed countries (European Economic Area + Switzerland) is approximately 70% of gross remuneration. Personal income tax burden constitutes on an average about 20% and employees' social security cost constitutes about 10% of gross income. Average personal income tax burdens in the EU slightly increased and EU average net slightly decreased. However, as we have rounded the numbers appropriately down and up, the general results are comparable with last year's results.

- Countries which can be proud of an average net salary higher than 70% are: Bulgaria, Estonia, Slovakia, the Czech Republic, Cyprus, Malta, Lithuania, Portugal, Spain, Poland, Latvia, Ireland, Luxemburg and Romania.

- This list includes all countries with flat personal income tax rates (Bulgaria, Estonia, Slovakia, the Czech Republic, Lithuania, Latvia and Romania). The average net salary in these countries is approximately 77% of gross remuneration (approximately 1 percentage point less than in 2009); while the average net salary in countries with progressive taxation is about 67%. Certainly there are significant differences among particular countries with flat tax rates. For example, in Romania, the average net salary is approximately 71%, while in Bulgaria, the average net salary is 81% of gross remuneration.

- However, residents of a few countries with progressive taxation can enjoy average net salaries at a level comparable to the average net salary in several countries with flat tax rates, for example, Cyprus (79%). This rate is not only due to the level of tax burden but also due to the employees' social security costs.

- Moreover, it should be noted that the average net levels for various countries may differ if we consider different groups, for example, individuals with relatively low salaries compared to individuals with higher salaries and are relatively wealthy, or single-earning person versus couples' earning. Therefore, in our report, we have analysed different scenarios. Furthermore, in order to ensure comparability of net income calculations between countries, we did not consider tax reliefs available in particular states (other than most common ones like family tax reliefs).



## Methodology

*In terms of methodology, we feel it is important to compare apples with apples! We have, therefore, opted to approach the task of net income comparisons, and not from a comparative analysis in pure currency terms, which is fraught with currency relativities, comparisons of cost of living and in fact return on "investment" (what does the taxpayer receive in return for their payments?), but rather the percentage of income, based on the average salary for that particular state, that is retained by the employee. We used very simple scenarios to make the comparisons clear and straightforward.*

## Assumptions

We looked at four scenarios, which we believe are representative. The assumptions underpinning all scenarios are as follows:

- the individuals are tax residents in a given country;
- their employer is a registered employer in that country;
- the employee's total annual employment income equals 12 times the average monthly salary in a given country in 2010 (the average salary is denominated in the local currency of the given country);
- the only source of income is employment;
- no tax reliefs (other than family) are taken into account and
- tax and social security rates binding in 2010 were used (as regards Switzerland, we used the tax rates binding in Geneva).

Information regarding the given country's average salary and calculations of tax and social security burdens were provided to us by PwC firms in respective countries.

## Scenarios

### Scenario 1

This scenario relates to an individual who is single (no spouse or children) and earns the average annual salary.

### Scenario 2

This scenario relates to a married person whose spouse earns no income. We also assumed two dependent children who earn no income. We took into account all family tax reliefs available, for example joint tax return, child relief and personal allowances. The working individual earns the average annual salary.

### Scenario 3

This scenario relates to an individual who is single (no spouse or children) and earns five times the average annual salary.

### Scenario 4

This scenario relates to a married person whose spouse earns no income. We also assumed two dependent children who earn no income. We took into account all family tax reliefs available joint tax return, child relief and personal allowances. The working individual earns five times the average annual salary.

## Average salaries – 2010

The table below presents the average annual salaries for particular states (denominated or recalculated in EUR).

Country	Average annual gross salary (EUR)	Country	Average annual gross salary (EUR)
Austria	40 000	Latvia	7 436
Belgium	39 500	Lithuania	7 124
Bulgaria	3 910	Luxembourg	48 000
Cyprus	24 180	Malta	14 408
The Czech Republic	11 238	The Netherlands	32 500
Denmark	36 108	Norway	52 765
Estonia	9 768 <sup>1</sup>	Poland	9 609
Finland	35 724	Portugal	11 511
France	34 000	Romania	5 217
Germany	40 859	Slovakia	9 228
Greece	36 000	Slovenia	17 827
Hungary	8 694	Spain	22 100
Iceland	24 449	Sweden	23 904
Ireland	35 625	Switzerland	50 736
Italy	30 000	The UK	27 452

<sup>1</sup> According to the most recent information published for the fourth quarter of 2010.

Source: data gathered by PwC in respective countries.

Countries whose national currency is not EUR, they were calculated by applying the annual average exchange rate reported by Oanda.com.

# Overview of the national tax systems

*Before we go to a detailed analysis of the impact of personal taxation and social security on the net income of employees, in our view, it is necessary to put our findings into a broader perspective.*

Personal income tax and social security are only a part of national taxation systems. Also taxes as such are only an element of the gross domestic product (GDP). Thus, the total tax taken as a percentage of GDP and breakdown of taxes should be considered at the very beginning to better understand the context. Thus, in our view, the tables below constitute the appropriate perspective for our inquiries.

**Breakdown of tax take by country in 2008 (percentage of total taxation\*)**

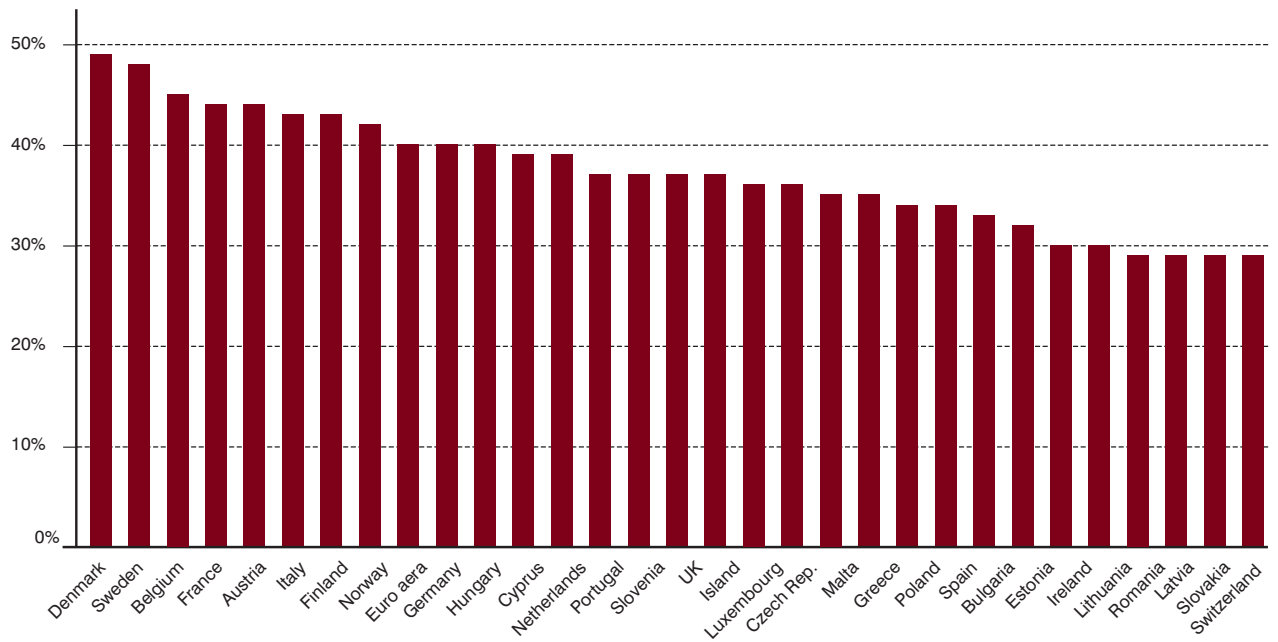
		VAT	Excise duties and consumption taxes	Other taxes on products (incl. import duties)	Other taxes on productions	Personal income taxes	Corporate income Taxes	Other direct taxes	Social contributions
BE	Belgium	15,8 (16,2)	4,7 (5,0)	5,1 (5,6)	4,0 (3,8)	28,5 (27,3)	7,5 (8,2)	2,9 (3,0)	31,5 (30,9)
BG	Bulgaria	34,5 (35,4)	18,3 (17,2)	1,4 (1,2)	1,5 (1,3)	8,9 (9,4)	10,0 (9,5)	2,1 (2,1)	24,3 (25,3)
CZ	Czech Republic	19,5 (17,8)	9,5 (10,3)	1,3 (1,3)	1,1 (1,1)	11,2 (11,7)	12,3 (13,1)	0,3 (0,4)	44,9 (44,2)
DK	Denmark	21,0 (21,4)	6,6 (6,7)	4,6 (5,3)	3,9 (3,7)	52,5 (51,8)	7,1 (7,4)	2,7 (2,0)	2,0 (2,0)
DE	Germany	17,9 (17,8)	6,5 (6,7)	2,4 (2,5)	5,8 (5,8)	24,4 (23,4)	2,8 (3,5)	2,0 (1,9)	38,3 (38,5)
EE	Estonia	24,9 (28,2)	10,4 (11,4)	1,3 (1,4)	2,2 (2,0)	19,5 (18,5)	5,1 (5,2)	0,0 (0,0)	36,6 (33,3)
IE	Ireland	24,4 (24,2)	8,2 (7,6)	6,1 (8,4)	3,8 (3,0)	27,9 (23,5)	9,8 (10,7)	1,6 (6,8)	18,2 (15,9)
EL	Greece	21,8 (22,6)	7,1 (7,8)	7,8 (7,2)	1,3 (0,9)	14,6 (14,7)	7,5 (8,0)	2,4 (2,6)	37,5 (36,3)
ES	Spain	15,9 (16,5)	6,4 (6,0)	5,1 (7,0)	3,3 (2,9)	22,6 (20,9)	8,7 (12,8)	2,6 (2,4)	37,1 (32,9)
FR	France	16,4 (16,6)	4,6 (4,6)	4,2 (4,3)	9,9 (9,9)	17,9 (17,4)	6,5 (6,8)	3,3 (3,4)	37,7 (37,5)
IT	Italy	13,8 (14,4)	4,5 (4,8)	7,0 (7,0)	7,5 (8,4)	27,4 (26,3)	7,4 (7,5)	1,2 (1,5)	31,3 (30,1)
CY	Cyprus	28,9 (27,2)	8,4 (9,0)	4,1 (4,7)	6 (7,1)	12,7 (15,1)	18 (16,6)	2,2 (2,0)	19,7 (18,4)
LV	Latvia	23,0 (26,9)	11,0 (9,4)	2,1 (2,6)	2,2 (2,4)	21,8 (20,1)	10,9 (8,9)	0,8 (1,2)	28,3 (28,6)
LT	Lithuania	26,6 (27,4)	10,1 (9,8)	1,4 (1,3)	1,4 (1,8)	21,7 (22,2)	9,1 (8,6)	0,1 (0,1)	29,8 (28,8)
LU	Luxembourg	16,8 (15,9)	9,9 (10,1)	2,6 (3,6)	4,4 (5,7)	21,7 (20,1)	14,3 (14,8)	2,0 (2,1)	28,3 (27,8)
HU	Hungary	19,3 (19,9)	8,3 (8,4)	10,3 (10,2)	1,7 (1,7)	19,0 (18,0)	6,5 (6,9)	0,8 (0,8)	34,1 (34,1)
MT	Malta	23,3 (22,2)	9,0 (9,7)	9,8 (10,4)	1,5 (1,4)	16,7 (17,0)	19,6 (19,4)	2,2 (2,8)	17,9 (17,1)
NL	Netherlands	18,6 (19,4)	6,0 (6,3)	5,2 (5,3)	2,7 (2,6)	18,4 (19,1)	8,8 (9,1)	3,3 (3,4)	37,1 (34,8)
AT	Austria	18,2 (18,4)	5,8 (6,0)	2,5 (2,7)	7,2 (7,1)	24,4 (23,7)	6,2 (6,2)	2,3 (2,3)	33,6 (33,8)
PL	Poland	23,4 (24,1)	12,9 (12,1)	1,2 (1,1)	4,5 (4,4)	15,6 (15,3)	7,9 (7,9)	1,7 (1,7)	33,1 (34,6)
PT	Portugal	23,6 (23,9)	7,7 (7,9)	6,8 (7,7)	2,4 (2,2)	15,7 (15,5)	10,2 (10,1)	1,1 (1,0)	32,5 (31,8)
RO	Romania	28,2 (27,7)	9,6 (10,4)	2,2 (2,4)	2,8 (2,8)	12,1 (11,2)	10,7 (10,5)	1,2 (1,3)	33,3 (33,6)
SI	Slovenia	22,6 (22,4)	9,0 (8,6)	2,6 (2,8)	4,3 (5,5)	15,8 (15,0)	6,7 (8,8)	1,6 (1,1)	37,6 (36,0)
SK	Slovakia	23,6 (22,9)	9,2 (12,0)	1,5 (1,3)	2,6 (3,2)	9,5 (8,7)	10,8 (10,0)	1,8 (2,1)	41 (39,8)
FI	Finland	19,4 (19,4)	7,8 (7,8)	2,8 (3,1)	0,6 (0,6)	30,9 (30,3)	8,1 (9,0)	2,4 (2,1)	28 (27,7)
SE	Sweden	20,0 (19,1)	5,8 (5,8)	1,6 (1,6)	11,7 (8,9)	30,1 (30,2)	6,3 (8,3)	0,6 (0,9)	23,9 (25,3)
UK	UK	17,0 (18,1)	8,6 (8,8)	3,1 (4,2)	4,3 (4,2)	28,7 (28,9)	9,6 (8,8)	10,4 (8,6)	18,3 (18,4)
NO	Norway	17,2	4,7	3	1,3	21,7	28,6	2,2	21,1

\* Numbers in brackets represent the corresponding figures valid for 2007

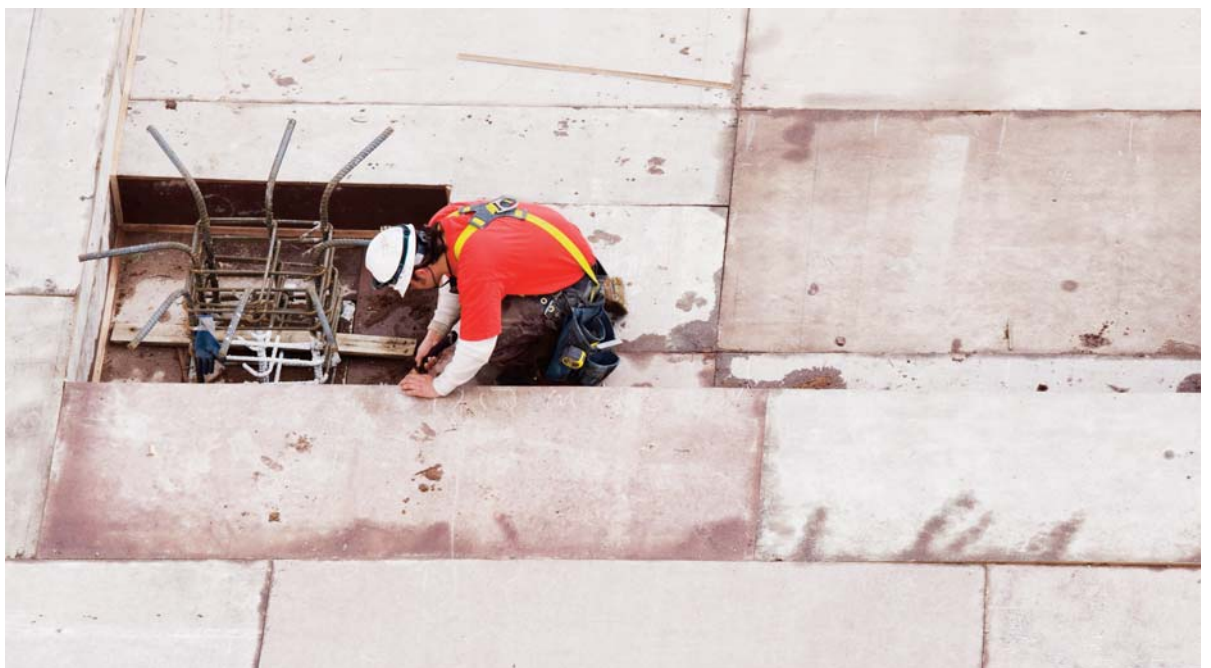
Source: "Taxation trends in the European Union" by European Commission (2009 and 2010 Editions).

The table above represents the overall balance of tax revenues, i.e. countries where the level of direct taxes is relatively high, indirect taxes imposed on goods, services and consumption or production is significantly lower and vice versa. Only some countries raise roughly equal shares of revenues from direct taxes, indirect taxes and social security contributions. Its particularly important that the level of direct taxes is generally low in new member states of the EU compared to the old member states. In these countries, the level of tax as a percentage of GDP is also low (refer to the analysis below). On the other hand, indirect taxes tend to be quite high. Later in the report, we have analysed other differences between these countries and the EU-15, especially when it comes to flat taxation.

Taxes and social security contributions as fraction of GDP



Source: Eurostat



# Summary of high-level results

High-level results are summarised below, simply focussing on the resulting net income.

Country	net %
Cyprus	91%
Malta	84%
Portugal	83%
Ireland	81%
Spain	80%
Bulgaria	79%
Estonia	79%
Slovakia	78%
Czech Republik	78%
Lithuania	78%
UK	77%
Luxembourg	74%
Finland	73%
Iceland	72%
France	72%
Norway	72%
Poland	72%
Greece	71%
Netherlands	71%
Romania	70%
Italy	70%
Latvia	69%
Hungary	69%
Switzerland	68%
Austria	66%
Slovenia	66%
Sweden	66%
Denmark	66%
Germany	61%
Belgium	59%

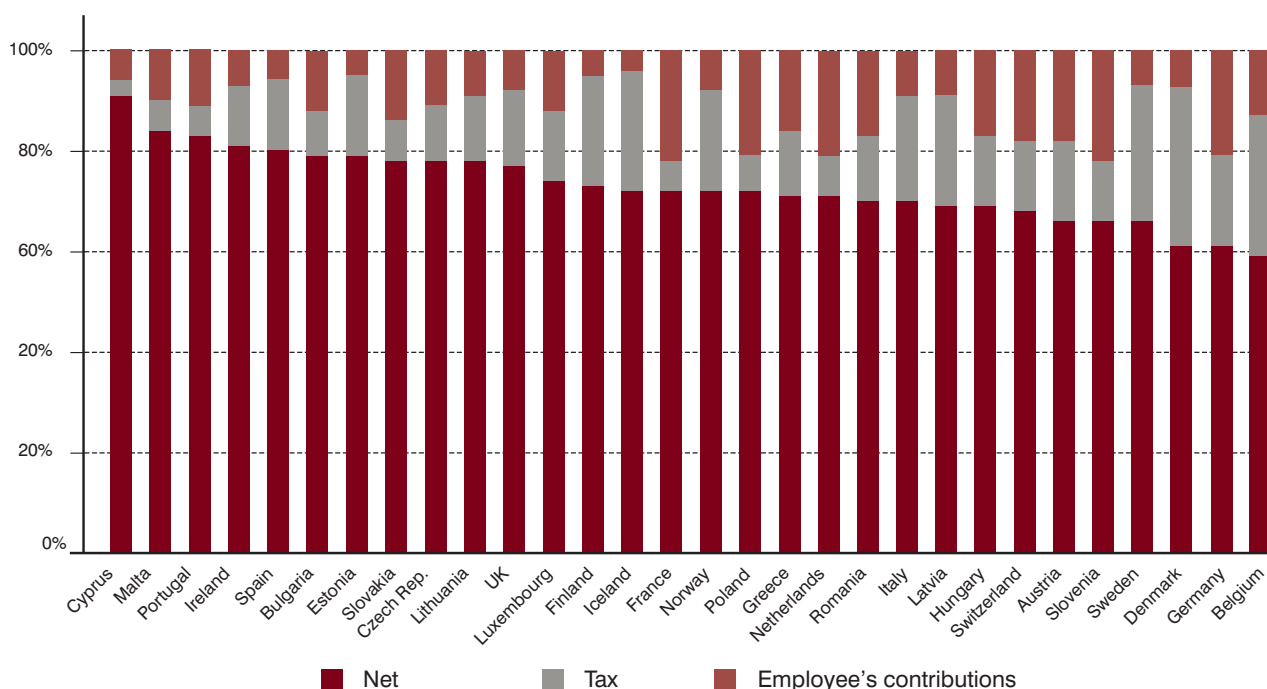
## Scenario 1 – Single, average salary

In this scenario, the lowest average tax and social security burden is in Cyprus where individuals keep 91% of their annual gross salary. The highest average tax burdens are in Belgium (net salary at a level of 59%) as well as Germany (net salary at a level of 61%). In Germany, the tax burden is lower than in Denmark, but social security charges levied in Germany result in overall lower net income. It is worth noting that certain countries (e.g. Germany) offer some tax reliefs, which, for comparability reasons, could not be taken into account in this report though (apart from family tax reliefs – refer to scenario 2).

There are some changes in the results between data concerning 2009 and 2010; namely in Latvia, the overall net salary earned by individuals in Scenario I is 5 percentage points lower in 2010 than in 2009. This decrease is clearly due to deterioration in Latvian economy within the span of the last year, which resulted in lower net salary of individuals (in nominal terms) as well as accompanying increase of the tax rates (from 23% to 26%).

*The average net income for all surveyed countries in this scenario is 73% of gross remuneration.*

Tax and social security within gross salary



High-level results are summarised below, simply focussing on the resulting net income.

Country	net %
Czech Republic	95%
Slovakia	92%
Cyprus	91%
Portugal	89%
Ireland	88%
Spain	88%
Malta	87%
Estonia	86%
Iceland	86%
Luxembourg	84%
Latvia	81%
Lithuania	80%
Bulgaria	79%
Poland	79%
France	78%
UK	77%
Netherlands	76%
Italy	76%
Norway	75%
Slovenia	75%
Finland	73%
Greece	73%
Romania	72%
Denmark	72%
Switzerland	71%
Belgium	71%
Germany	70%
Hungary	69%
Austria	68%
Sweden	66%

## Scenario 2 – Married with two dependent children, average salary

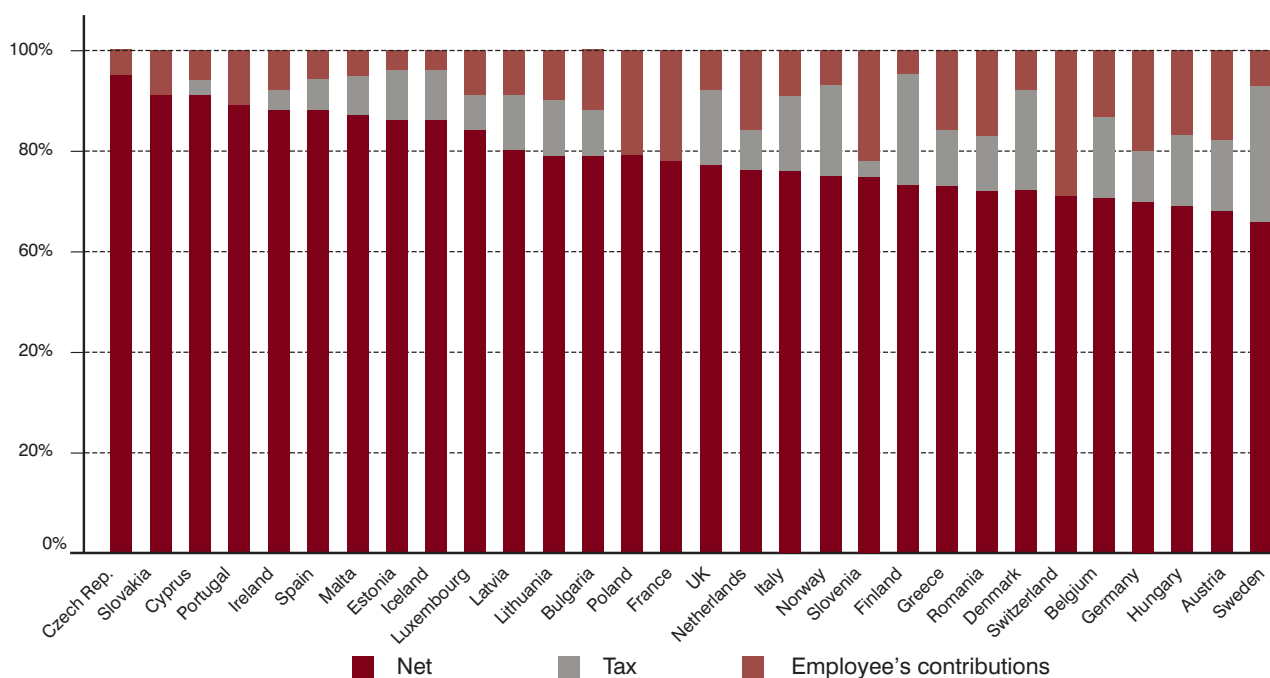
A family has a significant impact in many surveyed countries with noticeably higher net remuneration compared with the scenario for a single individual earning the average salary – in the Czech Republic (increase of 17 percentage points), in Slovakia (increase of 14 percentage points) and in Belgium (increase of 12 percentage points). Nonetheless, Belgium remains a relatively high tax jurisdiction.

The results of Slovakia, the Czech Republic, Portugal, Poland and France as well as Switzerland are interesting. In these countries, in case of individuals earning average salary, family tax reliefs are higher than the tax. Consequently, they pay only social security premiums but no personal income tax on their earnings.

Moreover, in the Czech Republic, there is an increase of 3 percentage points in comparison to the results of 2010, which is caused by a higher child deduction in 2010.

*The average net income for all surveyed countries in this scenario is 79% of gross remuneration.*

Tax and social security within gross salary



High-level results are summarised below, simply focussing on the resulting net income.

Country	net %
Bulgaria	83%
Lithuania	76%
Estonia	76%
Slovakia	74%
Cyprus	74%
Czech Republic	71%
Romania	70%
Malta	69%
Poland	68%
Latvia	68%
Spain	64%
Portugal	63%
UK	62%
Luxembourg	61%
Switzerland	59%
Greece	59%
Austria	59%
France	58%
Iceland	57%
Norway	57%
Ireland	57%
Germany	56%
Finland	54%
Netherlands	54%
Hungary	52%
Sweden	52%
Italy	52%
Slovenia	51%
Denmark	51%
Belgium	44%

### Scenario 3 – Single, earning five times the average salary

This scenario shows that in countries with a flat tax rate (Bulgaria, Estonia, Lithuania, Slovakia, the Czech Republic, Romania and Latvia), the net remuneration (as a percentage of gross salary) is generally higher than in countries with progressive taxation (Cyprus is the most distinguishing exception).

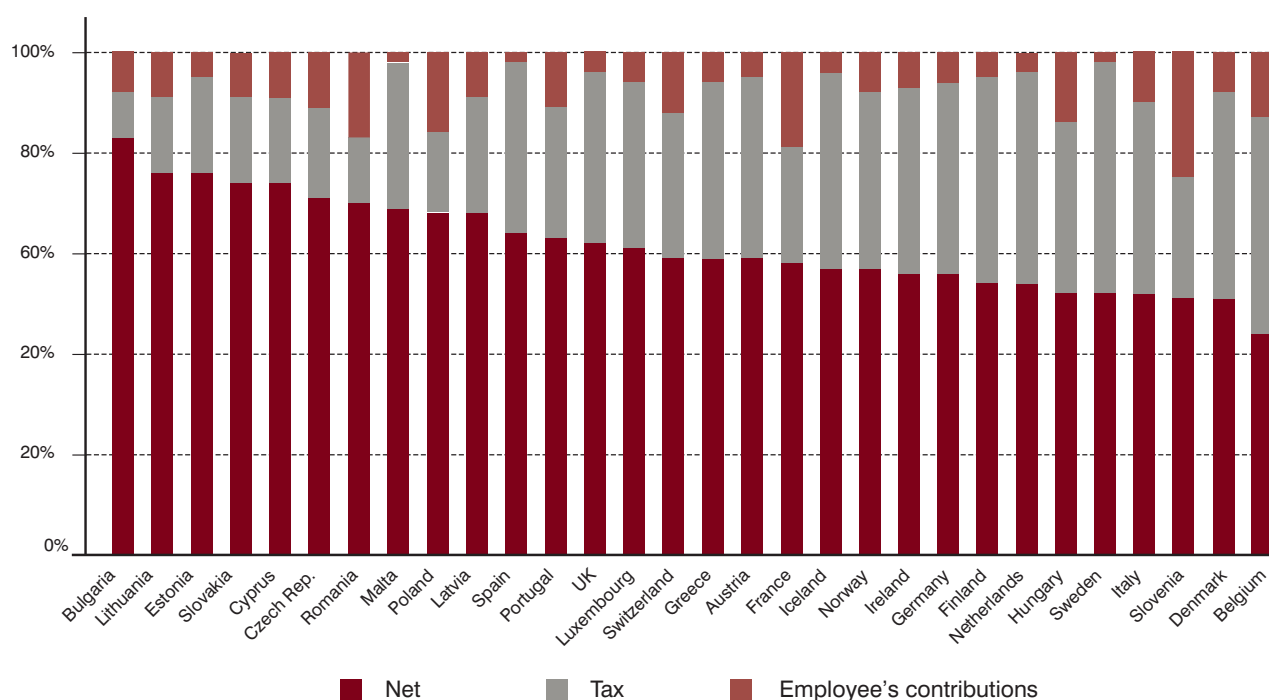
The high results for Bulgaria reflect not only their low flat tax rate impact but also the fact that social security contributions are capped in this country.

In Belgium, the tax and social security burden is higher than 50%, reflecting its progressive tax systems as well as the “uncapped” salary basis on which the social security contributions are withheld. Both elements especially affect those individuals with high incomes.

In Denmark, the results are 5 percentage points higher than in 2009 which are due to some significant reductions in the tax scale. For the Czech Republic, the results are lower than in 2009 (by 4 percentage points), which is due to an increase of the social security cap.

*The average net for all surveyed countries in this scenario is **62%** of gross remuneration.*

Tax and social security within gross salary



High-level results are summarised below, simply focussing on the resulting net income

Country	net %
Bulgaria	83%
Estonia	77%
Lithuania	76%
Poland	76%
Slovakia	76%
Czech Republik	74%
Cyprus	74%
Malta	72%
Romania	70%
Latvia	70%
Portugal	70%
France	67%
Spain	66%
Luxembourg	65%
Switzerland	63%
UK	62%
Greece	61%
Germany	61%
Iceland	61%
Ireland	59%
Austria	59%
Norway	57%
Finland	54%
Slovenia	54%
Netherlands	54%
Hungary	52%
Sweden	52%
Italy	52%
Denmark	52%
Belgium	47%

### Scenario 4 – Married individual with two dependent children, earning five times the average salary

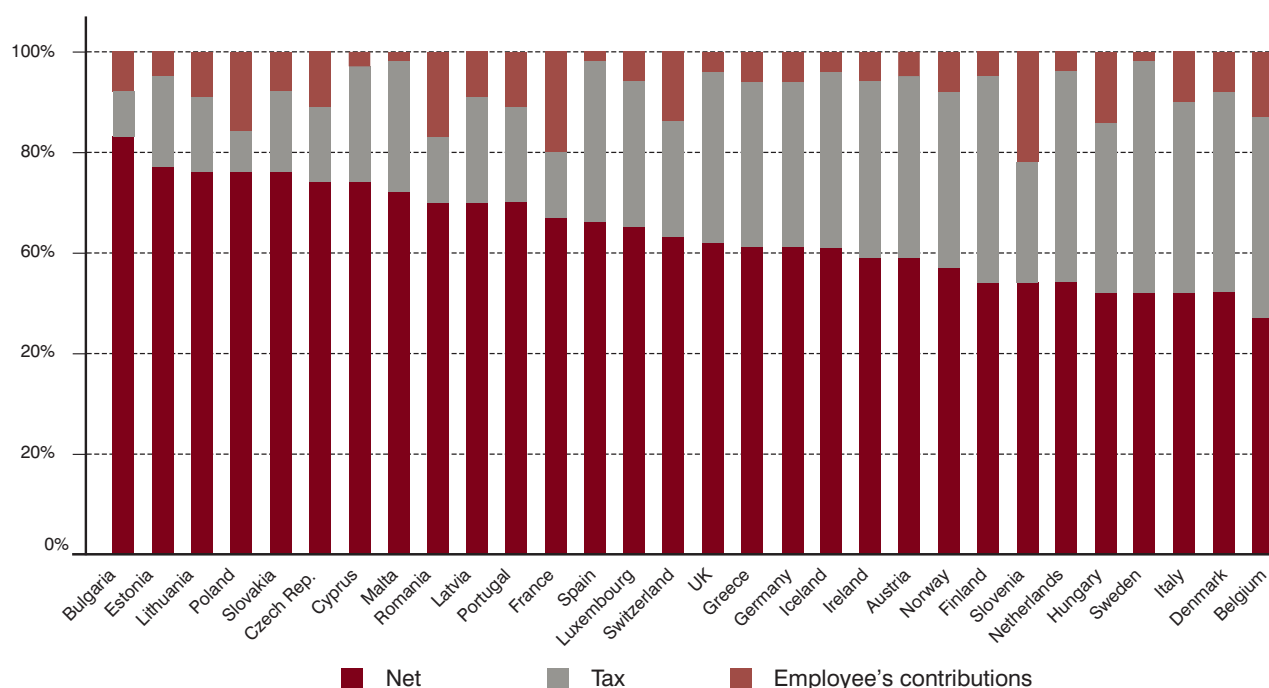
Surprisingly, when compared to scenario 3, the family does not have a great impact in this scenario. France, Poland and Portugal show the greatest difference in average salary (i.e. 9 percentage points for France, 8 percentage points for Poland and 7 percentage points for Portugal).

Generally, the difference between scenarios 4 and 3 is much less than the difference between scenarios 1 and 2. This is evident when we take into account the average net income in all surveyed countries in scenarios 1 (73%) and in 2 (79%), a difference of 5 percentage points. In case of scenarios 3 (62%) and 4 (64%), the difference is only 2 percentage points.

Why does this difference between scenarios exist? Family reliefs and joint tax returns have less impact in reducing tax and social security burdens for high earners.

*The average net for all surveyed countries in this scenario is 64% of gross remuneration*

Tax and social security within gross salary

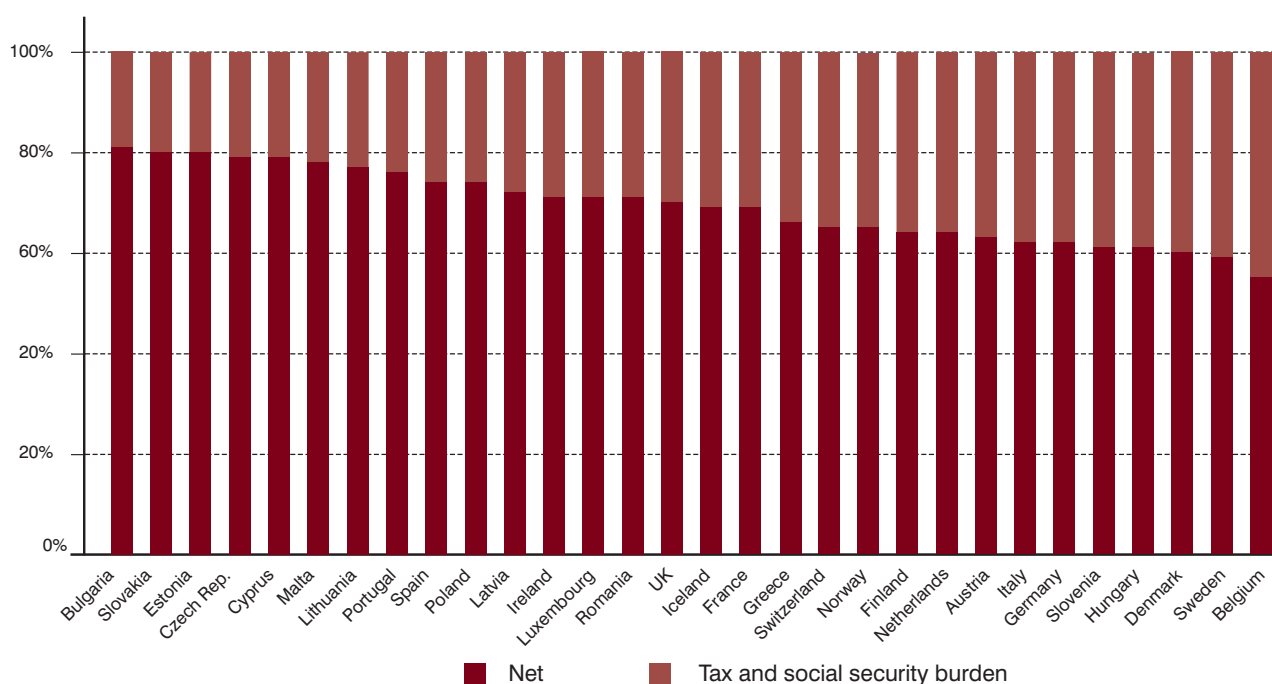


## Summary of all four scenarios

Country	net %
Bulgaria	81%
Slovakia	80%
Estonia	80%
Czech Republik	79%
Cyprus	79%
Malta	78%
Lithuania	77%
Portugal	76%
Spain	74%
Poland	74%
Latvia	72%
Ireland	71%
Luxembourg	71%
Romania	71%
UK	70%
Iceland	69%
France	69%
Greece	66%
Switzerland	65%
Norway	65%
Finland	64%
Netherlands	64%
Austria	63%
Italy	62%
Germany	62%
Slovenia	61%
Hungary	61%
Denmark	60%
Sweden	59%
Belgium	55%

The table below summarises the average results from all four scenarios for particular countries. The table reflects, to some extent, the average level of net salary received by residents of a given country.

Average of four scenarios – what fractions of gross salary is effectively earned



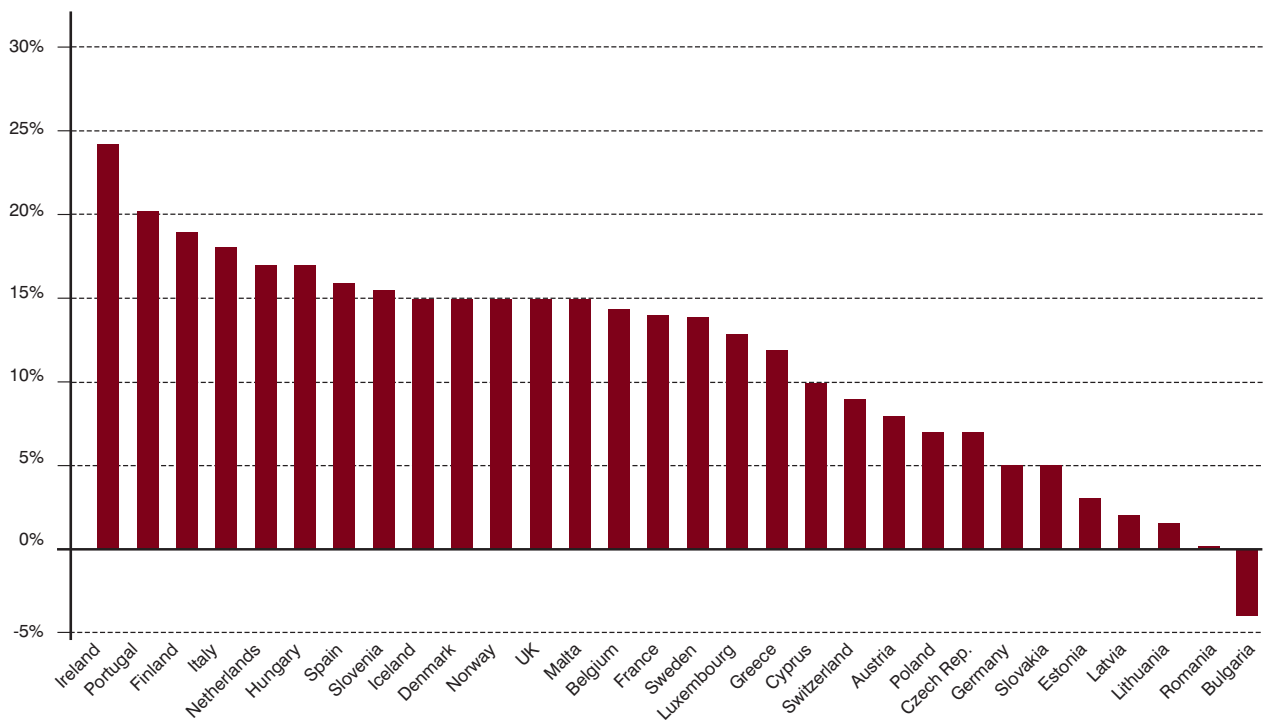
# Detailed consideration of the results

We now move on to focus on more detailed findings of the survey, which include impact of salary level on the tax and social security burden, family as factor lowering the tax burden, flat tax rate versus the more traditional progressive tax system, employer social security relative to gross earnings and the extent of electronic tax filing.

## Impact of salary level on the tax and social security burden

To compare the impact of higher salary levels on the net position of individuals, we compared scenarios 1 and 3 (for single person) as well as 2 and 4 (for married people).

Difference in net – scenarios 1 & 3



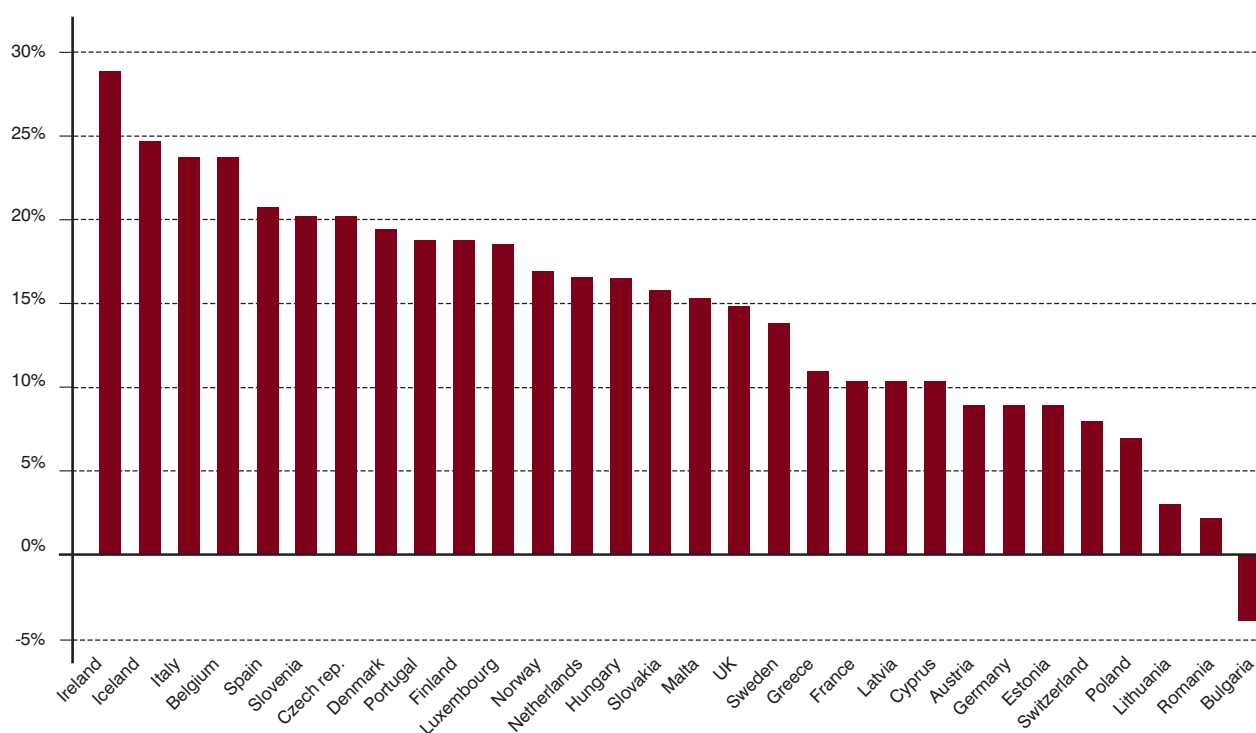
The chart above represents a truly progressive personal income tax. In Ireland, for instance, the difference in taxation of an average earner and an individual earning five times average is significant since it exceeds 24 percentage points (in favour of the average earner).

Negative result for Bulgaria reflects the trend of taxation which is relatively more favourable for high earners, since the difference is negative in terms of percentage results.

The difference between Ireland and Bulgaria may lead to exaggerated findings about huge discrepancies between countries in the EU. However, one should remember that the actual average salary in Bulgaria is almost 10 times lower than in Ireland, not to mention the difference in spending power in both countries.

The chart below represents married people.

Difference in net – scenarios 2 & 4



The above results are similar to the comparison between scenario 1 and 3: declining net income percentage associated with higher earnings except for Bulgaria.

### Family tax reliefs

The expectation is that tax reliefs associated with families should result in lower tax burdens. We focussed on two most common forms of family tax reliefs, i.e. a joint tax return and child relief.

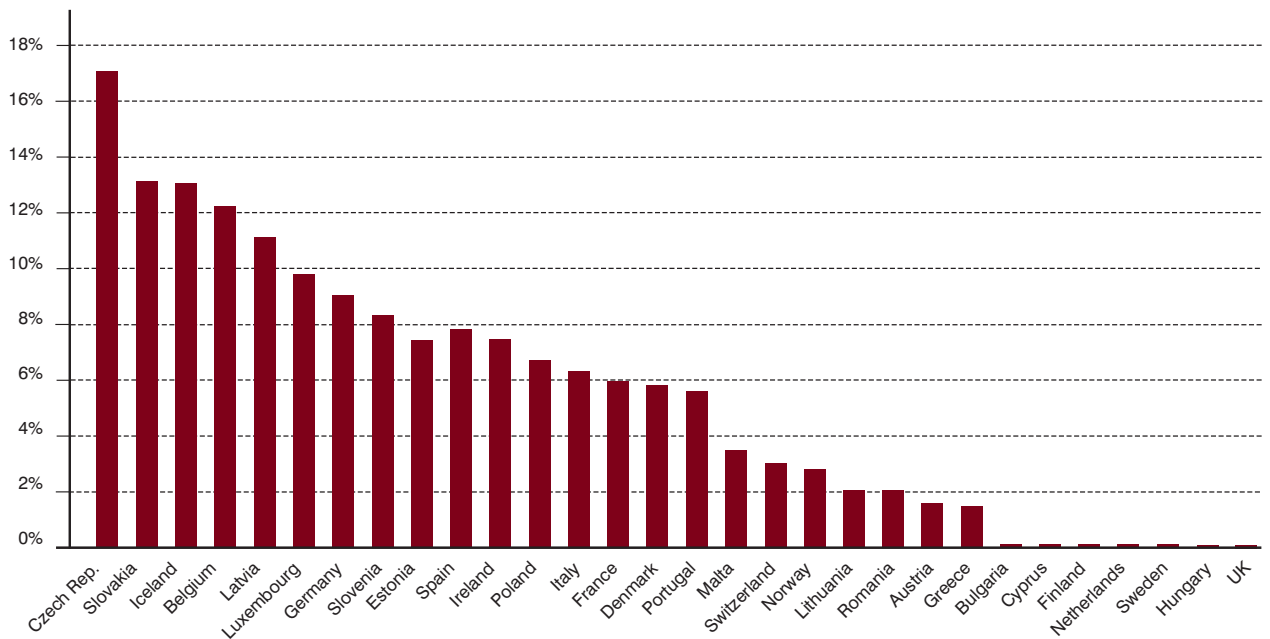
*As reflected in the table to the right, most countries (to include flat tax rate countries) appear to have some form of family tax support.*

Country	Joint tax return	Child relief	Country	Joint tax return	Child relief
Austria	-	+	Latvia	-	+
Belgium	+	-	Lithuania	-	+
Bulgaria	-	-	Luxembourg	+	+
Cyprus	-	-	Malta	+	+
Czech Republic	-	+	Norway	+	+
Denmark	-	-	Poland	+	+
Estonia	+	+	Portugal	+	+
Finland	-	-	Romania	-	+
France	+	+	Slovakia	-	+
Germany	+	+	Slovenia	-	+
Greece	+	+	Spain	+	+
Hungary	-	-	Sweden	-	-
Iceland	+	+	Switzerland	+	+
Ireland	+	-	The Netherlands	+	+
Italy	-	+	UK	-	-

The table below compares scenario 1 (single person with average salary) and scenario 2 (married person with average salary).

Note: In some countries (for e.g. in the Netherlands, Portugal, France and Luxembourg), joint tax returns may be filed by couples not officially married but just registered in a court (the forms of registration differ from country to country) or living together in the same place for a specified time. Moreover, in France and Belgium, same sex couples may claim tax benefits.

Difference in net – scenarios 1 & 2

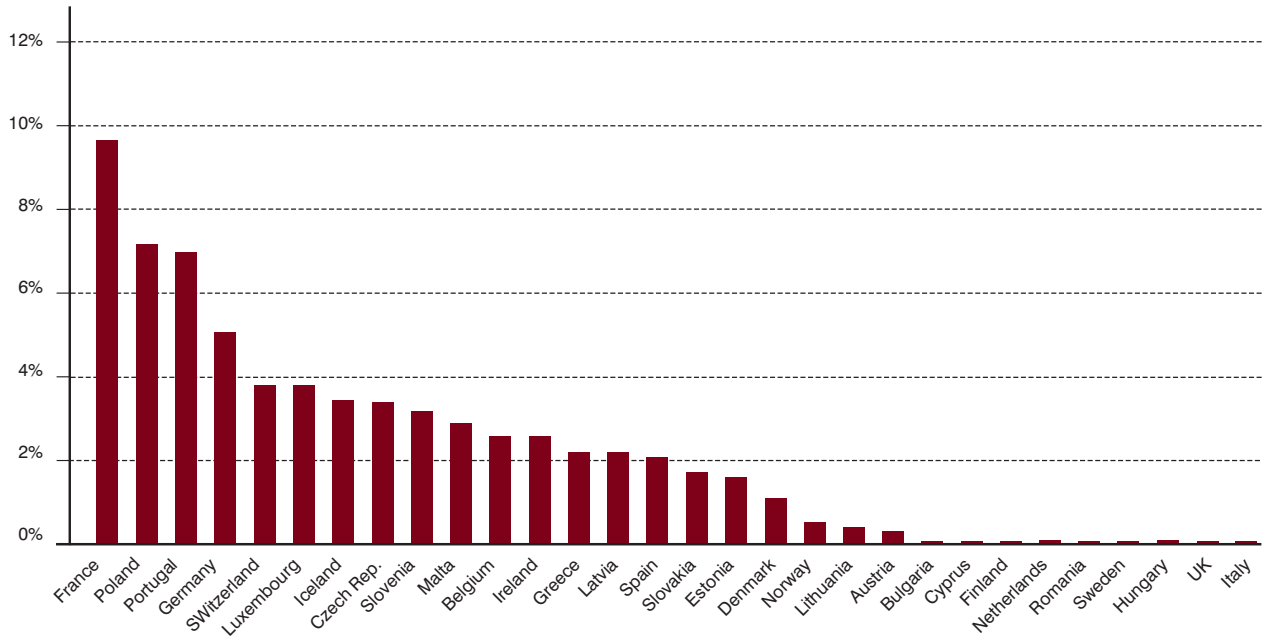


The chart above shows that in the Czech Republic family tax reliefs are most effective in lowering the tax burden. When there is no difference, the reason is that either the countries have not introduced joint tax returns/child relief as tax benefits<sup>2</sup> (e.g. the UK, Sweden, Hungary, Finland, Cyprus, the Netherlands and Bulgaria).

<sup>2</sup> In some countries, e.g. in the UK, there are some other family/child benefits/tax credits but these may be claimed separately and have nothing to do with the tax return.

The chart below shows the differences resulting from higher income by comparing scenarios 3 and 4:

Difference in net – scenarios 3 & 4

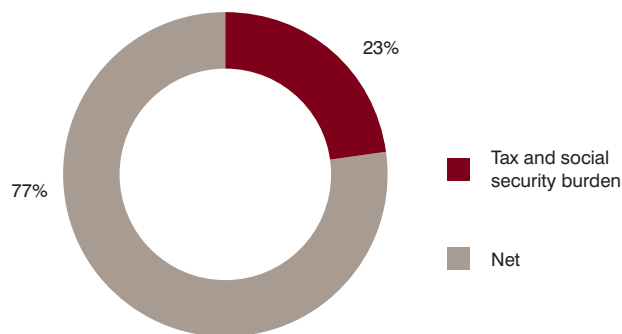


The chart above shows that family tax reliefs are most effective in lowering the tax burden for higher earners in France.

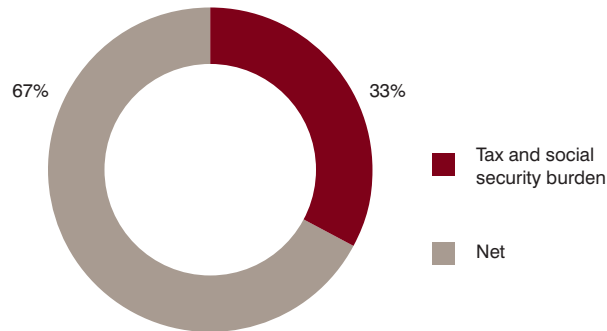
### Flat tax rate

Currently, seven member states in the EU have a flat rate tax i.e. Estonia (21%), Latvia (26%), Lithuania (24%), the Czech Republic (15%), Slovakia (19%), Romania (16%) and Bulgaria (10%). The chart below shows the average tax and social security burden for all four scenarios in these countries (“flat tax rate countries”) compared to countries taxing individuals according to the progressive scale (“progressive rates countries”).

Countries with flat tax rate



Countries with progressive rates



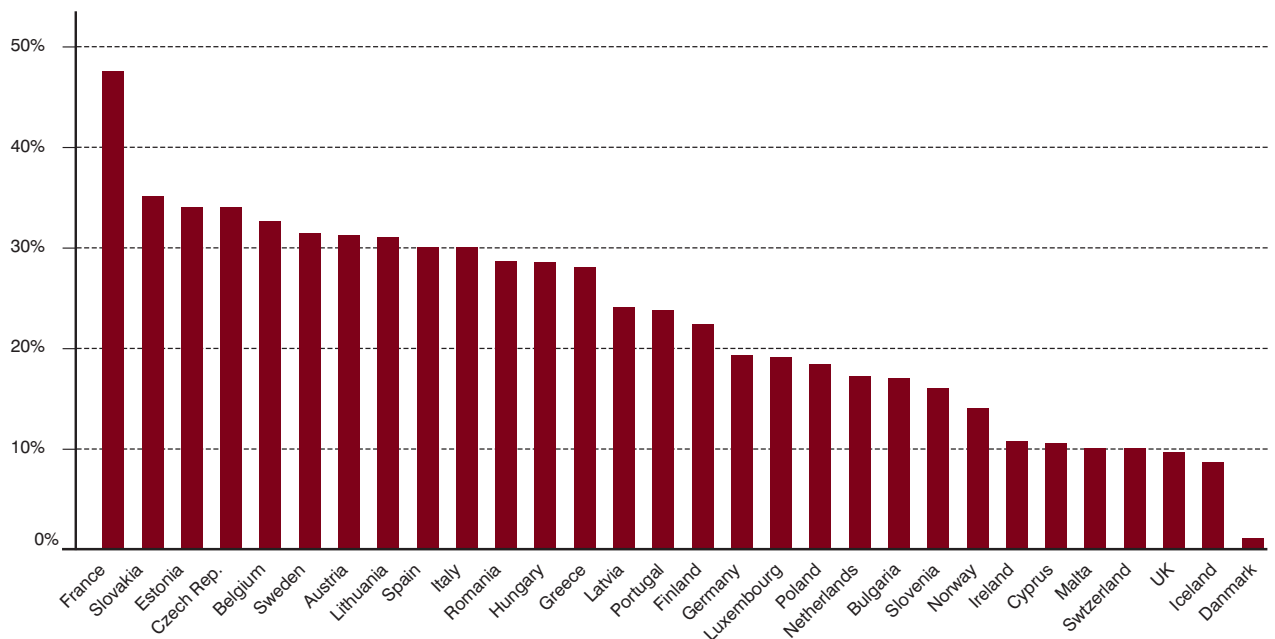
*The tax and social security burden is 10 percentage points lower in flat tax rate countries, which is a significant difference.*

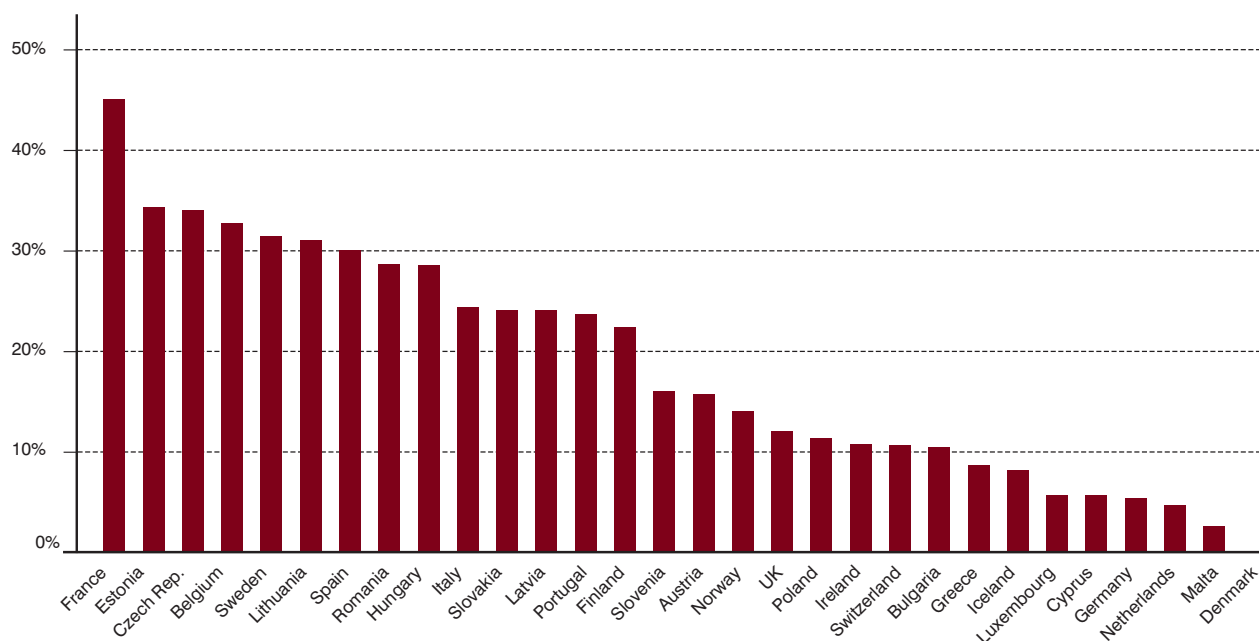
However, by looking at a country-by-country basis (refer to the chart on page 10), it is clear that not all flat tax rate countries have the lowest tax/social security burdens. The highest tax and social security burdens for flat tax rate countries are in Romania. Clearly, the level of social security charges significantly influences the final net position.

**Employer's social security charges**

Employer's social security contributions are a significant component of employment cost. The charts below represent the charges for scenarios 1 and 2 and scenarios 3 and 4, respectively. Employer's social security costs relate only to income and not to the marital status of individuals.

Employer's contributions – scenarios 1 & 2





*The results in the charts above are similar, with France emerging as the most expensive jurisdiction purely from the cost perspective, i.e. no consideration given to the value of services received in return.*

In some cases, the charges are lower at higher income levels (i.e. scenarios 3 and 4). This reflects the fact that the charges are capped in some member states.

Denmark stands out in both cases. The reason is that the employee primarily pays the charges and employer charges are minimal.

One may note that there are some differences between the results in 2009 and 2010, i.e. for the Czech Republic, the results are higher in 2010 and the difference amounts to approximately 10 percentage points (i.e. in case of scenarios 3 and 4). This difference is an effect of the social security cap which the considered salary did not reach in 2010, whereas in 2009, it was surpassed (due to the cap increase in 2010). On the other hand, in Hungary, the result is lower by 6 percentage points in 2010 due to the decrease in social security rates.

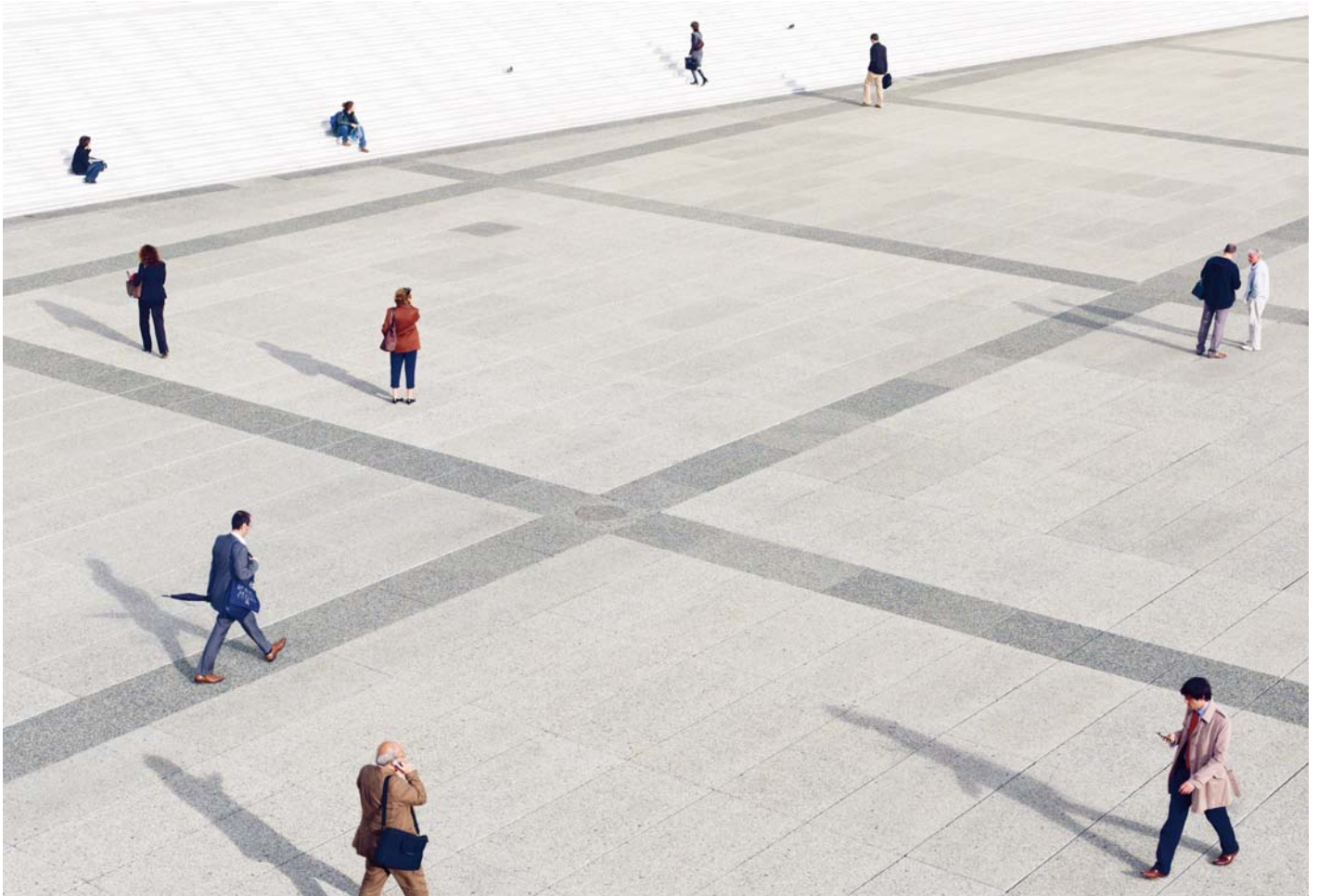
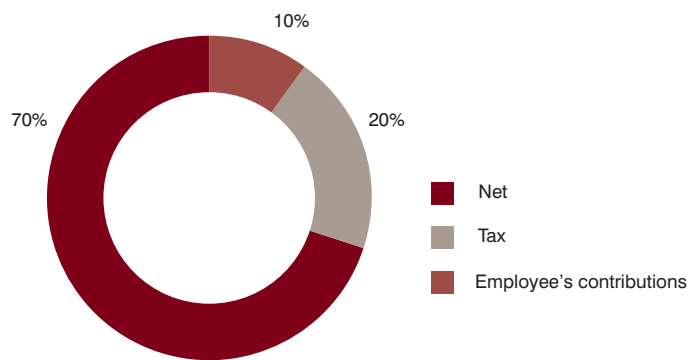
### **Electronic tax filing**

The surveyed countries, except for Romania, provide the possibility of filing annual tax returns electronically. However, before drawing any conclusions it should be noted that electronic filing is limited to very basic returns in some cases. Nonetheless, it shows progress towards a more user-friendly manner of handling tax matters.

## Summary

*Our final insight is something we refer to as an “average of averages”, providing a basic insight into tax systems of the surveyed countries. It shows that generally our net income far exceeds the amount we remit to the tax and social security authorities.*

Average of averages



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