Case Studies in Merging the Administrations of Social Security Contribution and Taxation

Prepared by:
Effrosyni Bakirtzi, LL.M.
Researcher, Institute of Social Law
K.U. Leuven (Catholic University of Leuven)

Under the supervision of:
Dr. Paul Schoukens
Professor of Social Security Law
K.U. Leuven, and General Coordinator,
European Institute of Social Security

Dr. Danny Pieters
Professor of Social Security Law
K.U. Leuven, and Secretary General,
European Institute of Social Security

Collaborating Across Boundaries Series

IBM Center for The Business of Government
Case Studies in Merging the Administrations of Social Security Contribution and Taxation

Prepared by:

**Effrosyni Bakirtzi, LL.M.**  
Researcher, Institute of Social Law  
K.U. Leuven (Catholic University of Leuven)

Under the supervision of:  

**Dr. Paul Schoukens**  
Professor of Social Security Law  
K.U. Leuven, and General Coordinator, European Institute of Social Security

**Dr. Danny Pieters**  
Professor of Social Security Law  
K.U. Leuven, and Secretary General, European Institute of Social Security

Research carried out by the European Institute of Social Security (EISS)
# Table of Contents

Foreword ............................................................................................................. 6

Executive Summary ............................................................................................ 8

1. Introduction ...................................................................................................... 16
   1.1 Preliminary research note ................................................................. 16
   1.2 Scope of the research ........................................................................... 17
   1.3 Key concepts for the purposes of the research: where do they entail? 18
   1.4 Administration of social security/administration of taxation: .......... 19
   1.5 Merger/Unification/Integration ......................................................... 20
   1.6 Research question .............................................................................. 20

2. Structure of the report .................................................................................... 22
   2.1 General ............................................................................................... 22
   2.2 Acknowledgments .............................................................................. 22

3. Country reports ............................................................................................ 23
   3.1 Estonia ............................................................................................... 23
      3.1.1 Introduction ................................................................................. 23
      3.1.2 Financing of social security ....................................................... 23
      3.1.3 Collection methods ..................................................................... 25
      3.1.4 Record-keeping and data exchanges ......................................... 29
      3.1.5 Control and recovery of overdue payments .............................. 31
      3.1.6 The merger process ................................................................. 31
   3.2 Hungary ............................................................................................... 36
      3.2.1 Introduction ................................................................................. 36
      3.2.2 Financing of social security ....................................................... 37
      3.2.3 Collection methods ..................................................................... 39
      3.2.4 Record-keeping and data exchanges ......................................... 44
      3.2.5 Control and recovery of overdue payments .............................. 46
      3.2.6 The merger process ................................................................. 46
   3.3 Italy ....................................................................................................... 50
      3.3.1 Introduction ................................................................................. 50
      3.3.2 Financing of social security ....................................................... 50
      3.3.3 Collection methods ..................................................................... 51
      3.3.4 Record-keeping and data exchanges ......................................... 55
      3.3.5 Control and recovery of overdue payments .............................. 56
      3.3.6 The merger process ................................................................. 56
   3.4 Netherlands .......................................................................................... 59
      3.4.1 Introduction ................................................................................. 59
      3.4.2 Financing of social security ....................................................... 60
      3.4.3 Collection methods ..................................................................... 61
      3.4.4 Record-keeping and data exchanges ......................................... 67
      3.4.5 Control and recovery of overdue payments .............................. 67
      3.4.6 The merger process ................................................................. 68
   3.5 The United Kingdom ............................................................................. 72
      3.5.1 Introduction ................................................................................. 72
      3.5.2 Financing of social security ....................................................... 72
# TABLE OF CONTENTS

3.5.3 Collection methods .......................................................... 74
3.5.4 Record-keeping and data exchanges .................................. 76
3.5.5 Control and recovery of overdue payments ....................... 77
3.5.6 The merger process .......................................................... 78

4. The distinct social security administration functions ............... 84
   4.1 Reforms leading to the merger ......................................... 84
   4.2 Administrative structure of the social security contribution  
      and tax collection .......................................................... 85
   4.3 Administrative functions relating to the collection ............ 86
      4.3.1 Registration ............................................................ 86
      4.3.2 Accounting and reporting ........................................ 87
      4.3.3 Collection of social security contributions and taxes .... 88
      4.3.4 Control of the collection process ............................... 89
      4.3.5 Individual and general records ................................. 89
      4.3.6 Settlement of claims ............................................... 90
      4.3.7 Transfer of social security contribution revenues .......... 91
   4.4 Design of the merger ..................................................... 92
      4.4.1 Persons liable to pay social security contributions 
      and taxes ...................................................................... 93
      4.4.2 Definition of income ................................................ 93
      4.4.3 Same calculation periods ......................................... 94
      4.4.4 Employer’s and employee’s share to the levies .......... 95
      4.4.5 Rates of the levies .................................................... 95
      4.4.6 Privacy of personal data .......................................... 95
   4.5 Implementation of the merger ........................................... 96
      4.5.1 Creation of appropriate environment .......................... 96
      4.5.2 Preliminary steps before the implementation .............. 97
      4.5.3 Harmonization of the national legislation .................. 97

5. The benefits of merging social security and tax collection  
   administrations ................................................................. 98
   5.1 Registration ..................................................................... 98
   5.2 Accounting and reporting .............................................. 99
   5.3 Collection ....................................................................... 100
   5.4 Control .......................................................................... 101
   5.5 Transfer of the collected revenues ................................ 101
   5.6 Overall .......................................................................... 102

6. Consequences of the merger in general .................................. 103
   6.1 Impact of the merger on existing facilities and 
      administrative personnel .............................................. 103
   6.2 Simplification and harmonization of tax and social 
      security rules .................................................................. 103
   6.3 Commonality of core processes ..................................... 104
   6.4 Increased efficiency of the collection system .................. 104
   6.5 Smooth introduction of the mandatory social security 
      schemes ......................................................................... 104
6.6 Lower governmental administrative costs ........................................... 104
6.7 Distinction of competencies ............................................................... 105
6.8 Effective compliance system .............................................................. 105

7. Obstacles and problems faced when merging social security
   contribution and tax collection ............................................................ 106

8. Annexes ............................................................................................. 108
   Annex I: Financing of health care in the Netherlands ...................... 108
   Annex II: Useful websites — Country specific ..................................... 109
   Annex III: List of abbreviations ............................................................ 112
   Annex IV: Research Questionnaire ...................................................... 115

References ............................................................................................... 117

About the Authors .................................................................................. 120

Key Contact Information ......................................................................... 122
CASE STUDIES IN MERGING THE ADMINISTRATIONS OF SOCIAL SECURITY CONTRIBUTION AND TAXATION

FOREWORD

On behalf of the European Institute for Social Security and The IBM Center for The Business of Government, we are pleased to present this report *Case Studies in Merging the Administrations of Social Security Contribution and Taxation* by Effrosyni Bakirtzi, Prof. Paul Schoukens and Prof. Danny Pieters. The findings of this research project were presented at the 12th IBM International Social Security Forum on 4th and 5th October 2010 in Vienna, Austria.

As was discussed in the aforementioned Forum, nothing is stable in social security and, thus, the social security structures and financing mechanisms are constantly evolving. Therefore, governments may need to adapt these structures and mechanisms to the new circumstances, especially those arising after the recent economic downturn. Still remains the question how we can move forward in social security with efficiency and effectiveness with regard to the financing of the social security schemes. An answer to this question could be the far more reaching form of cooperation between social security administration and tax authority in the collection of the social security contributions; this close form of cooperation is the merger of the administrations of social security contributions and taxation.

This report studies the collection systems of five different European countries and gives an overview of the lessons learned from the different practices adopted in this field. These conclusions may help trigger awareness in this particular area of collecting social security contributions. The report may also give an insight for further changes in the national collecting systems of other countries.

This report continues IBM’s long interest in this topic. Several years ago, the IBM Center published *Cooperation Between Social Security and Tax Agencies in Europe* by Bernhard Zaglmayer, Paul Schoukens, and Danny Pieters. In that report, the authors argued that as social policy continues to evolve, governments now may need to look beyond the traditional structures of social security and taxation. That report made a series of important observations about the potential evolution of cooperation between social security and taxation organizations in the years ahead. This new report expands our knowledge on this important topic.
When a change like the merger of the collection functions is implemented in a country, one should always keep in mind the objectives of such a change and put emphasis on the successful cooperation between the administrations and the cost efficiency and effectiveness of the new system. Of course, equally important is to invest both in people and structures during the implementation of the merger in the collecting system of taxes and social security contributions.

Chris Gibbon
Vice President
Global Social Services & Social Security Industry Leader and Global Government Shared Services Leader
IBM UK Limited
chris_gibbon@uk.ibm.com

Jonathan D. Breul
Executive Director
IBM Center for The Business of Government
jonathan.d.breul@us.ibm.com
Although taxes and social security contributions are considered as different systems that serve different purposes, an increasing number of nations have merged the collection of both levies and transferred this competency into the hands of one administrative body. It is argued that merging the administrations of social security contributions and taxation can provide considerable simplification and increase the compliance to the payment obligations. This report summarizes the meaning of the merged collection systems, the process towards this merged collection of taxes and social security contributions and the advantages and disadvantages of such a collection system. This is done in order to give an insight of the situation governing the merged collection in different countries and to help the reader evaluate the consequences of the adoption of such a merged collection system.

Research summary
The report is primarily focused on the financing of the social security systems from social security contributions, either these are traditional employee’s, employer’s and self-employed person’s contributions or alternative forms of financing. The financing of social security via general taxation is excluded from the present research.

The paper also covers one of the aspects of the integration, coordination and interaction between social security and tax authorities in a number of European countries; that is the merger of both the functions of the collection of taxes and the collection of social security contributions into the hands of one institution. The countries selected for this research were:

- countries with a longer standing record with regard to the merger, i.e. the United Kingdom and the Netherlands;
- countries in transition to market economies, such as Hungary and Estonia; and
- countries with a partial merging of collection functions, such as Italy.

This increased interaction between tax and social security administrations is due to the fact that they seem to have many common functions which can be merged for the purposes of simplification of procedures and cost elimination.

As explained in the first chapter of the present report, a merger of the administrations of social security contribution and taxation is a form of centralization of the collection system either by merging procedures or by merging institutions. The level of merging depends upon the number of administrative functions brought together during the transfer of the collection of social security contributions to the tax administration.
Structure of the report

The structure of this report is described in details in chapter 2. The report is divided into two parts:

- The first part (chapter 3) examines the past and current situation of the merged collection system in five different countries maintaining a common structure for all the countries examined.

- The second part (chapters 4–7) provides an overview of some conclusions drawn on the typology and functioning of the merged collection system as well as the obstacles encountered and the benefits expected by merging social security and tax collection administrations.

Summary of country reports

Estonia

Estonia has recently undergone important changes in the field of social security. Therefore, the redevelopment of the social security contribution collection system was considered necessary for the sustainability of the social security system. One way for achieving this was the merger of tax and social security contribution collection; the merger took place in 1999 with the introduction of the so-called “social tax” collected by the tax authority.

In Estonia pension and health insurance schemes are financed by the so-called “social tax” — a kind of social security contribution containing different components for the different social security schemes; unemployment benefits are funded by the compulsory unemployment insurance contributions. A funded supplementary old-age pension scheme was introduced only in 2001. All the social security contributions are collected by the Estonian tax authority which also performs controlling functions with regard to the payment compliance of both taxes and social security contributions. Upon collecting both the levies, the Estonian tax authority accounts and maintains separate records for all the levies. The taxpayers/contributors are identified through their private identification number or a commercial registration number. Personal accounts can be accessed through an online system. The employers have to submit monthly reports with all the information on the amounts paid whilst the self-employed persons have to make such reports and payments on a quarterly or annual basis. There are different kinds of records kept with regard to taxes and social security contributions: individual and separate records. The funds collected are immediately kept separated and transferred periodically to the competent social security fund either directly or via the State Treasury. The tax authority is responsible for processing the information submitted and the data are then transmitted to the competent social security administration.

Some of the obstacles encountered during and after the merger in Estonia can be summarized to the following:

- implications to the registering, calculating and recording systems caused by the implementation of new procedures and the introduction of new forms, especially with regard to the second pillar social security contributions (introduction of a unified tax declaration for withholding income tax and social security contributions since January 1999),

- human resources and IT related problems, and

- communication issues.

As benefits of the merger in Estonia were reported:

- the creation of a more efficient administration system,

- the reduction of the administrative burdens for the employers,

- the smoother introduction of the mandatory funded pension and unemployment insurance schemes, and
• the decrease of cases of social security contribution fraud.

Hungary
The merger was a result of the major social security changes that took place in Hungary towards the end of 1990's; there was a pension reform along with the introduction of the three pillar social security system. The financing of the social security system in Hungary today is based mainly on contributions, but some schemes are also co-financed by the taxes. The competent authority for the collection of both taxes and social security contributions is the tax authority. The merger of the collection system was completed in 2001.

The Hungarian tax authority collects both the levies as aggregate amounts on a regular basis without making any distinction or split upon the collection. There are two numbers required for the identification of the payers:
• a social security identification number for the contributors, and
• a tax identification number for the taxpayers.

The contributions are assessed, deducted and paid by employers and entrepreneurs to the so-called “accounts” of the tax authority; a declaration is made on their returns. The revenues collected are transferred to the competent social security funds via the State Treasury. There are two kinds of records kept:
• records of the declarations, payments and enforcement for both the levies maintained by the tax authority, and
• records on pension and health insurance register maintained by the social security administrations.

The data exchange is limited as the tax authority discloses the data to the social security administration with the use of tax identification codes of the insured persons concerned. The tax administration is also competent for the control of the social security contribution payment which is performed together with the social security inspectorate; the latter has only limited enforcement powers in this field.

Some of the obstacles encountered during and after the merger in Hungary can be summarized to the following:
• in the beginning of the merger, the tax administration showed limited attention towards the specific needs of social security contribution collection, and
• the reforms were upheld by legislation not yet adopted and updated.

As disadvantages of the merged collection system, the following were reported:
• there is no precise information on the calculation basis of social security contributions and amounts actually paid for the social security administration because the collection is made in aggregate amounts (not always the same amount is used for the calculation of tax and social security contributions), and
• there are gaps in record keeping due to the lack of a unified identifying number for contributors.

Some of the benefits of the merged collection system in Hungary were identified as the following:
• simplified administrative procedures were created for the employers,
• the overall collection procedure was more efficient,
• there were stricter means of collection enforcement, and
• there was higher compliance with the social security contribution payment obligations.

Italy
Most of the revenues of the social security schemes in Italy come from the payment of social security contributions from the different categories of employees. The social security contributions — presenting a wide variety — are paid together with the taxes with the use of a unified payment form. Thus, currently there is no unified collecting authority in Italy as the taxes are collected by the tax administration and the social security contributions by the competent social security administration; the parallel collection system is maintained in this aspect. The merger in Italy is at an early stage and only a procedural merger took place in 2010 regarding the unified payment form implemented for both the levies as well as the establishment of common intermediaries — such as banks and post offices — where the payment of both the levies can occur.

The social security contributions are completely distinguished from the taxes in Italy. Payment is done on a unified payment form where there is a specific reference to all types and amounts of taxes and social security contributions in separate sections of the form. Payment is also done to common intermediaries which are — among others — banks, post-offices and so on. The revenues are kept separated electronically and the transfer of data is realized through the data management structure of the Ministry of Finances.

Another aspect which is merged in the collection procedure of social security contributions and taxes in Italy is the collection of overdue payments. One administrative body — for example “Equitalia” — is competent for the collection of both taxes and social security contributions that are overdue charging a fee for these services. This body has also access to the necessary data in order to complete the collection of the overdue social security contributions and taxes.

The benefits expected from this procedural merger in Italy are the following:

• simplification of the payment procedures with the use of unified payment forms,
• decrease of expenses related to the collection as less administrative personnel is required for the collection of the levies,
• effective combat of tax and social security contribution evasion due to the common collecting intermediaries, and
• elimination of duplicate operations with regard to the overdue taxes and social security contributions because of the merged collecting authorities pursuing overdue payments.

As the merger of tax and social security contribution collection in Italy is currently at an early stage, it was too early to report any obstacles or disadvantages of the merger.

The Netherlands
The social security system in the Netherlands is mainly financed by income-related social security contributions paid by the insured persons and the employers. The Dutch tax authority is the administration which is competent for the social security contribution collection together with the taxes since 2006. The merger of the administrations of social security contribution and tax collection began in 1990 and it was completed in 2006. An exception to this rule constitutes the competency of another administration to collect voluntary social security contributions: this administration is the Dutch Social Insurance Bank.
When the social security contributions are collected with the taxes, they can not be individualized as the payment is unified on the pay slip. The levy and the collection of taxes and social security contributions are made according to the taxation law rules. The identification of contributors is realized via a unified personal identification number — the so-called Burgerservicenummer. The concept of wage in the law on the financing of the social security schemes has been harmonized with the definition of wage in the taxation law for the facilitation of the merged collection system. The employer declares and pays each month to the tax authority the social security contributions which are directly withheld from the salary of the employee. Both the levies upon collection are kept together until the competent authority transfers them directly to the social security funds. The data on the payments are interchanged freely; however, there is appropriate data protection level as only competent persons can process and access this kind of information. The control of the payments is performed by the tax authority with the cooperation of the Dutch Social Insurance Bank and another special administrative body which is called Social Intelligence and Investigation Service; all these administrations can jointly declare a person liable for not paying his/her contributions.

The only obstacles reported during and after the merger in the Netherlands were some performance practices on behalf of the tax administration which did not manage to take into consideration the nature and purpose of the social security contributions collected.

Some disadvantages of the merged collection system in the Netherlands were:
- the vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel, and
- data failures in the insurance file administration.

Some of the benefits of the merged collection system were identified as the following:
- levying and collecting social security contributions were simplified,
- the administrative burdens on employers were reduced,
- the implementation costs for the government were reduced,
- the contradictory decisions within the administrative bodies have decreased.

From a general point of view, the transition to the merged collection system was welcomed positively in the Netherlands. The taxation and social security rules were harmonized and the collection procedure became more efficient.

The United Kingdom
The United Kingdom is a country with a longer standing record in the field of merging the administration of social security contribution and taxation. In this country a compulsory contributory scheme financed by social security contributions is complemented by a range of non-contributory measures which are financed by general taxation.

The merged collection system for both levies was a recommendation of the Taylor report which concerned the modernization of Britain's tax and benefit system. The preparations for the merger started in the early 1990s, but it was only until 1999 that the responsibility for the social security contribution management and operations was transferred to the tax authority.

Before the implementation of the merger a “joint working initiative” was adopted; this initiative was designed to facilitate a fully coordinated tax and social security contribution service. It was also advised that this “joint working initiative” has put the foundations of the merged collection system.
According to the testimonial of the national experts, a key to success for the first phase of the merger was managing of the human resources change associated with the merger.

The authority competent for the collection of social security contributions in the United Kingdom is the National Insurance Contributions Office — the so-called "NICO" — which is a department of the tax administration. Apart from the collection of social security contributions, this collecting authority works closely with other departments of the tax authority and maintains strong links with the social security administration. The collecting authority supplies information to other administrations by using the "National Insurance Recording System" where the social security contributions of all UK residents and some non-residents are being recorded. The contributors are identified with the use of a unique personal reference number — called the "National Insurance Number". This number acts as a reference for the whole social security system. There are two sets of records maintained within the collecting authority: the National Insurance accounts and the individual National Insurance accounts. Finally, the collecting authority is competent for the control and recovery of overdue payments through the merged compliance processes and compliance teams for social security contributions and taxes.

An issue reported to pose impediments to the smooth implementation of the merger was the fact that there were different legal frameworks governing the areas of taxes and social security contributions; these legal frameworks were difficult to integrate. Moreover, the relationship of the merged collection administration to the retained social security administration had to be handled as the social security administration tended to drift apart. With the "joint working initiative" the participation of the social security administration could be more rebalanced.

A disadvantage of the merged collection system in the United Kingdom was the limited attention that the tax authority could show towards the special nature and purpose of the social security contributions.

Some of the benefits of the merged collection system were identified as the following:
- the elimination of duplicate operations in the accounting, reporting and collecting procedure,
- the harmonization and simplification of taxation and social security rules as a result of the administrative changes due to the merger, and
- the possibility to reinvest personnel in new programs achieving efficiency savings.

**Conclusions in summary**

According to literature overview in this subject and the findings of the present research, the main administrative functions that are related to the collection of social security contributions and taxes are the following:
- the registration requirement, with a possible existence of a unique identifying number,
- the accounting and reporting function,
- the collection of social security contributions and taxes,
- the maintenance of individual records,
- the controlling function over the collection process,
- the settlement of claims, and
- the transfer of social security contribution revenues to the competent social security funds.
In relation to the main administrative functions related to the collection procedure, the benefits of the administrative practices adopted in a merged collection system of taxes and social security contributions can be summarized in the following way:

<table>
<thead>
<tr>
<th>Administrative functions of the collection system</th>
<th>Some practices adopted by the merged system</th>
<th>Some benefits of this merged approach</th>
</tr>
</thead>
</table>
| Registration of contributors                     | Creation of a unique identification system for social security and taxation (e.g. social-fiscal number) | • simplification and facilitation of the collection procedure  
• streamlined collection of social security contributions and taxes  
• discouragement of contribution evasion |
| Accounting and reporting                         | • administration of levies through one tax return (unified tax declarations)  
• harmonization of the concept of wage for taxation and social security contribution purposes  
• extensive use of IT systems and e-government practices | • elimination of duplicate operations during the accounting and reporting procedure for taxes and social security contributions  
• avoidance of mistakes on the calculation of levies  
• minimizing the administrative burdens for payers  
• frequent up-dates and better keeping of the data records  
• more efficient control of the payments  
• creation of appropriate databases for certification of compliance and accrual of benefit rights |
| Collection                                        | Unified payment form                       | • simplification of payment procedures  
• elimination of duplicate payment operations  
• better compliance with the social security contribution payment obligations  
• more rapid and safer collection and distribution of funds and data |
| Control                                           | • cross checking data for consistency  
• incorporation of data in electronic databases  
• use of appropriate IT systems  
• enforcement powers granted to the collection agency | • facilitation of identification or errors and misreporting  
• more effective enforcement procedures  
• increase of revenues due to higher compliance  
• combat of social security fraud |
| Transfer of the collected revenues                | • frequent transfers of revenues  
• transfers via the national banks or state treasuries  
• compensation payments for delays in transfers by employers, banks or collection agencies (in case of liability for the delay) | • increase of the speed of transfers of social security contributions and relevant data to the competent social security funds  
• timely transfer of funds |
While designing the merger, one should take into consideration some of the potential challenges regarding this transfer of collecting functions to one administrative body, such as:

- the merger could be seen as a takeover of the social security administration by the tax authority;
- the tax authority could show limited respect towards the special needs of the social security system;
- there may be difficulties in making a distinction between employees and self-employed persons as regards the status of a person for tax and social security purposes (for example a person can be considered sometimes as an employee for taxation purposes and as a self-employed person for social security purposes or even in the case of multiple occupations);
- there may be differences in defining income as calculation basis for social security contributions and taxes;
- there may also be different calculation periods for social security contributions and taxes;
- the employee’s and employer’s partition to the social security contributions may cause problems to the collection of the taxes,
- there can be different rates of the levies when accomplishing an integration of rates; and
- there may be issues regarding the protection of personal data when designing data exchange systems or when the data are interchanged.

Finally, when implementing the merger, some other factors should be considered as well. The appropriate legal and administrative environment for such a merged collection system should be created. Moreover, national legislation should be amended and a number of projects should be organized by the administration in order to lay the foundations for the merger (e.g. creating more understanding for a well-organized collection structure, establishment of efficient collaboration within the administration, creating of working groups, etc.). Finally, the national taxation and social security legislation should be harmonized as far as the collection procedure is concerned.

To sum up, there may be an impact on the existing facilities and the administrative personnel when merging the administrations of social security contributions and taxation. In addition, the taxation and social security rules can be lead to a certain degree of harmonization and the core collection processes can be made common for taxes and social security contributions. What is more, the collection system can operate in a more efficient way and the mandatory social security schemes can be introduced smoothly. Furthermore, the governmental administrative costs can be lowered and the competencies of the authorities can be more distinct. The compliance system can be also more effective.

The following points are ascertained from this report:

- the merging of the administration of social security contribution and taxation can be a cost-effective and efficient system,
- the administrative burdens on the administration and the employers or insured persons can be greatly reduced,
- the collection procedure can be facilitated by the use of new technologies, and
- the stricter control and enforcement procedures will result in higher contribution compliance which will safeguard the sustainability of the social security systems.
1. Introduction

1.1 Preliminary research note

During the past twenty years there have been many changes and reforms in the field of social security throughout Europe. These reforms have resulted in the creation of new forms of social security systems which further required the reorganization and modernization of the collection system of social security contributions in several countries; this was necessary in order to achieve a satisfactory level of social security contribution revenues. A successful and without deficits financing of the new social security systems became a priority for most of the countries; this became the inspiration of the idea for the creation of merged collection systems as opposed to the parallel collection systems of social security contributions and taxes.

First of all, let us make a distinction between the existing collection systems in order to understand better the role of the merged collection system for taxes and social security contributions:

- In some countries, a parallel system\(^1\) is in force: social security institutions and tax authorities collect social security contributions and taxes in strictly separate ways using distinct systems and potentially with systems based on fundamentally different architectures.

- In some other countries, we encounter a merged system\(^2\) where the social security contribution and tax collection responsibility is merged into the hands of a single revenue administration.

- In some countries, there is also a partially merged system\(^3\) where tax authorities collect social security contributions for some social security programs or specific groups of people (e.g., self-employed), but not for all. According to a Working Paper of the International Monetary Fund\(^4\) there has been a trend for the convergence of some parallel collection systems into merged ones, but there appear to be no cases of reverse conversion into a parallel collection system.

In the research we investigated the experience of the merged collection systems adopted by five countries, the process of the said merger of the social security contribution and tax collection

---

1. According to the OECD (working paper “Tax Administration in OECD and selected Non-OECD Countries”, Comparative Information Series 2008, p. 29), the OECD countries that have parallel collection systems are Austria, Belgium, the Czech Republic, Denmark, France, Germany, Greece, Japan, Korea, Luxemburg, Mexico, Poland, Portugal, the Slovak Republic, Spain, Switzerland, and Turkey, and some of the selected Non-OECD countries are Chile, Cyprus, Malaysia, Singapore and South Africa. In some papers the parallel system is also referred to as “dual” or “decentralized” systems.

2. According to the OECD (working paper “Tax Administration in OECD and selected Non-OECD Countries”, Comparative Information Series 2008, p. 29), the OECD countries that have merged collection systems are Canada, Finland, Hungary, Iceland, Ireland, Italy, Netherlands, Norway, Sweden, UK, USA, and some of the selected Non-OECD countries are Argentina, Bulgaria, China, Estonia, Latvia, Malta, Romania and Slovenia. In some papers the merged system is also referred to as “unified”, “integrated” or “centralized” systems.

3. That was the case for example in the Netherlands before 2006 where the social security contributions for the general social security schemes were collected by the tax authority while the social security contributions for the employee insurance schemes were still collected by the social security administration.

functions as well as the advantages and disadvantages of this collection system. It is important to give an overview of the collection systems in each of the countries in question and to further draw some conclusions regarding their different typologies of merger as well as the effects of adopting such social security contribution collection methods in the context of legal, economic and administrative surroundings. The differences between merged and parallel collection systems, the case of an integrated levy of social security contributions and taxes usually in the form of a tax, as well as the relationship between social security contributions and social security benefits fall outside the scope of the present research.

The purpose of our research is to give an insight of the general situation governing the merged collection of social security contributions and taxes in the hands of one administrative authority in five different countries. This can provide assistance to policy makers in order to better understand the historical, legal, sociological and economic aspects of this system and to evaluate the consequences of the adoption of such a merged collection system. The countries selected for the purposes of this research are all countries with a relatively short-term implementation background of the merged collection functions.

This research is closely related to and is building further upon the conclusions of the former study of the European Institute of Social Security (EISS) with the cooperation of the IBM Center for the Business of Government, “Cooperation Between Social Security and Tax Agencies in Europe” focusing, however, on examples of the most far reaching form of approximation of social security (contribution collection) and taxation. The present research was completed in 2010 and the latest review and update of the draft report was made in October 2010.

1.2 Scope of the research

In our previous study in 2005 “Cooperation Between Social Security and Tax Agencies in Europe”, we analyzed the degree of integration, coordination and interaction between social security and tax authorities in several European countries examining a variety of administrative arrangements. Building upon this study, this report will describe in a more detailed way one of the aspects of the above mentioned cooperation: the merger of both the functions of the collection of social security contributions and the collection of taxes into the hands of one institution.

For the purposes of this research we chose countries with different backgrounds with regard to the merger and came to the following categorization:

<table>
<thead>
<tr>
<th>The countries selected for study in the present research can be categorized in three different classes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Those with a longer standing record with regard to the merger: the Netherlands and the United Kingdom</td>
</tr>
<tr>
<td>Central and eastern European countries after transition to market economies: Hungary and Estonia</td>
</tr>
<tr>
<td>Those with a partial merging of collection functions: Italy</td>
</tr>
</tbody>
</table>

---

5 Some countries have adopted another approach with regard to the relationship of taxes and social security contributions: these countries have introduced an integrated levy of taxes and social security contributions which is collected by one competent authority, usually the tax authority.
6 Official website: http://eiss.be/.
8 Ibid.
1.3 Key concepts for the purposes of the research

In order to examine the situation uniformly in the different countries in question, this report uses general — external to the countries — concepts rather than national ones. This way the report can be easily understood by the reader and, therefore, it can provide a liaised view to the stakeholders in order to evaluate more efficiently the given situation in the different countries examined herein.

Before we proceed with the description of the key concepts of our research, it is important to know that our research focuses primarily on the financing of the social security systems from social security contributions, either these are the traditional employee’s, employer’s and self-employed person’s contributions or they constitute alternative forms of financing such as general social security contributions levied on income. The aspect of financing social assistance and compensation plans from the general budget via taxation is excluded from the present research unless the amounts of revenues collected are earmarked and identifiable for social security purposes.

The report will examine in detail the collection arrangements of the above described levies which have been recently transferred from the competent social security administrations to the national tax authorities while the social security contributions are kept distinct from the other national taxes.

For the purposes of our research, the following key definitions are provided:

**Social security/insurance** means any program that provides benefits on the basis of solidarity or supplements incomes to persons and households whose incomes are inadequate due to illness, unemployment, retirement, or due to other factors such as family size.\(^9\)

**Social security contribution** is the levy on incomes which finances either exclusively or partially — together with state contributions — the different social security schemes in a given country.\(^11\)

**Taxes** are compulsory contributions to the state budget levied either directly on the taxpayer, or indirectly through tax on purchases of goods and services and through various kinds of duties; taxes paid to the local or regional authorities are included in this concept as well.

Social security contributions are distinguished from taxes; in that case the contributions (either on a primary or secondary level) will be transferred into a separate social security fund. The transfer of the social security contributions collected by the tax authority into a separate social security fund is made on a primary level when the funds are transferred directly to the social security funds and on a secondary level when the funds are transferred first to a general national account and are at a later stage separated and transferred to the social security funds.\(^12\) This happens unless the merger of social security contribution and tax collection leads to an integration of the contributions into the overall tax revenues.

However, we are aware that such a distinction presents several difficulties which are confirmed by a great controversy in the contemporary literature regarding the character of social security contri-

\(^9\) However, there are persons classified as “not employed” or “professionally non-active” who have to pay social security contributions as well. For example, individuals receiving an income replacement (e.g. pensioners paying for healthcare) or all citizens residents in a country paying for a general social insurance program (such as in the Netherlands) have to contribute to social security.


\(^11\) These include pension, health care, unemployment insurance contributions, etc.

\(^12\) See further Hungary and France.
contributions as opposed to the character of taxes. As a matter of fact, the OECD treats social security contributions as “taxes” and, therefore, includes them in its compilation of tax burden statistics\(^{13}\). On the other hand, social security experts exclude the taxation nature of social security contributions because there is a linkage between the collected contributions and the scheme and benefits paid from the scheme as the contributions aim exclusively at financing the social security system.

Another important key concept that we need to clarify in our research is the meaning of the employer’s social security contributions versus the employee’s social security contributions. In the social insurance system for employees, one does indeed distinguish between employers’ and employees’ contributions. The employers’ contribution is usually calculated in terms of a percentage of the employee’s nominal wage (i.e. his/her wage before deduction of the employee’s contribution and the wage tax); employees’ contributions are also calculated in terms of this wage\(^{14}\). However, this distinction is usually just an artificial labeling on the contributions because the employer withholds from the source the employee contributions; this has no impact on the payment technique and collection arrangements of the social security contributions that are collected together with taxes\(^{15}\).

### 1.4 Administration of social security/administration of taxation: where do they entail?

<table>
<thead>
<tr>
<th>Social security authority/administration/institution</th>
<th>Tax authority/administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>is the national administrative agency (or agencies) responsible for the management of the social security records, data and funds and in certain cases responsible for the payment of benefits in a country.</td>
<td>is the national administrative agency competent for the collection of taxes and the management of tax records, data and funds.</td>
</tr>
</tbody>
</table>

The previous research project of the European Institute of Social Security in cooperation with the IBM Center for the Business of Government\(^{16}\) showed that there has already been considerable interaction between tax and social security administrations with regard to the collection of financial means for the social security systems. This increased interaction between these two authorities is due to the fact that they seem to have many common functions. In the present research, we examine the way that some of the administrative functions of the social security authorities have been transferred to the tax authority which has to undertake now new competencies in this field. The following functions can be distinguished:

---

\(^{13}\) A contribution to a social security fund is a tax if there is a requirement to make payments either to state funds or to state regulated funds from which there is an obligation to pay social security benefits. This reflects the OECD working definition of a tax in its Revenue Statistics, published annually.


\(^{15}\) Ibid., pp. 101 et seq.

Administrative functions/operations constituting diverse aspects of the merged collection process of social security contributions and taxes can be identified in seven different levels:\[17:\]

- Registration of payers
- Accounting and reporting of the payments
- Collection of social security contributions and taxes
- Verification of registration, social security contribution and tax payment and audit
- Maintenance of records of account on different levels
- Settlement of claims
- Transfer of social security contribution revenues to the competent social security funds together with the relevant collection data

1.5 Merger/Unification/Integration

A merger\[18:\] of tax and social security operations with regard to the collection of social security contributions is a form of centralization of the collection system; this can occur in many different ways depending on the levies to be centralized (taxes and social security contributions), on the agency responsible for collection, and on the existence of collecting intermediaries. Centralization can result from merging procedures, such as the unification of payment forms for income taxes and social security contributions or the integration of the rates of both the levies; it can also result from merging institutions such as the design of a new centralized structure for social security contribution and tax collection or the merger of two already existing institutions.

The concept of merger has to be distinguished from the concept of integration of taxes and social security contributions as the latter one refers to the creation of one integrated levy, usually with the character of a tax, for both social security contributions and taxes.

In view of the aforementioned clarifications, the level of merging the collecting administration of social security contributions and taxes depends highly on the number of administrative functions relating to the collection of social security contributions that are merged — in other words transferred — from the social security administration to the tax authority.

1.6 Research question

This report describes the way that five countries (Estonia, Hungary, Italy, the Netherlands and the United Kingdom) have realized the merging of the social security contribution collection and taxation. We describe which of the administrative functions and the institutions have been merged, which steps have been taken towards the realization of such a merger, and the advantages and disadvantages of a merged collection system.

\[17:\] Ross, S., Common issues of social security and taxation systems, in Interactions of social security and tax systems, ISSA and OECD, 1997, p. 19. Please note that we have used some of the concepts of the administrative functions for a contributory social insurance scheme described by McGillivray, W.R., Administrative issues in the implementation of social security reforms, in Interactions of social security and tax systems, ISSA and OECD, 1997, p. 60, and Anusic, Z. International experience in consolidated social contributions and tax collection, reporting and administration, WB, ECSHD, 2005 (available online: http://info.worldbank.org/etools/docs/library/238288/Anusic_CollectionUnification.pdf).

\[18:\] The terms “unification”, “integration” and “consolidation” are also quite frequently encountered in the literature and have the same meaning with the merger. In this report, we are going to use the term merger for describing this administrative change in the collection of social security contributions and taxes.
The findings of this report are based on international and national literature on this particular subject, references to national legislation as well as the actual experiences of the five countries under examination. The information regarding the country experiences were acquired by the use of questionnaires of common reference sent to national experts and public administrators and a limited number of interviews with public administrators. The questionnaires were consisting of open format questions and they were divided in three parts: the first part was describing the present situation in a country, the second part concerned the process towards the merger and the third and last part regarded the evaluation of the merged collection system.
2. Structure of the report

2.1 General
The report can be divided in two main parts. The first part (chapter 3) describes the past and current situation concerning the transfer of the collection of social security contributions from the social security administrations to the tax authorities in five different countries, i.e. Estonia, Hungary, Italy, the Netherlands and the United Kingdom. A common descriptive structure is maintained for all the countries involved; an overview of the systems at issue is further presented. For the compilation of the country descriptions questionnaires completed by national experts were used and the information thereby acquired has been integrated into the results of the research together with additional information from international and national literature review.

In the second part of the report (chapters 4–7), we draw some conclusions regarding the typology and functioning of a merged collection system for social security contributions and taxes as well as the obstacles encountered and the benefits expected by merging social security and tax collection administrations. Moreover, we examine the interactions between the social security contributions and taxes with regard to the collection issue on a comparative basis. This was accomplished by focusing on the process and motivation of the merging of social security contribution and tax collection and the different degrees of merging identified in the five countries in question.

2.2 Acknowledgments
The authors wish to thank their collaborators from the five counties in question for their research assistance and helpful comments and suggestions, in particular Dr. Éva Lukács Gellérné, Head of Unit, Hungarian Ministry of Employment and Social Affairs and Guest lecturer, Eötvös Loránd University and JOTOKI, Budapest, Mrs. Eszter Búti, International Liaison APEH (Hungarian Tax and Financial Control Administration), Mr. Andres Võrk, Lecturer, Faculty of Economics and Business Administration, University of Tartu and Analyst at the Praxis Center for Policy Studies (Estonia), Mr. Segaert Steven, Adviser on e-governance and social security policy, law and administration (Estonia), Mrs. Leili Zaglmayer, Counselor for Social Affairs, Permanent Representation of Estonia to the EU, Mr. Dmitri Jegorov, Deputy DG on basic processes, Estonia Tax and Customs Board, Mrs. Ceciel Rayer, Lecturer of social law, Radboud University Nijmegen, Prof. F.J.L. Pennings, Professor of Social Law, Utrecht University, Dr. Lucy van den Berg, assistant professor, VU University Amsterdam, Mrs. Maaike Sol-Bronk and Mr. Hasse Vleeming from the Social Insurance Bank in the Netherlands, Mr. Michele Faioli, researcher of labour law at the University of Rome Tor Vegata and Mr. Flavio Marica, DG of the Audit and Security Department of the Italian INPS. Special thanks to the Director of the National Insurance Contributions Office of the United Kingdom, Mr. Ian McDonald, and his associate Mr. Stephen Baynard who were at that time the department program director and program director for the merger in the United Kingdom respectively.
3. Country reports

3.1 Estonia

3.1.1 Introduction
Estonia is a former Soviet republic and one of the new member states of the European Union. This country seems to be an interesting case for our research for several reasons. One of them is that it has recently undergone important changes in the field of social security. These changes were the result of the country’s accession to the European Union and the effort to reach the Western European standards and economic growth. Moreover, the pension reform of the 1990’s introduced a three-pillar pension system with a fully funded second pillar pension scheme\(^\text{19}\). Finally, Estonia also is an interesting example of a country focusing on e-government and introducing the e-government principles to the social security sector as well.

The Estonian social security system consists of:

- pension social security schemes granting benefits for old age, survivorship and permanent incapacity for work,
- health social security schemes providing health care and benefits/income in case of loss of earnings due to sickness, maternity or caring for a sick dependant,
- schemes for family benefits and social benefits for disabled persons.

Social assistance is seen as a part of the social welfare policy.

3.1.2 Financing of social security
In Estonia the pension and health insurance schemes are financed by the so called “social tax” — sotsiaalmaks, which is a kind of social security contribution paid by employers, self-employed and the State. The “social tax” is financing both in-kind and cash sickness and maternity benefits\(^\text{20}\), pension for work incapacity, old age pension and survivors’ pension. The employment injuries and occupational diseases are co-financed by the “social tax”, the general taxation and employer’s civil liability.

Apart form the so-called “social tax”, there are also compulsory unemployment insurance contributions paid by employees and employers (as of January 2002); in addition, contributions financing

---

19 Further information about the three pillar pension system in Estonia can be found at the website of the Estonian Pension Center: http://www.pensionikeskus.ee/?lang=en.

20 Maternity benefits are financed by the “social tax” except for the so-called “parent’s salary” (an one and a half year-long social security benefit granted to the mother or the father of the child) which is financed from the general state budget.
the funded supplementary old-age pensions\textsuperscript{21} are paid by the employees and the State’s share to the “social tax”\textsuperscript{22}.

The family allowances, the survivor’s national pension and the old-age and invalidity pension supplements are purely state-financed from the general taxation. As for the long-term care, there is no single, separate scheme and the benefits in kind are financed from the general taxation together with the local authorities.

In relation to the general taxes, the social security contributions in Estonia are completely separate and distinguished from the personal or corporate income taxes. The collection of the social security contributions can be done in three different forms of payments:

- the “social tax”,
- the payment for funded supplementary old-age pension, and
- the payment for the unemployment insurance benefit.

The “social tax” was established by the Social Tax Act passed on the 13th December 2000 and entered into force on the 1st January 2001. The “social tax” has the following definition:

> “Social tax” is a financial obligation which is imposed on taxpayers to obtain revenue required for pension insurance and state health insurance and which is subject to performance pursuant to the procedure, in the amount and during the terms prescribed by this Act.\textsuperscript{23}

In light of the aforementioned definition, we conclude that the “social tax” and the personal and corporate income taxes are not integrated levies. They are distinguished on the grounds of the purposes for which they are collected.

Despite the fact that the new legislation provides for the integration of the formerly autonomous social insurance budgets with the state budget, the earmarked nature of “social tax” has been maintained and revenues from “social tax” are held strictly separate from other state revenues. This is mainly due to the provisions of the Pension Insurance Act as revenues from the pension insurance component within the “social tax” cannot be used for any other purpose except for the payment of state pensions\textsuperscript{24}. Hence the integration is merely of a technical nature.

The social security contributions for a funded supplementary old-age pension scheme were first introduced by the Funded Pensions Act which is effective since the 12th September 2001 and the subsequent regulations of the government and the Minister of Finance. In addition to the Funded Pensions Act, the Guarantee Fund Act\textsuperscript{25}, the Investment Funds Act and amendments to the Estonian Central Register of Securities Act\textsuperscript{26} are also relevant to the implementation of the second pillar scheme. The second pillar addresses only the risk of old age; it does not provide pensions for risks of disability and survivorship. Participation is compulsory for new entrants to the labour force beginning in 2002 whereas participation is voluntary for the rest of the workers.

\textsuperscript{21} This is part of the fully funded second pillar pension scheme.
\textsuperscript{22} This is paid by employers.
\textsuperscript{24} See the Estonian Social Pension Insurance Act.
\textsuperscript{25} This Act was passed on the 20th February 2002.
\textsuperscript{26} This Act was adopted on the 12th September 2001.
After the pension reform, the redistribution function of “social tax” was redefined in a sense that the component of the “social tax” destined for the pension insurance was divided further to a first pillar social security contribution component and a second pillar social security contribution component. An individual contribution from the gross wage — a social security contribution for the funded supplementary old-age pension scheme — is added to the component of the “social tax” for the second pillar social security fund.

In 2002 the Unemployment Insurance Act has introduced the unemployment insurance scheme. This scheme covers an employee in case of becoming unemployed, in case of collective closing or insolvency of the employer and in case of collective redundancies. The unemployment insurance contribution is paid partly by the insured persons and partly by the employers.

The persons liable to pay social security contributions are identified as the resident legal persons, natural persons, non-residents who have a permanent establishment in Estonia as well as state, rural municipality and city authorities. More specifically, employers are responsible to pay “social tax” on behalf of their employees. The unemployment insurance contribution is paid by the insured persons and the employers. The self-employed persons — as defined in the Social Tax Act — pay “social tax” on their business income whereas the central government pays it on behalf of certain social groups (usually the Estonian National Social Insurance Board is the competent authority for this purpose), and the Unemployment Insurance Fund pays it on behalf of the registered unemployed.

3.1.3 Collection methods
According to the definitions used in the Estonian Taxation Act, “social taxes” are considered as state taxes and the provisions of the aforementioned Act concerning taxes apply also to the “social taxes”, the contributions to funded pensions as well as the unemployment insurance contributions unless otherwise provided in the relevant Acts.

The role of the Estonian Tax Authority: The so-called “social tax” and the other social security contributions together with the other taxes are collected by a single tax administration which is called the Estonian Tax and Customs Board, Maksu- ja Tolliamet. This is an administrative agency within the area of competency of the Ministry of Finance, which has a managing function, exercises state supervision and applies the enforcement powers of the state on the basis and to the extent prescribed by law. There are not separate departments within the tax authority competent for the collection of the taxes and social security contributions because the tax authority is organized according to the functions performed and not in relation to the revenues collected.

Before the introduction of the second pillar, the component of the social tax destined for the financing of the pension insurance was not divided.
Article 4 of the Estonian Social Tax Act.
See the Estonian Unemployment Insurance Act which is in force since 2002.
The cases for which the state pays social tax concerned a list of persons among which are parents with a child up to 3 years of age who are on parental leave or are receiving a child-care fee pursuant to the Family Benefits Act, conscripts in compulsory military service, persons providing care for disabled child or disabled adult or receiving a caregivers’ allowance pursuant to the Social Benefits for Disabled Act, persons with disabilities working in enterprises listed by the Minister of Social Affairs, non-working spouses of diplomats working in a foreign representation and non working persons who participated in the clean up of the Chernobyl nuclear disaster (article 6 of the Estonian Social Tax Act).
Article 1 of the Statutes of the Estonian Tax and Customs Board Adopted by Regulation No. 29 the Minister of Finance of October 6th, 2008 (RTL 2008, 84, 1168), entered into force on December 1st, 2008.
The “social tax” is paid on wages and remuneration paid to employees. The current rate for its calculation is 33% (20% for pension insurance and 13% for health insurance). However, if the employee is participating in the funded pension insurance scheme (2nd pillar pension scheme), then 4% out of the above mentioned 20% is shifted from the state pension insurance scheme to the private pension insurance scheme of the second pillar and an additional 2% contribution from gross wage will be paid by the employee. The 2% employee contribution to the funded supplementary old-age pension insurance is withheld by the employer and transferred together with “social tax” to the tax authority which has to identify all participants of the second pillar. The information provided by the employers are double checked by the Central Register of Securities as there are different contribution rates for different employees of the same employer, depending on whether the person has joined the second pillar or not.

According to the official gateway to Estonia, about 590,000 people — around 86% of the labour force — had joined the second pillar funded pension plan as of October 2009. However, due to the global economic downturn and the difficult financial situation of Estonia, the state contributions to funded pensions have been temporarily suspended for a certain period of time (from July 2009 until 31st December 2010). It is scheduled that in 2011 the contribution system will resume on a 1+2% basis, and then at the beginning of 2012 the initial 2+4% system — as described above — will be fully restored.

In cases of persons receiving unemployment benefits, some categories of dependant spouses and persons receiving social benefits granted on the basis of the Social Welfare Act, the rate of “social tax” is differentiated from the aforementioned rate and it is set to the 13% of the taxable amount.

Self-employed persons pay their own social security contributions, consisting of pension and health insurance contributions. The basis of the contribution calculation is the net business income up to an amount equal to 15 official minimum monthly salaries. Most cases involving people who are otherwise insured (e.g. pensioners) are usually exempt from the minimum liability. With multiple employers or if a self-employed person is a part-time employee and a part-time self-employed person, only one minimum “social tax” obligation is applied. Social security contributions are deductible for income tax purposes only for corporate/business income.

As far as the second pillar is concerned, during the first two years after the reform, it was not allowed to pay the funded supplementary old-age pension insurance contributions on the income from self-employment for administrative and technical reasons rather than political. One of these technical reasons was the different taxable period for employees and self-employed (for the first ones the taxable period is one calendar month and for the latter ones the taxable period is one calendar year); another reason was the procedure of making quarterly advance payments of “social tax” by self-employed persons. Only in 2004 it was allowed to accumulate second pillar pension for self-employed persons as for employees.

**Unemployment insurance contributions**: The unemployment insurance contributions must be paid by employers and employees, on any monetary employment income of the employees; therefore, it...
is levied on wages and other remuneration paid to employees, with the exception of some benefits. Contributions are also due on the payments made to an individual under a service contract, unless the individual is registered with the commercial register or with the tax authorities as a self-employed. Contributions are equally due in respect of non-resident employees working in Estonia. Non-monetary employment income and fees paid to the members of management and supervisory boards are not included in the contribution calculation base. The employer’s contribution is levied at a rate of 1.4%. The employee’s contribution is levied at a rate of 2.8%. This contribution is withheld by the employer.

**Calculation basis of the social security contributions:** The social security contribution calculation method is the same with the personal income tax calculation method. As a matter of fact, withholding income tax and social security contributions on wages has the same tax base in principle, with the exception of the order in which these are calculated (see the figure below). The rates’ brackets are set by the law, but the government makes the appropriate decisions which will be the precise applicable rates. This decision is made according to the actual labor market situation needs.

**Figure: Structure of wage taxes, 2010**

When the tax authority collects the personal or corporate income tax, the “social tax” and the unemployment insurance contributions — although all these levies are collected as a unified payment — there is a clear distinction made by individualizing each of the payments in the tax return.

---

42 More specifically:
- on benefits paid upon the termination of an employment contract,
- on wages and other remuneration paid to public servants,
- except for benefits paid upon release from service and remuneration paid to private persons on the basis of contracts for services, authorization agreements or contracts under the law of obligations entered into for the provision of other services, not on business income of a self-employed person.


44 Ibid.

45 Source: EUROMOD Country Report Estonia (EE) 2005, Silja Lu EPSik, Alari Paulus, Andres Vork, April 2008, p. 50. The report is available from: http://www.praxis.ee/fileadmin/tarmo/Projektid/Too_ja_Sotsiaalpolitika/1-CUE/Estonian_2005_tax-benefit_system.pdf. The graphic was adapted to the rates of taxes and social security contributions that were valid during the drafting of this report.
depending on the tax type, the taxpayer and the insured person. These all are accounted for separately; they all have separate records. Furthermore, “social tax” which has one record — at the beginning — is then separated at a later stage into two components (one for health insurance and one for pension insurance).

The contributors have full access to their personal prepayment accounts administered by the tax administration in an online system. From these personal accounts, the necessary amounts are then automatically used to cover the individualized tax and social security obligations as declared by the insured person (or assessed by the tax administration in a case of an audit) upon the payment deadline.

The employer has to report the salary of his or her employees by the tenth day of the calendar month following the month of payment by using electronic forms, where taxes for each employee are shown, one row for each person, and different columns for the different levies, i.e. the income tax, the “social tax”, the contributions to the funded pension scheme and the unemployment insurance contributions. This means that the “social tax” and the other social security contributions calculated in the tax return have to be paid on a monthly basis to the tax administration by the same date of the reporting (the deadline for the declaration and the payment of the social security contributions is the tenth day of the month following the month of wage payment); thus the taxable period for the social security contributions is one calendar month.

For the self-employed persons, the payment of the “social tax” and the mandatory pension contributions is made once a year by October 1st, according to the declared business income. Most of the self-employed persons though have to make quarterly “social tax” payments in advance which shall be calculated for the final liability which shall be determined on the basis of the yearly tax return.

Table: Overview of the frequency of the declaration and payment of social security contributions and taxes for employers and self-employed persons in Estonia

<table>
<thead>
<tr>
<th></th>
<th>Employers</th>
<th>Self-employed persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable period</td>
<td>One calendar month</td>
<td>One calendar year</td>
</tr>
<tr>
<td>Payment</td>
<td>On a monthly basis</td>
<td>Once a year or quarterly in advance</td>
</tr>
<tr>
<td>Frequency</td>
<td>On a monthly basis</td>
<td>Once a year or quarterly in advance</td>
</tr>
<tr>
<td>Declaration/report of</td>
<td>10th day of the calendar month after the month of</td>
<td>By October 1st of each year</td>
</tr>
<tr>
<td>taxes and social security contributions paid</td>
<td>the salary payment</td>
<td></td>
</tr>
</tbody>
</table>

Transfer of revenues: The funds collected are immediately kept separated and they are transferred periodically (per month) at the end of the collecting procedure either directly to the respective social security administrations or via the State Treasury. More specifically, the “social tax” is transferred to the state budget by the tax authority via private banks; there is also a special agreement regulating the data transmission. Then, the amounts are redirected within fifteen working days after the receipt partly to the Estonian Health Insurance Fund\(^{46}\) and partly to the Estonian National Social Insurance Board\(^ {47}\), which are responsible for the redistribution of funds. The corresponding part of the amount of the Estonian National Social Insurance Board financing the state pensions is reported to be kept in the State Treasury.

---

\(^{46}\) Haigekassa — Official website of the Estonian Health Insurance Fund: http://www.haigekassa.ee/.

With regard to the second pillar contributions, the Estonian Tax and Customs Board used to supplement the 2% contribution with 4 percentage points from the “social tax” and transfer the total contribution (6%) within fifteen working days after the receipt to the bank account of the Estonian Central Depository for Securities (ECDS). The ECDS plays a key role to the administration of the second pillar having the following responsibilities:

- keeping account of the subscriptions to the funded pensions,
- calculating the number of pension fund units,
- recording all the relevant information — for example contributions paid, pension fund units acquired, payments made, funds replaced — and
- transferring the total contribution to the custodian bank of the fund management company.

However, this financing has been temporarily suspended due to the economic downturn and the contribution system will be resumed in 2011 on a 1+2% basis and at the beginning of 2012, the initial 2+4% will be fully restored.

The unemployment insurance contribution is collected by the Estonian Tax and Customs Board, but it is directed within fifteen working days after the receipt to the Estonian Unemployment Insurance Fund. The competent authority for the administration of the unemployment insurance scheme was the National Labour Market Board which is now merged to the Unemployment Insurance Fund. The payment of such contributions is not applicable to self-employed persons and members of the managing or controlling bodies of legal entities.

As for the administration costs for the collection work of the tax authority, these are covered by the State budget and no additional fee is charged for the administration of the collection of the social security contributions.

3.1.4 Record-keeping and data exchanges

Identification of contributors: All persons who possess either a private identification number as administered by the Population Register or a commercial registration number as administered by the Commercial Register can submit tax returns. No separate registration is needed for the purposes of paying the taxes or social security contributions. As it is the tax authority that collects both the amounts and the data, the debtors are identified without additional formalities.

Only in the case of not possessing any registration in Estonia — for example a non-resident short-term employer — the registration may be done by the tax authorities. Private identification and commercial registration codes are used state-wide by all public and many private institutions for most identification and data dissemination purposes eliminating most of the needs for separate registrations.

The Estonian Taxation Act provides for a register of the taxable persons. This state register as defined in the Databases Act is established by the government and it is being maintained in order

---

48 The registration to the ECDS is made through the website: https://www.e-register.ee/en. The maintainer of Estonian Central Register of Securities is the Estonian CSD (ECD). Estonian CSD is a public limited company, which was established in 1994 and operates under the name “AS Eesti Väärtpaberikeskus”. The 100% owner of Estonian CSD is Tallinn Stock Exchange. The ECDS is the main register of the state, which administers share registers of all joint stock companies (aktsiaselts) operating in Estonia and all securities and pension accounts opened in Estonia. The register also includes other electronic securities (shares of private limited companies, bonds, etc.) and security transactions history.


to ensure the performance of the functions imposed on tax authorities by law. Among the information to be entered in the register are the data related to the social security contribution status of a person. These are described in the following table.

<table>
<thead>
<tr>
<th>Types of personal data to be entered in the state register</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information to be entered in the state register regarding persons that:</td>
</tr>
<tr>
<td>- Are insurable on the basis of the Social Tax Act</td>
</tr>
<tr>
<td>- Are insured or paying unemployment insurance contributions (Unemployment Insurance Act)</td>
</tr>
<tr>
<td>- Liable persons, persons making contributions and withholding agents for contributions of the Funded Pensions Act.</td>
</tr>
</tbody>
</table>

Moreover, a separate record shall be kept in the register of the taxable persons concerning the financial rights and obligations of each taxable person arising from the relevant taxation regulations. Individual records for each person are kept for all taxes; this is the reason why the employers have to perform the individual registration of “social tax” paid on behalf of their employees. This individual recording started on January 1999, whereas the new benefit rules were to be applied in the beginning of 2000. All these data are transmitted to the Estonian National Social Insurance Board by the tax authority after the latter one has received the respective monthly reports\(^5\).

The Estonian tax authority is responsible for processing the information which will be entered in and obtained from the register pursuant to the procedure provided for in the statutes of the register. These statutes are approved by the Government of the Estonian Republic in accordance with the provisions of the Taxation Act\(^6\) as well as the Social Tax Act.

It is reported that the information between government entities and quasi-government institutions are transferred electronically, through a common interoperability network; there is a direct electronic link between tax administration and the social security institutions\(^7\). This means that the data relating to accounting and collecting of tax and social security contributions is freely interchanged via electronic means within the different departments of the collecting administration, i.e. the tax authority, and between all respective public and private institutions within the limits of their authority and in compliance with the tax secrecy provisions; for example, no mandatory pension payments information is given to the Unemployment Insurance Fund, as this is not in line with their scope of its duties. Moreover, all the information leading to a better administration of the social security contributions is exchanged on an ad hoc basis: e.g. the unemployment agency running across an unofficial employment case of an officially registered unemployed person.

As for the second pillar pension scheme, the Estonian Central Depository for Securities (ECDS) — a public limited company established in 1994 — is the main register of the state which administers the pension accounts opened in Estonia. This agency plays a key role to the administration of the second pillar social security contributions as it was analyzed in the previous section\(^8\).

---

\(^{5}\) With regard to the record keeping and the interchange of data, according to the Estonian State Pension Insurance Act, the State Pension Insurance Board Register was established as a structural unit of the Estonian National Social Insurance Board, with the aim to record data on insured persons including the amounts of social tax paid on their behalf.

\(^{6}\) Articles 27-30 thereof.

\(^{7}\) The relevant databases are interlinked.

\(^{8}\) See section 3.1.3 on the Collection methods.
3.1.5 Control and recovery of overdue payments

The Estonian Tax and Customs Board is responsible for the collection of taxes and social security contributions. Apart from this collecting competency, though, the tax administration is authorized to perform controlling functions, pursue payments in arrears and investigate the undeclared or under-reported earnings.

Further supervision is exercised by the Ministry of Social Affairs which is responsible for the general management and supervision of the social security schemes. Moreover, the Estonian National Social Insurance Board is responsible for the overall planning and coordination whereas the regional pension offices are responsible for the administration at a local level.

With regard to the mandatory individual accounts, the Ministry of Finance supervises the Financial Supervisory Authority and the Registrar of the Estonian Central Depository of Securities (ECDS). The Financial Supervisory Authority then supervises financial services providers, including pension management companies and life insurance companies.

3.1.6 The merger process

Initially, the adoption of a Social Tax Act in 1990 changed the financing of the state pension insurance system by introducing a “social tax” of 20% of the gross wage to be paid by employers. This Social Tax Act was adopted on September 12th, 1990, and entered into force on January 1st, 1991.

During the transition period 1993–1999, the state pension system was administered by the Estonian National Social Insurance Board (ENSIB) which was a state social security administrative agency operating under the auspices of the Estonian Ministry of Social Affairs. Until December 31st, 1993, there were two different so-called “social taxes” besides the income tax: the health insurance tax and the “social tax” — the latter one was for the financing of the state pensions. However, since January 1st, 1994, the health insurance tax was integrated with the “social tax”, although these two were still collected and declared separately. Regional health insurance funds and pension boards monitored and checked the companies on their own.

Before January 1st, 1999, an employer had three different obligations:

• first, he had to withhold income tax;

• second, he had to pay the health insurance part of the “social tax” to the central Estonian Health Insurance Fund; and,

• third, he had to pay the pension insurance part of the “social tax” to the Estonian National Social Insurance Board.

Each of the aforementioned payments required different declarations although the tax base for the calculation of all these payments was the same.

As of January 1st, 1999, the collection of the “social tax” has been transferred to the tax administration and a unified tax declaration for withholding income tax and “social tax” has been implemented.

---

61 Eesti Haigekassa.
since then. At the same time, the dates for the payment of “social tax” by employers have changed. Due to the transition to these changed payment dates, there was no deadline for the payment of “social tax” in January 1999 and, consequently, “social tax” was paid by employers for only 11 months in 1999.

The Social Tax Act has maintained the rate of “social tax” unchanged; however, it has introduced a significant change in the method of tax and social security contribution collection, i.e. the unification of the collecting function of both the levies under the competency of the tax administration.

The employers have to pay the total rate of “social tax” to the tax authority accounts. Under the new arrangement, it is the tax authority and not the employer that transfers one part of the “social tax” to the account of the pension insurance fund and another part to the health insurance fund. It is worth noting that the accounts of the pension insurance scheme are administrated by the National Social Insurance Board whereas the health insurance revenues are managed separately by the Health Insurance Fund.

Previously the employers used to calculate and pay “social tax” on the total wage without providing any information on individual earnings. After the introduction of the Social Tax Act, employers are now required to provide data on the specific amount of “social tax” paid on behalf of each insured person.

Moreover, the new arrangement has brought several changes in order to cope with the transfer of the collection function. Some information systems had to be adjusted and new tax return forms had to be designed. In addition, the dates for tax reporting and the payment dates were arranged in a way to coincide and there has been an agreement on the methods of information and funds exchange, as well as on the retrospective treatment of erroneous data.

**Table: Comparison of the old and new rules after the pension reform for the first pillar**

<table>
<thead>
<tr>
<th>Social security rules</th>
<th>Until 1999</th>
<th>Starting with 1999–2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection of pension insurance part of “social tax”</td>
<td>Pension offices</td>
<td>Tax Office</td>
</tr>
<tr>
<td>Payment and declaration of “social tax” by employers</td>
<td>Paid on total payroll, no individual registration of wage data</td>
<td>Amounts of “social tax” indicated separately for each employee</td>
</tr>
<tr>
<td>Target pensionable age</td>
<td>65 for men, 60 for women to be reached by 2007</td>
<td>65 for both genders, to be reached by 2026^{64}</td>
</tr>
<tr>
<td>Acquisition of pension rights</td>
<td>On the basis of years of service</td>
<td>On the basis of “social tax” paid</td>
</tr>
<tr>
<td>Old-age pension formula</td>
<td>Flat-rate base, variation on the basis of length-of-service</td>
<td>Flat-rate base, variation on the basis of “social tax” paid over the full career</td>
</tr>
<tr>
<td>Increase of pensions</td>
<td>Ad hoc political decisions</td>
<td>Indexation (from 2002)</td>
</tr>
<tr>
<td>The key principle of the first pillar</td>
<td>Macro-level defined-contribution: the rate of “social tax” was fixed (at 20 percent of gross wages), the level of pensions depended on the resulting revenues</td>
<td>Defined-benefit principle: initial benefits determined by the amounts of “social tax” paid, pension adjustments and total expenditures determined by the index</td>
</tr>
</tbody>
</table>

^{62} Source: Table 6, Pension Reform in the Baltic States, Pension reform in Estonia, 2006, ILO (Leppik and Vork), p. 69. As adapted to the raise in Estonia’s retirement age to 65 years by the year 2026.

The unification of the social security contribution and tax collection in Estonia was a consequence of the implementation of a pension reform.

Some of the motives\textsuperscript{64} for the pension reform were:

- the increase in the total number of pensioners due to the 1991 broadening of pension coverage and abolition of the qualification period for disability pensions (during the years 1992–93),
- the fact that pension expenditures exceeded revenues in two years, i.e. 1996 and 1999 because of the political attempts to attract pensioner voters by the pension increases (during the period 1992–2000), and
- the charges in the “social tax” collection procedure caused the exceeding of the pension expenditures over the “social tax” revenues\textsuperscript{65}.

Before 1999 “social tax” was not individualized as it was just a lump-sum tax on wages; however, since 1999 it was additionally tagged to concrete persons and this information was collected and stored centrally, because pension insurance coefficients began partially to depend on the exact amount of “social tax” paid on behalf of those persons\textsuperscript{66}. “Social tax” remained legally still the obligation of an employer. In principle the “social tax” has remained unchanged since 2001 and the tax rates of the “social tax” have been unchanged since 1992\textsuperscript{67}.

In addition, due to the similarities of the calculation base used for “social tax” and income tax, both of them could be administered through one tax return. This was financially expedient for the state and led to a lesser administrative burden for the payers. In 2002 the Unemployment Insurance scheme was introduced, as well as the funded pension scheme, but as they used the same tax base as “social tax”, their collection was also assigned to the tax authority.

Another driver for the merger of social security and tax collection in the hands of the tax authority was the previous merger of the three previous administrations that were competent for the collection of the social security contributions and taxes. Furthermore, all the tax declarations and reporting requirements were unified and gradually transferred into the internet in order to reduce the administrative burden of the tax administration and hoping for synergy effects from joined IT. Finally, the tax audit could be more effective with the unification of the collection of all the social security contributions and taxes and the respective evasion could be now easily controlled.

Before, during and after the implementation of the merger no transfers or significant dismissals of personnel were reported. Likewise, the tax administration personnel increased only marginally. A structural change was introduced with the centralization of local revenue accounting departments of the tax administration; as a result, the necessary human resources were made available. At the same time, enormous work was undertaken to call upon the largest taxpayers to give up paper reporting in favor of electronic data exchange, which in turn made more resources available as well. Nearly 100 employees of the Social Security Fund (about 16\% of their staff) were able to engage in other activities within the Fund. No further changes as well as no new institutions or mergers of any kind were reported.

**Obstacles encountered during and after the merging process:** During the merging process there have been some temporary problems, such as:

\textsuperscript{64} For further information see Leppik, L. and Vork, A., Pension Reform in the Baltic States, Pension reform in Estonia, 2006, ILO.
\textsuperscript{65} By over 750 million EEK (in 1999).
\textsuperscript{66} Formally not “paid”, but “declared” by the employer.
\textsuperscript{67} 20\% for pension insurance and 13\% health insurance.
• implications to the registering, calculating and recording systems caused by the implementation of new procedures and forms, especially with regard to the second pillar social security contributions (introduction of a unified tax declaration for withholding income tax and social security contributions since January 1999),

• some other human resource and IT-related problems, and

• PR and communication issues.

These are common problems encountered during any reform process.

However, some practical problems came up with regard to the second pillar contributions. Due to the higher contributions entailed in the participation at the second pillar, the employers were required to know whether particular employees have joined the second pillar or not, when they were making the declaration and when they were withholding or transferring taxes and contributions to the tax authority. In case of mistakes in the tax declaration or wrong calculation of contributions, the issue had to be settled before the second-pillar contributions were transferred from the tax authority to the Estonian Central Depository for Securities (ECDS). In regular cases, the tax administration had to control the data within 15 working days in order to match the individual additional contribution with the 4 percentage points from “social tax” paid by the employer, and to transfer the total second pillar contribution to the ECDS.

It was reported that there has been no significant criticism against this merger because this process was understandable and well justifiable by the stakeholders. Only the social security administration was against the reform for quite a long time. In addition, according to publications of several newspapers, major stakeholders favored the “social tax” to be collected by the tax authority. Labour unions, employer’s associations and the government supported the introduction of the uniform “social tax” and its allocation to the tax authority to administer. Labour unions have raised objections to other aspects of the pension and health insurance reform.

At the moment there are no discussions about major changes in this field as the system is now totally merged with the rest of the tax administration. However, there are some voices heard which support the idea that “social tax” and income tax could become integrated into one income tax with different parts assigned for different purposes. These voices, though, do not seem to receive much support.

**Consequences of the merged collection system:** The merger of the administrative functions of social security and taxation with regard to the collection of social security contributions has resulted in a more efficient administration system and a greater convenience for the payers by reducing the administrative burden of the employers. This merger also allowed the smoother introduction of the mandatory funded pension and unemployment insurance schemes in 2002 and contributed substantially to the decrease of the cases of social security contribution arrears and evasion.

Moreover, the tax administration has currently more obligations that were taken from the regional health insurance boards and pension boards; the latter can now focus on their main activities as they do not have to deal with the collection of the social security contributions anymore. Furthermore, the tax authority was motivated to transfer all its activities on the internet by adopting all kinds of electronic tax declaration forms and so on.

---

68 Note that the 2+4% formula is not in force at the moment, but it will resume on a 1+2% basis in 2011 and the initial 2+4% system will be restored by 2012.
Finally, good practices have been developed in the second pillar pension schemes. The tax authority and the Estonian Central Depository for Securities have established a good cooperation with regard to solving problems of wrong calculation of contributions by the employer's accountants; as explained above, the participation at the second pillar entailed a higher contribution rate and the employees participating at the second pillar had to be distinguished by the non-participating employees. Moreover, the employers were trained on the correct calculation method of the contributions; in addition, more user-friendly methods of data transfer were introduced: the employers were able to check whether their employees participate in the second pillar over the internet, by entering the ID-number of the employee.

Table: Summary of the merged administrative arrangements for social security contribution and tax collection in Estonia

<table>
<thead>
<tr>
<th>Collecting authority</th>
<th>Estonian Tax and Customs Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting method</td>
<td>The social security contributions are collected together with the taxes as a single payment</td>
</tr>
<tr>
<td>Applicability of taxation rules</td>
<td>Yes, the provisions of the Estonian Taxation Act are applicable unless otherwise provided in the relevant Acts</td>
</tr>
<tr>
<td>Relationship of social security contributions with taxes</td>
<td>They are not integrated levies, but distinguished on the grounds of the purposes for which they are collected</td>
</tr>
<tr>
<td>Declaration and payments of social security contributions and taxes</td>
<td>Performed by employers and self-employed persons</td>
</tr>
<tr>
<td>Records’ maintenance</td>
<td>By employers and tax administration (state register)</td>
</tr>
<tr>
<td>Identification of insured persons for payment purposes</td>
<td>Via a commercial registration or personal ID code/number</td>
</tr>
<tr>
<td>Electronic declaration of payments</td>
<td>Mainly use of e-forms (paper forms also existing)</td>
</tr>
<tr>
<td>Calculation basis for social security contributions</td>
<td>Taxable income</td>
</tr>
<tr>
<td>Deductibility of social security contributions for corporate income purposes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| Transfer of funds collected          | • “Social tax” is transferred to the state budget by the tax authority via private banks. Then it is redirected partly to the Health Insurance Fund and partly to the Estonian National Social Insurance Board  
  • The unemployment insurance contributions are directed to the Estonian Unemployment Insurance Fund |
| Control and recovery of overdue payments | Performed by the tax authority |
| Levels of record keeping             | • State register maintained by the tax authority  
  • Individual/personal records kept in the state register in an online system |
| Data exchange between tax and social security administration | Free electronic data exchange within the different departments of the collecting administration/ limited data exchange between tax authority and other administrative authorities |
Obstacles during and after the merger

- Implications to the registering, calculating and recording systems caused by the implementation of new procedures and forms
- Human resources and IT related problems
- Communication issues

Disadvantages of the merged collection

None reported

Benefits of the merger

- More efficient administration system
- Reduction of administrative burdens for employers
- Smoother introduction of the mandatory funded pension and unemployment insurance schemes
- Decrease of cases of social security contribution evasion

3.2 Hungary

3.2.1 Introduction

In Hungary — one of the four Visegrad countries⁶⁹ — the introduction of the three pillar social security system triggered major social security changes towards the end of the 1990s. This reform was prepared by the Ministry of Finance with the direct participation of the World Bank officials⁷⁰ and it was introduced in 1998. The said reform has, thus, resulted in basic changes in the compulsory pension system: the former common Pay-As-You-Go system has been partially privatized, giving way to a mixed, two-pillar system in the framework of the compulsory pension system which is now financed by compulsory social security contributions. A third pillar was introduced in 1993 which was financed by voluntary social security contributions.

These changes have also influenced the contribution collection system as the collection of social security contributions was now regarded of high importance: “the obligation to enter the social security system and the performance of social security contribution payment obligation determine the eligibility of insured persons to receive social security benefits”⁷¹. This is even more the case for the pension scheme. Before we proceed to the description of the merger, we provide general information on the social security system in Hungary.

Three basic forms of social security can be identified in Hungary:

- **the social insurance schemes** which cover the risks of sickness, maternity, health care, labour accidents and professional diseases, work incapacity, old age and survivorship and which are financed in principle from contributions,
- **the social assistance scheme** which is financed from taxes, either central taxes collected by the tax authority or local taxes collected by certain departments of local governments, and
- **the universal scheme** which provides benefits that are not otherwise granted.

---

⁶⁹ The Visegrad Cooperation is a sub-regional cooperative arrangement in Europe established after the political changes of 1989. The other three members of this cooperation are the Czech Republic, Poland and Slovakia. More information on the Visegrad Cooperation you can find at: http://www.visegradgroup.eu/main.php?folderID=1082&articleId=4055&ctag=articlelist&iid=1.


⁷¹ According to Section 2 of the Hungarian Act LXXX of 1997 on the eligibility for social security benefits and private pensions and the funding of these services.
Within the social insurances there is the pension insurance component (old age, survivorship, incapacity for work) and the health insurance component (national health care insurance and medical care) which further includes benefits in kind and cash benefits.

### 3.2.2 Financing of social security

In Hungary we encounter the traditional four social security branches (old-age, health care, unemployment and family benefits) and the complementary social assistance system. The financing principle of these systems is based mainly on contributions in practically all sectors of the social security system — with the exception of the social assistance benefits which are financed by taxes. Moreover, in case of deficits in the distinct social security funds, these deficits are covered by the general taxation.

There are also some social security schemes that are co-financed from taxes. Firstly, the schemes that are co-financed by social security contributions and taxes in Hungary are the health care schemes, i.e. the sickness and maternity schemes, either for in kind benefits or cash benefits. The most important source of public expenditure is made up of health insurance contributions paid by employers, employees and self-employed and a flat rate tax paid by employers. Moreover, the central budget makes contributions for several social welfare benefits, provides support and reimburses specific expenditures. The third party in the public financing of the health care is the local self-government which mostly contributes by arranging for health services delivery as an owner of healthcare facilities.

Furthermore, the first pillar old-age and survivors social security schemes as well as the invalidity social security schemes are also co-financed by taxes and social security contributions. These are Pay-As-You-Go contributions paid by insured persons and employers. In 2007 it was reported that 75% of the first pillar mandatory state pensions were financed by contributions and 25% by the

---


73 The most important support is the making up for losses in the Health Insurance Fund as well as the payment of the operation of health care facilities that the state owns.
state budget from taxes because of the lack of sufficient contributions in the existing Pay-As-You-Go system.

The second pillar old-age and survivors social security schemes as well as the unemployment insurance scheme are financed exclusively from social security contributions. The employment injuries’ and occupational diseases’ social security schemes are co-financed by both the levies while family allowances are financed from the taxes. There is no discrete long-term care system reported in Hungary.

**Table: Overview of the sources of financing social security in Hungary**

<table>
<thead>
<tr>
<th>Schemes financed by social security contributions</th>
<th>Schemes co-financed by social security contributions and taxes</th>
<th>Schemes financed by taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second pillar old-age and survivors social security schemes</td>
<td>Health care schemes (sickness and maternity, for cash and in kind benefits)</td>
<td>Family allowances</td>
</tr>
<tr>
<td>Unemployment insurance schemes</td>
<td>First pillar old-age and survivors social insurance schemes</td>
<td></td>
</tr>
<tr>
<td>Sickness benefit scheme</td>
<td>Invalidity social insurance schemes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employment injuries and occupational diseases scheme</td>
<td></td>
</tr>
</tbody>
</table>

Please note here that the Hungarian Government is currently preparing the introduction of some changes in the financing system of the social security schemes; these changes were scheduled to take place in January 2011.

In order to ensure sufficient financial cover for the benefits provided under the social security system, it is important that the insured persons as well as the employers fulfill their obligations with regard to the social security contribution payment. According to the Hungarian Act, there are two basic types of social security contributions that can be identified in Hungary.

The first are the compulsory social security contributions which are paid by the insured persons as they are specified in the provisions of the aforementioned law. These compulsory social security contributions include both pension (the second pillar private pension membership fee as well) and health care insurance contributions (both in kind and in money), sickness benefit contributions, health services contributions and early retirement pension contributions. There is also a compulsory flat-rate contribution per month towards the expenses of work accident-related social security services that has to be paid by companies with employees engaged in supplementary activities or by private entrepreneurs considered to be engaged in such activities.

In addition, there are the contributions for financing institutions promoting employment and providing for the unemployed paid to the Labour Market Fund — Munkaerőpiaci Alap Irányító

---


75 Act LXXX of 1997 on the eligibility for social security benefits and private pensions and the funding of these services.

76 These are called Nyugdíj járulék.

77 Known as Egészségbiztosítási járulék.

78 Táppénz-hozzájárulás. These contributions are paid by employers and they are equal to one third of the short-term sickness cash benefit disbursed to any insured person during the period in which the person is incapable of work or undergoing treatment in a hospital (clinic).


80 For the coverage of the employment injuries and occupational diseases.

81 As supplementary activities are meant the entrepreneurial or self-employed activities performed by old-age pensioners or surviving spouses reaching the retirement age.
Testülete which was set up after the merging of several previously independent funds\(^6^2\). These contributions are paid by the employers, the employees as well as the self-employed persons. Apart from the regular contributions we can also find included fixed-sum rehabilitation contributions which are paid in principle by economic organizations employing more than 20 employees\(^6^3\), and vocational training contributions; in addition, subsidies from the central budget, other revenues from payments made to the Labour Market Fund from fines, interests and so on, and EU projects also finance the unemployment benefit scheme.

The second basic type of social security contributions are the voluntary social security contributions paid by persons that enter into an agreement on the provision of social security services including persons residing in the territory of Hungary who are not subject to social insurance liability, but who wish to become entitled to health provisions or pensions through their voluntary participation in the system\(^6^4\).

In the present report we will not analyze the financing of the social assistance schemes regulated by the Hungarian Act on Social Administration as these schemes are financed by the state budget and not by social security contributions.

### 3.2.3 Collection methods

**The role of the Hungarian Tax Authority:** The social security contributions and taxes are both collected by the tax authority which is the Hungarian Tax and Financial Control Administration — *Adó- és Pénzügyi Ellenőrzési Hivatal (APEH)*\(^6^5\). This authority is responsible for the collection, recordkeeping and supervision of the social security contribution payments along with taxes. More specifically, the Hungarian tax authority:

- carries out checks and legal proceedings,
- assesses the social security contributions collected,
- keeps records of contribution obligations, payments and debts; and
- imposes fines related to payment and declaration of contributions or even initiating legal action in serious cases of breach of legal obligations.

The taxes and the social security contributions are collected on a regular basis as aggregate amounts. It was reported that there is generally no distinction or split upon collection. However, the monthly social security contribution-tax return form\(^6^6\) is the starting point in calculating the aggregate amounts due to the different state budget funds. The amounts are described in details depending on the tax or social security contribution type in the social security contribution-tax return form.

However, there is a distinction between benefits and services covered from general taxation, i.e. from the state budget (benefits connected with the citizens’ rights according to the Hungarian legal system, such as family allowances, flat-rate maternity grants and child care grants) and those benefits covered from social security contributions from employers and employees (social security

\(^6^2\) Solidarity Fund of the Unemployed, Employment Fund, Vocational Training Fund, Rehabilitation Fund and Wage Guarantee Fund.

\(^6^3\) This contribution is paid if the ratio of the disabled employees does not reach 5% of the total number of the employees. See International Encyclopedia of Laws, Social Security Law — Suppl. 28 (March 1999), Hungary, Czucz, O., p. 81.

\(^6^4\) International Encyclopedia of Laws, Social Security Law — Suppl. 28 (March 1999), Hungary, Czucz, O., p. 64.

\(^6^5\) Tax authority is defined as the APEH's regionally competent organizations (with its main and local branches which are the regional directorates having territorial competencies) according to the provisions of the Act on Personal Income Tax (hereinafter referred to as PIA); APEH's official website: [http://en.apeh.hu/](http://en.apeh.hu/).

\(^6^6\) This form has detailed information of the social security contribution and personal income tax on a personal level.
benefits). Public social assistance is paid partly from the central budget and partly from the local governments’ own budget.

Furthermore, we have identified an interaction between social security contribution and taxation rules. In fact, it was reported that the occasional applicability of the taxation rules in the social security contribution collection procedure is laid down in the relevant Hungarian law unless otherwise provided.

According to the reports of Hungarian experts in economics and public finance, the social security contributions are quite similar to the direct taxes; however, there is a difference existing between the two. Direct taxes are not directly tied to the services offered in return whereas social contributions payments constitute a form of insurance with entitlements to certain services (e.g. pension, unemployment benefit or family support). In the present report it is argued that the social security contributions do not constitute a form of taxes even though these are collected by the tax authorities. As a matter of fact, taxes are completely distinguished from the social security contributions. And the reason for this distinction in the Hungarian legal system is the fact that taxes and social security contributions have different legal backgrounds, i.e. there are different acts regulating each one of them. This differentiation of legal backgrounds and acts is reported to be caused by the actual structure of the Hungarian state budget.

Identification of contributors: The contributors to the pension and health insurance schemes are identified through a social security identification number. On the other hand, the tax administration uses a tax identification number for the individuals. This way the tax administration requires both identification numbers in the tax returns on the individual social security contribution data upon the collection of both levies. This means that there is not a unique identifying number used by both administrations, i.e. the tax and social security authority.

Every insured person and his/her employers have to declare and pay regularly the social security contributions to the tax authority. That is employers and employees as well as joint and private companies and entrepreneurs have to pay contributions both to the pension and health insurance fund via the competent tax authority. In practice employers make the payments and self-employed persons act as employers and pay the contributions for themselves. An additional obligation of the employers is the maintenance of a register of the insured persons as well as records concerning the data of the insured persons.

A distinction should be made between the insured persons who have chosen to remain in the first pillar and those who belong to the multi-pillar pension scheme as the rate of the contributions is different for the two categories of insured persons.

Moreover, there is another category of insured persons who pay social security contributions. These are the ones voluntarily insured as they are not subject to an insurance obligation, but they wish to become entitled to health provisions or pensions through their voluntary participation in the system.

---

87 Act LXXX of 1997.
89 E.g. taxes are regulated by the Act CXVII of 1995 on Personal Income Tax whereas social security contributions are regulated by the Act on the Eligibility for Social Security Benefits and Private Pensions and the Funding for These Services, the Act on Mandatory Health Insurance, the Social Security Pension Benefits Act and the Act on Family Allowance and Family Subsidies.
90 According to section 5 of the Act LXXX of 1997, an insured person is a person engaged in employment under contract, a cooperative member, a student attending vocational schools under apprenticeship agreement, a self-employed not engaged in auxiliary activities, a business partner, a person performing work for remuneration in any work-related relationship, ecclesiastical personnel and small-scale agricultural producers.
91 Section 46 of the Act LXXX of 1997.
In practice this group of persons also includes those who do not acquire social insurance periods automatically — that is without paying contributions — during the period of receiving child-care allowance or during the years of study in an institution of higher education.

The collection of the contributions is merged and falls within the responsibility of the tax authority. The employers have to assess the amount of social security contributions payable on the income paid to the insured person for the current month which comprises part of the contribution base. Then they have to deduct the contributions which the insured person is liable to pay. The amount of the monthly contribution (including the pension membership fees) assessed has to be declared electronically with the use of e-forms since 2006 and it has to be paid to the tax authority each month by the 12th day of the following month.

The same is required for the self-employed persons with the exception of those self-employed who are taxed under the provisions of a simplified business tax system; they have to make the payments according to the provisions of the Act on this simplified business tax. In general, as far as the self-employed persons are concerned, employer and employed are the one and the same person and the law requires them to meet the same criteria concerning the payment and declaration obligations, but only with some differences with regard to the frequency of payments and information provision in order to simplify their tasks. Moreover, the small-scale agricultural producers have the obligation to make the relevant declaration by the 12th day of the month that follows the quarter in question; that is on a quarterly basis.

Therefore, social security contributions are assessed, deducted and paid by the employers and entrepreneurs to the so-called “accounts” of the tax authority and shall be declared in their own returns. It is noteworthy that the term “account” is dated back since the time that only the employer had a current account with the social insurance institution — this explains the use of the term “contribution account holder” or “account holder” to refer to the employer as a social security contribution payer. Employees are not contribution account holders.

In addition to the declaration obligation, the employer has to inform the insured person in writing on the amount of social security contributions that the employer has paid, the amount of the health and pension insurance contributions (membership fees) deducted from the insured person’s wages and the amount of contribution refunded (transferred) due to overpayment. All the tasks associated with the remitting and reporting of the contributions are carried out by the account holder who is the employer. The employee only has to “withstand” the deduction of the contributions from his earnings.

According to the International Labour Organization (ILO) country report on Hungary concerning the collection of pension contributions, the tasks of the employers can be summarized in the following table.
Table: Tasks of employers identified in the Hungarian social security contribution collection system.

<table>
<thead>
<tr>
<th>Tasks performed by the employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting of the contributions owed</td>
</tr>
<tr>
<td>Calculation of the social security contributions owed, according to the calculation rates on the wage of the employee</td>
</tr>
<tr>
<td>Deduction of the employee’s contribution</td>
</tr>
<tr>
<td>Deduction of each employee’s social security contribution</td>
</tr>
<tr>
<td>Withholding of the employer’s partition</td>
</tr>
<tr>
<td>Matching the employee’s social security contribution with their own contribution on the specific worker’s behalf</td>
</tr>
<tr>
<td>Payment of the contributions</td>
</tr>
<tr>
<td>Total up the contributions for all their employees and then pay them to the tax administration</td>
</tr>
<tr>
<td>Reporting</td>
</tr>
<tr>
<td>Preparation and submission of a report (return) on each payment to the tax authority in the prescribed format</td>
</tr>
<tr>
<td>Record-keeping</td>
</tr>
<tr>
<td>Maintenance of a record on each of their employees so that the social security administration can easily determine the pension rights that the employees accrue while working for that employer</td>
</tr>
<tr>
<td>Yearly reporting</td>
</tr>
<tr>
<td>Preparation of a yearly report on the entitlement accrual of each employee and sending it to the social security administration</td>
</tr>
</tbody>
</table>

Calculation basis of social security contributions: In principle the taxable income serves as a calculation basis for the social security contributions. However, there are some exceptions regarding this general rule. For example social security contributions are not paid on the income from social security benefits approved and paid by the employer as well as social benefits payable by an entity other than the employer. Moreover, the contributions will be calculated in a different way than wages on some benefits in cash or in kind; for example, on the part of membership fees that are paid by the employer on a monthly basis into a voluntary mutual insurance fund for the benefit of the member and in the case of students pursuing full-time studies in an institution of higher education, on the remuneration received from the said institution. Note that the calculation basis for taxes and social security contributions is going to change as of January 2011.

The social security contributions are levied, generally, on gross aggregate income deriving from employment and benefits in kind. Employees and self-employed persons have to pay health insurance and pension insurance contributions which are generally levied on the gross employment income, income from independent personal services and benefits in kind. The daily ceiling under the mandatory pension schemes is HUF 20,420 for 2010 whereas no ceiling applies to the health

---

98. The amounts paid as well as the employees are not individualized in this report. Only details of payments to public schemes and not to private pension funds are included.
99. That is the Central Administration of the National Pension Insurance (CANPI).
100. CANPI.
101. These voluntary pension fund contributions are considered as benefit in kind according to the Hungarian Act on the Personal Income Tax.
102. In accordance with section 18 as combined with section 21 of the Act LXXX of 1997. In case of such benefits in kind or in cash, these would be taxed differently than wages.
103. As taxable income is meant: i) the income paid in employment relationship (including members of parliament), public service and civil service relationships, public prosecutor and judge relationships, justice administration relationship, official foster parents relationship, ii) the income of regular members of the Hungarian Army, public order enforcement bodies and national civil security services; income of contracted members of the Hungarian Army, the Border Guard, iii) the income of voluntary army reserve in service; iv) the income of persons in apprentice employment relationship, v) the income of members of cooperatives with active personal involvement; vi) the income of pupils enrolled in vocational school training with pupil employment contract, vii) the income of recipients of job search allowances, viii) the income of the self-employed who are not receiving pension on their own right, ix) the income of people in other gainful activities with active personal involvement (e.g. contract based temporary relationships, helping family members etc.) receiving payment which attains 30% of the monthly amount of the national minimum wage, x) the income of clergymen excepting pensioners, xi) the income of small scale agricultural producers (except of pensioners), and xii) the income of elected and managing officers of business corporations, foundations, NGOs etc. with income attaining 30% of the monthly amount of the national minimum wage.
104. HUF 7,453,300 per year.
insurance. No social security contributions are, however, payable on royalties and social allowances and no ceilings apply thereto.

In detail, the applicable rates for the calculation of the social security contributions are categorized as follows:

**Table: Applicable rates for the calculation of the social security contributions in Hungary — 2010 (Source Hungarian Tax and Customs Administration — APEH)**

<table>
<thead>
<tr>
<th>Types of social security contribution</th>
<th>Rate (on the gross aggregate income)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension insurance:</strong></td>
<td></td>
</tr>
<tr>
<td>Employers’ pension insurance contributions of the first pillar</td>
<td>24%</td>
</tr>
<tr>
<td>Employee’s pension insurance contributions if only insured in the first pillar</td>
<td>9.5%</td>
</tr>
<tr>
<td>Employee’s pension insurance contributions if insured in the first and second pillar</td>
<td>1.5%</td>
</tr>
<tr>
<td>Employee’s second pillar social security contributions (the so-called private pension fund membership fee)</td>
<td>8%</td>
</tr>
<tr>
<td>Employee’s social security contributions for those who voluntarily contribute to a supplementary private pension scheme</td>
<td>up to 10%</td>
</tr>
<tr>
<td><strong>Health insurance and unemployment:</strong></td>
<td></td>
</tr>
<tr>
<td>Employers’ health insurance and labour market contributions</td>
<td>3% (after January 1st, 2010)</td>
</tr>
<tr>
<td>Employer’s health care tax</td>
<td>Flat rate (repealed as from January 2010)</td>
</tr>
<tr>
<td>Employee’s health insurance and labour market contributions</td>
<td>7,5% (after the January 1st, 2010)</td>
</tr>
<tr>
<td><strong>Early retirement pensions:</strong></td>
<td></td>
</tr>
<tr>
<td>Employer’s early retirement social security contribution</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Employment injuries and occupational diseases:</strong></td>
<td></td>
</tr>
<tr>
<td>Employer’s or self-employed social security contribution towards the expenses of work-related social security services (if engaged in supplementary activities)</td>
<td>Flat-rate</td>
</tr>
<tr>
<td><strong>Special contributions:</strong></td>
<td></td>
</tr>
<tr>
<td>Employer’s sickness benefit Contribution</td>
<td>1/3 of the short-term sickness cash benefit</td>
</tr>
<tr>
<td>Vocational training contribution</td>
<td>1,5%</td>
</tr>
</tbody>
</table>

In addition to the social security contributions, a flat-rate health tax charge was payable by employers and other payers of income after it has been assessed on those items of income that are not subject to the social security contributions, but are included in the aggregate taxable base or they are taxed as benefits in kind. However, as from 1 January 2010, the application of the health tax is repealed. Individuals are also subject to a 14% health care tax charge on certain items of income if

---

the health insurance contribution paid by the individual’s employer is less than HUF 450,000 for each individual in the current year\textsuperscript{106}.

Moreover, the employer is subject to an early retirement insurance contribution which amounts to 13% of the gross — before taxation — wages, income. However, the 25% of the early retirement insurance contribution is covered from the central budget which means that there is only a 9.75% payment liability for the employer.

As a rule, the employer’s social security contributions and charges are deductible for corporate income tax purposes.

**Transfer of revenues:** After the collection of the levies, the tax authority transfers the social security contributions to the first pillar social security pension scheme (old-age and survivors’ pension) via the Treasury; more specifically, the tax authority makes the transfer to the Health Insurance Fund and the Pension Insurance Fund every month. The contributions for the second pillar insurance scheme are further diverted from the Pension Insurance Fund to the private pension funds. No fee is charged regarding the administrative assistance — cooperation between the governmental organizations.

As for the second pillar, Hungary has opted for a merged approach as well, because contributions are paid from the employers to the tax authority and then they are transferred to the pension funds.

It was also reported that the contributions paid in favor of persons who were eligible for only health care, had to be transferred directly to the regional health insurance funds. For example this is the case for persons receiving maternity benefits, unemployment allowance, or other social benefits.

### 3.2.4 Record-keeping and data exchanges

There are three different registers connected with the payment of the social security contributions.

On a first level, we find:

- the records of the social security contribution declarations, payment and enforcement which are maintained by the tax authority.

On a second level, there is:

- a pension insurance register maintained by the social security administration\textsuperscript{107} with the authority to manage the pension insurance fund and administer social insurance benefits through its local branches\textsuperscript{108}, and

- the health insurance register maintained by another social security administration\textsuperscript{109}.

As far as the employers’ individual record keeping is concerned, there is a provision in a Parliamentary Act\textsuperscript{110} that provides for a detailed reporting of employers to both the social security administrations of the first and second pillar social security schemes. However, in practice the

\textsuperscript{106} In such a case, the individual has to supplement the amount paid by the employer up to the amount of HUF 450,000, provided that he receives items of income that are subject to the health care tax charge, i.e. income withdrawn from the entrepreneurial income, income from securities lending, dividends and the entrepreneurial dividend base, capital gains and income from the lease of immovable property if it exceeds HUF 1 million per year.

\textsuperscript{107} The Central Administration of National Pension Insurance: http://www.onyf.hu.


\textsuperscript{109} The National Health Insurance Fund: http://www.oep.hu.

\textsuperscript{110} No. LXXX of 1997.
application of this obligation has been postponed and until the present day there has been no public record of individual contributions in Hungary.

Figure: Record keeping arrangements in the Hungarian social security contribution and tax collection system

All these registers and records contain the data and information supplied by employers and insured persons under statutory requirement, indicating the income for each insured person as a base for social security contributions, the amount of the contributions paid by or deducted from the insured persons, the duration of the insurance relationships and the information necessary for granting benefits to the insured persons.

The access to the data related to social security contribution collection and data related to tax collection is strictly determined by the locality and the actual office process of the collecting tax authority; this access is also limited by certain access authorization rules. For example, if a taxpayer changes its seat, all of his payment history will be accessed by the actually competent regional directorate and authorized personnel thereafter. The aforementioned data, though, are not freely interchanged between social security institutions and the tax authority.

Furthermore, with regard to pension contributions, two institutions are responsible for the data keeping tasks after the collection is performed: on the one hand, the tax authority where the payments are actually done and, on the other hand, the social security administration which keeps records of the employee’s entitlement accruals. These data are interchanged according to the above described procedure.

More specifically, in order to prevent any unauthorized use of social security benefits and for determining the amount of the benefits, the tax authority discloses the relevant data with the tax identification codes of the insured persons indicated. The social security administration then collates the data received from these records with the data from its own records by applying the client codes and communicates the tax identification code of persons drawing benefits without eligibility to the tax authority. With the new social security contribution and tax return form which was introduced

---

111 This is the so-called CANPI administrative authority.
in 2006, the pension and health insurance fund have a direct access to the payment information on an individual level. This means that the social security administration has information on whether an insured person abides by his/her social security contribution obligations; there are no data on the individual amounts actually paid for each insured person. The tax authority has also a direct feedback from funds in case of benefits without eligibility.

The current system of separate organizations — one for collecting social security contributions and one for paying benefits — requires regular data reconciliation and coordination because there are several ways that someone can change his/her insurance status. For this reason it is reported that the new electronic filling system and the electronic verification of eligibility in Hungary provide immediate and detailed data to all three competent administrations. Therefore, the inaccuracies and differences in the records have been reduced to the minimum level.

### 3.2.5 Control and recovery of overdue payments

The primary control of the contribution payment is carried out by the tax authority which is further supervised by the Ministry of Finance\(^{113}\) and the State Audit Office of Hungary\(^{114}\) as far as the pension insurance is concerned, by the Ministry of Health\(^{115}\) as far as the health insurance is concerned and the Ministry for National Economy\(^{116}\) regarding the unemployment insurance scheme. The Ministry of Social Affairs and Labor\(^{117}\) has a general supervision of the social security schemes whereas authorized private pension fund administrators administer the individual accounts and the Ministry of Finance supervises the individual accounts\(^{118}\).

Moreover, the tax authority exercises official power against contribution payers who are reluctant or deny fulfilling their obligation to pay the social security contributions. This means that beyond its power to assess and collect contributions, payments and debts, the tax administration has the additional authority to initiate legal action in serious cases of breach of legal obligations.

The social security controllers have the right to perform on-spot controls, but their competence in this field is limited as they can only report the fraud or social security contribution evasion to the tax authority or the police, but they do not possess any right to impose immediate sanctions. For the efficient detection of infringements and frauds, it has been reported that there are frequent joint controls performed by the social security administration and the tax authority.

As for the control of the social benefits payment, this lies within the competency of the granting social security administration, but the overpayments are to be collected by the tax authority.

### 3.2.6 The merger process

In 1992 the Social Insurance Fund was divided in a Pension Insurance Fund and a Health Insurance Fund. Until that time it was the responsibility of the Central Administration of National Social Insurance\(^{119}\) to collect contributions. After the aforementioned division in 1992, the Central Administration of National Health Insurance\(^{120}\) Fund was placed in charge of all contribution collections until 1999. The Pension Insurance Fund was separate from the state budget and had an elected self-governing Body responsible to the Parliament. Similar to the latter was the Health

---

\(^{113}\) Official website of the Hungarian Ministry of Finance: http://www.p-m.hu.

\(^{114}\) For more information on the State Audit Office of Hungary visit: http://www.asz.hu.

\(^{115}\) Official website of the Hungarian Ministry of Health: http://www.eum.hu/english.

\(^{116}\) For further details on the Hungarian Ministry for National Economy see: http://www.ngm.gov.hu/en.


\(^{119}\) This was also called CNSI.

\(^{120}\) Usually referred to as CANHI.
Insurance Fund having a self-governing body as well, with the aim — among other duties — of financing health-care institutions and distributing pay sick. The financial burden of non-pension-type benefits has been transferred gradually from the Pension Insurance Fund to the central state budget\(^{121}\).

The responsibility of all the contribution collection-related tasks has been shifted to the tax authority in 1999 by a Parliamentary Act\(^{122}\). More specifically, all contribution payments and information returns had to be directed to the tax authority as from January 1st, 2001. Moreover, the tax authority had the additional obligation to restructure the social security contribution accounts. Thus, every account holder received a new account.

The tax authority has taken over the premises, infrastructure, personnel, databases and the balances in accounts related to them from the social security administration. In 2000, the relatively independent social security contribution directorates\(^{123}\) of the tax authority were ceased and fully integrated into the organization of the tax authority\(^{124}\).

Furthermore, the Pension and Health Insurance Funds were no longer self-governing bodies as their role has been taken over by one of the political state secretaries of the Prime Minister’s Office. However, in the case of the unemployment system, self-government is still in operation with the National Employment Council, the Governing Body of Labour Market Fund and the County Labour Councils\(^{125}\).

The merger of the social security contribution and tax authority was completed in January 1st, 2001. The Tax and Financial Control Administration (APEH)\(^{126}\) has been the main institution involved in the collection of both levies. A new period has also started in 2006 when the electronic forms for the tax returns were introduced.

Hungary has merged most aspects of the contribution collection for the first and second pillar pension and health care systems presenting a manifold experience which is reflecting the continuing difficulties in modernizing the collection administration. It has been reported that, while good progress has been made, there are still few deficiencies in compliance, record keeping, and coordination.

One of the basic reasons for the merging of the administration of the social security contribution and tax collection was the targeted increase of the efficiency in the contribution collection, the simplification of the collection procedure and the reduction of the expenses. Before the merger there was also a powerful restriction on cross-checking between tax and social security contribution because of a prohibition enforced by the constitutional court in order to protect citizens’ privacy. Therefore, there were many difficulties in the provision of information by employers to a central agency\(^{127}\).

Moreover, in the early 1990’s there was a great increase in the number of accounts handled by the health insurance institute. The collection agency was unable to cope with such a rapid increase and


\(^{122}\) Act No. LIV of 1999.

\(^{123}\) These relatively independent contribution directorates of the tax authority were responsible for reaching individual agreements with contribution payers on the amount of their outstanding debt and to cancel late charges and fines if the contribution payer could verify payment.


the IT used was also insufficient. Consequently, the development of a new system was more than necessary. However, several delays have impeded the introduction of such a system\textsuperscript{128}.

What is more, until 1992, social security administration for pensions had only limited authority relating to the overdue contributions; it could only send a payment request as, on the contrary, only the tax authority could use stricter means of collection or otherwise legal action had to be initiated. Then, in 1992, the Parliament enacted a legislation giving the health insurance institute the authority to recover debts through direct collection by the seizure of liquid assets and collection enforcement by confiscation and sale of physical assets. This way the collection agency has been granted the authority to withdraw funds from a firm's bank account without the firm's prior authorization. Nevertheless, many of the firms that time were operating on a cash basis and, as a result, there was limited value of the aforementioned authority. This is the reason why an additional authority for collection enforcement such as the tax administration was further required\textsuperscript{129}.

**Obstacles encountered during and after the merger:** According to the experiences of the national experts, one of the main obstacles encountered was the limited attention on behalf of the tax administration towards the social security contribution collection needs compared to the collection of other levies such as the VAT or the income tax. Moreover, as another obstacle encountered during the merger was mentioned the old legislative provisions which continuously needed to be amended and modernized in order to meet the requirements of the merged collection system.

The national experts participating in the present report have mentioned that there has been no significant opposition to this merger because the tax and social security contribution payment obligations have been greatly simplified by the merger. It has also been reported that no further merger procedure regarding the collection of both the levies is expected or foreseen in the near future.

**Consequences of the merged collection system:** One of the negative effects of the merger is that the social security institutions had no direct information anymore about the calculation basis of the social security contributions and the actually paid amounts. There has been no unified identifying number for the taxpayers and contributors used by the tax authority which has created gaps in the record keeping especially with regard to the non-paying persons. Especially with the numerous tax types, it became difficult to control the funds with large revenues. This problem had to be resolved with the regular data reconciliation of the health and pension social security authorities and the tax administration which is not always a successful procedure.

On the other hand, it was reported that this merger had a lot of positive effects in the collection procedure and administration of the social security contributions. Indeed, the collection procedure has proved to be more efficient especially with regard to the overdue payments as the tax authority can use stricter means of collection enforcement. In addition, the tax authority can perform a more efficient control on the payment of the contributions and, as a result, there is higher compliance with the social security contribution payment obligation. Finally, the employers can use a simplified procedure via a “single window” approach in order to fulfill all their obligations.

\textsuperscript{128} As from 1998 there was a new IT system which was accessed by an authorization to the entire database independently from the locality.

Table: Summary of the merged administrative arrangements for social security contribution and tax collection in Hungary

<table>
<thead>
<tr>
<th>Collecting authority</th>
<th>Hungarian Tax and Financial Control Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting method</td>
<td>The social security contributions and taxes are collected as aggregate amounts</td>
</tr>
<tr>
<td>Applicability of taxation rules</td>
<td>Yes, if there is no contrary provision in the Hungarian social security law</td>
</tr>
<tr>
<td>Relationship of social security contributions with taxes</td>
<td>They are distinguished from one another because they have different legal backgrounds due to the structure of the state budget</td>
</tr>
<tr>
<td>Declaration and payments of social security contributions and taxes</td>
<td>Performed by insured persons and their employers as well as companies and self-employed persons</td>
</tr>
<tr>
<td>Records’ maintenance</td>
<td>By employers (in the so-called “accounts”)</td>
</tr>
<tr>
<td>Identification of insured persons for payment purposes</td>
<td>Via a social security identification number plus a tax identification number</td>
</tr>
<tr>
<td>Electronic declaration of payments</td>
<td>Use of e-forms</td>
</tr>
<tr>
<td>Calculation basis for social security contributions</td>
<td>Taxable income with some exceptions</td>
</tr>
<tr>
<td>Deductibility of social security contributions for corporate income purposes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| Transfer of funds collected                                                          | • Transfer to the first pillar social security scheme via the treasury  
• Second pillar contributions are further diverted from the first pillar pension fund to the private funds |
| Control and recovery of overdue payments                                              | • Primary control performed by tax authority  
• Social security controllers have limited competencies in this field |
| Levels of record keeping                                                              | • Records of the contribution declarations, payments and enforcement maintained by the tax authority  
• Pension and health insurance register maintained by the competent social security administrations  
• Individual record keeping (not applicable in practice) |
| Data exchange between tax and social security administration                          | Limited only with the use of tax identification codes (the so-called client codes) |
| Obstacles during and after the merger                                                 | • Limited attention from tax administration towards social security contribution collection  
• Requirement of amendments to old legislative regulations |
| Disadvantages of the merged collection                                                | • No direct information on the calculation basis of social security contributions and amounts actually paid for the social security administration  
• Gaps in record keeping due to the lack of a unified identifying number for contributors |
| Benefits of the merger                                                                | • Simplified procedures for employers  
• More efficient collection procedure  
• Stricter means of collection enforcement  
• Higher compliance with the social security contribution payment obligations |
3.3 Italy

3.3.1 Introduction
Italy is one of the southern European countries where the idea of a merger of the collection of the social security contributions and taxes is quite recent and currently at an initial stage. This is because a certain degree of complexity is encountered in all the Italian social security schemes. It is also a fact that most of the revenue of the social security schemes comes from the payment of the social security contributions by categories of workers; this makes the effective collection of the social security contributions very important for the financing of the different social security schemes. There is also a considerable contribution from the State, which, over the last few years, has become gradually even more significant.

In general, the Italian social security system makes a distinction between social assistance — assistenza sociale — which is financed by the taxes, and social insurance — previdenza sociale — which is financed primarily by social security contributions. Social insurance schemes in Italy cover a loss of income from work as a result of sickness, maternity and tuberculosis, and involuntary unemployment, as well as pensions’ invalidity benefits and incapacity to work, survivors’ pensions and old age pensions. Industrial injuries and occupational diseases are the subject of a separate insurance scheme. Finally, there is a national health service as well.

3.3.2 Financing of social security
Due to the complexity of the Italian social security system there is a vast typology of contributions that are financing the different social security schemes. This is also caused by the fact that there is a variety of social security contribution rates which are fragmented because they refer to individual production sectors depending on the activity pursued, the number of the employees, the location of the company, the classification of the insured as workers, employees, professionals or directors. In addition to these rates, there are further sub-rates for each category of social security contributions set according to the economic evaluation (for example there is support for the less wealthy sectors) or the pressure exercised by the different interest groups.

In an effort to provide a general overview of the basic types of social security contributions, we can distinguish the obligatory social security contributions, the so-called “redeemed” social security contributions (redemptions), the employers’ imputed social security contributions and the voluntary social security contributions (for the voluntary continuation of social security contribution payments), the additional social security contributions (pension supplements) and the social

---

111 Social assistance provides for the social protection of the citizen’s actual interests without the perquisite that a risk will come up. See del Giudice, F., Mariani, F., Solombrino, M., Legislazione e previdenza sociale, XIX Edizione, Edizioni Giuridiche Simone, 2004, p. 227.
112 Social insurance is defined as the social security legislation which aims at the protection of the employee (and the members of his family) from the risks of disability or loss of the ability to work caused by predetermined situations (natural or related to work). See ibid. p. 268.
115 The compulsory social security contributions — contributi obbligatori — are the contributions paid by the employer on behalf of the employees that are working for him/her. See del Giudice, F., Mariani, F., Solombrino, M., Legislazione e previdenza sociale, XIX Edizione, Edizioni Giuridiche Simone, 2004, p. 304.
116 These are the so-called contributi da riscatto paid by the employee in order to cover — from the social security point of view — periods which were not covered by the payments of social security contributions. See ibid., p. 306.
117 The so-called contributi figurativi are paid by the employer on behalf of the employee without the partition of the employee, for covering periods when the insured person was not able to work for reasons independent of his/her will to work. See ibid., p. 308.
118 These contributions — contributi volontari — are paid directly by the insured person who has stopped working and has obtained the authorization from the social security administration to continue paying on a voluntary basis the social security contributions in order to retain his/her rights arising from the social insurance or to become entitled to pension rights. See ibid., p. 311.
119 These contributions — contributi integrativi o complementari — are financing a mandatory or voluntary pension scheme which generally provides additional retirement income to the statutory pension schemes. See also Persiani, M., La previdenza complementare, CEDAM, 2008.
solidarity contributions. Furthermore, we can distinguish the contributions paid by the employees and the employers with regard to the risks of maternity and sickness, invalidity, old age and death (including the special solidarity contribution which varies in accordance to whether the employer is involved in industry or trade and it is due by persons involved in the richer productive branches in favor of less wealthy sectors). Some categories of employers pay lower contributions for the branches of family allowances and old age.

With regard to the insurance scheme for professional risks, employers pay contributions depending on the degree of risk within their branch of industry. The National Health Insurance Service is financed by contributions from the sickness insurance fund and from contributions from the regions, provinces and municipalities. Some pensioners also pay a contribution for the National Health Service while for those who voluntarily affiliated to the National Health Service, special rates apply.140

The social security contributions are collected together with the taxes with the use of a unified payment form — modello di pagamento unificato; so the merger in Italy is an administrative one having a mere procedural nature. There are different opinions in Italy, some of which argue that this procedural merger can not qualify as a merger of the administrations. However, the idea of merging the social security contribution and tax collection has already been introduced and it is nowadays more and more supported according to the experiences of the national experts.

3.3.3 Collection methods
The role of the Italian tax authority: Currently there is not a unified administration authority competent for the collection of both social security contributions and taxes in Italy as the taxes are collected by the tax administration — Agenzia delle Entrate — and the social security contributions are collected by the competent social security institutions (INPS141, INAIL142, ENPALS143, INPDAI144 and so on).

In the field of social security and tax collection, Italy has introduced a different system which indicates a procedural merger to a certain extent of the collection administration of taxes and social security contributions by using a unique payment form which is common for both taxes and social security contributions (Form F24). After February, 16th, 2010 this unified module of payment — modello di pagamento unificato — is used for the payment of all kind of taxes and social security contributions. This so-called F24 tax form is used for the collection of all kind of taxes, VAT, local taxes, social security contributions, and interest owed from installment in payments as well as payments according to adjustment notices, judicial settlement or liquidation or formal control of the statements.

While defining the nature of the social security contributions, we have encountered some discussions about the qualification of the social security contributions as contributions or special levies or even taxes145. The supporters of the opinion that the social security contributions are taxes, claim that the State makes a significant intervention in the legal system of social security and, thus, social protection corresponds to the direct and immediate satisfaction of the public interest. However, the

144 The National Social Security Institution for Supervisory Staff in Industry (INPDAI – Istituto Nazionale di Previdenza dei Dirigenti di Aziende Industriali).
145 Persiani, M., Diritto della Previdenza Sociale, Padova, 2003, pp.87 et seq.
Italian Constitutional Court has continuously excluded that the social security contributions have a tax nature because they aim exclusively at the financing of the social security system\(^{146}\).

Therefore, in Italy social security contributions are completely distinguished from personal and corporate income taxes. This means that they are not integrated levies as they constitute a completely separate payment with regard to the other taxes collected and there is also no interaction between the two levies.

Consequently, when taxes and social security contributions are collected, a clear distinction is made on the F24 Module because it is explicitly explained in the form which amount corresponds to the taxes paid and which corresponds to the social security contributions paid. However, the total amount owed for both the taxes and the social security contributions is paid by the insured persons as a sum by using this unified form of payment to a common intermediary competent for the collection of both taxes and social security contributions.

In other words, contributions are collected by means of special forms which are also used for the taxes, or paying-in slips depending on the kind of contributions. The unified tax form F24 allows the payment of both taxes and social security contributions at common intermediaries such as the post offices or the authorized banks or the collection agents — *agenti della riscossione* — either in cash or by using a debit card PagoBANCOMAT or a POSTAMAT/POSTEPAY card (connected to a current account of a postal office) or by bank or postal checks or postal money order.

According to the guidelines for completing the Form F24, the types and the amounts due for taxes, social security contributions, local taxes etc, must be identified in the separate sections of this form by using the appropriate codes and then the payment of the total sum is made to the competent bank or post office. The collecting banks or post offices transfer the sums to a special national account where the details of each amount owed to every administrative authority can be easily identified.

In case there is a shortage of the amounts to cover the payment of the check or no funds at all, the payment is considered not to have taken place and, therefore, the contributions become overdue.

In the case of non-fulfillment of the social security contribution obligation, the social security authority asks some entities to proceed to the collection of the overdue payments. These collecting entities, one of which is “Equitalia” (51% of the public capital owned by the tax authority — *Agenzia delle Entrate* and 49% by INPS) or other entities (where the Ministry of Treasury has a share), use injunction proceedings for the collection of the social security contributions and taxes that have not been paid and they charge a fee for this collection procedure. Since October 1, 2006, the forced collection of overdue taxes and social security contributions has been assigned to one institution named “*Equitalia s.p.a.*” (already Riscossione s.p.a)\(^{147}\).

As a result, one can argue that a kind of merger of tax and social security administration authorities can also be recognized for Italy due to the transfer of the collection functions for the overdue payments of both taxes and social security contributions in the hands of the aforementioned administrative body.

The persons liable to pay obligatory contributions are employers, employees, self-employed persons, and exceptionally some other categories, e.g. a client of a freelance professional, who has the


\(^{147}\) According to article 3 of the law decree 203/2005 as modified by the law 248/2005.
obligation to contribute to the social security system for the professional with a contribution quota related to the value of the service received.

The contribution obligation is usually shared between employees and employers with the latter ones paying a higher proportion. There are, however, some cases that the contributions are exclusively owed by the employer; this occurs in the case of insurance against industrial accidents and professional diseases (competent authority for the collection of these contributions is the Italian National Institute against Industrial Injuries (I.N.A.I.L.).

Identification of contributors: The insured persons are identified through a unique identifying number called “codice fiscale”; this number is used to identify the citizens in all transactions with the Italian public administration and organizations. Furthermore, the registration at the competent social security authorities is taking place automatically. These enrollments are called ruoli and they are sent automatically to “Equitalia” — the collecting authority for the collection of overdue contributions — every two weeks in order to perform the forced collection of the contributions that are not paid.

Calculation basis of the social security contributions: We can distinguish various types of contributions transferred to finance the Italian social security system. These are the obligatory contributions, the voluntary contributions, some additional contributions and social solidarity contributions. The calculation basis for the social security contributions is usually the taxable income, although some exceptions may apply, such as the exemption of some wage items from the income used as a calculation basis for the social security contributions.

The total amount of contributions is normally established by the interested social security bodies with decisions to be approved by ministerial decrees. Ordinary contribution rates are depending upon the categories of the workers. There are different factors that must be taken into consideration in order to calculate the contribution rates. One of these factors is the nature of the activity of a company; commercial and craft companies pay lower contributions than industrial companies. Other determining factors are to which commodity sector the company belongs, the number of employees, the grade of employees (rates for workers are the highest and those for executives the lowest), the location of the company (areas considered depressed have lower contribution rates).

The amount of social security contributions depends on the type and size of the business and the rank of the employee. The aggregate contributions range from approximately 40% to approximately 45% of the aggregate remuneration accrued in the relevant year. The aggregate contributions are normally borne by the employer for 80% to 85% of their amount; the rest is borne by the employee and must be withheld by the employer. Social security contributions are deductible for corporate income tax purposes. There is also the case that the contributions are based on the employee’s presumed income and they are not proportional to remunerations.

The income that is taken as a basis for the calculation of social security contributions or the so-called “taxable pay”, is conventionally established by the law. There are two concepts in Italy concerning the income that is taxable for social security purposes. One is provided for in a law of 1969 which concerns incomes acquired up to January 1998 and considers as taxable income “all that the employee receives from the employer in money or in kind, gross of any deduction, dependent upon the employment relationship”, and the other was introduced by a law in 1997.

---

\(^{148}\) International Encyclopedia of Laws, Social Security Law, Suppl. 69 (November 2009), Italy, Renga, S., p. 38.


\(^{150}\) According to article 12 of the Act No. 153 of 1969.
after the pension reform of 1995, which is valid for incomes accruing after January 1998 onward; then it was established that the taxable base for social security purposes coincides with the income coming from employment subject to individual income tax\textsuperscript{151}.

As for the ceiling of wages according to which the social security contributions are calculated, one can argue that in principle contributions are levied upon unlimited wages. However, since the pension reform in 1995, contributions for the new pensions are only applicable up to an upper limit. For the amount of wage that exceeds this limit, no contributions are due and, consequently, this is not taken into account for the calculation of the pension. A minimal wage for contribution has also been introduced.

In order to calculate the employee’s income it is to be considered that the law provides that the employee’s pay shall meet the minimum wages requirements\textsuperscript{152} which are reviewed every year in order to keep pace with the cost of living by the social security administration (INPS). If the contributions are paid on an amount lower than the minimum threshold established by law, such contributions will be considered as referring to a proportionally reduced period of time. A maximum contributions threshold is also provided for\textsuperscript{153}.

The aggregate contributions are normally borne by the employer from 80\% to 85\% of their amount; the rest is borne by the employee and must be withheld by the employer. Finally, social security contributions are deductible for corporate income tax purposes\textsuperscript{154}.

The employees’ social security contributions\textsuperscript{155} are withheld from the employee’s salaries and they are payable partly by the employer and partly by the employee on a monthly basis to the INPS\textsuperscript{156} using the F24 tax form. The employee’s partition to the payable contributions is in general approximately 10\% of the total gross salary, depending on the type and size of the business and the rank of the employee\textsuperscript{157}.

Employers have to withhold social security contributions\textsuperscript{158} due by the employee (part of the social security contributions for the employee is due directly by the employer). The contributions are levied directly from the pay envelop and they are paid partly by the employer and partly by the employee on a monthly basis to the INPS\textsuperscript{159} using the F24 tax form.

A system of social insurance covering old-age, survivorship and health insurance is also in operation for taxpayers engaged in a business or profession. The amount of social security contributions for self-employed and non-employed persons\textsuperscript{160} varies according to earnings\textsuperscript{161} including the self-employed or family business’s annual income and it is levied at the percentage which is provided for at that time\textsuperscript{162}. There are minimum and maximum contribution requirements envisaged by law and the contribution payments are also made through the F24 tax form.

\textsuperscript{151} Article 6 of the Legislative Decree No. 314 of 1997.
\textsuperscript{152} This amounted to 171.03 Euros per week in 2006.
\textsuperscript{153} In 2006 all individuals had to pay contributions on an income of up to 85,478.00 a year while no contributions were levied on amounts over this threshold.
\textsuperscript{154} Contributi sociali a carico del datore di lavoro.
\textsuperscript{155} Contributi sociali a carico del lavoratore.
\textsuperscript{156} Or the other competent social security administration.
\textsuperscript{157} Contributi sociali a carico dei lavoratori autonomi.
\textsuperscript{158} Contributi sociali a carico del datore di lavoro.
\textsuperscript{159} Or the other competent social security administration.
\textsuperscript{161} Contributi sociali a carico dei lavoratori autonomi.
Transfer of revenues: As far as the ordinary social security contributions and taxes are concerned, these are all dealt with separately and kept separated electronically once they are collected by the use of the tax form F24. According to article 17 of the law decree 241/1997, taxes, social security contributions due to INPS and other amounts owed to the state, the regions, or other social security contributions, are subject to the unified payments which have to be made the same day that the relative statement is submitted.

After the fourth working day following the date of receipt of the F24 tax form, the banks or the postal offices where the payment has been made, calculate the paid amounts. Then they assign each one of them to the respective institutions and transfer them to the State Treasury within a unique special national account. These intermediaries also transfer the conclusive data for every authority within the aforementioned period to the data management structure of the Ministry of Finances which is called SOGEI\textsuperscript{163}.

Furthermore, within the first working day following the transfer of the amounts by the banks and the post offices and the receipt of the conclusive data, the competent department of the tax authority verifies that the intermediaries' actions are in time and correct and that the transfers made are correct as well; it also divides on a daily basis the amounts that correspond to each one of the administrations making the relevant transfers through the National Bank of Italy — Banca d’Italia keeping under consideration any payments made by the contributors. Within the following working day the National Bank of Italy has to credit all the amounts from the special national account to the specific accounts of the different recipients according to the data transmitted by the data management agency called SOGEI. Since February, 15th, 2010 the National Bank of Italy instead of transferring the amounts to the 211 different accounts of the several social security administration establishments, transfers daily all the amounts to a unique account of the provincial treasury of Rome to which the Directorate General of the social security administration\textsuperscript{164} has access.

Currently INPS is in the phase of special accounting; this means that there are amounts exclusively relevant to contributions included and amounts relevant to taxes excluded from the accounting.

There are separate units in the administration dealing with the social security contributions and the taxes. Therefore, it can be noted that the parallel collection system is maintained in this aspect. As far as the overdue payments are concerned, these are dealt with by a new administrative authority which is called “Equitalia” which is competent for the collection of overdue social security contributions and taxes.

For the normal contributions and taxes, there is no fee collected, but for the collection of overdue payments the collecting agency of “Equitalia” or any other competent collecting entity by the law maintains a percentage of the collected amount as a fee for its services, the so called aggio (premium) which is a collecting commission currently equal to 9%.

3.3.4 Record-keeping and data exchanges
The collecting agency of overdue payments, “Equitalia”, has access to data from the tax authority as well as from public and private entities. Indeed, with the creation of this new agency (“Equitalia”), the exchange of information between the social security administration and the tax authority is the rule (in the past it was an exception due to the bureaucratic problems faced by these authorities) and all the data regarding the personal profiles of the insured persons, their income and fiscal declarations,

\textsuperscript{163} For more information you can visit: http://www.sogei.it/flex/cm/pages/ServeBLOB.php/L/EN/IPagina/1.

\textsuperscript{164} That is the National Social Insurance Institute (INPS - Istituto Nazionale della Previdenza Sociale).
their assets and their social security contributions paid are now freely interchangeable between the two agencies as well as with the new agency “Equitalia” or other collecting entities which have signed agreements for the data exchange. This data exchange is only performed for the purposes of collecting the overdue social security contributions.

3.3.5 Control and recovery of overdue payments

The Ministry of Labor and Social Security and Ministry of Economy and Finance provide general supervision. The social security administration (INPS) supervision inspectors provide specific supervision with regard the collection of the social security contributions.

There is also data sharing between the Ministry of Labor and Social Security and the Guardia di Finanza which is a police force aiming at tackling the financial offences. In general, the National Social Insurance Institute (INPS) administers the mandatory national program through its branch offices and administers a number of special programs for certain categories of insured workers.

The collection of the overdue payments is assigned to collecting entities. As it is mentioned before, one of these entities is “Equitalia” which uses injunction proceedings for the collection of the social security contributions and taxes that have not been paid and charges a fee for this collection procedure. Since the October 1st, 2006, the forced collection of overdue taxes and social security contributions has been assigned to one institution named “Equitalia s.p.a.” (already Riscossione s.p.a).

3.3.6 The merger process

In Italy, the parallel collection system of taxes and social security contributions has been maintained and the payment procedure has been converted to a merged collection system with the use of the unified payment form F24. This was the result of the reengineering of the collection and payment activities which have been launched during 2009 in order to simplify the operations and the corresponding control of the financial flows of the INPS.

Furthermore, the adequacy of collection of overdue taxes and social security contributions has long been a major issue in Italy, which has recently been addressed. There has been, indeed, a creation of a new authority in Italy, “Equitalia” or Riscossione S.p.a.; the tax authority holds 51% of its shares and the INPS 49%. This authority has the responsibility to collect all the overdue taxes including the social security contributions since October 1st, 2006.

Now there are two conventions between the Agenzia delle Entrate and the INPS concerning the payment of social security contributions via the form F24 — modello di pagamento unificato — and one for the realization of the norms established in the relevant national law decree.

Consequences of the merged collection system: Although there has been a long-term collaboration between the two authorities — the social security administration and the tax authority who have been exchanging data — this exchange of data was not very extensive and there were always the
problems of the bureaucracy in the transfer of the necessary data and the exchange of information. Therefore, it was important to introduce a merger of social security contributions and tax collection for the smoother circulation of data flows.

Since the social security administration and the tax authority have signed on December 12th, 2008 the convention on the data sharing in order to combat the social security contribution evasion, it was estimated that 100 billion Euros more were going to be collected per annum as a result of the evasion combat.

Furthermore, the use of a unified form for the collection of both taxes and social security contributions aimed at simplifying the payment procedures and the reduction of the expenses. According to an internal document\textsuperscript{173} of the social security administration, it is established that since February 16th, 2010, the merging of the collection of the social security contribution collection has began with the use of the unified tax form F24.

A new administrative authority has been created for the collection of both taxes and social security contributions that are overdue. The main reason underlying the creation of this unified collection of overdue taxes and social security contributions by “Equitalia s.p.a.” (already Riscossione s.p.a.) has been the high rate of social security contribution evasion which Italy has been experiencing during the past years.

Among the good practices adopted during this merger we can identify the professional training of the employees of the social security administration who became familiar with the new collection procedure and the exchange of data after the introduction of the unified form. This training is usually regulated by agreements adopted by both the agencies on a local level\textsuperscript{174}.

No other changes with regard to the human resources/personnel or administration facilities were reported to take place because of this merger as well as no reactions towards this collection merger.

Finally, the data exchange agreement on December 26th, 2008, between the social security administration and the tax authority was signed some time after the merger of the tax and social security contribution collection for overdue payments in the hands of the collecting agency “Equitalia”; this agreement has duration of three years with the possibility of renewal. Some of the advantages of this agreement in the area of data exchange are the elimination of the duplicate operations, a more efficient administrative organization and the doubling of the control activities with the use of the same human resources in order to minimize the social security contribution and fiscal losses. There are no further steps or plans foreseen in the near future regarding the merger of the social security contribution and tax collection.

\textsuperscript{173} No. 19/15-2-2010 of the INPS.
\textsuperscript{174} See Convenzione tra l’ Agenzia delle Entrate e l’ INPS per la Formazione e l’ Aggiornamento Professionale (Prot. N. 8703/2008).
### Table: Summary of the merged administrative arrangements for social security contribution and tax collection in Italy

<table>
<thead>
<tr>
<th>Collecting authority</th>
<th>Taxes collected by tax authority and social security contributions by the social security administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting method</td>
<td>Use of a unique payment form common for both taxes and social security contributions</td>
</tr>
<tr>
<td>Applicability of taxation rules</td>
<td>As the parallel collection system is maintained, the taxation rules cannot be applicable to the social security contribution collection</td>
</tr>
<tr>
<td>Relationship of social security contributions with taxes</td>
<td>Completely distinguished from one another and there is no interaction between them</td>
</tr>
<tr>
<td>Declaration and payments of social security contributions and taxes</td>
<td>Regularly by employers</td>
</tr>
<tr>
<td>Records’ maintenance</td>
<td>Separate for social security contributions by the social security administration and for taxes by the tax authority</td>
</tr>
<tr>
<td>Identification of insured persons for payment purposes</td>
<td>Unique identifying number</td>
</tr>
<tr>
<td>Electronic declaration of payments</td>
<td>Yes</td>
</tr>
<tr>
<td>Calculation basis for social security contributions</td>
<td>Usually the same for both levies, though some exceptions may apply</td>
</tr>
<tr>
<td>Deductibility of social security contributions for corporate income purposes</td>
<td>Yes</td>
</tr>
<tr>
<td>Transfer of funds collected</td>
<td>The revenues are kept separated electronically once they are collected</td>
</tr>
<tr>
<td>Control and recovery of overdue payments</td>
<td>For taxes by the tax authority and for social security contributions by the social security administration. Only for overdue payments there is one collecting authority</td>
</tr>
<tr>
<td>Levels of record keeping</td>
<td>Separate for each of the levies</td>
</tr>
<tr>
<td>Data exchange between tax and social security administration</td>
<td>Only for overdue payments, the collecting authority has access to the relevant data</td>
</tr>
<tr>
<td>Obstacles during and after the merger</td>
<td>None reported as the merger is at an initial stage</td>
</tr>
<tr>
<td>Disadvantages of the merged collection</td>
<td>• Extensive exchange of data between the administrations</td>
</tr>
</tbody>
</table>
| Benefits of the merger | • Effective combat of social security contribution and tax evasion  
| | • Simplification of payment procedures and reduction of expenses  
| | • Elimination of duplicate operations for overdue payments |
3.4 Netherlands

3.4.1 Introduction
The law currently regulating the collection of social security contributions in the Netherlands, is called the “Act on financing social insurance” (Wfsv)\textsuperscript{175} dated on 16/12/2004. This law determines:
- the persons liable to pay social security contributions,
- the nature of each contribution,
- the collection process of the contributions by the tax administration, and
- the administration of the funds collected.

In this section, we discuss — among others — the specific provisions of this law.
Before we proceed to the analysis of the individual aspects of the merger of the administrations of social security contribution and taxation, let us explain briefly the way the two types of social security schemes are organized in the Netherlands: social insurances and “social provisions”\textsuperscript{176}.

The social insurances are being mainly financed by the social security contributions whereas the “social provisions” are financed from the central budget\textsuperscript{177}. More specifically, the social insurance scheme is further divided into:
- a national insurance scheme (old age and survivors pension, child benefits, health care and exceptional medical expenses) which covers all the people residing in the country and is financed by means of contributions, and
- a social insurance scheme related to labour relations (employee benefit schemes, such as unemployment, sickness and disability benefits) which concerns all the employees either they work in the private or market sector or in the public sector and is financed by contributions directly charged to the employers or deducted from the employee’s wages\textsuperscript{178}.

There is no specific social security scheme for employment injury and occupational diseases in the Netherlands.

**Figure: Structure of the social security schemes in the Netherlands**

\begin{center}
\includegraphics[width=\textwidth]{structure.png}
\end{center}

\begin{itemize}
\item \textsuperscript{175} Wet financiering sociale verzekeringen.
\item \textsuperscript{176} “Social provisions” is the term used in the Netherlands for defining the social assistance schemes.
\item \textsuperscript{177} Social assistance schemes covering all the residents for the risks of old age, welfare, health care etc (such as Work and Social Assistance Act (WWB), Act on Income Provisions for Older or Partially Disabled Unemployed Persons (IOAW), Act on Income Provisions for Older or Partially Disabled Formerly Self-employed Persons (IOAZ), Provisions for the Disabled Act (WVG), Work and Artistic Income Act (WWIK), General Child Benefit Act (AKW), Work and Employment Support for Disabled (Wajong), Supplementary Benefits Act (TW)) which are financed by the general budget. See also Pieters, D., The social security systems of the Member States of the European Union, 2002, Intersentia, p. 247.
\end{itemize}
All the above provisions regard the public system of social security while there are also quasi-mandatory, funded occupational pension schemes which provide supplementary benefits related to previous income together with the basic pension; the latter one provides protection against poverty in old age. It has been argued that this combined public-private approach to pension provision is considered to be fairly resistant the demographic and financial shocks that can affect the public pension systems elsewhere in Europe as the risk of old age is shared between the state and the social partners\textsuperscript{179}.

### 3.4.2 Financing of social security

The social security schemes in the Netherlands are financed by different sources. The first source consists of income-related contributions that need to be paid by the insured persons as well as by the employers. The second source consists of general means and, in the case of the Health Insurance Act (Zvw)\textsuperscript{180} there is a third source of financing: the “nominal premiums”\textsuperscript{181}. The employer can also be identified as a fourth source of financing because he or she is to pay to the employee 70% of the earned salary during the first two years of sickness. In this section, we examine only the first source of financing of the social security schemes in the Netherlands, i.e. the social security contributions.

**Figure: Different sources of financing social security schemes in the Netherlands**

![Diagram of different sources of financing]

The social security contributions in the Netherlands can be regarded as *levies on a taxable income deriving from employment and home ownership* (Box 1 income\textsuperscript{182}) and they are distinguished from personal or corporate income taxes. They are collected as a single sum with the salaries tax\textsuperscript{183}.

\textsuperscript{179} Haverland, M., Another Dutch Miracle? Explaining Dutch and German pension trajectories, JESP, 2001, pp. 308-323.

\textsuperscript{180} Zorgverzekeringswet.

\textsuperscript{181} The persons insured under the Health Insurance Act also have to pay a “nominal premium” to their health care social security administration.

\textsuperscript{182} In general, there are three types of taxable income identified for income tax purposes which are categorized into three boxes; Box 1: taxable income from employment and home ownership; Box 2: income from a substantial interest; Box 3: income from savings and investment.

The social insurance schemes in the Netherlands, either the employee or the national social insurance schemes, are financed from contributions and only some of the social insurance schemes are partially financed by the national government\textsuperscript{184}. Furthermore, a small part of the social security scheme for exceptional medical expenses (AWBZ) is financed by own contributions\textsuperscript{185}.

There are two categories of insurance schemes and each of them has the respective subcategories of social security contributions. The table on the next page offers an overview of the types of social security contributions and the corresponding social security schemes.

### 3.4.3 Collection methods

**The role of the Dutch tax authority:** The Dutch Tax and Customs Administration — Belastingdienst\textsuperscript{186} is the collecting authority of social security contributions for the old age pensions\textsuperscript{187}, the survivors’ pensions\textsuperscript{188} and the special medical expenses\textsuperscript{189} together with the income tax and the tax on wages since 1990; the responsibility for the collection of social security contributions for the employees’ insurance schemes is transferred to the tax authority since 2006.

More than 30,000 staff members of the Dutch tax authority are responsible for levying and collecting taxes and social security contributions. According to the data given by the Dutch tax authority, each year this administration processes the tax returns of 6 million private individuals and 1.1 million entrepreneurs\textsuperscript{190} as well as pays out provisional refunds and benefits that are available to households towards the costs of childcare, rent or health care.

Schematically, the organization of the tax authority which is part of the Ministry of Finance has the following structure:

**Figure: Organizational structure of the Dutch tax administration**

![Organizational structure of the Dutch tax administration](http://www.belastingdienst.nl/organisatie/en/tax/tax-01.html#P5_781)

**Source:** Official website of the Dutch tax authority: [http://www.belastingdienst.nl/organisatie/en/tax/tax-01.html#P5_781](http://www.belastingdienst.nl/organisatie/en/tax/tax-01.html#P5_781)

\textsuperscript{184} For example, there is the BIKK (Bijdragen In de Kosten van de Kortingen) which was introduced in 2001 and works as a compensation for the old-age pension (AOW), surviving relatives pension (Anw) and exceptional medical expenses (AWBZ) funds, and there are the state contributions (rijksbijdragen) which are only financing the AOW funds being annually determined and sometimes the Ministry of Public Health, Welfare and Sport sets some state contributions for the AWBZ funds, too. The difference between the BIKK and the state contributions (rijksbijdragen) is that the former are calculated through a formula.

\textsuperscript{185} Eigen bijdragen.

\textsuperscript{186} Official website of the Dutch tax authority: [http://www.belastingdienst.nl/](http://www.belastingdienst.nl/). In accordance with article 57 of Wtsw.

\textsuperscript{187} AOW.

\textsuperscript{188} ANW.

\textsuperscript{189} AWBZ.

Table: Overview of the existing types of social security contributions and the corresponding social security schemes.

<table>
<thead>
<tr>
<th>Types of social security contributions</th>
<th>Risks covered</th>
<th>Social security schemes</th>
<th>Persons covered</th>
<th>Payers</th>
<th>Collecting authority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National Insurance Schemes</strong>&lt;sup&gt;191&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old-age pension contributions (AOW)</td>
<td>Old age</td>
<td>General Old Age Pensions Act — Algemene Ouderdomswet (AOW)</td>
<td>All residents between 15–65 years old and people subject to the Dutch tax on wages&lt;sup&gt;192&lt;/sup&gt;</td>
<td>All residents between 15–65 years old earning an income or receive income related to work (unemployment or disability benefit)</td>
<td>Tax authority</td>
</tr>
<tr>
<td>Survivor's pension contributions (ANW)</td>
<td>Death</td>
<td>General Surviving Survivals Act — Nabestaandenwet (ANW)</td>
<td>All residents over 15 years-old and people subject to the Dutch tax on wages</td>
<td>All residents between 15–65 years old earning an income or receive income related to work (unemployment or disability benefit)</td>
<td>Tax authority</td>
</tr>
<tr>
<td>Contributions for the special medical expenses (AWBZ)</td>
<td>Exceptional Medical Expenses</td>
<td>General Act for the Exceptional Medical Expenses — Algemene Wet Bijzondere Ziektekosten (AWBZ)</td>
<td>All residents</td>
<td>All residents between 15–65 years old earning an income or receive income related to work (unemployment or disability benefit)</td>
<td>Tax authority</td>
</tr>
<tr>
<td>General means (no contributions)</td>
<td>Child benefits</td>
<td>General Child Benefits Act — Algemene Kinderbijslagwet (AKW)</td>
<td>All residents</td>
<td>All residents (via the general means)</td>
<td></td>
</tr>
<tr>
<td>Health care contributions&lt;sup&gt;193&lt;/sup&gt; for benefits in kind</td>
<td>Sickness and maternity</td>
<td>Health Insurance Act — Zorgverzekeringswet (Zvw)</td>
<td>All residents</td>
<td>All residents between 15–65 years old earning an income or receive income related to work (unemployment or disability benefit) or pension</td>
<td>Tax authority</td>
</tr>
</tbody>
</table>

**Employee benefits schemes**

| | | | | | |
| Health care contributions for cash benefits<sup>194</sup> | Sickness and maternity | Sickness Benefits Act — Ziektewet (ZW) | Employees | Employers | Tax authority |
| Disability contributions: three components: basic, differentiated and uniform contributions<sup>195</sup> | Disability | Work and Income according to Labour Capacity Act — Wet werk en inkomens naar arbeidsvermogen (WIA)<sup>196</sup> | Employees | Employers | Tax authority |
| Unemployment benefit contribution: 2 components<sup>197</sup> | Unemployment | Unemployment Insurance Act — Werkloosheidswet (WW) | Employees | Employers | Tax authority |

**Mandatory social insurance schemes**

| | | | | | |
| Old-age pension contributions | Old-age | Voluntary insured persons | Voluntary insured persons | Social security administration<sup>198</sup> |
| Survivor's pension contributions | Death | Voluntary insured persons | Voluntary insured persons | Social security administration<sup>199</sup> |

---

<sup>191</sup> See tables of Ministerie van Sociale Zaken en Werkgelegenheid, A short survey of the Social Security in the Netherlands, overview on 1st January 2010, p. 5.

<sup>192</sup> As well as non-residents who work in the Netherlands and consequently pay tax on wages.

<sup>193</sup> The persons insured under the Health Insurance Act also have to pay a "nominal premium" to their health care insurer.

<sup>194</sup> WW premies.

<sup>195</sup> The basic contributions finance the Disability Basic Fund which is controlled and administered by the National Social Insurance Contribution, while the differentiated contributions (WGA) finance the Disability Differentiated Fund which is controlled and administered by the Employee Insurance Implementing Body (Uwv) and which was introduced in January 1st, 1998. The third component is the uniform standard contribution.

<sup>196</sup> This Act has replaced the Disability Insurance Act (WAO) on 29th December 2005 for persons who were sick after January 1st, 2004.

<sup>197</sup> One is paid to the General Unemployment Fund (Algemeen werkloosheidfonds, Awf) and the other is paid to the social security agency's Redundancy Payment Fund (Wachtgeldfonds, Wgf) which is the unemployment benefit fund of the economical sector to which the employer belongs.

<sup>198</sup> More specifically, the Dutch Social Insurance Bank (SVB).

<sup>199</sup> Ibid.
Since 2009 the tax authority uses a new system for the collection of taxes and social security contributions. This is called Enterprise Tax Management System (ETM) and it was reported to have led to the dismissal of nearly 600 employees in order to further reduce the operational and administrative costs in the collection process.

Besides the merged social security contribution and tax collection by the tax authority, it is the responsibility of the Social Insurance Bank — Sociale Verzekeringsbank (SVB) — to collect some of the social security contributions; these are only the social security contributions for the old age pensions and the survivors’ pensions for those that are voluntary insured. Usually these concern people who leave the Netherlands for a longer time to work or live abroad and the relevant mandatory contributions correspond to a very small amount in respect to the total contributions paid to the social security schemes in the Netherlands. The Social Insurance Bank — a legal entity established under public law operating with a system of regional offices — has as main task to administer the general insurance scheme for the risks of old age, death and dependent children (child allowances).

When the social security contributions are collected, they cannot be individualized anymore from the taxes. That is because the payment of the taxes and the social security contributions is unified on the pay slip. The amount paid corresponding to the taxes can not be distinguished from the amount paid for the social security contributions.

**Application of taxation law rules:** Due to the effect of the Act on the financing of social insurance schemes dated on January 2006, the levy and the collection of the social security contributions is made according to the rules of the taxation law. The tax administration usually forwards a provisional assessment to the person liable to pay social security contributions; if this person is subject to pay tax on wages, the national insurance contributions are levied in accordance with the regulations that apply to the collection of tax on wages. In case that the person liable to pay social security contribution receives an assessment, the contributions that have been withheld will be deducted in the final assessment which shows that the person concerned will receive a refund or will eventually have to pay an additional amount.

Furthermore, the “insured person” is liable to pay contributions for the national insurance schemes. We can find in each one of the national insurance schemes the definition of the insured persons: these are either residents or persons that are not residents, but are subject to the Dutch Law on Wages on the grounds that they are employed in the Netherlands. The insured persons must be between the age of 15 and 65. There can be exceptions to the above rule when the Government sets other criteria by a general Decree extending or restricting the group of insured persons.

In addition, persons who are compulsory insured for the Exceptional Medical Expenses scheme are also compulsory insured for health care (ZVW — Health Insurance Act).

---

202 A provisional tax assessment is based on the income earned in the previous year while tax is owed in that year.
203 International Encyclopaedia of Laws, Social Security Law — Suppl. 66 (December 2008), The Netherlands, Pennings, F., p.44.
204 According to article 6 of the Social Insurance Schemes Financing Act (Wfsv).
205 This authority is given to the Government by the law itself taking always in consideration the obligations that derive from international treaties and EU regulations.
206 AWBZ.
As far as the employee insurance schemes are concerned, these are regulated by the Unemployment Insurance Act\textsuperscript{208}, the Sickness Benefits Act\textsuperscript{209} and the Law Relating to Insurance against Incapacity for Work (WAQ\textsuperscript{210} and WIA\textsuperscript{211}) and they are financed by contributions. There is no separate contribution for the Sickness Benefits Act anymore after the introduction of the obligation on behalf of the employers to continue to pay wages in case of sickness. An insured person according to the provisions of the above mentioned laws is an employee who is a natural person, under the age of 65, and is employed in the private or the public sector\textsuperscript{212}.

**Identification of contributors:** The identification of the insured persons that pay the social security contributions is made by a unique personal identification number which is now called Burgerservicenummer (BSN)\textsuperscript{213}; this is the successor of the pre-existing social fiscal number\textsuperscript{214} ("SOFI" number) as it was defined in the general taxation law\textsuperscript{215}. In case that the BSN is not known, then the formerly valid SOFI number is being used instead. The Burgerservicenummer is issued to everyone registered in the Personal Records Database of a municipality\textsuperscript{216}. It is required when starting a job, opening a bank account, using the health care system, applying for benefits, buying a car and announcing a change of address.

To sum up, the tax administration collects the contributions the same way as the collection of income tax and tax on wages. This means that if the liable person fails to fulfill his or her obligation, the tax authority is then authorized to take necessary measures.

**Calculation basis for social security contributions:** The income that is taken into account as a calculation basis for taxes is the same as the one for the calculation of the social security contributions, i.e. the wage or the income of the insured persons. The concept of wage in the law on financing social insurance schemes (Wfsv) is harmonized with the description of the wage concept in the Tax on Wages Act. This regulation aims at facilitating as much as possible the tasks of employers who have to deduct both contributions and tax on wages and then make the relevant payments to the tax authority.

As for the contribution rates, these are annually set by the Minister of the Social Affairs and Employment, the Minister of Public Health, Welfare and Sports or the competent administrative body and they are the same for the whole country with the exception of some schemes where the rates vary according to the risk (unemployment, invalidity) in the branch of industry or the individual enterprise. The Employee Insurance Implementing Body\textsuperscript{217} (UWV) determines the level of the contributions to be paid to the unemployment funds.

---

\textsuperscript{208} Werkloosheidswet.
\textsuperscript{209} Ziektekostenwet.
\textsuperscript{210} Wet op de Arbeidsongeschiktheidverzekering.
\textsuperscript{211} Wet Inkomen naar Arbeidsvermogen.
\textsuperscript{212} International Encyclopedia of Laws, Social Security Law — Suppl. 66 (December 2008), The Netherlands, Pennings, F., p. 45.
\textsuperscript{214} Sociaal-fiscaal nummer. See art. 33b of the Work and Income Implementation Structure Act (Wet Structuur Uitvoeringsorganisatie Werk en Inkomen).
\textsuperscript{215} Algemene wet inzake rijksbelastingen. This is provided for in article 1 of the law on the financing of the social insurance schemes (Wfsv).
\textsuperscript{216} Gemeentelijke Basisadministratie persoonsgegevens (GBA).
\textsuperscript{217} Uitvoeringsinstituut werknemersverzekeringen.
The contributions for the employed, which the *employers* pay on the total gross salaries of the employees, including directors (not being majority stakeholders) for the year 2010 are the following:

### Table: Calculation rates of the employers’ social security contributions (2010)\(^{218}\)

<table>
<thead>
<tr>
<th>Type of social security contribution</th>
<th>Rate (%)</th>
<th>Maximum base (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income dependable health insurance (ZVW)</td>
<td>7.05</td>
<td>33,189</td>
</tr>
<tr>
<td>Disability Insurance (WIA):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• fixed general contribution</td>
<td>5.70</td>
<td>48,715</td>
</tr>
<tr>
<td>• disability insurance surcharge</td>
<td>0.07</td>
<td>48,715</td>
</tr>
<tr>
<td>• WGA — work resumption premium</td>
<td>0.59</td>
<td>48,715</td>
</tr>
<tr>
<td>Unemployment Insurance (AWF):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• general contributions of unemployment insurance (AWf)</td>
<td>4.20</td>
<td>32,011</td>
</tr>
<tr>
<td>• WW — Average redundancy contribution</td>
<td>1.48</td>
<td>32,011</td>
</tr>
<tr>
<td>KO — Child care contribution</td>
<td>0.34</td>
<td>32,011</td>
</tr>
</tbody>
</table>

In general, employers pay their own contributions as well as the employees’ contributions deducting them from the wages.

There are also the national social security contributions forming part of the lowest two income tax rates (see the table below on the taxable income in the Netherlands\(^{219}\)). The social security contributions on employment income are payable by employees; these contributions are calculated on gross salaries, less pension premiums withheld from the salary and payments to the savings accounts (Box 1 income\(^{220}\)). The rates for the calculation of social security contributions have been integrated with the rates for the calculation of the taxes\(^{221}\).

### Table: Taxable income in the Netherlands — 2010 (Box 1)\(^{222}\)

<table>
<thead>
<tr>
<th>Taxable income EUR (Box 1)</th>
<th>Maximum tax EUR</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 8,218</td>
<td>6,093</td>
<td>33.45</td>
</tr>
<tr>
<td>18,218–32,738</td>
<td>12,184</td>
<td>41.95</td>
</tr>
<tr>
<td>32,738–54,367</td>
<td>21,268</td>
<td>42</td>
</tr>
<tr>
<td>over 54,367</td>
<td></td>
<td>52</td>
</tr>
</tbody>
</table>

*Source: European Tax Handbook online\(^{223}\)*

---


\(^{219}\) Source European Tax Handbook online: [http://ip-online.ibfd.org/collections/gthb/html/gthb_nl_s_001.html#gthb_nl_s_1.9.1](http://ip-online.ibfd.org/collections/gthb/html/gthb_nl_s_001.html#gthb_nl_s_1.9.1).

\(^{220}\) Box 1 regards the income from wages and ownership, while Box 2 concerns income from substantial shareholdings and Box 3 income from savings and investment.


\(^{222}\) The 33.45% (first bracket) and 41.95% (second bracket) rates include, respectively, 2.30% and 10.80% income tax, the remaining 31.15% in both cases being national social security contributions. For individuals older than 64, the first two brackets are taxed at 15.55% and 24.05%, respectively (both rates include 13.25% national social security contributions). The 42% (third bracket) and 52% (fourth bracket) rates do not include any national social security contributions.

\(^{223}\) European Tax Handbook online, available from: [http://ip-online.ibfd.org/collections/gthb/html/gthb_nl_s_001.html#gthb_nl_s_1.9.1](http://ip-online.ibfd.org/collections/gthb/html/gthb_nl_s_001.html#gthb_nl_s_1.9.1).
The contributions for the employed, which are all levied on the employee, are:

**Table: Calculation rates of the employees’ social security contributions (2010)**

<table>
<thead>
<tr>
<th>Type of social security contribution</th>
<th>Calculation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old-age pension contribution (AOW)</td>
<td>17.90</td>
</tr>
<tr>
<td>Survivor’s pension contribution (ANW)</td>
<td>1.10</td>
</tr>
<tr>
<td>Exceptional Medical Expenses contribution (AWBZ)</td>
<td>12.15</td>
</tr>
</tbody>
</table>

In the Healthcare Insurance Act, the healthcare insurers determine the amount of fixed (nominal) healthcare contribution themselves and the monthly contribution can therefore differ per insurer. No contribution is required for children under the age of 18 years old. In addition to the contribution to the health insurer, an income-related contribution is paid to the government which is automatically withheld from the wages or the benefit granted by the employer or the benefits’ agency and it is, also, at great extent reimbursed by them.

For the Exceptional Medical Expenses Act (AWBZ) which is a social security scheme that insures people against the risk of exceptional medical expenses that can not be insured on an individual basis, the contribution is income-related and is withheld from wages or benefits by the employer or the benefits agency respectively.

The general insurance schemes are paid for by the individuals insured under these schemes while the employees pay them via their employers.

Self-employed persons have to pay an income-dependent contribution for health insurance. The health insurance contribution for self-employed (ZVW-zelfst.) is levied at a given rate on net business profits up to certain ceiling. The contribution is deductible for income tax purposes only to the extent it exceeds, together with medical expenses, the threshold for the medical expense deduction. The self-employed are liable for the contributions for the disability scheme for the self-employed224.

**Transfer of revenues:** The social security contributions and the taxes after being collected by the tax administration, are kept together until the Ministry of Finance transfers directly the respective funds to the social security administrations which are competent for the management of the funds received from contributions.

More specifically, the contributions regarding the General Exceptional Medical Expenses and the health care are transferred to the Health Care Insurance Board (CVZ)225. Moreover, the contributions for the employee insurance schemes are transferred to the Employee Insurance Implementing Body while the national insurance scheme contributions are transferred to the Social Insurance Bank (SVB)226. Consequently, the social security contributions — although they cannot be individualized from the taxes at the time they are collected — are reported to be dealt with separately after the collection, i.e. regarding the transferring of data and funds. The tax authority does not charge any kind of fee for the collection of the social security contributions227.

---

225 College voor Zorgverzekeringen.
227 According to the answers to the questionnaire provided by the national experts.
3.4.4 Record-keeping and data exchanges

The employer declares and pays each month to the tax authority the social security contributions which are directly withheld from the salary of the employee. Therefore, the employer has to keep records for each individual employee and make the relevant monthly declaration to the tax administration. The employer also has the responsibility to calculate the exact amount of the contributions that are to be paid. In case of errors, the responsibility belongs to the employer. The above mentioned declaration shall include not only individual data, but also the collective data concerning the total wages within the company which are kept by the tax administration. The individual data are transferred to the insurance policy administration of the Employee Insurance Implementing Body (UWV).

The tax administration and the social security authorities interchange freely the data concerning the social security contribution payment including also information required for the determination of the right to benefits of the social insurance schemes, such as the duration and type of employment, paid wages and employee social security contributions.

This data exchange is covered by the Work and Income Implementation Structure Act\textsuperscript{228} according to which the competent social security administration must ensure the establishment and the proper functioning of the administration. There are two kinds of information included in the central data bank of the social security administration (UWV): on the one hand, information about the insured person’s social security (such as data about the insured person, his employer, type of employment) and, on the other hand, data from a virtual database known as “Fi-base” (such as information on taxable income, contributions for general insurance schemes and social tax number)\textsuperscript{229}.

All these data are coming from the tax declarations on tax returns by the employers via the tax administration, in the insurance file administration system\textsuperscript{230}. The tax administration then delivers the data to the social security administration\textsuperscript{231} to register the data in the insurance file administration system which then in turn uses the information to establish the entitlement to benefits — such as unemployment, sickness and incapacity to work. There are also other institutions that can use the aforementioned data, for example the tax administration, the National Health Services and the statistics agency\textsuperscript{232}.

It is reported that there is the appropriate data protection with regard to this process as only the competent persons within these authorities are eligible to have access and process the aforementioned data.

3.4.5 Control and recovery of overdue payments

The Inspection Service for Work and Income\textsuperscript{233} provides general supervision of contributions and cash benefits regarding the old age, disability and survivors and supervision of the cash benefits for sickness, maternity, unemployment, and family allowances\textsuperscript{234}. Other important work processes include fraud detection and the supervision of the import, export and transit of goods.

\textsuperscript{228} Wet Structuur Uitvoeringsorganisatie Werk en Inkomen. Available at: http://www.st-ab.nl/wetsuwi.htm.
\textsuperscript{229} See article 33 of the Work and Income Implementation Structure Act (Wet Structuur Uitvoeringsorganisatie Werk en Inkomen).
\textsuperscript{230} Polisadministratie: This is a summary of data of several public institutions, not just fiscal data.
\textsuperscript{231} The Employee Insurance Implementing Body (UWV).
\textsuperscript{232} See article section 5.2 of the Work and Income Implementation Structure Act (Wet Structuur Uitvoeringsorganisatie Werk en Inkomen).
\textsuperscript{233} Inspectie Werk en Inkomen, website: http://www.iwiweb.nl.
In addition to the aforementioned agency, there is a special division of the Ministry of Social Affairs and Employment which is performing control on social security contribution fraud, the so-called Social Intelligence and Investigation Service (SIOD\textsuperscript{235}); this administrative body together with the tax authority and the Social Insurance Bank (SVB) has the competency to declare a person liable for not paying his/her contributions for the AOW; this finding may result in the reduction of his/her pension by 2\% for each year that the person is found to be liable.

### 3.4.6 The merger process

In the Netherlands, the collection of the social security contributions has been merged with the collection of the taxes in the 1990s. As for the employee insurance contributions, their collection has been simplified first in the 1990s by unifying multiple industry-based insurance agencies, and then in the 2000s by merging the collection of employee insurance contributions and taxes.

By the early 1990s there were 19 Industrial Insurance Associations, 13 of which were yielding their administrative competencies to a joint body called the Joint Administration Office (GAK) while another 3 were assigning their authorities to a joint body called the Joint Implementation Office (GUO). Consequently, at that time there were five main agencies which were administering the employee insurance schemes.

In 1995, aiming to change the management of social security and move it from the industrial self-organization to politics, the government created a Social Security Supervisory Board (called CTSV) consisting of three independent government -appointed members having no ties to employers or trade union interests. In 1997 an additional tripartite supervisory body, the National Social Insurance Institute (LISV), was created and the Industrial Insurance Associations were abolished, although at the administrative level they mainly continued with a formal status as social insurance implementation bodies (called UVIs) working under contract to the National Social Insurance Institute (LISV). This institute was responsible for the assessment of the right to benefits, the collection of the social security contributions and the payment of the unemployment and disability benefits.

Between 2000 and 2002 the five social insurance implementation bodies and the National Social Insurance Institute were merged into a single Employee Insurance Implementing Body (UWV), responsible for the collection of employee insurance contributions; this administration had also some other competencies, such as assessing the right to benefits and paying the unemployment and disability benefits.

The Social Insurance Bank (SVB) administered the public pension benefits, child benefits and benefits for surviving relatives. The Ministry of Social Affairs and Employment exercised supervision through its Work and Income Inspectorate\textsuperscript{236}. Finally, the social partners, traditionally involved closely with the administration of the social security, were kept at a greater distance\textsuperscript{237}.

More specifically, the old age pension contributions (AOW) were not initially merged in the tax system. It was after the introduction of the Oort-legislation\textsuperscript{238} that the social security contribution system has been merged fully with the tax collection system, but the benefits were kept separated from the system altogether. In 1989 the Oort Committee has drafted a report about the changes that

\textsuperscript{235} Sociale Inlichtingen en Opsporingsdienst. Website: http://www.siod.nl/content/view/22/42/.

\textsuperscript{236} This supervision used to be conducted by the Social Insurance Supervision Board (CTSV).


\textsuperscript{238} In 1989 the systems of income tax and social insurance contributions were reformed. The most important element of the said reform was the merging of tax and social security contributions into the taxation scheme.
should have been implemented in the tax collection system in order to simplify the wage and income taxes. Indeed, in January 1st, 1990 the proposals of the above mentioned committee have been consolidated in the so-called Oort-legislation — *Oort-wetgeving*.

Some of the regulations adopted concerned provisions regarding the merged collection of income taxes and social security contributions. Due to this merged collection system, the compulsory income ceiling of social security contributions was lowered and, consequently, the calculation basis for the social security contributions has also decreased. In order to face this deficit problem, the old-age (AOW) and survivors’ pension (AWW) contribution percentage has increased, and there has been a change in the calculation basis of the exceptional medical expenses (AWBZ) contributions which were formerly calculated on the basis of the old-age and survivors’ pension contributions. Today the exceptional medical expenses (AWBZ) contributions are being calculated on the basis of the income; they are also paid directly by the insured person and not by the employer. However, the circle of persons liable to pay the exceptional medical expenses (AWBZ) contributions is still defined in the Healthcare Insurance Act (ZVW) and not in the Act on the financing of the social insurances (Wfsv)²³⁹.

Furthermore, the tax reform of 2001 aimed at broadening the contribution calculation basis, lowering the tax pressure on work, promoting the employment, the emancipation and economic independency, the sustainable economic development and, finally, simplifying the tax system. The box system — *heffingskortingen* — in the taxation was introduced and the tax free amounts have been replaced by the tax credits. As a result, the tax benefits to the old-age (AOW), surviving relatives (Anw) and exceptional medical expenses (AWBZ) funds have been lowered and in order to compensate these funds, the government introduced the state contribution called the Bikk²⁴⁰.

Driven by a continuing government wish to reduce the administrative burden on employers and simplify the operation of social insurance schemes, preparations for the integration of the collection of employee insurance contributions and taxes began in 2004. The process has been completed on January 1st, 2006.

Before the aforementioned date there was a differentiated collection method in force with regard to the social security contributions for the employee insurance schemes. The Employee Insurance Implementing Body — UWV²⁴¹ — was responsible for the levying and collecting the employee social security contributions whereas the tax administration was responsible in the area of the rest of the social security contributions. However, after January 1st, 2006, the employers have no longer been required to file separate returns for social insurance contributions and taxes because the tax authority is now competent for the collection of all the social security contributions, including those for the financing of the employee insurance schemes²⁴².

Moreover, the department of the tax authority responsible for the collection of the social security contributions became part of the tax administration located in the premises of the latter. In addition, about 800 persons of the staff of the social security administration UWV responsible for the task of the contribution collection have been transferred to the tax authority²⁴³.

---

²⁴⁰ *Bijdrage In de Kosten van de Kortingen*.
²⁴³ Ibid. pp. 51-52.
One of the main objectives of the Oort Committee was the simplification of the legislation regarding the collection procedure of taxes and social security contributions. Before the Oort-legislation — that is until 1990 — the calculation base for taxes and social security contributions was different. As a result, there were many difficulties in the calculation and collection of the social security contributions especially for the employers and the tax administration as well. After the Oort-legislation was adopted, the calculation basis has become the same for both the social security contributions and the taxes. Moreover, the exceptional medical expenses (AWBZ) contribution calculation base is no longer the old-age (AOW) and survivors’ pension (AWW) contributions, but the income of the insured person. Consequently, the basic reason for the merger of the social security contribution and tax collection with the above mentioned regulations was the demand for cost efficiency for both the benefit administration and the individual employers.

**Obstacles encountered during and after the merger:** From a general point of view, the transition to the merged collection of social security contributions and taxes has been welcomed positively. However, there have been some objections with regard to the wage concept for the payroll tax. More specifically, it was argued that the wage concept of payroll tax ignores the special function of the wage concept in the employee insurance schemes, namely the basis for the calculation of the social security benefits.

Another serious concern was that the performance practices of the tax administration did not take into consideration the special nature and purpose of the social security contributions; namely, the tax authority had to take into account that the employee insurance does not only contain a collecting element, but there is also a distributing element involved.

**Consequences of the merged collection system:** According to the IMF, the most difficult implementation issue of the merger in the Netherlands was the transfer of the employer’s share of social security contributions to the employee’s share with a compensating increase in wages. This transfer was designed in order to establish one base for the new combined levy and equal circumstances between employed and self-employed persons. The idea of having a one-time transfer with compensation on a certain date was rejected as it might have increased social security burden on employees in the future. Therefore, there has been a compromise with a temporary solution, according to which the transition period for the transfer and the compensation would be based on the current contribution rate for the year in question.\(^{244}\)

Moreover, the merger has lead to massive processes, large flows of information, transfer of data and the transfer of a large number of staff from the social security administration\(^{245}\) to the tax authority which has made the operation vulnerable in many senses. In addition, there have been failures in the insurance file administration, such as lack of data or incorrect data.

According to the Report of the Dutch Court of Audit — *Rekenkamer*\(^ {246}\) — regarding the risks of the merger of tax and social security contributions collection in 2006, it has been recognized that transferring the collection of employee insurance contributions from the social security administration (UWV) to the tax authority was going to entail few risks. This was justified on the grounds that there would have been no fundamental change in the system. Therefore, it was proposed that some conditions should have been met so that the transfer would be smooth. More specifically, the measures should have been taken before 2006 in order to ensure the reliability of the social security administration of the UWV; furthermore, the Ministry of Finance should have further worked out

---


\(^{245}\) The Employee Insurance Implementing Body (UWV).

\(^{246}\) “Collection of employee insurance contributions” published on May 26th, 2005.
the audit policy and agreements should have been made on performance indicators and the exchange of information between the bodies concerned and the House of Representatives. The Court of Audit has carried out this investigation at the request of the House of Representatives\textsuperscript{247}; however, we do not have information to what extent these recommendations have been taken into consideration and have been implemented or not.

Overall, the merger of social security contribution and tax collection resulted in a simplification of levying and collecting social security contributions, a reduction of the administrative burdens on employers, a reduction of the implementation cost for the government, a higher level of efficiency in the collection process, the harmonization to a certain extent of rules and the decrease of the contradictory decisions within the public administration.

Table: Summary of the merged administrative arrangements for social security contribution and tax collection in the Netherlands

<table>
<thead>
<tr>
<th>Collecting authority</th>
<th>The Dutch Tax and Customs Administration. Collection of voluntary social security contributions by the Social Insurance Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting method</td>
<td>Social security contributions are collected as a single sum with the wage tax</td>
</tr>
<tr>
<td>Applicability of taxation rules</td>
<td>Yes</td>
</tr>
<tr>
<td>Relationship of social security contributions with taxes</td>
<td>Social security contributions are distinguished from personal or corporate income taxes</td>
</tr>
<tr>
<td>Declaration and payments of social security contributions and taxes</td>
<td>Performed by insured persons and their employers as well as self-employed persons</td>
</tr>
<tr>
<td>Records’ maintenance</td>
<td>By the employer for each individual employee</td>
</tr>
<tr>
<td>Identification of insured persons for payment purposes</td>
<td>Via a personal identification number which is now called “Burgerservicenummer” (BSN), the successor of the pre-existing social fiscal number (“SOFI” number)</td>
</tr>
<tr>
<td>Electronic declaration of payments</td>
<td>Use of e-forms (not applicable for people living in the Netherlands part of the year)</td>
</tr>
<tr>
<td>Calculation basis for social security contributions</td>
<td>Taxable income deriving from employment and ownership</td>
</tr>
<tr>
<td>Deductibility of contributions for corporate income purposes</td>
<td>Not reported</td>
</tr>
</tbody>
</table>
| Transfer of funds collected | • Transfer of Exceptional Medical Expenses and health care contributions to the fund of the Health Insurance Board  
• Transfer of employee insurance scheme contributions to the Employee Insurance Implementing Body  
• Transfer of the national insurance scheme contributions to the Social Insurance Bank |
| Control and recovery of overdue payments | • General supervision of contributions by the Inspection Service for Work and Income  
• Special supervision on social security fraud by the Social Intelligence and Investigation Service |
| Levels of record keeping | • Records kept by the employer for each individual employee  
• Records maintained by the tax authority  
• Records kept by the competent social security administrations |

\textsuperscript{247} See: http://www.courtofaudit.com/english/News/Audits/Introductions/2005/05/Collection_of_employee_insurance_contributions.
### Data exchange between tax and social security administration

- Free data exchange of social security contribution payment and information on the right to benefits, the duration and type of employment and paid wages

### Obstacles during and after the merger

- Performance practices of the tax administration did not take into consideration the nature and purpose of the social security contributions

### Disadvantages of the merged collection

- Vulnerability of the operation system due to the massive processes, the large flows of information, the transfer of data and the transfer of personnel
- Data failures in the insurance file administration

### Benefits of the merger

- Simplification of levying and collecting social security contributions
- Reduction of administrative burdens on employers
- Reduction of implementation costs for the government
- Higher level of efficiency in the collection process
- Harmonization of rules
- Decrease of contradictory decisions within the administrative bodies

### 3.5 The United Kingdom

#### 3.5.1 Introduction

The United Kingdom is a country that shows a long standing record in the field of merging social security contribution and taxation administration. Therefore, it is interesting to present the most significant changes that have been implemented in the social security contribution collection system in this country. The lessons learned from this merger of social security contribution and tax collection provides an overview of the best practices adopted and the possible problems encountered during this merger.

#### 3.5.2 Financing of social security

In the United Kingdom, a universal contributory social security system was introduced in 1948 on the basis of a plan put forward in the 1942 Beveridge report with flat-rate benefits and contributions. In due course, though, the contributions became based on a percentage of earnings instead of being flat-rate and the basic principle of Pay-As-You-Go financing remained. The social security contributions became largely earnings related in 1975. An Order is presented to the Parliament proposing the social security contribution rates for the next fiscal year and the earnings ranges to which the rates will apply.\(^{248}\)

According to the report of the EU’s Mutual Information System on Social Protection (MISSOC) on the financing of social protection\(^{249}\), the United Kingdom has a comprehensive state administered cash benefit scheme which covers the entire population\(^{250}\). A compulsory contributory scheme is complemented by a range of non-contributory measures\(^{251}\) which are financed from general taxation — from the so-called Consolidated Fund administered by Her Majesty's Revenue & Customs (HMRC). The compulsory social security scheme — the so-called National Insurance scheme — provides protection against sickness, unemployment, widowhood and old age; the benefits for these schemes are funded entirely from the National Insurance Fund.\(^{252}\)

\(^{248}\) For further details over the financing of the social security pension in the UK, see the ISSA report of Daykin, C., Financing of pension schemes, Experience of the United Kingdom, 2008, p. 1.


\(^{250}\) Although there are separate social security systems for Great Britain and Northern Ireland, both systems are generally described to provide a single system of social security in the United Kingdom.

\(^{251}\) For example benefits for disability and industrial injury or disease, and universal child benefits.

\(^{252}\) Besides the social security contributions, the National Insurance Fund is financed by investment income. The National Insurance Fund has no borrowing powers according to the MISSOC report.
The financing of contributory benefits is made through the National Insurance Contributions (NICs); these are administered by the National Insurance Contributions Office (NICO) — a department of Her Majesty’s Revenue & Customs (HMRC) — on behalf of the Department for Work & Pensions (DWP)253. NICO collects a very small proportion of the NICs — Class 2 social security contributions and Class 3 voluntary social security contributions— and administers certain National Insurance credits254. The bulk of the NICs are collected through the banking system by the tax administration (HMRC). Insured persons pay a single (or global) contribution covering all the contributory benefits255 credited into the National Insurance Fund. Since 1948, a proportion of the social security contributions have been allocated to the health care scheme — the so-called National Health Service (NHS)256— and this was increased in 2003.

The costs of the social security benefits are currently borne by six different classes of social security contributions levied on the insured persons and the employers:

- Class 1 paid by employees.
- Class 1A paid by employers who provide certain directors and employees with benefits in kind.
- Class 1B paid by employers who enter into a Pay-As-You-Earn Settlement Agreement with the tax administration for tax purposes.
- Class 2 (compulsory) paid by self-employed persons.
- Class 3 (mandatory) that give entitlement to bereavement benefits and retirement pensions; and
- Class 4 paid by self-employed persons when their profits exceed a prescribed limit257.

Only three of the above six types of social security contributions count towards benefit entitlement. Moreover, the type paid depends on whether a person is an employee, self-employed or paying contributions voluntarily to make up gaps in their contribution records.

The persons involved in the collection of taxes and social security contributions are:

- Employers who calculate and collect the amounts to be paid by deducting them from the employees’ wages;
- The Government which has a responsibility for the overall public finances; and
- Individuals — employees, self-employed and pensioners — who are the end users of the collection system, paying taxes and social security contributions and drawing support from contributory benefits258.

253 This is the Government department responsible for providing contributory benefits. Official website: http://www.dwp.gov.uk/. In Northern Ireland the competent authority is called Department for Social Development.
254 National Insurance (NI) credits are awarded to persons who are ill or unemployed and registered as looking for work. This is done in order to help protect the entitlement of these persons to certain benefits, such as the State Pension (the State Pension in the UK has two parts – the Basic Pension and the Additional Pension).
255 Except for the unemployment benefit in case of self-employed persons.
256 The National Health Service is mostly financed by the general budget.
3.5.3 Collection methods

Role of the National Insurance Contributions Office (NICO): The NICO department is responsible for the collection of certain types of social security contributions and the administration of the rest as part of the tax authority’s wider Personal Tax Team. NICO also deals with refunds, underpayments and resolves queries with national insurance (NI) records arising from validation checks. This administrative authority works closely with the Local Services, Large Business Office, Share Pensions Saving Schemes Office and all the National Business Streams of the tax authority and maintains strong links with the social security administration in delivering services and looking after shared customers. The collecting department (NICO) is also supplying information to other Government Agencies for benefit claims and other purposes by using the National Insurance Recording System (NIRS2).

The statistics of this collecting administration are quite impressive as this administrative authority on an annual basis:

- maintains over 70 million social security accounts and updates 40 million of them,
- registers 1.4 million social security contributors,
- registers 700,000 self-employed persons,
- processes over 55 million end of year returns,
- deals with 14.1 million items of work by post,
- maintains 5.7 million Personal Pension accounts,
- accounts for £98 billion social security contributions, and
- handles approximately 4 million telephone calls.

Since 1999 the responsibility for the social security contribution management and operations was transferred to the tax authority which has now a total responsibility for social security contributions including records maintenance. The social security administration retained only the task of calculating the entitlement rights and paying the benefits. Therefore, the merger of the social security contribution collection in the United Kingdom was completed in 1999 when the so-called “Contributions Agency” moved from the social security administration into the tax authority. In addition, with the Tax Credits Act 2002, the responsibility for the payment of child benefit and guardian’s allowance was transferred to the tax authority as well.

The merger of social security and tax collection was a recommendation of the Taylor report which evaluated proposals to improve work incentives, cut red tape and encourage job creation. One of his recommendations was the move of the “Contributions Agency” to the tax authority.
transferring the related national insurance contribution policy functions and contribution collection responsibility.

The main objective of the merger was to reduce the administrative burden on business resulting from interfacing with both the tax authority and social security administration concerning income tax and social security contributions, whilst preserving the significant differences between both systems. Such burdens have been identified at two different stages:

- activity during the year, including calculation, assessment, error correction, recording, etc., and
- activity at the end of the year, including reporting/submitting information on cash and non-cash earnings and tax and social security contribution deductions.

The audit inspection as a duplication of effort was reported as a driver for the merger as well.

**Calculation basis of social security contributions:** The taxes and social security contributions can be calculated either manually or through automated payroll processes. Usually the employers use payroll software, calculators on the HMRC CD-ROM or outsource their payroll activity. After the calculation of the social security contributions, the employer deducts and pays them to the tax authority either monthly or quarterly together with the employer’s share of social security contributions and the Pay-As-you-Earn income tax. Each year an employer has to file a statutory annual return by 19 May comprising a summary return and individual returns regarding each employee. In any case a system of Pay-As-you-Earn tax codes and tables and a system of social security tables is very important.

The following table gives a brief overview of the rates of social security contributions imposed on the weekly earnings of employees:

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>% of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ social security contributions (2010-2011)</td>
<td></td>
</tr>
<tr>
<td>Below £97</td>
<td>Nil</td>
</tr>
<tr>
<td>Between £97 and £110</td>
<td>Nil contribution deduction, but the earnings count for contributory benefit purposes</td>
</tr>
<tr>
<td>£110 to £844</td>
<td>11% of £110 to £844</td>
</tr>
<tr>
<td>Over £844 (Upper Earnings Limit)</td>
<td>1% of all earnings over £844</td>
</tr>
<tr>
<td>Employers’ social security contributions (2010-2011)</td>
<td></td>
</tr>
<tr>
<td>Below £110</td>
<td>Nil</td>
</tr>
<tr>
<td>£110 to £844</td>
<td>12.8%</td>
</tr>
<tr>
<td>Over £844</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

---

267 Ibid. p. 13.
268 This is the so-called “employers’ CD-ROM” which is provided by the tax authority to the employers and contains guidance, tables and calculators for the calculation of taxes and social security contributions.
269 This statutory annual return is known as the Employer End of Year Return or Employers Scheme.
270 More details on the calculating process of taxes and social security contributions can be obtained in the Review of income tax and national insurance alignment: an evidence based assessment, HM Treasury, October 2007, pp. 14 et seq.
271 For more information you can visit the HMRC official website on a detailed overview of the current social security contribution rates: http://www.hmrc.gov.uk/rates/nic.htm.
272 If the employee participates in i) an employer-sponsored pension scheme or ii) a personal pension plan, which contract the employee out of the State Earnings Related Pension Scheme (SERPS), the 11% rate is replaced by a rate of 9.4%.
As far as the calculation basis is concerned, “earnings” for social security contribution purposes is defined as “any remuneration or profit derived from an employment. This covers some benefits in kind and expense allowances as well as certain statutory payments, sickness payments, payments for restrictive covenants and gains arising from shares and share options schemes.\textsuperscript{273}

The self-employed pay the social security contributions at a fixed flat rate every week. These are the Class 2 social security contributions and they are collected by the collecting authority (NICO) which is a department of the tax authority. The payment can be made either by monthly direct debit from a bank account or the individual will be billed every 13 weeks. The same process is applied for voluntary contributions (Class 3) which are paid by persons that are not liable to pay any compulsory contributions, but they need to fill in the gaps in their social security records in order to improve the amount of basic State Pension. The payment of these social security contributions can also be made for the full year by cheque directly to the collecting authority.

3.5.4 Record-keeping and data exchanges

Identification of contributors: The identification of the contributors is made through a unique personal reference number which is called National Insurance Number (NINO) — hereinafter referred to as social security number. When a child is born and a child benefit claim is made, then a Child reference number is allocated to the newborn child. After the child reaches the age of 15 years 9 months this Child reference number is reclassified as a National Insurance Number and a plastic card is sent to the child by the tax authority. As for persons who were not born in the United Kingdom, such as migrant workers or students coming to the UK, another process is provided: the allocation of the social security number is made upon application to the social security administration (DWP), but the tax authority is also involved in this process.

This social security number makes sure that the payments of social security contributions and taxes are properly recorded on the personal accounts. Moreover, this number acts as a reference number for the whole social security system because the entitlement to state benefits depends on the social security contribution records. This social security number can be used by the tax authority (HMRC), the employer, the social security administration (Department for Work & Pensions), the local council (for Housing Benefits) and the Student Loan Company (for student loans).\textsuperscript{274}

The National Insurance Recording System was subject to several changes through the years until it reached its final merged form today. From 1948 until 1975 there were paper based records for each individual. Later on — in 1975 — the records have been computerized at the same time as the merger of the collection of social security contributions with taxes. However, this was made on a separate IT system to tax records. In 1997, the original National Insurance Recording System (NIRS) was replaced with the NIRS2 as the first one was aging and did not support future business and legislative changes.

Finally, in June 2009 the National Insurance and Pay-As-You-Earn (PAYE) Service (NPS) introduced one single IT system which contained individual National Insurance records — hereinafter referred to as social security records\textsuperscript{275} — together with tax records. Moving from paper to automation was a challenge as social security contributions paid are matched with the correct individual social security record and this way the appropriate level of compliance and controls could be ensured.


\textsuperscript{274} For more information you can visit the website of the HMRC: http://www hmrc gov uk/ni/intro/basics.htm.

\textsuperscript{275} We do this for the purposes of our report as explained in the first part of this paper in order to facilitate the reader in better understanding the situation uniformly in all the countries examined.
Individuals’ payments through national insurance contributions are underpinned by the “contributory principle”\textsuperscript{276}; that individuals contribute to the scheme while in work and receive financial support while out of work, whether through illness or unemployment or in retirement\textsuperscript{277}. A business usually operates either a weekly or monthly payroll which calculates and withholds the tax and social security contributions. Both levies deducted from the employees’ wages are paid to the tax authority each month; for smaller businesses, the payment of tax and social security contributions can be made quarterly. At the end of the tax year, the employer has to make a statutory annual return\textsuperscript{278} to the tax authority setting out payments to employees and deductions made from the payments. This return includes a summary return as well as individual returns which contain details of employee’s pay and social security contributions paid. These individual returns are posted to the individual social security record. At the same time, the employer has to provide the same information to each employee.

For individuals, these payments need to be recorded over their whole working life as they provide access to contributory benefits. Entitlement to these benefits, for the individual and their dependants and/or spouse, is determined by the number of qualifying years that an individual has built up through the payment of contributions during their working life. All payments of social insurance contributions are entered for each individual on their social security record or account and the social security administration uses this to determine the amount of benefit that is payable to each individual who makes a claim. The National Insurance Contributions Office (NICO) — hereinafter referred to as the collecting department — maintains two sets of records concerning the social security contributions collected:

- the National Insurance accounts, and
- the individual National Insurance accounts.

### 3.5.5 Control and recovery of overdue payments
The control and recovery of overdue payments is made by the tax authority. There are four different stages of control in the British collection system.

- **At a first stage**, with the electronic processing, the new recording system\textsuperscript{279} performs automatic checks on the annual statutory returns and rejects information for a variety of reasons\textsuperscript{280}. When the social security contributions fail these automatic checks, they are returned to the employer for correction electronically without the need for human intervention, before being posted onto an individual’s record.

- **At a second stage**, there is a control when the individual NI returns are linked to the NI record.

- **At a third stage**, the recording system sends automatically letters known as “Deficiency Notes” informing the persons that a specific tax year is not a qualifying year for basic State Pension purposes.


\textsuperscript{277} Review of income tax and national insurance alignment: an evidence based assessment, HM Treasury, October 2007, p. 7.

\textsuperscript{278} This is called National Insurance and Pay-As-You-Earn System (NPS).

\textsuperscript{279} These tests of the recording system consist of feasibility tests, minimum and maximum total contributions (MTC) tests and earnings tests.
• At a fourth and final stage, there is a ratio check designed to identify when the social security contribution information is not within the ratios expected and a compatibility check which identifies when the social security contribution information appear wrong when compared to designatory data on the individual’s record.  

In general, the compliance processes and compliance teams for taxes and social security contributions have been merged; the consolidated teams pay consolidated visits to the businesses concerned in order to perform controls and recover overdue payments. This way a more efficient compliance system was created requiring less expenses and occupying less offices.

3.5.6 The merger process

Before 1999, a number of reforms have contributed to the unity of administration of social security contributions and taxes. In the beginning there were three independent insurance schemes (i.e. unemployment, health and widow’s, orphans’ and old-age pensions) and each insured person had to maintain two different insurance records. Since 1946 the three schemes were replaced by a single National Insurance System and an independent industrial injuries scheme has also been added.

From 1948 until 1975 the Department of Work & Pensions (DWP) — hereinafter referred to as social security administration — was responsible for the collection of the National Insurance Contributions (NICs) — hereinafter referred to as social insurance contributions — and the management of the social security contribution operations. In 1973-1975 the legislation simplified the administration by combining the social security contribution process with that of the income tax assessment. Since 1975 the social security contributions were collected with taxes for employees on the same form by the Inland Revenue (now Her Majesty’s Revenue & Customs (HMRC) — hereinafter referred to as tax authority — and they were both reported on a single document. This was a single form — the so-called “end of the year return” — which was common for taxes and social security contributions. The data from this form were introduced in the recording system of the tax authority and then broadcasted to the tax system and the social security system. The social security contributions management and operations responsibility stayed with the social security administration. As a result, the collection of social security contributions and taxes was merged without their operational management to be integrated. The revenues from the social security contributions were earmarked for the National Insurance Fund out of which payments for the contributory benefits were made.

In 1990 a separate social security contributions agency — the so-called “Contributions Agency” — was set up within the social security administration in order to focus on the social security contributions. Contribution records have been maintained in Newcastle since 1948; individual contribution records started to be maintained by the “Contributions Agency” at Longbenton in Newcastle. Late 1995’s the “Contributions Agency” initiated a program to upgrade the overall

---

283 Ibid.
284 This form was submitted by the employers at the end of the year.
285 These are the reports of earnings, tax and social security contributions, student loans, statutory payments and contracting out scheme details at the end of each tax year made by employers to the tax authority.
286 The payments of all other benefits are met from the so-called Consolidated Fund which is financed by the tax authority and is the government’s general bank account at the Bank of England from which most government spending comes. As far as the industrial injury benefits are concerned, these used to be classified as contributory, but since 1990 they are met out of the general taxation.
National Insurance Recording System. However, several problems have come up during the computerization projects because of systems failings (delays in dealing with claims for contributory benefits and rebates as well as consequential need for compensation payments). Despite the problems encountered, that initial recording system was reported to constitute a great assistance in the future implementation of the merger.

Prior to the implementation of the merger, the two departments (tax authority and the so-called “Contributions Agency”) had been working together closely under the “joint working initiative” which has been announced in 1995. This initiative was designed to facilitate a fully coordinated tax and social security contribution service. More specifically, the tax authority and the “Contributions Agency” had set up a joint team with a joint approach to the different merger issues.

For example one of the initiatives of this team was to provide guidance to the employers by sending the so-called “employers’ CD-ROM” explaining the whole procedure. Another initiative was to coordinate the compliance activity. An external overseer of the joint team as well as a program manager had been appointed in order to facilitate the works of this initiative and ensure the smooth operation of the project. The only obstacle to the operations of this joint working initiative was the occasional tensions present when two different organizations are involved which led to the limited success of this initiative. However, this joint working initiative was reported to be of great importance because it had put the foundations of the merger of social security contribution and tax collection.

The initial focus of the merger was to bring together the various administrative functions into single merged entities under the tax authority. The range of the administrative functions included in this merger ranged from all the head office functions (e.g. finance, human resources, etc.) to all the operations concerning the provision of services to the contributors, such as registration and identification of the contributors, the accounting and reporting of the social security contributions, the collection and control over the payments as well as the settlement of claims for overdue social security contributions. All the aforementioned tasks are performed together with the like tasks destined for the tax collection. An emphasis has been put on compliance issues as the financing of the social security schemes is of high importance for the sustainability of the social security system in the United Kingdom. It goes without saying that the merger focused on the creation of a fully functional and operationally efficient executive units.

The changes were initially focused in the area of customer service, especially customer services to business.

In particular,

- merging compliance processes and compliance teams so that businesses would receive single consolidated visits. The different compliance teams for tax and social security contributions were brought together aiming at the creation of a more efficient compliance system which would be costing less and would occupy fewer offices. Targets — rather than collection incentives — were set for the personnel so as to achieve the efficiency compliance goals, and

- merging customer support teams for both programs, such as the teams that provide help workshops for businesses.

---


289 This refers to a CD-ROM provided by the tax authority to employers which contains full guidance, tables and calculators for operating specific payroll functions including tax and social security contribution obligations.
Head Office functions were also merged in a structured and timely program. As for the IT structures, it was reported that there was no such system available for the “Contributions Agency”; for example, there was limited access to IT in 1999. It was only since 2000–2001 that there was access to IT structures for all the employees. At the moment, the social security contribution collection for self-employed persons is greatly facilitated by the existence of one department. However, the merger of IT structures was seen as a task for later years and has been handled as IT systems have reached the end of their natural life. More particularly, the social security administration has proceeded to the redevelopment of the website and the tax authority has taken on a different supplier. All the above, though, were not a direct impact of the merger, rather the beginning of a new era in the use of IT systems in the social security contribution collection.

The key to success in the first phase of the merger was managing the human resources change associated with the merger. A holistic approach was adopted by bringing together policy and operational people from the “Contributions Agency” and the tax authority creating joint working teams which dealt with the separate merger issues. Moreover, it was critical that the staff of both administrations saw the change as a merger rather than a takeover. This was achieved in a number of ways:

- Establishing a culture of open collaborative work based on mutual trust.
- Creating merger teams with equal participation in key roles from both organizations. These jointly headed and not single lead teams worked on different strands of the merger, such as finance implementation and so on.
- Establishing a range of communication channels and maintaining regular communication with the personnel (even when there was no change to communicate — people still wanted to know what areas were being looked at and the progress made and this open, detailed approach allayed potential fears). This has been achieved by providing opportunities for discussion and written communication as back-up for these discussions.

Furthermore, the adopted communication strategy included some communication products — for example, the publishing of a magazine — in order to suit the merger message. The IT restructuring was not part of the initial program, because the existence of two departments was impeding the creation of a merged IT system. As a matter of fact, the IT was not so developed and only after the merger of the administrations it was possible to proceed to the merger of the IT system as well.

The merger program was guided by three basic elements:

- The principle of a so-called “safe landing”; everything needed to continue to work effectively from day one. This included a variety of changes from legal to banking details.
- A published Blueprint for the merger which set out the guidelines on which functions should go in the merged tax authority. The basic argument of this Blueprint was that the collection of social security contributions should be totally merged with the tax collection.
- A program of work for the merger starting from day one and targeted to delivering early wins. This standard program activity included the creation of joint teams and a joint program office with the equal participation of the tax authority and the “Contributions Agency” officials.

In addition to these elements, some other factors played a key role following this merger. More specifically, some other administrative functions had to be regulated in order to meet the demands of the merged collection system. One of these functions was the exchange of information within the
administrative authorities; the privacy of personal data became of great importance as the information given, for example, to the police authorities became more and more stringent after the merger.

It was important to recognize that the different tax collection regimes under the new Inland Revenue

- Income Tax (and Customs since 2005)
- VAT
- Social Security Contributions

are all based on different legislative frameworks. The focus on the merger was therefore NOT about legislative reform but about administrative procedures. The e-forms were introduced in 2004; the integration of the IT structures subsequently took place in a major upgrade of PAYE & social security contributions (NICs) systems in 2009–2010; this was greatly facilitated by the merged collection system because of the assignment of the collection competency to one department. The overall implementation of the original merger was reported to be remarkably smooth as the managers involved sought out people for their teams with a collaborative culture.

The most critical success factor, however, was handling the change management of the staff. It was important to recognize that the personnel of both administrations had different cultures, and that a new culture needed to be created which captured the best of both.

In summary, the four key critical success factors were:

- Managing the human resources change.
- Understanding the implication of the different legal frameworks.
- Ensuring that changes did not affect the day-to-day administration and that everything continued to work.
- Delivering early benefits, especially those related to merging services and making them more effective for customers. As a matter of fact, the platform of the merger provided for the elimination of duplicate operations; the core processes are now common for both tax and social security contributions.

The merger of social security contribution and tax collection continues today and there are always new opportunities for increased efficiency. This case study highlights the importance of viewing mergers and collaboration as a people based activity, driven by strong operational management. The change program needs to focus on improving services for customers and delivering benefits in a structured roadmap. It is critical to deliver early wins, maintaining the best of today and delivering new services over a period of time.

Consequences of the merged collection system: First of all, the existence of two departments dealing with the social security contributions resulted in the existence of two sets of rules regarding the guidance, reporting and compliance operations. With the merger, the collection of taxes and social security contributions stayed within one administrative department and all the duplicate operations have been eliminated. Consequently, the employers together with the administration were released from the heavy administrative burden of performing duplicate operations.

Furthermore, the tax and social security rules have been harmonized and simplified in order to meet the demands of the merger. The merger was focused initially on the administrative side of the
collection. The pressures to bring together tax and social security rules came afterwards\textsuperscript{290}. These pressures concerned mainly the differences noted in the calculation and recording procedure of both levies. For example, it was claimed that the different calculation periods and bases for tax and social security contributions should be aligned for a more efficient collection procedure\textsuperscript{291}. The same works for the recording of the taxes and social security contributions by the employers as well as the change of employment during the year. Some of these differences between taxes and social security contributions can create extra work for the employers. Another problem can come up in case of different outcomes for individuals, such as the treatment of multiple jobs.

The merger of employer compliance enabled a reduction in personnel which could be reinvested in new programs, such as tax credits\textsuperscript{292}. This has enabled the tax authority to accommodate new functions whilst still achieving efficiency savings. The tax and social security contributions were brought into one collection system with single transactions. With regard to identity fraud, the tax authority is reported to work closely with the social security administration.

As far as the facilities are concerned, the “Contributions Agency” had launched the Newcastle Estate Development Project in 1998 before the transfer of the social security contribution collection to the tax authority. After the merger of the social security contribution and tax collection, the NICO collecting administration took over the completion of redeveloping the premises in Longbenton, Newcastle.

**Obstacles encountered during and after the merging process:** One area of potential pitfalls with regard to the merged social security contribution and tax collection was around the legal frameworks governing the two areas. The tax authority was controlled by an Act of Parliament while the “Contribution Agency” was managed through ministerial control. These two regimes are difficult to integrate as agencies under ministerial control often evolve to include out of scope activities. Bringing these under a formal Parliamentary Act needed some critical attention.

Another potential pitfall that needed attention was the relationship of the merged “Contributions Agency” to the retained social security administration. This was handled formally with new relationship management created between the two organizations which were documented with formal service level agreements. Although in the past the social security administration tended to drift apart, now the participation of the social security administration is more rebalanced due to the joint working initiatives which established new relationships between the two organizations. This new relationship management received positive feedback from both departments.

\textsuperscript{290} Review of income tax and national insurance alignment: an evidence based assessment, HM Treasury, October 2007.

\textsuperscript{291} The calculation of due taxes is made on an annual basis whereas the calculation of due social security contributions is made on a monthly or weekly basis. Moreover, the calculation basis for taxes is the total annual income whilst the calculation basis for social security contributions is the earnings from employment or profits from self-employment. For further information on this discussion see the Review of income tax and national insurance alignment: an evidence based assessment, HM Treasury, October 2007.

\textsuperscript{292} Tax credits are payments made by the government. These payments are made to persons responsible for at least one child or young person who normally lives with them (Child Tax Credit) or payments to persons that work, but are on a low income (Working Tax Credit). More information about the tax credits in the UK is available from: http://www.hmrc.gov.uk/taxcredits/start/who-qualifies/what-are-taxcredits.htm.
### Table: Summary of the merged administrative arrangements for social security contribution and tax collection in the United Kingdom

<table>
<thead>
<tr>
<th>Collecting authority</th>
<th>National Insurance Contributions Office (NICO) and the tax authority (Her Majesty’s Revenue &amp; Customs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collecting method</td>
<td>The social security contributions are collected with the taxes</td>
</tr>
<tr>
<td>Applicability of taxation rules</td>
<td>Yes, because of the merged collecting authority NICO that is part of the tax authority</td>
</tr>
<tr>
<td>Relationship of social security contributions with taxes</td>
<td>Social security contributions are distinguished from the personal or corporate income taxes</td>
</tr>
<tr>
<td>Declaration and payments of social security contributions and taxes</td>
<td>Performed by the employers and the self-employed persons</td>
</tr>
<tr>
<td>Records’ maintenance</td>
<td>By the NICO (National Insurance Accounts) and the employers</td>
</tr>
<tr>
<td>Identification of insured persons for payment purposes</td>
<td>Via a unique personal reference number called National Insurance Number</td>
</tr>
<tr>
<td>Electronic declaration of payments</td>
<td>Use of e-forms introduced in 2004</td>
</tr>
<tr>
<td>Calculation basis for social security contributions</td>
<td>Any remuneration or profit derived from an employment</td>
</tr>
<tr>
<td>Deductibility of social security contributions for corporate income purposes</td>
<td>Yes (not deductible for income tax)</td>
</tr>
<tr>
<td>Transfer of funds collected</td>
<td>No transfer of funds is required as the revenues are credited directly to the National Insurance Fund</td>
</tr>
<tr>
<td>Control and recovery of overdue payments</td>
<td>Merged compliance processes and compliance teams for both tax and social security contributions</td>
</tr>
</tbody>
</table>
| Levels of record keeping | • National Insurance accounts  
• Individual National Insurance accounts  
• Records kept by employers |
| Data exchange between tax and social security administration | The collecting authority provides information to other Government Agencies for benefit claims and other purposes through the National Insurance Recording System (NIRS2) |
| Obstacles during and after the merger | • Different legal frameworks governing the two areas  
• The relationship of the merged collection administration to the retained social security administration |
| Disadvantages of the merged collection | Limited attention to the special needs of the social security schemes on behalf of the tax authority |
| Benefits of the merger | • Elimination of duplicate operations  
• Harmonization and simplification of tax and social security rules  
• Reinvestment of the personnel in new programs |
4. The distinct social security administration functions

4.1 Reforms leading to the merger

According to the experiences of the five countries examined in the present report, it can be argued that the merging of the social security contribution and tax collection administration in a given country can be usually interrelated with the introduction of a social security or tax reform.

This was the case in Estonia and Hungary, for example, where social security reforms were introduced when the two countries were in transition from a centrally planned economic system to a market economy; before these reforms the two countries were not focusing on the collection of social security contributions and, as a result, their capacity to perform the collection was rather weak. Therefore, as their economies changed and developed, the reforms of the social security system were followed by a subsequent reform of the administration which would contribute to a smoother implementation of the new system. This latter administrative reform boiled eventually down to the merging of social security contribution and tax collection administration.

Another interesting case was the tax reform in the Netherlands where a common calculation basis for both taxes and social security contributions was required in order to simplify and harmonize the social security contribution and taxation rules. This particular necessity has emerged principally from the difficulties encountered in the calculation and collection of social security contributions; therefore, the merger of social security contribution and tax collection administration aimed at introducing a more simplified and understandable collection system.

As for the United Kingdom, the merger of the administrations of tax and social security contributions was a recommendation of the so-called “Taylor report” which evaluated proposals to improve the social security system through providing work incentives and on a long term employment opportunity for everyone. These recommendations should be viewed as part of the wider context of tax and benefit reforms in the United Kingdom.

Finally, in Italy, the merger of the tax and social security contribution collection is currently at a quite early stage. The initiative to merge the tax and social security contribution administration was in 2009. The initiative aimed at simplifying the operations and control of the financial flows of the Italian social security administration.

---

293 The social security tax is a common characteristic of countries with economies in transition according to the IMF report on the Tax Law Design and Drafting (volume 1; International Monetary Fund: 1996; Victor Thuronyi, ed.), Chapter 11, Social Security Taxation, p. 2. In these countries social security taxation is the most important single source of public revenues.

4.2 Administrative structure of the social security contribution and tax collection

A key factor in the creation of a scheme’s contribution structure is whether there is to be one global contribution to all schemes of funded social security or separate contributions for each separate scheme of social protection. This is usually determined by the institutional structure of the social security system; an IMF report supports that, if different funds or institutions are responsible for the different elements of social security, there is strong pressure to provide different contributions to each institution. Therefore, according to the IMF paper on the tax law design and drafting, the social security funds should be closely coordinated at the time of the collection no matter how the funds are distributed once collected.

There can be further a distinction between contributions treated as a series of separate contributions and those treated as a single payment to be made by the contributor although consisting of separate amounts for different funds. This is the case in the Netherlands where there are different kinds of contributions payable to the different social security schemes which are though treated as a single payment by the collecting authority. Another system applies to the social security contributions in the United Kingdom where the costs of the social security benefits are borne by six different classes of social security contributions levied on the insured persons and the employers; each class of contributions provides financing for the entirety of the social security schemes.

All the aforementioned elements must be seriously taken into consideration when organizing a common collection process for both social security contributions and taxes.

The global collection of social security contributions and taxes as parallel levies based on the same source of income by one administrative authority could simplify the collection arrangements. However, it is usually the case that different underlying systems of finance remain to apply to each branch even after the merger. For this purpose, separate accounts of income and expenditure must be maintained for each branch — either social security funds or taxation — and the contributions and other funds allocated to each branch must also be separately recorded. As a result, there can be some record keeping implications due to the special needs of the financing systems for each branch.

Table: Overview of the elements of the administrative structures of social security and taxation that could have an impact on the merging of the collection system

<table>
<thead>
<tr>
<th>Some elements of the administrative structure which impact on the merging of the collection system</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Different systems of financing the taxation and the social security system;</td>
</tr>
<tr>
<td>2. One global contribution or separate contributions existing for the social security schemes;</td>
</tr>
<tr>
<td>3. Treatment of contributions after payment as a series of separate contributions or as a single payment consisting of separate amounts for different funds; and</td>
</tr>
<tr>
<td>4. Separation of accounts of income and expenditure as well as separation of records for each branch.</td>
</tr>
</tbody>
</table>

295 This is the case in the United Kingdom although a part of the global contribution is transferred to help fund health costs.
296 In Estonia there is a separate contribution for the unemployment insurance scheme. In Hungary, Italy and the Netherlands there are separate contributions for each social security scheme.
4.3 Administrative functions relating to the collection

According to an ISSA publication on the interactions of social security and tax systems\(^{298}\), the merged collection of social security contributions and taxes touches upon more than one administrative functions\(^{299}\). This is due to the fact that the collecting administration has to perform a number of several other tasks rather than just receiving the payment; this is done in order to ensure the correctness and fulfillment of these payments. It can be argued that the number of these administrative functions merged in a national system can be an indicator defining the degree of merging of the collection in this country. A brief description of these functions is illustrated in the following section. Moreover, on the basis of the functions merged in each of the countries examined, we present an overview of the degree of merger in each country according to the experiences reported in this field\(^{300}\).

4.3.1 Registration

According to the aforementioned ISSA and WB publication\(^{301}\) as well as the findings of our research, the first of the administrative functions related to the merged collection system, concerns the registration of the persons liable to pay social security contributions. Moreover, our research showed that problems concerning the identification and registration of contributors were quite common to the countries that have introduced the merger of the collection procedures.

These problems arise from the fact that there is usually a distinction between persons liable to pay social security contributions and taxpayers; persons liable to pay social security contributions are not always people with a professional income (or even an income replacement), which are employers, employees and self-employed persons, but also the general population without a professional income that, in some cases, has to pay social security contributions on the grounds of residing in a certain country. This is highly dependable on whether there is a general social security scheme covering all the residents in a country, such as in the Netherlands.

Moreover, the personal income for taxpayers does not always include the social security contributions paid or the income coming from social security schemes. In Estonia, for example, it was reported that the tax calculation basis does not include the social security contributions. On the other hand, in the Netherlands the concept of wage for social security purposes is harmonized with the concept of wage for tax purposes.

This distinction between contributors and taxpayers as a rule requires several arrangements in order to identify the persons liable to pay social security contributions in the merged collection system and overcome the related problems. Such an arrangement was reported in Estonia with the introduction of a state register of taxable persons where information on the social security status of a person was also included and, thus, the identification of taxpayers and contributors was facilitated. However, such arrangements could entail some risks as to the validity of some registrations because there can be difficulties in updating all the data included in the state register.

In some of the countries examined, the insured person is identified without a specific social or tax registration number, but on the basis of the personal ID number. In Estonia, for example, the

---

\(^{298}\) See Ross, S., Common issues of social security and taxation systems, in Interactions of social security and tax systems, ISSA and OECD, 1997, pp. 19 et seq.

\(^{299}\) It is argued in a WB report that some of the business processes included in the social security programs can be merged with the tax administration. For further information see Anusic, Z. International experience in consolidated social contributions and tax collection, reporting and administration, WB, ECSHD, 2005, pp. 4 et. seq. (available online: http://info.worldbank.org/etools/docs/library/238288/Anusic_CollectionUnification.pdf).

\(^{300}\) This is presented in the table on page 103 of the present report.

\(^{301}\) Interactions of social security and tax systems, ISSA and OECD, 1997.
contributors are identified without a specific social or tax registration number because there is a state register for all the taxpayers and contributors in order to ensure the performance of the functions imposed on tax authorities by law; there are also individual records for each and every person. As for the self-employed persons in Estonia, there is no registration requirement under the condition that they are registered in commercial registers or they have personal identification codes.

On the other hand, in some other countries, like in Italy and the Netherlands, the identification of those liable to pay social security contributions and taxes is made through a social-fiscal number; this is also called social security number (“National Insurance Number”) in the United Kingdom, but is used in the same way as the social-fiscal number. There is also the case that two different identification numbers apply: one for taxation and one for social security. This is the case in Hungary where two identification numbers are required when the taxes and social security contributions are collected.

**Unique identifying number:** More specifically, the registration of the contributors/taxpayers in a merged collection system can be further facilitated by the assignment of a unique identifying number for the purposes of social security contribution and tax collection to enterprises and individuals. Moreover, this can be combined with the creation of master files or registration systems for contributors/taxpayers where basic data can be recorded and stored. In accordance to the responses of national experts participating in our research, the prior computerization of all the registration data and records concerning either taxes or social security contributions is advisable in order to achieve a smooth implementation of the unique identifying number.

We can find examples of unique identifying numbers in Italy, the Netherlands and the United Kingdom. In the first two countries there is a social-fiscal number used for identifying the persons liable to pay social security contributions and taxes and in the latter country there is a unique personal reference number serving the same purpose and additionally making sure that social security contributions and taxes are properly recorded on the personal accounts.

**4.3.2 Accounting and reporting**

Another function related to the collection of taxes and social security contributions which, however, is not assigned to the administration, but to the employers and the self-employed persons. We are referring to the accounting and reporting of social security contributions and taxes levied on the income of the debtors; this accounting has to be performed by the employers and the self-employed persons so that the payment of the levies can follow. Therefore, the aforementioned calculation of the due social security contributions and taxes with the consequent report filling is an administrative burden for the persons obliged to pay the levies to the competent collecting authority.

However, a merger as such does not facilitate this procedure. This is due to the fact that the elimination of the administrative burdens is highly dependable on the degree of the merger realized. As we will see further in the benefits section, a merger can facilitate the accounting and reporting of social security contributions and taxes under the condition that it eliminates the duplicate operations for the employers and self-employed persons.

---

302 These master files are similar to the ones used in the taxation field.

303 Ross, S., Common issues of social security and taxation systems, in Interactions of social security and tax systems, ISSA and OECD, 1997, p.20.
Some examples could shed some light on the particularities of the accounting and reporting function in a merged collection system. In Estonia, the employer has to account, report and pay on a monthly basis the social security contributions and the taxes to the tax authority; this is done with the use of electronic forms where taxes and social security contributions are indicated for each employee: one row for each person and different columns for the different levies paid. Moreover, in the United Kingdom the businesses are supplied with an “employers’ CD-ROM” which provides guidance and assists the employers with the calculation and reporting of both taxes and social security contributions. Finally, in Hungary the social security contributions together with the taxes are being assessed, deducted and paid by the employers and the self-employed persons to the so-called “accounts” of the tax authority and are then declared in their own tax returns.

4.3.3 Collection of social security contributions and taxes
Based on the experiences of the five countries examined and international literature, a third administrative function connected with the merger issue is the collection of social security contributions and taxes. The collection can be performed with the use of unified payment forms where the types and amounts of taxes and social security contributions are identified in the pay slip. These unified forms can be submitted to the competent collecting agency or intermediary. For example in Italy the unified payment forms are submitted to the common intermediary (competent banks or post offices). Moreover, the use of electronic papers (e-forms) via the internet is very common. All these unified forms and e-forms can eliminate the use of multiple paper-filling and promote the role of e-government in the country where they are implemented. The use of electronic forms was reported to be quite extensive in Estonia, the Netherlands and the United Kingdom.

The collection operation as such can result in some secondary functions as well. For example, notices to the debtors can be generated, visitations to payers can be organized and linkages to banks or other financial institutions providing information and assistance can be established. A quite important example is the case of the United Kingdom. During the merging process, common compliance teams and compliance procedures for tax and social security contributions were promoted; as a result, after the implementation of merger, it was not very difficult to introduce the common visitations practice without creating the impression that the tax authority is taking over the responsibilities of the social security administration.

Furthermore, the efficiency of the merged collection can be based — in principle — on the level of harmonization of social security and tax laws. In other words, it could be preferred if the definition of the wages, the timing of the declarations and the withholding of the levies are common both for taxes and social security contributions. This way the techniques may eventually become even simpler and, consequently, the merged system can be a successful one.

An indicative case of such coordination is the Netherlands where a harmonized concept of wage exists for levying both the social security contributions and the taxes. However, as the Italian experience shows, sometimes it is not necessary to harmonize everything in order to achieve greater contribution compliance, but harmonizing only some aspects of the collection procedure may also prove quite sufficient for achieving the same goal.

---

304 Interactions of social security and tax systems, ISSA and OECD, 1997.
CASE STUDIES IN MERGING THE ADMINISTRATIONS OF SOCIAL SECURITY CONTRIBUTION AND TAXATION

4.3.4 Control of the collection process
Another administrative function of the merged collection process — according to the analysis of the steps in contribution collection in an ISSA and OECD publication\textsuperscript{305} — is the verification/enforcement of the registration, the contributions and other legislative or regulatory provisions. This function has many sub-functions each one of which is — according to the experiences of the five countries — very important for the completion of the whole collection procedure.

One of these sub-functions is the return processing which helps identifying the non-payers or the delinquent accounts, leads to the set up of targeted procedures against non-payers and provides guidance to the selection of payers for audit. In the Netherlands declaring a person liable for not paying social security contributions is reported as a competency of a special administrative body (called “Social Intelligence and Investigation Service”\textsuperscript{306}) which works together with the tax authority and the Social Insurance Bank, the social security administration. In Italy, the social security administration performs the returns processing; when there are cases of persons breaching their social security contribution payment obligations, the collection of the overdue payments is then assigned to collecting entities, such as “Equitalia” or other private collecting agencies\textsuperscript{306}. These entities use injunction proceedings for the collection of the social security contributions and taxes that have not been paid; for this collection procedure they charge a fee.

Moreover, some other very important sub-functions are the audit and the establishment of techniques for identifying under-reporting. In Estonia the tax authority has the assignment to investigate the undeclared or under-reported earnings. On the other hand, in Hungary the social security controllers have the right to perform on-spot controls, but their competence is quite limited as they only report fraud to the tax authority or the police and they can not impose sanctions. In order to detect efficiently infringements and frauds, there are frequent joint controls performed by the social security administration and the tax authority. In the British collection system the compliance processes and compliance teams for both taxes and social security contributions have been merged; thus, consolidated teams pay consolidated visits to businesses for control and recovery of overdue payments.

Previous research in this field\textsuperscript{307} showed that a mere collaboration between tax and social security administrations can be sufficient, but with the merged approach this cooperation with regard to the audit and compliance processes could be further facilitated.

4.3.5 Individual and general records
On the basis of international literature\textsuperscript{308} and our findings, a further administrative function related to the merger is the maintenance of individual and general records for both taxes and social security contributions. These records are based on harmonized data collected for both levies which are available to the social security administration and the tax authority.

An illustrative example of such records are the public records of individual contributions kept by the Estonian tax authority for all the levies collected; this individual recording was launched in January 1999 and contributed greatly to granting benefits smoothly because of the efficient and timely exchange of data concerning the payments.

\textsuperscript{305} Ibid. pp. 53 et seq.
\textsuperscript{306} See section 3.3.5 for further information.
\textsuperscript{308} Ross, S., Common issues of social security and taxation systems, in Interactions of social security and tax systems, ISSA and OECD, 1997, pp. 19 et seq. and Anusic, Z. International experience in consolidated social contributions and tax collection, reporting and administration, WB, ECSHD, 2005.
A similar approach is followed in the United Kingdom. In June 2009 the National Insurance and Pay-As-You-Earn (PAYE) Service — known as NPS, part of the tax administration — introduced one single IT system which contained individual social security records together with tax records. Moreover, in order to grant access to contributory benefits, the National Insurance Contributions Office (NICO) — a department of the tax authority as well — maintains two sets of records for the social security contributions: the National Insurance Accounts and the individual National Insurance Accounts; in the latter accounts information deriving from individual returns are recorded (in particular details on employee's pay and social security contributions paid).

In Hungary a public record of individual contributions was meant to be in force. However, it was reported that this measure could not be implemented in practice, although provided for by the law, due to the introduction of the second pillar social security scheme in the country which required a more complex individual record-keeping. This record keeping issue was due to the fact that it has been difficult to identify the contributors to the second pillar scheme — as the identification of the contributors is not automatic — and, therefore, no individual records could be kept.

It is important for the merged collection system that the data maintained are correct, complete, accurate, up-to-date, uniform and readily accessible. With regard to the collection of data, several privacy issues may arise, such as the confidentiality of numbers assigned to businesses and individuals for the record keeping purposes. Therefore, the data exchange between the social security administration and the tax authority is an issue requiring special attention in the merged collection system.

Italy is an interesting case as the data concerning the personal profiles of the insured persons, their income, their fiscal declarations, their assets and social security contributions paid are accessible by the collecting authority of overdue payments in accordance with data exchange agreements signed between the administrations. In the Netherlands, data which come from the tax declarations on tax returns including information on a person's social security status and the levies paid are recorded in the central bank of the social security administration; these data can be used according to the provisions of the relevant Dutch law regulating the establishment and the proper functioning of the administration. It was reported though that only the competent persons within the competent administrative authorities were eligible to have access and process these information according to the principles of the personal data protection.

4.3.6 Settlement of claims

An additional administrative function in connection with the collection procedure is the operation of the settlement of claims. This is greatly relevant to the enforcement competencies of the collecting authority. In order to ensure the compliance of the debtors with their obligations concerning social security contribution and tax payment, the collecting authority may be authorized to impose penalties or even become involved in dispute resolution or judicial appeals. In Estonia, for example, the tax authority which is the collecting authority pursues the payments in arrears and in Hungary the tax administration exercises official powers against contributors that are reluctant or deny fulfilling their obligation with regard to the payment of social security contributions. In Italy the settlement of claims is assigned to special collecting entities which initiate legal proceedings charging a fee for their services.

309 For more information see the Hungarian country report included in the 3rd chapter of the present paper.
310 Work and Income Implementation Structure Act.
4.3.7 Transfer of social security contribution revenues

Our research showed that in some countries the administrative function that constitutes a special characteristic of the merged collection system is the transfer of the social security contribution revenues; this is performed by the collecting authority towards the competent social security funds accompanied by the transfer of the relevant data to the social security administration. When collected, the taxes and social security contributions are kept together in most cases until the social security contribution revenues are further transferred to the social security funds. If there are common intermediaries in the collection process, then these are responsible to perform the transfer of the revenues to the competent social security and taxation funds. In case of delayed transfers by the common intermediaries, there may be an obligation to compensation if a liability for such a delay can be established.

Based on the experiences of the five countries examined in the present report, we can argue that the transfer performed by the tax authority or the common intermediaries can be made in several ways:

- directly to the first pillar social security administration on a monthly basis; after that the second pillar contributions are transferred further from the first pillar social security administration to the private insurance fund (Hungary);
- the social security contributions collected are transferred to the competent social security administration via the State Treasury (Estonia);
- in a similar way, taxes and social security contributions collected by the competent banks or post offices — acting as common collecting intermediaries — are transferred to a special national account (within the State Treasury) where the details of each amount owed to every administrative authority can be easily identified. Then the amounts are dealt with and kept separated electronically (Italy); and
- the social security contribution revenues are directed immediately to the social security funds without the intermediation of the State Treasury where the collecting administration — the National Insurance Contributions Office, department of the tax authority — transfers the collected revenues to the National Insurance Fund; this is not done via the Consolidated (Revenue) Fund (United Kingdom).

On the basis of the above descriptions and the functions merged in each of the countries examined, we present an overview of the degree of merger in each country according to the experiences reported in this field.

Table: Comparative table showing the merger of administrative functions with regard to the collection of social security contributions and taxes in the counties examined

<table>
<thead>
<tr>
<th>Merged administrative functions</th>
<th>Estonia</th>
<th>Hungary</th>
<th>Italy</th>
<th>Netherlands</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary administrative functions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registration:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• unique identifying number</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting and reporting:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• paper forms</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>• e-forms</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
For the purposes of our research, we have characterized the tasks of registration, accounting, reporting and collection as primary administrative functions because they are performed at the first stage of the collection procedure. The verification of registration and contributions, the record-keeping, the settlement of claims and the transfer of the revenues are defined as secondary administrative functions because they are carried out at a later stage of the collection procedure.

After having identified and described the merged administrative functions in each country, we now examine the design and the implementation of the merger according to secondary literature sources combined with the results of our research regarding the experiences of the five countries in question.

### 4.4 Design of the merger

When making the necessary administrative arrangements for the transfer of the social security contribution collection function to the tax administration or even for merging one of the aforementioned administrative functions, it is advisable to keep in mind some key elements. According to international literature in this field\(^{311}\), these are in principle the elements concerning the revenue base, but also touch upon other aspects, such as the privacy of personal data.

---

4.4.1 Persons liable to pay social security contributions and taxes

First of all, it is important to examine whether the social security contributions and the taxes are paid by the same or different groups of people. Key concept for this element is the definition of the status of a person as employee or self-employed. This happens because traditional employment patterns tend to break down more and more while more flexible working relationships are being promoted instead. Therefore, nowadays it has become even more difficult to distinguish between employees and self-employed persons; it is also quite frequent that one person is considered as an employee for taxation purposes and as a self-employed person for social security purposes. This can result in confusion with regard to the status of a worker as well as in contradictory decisions within the different administrations.

The situation is different in each of the five countries examined. We found that the definition of a person’s status as employee or self-employed depends highly on the national legislation and case law concerning this issue in each of the countries in question. Moreover, the existence of different sets of rules and techniques in order to determine which persons are liable to pay social security contributions and taxes creates an additional difficulty in this area.

4.4.2 Definition of income

The social security contributions can be either flat-rate contributions or income-related contributions. When the social security schemes are financed from flat-rate social security contributions, the
definition of income can not have an impact on the operations of a merged collection system. On the contrary, when the social security schemes are financed from income-related social security contributions, then defining income can create several issues with regard to the merger of social security and tax collection administration.

Usually the definition of earnings for income tax purposes is different from the relevant definition for social security contribution purposes. In some cases the calculation basis for the social security contributions is the taxable income and in other cases the calculation basis is the income determined by other means; sometimes not all parts of income are taken into account and there can be different deductions. There is even the case that the contributions are calculated on the basis of the risk related (at a generalized level of risk).

In most cases the taxable income — as determined by the national legislation — is the calculation basis for the social security contributions — like for example in Estonia — although some exceptions from this rule may apply (this is the case in Italy and Hungary).

Moreover, the concept of wage for the purposes of social security contribution calculation can be harmonized with the description of the wage concept in the taxation law in order to facilitate the collection process. As a matter of fact, in the Netherlands, the wage concept for the calculation of social security contributions is harmonized with the wage concept for taxation purposes. However, the social security contributions calculation basis includes only the income from wages and ownership and it is differentiated from the overall taxable income, whereas other sources of income are excluded; the tax calculation basis includes these other sources of income in the Netherlands.

Thus, the differences in defining the income as calculation basis for taxes and social security contributions can result in different record keeping for each employee as well as different returns for the employers; these are known as “duplicate operations”. In order to overcome this impediment, it would be helpful to link the social security contribution legislation to the legislation on the income tax on earnings; it is, therefore, argued that linking the social security legislation to the income tax on earnings was more or less common for most of the countries examined in the present paper.

4.4.3 Same calculation periods

Furthermore, referring to the same periods for the calculation of social security contributions and taxes can prove to be quite helpful for designing and further implementing the merger process. In most of the countries examined, the calculation period for the social security contributions was one month whereas the taxable period was one year. In addition, there were different calculation periods of social security contributions for self-employed persons and employees; these different calculation periods were further reported to create an additional burden in the merged collection system.

Therefore, if uniform timing rules with regard to social security contributions and taxes are to be adopted, then we could identify a possible advantage, especially because in that case the same basis for the collection of both levies can be used. This can be simplifying the accounting and record-keeping operations carried out by the employers as there will be no more duplicate operations for paying and reporting the taxes and social security contributions\textsuperscript{313}.

\textsuperscript{313} For more information see Williams, D., Legal and institutional aspects of social security and taxation reforms, in Interactions of social security and taxation, ISSA and OECD, 1997, pp. 36-37.
4.4.4 Employer’s and employee’s share to the levies
Another issue that could be taken into consideration while designing the merger of a country’s collection administration is the partition of the employee and the employer to the levies. The question that arises is whether the burden of contribution payment liability falls on the employer or the employee. In some countries it is evenly shared between the employer and the employee being collected half from each; in some other countries most of the burden is imposed either on the employer or on the employee. The employer usually withholds the employee’s partition from his/her wage and then pays it with his/her own partition to the competent collecting authority. We were not able to identify a consistent pattern regarding the share of the contribution burden between the employer and the individual through our research.

However, as it is mentioned in the introduction, the employee’s and employer’s share to social security contributions must be distinguished from the payment method of taxes and social security contributions. This is important because the employee’s and employer’s share to social security contributions cannot influence the final payment made.

The liability for overdue payments can also be different for taxes and social security contributions. In a merged collection system for both taxes and social security contributions this differentiation could be a matter having negative consequences on the merged collection of overdue payments. Therefore, mainstreaming liability which is different for taxes and social security contributions should be considered when designing the merged collection system.

4.4.5 Rates of the levies
While designing the merger of the collection of both levies, a linkage between rates and levies could be established. This is for example the case in the Netherlands which has one of the most merged collection systems; most employees pay a high rate of social security contributions to which a low rate of income tax is added. For example, the lower-paid workers pay far more in social security contributions than in income tax. This is in practice an integration of the rates of both levies: an approach not followed by many countries.

4.4.6 Privacy of personal data
The privacy of personal data is an issue that is crucial while creating a merged collection system. This happens because the use of information technology, on the one hand, makes the data collection and record keeping easier, but, on the other hand, the personal data of taxpayers/contributors can be often at stake because they may be accessed by non-competent authorities. For example, the establishment of a central databank could be useful in order to guarantee the smooth operation of the collection system; however, privacy protection issues may come up.

---

315 In Hungary nearly all the burden and in Estonia and Italy the larger part of it is imposed on the employer.
316 In the UK the employee is liable to pay the social security contributions.
317 For further clarifications on this matter see section 1.3 of the present report.
318 Williams, D., Legal and institutional aspects of social security and taxation reforms, in Interactions of social security and taxation, ISSA and OECD, 1997.
319 The same applies in France according to the IMF paper on the Tax Law Design and Drafting (volume 1; International Monetary Fund: 1996; Victor Thuronyi, ed.), Chapter 11, Social Security Taxation, p. 3.
320 This is the case of the central databank at the Employee’s Insurance Implementing Body – UWV in the Netherlands.
Some remarks regarding the design of the system before the implementation of the merger:

- The difficulty to distinguish between employees and self-employed persons should be dealt with.
- Differences in defining income as calculation basis for social security contributions and taxes should be eliminated.
- Calculation periods for social security contributions and taxes should be harmonized.
- It is not essential that employee's and employer's partition to the social security contributions are taken into consideration.
- Linking rates and levies could be useful for accomplishing a greater merger (integration of rates).
- Protection of personal data should become a priority when designing data exchange systems.

4.5 Implementation of the merger

The merger of social security contribution and tax collection is usually achieved through the implementation of a reform of one or several administrative arrangements for the said collection. This reform, though, must be examined within the context of the overall administrative structures of social security and tax administrations and not as a separate part because of the interoperability of the social security administrations and tax authorities.

4.5.1 Creation of appropriate environment

First of all, it is important to create the appropriate legal and administrative environment for such a merger. This means that the new collecting agency, i.e. the tax authority, has to be prepared to take on the new responsibilities for all the different aspects of the collection of the social security contributions; this can be succeeded with a previous assessment of the readiness of the tax administration to take on this competency. If the tax administration is modernized and well-structured with trained personnel and effective management, then the transition to the merged system can be achieved successfully with lower administrative costs.

Very enlightening is the experience of the United Kingdom in this field. During the merger process it was important that the personnel of the tax and social security administrations saw the change as a merger rather than a takeover. In particular the “joint working initiative” established a culture of open collaborative work based on mutual trust between the two administrations. Moreover, a merger team from both organizations having equal participation in key roles was created; these teams were jointly headed and worked on different strands of the merger. Finally, a range of communication channels was established and regular communication was maintained with the personnel.

In view of creating the appropriate administrative environment for the merger, it can also be useful if the personnel of the tax authority are trained to respect the specific needs of the social security contributions. This way, there will not be limited attention of the tax authority towards the social security contributions especially because the payment of these levies creates entitlement to benefits and does not have just a general financing scope.

4.5.2 Preliminary steps before the implementation
According to the IMF working paper on integrating a unified revenue administration for tax and social contribution collections, it is essential that some preliminary steps before the implementation of the merger are followed\(^{324}\). Some of these steps are identified as follows:

- The government and the different agencies must understand the need for a well-organized collection structure.
- Amendments to the national legislation and the diverse administrative responsibilities may also be required for introducing such a change in the collecting arrangements.
- The administrative authorities must establish an efficient collaboration with each other because the merger itself presupposes the effective cooperation between the competent authorities.
- A working group of officials or experts in the field may be needed in order to design, organize and manage the implementation process.
- It would be also very helpful to opt for a project schedule which has to be monitored and respected as well as some transitional measures to a smoother introduction of the new collection system.

4.5.3 Harmonization of the national legislation
In certain cases the harmonization of the national legislation could be considered. For example, the legislation regulating the tax and social security rates, the definition of the income, the coverage and definition of the contributors, the definition of payments for social security contributions, the judicial proceedings and the enforcement methods. The Netherlands, for example, managed to harmonize successfully the national legislation on taxation and social security contributions; this was accomplished with the harmonized concept of wage for tax and social security contribution purposes. This harmonization was aiming at the simplification of the legislation regarding the collection procedure of taxes and social security contributions.

Moreover, the legislation concerning some other issues such as the data collection, the enforcement of payments and the exchange of information by the tax authority, could be consistent with the legislation governing the collection of tax payments\(^{325}\). This would probably facilitate the operations of the merged collection system.

To conclude, we support that the overriding objective of the merger of tax and social security contribution collection is to achieve the best possible revenue collection performance and, therefore, contribute to the long-term sustainability of the social insurance schemes.

\(^{324}\) Ibid. p. 18.
\(^{325}\) Ibid, pp. 20-22.
5. The benefits of merging social security and tax collection administrations

Since the 1990s several institutions and international organizations have been supporting the idea of merging social security contribution and tax collection. One of these institutions is the International Monetary Fund which in 1994 has published a report suggesting that the social security contribution collection could be combined with the withholding of tax on income and the collection of both taxes and social security contributions could be assigned to the tax administration. The reasoning of this suggestion lied in the thought that the merger of tax and social security contribution collection should be regarded as an urgent matter for countries in transition to market economies with good prospects for administrative savings. However, the benefits from the merged collection system are important not only for the countries in transition, but also for the countries with market economies.

It has been argued that many of the benefits from the merged collection system derive in principle from the merger of the procedures of social security contribution and tax collection rather than from the merger of the institutions as such. This is why we are going to analyze the benefits of the merged collection system with regard to each of the administrative functions that constitute diverse aspects of the merged collection process.

5.1 Registration

In a merged collection system there is usually a unique identification system for social security and taxation purposes. This means that the merger could contribute to the elimination of the multiple identification methods usually used; these are for example national identification numbers, internal numbers generated by regional offices, tax identification numbers and so forth. These different identification numbers can probably cause confusion to the administration during the collection procedure.

With the merged collection system these different identification methods have been replaced by one unified identification system for both social security contribution and tax payment obligations. This was the case in Estonia where a register of taxable persons is provided for by the law and this register includes information on taxable persons as well as insured persons. In Italy and the Netherlands, the insured and taxable persons are identified automatically with the use of a single social-fiscal number.

---

327 More specifically the report analyzes the situation in Central and Eastern European countries where the failure to collect social security contributions deprived pension schemes of resources needed to meet their obligations.
329 These include the persons that pay the so-called “social tax”, unemployment insurance contributions and contributions to the second pillar funded pension scheme.
330 In Italy it is called “codice fiscale” and in the Netherlands the former “social-fiscaal nummer” (“SOFI” number) and now called Burgerservicenummer (BSN).
When the different identification methods are eliminated, then the collection procedure can be simplified and facilitated. A streamlined collection procedure can be developed. The contribution evasion by employers and employees can be further discouraged.

5.2 Accounting and reporting

The accounting of the taxes and social security contributions on wages is usually part of the activities carried out by the employers when they are making the payment of the wages. When the calculation basis for taxes is different from the calculation basis for the social security contributions, then there can be implications with regard to the accounting and, thus, duplicate operations may pose obstacles to the smooth collection procedure. This is the reason why most of the countries that have introduced the merged collection system, have also tried to ensure a close identity between earnings for income tax purposes and earnings for social security contribution purposes. This way the accounting and reporting procedure can be enhanced by avoiding possible mistakes upon the calculation of the levies and promoting the payment compliance.

Estonia is a good example in this field. This country has introduced the same method for calculating social security contributions and personal income tax. Only the order that these levies are calculated is different. Due to the similarities in the calculation basis, both the levies can be easily administered through one tax return. This was financially expedient for the state and a smaller administrative burden for the payers.

In Hungary, the taxable income serves in principle as the calculation basis for social security contributions with some exceptions (concerning, for example, the income from social security benefits). In the Netherlands, the concept of wage for social security contribution purposes is harmonized with the wage concept for the taxation purposes. In Italy, there is a distinction between the income accrued prior to a certain period which is not harmonized for social security and taxation purposes and the one accrued after that period when the same calculation basis for both social security contributions and taxes is established.

It goes without saying that the keeping of different sets of records for each employee and different returns to the two authorities (cost problem for duplicate operations as well as two teams of officials for the audit of the employer’s records) have been eliminated. This way the legal, administrative and compliance burdens of collecting two parallel payments from employees are being minimized.

The accounting task where employers calculate and deduct the levies from the employees’ income, is followed by the transfer of the funds to the collecting authority and the preparation and submission of a report (return) on these payments to the tax authority.

In Estonia before the merger the employer had to make three different payments and declarations regarding the payments:

- one for the income tax to the tax authority,
- one for the health insurance part of the “social tax” to the competent health insurance agency, and
- one for the pension insurance part of the “social tax” to the competent pension insurance agency.

331 This relates to the income accrued until January 1998. This distinction was introduced by the pension reform of 1995.
After the merger of the social security contribution and tax collection in 1999, the procedure was greatly simplified as the employer was required to make only one single payment for all the levies together using a unified tax declaration.

Another important element of the reporting activity is the frequency of reporting. In a merged collection system reporting is made on a monthly basis instead of a six-month or yearly basis. In Estonia, for example, the dates for the payment of “social tax” by the employers have changed with the merger of the social security contribution and tax collection. Data for monthly payments are transferred from the employers to the collecting authority on a monthly basis in several countries. This is a way to keep the data up-to-date in shorter periods of time which can ensure a better record-keeping and control of the payments as well as an efficient and in-time transfer of the corresponding funds by the collecting authority to the competent social security institutions that manage those funds.

Finally, merging the social security contribution and tax collection system has introduced the use of new IT systems as well as the implementation of e-government in the field of social security contribution collection. Especially, some new IT systems have facilitated the employer’s reporting task because these reports are filed and stored in electronic format rather than in a paper format. In the United Kingdom the tax administration provides the so-called “employers CD-ROM” which contains guidance and information on the accounting of both taxes and social security contributions.

In Estonia, e-government is very popular for the everyday transactions with the public administration; more specifically all the tax declarations and reporting requirements have been unified and gradually transferred into the internet in order to achieve synergy effects from the joined use of IT. In Italy the interactions of the insured persons with the social security institutions take place principally with the use of the IT systems within the broader environment of the digital era.

Finally, the use of technology has facilitated the creation of the appropriate databases for the certification of compliance and accrual of benefit rights. Moreover, in order to meet the requirements of the use of the new IT systems, it was also necessary to provide training to the administrative personnel as well as the employers who can now perform more effectively their reporting and record-keeping activities. This practice was reported to be extensively used during the merger process in the United Kingdom. It goes without saying that after the merger the reporting procedure is much faster and simplified in principle and the employers are released from the heavy burden of filing paper forms and performing duplicate reporting procedures.

5.3 Collection

The merging of social security contribution and tax collection can lead to the simplification of the payment procedures. This is due to the fact that the introduction of a unified payment form eliminates the need for complex and duplicate declarations to multiple administrative collection agencies which has been a burden for both the administration and the employers. These duplicate operations were discouraging compliance and making it impossible to cross-check the several reports because of the differences. In addition, through this operational merger the collection and distribution of both funds and data is more rapid and much safer.

332 In Estonia on the 10th day of the following month when the payment was made and in Hungary on the 12th day of the following month when the payment was made. In the Netherlands the employer has to make the payment declaration to the tax authority on a monthly basis as well.

333 This is for example the internet platform of the Italian National Institute for Social Security (INPS): http://www.inps.it/.
Last but not least, the collection of social security contributions with income taxes could make it difficult to pay the one without paying the other and, as a result, the decision to evade social security contributions must be considered with the evasion of income tax payments.\textsuperscript{334}

5.4 Control

With the merged system the risk of having inadequate and unsound information relating to the collection of taxes and social security contributions is much lower; this happens because the errors and misreporting can be better identified due to the cross-checking of data for consistency and the incorporation of these data in electronic databases.

Moreover, information technology systems including computerization and telecommunication networks are promoted and reliable systems for generating “alarms” when there is social security contribution evasion, are designed and further implemented. Therefore, the issue of overdue contributions is dealt with more effectively as the doubling of control activities with the use of the same resources can minimize to a great extent the contribution losses (as reported in Estonia and Italy) and thus increase the revenues for the social security schemes reinforcing their financial sustainability.

In addition, more efficient enforcement procedures and reduction of the administrative and compliance cost of the collection are achieved in different ways. The audit and overall compliance control is carried out by the tax authority which is also the collecting authority (such as in Hungary, Estonia and the United Kingdom) or even by a separate authority with the competency to perform checks with regard to the social security contribution fraud (such as the separate authority that exists in the Netherlands). These functional collection organizations can send notices quickly in case of non-payment or underpayment and audits and enforcement collection mechanisms can follow up in case that the notices for payment are ignored.

As a result, the enforcement powers granted to the collection agency help increase the compliance and reduce the social security contribution fraud. That is because the previous limited authority of the social security administrations with regard to the enforcement of payments has not been enough to ensure compliance with the social security contribution payment obligations. Due to the increased social security contribution evasion, it was necessary to make the control on the payment fulfillment more effective and enforce the overdue payments more efficiently (especially in Estonia and Italy). The merged collecting administration with enforcement authority can, therefore, contribute significantly to combating social security fraud and ensuring the smooth financing of the social security schemes.

5.5 Transfer of the collected revenues

With the merged collection system, the speed of the transfers of the social security contribution revenues to the competent social security funds together with the relevant data can be increased. The reason is that the transfers are made on a monthly basis\textsuperscript{335} and usually not longer than a few days from the payment until they are credited to the competent accounts.

For example in Italy, the amounts collected by the competent banks and post offices are transferred within the first working day following the payment to the tax authority which verifies that the payments are correct and made within the prescribed time. Then the tax authority makes the transfers


\textsuperscript{335} In Hungary the social security contributions are transferred every month from the tax authority to the competent social security funds.
via the National Bank of Italy\textsuperscript{[336]} which credits all the amounts to the specified social security funds. In Estonia the revenues are redirected to the social security funds via private banks within fifteen working days after their receipt.

What is more, there can be a possibility of compensation payment for delays in transfers which are caused by employers, banks or collection agencies if they are responsible for such a delay. This compensation is payable usually automatically, based on prevailing interest rates; the contributors should, however, be informed of any compensation paid.

5.6 Overall

The merged collection system is reported to be more cost-effective and efficient than the decentralized one; as a matter of fact, the countries examined in the present research have reported that they are not considering the possibility of returning to the decentralized collection system. The administrative burden for social security institutions, tax authorities and employers is further reduced and the use of new technologies has greatly facilitated the collection procedure. Moreover, the control and enforcement procedures have contributed to higher contribution compliance which is very important for the viability of the social security systems in a country.

Last but not least, it is useful to determine a number of factors which can contribute to the strengthening of the benefits from the merged collection system. First of all, the financial intermediation has to be strong with enforcement powers in order to ensure the efficient collection of the due social security contributions. Secondly, the use and availability of information technology is very important so as to enjoy the benefits of the merged collection. Thirdly, the collecting agency selected should be effective and well-organized in order to perform the increased duties assigned to it. Finally, the administrative authorities and in general the public organizations have to show a degree of flexibility in embracing those changes\textsuperscript{[337]}.

<table>
<thead>
<tr>
<th>Overall benefits of the merged collection system as identified in the countries under examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost-effective and efficient system</td>
</tr>
<tr>
<td>2. Reduction of administrative burdens for social security institutions, tax authorities and employers</td>
</tr>
<tr>
<td>3. Facilitation of the collection procedure through the use of new technologies</td>
</tr>
<tr>
<td>4. Higher contribution compliance due to stricter control and enforcement procedures</td>
</tr>
</tbody>
</table>

\textsuperscript{336} Banca d’Italia.

6. Consequences of the merger in general

6.1 Impact of the merger on existing facilities and administrative personnel

The merger of social security contribution and tax collection has an impact on the administration — personnel and facilities — of the countries where the changes are implemented. In Estonia and Hungary, for example, there has been an increase of the tax administration personnel in order to cope with the increased competencies of the tax authority. A further transfer of employees of the social security administration to other departments within the same administration authority took place in Estonia. The centralization of the local revenue accounting departments resulted in the availability of more human resources and enormous work was undertaken for the promotion of the electronic reporting by the largest employers.

In Hungary the tax administration had relatively independent contribution directorates with the authority to reach individual agreements with contribution payers on the amount of their outstanding debt and to cancel late charges and fines if the contribution payer could verify payment; these directorates have been ceased with the merger and they have been fully integrated into the general organization of the tax authority. The latter was reported to have taken from the social security administrations the premises, infrastructure, personnel, database and balances in accounts related to them.

In the Netherlands it was necessary to transfer personnel to the tax authority while a number of employees have been dismissed because of the introduction of a new system for the collection of taxes and social security contributions. In the United Kingdom another approach was adopted: the tax authority established a new department called National Insurance Contributions Office which replaced the “Contributions Agency” — part of the social security administration. The new administration took over the premises of its predecessor; however, the merger was not seen as a takeover of the social security administration. There was also a reduction in personnel which could though be reinvested in new programs.

As for the overdue payments it was reported that, e.g. in Italy, a new administrative authority has been created without, however, any further changes of the human resources or the administration facilities of any other administrative authority.

6.2 Simplification and harmonization of tax and social security rules

The merger has contributed greatly to the simplification and harmonization — to a certain extent — of the tax and social security rules. As a result, most of the examined countries have achieved a more efficient administrative system of collection and control because of the merged collection
system. An illustrative example is the United Kingdom where the merger initially focused on the
administrative side of the collection and the pressures to bring together tax and social security rules
came afterwards. In addition, the Dutch experience showed that the harmonization of taxation and
social security rules could also decrease the errors in the accounting and reporting of the levies as
well as the contradictory decisions within the public administration.

6.3 Commonality of core processes
The procedures followed by the employers have been further simplified because the use of com-
mon definitions of earnings for tax and social security contribution purposes — either in law or in
practice — provided solutions in some practical problems that existed before the merger, such as
the keeping of different sets of records for each employee and different returns to the two authori-
ties. There have also been cost problems for duplicate operations as well as the need of two teams
of officials for the audit of the employer’s records. The problem was even bigger for smaller employ-
ers without trained staff and facilities automation.

Therefore, it can be argued that the elimination of duplicate operations has lifted a great burden
from the employers’ obligations, especially in countries like Italy and the Netherlands. In the
United Kingdom there were merged compliance teams for taxes and social security contributions in
order to pay consolidated visits to the businesses; their aim was to create a more efficient compli-
ance system which would be costing less and would occupy less offices.

6.4 Increased efficiency of the collection system
According to the Estonian and Dutch experience, the introduction of the merger of the administra-
tive functions of social security contribution and tax collection increased the efficiency of the
administration system with regard to the collection and has offered a greater convenience for the
contributors as the administrative burdens are being thereby reduced. The administrative burdens
have been further reduced with the introduction of electronic declarations; a very good example for
the use of e-declarations is Estonia. Moreover, the use of unified payment forms in all the countries
examined simplified the payment process and facilitated the administrative tasks performed by the
employers and the insured persons.

6.5 Smooth introduction of the mandatory social security schemes
Two of the countries of our research, Estonia and Hungary, have recently implemented reforms to
their social security systems. With regard to these reforms, it has been reported that the mandatory
funded pension scheme which was implemented together with the unemployment insurance
scheme could be smoother introduced due to the merged collection system in these countries.

6.6 Lower governmental administrative costs
Administrative costs are the operating costs of the institutions responsible for the collection of
social security contributions and taxes, such as the gross wages, material costs and other current
costs. Before the merger of the collecting functions, there were distinct departments in the social
security administration dealing with the collection of social security contributions. After the intro-
duction of the merger, these departments ceased to exist and, therefore, the administrative costs
were reduced, especially with regard to facilities and personnel.
The collection of social security contributions by the tax authority may entail some operative costs which are, though, divided usually to the tax and social security contribution component proportionally\textsuperscript{338}.

### 6.7 Distinction of competencies

With the merged collection system the tax administration was granted more competencies while the regional health insurance and pension administrations could focus more on their main activities\textsuperscript{339} and perform their duties more effectively. In addition, the experience in the Netherlands has shown that the contradictory decisions within the public administration have decreased because of this distinction of the competencies between the tax authority and the social security administrations.

### 6.8 Effective compliance system

Last but not least, the issue of overdue contributions has been dealt with more effectively after the introduction of the merged collection system in Estonia and in Italy as the doubling of control activities with the use of the same resources could minimize the contribution losses. However, this was not the case in all the countries studied in the present research; in Hungary, for example, it was reported that the social security institutions had no direct information about the calculation basis of the social security contributions as well as the actual amounts paid and, therefore, it was difficult to control the compliance of the contributors with their payment obligations.


\textsuperscript{339} See further the situation in Estonia.
7. Obstacles and problems faced when merging social security contribution and tax collection

It is quite common that when changes are implemented in the administrative system of a country, some temporary problems may arise. The most usual ones are the implications caused by the use of the new procedures, the new IT systems and electronic forms instead of paper forms. In Estonia some IT systems had to be adjusted and new tax return forms were designed for a smoother transition to the merged collection. On the other hand, in the United Kingdom, the IT systems were adjusted some time after the merger as there were other priorities in different areas of the merger.

Some other issues may concern the organization and structure of the human resources and facilities while communication problems may come up in relation to the exchange of data between the administrative authorities if these are not well coordinated. For instance, in Estonia there was a structural change in the tax authority; this happened with the centralization of the local revenue departments. That way the necessary human resources for the merged collection of social security contributions and taxes became available; however, still enormous work had to be undertaken so that the largest taxpayers would give up the reporting in paper format in favor of the electronic data exchange.

At this point there are a couple of issues that need particular attention. Although in some countries there has been a harmonization of the earnings concept, there are also other kinds of differences in the calculation basis for social security contributions and taxes which could become an obstacle to the smooth merged collection of both the levies; for example there can be *differences in the income sources covered*, such as the fringe benefits, investment and self-employed income. Moreover the *unit of assessment* can be differentiated in taxation and social security because social security contributions are levied on individual income whereas taxes are levied on family income. Finally, the *period of assessment* can be diversified, for example, annually for income taxes and monthly for social security contributions. All these may cause some problems to the accounting of the social security contributions and taxes as well as to the subsequent payment of the levies because the possibility of errors can be quite high.

There can also be practical problems when a multi-pillar social security scheme is involved. For example in Estonia due to the higher contributions owed for the participation to the second pillar social security schemes, the employers have to know specifically which employees have joined the second pillar schemes in order to calculate the correct amount of “social tax” payable to the tax administration. There have been cases of mistakes in the tax declarations that had to be settled before the funds would have been transferred to the competent social security administration.

In Hungary the collection of the contributions for the basic pension and health care systems has been integrated, but separate collection for the newly introduced funded tier has been decided.
This has caused additional difficulties in modernizing the collection administration, such as deficiencies in compliance, record keeping and coordination.

In the Netherlands the most difficult issue with regard to the merger has been reported as the transfer of the employer’s share of social security contributions to the employee’s share with a compensating increase on wages. This change required some transitional measures in order to be implemented; these measures have further caused some implications in the merging procedure of the social security contribution and tax collection.

During the transformation of a collection system to a merged administration it has been reported in some countries (such as Hungary and the Netherlands) that the tax administration showed limited attention towards the social security contribution collection compared to the collection of other levies. Tax authorities are purely collecting authorities with main interest the collection of the revenues owed. As the tax authorities in most countries are not involved in the payment of social security benefits, they are alienated from the linkage between the collected social security contributions and the social security scheme and benefits paid by that scheme. Thus, the tax administration is probable to show limited attention to receiving the social security contributions which are necessary for the financing of the social security schemes in a country, and to be more interested in the levies that finance the national general budget. This can be dealt with by providing incentives to the collecting authority in order to collect efficiently all the levies owed.

Additionally, the system can prove to be vulnerable due to the massive processes, the large flows of information and the transfer of data; this was the case in the Netherlands when the implementation of the merged collection system took place. It can be difficult to organize successfully the data flows in the newly introduced merged collection system and — as reported in some other countries — there can be many implications in the record-keeping of the funds received and the exchange of data between the collecting authority and the social security administrations. In order to cope with the large data flows in Estonia and Italy, there were agreements on the methods of information and funds exchanged as well as on the retrospective treatment of erroneous data.

Last but not least, the transfer of personnel to new positions requires training and education of the public servants involved in this procedure which can be time-consuming and requiring quite an effort and very good organization of the agencies. This problem has been dealt with successfully in some of the countries examined, such as the Netherlands, Italy and Estonia. It was reported that specialized training courses have been organized for the transferred personnel in order to meet the requirements of their new duties. There was also the case in the United Kingdom that merged support teams for both social security contribution and tax programs provided help workshops for businesses. The training of the employers regarding the merging of the collection administration is, therefore, equally important with training of the administrative personnel.

In conclusion, when implementing the merger, one comes across all these issues showing that sometimes not all the legal and procedural consequences of the merged collection process have been considered thoroughly.

340 These can be motivation incentives either in cash or in kind when performing the social security contribution collection. This is proportional with what is happening in the taxation field.
8. Annexes

Annex I: Financing of health care in the Netherlands

Notes: ZVW = Health Insurance Act; AWBZ = Exceptional Medical Expenses Act; WMO = Social Support Act; CVZ = Health Care Insurance Board; HI = Health Insurance.


Source: [http://www.ecosante.org/OCDEFRA/717.html](http://www.ecosante.org/OCDEFRA/717.html)
Annex II: Useful websites — Country specific

**Estonia**
Estonian Central Register of Securities ECDS (English)
https://www.e-register.ee/en

Estonian Health Insurance Fund (English)
http://www.haigekassa.ee/eng/

Estonian Financial Supervisory Authority (English)
http://www.fi.ee/?lang=en

Estonian Legal texts (English)
http://www.legaltext.ee/indexen.htm

Estonian Ministry of Social Affairs (English)
http://www.sm.ee/eng.html

Estonian Social Insurance Board (English)
http://www.ensib.ee/?lang=en

Estonia, Social Security Programs throughout the world, Social Security Online

Estonian Taxpayers Association (English)
http://www.maksumaksjad.ee/modules/eng_info/index.php?id=1

Estonian Tax and Customs Board (English)

Estonian Unemployment Insurance Fund (English)
http://www.tootukassa.ee/?lang=en

Official Gateway to Estonia (English)

Pension Center
http://www.pensionikeskus.ee/?lang=en

**Hungary**
Hungarian Central Administration of National Pension Insurance (English)
http://www.onyf.hu/en/

Hungarian Ministry for National Economy (English)
http://www.ngm.gov.hu/en

Hungarian Ministry of Health (English)
http://www.eum.hu/english

Hungarian Ministry of Finance (English)
http://www2.pm.gov.hu/web/home.nsf/frames/english

Hungarian Ministry of Social Affairs and Labour (English)
Hungarian National Health Insurance Fund  
http://www.oep.hu/

Hungary, Social Security Programs throughout the world, Social Security Online  

Hungarian Tax and Financial Control Administration (English)  
http://en.apeh.hu/

State Audit Office of Hungary (English)  

The Visegrad Cooperation  
http://www.visegradgroup.eu/main.php?folderID=1082&amp;articleID=4055&amp;ctag=articletag&amp;iid=1

**Italy**

Equitalia (Riscossione S.p.a.)  
http://www.riscossionespa.it/equitalia/opencms/

Italian Data Management Agency SOGEI  
http://www.sogei.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/1

Italian Ministry of Labour and Social Policy  
http://www.lavoro.gov.it/Lavoro

Italian Ministry of Economy and Finance (English)  

Italian National Employment Accident Insurance Institute (INAIL)  
http://www.inail.it/Portale/appmanager/portale/desktop

Italian National Institute of Social Security (INPS)  
http://www.inps.it/newportal/default.aspx

Italian National Insurance and Assistance Office for Workers in the Entertainment business (ENPALS)  
http://www.enpals.it/

Italy, Social Security Programs throughout the world, Social Security Online  

**The Netherlands**

Burgerservicenummer  
http://www.burgerservicenummer.nl/ (in Dutch)  
http://www.burgerservicenummer.nl/veelgestelde_vragen/english_faq (in English)

Dutch Employee Insurance Implementing Body  

Dutch Inspectorate of Work and Income  
http://www.iwiweb.nl/

Dutch Social Intelligence and Investigation Service (SOID) (English)  
http://www.siod.nl/content/view/22/42/
Dutch Social Insurance Bank (English)
http://www.svb.nl/int/en/index.jsp

Dutch Tax and Customs Administration (English)
http://www.belastingdienst.nl/english/

Netherlands, Social Security Programs throughout the world, Social Security Online

**United Kingdom**
Department for Work & Pensions
http://www.dwp.gov.uk/

Her Majesty’s Revenues & Customs
http://www.hmrc.gov.uk/ni/intro/basics.htm

National Insurance Contributions Office HMRC
http://www.hmrc.gov.uk/nic/aboutus.htm
### Annex III: List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOW</td>
<td>Algemene Ouderdomswet (Dutch General Old Age Pensions Act)</td>
</tr>
<tr>
<td>AKW</td>
<td>Algemene Kinderbijslagwet (Dutch General Child Benefits Act)</td>
</tr>
<tr>
<td>ANW</td>
<td>Nabestaandenwet (Dutch General Surviving Relatives Act)</td>
</tr>
<tr>
<td>APEH</td>
<td>Adó- és Pénzügyi Ellenőrzési Hivatal (Hungarian Tax and Financial Control Administration)</td>
</tr>
<tr>
<td>AWBZ</td>
<td>Algemene Wet Bijzondere Ziektekosten (Dutch General Act for the Exceptional Medical Expenses)</td>
</tr>
<tr>
<td>Awf</td>
<td>Algemeen werkloosheidsfonds (Dutch General Unemployment Fund)</td>
</tr>
<tr>
<td>BIKK</td>
<td>Bijdragen in de Kosten van de Kortingen</td>
</tr>
<tr>
<td>BSN</td>
<td>Burgerservicenummer</td>
</tr>
<tr>
<td>CANHI</td>
<td>Central Administration of National Health Insurance (Hungary)</td>
</tr>
<tr>
<td>CANPI</td>
<td>Central Administration of the National Pension Insurance (Hungary)</td>
</tr>
<tr>
<td>CANSI</td>
<td>Central Administration of National Social Insurance (Hungary)</td>
</tr>
<tr>
<td>CTSV</td>
<td>College van Toezicht Sociale Verzekeringen (Dutch Social Security Supervisory Board)</td>
</tr>
<tr>
<td>CVZ</td>
<td>College voor Zorgverzekeringen (Dutch Health Care Insurance Board)</td>
</tr>
<tr>
<td>DWP</td>
<td>Department for Work &amp; Pensions (UK)</td>
</tr>
<tr>
<td>ECDS</td>
<td>Estonian Central Depository for Securities</td>
</tr>
<tr>
<td>ECSHD</td>
<td>Europe and Central Asia – Human Development Sector Unit (World Bank)</td>
</tr>
<tr>
<td>EISS</td>
<td>European Institute of Social Security</td>
</tr>
<tr>
<td>EEK</td>
<td>Estonian kroon(s)</td>
</tr>
<tr>
<td>ENPALS</td>
<td>Ente Nazionale di Previdenza e di Assistenza per i Lavoratori dello Spettacolo (Italy)</td>
</tr>
<tr>
<td>ENSIB</td>
<td>Estonian National Social Insurance Board</td>
</tr>
<tr>
<td>ETM</td>
<td>Enterprise Tax Management System (Netherlands)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EUR</td>
<td>Euro(s)</td>
</tr>
<tr>
<td>GAK</td>
<td>Gemeenschappelijk Administratiekantoor (Dutch Joint Administration Office)</td>
</tr>
<tr>
<td>GBA</td>
<td>Gemeentelijke Basisadministratie Persoonsgegevens (Dutch Personal Records Database of a municipality)</td>
</tr>
<tr>
<td>GUO</td>
<td>Gemeenschappelijk Uitvoeringsorgaan (Dutch Joint Implementation Office)</td>
</tr>
<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue &amp; Customs (UK)</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>HMSO</td>
<td>Her Majesty’s Stationery Office (UK)</td>
</tr>
<tr>
<td>HM</td>
<td>Treasury/Her Majesty’s Treasury</td>
</tr>
<tr>
<td>HUF</td>
<td>Hungarian forint(s)</td>
</tr>
<tr>
<td>ID-number</td>
<td>Identification number</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INAIL</td>
<td>Istituto Nazionale per l’Assicurazione contro gli Infortuni sul Lavoro (Italy)</td>
</tr>
<tr>
<td>INPDAI</td>
<td>Istituto Nazionale di Previdenza dei Dirigenti di Aziende Industriali (Italy)</td>
</tr>
<tr>
<td>INPS</td>
<td>Istituto Nazionale Previdenza Sociale (Italy)</td>
</tr>
<tr>
<td>IPPR</td>
<td>Institute for Public Policy Research</td>
</tr>
<tr>
<td>ISSA</td>
<td>International Social Security Association</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JESP</td>
<td>Journal of European Social Policy</td>
</tr>
<tr>
<td>LISV</td>
<td>Landelijk Instituut Sociale Verzekeringen (Dutch National Social Insurance Institute)</td>
</tr>
<tr>
<td>MISSOC</td>
<td>EU’s Mutual Information System on Social Protection</td>
</tr>
<tr>
<td>MHLW</td>
<td>Ministry of Health, Labour and Welfare (Japan)</td>
</tr>
<tr>
<td>NHS</td>
<td>National Health Service (UK)</td>
</tr>
<tr>
<td>NIC</td>
<td>National Insurance Contribution (UK)</td>
</tr>
<tr>
<td>NICO</td>
<td>National Insurance Contributions Office</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>No.</td>
<td>Number</td>
</tr>
<tr>
<td>NPS</td>
<td>National Insurance and PAYE Service (UK)</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay-As-You-Earn</td>
</tr>
<tr>
<td>PIE</td>
<td>Project on Intergenerational Equity (Japan)</td>
</tr>
<tr>
<td>SIOD</td>
<td>Sociale Inlichtingen- en Opsporingsdienst (Dutch Social Intelligence and Investigation Service)</td>
</tr>
<tr>
<td>SOGEI</td>
<td>Società di Information and Communication Technology (Italy)</td>
</tr>
<tr>
<td>SOFI</td>
<td>Sociaalfiscaal nummer (Netherlands)</td>
</tr>
<tr>
<td>S.p.a.</td>
<td>Società per azioni (Public limited company)</td>
</tr>
<tr>
<td>Suppl.</td>
<td>Supplement</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>SVB</td>
<td>Sociale Verzekeringsbank (Dutch Social Insurance Bank)</td>
</tr>
<tr>
<td>UI</td>
<td>Unemployment Insurance</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UWV</td>
<td>Uitvoeringsinstituut werknemersverzekeringen (Dutch Employee Insurance Implementing Body)</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>Vol.</td>
<td>Volume</td>
</tr>
<tr>
<td>WAO</td>
<td>Dutch Disability Insurance Act</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>Wfsv</td>
<td>Wet financiering sociale verzekeringen (Dutch Act on financing social insurance)</td>
</tr>
<tr>
<td>Wgf</td>
<td>Wachtgeldfonds (Dutch Redundancy Payment Fund)</td>
</tr>
<tr>
<td>WIA</td>
<td>Wet werk en inkomen naar arbeidsvermogen (Dutch Work and Income according to Labour Capacity Act)</td>
</tr>
<tr>
<td>WW</td>
<td>Werkloosheidswet (Dutch Unemployment Insurance Act)</td>
</tr>
<tr>
<td>ZW</td>
<td>Ziektewet (Dutch Sickness Benefits Act)</td>
</tr>
<tr>
<td>ZVW</td>
<td>Zorgverzekeringswet (Dutch Health Insurance Act)</td>
</tr>
</tbody>
</table>
Annex IV: Research Questionnaire

Introduction to Questionnaire
The information on the country experiences regarding the merging of the administrations of social security contribution and taxation were acquired with the use of questionnaires of common reference sent to national experts and public administrators.

The research questionnaire was divided in three parts:
- the first part requested a description of the present situation in the country,
- the second part concerned the process towards the merger, and
- the third part regarded an evaluation of the merged collection system.

More specifically, the questionnaire was divided into the sections listed below.

Questionnaire

PRESENT SITUATION

1. Are social security contributions in your country being distinguished from personal or corporate income taxes? Or are they completely integrated levies?*

2. Are social security contributions and taxes in your country collected by one and the same Administration?* Which one(s)?

Although collecting both social security contributions and taxes together, do they make a distinction between the two when collecting the levy or does the debtor see only one levy?

3. How does the collecting administration proceed practically? Are the methods and techniques used for collecting the social security contributions and the taxes the same? E.g. is the income which is taken into account for the levies, established in the same way?

4. Does the administration deal separately with the social security contributions* and taxes, once they are collected? Are the funds immediately kept separated? Are separate units in the administration dealing with social security contributions and with taxes? How are the data concerning the collection transmitted and the means for social security finally transferred to the administrations paying the benefits? Does the collecting administration transfer all social security contributions or does it charge a fee for doing the collection work?

5. Who is to pay social security contributions? How are the debtors of social security contributions identified? (Registration? Automatically? Upon transmission of the relevant data by the social security administration?) Is that identification shared with the tax collection?

6. Are data related to social security contribution collection and data related to tax collection, freely interchanged:
- within the one collecting administration?
- between tax administration and the collecting administration?
- between the social security institutions and the collecting administration?
7. Who is performing the control on contribution fraud in social security? The collecting administration, the social security institution or some other competent authority; do these collaborate in this, and if so, how do they do so?

**PROCESS OF MERGER**

8. At a certain moment in time it was decided to merge social security contribution* collection and tax collection. When was this the case in your country? What were the main reasons for proceeding to the merger?

9. What were the main steps of the process leading to the actual situation? What further steps are still to come?

10. How was the merger (intention) welcomed in the country? Protagonists and antagonists?

11. How did the merger affect the human resources/personnel of the concerned administrations? (Transfers of personnel? Dismissal and/or hiring of new personnel? Etc.)

12. What was the impact of the merger on the administration facilities? (Use of existing premises? Establishment of new ones?)

**EVALUATION**

13. What were the advantages/disadvantages expected from the merger?

14. What were the obstacles experienced when doing the transformation to a merged administration?

15. What are currently the positive/negative effects of the merged administration?

16. Is the merged administration of social security contribution collection and tax collection overall experienced as a success or a failure?

Thank you for your collaboration!

* Please specify whether this is the case for all social security contributions or only for those relating to some risks, such as pensions, health care etc.
References


*European Tax Handbook* on line 2010.


*Juninota UWV-fondsen 2010–2011*.


Protection of privacy and social security, European Institute of Social Security (upcoming).


Social Security Programs throughout the world, Social Security Online.

Sol-Bronk M., Vleeming H., Premies, rijksbijdragen en BIKK, Sociale Verzekeringsbank.


Tax Law Design and Drafting (volume 1; International Monetary Fund: 1996; Victor Thuronyi, ed.), Chapter 11, Social Security Taxation.


About the Authors

Effrosyni Bakirtzi is scientific researcher at the K.U. Leuven (Catholic University of Leuven) in Belgium working for the European section of the Institute of Social Law, organized as the Research Unit on European Social Security (RUESS), and the European Institute of Social Security (EISS).

Mrs. Bakirtzi graduated as a lawyer from the Law School of the Faculty of Law, Economic and Political Sciences of the Aristotle University of Thessaloniki in Greece and then continued with postgraduate studies in International and European Law at the Department of International Studies of the Law School of the Aristotle University of Thessaloniki. She has also studied at the Law School of the University of “La Sapienza” in Rome, Italy, and the University of Johann Wolfgang Goethe and the University of Applied Studies in Frankfurt/Main, Germany.

She has worked as a teaching and research assistant for several e-learning programs for undergraduate and post-graduate studies and she has practiced law in Greece. Her main research interests are international, European and comparative social security law, social security administration with particular focus on e-government and the use of new technologies, EU internal market issues, international economic law, international private law and migration law.

She is involved in the multidisciplinary postgraduate program Master in European Social Security at the Catholic University of Leuven in Belgium. She is also the author of a number of publications.

Paul Schoukens is Professor of Social Security Law (Comparative, International and European) at the K.U.Leuven (Catholic University of Leuven). He is general coordinator of the European Institute of Social Security, a scientific association with more than 400 members across Europe. Within the K.U.Leuven, he is working for the European section of the Institute of Social Law, organized as the Research Unit on European Social Security (RUESS). He mainly teaches subjects on European, international, and comparative social security law. His research topics of interest are the social protection of atypical workers, healthcare systems, social welfare, and the relationship between e-technology and social security administration, among others.
Professor Schoukens is involved in the organization of the Master in European Social Security and the Summer School on Social Security. He is program director of the latter specialized program, a two-week course that gives a general introduction into social protection across Europe from a multidisciplinary perspective.

He is involved in many research projects, especially in fields related to comparative and European social security. Research projects have been carried out for the European Commission, the Council of Europe, and several national institutions and governments. He is the author of more than 50 journal articles and is often invited to present papers at international meetings and conferences.

Professor Schoukens earned his doctorate in law from the K.U.Leuven with research on the impact of European Union law on the social protection of self-employed persons.

Danny Pieters is Ordinary Professor for Comparative and European Social Security Law at the K.U.Leuven (Catholic University of Leuven). A former research fellow at the universities of Cologne and Strasbourg, Professor Pieters has taught at the University of Tilburg (1986 through 1991). Since 1995 he has served as Secretary-General of the European Institute of Social Security, a scientific organization with more than 400 members across Europe. In 2010 he was elected senator and subsequently speaker of the Senate of Belgium.

Professor Pieters is director of the Research Unit on European Social Security, which is the European section of the Institute of Social Law. The latter was founded in 1967 as part of the law faculty of the K.U.Leuven (Catholic University of Leuven) and coordinates all aspects related to lectures and seminars in social law. It has an extensive research unit exploring the actual themes in the field of comparative, European, and international social security (law), welfare law, and information technology in the field of social security.

He has vast experience in training projects as well as research projects concerning social protection throughout Europe. He regularly acted as consultant for the institutions of the EU, the Council of Europe, and many national administrations and governments. He is program director of the Master in European Social Security, which is a multidisciplinary, multinational postgraduate study organized at the K.U.Leuven. It provides students with an in-depth study of social protection from a legal, economic, sociological, administrative, and philosophical perspective.

Professor Pieters is the author of several books and articles in the field of European and comparative social security law. His bibliography contains more than 250 publications.

He received his doctorate in law on a research theme related to the comparative analysis of the social rights embodied in European constitutions.
KEY CONTACT INFORMATION

To contact the authors:

Effrosyni Bakirtzi
European Institute of Social Security
KU Leuven
Blijde Inkomststraat 17
B-3000 Leuven
Belgium
Phone: +32 16 325 423
Fax: +32 16 325 419
e-mail: Effrosyni.Bakirtzi@law.kuleuven.be

Prof. Paul Schoukens
European Institute of Social Security
KU Leuven
Blijde Inkomststraat 17
B-3000 Leuven
Belgium
Phone: +32 16 325 390
Fax: +32 16 325 419
e-mail: Paul.Schoukens@law.kuleuven.be

Prof. Danny Pieters
European Institute of Social Security
KU Leuven
Blijde Inkomststraat 17
B-3000 Leuven
Belgium
Phone: +32 16 325 422
Fax: +32 16 325 419
e-mail: Danny.Pieters@law.kuleuven.be
CASE STUDIES IN MERGING THE ADMINISTRATIONS OF SOCIAL SECURITY CONTRIBUTION AND TAXATION

For a full listing of IBM Center publications, visit the Center’s website at www.businessofgovernment.org.

Recent reports available on the website include:

**Collaborating Across Boundaries**
- Environmental Collaboration: Lessons Learned About Cross-Boundary Collaborations by Kathryn Bryk Friedman and Kathryn A. Foster
- Managing Innovation Prizes in Government by Luciano Kay
- The Promise of Collaborative Voluntary Partnerships: Lessons from the Federal Aviation Administration by Russell W. Mills
- Strategies for Supporting Frontline Collaboration: Lessons from Stewardship Contracting by Cassandra Moseley

**Conserving Energy and the Environment**
- A Guide for Local Government Executives on Energy Efficiency and Sustainability by Nathan Francis and Richard C. Feiock

**Fostering Transparency and Democracy**
- Using Geographic Information Systems to Increase Citizen Engagement by Sukumar Ganapati

**Improving Performance**
- Project Management in Government: An Introduction to Earned Value Management (EVM) by Young Hoon Kwak and Frank T. Anbari
- Strategic Use of Analytics in Government by Thomas H. Davenport

**Managing Finances**
- Managing Risk in Government: An Introduction to Enterprise Risk Management (2nd Edition) by Karen Hardy

**Strengthening Cybersecurity**

**Transforming the Workforce**
- Engaging a Multi-Generational Workforce: Practical Advice for Government Managers by Susan Hannam and Bonni Yordi
- Implementing Telework: Lessons Learned from Four Federal Agencies by Scott P. Overmyer

**Using Technology**
- An Open Government Implementation Model: Moving to Increased Public Engagement by Gwanhoo Lee and Young Hoon Kwak
- How Federal Agencies Can Effectively Manage Records Created Using New Social Media Tools by Patricia C. Franks
About the IBM Center for The Business of Government
The IBM Center for The Business of Government connects public management research with practice. Since 1998, we have helped public sector executives improve the effectiveness of government with practical ideas and original thinking. We sponsor independent research by top minds in academe and the nonprofit sector, and we create opportunities for dialogue on a broad range of public management topics.

The Center is one of the ways that IBM seeks to advance knowledge on how to improve public sector effectiveness. The IBM Center focuses on the future of the operation and management of the public sector.

About IBM Global Business Services
With consultants and professional staff in more than 160 countries globally, IBM Global Business Services is the world’s largest consulting services organization. IBM Global Business Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues, and the ability to design, build and run those solutions in a way that delivers bottom-line business value. For more information visit www.ibm.com.

For additional information, contact:
Jonathan D. Breul
Executive Director
IBM Center for The Business of Government
600 14th Street, NW
Second Floor
Washington, DC 20005
(202) 551-9342

e-mail: businessofgovernment@us.ibm.com
website: www.businessofgovernment.org