

# Annual survey on financial incentives for retirement savings

OECD country profiles 2023

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# Foreword

Most OECD countries provide financial incentives to encourage individuals to save for retirement. These incentives can take two forms. Tax incentives are indirect subsidies provided through the tax code. They arise when the tax treatment of retirement savings deviates from the tax treatment of traditional forms of savings. Non-tax incentives, mainly matching contributions and fixed nominal subsidies, are direct government payments into the pension account of eligible individuals.

This report provides an annual overview of the tax treatment of retirement savings in OECD countries and selected non-OECD countries.<sup>1</sup> It also covers non-tax financial incentives provided to individuals to encourage them to save for retirement in asset-backed pension plans. The information refers to the rules applicable as of July 2023.<sup>2</sup>

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<sup>1</sup> This edition covers Bulgaria, Croatia, Romania and Peru. These countries have started the process to become OECD member countries.

<sup>2</sup> Colombia, Italy and Korea did not update the information in their respective country profile, so the description may not fully reflect the situation as of July 2023.

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# 1. Introduction

The OECD argues in favour of complementary asset-backed pension plans to boost overall retirement incomes. Financial incentives may be needed, however, to encourage saving in these pension plans, especially when they are voluntary. Indeed, most OECD countries provide tax advantages and other financial incentives (e.g. subsidies) to encourage savings for retirement in asset-backed pension plans in the hope of making complementary retirement savings more attractive. However, these incentives are costly, and they have come under close scrutiny in an era of budget stringency. Is it better to use tax incentives to increase contributions into asset-backed pension plans or is it better instead to withhold those tax incentives and increase public pensions? Are there other alternative approaches to encourage saving in asset-backed pension plans that may be more efficient?

In 2018, the OECD reviewed the cost effectiveness of tax and other financial incentives with the objective of assessing the most efficient way public money can be used to increase savings for retirement, retirement income and replacement rates ([Financial Incentives and Retirement Savings](#)). Since then, the OECD annually collects information on financial incentives for retirement savings.

This stocktaking report provides an annual overview of the tax treatment of retirement savings in OECD and selected non-OECD countries. It also covers non-tax financial incentives provided to individuals to encourage them to save for retirement in asset-backed pension plans. The information refers to the rules applicable as of July 2023.

Each country is covered separately, and each country profile contains the following information:

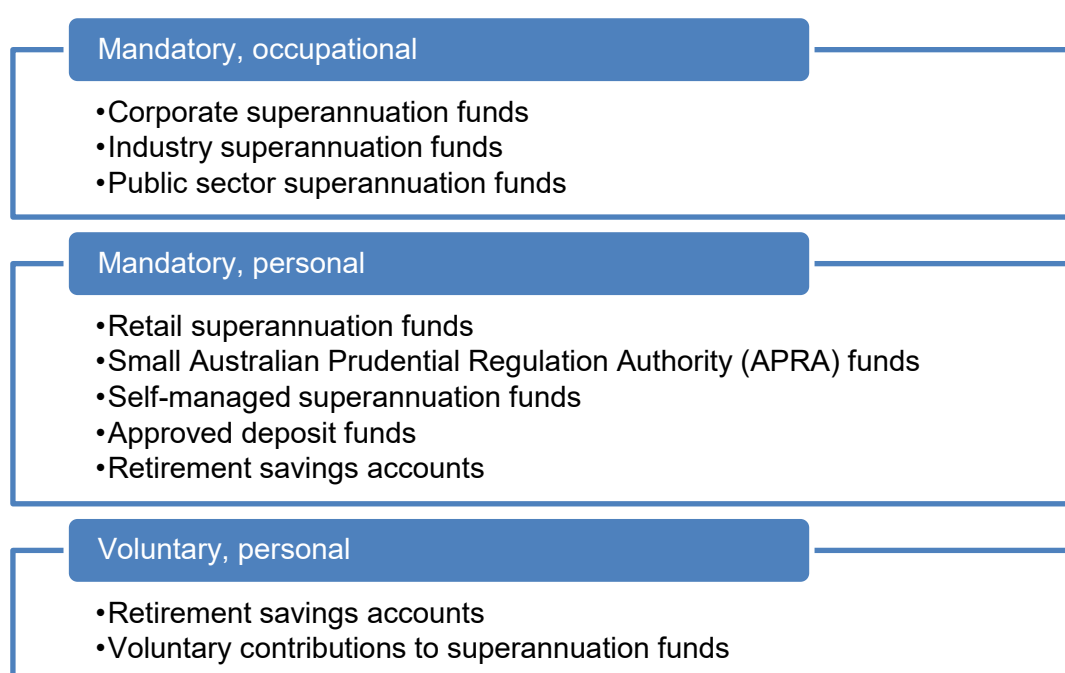
- The structure of the asset-backed pension system
- The tax treatment of retirement savings (contributions, returns on investment, funds accumulated and pension income)
- The description of non-tax financial incentives
- The social treatment of contributions and benefits
- The tax treatment of pensioners
- The perspective of the employer.

Find out more about the project at [www.oecd.org/pensions/financial-incentives-retirement-savings.htm](http://www.oecd.org/pensions/financial-incentives-retirement-savings.htm).

## 2. Country profiles

### 2.1. Australia

#### ***Structure of the asset-backed pension system***



Note: Mandatory employer contributions (“superannuation guarantee” contributions) must be paid into one of the regulated funds listed under the mandatory components of this graph. Most employees can choose which fund their employer should contribute to, provided they meet the eligibility requirements for the nominated fund. For example, corporate funds are generally limited to the employees of the company offering the fund, whereas retail funds and large industry funds are generally accessible to all employees. Personal voluntary contributions can be made to any kind of fund for which the individual meets eligibility.

#### ***Tax treatment of contributions***

Contributions are taxed, but usually at a lower rate than the individual’s marginal income tax rate. There are two main types of contributions with different tax treatments: “concessional” or before-tax contributions and “non-concessional” or after-tax contributions.<sup>3</sup> The government also makes tax-exempt contributions on behalf of eligible individuals.

<sup>3</sup> This description applies to the majority of pension funds. Some funds do not pay taxes on concessional contributions nor on returns on investment, but withdrawals from these funds are taxed at a higher rate to the extent that the amounts withdrawn are from an untaxed source.

### *Concessional contributions*

Concessional contributions include mandatory employer contributions (“superannuation guarantee” contributions),<sup>4</sup> employee “salary sacrifice” contributions<sup>5</sup> and voluntary deductible contributions.<sup>6</sup> The superannuation guarantee contribution is paid regardless of age, however, employees under the age of 18 need to work for at least 30 hours per week to be entitled to superannuation guarantee contributions. Individuals between 67 and 74 years of age can generally only make voluntary deductible contributions if they satisfy a “work test” (i.e. they work at least 40 hours within a consecutive 30-day period each income year). However, since 1 July 2022, these individuals can make voluntary non-deductible contributions without meeting the work test. Individuals aged 75 and over cannot make voluntary deductible or non-deductible contributions.

Concessional contributions are taxed at 15% on amounts up to the concessional contributions cap. The cap on concessional contributions for a financial year is currently AUD 27 500. The cap is indexed to wages and increases in increments of AUD 2 500. From 1 July 2018, it is possible for individuals with balances of less than AUD 500 000 to carry-forward the previous 5 years’ unused concessional cap space.

Contributions over the concessional contributions cap are taxed at the individual’s marginal income tax rate. This is intended to neutralise the benefit of having excess contributions in the concessional tax environment and ensures that the individual is treated as having earned the excess amount as ordinary income, with tax paid at the applicable marginal tax rate.

For high-income earners, for whom the sum of adjusted taxable income and concessional contributions is more than AUD 250 000, a tax rate of 30% instead of 15% is imposed on the portion of concessional contributions that are above the AUD 250 000 threshold up to the concessional cap. For example, if adjusted taxable income is at or above the threshold, the 30% tax rate is imposed on the whole amount of the contributions up to the concessional cap. Alternatively, if the adjusted taxable income is less than AUD 250 000, but adding concessional contributions brings the total above that threshold, the 30% tax rate applies only to the part of the contribution above the threshold. For example, if your income is AUD 230 000 and your concessional contributions are AUD 25 000, you only pay the 30% tax rate on AUD 5 000.

### *Non-concessional contributions*

Non-concessional contributions primarily include personal voluntary contributions (which are made as after-tax additional contributions), spouse contributions and other contributions made by one person on behalf of another person where there is no employment relationship.<sup>7</sup> Excess concessional contributions not withdrawn from the fund are also included in the calculation of non-concessional contributions.

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<sup>4</sup> Mandatory employer contributions are set at 11% of an employee’s earnings from 1 July 2023 to 30 June 2024, although some employment contracts specify that an employer will pay a higher amount. Mandatory employer contributions are increasing at a rate of 0.5% each financial year until 1 July 2025 when the contribution rate will be 12%.

<sup>5</sup> Salary sacrifice contributions are when the employee and the employer make a valid agreement to pay some of future before-tax salary or wages into the employee’s superannuation fund.

<sup>6</sup> Individuals can claim a tax deduction for any personal, after-tax contributions they make to superannuation up to the amount of their concessional contributions cap.

<sup>7</sup> Family and friend contributions will be concessional contributions unless the person is under 18 as these are included in the assessable income of a fund. Also, an employer can make non-concessional contributions on behalf of a person from their after-tax income.

Non-concessional contributions are not taxed upon entry into the fund because they are made from money on which the individual has already been taxed at their marginal rate. The non-concessional contributions cap is the limit on the amount of non-concessional contributions an individual can make each year before paying extra tax. This cap is currently AUD 110 000 for individuals with a total superannuation balance below AUD 1.9 million and is set at four times the concessional contributions cap. Individuals with a total superannuation balance greater than AUD 1.9 million are permitted to make non-concessional contributions, however, these contributions will be subject to additional tax.

Any non-concessional contributions above the cap in a given year automatically bring forward the next two years' non-concessional contributions cap for people under 75 years old. This means that an eligible individual can contribute up to AUD 330 000 over a three-year period without paying the excess contributions tax.<sup>8</sup> Any contributions above AUD 330 000 in that three-year period can remain in the superannuation fund and be taxed at 47%, or be withdrawn from superannuation to avoid that additional tax and only pay tax at an individual's own marginal tax rate on a proxy earnings amount associated with the excess contributions.

A tax credit may apply to after-tax contributions made on behalf of non-working or low-income-earning spouses.<sup>9</sup> It is payable to the contributor (not the spouse). The tax credit is calculated as 18% of the lesser of:

- AUD 3 000, reduced by one dollar for every dollar that the sum of the spouse's income, total reportable fringe benefits and reportable employer superannuation contributions exceeds AUD 37 000; and
- the total amount of contributions paid.

### ***Tax treatment of returns on investments***

Investment earnings on superannuation assets supporting accounts in the accumulation phase are taxed at a rate of 15%. Investment earnings in accounts supporting retirement income streams are tax-free, subject to the transfer balance cap limit (see below).

Funds are eligible for imputation credits for dividend income and a one-third capital gains tax reduction on assets held for at least 12 months.

### ***Tax treatment of funds accumulated***

From 1 July 2017, a transfer balance cap of AUD 1 600 000 was introduced. The transfer balance cap imposes a lifetime limit on the amount of superannuation assets that may be transferred to a retirement phase account (i.e. an account supporting retirement income streams) with tax-free investment earnings. The transfer balance cap is indexed in line with the consumer price index and increases in AUD 100 000 increments. On 1 July 2021, the transfer balance cap was uprated to AUD 1 700 000 and on 1 July 2023,

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<sup>8</sup> Restrictions on the amount that can be brought forward apply for people whose total superannuation balance is between AUD 1.68 million and AUD 1.9 million. If an individual aged under 75 has a total superannuation balance of AUD 1.79 million or more (but less than AUD 1.9 million) the non-concessional cap is limited to AUD 110 000. If the total superannuation balance is equal to AUD 1.68 million or more (but less than AUD 1.79 million) the non-concessional cap is AUD 220 000. Only individuals with a total superannuation balance below AUD 1.68 million can bring forward up to AUD 330 000 in non-concessional cap contributions.

<sup>9</sup> People can only make non-concessional contributions to their spouse's account if their spouse is younger than 75. No tax credit is available when the spouse receiving the contribution has exceeded their non-concessional contributions cap or their balance is above the transfer balance cap.

it was uprated to AUD 1 900 000. Since 1 July 2021, all individuals have a personal transfer balance cap between AUD 1 600 000 and AUD 1 900 000.

Assets in excess of the transfer balance cap must be kept in an accumulation phase account (where investment earnings will be taxed at 15%) or withdrawn from superannuation. The transfer balance cap applies only to the amount of assets that may be transferred into a retirement phase account, not as an ongoing cap on that account. So, the value of retirement phase accounts may grow above the transfer balance cap if future earnings exceed withdrawals. Also, if the value of retirement phase accounts falls below the transfer balance cap, additional assets may not be transferred into the retirement phase account.

Transfers in excess of the transfer balance cap are subject to excess transfer balance tax. This is a tax on notional earnings attributed to the excess. From 2018, the rate is 15% the first time an individual has an excess transfer balance and 30% for second and subsequent breaches.

### ***Tax treatment of pension income***

Benefits withdrawn from a superannuation fund have three potential components: a tax-free component, a taxed element, and an untaxed element. Non-concessional (after-tax) contributions are tax-free when withdrawn from the superannuation account. Concessional (before-tax) contributions are taxable when withdrawn. If the superannuation fund has paid taxes on those contributions (as described earlier), this corresponds to the taxed element. If the fund has not paid taxes, this corresponds to the untaxed element.

Individuals do not pay tax on the tax-free component when they withdraw it, regardless of their age or the type of withdrawal.

The tax treatment of the taxable component (taxed element and untaxed element) depends on the age at which the individual retires and the type of withdrawal, as described in the tables below. The preservation age is the age at which individuals can access their superannuation assets if they are retired. It depends on the date of birth (55 years old for people born before 1 July 1960, increasing gradually to 60 for people born from 1 July 1964).

**Table 2.1. Australia: Tax on withdrawals of taxable component when the individual withdraws money before his/her preservation age**

| Component       | Type of withdrawal | Effective tax rate (excluding Medicare levy)                                                                                                  |
|-----------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Taxed element   | Income stream      | Individual's marginal tax rate                                                                                                                |
| Taxed element   | Lump sum           | Individual's marginal tax rate or 20%, whichever is lower                                                                                     |
| Untaxed element | Income stream      | Individual's marginal tax rate                                                                                                                |
| Untaxed element | Lump sum           | Individual's marginal tax rate or 30%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 705 000 in 2023-24). |

**Table 2.2. Australia: Tax on withdrawals of taxable component when the individual withdraws money between his/her preservation age and 60 years old**

| Component       | Type of withdrawal | Effective tax rate (excluding Medicare levy), up to the low-rate cap amount (AUD 235 000 in 2023-24) | Effective tax rate (excluding Medicare levy), above the low-rate cap amount (AUD 235 000 in 2023-24)                                         |
|-----------------|--------------------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Taxed element   | Income stream      | Individual's marginal tax rate less 15% tax offset                                                   | Individual's marginal tax rate less 15% tax offset                                                                                           |
| Taxed element   | Lump sum           | 0%                                                                                                   | Individual's marginal tax rate or 15%, whichever is lower                                                                                    |
| Untaxed element | Income stream      | Individual's marginal tax rate                                                                       | Individual's marginal tax rate                                                                                                               |
| Untaxed element | Lump sum           | Individual's marginal tax rate or 15%, whichever is lower                                            | Individual's marginal tax rate or 30%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 705 000 in 2023-24) |

**Table 2.3. Australia: Tax on withdrawals of taxable component when the individual withdraws money at age 60 or more**

| Component       | Type of withdrawal | Effective tax rate (excluding Medicare levy)                                                                                                                                                                                                              |
|-----------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Taxed element   | Income stream      | No tax for defined contribution schemes (assuming the individual is under the transfer balance cap)<br>For defined benefit schemes, there is no tax up to AUD 118 750 per year while 50% of amounts over this are taxed at individual's marginal tax rate |
| Taxed element   | Lump sum           | No tax                                                                                                                                                                                                                                                    |
| Untaxed element | Income stream      | Individual's marginal tax rate less 10% tax offset (capped at AUD 11 875 in 2023-24)                                                                                                                                                                      |
| Untaxed element | Lump sum           | Individual's marginal tax rate or 15%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 705 000 in 2023-24)                                                                                                              |

Superannuation can generally only be accessed under severe financial hardship grounds or compassionate grounds such as to pay for medical treatment, palliative care or mortgage arrears where this is a risk of foreclosure. Withdrawals due to severe financial hardship are usually restricted to individuals who have received eligible government income support payments continuously for 26 weeks and are unable to meet reasonable and immediate family living expenses. The minimum amount that can be paid is AUD 1 000 and the maximum amount is AUD 10 000, and only one withdrawal can be made in any 12-month period. Benefits accessed early under severe financial hardship and/or compassionate grounds are taxed as a normal superannuation lump sum.

### ***Non-tax incentives***

The government provides a contribution called the “low-income super tax offset” (LISTO) of up to AUD 500 annually for eligible individuals on adjusted taxable income of up to AUD 37 000. The amount payable to the superannuation account is calculated by applying a 15% rate to concessional contributions made by, or for individuals (it is effectively a refund of the tax paid on concessional contributions). This contribution is tax exempt.

The state helps low-to-middle income earners to boost their retirement savings through the “super co-contribution”. This contribution is tax-exempt. The super co-contribution is a government matching contribution for eligible individuals. Individuals younger than 71 are eligible for a super co-contribution if they make a voluntary non-deducted contribution (in their own name) in the income year, have a total income lower than the higher income threshold (AUD 58 445 for 2023-24), at least 10% of their total income is from employment or business and their total superannuation balance is less than the general transfer

balance cap on 30 June of the previous financial year. The match rate provided is up to 50%. Individuals with an income below the lower income threshold (AUD 43 445 for 2023-24) can get 50 cents for each dollar contributed, up to the full maximum entitlement (AUD 500 for 2023-24). For every dollar that the individual earns above the lower income threshold, the maximum entitlement is reduced by 3.333 cents.

### ***Social treatment***

Social contributions are not levied on concessional contributions. However, voluntary concessional contributions are subject to the Medicare Levy surcharge (they are added back to the income threshold test for the surcharge).

Non-concessional contributions are made from income that has had social contributions levied against it.

Withdrawals from the taxed and untaxed elements before 60 years old are subject to Medicare Levy (2% since July 2014). After 60 years old, only withdrawals from the untaxed element are subject to Medicare Levy.

### ***Tax treatment of pensioners***

The public pension (Age Pension) is included in taxable income. The Age Pension is paid to people who meet age and residency requirements, subject to a means test.

Most senior Australians receive a tax credit called the “seniors and pensioners tax offset” (SAPTO). SAPTO is available to taxpayers in receipt of a taxable Australian Government pension, as well as to Australians who are of Age Pension age and who meet all of the Age Pension eligibility criteria except the means test. In 2023-24, it is worth a maximum of AUD 2 230 for a single senior and AUD 1 602 for each member of a senior couple. It builds on the statutory tax-free threshold and the “low income tax offset” to ensure that eligible single senior Australians with a rebate income up to AUD 33 088 in 2023-24 (or AUD 29 783 for each member of a couple) pay no income tax. The tax credit cannot exceed the total tax paid.<sup>10</sup>

- For single individuals: the maximum tax credit is reduced by 12.5 cents for each dollar of rebate income in excess of AUD 32 279, cutting out at a rebate income of AUD 50 119.
- For each member of a couple: the maximum tax credit is reduced by 12.5 cents for each dollar of rebate income in excess of AUD 28 974, cutting out at a rebate income of AUD 41 790.

In 2023-24, single seniors and pensioners with no dependants who are eligible for the SAPTO will not incur a Medicare levy liability if their taxable income does not exceed AUD 38 365. Similarly, couples and families who are eligible for the SAPTO will not be liable to pay the Medicare levy if their combined taxable income does not exceed AUD 53 406 (plus AUD 4 700 for each dependent child or student). The Medicare levy phases in at 10 cents for each dollar in excess of the above thresholds, until it is paid in full.

### ***Perspective of the employer***

Employer superannuation guarantee contributions are tax deductible if they are made to a complying fund by the due date.

Employers who fail to make the required contributions must pay the superannuation guarantee charge and possible penalties. The superannuation guarantee charge is a tax payable to the taxation office. It is then paid to employees’ super funds to compensate for non-payment of compulsory superannuation. The

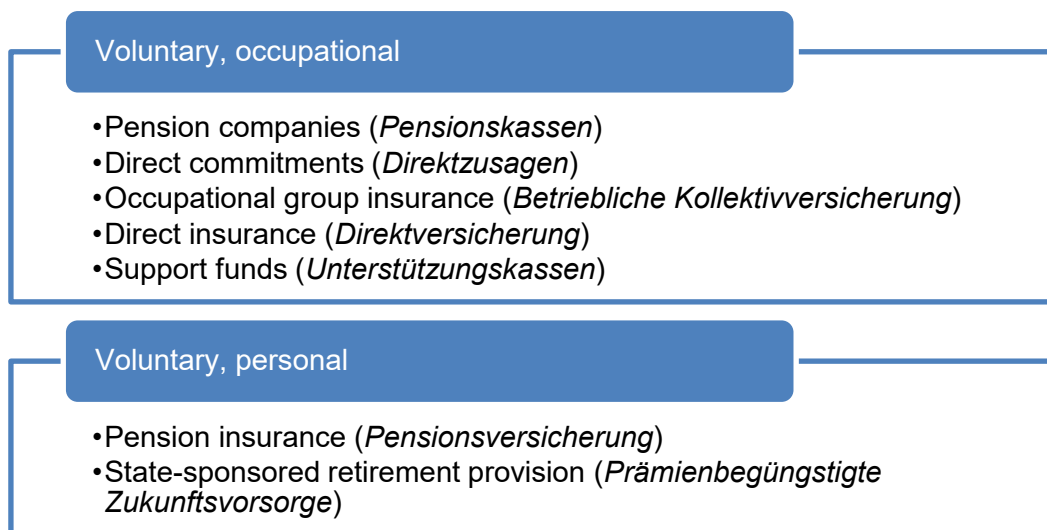
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<sup>10</sup> Rebate income is the aggregate of taxable income, adjusted fringe benefits amounts, total net investment loss and reportable superannuation contributions.

charge is higher than the basic superannuation requirement as it includes interest and administrative components. It is not deductible.

## 2.2. Austria

### **Structure of the asset-backed pension system**



### **Tax treatment of contributions**

#### *Pension companies and occupational group insurance*

Employee contributions are taxed at the individual's marginal income tax rate. They cannot exceed the sum of annual employer contributions (although an employee can contribute up to EUR 1 000 even when the employer contributes less than EUR 1 000 per year).

Employer contributions are not considered as income for the employee.

An extra 2.5% insurance tax is levied on both employee and employer contributions.

#### *Direct insurance*

Employee contributions are taxed at the individual's marginal income tax rate. They cannot exceed the sum of annual employer contributions (although an employee can contribute up to EUR 1 000 even when the employer contributes less than EUR 1 000 per year).

Employer contributions up to EUR 300 per year are tax-free for the employee. Contributions in excess of EUR 300 are considered as taxable income for the employee.

An extra 4% insurance tax is levied on both employee and employer contributions.

#### *Direct commitments and support funds*

Employees do not contribute. Employer contributions are not considered as income for the employee. The 4% insurance tax applies to support funds but not to direct commitments.

### *Personal pension plans*

Contributions to personal pension plans are done from after-tax income (therefore they are taxed at the individual's marginal rate of income tax).

There is no tax relief for state-sponsored retirement provision plans.

An extra 4% insurance tax is levied on individual contributions.

### ***Tax treatment of returns on investments***

Investment income is tax-exempt for pension companies, occupational group insurance, direct insurance, support funds and personal pensions.

Investment income is considered as company profit and subject to profit tax for direct commitments.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

The tax treatment of pension income depends primarily on the type of plan:

- Pension companies and occupational group insurance: Pensions are taxed as earned income at the individual's marginal rate of income tax. The portion of pension accrued by employer contributions is fully taxed. Only 25% of the portion of pension accrued by employee contributions is taxed.
- Direct insurance and personal pension insurance: Pensions are taxed as earned income at the individual's marginal rate of income tax from the moment the total value of benefits paid exceeds the capital value of the pension at retirement. It means that pension benefits are tax-free until that point in time.
- Direct commitments and support funds: Pensions are taxed as earned income at the individual's marginal rate of income tax.
- State-sponsored retirement provision: Withdrawals are tax-exempt if the entitlements are transferred to an occupational or personal pension plan or used to buy an annuity. If they are paid-out as a lump sum, the individual has to pay back 50% of the government subsidies and a 27.5% tax on capital gains.

Lump sum payments are taxed as ordinary income unless the payment does not exceed the amount of EUR 14 400. In this case, only 50% of the normal tax rate has to be paid. This applies to all lump sum payments, which result from terminations of pension plans.

### ***Non-tax incentives***

The minimum term of a state-sponsored retirement provision plan is 10 years and only individuals not yet receiving social security pension benefits can open such plans. The plan must provide a capital guarantee. Personal contributions to a state-sponsored retirement provision plan can attract government matching contributions. The matching contribution rate corresponds to a fixed rate of 2.75% plus a variable rate depending on the annual general level of interest rate. For 2023, the variable rate is 1.5% (thus the total matching rate is 4.25%). As of 1 January 2023, the maximum personal contributions considered to calculate the government contribution is EUR 3 222.18 (thus the maximum government matching contribution for 2023 is EUR 136.94). No tax is levied on matching contributions. If the individual takes the

benefits as a lump sum payment, s/he has to pay back 50% of the government subsidy and pay an additional 27.5% tax on the capital gains with retro-active effect.

It is also possible to get government matching contributions for employee contributions to direct insurance plans. The match rate is 2.75% plus a variable rate depending on the annual general level of interest rate for contributions up to EUR 1 000.

### ***Social treatment***

Social contributions are levied on employee/individual contributions but not on employer contributions.

Pensioners do not pay most social contributions but do pay for sickness insurance (5.1%).

### ***Tax treatment of pensioners***

Old-age public pension is considered as an income and subject to the individuals' marginal income tax rate.

Retired persons are entitled to a tax credit. For couples, the tax credit amounts to EUR 1 278 for sole earners with income up to EUR 20 967 and if the spouse's income does not exceed EUR 2 315. Otherwise, the tax credit is EUR 868. The tax credit is linearly reduced to 0 between EUR 18 410 (EUR 20 967 for sole earners) and EUR 26 826 of income.

Additional voluntary contributions are possible in the public pension system (*Höherversicherung*) and lead to benefits taxed differently. Everyone with a public pension scheme can make additional contributions. Contributions can be defined by the individual. The contribution limit for 2023 is EUR 11 700. The contributions are deductible as special expenses up to the individual's personal limit. The additional amount granted in pension benefits by these additional contributions depends on the amounts contributed, gender, age at the time of the contribution and the age at retirement. 75% of these additional benefits are tax-exempt. 25% are taxed at the individual's marginal rate of income tax. Under certain conditions, benefits resulting from these contributions can be fully tax exempt, if they result from contributions up to EUR 1 000.

13<sup>th</sup> and 14<sup>th</sup> monthly pensions (*Sonderzahlungen*) attract a particular tax treatment. They are tax free up to an amount of EUR 620 per year. If the received amount is between EUR 621 and the value of 2 times the average monthly gross pension income (max. EUR 2 100), there is no tax levied. If the value of 2 times the average monthly gross pension exceeds EUR 2 100, the amount between EUR 621 and EUR 2 100 is taxed at a fixed rate of 6%. If the amount received exceeds 2 times the average monthly gross pension, the excess amount is taxed at the individual's marginal income rate.

### ***Perspective of the employer***

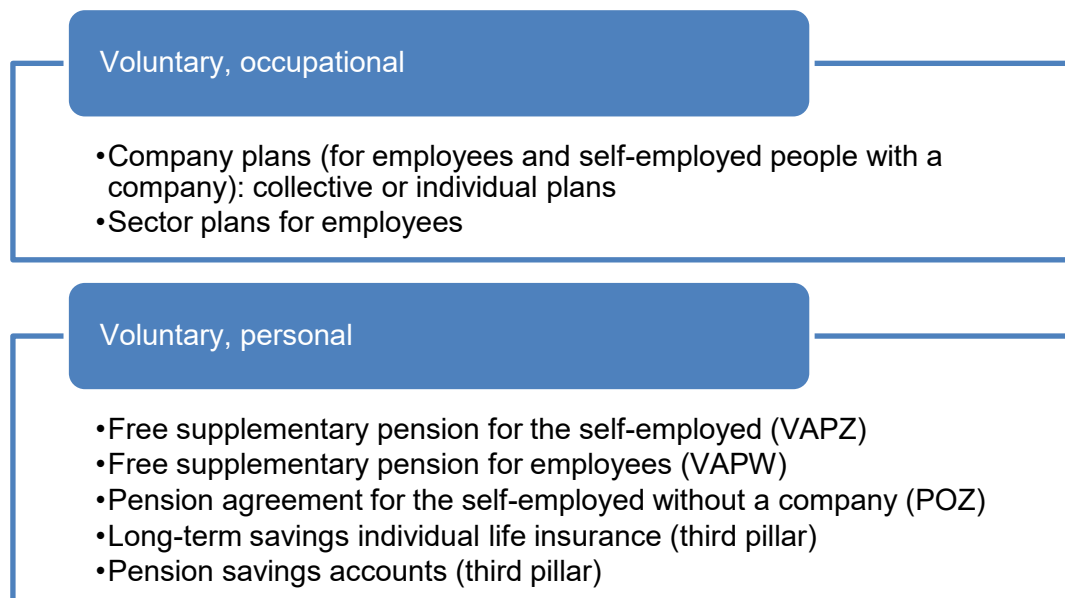
Pension companies and occupational group insurance: Employer contributions are tax-deductible company expenses, up to 10% of salary, provided that the total benefit target including social security benefits does not exceed 80% of current salary.

Direct insurance: Employer contributions up to EUR 300 per year are exempt from non-wage labour costs.

Direct commitments and support funds: Allocations to internal reserves are tax-deductible against income and corporation tax, up to 10% of salary, if the total benefit target including social security benefits does not exceed 80% of current salary.

## 2.3. Belgium

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

#### *Occupational pension plans for employees*

Employer contributions to an occupational pension plan are not considered as taxable income for the employee.

Employee contributions to an occupational pension plan are less common than employer contributions. They are eligible for a non-refundable tax credit of 30% of the amount contributed.<sup>11</sup>

Employee and employer contributions enjoy tax relief for the employer only to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary.<sup>12</sup>

The pension institution must pay an annual 4.4% tax on total contributions (employer plus employee). This tax is not due in the case of a “social” pension plan (i.e. a plan with solidarity components) or a sector plan.

#### *Occupational pension plans for self-employed people with their own company*

Contributions to company plans for self-employed people with their own company (IPT plans) are deductible from taxable income only to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary. The pension institution must pay an annual 4.4% tax on the total contributions paid.

<sup>11</sup> As municipal tax is levied on total income tax, the tax credit also reduces the taxable base for municipal tax. This applies to all contributions attracting a tax credit.

<sup>12</sup> Apart from the 80%-limit, an absolute contribution limit also exists for individual company plans for employees. Employers can offer individual company plans to specific employees, if they already offer a collective plan to all their employees. In that case, employer contributions only enjoy tax relief if these contributions do not exceed EUR 2 860 in 2023. These arrangements are rare.

## *Personal pension plans*

### **Free supplementary pensions**

Employees and self-employed workers have access to different free supplementary pension arrangements: self-employed persons can open VAPZ plans, while employees can open VAPW plans.

Contributions to VAPZ plans are deductible from professional income. Contributions to VAPZ plans cannot exceed 8.17% of professional income, up to EUR 3 859.40 in 2023 (respectively 9.40% of professional income for “social” VAPZ plans, up to EUR 4 440.43).

Contributions to VAPW plans are eligible for a non-refundable tax credit of 30% of the amount contributed. They cannot exceed EUR 1 830 in 2023 or 3% of gross salary received two years before, whichever is bigger. If the individual is also a member of an occupational pension plan, the cap is reduced by the increase in assets of the past two years in that plan (contributions and returns). The pension institution must pay an annual 4.4% tax on the total contributions paid.

### **Pension agreement for the self-employed without a company**

Contributions to POZ plans are eligible for a non-refundable tax credit of 30% of the amount contributed. The self-employed individual enjoys tax relief only to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary. The pension institution must pay an annual 4.4% tax on the total contributions paid.

### **Third pillar personal pension plans**

Individual contributions to third pillar pension plans are eligible for a non-refundable tax credit of 30% of the amount contributed.

In the case of pension savings accounts, the maximum contribution is EUR 990 (tax credit of 30%) or EUR 1 270 (tax credit of 25%) per year in 2023. The pension savings account can be subscribed by an individual aged 18 or over, but less than 65, and for at least 10 years.

In the case of long-term savings individual life insurance, contributions are calculated according to the following formula: 15% of the professional income up until EUR 1 960 and 6% of the professional income exceeding EUR 1 960 (contributions cannot exceed EUR 2 350 in 2023). The individual must pay an annual 2% tax on the total contributions paid. The insurance contract has to be subscribed by an individual younger than 65, and for at least 10 years.

### ***Tax treatment of returns on investments***

In general, returns on investment are tax exempt. There is one exception.

When the yearly return on investment is larger than the guaranteed return, the pension institution can award the individual with an annual profit share. This profit share is subject to a 9.25% profit share tax. At the time of pay-out, the investment income coming from the profit share is deducted before calculating the tax due on pension income.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

## **Tax treatment of pension income**

### *Occupational pension plans for employees*

The tax treatment of occupational pension income depends on the form of the pay-out option and the source of the contributions. In the case of a lump sum capital payment, the part of the capital that has accrued as a result of employer contributions is taxed at 16.5% (plus municipal tax), unless the pension is taken up at the statutory age of retirement (65 years old increasing gradually to 67), or after a 45-year career, and the pensioner has remained active until the age of take up. In that case, the pension is taxed at 10% (plus municipal tax).

The part of the lump sum capital payment that has accrued as a result of employee contributions is taxed at 16.5% (plus municipal tax) for the part of capital that results from contributions made before 1993, and at 10% (plus municipal tax) for the part of the capital that results from contributions made from that date onwards.

Annuities are added to the statutory pension income. The total pension is then taxed at the progressive income tax rate, after an important tax reduction is granted. Annuities are rare in practice. Programmed withdrawals are not allowed in Belgium.

### *Occupational pension plans for self-employed people with their own company*

Withdrawals from company plans for self-employed people with their own company are generally taxed at 16.5% (plus municipal tax), unless the pension is taken up at the statutory age of retirement (65 years old increasing gradually to 67), or after a 45-year career, and the pensioner remained active until the age of take up. In that case, the pension is taxed at 10% (plus municipal tax).

### *Personal pension plans*

#### **Free supplementary pensions**

Upon withdrawal from VAPZ plans, the accumulated capital is converted into a virtual income for tax purposes. The virtual income is then taxed at the progressive income tax rate, after an important tax reduction is granted. The virtual income is determined by applying a conversion rate to the accumulated capital (between 3.5% and 5%) and has to be declared during a certain period (13 years, except when the individual withdraws from age 65, in which case, the declaration duration is only 10 years). If the pension is taken up at the normal retirement age (65 years old increasing gradually to 67) and the self-employed was professionally active until that age, then only 80% of the accumulated capital is converted into a virtual income.

Withdrawals from VAPW plans are taxed at 10% (plus municipal tax) if withdrawn at the statutory age of retirement (65 years old increasing gradually to 67) or following death. Otherwise, they are taxed at 33% (plus municipal tax).

#### **Pension agreement for the self-employed without a company**

Withdrawals from POZ plans are taxed at 10% (plus municipal tax) if withdrawn at the statutory age of retirement (65 years old increasing gradually to 67) or following death. Otherwise, they are taxed at 33% (plus municipal tax).

#### **Third pillar personal pension plans**

Third pillar pension plans are paid as a lump sum. That lump sum is taxed at the rate of 8% for pension savings accounts and 10% for long-term savings individual life insurance (no municipal tax). If the pension

plan has been opened when the individual was younger than 55, the tax is calculated on the capital accumulated until age 60. In that case, individuals can continue contributing after age 60 with no further tax due on the additional capital accumulated. If the pension plan has been opened when the individual was 55 or older, the tax is calculated on the capital accumulated when the contract reaches 10 years.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employers must pay social contributions at the rate of 8.86% on their contributions to an occupational pension plan, which is lower than the usual rate for social contributions.

For the self-employed, social security contributions are not levied on contributions to IPT plans. They are levied on contributions to POZ plans. VAPZ contributions are considered as social contributions.

There is a special social contribution of 3% on the portion of occupational pension contributions exceeding a certain limit (so-called Wyninckx contribution). The Wyninckx contribution is due if the sum of the first and second pillar pension exceeds the maximum pension for civil servants. In 2023, this yearly maximum was EUR 84 923.40. The contribution applies to all plans except third pillar plans, but is mostly relevant for IPT plans.

Employee contributions to occupational plans and VAPW plans, as well as individual contributions to third pillar plans are treated in the same way as salary and are thus subjected to the same social contributions (generally 13.07%).

Pensioners with a (first and second pillar) pension above a minimum threshold pay a social contribution of 3.55% for health and disability insurance. The minimum threshold is EUR 1 920.21 in 2023 for a single pensioner without dependents (EUR 2 275.74 for pensioners with dependents). The effect of the contribution cannot lead to a pension payment inferior to this monthly amount.

There is also a “solidarity” contribution levied on (first and second pillar) pension income exceeding EUR 3 039.68 per month for a single pensioner (EUR 3 514.24 for pensioners with dependents). This contribution ranges from 0% to 2% of the gross pension.

Third pillar lump sums are not subject to social contributions.

### ***Tax treatment of pensioners***

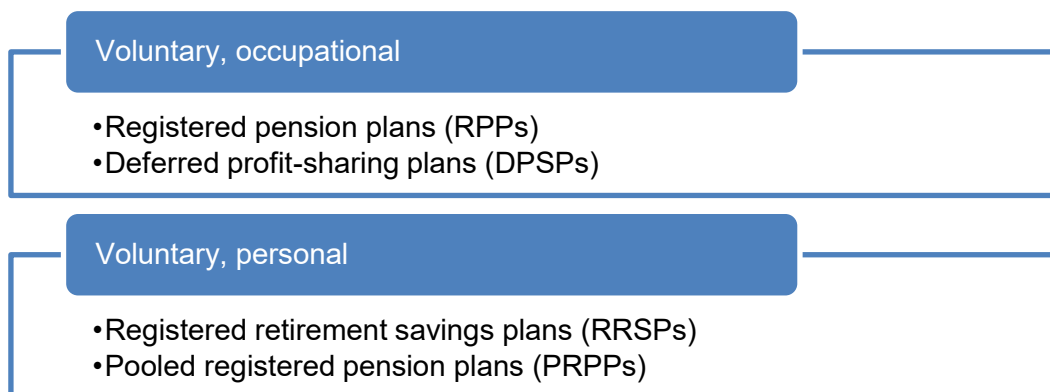
Public pension income is taxed at the progressive income tax rate, after an important tax reduction is granted.

### ***Perspective of the employer***

Employer contributions to an occupational pension plan are deductible as business expenses to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary.

## 2.4. Canada

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Pension contributions made within the applicable limits are deductible from income.

There is a penalty tax of 1% per month for excess over-contributions made to an RRSP or a PRPP (i.e. contributions in excess of CAD 2 000 over the applicable RRSP/PRPP limit). Over-contributions, including those made within the CAD 2 000 over-contribution allowance, are not deductible from income.

Joint limits apply to individual and employer contributions to RRSPs, PRPPs, DPSPs and defined contribution RPPs. Limits apply to pension benefits provided under a defined benefit RPP:

- Annual contributions of 18% of earnings are permitted to be made to an RRSP and defined contribution RPP, up to a specified dollar limit (CAD 30 780 and CAD 31 560 respectively for 2023). The earnings base for the limit is previous-year income for RRSPs and current-year income for RPPs.
- Defined benefit RPPs are permitted to provide pension benefits of 2% of earnings per year of service, up to 1/9<sup>th</sup> of the DC RPP limit per year of service (CAD 3 506.67 for 2023).
- Annual contributions to a DPSP are limited to 18% of earnings (current year income) up to one-half of the defined contribution RPP limit (CAD 15 780 for 2023).
- The RPP and RRSP dollar limits are indexed to average wage growth.

The RPP and RRSP limits are integrated in order to provide comparable retirement savings opportunities whether an individual saves in an RPP, an RRSP, a PRPP, a DPSP or a combination of these plans. This is achieved through the pension adjustment (PA), which reduces an RPP or DPSP member's annual RRSP limit by the amount of annual RPP and/or DPSP saving.

- For defined contribution RPP members and DPSP members, the PA is equal to the sum of employer and employee contributions.
- For defined benefit RPP members, the PA is an estimate of the contributions needed to fund the annual benefit accrued under the plan (based on a pension cost factor of 9 multiplied by the annual benefit accrued under the plan).
- PRPP contributions must be made within an individual's available RRSP limit.

Unused RRSP room is carried forward to future years.

In general terms, contributions to (or benefit accruals under) these plans must cease and payments/withdrawals must commence by or after the end of the year in which the plan member attains

71 years of age. In particular, an RRSP must be converted to a Registered Retirement Income Fund (RRIF) for this purpose. While defined benefit RPP members may not accrue pension benefits after the year in which they attain 71 years of age, employers may make any necessary contributions to a defined benefit RPP that are required to ensure the plan is fully funded in respect of all members and retirees, including those over age 71.

An individual who is 72 years of age or older, may, based on the individual's accumulated unused RRSP room, contribute to a spousal RRSP until the end of the year in which the spouse reaches 71 years of age.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Payments and withdrawals from pension and retirement savings plans are included in income for regular tax purposes and taxed at the applicable rate. Income tax is generally withheld on such payments and withdrawals.

Lump sum payments from an RPP, where they are permitted, generally are not treated differently than periodic pension payments for tax purposes (i.e. they are included in income and taxed at the applicable rate) except for the purposes of the Pension Income Credit (PIC) and pension income splitting (lump sum amounts are not eligible). Where a lump sum amount is permitted to be transferred to another registered plan or used to purchase an annuity (e.g. where a member terminates their membership in, or retires under, an RPP), the transfer is tax-free (i.e. there are no immediate tax consequences). The transferred amounts would be included in income for tax purposes when withdrawn from the receiving registered plan or when received as annuity payments.

The PIC is a non-refundable tax credit provided on the first CAD 2 000 of eligible pension income. The credit rate is 15% federally.

A pension income splitting measure permits seniors and pensioners to allocate up to one-half of their eligible pension income to their spouse or common-law partner for tax purposes.

Eligible pension income for the PIC and pension income splitting includes periodic pension payments from an RPP, regardless of the recipient's age, and other types of pension income (i.e. income from an RRSP annuity, RRIF, PRPP and DPSP annuity) as of age 65.

Generally, pension and RRSP assets may not be withdrawn tax-free, either in a lump-sum or on a periodic basis. However, tax-free withdrawals from an RRSP may be made by first-time home buyers for the purchase of a home or by those pursuing qualifying education or training programs, under the Home Buyers' Plan (HBP) and the Lifelong Learning Plan (LLP) respectively. Withdrawals are limited to CAD 35 000 under the HBP and CAD 20 000 under the LLP. HBP and LLP withdrawals must be repaid to an RRSP in regular repayments over a specified period, otherwise the repayment amount is included in income for tax purposes. Since 1 April 2023, RRSP funds can be transferred to a Tax-Free First Home Savings Account, subject to a lifetime limit of CAD 40 000, and then be withdrawn tax-free for the purpose of buying a first home.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social programme contributions (Canada Pension Plan contributions and Employment Insurance premiums) are not levied on employer contributions to an RPP, PRPP or DPSP, since employer contributions to these plans are excluded from an employee's earnings. Employee contributions to an RPP or PRPP attract social programme contributions since such contributions are made out of an employee's earnings. Contributions to an RRSP, which are generally made out of employment or self-employment earnings, attract social programme contributions.

Social programme contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pension benefits (Canada Pension Plan and Old Age Security (OAS) benefits) are included in income for regular tax purposes and taxed at the applicable rate, with the exception of the Guaranteed Income Supplement (GIS), which is a non-taxable supplement to OAS provided to low-income seniors.

The Age Credit is a non-refundable tax credit provided to individuals aged 65 and over on an amount of CAD 8 396 for 2023. The credit amount is reduced by 15% of income over a threshold of CAD 42 335 (for 2023) and is eliminated when income exceeds CAD 98 309 (for 2023). Both the credit amount and the income threshold are indexed to inflation annually.

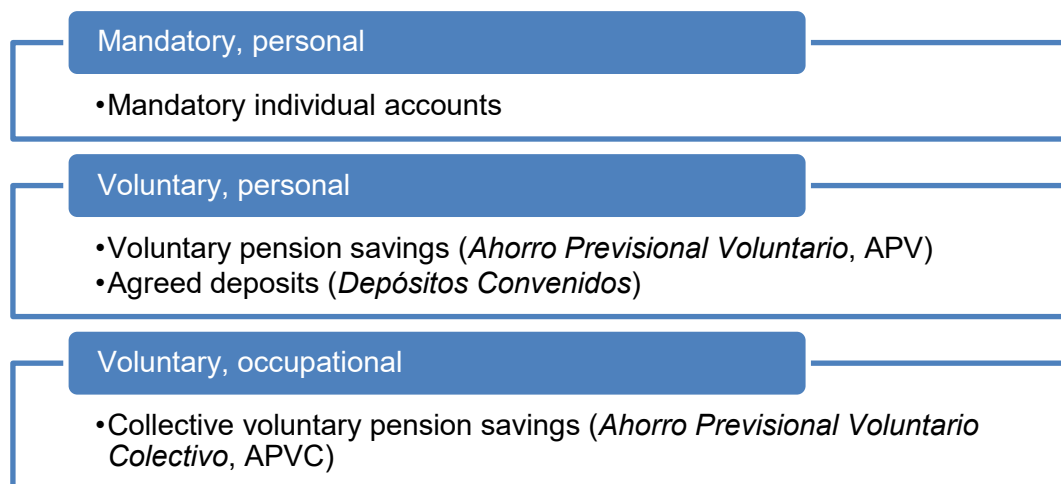
### ***Perspective of the employer***

Employer contributions to an RPP, a PRPP or a DPSP are deductible for the employer for income tax purposes.

Social programme contributions (Canada Pension Plan contributions and Employment Insurance premiums) are not levied on employer contributions to an RPP, PRPP or DPSP, since employer contributions to these plans are excluded from an employee's earnings.

## 2.5. Chile

### **Structure of the asset-backed pension system**



### **Tax treatment of contributions**

Members of the pension system contribute 10% of their salary to mandatory personal accounts. These contributions are tax-exempt. There is an upper limit for the salary taken into account for contributing to the system of 81.6 UF.<sup>13</sup>

Members may also contribute to voluntary accounts. These contributions are tax-exempt up to a certain limit. Regarding contributions to APV or APVC, there are two tax regimes available for members:

- Regime B: contributions are tax-exempt, up to a limit of 50 UF per month or 600 UF per year. Under this regime, voluntary contributions are deducted before taxation.
- Regime A: contributions are not deducted before taxation, but individuals are entitled to a matching contribution by the government of 15% of yearly voluntary contributions, with a limit of 6 UTM.<sup>14</sup>

Agreed deposits are contributions settled between the employer and the worker. These savings may only be withdrawn upon retirement and they are not subject to taxation up to a maximum of 900 UF per year. Contributions above this limit are taxed at the individual's marginal rate of income tax.

### **Tax treatment of returns on investments**

Returns on investments are not taxed in general.

Workers making voluntary contributions under regime A, withdrawing the funds and not using them to complement their mandatory pension, pay taxes upon withdrawal on the yield obtained from the amount withdrawn, at the individual's marginal rate of income tax.

### **Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

<sup>13</sup> The UF (*Unidad de Fomento*) is a price-indexed unit of account.

<sup>14</sup> The UTM is a unit for taxation purposes.

### ***Tax treatment of pension income***

Pension income is subject to income tax.

Upon retirement, pensioners who can finance a pension greater 12 UF and greater than 70% of the average monthly taxable wage over the last ten years, are entitled to withdraw the surplus as a lump-sum payment (i.e. funds remaining in the individual account after calculating the necessary savings to obtain the aforementioned pension). This available surplus is tax-exempt up to a maximum annual amount equivalent to 200 UTM, and the total exemption may not exceed 1 200 UTM. If members choose to withdraw the entire surplus in one year, the maximum exemption is 800 UTM. This exemption applies to all savings (mandatory and voluntary) made at least 48 months prior to retirement.

In the case of agreed deposits, if an individual contributed more than 900 UF in a year, upon withdrawal at retirement, only the returns are taxed on the portion corresponding to the excess over 900 UF (to avoid double taxation since contributions in excess of 900 UF have already been taxed).

Workers may fully or partially withdraw the balance accumulated through voluntary contributions at any time, not only upon retirement. Contributions under regime B are subject to a special additional tax and considered income for the year the withdrawals were made. The special additional tax is calculated differently depending on the time of the withdrawal:

- Withdrawal before meeting the conditions for retirement: The withdrawal is subject to one-off additional tax at the time of withdrawal at a rate between 3% and 7%. This rate is calculated as  $0.03 + [1.1 \times (ICR - ISR)/R]$  where ICR corresponds to the amount of income tax that the individual would have to pay by adding the withdrawal to other taxable income for the fiscal year; ISR corresponds to the amount of income tax that the individual would have to pay if no withdrawals were made; R corresponds to the amount of the withdrawal.
- Withdrawal for pensioners or those who are eligible for retirement: The withdrawal is subject to one-off additional tax at the time of withdrawal at a rate calculated as  $(ICR - ISR)/R$ .

Contributions under regime A are not subject to the additional tax described above. In the case of withdrawal of funds before retiring, the worker loses the government matching contribution and pays tax on investment return. If voluntary contributions under regime A are used to complement the mandatory pension, the part of the pension financed with these voluntary savings is deducted before taxation.

### ***Non-tax incentives***

Workers between 18 and 35 years old with an income lower than 1.5 times the minimum wage are entitled to a government matching contribution for the first 24 contributions to the pension system. This contribution consists in two payments: a subsidy to employers for hiring this type of workers and a direct contribution to the worker's pension account of the same amount. The matching contribution is equivalent to 50% of the mandatory contribution of the worker if the wage is lower than or equal to the minimum wage; or 50% of the mandatory contribution over the minimum wage if the wage is greater than the minimum wage and lower than 1.5 times the minimum wage.

Women aged 65 or older are entitled to a government subsidy for each child alive at birth. The subsidy is equivalent to 18 months of contributions over the minimum wage at the moment of the birth of the child, invested in fund type C since 2009 or since the birth of the child, whichever is later.

Workers making voluntary contributions under regime A (usually low-earnings workers whose wages are either exempted from income tax or have a low income tax rate) are entitled to a government matching contribution, corresponding to 15% of the yearly contributions, subject to a limit of 6 UTM. If the member withdraws the funds before retirement, the matching contribution is lost. It is not required to contribute to

the mandatory system in the same month to get the matching contribution but only members of the pension system may contribute to voluntary accounts.

### ***Social treatment***

Social contributions are levied over the gross salary. There is a maximum salary for social contributions of 81.6 UF. Pension contributions are part of the social security contributions.

Pensioners in the 80% poorest share of the population are exempted to contribute for health coverage, while the remaining 20% are required to pay 7% of their pension income for health coverage.

### ***Tax treatment of pensioners***

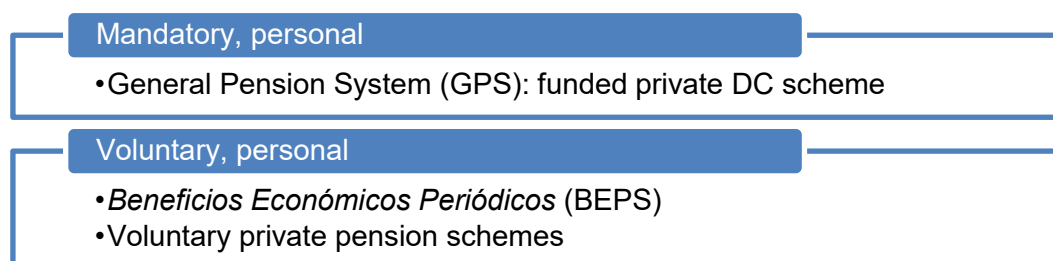
The universal guaranteed pension is taxed at the individual's marginal rate of income tax.

### ***Perspective of the employer***

Agreed deposits and contributions to APVC are considered as an expense for the employer and therefore reduce corporate income tax.

## **2.6. Colombia**

### ***Structure of the asset-backed pension system***



The General Pension System (GPS) is a mandatory system with two competing schemes: the public pension scheme and the private pension scheme. Insured individuals must contribute to either the public or the private pension scheme and may switch membership every five years up to the last ten years before retirement.

### ***Tax treatment of contributions***

Mandatory contributions to the GPS paid by the employee and the employer are considered as income that cannot be considered as taxable income.<sup>15</sup>

The tax treatment of voluntary pension contributions depends on the type of voluntary contributions made.

<sup>15</sup> Article 56, Colombian Tax Statute.

Voluntary contributions made by the individual to the private pension fund also receiving their mandatory contributions are considered as non-taxable income. They cannot exceed 25% of the annual taxable income up to 2 500 UVT annually.<sup>16 17</sup>

Contributions to voluntary pension funds and private pension insurance premiums have a different tax treatment. These contributions can be made by any person, regardless of the mandatory pension regime that they are member of (private or public). Voluntary contributions made by the member, the employer, or the independent worker are considered as tax-exempt income. Together with the contributions to the Savings Accounts for the Promotion of Construction (AFC), they cannot exceed 30% of the annual taxable income up to 3 800 UVT annually.<sup>18</sup> These contributions must remain in the chosen fund for a period of at least 10 years.

Withdrawals of contributions before 10 years lose the benefit of the tax-exempt income and the fund or entity must charge the member with the corresponding tax. The 10-year limit does not apply when the taxpayer retires, so that once the member becomes a pensioner, s/he can withdraw those contributions at any time without losing the benefit initially claimed. The 10-year limit does not apply either when withdrawals are made to purchase a home, either through a mortgage or without financing.

The partial or total withdrawal of voluntary contributions, made for a purpose other than obtaining a higher pension benefit or an early pension, constitute taxable liquid income for the individual and the respective managing company will make the withholding tax at the rate of 35% at the time of withdrawal.<sup>19</sup>

Moreover, the sum of all exempt income and deductions cannot exceed 40% of gross income less health and pension contributions up to 5 040 UVT annually.

### ***Tax treatment of returns on investments***

The investment returns on pension fund assets are exempt from income tax.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

The sum of mandatory (public or private) and voluntary pension benefits is exempt from income tax unless the aggregate monthly benefits are over 1 000 UVT.<sup>20</sup>

### ***Non-tax incentives***

The *Beneficios Económicos Periódicos* (BEPS) programme allows some of the lowest income groups to voluntarily contribute to the GPS, as long as they are affiliated to either the private or the public component of the GPS. At retirement, individuals receive a 20% matching contribution from the government. The

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<sup>16</sup> The value of each tax unit (*Unidad de Valor Tributario* or UVT) is equivalent to COP 38 004 for fiscal year 2022.

<sup>17</sup> Article 55, Colombian Tax Statute.

<sup>18</sup> Article 126-4, Colombian Tax Statute.

<sup>19</sup> Article 55, Colombian Tax Statute.

<sup>20</sup> Article 206-5, Colombian Tax Statute.

government matching contribution is only deposited in the pension account when the individual retires and therefore does not accrue interests during the accumulation phase.<sup>21</sup>

For the public component of the GPS, individuals eligible for the BEPS programme are those who could not complete all the weeks required to become beneficiaries of a pension income and have reached the age of retirement, or those who cannot contribute on the basis of a minimum salary.

For the private DC component of the GPS, members who cannot accumulate the minimum capital to become eligible for the minimum pension guarantee are eligible for the BEPS programme.

### ***Social treatment***

Contributions to private pension funds come from a base salary and are therefore subject to social contributions.

Private pension income is subject to health care contributions. A rate of 12% is applied to pension benefits to contribute to the health care system, which is lower than the rate applied when the member is an employee (12.5%, of which 8.5% is paid by the employer). However, this 12% must be fully paid by the member.<sup>22</sup>

### ***Tax treatment of pensioners***

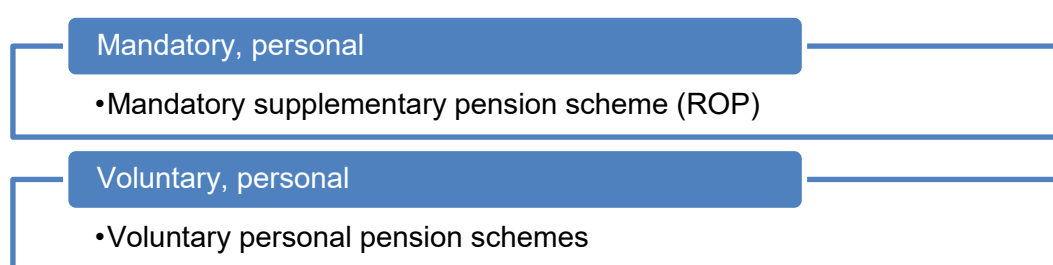
The sum of mandatory and voluntary pensions is tax exempt unless the aggregate monthly benefits are over 1 000 UVT.<sup>23</sup>

### ***Perspective of the employer***

The contributions made to institutional plans in an annual amount per employee of up to 3 800 UVT represent a deductible expense for the contributing firm.<sup>24</sup>

## **2.7. Costa Rica**

### ***Structure of the asset-backed pension system***



<sup>21</sup> Article 87, Law 1328 of 2009.

<sup>22</sup> Article 17, Law 100/1993.

<sup>23</sup> Article 206-5, Colombian Tax Statute.

<sup>24</sup> Article 56, Colombian Tax Statute.

### ***Tax treatment of contributions***

Employees' contributions to the mandatory scheme (ROP) are not tax-deductible, while employer contributions are not included in the employee's taxable income.

Individual and employer contributions to voluntary plans are exempt from income tax up to 10% of the gross monthly income of the employee, or 10% of the annual gross income for individuals with gainful activities.<sup>25</sup>

### ***Tax treatment of returns on investments***

There are no taxes levied on investment returns. According to Law No. 7983 (Worker Protection Law) and Law No. 7092 (Income Tax Law), there is an exemption from income tax for interests, dividends, capital gains and any other benefits produced by the values in national currency or in foreign currency, in which the authorised entities invest the resources of the managed funds.<sup>26</sup>

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Whenever the sum of the benefits from the Basic Contributory Pension Regime (*Seguro de Invalidez, Vejez y Muerte*, "IVM"), the ROP and the voluntary pension schemes exceeds CRC 941 000, the affiliate must pay taxes at the marginal rate of income tax.<sup>27</sup>

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social security contributions are calculated on the gross salary of the worker. Therefore, employees' contributions to the mandatory scheme (ROP) are not exempt from social charges.

Individual and employer contributions to voluntary plans are exempt from the payment of social charges up to 10% of gross monthly income, or 10% of the annual gross income for individuals with gainful activities.

The social charges that are exempted are the following: Costa Rican Social Security Fund ("CCSS"); National Institute of Learning ("INA"); Mixed Institute of Social Aid ("IMAS"); Social Development Fund and Family Allowances ("FODESAF"); and, Banco Popular y de Desarrollo Comunal.<sup>28</sup>

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<sup>25</sup> Law No. 7983, Worker Protection Law, Article 71.

<sup>26</sup> Law No. 7092, Income Tax Law, Article 28 bis, subsection 1). Regarding this regulation, income and capital gains obtained by pension funds and benefit plans, as well as the Labour Capitalization Fund (FCL) - referred to in article 2 of Law No. 7983, Worker Protection Law – are exempt. Likewise, the income and capital gains obtained by the special pension regimes, referred to in Article 75 of Law No. 7983, Worker Protection Law, are exempt.

<sup>27</sup> Law No. 7092 Income Tax Law, Article 33, 27 ter, subsection iii; and Article 32, subsection ch.

<sup>28</sup> Regarding the aforementioned contributions to INA, IMAS, FODESAF and Banco Popular, these contributions are called "para-fiscal charges", depending on the specific destination that must be given to these resources, since they do not enter the single State Treasury fund; rather, they provide income directly to the beneficiary public institutions, in order to contribute to the fulfilment of the objectives and goals of each institution.

Social security contributions are not levied on pension income from mandatory and voluntary schemes.

### ***Tax treatment of pensioners***

Costa Rica has a multi-pillar pension system, whenever the sum of the payments of each pillar exceeds CRC 941 000, the affiliate must pay taxes at the marginal rate.<sup>29</sup> However, non-contributory pensions are tax exempt.

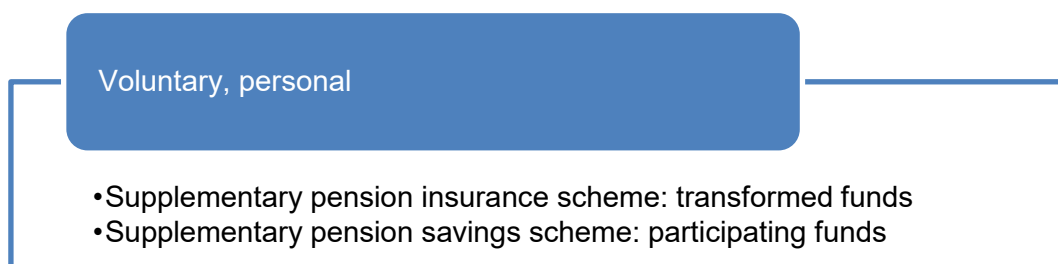
### ***Perspective of the employer***

To calculate the income tax and the charges on the payroll, the contributions to the Mandatory supplementary pension scheme (ROP) are considered deductible expenses to determine the taxable income by the employer.

Employers who have entered into a contribution agreement with workers for a voluntary supplementary pension scheme according to Law No. 7983 (Workers Protection Law), may consider such contributions as deductible expenses for the purpose of calculating the income tax of their company or business.<sup>30</sup>

## **2.8. Czech Republic**

### ***Structure of the asset-backed pension system***



Note: Transformed funds have been closed to new entrants since January 2013.

### ***Tax treatment of contributions***

Individuals' contributions into supplementary pension schemes are paid from after-tax income. Contributions of CZK 300 up to CZK 1 000 a month are matched by government contributions. Contributions above CZK 12 000 a year are tax-deductible up to CZK 24 000 a year.

Employer contributions into supplementary pension schemes are not considered as taxable income for the employee up to CZK 50 000 a year. Above they are taxed as income.

### ***Tax treatment of returns on investments***

Returns on investment are not subject to income tax during participation in the system but taxed according the rules described below in out payments from the system.

<sup>29</sup> Law No. 7092 Income Tax Law, Article 33.

<sup>30</sup> Law No. 7983, Worker Protection Law, Article 70.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

If the participant would like to withdraw money and the conditions for lump sum or pension are not met, this closes the contract and any government contributions are returned to the government, and if the participant in such a case used tax incentives, the amount previously deducted must be taxed.<sup>31</sup> In addition, the returns on investments and employer contributions are taxed at 15%.

Annuities are tax-free, including when withdrawn up to 5 years before the official retirement age. Programmed withdrawals for more than 10 years are tax-free. They are otherwise taxed as income. Lump sums are taxed at 15% but the tax base consists only of the returns on investments and employer's contributions paid after January 2000.

### ***Non-tax incentives***

Individuals' contributions made into supplementary pension schemes are matched each month by the government as follows:

- CZK 230 if the individual contributes at least CZK 1 000.
- CZK 90 + 20% of the amount above CZK 300 if the individual contributes between CZK 300 and CZK 999.
- Nothing if the individual contributes less than CZK 300.

Employer contributions cannot be matched. The government contributions are not subject to income tax and social contributions.

### ***Social treatment***

Individuals' contributions above CZK 12 000 per year and up to CZK 24 000 are not included in income subject to social contributions.

Social contributions are not levied on employer's contributions up to the limit of CZK 50 000 per year.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Old-age public pay-as-you-go pensions are not taxed up to a value of 36 times the minimum wage.

Taxpayers can claim a tax credit of CZK 24 840 per year. Since 2014, the tax credit can also be claimed by individuals receiving an old-age public pension.

### ***Perspective of the employer***

Employer contributions into supplementary pension schemes are deductible from corporate tax - more precisely they constitute expenses for tax purposes.

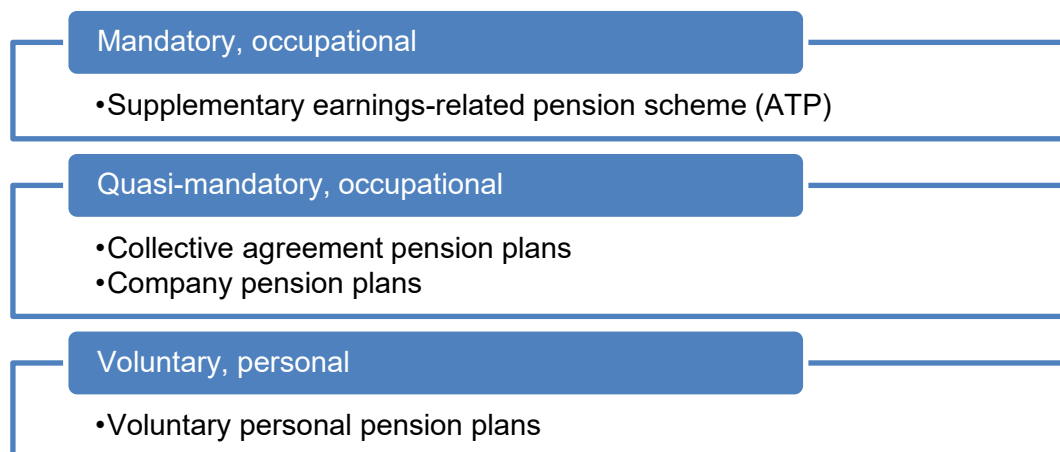
Social contributions are not levied on employer's contributions up to the limit of CZK 50 000 per year.

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<sup>31</sup> It is not possible to withdraw a lump sum before the age of 60. Early withdrawal is possible as an annuity or programmed withdrawal up to 5 years before the official retirement age.

## 2.9. Denmark

### ***Structure of the asset-backed pension system***



Quasi-mandatory occupational plans and voluntary personal plans can run three different kinds of schemes: age savings / lump sum (*Aldersopsparing*), programmed withdrawal (*Ratepension/Ophørende livrente*) or life annuity (*Livrente*).

### ***Tax treatment of contributions***

Employer contributions are not considered as taxable income to the employee.

In age savings, individual contributions are subject to labour market tax and income tax. There is a contribution limit of DKK 8 800 in 2023. The last seven years before retirement age, the contribution limit is increased to DKK 56 900 per year.

For all the other plans, employee/individual contributions are deductible from income tax but still subject to the labour market tax:

- ATP: contributions are income tax-exempt.
- Programmed withdrawal: contributions are tax-exempt up to DKK 60 900 (2023).
- Life annuity: all contributions are tax-exempt.

In order to keep up the pension saving incentives and avoid the interaction problem with income-related government pensions and housing support, an extra tax exemption was introduced in 2018. For pension savings up to DKK 77 900 (in 2023) per year (employer and employee contributions, except in age savings), an extra exemption of 32% is obtained the last 15 years before retirement. For pension savers with more than 15 years to retirement the extra exemption is 12%. In other words, the tax exemption is 132% or 112% of contributions instead of 100%.

For self-employed persons, up to 30% of the profits of the company in the year can be deducted.

Persons aged at least 55, who have been self-employed or a majority shareholder in a business for at least 10 of the last 15 years can choose to deposit the taxable profit from the selling of their business or shares into a so-called termination pension scheme, up to DKK 3 054 700 (in 2023). The tax payment on the profits is then postponed from year of the sale of the company to the years when the pension is received. The contribution is tax-exempt in the year of contribution or sale.

### ***Tax treatment of returns on investments***

Returns are subject to taxation, regardless of the form of the pension scheme. Returns are taxed yearly at a fixed rate of 15.3%. Returns include dividends, interests and changes in the market value of the assets.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

For ATP, programmed withdrawal and life annuity schemes, pension income is subject to personal income tax but not to labour market tax.

Pension income from age savings schemes is tax-exempt and does not affect entitlements for the housing support and public pensions.

If an individual chooses to withdraw assets from programmed withdrawal (*Ratepension*) or life annuity schemes before retirement age, the sum will be normally taxed at a fixed rate of 60%. This does not apply, however, in cases of one-off payments due to death or life-threatening illness. In these cases, taxation is 40%.

Premature withdrawal of assets from lump sum savings is taxed at a fixed rate of 20%. Withdrawal of assets before retirement age related to e.g. death, life-threatening illness or disability are not premature and thus tax exempt.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

No such contributions.

### ***Tax treatment of pensioners***

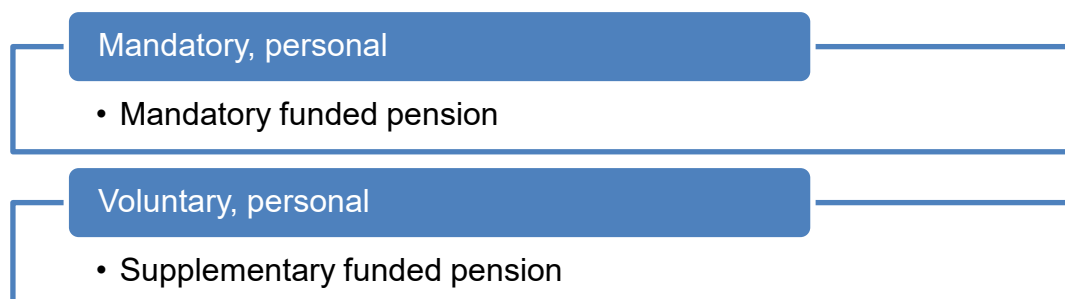
Public basic old-age pension is like income from pension saving, subject to personal income tax but not to labour market tax.

### ***Perspective of the employer***

Contributions made by employers are, like other parts of salaries, fully tax deductible as expenses.

## 2.10. Estonia

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

In mandatory pension plans, only employee contributions and government matching contributions are possible. Employee contributions (2% of the gross salary withheld by the employer) are fully tax-deductible. Government matching contributions (4% of the gross salary) are not considered as taxable income to the employee. They are paid from the employer's social contributions (20% for pension insurance and 13% for health insurance). From 1 January 2021, members of the mandatory funded pension system can suspend their contributions at any time. They can resume contributions after ten years.

Individuals receive a non-refundable tax credit on their contributions to voluntary pension plans corresponding to 20% of the contributions made during the year, up to 15% of gross income or EUR 6 000. The EUR 6 000 limit applies to the total employee and employer contributions. Contributions are otherwise taxed at the fixed income tax rate (20%). The tax credit only applies to contracts opened for at least five years when the individual reaches the retirement age.<sup>32</sup>

Employer contributions to voluntary pension plans are considered as a part of the employee's salary and are not subject to personal income tax as long as they do not represent more than 15% of the individual's gross income, up to EUR 6 000. As the 15% and EUR 6 000 limits are common to employee and employer contributions, any employer contribution reduces the available room for individual contributions entitled to the tax credit.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

The taxation of pension payments from the mandatory funded pension system depends on the length of the payment period. If the individual selects a lifetime annuity or a fixed-period pension paid over the average remaining life expectancy, benefits are tax exempt. The tax rate for shorter fixed-term periods and for full lump sums is 10%.

<sup>32</sup> The retirement age for members of a voluntary pension plan is the national retirement age minus five years, or 55 for those who joined a plan before 1 January 2021.

Individuals who have not reached pensionable age and are more than five years away from it, can withdraw all the money from their mandatory account at any time (they can re-join the system after ten years). In this case, 20% income tax is withheld from the disbursement.

The taxation of pension payments from voluntary pension plans depends on the year when entering the contract, the age of the individual and the form of pension payments. For individuals who enter a contract from 1 January 2021<sup>33</sup>:

- A tax exemption applies if the individual has reached retirement age or has less than five years until reaching it, at least five years have passed since the conclusion of the contract, and the individual selects a lifetime annuity or a fixed-term annuity over the average remaining life expectancy.
- A tax rate of 10% applies if the individual has reached retirement age or has less than five years until reaching it, at least five years have passed since the conclusion of the contract, and the individual selects a fixed-term pension or a lump sum, or alternatively if the individual has no capacity for work and opts for a lump sum.
- A 20% tax rate applies if the individual is more than five years away from retirement age, or less than five years have passed since the conclusion of the contract.

### ***Non-tax incentives***

For people having children born as of 1 January 2013, the government pays monthly contributions equal to 4% of the national average wage into the mandatory funded pension scheme of one of the parents for a maximum duration of three years per child (whether the parent has returned to work or not).

### ***Social treatment***

Social contributions paid by employees and employers are levied on the total amount of the gross wage or salary.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Pension income from the pay-as-you-go public pension system exceeding the annual basic exemption is taxed as income at the fixed income tax rate (20%). Since 2023, the annual basic exemption for pensioners is equal to twelve times the average monthly old-age pension (established for a period of taxation by the State Budget Act). If the basic exemption exceeds pension income, the remaining part of the basic exemption is deducted from other taxable income. This basic exemption is applicable from the period of taxation when the taxpayer attains the pensionable age.

### ***Perspective of the employer***

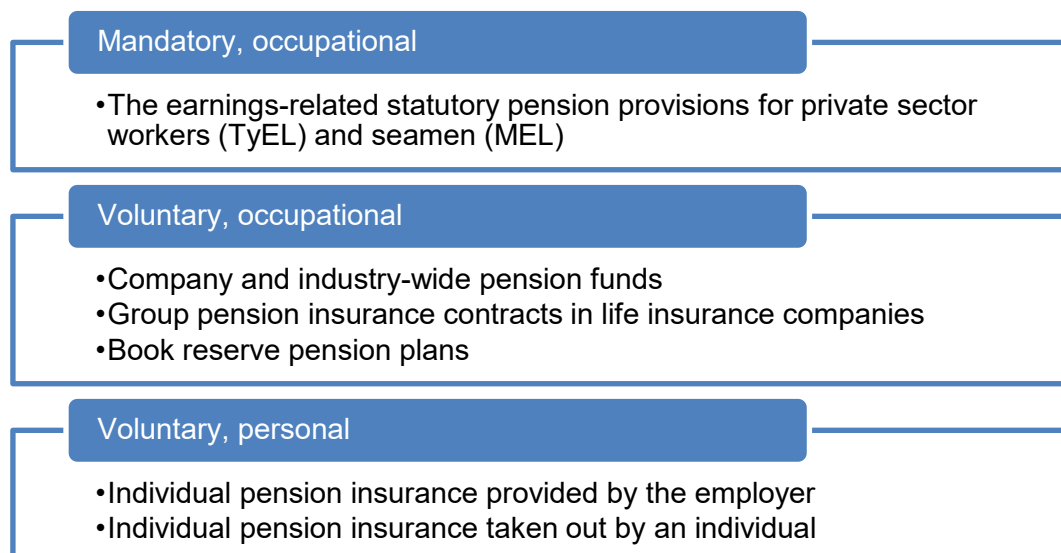
Contributions to voluntary pension plans made by the employer are classified as expenses related to business, so they are exempt for corporate income tax purposes. Nevertheless, contributions are still subject to social tax payable by the employer.

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<sup>33</sup> For those who were members of a voluntary pension plan before 2021, the tax treatment is the same, but their retirement age is 55 (not retirement age or less than five years until reaching it).

## 2.11. Finland

### *Structure of the asset-backed pension system*



### *Tax treatment of contributions*

**Mandatory occupational plans:** Employee contributions are fully tax-deductible from earned income. Employer contributions are not considered as taxable income to the employee.

**Voluntary occupational group plans:** Employee contributions are deductible from the employee's earned income up to the lesser of (i) 5% of salary or (ii) EUR 5 000 per year. If the employee contributes more than the employer does, the excess amount is not deductible. For voluntary occupational plans opened before 06/05/2004, employees' contributions are fully deductible. Employer contributions are not considered as taxable income to the employee.

If the employee contributes to the occupational group plan, the retirement age cannot be lower than the maximum statutory age (currently varying between 68, 69 and 70 years depending on the age of the insured person) to be eligible for tax relief.<sup>34</sup> If the employee does not contribute to the plan, in practice a minimum retirement age of 55 years has been applied.

**Voluntary personal plans set up by the employer:** Employee contributions are not tax-deductible. Employer contributions are not considered as taxable income to the employee if they do not exceed a limit of EUR 8 500 per year. Excess contributions count as employee's salary and are taxed at his/her marginal income tax rate.

**Voluntary personal plan taken by the employee:** Individual contributions are deductible from capital income up to EUR 5 000 per year. If the capital income earned in the year is lower than the amount of deductible contributions, the difference is used to calculate a tax credit applicable to earned income tax. For example, if an individual contributes EUR 5 000 to a personal plan and has EUR 3 000 of capital income, the first EUR 3 000 of contributions are used to reduce capital income to zero. The tax credit is then calculated as 30% of the remaining EUR 2 000, i.e. EUR 600. Employer contributions are considered as taxable income

<sup>34</sup> The retirement age is 60 for members affiliated between 06/05/2004 and 31/12/2012, and 55 for members affiliated before 06/05/2004.

to the employee. If the employer provides a voluntary personal plan for its employees, each year the employer contributes to it, the tax-deductible amount of contributions to a voluntary personal plan taken by the employee declines to EUR 2 500. If the voluntary personal plan was opened before 06/05/2004, contributions paid before 2006 were deductible from earned income.

For members of voluntary personal plans since 2013, the retirement age cannot be lower than the maximum statutory age (currently varying between 68, 69 and 70 years depending on the age of the insured person) to be eligible for tax relief. In addition, early withdrawal of pension assets is possible only under strict conditions (unemployment, disability, divorce and death of a spouse). Furthermore, the minimum withdrawal period has to be 10 years.

### ***Tax treatment of returns on investments***

Returns on investments in pension plans are not taxed during the saving time until pension is actually paid out.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension benefits received from mandatory occupational plans, voluntary occupational plans and voluntary personal plans provided by the employer are taxed as earned income, as part of the taxpayer's total earned income.

Pension benefits received from voluntary personal plans taken by employees are taxed as capital income. Capital income is taxed at a fixed rate of 30% up to EUR 30 000. The excess amount is taxed at 34%.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employer health insurance contribution is payable by the employer on salary income, and if e.g. pension insurance contributions constitute taxable salary, the employer and employee health insurance contributions need to be collected. A so-called employee per diem contribution also needs to be collected from income taxable as salary income.

Similarly, if e.g. employer contributions to pension insurance are considered taxable salary income for the employee, mandatory unemployment and pension insurance contributions need to be collected.

Pension income does not form a basis for pension or unemployment insurance contributions.

There is a separate healthcare contribution for pension income taxable as earned income. The healthcare contribution rate is 1.57% for pension income in 2023.

### ***Tax treatment of pensioners***

Public pension income is subject to taxes as earned income. However, pensions are entitled to a special pension deduction. The deduction ensures that persons who only receive a small, usually public, pension get their pension tax free.

Some public pensions and add-ons are always tax free, e.g. some war related pensions and state artist pensions.

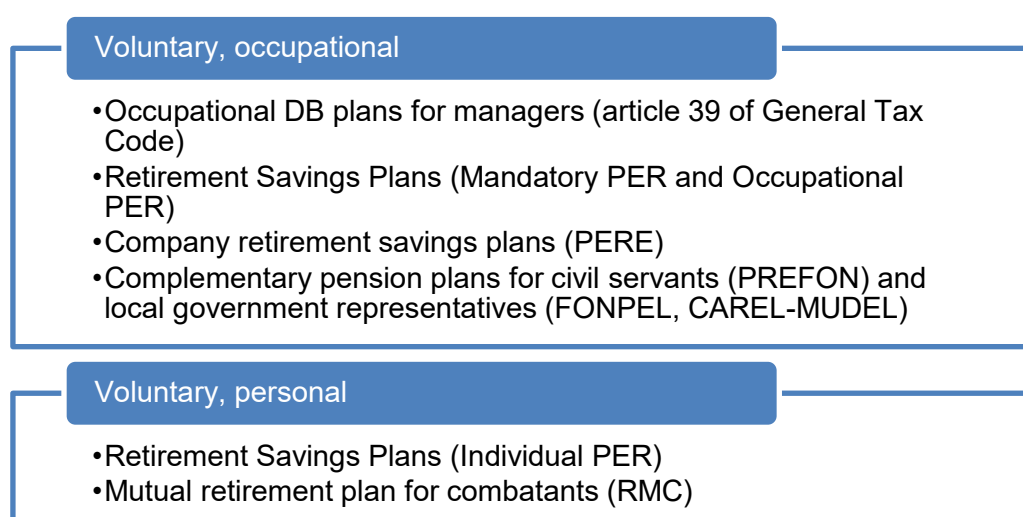
### ***Perspective of the employer***

From the point of view of corporate income tax, the employer contributions to e.g. pension insurances can be deducted in the taxation of the employer, similarly to salary expenses. However, as such, there is no extra benefit in using these plans from the point of view of corporate income taxation.

As explained above, some employer (or employee) social contributions are not payable on e.g. voluntary pension insurances, if conditions are met.

## **2.12. France**

### ***Structure of the asset-backed pension system***



Retirement Savings Plans (PER) are available since 1 October 2019. The Mandatory PER substitutes article 83 plans; the Occupational PER substitutes PERCO plans; and the Individual PER substitutes PERP plans and Madelin contracts.

### ***Tax treatment of contributions***

#### ***Personal income tax system***

Employer contributions to article 39 are not considered as taxable income for the employee.

The tax treatment of contributions to other occupational and personal pension plans depends on the source. Three sources are possible: voluntary savings, company savings and mandatory savings.

- Voluntary savings: Employees can deduct 10% of their earnings net of professional costs of the previous year, with a maximum deduction of EUR 35 194 and a minimum deduction of EUR 4 114 for 2023. Self-employed workers and heads of agricultural holdings can deduct 10% of taxable profit capped at 8 times the annual social security ceiling, plus 15% of taxable profit between 1 and 8 times the annual social security ceiling, with a minimum deduction of EUR 4 114 + 15% of taxable

profit between 1 and 8 times the annual social security ceiling for 2023. This limit is common to all voluntary savings in PER, PERE and PREFON, as well as mandatory savings in PER and PERE.

- Company savings: Company savings include employer contributions as well as other savings through the employer such as profit-sharing contributions. These contributions are tax-exempt.
- Mandatory savings: Mandatory employer and employee contributions in Mandatory PER and PERE are deductible within the same limit as for voluntary savings.

Individuals may choose not to deduct voluntary savings from PER. In that case, they benefit from a lower taxation of pension benefits.

### *Social taxes*

So-called “social” taxes are levied on employer and employee contributions to occupational pension plans (except article 39) and on individual contributions to personal pension plans: the General Social Contribution (CSG) at the rate of 9.2% and the Social Debt Reimbursement Contribution (CRDS) at the rate of 0.5%.<sup>35</sup> These social taxes are withheld from the salary. Part of the CSG is deductible from income tax (6.8%). Social taxes are not levied on contributions to article 39.

### ***Tax treatment of returns on investments***

For article 39, PERE and PREFON, return on investment is exempt from income tax and social taxes.

Return on investment into PER is not considered as taxable income during the accumulation phase. However, in case of a lump sum withdrawal upon retirement or for buying the principal residence, it is subject to a flat tax of 30% for the part of the return originating from voluntary savings and mandatory savings, and to social taxes (17.2%) for the part of the return originating from company savings. In case of a lump sum withdrawal before retirement, the return is subject to social taxes (17.2%), independently of the source of the contribution that generated it.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

#### *Annuities*

Annuities paid by article 39, PERE, PREFON and PER (voluntary savings and mandatory savings) are subject to the same income taxes as public pensions. These pensions are taxed at the individual's marginal rate of income tax after a 10% deduction. This deduction cannot be lower than EUR 394 per pensioner or greater than EUR 3 858 per household. If the individual's pension is lower than EUR 394, then the tax deduction is equal to the pension.

Annuities paid by PER from assets issued from company savings are partially taxed at the individual's marginal income tax rate, depending on the claiming age. If the individual claims the annuity before age 50, 70% of the pension is subject to income tax. The taxable share is 50% if the annuity is claimed between

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<sup>35</sup> There is a debate on how to classify the CSG. The French Law considers it as a tax because it does not entitle workers to any right or benefit (as opposed to social contributions). The Court of Justice of the European Union considers it as a social contribution because the money is only used to finance the social security system and is levied on wages (although not only). Following French interpretation, both CSG and CRDS are considered as taxes in this analysis, rather than as social contributions.

age 50 and age 59, 40% if the annuity is claimed between age 60 and age 69, and 30% if the annuity is claimed from age 70. This tax treatment also applies for assets issued from voluntary savings that have not been deducted from earnings at the contribution stage.

Annuities paid by article 39 are subject to social taxes (8.3%, 6.6% or 3.8% CSG depending on the fiscal reference income; 0.5% CRDS; 1% sickness contribution; 0.3% CASA) and to a special tax, the rate of which varies depending on the level of the annuity and the date when the annuity payments began:

- If the annuities have begun before 1 January 2011, the part of the monthly pension below EUR 500 is not taxed, the part between EUR 500 and EUR 1 000 is taxed at 7% and the part above EUR 1 000 is taxed at 14%.
- If the annuities have begun after 1 January 2011, the part of the monthly pension below EUR 400 is not taxed, the part between EUR 400 and EUR 600 is taxed at 7% and the part above EUR 600 is taxed at 14%.

The part of the additional tax covering the first EUR 1 000 of pension payment is tax-deductible.

PER pensions are also subject to social taxes: 10.1% when originating from mandatory savings; 6.88% between 60 and 70 years old and 5.16% thereafter when originating from voluntary savings and company savings.

### *Lump sums*

Lump sums are not allowed for article 39, PERE and PREFON. They are not allowed either for assets issued from mandatory savings in Mandatory PER, except when annuity payments would be lower than EUR 1 320 per year.

Lump sums paid by PER are divided into a capital component (contributions) and a return on capital component. The capital component is taxed at the individual's marginal rate of income tax, except when contributions have not been deducted from earnings at the contribution stage.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Contributions into article 39 plans are not subject to social contributions. More precisely, three types of employer contribution are possible and depend on employer's choice. If the article 39 management is not delegated to an insurance company, social contributions are taxed at 48% of the insurance premium. However, in case of delegated management, the rate is 24%. Employers may choose pensions as tax base with a rate of 32%.

Employee and employer contributions into PER and PERE are subject to employee social contributions. Employer contributions are subject to a fixed social fee of 16% instead of usual employer social contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pensions are taxed at the individual's marginal rate of income tax after a 10% tax deduction. This deduction is computed on public pensions and some private pensions (article 39, PERE, PREFON and PER). It cannot be lower than EUR 393 per pensioner or greater than EUR 3 850 per household. If the individual's pension is lower than EUR 393, then the tax deduction is equal to the pension.

Individuals aged over 65 can benefit from a tax deduction of EUR 2 448 if their income is below EUR 15 340 and of EUR 1 224 if their income is between EUR 15 340 and EUR 24 690.

Pensioners with low “fiscal reference income” are partially or fully exempt from social taxes. The value of the income thresholds in Table 2.4 depends on the family composition and on whether the individual leaves in metropolitan France or in Overseas Departments of France.

**Table 2.4. France: Exemption from social taxes**

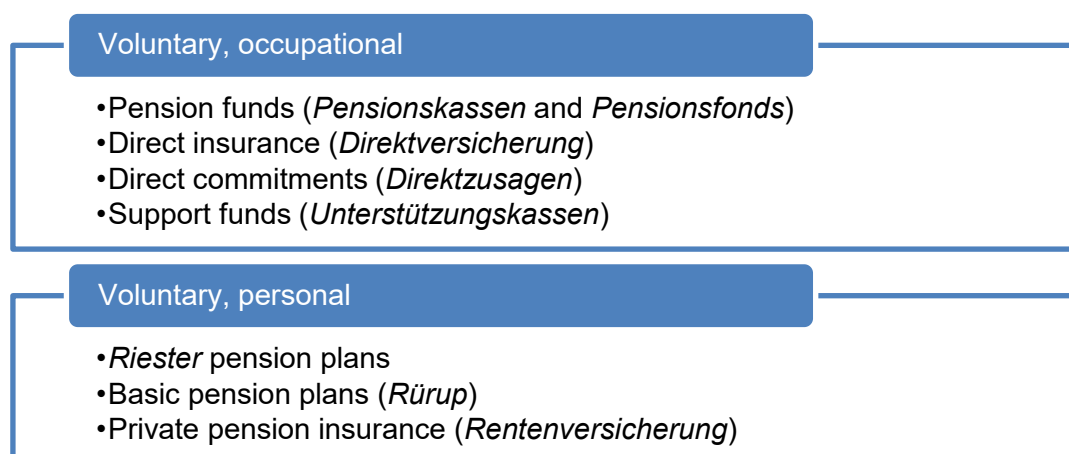
| Fiscal reference income                                        | CSG                           | CRDS     | CASA     |
|----------------------------------------------------------------|-------------------------------|----------|----------|
| < Exemption threshold                                          | Exempted                      | Exempted | Exempted |
| Between Exemption threshold and Reduced CSG threshold          | 3.8%<br>(3.8% tax deductible) | 0.5%     | Exempted |
| Between the Reduced CSG threshold and the Median CSG threshold | 6.6%<br>(4.2% tax deductible) | 0.5%     | 0.3%     |
| > Median CSG threshold                                         | 8.3%<br>(5.9% tax deductible) | 0.5%     | 0.3%     |

### ***Perspective of the employer***

Employer contributions to occupational private pension plans (article 39, PERE and PER) are deductible from corporate tax. Employer contributions are subject to a fixed social fee of 16% instead of usual employer social contributions.

## **2.13. Germany**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Pension funds and direct insurance: Employer and employee contributions are tax exempt, up to 8% of the social security contribution ceiling (EUR 87 600 per year in 2023). If total contributions exceed the limit, they are taxed at the individual's marginal rate of income tax. For members who joined the plan before 2005, in certain cases, total contributions up to EUR 1 752 could be subject to a 20% fixed tax rate (plus solidarity and church tax), provided this rate is more beneficial than the employee's personal income tax rate and that the 8% tax deduction rule would not be used.

Direct commitments: Employer and employee contributions are tax free and no ceiling applies.

*Riester* pensions: *Riester* pensions are available only to individuals who are actively compulsorily insured in a pension system, where the benefits were reduced by the legislation in or after 2002 (i.e. employees, civil servants, unemployed in receipt of unemployment benefits, recipients of disability pensions). *Riester* pension plans and the corresponding incentives are also generally available to spouses and partners of civil partnership if both partners live in the European Union, are not separated from each other, make the minimum payment and conclude a *Riester* contract. Plan members can receive a government subsidy and pay contributions net of those subsidies. Their gross contributions (including the subsidy) can be deducted from income tax up to EUR 2 100 or EUR 2 160.<sup>36</sup> From a technical point of view, the government subsidy can be seen as an advance on the subsequent tax relief.<sup>37</sup> To be incentivized, contributions must be paid to an officially certified *Riester* pension contract. Important certification criteria are the following. The pension has to be paid in the form of a life annuity and if the contract was signed after 2011, the payment must not occur before age 62.<sup>38</sup> Alternatively, income drawdown until age 85 with a subsequent lifetime annuity from age 85 onwards is permitted.

Basic pensions: Contributions to basic pensions can be partly deducted from taxable income. From a tax perspective, basic pension plans are treated like pillar one pensions (mandatory state pension plan and collective retirement schemes for selected professions). These pensions are in a transition period regarding taxation. In 2023, contributions to pillar one pensions (including basic pension contributions) can be partly deducted from taxable income up to a maximum equal to the maximum contribution to the miners' statutory pension scheme (*Knappschaft*). The maximum amount is EUR 26 528 in 2023. The limit counts for the total contributions to mandatory state pension, collective retirement schemes for selected professions and basic pensions. For contributions to basic pensions to be tax-incentivized, they must be paid to an officially certified basic pension contract. Important certification criteria are the following. The benefit payment of a basic pension scheme must take the form of a life annuity and if the contract was signed after 2011, the payment must not occur before age 62. The savings cannot be inherited by someone else, must be non-transferable, cannot be used as collateral, cannot be sold and cannot be subject to capitalization.

Private pension insurance: No tax relief on contributions.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

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<sup>36</sup> Spouses and partners of civil partnership (who are not entitled on their own) of individuals entitled to the subsidy are entitled to the government subsidy too if they contribute at least EUR 60 per year to their own contract. However, as they cannot deduct their contributions from income tax themselves, the maximum amount that their spouse or partner of civil partnership (who is eligible by own rights) can deduct is raised from EUR 2 100 to EUR 2 160.

<sup>37</sup> The tax authority checks whether individuals are entitled to the tax deduction. The tax authority first deducts the capped gross contributions (i.e. own contributions plus the subsidy, up to EUR 2 100 or EUR 2 160) from the personal income tax base and calculates an adjusted tax liability. It then adds the amount of the subsidy to the adjusted tax liability and compares it with the regular tax liability (i.e. without deducting contributions). The tax relief corresponds to the difference between the two tax liabilities. If the difference is negative, the tax authority does not deduct contributions.

<sup>38</sup> For contracts signed before 2011, the minimum age to receive payments is 60.

## ***Tax treatment of pension income***

In general, pension income is taxed at the individual's marginal rate of income tax.

**Direct commitments:** Direct commitments are in transition period regarding the taxation of pension income. The tax-free allowance on benefits will be gradually phased-out from 40% of pension income up to EUR 3 000 in 2005 to 0% by the year 2040. If the payment of the benefits starts in 2023, 13.6% of pension income is tax-free, up to EUR 1 020 plus EUR 306.

**Pension funds, direct insurance and *Riester* pensions:** Benefits of tax-deducted contributions are taxed at the individual's marginal rate of income tax. If the annuity from a *Riester* contract is lower than EUR 33.95 (2023) per month then the whole benefits can be paid as a lump sum. The lump sum is subject to a special tax rate and is added to taxable income, but it is treated as if the recipient received it evenly over the next five years to avoid a one-off high tax burden due to the progressivity of income tax. Programmed withdrawals with subsequent annuitisation from age 85 from *Riester* plans are taxed at the individual's marginal tax rate. If the benefits of non-tax-deducted contributions (e.g. contributions exceeding tax limits or paid without being entitled to *Riester* subsidy) are paid as annuities, then only an age-dependent percentage of the pension is liable for taxation (see description below for private pension insurance).

**Basic pensions:** Due to the transitional regime, the taxation of pension income depends on the date of retirement. If the payment of the benefits started in 2005 or earlier, 50% of the benefits are subject to taxation at the marginal income tax rate of the pensioner. The taxable portion increases annually by 2 percentage points until 2020. Between 2020 and 2040, the taxable portion increases annually by 1 percentage point until reaching 100%. If the payment starts in 2023, the taxation rate of the pension is 83%. The tax-exempt part of the pension is determined in the year after the retirement (based on the rate applicable in the year of retirement) and is kept constant in nominal terms for the remaining lifetime of the retiree. Pensions starting in or after 2040 will be fully taxed. The annual amounts are taxed at the individual's marginal rate of income tax.

**Private pension insurance:** Because for these products, in general, contributions are not tax-favoured, some special tax rules regarding the benefits apply. Tax-favoured withdrawals before age 62 are not allowed for contracts signed from 2012.

- For life-time annuities, only the so-called “income part” (i.e. returns on investment) will be taxed at the individual's marginal rate of income tax. This income part is determined by the age at which the retiree receives the pension for the first time. For example, if the recipient receives his/her pension for the first time at age 65, the taxable income part is 18% of the annual pension. For age 60 (respectively age 67) it is 22% (respectively 17%). This amount will be taxed at the individual's marginal rate of income tax.
- The taxable income in case of a lump sum payment is calculated as follows. The income part is the insurance benefit in the event of survival minus the paid-in contributions. If the lump sum is paid after holding the contract at least 12 years and the recipient is 60 years or older (if the contract was signed from 2012, the payment must not occur before age 62) half of the income part will be taxed.

## ***Non-tax incentives***

Since 1 January 2018, there is an allowance for income from voluntary additional old-age provision in the income assessment to determine eligibility for receiving social welfare payments (“basic social security”).

### *Riester plans*

Members of *Riester* pension plans can receive government subsidies. The subsidy is paid into their account by a state authority. Members have to claim the subsidy annually within two years after contributing

to the plan. They may also authorize the provider to claim the government subsidy for them. For single individuals or each partner of a married or civil partnership couple where both qualify for the subsidy, the maximum subsidy is EUR 175 per year and per person. In order to receive the maximum subsidy, the sum of the tax-deducted member's contributions and the subsidies must be at least equal to 4% of his/her previous year's annual income before taxes (up to a maximum of EUR 2 100 or EUR 2 160). If below 4%, the state subsidies will be reduced pro-rata. Spouses and partners of civil partnership (who are not entitled on their own) of individuals entitled to the subsidy are entitled to the government subsidy too if they contribute at least EUR 60 per year to their own contract.

An additional child subsidy can also be paid into the *Riester* account if one of the parents receives child allowances. The maximum subsidy amounts to EUR 185 per year and per child born before 1 January 2008; or EUR 300 per year and per child born on or after 1 January 2008. As a default in case of parents with different gender, the mother receives the subsidy, unless otherwise agreed. As a default in case of parents with the same gender, the person receiving the subsidy is the one against whom the child allowance is determined.

Young individuals, who receive the government subsidy before their 25<sup>th</sup> birthday, receive an additional maximum one-time bonus of EUR 200.

### *Occupational pensions*

For employees asking their employer to deduct part of their salary and contribute it to an occupational pension plan (salary conversion), employers have to forward 15% of the deferred income to the pension plan, if they save social insurance contributions due to the deferral of income. This contribution is tax free for the employee, within the general maximum amounts.

### **Social treatment**

Pension funds and direct insurance: Neither the employee nor the employer has to pay social insurance contributions (state pension, unemployment, health and long-term care insurance) on the contributions within the 4% of the social security contribution ceiling limit. On the additional 4% of contributions that are still tax free, social insurance contributions are levied.

Direct commitments: Employer contributions are exempt from social insurance contributions without any limit. Same for employee contributions (deferred compensation) within the 4% of the social security contribution ceiling limit.

Pensioners have to pay the full contribution rate to health and long-term care insurance from their occupational pension payments. Since January 2020, compulsorily insured pensioners have been partially relieved from health insurance contributions that they have to pay from occupational pension benefits. Concretely, a monthly allowance was introduced on which health insurance contributions no longer have to be paid (EUR 169.75 monthly for 2023).

These expenses are deductible from taxable income up to certain limits. For individuals who have to finance their health insurance on their own and do not get tax-free benefits for this propose, the limit is EUR 2 800 per person and per year. For all the others, the limit is EUR 1 900 per person and per year. If the contributions to the basic health and basic long-term care insurance are higher than the limit, these higher contributions are deductible. Contributions to health and long-term care insurance are considered as basic if they are paid to establish a care level that corresponds to the level reached when social welfare is granted.

Pensioners who contributed most of their lifetime to the public health insurance are usually compulsorily insured in the pensioners' health insurance scheme. In this case the state pension scheme pays half of the general contributions to health insurance (7.3%) and half of the health insurance related additional

contribution. Pensioners pay the other half of the general contribution and of the additional contribution stipulated by their particular health insurance. They pay the full rate of contributions to long-term care insurance (3.4% or 4.0% for childless since July 2023). For members (incl. pensioners) with several children under the age of 25, the contribution rate to long-term care insurance furthermore is reduced by a discount of 0.25 contribution rate points per child from the second to the fifth child. If there are no more than two children under the age of 25, the normal contribution rate of 3.4 % will apply again.

*Riester* pension, basic pension and private pension insurance: *Riester* pensions and private pensions are not included in the income subject to contributions under the statutory health insurance scheme, if the person is compulsorily insured under the pensioners' health insurance scheme. However, pensioners who are voluntarily insured in the statutory health insurance scheme must pay contributions from the private (*Riester*) pension, as their contribution payments are based on their overall economic capacity.

### ***Tax treatment of pensioners***

Germany is currently in a transition period regarding the way income from the public pay-as-you-go system is taxed – pensions starting in or after 2040 will be fully taxed. Before this date, pensioners benefit from an allowance which is not taxed. For the individual pensioner the allowance is calculated based on the applicable taxable portion depending on the date of retirement and the pension received in the first year after the retirement (taxable portion 50% in 2005; annual increase of 2 percentage points until 2020 and 1 percentage point between 2020 and 2040 until reaching 100%) and is nominally fixed for the remaining lifetime. Simultaneously, contributions to the state pensions will benefit over time from growing tax relief.

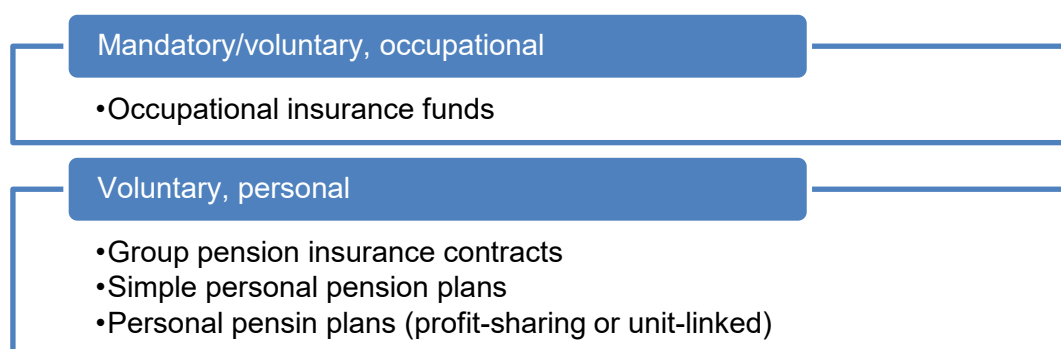
### ***Perspective of the employer***

From the employer's perspective, payments to a direct insurance, a pension fund or a support fund can be deducted as operational expenses. In the case of direct commitments, an accrual should be recognized as liability. Pension accruals lead to a reduction of profit for tax purposes and in this way also to a lower tax burden. In most cases, this creates a tax deferral effect which acts in a long-term manner.

If employers contribute at least EUR 240 per year to an occupational pension scheme on behalf of a low-income earner (earning less than EUR 2 575 monthly), in addition to the regular wage payment, they get a tax allowance of 30% of the contribution, up to a maximum contribution of EUR 960 (i.e. the tax allowance varies between EUR 72 and EUR 288 per year). The allowance is administered through the wage tax and reduces the employer's wage tax liability.

## **2.14. Greece**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions paid to occupational insurance funds established by law, including employer's and employee's contributions, are not included in taxable income.

Contributions paid by the employee or by the employer on behalf of the employee under group pension insurance contracts are not included in taxable income since 1 January 2014.

Contributions to other personal pension plans are included in taxable income.

### ***Tax treatment of returns on investments***

Returns on investment in private pension plans are taxed at a rate of 5%.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from occupational insurance funds is taxed on the basis of the personal income tax scale.

Pension income from contributions paid to group pension insurance contracts is taxed as follows:

- At a rate of 15% for each periodically paid benefit;
- At a rate of 10% for a lump sum benefit of up to EUR 40 000 and at a rate of 20% for a lump sum benefit in excess of EUR 40 000.

These rates of the above cases are increased by 50% in case of an early redemption amount unless this payment (a) is made to an employee who has established a pension right or is over 60 years of age; (b) is done against the will of the employee, such as in the event of dismissal of the employee, bankruptcy of the employer, or (c) is due to the employee's participation in a voluntary exit programme.

Pension income from personal pension plans is not taxed.

The lump-sum benefit paid by occupational insurance funds set up by law to insured and dependent members of the insured is not included in taxable income.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social insurance contributions are not levied on pension contributions.

As regards mandatory insurance funds, a contribution of 6% is levied on pension income for healthcare treatment.

### ***Tax treatment of pensioners***

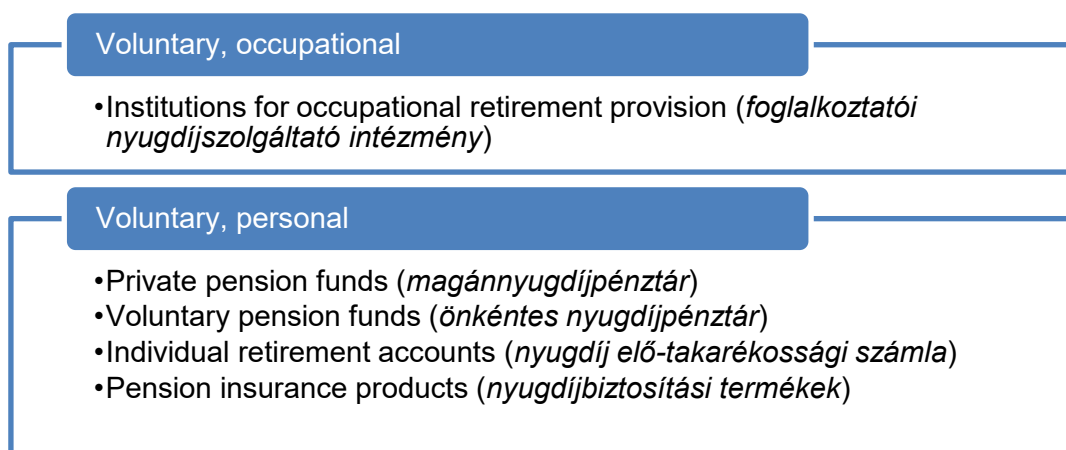
Public pension benefits are taxable on the basis of the personal income tax scale.

### ***Perspective of the employer***

Employer contributions are deductible from gross operating income (they are considered to be operational expenses).

## **2.15. Hungary**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employees' contributions are paid from net wages. They are therefore taxed at the fixed income tax rate of 15%.

Contributions to personal pension plans enjoy a tax credit transferred and credited to the employee's pension account (see non-tax incentive section).

Employers' contributions to any pension funds are considered as taxable income for the employee, therefore they are subject to personal income tax (15%).

### ***Tax treatment of returns on investments***

Returns on investments are tax free for all types of plans provided the returns are not withdrawn from the account before the pension payments started.

In case of voluntary pension funds, after 10 years of membership, returns can be withdrawn tax free once every 3 years. Otherwise, returns withdrawn are taxed as other income at a rate of 15% personal income tax plus 13% social contribution tax (as of 1 January 2022). Taking into account that the individual is responsible for the payment of the social contribution tax, the base of the personal income tax and the social contribution tax is 89% (as of 1 January 2022) of the withdrawal. As a result, the effective tax rate is 24.92% (as of 1 January 2022).

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

After a certain waiting period, pension income from pension funds is tax free:

- If the account was opened before 1 January 2013, pension payments are tax free.
- If the account was opened after 31 December 2012, pension payments are tax free after 10 years of membership.

Withdrawals before the retirement age are usually taxable at 15% personal income tax and 13% social contribution tax (as of 1 January 2022). However, in case of withdrawals from pension funds after the 10-year compulsory waiting period has elapsed, the taxable part of the income from contributions paid before 2008 is reduced gradually (10% reduction per year of the contribution paid before the waiting period), i.e. after 20 years of membership withdrawals become tax free. In case of contributions paid from 2008, withdrawals before the retirement age are taxable at the same rates as contributions paid before 2008 but every payment becomes tax free after 20 years. Taking into account that the individual is responsible for the payment of the social contribution tax, the base of the personal income tax and the social contribution tax is 89% of the income (as of 1 January 2022).

In case of other types of private pension plans (e.g. individual retirement accounts), withdrawals before the retirement age qualify as other income and are taxable for the individual at 15% personal income tax and 13% social contribution tax (as of 1 January 2022). Taking into account that the individual is responsible for the payment of the social contribution tax, the base of the personal income tax and the social contribution tax is 89% of the income (as of 1 January 2022). In addition, when an individual wants to access to the individual retirement account or to the pension insurance before the retirement age, the 20% tax credit has to be paid back.

### ***Non-tax incentives***

Contributions to personal pension plans enjoy a government matching contribution in the form of a non-refundable tax credit transferred and credited to the employee's pension account. The tax credit is equivalent to 20% of contributions made, up to a limit, and cannot be more than the personal income tax liability.

The contributions taken into account for the tax credit are the following for the different types of plans:

- Voluntary pension funds: employee contributions, employer contributions, sums transferred or paid by another person to the member's benefit (e.g. donation), and sums credited to the private individual account that is treated as other income;
- Individual retirement accounts: individual own contributions;
- Pension insurance: individual own contributions and any premium paid by another person that is recognised as tax-exempt revenue or as taxable income that is to be included in the consolidated tax base;
- Private pension funds and institutions for occupational retirement provisions: contributions do not qualify for the tax refund.

The maximum amount of tax credit is HUF 100 000 per year in case of individual retirement accounts (for those who retired before 2020, the limit was HUF 130 000), HUF 150 000 per year in case of voluntary pension funds and HUF 130 000 per year in case of pension insurance. If the individual has more than one of the above-mentioned savings plans, the amount of the tax credit cannot exceed HUF 280 000 per year altogether. Individuals get the tax credit on contributions as long as they (or their employer in the case of voluntary pension funds) contribute to pension funds and/or individual retirement accounts.

### ***Social treatment***

Social contributions are levied on employee contributions, employer contributions and donations, as these items are taxed as employment income.

The employer pays 13% (as of 1 January 2022) social contribution tax on the gross amount of employer's pension contribution to any pension funds.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pension income is tax exempt.

### ***Perspective of the employer***

Employers can deduct contributions to private pension plans as expenses.

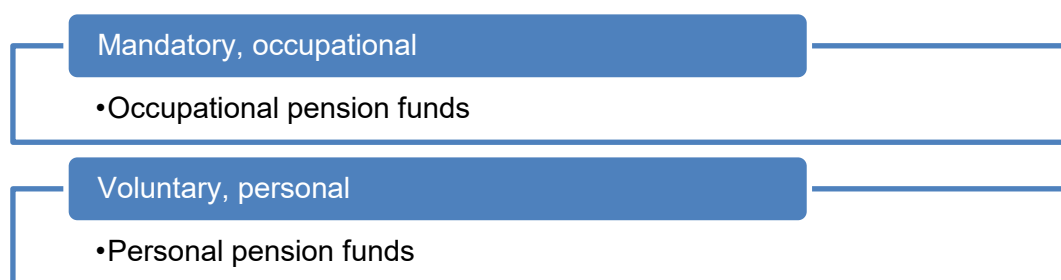
Employer contributions are taxed the same way as wage or salary since 2019, so there is no financial incentive for employers to contribute to a pension plan.

Employers can also make contributions as donations. Employers can deduct donations as expenses.

In order to be eligible for tax relief, employers have to make a contract with the fund to make contributions. The employer's contribution has to be identical (same amount or same percentage) for each employee who is a fund member. Employees who have been in employment for at least six months cannot be excluded.

## **2.16. Iceland**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Both employer and employee contributions to occupational pension funds are tax-deductible. Employees can deduct up to 4% of their salaries as contributions. There is no limit for employer contributions.

If individuals decide to start personal pension savings, the minimum contribution is 2% of wages. This contribution is then matched by the employer with another 2% of wages. Individual contributions to personal pension funds are deductible from taxable income up to 4% of the salary. Excess contributions are taxed at the marginal income tax rate. The employer matching contribution is tax exempt for the employee.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income is taxed as ordinary wage income and subject to the individual's marginal income tax rate.

A law passed in June 2014 allows active members in voluntary personal pension plans to withdraw assets tax free to pay down residential housing debt, up to ISK 750 000 per year for couples taxed together and ISK 500 000 per year for single persons. Individuals who do not own their residential housing can withdraw up to ISK 500 000 per year and per person to invest in residential housing. This kind of tax-free withdrawal was initially supposed to end in 2019, but has been extended until 31 December 2024.

### ***Non-tax incentives***

According to collective agreements, employers pay matching contributions into voluntary personal pension plans. The employer contributes minimum 2% of the salary if the employee decides to start personal pension savings. The most common contribution rate (employee and employer) is 6% of the employee's salary as most employees contribute their maximum tax-free percentage (4%). The coverage ratio of the personal pension plans is close to 50% of the working-age population.

### ***Social treatment***

Social contributions are not levied on pension contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

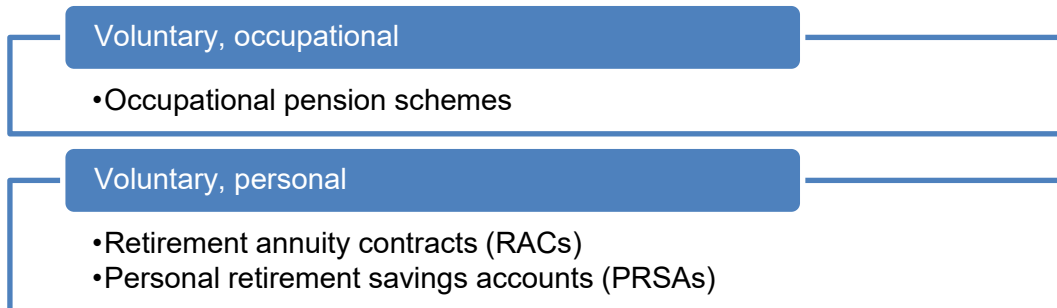
Public pension income is taxed as ordinary wage income.

### ***Perspective of the employer***

Employer contributions are treated as operating expenses.

## 2.17. Ireland

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions made by employees to any kind of approved retirement savings arrangement are deductible for income tax purposes. The contributions to approved pension schemes or plans by employees subject to the pay-as-you-earn (PAYE) tax system are deducted from gross pay before the application of income tax under PAYE (this is known as the “net pay arrangement”). Self-employed individuals or individuals in non-pensionable employment must claim tax relief on contributions to pension saving arrangements. Low-income people who are exempt for filing income tax get no tax relief.

Employer contributions to occupational pension plans on behalf of their employees are not treated as taxable income in the hands of the employee.

Employer contributions on behalf of the employee to a RAC are treated as taxable benefit-in-kind for the employee. However, for the purposes of obtaining tax relief on pension contributions, the employee rather than the employer is deemed to have made such a contribution to the pension fund. The effect of this provision is that the tax relief on the contribution negates the taxable benefit-in-kind on the benefit provided. This treatment only applies where the employer contribution does not exceed certain limits based on the age of the employee. If combined employer and employee contributions exceed the limits, an unrelieved benefit-in-kind charge applies to the excess, at the employee’s marginal tax rate.

Employer contributions on behalf of the employee to a PRSA are not treated as taxable income in the hands of the employee. There is no limit on employer contributions to an employee’s PRSA. However, the overall standard fund threshold of EUR 2 million for an individual applies.

The amount of individual/employee contributions that are eligible for tax relief is limited to an age-related percentage of the individual’s earnings in any year (see Table 2.5). There is also an overall upper limit on the amount of earnings that are taken into account for the purposes of giving tax relief. Since 2011, this limit is set at EUR 115 000.

These age-related percentage limits set out in Table 2.5 also apply to aggregate employee contributions to occupational pension schemes, including additional employee voluntary contributions. They do not apply to employer contributions to occupational pension plans; however, the standard fund threshold/limit of EUR 2 million applies in respect of each individual member’s aggregate retirement benefits, and certain other benefit limits may also apply, based on a member’s service and remuneration.

**Table 2.5. Ireland: Age-related percentage limits and corresponding contribution limits**

| Age   | Percentage limit (% of earnings) | Contribution limit (EUR) |
|-------|----------------------------------|--------------------------|
| < 30  | 15%                              | 17 250                   |
| 30-39 | 20%                              | 23 000                   |
| 40-49 | 25%                              | 28 750                   |
| 50-54 | 30%                              | 34 500                   |
| 55-59 | 35%                              | 40 250                   |
| = 60  | 40%                              | 46 000                   |

***Tax treatment of returns on investments***

Returns on investments are not taxed (i.e. exempt from capital gains and dividend income tax).

***Tax treatment of funds accumulated***

There is a lifetime limit on the total capital value of pension benefits that an individual can draw in their lifetime from tax relieved pension products. This limit is called the standard fund threshold (SFT) and is EUR 2 million since 1 January 2014. In certain circumstances, a higher threshold called the personal fund threshold (PFT) may apply.

On each occasion that an individual becomes entitled to receive a benefit under a pension arrangement, that individual uses up part of his/her SFT or PFT. Where the capital value of the aggregate of such benefits exceeds the SFT or PFT, a “chargeable excess” arises equal to the amount by which the threshold is exceeded which is subject to an upfront income tax charge at the higher rate of income tax (currently 40%).

Individuals with pension rights whose capital value as at 1 January 2014 exceeded EUR 2 million were able to protect the higher capital value by claiming a PFT from Revenue. The maximum PFT at that time was EUR 2.3 million (i.e. the previous SFT limit), except where an individual holds a PFT issued on the previous occasions when the SFT was first introduced or reduced.

For DC pension arrangements, the capital value of pension rights when they are drawn down after 1 January 2014 is the value of the assets in the arrangement that represent the member’s accumulated rights on that date.

In the case of DB pension arrangements, the capital value of pension rights drawn down after 1 January 2014 is determined by multiplying the gross annual pension that would be payable to the individual (before commutation of any part of the pension for a lump sum) by the appropriate valuation factor. DB pension benefits accrued to 1 January 2014 are valued using a standard valuation factor of 20 that applied up to that date. DB pension benefits accrued after 1 January 2014 are valued, for SFT purposes, at the date of drawdown of those benefits by reference to a set of prescribed age-related valuation factors. These factors range from 37 for DB pension entitlements drawn down at age 50 and under, 30 where they are drawn down at age 60, to 26 at age 65 and 22 at age 70 or over. Note that the higher age-related valuation factors must not be used for PFT purposes. The factor for PFT purposes is always 20.

***Tax treatment of pension income***

Pension income benefits are taxable as income at the individual’s marginal rate of income tax. Individuals can usually take tax-free lump sums of up to 1.5 times their salary, or 25% of the value of their savings in the case of DC arrangements. Since 1 January 2011, the maximum sum that can be taken from a pension scheme at retirement tax-free is capped at EUR 200 000. This tax-free amount is a lifetime limit and encompasses all retirement lump sums paid to an individual on or after 7 December 2005. Lump sum payments above that limit are taxed at the following rates:

**Table 2.6. Ireland: Tax rates on lump sum payments**

| Lump sum payment           | Income tax rate                  |
|----------------------------|----------------------------------|
| = EUR 200 000              | 0%                               |
| EUR 200 001 to EUR 500 000 | 20%                              |
| > EUR 500 000              | Taxpayer's marginal rate and USC |

Individuals with pension savings can transfer some or all of their retirement savings upon retirement, net of any tax-free lump sum, to an approved retirement fund (ARF). Any money withdrawn from an ARF is taxed at the individual's marginal rate. There is an imputed or notional distribution of the value of the assets of an ARF or 'vested PRSA' on 31 December each year unless the imputed distribution is matched by actual distributions and the notional amount is taxed at the ARF's/vested PRSA's owner marginal income tax rate. The imputed percentage of ARF/vested PRSA assets is currently 4% for ARF owners younger than 70 and where the value of ARF assets is EUR 2 million or less. The percentage is 5% for ARFs of such value where the owner is aged 70 or over. The level of the imputed distribution is 6% for ARFs with asset values in excess of EUR 2 million. The notional distribution measure was introduced to encourage drawdowns from ARFs so that they are used, as intended, to fund a stream of income in retirement. No imputed distributions apply if the ARF holder is under age 61 at any time during the year.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employees' pension contributions do not receive relief from Pay-Related Social Insurance (PRSI) and Universal Social Charge (USC).

Employer contributions attract full PRSI relief. Employer contributions are not liable to the USC.

Pension benefits are subject to the USC at drawdown, and may also be subject to PRSI, depending on the individual's age.

### ***Tax treatment of pensioners***

All income in Ireland is generally subject to taxation. Social welfare payments may or may not be deemed taxable but even if an individual's social welfare payment is taxable (as state pensions are), they may not actually have to pay tax on it. Individuals getting a social welfare payment get a PAYE tax credit in addition to their normal tax credits. This means, if a social welfare payment is the only source of income, the individual may not pay tax because their tax liability does not exceed their tax credits. If an individual has a social welfare payment and another source of income, both sources are added together and the individual is taxed on the total amount.

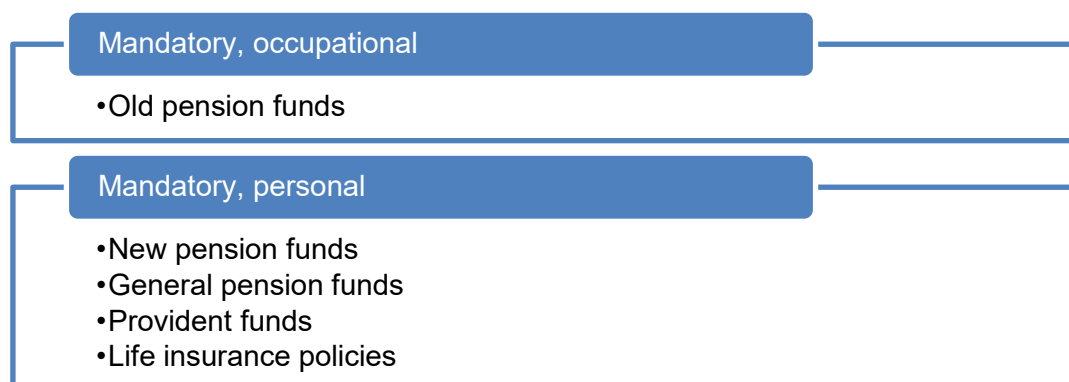
### ***Perspective of the employer***

Employer contributions to occupational pension plans on behalf of their employees are deductible in computing the income for tax purposes of the employer's business.

Employer contributions attract full PRSI relief. Employer contributions are not liable to the USC.

## 2.18. Israel

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employer contributions are not included in the taxable income of the employee up to 7.5% of the salary, with a cap on gross salary of 2.5 times the national average salary. For employees earning more than 2.5 times the national average salary (NIS 29 675=2.5×11 870), employer contributions above NIS 2 226 (29 675×7.5%) are included in taxable income.

For self-employed people, tax deductible contributions are limited to 16.5% of total income, with a cap on total annual income of NIS 225 600. Excess contributions are taxed at the individual's marginal rate of income tax.

Employee contributions are subject to a cap at 20.5% of twice the national average salary. Employee contributions are subject to a 35% non-refundable tax credit up to 7% of the salary that is taken into account for pension savings (not all the components of the salary are necessarily taken into account for pensions).

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Annuities below a limit called "entitled annuity" are tax exempt. The tax rate for the part of the annuity above the entitled annuity is 35%. The entitled annuity amount depends on the extent to which the right to an exemption on severance pay was used. In 2023, the full exemption is NIS 9 400 monthly.

Since 2008, the capital accumulated in any of the pension products (pension funds, provident funds and life insurance policies) has to be converted into an annuity, up to a minimum of NIS 4 850 (based on CPI index as of March 2008). If the capital accumulated translates into a larger annuity, the individual can ask for the minimum annuity and take the difference as a lump sum. Lump sums below NIS 853 632 are tax free and anything in excess is taxed at 35%.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social contributions are not levied on pension contributions.

Old age pensions are subject to social insurance contributions. These contributions are deducted at source.

### ***Tax treatment of pensioners***

National insurance old-age pension payments are tax exempt.

### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

## **2.19. Italy**

### ***Structure of the asset-backed pension system***

#### **Voluntary, occupational**

- Contractual pension funds
- Open pension funds
- Pre-existing autonomous pension funds
- Pre-existing non-autonomous pension funds

#### **Voluntary, personal**

- Open pension funds
- Individual pension plans provided through life insurance contracts (PIPs)

### ***Tax treatment of contributions***

Contributions are exempt from personal income tax up to EUR 5 164.57 per year. This limit applies to the sum of employee and employer contributions. Contributions above the limit are taxed at the individual's marginal rate of personal income tax.

TFR (*Trattamento di fine rapporto*) flows paid into a pension scheme are excluded from the contributions subject to such limit and thus are exempt from personal income tax, regardless of their amount.

Employees who got their first job since 1 January 2007 are entitled to recoup the unused annual tax relief of their first five years of participation in a pension scheme, up to the limit of 50% of the maximum annual relief per year. The recoupment may take place in the 20 years following the fifth year of participation.

Since 2017, performance bonuses granted to employees up to EUR 3 000 per year are exempted from personal income tax if they are used for several welfare-related expenses, including contributions into occupational pension plans. However, since most of these welfare-related expenses do not qualify for any dedicated tax relief, and most pension plan members contribute well below the pension-specific limit of EUR 5 164.57 per year, it is expected that the tax relief of performance bonuses will rarely be used for pension contributions.

### ***Tax treatment of returns on investments***

The total investment return of pension funds (interest, dividends, capital gains) is taxed at a 20% standard rate, except for the total return of government bonds, taxed at the more favourable rate of 12.5% (for example, if the investment return comes 50% from shares and 50% from government bonds, the tax rate applied will be 16.3%). This rule applies since 2014. The tax is levied annually on the total investment income earned.

Since 2017, returns of new investments of pension funds in stocks of Italian and/or European companies are tax free if they are kept for at least five years.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension benefits are taxed at a fixed rate of 15%, with a reduction of 0.3% for each year of participation after 15 years. The maximum reduction is 6%, leading to a 9% tax rate after 35 years of participation. Taxation is applied on the pension benefit net of the part that was already taxed in the accumulation phase (either as contributions exceeding the tax-deductible limit, or as investment income). Therefore, although the Italian system is often described as “ETT”, actually every euro paid into pension funds is taxed “one time only” (i.e. no “double” taxation occurs).

Early withdrawals (for buying a house or other reasons) are generally taxed at a rate of 23%.

### ***Non-tax incentives***

In occupational plans, collective agreements between employee and employer associations provide for employer matching contributions, under the condition that the employee contributes as well.

### ***Social treatment***

Employee contributions are subject to the standard social contribution rate.

Employer contributions are subject to a lower rate of 10% (instead of the standard contribution rate, around 24%), on earnings up to a ceiling; for earnings exceeding the ceiling, the standard contribution rate applies. Social contributions are not levied on TFR contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pensions are taxed as personal income at the individual’s marginal income tax rate.

### ***Perspective of the employer***

Employer contributions are always considered as costs for the employer and hence they are deducted from business income in calculating the corporate tax.

Employer contributions to supplementary pension funds are subject to a social security contribution of 10% (lower than the standard contribution rate of about 24%), on earnings up to a ceiling; for earnings exceeding the ceiling, the standard contribution rate applies.

## **2.20. Japan**

### ***Structure of the asset-backed pension system***

#### **Voluntary, occupational**

- The Employees' Pension Fund (EPF) (*kosei nenkin kikin*)
- Defined benefit corporate pension funds (*kakutei kyufu kigyo nenkin [kikin-gata]*)
- Contract-type defined benefit plans (*kakutei kyufu kigyo nenkin [kiyaku-gata]*)
- Defined contribution corporate pension funds (DC) (*kakutei kyoshutsu nenkin [kigyo-gata]*)
- Retirement allowance

#### **Voluntary, personal**

- Defined contribution individual pension funds (iDeCo) (*kakutei kyoshutsu nenkin [kojin-gata]*)
- National pension funds (*kokumin nenkin kikin*)
- Personal pension insurance

### ***Tax treatment of contributions***

#### ***Employee contributions***

Contributions to DB corporate pension funds are deductible up to a yearly limit of JPY 40 000.

Contributions to defined contribution pension funds and EPFs are fully deductible without any limit. Employee contributions to DC corporate plans were prohibited until 2012. Since then, employees are allowed to pay contributions and the contributions cannot exceed employer contributions (employers are responsible for ensuring that contributions do not exceed the limit). The limit on combined employer and employee monthly contributions is JPY 55 000.

Small and medium employers with up to 300 employees are allowed to pay contributions for their employees without establishing their own schemes (iDeCo+). The limit on combined employer and employee monthly contributions is JPY 23 000.

Employees are also eligible to participate in individual type DC plans (iDeCo). Contributions are tax deductible and the monthly contribution limit depends on the employer's plan sponsorship:

- Before December 2024:

- Employers do not sponsor a DB or a DC plan: JPY 23 000;
- Employers do sponsor only a DC plan: JPY 20 000
- Employers do sponsor at least a DB plan: JPY 12 000.
- After December 2024:
  - Employers do not sponsor a DB or a DC plan: JPY 23 000;
  - Employers do sponsor a DC plan and/or a DB plan: JPY 20 000, or JPY 55 000 minus the employer contribution, whichever is less.

Excess contributions are not allowed. For self-employed workers, the monthly contribution limit is JPY 68 000, although this is a combined contribution limit for DC and National Pension Funds.

### *Employer contributions*

Employer contributions to all plans are not considered as taxable income (fringe benefit) for the members/employees.

Certain restrictions apply in the case of DC corporate plans. If the employer sponsors only one occupational plan, the maximum tax-deductible monthly contribution is JPY 55 000 for each employee. If the employer also sponsors a DB plan, the maximum tax-deductible monthly contribution to the DC plan is JPY 27 500 for each employee before December 2024, and will be JPY 55 000 minus the contributions to other plans after December 2024. In case of iDeCo+, the maximum tax-deductible monthly contribution is JPY 23 000. Excess contributions are not allowed.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds.

Assets in EPFs, DB and DC plans are taxed at an annual rate of 1.173%. This tax has been temporarily stopped since 1999.

### ***Tax treatment of pension income***

Retirement income from occupational and personal pension plans is taxed separately without aggregation with other classes of income.

There is a pension-related deduction for annuities which commonly applies to public and private pensions, i.e. the tax treatment of public and private pensions is the same. Once the deduction has been calculated, the remaining income is taxed as miscellaneous income (tax rates between 5% and 45%).

- For annual pension income (public and private) “A” not above JPY 4 100 000, the statutory deduction is calculated as  $(A - 500\,000) \times 25\% + 400\,000$ ;
- For A over JPY 4 100 000 but not above JPY 7 700 000, the statutory deduction is calculated as  $(A - 4\,100\,000) \times 15\% + 1\,300\,000$ ;
- For A over JPY 7 700 000 but not above JPY 10 000 000, the statutory deduction is calculated as  $(A - 7\,700\,000) \times 5\% + 1\,840\,000$ ;
- For A over JPY 10 000 000, the statutory deduction is JPY 1 955 000.

The statutory deduction cannot be lower than JPY 600 000 below age 65 and JPY 1 100 000 at age 65 and older.

The statutory deduction is reduced by JPY 100 000 for pensioners with income other than public pension exceeding JPY 10 million, but not exceeding JPY 20 million, after applicable deductions. The statutory deduction is reduced by JPY 200 000 for pensioners with income other than public pension exceeding JPY 20 million after applicable deductions.

Programmed withdrawals are not specifically stipulated in the Japanese pension legislation but are not prohibited. They are usually classified as a kind of private pension income.

Lump sums are taxed at the individual's marginal income tax rate.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social contributions are not levied on pension contributions.

Contributions to health insurance and long-term care insurance are levied on pension income.

### ***Tax treatment of pensioners***

Old-age public pensions are taxed together with private pension annuities (see above).

### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

## **2.21. Korea**

### ***Structure of the asset-backed pension system***

#### **Quasi-mandatory, occupational**

- Retirement pension plans (DB, DC or mixed)
- Special provision for individual retirement pension plans (fewer than 10 employees)
- Small and medium-sized enterprise retirement pension funds (30 or fewer employees)
- Retirement insurance plans and retirement trust plans (new subscriptions not allowed)

#### **Voluntary, personal**

- Individual retirement pension plans
- Small business retirement pension fund subscriber accounts
- Personal pension plans (trust, fund or insurance)

The retirement benefit system is mandatory and can take three forms: the severance payment system, a retirement pension plan or a small and medium-sized enterprise retirement pension fund. The obligation of the employer is to provide at least one of the retirement benefit systems by labour agreement, but if not, the severance payment system is considered to have been set up. The occupational pension system is therefore considered quasi-mandatory in Korea.

### ***Tax treatment of contributions***

Individual contributions to personal pension plans and to occupational defined contribution pension plans are taxed at the individual's marginal tax rate but benefit from a non-refundable tax credit. However, only personal pension products with a capital guarantee attract the tax credit. The tax credit is equal to 13.2% of the individual's contributions, except for individuals with an income lower than KRW 40 000 000 (or KRW 55 000 000 when the only income source is salary income) for whom the tax credit rate is 16.5%.<sup>39</sup> There is a limit to the amount of contributions taken into account to calculate the tax credit which varies between KRW 4 000 000 and KRW 7 000 000 depending on the type of plan in which the individual contributes (see Table 2.7). Individual contributions to occupational DC pension plans cannot exceed KRW 18 000 000 a year and are not possible in occupational defined benefit pension plans.

**Table 2.7. Korea: Determination of the maximum contribution taken into account for the calculation of the tax credit for different illustrative cases**

|        | Contributions into personal pension plans (KRW) | Contributions into occupational pension plans (KRW) | Maximum contribution for the calculation of the tax credit (KRW) |
|--------|-------------------------------------------------|-----------------------------------------------------|------------------------------------------------------------------|
| Case 1 | 0                                               | 7 000 000                                           | 7 000 000                                                        |
| Case 2 | 1 000 000                                       | 6 000 000                                           | 7 000 000                                                        |
| Case 3 | 2 000 000                                       | 5 000 000                                           | 7 000 000                                                        |
| Case 4 | 3 000 000                                       | 4 000 000                                           | 7 000 000                                                        |
| Case 5 | 4 000 000                                       | 3 000 000                                           | 7 000 000                                                        |
| Case 6 | 5 000 000                                       | 2 000 000                                           | 6 000 000                                                        |
| Case 7 | 6 000 000                                       | 1 000 000                                           | 5 000 000                                                        |
| Case 8 | 7 000 000                                       | 0                                                   | 4 000 000                                                        |

An extra KRW 2 000 000 of contributions can be taken into account for the calculation of the tax credit for people aged 50 or older with a gross income of up to KRW 100 million (i.e. KRW 120 million in total taxable income). This brings the maximum contribution limit to KRW 9 000 000 for those only saving in an occupational plan, for example.

An additional tax credit may be applied when deposits in an individual savings account (ISA) reaching maturity are transferred to a pension account. In this case, the tax credit would equal 10% of the transferred amount, up to KRW 3 million.

Employer contributions to occupational pension plans are not considered as taxable income for the employee. The minimum rate for employer contributions in defined contribution plans is 1/12 of total annual salary.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Programmed withdrawals are not allowed. Individuals can withdraw both annuities and lump sums from their occupational DC plan from the age of 55. Individuals can claim annuities from their occupational DB

<sup>39</sup> The tax credit rates include local income tax.

plan if they are at least 55 years old and if they have completed at least 10 years of contributions. If the individual cannot withdraw annuities from his/her occupational DB plan, he/she can withdraw a lump sum.

The taxation of pension income depends on the source of the income and whether the individual chooses a lump sum or an annuity.

#### *Pension income originating from employer contributions*

To calculate the tax due on pension income originating from employer contributions, one first needs to calculate the tax base. The tax base is calculated according to the following formula:

*Tax base = (pension income – deduction for continuous years of service) × 12 ÷ number of service years.*

The deduction for continuous years of service is provided in Table 2.8.

**Table 2.8. Korea: Tax deduction for continuous years of service**

| Service years (SY) | Basic deduction  | Additional deduction                |
|--------------------|------------------|-------------------------------------|
| Less than 5 years  | KRW 300 000 x SY | None                                |
| 5 to 10 years      | KRW 1 500 000    | KRW 500 000 x (SY minus 5 years)    |
| 10 to 20 years     | KRW 4 000 000    | KRW 800 000 x (SY minus 10 years)   |
| More than 20 years | KRW 12 000 000   | KRW 1 200 000 x (SY minus 20 years) |

The total tax paid in the case of a lump sum is then determined by the following formula:

*Tax paid = (tax base – deduction for income level) × progressive income tax rates × number of service years ÷ 12*

The deduction for income level, based on the tax base, is provided in Table 2.9.

**Table 2.9. Korea: Tax deduction for income level**

| Tax base per annum             | Deduction                                          |
|--------------------------------|----------------------------------------------------|
| Less than KRW 8 million        | 100%                                               |
| KRW 8 million to 70 million    | KRW 8 million +(60% exceeding KRW 8 million)       |
| KRW 70 million to 100 million  | KRW 45.2 million +(55% exceeding KRW 70 million)   |
| KRW 100 million to 300 million | KRW 61.7 million +(45% exceeding KRW 100 million)  |
| Over KRW 300 million           | KRW 151.7 million +(35% exceeding KRW 300 million) |

The difference between the tax base and the deduction for income level is taxed according to the progressive personal income tax rates (between 6% and 45%).

The tax rules incentivise annuities over lump sums, as only 70% of the previously calculated amount is due in taxes if the individual takes an annuity. The proportion is down to 60% if the pensioner's entitlement period exceeds ten years.

#### *Pension income originating from employee/individual contributions and investment returns*

If the individual takes a lump sum, the tax treatment depends on whether the contributions enjoyed the tax credit or not. If contributions did not exceed the maximum set for the calculation of the tax credit (Table 2.7), the lump sum is taxed at the rate of 16.5% (including local income tax). By contrast, contributions made in excess of the tax credit limit are withdrawn tax free.

If the individual takes an annuity, the tax treatment depends on the level of total retirement income (including public pensions) and the length of the payment period. If total retirement income is below KRW 12 million, the individual can choose the separate taxation of the annuity. For a fixed-term annuity of up to ten years, the tax rate varies with the age of the annuitant: 5.5% below age 70, 4.4% between 70 and 79, and 3.3% from 80 (including local income tax). For a lifetime annuity, the tax rate is 4.4% under 80 and 3.3% from 80 years old (including local income tax). If total retirement income is above KRW 12 million, aggregate taxation of all sources of retirement income applies, according to the progressive personal income tax rates.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Contributions to private pension plans are not included in the social insurance contribution basis.

Social insurance premiums are not levied on private pension income, except for self-employed workers for whom social insurance premiums are levied on the basis of their comprehensive income.

### ***Tax treatment of pensioners***

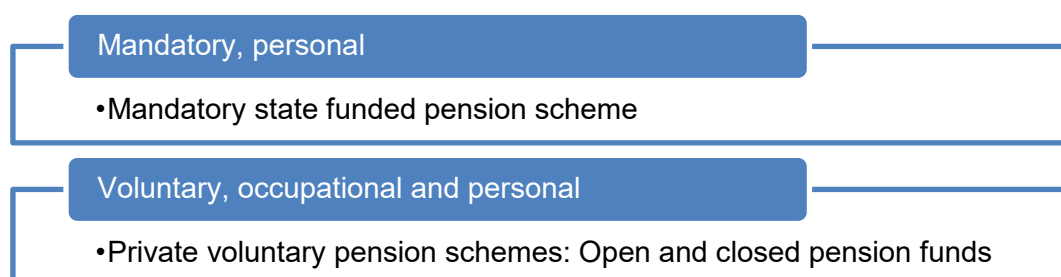
Pension income from public pension schemes is taxed at the marginal rate of income tax.

### ***Perspective of the employer***

Employer contributions into occupational pension plans are deductible from corporate tax. Moreover, Charges for the Wage Claim Guarantee Fund are reduced by up to 50% if employers set up corporate pension plans rather than severance payment schemes.<sup>40</sup>

## **2.22. Latvia**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions to the mandatory state funded pension scheme (6% since 2016) are fully tax exempt.

<sup>40</sup> The Wage Claim Guarantee Act of Korea (WCGAK) guarantees payment of employees' wage claims covered as preferential claims in the insolvency process.

Voluntary contributions to open and closed pension funds are tax deductible up to 10% of the individual's annual taxable income. In addition, the joint limit for contributions to voluntary pension funds and insurance premiums may not exceed 10% of the individual's annual taxable income, up to EUR 4 000. Employer contributions are counted as income to the employee and are therefore deductible within the limit mentioned above. Excess contributions are subject to the individual's marginal income tax rate.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed for the mandatory state funded pension scheme.

Income from investment in open and closed pension funds is considered as income from capital other than capital gains and taxed at a flat rate of 20%.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from the mandatory state funded pension scheme is treated as ordinary income and taxed at the individual's marginal income tax rate.

Pension income formed from contributions made by an individual into private pension funds is not taxable. Pension income formed from contributions made by an employer (on behalf of an employee) into private pension funds is taxed at the individual's marginal income tax rate.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

State Social Insurance Mandatory Contributions are tax-deductible expenses for personal income tax purposes.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Old-age pension above the annual non-taxable minimum is taxed at the individual's marginal income tax rate.

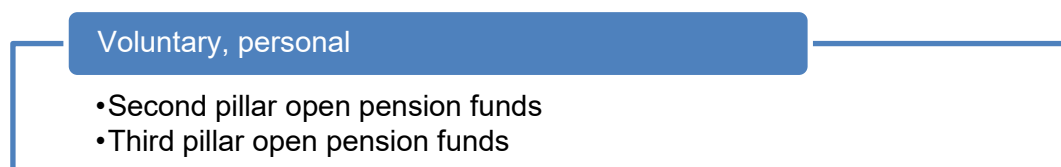
### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

If an employer sets up or contributes to a funded private pension plan, these contributions are not subject to income tax and social insurance contributions, as long as the total does not exceed 10% of the gross remuneration calculated for the employee in the taxation year.

## 2.23. Lithuania

### ***Structure of the asset-backed pension system***



Second and third pillar pension plans are voluntary. However, from 2019, all workers younger than 40 and insured by social insurance are automatically enrolled in the second pillar system with a possibility to opt out. The procedure of automatic enrolment will be repeated every 3 years until the person reaches the age of 40. Besides, once the decision to join the second pillar has been made, it is irreversible.

### ***Tax treatment of contributions***

Individual contributions to second pillar pension funds must at least equal 3% of gross salary or income. There was a transition period for members who joined the second pillar for the first time after January 2019 and those who were already members but not paying the additional 2% contribution. For them, the minimum contribution rate gradually increased from 1.8% to 3% of income between 2019 and 2023. Only contributions above the 3% minimum are deductible from taxable income, up to the limit described below.

Individual contributions to third pillar pension funds are considered as expenses and can be deducted within the annual deduction room for expenses. The total amount of deducted expenses (pension contributions, life insurance premiums, and educational expenses) shall not exceed 25% of the taxable income, up to EUR 1 500 per year (this ceiling relates jointly to voluntary pension contributions to third pillar pension funds, voluntary pension contributions to second pillar pension funds above the minimum 3% contribution, and life insurance premiums). Excess contributions are subject to the individual's marginal income tax rate.

Employer contributions are not considered as taxable income to the employee if the amount of contributions does not exceed 25% of the employee's income related to employment.

### ***Tax treatment of returns on investments***

Returns on investments are tax exempt.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from second pillar pension funds is tax-exempt.

The tax treatment of pension income from third pillar pension funds depends on the withdrawal age, the length of the contract and whether the individual has deducted third pillar contributions. For contracts opened since 1 January 2003, the following rules apply:

- Pension benefits are tax free if:
  - The contract duration is at least five years and the individual is no more than five years before the statutory age of retirement at the time of payment;

- The contract duration is at least five years and the individual has a working capacity level of 0-25% or 30-40% at the time of payment;
- The individual withdraws not earlier than five years after the date of agreement and is no more than five years before the statutory age of retirement.
- Otherwise, pension benefits are taxed at the fixed income tax rate of 15%, excluding the part of contributions that have not been deducted from taxable income.

### ***Non-tax incentives***

For individuals contributing at least 3% of gross income to the second pillar, the government contributes 1.5% of the pre-last year's average gross salary in Lithuania. For members in the transition arrangement for the minimum contribution rate, the government contribution also gradually increased from 0.3% to 1.5% of the pre-last year's average gross salary in Lithuania between 2019 and 2023.

The government pays a monthly contribution equal to 1.5% of the country's average wage of the year before last to the second pillar pension accounts of people who have children up to three years old and who receive maternity benefits. For persons with more than one child under the age of three, the government pays contributions for all children to one of the parents.

### ***Social treatment***

Social contributions are levied on private pension contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

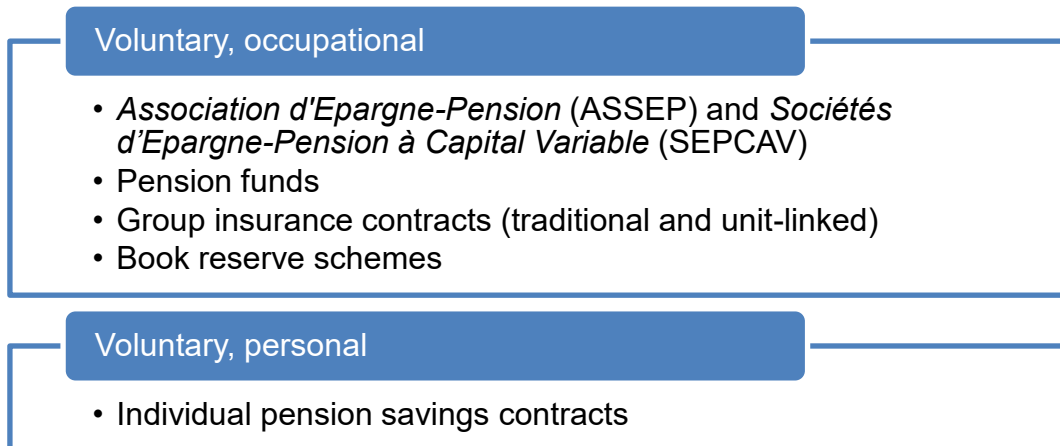
Payments from the public pension scheme (SoDra) are tax exempt.

### ***Perspective of the employer***

For the purpose of calculating corporate income tax, all contributions to pension funds made by the employer are considered as tax deductible.

## **2.24. Luxembourg**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employer contributions into occupational pension plans are not considered as taxable income for the employee up to 20% of the employee's ordinary earnings. However, employer contributions are taxed at the rate of 20%. This tax is due by the employer.

Self-employed workers' contributions to an occupational pension scheme are considered as special expenses up to 20% of their net professional profits. These are subject to a lump-sum tax of 20%. The reporting and payment of the 20% tax are the responsibility of the scheme manager.

Employee contributions into occupational pension plans are tax deductible up to EUR 1 200 a year. Excess contributions are possible within the limits fixed by the occupational pension plan but do not benefit from a favourable tax treatment.

Contributions into individual pension savings contracts are tax deductible up to a limit of EUR 3 200 if some conditions are fulfilled. Excess contributions are possible but do not benefit from a favourable tax treatment. Individuals can claim a tax deduction for contributions into individual pension savings contracts if he/she fulfils the following conditions:

- Contributions are made into an insurance company or a credit institution accredited by Luxembourg or the insurance company/credit institution has its head office in another European Union Member State.
- The contract is held at least 10 years.
- Lump sum payments or the start of annuity payments are only possible when the insured person is between 60 and 74 years.
- The contract excludes early withdrawal.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income (annuities and/or lump sums, programmed withdrawals are not allowed) from occupational pension plans is divided into the part from the insured period after 1 January 2000 and the part from the insured period before 1 January 2000. The part from the insured period after 1 January 2000 is tax exempt, while the part from the insured period before 1 January 2000 is taxed at the marginal rate of income tax.

Pension income from individual pension savings contracts receives a favourable tax treatment if the conditions described above are fulfilled:

- Lump sums are taxed as "extraordinary income". Extraordinary income is taxed at the rate of half the global effective tax rate. The global effective tax rate is the ratio between the tax due assuming that all taxable income is ordinary income and the taxable income (ordinary plus extraordinary incomes). Ordinary incomes are taxed at this rate and extraordinary incomes at 50% of this rate.
- 50% of annuities are tax exempt and 50% are taxed at the marginal rate of income tax.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social contributions are levied on private pension contributions.

When people have to file an income tax declaration, excess contributions to occupational pension plans or individual pension savings contracts are also subject to employment fund tax at the rate of 7% or 9% depending on their taxable income. For example, an individual having a global effective tax rate at 20.44% and a taxable income below EUR 150 000 will be taxed at a rate of  $20.44\% \times (1+7\%) = 21.87\%$ .

Social contributions are levied on pension income.

When people have to file an income tax declaration, pension income is also subject to employment fund tax at the rate of 7% or 9% depending on the taxable income.

### ***Tax treatment of pensioners***

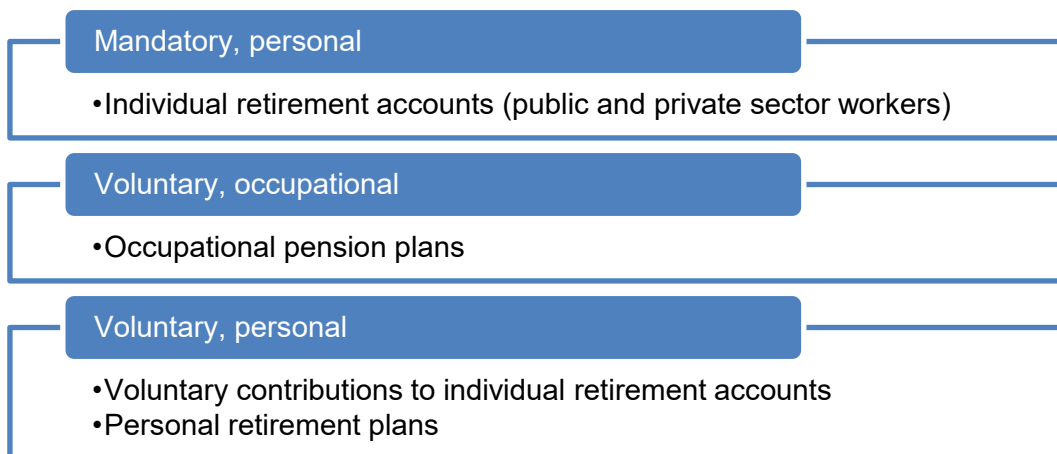
Public pensions are taxed at the marginal rate of income tax after tax deductions (wage earners and pensioners receive a maximum refundable tax credit of EUR 600 per year).

### ***Perspective of the employer***

Employer contributions into complementary pension plans are tax deductible from corporate tax up to 20% of the employee's ordinary earnings.

## **2.25. Mexico**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Mandatory employer contributions to individual retirement accounts, as well as government contributions and social quotas are not considered as taxable income for the employee. Mandatory employees' contributions to individual retirement accounts are not tax exempt as they are made from gross salary, which is the same base as for personal income tax.

The tax treatment of voluntary personal contributions depends essentially on whether these savings have a long-term perspective or not. Short-term voluntary contributions, which can be withdrawn at any time

after a certain period, are not tax deductible. All the other types of voluntary personal contributions have a long-term perspective and are tax deductible up to different limits, as described in Table 2.10.

Voluntary employers' contributions to individual retirement accounts or to occupational pension plans are not taxable income for the worker. However, the maximum deductible amount of contributions to occupational plans (12.5% of the employee's gross salary) includes both employee and employer contributions.

There is a limit for personal tax deductions, which is equal to the minimum between five times the annual UMA and 10% of the taxpayer's annual gross income.<sup>41</sup> The deduction limit applies to the sum of complementary contributions to individual retirement accounts, long-term voluntary contributions to individual retirement accounts, contributions to special savings for retirement accounts, and contributions to personal pension plans.

**Table 2.10. Mexico: Tax treatment of pension contributions by workers and employers, by type of contribution**

| Type of contribution                                                      | Tax treatment                                                                                       |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Mandatory employee contributions to individual retirement accounts (IRAs) | Not deductible                                                                                      |
| Mandatory employer contributions to IRAs                                  | Exempt (1)                                                                                          |
| Short-term voluntary contributions                                        | Not deductible                                                                                      |
| Complementary contributions to IRAs                                       | Deductible up to the minimum between 5 UMA and 10% of taxable income (2)                            |
| Long-term voluntary contributions to IRAs                                 | Deductible up to the minimum between 5 UMA and 10% of taxable income (2)                            |
| Contributions to special savings for retirement accounts                  | Deductible up to MXN 152 000 per year (3)                                                           |
| Contributions to private occupational pension plans                       | Deductible up to 12.5% of integrated salary (includes both employee and employer contributions) (4) |
| Contributions to personal pension plans                                   | Deductible up to the minimum between 5 UMA and 10% of taxable income (2)                            |

Note: UMA = annual UMA.

1) Mexican Tax Law (*Ley del Impuesto Sobre la Renta*, LISR), art. 93, frac. XII. <https://www.sat.gob.mx/articulo/15199/articulo-93>.

2) LISR art. 151, frac. V. <https://www.sat.gob.mx/articulo/82615/articulo-151>.

3) LISR art. 185, frac. I. <https://www.diputados.gob.mx/LeyesBiblio/pdf/LISR.pdf>.

4) Guidelines of the Mexican Tax Law (*Reglamento de la Ley del Impuesto Sobre la Renta*, RLISR), art. 35, frac. II. [http://www.diputados.gob.mx/LeyesBiblio/regley/Reg\\_LISR\\_060516.pdf](http://www.diputados.gob.mx/LeyesBiblio/regley/Reg_LISR_060516.pdf).

### ***Tax treatment of returns on investments***

Investment income returns are always tax exempt as long as they remain invested until retirement, and upon retirement they are exempt only if they are used to obtain an annuity or a programmed withdrawal, not as a lump sum withdrawal. Upon retirement, investment income remains tax exempt when generated by mandatory contributions to individual retirement accounts, long-term voluntary contributions to individual retirement accounts, contribution to special savings for retirement accounts, and contributions to occupational and personal pension plans.

The real earned return (net of inflation) from investing short-term voluntary contributions and complementary contributions to individual retirement accounts is considered as taxable income upon

<sup>41</sup> The UMA is the Unit of Measurement and Update. It is the economic reference in pesos to determine the amount of payment from obligations and alleged assumptions provided for in the federal law, for the states and Mexico City, as well as in legal provisions emanating from all of the above. <http://en.www.inegi.org.mx/temas/uma/>

withdrawal and taxed at the individual's marginal rate.<sup>42</sup> A provisional withholding tax, which rate varies every year as defined by the authority (0.15% for 2023<sup>43</sup>), applies to returns from short-term contributions.<sup>44</sup>

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated before withdrawal.

### ***Tax treatment of pension income***

The tax treatment of pension income depends primarily on two factors: the form of payment and whether the individual is entitled to a pension when money is withdrawn (see Table 2.11). When workers reach retirement age and get benefits in the form of an annuity or programmed withdrawals, these benefits are tax exempt up to a limit equivalent to 15 times the annual UMA.<sup>45</sup> Benefits above this limit are taxed at the marginal rate. This limit applies to the sum of all pension payments or benefits paid by the federal government (except non-contributory pension for all adults aged 65<sup>46</sup> or older), by pension funds (individual retirement accounts), by occupational pension plans and by personal pension plans.

Workers entitled to a pension may also get their benefits as a lump sum payment. For example, when they have accumulated enough assets to buy a life annuity equivalent to 1.3 times the guaranteed pension plus the premium of an insurance for the beneficiaries (spouse and children younger than 25 years, or above in case of disability), they have the right to buy such an annuity and withdraw the remaining balance as a lump sum.<sup>47</sup> In that case, the amounts withdrawn enjoy a tax exemption of 90 times the daily UMA. The excess amount is considered as taxable income and it is taxed at the average annual rate applicable to ordinary income. Moreover, lump sum payments originated from short-term voluntary contributions are tax free once the tax levied on interests has been deducted.

<sup>42</sup> LISR art. 133, <https://www.sat.gob.mx/articulo/19221/articulo-133>.

<sup>43</sup> Mexican Law of Federal Income year 2023, "Ley de Ingresos de la Federación 2023", Art. 21, [https://www.diputados.gob.mx/LeyesBiblio/pdf/LIF\\_2023.pdf](https://www.diputados.gob.mx/LeyesBiblio/pdf/LIF_2023.pdf).

<sup>44</sup> Individuals whose only taxable income is composed of interest income can consider the withholding tax as their final tax payment as long as these interests do not exceed MXN 100 000 per year. LISR art. 135, <https://www.sat.gob.mx/articulo/89366/articulo-135>.

<sup>45</sup> LISR, art. 93, frac. IV, <https://www.sat.gob.mx/articulo/15199/articulo-93>.

<sup>46</sup> Since 1 July 2021, the age to receive the non-contributory and non-means tested pension moved from 68 to 65 years old.

<sup>47</sup> Social Security Law "Ley del Seguro Social" in force, art. 158. <http://www.imss.gob.mx/sites/all/statics/pdf/leyes/LSS.pdf>.

**Table 2.11. Mexico: Tax treatment of pension withdrawals, by type of contribution and form of payment**

| Type of contribution                                             | Annuity / programmed withdrawal                               | Lump sum                                                                                       | Withdrawal while not entitled to a pension                                                 |
|------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Mandatory contributions to individual retirement accounts (IRAs) | Exempt up to 15 annual UMA; Excess taxed at marginal tax rate | Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate                | Exempt up to 90 daily UMA for each year of contribution; Excess taxed at marginal tax rate |
| Short-term voluntary contributions                               | Not applicable                                                | Exempt                                                                                         | Exempt, except for the tax retained from interest                                          |
| Complementary contributions to IRAs                              | Exempt up to 15 annual UMA; Excess taxed at marginal tax rate | Exempt up to 90 daily UMA per year of service; Excess taxed at marginal tax rate               | Taxed at average tax rate with a provisional withholding tax of 20%                        |
| Long-term voluntary contributions to IRAs                        | Exempt up to 15 annual UMA; Excess taxed at marginal tax rate | Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate                | Taxed at average tax rate with a provisional withholding tax of the marginal tax rate      |
| Contributions to special savings for retirement accounts         | Not applicable                                                | Taxed at marginal tax rate                                                                     | Taxed at marginal tax rate                                                                 |
| Contributions to occupational pension plans                      | Exempt up to 15 annual UMA; Excess taxed at marginal tax rate | Exempt up to 15 annual UMA when transformed into an annuity; Excess taxed at marginal tax rate | Taxed at marginal tax rate                                                                 |
| Contributions to personal pension plans                          | Exempt up to 15 annual UMA; Excess taxed at marginal tax rate | Exempt up to 15 annual UMA when transformed into an annuity; Excess taxed at marginal tax rate | Taxed at marginal tax rate                                                                 |

When the worker gets a lump sum payment because he/she does not fulfil the requirements for a pension payment from his/her individual retirement account (*negativa de pensión*), this payment is tax exempt up to 90 times the daily UMA per year of contribution. The excess amount is considered as sporadic taxable income and is subject to a temporary withholding tax defined in the law<sup>48</sup>, and which is adjusted upon the annual tax review.

Amounts withdrawn before retirement from personal pension plans and retirement accounts constituted by complementary contributions and long-term voluntary contributions are considered as taxable income. A withholding tax of 20% is applied on the capital and the updated interest income generated by that capital.

Finally, amounts withdrawn from the special savings for retirement accounts are considered as taxable income.<sup>49</sup> However, the tax rate applied cannot be higher than the one in force at the time of the deposit.

### **Non-tax incentives**

Employees in the government sector have access to a scheme of solidarity savings (*Ahorro Solidario*), which is a federal government matching mechanism to encourage public-sector workers affiliated to the pension system to make voluntary contributions. For each peso that the worker contributes voluntarily for retirement purposes, the federal government in its capacity as employer contributes 3.25 pesos, with a contribution capped at 6.5 times the worker's basic salary. Workers can contribute either 1% or 2% of their basic salary.<sup>50</sup> Solidarity savings have the same tax treatment as mandatory contributions (contributions

<sup>48</sup> LISR, art. 96 bis. [Ley del Impuesto sobre la Renta \(diputados.gob.mx\)](http://leydelimpuestosobrelarenta.diputados.gob.mx)

<sup>49</sup> LISR, art. 142, frac. XVIII, <https://www.sat.gob.mx/articulo/49469/articulo-142>.

<sup>50</sup> ISSSTE Law "Ley del ISSSTE", art. 100, <https://www.diputados.gob.mx/LeyesBiblio/pdf/LISSSTE.pdf>

are not tax deductible, return on investment is tax exempt and withdrawals are treated as mandatory pensions). It is only for retirement purposes because the funds cannot be withdrawn before retirement age.

Some occupational pension plans also have a matching scheme, and after certain years of service the employee attains vesting rights from the employer's contributions. If the employee leaves the company before the retirement requirements, s/he can either transfer the vesting rights of their individual account from the occupational pension plan to the AFORE, to the pension plan of the new employer to whom they are moving to, or to a personal pension plan, to avoid generating tax payment. If they decide to receive the amount in cash, a provisional withholding marginal rate tax is retained, and in the annual tax review it is adjusted together with all the other income and deductions of the year.

### ***Social treatment***

All social security contributions, including contributions for pension, are calculated on a gross salary basis. The mandatory contributions are determined on the gross salary, capped at the corresponding amount in each social security institution (IMSS's cap = 25 UMA, ISSSTE's cap (government workers) = 10 UMA).

Retirement pension income is not subject to social security contributions.<sup>51</sup>

### ***Tax treatment of pensioners***

Monthly pension income is tax exempt up to an amount equivalent to 15 times the monthly UMA.<sup>52</sup> Benefits above this limit are taxed at marginal tax rate. This limit applies to the sum of all pension payments or benefits paid by the federal government, the pension funds (individual retirement accounts), occupational pension plans, and personal pension plans, except non-contributory pensions for all people aged 65 years and above.

### ***Perspective of the employer***

Mandatory employer contributions, including the ones to the retirement sub-account and to the housing sub-account, are tax-deductible.

Complementary retirement contributions done by the employer and employer contributions to occupational private pension plans are partially deductible. The amount deductible cannot exceed 47% of the contributions to the fund. However, 53% of the contributions can be deducted when the benefits provided by the employer to its employees are tax exempt and do not decrease compared to the ones provided in the previous year.<sup>53</sup>

Employer contributions to occupational private pension plans are not considered into the salary used to determine social security contributions if the pension plan is registered in the authority's database of the pension system, *Registro Electrónico de Planes de Pensiones* (SIREPP).<sup>54</sup> This process gives the opportunity to reduce the employer's cost of providing an occupational pension plan.

<sup>51</sup> Disability pensions before retirement are still subject to retirement contributions, and when the disability pensioners reach the retirement requirements, they can change their disability pension into a retirement pension.

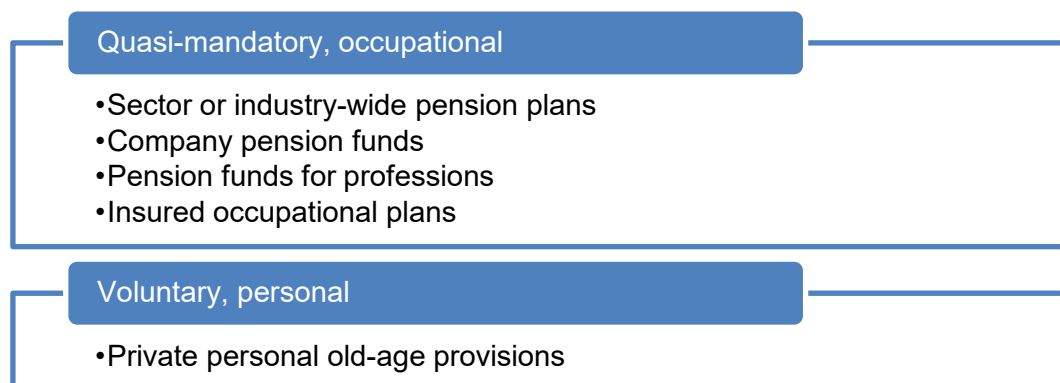
<sup>52</sup> LISR, art. 93, frac. IV, <https://www.diputados.gob.mx/LeyesBiblio/pdf/LISR.pdf>, and the communication from the Tax Authority, SAT, <https://www.gob.mx/sat/prensa/el-sat-informa-que-los-ingresos-por-jubilaciones-o-pensiones-se-encuentran-exentos-de-isr-siempre-y-cuando-no-excedan-de-43-mil-pesos-al-mes-07-2022?idiom=es>

<sup>53</sup> LISR, art. 25 fracción X, [Ley del Impuesto sobre la Renta \(diputados.gob.mx\)](https://www.diputados.gob.mx/LeyesBiblio/pdf/LISR.pdf)

<sup>54</sup> Estadísticas del Registro Electrónico de Planes de Pensiones 2022 <https://www.oneauthor.org/https://www.gob.mx/consar/documentos/estadisticas-del-registro-electronico-de-planes->

## 2.26. Netherlands

### ***Structure of the asset-backed pension system***



Most occupational pension plans are currently DB-contracts. New pension legislation went into effect on 1 July 2023. As a consequence, all current DB-contracts must be converted to DC-contracts before 1 January 2028.

### ***Tax treatment of contributions***

The maximum income for the EET system is set at EUR 128 810 in 2023. For the income that exceeds EUR 128 810 a TEE system can apply. This means that an individual with an income above EUR 128 810 contributes a certain percentage of his/her income to a mandatory occupational pension plan, but the income taken into account to calculate the contribution is capped at EUR 128 810. If s/he wants to make extra contributions, s/he has to open a voluntary pension plan and the contributions in that plan are not tax-deductible (investment income and capital gains are tax exempt, as well as the benefits of this voluntary pension plan). This two-tiered system was introduced on 1 January 2015. The maximum income is indexed annually to the minimum wage.

### ***EET system***

Contributions to an occupational plan are not considered as taxable income to the employee. Second pillar contributions are normally set in collective pension agreements and are typically shared between employers and employees. Employers usually pay a higher share (roughly two-thirds).

With reference to contributions to an occupational plan, the tax relief is limited in the EET system. For DB plans, the pension that can be granted in a year is limited (the benefit is defined). For DC plans, the contribution is limited.

- Occupational DB plans: The pension that can be granted in any working year (the received entitlement concerning a working year) cannot exceed 1.875% of the salary minus a threshold for the first pillar (general state pension) if the retirement age is 68 years old. After 40 working years, this can lead to a pension of 75% of the career-average salary. In terms of final salary, the pension that can be granted for every working year cannot exceed 1.657%.
- Occupational DC plans: Tax rules define the maximum total contributions. Those maximum contributions differ and depend on the age of the participant and the participant's personal situation (e.g. is a pension for a partner included, and if so, in what form). These contributions vary from

[de-pensiones-2021](https://www.gob.mx/consar/archivo/documentos?idiom=es&filter_origin=archive). Data for 2023 will be published in October 2023 on CONSAR's website at [https://www.gob.mx/consar/archivo/documentos?idiom=es&filter\\_origin=archive](https://www.gob.mx/consar/archivo/documentos?idiom=es&filter_origin=archive).

3.9% to 4.6% (for employees aged from 15 up to and including 19 years old) up to 27.0% to 27.5% (for employees aged from 65 up to and including 67 years old) of the salary minus the threshold for the first pillar.

Contributions to private personal old-age provisions are tax-deductible up to a limit. Contributions are limited to 30% of the annual income (with a ceiling of EUR 128 810) minus a threshold for the first pillar (general state pension) and taking into account the accrued pensions rights in the occupational pension plan (to prevent accumulation and tax relief for early retirement).

### *TEE system*

Contributions made under the TEE system are taxed at the individual's marginal income tax rate.

Contributions to occupational DC pension plans are limited as well. The maximum contributions depend on the age and range from 2.3% (age category 15-19 years old) up to 13.9% (age category 65-67 years old).

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Income from occupational and personal pension plans under the EET system is taxed at the individual's marginal income tax rate.

Income from occupational and personal pension plans under the TEE system is not taxed.

Lump sum payments are generally not permitted, unless the annuity payment is very small (EUR 594.89 in 2023 for occupational plans), and these payments are taxed as income. The occupational pension capital cannot be paid out as a lump sum to the employee. For personal pension plans, the total lump sum payment cannot exceed EUR 4 898 (in 2023).

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

EET system: Social contributions are not levied on pension contributions.

TEE system: The contributions for occupational pensions or private personal old-age provisions are not exempt or deductible from the taxable income. The individual has to pay tax and social contributions on the taxable income (there is no difference with other taxable income; in case of wages, the tax and social contributions are normally withheld by the employer).

Pensioners pay 9.75% of their taxable income for the general insurance of certain health costs and survivors' pensions (WLZ, ANW, up to an income of EUR 37 149 in 2023). Depending on their income, they pay for their own health insurance. The social contributions are the same as the contributions for those below the age from which the general state pension payments are received (66 years and 10 months in 2023), however, they no longer need to pay the contribution for the AOW (state pension).

### ***Tax treatment of pensioners***

Pension income is taxed if the EET system applies. Tax is calculated by applying the marginal income tax rate (box 1 income).

A general personal tax credit is available to all taxpayers. The amount of the general tax credit depends on the age of the individual and the level of the individual's income.

- For individuals below state pension age: If the individual's income is below EUR 22 661 (in 2023), the tax credit is EUR 3 070. Between EUR 22 661 and EUR 73 031, the tax credit is calculated according to this formula:  $[3\,070 - 6.095\% \times (\text{income} - 22\,660)]$ . If the income is above EUR 73 031 the tax credit is EUR 0.
- For individuals at or above state pension age: If the individual's income is below EUR 22 661, the tax credit is EUR 1 583. Between EUR 22 661 and EUR 73 031, the tax credit is calculated according to this formula:  $[1\,583 - 3.141\% \times (\text{income} - 22\,660)]$ . Above EUR 73 031, the tax credit is EUR 0.

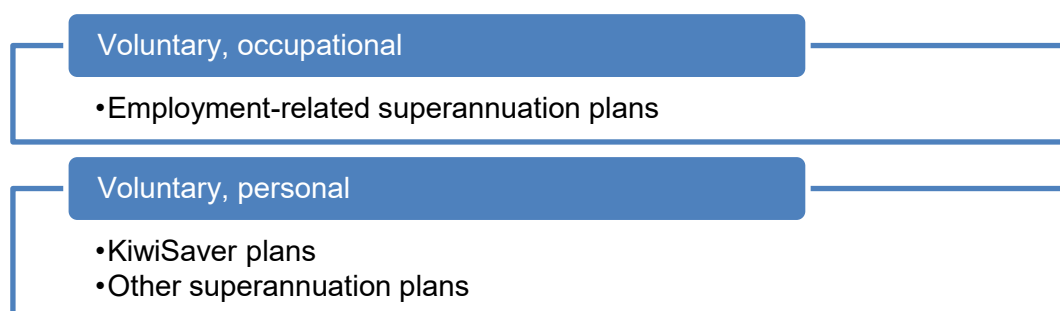
In addition, individuals at or above state pension age are entitled to a special tax credit called the "elderly allowance". This tax credit is EUR 1 835, reduced (but not further than nil) by 15% of the aggregate income to the extent that it exceeds EUR 40 888. If these individuals are single, this tax credit is increased with a fixed amount of EUR 478.

### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

## **2.27. New Zealand**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employees' contributions are taxed at the marginal rate of income tax.

Employers' contributions are also liable for tax (called employer superannuation contribution tax, ESCT). The ESCT rate is calculated based on the employee's salary or wages in the previous tax year (including gross superannuation employer contributions). When the employee was not employed for all the previous tax year, the tax rate is calculated based on an estimate of the total amount of salary or wages (including estimated gross superannuation employer contributions) that the employee will earn in the year ahead.

- If salary  $\leq$  NZD 16 800 then ESCT rate=10.5%
- If salary from NZD 16 801 to NZD 57 600 then ESCT rate=17.5%

- If salary from NZD 57 601 to NZD 84 000 then ESCT rate=30%
- If salary  $\geq$  NZD 84 001 to NZD 216 000 then ESCT rate=33%
- If salary  $\geq$  NZD 216 001 then ESCT rate=39%

There are two alternative ways to calculate ESCT rates:

- the employee's marginal rate of income tax, by treating employer contributions as part of the employee's salary or wages, with the agreement of both employer and employee; or
- for employer contributions made on behalf of a past employee, a fixed tax rate of 33% applies.

### ***Tax treatment of returns on investments***

Investment earnings are taxed. The pension provider directly deducts this tax from the pension account.

If the scheme is a widely-held superannuation fund, investment earnings are taxed at 28%.

The tax rate for investment earnings from a Portfolio Investment Entity (PIE) is referred to as the prescribed investor rate (PIR). All of the KiwiSaver default schemes are multi-rate PIEs. The PIR for an investor in a multi-rate PIE is calculated based on taxable income in each of the previous two income years.

- If, in either of the previous two income years, taxable income was  $\leq$  NZD 14 000 and (taxable income + PIE income)  $\leq$  NZD 48 000 then PIR=10.5%;
- If, in either of the previous two income years, taxable income was  $\leq$  NZD 14 000 and (taxable income + PIE income) from NZD 48 000 to NZD 70 000 then PIR=17.5%;
- If, in either of the previous two income years, taxable income was from NZD 14 001 to NZD 48 000 and (taxable income + PIE income)  $\leq$  NZD 70 000 then PIR=17.5%;
- In all other cases, PIR=28%.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Payments from superannuation funds and from KiwiSaver plans, whether in the form of an annuity, lump sum or pension, are not taxable in the hands of recipients.

### ***Non-tax incentives***

The government makes an annual contribution towards KiwiSaver accounts as long as members contribute and are aged 18 and over (and satisfy some additional criteria). The government pays 50 cents for every dollar of member contribution annually up to a maximum payment of NZD 521.43. The government contribution does not count as taxable income for the member. Members no longer qualify for the government contribution once they become eligible to withdraw their savings (generally upon reaching the age of 65).

Employees' contributions to a KiwiSaver account (minimum 3% of the salary) are matched by a minimum employer contribution of 3% of the employee's salary.

### ***Social treatment***

Social contributions are not levied on pension contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

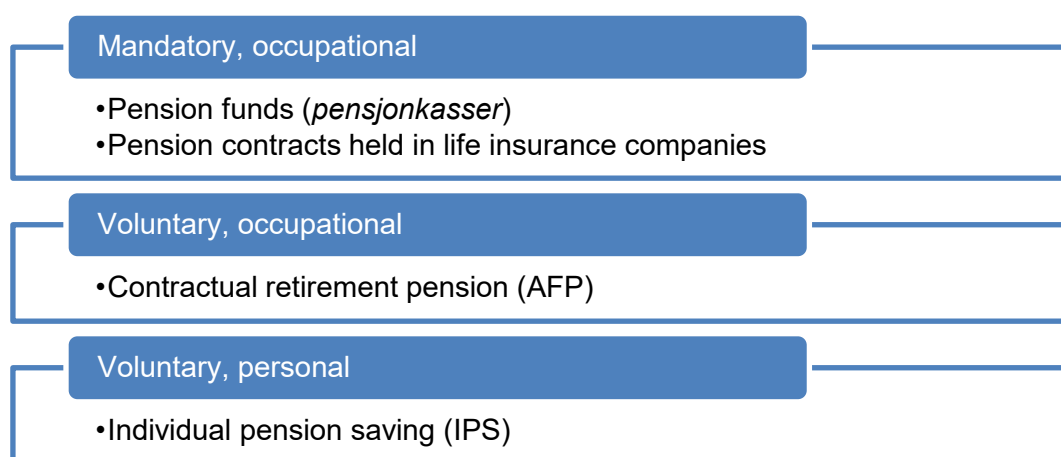
New Zealand Superannuation (public pension) is taxed at marginal rates.

### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

## **2.28. Norway**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employer contributions to mandatory occupational pension plans are not considered as taxable income to the employees.

Employees contribute 2% of salary in municipal and public sector occupational plans. Employees usually do not contribute to private occupational pension plans, but it can be established in the pension plan that they are required to do so. In case employees are required to contribute, the contribution rate must not exceed 4% of salary or the contribution made by the employer. Contributions are deductible from ordinary income. They are not deductible from personal income.

Contributions by self-employed workers into voluntary defined contribution occupational plans are deductible from both ordinary income and personal income, up to 7% of imputed personal income from self-employment up to 12 G.<sup>55</sup>

Individual contributions to individual pension saving (IPS) schemes are deductible from ordinary income, up to NOK 15 000. They are not deductible from personal income.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

<sup>55</sup> G is the basic amount and is set to NOK 116 239 in 2023.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from occupational pension plans is taxed as both personal and ordinary income. The pension supplement to the contractual retirement pension (AFP) paid by the government to the cohorts 1944 to 1962 is not taxed. Old-age pension income from the IPS scheme is taxed only as ordinary income. Lump sum payments are not allowed.

### ***Non-tax incentives***

The government pays one third of the pensions from the contractual retirement pension (AFP), in addition to a pension supplement to the cohorts 1944 to 1962.

### ***Social treatment***

Employers pay social contributions on their occupational pension contributions at a maximum rate of 14.1%.

Pension income is subject to 5.1% social contribution, which is lower than contribution rates on other types of income (employees pay 7.9%).

### ***Tax treatment of pensioners***

Public pension income is taxed as both personal and ordinary income.

Old-age pensioners are entitled to a special tax credit. In 2023, the maximum tax reduction is NOK 32 825. The tax credit is tapered by 16.7% of pension income above NOK 246 800 and 6% of pension income above NOK 373 650. There is no tax credit for pension income above NOK 567 700.

### ***Perspective of the employer***

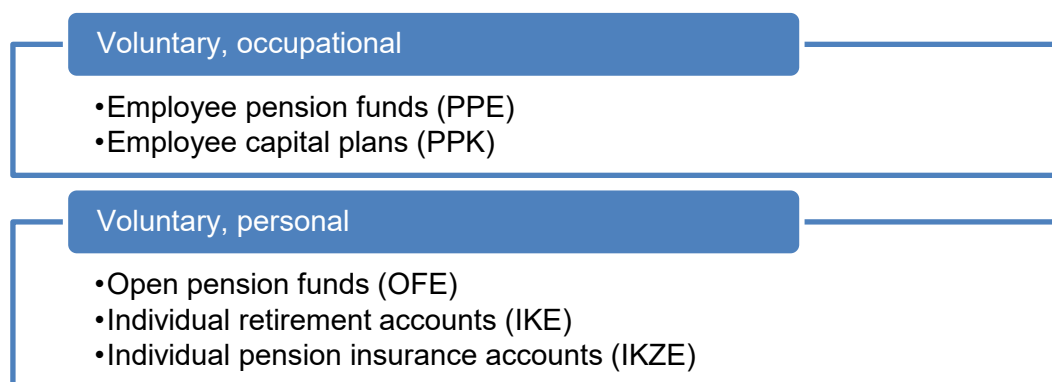
Employer contributions to mandatory occupational pension plans are tax-deductible within certain limits as business expenses according to the Norwegian Taxation Act. The mandatory minimum contribution is set at 2% of wages up to 12 G (G is the National Insurance scheme basic amount). Tax-deductible contributions/premiums are capped as follows:

- Contributions of 7% of wages up to 12 G, with an additional contribution of 18.1% of wages between 7.1 and 12 G in DC and mixed/hybrid schemes.
- Premiums financing a life-long retirement benefit of 100% of wage up to 6 G and 70% of wage between 6 and 12 G (benefit levels including estimated pillar 1 pensions.)

Employer contributions to contractual retirement pensions have also become tax-deductible as business expenses through administrative practice at the taxation authorities.

## 2.29. Poland

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions into OFE are tax deductible.

Contributions into IKZE are tax deductible up to a limit. Annual contributions into IKZE are capped at 1.2 times the national projected average monthly salary (in 2023, PLN 12 483 for self-employed persons conducting non-agriculture activity; PLN 8 322 in all other cases). If the individual exceeds this limit, the financial institution has to return the excess contributions or to forward them to another account.

Employer contributions into PPE (so-called basic contributions) are included in the taxable income of the employee and consequently taxed at the marginal rate of income tax. Employee contributions (so-called additional contributions) are paid from earnings that have been already taxed. Employee contributions into PPE cannot exceed 450% of the national projected average monthly salary (PLN 31 207.50 in 2023).

Employer contributions into PPK are included in the taxable income of the employee and consequently taxed at the marginal rate of income tax. Employee contributions are paid from earnings that have been already taxed. There is no quantitative limit on the level of contributions.

Contributions into IKE are taxed at the marginal rate of income tax in the sense that contributions are made from after-tax earnings and do not benefit from tax reliefs. Annual contributions into IKE cannot exceed 300% of the national projected average monthly salary (PLN 20 805 in 2023). If the individual exceeds this limit, the financial institution has to return the excess contributions or to forward them to another account.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed. Early withdrawal from IKE, IKZE and PPK is possible, but in this case returns on investments are taxed at 19%.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Ten years before the official age of retirement, assets in OFE are subject to gradual transfer to ZUS sub-account (in 10% per year pace), due to so called security slide mechanism. At the age of retirement, all

assets are completely transferred to the first pillar, from which the individual receives total pension which is taxed at the marginal rate of income tax.

IKZE benefits can be paid after age 65 as lump sums or regular payments and are taxed at a fixed rate of 10%. Early withdrawal is possible, but all accrued tax benefits must be surrendered.

Any withdrawal after 60 from PPE, PPK or IKE is tax free. At least 75% of PPK savings should be paid in at least 120 monthly instalments. Early withdrawal from PPE is not possible. Early withdrawal from IKE is possible but, in this case, returns on investments are taxed at 19%.

Early, unconditional withdrawals from PPK are possible but in that case, returns on investments are taxed at 19%, 30% of the funds paid by the employer are transferred to ZUS, and state contributions (see below) are transferred back to the state budget.

### ***Non-tax incentives***

The government pays a PLN 250 contribution in the PPK account when the member joins the plan. It also contributes PLN 240 annually in the PPK account.

These incentive payments will be returned in case of early withdrawal.

### ***Social treatment***

Employer contributions into PPE and PPK are not included into income subject to social contributions.

Individual contributions are always subject to social contributions.

Pension income is not subject to contributions for pensions, unemployment insurance etc. However, there is a tax-deductible health-insurance contribution. The contribution is deducted from an amount of due personal income tax (7.75%) and from incomes after taxation (1.25%).

### ***Tax treatment of pensioners***

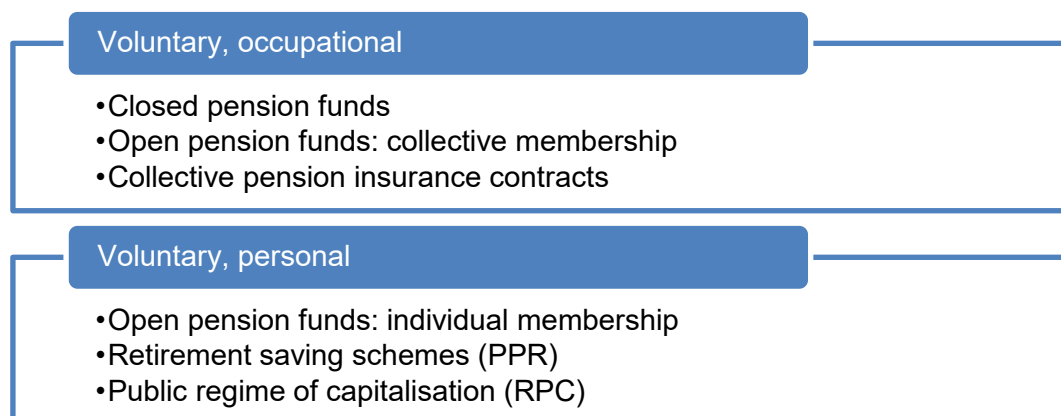
Public pensions are subject to income tax.

### ***Perspective of the employer***

Employer contributions into PPE are deductible from corporate tax, up to 7% of the employee's salary. Employer contributions into PPK are deductible from corporate tax.

## 2.30. Portugal

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions to occupational pension plans are, in terms of amount, mostly employer contributions. Employer contributions are not considered as taxable income for the employee and are tax deductible from the employer taxable profits as long as the legal required criteria are met, namely:

- Permanent workers of the company are, in general, enrolled in the pension plan and the benefits are established in accordance with an objective criterion that applies to workers in general;
- The annual contributions made by the employer do not exceed 15% of the annual total costs with wages and salaries (the limit is 25% if employees are not covered by social security). If the contributions exceed the limit, the exceeding part is not considered as a cost for the company for tax purposes, unless the amounts are included in the employee's taxable income;
- At the time of retirement, at least two thirds of the benefits are paid in the form of annuities;
- The pension plan covers exclusively benefits in case of retirement, early retirement, supplementary retirement, health (post-work), disability or survivorship and follows, in what concerns age and holders/beneficiaries, the general social security framework;
- The management and disposal of these employer contributions do not belong to the company itself;
- Contributions are not considered income from employment.

Employer contributions to retirement savings schemes (PPR) are considered as taxable income for the employee. The legal requirements above do not apply as this type of contribution is always considered as income from employment and deductible from the employer's taxable profits.

20% of overall employee contributions to private pension plans (both occupational and personal) are tax deductible, up to a yearly deduction limit which varies according to the individuals' age: EUR 400 per taxpayer under 35 years old, EUR 350 per taxpayer between 35 and 50 years old, and EUR 300 per taxpayer above 50 years old. In the case of contributions to the public regime of capitalisation (RPC), only two age limits apply: EUR 400 per taxpayer under 35 years old and EUR 350 per taxpayer older than 35. In addition, an overall limit applies for deductions related to certain expenses, namely health, health insurance, residence for the elderly and tax benefits (including tax benefits related to the above-mentioned contributions to private pension plans) when the annual income exceeds EUR 7 479 (in 2023). Between EUR 7 479 and EUR 78 834 the limit for tax deductions varies between EUR 2 500 and EUR 1 000. For an annual income above EUR 78 834, the maximum deduction available is EUR 1 000.

### ***Tax treatment of returns on investments***

Generally, the income generated by private pension assets is tax exempt.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

If the contributions were exempt (employer contributions), the following tax treatment applies:

- Annuities: Taxed at the individual's marginal rate of income tax (up to 53%). A maximum deduction of EUR 4 104 applies to total pension income. However, if the compulsory contributions to social protection schemes and to legal health subsystems exceed that limit (EUR 4 104), the deduction will be equal to the total amount of contributions.
- Lump sums: One-third of the "contribution part" (capital component) is tax exempt up to a maximum of EUR 11 704.70. The remainder is taxed at the individual's marginal rate of income tax. The "gains and other returns on investment part" is taxed at a rate of 4% or 8% depending on whether the contributions that originated such income were made before or after 1 January 2006 respectively.

If the contributions were taxed (employee contributions to occupational and personal pension plans, as well as employer contributions when legal criteria are not met for receiving a favourable tax treatment or to retirement savings schemes), the following tax treatment applies:

- Annuities: The "contributions part" is exempt and only the "gains and other returns on investment part" is subject to taxation at the marginal rate of income tax. If it is not possible to distinguish between contributions and returns, then only 15% of the annuity is subject to taxation at the marginal rate of income tax.
- Lump sum: The "contributions part" is exempt. The "gains and other returns on investment part" is taxed at a rate of 4% or 8% depending on whether the contributions that originated such income were made before or after the 1 January 2006 respectively.

The interest income subject to taxation can be reduced if more than 35% of the contributions are paid in the first half of the contract, and the benefits are received more than 5 years after the beginning of the contract (5 to 8 years: 80% of the interest is taxed; more than 8 years: 40% of the interest is taxed).

Withdrawals from retirement savings plans (PPR) under the following conditions are not subject to penalties: (i) old-age retirement; (ii) long-term unemployment of the participant or any member of their household; (iii) permanent disability of the participant or any member of their household; (iv) severe illness of the participant or any member of their household; (v) at the age of 60; (vi) for payment of instalments of mortgage-backed credit on the participant's own permanent residence.

In April 2020, a law allowed the redemption of PPRs subscribed until 31 March 2020 without tax penalties outside the situations referred to in the previous paragraph. The initial deadline for redemptions was 30 September 2020. This deadline was later extended until the end of 2020 with the promulgation of the Supplementary Budget and then until 30 September 2021 under the 2021 Budget. This measure aimed to alleviate the loss of income suffered by many families as a result of the pandemic crisis. The retirement savings plans could be redeemed up to the monthly limit of the social support index (EUR 443.20 in 2022) provided that at least one of its subscribers: (i) was in prophylactic or illness isolation; (ii) was providing assistance to children, grandchildren or another dependent; (iii) had suffered a reduction of the normal working period or had its employment contract suspended, due to the economic crisis; (iv) was a registered unemployed; (v) was eligible for financial support to workers or self-employed workers; (vi) was suffering

a reduction of at least 40% of the average monthly income over March – December 2020 compared to 2019; (vii) was a tenant as of 31 March benefitting from a payment deferral of the rent and needing to use withdrawn amount to pay the rent during the moratorium. In this latter case, the maximum withdrawal rose to EUR 658.22.

Afterwards, a law was approved in October 2022 which allows the redemption of PPRs until 31 December 2023 without penalties, up to the monthly limit, per taxpayer, of the social support index (EUR 480.43 in 2023), outside of the conditions previously referred.

Moreover, the 2023 State's Budget has established that during 2023 the partial or total reimbursement of PPR without penalties is possible for (i) the payment of instalments of mortgage-backed credit on the saver's own permanent residence; (ii) the payment of credit instalments for the construction or benefit of households for permanent and own residence; and (iii) the payment of social housing corporations for permanent and own residence. As of June 2023, a law added the possibility of partial or total reimbursement of PPR without penalties for the early repayment of the credits referred, up to the annual limit of the social support index (EUR 480.43×12).

Withdrawals outside the above conditions are subject to penalties. The year of withdrawal, the individual has to add to his/her taxable income the full amount of tax deductions received on contributions over the years, plus an annual penalty rate of 10% applied to the tax deductions for each year since the contribution has been made. This is then taxed at the individual's marginal rate. For example, if the individual has contributed EUR 300 eight years ago, the penalty for that contribution will be calculated as the tax deduction received on that contribution ( $20\% \times 300$ ) multiplied by  $8 \times 10\%$ .

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social contributions are not levied on employer pension contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pensions are considered as income and taxed at the individual's marginal income tax rate.

There is a general deduction for pensions of EUR 4 104 or, when higher, of the total amount of the mandatory social security contributions.

### ***Perspective of the employer***

Employer contributions to occupational pension plans are tax-deductible expenses as long as some requirements are fulfilled (see above). Besides this relief on corporate income tax, social contributions are not levied on employer pension contributions.

## 2.31. Slovak Republic

### ***Structure of the asset-backed pension system***

Voluntary, personal

- Individual retirement accounts (pillar 2)
- Supplementary pension plans (pillar 3)
- Pan-European personal pension products (PEPP)

### ***Tax treatment of contributions***

Employers have to pay mandatory contributions on behalf of employees enrolled in an individual retirement account (5.5% of the salary up to 2024, increasing to 5.75% for 2025 and 2026, and to 6.0% from 2027). Mandatory contributions are fully tax deductible.

Employees can make additional voluntary contributions in their individual retirement account. There is no cap on the amount an employee can contribute voluntarily and these contributions are not tax deductible.

Employer contributions into supplementary pension plans are treated as employee's income and taxed at the employee's marginal rate.

Employee contributions into supplementary pension plans are tax deductible up to EUR 180 per year, only if the participant opts for new pay-out conditions. Excess contributions are taxed at the marginal rate of income tax. New pay-out conditions are in place since 1 January 2014 for all new entrants. Participants who joined the scheme prior to 1 January 2014 can decide to conclude with their supplementary pension company a contract amendment with new pay-out conditions. However, if they opt not to choose to sign this contract amendment, they will not become eligible for the EUR 180 tax relief.

Individual contributions into a PEPP are tax deductible up to the EUR 180 annual limit above (the limit is joint for PEPPs and existing supplementary pension plans).

### ***Tax treatment of returns on investments***

Returns on investment into individual retirement accounts are tax exempt.

Returns on investment are taxed upon withdrawal for supplementary pension plans and PEPP (both those gained during the accumulation phase and the pay-out phase). A fixed tax rate of 19% applies.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from individual retirement accounts is tax exempt.

Upon withdrawals from supplementary pension plans and PEPP, only the part of the assets originated from returns on investment is taxed at 19%. The other part (originated from contributions) is tax free.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Mandatory pension contributions are part of the social insurance contributions, which are calculated based on the gross salary.

The Government of the Slovak Republic allows employers and self-employed persons to defer the payment of social insurance contributions including mandatory contributions into the second pillar. The deferral of premiums applies to employers and self-employed persons, whose net turnover or income from business and other self-employed activities decreased by 40% or more as a result of an extraordinary situation. Social insurance premiums for:

- May 2020 are due by 31 March 2022
- June 2020 are due by 30 June 2022
- July 2020 are due by 30 September 2022
- December 2020 are due by 31 December 2022
- January 2021 are due by 31 March 2023
- February 2021 are due by 30 June 2023
- March 2021 are due by 30 September 2023
- April 2021 are due by 31 December 2023
- May 2021 are due by 31 March 2024
- October 2021 are due by 30 June 2024
- November 2021 are due by 30 September 2024
- December 2021 are due by 31 December 2024
- January 2022 are due by 31 March 2025
- February 2022 are due by 30 June 2025.

Employer contributions to supplementary pension plans are considered as income and are subject to health insurance contributions (but not to social insurance contributions).

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

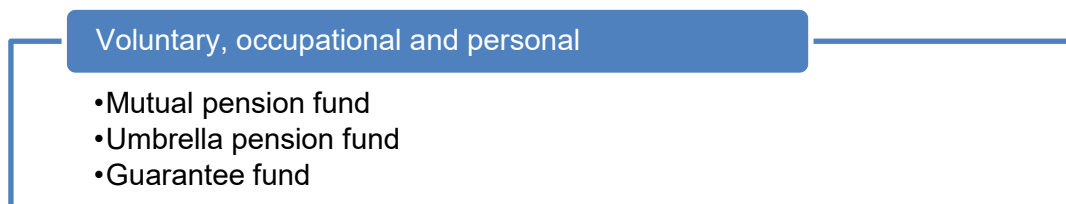
Public pensions are not taxed.

### ***Perspective of the employer***

Employer contributions into supplementary pension plans are tax deductible for the employer (corporate tax) up to 6% of the member's salary. Employer contributions into supplementary pension plans are not subject to social insurance contributions but health insurance contributions are levied on these contributions.

## 2.32. Slovenia

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employer contributions are not included in employee's taxable income up to 5.844% of the employee's gross wage.<sup>56</sup> This cap cannot exceed EUR 2 903.66 per year (in 2023).

Individual contributions to occupational and personal pension plans attracting tax deduction are capped by the unused cap of employer contributions attracting tax relief. If contributions are paid by both the employer and the employee, and the total amount of contributions exceeds the maximum contribution entitled to tax relief, the employee may only receive tax relief on the difference between the contribution paid by the employer and the maximum contribution. Excess contributions are taxed at the marginal rate of income tax. However, there is an exemption that applies to civil servants, for whom employer contributions to supplementary pension insurance are not included in the cap.

Employer and employee contributions benefit from tax relief if the pension plan is approved by the ministry of labour and entered into a special register kept by the competent tax authority. The sum of employer contributions per member into pension plans cannot be lower than EUR 345.12 a year (in 2023).

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Only half of the amount of the calculated annuity is taxed at the marginal rate of income tax. The other half is exempt from taxation. Lump sums are taxed at the marginal rate of income tax.

To avoid a double taxation of amounts saved in excess of the annual tax-deductible contribution cap of EUR 2 903.66, from 1 January 2020 taxpayers demanding a lump sum withdrawal of their retirement savings may request that the portion corresponding to contributions in excess of the annual cap is excluded from the annual taxable base upon withdrawal.

Voluntary supplementary pension contributions withdrawn during the first ten years of a pension contract attract an 8.5% insurance premium tax. This provision ensures that voluntary pension contributions withdrawn early are treated similarly to other insurance savings instruments. The insurance premium tax does not apply to withdrawals from voluntary retirement savings plans caused by the death of the

<sup>56</sup> This percentage is obtained by applying 24% on the employer and employee contributions into the public pension scheme:  $0.24 \times 0.2435 = 5.844\%$ .

contributing member in the first ten years of the plan. It does not apply either to mandatory contributions, i.e. to employer contributions made to the plan for workers in harmful and arduous occupations or to the supplementary scheme for civil servants, if the plan was set up less than ten years before the retirement date of the member, and assets accumulated in the plan are eligible for a lump sum withdrawal (i.e. below a threshold of EUR 5 924.08 in 2023 in total).

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employer contributions above 5.844% of the employee's gross wage or above EUR 2 903.66 (in 2023) are subject to social contributions. Contributions within the limit are not subject to social contributions.

Employee contributions are made from income that has already been subject to social contributions.

Income from private pension schemes is not subject to social contributions.

### ***Tax treatment of pensioners***

Pensions from the public scheme are taxed at the marginal rate of income tax and benefit from a tax credit. The tax credit is equal to 13.5% of resident pensioners' pensions received from compulsory pension and disability insurance.

### ***Perspective of the employer***

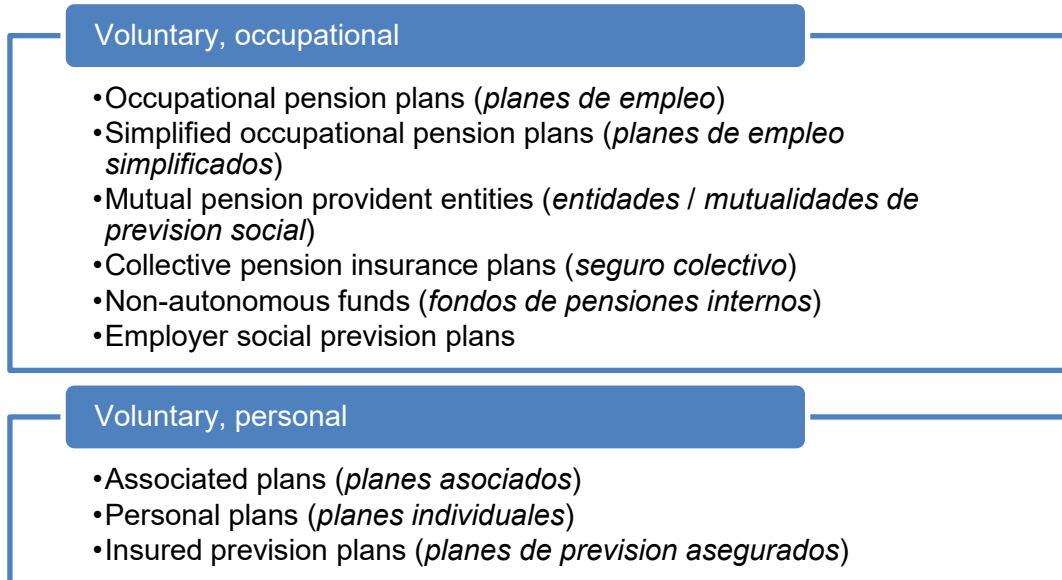
Employer contributions are tax deductible from corporate tax up to 5.844% of the employee's gross wage. This cap cannot exceed EUR 2 903.66 per year (in 2023).

Employer and employee contributions benefit from tax relief if the pension plan is approved by ministry of labour and entered into a special register kept by the competent tax authority. The sum of employer contributions per member into pension plans cannot be lower than EUR 345.12 a year (in 2023).

Employer contributions above 5.844% of the employee's gross wage or above EUR 2 903.66 (in 2023) are subject to social contributions. Contributions within the limit are not subject to social contributions.

### 2.33. Spain

#### **Structure of the asset-backed pension system**



#### **Tax treatment of contributions**

Employer contributions are tax exempt for the employee.

Individual contributions are deductible from taxable income within certain limits.

The general limit on individual and employer contributions to personal and occupational plans is the lowest of (i) 30% of total net income, and (ii) EUR 1 500 per year.

The nominal contribution limit can be increased in the following situations:

- by EUR 8 500 if the contribution is done by the employer or by the employee into the same occupational plan, provided the employee's contribution is lower than or equal to a certain amount that varies with the employer's contribution:
  - if the employer contributes up to EUR 500, the employee can contribute up to 2.5 times as much as the employer;
  - if the employer contributes between EUR 500.01 and EUR 1 500, the employee can contribute up to EUR 1 250 plus one-fourth of the employer contribution in excess of EUR 500;
  - if the employer contributes more than EUR 1 500 or the individual earns more than EUR 60 000, the employee cannot contribute more than the employer.
- by EUR 4 250 if the contribution is done by a self-employed worker into a simplified pension plan.

The individual can additionally deduct up to EUR 1 000 per year for contributions paid to his/her spouse's pension plan when the spouse's net earned and business activities income is less than EUR 8 000. The additional deduction can be carried forward for five years.

There is also a special regime for disabled individuals, which allows a EUR 10 000 per year limit for contributions made in favour of disabled members with physical disabilities of over 65% or mental disabilities of over 33%. The limit for contributions made by disabled members amounts to EUR 24 250 per year. Contributions made by and on behalf of disabled individuals within the above-mentioned limits are tax deductible.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income is taxed as labour income at the individual's marginal rate of income tax. The same tax treatment applies to lump sums and annuities.

There is a tax exemption for the contributions made before 2007. According to this, lump-sum benefits are tax-exempt up to 40% of the cash value of accrued benefits or accumulated capital (only in respect of benefits and contributions made before 2007). The 40% reduction may be applied in a single financial year, regardless of the number of plans an individual has subscribed to. A transitional regime applies, with lump sums arising from contributions made before 2007 enjoying the tax exemption under the following conditions:

- People who retired before 2010 can only benefit from tax-free lump sums if they withdraw the lump sum before 2018;
- People who retired between 2011 and 2014 can only benefit from tax-free lump sums if they withdraw the lump sum at most 8 years after retirement;
- People retiring as of 2015 can only benefit from tax-free lump sums if they withdraw the lump sum at most 2 years after retirement.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employee contributions to occupational and personal pension plans are included for the calculation of social security contributions.

Employer contributions to occupational pension plans are not subject to social security contributions up to a contribution limit of EUR 115 per worker and per month.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pension income is taxed as labour income at the individual's marginal rate of income tax.

All taxpayers can exempt EUR 5 550 of income. Taxpayers aged over 65 may add EUR 1 150 to the former amount, while those aged over 75 may claim additionally EUR 1 400.

### ***Perspective of the employer***

Employer contributions are tax-deductible company expenses.

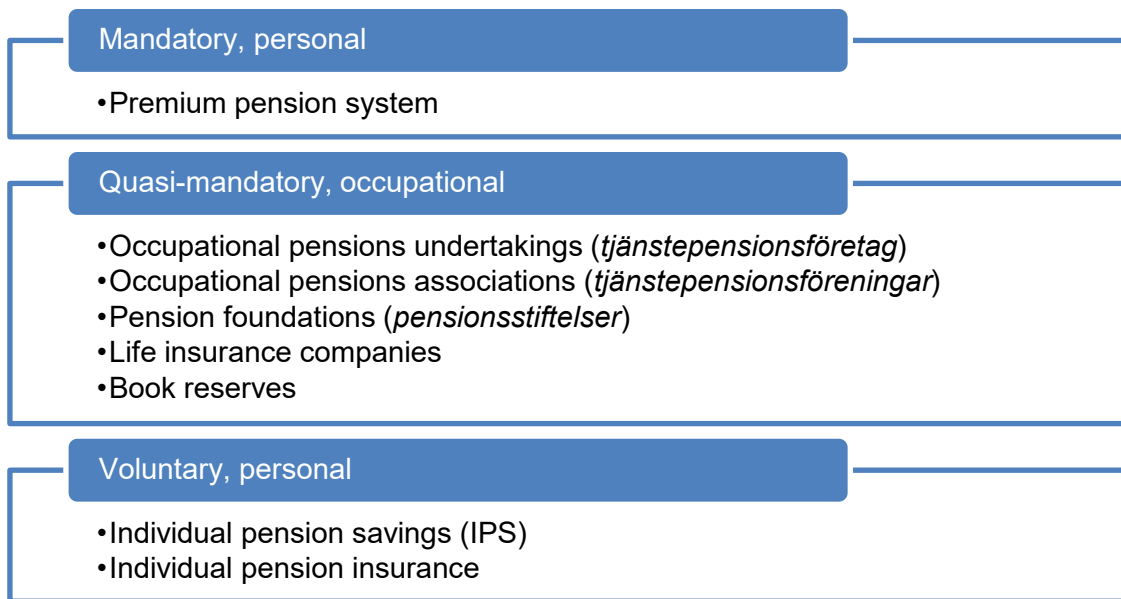
Employers can also deduct from corporate income tax 10% of their contributions into an occupational pension plan in favour of employees with an annual gross remuneration of less than EUR 27 000. When

the worker earns more than EUR 27 000, the deduction will apply to the proportional part of the employer contribution that corresponds to a remuneration at that threshold.

Employer contributions to occupational pension plans are not subject to social security contributions up to a contribution limit of EUR 115 per worker and per month.

## 2.34. Sweden

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions to the national public pension are shared among the insured individual, the employer (including the self-employed) and the government. The contribution paid by the individual is called the national pension contribution. The national pension contribution is 7% and is paid on incomes up to 8.07 income base amounts. The national pension contribution is paid in conjunction with the payment of preliminary tax, usually at the source of income. However, the final tax of those in gainful employment is reduced by an amount corresponding to the national pension contribution paid. The national pension contribution includes the contribution to the premium pension (2.5%).

Contributions to occupational plans are only financed by employers. These contributions are not considered as taxable income to the employee, provided that they are secured in any of the ways set out in the Income Tax Act.

From 1 January 2016, only the self-employed and employees who completely lack pension rights in employment can deduct contributions to pension insurance contracts or IPS schemes. For these persons, the cap for individual contributions is 35% of eligible income or at most 10 price base amounts (SEK 525 000 in 2023) per year. Eligible income for the self-employed is essentially defined as surplus from active business activities. To be eligible for tax relief, several conditions must be met. For example, pension payments may not be made before the age of 55, and payments must last at least for 5 years with the same or increasing amount.

### ***Tax treatment of returns on investments***

Returns on investment are not taxed in the premium pension system.

For occupational and personal pension schemes, returns are taxed at a fixed rate of 15% on an imputed return on investment. The imputed return corresponds to the previous year's average government borrowing rate, but it cannot be negative. Taxation of private annuities for which premiums are not tax deductible are taxed differently as regards the imputed return on investment and the tax basis.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income is taxed as earned income at the individual's marginal income tax rate. Payments from private annuities classified as capital insurance and for which premiums are not deductible, are free from income tax.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Social contributions are not levied on pension contributions (31.42%). However, a special payroll tax of 24.26% is applied on contributions for occupational pensions paid by the employer.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Public pension income is taxed as earned income.

A basic tax-free allowance is given for assessed earned income and varies between SEK 15 400 and SEK 40 500 in 2023, depending on income. Individuals aged over 66 get an additional allowance, which amount also varies with income.

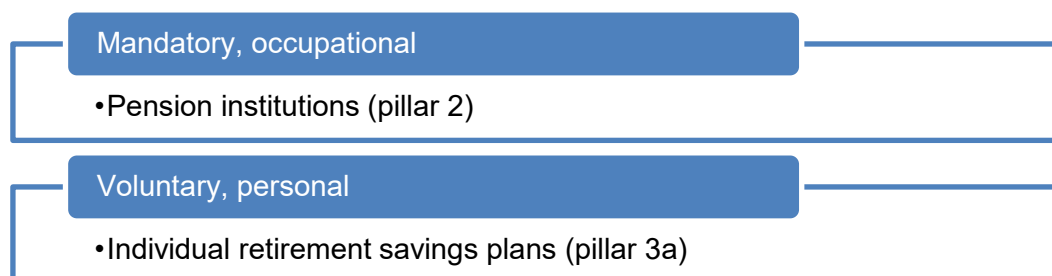
### ***Perspective of the employer***

Employers can deduct 35% of an employee's salary, but maximum 10 price base amounts (SEK 525 000 for 2023) per employee for private pension plans. To be eligible for tax relief, several conditions must be met. For example, pension payments may not be made before the age of 55, and payments must last at least for 5 years with the same or increasing amount.

There is also a possibility for the employer to use a supplementary provision in cases when a pension agreement is changed or a new agreement is met on early retirement from an employment. Furthermore, the supplementary provision can be used if the pension commitments are insufficiently secured. The supplementary provision states that the whole cost for securing a pension commitment can be deducted if it does not oppose conditions stipulated in law.

## 2.35. Switzerland

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Employee and employer contributions to occupational pension plans are tax deductible.

Contributions to individual retirement savings plans are tax deductible up to a limit. If the individual has an occupational pension plan, tax-deductible contributions to personal plans are capped at CHF 7 056. If the individual does not have an occupational pension plan, tax-deductible contributions are capped at 20% of annual earnings. In this case, the tax deduction cannot exceed CHF 35 280. Excess contributions are not permitted.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

Financial transactions are subject to stamp duty, including those done by pension funds. The rate of 0.15% (half paid by each contractor) applies on all securities bought and sold.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

The same tax treatment applies to pension benefits paid by occupational and personal pension plans. Annuities and programmed withdrawals are taxed at the marginal rate of income tax.

The federal government and the regions (cantons) tax lump sums separately from other incomes at preferential rates:

- The federal government taxes lump sums as capital income. This tax is progressive and is equal to 1/5 of the income tax which would be generated if lump sums were separately taxed as income.
- The fiscal treatment of lump sums differs between cantons.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Contributions to occupational pension plans are part of the social contributions, paid from the gross salary.

Contributions to individual retirement savings plans are paid from disposable income. This income has already been subject to social contributions.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

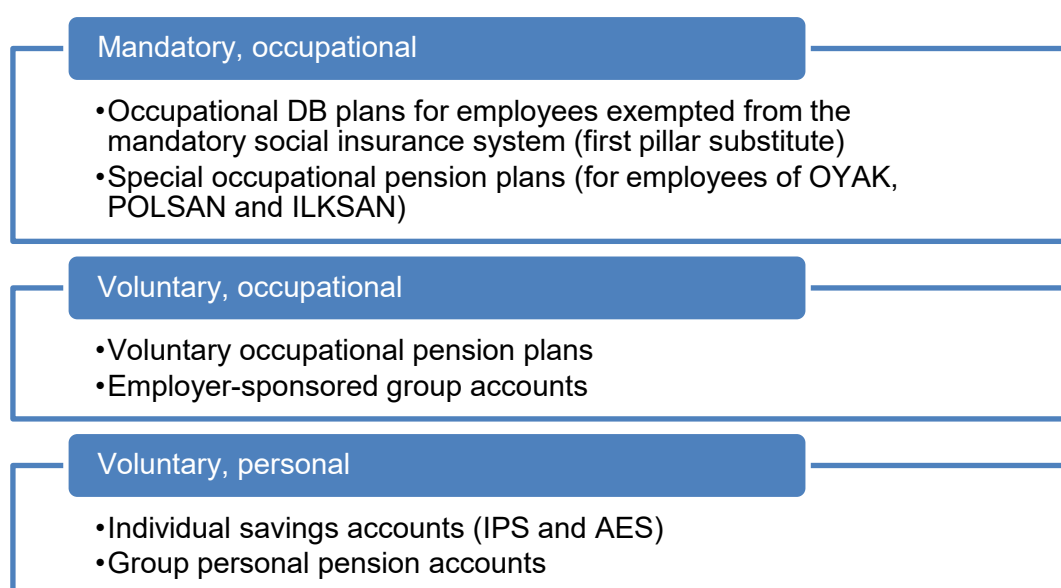
Income from public pension schemes is taxed at the individual's marginal rate of income tax.

### ***Perspective of the employer***

Employer contributions into pillar 2 are deductible from corporate tax.

## **2.36. Republic of Türkiye**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

In occupational DB plans, employee contributions are deducted from salaries that have already been taxed at the marginal rate of income tax and that have already been subject to stamp tax at the rate of 0.759%.

Employer contributions into employer-sponsored group accounts are included in employee's taxable income. Such contributions do not receive the government match.

In personal pension plans, individual contributions are not deducted from the participant's income tax base. Individual contributions are matched by the government up to a limit.

Tax reliefs are available only if the pension plan is offered by a pension company established in Türkiye.

### ***Tax treatment of returns on investments***

Returns on investment into personal pension plans and employer-sponsored group plans are taxed upon withdrawal. The tax rate depends on when the withdrawal takes place:

- If the individual reaches 56 years old and has been in the scheme for at least 10 years, or leaves the scheme due to compulsory reasons like death, disability or winding up, the tax rate is 5%;
- If the individual has been in the scheme for at least 10 years without reaching 56 years old, the tax rate is 10%;
- If the individual has been in the scheme during less than 10 years, the tax rate is 15%.

Individuals can withdraw a lump sum from voluntary pension plans. Only the return on capital component of the lump sum is taxed at a fixed rate, as described above. Part or all of the savings can be converted into an annuity or programmed withdrawal if the individual reaches the age of 56 and has been in the scheme for at least 10 years. Programmed withdrawals are taxed upon each payment made to the member, while the annuities are taxed just before conversion.

Returns on investment of special occupational pension plans and voluntary occupational pension plans are taxed upon withdrawal. The tax rate depends on when the withdrawal takes place:

- If the individual has been contributing for less than 10 years, the tax rate is 15%.
- If the individual has been contributing for 10 years at least, or leaving the scheme due to death, disability or compulsory winding up, the tax rate is 10%.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income is tax exempt owing to the fact that tax on returns is deducted at the time the total savings amount is converted into an annuity or programmed withdrawal.

### ***Non-tax incentives***

The government matches 30% of pension contributions into individual savings accounts (IPS) or group personal pension contracts up to 30% of the annual gross minimum wage. The government contribution applies for the automatic enrolment system (AES) too, with a separated limit from the one in the individual pension system (i.e. an individual can get the government match twice, within the limit of 30% of the annual gross minimum wage for each scheme). The upper limit for contributions to benefit from the government contribution is TRY 140 535 in 2023. The state contribution will be paid in the following calendar years for the contributions exceeding the upper limit.

Individuals receive 100% of government contributions if they withdraw their assets after reaching 56 years old and if they stayed in the system for 10 years, or in case of death or disability.

If an individual makes an early withdrawal (i.e. if s/he does not fulfil at least one of the two previous conditions), s/he cannot keep all of the matching contributions:

- If the individual stays less than 3 years in the scheme, s/he does not receive the government contribution;
- If the individual stays between 3 and 6 years in the scheme, s/he receives 15% of the government contribution and investment returns generated by these contributions;
- If the individual stays between 6 and 10 years in the scheme, s/he receives 35% of the government contribution and investment returns generated by these contributions;
- If the individual stays more than 10 years in the scheme, s/he receives 60% of the government contributions and investment returns generated by these contributions.

The government matching contribution is paid every month into the pension account. If an individual makes an early withdrawal, he/she is not entitled to 100% of the government contribution and so the relevant percentage of government contributions and the investment returns generated by these contributions are withdrawn from the account.

In the automatic enrolment system (AES), the government pays a one-time TRY 1 000 contribution for individuals who do not opt out within the first two months. The initial government contribution is vested once the employee is entitled to the pension. There is also an incentive to annuitize pension assets in the form of a subsidy equal to 5% of participants' savings at retirement for those who choose a minimum 10-year annuity.

### ***Social treatment***

Employer contributions up to 30% of the minimum wage are not included in income subject to social contributions. No relief from social insurance contributions is available for individuals' contributions.

No social contributions are levied on pension income received from the private pension system.

### ***Tax treatment of pensioners***

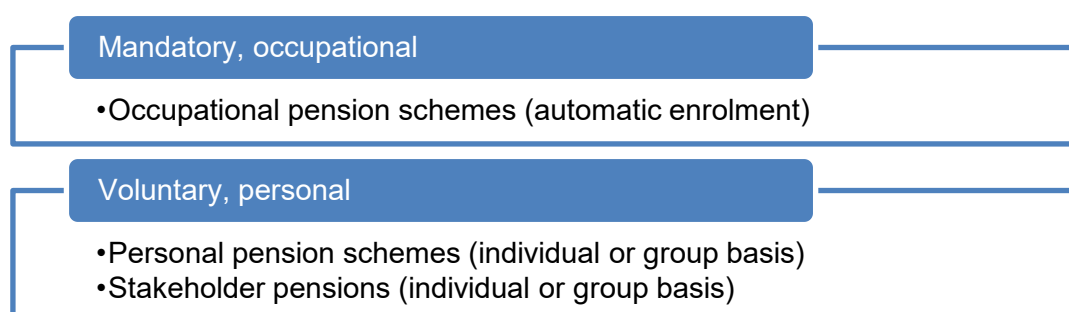
Public pension income is not subject to income tax.

### ***Perspective of the employer***

Employer contributions are deductible from corporate income tax provided that the sum of contributions paid by employers to the individual pension system and personal insurance premiums paid by employees does not exceed 15% of the employee's monthly wage in the month of payment and the annual minimum wage per annum. If the sum of the two exceeds the limit, the employer and the employee decide upon the priority of the deduction, i.e. deducting first the insurance premiums from the employee's personal income tax or the employer contributions to the individual pension system. If, for example, the priority is to deduct insurance premiums from the employee's personal income tax, the employer can only deduct from corporate income tax the difference between the insurance premiums and the overall limit.

## **2.37. United Kingdom**

### ***Structure of the asset-backed pension system***



Workplace pensions include occupational pension schemes, group personal pensions and group stakeholder pensions.

### ***Tax treatment of contributions***

Contributions to registered pension schemes benefit from tax relief up to an annual limit (annual allowance). Individuals pay tax at the marginal rate of income tax on any pension savings they have in that tax year above the annual allowance.

- Occupational pension schemes: Usually, the employer takes the pension contributions from the individual's pay, before deducting tax. The individual only pays income tax on what is left. This system of giving tax relief is known as "net pay arrangement".
- Other workplace pensions: The employer takes the pension contributions from the individual's pay after deducting tax. The pension provider claims tax back from the government at the basic rate of 20% and the tax relief is paid in the pension account. Individuals paying tax at higher rate (40%) or additional rate (45%) can claim the difference through their tax return or by calling or writing to His Majesty's Revenue and Customs. The extra tax refund is not paid in the pension account. This system of giving tax relief is known as "relief at source".<sup>57</sup>
- Personal pensions: The relief at source method applies. Individuals pay income tax on their income before any pension contribution, but the pension provider claims tax back from the government at the basic rate (the tax refund is paid in the pension account). Individuals paying tax at higher rate or additional rate can claim the difference through their tax return (the extra tax refund is not paid in the pension account).

The maximum amount of pension contributions that an individual can get tax relief on in each tax year is the highest of GBP 3 600, and 100% of the individual's taxable UK earnings. Where individuals' UK taxable earnings are less than the personal allowance (the amount of earnings which are free from income tax), they can get relief on their contributions only if the pension scheme uses the relief at source method.

If an individual has pension contributions (from both member and employer) in a year of more than GBP 60 000 (annual allowance for the tax year 2023-2024) the excess is subject to a tax charge (the annual allowance charge) that effectively limits tax relief given for the year. Individuals are allowed to make use of unused annual allowance from the previous three years (carried forward annual allowance).

The money purchase annual allowance (MPAA) applies to individuals who have flexibly accessed pension benefits and who make money purchase pension contributions. If the MPAA has been triggered (by taking income from a flexi-access drawdown plan or an uncrystallised funds pension lump sum), only GBP 10 000 (the MPAA for tax year 2023-2024) can be paid to all DC plans for an individual in any tax year before the annual allowance tax charge is applied. If the MPAA is triggered part-way through a tax year, only the contributions made after the trigger are tested against the MPAA. However, the total contributions and accruals in that tax year are also tested against the GBP 60 000 annual allowance. The contributions paid before or on the trigger date are measured against an alternative annual allowance of GBP 50 000 (GBP 60 000 - GBP 10 000). Those paid after the trigger date are measured against the GBP 10 000 MPAA. It is not possible to carry forward unused tax relief against the MPAA. Contributions and accruals in relation to a defined benefit plan made after the trigger date are tested against the alternative annual allowance.

Pensions tax relief is restricted by a tapered reduction in the amount of the annual allowance for individuals with income (including the value of any pension contributions) over GBP 260 000 and who have an income (excluding pension contributions) in excess of GBP 200 000. The rate of reduction in the annual allowance is by GBP 1 for every GBP 2 that the adjusted income exceeds GBP 260 000, up to a maximum reduction

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<sup>57</sup> Scottish taxpayers paying tax at the intermediate rate (21%), higher rate (41%) or the top rate (46%) can claim the difference in a similar way (the extra 1% of relief is not clawed back for starter rate (19%) taxpayers).

of GBP 50 000. Where an individual is subject to the money purchase annual allowance, the alternative annual allowance is equal to the tapered annual allowance minus GBP 10 000.

Although contributions can be paid after a member has reached the age of 75, they are not relieviable pension contributions and do not qualify for tax relief.

### ***Tax treatment of returns on investments***

The income and gains from most investments held in registered pension schemes are not taxable. However, pension schemes do not receive a dividend tax allowance and income from certain investments, such as residential property, is taxable if the scheme is an investment-regulated pension scheme (i.e. a pension scheme where the investments can be directed by a member of the scheme).

### ***Tax treatment of funds accumulated***

There is a cap on the total amount that can be accumulated in a private pension plan that an individual can get tax relief on (lifetime allowance). This is currently set at GBP 1 073 100 (fixed at this level until 2025/26). For the tax year 2023/24, there is no longer a tax charge when an individual builds up pension savings worth more than the lifetime allowance.

Pension savings will continue to be tested against the lifetime allowance for the tax year 2023/24 when individuals take their pension benefits and on certain other key events:

- Defined benefit schemes: pension benefits are tested against the lifetime allowance. This level of pension savings is broadly equivalent to an annual pension of GBP 53 655 if the individual does not take a lump sum, or GBP 40 241 if the individual takes the 25% maximum tax-free lump sum.
- Defined contribution schemes: the value of the pension pot that is used to pay pension benefits is tested against the lifetime allowance.

For certain lump sum payments which may have previously been subject to a tax charge, the individual will pay tax at their marginal income tax rate where the benefits crystallised exceed the lifetime allowance. These are typically lump sum benefits or lump sum death benefits.

The lifetime allowance is expected to be completely abolished from April 2024.

### ***Tax treatment of pension income***

Annuities, programmed withdrawals and certain lump sums are taxed as income at the marginal rate of income tax. Income from workplace and personal pension schemes is paid to the individual by the pension or annuity provider with tax already taken off via the PAYE (Pay As You Earn) system.

An individual can have a tax-free lump sum up to 25% of the total value of the pension pot(s) when they take a pension or annuity or designate funds into a drawdown fund. The tax-free lump sum is limited to a maximum of 25% of the lifetime allowance, which is GBP 1 073 100 for 2023-2024. DB schemes are deemed to have a pot size 20 times the annual pension to calculate the tax-free lump sum. Where DC schemes pay an uncrystallised funds pension lump sum, 75% of the value of the lump sum is taxable at the individual's marginal tax rate, providing the equivalent taxation of an individual having a tax-free lump sum.

Pension savings accessed before the normal minimum pension age (currently age 55) are charged a rate of up to 55% (unauthorised payments charge and unauthorised payments surcharge).

### ***Non-tax incentives***

Automatic enrolment legislation sets the total minimum percentage contribution rate which is currently 8%. Individuals may choose to opt out of pension saving, however, for those who wish to save, the legislation requires employers to enrol all eligible employees into a pension scheme and make a minimum of 3% contribution towards it. The employee will also make a minimum contribution of 5%.

### ***Social treatment***

There is no National Insurance contributions' (NICs) relief on employee contributions. Employer contributions are excluded from earnings for both employer and employee NICs.

NICs are not levied on pension income.

### ***Tax treatment of pensioners***

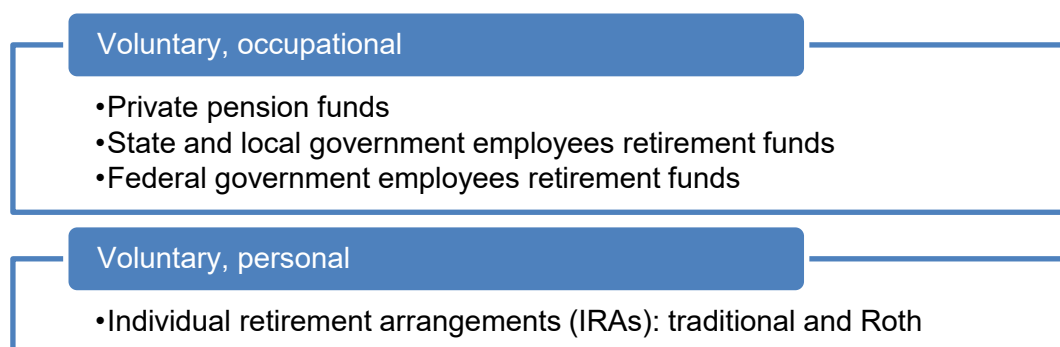
The State Pension is taxed as income at the marginal rate of income tax.

### ***Perspective of the employer***

Employer contributions to a registered pension scheme can be deducted as an expense in computing the profits of a trade, profession or investment business, and so reducing the amount of an employer's taxable profit. There is no set limit on the amount that an employer can pay into a registered pension scheme, subject to any limits placed on individuals.

## **2.38. United States**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

There are different types of employee and employer contributions to tax-qualified plans with different, and generally beneficial tax treatments. Employee contributions can be salary reduction/elective deferral contributions, catch-up contributions for those 50 or older at the end of the calendar year, designated Roth contributions or after-tax contributions. This document describes the federal income tax rules that apply to these types of contributions. These contributions are also generally accorded beneficial treatment under state income tax rules; federal and state income taxes are similar in that they apply a percentage rate to taxable incomes, but they can differ considerably with respect to those rates and how they are applied, as well as to the type of income that is taxable and the deductions and tax credits that are allowed.

### *Salary reduction/elective deferral contributions*

Salary reduction/elective deferral contributions are generally pre-tax employee contributions to occupational pension plans. There is an annual limit on elective deferrals made to all plans in which the individual participates. If the employee's total contributions exceed the deferral limit, the difference is included in the employee's gross income (i.e. the excess contribution is taxed at the individual's marginal rate of income tax). In addition, the excess amount (and the income earned on that amount) has to be withdrawn from the plan.

- If the excess contributions are withdrawn generally by April 15 of the following year, any income earned on the contribution is reported as gross income for the tax year in which it is withdrawn. The withdrawal is not subject to the additional 10% tax on early withdrawals.
- If the excess contributions are not withdrawn generally by April 15, they are subject to double taxation, i.e. they are taxed both in the year contributed and in the year withdrawn from the plan (at the individual's marginal rate of income tax). These withdrawals could also be subject to the 10% early withdrawal tax.

Limit on elective deferral contributions depend on the type of plan:

- Traditional 401(k), safe harbour 401(k), 403(b) and 457(b) plans: USD 22 500 in 2023, subject to cost-of-living adjustments.
- Savings Incentive Match Plan for Employees (SIMPLE) 401(k) and SIMPLE IRA plans: USD 15 500 in 2023.
- Salary Reduction Simplified Employee Pension (SARSEP): USD 22 500 in 2023 or 25% of compensation whichever is less.

The stated limit of the total amount the individual can contribute (elective deferral contributions and designated Roth contributions) to all his/her plans (not including 457(b) plans) is USD 22 500 in 2023, but "catch-up contributions", discussed below, may increase this amount.

### *Catch-up contributions*

Certain plans allow participants 50 years old and over to make pre-tax catch-up contributions beyond the basic limit on elective deferrals. Different limits apply to these additional elective deferral contributions:

- Traditional 401(k), safe harbour 401(k), 403(b), SARSEP and 457(b) plans: USD 7 500 in 2023.
- SIMPLE 401(k) and SIMPLE IRA plans: USD 3 500 in 2023.
- Individual Retirement Arrangement (IRA) plans: USD 1 000 in 2023. The IRA catch-up contribution limit is not subject to an automatic annual cost-of-living adjustment.
- 403(b) plans: If permitted by the 403(b) plan, an employee who has at least 15 years of service with a public school system, hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organisation), has a 403(b) elective deferral limit that is increased by the lesser of USD 3 000; USD 15 000 reduced by the amount of additional elective deferrals made in prior years because of this rule; or USD 5 000 times the number of the employee's years of service for the organisation, minus the total elective deferrals made for earlier years. When both the age-50 catch-up and the 15-year catch-up are available, the 15-year catch-up contributions apply first and then the age-50 catch-up contributions apply.
- Special 457(b) plan catch-up contributions: If permitted by the plan, a participant within 3 years of the "normal retirement age" (as specified in the plan) may contribute the lesser of twice the annual limit (USD 45 000 in 2023) or the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age-50 catch-up contributions).

If an individual aged 50 or over participates in only one 401(k) plan that does not permit catch-up contributions, the USD 22 500 limit applies. However, if that individual participates in two 401(k) plans, s/he can contribute up to USD 29 000 (22 500 + 6 500) on aggregate even though neither plan has catch-up provisions. The USD 22 500 limit still applies to each plan.

### *Designated Roth contributions and after-tax contributions*

Designated Roth contributions are included in gross income (but tax free when withdrawn if certain requirements are met) and therefore taxed at each individual's marginal rate of income tax. Roth contributions can be made to Roth Individual Retirement Accounts (Roth IRAs) and to 401(k), 403(b) and governmental 457(b) plans.

After-tax contributions are contributions from compensation that an employee includes in taxable income. After-tax contributions can be made to traditional IRAs and to other types of pension plans that permit these types of contribution.

### *IRA contribution limits*

In addition to the contribution limits described above, limits apply to contributions to Roth and traditional IRAs. Contributions that exceed these limits are excess contributions. Excess contributions are taxed at 6% per year, as long as the excess amounts remain in the IRA. The excess contribution can be avoided by withdrawing the excess contribution and any income earned on it by the due date of the individual income tax return.

**The maximum an individual can contribute to all of his/her IRA plans is the lesser of USD 6 500 for 2023 (USD 7 500 including catch-up contributions); or the individual's taxable compensation for the year. Although the same overall limit applies to both Roth and traditional IRAs, Roth IRA contributions may be limited based on the participant's filing status and income (see Table 2.12).**

| Filing status                                                                                                                       | Modified adjusted gross income                                    | Contribution limit                          |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------|
| Married filing jointly/ Qualifying widow(er)                                                                                        | < USD 218 000<br>= USD 218 000 and < USD 228 000<br>≥ USD 228 000 | Up to the limit<br>A reduced amount<br>Zero |
| Married filing separately and the participant lived with his/her spouse at any time during the year                                 | < USD 10 000<br>≥ USD 10 000                                      | A reduced amount<br>Zero                    |
| Single/Head of household/Married filing separately and the participant did not live with his/her spouse at any time during the year | < USD 138 000<br>= USD 138 000 and < USD 154 000<br>≥ USD 154 000 | Up to the limit<br>A reduced amount<br>Zero |

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**Table 2.12. United States: Amount of Roth contributions allowed for 2023**

| Filing status                                                                                       | Modified adjusted gross income                                    | Contribution limit                          |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------|
| Married filing jointly/ Qualifying widow(er)                                                        | < USD 218 000<br>= USD 218 000 and < USD 228 000<br>≥ USD 228 000 | Up to the limit<br>A reduced amount<br>Zero |
| Married filing separately and the participant lived with his/her spouse at any time during the year | < USD 10 000<br>≥ USD 10 000                                      | A reduced amount<br>Zero                    |

|                                                                                                                                     |                                                                   |                                             |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------|
| Single/Head of household/Married filing separately and the participant did not live with his/her spouse at any time during the year | < USD 138 000<br>= USD 138 000 and < USD 154 000<br>≥ USD 154 000 | Up to the limit<br>A reduced amount<br>Zero |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------|

Note: Calculation method to calculate the reduced amount: <https://www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2023>.

Contributions to a traditional IRA are made after-tax but may be deductible. The deduction may not be full if the participant or his/her spouse is covered by an occupational pension plan and his/her income is above certain limits, as described below (see Table 2.13 and Table 2.14).

**Table 2.13. United States: Deduction limits for traditional IRA contributions if the participant is covered by an occupational pension plan (2023)<sup>58</sup>**

| Filing status                               | Modified adjusted gross income  | Deduction limit                                                    |
|---------------------------------------------|---------------------------------|--------------------------------------------------------------------|
| Single/Head of household                    | ≤ USD 73 000                    | Full deduction up to the amount of the member's contribution limit |
|                                             | > USD 73 000 and < USD 83 000   | Partial deduction                                                  |
|                                             | ≥ USD 83 000                    | No deduction                                                       |
| Married filing jointly/Qualifying widow(er) | ≤ USD 116 000                   | Full deduction up to the amount of the member's contribution limit |
|                                             | > USD 116 000 and < USD 136 000 | Partial deduction                                                  |
|                                             | ≥ USD 136 000                   | No deduction                                                       |
| Married filing separately                   | < USD 10 000                    | Partial deduction                                                  |
|                                             | ≥ USD 10 000                    | No deduction                                                       |

**Table 2.14. United States: Deduction limits for traditional IRA contributions if the participant is not covered by an occupational pension plan (2023)<sup>59</sup>**

| Filing Status                                                                                         | Modified adjusted gross income  | Deduction limit                                                    |
|-------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------------------|
| Single/Head of household/Qualifying widow(er)                                                         | Any amount                      | Full deduction up to the amount of the member's contribution limit |
| Married filing jointly or separately with a spouse who is not covered by an occupational pension plan | Any amount                      | Full deduction up to the amount of the member's contribution limit |
| Married filing jointly with a spouse who is covered by an occupational pension plan                   | ≤ USD 218 000                   | Full deduction up to the amount of the members contribution limit  |
|                                                                                                       | > USD 218 000 and < USD 228 000 | Partial deduction                                                  |
|                                                                                                       | ≥ USD 228 000                   | No deduction                                                       |
| Married filing separately with a spouse who is covered by an occupational pension plan                | < USD 10 000                    | Partial deduction                                                  |
|                                                                                                       | ≥ USD 10 000                    | No deduction                                                       |

Regular contributions to a traditional IRA or Roth IRA are not precluded by age as of 2021.

<sup>58</sup> <https://www.irs.gov/retirement-plans/2023-ira-deduction-limits-effect-of-modified-agi-on-deduction-if-you-are-covered-by-a-retirement-plan-at-work> <https://www.oneauthor.org/>

<sup>59</sup> <https://www.irs.gov/retirement-plans/2023-ira-deduction-limits-effect-of-modified-agi-on-deduction-if-you-are-not-covered-by-a-retirement-plan-at-work>

### *Employer contributions*

Employers can make matching contributions or discretionary/non-elective contributions. In both cases, employer contributions are not included in the individual's gross income. There are limits to how much employers and employees can contribute on aggregate to each plan each year. The limits differ depending on the type of plan.

#### *Overall limit on contributions*

- Defined contribution plans (including 401(k) plans): total annual contributions to all the accounts of an individual in plans maintained by one employer (and any related employer) are limited. Total annual contributions cannot exceed the lesser of i) 100% of the participant's compensation; and ii) USD 66 000 (USD 73 500 including catch-up contributions) in 2023. The limit applies to the total of all types of contribution, including elective deferrals, employer matching contributions, employer non-elective contributions and allocations of forfeitures.
- SIMPLE 401(k) plans: the contribution limit for the employee is USD 15 500 for 2023 (USD 18 500 including catch-up contributions). The employer is permitted to contribute i) a dollar-for-dollar match of up to 3% of pay, or ii) a 2% non-elective contribution.
- 403(b) plans: the limit on the combination of all employer contributions and employee elective deferrals to all 403(b) accounts is the lesser of i) USD 66 000 (USD 73 500 including catch-up contributions), or ii) 100% of the amount of taxable wages and benefits the employee received in his/her most recent full year of service.
- 457(b): annual contributions cannot exceed the lesser of i) 100% of the participant's compensation; or ii) the elective deferral limit (USD 22 500 in 2023, USD 30 000 including catch-up contributions). This deferral limit is not combined with deferrals made to a 403(b) or other plans.
- Simplified Employee Pension Plans (SEP): contributions an employer can make to an employee's SEP-IRA cannot exceed the lesser of i) 25% of the employee's compensation; or ii) USD 66 000 in 2023. Elective deferrals and catch-up contributions are not allowed in SEP plans.
- SIMPLE IRA plans: elective deferrals are limited to USD 15 500 in 2023 (USD 18 500 including catch-up contributions). Employer contributions are limited to either i) a dollar-for-dollar match of employee contributions up to 3% of the employee's compensation; or ii) a non-elective contribution of 2% of each eligible employee's compensation.

#### *Saver's Credit*

Individuals may receive a non-refundable tax credit for making eligible contributions to an IRA (traditional or Roth) or occupational pension plan (401(k), SIMPLE IRA, SARSEP, 403(b) or 457(b)). The amount of the credit (so-called Saver's Credit) is 50%, 20% or 10% of the contribution up to a maximum of USD 2 000 (USD 4 000 if married filing jointly), depending on the individual's adjusted gross income (AGI).

**Table 2.15. United States: Saver's Credit (2023)**

| Credit rate         | Married filing jointly  | Head of household       | All other filers        |
|---------------------|-------------------------|-------------------------|-------------------------|
| 50% of contribution | AGI ≤ USD 43 500        | AGI ≤ USD 32 625        | AGI ≤ USD 21 750        |
| 20% of contribution | USD 43 501 – USD 47 500 | USD 32 626 – USD 35 625 | USD 21 751 – USD 23 750 |
| 10% of contribution | USD 47 501 – USD 73 000 | USD 35 626 – USD 54 750 | USD 23 751 – USD 36 500 |
| 0% of contribution  | > USD 73 000            | > USD 54 750            | > USD 36 500            |

Note: All other filers include: single, married filing separately or qualifying widow(er) <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

### ***Tax treatment of returns on investments***

Returns on investments are tax deferred until withdrawal except for Roth accounts. Investment returns earned from Roth accounts are tax free.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Withdrawals of both contributions and returns on investments from traditional pension plan accounts must be included in taxable income (and therefore taxed at the individual's marginal rate of income tax), except in the case of Roth accounts.

Individuals generally must pay an additional 10% early withdrawal tax if the withdrawal occurs before the individual reaches 59½ years old.<sup>60</sup>

Most payments an individual receives from a pension plan (other than annuity payments) can be “rolled over” by depositing the payment in another pension plan within 60 days. By rolling over a pension plan benefit, the individual does not owe tax on amounts that are rolled over until they are withdrawn from the new plan.

Once reaching age 72 (70½ if having reached such age before 1 January 2020), the individual generally must withdraw a minimum amount (so-called Required Minimum Distribution, RMD) from his/her pension plan each year. It is possible to withdraw more than the RMD. If the individual fails to take the full amount of an RMD, the individual generally will have to pay a 50% excise tax on the amount not withdrawn as required. Under the RMD strategy, the percentage of financial assets that retirees must withdraw each year increases as they age. The SECURE 2.0 Act of 2022 was signed into law in late December and changes the RMD age to 73 for individuals who turn 72 on or after 1 January 2023. This change in law applies to IRAs (including SEPs & SIMPLE IRAs).

Roth IRAs do not require withdrawals until after the death of the owner. In a Roth IRA, a retiree can withdraw money, including the investment income, tax free if s/he has had the Roth IRA for more than five years.<sup>61</sup>

### ***Non-tax incentives***

Employers are permitted to automatically enrol employees into a 401(k) plan and to automatically escalate elective deferral/salary reduction contributions. However, employees must be able to opt out. For a Qualified Automatic Contribution Arrangement, the initial automatic employee contribution must be at least 3% of wages, increasing by 1 percentage point annually, so that by the fourth year, the automatic elective deferral/salary reduction contribution is at least 6% of wages. Under this arrangement, the employer must match 100% of the first 1% of wages contributed by the worker, plus 50% of the next 5% of wages, for a maximum match of 3.5% of wages to each employee. Alternatively, the employer can make a non-elective contribution of at least 3% of wages to all eligible non-highly compensated employees. Employees must be 100% vested in the employer's matching or non-elective contributions by two years of service.

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<sup>60</sup> Exceptions are listed here: <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions>.

<sup>61</sup> The 5-year rule for Roth IRA distributions stipulates that five years must have passed since the tax year of the first Roth IRA contribution before the individual can withdraw the earnings in the account tax-free.

Employees covered by the Federal Employees Retirement System (FERS) and members of the uniformed services covered by the Blended Retirement System (BRS) can participate in the Thrift Savings Plan (TSP) and receive matching contributions from their agency or service on the first 5% of pay they contribute every pay period. The first 3% is matched dollar-for-dollar, while the next 2% is matched at 50 cents on the dollar.<sup>62</sup>

### ***Social treatment***

There is no social contributions relief on salary reduction/elective deferral contributions. Other employer contributions are not subject to social security and Medicare tax.

Social contributions are not levied on pension income.

### ***Tax treatment of pensioners***

Social security benefits include monthly retirement, survivor, and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable. To determine whether social security benefits are taxable, the individual must compare the base amount for his/her filing status with the total of one-half of his/her benefits, plus all his/her other income, including tax-exempt interest. If the total is more than the base amount, part of the benefits is taxable. The base amounts for 2023 are the following:

- USD 25 000 for single, head of household or qualifying widow(er);
- USD 25 000 for married individuals filing separately who lived apart the entire tax year;
- USD 32 000 for married couples filing jointly;
- USD 0 for married couples filing separately who lived together at any time during the tax year.

Below these thresholds, benefits are not taxed. That applies to spousal, survivor, and disability benefits as well as retirement benefits. Generally, up to 50% of the social security benefits are taxable. However, up to 85% of the benefits can be taxable if either of the following situations applies to the individual:

- The total of one-half of benefits and all other income is more than USD 34 000 (USD 44 000 if married filing jointly);
- The individual is married filing separately and living with his/her spouse at any time during the year.

### ***Perspective of the employer***

Although employers generally cannot deduct amounts provided to an employee until the year in which those amounts are included in the employee's income, employers can deduct amounts contributed to qualified pension plans (including elective deferral/salary reduction contributions, which are treated as employer contributions for this purpose) in the year that they are contributed to the pension plan.

The income tax deferral provided by pension plans is a particularly desirable benefit for highly compensated employees, including the working owners of smaller businesses and the executives of larger companies. Non-discrimination rules prohibit employers from providing significantly greater pension plan benefits to highly compensated employees than they provide to employees who are not highly compensated (referred to as non-highly compensated employees). Generally, employers have discretion when structuring their benefit plans and make distinctions among employee populations regarding access to and the level of benefits offered. Limiting the ability of employers to provide pension benefits to highly compensated employees by the amount that they provide to non-highly compensated employees is

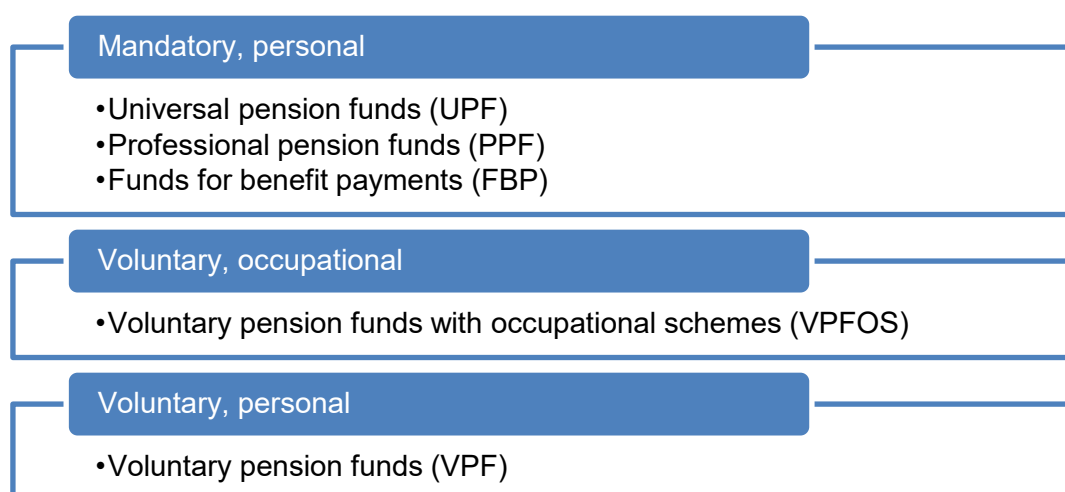
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<sup>62</sup> The agency or service also pays automatic contributions equal to 1% of basic pay for FERS and BRS participants. Participants do not have to contribute any money to their TSP account to receive these contributions.

intended to give working employee, owners, and executives an incentive to establish, and make contributions to, pension plans for all employees.

## 2.39. Bulgaria

### ***Structure of the asset-backed pension system***



Funds for benefit payments (FBP) were introduced in 2021 for the payment of UPF benefits. There are two types of FBPs, for the payment of lifelong pensions and for the payment of programmed withdrawals.

### ***Tax treatment of contributions***

Employee contributions into UPF and PPF are tax deductible. Employer contributions into UPF and PPF are not included in the employee's taxable income.

Employee contributions into VPF and VPFOS are tax deductible up to 10% of the individual's taxable income. Excess contributions are taxed for the individual at the fixed income tax rate of 10%. Employer contributions are not included in the employee's taxable income up to BGN 60 per month, while any excess is included.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Pension income from UPF, FBP, PPF, VPF and VPFOS is tax exempt. Benefits from UPF and PPF are tax free in all cases. Benefits from VPF and VPFOS are tax free only after the person becomes eligible for a pension.

Individuals can withdraw annuities, programmed withdrawals, lump sums or a combination of them from VPF in case of retirement or disability. If the individual is not in retirement or in a disability scheme, s/he

can also withdraw assets but the part of withdrawal corresponding to contributions, which enjoyed tax deduction, is taxed at the rate of 10%.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Both employee and employer contributions are not subject to obligatory social contributions.

Pension income is exempt from social security contributions.

### ***Tax treatment of pensioners***

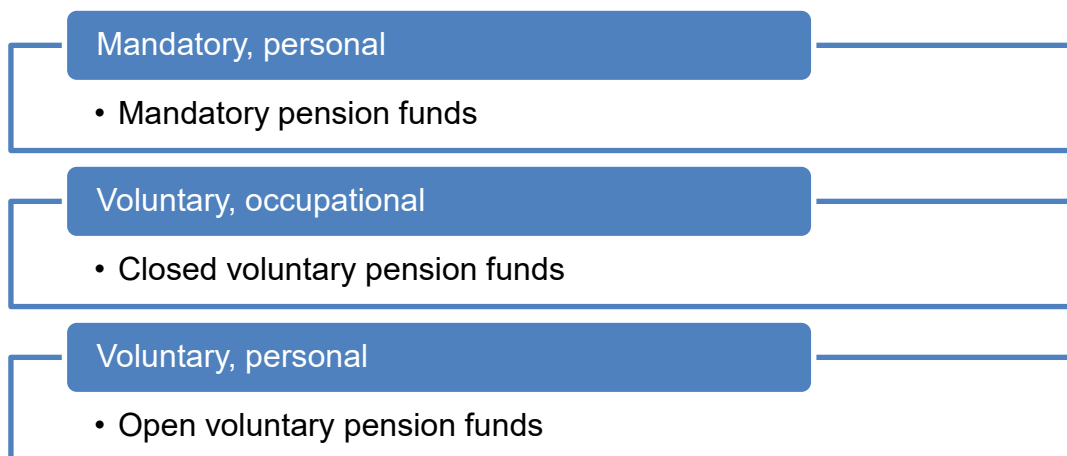
Pensions from the first pillar (public pay-as-you-go) are tax exempt.

### ***Perspective of the employer***

Employer contributions into UPF, PPF, VPF and VPFOS are deductible from corporate income tax. For VPF and VPFOS, the tax relief is valid: i) for contributions not exceeding the amount of BGN 60 per month per employee and ii) if the employer does not incur any coercively enforceable public obligations.

## **2.40. Croatia**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Contributions into mandatory pension funds (5% of wages) are tax exempt. The maximum monthly earnings considered to compute contributions are EUR 8 203.08 (in 2023).

Employee contributions into open and closed voluntary pension funds are taxed at the marginal rate of income tax and matched by the government.

Employer contributions into closed voluntary pension funds are not considered as employee's taxable income up to EUR 796.44 a year. The same limit applies to self-employed individuals saving for themselves. Excess contributions are considered as employee's taxable income.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Individuals can claim annuities from mandatory pension funds if they are eligible to get a retirement pension from the public pension scheme. Partial one-off payment may be agreed if the basic old-age or basic early retirement pension from the public pension scheme is more than 15% higher than the minimum pension. The partial one-off payment corresponds to 15% of the assets transferred to the pension insurance company. Early withdrawal is not possible.

Income from mandatory pension funds is taxable. Advance tax on pension income is calculated at a rate of 20% of the monthly tax base (after the personal allowance deduction) up to EUR 3 981.69 and at a rate of 30% of the monthly tax base above EUR 3 981.69. The resulting advance tax on pension income is then reduced by 50%. Therefore, irrespective of the type of pension payment, pensioners pay 50% of the tax that would be due if that income was taxed as income from employment at the marginal rate of income tax.

Income from open and closed voluntary pension funds is tax exempt. Individuals can withdraw lump sums, programmed withdrawals, annuities or combinations of them if they are 55 years old or more.

### ***Non-tax incentives***

Member's contributions into open and closed voluntary pension funds are matched by the government. The government matches 15% of the member's contributions up to EUR 663.61.

### ***Social treatment***

Contributions into mandatory pension funds are part of the social contributions levied on employee's earnings.

Employers who conclude an employment contract for an indefinite period with a person younger than 30 years old are exempt from health insurance contribution (16.5%) for a period of 5 years from employing such a person. Only employee contributions are payable (i.e. pension insurance contributions to pillar I and pillar II).

No social contributions are levied on private pension income.

### ***Tax treatment of pensioners***

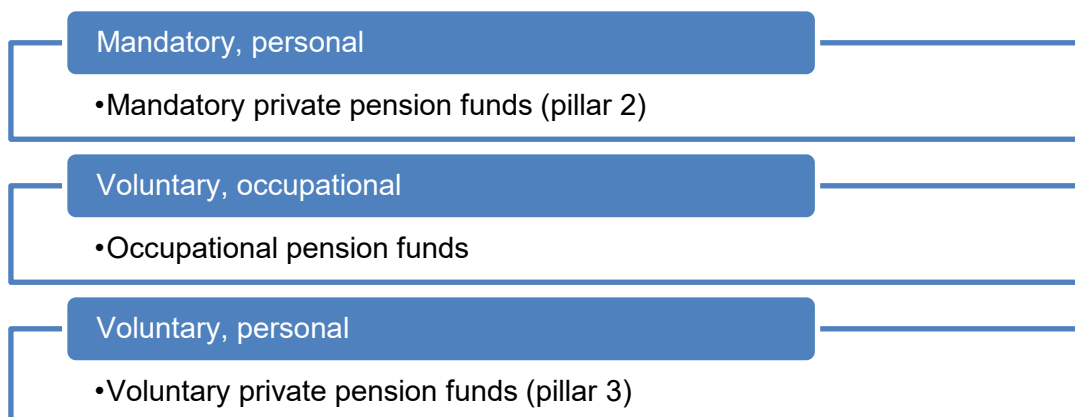
Public pension income is taxable. Advance tax on pension income is calculated at a rate of 20% of the monthly tax base (after the personal allowance deduction) up to EUR 3 981.69 and at a rate of 30% of the monthly tax base above EUR 3 981.69. The resulting advance tax on pension income is then reduced by 50%.

### ***Perspective of the employer***

Employer contributions up to EUR 796.44 per year into closed voluntary pension funds represent a tax-deductible expenditure for employers.

## 2.41. Romania

### ***Structure of the asset-backed pension system***



Second pillar private pension funds are mandatory for employees and self-employed persons up to 35 years old and voluntary between 35 and 45 years old. Exception is given to individuals working in the construction, agriculture and food industry sectors who are exempt from contributing to the private pension system until 2028.

Occupational pension funds were introduced in 2020, but there are no occupational pension plans set up yet.

### ***Tax treatment of contributions***

Contributions into mandatory private pension funds are tax deductible. They have been 3.75% of gross earnings since 2018. Starting from January 2024, the contribution rate will be 4.75%.

Employee and employer contributions into voluntary private pension funds are commonly capped at 15% of the employee's gross earnings. Employer contributions are not considered as taxable income for the employee. Employee contributions are tax deductible up to the RON equivalent of EUR 400 per year. Excess contributions are taxed at the fixed income tax rate of 10%.

Contributions to occupational pension plans are not tax deductible.

### ***Tax treatment of returns on investments***

Returns on investments are not taxed.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

There is no pay-out legislation yet. However, the secondary legislation has allowed members to receive their accumulated savings in monthly instalments up to 5 years since April 2018.

Private pension income below RON 2 000 per month is tax free and anything in excess is taxed at the fixed income tax rate of 10%.

In addition, starting 1 January 2024, the part of pension income subject to taxation beyond the RON 2 000 threshold will be any amount in excess of the sum of contributions (net of fees) paid by individuals and employers.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Contributions into mandatory private pension plans are part of the social contributions levied on employee's earnings.

Employee and employer contributions into voluntary private pension plans are not subject to social contributions.

No social contributions are levied on pension income.

### ***Tax treatment of pensioners***

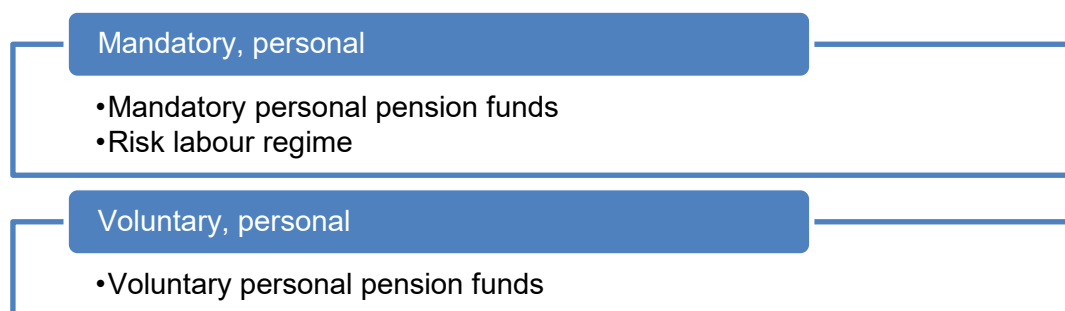
Public pension income is tax exempt up to RON 2 000 per month, above it is taxed at the fixed income tax rate of 10%.

### ***Perspective of the employer***

Employer contributions into voluntary private pension plans are deductible from corporate tax up to the RON equivalent of EUR 400 per year.

## **2.42. Peru**

### ***Structure of the asset-backed pension system***



### ***Tax treatment of contributions***

Members of the private pension system (SPP) contribute 10% of their salary to mandatory personal accounts. Contributions are not deductible from taxable income and therefore taxed at the marginal tax rate of the individual. Moreover, there is no upper limit for the salary considered for contributing to the system. Self-employed and independent workers have the same tax treatment.

Regarding voluntary savings, only individuals enrolled in the SPP are allowed to have a voluntary savings account. There are two types of voluntary savings accounts: i) a savings account for pension purposes

and ii) a savings account for non-pension purposes. Voluntary contributions are not deductible from taxable income.

### ***Tax treatment of returns on investments***

Returns on investment are tax exempt in mandatory pension funds if the assets remain invested within the pension system. However, payment of taxes abroad because of foreign investments will be charged to the assets under management.

For voluntary pension savings for pension purposes, returns on investments are tax exempt.

For voluntary pension savings for non-pension purposes, returns on investments are subject to a 5% tax every time the affiliate makes a withdrawal or switches between different types of funds.

### ***Tax treatment of funds accumulated***

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

### ***Tax treatment of pension income***

Withdrawals and pension benefits are tax exempt.

### ***Non-tax incentives***

No such incentives.

### ***Social treatment***

Employee contributions (mandatory and voluntary) are exempt from the payment of social charges.

Individuals receiving a retirement pension (programmed withdrawals and annuities), a disability pension or a survivor pension are required to pay 4% of their monthly pension income for health coverage. Moreover, for affiliates who withdraw up to 95.5% of their assets as a lump sum at retirement, the remaining 4.5% is transferred to the social security to finance their health coverage.

### ***Tax treatment of pensioners***

Public pensions (pay-as-you-go system) are tax-exempt.

### ***Perspective of the employer***

Voluntary contributions made by an employer are deductible from corporate tax. Such contributions are not subject to a ceiling.