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Size and distributional pattern of pension- related tax expenditures in European countries

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PENSIONES

Un millón de pensionistas tendrán entre 300 y 1.300 euros más por la exención del IRPF

Un jubilado que cobre una pensión de 1.000 euros se ahorrará casi 600 euros al año en el pago de este impuesto y contará con 40 euros más cada mes



Our contributions:

- We use the **EUROMOD microsimulation model** to measure TEs. This allows defining a "neutral" benchmark to measure TEs allowing cross-country assessment. We focus on Pillar II (occupational) and Pillar III (private schemes).
- We find that pension TEs can represent between 5% of PIT revenue gains and 20% PIT revenue losses in the EU.
- We show significant redistributive effects among pensioners and among the working age alike.
- Lifetime effects can also be substantial, with pension TEs representing more than 3% of gross income in some cases.

Measuring pension TEs

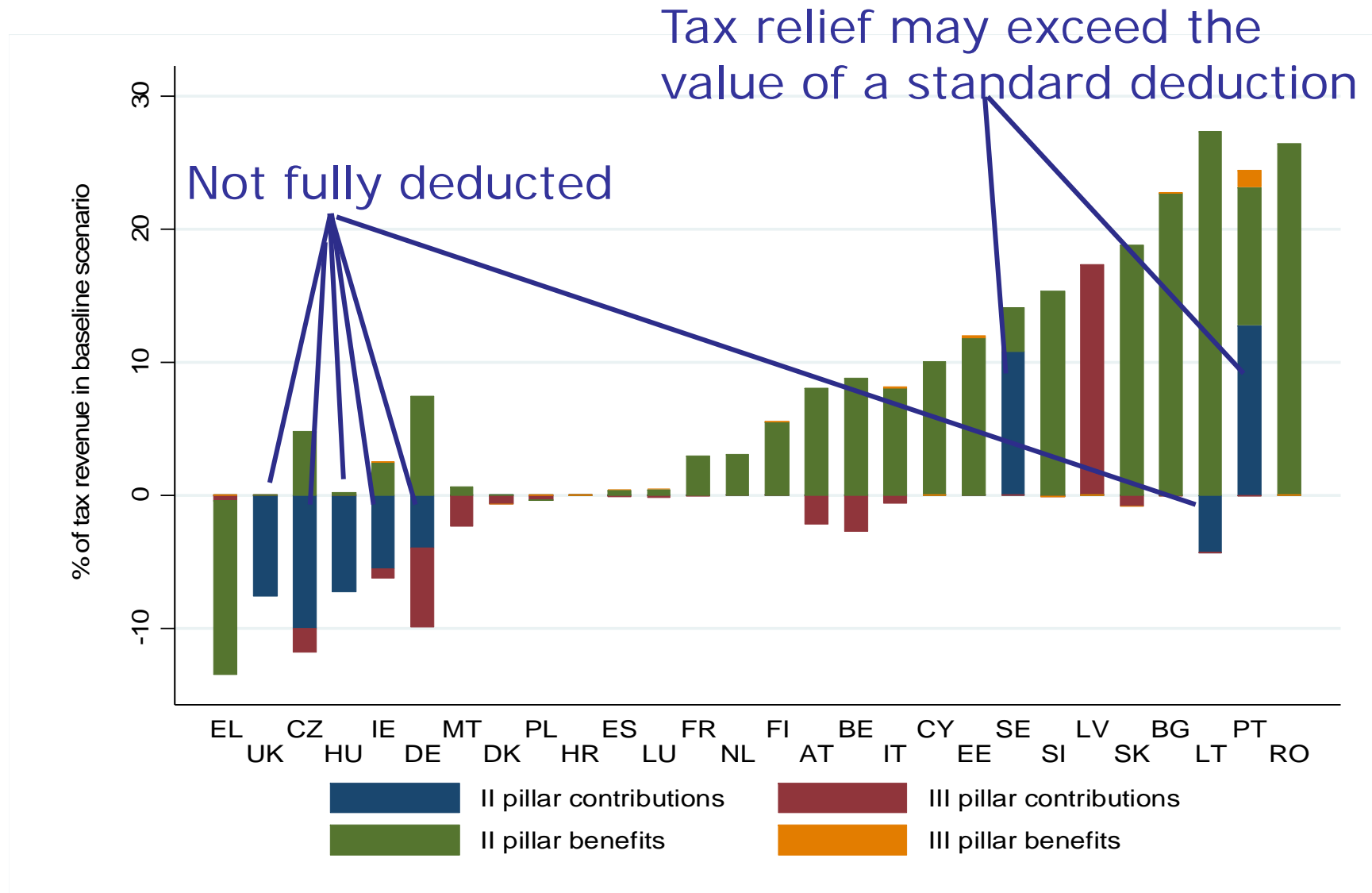
- Tax expenditures are departures from a benchmark tax system granted to specific categories of individuals which aim at achieving social and economic goals, Kalyva et al. (2016).
- But TEs are not transparent & politically difficult to reform (Tyson, 2014).
- Using a microsimulation model allows us to:
 - Use common approach to define gross incomes and benchmark system for a given baseline (i.e. actual systems).
 - To account for interactions between pensions and the entire tax and social benefits system.

Measuring pension TEs

- TEs affect pension at three stages: contributions, investment income, benefits.
- We adopt **EET** benchmark: **Exempted** contributions, **Exempted** investment income, **Taxed** benefits.
- EET preferred over alternative benchmarks because:
 - Equivalent to a consumption tax (Mirrlees Review).
 - Closer to actual systems in most EU countries.
- In our analysis all estimated TEs are measured as departure from the EET benchmark.
- We also provide results with alternative benchmark for comparison

Pension-related TEs – Tax revenue impact

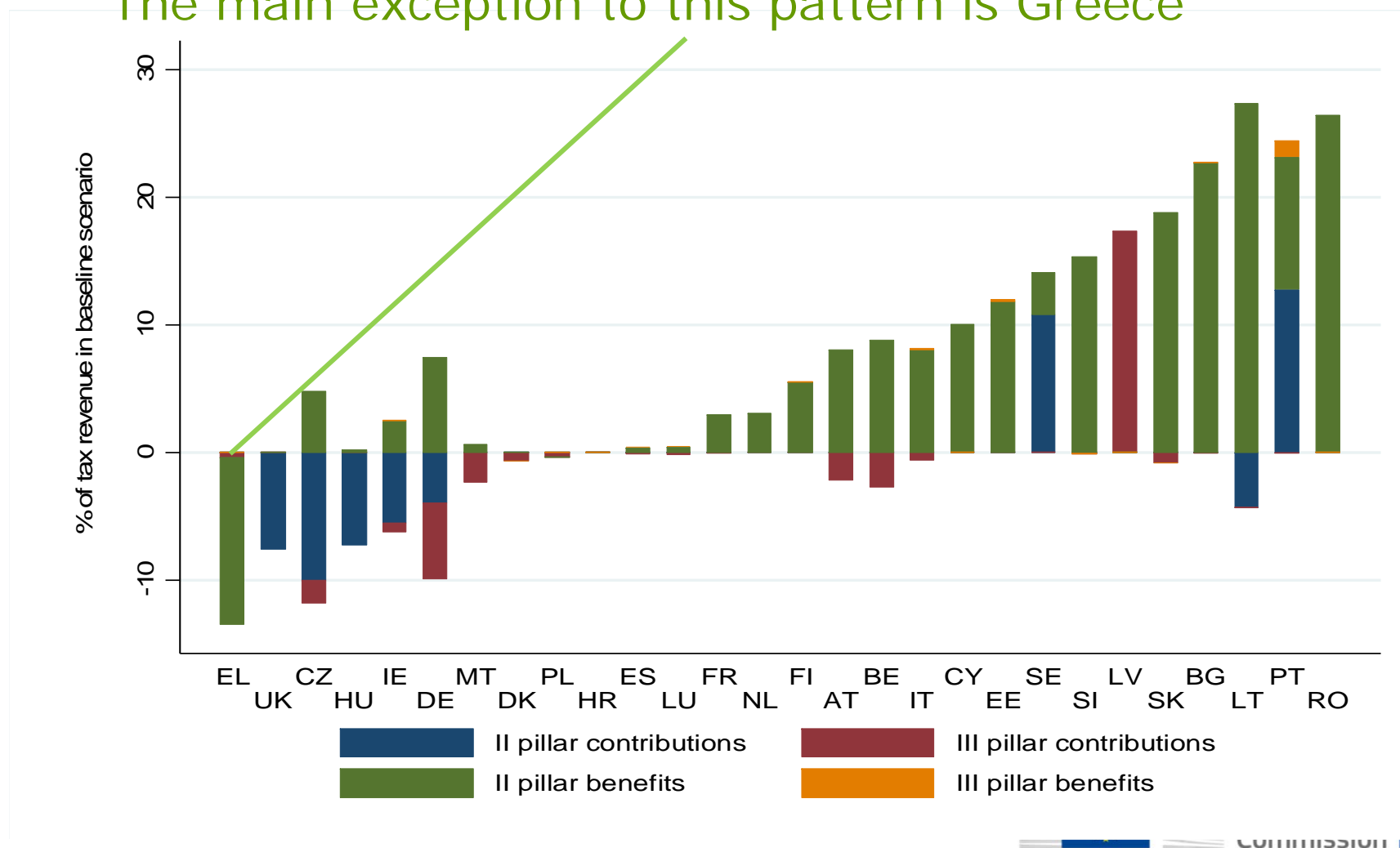
Pillar II contributions fully exempted in 19 countries



Pension-related TEs – Tax revenue impact

Pillar II benefits subject to tax reliefs in most other countries and fully exempted from income tax in LT, BG and SI.

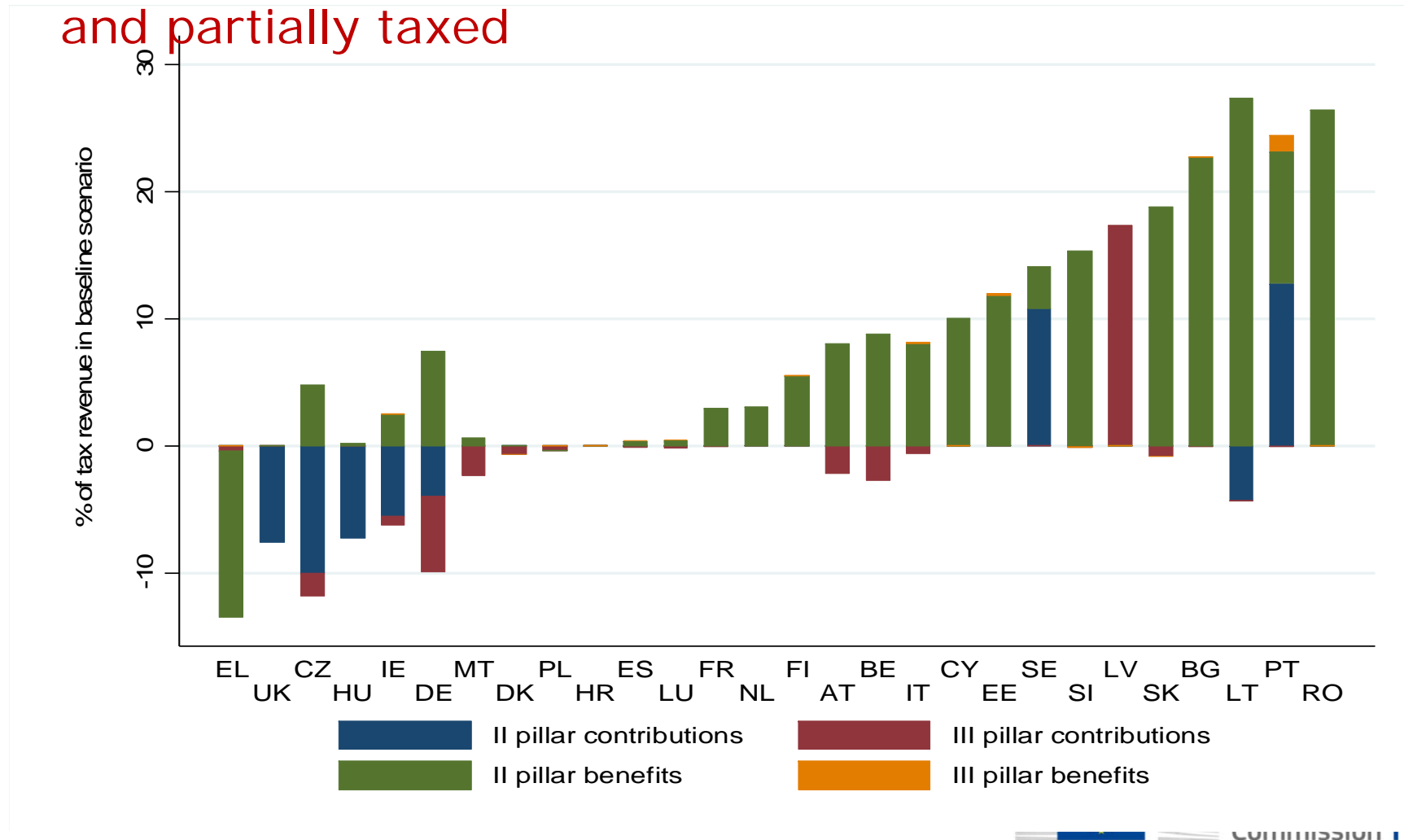
The main exception to this pattern is Greece



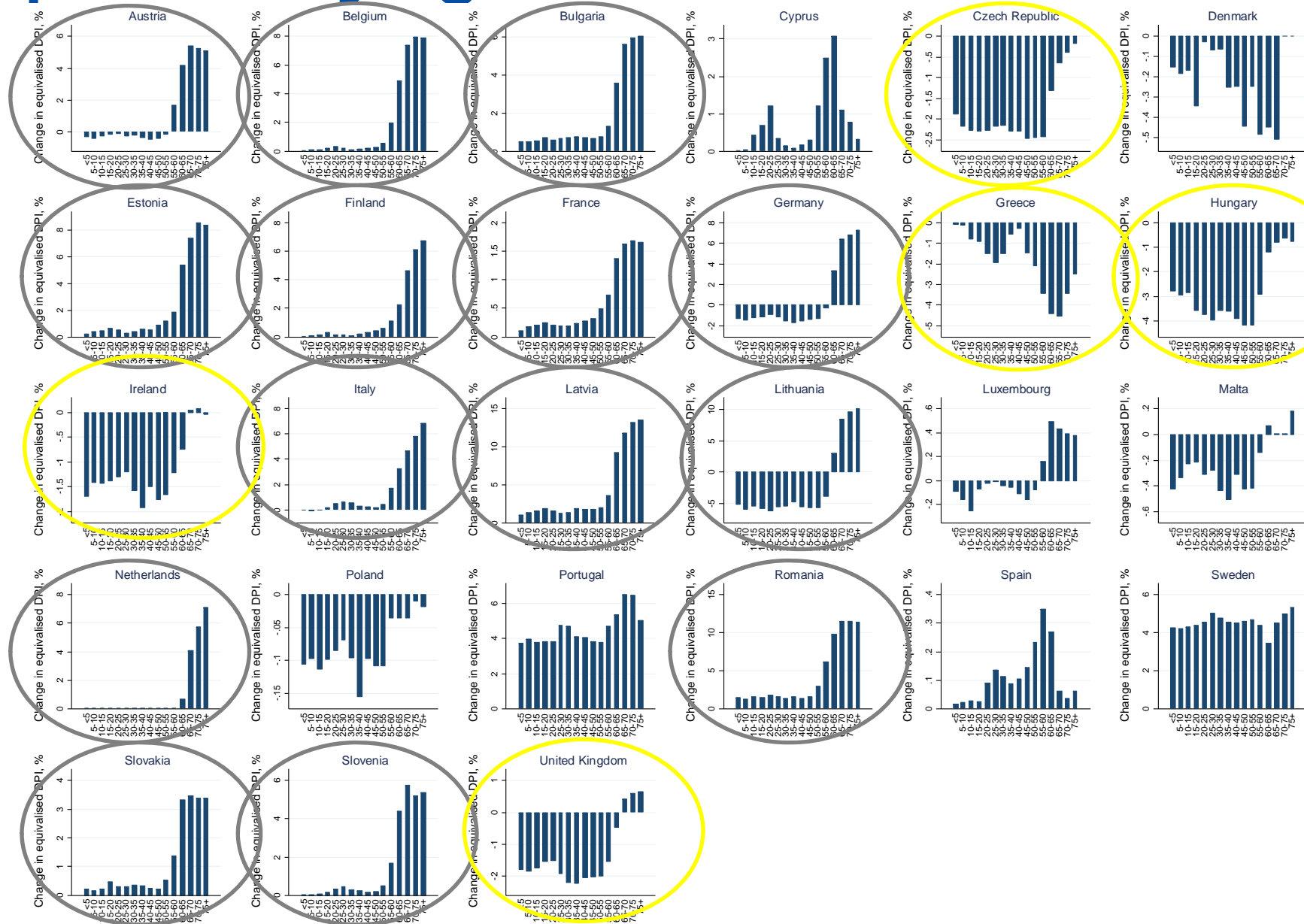
Pension-related TEs – Tax revenue impact

Pillar II pension benefits often subject to lower taxation

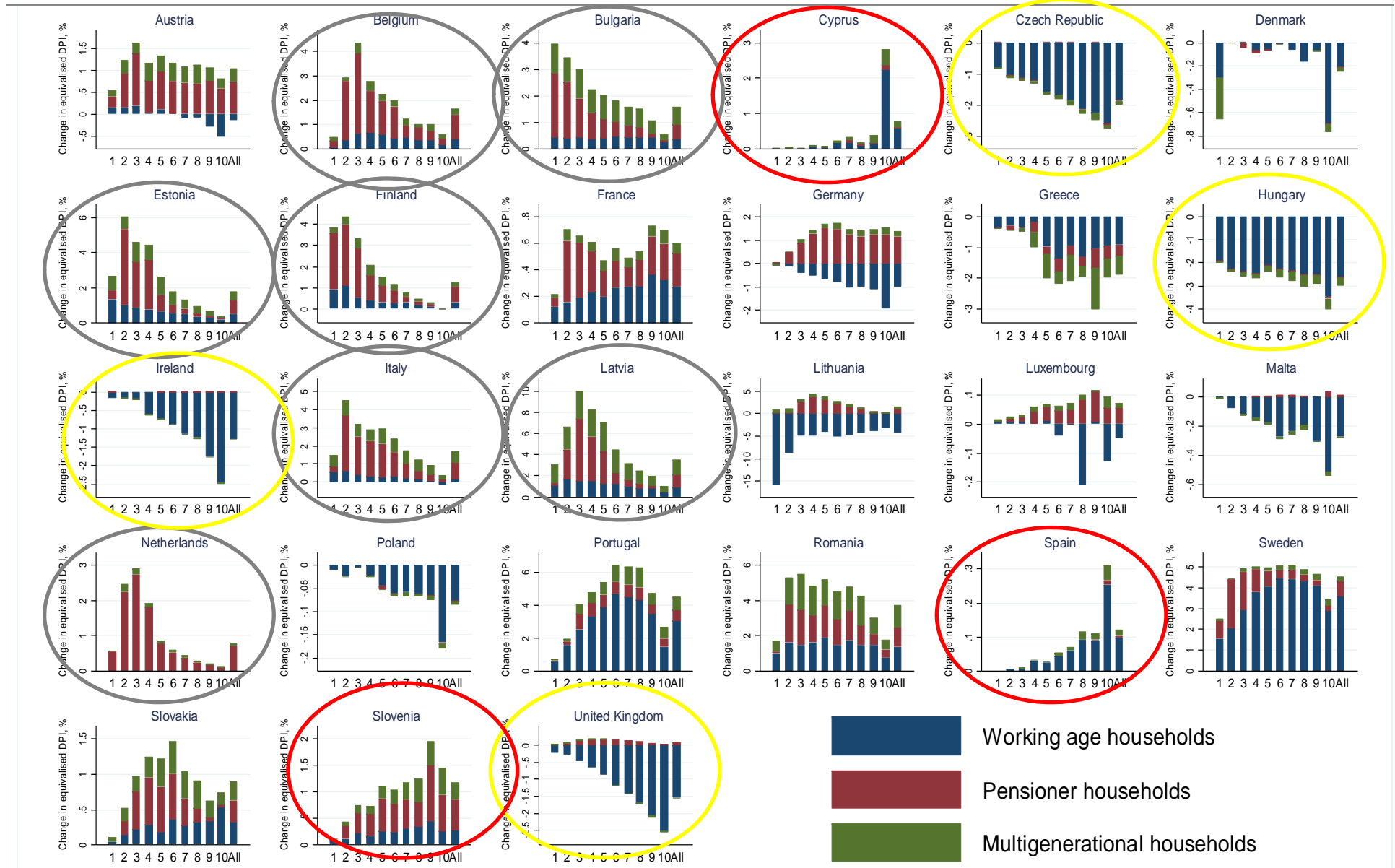
Pillar III contributions often not fully deducted and partially taxed



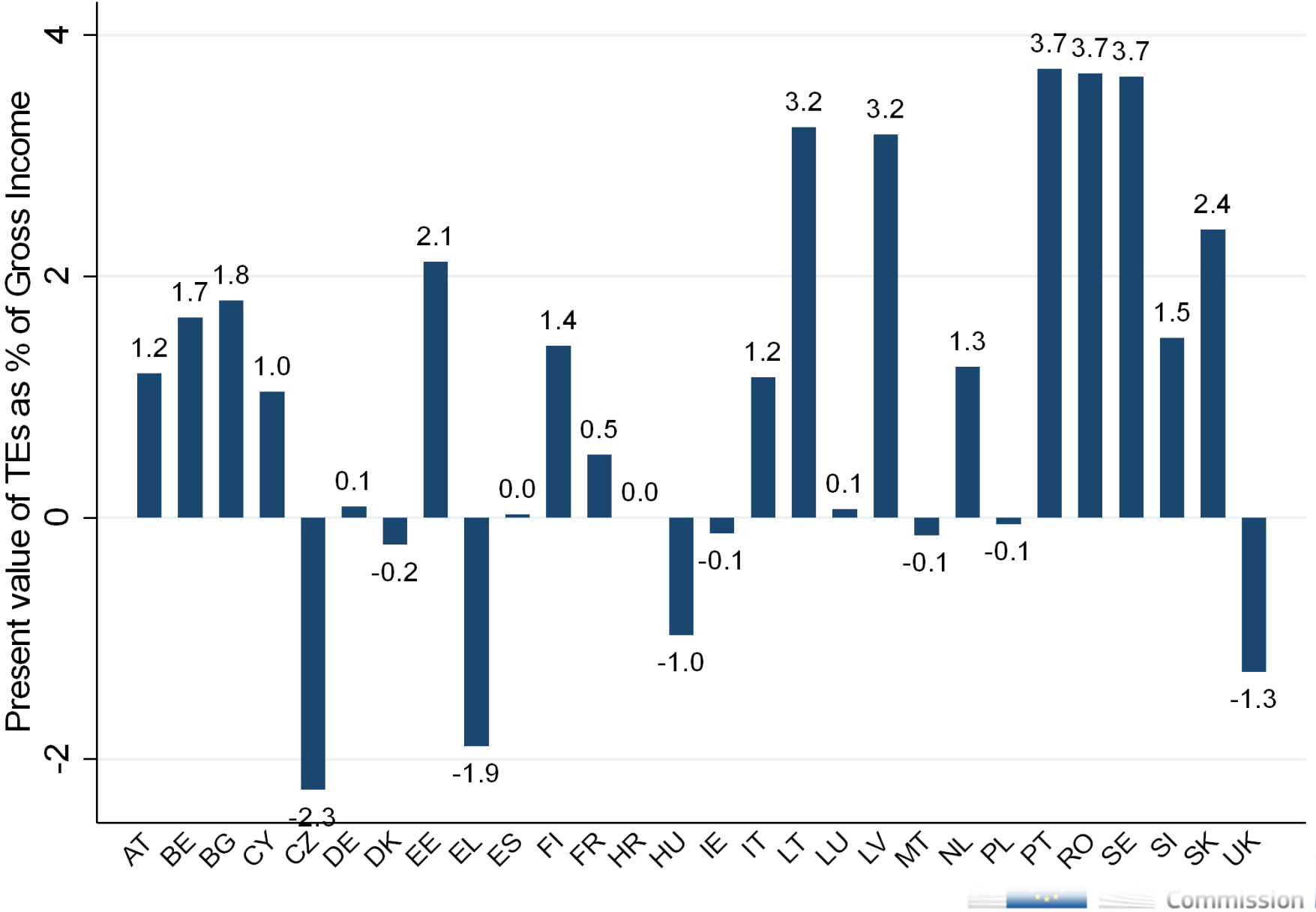
Pension-related TEs: distributional pattern by age



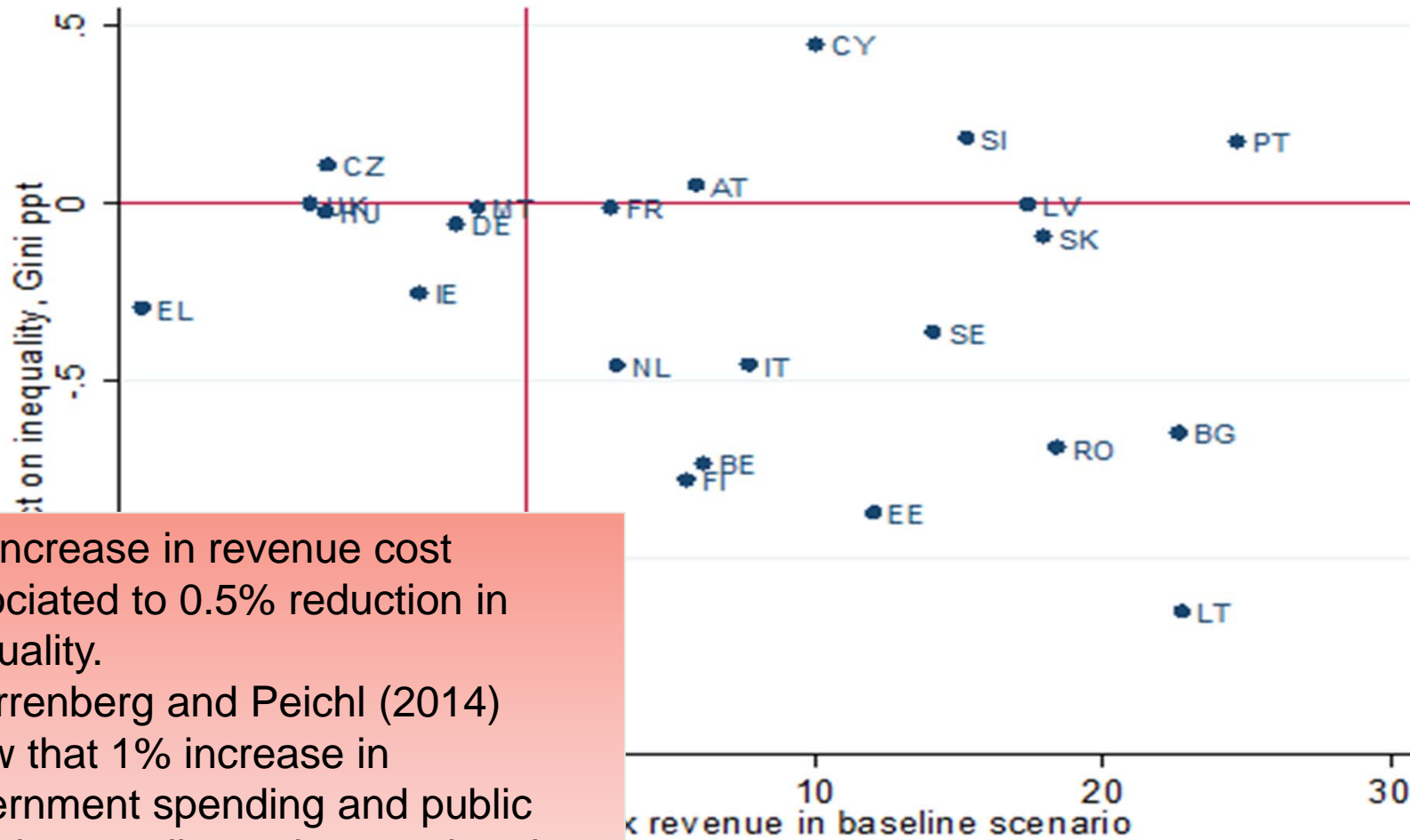
Pension-related TEs: distributional pattern by income level and HH type



Life-time impact of pension TEs



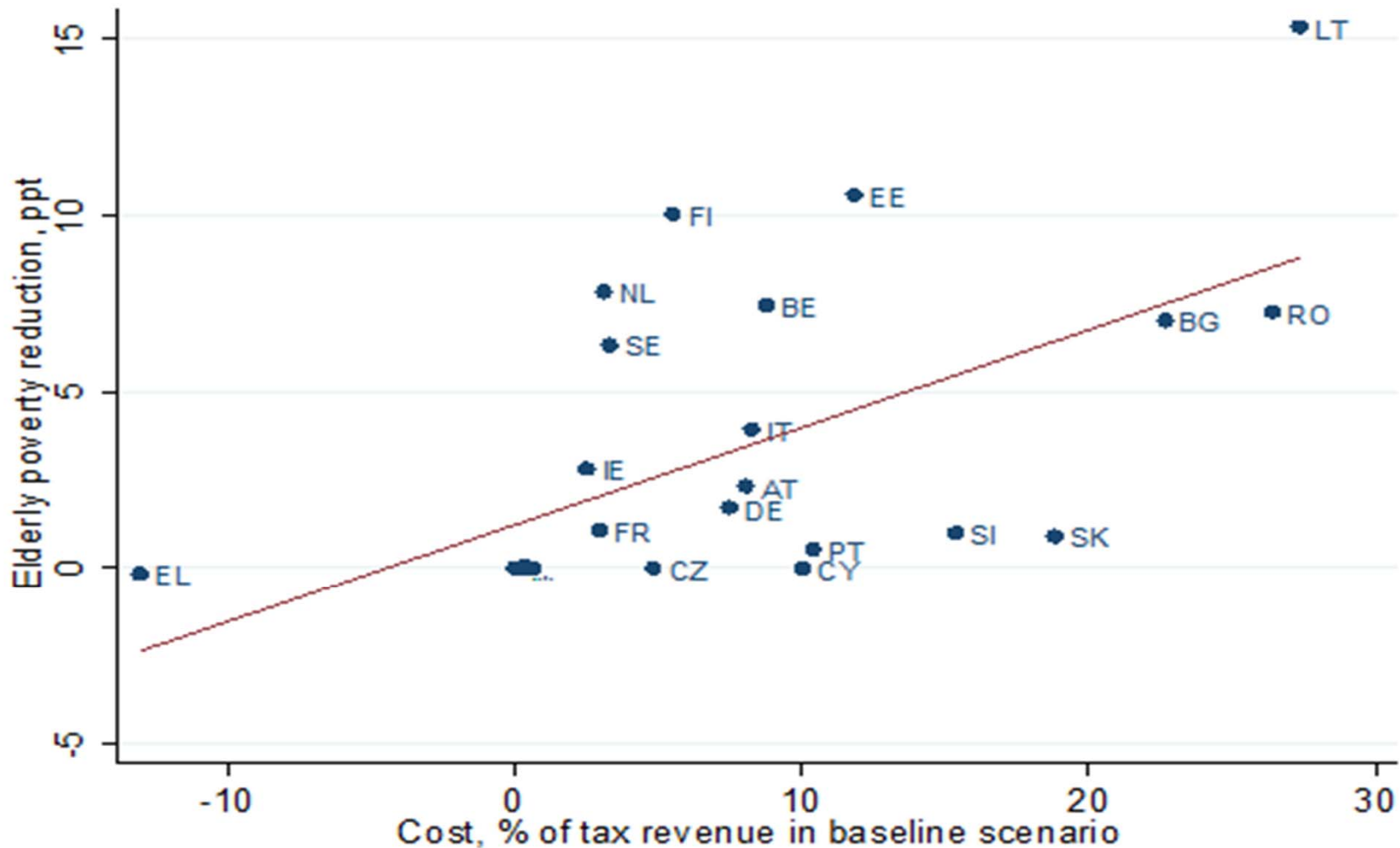
Pension-related TEs: fiscal cost and effect on inequality



1% increase in revenue cost associated to 0.5% reduction in inequality.

Doerrenberg and Peichl (2014) show that 1% increase in government spending and public social expenditures is associated to 0.3% and 0.2% drop in inequality

Effectiveness of pension-related TEs in addressing elderly poverty rates



Conclusions and extensions

- Impact of pension-related TEs on tax revenues and on income inequalities are sizeable.
- The budgetary and equity impact of the pension-related TEs is clearly differentiated across countries.
- Our approach make it possible to analyse interaction between entire tax systems and pension-specific treatment.

Limitations/extensions:

- No behavioural assumption made (retirement age, savings and labour supply).
- Extension to analyse for the ditributional impact across generations accounting for economy-wide effects (savings/investment).

Thank you !

Pension systems across EU countries: contribution rates vs. net replacement rates

