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Statistiska centralbyrån

Borderline cases for salary, social contribution and tax

Workshop
Labour Cost

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Introduction

- Sometimes it is a borderline of what should be considered as salary, social contribution and tax
- National accounts (NA) in Sweden made a stricter interpretation of the classification of social contribution vs tax when ESA 2010 was introduced in 2014
- LCS have not changed the definition and need to consider what to do for LCS2016



Social contributions and taxes in Sweden

- Background

- Social contributions were introduced in Sweden in 1960 and were a small percentage of the employees gross salary
- Increased and is more that 30% since 1970s
- Social contributions is a % fee on the gross salary for employees
- Pays as a total amount to the tax office

Statutory social contributions on the gross salary in %, 2000-2012

Year	2000	2004	2008	2012
Statutory social contributions %	32.92	32.70	32.42	31.42



Statutory social contributions

- The social contributions consist of various parts specified for the social security welfare system

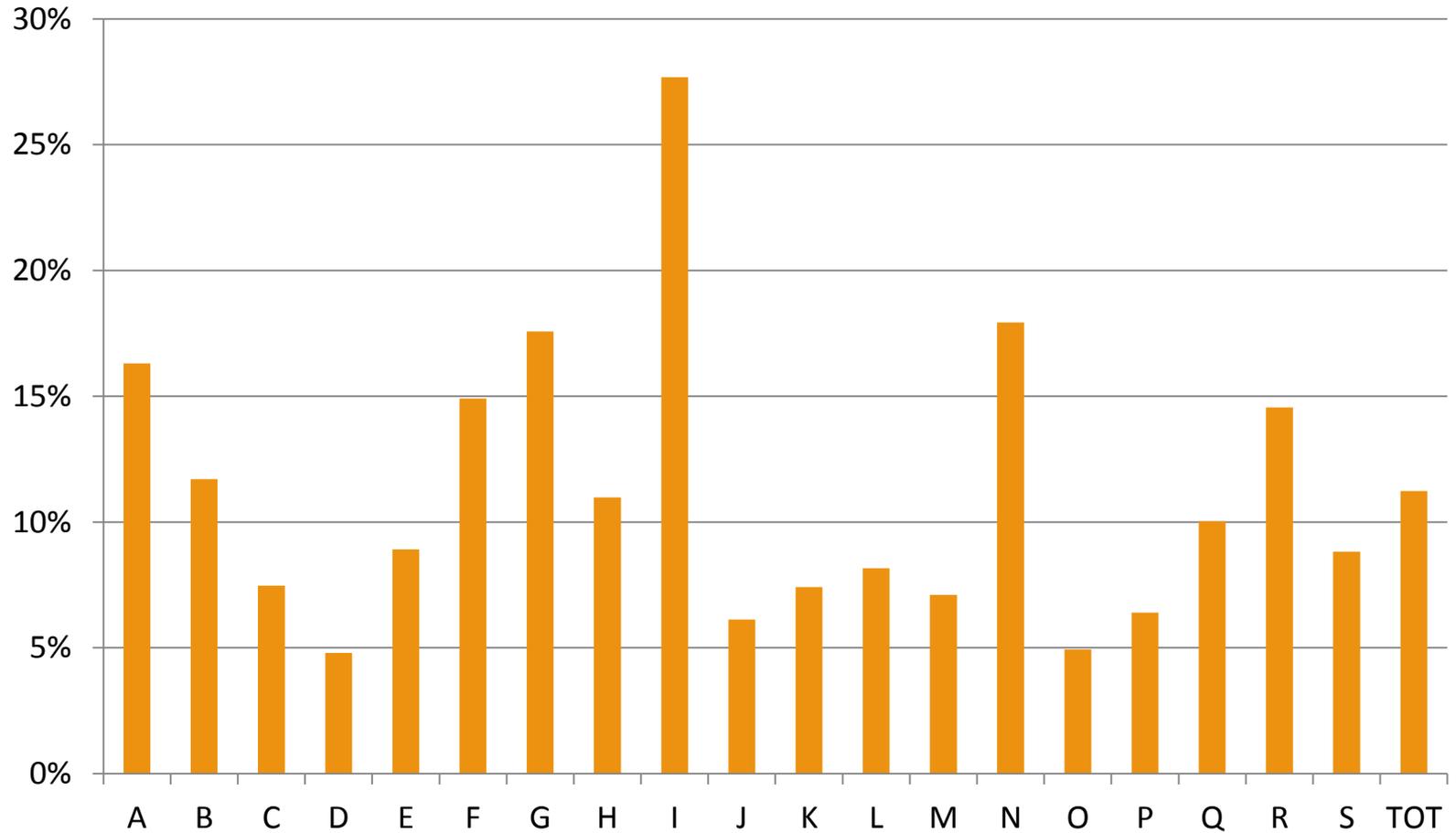
Employers' social security contributions required by law	2012 > 26 years	2012 < 26 years
Pension contribution	10.21 %	10.21 %
Survivor's pension	1.17 %	
Sickness insurance	5.02 %	
Parental insurance	2.60 %	
Occupational injury	0.30 %	
Labour market contribution	2.91 %	
General wage fee	9.21 %	
Total	31.42 %	15.49 %



Share of employees between 18-26 years old, by NACE



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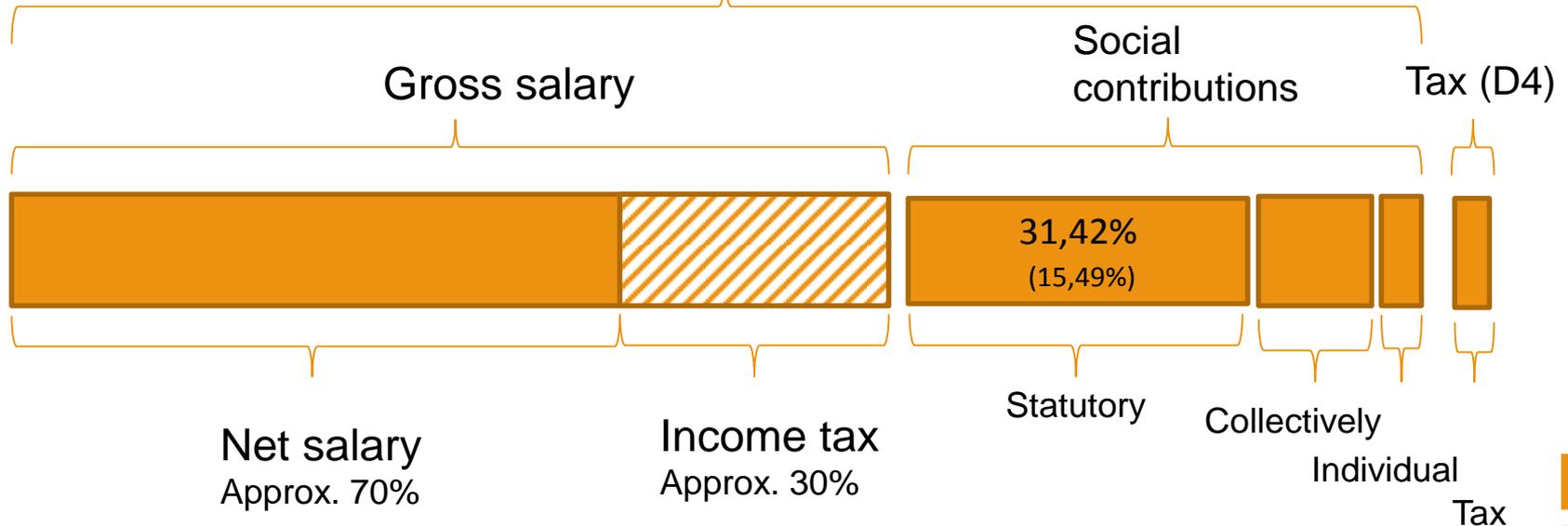


What does an employer pay more than salary to the employees?



Compensation to employees (D1)

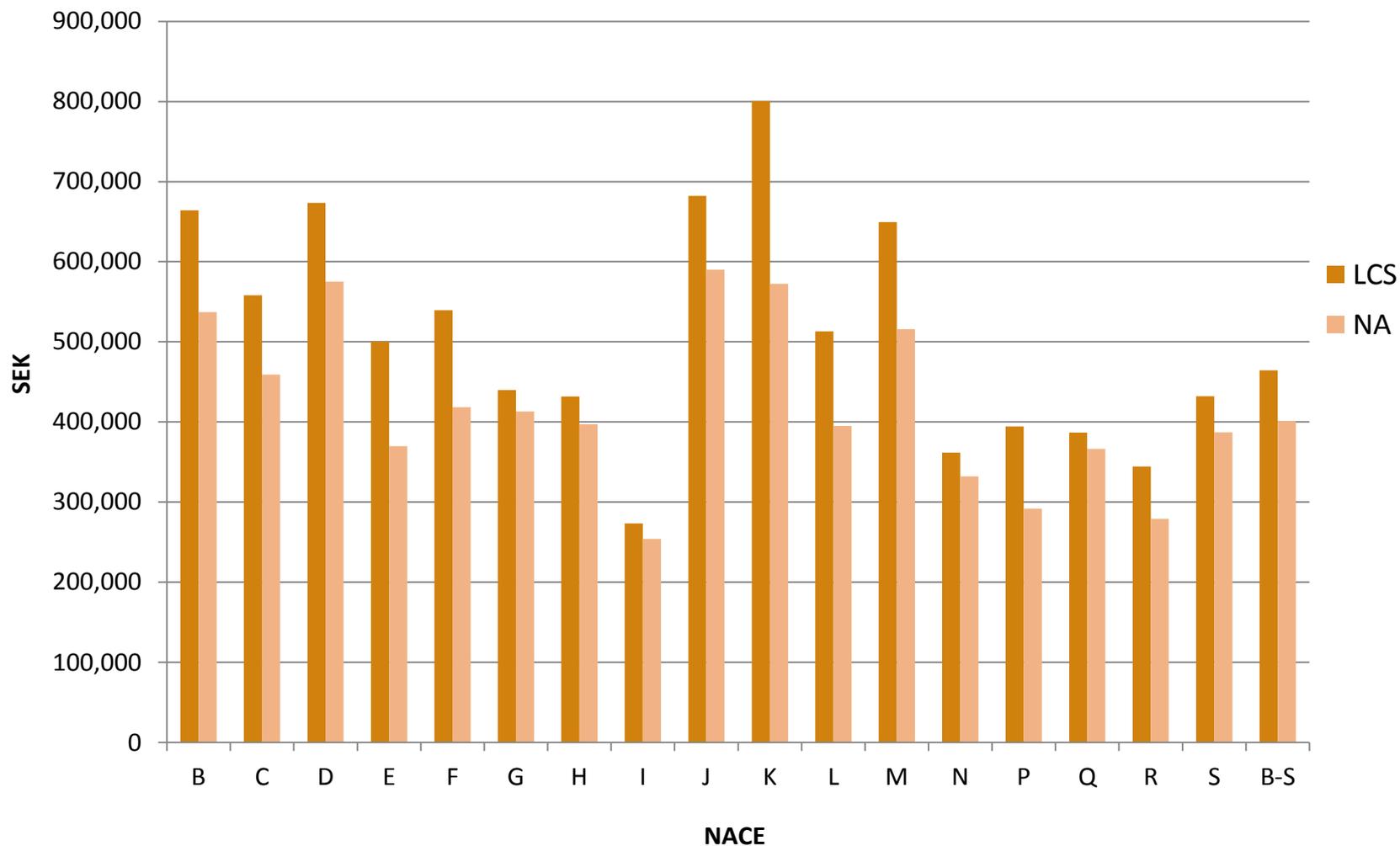
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Compensation per employee 2012 in LCS vs NA (D1/A1)



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Statutory contributions and tax

Statutory social contributions and taxes	2012	Social contributions vs tax in LCS	Social contributions vs tax in NA
Pension contribution	10.21 %	D1	D1
Survivor's pension	1.17 %	D1	D4
Sickness insurance	5.02 %	D1	D4
Parental insurance	2.60 %	D1	D4
Occupational injury	0.30 %	D1	D4
Labour market contribution	2.91 %	D1	D4
General wage fee	9.21 %	D1	D4
Total	31.42 %		
Special wage tax ¹	ca 1-3 %	D4	D4

21,21 %

^[1] Special wage tax is 24,26 % of pension costs

- Reason for NA to classify more as tax is that the items are not 100% earmarked, some are over financed and some under financed



LCS-questionnaire regarding social contributions and tax



E. Social insurance contributions		SEK thousands	If no cost, please mark!
E.1 Employer contributions according to the law			
E.2 Employer contributions according to contractual agreements	a. Collective agreement benefits		<input type="checkbox"/>
	b. Individual contract benefits		<input type="checkbox"/>
	c. Other social insurance		<input type="checkbox"/>
E.3 Special wage tax, etc.			<input type="checkbox"/>

- Consequences if LCS will change definition and move parts of social contributions to tax:
 - Enterprises will have very difficult to separate parts of E1 (accounting recommendation don't separate in this way)
 - One option is to make a model and try to estimate
 - Not comparable with LCS2012
 - More comparable with NA



Borderline social contributions vs tax

- Some say that, since it is "earmarked" funds for various work-related expenses it is not a tax, like funds in event of sickness, pensions, different kinds of insurance and so on.
- In practice, some say that not all money is used for this and therefore it can be considered as tax instead of social contributions.
- Are there similar borderline cases and discussions in you countries?



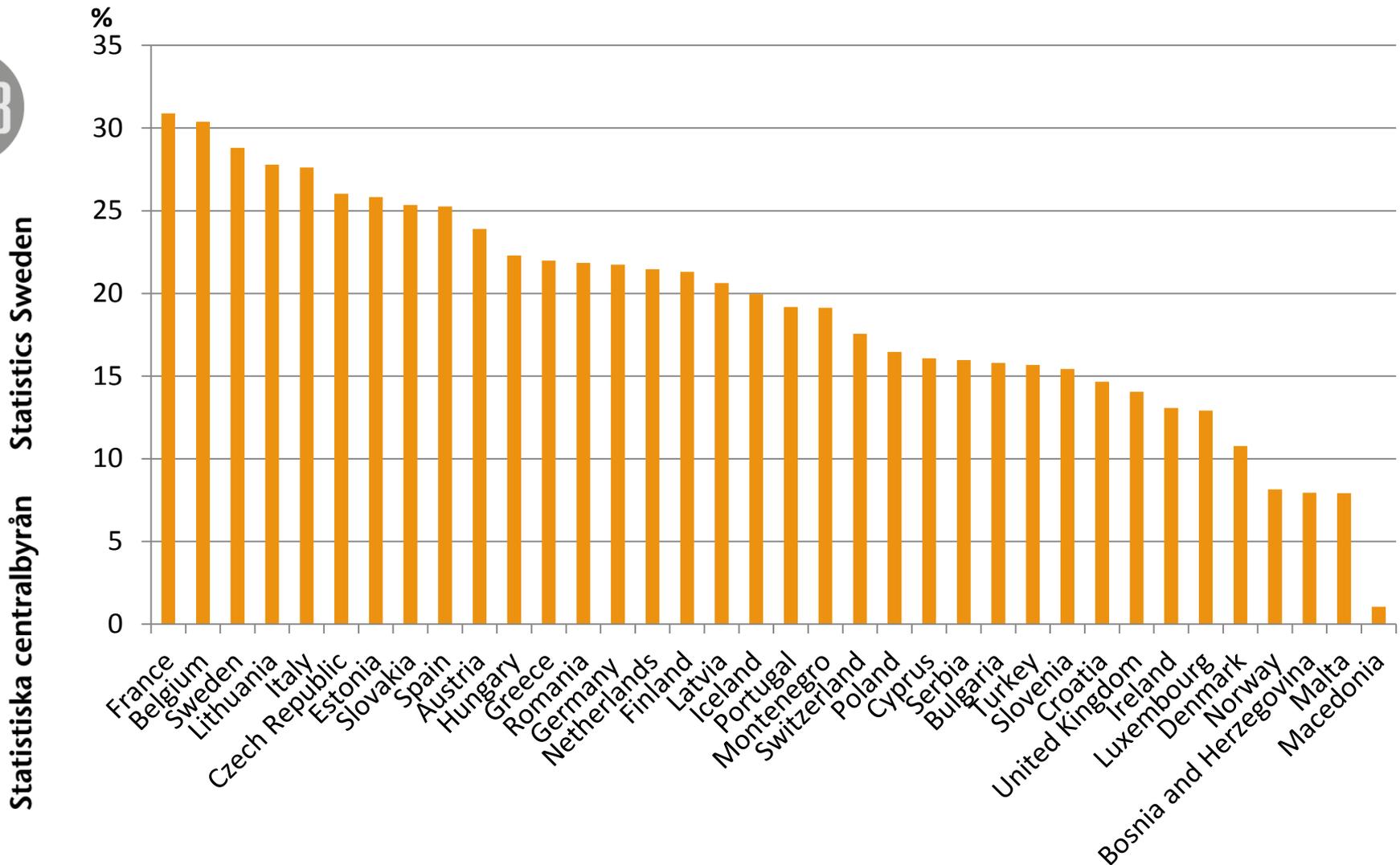
GEO/LCSTRUCT	D11 - Wages and salaries	D12 - Employers' social contributions	D4 - Taxes
France	65,37	30,89	2,30
Belgium	72,20	30,38	0,06
Sweden	68,22	28,80	1,58
Lithuania	72,02	27,78	0,13
Italy	72,02	27,62	0,00
Czech Republic	73,22	26,03	0,01
Estonia	73,39	25,82	:
Slovakia	74,19	25,35	0,01
Spain	74,07	25,26	:
Austria	73,73	23,89	2,21
Hungary	75,26	22,29	:
Greece	77,97	21,98	0,05
Romania	77,29	21,84	:
Germany	77,76	21,73	0,05
Netherlands	76,15	21,46	0,06
Finland	77,84	21,31	:
Latvia	79,18	20,62	0,04
Iceland	79,30	19,96	0,74
Portugal	80,38	19,17	:
Montenegro	79,82	19,13	1,35
Switzerland	79,04	17,56	:
Poland	81,67	16,46	:
Cyprus	83,35	16,08	0,23
Serbia	84,50	15,97	:
Bulgaria	84,32	15,80	0,05
Turkey	83,81	15,67	0,01
Slovenia	84,27	15,42	0,14
Croatia	85,08	14,65	:
United Kingdom	83,64	14,06	:
Ireland	86,37	13,06	:
Luxembourg	86,27	12,91	:
Denmark	86,92	10,76	1,44
Norway	81,88	8,15	10,76
Bosnia and Herzegovina	91,63	7,95	:
Malta	93,07	7,91	:
Macedonia	94,50	1,05	1,82

Tax share of Total Labour cost

%	Countries	No.
10 % <	Norway	1
2-3 %	France, Austria	2
1-2 %	Macedonia, Sweden, Denmark, Montenegro	4
0-1 %	Iceland, Cyprus, Slovenia, Lithuania, Netherlands, Belgium, Greece, Germany, Bulgaria, Latvia, Turkey, Slovakia, Czech Republic, Italy	14
0 = No Tax	United Kingdom, Switzerland, Spain, Serbia, Romania, Portugal, Poland, Malta, Luxembourg, Ireland, Hungary, Finland, Estonia, Croatia, Bosnia and Herzegovina	15



D12 - Employers' social contributions



- Are all the social contributions 'earmarked' for work-related expenses or can some parts be considered as tax?

Another example: Pension cost for former employees not working anymore

- Some enterprises in Sweden pays pensions to persons who were employed by the enterprise, but now are retired. It is a cost for the enterprise, but not for the present employees.
- Should this cost be included? Where should it be included?



Another example: Sick pay - Salary or social contributions?

■ **Payment in event of sickness**

- Enterprises in Sweden record sick payment as salary and it is part of the gross salary in the accounting.
- By law the enterprises pay 80 % of the salary to the employees, sick day 2-14. (Salary is not paid for first day of sickness.) This 'salary' is considered as social contribution in LCS.
- After 14 days of sick leave the Health insurance found pays the employee and the employer don't have any costs for that person.
- Sometimes the enterprises only have information about the amount of salary that have been reduced, not the sick pay. This can be tricky to calculate.
- To not confuse the respondents the sick pay is asked for as a salary, but are transferred to social contribution when reporting LCS to Eurostat.



Another example: Payment for parental leave - Salary or social contributions?

■ **Payment from parental leave**

- Parents get 80 % from the Health insurance fund when they are on parental leave.
- The enterprises have no cost for them, but it is common that the company pays additional 10 % of agreed salary to persons that are on parental leave because of collective agreements. Sweden have collected this cost together with payment for sickness and transferred to the socials contributions in LCS.



Some questions to consider:

- Are there similar borderline cases and discussions in you countries?
- Are all the social contributions 'earmarked' for work-related expresses or can some parts be considered as tax?

Thank you!

