

Tax reform: payroll tax developments (2/29/17)

The government has finally approved the extensive amendments to the Personal Income Tax Act and to the National Social Insurance Act it presented to Parliament on 13 July 2017. This article explores some of these amendments.

Social insurance

Employees and employers are affected by changes that involve raising the total rate of national social insurance (NSI) contributions to 35.09%, split between employee and employer as 11% and 24.09% respectively. The rise of one percentage point will go into the national core budget for health care provision, not into the special budget. Accordingly, an employee paying NSI contributions will be insured for free national health services. The final decision is pending, however, on the availability of health services to non-contributors and any individuals unable to contribute for objective reasons (such as children and non-working pensioners).

Traders and their future pension provision will be affected by an important change. According to the Finance Ministry and the State Revenue Service, the 4th quarter of 2016 saw 10,330 self-employed persons earning more than the national minimum wage but contributing on the minimum. To provide them with a decent pension, there are plans to require that the self-employed should contribute 5% to any of the 3rd pillar pension plans on the difference between their actual income and the national minimum wage (i.e. the excess).

This requirement will also apply to 85,238 self-employed persons who aren't contributing because their income falls short of the national minimum wage. An exemption from contributing 5% to the 3rd pension pillar will be available to individuals earning up to €50 a year.

Royalty recipients will also be affected by an important change, as the persons paying royalties will be required to contribute 5% to the 3rd pension pillar out of their own funds.

To make these amendments work together, a proposal for amending the Personal Income Tax (PIT) Act caps the taxpayer's total allowable expense at €4,000 in addition to the percentage cap (20% of annual taxable income). This amendment aims to prevent taxpayers from claiming a PIT deduction on large contributions to pension plans.

Income tax

The adoption of progressive income tax is the most important amendment to the PIT Act:

- a 20% PIT on incomes of up to €20,000 a year (€1,667 a month);
- a 23% PIT on €20,001–55,000 a year; and
- a 31.4% PIT on any slice over and above €55,000 a year.

So an individual earning €60,000 will attract a 20% PIT on the first €20,000, a 23% PIT on the next €35,000, and a 31.4% PIT on the last €5,000.

Where a monthly income exceeds €1,667, only a 23% PIT will be deducted by the employer at source.

Once the annual remuneration exceeds €55,000, the individual will be required to calculate a 31.4% PIT and pay the amount due through their annual income tax return on a summary basis.

Other amendments to the PIT Act will be explored soon.