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PERSONAL INCOME TAX

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OUTLINE OF THE LECTURE

1. TASKS OF PERSONAL INCOME TAX
2. TAX BASE AND TAX RATE
3. TAX ALLOWANCES AND TAX CREDITS
4. TAX RESIDENCE
5. PERSONAL INCOME TAX IN EU
6. TAXING WAGES - OECD

HISTORICAL ASPECTS

- The first income tax is generally attributed to Egypt.
- In the early days of the Roman Republic, public taxes consisted of modest assessments on owned wealth and property. The tax rate under normal circumstances was 1% and sometimes would climb as high as 3% in situations such as war. These modest taxes were levied against land, homes and other real estate, slaves, animals, personal items and monetary wealth.
- In the year 10 AD, Emperor Wang Mang of the Xin Dynasty instituted an unprecedented income tax, at the rate of 10% of profits, for professionals and skilled labor.
- One of the first recorded taxes on income was the Saladin tithe introduced by Henry II in 1188 to raise money for the Third Crusade. The tithe demanded that each layperson in England and Wales be taxed one tenth of their personal income and moveable property.

HISTORICAL ASPECTS

- In modern history, income tax began as a war tax. It was introduced in Great Britain by Prime Minister William Pitt to finance the war with Napoleon. It was abolished once more when peace was achieved in 1815 and the tax was reintroduced in 1842.
- At the beginning of the 20th century its budget importance was growing and the importance of its redistribution function was strengthened. Especially after the Second World War in connection with tax functions (fiscal and redistribution ones) its rates grew significantly as well.
- In the 80s within reforms of public finances the reverse occurred. The rates of personal income taxes began decreasing markedly, the number of tax brackets decreased and basic deductions lowering the tax base, respectively the final tax. From the OECD a significant importance is attributed to this tax for its justice, a high rate of complexness and effectiveness.

HISTORICAL ASPECTS

- The personal income taxes were constructed as universal taxes from labour (unskilled labour) and entrepreneurial personal incomes with the tax rate.

- The tax transforms from a primitive tax imposed at low rates on the few citizens who had relatively high incomes, to a modern sophisticated tax which is imposed at rather higher rates on many citizens, including those who have relatively low incomes. So it become a complicated tax.

TASKS OF PERSONAL INCOME TAX

- One of the tasks of this tax is to take into account the social position of taxpayers: to make possible the redistribution of the produced income from persons with higher incomes to persons with lower incomes and to help the principle of vertical justice.

- It is necessary to ensure a single tax base and to ensure the progressiveness of taxation in the form of:
  - the progressive tax rate,
  - deductible amounts which decrease the tax base (from which then after this deduction the tax is calculated),
  - tax rebates which decrease the already calculated tax liability.

TASKS OF PERSONAL INCOME TAX

- The correct construction of the tax should suppress undesired fluctuations in the economy.
- In the period of the extensive development with fast growing individual incomes the construction of the tax enables to shift the taxpayer to the higher tax brackets band and to withdraw a bigger part of the income. Increasing the yields of public budgets will make possible for the government to create reserves which can be used in the period of slowing down the economy.
- In the period when individual personal incomes decrease it is possible to ensure by means of taxation reducing of this state by means of taxation. The objective is obviously simplicity and transparency of taxation and the tax rate should not be too progressive. These precautions are different in single countries, they differ both from the point of the content and their amount as well.

CONSTRUCTION OF THE TAX BASE

- Taxpayers receive incomes from various sources, and that is not only in the form of the cash, but they also receive various natural perquisites and incomes of various character.
- In connection with the principle of justice high requirements are put on this tax and therefore the personal income tax must be a universal synthetic tax which summarizes different forms of incomes of the rate payer and from all sources (from employment, a business activity, from the ownership of the property) and by its unitary legal adjustment it effects various kinds of in-comes in an integrated way.
- The income tax is the flow tax, it is constructed on the incremental principle and thus it notices changes in the incomes of the taxpayer and for the certain tax period, the net income is taxed.

CONSTRUCTION OF THE TAX BASE

- That means that the gross income is decreased by tax deductible expenses. Within the tax legislation it is defined which expenses will be tax deductible and which will not, and thus the amplitude of the tax base is set in a bigger or smaller extent.
- Within the tax theory it is often distinguished between the earned income and the capital income (reached “unearned“, e.g. by the form of interests from the capital assets).
- The situation occurs that the taxpayer reaches the unrealized income which is connected with the growth of the price of the possessed assets (art works, bonds, ...). It is the growth of wealth which by the tax theory should also be the part of the tax base.
- The tax practice, however, due to the difficulty connected especially with asset pricing and possible insolvency of the rate payer (from unexecuted income yields, from which the tax can be reimbursed, do not result) refrains from taxation of unrealized capital yields.

TAX RATE

- The tax rate of the personal income tax is mostly progressive and in this connection it depends on the fact whether the taxpayer's incomes are regular and in approximately the same amount, or whether he acquires them by a single application or they are relatively differentiated in their amount.
- In the second case the resulting synthetic tax can be higher than the analytical one, which contradicts the principle of the horizontal justice.
- In EU linear tax rates are in: Bulgaria, Estonia, Latvia, Lithuania, Hungary, Slovakia and Romania

PERSONAL INCOME TAX

Individual tax rates for 2011 - 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Africa average	26.00	27.62	31.41	31.41	31.63	31.60	31.92	32.40	31.96	31.77	-
Americas average	31.23	31.67	31.48	31.43	31.59	31.68	32.59	32.82	32.88	32.52	-
Asia average	27.52	27.96	26.82	27.20	27.09	27.35	27.65	27.67	28.64	28.67	-
Europe average	34.67	34.95	32.62	33.05	32.12	32.37	32.67	32.04	31.87	31.30	31.77
Global average	31.10	31.59	30.86	31.08	30.80	30.97	31.41	31.35	31.45	31.16	31.30
OECD average	40.40	40.89	41.78	41.78	41.10	41.74	42.15	42.01	41.65	41.22	2021

https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/individual-income-tax-rates-table.html

Social security (Employer) tax rates for 2011 - 2021

Country search	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Africa average	10.74	11.09	11.26	11.26	11.54	11.58	13.69	12.55	12.55	12.55	13.12
Americas average	12.69	12.71	12.76	12.66	12.58	12.77	12.78	12.87	12.60	12.60	12.60
Asia average	12.92	13.53	13.24	14.64	14.73	14.86	16.17	14.26	13.55	13.60	14.11
EU average	22.95	23.09	23.04	23.19	23.69	23.70	23.58	22.38	21.28	21.47	21.29
Europe average	20.07	21.26	21.30	21.43	22.09	21.06	21.54	20.83	19.97	20.07	20.00
Global average	14.91	15.52	15.51	15.82	16.16	15.90	16.59	15.73	15.13	15.15	15.34

https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/individual-income-tax-rates-table.html

PERSONAL INCOME TAX

Social security (Employee) tax rates for 2011 - 2021

Country search	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Africa average	7.81	7.89	7.69	7.69	7.70	7.71	8.54	7.82	7.84	7.84	6.29
Americas average	6.83	7.38	7.59	7.36	7.45	7.86	7.83	7.86	7.88	8.01	8.07
Asia average	9.34	8.82	8.77	8.81	8.74	8.78	8.70	8.65	8.82	8.84	8.16
EU average	11.90	12.73	12.80	12.85	13.41	13.14	13.47	14.53	14.91	14.99	14.88
Europe average	11.60	12.00	12.11	12.44	12.78	12.42	12.55	13.24	13.48	13.82	13.72
Global average	8.99	9.20	9.25	9.31	9.46	9.48	9.61	9.70	9.79	9.92	9.49

https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/individual-income-tax-rates-table.html

PIT CALCULATION

- The structure of the calculation at the personal income tax is similar in all advanced countries.
- From all incomes which are subjected to taxation the tax effective expenses are deducted and the tax base is calculated.
- The tax base decreases by tax allowances and from thus modified tax base the tax is calculated, from which eventually the tax credit can be deducted as well.
- The tax is calculated the most often by means of tax brackets and respective tax rates.
- At every kind of the calculation, however, certain progressiveness of the tax is kept.

TAX ALLOWANCES (DEDUCTIONS)

- Tax allowances consist in deducting the fixed nominal amounts **from the tax base**.

- Their value together with the tax credit reflects into the change of the effective tax rate which characterizes the tax burden.

- Tax allowances have two basic forms:
  - Standard one,
  - Non-standard one.

TAX ALLOWANCES

- **The standard form** makes possible to deduce from the tax base non-taxable allowances related directly to the existence of the taxpayer. Among them there belongs so called non-taxable minimum which is to express a certain value of necessary social expenses of the taxpayer and the abatement connected to the alimentation of other persons in the common household (the spouses or a child), or the disability. Allowances of this kind are mostly set by the fixed amount and are common in all developed countries.
- **Non-standard allowances** are applied by the form of tax deductible items (deductions) and are limited into the certain amount. They follow the targets of the government policy to support a certain kind of investing, insurance or savings (the deduction of interests from mortgages, the amounts paid on the pension supplementary insurance of the rate payer, offering gifts on charitable purposes) with the aim to influence the conduct of taxpayers.

TAX SPLITTING

- Splitting can be considered as a certain kind of the tax allowance as well.
- It can be so called marital or complete splitting.
- Generally it means summarizing all the incomes, and that is either the incomes of a husband and a wife or at the complete splitting of all employed members of the household, and their consequent dividing by a set criteria (the number of all members in the household, the number of employed members).

- Marital splitting is applied e.g. in France, in the conditions of the CR splitting was introduced in the year 2005 in the way of common taxation of the couple and consequently it was abolished in the year 2008.

TAX ASSIGNATION

- Some countries introduce so called tax assignation when for the taxpayer it is possible to decide by himself where the part of his tax will flow and the person is given the right to provide a certain percentage or the fixed amount from the calculated volume of the tax on the enumerated purposes, respectively the selected institutions, public foundations, theatres, museums or churches.

- In this case the part of the tax is set as purposeful, it decreases the space of manoeuvre for utilisation of the tax, but it can monitor a personal or public interest of citizens.

TAX CREDITS

- From the calculated tax liability there can be deducted the tax credits which:
- can be used by all taxpayers (then they have in principle the character of social benefits), or
- can be aimed at certain groups of persons (the disabled, the elderly), or
- can be used with the purpose of stimulating certain activities (investments, pro-export policy, etc.).

- A tax credit is an amount of money that taxpayers are permitted to subtract from the income taxes that they owe.

- Tax credits are more favorable than tax deductions because they actually reduce the tax due, not just the amount of taxable income.

TAX CREDITS

- Tax credits come in three basic forms:
  - **Nonrefundable** tax credits are items directly deducted from the tax liability until the tax due equals zero.
  - **Refundable** tax credits are the most beneficial credit because they're paid out in full. This means that a taxpayer—regardless of their income or tax liability—is entitled to the entire amount of the credit. If the refundable tax credit reduces the tax liability to below zero, the taxpayer is due a refund.
  - Some tax credits are only **partially refundable**.

PAYE

- Pay-as-you-earn was introduced in an attempt to overcome many of the difficulties of assessment and collection that arose during the Second World War.

- PAYE system means that tax is levied on the current salaries and wages of employees in such a way that the deductions were a reasonably accurate computation of the currently due. The phrase has been extended to other schemes for deducting income tax from salaries and wages, even where the deductions must be corrected by an end of the year adjustment or must be supplemented by an additional tax where the taxpayer's total income exceeds certain limits.

THE OPERATION OF PAYE

- The difference between the British PAYE system and those introduced in North America is that British one is operated on cumulative bases and the letter are run on non-cumulative bases.
- Cumulative means that a taxpayer's pay and allowances are accumulated through the tax year. Non-cumulative system treats each pay period separately. With a progressive income tax a non/cumulative withholding system cannot achieve these results if taxpayers' incomes or allowances change or fluctuate during the tax year.
- The most important advantage of a cumulative PAYE system is that tax is withheld accurately from employment income. This means that is not necessary to make an end-of-year adjustment to most employees' tax payments.

POSITIVES OF PIT

- As the most important positives of the personal income tax it is considered by the tax theory:
  - Respecting the principle of the ability to pay which is the main principle of just taxation and practically it reflects in the progressiveness of taxation.
  - Flexibility of yields of the personal income tax relates to the economic growth.
  - The tax does not cause distortion in prices.
  - The tax acts as a good macroeconomic stabilizer.
  - The tax transparency when every taxpayer knows exactly his tax burden.
  - The way of payment of taxes (especially the withholding tax and the income tax of the employees)

TAX RESIDENCE

- Tax resident in a particular country
  - that country has the right to tax him on his worldwide income
  - he may also be taxed in other countries according to the source principle if he has sources of income arising in other countries
  - if this gives rise to potential double taxation of the same income than usually the country of residence will give double tax relief
- Every country has its own detailed rules as to exactly what constitutes tax residence for an individual. There are often similarities:
  - many country will consider an individual to be tax resident if they are present there for more than 183 days in a particular year
  - or if the person has close social and economic ties with it
- The differences can lead to a person being potentially regarded as tax resident in more than one country.

APPROACHE TO DETERMINING THE TAX RESIDENCE

- Three principal approaches according to:
  - Time spent in a particular country (number of days spent in a country in calendar year or different period – UK from 6 April to the following 5 April) – enables tax residence to be determined quite easily
  - A person’s connections with a particular country (personal attribute) – Netherlands
  - Residence rules adopted for other civil law purposes (anyone with citizenship status or the right to work there should be considered tax resident)

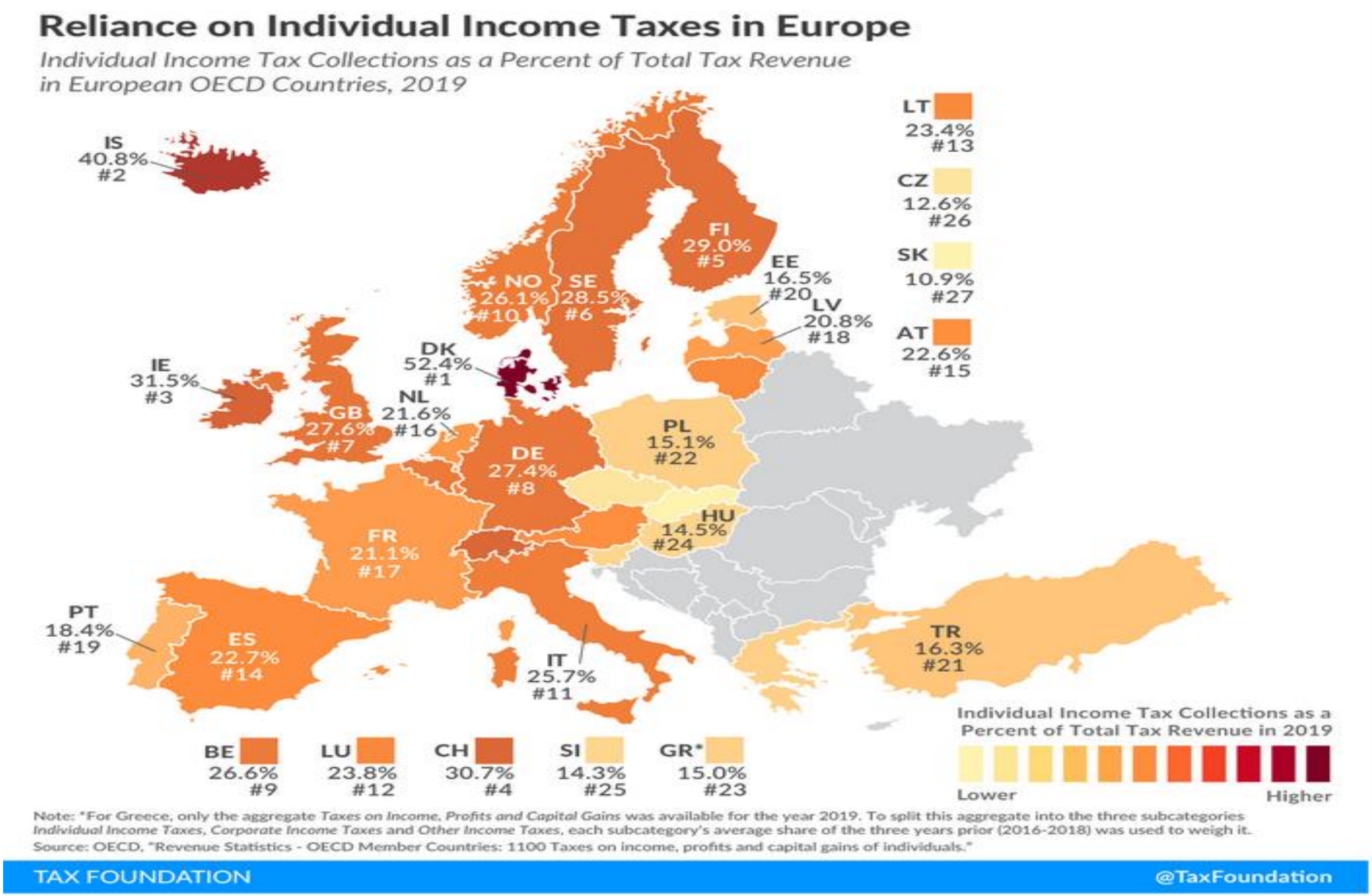
CONSEQUENCES OF TAX RESIDENCE

- The fact of tax residence is established the country has the right to tax the individual on his worldwide income.
- Broadly, a country may operate a credit system (credit is given against tax liabilities in the residence) or maybe operate an exemption (territorial) system (foreign income is not subject to tax in the residence country). All this applies equally to capital gains.
- Most countries apply the same tax rates to residents and non-resident taxpayers, although some choose to subject non-residents to a higher tax rate and/or deny them the benefit of a particular concession.
- Often special rules will apply to temporary residents so as to limit the tax base to particular categories (employment income, investment income).

PIT IN EU

- Member states of the EU have in principal independent tax systems and they apply their own tax policies. The organization of these systems results from different economic, sociological, historical and other factors.
- The personal income tax for its difference in the construction of the tax base, heterogeneousness of non-taxable items and the difference of approaches to the exemption of some personal incomes of taxation remains even from now on fully in competence of national governments and the EU does not take as the objective to harmonize personal income taxes.
- Taxation of natural person incomes in the countries of the EU is done by means of the personal income taxes and the social security contribution. In contrast to the personal income tax the construction of the premium is in most cases very simple and the rate is linear.

PERSONAL INCOME TAX



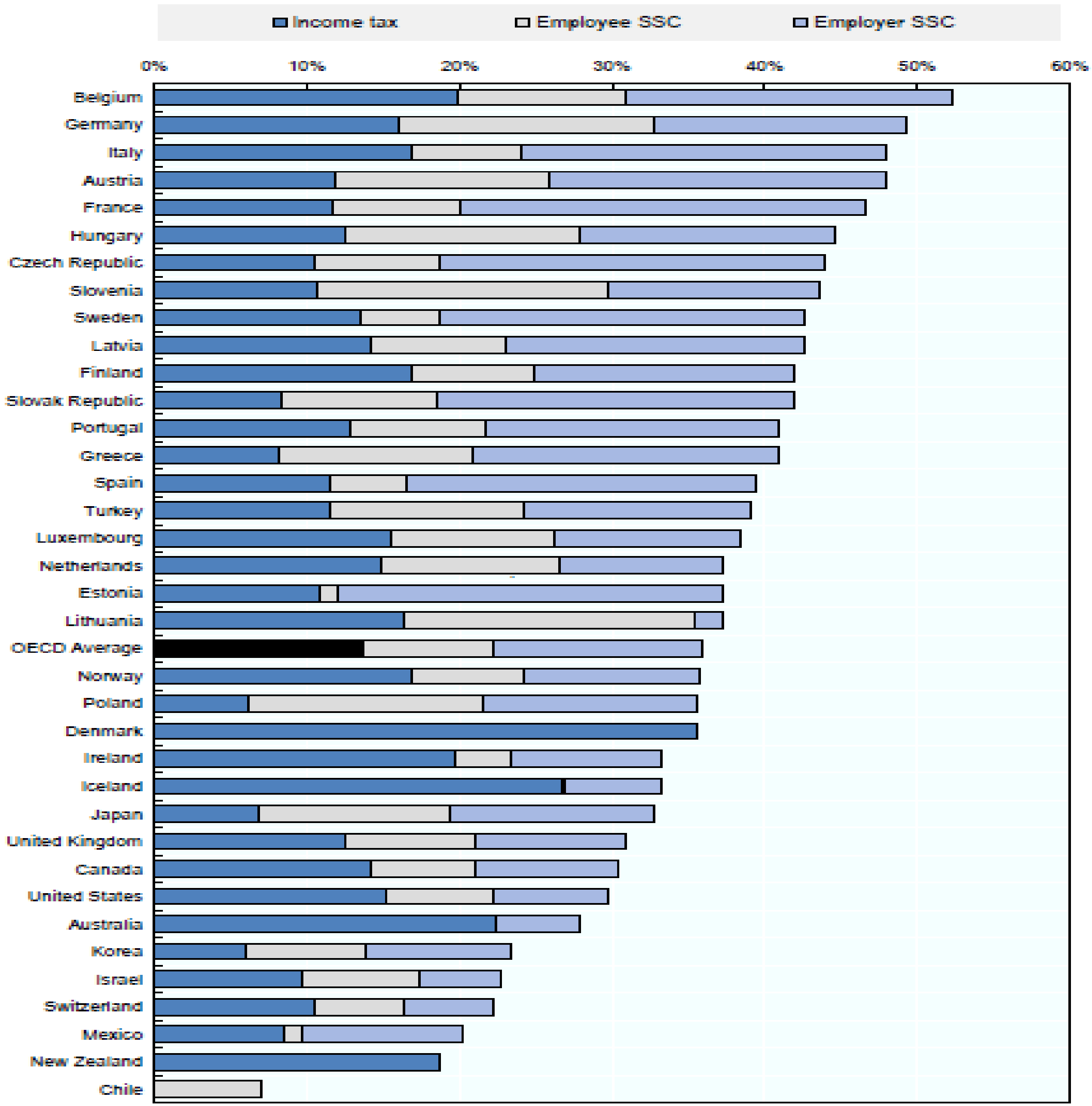
https://taxfoundation.org/reliance-on-individual-income-taxes-in-europe-2021/

OECD COMPARISON - TAXING WAGES

The annual publication *Taxing Wages provides details of taxes paid on wages in all 36 member* countries of the OECD.
The information contained in the Report covers the personal income tax and social security contributions paid by employees, the social security contributions and payroll taxes paid by their employers and cash benefits received by families.
The objective of the Report is to illustrate how personal income taxes, social security contributions and payroll taxes are calculated and to examine how these levies and cash family benefits impact on net household incomes.
The results also allow quantitative crosscountry comparisons of labour cost levels and of the overall tax and benefit position of single persons and families.
The Report shows the amounts of taxes, social security contributions, payroll taxes and cash benefits for
eight household types, which differ by income level and household composition.

Figure 1.1. Income tax plus employee and employer social security contributions, 2019

As a % of labour costs



As % of gross wage earnings

Country[1]	Total payment[2] (1)	Income tax (2)	Employee social security contributions (3)	Gross wage earnings[3] (4)
Switzerland	17.4	11.2	6.2	79 038
Luxembourg	29.9	17.6	12.3	71 102
Germany	39.3	19.2	20.1	70 355
Iceland	28.7	28.4	0.3	68 443
Netherlands	29.7	16.5	13.2	67 518
Belgium	39.3	25.3	14.0	64 505
Norway	27.3	19.1	8.2	64 066
Denmark	35.6	35.6	0.0	63 426
Austria	33.2	15.2	18.0	63 204
Ireland	25.9	21.9	4.0	62 430
Australia	23.6	23.6	0.0	59 680
United Kingdom	23.3	13.9	9.5	59 211
Korea	15.3	6.7	8.7	58 514
United States	24.0	16.4	7.7	57 055
Finland	30.0	20.2	9.8	52 615
Sweden	24.7	17.7	7.0	51 785
Japan	22.4	7.9	14.5	50 582
France	27.3	16.0	11.3	48 465
Italy	31.6	22.1	9.5	46 842
Canada	23.2	15.8	7.4	45 813
Spain	21.4	15.0	6.4	43 491
New Zealand	18.8	18.8	0.0	42 757
Israel	18.3	10.3	8.0	42 577
Greece	26.1	10.2	15.9	38 086
Slovenia	34.5	12.4	22.1	35 830
Poland	25.0	7.2	17.8	33 447
Portugal	26.9	15.9	11.0	32 702
Czech Republic	25.0	14.0	11.0	32 532
Turkey	28.5	13.5	15.0	32 000
Lithuania	36.1	16.6	19.5	31 736
Hungary	33.5	15.0	18.5	31 406
Estonia	16.0	14.4	1.6	31 111
Latvia	28.7	17.7	11.0	26 198
Slovak Republic	24.2	10.8	13.4	25 924
Chile	7.0	0.0	7.0	24 160
Mexico	10.8	9.5	1.4	14 187
Unweighted average				
OECD Average	25.9	15.9	10.0	47 855

Note: Single individual at the income level of the average worker, without children.

Table 1.4. Comparison of total tax wedge for single and one-earner couple taxpayers, 2019

As % of labour costs

Country[1]	Family[2] Total Tax wedge 2019 (1)	Single[3] Total Tax wedge 2019 (2)	Annual change, 2019/18 (in percentage points)		
			Family Tax wedge (3)	Single Tax wedge (4)	Difference between single and family (4)-(3) (5)
Italy	39.2	48.0	0.58	0.24	-0.34
Greece	37.8	40.8	-0.11	-0.12	-0.01
Finland	37.5	41.9	-0.48	-0.52	-0.04
Turkey	37.5	39.1	-0.21	-0.12	0.09
Sweden	37.4	42.7	-0.29	-0.32	-0.03
France	36.8	46.7	-2.34	-0.33	2.01
Belgium	36.5	52.2	-0.96	-0.48	0.48
Germany	34.3	49.4	-0.09	-0.18	-0.08
Spain	34.2	39.5	0.26	0.10	-0.16
Austria	33.7	47.9	-3.67	0.29	3.96
Latvia	32.4	42.6	-0.20	-0.04	0.17
Netherlands	32.3	37.3	-0.52	-0.56	-0.04
Norway	32.1	35.7	-0.27	-0.14	0.14
Slovak Republic	31.1	41.9	0.51	0.07	-0.44
Hungary	29.6	44.6	-0.59	-0.46	0.13
Portugal	29.4	41.0	0.34	0.20	-0.14
Lithuania	29.0	37.2	-4.24	-3.43	0.81
Slovenia	28.5	43.6	3.32	0.38	-2.94
Japan	27.5	32.7	0.07	0.05	-0.02
Estonia	27.5	37.2	1.37	1.08	-0.29
Czech Republic	26.6	43.9	1.03	0.18	-0.85
United Kingdom	26.3	30.9	0.02	-0.09	-0.11
Denmark	25.2	35.4	0.22	0.06	-0.16
Iceland	21.6	33.1	-0.59	-0.22	0.36
Australia	20.8	27.9	-0.78	-0.94	-0.16
Korea	20.6	23.3	-0.36	0.31	0.67
Israel	20.3	22.7	0.24	0.20	-0.05
Mexico	20.1	20.1	0.39	0.39	0.00
United States	18.8	29.8	0.33	0.16	-0.17
Ireland	17.9	33.2	0.25	0.30	0.05
Poland	17.7	35.6	2.62	-0.17	-2.79
Luxembourg	17.3	38.4	0.23	0.20	-0.03
Canada	11.6	30.5	-0.45	-0.35	0.10
Switzerland	9.9	22.3	0.12	0.07	-0.04
Chile	7.0	7.0	0.00	0.04	0.04
New Zealand	3.5	18.8	1.55	0.34	-1.22
Unweighted average					
OECD Average	26.4	36.0	-0.07	-0.11	-0.03