STUDY

tpa

HOW EXPENSIVE IS WORK?

Comparison of countries regarding charges and tax rates.

www.tpa-group.com

Albania | Austria | Bulgaria | Croatia | Czech Republic | Hungary | Poland | Romania | Serbia | Slovakia | Slovenia

An independent member of Baker Tilly Europe Alliance

EXECUTIVE SUMMARY.

How expensive is labour in comparisons across countries – for employees and employers? How does Austria compare with the countries of Central and South-Eastern Europe? Where are the ancillary wage costs for companies particularly high? And where do employees retain the highest net amount of their salary or wages, after deductions? A study conducted by the TPA tax advisory and auditing company with the title, "How expensive is work?" provides answers to these questions.

Costs in sight

An increasing number of Austrian companies are also deploying their employees outside of Austria. The question of how the posting of employees to other countries affects the costs of employees for a company, and what the employees' take-home income or "bottom line" is, was the target of a study recently conducted by the TPA advisory company.

The TPA experts compared the burden of cost in Austria with those in ten Central and South-Eastern European countries, based on three "typical" salary classes: Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, and Slovenia.

Where do companies experience the greatest disadvantages?

Austria is the only one among the eleven countries in the study, which, in addition to the employer's social security contribution, also requires ancillary wage costs to be paid by the employer – a total of app. 9 % of the gross salary. Only Slovakia is requiring an additional tax as well, however, in an insignificant amount.

In Romania, Slovenia and Hungary, the employers' costs increase proportionally with the gross earnings – this is why Hungary and Romania are among the most expensive countries for employers.

What is the net take-home income of employees from their gross earnings?

What is left on the posted employee's account after deduction of social security and payroll tax? With an assumed annual income of EUR 40,000 gross, Austria is in the middle of the range as regards deductions for employees. For gross salaries of EUR 90,000 and 150,000 respectively, Austria is the third-most expensive for employees.

At all three salary levels, employees in Slovenia and Croatia receive the lowest net income. In Bulgaria and Serbia, employees receive the highest net salary for all three salary levels.

Summary of the findings

Austria is among the countries with the highest ancillary wage costs, especially for manager salaries. At a lower gross salary ("salaried income"), countries such as Hungary, Romania, the Czech Republic and Slovakia show higher, or similarly high ancillary wage costs. In contrast, Bulgaria, Albania and Serbia rank significantly below Austria in terms of ancillary wage costs – in these countries, the workers retain the highest net amount of their gross salary.

The study was conducted in the spring of 2017 by the TPA experts Wolfgang Höfle and Andrea Rieser.

Legal notice
Status of information: Spring 2017, subject to change. No warranty is given. The information is greatly simplified and cannot replace individual pieces of advice. Responsible for the content: Wolfgang Höfle and Andrea Rieser. TPA Steuerberatung GmbH, 62-64 Praterstrasse, 1020 Vienna, FN 200423s Vienna Commercial Court. Tel.: +43 (1) 58835-0, fax ext. 500, source of info graphics: TPA / Calculations are simplified / Individual cases may deviate / Commissioned by APA. Photos: istockPhotos. Concept, design: TPA; www.tpa-group.at, www.tpa-group.com

11 countries under the microscope.

How expensive is work in a cross-country comparison – for employees and employers?
How does Austria compare with the countries of Central and South-Eastern Europe? Where are the ancillary wage costs for companies particularly high and where do employees retain the highest net amount of their salary or wages, after deductions?

A recent study conducted by the TPA advisory company provides answers to these questions. The results indicate: Austria is at the top of the list when it comes to ancillary wage costs for companies, especially in the case of high salaries. However, in some instances, depending on the amount of the salary, employers in Hungary, Romania, the Czech Republic and Slovakia are even higher on the list. The net earnings of Austrian employees are comparatively low. Bulgaria, Serbia and Albania are the most lucrative countries in this regard.

An increasing number of Austrian companies are also deploying their employees outside of Austria – a result of extensive globalisation. Not only globally active corporations, but also a growing number of medium-sized companies send employees to other countries, or hire personnel there. At the same time, the number of foreign employees working in Austria for globally operating companies is also increasing.

The following questions were analysed:

- What are the salary costs for companies at certain – prototypical – salary levels in the selected countries?
- What is the level of ancillary wage costs in Austria compared to the other countries of Central and South-Eastern Europe?
- What is the net take-home income left to the employees, after deduction of all taxes and charges?

According to the EU Commission's annual report on labour migration within the EU, a total of 11.3 million EU citizens worked in another member state in 2015. According to the EU Commission, within the European Union, the construction sector accounted for 43.7 % of all foreign assignments, followed by the manufacturing industry (21.8 %) and education and health (13.5 %).

The largest increase in foreign labour within the EU took place between 2009 and 2014 in Germany (219 %) and Austria (86 %). In Austria, there were around 109,000 employees in 2015 who were regularly employed in their home country but were sent to Austria by their employers, for a limited period. (Source:http://europa.eu/rapid/press-release_MEMO-16-467_en.htm)

This development has an impact – mainly on the companies' payroll accounting: it is necessary to clarify and take into account all relevant questions of tax, social security and employment laws in the respective countries. It also must be considered how posting to another country, affects the net income of the employees and the overall costs for the company.

Highest tax burden in Austria: myth or reality?

Austria is one of the countries with the highest tax burden on the labour factor – both on the part of the employees, but above all, also on the employers' side. TPA, a tax advisory and auditing services company, has examined Austria and ten selected countries of Central and South-Eastern Europe to find out whether this is true and how high the labour costs actually are.

Where do companies experience the greatest disadvantages?

> Social security legislation of its member states is determined by the EU.

The check: a comparison of three salary classes.

The two authors of the study have taken three salary classes into consideration, which roughly correspond to the positions of an employee (annual gross salary: EUR 40,000) and of middle and senior management (EUR 90,000 and 150,000, respectively). All calculations are very simplistic and are based on the premise that there is 100 % obligation to pay taxes and social security contributions in the respective state. Certain personal tax concessions in the individual countries were not taken into account.

Specifically, the following countries were analysed in which the TPA advisory company is represented with its own locations and expert teams:

in addition to Albania and Serbia, all countries are part of the EU and therefore fall within the scope of the relevant social security legislation (EU Regulation 883/2004 – "Multilateral Agreement"). The relevant Regulation stipulates that only one EU country is entitled to social security contributions per employee – this applies to employed as well as self-employed gainful activities.

This country is usually the state in which the activity is performed. If the employees works in more than one country, the Regulation determines via so-called "conflict-of-law rules" which country should receive the social security contributions, and when.

Serbia and Albania have their own social security agreements ("bilateral agreements"), in which the responsibilities are determined.

Taxation, too, usually also takes place in the state in which the activity is performed

In tax law, there are bilateral agreements between countries – so-called “double taxation agreements”. They determine which of the two states is entitled to tax individual incomes, and when. But here, too, the principle applies that only one state has the right to tax one type of income.

As a matter of principle, income from employed activities is taxed in the host country – in other words, where employees actually work. If they work temporarily in another country, the right of taxation usually remains in the country of the actual employer – under the following conditions:

Within a 12-month period, the employee does not spend more than 183 days in the other country, and the costs are not borne by a company or a permanent establishment domiciled in the other country.

Labour law also plays a role when employees are employed abroad. The law on employment contracts of the country in which the employee usually works. However, if employees are temporarily employed abroad, the principle of free choice of applicable law applies.

Mandatory claims of the home country and legislation in the host country may, however, not be circumvented by the choice of applicable law. This choice should be laid down in the contract.

> The right to taxation is govern by bilateral agreements.

Austria stands alone, regarding ancillary wage costs

Austria is the only one among the eleven countries in the study, which, in addition to the employer's social security contribution, also requires ancillary wage costs from the employer. Specifically, this is the employer’s contribution under the FLAG (Austrian Family Burden Equalisation Act), the supplement to the employer's contribution, municipal tax, in Vienna also the employer's tax and contributions to the employee pension fund – in total, these amount to approx. 9% of the gross salary.

Apart from Austria, only Slovakia requires the payment of an additional tax, however, in an insignificant amount.

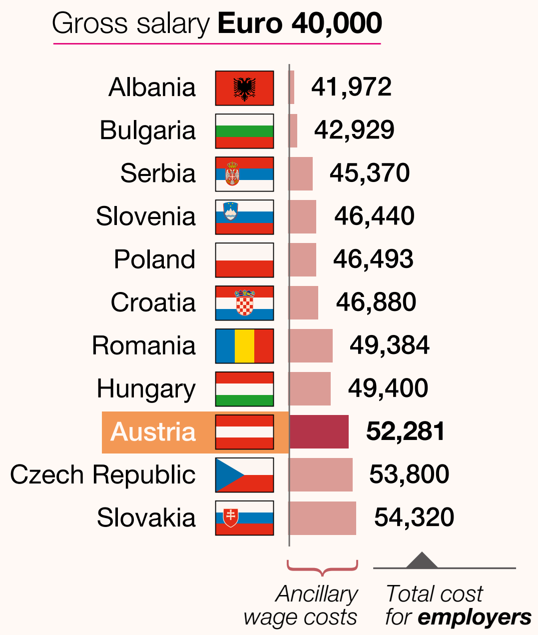
Social security contributions are capped in Austria with the maximum contribution base (2017: EUR 4,980 per employee), while the ancillary wage costs are not. Romania, Slovenia and Hungary are countries that do not have a cap on social security contributions.

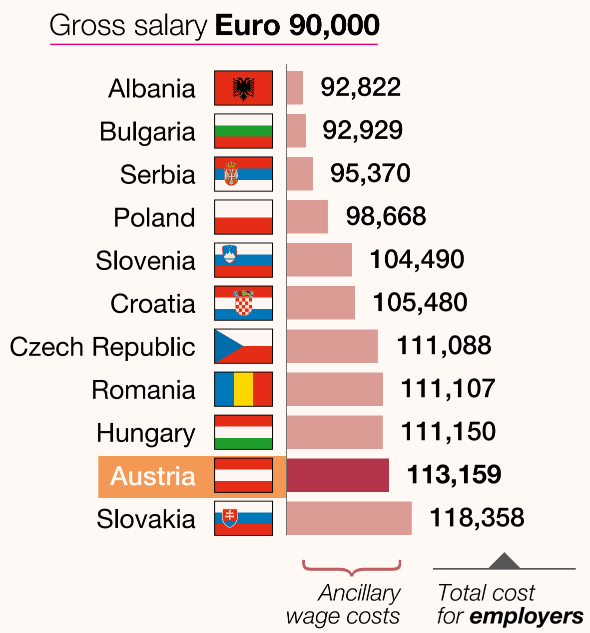
The employer’s costs increase proportionally with the gross income, which is why Hungary and Romania are among those countries with the highest employer’s costs. In these two states, for example, with an assumed gross annual salary of EUR 150,000, the employer’s costs are much higher than in Austria – and also in Slovakia, where a maximum contribution base is applied, however.

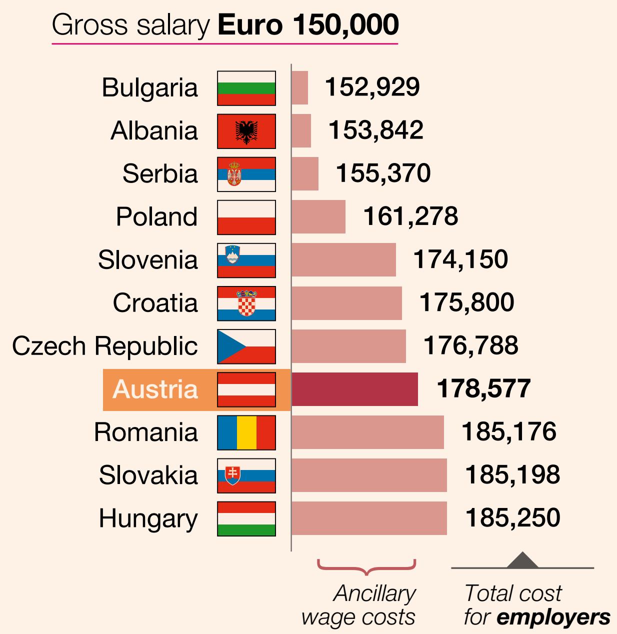
The most favourable, in regard to the total costs for employers, are the countries of Bulgaria, Albania and Serbia – at all three levels of the salaries that the study was based on.

Total costs for employers in Bulgaria, Albania and Serbia.

Bulgaria, Albania, and Serbia are the most favourable from the employers‘ perspective – at all three income levels on which this study was based.







Paying attention pays off.

Country-specific differences at a glance

Slovakia is one of the countries with the factually highest ancillary wage costs – although a maximum contribution base is applied with regard to social security (except for health and accident insurance). The annual maximum contribution base (2017) with approx. EUR 74,000 is even approx. EUR 4,500 above that of Austria. The employer's social security contribution is approx. 35 % in Slovakia, while in Austria it is only 21.5 %. Thus, Austria is in the middle of the spectrum. Even after taking ancillary wage costs in consideration, the percentage of approx. 9 % in Austria, is still below that of Slovakia.

The **Czech Republic** has a similar proportion of employer's costs as Slovakia, i.e. around 34.5 %. However, the maximum contribution base is significantly lower (except for health and accident insurance): currently, it amounts to approx. EUR 50,000, thus approx. EUR 24,000 less than in Slovakia, and EUR 20,000 less than in Austria. In the Czech Republic, the employees' costs, i.e. the portion of social security contributions which the employees themselves have to bear, is, with 11 %, the lowest among all the countries examined here. Austria with approx. 18 % is in the middle of the spectrum.

Croatia, Serbia and Slovenia are countries in which the portion of social security contributions which the employees have to bear, is higher than that of the employer. In Slovenia, this portion is 6 percentage points higher than that of the employer.

In **Hungary and Croatia**, only the employee pays contributions to the pension insurance, so in contrast to all other countries, there is no shared responsibility with the employers.

In the **Czech Republic** in turn, the pension contribution is highest at 28 % (employer's and employee's costs), compared with 22.8 % in Austria. In absolute figures, however, due to on the different maximum contribution bases, a maximum of approx. EUR 1,800 per year more are paid into the system in Austria than in the Czech Republic.

Bulgaria, Albania and Serbia are the countries "most favourable" from the employers' perspective. The maximum contribution base in Albania (except for health insurance) is EUR 8,600 per annum; in Bulgaria, it is almost twice as high, but still very low at EUR 16,000 – the actual employer's costs are only approx. EUR 3,000. The maximum contribution base in Serbia is approx. EUR 30,000 per annum, with maximum employer's costs of approx. EUR 5,400.

"Slovakia is one of the countries with the highest ancillary wage costs."

What is the net take-home income of employees from their gross earnings?

Depending on the country, employees, too, have to contribute varying amounts.

Costs do not only arise on the company side of working abroad. It is relevant for employees, too, what is left over as net income after deduction of the social security contribution and payroll tax. This aspect is also addressed by the current TPA study.

Some of the countries under investigation have a so-called “flat tax” as income tax. This means there is a uniform tax rate for natural persons. These states include **Bulgaria and Serbia** with a tax rate of only 10 %. However, the tax base for income tax is different. While in Bulgaria, the 10 % income tax is calculated as it is in Austria, from the taxable income (gross earnings minus the employee‘s social security contribution), the tax basis in Serbia is the gross amount.

Hungary and Romania also have a flat tax of only 15 % and 16 %, respectively. However, in these countries the tax is calculated using a different assessment basis: In Hungary, the calculation of the income tax is based on the gross income – in Romania, on the other hand, on the taxable income. This means that the Romanian nominal tax rate is 1 percentage point higher than in Hungary; but is actually lower because of the lower tax base.

The **Czech Republic** also has a low tax rate of 15 % and a surcharge of 7 % for income over approx. EUR 50,000 per annum. However, in the Czech Republic, the income tax is calculated from the so-called “super-gross”: In this context, the social security contribution borne by the employer is added to the gross wage as “advantage from the employment relationship”, and this increased gross wage is used as a basis for assessment.

> Bulgaria and Serbia, among others, have a flat tax.

Deductions for salaried employees: Austria in the middle of the spectrum

With an annual income of EUR 40,000 gross, Austria is in the middle of the range, in regard to the burden on employees – of course taking into account the tax benefit for holiday and Christmas bonuses.

This is due, on the one hand, to the 6 % tax on the bonus payments, and on the other hand, also to the progressive tax rate.

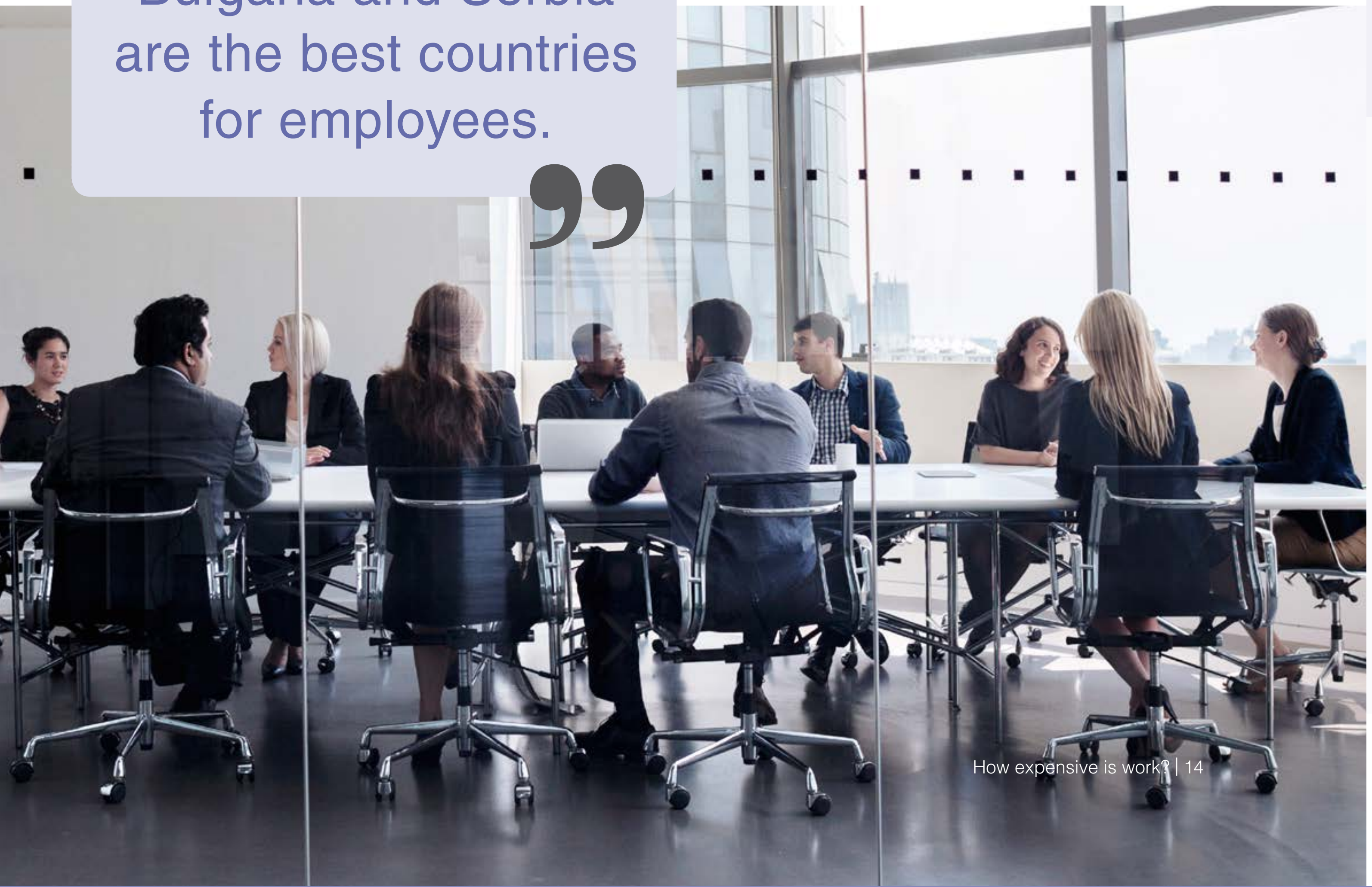
In **Hungary and the Czech Republic**, the flat tax results in a lower net salary, since it is applied already from the first euro. In Austria, on the other hand, income tax is levied only on the basis of a taxable income of EUR 11,000 and above.

Employees receive the lowest net earnings in **Slovenia and Croatia** – in Slovenia with an income of EUR 150,000 even less than 50 % of the gross amount, while in Croatia, approx. 55 %. In Austria, the net income for gross earnings of EUR 150,000 is approx. 60 %.

The highest net income is clearly found, on all three income levels, in **Bulgaria and Serbia,** followed by Albania, Romania and at the higher income level, the Czech Republic.

In regard to the highest tax rate, Austria is at the forefront with 55 %. In the present study, however, this did not play any role, since it only takes effect at an annual taxable income of EUR 1 million and above. If the highest tax rate is not taken into account, only Austria and Slovenia have a tax rate of 50 %. This is followed by a clear gap with Croatia with a maximum tax rate of 36 %, and Poland with a peak tax rate of 32 %.

> Bulgaria and Serbia are the best countries for employees.



At all three income levels, employees in Bulgaria and Serbia receive the highest net income.

With an assumed annual income of EUR 40,000 gross, Austria is in the middle of the range, with regard to deductions for employees. For gross salaries of EUR 90,000 and 150,000, respectively, Austria is the third-most expensive country for employees.

At all three salary levels, the employees in Slovenia and Croatia receive the lowest net income. The highest net income is paid, at all three salary levels, in Bulgaria and Serbia.

▶ Gross salary **Euro 40,000**

	Net income of employees	Payroll taxes to be paid by employees
Bulgaria	34,085	5,915
Serbia	30,143	9,857
Albania	28,830	11,170
Slovakia	28,058	11,942
Romania	28,056	11,944
Austria	**27,754**	12,246
Czech Republic	27,560	12,440
Poland	26,740	13,260
Hungary	26,600	13,400
Croatia	24,646	15,354
Slovenia	22,876	17,124

▶ Gross salary **Euro 90,000**

	Net income of employees	Payroll taxes to be paid by employees
Bulgaria	79,085	10,915
Serbia	75,143	14,857
Albania	65,630	24,370
Czech Republic	63,305	26,695
Romania	63,126	26,874
Slovakia	61,672	28,328
Poland	60,127	29,873
Hungary	59,850	30,150
Austria	**55,816**	34,184
Croatia	49,316	40,684
Slovenia	47,477	42,523

▶ Gross salary **Euro 150,000**

	Net income of employees	Payroll taxes to be paid by employees
Bulgaria	133,085	16,915
Serbia	129,143	20,857
Albania	109,790	40,210
Czech Republic	106,595	43,405
Romania	105,211	44,789
Slovakia	104,872	45,128
Hungary	99,750	50,250
Poland	98,585	51,415
Austria	**90,065**	59,935
Croatia	82,102	67,898
Slovenia	70,935	79,065

Conclusion: Austria is expensive but offers a lot.

Summary of findings in the TPA study:

- Austria is among the countries with the highest ancillary wage costs, especially for manager salaries.
- At a lower gross salary ("salaried income"), countries such as Hungary, Romania, the Czech Republic and Slovakia show higher, or similarly high ancillary wage costs.
- On the other hand, Bulgaria, Albania or Serbia are clearly below Austria when it comes to ancillary wage costs.
- In any case, it is worthwhile for both those who are sent and those sending them to look closely at the details: for although the social security system in Austria is expensive, in most other countries there is no comparable system when it comes to health insurance and pension services.
- Even a flat tax of only 10 % or 15 % does not mean that one actually has only this one tax to pay – the decisive factor is the basis for the tax calculation.

The results of the TPA study at a glance.

11 countries in comparison: Net and gross salaries for employees, as well as total costs for companies, were analysed for three salary levels.

Gross salary **Euro 40,000**

Country	Net income of employees	Total cost for employers
Albania	28,830	41,972
Bulgaria	34,085	42,929
Serbia	30,143	45,370
Slovenia	22,876	46,440
Poland	26,740	46,493
Croatia	24,646	46,880
Romania	28,056	49,384
Hungary	26,600	49,400
Austria	**27,754**	**52,281**
Czech Republic	27,560	53,800
Slovakia	28,058	54,320

Net income of ***employees*** · *Ancillary wage costs* · *Total cost for* ***employers***

Gross salary **Euro 90,000**

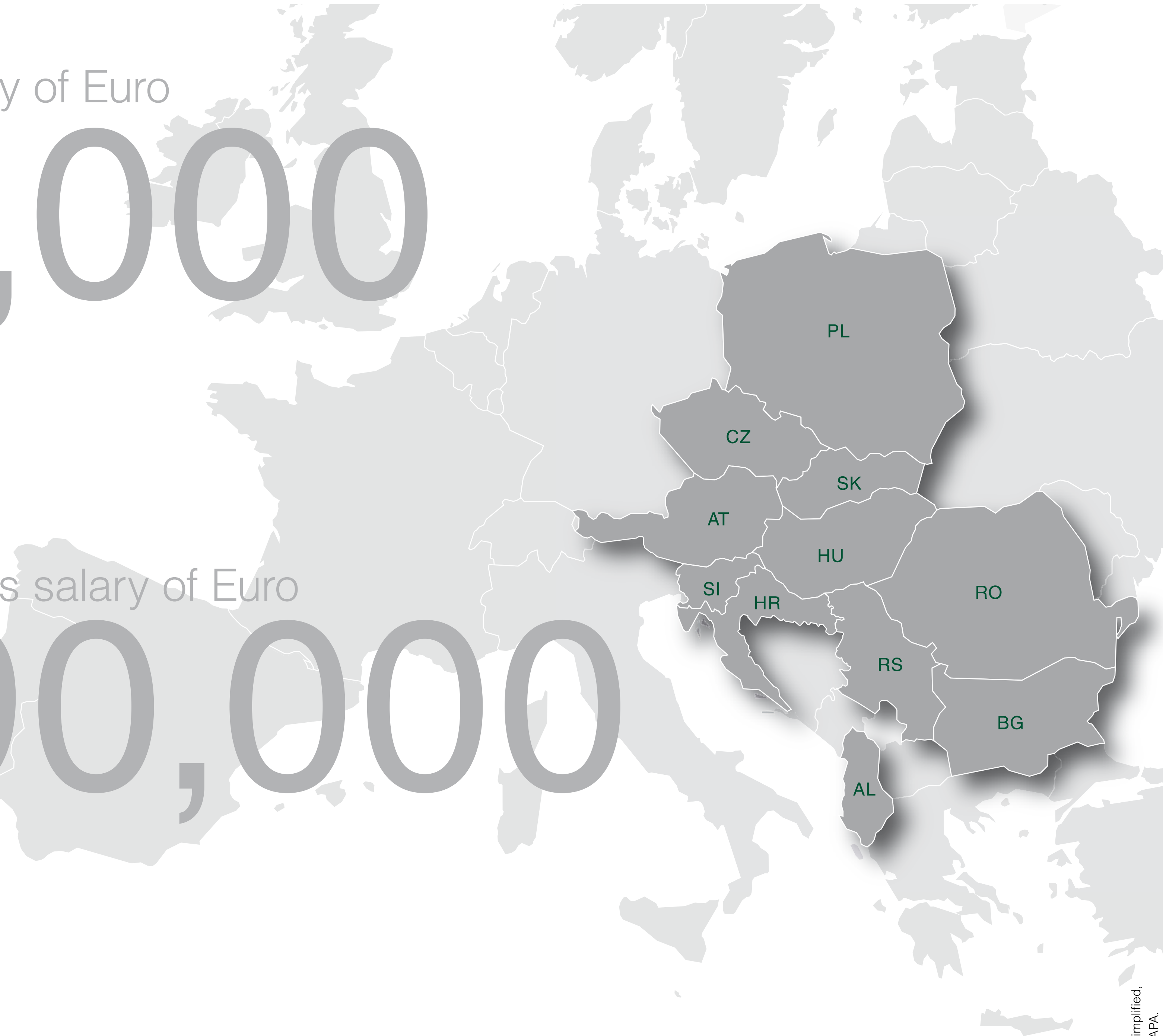
Country	Net income of employees	Total cost for employers
Albania	65,630	92,822
Bulgaria	79,085	92,929
Serbia	75,143	95,370
Poland	60,127	98,668
Slovenia	47,477	104,490
Croatia	49,316	105,480
Czech Republic	63,305	111,088
Romania	63,126	111,107
Hungary	59,850	111,150
Austria	**55,816**	**113,159**
Slovakia	61,672	118,358

Net income of ***employees*** · *Ancillary wage costs* · *Total cost for* ***employers***

Gross salary **Euro 150,000**

Country	Net income of employees	Total cost for employers
Bulgaria	133,085	152,929
Albania	109,790	153,842
Serbia	129,143	155,370
Poland	98,585	161,278
Slovenia	70,935	174,150
Croatia	82,102	175,800
Czech Republic	106,595	176,788
Austria	**90,065**	**178,577**
Romania	105,211	185,176
Slovakia	104,872	185,198
Hungary	99,750	185,250

Net income of ***employees*** · *Ancillary wage costs* · *Total cost for* ***employers***



Gross salary of Euro
40,000

Gross salary of Euro
90,000

Gross salary of Euro
150,000

Customer, source: TPA; Calculations are greatly simplified, individual cases may deviate. Commissioned by APA.

Economic employers and other complex factors.

Right to taxation can be divided between countries.

Simplifying assumptions have been made for this study, namely that tax and social security obligations apply in the same country. But: the term "economic employer" has also been used in Austria since 2014. It means that for the question of taxation, it is important whether employees are transferred to another foreign company, and whether the costs for employees are billed to this company. If this is the case, the above-mentioned 183-day rule can no longer be applied, and the employee is taxable with effect from the first day in the host country. If the employee is employed in the other country only on a day-to-day basis, the employee can choose between the tax legislations of the two countries. All countries analysed for this study also use the term "economic employer", except in certain cases in Poland.

Because of the conflict-of-law rules of the EU Regulation, social security can also be applied in a different country than the right to taxation.

The autors of the study

Dr. Wolfgang Höfle
E-mail: wolfgang.hoefle@tpa-group.at
Tel: +43 (1) 58835-146

Wolfgang Höfle is a tax advisor, business consultant and partner of TPA. He is one of the leading experts in the field of payroll tax and social security consulting. The focus of his work is in particular on employee dispatch, payroll checks, and pension law.
Wolfgang Höfle acts as

- Head of the "Social, Labour, Payroll Tax" Competence Centre at TPA
- Chairman of the Payroll Tax Working Group of the Professional Committee for Tax Law of the Chamber of Chartered Public Accountants and Tax Consultants (Fachsenat für Steuerrecht der Kammer der Wirtschaftstreuhänder).
- Specialist and author
- Special Expert Lay Judge at the Supreme Court.

Mag. Andrea Rieser
E-mail: andrea.rieser@tpa-group.at
Tel: +43 (1) 58835-176

Andrea Rieser is a tax advisor and senior manager at TPA. She is an expert on payroll and social security consulting. She also focuses on the areas of employee dispatch and payroll.
Andrea Rieser acts as.

- Deputy Head of the "Social, Labour Law, Payroll Tax" Competence Centre at TPA
- Specialist author and lecturer.

The TPA company.

TPA was founded in Langenlois in 1979 and is today one of the leading Austrian tax advisory and auditing companies. TPA employs approx. 500 people in twelve branches in Austria.

In addition to Austria, the TPA Group is active in ten other countries of Central and South-Eastern Europe: in Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia. In total, the Group has more than 1,000 employees at 27 locations. The special competences of the TPA experts are, among other things, in the areas of labour, social and pension law, real estate, business start-ups, transformations of companies and successor models, as well as in the determination of the legal form.

Tax
Audit
Advisory
Accounting