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 labour income. In addition, most income tax systems give preferential treatment either to pension incomes or to pensioners, through additional allowances or credits to older people.

More than half (20 out of 35) 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 sources of retirement income. Relief from income tax for public pensions, either full or partial, is available in 14 OECD countries. For example, between 15% and 50% of income from public pensions in the United States (social security) is not taxed, depending on the total income of the pensioner. In Australia, for example, benefits derived from pension contributions, and investment returns, which have both been taxed, are not taxable in payment for over 60s. This applies to the mandatory defined contribution scheme and voluntary contributions to such plans.

By contrast some countries such as Denmark, Iceland, the Netherlands and Sweden tax earned income from work less than pensions.

Overall, 28 OECD countries have some concession for older people or pension income under their personal income taxes. In only eight countries is the tax treatment of pensions and pensioners at least 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 19 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, old-age retirement income is not subject to 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 chart shows the percentage of income paid in taxes and contribution by workers and pensioners.

Starting with workers, countries have been ranked by the proportion of income paid in total taxes (including social contributions) at an average earner level. This is then compared to the total tax rate paid by a pensioner after a full-career at the average wage, hence receiving the gross replacement rate in the base case (Table 5.1, as set out in the indicator "Gross pension replacement rates" above).

In eight OECD countries and six other major economies, such a pensioner would not pay any tax in retirement. In some cases, such as the Slovak Republic and Turkey, this is because pensions are not taxable. In the United Kingdom it is because the pension income would be less than the income-tax personal allowance offered to older people. Pensioners with the gross replacement rate of a full-career average earner would pay 11% of their income in taxes and contributions on average across the OECD. By comparison, taxes and contributions paid by an average earner – so not including any contributions from the employer – average 26% of the gross wage in OECD countries and 13% in other major economies.

The last series in the chart comparison show how much a pensioner would pay if his income before tax is equal to the gross average wage. The total tax rate is 18% on average in OECD countries, some eight percentage points lower than what workers' pay (including contributions) with the same level of earnings.

The difference between this 18% rate for pensioners with an income equal to average earnings and the 11% paid in taxes and contributions paid on the income which is equal to the gross replacement rate for an average earner illustrates the impact of progressivity in income-tax systems for pensioners.

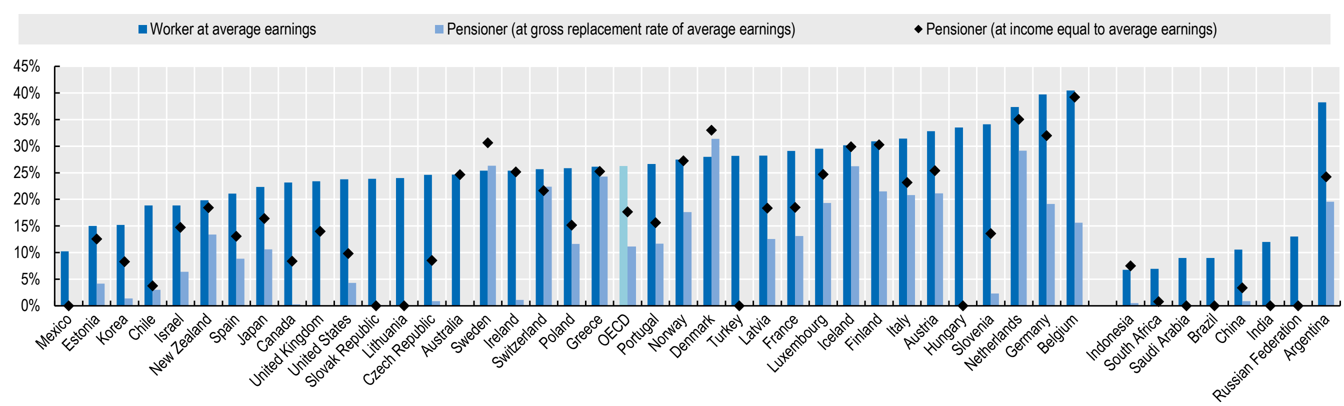
Table 5.4. **Treatment of pensions and pensioners under personal income tax and mandatory public and private contributions**

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

Source: See online "Country Profiles available at *http://oe.cd/pag*.

StatLink https://doi.org/10.1787/888934041516

Figure 5.3. **Personal income taxes and social security contributions paid by pensioners and workers**



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

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