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Taxation of occupational pensions in the EU countries

A survey by the Groupe Consultatif

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Group Consultatif

Taxation of occupational pensions in the EU

Executive Summary

Most national systems currently allow a tax deduction for employer and employee contributions to pension providers resident in the state; most do not treat employer's contributions as taxable income of the employee; most provide for exemption of investment income from taxation and most states will tax pensioners' income in the country of residence regardless of where the benefit had accrued. Many countries do not allow transfer of the accumulated pension benefits when employees transfer from one member state to another. Those that do allow such transfers do not generally tax them at the time of transfer but instead tax the emerging pension at retirement (the exception being Luxembourg). The tabular summary at Appendix A provides further detail.

In many cases, double taxation is avoided via unilateral or bilateral tax arrangements (BTAs) and the results of this survey show that such arrangements are quite effective at harmonising particular aspects of taxation between two willing partners, and removing specific anomalies in flexible ways. We did not set out to, and have not examined BTAs in any depth. Without exception, all respondents emphasised that their practical experience on pensions matters did not extend to BTAs. We think further research on documenting the provisions of BTAs between all EU states will go a long way towards providing a better understanding and identifying anomalies as well as practical methods of dealing with some of them.

Occupational pensions are complicated in their detail, as the country profiles in the Appendix B show. There is also a great deal of change planned over the next few years in many member states and many countries are under notice from the European Commission to change certain aspects of pension practice which are discriminating from a tax viewpoint. Users of this report should verify the facts and update the information before use.

Results in the context of the Tax Communication

The impetus behind the April 2003 Tax Communication (COM2001/214) from the European Commission was to use existing Treaty freedoms and ECJ decisions to assist in the removal of discriminatory taxation practices. Any stronger measures (eg a Directive) were considered superfluous at that time. The Communication identified various tax obstacles and these are discussed below in the context of responses to our survey.

Pensions accrued in one country and received in another

The first set of obstacles identified by the Tax Communication were those emerging from the different patterns of taxing pension arrangements in each member state. Of particular relevance are instances of double taxation or non taxation due to movement of EU nationals between countries with different taxation bases for pensions.

The possibility of double taxation arises when moving from a TEE regime to an EET or ETT region. This is generally only applicable to persons who have accumulated pension rights in Luxembourg and choose to receive their pensions in one of the other EU states.

BTAs between EU member states generally seem to provide that occupational pensions are taxed in the country of residence. As Luxembourg's taxation system for occupational pensions is TEE, double taxation may occur on pensions paid to non-residents. The BTA with Belgium (EET), is due to be changed in 2004 so that pensions resulting from contributions which were taxed in Luxembourg shall not be taxed in Belgium. Changes of BTAs with other EU member states have to be negotiated, so the possibility of double taxation remains for pensions paid from Luxembourg to residents of these countries.

Several other EU member states have adopted unilateral provisions to avoid double taxation. So, since 1997 the Netherlands (EET) only tax the amount of pensions exceeding the amount of contributions which have been taxed in another country. Denmark on the other hand does not tax the pensions resulting from contributions that have been taxed in other countries.

The possibility of non taxation arises for individuals on moving from EET regimes to TEE regimes. This is generally applicable to individuals who have accumulated pensions in other EU states but choose to receive them in Luxembourg. This anomaly is avoided by Luxembourg authorities through BTAs with EU member states which provide that occupational pensions are taxed in the country of residence; despite the domestic tax basis being TEE, occupational pension rights accumulated in another EU member state are therefore taxed in Luxembourg when paid. (In the event of cross border transfers, the capital sum would be taxed when transferred into Luxembourg and the subsequent emerging pension not taxed.)

Contributions to foreign schemes : sedentary workers

Next were obstacles emerging from the inability of workers in one member state to obtain tax relief on contributions paid to pension arrangements in another state. The EC Communication made a distinction between "sedentary" workers and "migrant" workers:

Sedentary workers are those who remain in employment in one member state (home state) but wish to join a pension scheme ("foreign" scheme) in another member state. There is, of course, no job mobility involved but there could nevertheless be a tax obstacle if the home state does not allow the same tax privileges on contributions to the foreign scheme as are accorded to contributions in a domestic scheme.

Our survey indicates that Germany has addressed this problem in a comprehensive way but otherwise it remains an issue for workers in Belgium, Denmark, France, Netherlands, Portugal and Spain, particularly those employed by multinationals headquartered outside their home state. These countries are, of course, on notice through the recent ECJ ruling and requests from the EC to address the problem.

A partial solution to this, adopted by Luxembourg and UK authorities, is to allow tax-deductibility for contributions in the foreign plan if the plan can satisfy the "approval" procedures required of domestic pension plans. However, the approval procedures themselves – particularly the requirement for a resident administrator in the UK – can create other obstacles; indeed the EC has issued "letters of formal notice" to the UK (and Ireland) in this regard.

Other partial solutions exist in Austria (via BTAs) and Italy, although in the latter case further details were not available from the survey response.

Contributions to foreign schemes : migrant workers

Migrant workers are defined by the EC as those who already belong to a tax approved scheme in their home state and temporarily move to another state (the "host" state) but choose to remain in, and pay contributions to, their home state scheme. Once again, this is of particular relevance to temporary postings by multinationals. The survey did not probe this particular question (including the definition of temporary) in any great depth. However, from responses to other questions in the survey, this may not be a problem for workers posted to Germany. The UK addresses this problem via provisions in bilateral tax treaties with Ireland, France and Denmark but not all countries. Austria, Luxembourg and Italy may also be addressing it in a limited way, but it is difficult to be certain without further investigation.

Cross border transfers

The third area of tax obstacles identified in the EU communication is on cross-border transfers of capital. The non-allowability of cross-border transfers by various countries is not by itself a barrier to job mobility since a frozen pension can always be maintained in the state where it was accrued. Where cross-border transfers are permitted, generally they are between EET states (see Appendix A) where, except for Luxembourg, the principle appears to be not to tax the capital at the point of transfer (in the transferring or the accepting country) but instead to tax the pension that would eventually emerge at retirement in a manner consistent with pensions paid from domestic schemes of the receiving state.

For cross-border transfers between states with different taxation regimes, anomalies could arise in the following situations:

- Transfers from TEE to EET or ETT states where the member would be disadvantaged if the investment proceeds or eventual benefits from the capital transferred suffer taxation in the receiving state. This is limited to transfers from German direct insurance and Pensionskasse vehicles and all transfers from Luxembourg. The German tax authorities seem to overcome potential anomalies by comparing the tax process in the two states and adapting German taxation accordingly. For transfers from Luxembourg, the possibility of double taxation remains unless the transfer is to Belgium or Denmark (and possibly Netherlands).
- Transfers from ETT to EET or TEE states, where the transferring state may feel that there was scope for tax avoidance. This may be a reason why Denmark, Italy and Sweden (all ETT) do not permit cross-border transfers. Belgium, on the other hand, addresses this through its double tax agreements where, presumably, a transfer out from its self-administered plans (ETT) would be taxed if the benefits in the receiving country were not going to be taxed.

Additionally, when workers move between states with similar tax regimes, there may be obstacles arising from differences in the quantum of tax due to different rates of tax, tax-exempt allowances, etc. The EC presumably does not regard this as discriminatory practice since it arises from the freedom in the Treaty for individual member states to set their own domestic fiscal and social policies. Our survey did not pursue this point.

Purpose and limitations of this study

Occupational pensions are a major source of retirement income in many EU states. The design of pensions schemes and choice between different models of taxation are essentially matters for individual member states. However, it is recognised that this diversity can lead to situations where taxation can be a barrier to one of the fundamental rights guaranteed by the EC Treaty, namely free movement of people within EU states.

It is estimated that in excess of 5 million EU citizens over the age of 15 reside in a member state other than that of their origin, and the number is increasing. The purpose of this study was to review the broader aspects of the taxation of occupational pensions in the EU and to identify differences that may act as barriers to free movement of labour, or give scope for tax abuse.

Our main areas of focus were:

- tax treatment of employer and employee contributions
- tax treatment of investment returns
- tax treatment of benefits on (a) retirement and (b) transfer to another member state.

We were also interested in documenting whether the taxation models differed in principle between the most common vehicles used for occupational provision in each country.

The tax rules developed by each member state over the years are extremely complex and intertwined with other social and economic policies; it was not our purpose, nor is it our expertise, to examine these in any detail. In particular, we have not examined in depth the influence of factors that may indirectly introduce a taxation bias in occupational pension provision which, in turn, may be driven by social or political preferences within individual member states. Such factors include:

- choices in the structure of pension systems, ie importance attached by each state in the provision of pensions through social security, compulsory company schemes and voluntary company schemes
- preferences of individual member states in the shape of emerging benefits, ie lump sums versus annuities
- political bias in the design of tax rules, ie limits on tax deductibility, tax rates, etc
- the success of unilateral or bilateral taxation arrangements in reducing or eliminating tax differences and anomalies.

This study focuses on occupational pension arrangements only (defined benefits as well as defined contributions) and is currently confined to the fifteen European Union member states. The scope to expand the analysis and/or to extend the study to cover the accession countries will be considered at a later stage.

Overview of the principal questions and responses

Information was collected by a questionnaire completed by (or on behalf of) members of the Groupe Consultatif Pensions Committee, with the conclusions and interpretations validated by exposing a draft of this report for further comment.

The questionnaire, which was completed over the period May 2003 to March 2004, covered five broad areas:

- The extent to which occupational pension providers need to comply with local requirements in order for contributors to qualify for tax privileges.
- The principal vehicles used for occupational pension provision in each country and the tax treatment of contributions, investment income, and retirement benefits in each.
- Whether contributions by residents of one state to another EU state qualify for tax deductibility in the host state.
- The extent to which each member state allows accrued pension rights to be transferred when employees change jobs and how the tax rules are applied on cross-border transfers.
- The tax treatment of pensions originating in one member state and paid in another.

Responses were received from representatives of all 15 member states initially targeted. Limited information was also supplied for Cyprus and Hungary which has been summarised in the table as Appendix A, but not elsewhere in the report or in the commentary.

A tabular summary of the main responses to these questions is given in Appendix A. Appendix B provides a Country Profile for each of the 15 member states detailing the principal pension vehicles and the taxation basis for contributions, investment income and various elements of the benefits.

Qualification requirements for tax deductibility

The majority of EU states require some form of qualification before occupational pension schemes and their members are allowed by local tax authorities to claim tax deductibility on contributions, investment income and benefits. The qualifications can take various forms: legal, social, fiscal or restrictions on the type and quantum of benefits or contributions.

In some countries (Denmark, UK, Italy, Ireland, Luxembourg), it is a requirement for the scheme to be formally approved by registration. In some countries, there is also a requirement for the pension scheme to be actually located in the country (eg Belgium) or for an administrator to be located in the same country (eg UK and Ireland) before tax privileges are allowed.

Some of these practices may constitute indirect tax discrimination. Indeed, the European Commission has already expressed concern that the practice in the UK and Ireland of granting employee tax relief on pension contributions to foreign schemes only if there is an administrator resident in the home state is incompatible with EU law and has issued “letters of formal notice” (the first stage of formal infringement procedures) to the two states.

Taxation bases of domestic schemes

The overall tax basis for the principal pension vehicle in each country can be summarised thus (subject to allowances and maximum limits which vary by state):

EET system: The most popular tax system across the EU. Contributions are exempt from income and corporate taxes, investment income and capital gains accrue free of tax in the pension institution, and the benefits are taxable at retirement.

ETT system: Exempt contributions, investment income and capital gains taxed within the pension institution, and benefits taxed when paid (Denmark, Italy, Sweden).

TEE system: Contributions taxed when paid, investment income and capital gains not taxed in the pension institution and retirement benefits paid free of tax (Luxembourg).

The first page of Appendix B provides a more detailed summary covering the principal types of occupational pension vehicles in each state and their importance in terms of retirement income in the relevant state. The remainder of Appendix B gives further details of the taxation bases for contributions, investment income and benefits for the main pension vehicles in each country.

Tax deductibility of contributions to foreign schemes

Contributions to pension schemes based in other member states are not tax deductible for employees and companies in most EU countries: Belgium, Denmark, France, Greece, Netherlands, Portugal, Spain and Sweden,

In Finland, employers are allowed to set off against corporate tax any contributions made to another EU state; however, the employees are then taxed on this amount as a benefit in kind.

Five countries (Austria, Luxembourg, Italy, Ireland and UK) allow tax deductibility in limited circumstances only. In Austria, tax deductibility is allowed if the bilateral tax arrangement with the respective country permits. In Luxembourg it is restricted to foreign schemes supervised by the authorities of the foreign country. In the case of Ireland, tax deductibility is restricted to contributions to UK schemes only. In the case of the UK, tax deductibility is extended to foreign plans in the following circumstances:

- to workers in the UK who remain in the home plans for France, Ireland and Denmark (via provisions in the bilateral tax treaties)
- where employees who are non-domiciled in the UK and employed by a non-UK company, then the pension scheme in the employer's country can be accepted as "corresponding" by UK tax authorities and normal tax advantages granted
- if the foreign pension scheme has been "fully approved" by the UK tax authority.

The only country in our survey that allows tax deductibility of contributions to any of the other EU states on the same basis as for contributions in the home state is Germany.

There is significant pressure from the European Commission for change in most countries in this area. At the time of writing (April 2004) the situation was as follows:

- Formal requests have been made to Belgium, France, Spain and Portugal to change their tax legislation and give pension contributions paid to pension funds located in other member states the same tax treatment as contributions to domestic funds. The requests have been sent in the form of "reasoned opinions", the second stage of the infringement procedure
- In July 2003, the European Commission referred Denmark to the ECJ because contributions paid to foreign pension schemes are not tax deductible, whilst those paid to Danish schemes are
- In July 2003, proceedings were opened against Ireland and the UK concerning similar discriminatory tax legislation
- The ECJ has already ruled that the Swedish tax system is discriminating in its treatment of employer contributions to foreign pension schemes.

Cross-border transfers

Cross-border transfers are allowed both to and from other states by Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, Netherlands, UK, and probably by Portugal. It is possible that in some cases (this is certainly true in France and probably in Germany) there are other criteria to be satisfied, such as matching by scheme type, before the transfer can be allowed (eg French authorities only permit transfers to insured schemes in other EU states).

In Denmark, Finland and Sweden, cross-border transfers are not allowed, but neither are domestic transfers between pension schemes within the same country. In Spain, domestic transfers are allowed but not cross-border. In Ireland transfers are only allowed to and from UK schemes and statutory provision to extend this practice to other EU states has been enacted but not yet activated. Statutory provisions are also in place in Sweden but not yet activated in practice.

Transfers out

Where cross-border transfers are permitted, in all but three of the countries surveyed, there is no tax on the outgoing capital sums at the point of transfer. In Belgium, the capital amount transferred out is taxable in principle but this does not happen if the pension is going to be taxed in the receiving country; presumably if the transfer is to a TEE pension vehicle, then the capital sum would be taxed on the way out. In France the capital sum is not taxed if transferred from an insured plan to a similar vehicle in another country. In Germany, the tax treatment depends on the type of pension scheme the transfer is destined for.

Individual countries with EET tax regimes may be more inclined to tax the transfer value on the way out if there is no bilateral tax agreement with the receiving country (especially if the receiving country has a TEE tax regime); responses to our survey (except for Belgium and Germany) were not sufficiently detailed to confirm this.

Transfers in

The principle in each receiving member state, except Luxembourg, appears to be to tax the emerging benefits and not the capital sum on transfer. This is consistent with the EET or ETT status of the countries that responded.

In Luxembourg (TEE), potential anomalies on transfers from EET or ETT countries are avoided by taxing the capital sum when received (except capital emerging from a pension vehicle country with TEE status); pensions emerging from this capital are not then taxed for consistency with the domestic TEE system.

Pensions originating in one member state and paid in another

When pensions are paid in one country but have origins in another, the general principle in most EU states is to tax the pensioner once. Various methods are used to achieve this:

- bilateral tax agreements are the most common tool, where the principle appears to be to tax the pension only in the country of residence and the appropriate tax rate is set within the agreements in many cases. (Survey responses were not comprehensive enough to say whether such agreements exist between all EU member states)
- dispensation by tax authorities (eg Ireland) in country of origin if it is known that a pensioner is paying tax in the country of residence
- tax credit in country of residence if the pension was taxed in the country of origin.

In Germany, the tax basis recognises differences in the taxation of contributions and transfers, depending on the type of funding vehicle used, with the tax authorities comparing the tax process in the two states and adapting German tax accordingly.

In Luxembourg potential anomalies due to their TEE system are avoided by taxing pensions or capital sums transferred into Luxembourg from non TEE systems. On pension and capital flows in the opposite direction, the bilateral tax agreement with Belgium (when agreed in 2004) will avoid double taxation, and unilateral provisions in Denmark (and Netherlands?) also achieve the same effect, but the possibility of double taxation in other countries remains.

The responses from the following countries were not sufficiently detailed to determine whether there is scope for the pension to be taxed in both countries, or none at all:

- Italy: Incoming pensions taxed and outgoing pensions not taxed. Relevance of taxation in the other state not clear.
- Spain: Incoming and outgoing pensions taxed in Spain. Relevance of taxation in other state not clear.
- Sweden: Incoming and outgoing pensions taxed in Sweden. Relevance of taxation other state not clear.

It is possible that bilateral tax agreements avoid these anomalies, but this point was not pursued further.

Appendix A

Host state	Austria	Belgium	Denmark	Finland
• **Is tax deductibility conditional upon complying with domestic requirements (legal, social, fiscal, design, registration, location etc)?**	Y	Y	Y	Y
• **Are contributions to a pension arrangement in another EU state deductible for tax?**	N (except under a BTA)	N	N	Y (Company only, and counted as benefit in kind for employees tax assessment)
Tax treatment of pensions accrued and paid in the host state (for predominant occupational pension vehicles)	EET: Pension Funds	EET: Insured plans	ETT	EET
Transfer of pension rights • **Permitted between domestic schemes?** • **Permitted to transfer out to another EU state?** • **Permitted to accept transfers in from other EU states?**	 • Y • Y • Y	 • Y • Y • Y	 • No legal right • N • N	 • No • N • N
Taxation at the point of transfer (if applicable) • **On transfers within host state** • **On transfer out of the host state** • **On transfer into the host state**	 • N • N • N, taxcd at retirement	 • N • N, if benefits taxable in receiving country (under BTA*) • N, taxed at retirement	 • na • na • na	 • na • na • na
Taxation in the host state of retirement benefits accrued or paid in another EU state • **Pensioner resident in host state: payment of benefits at pension age which were accrued in another EU state** • **Pensioner resident in another EU state : payment of benefits that were accrued in the host state but are now payable in the EU state of residence**	 • Taxed in Austria under BTA • Taxed in country of receipt under BTA	 • Taxed once under BTA • Taxed in country of receipt under BTA	 • Taxed once under BTA • Taxed once under BTA	 • Taxed in Finland; double taxation avoided through BTA • Taxed once under BTA; if no BTA then taxed at a fixed rate in Finland

*Bilateral tax agreement

Host state	**France**	**Germany**	**Greece**	**Ireland**
• **Is tax deductibility conditional upon complying with domestic requirements (legal, social, fiscal, design, registration, location etc)?**	Y	Y	Y	Y
• **Are contributions to a pension arrangement in another EU state deductible for tax?**	N (tbc)	Y	N	Y (to UK only)
Tax treatment of pensions accrued and paid in the host state (for predominant occupational pension vehicles)	• EET	• EET : Book reserves	• EET : compulsory Auxiliary funds	• EET
Transfer of pension rights • **Permitted between domestic schemes?** • **Permitted to transfer out to another EU state?** • **Permitted to accept transfers in from other EU states?**	• Y • Y • Y	• Y, but not common • Y • Y	• Y • Y • Y	• At discretion of tax authorities, at present to and from UK Schemes only. Statutory provision to extend to other EU States enacted but not activated
Taxation at the point of transfer (if applicable) • **On transfers within host state** • **On transfer out of the host state** • **On transfer into the host state**	• N • N (1) • N	• N, if incoming and outgoing pension vehicles of the same type (others currently under consideration) • Depends on type of receiving pension scheme • Depends on type of receiving scheme; benefits on retirement depend on how transfer amount taxed	• N • N • N	• N • N • N
Taxation in the host state of retirement benefits accrued or paid in another EU state • **Pensioner resident in host state : payment of benefits at pension age which were accrued in another EU state** • **Pensioner resident in another EU state : payment of benefits that were accrued in the host state but are now payable in the EU state of residence**	• Pension taxed as French income under BTA • No tax in France; taxed as income in country of residence	• Depends on the type of funding vehicle used and the taxation of transfers and contributions (if applicable) (2) • No tax in Germany; taxed in country of residence	• Generally, pension taxed as Greek income (but depends on BTA) • Generally, no tax in Greece; taxed as income in country of residence	• Taxed as Irish income (double tax relief probably available through BTA) • Taxed in Ireland, subject to dispensation by the authorities if pensioner paying tax in country of residence

(1) No tax in France if transferred from insured plan to another insured plan (2) German tax authorities try to compare the tax process in the two states and will adapt taxation accordingly.

Host state	**Italy**	**Luxembourg**	**Netherlands**	**Portugal**
• **Is tax deductibility conditional upon complying with domestic requirements (legal, social, fiscal, design, registration, location etc)?**	Y	Y (registration and compliance with law on Supplementary Pension Schemes.)	Y	Y (benefit and contribution limits.)
• **Are contributions to a pension arrangement in another EU state deductible for tax?**	In limited circumstances	In limited circumstances (if the pension scheme is supervised by the authority of the foreign country and complies with Luxembourg legislation).	N	N
Tax treatment of pensions accrued and paid in the host state (for predominant occupational pension vehicles)	• ETT	• TEE	• EET, but under review	• EET
Transfer of pension rights • **Permitted between domestic schemes?** • **Permitted to transfer out to another EU state?** • **Permitted to accept transfers in from other EU states?**	 • Y • Y • Y	 • Y • Y • Y	 • Y • Y • Y	 • Y • Y ? • Y ?
Taxation at the point of transfer (if applicable) • **On transfers within host state** • **On transfer out of the host state** • **On transfer into the host state**	 • N • N • N	 • N • N • Y (except transfers from TEE companies)	 • N • N • N	 • N • Not known • Not known
Taxation in the host state of retirement benefits accrued or paid in another EU state • **Pensioner resident in host state: payment of benefits at pension age which were accrued in another EU state** • **Pensioner resident in another EU state: payment of benefits that were accrued in the host state but are now payable in the EU state of residence**	 • Pension taxed as Italian income • No tax in Italy; taxed in country of receipt	 • Pension (or capital in incoming transfers) taxed in Luxembourg • Pension is taxed in the state of residence [except in Belgium (BTA to be changed) and in Denmark]	 • Pension taxed in Netherlands; tax rate depends on BTA • Pension not normally taxed in Netherlands, but depends on BTA	 • Pension taxed as Portuguese income, but withholding tax retained by country of origin can be offset • Portuguese pension paid after deducting withholding tax (tax varies according to residential status)

Host state	Spain	Sweden	UK
• **Is tax deductibility conditional upon complying with domestic requirements (legal, social, fiscal, design, registration, location etc)?**	Y	Y	Y
• **Are contributions to a pension arrangement in another EU state deductible for tax?**	N	N	Y (in limited circumstances)
Tax treatment of pensions accrued and paid in the host state (for predominant occupational pension vehicles)	• EET	• ETT	• EET
Transfer of pension rights • **permitted between domestic schemes?** • **permitted to transfer out to another EU state?** • **permitted to accept transfers in from other EU states?**	 • Y • N • N	 • N • N • N	 • Y • Y • Y
Taxation at the point of transfer (if applicable) • **On transfers within host state** • **On transfer out of the host state** • **On transfer into the host state**	 • N • na • na	 • na • na • na	 • N • N • N
Taxation in the host state of retirement benefits accrued or paid in another EU state • **Pensioner resident in host state: payment of benefits at pension age which were accrued in another EU state** • **Pensioner resident in another EU state : payment of benefits that were accrued in the host state but are now payable in the EU state of residence.**	 • Taxed as Spanish income (effect of BTA not investigated) • Taxed as income in Spain (effect of BTA not investigated)	 • Taxed as Swedish income (effect of BTA not investigated) • Taxed as Swedish income (effect of BTA not investigated)	 • 90% of non-UK sourced pension taxed as UK income • May be exempt from UK tax under BTA

Host state	**Cyprus**	**Hungary**
• **Is tax deductibility conditional upon complying with domestic requirements (legal, social, fiscal, design, registration, location etc)?**	Y	Y
• **Are contributions to a pension arrangement in another EU state deductible for tax?**	N	N
Tax treatment of pensions accrued and paid in the host state (predominant occupational pension vehicles in bold)	• EET : Mandatory pension schemes • EEE : Voluntary provident funds	• TEE, but dependants' benefits are taxed.
Transfer of pension rights • **Permitted between domestic schemes?** • **Permitted to transfer out to another EU state?** • **Permitted to accept transfers in from other EU states?**	 • N • N • N	 • Y • N • N
• **Taxation at the point of transfer (if applicable)** • **On transfers within host state** • **On transfer out of the host state** • **On transfer into the host state**	 • na • na • na	 • ? • na • na
Taxation in the host state of retirement benefits accrued or paid in another EU state • **Pensioner resident in host state : payment of benefits at pension age which were accrued in another EU state** • **Pensioner resident in another EU state : payment of benefits that were accrued in the host state but are now payable in the EU state of residence.**	 • Depends on BTA; otherwise pension taxed in Cyprus and tax credit given if it was also taxed in country of origin • No tax in Cyprus; taxed in country of residence	 • na? • na?

Appendix B

Country Profiles

This appendix covers principal types of occupational pension vehicles; their importance in terms of retirement income in the relevant member state, and the taxation basis for contributions, investment income and benefits.

The summary is essentially high level and leaves out much of the complication and detail associated with complex rules in each country on qualification criteria, minimum and maximum limits on contributions and benefits and tax rates. The table below gives an overview of the taxation pattern in the principal occupational pension vehicles in each country (the predominant vehicles, where known, are shown in bold).

		EET		ETT		TEE
Austria	✓	**Pension funds**	✓	Book reserves		
Belgium	✓	**Insured plans**	✓	Self-administered plans		
Denmark			✓ ✓	Pension funds Insurance		
Finland	✓ ✓ ✓	Insurance Pension foundation Industry-wide pension funds				
France	✓ ✓	Mandatory insured plans Facultative insured plans				
Germany	✓ ✓ ✓	**Book reserves** Support funds Pensions fonds			✓ ✓	Direct insurance Pensionskassen
Greece	✓	**Compulsory auxiliary funds**	✓	Pension funds		
Ireland	✓	Pension funds				
Italy			✓ ✓	Mandatory industry wide Supplementary insured		
Luxembourg					✓ ✓ ✓	Book reserves (from Jan 2000) **Group insurance** Pension funds
Netherlands (under review)	✓ ✓	Industry wide plans Company plans				
Portugal	✓	Pension funds				
Spain	✓ ✓	Group insurance (no imputation) Pension plan				
Sweden			✓ ✓ ✓	Foundations Book reserves Insurance		
United Kingdom	✓	Pension funds				

Country profiles for Cyprus and Hungary were not submitted

Abbreviations

E : exempt from tax

P : partially taxed (eg on capital gains but not income)

T : taxed (subject to tax free allowances, limits, etc according to local tax legislation)

Austria

	Pension funds	Book reserves	Support funds	Direct insurance
Employee tax on contributions				
Employee contributions	E	E	-	E
Benefit in kind on company contributions	-	-	-	T
Company tax on contributions	E	E	E	E
Investment returns of pensions vehicle				
Investment income	E	T	E	
Capital gains	T	T	E	
Taxation of benefits				
Pensions:				
employee financed	P	P	P	P
company financed	T	T	T	P
Lump sum benefits				
employee financed	P	P	P	E
company financed	T	T	T	E
Dependants' pensions				
Early leaver:				
refund of member contributions				
transfer to another pension arrangement				
Overall Tax Basis	EET	ETT	EET	
Percentage of workforce covered				

Notes:

Occupational pension plans are not widespread in Austria (10% coverage) due to high social security benefits. Popular methods of financing occupational pensions are book reserves and pension funds (the latter are rapidly increasing). Direct insurance is used to a lesser extent and support funds are not used much.

E = Exempt T = Taxed P = Partially Taxed

Belgium

	Insured plans (with Belgian based insurer) *(1)*	Self-administered plans (non-profit fund) *(1)*
Employee tax on contributions		
Employee contributions ***(2)***	E	E
Benefit in kind on company contributions	n/a	n/a
Company tax on contributions *(2)(3)*	E	E
Investment returns of pensions vehicle		
Investment income	E	T
Capital gains	E	E
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	T	T
Dependants' pension	T	T
Death in service lump sum	T	T
Early leaver:		
refund of member contributions	T	T
transfer out of scheme ***(4)***	E	E
Overall Tax Basis	EET	ETT
Percentage of workforce covered	n/a	n/a

Notes:

(1) Occupational pension provision is mainly through insured pension plans, and privately administered funds established within the framework of separate non profit making companies.

(2) Subject to the application of a cap to the replacement income supported by the (employer and employee) contributions.

(3) Subject to a Social Security contribution.

(4) If transferred to another (occupational) pension vehicle based in Belgium (ie usually the pension plan of the new employer).

E = Exempt T = Taxed P = Partially Taxed

Denmark

	Pension funds	Insurance
Employee tax on contributions		
Employee contributions	E	E
Benefit in kind on company contributions	n/a	n/a
Company tax on contributions	E	E
Investment returns of pensions vehicle		
Investment income	T	T
Capital gains	T	T
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	T	T
Dependants' pensions	T	T
Death in service lump sum	T	T
Early leaver:		
refund of member contributions	T	T
transfer to another pension arrangement	E	E
Overall Tax Basis	ETT	ETT
Percentage of workforce covered		

Notes:

(1) Occupational pension provision is widespread and arises from collective bargaining agreements and voluntary employer plans. Most common schemes are defined contribution. Over 90% of the workforce contributes to occupational schemes. Main financing methods are insurance and pension funds. PAYG and book reserves are not permitted.

E = Exempt T = Taxed P = Partially Taxed

Finland

	Insurance policy (life assurance company)	Pension foundation	Industry-wide pension fund
Employee tax on contributions			
Employee contributions	E	***(1)***	E
Benefit in kind on company contributions	n/a	n/a	n/a
Company tax on contributions	E	E	E
Investment returns of pensions vehicle			
Investment income	E	E	E
Capital gains	E	E	E
Taxation of benefits			
Retirement pension	T	T	T
Retirement lump sum	T	T	T
Dependants' pensions	T	T	T
Death in service lump sum	T	T	T
Early leaver: ***(2)***			
refund of member contributions			
transfer to another pension arrangement			
Overall Tax Basis	EET	EET	EET
Percentage of workforce covered	6%	4%	2%

Notes:

(1) The employees do not pay contributions to pension foundations.

(2) Not possible for individual persons.

E = Exempt T = Taxed P = Partially Taxed

France

	Collective mandatory insured supplementary plans (1)	Insurance regulated facultative PERCO
Employee tax on contributions		
Employee contributions	E	E
Benefit in kind on company contributions	T	T
Company tax on contributions	E	-
Investment returns of pensions vehicle		
Investment income	E	E
Capital gains	E	E
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	T**(2)**	
Dependants' pensions	T	T
Death in service lump sum	E	E
Early leaver:		
refund of member contributions	n/a	
transfer to another pension arrangement	E	E
Overall Tax Basis	EET	EET
Percentage of workforce covered	2%	

Notes:

(1) Few employees are entitled to pension benefits other than those from basic state pension and mandatory PAYG schemes (ARRCO and AGIRC). The latter, which are partly funded, have been classified since 1 January 2000 as social security schemes; they cover about 70% of the employed population.

Company sponsored supplementary plans are usually confined to higher paid employees and are generally insured (more tax efficient). Allocations to book reserves are not tax deductible and therefore this method of financing supplementary benefits is rarely used.

Collective mandatory insured supplementary plans are occupational schemes whose members of the eligible population are affiliated to on a mandatory basis at the same terms and conditions. The promise granted to the eligible population can be set at a branch, industry or at a company level.

Under the new Fillon law (from 1 January 2004) two new vehicles will allow for tax deductibility and social security charges exemptions for individual voluntary contributions to a qualified plan: PERCO (voluntary company or branch plan) and/or PERP (individual retirement savings open plan). The Filon law allows for tax deductibility of retirement contributions (collective mandatory defined contribution plans, PERCO, PERP) up to an annual global limit of 10% of annual professional income capped to 8 times annual Social security ceiling. PERCO and PERP will follow the same EET tax rule as the Collective mandatory insured plans.

(2) End of career indemnities (IFC) are exempted in case of non-voluntary retirement from age 60 up to age of 65 (retirement at the company's initiative) within fiscal and social charges limits.

(3) According to the "Loi Fillon" : for DB plans in force as at 1 April 2004 the companies will have to pay a Social security contribution. Companies have the choice between the payment of 6% on the contributions up to 2012 and 12% afterwards or 8% on the pensions paid.

E = Exempt	T = Taxed	P = Partially Taxed

Germany

	Book reserves	Support funds	Pensions-kassen *(2)(3)*	Pensions-fonds *(3)*	Direct Insurance *(3)*
Employee tax on contributions					
Employee contributions	n/a	n/a	T	n/a	T
Benefit in kind on company contributions	E	E	T	E ***(4)***	T
Company tax on contributions	E	E	E	E	E
Investment returns of pensions vehicle					
Investment income	E***(5)***	E	E	E	E
Capital gains	T at realisation	E	E	E	E
Taxation of benefits					
Retirement pension	T	T	E***(6)***	T	E***(6)***
Retirement lump sum	T	T	E	n/a	E
Dependants' pensions	T	T	E***(6)***	T	E***(6)***
Death in service lump sum	T	T	E	n/a	E
Early leaver:					
refund of member contributions	n/a	n/a	n/a	n/a	n/a
transfer to another pension arrangement***(7)***	E	E	E	E	E
Overall Tax Basis	EET	EET	TEE	EET	TEE
Percentage of workforce covered	n/a	n/a	n/a	n/a	n/a

Notes:

(1) About two-thirds of employees are covered by company schemes. Book reserves are the predominant financing method, being the most tax efficient.

(2) Until 31 December 2001 all contributions had to be taxed, employer's contributions could be taxed on a flat rate (20% plus additional taxes, in total about 23%) up to a certain limit which changed over time (now €1,752). Since 1 January 2002 in addition employers' contributions are in general tax free up to a certain limit that changes every year (now €2,448). Benefits based on tax free contributions will be taxed fully. For contributions exceeding the limit, the known flat rate taxation applies up to the related limit. Above the total of both limits contributions have to be taxed individually.

(3) Since 1 January 2002 employees that contribute to a Pensionskasse, a Pensionsfonds or a direct insurance contract will get tax relief or allowances that relate to their family status.

(4) Employers' contributions are in general tax free up to a certain limit that changes every year (now €2,448). Benefits based on tax free contributions will be taxed fully. Contributions above that limit have to be taxed individually; for benefits based on those contributions only the assumed interest content of annuity will be taxed.

(5) Up to 6% as the tax deductible additions include interest cost of 6%.

(6) For benefits from a direct insurance policy/Pensionskasse only the assumed interest content of annuity is taxed (as for benefits from the state scheme). Thus, in many cases, the total pension benefits are tax free as the minimum taxable income (€14,471) is not exceeded.

(7) Transfers do not happen very often. This topic is just under discussion as there are no special rules for transfers in the German tax code. If the outgoing and the incoming scheme of the same type normally the transfer amount will not be taxed as long as certain conditions are met.

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Greece

	Compulsory auxiliary funds	Group Insured Plans (DA)
Employee tax on contributions		
Employee contributions	E	E (max €1000)
Benefit in kind on company contributions	-	-
Company tax on contributions	E	E (max €1000)
Investment returns of pensions vehicle		
Investment income	E	T
Capital gains	E	T
Taxation of benefits		
Retirement pension	T	E
Retirement lump sum	P	E
Dependants' pensions	T	T
Death in service lump sum	P	P
Early leaver:		
refund of member contributions	-	E
transfer to another pension arrangement	-	-
Overall Tax Basis	EET	ETE
Percentage of workforce covered		

Notes:

Occupational pension provision is initially through funded auxiliary funds established on the basis of occupation or profession. Where these exist employees are compulsorily covered. These are then supplemented by group pension plan. The predominant funding method for the latter is deposit administration contracts. Use of pension funds is limited (presumably administered under a new law passed in 2003, which sets their taxation basis as ETT, but is subject to various clarifications and potential changes). Book reserves are not tax deductible and rarely used.

E = Exempt T = Taxed P = Partially Taxed

Ireland

	Exempt approved schemes
Employee tax on contributions	
Employee contributions	E
Benefit in kind on company contributions	n/a
Company tax on contributions	E
Investment returns of pensions vehicle	
Investment income	E
Capital gains	E
Taxation of benefits	
Retirement pension	T
Retirement lump sum	E
Dependants' pensions	T
Death in service lump sum ***(2)***	E/T
Early leaver:	
refund of member contributions	P
transfer to another pension arrangement	E
Overall Tax Basis	EET
Percentage of workforce covered	52%

Notes:

(1) About 52% of the employed population is covered by occupational pension plans. Company sponsored plans are usually set up as separately funded exempt approved trusts and are either self-administered or insured.

(2) E from income tax but T on inheritance and gift tax

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Italy

	Mandatory industry-wide plans	Supplementary insured plans
Employee tax on contributions		
Employee contributions	E	E
Benefit in kind on company contributions	n/a	n/a
Company tax on contributions	E	E
Investment returns of pensions vehicle *(3)*		
Investment income	T	T
Capital gains	T	T
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	T	T
Dependants' pensions	T	T
Early leaver:		
refund of member contributions	T	T
transfer to another pension arrangement ***(2)***	E	E
Overall Tax Basis	ETT	ETT

Percentage of workforce covered 10-15%

Notes:

(1) Generous social security and mandatory national industry wide plans (about 30) cover all employees. Occupational provision by employers is relatively unusual; where such plans exist they are usually insured, and on a defined contribution basis.

(2) Only after 3-5 years of contribution.

(3) Tax rate investment returns currently fixed at preferential rate of 11% (compared with tax on financial investments of 12.5% and tax on company profits of around 30%).

E = Exempt T = Taxed P = Partially Taxed

Luxembourg

	All funding vehicles under new law (book reserves, group insurance, pension funds)
Employee tax on contributions	
Employee contributions	T (2)
Benefit in kind on company contributions	T (3)
Company tax on contributions	(3)
Investment returns of pensions vehicle	
Investment income	E
Capital gains	E
Taxation of benefits	
Retirement pension	E (4)
Retirement lump sum	E(4)
Dependants' pensions	E(4)
Death in service lump sum	E (4)
Early leaver:	E(4)
refund of member contributions	E(4)
transfer to another pension arrangement	E(4)
Overall Tax Basis	TEE
Percentage of workforce covered	**10-15%**

Notes:

Occupational pensions can be provided via direct group insurance (usually smaller companies), book reserve or an approved pension fund with separate assets. Tax law has been harmonised for all contributions and allocations from Jan 2000 (as above). Approximately 50% of the plans are Group insurance, 33% Book reserves and 17% Pension funds.

(2) A maximum of 1200€/year is tax deductible from income
Employee contributions to book reserves not permitted

(3) A tax on employee income of 20% of employer contributions has to be paid by the employer; the employer can deduct this tax as well as the contributions from his profits; this deduction is limited to 20% of annual salaries.

(4) T if from book reserve prior to 2000

E = Exempt T = Taxed P = Partially Taxed

Netherlands

	Industry wide plans	Company plans
Employee tax on contributions		
Employee contributions	E	E
Benefit in kind on company contributions	-	-
Company tax on contributions	E	E
Investment returns of pensions vehicle		
Investment income	E	E
Capital gains	E	E
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	T	T
Dependant's pensions	T	T
Death in service lump sum	P	P
Early leaver:		
refund of member contributions	T	T
transfer to another pension arrangement	E	E
Overall Tax Basis	EET	EET
Percentage of workforce covered 92%		

Notes:

The vast majority of Dutch employees enjoy supplementary benefits through funded mandatory industry wide schemes, or qualified company sponsored pension plans (funded). Company plans insured with Dutch insurance companies enjoy similar tax privileges. New pension legislation is in progress, with proposals to change the tax basis from EET to TEE.

E = Exempt T = Taxed P = Partially Taxed

Portugal

	Approved pension funds
Employee tax on contributions	
Employee contributions	E
Benefit in kind on company contributions	-
Company tax on contributions	E
Investment returns of pensions vehicle	
Investment income	E
Capital gains	E
Taxation of benefits	
Retirement pension	T
Retirement lump sum	T
Dependants' pensions	T
Death in service lump sum	T
Early leaver:	
refund of member contributions	T
transfer to another pension arrangement	E
Overall Tax Basis	EET
Percentage of workforce covered	Not available

Notes:

Occupational pension provision has historically resulted from collective agreements in a number of companies, PAYG plans in large ex-state owned industries and ex-gratia payments to long serving employees. The most common plans are defined benefit. PAYG plans are no longer tax effective. The previous advantage of insurance contracts to provide a tax free lump sum has been withdrawn. Recent legislation encourages approved pension funds (inc open funds) with separate assets administered by authorised management societies or life insurance companies (about 300 funds set up to date).

E = Exempt T = Taxed P = Partially Taxed

Spain

	Group Insurance (no imputation)	Qualified Pension Plan (funded) (CTQPP)
Employee tax on contributions		
Employee contributions	***(2)***	E
Benefit in kind on company contributions	***(3)***	n/a
Company tax on contributions	E ***(3)*** (deferred)	E
Investment returns of pensions vehicle		
Investment income	E	E
Capital gains	E	E
Taxation of benefits		
Retirement pension	T	T
Retirement lump sum	P	P
Dependants' pensions	T	T
Death in service lump sum	T	P
Early leaver:		
refund of member contributions	P	n/a
transfer to another pension arrangement	E	E
Overall Tax Basis	EET	EET

Percentage of workforce covered 5-10% (evenly split between group insurance and CTQPP)

Notes:

(1) Due to the comparatively high level of social security pensions, occupational plans are not highly developed and generally only cover employees earning in excess of the social security ceiling. Book reserving was banned in November 2002 (with a few exceptions) and most companies have switched to externally financed qualified pension plans.

(2) Contributions to direct insurance are non tax deductible for employees and therefore unusual.

(3) Contributions are only tax deductible at source for companies if they are imputed to members (a choice exercised by the company) in which case they are taxed as benefit in kind in the employee's tax assessment. The more common approach is for company contributions not to be imputed in this way, but then the company receives tax relief on the contributions (not benefits paid) only when the employee retires.

E = Exempt T = Taxed P = Partially Taxed

Sweden

	Foundations	Book reserves	Insurance
Employee tax on contributions			
Employee contributions ***(2)***	n/a	n/a	n/a
Benefit in kind on company contributions	n/a	n/a	n/a
Company tax on contributions			
Pension (retirement and dependant's)	E	E	E
Lump sum (Death in service)	n/a	n/a	T
Investment returns of pensions vehicle			
Investment income	T	T	T
Capital gains	T	T	T
Taxation of benefits			
Retirement pension	T	T	T
Retirement lump sum	n/a	n/a	n/a
Dependants' pensions	T	T	T
Death in service lump sum	n/a	n/a	E
Early leaver:			
refund of member contributions	n/a	n/a	n/a
transfer to another pension arrangement	n/a	n/a	n/a
Overall Tax Basis	ETT	ETT	ETT
Percentage of workforce covered			

Notes:

(1) Majority coverage under occupational plans is determined by collective bargaining (standardised benefits based on ITP Plan for white-collars and SAS-LO for blue collars). Other employers provide similar plans voluntarily. Common financing methods for approved benefits are foundations, book reserves and pension insurance; book reserves are popular with larger employers and insurance with smaller employers. Unapproved benefits usually restricted to senior executives (and often financed through insurance).

(2) Employee contributions are not common.

E = Exempt T = Taxed P = Partially Taxed

United Kingdom

	Exempt Approved Scheme
Employee tax on contributions	
Employee contributions	E
Benefit in kind on company contributions	n/a
Company tax on contributions	E
Investment returns of pensions vehicle	
Investment income	P
Capital gains	E
Taxation of benefits	
Retirement pension	T
Retirement lump sum (subject to limits)	E
Dependants' pensions	T
Death in service lump sum	E
Early leaver:	
refund of member contributions	P
transfer to another pension arrangement	E
Overall Tax Basis	EET
Percentage of workforce covered:	**Approximately 60%**

Notes:

Majority of pensions are provided through company sponsored exempt approved pension schemes that need to be funded and can be set up as self-administered trusts or insured. Unapproved schemes are usually used to provide additional benefits for senior executives in respect of earnings in excess of the ceiling set for tax-approved benefits; these can be funded or financed via book reserves and are subject to different tax regimes.

E = Exempt T = Taxed P = Partially Taxed