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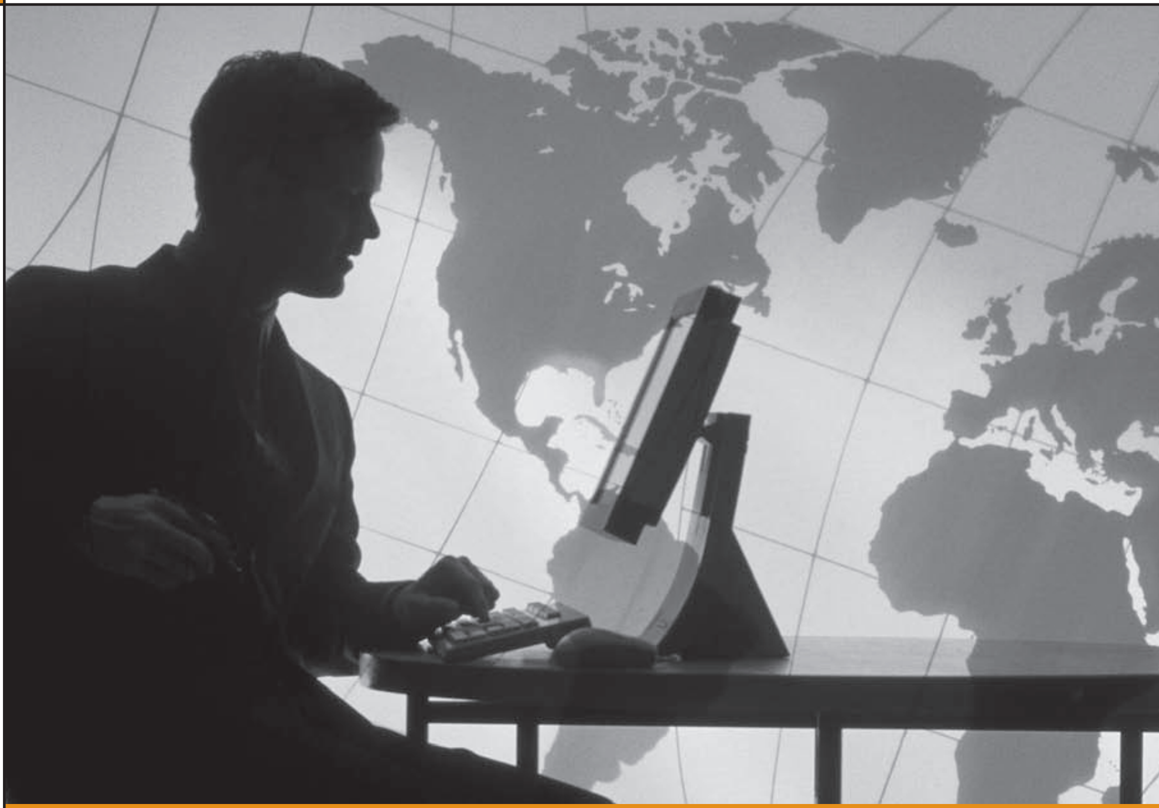
Cooperation Between Social Security and Tax Agencies in Europe



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Collaboration Series

IBM Center for
The Business of Government

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FOREWORD

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On behalf of the IBM Center for The Business of Government, we are pleased to present this report, "Cooperation Between Social Security and Tax Agencies in Europe," by Bernhard Zaglmayer, Paul Schoukens, and Danny Pieters. This publication is the second in a new series of reports being published by the IBM Center for The Business of Government that examines public management in Europe.

The three authors argue that as social policy continues to evolve, governments now may need to look beyond the traditional structures of social security and taxation. Today, there are varying levels of interaction between those organizations in European nations. This paper describes the relationship between social security and taxation organizations in nine European nations—Austria, Belgium, Denmark, Estonia, Germany, Ireland, Italy, the Netherlands, and the United Kingdom—and makes a series of important observations about the potential evolution of cooperation between social security and taxation organizations in the years ahead.

This report continues a series of initiatives in which IBM has worked closely with the European Institute of Social Security (EISS). These initiatives include a Master Program for Social Security, three extensive surveys of the evolving use of the Internet by European social security organizations, and an annual Social Security Academy to continually update IBM professionals on social policy trends and directions. Both IBM and EISS plan to continue their research initiatives in the area of social service and social security thought leadership.

We trust that this report will provide new and valuable information and insights to public executives around the world who are engaged in improving and transforming the delivery of social security and taxation services to their citizens.

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EXECUTIVE SUMMARY

Many different administrative arrangements are used in the administration of taxes on earned income and in the administration of social security programs. Whatever the administrative arrangements, there are clear economic and social objectives that tax and social security agencies pursue that have parallels in the majority of countries. There are also similarities in the administrative challenges faced. But each country also has a unique combination of social, demographic, and economic factors and a unique historical context that influences the choices in how the objectives are prioritized. This report identifies key trends in how the tax authorities and social security agencies in European countries are working together to improve the interlock between the programs they administer.

This report also describes the current degree of interaction, coordination, and integration between the social security and income tax agencies in a number of European countries that represent a variety of administrative arrangements. As a result, it provides a high-level typology of the relations between those administrations in each of the selected countries, and also highlights the challenges and opportunities of the various types of relationships. This typology can serve as a basis for further research in the field.

The countries chosen for detailed research were Austria, Belgium, Denmark, Estonia, Germany, Ireland, Italy, the Netherlands, and the United Kingdom. Countries with different roots of social security were selected in order to evaluate the varying impact on cooperation between social security and tax institutions in Europe.

The former communist countries underwent major changes and reforms after 1989, not only regarding social security but also their entire administrative systems. Accordingly, a subsidiary aim of this study was to evaluate to what extent the development of cooperation differs between these new democratic nations and the long-established Western European countries, which have known continuous development in this field. The inclusion of Estonia, a new member state of the enlarged European Union, in this research illustrates some of the challenges typically arising for the former communist countries.

Analysis of the relationship between the tax and social security authorities of the nine European countries leads to a number of conclusions. Furthermore, the research into the relationship in other regions indicates that the lessons learned can provide important insights for any country contemplating new forms of collaboration between the administrative systems for income taxation and social security. The main conclusions are:

- There is a growing trend toward increased integration of financial collection processes. In fact, in many countries, considerable interaction already takes place between tax and social security administrations for collection purposes.
- The most typical instances of collaboration identified are tax agencies providing services to social security agencies, whether collecting contributions or data, or in the isolated cases where they actually make payments of benefits.
- No concrete examples have been found of social security administrations that support tax authorities in their core activities. However, some support was provided in combating fraud.

Tax agencies collecting social security contributions operate in two main models:

- Integrated collection systems, under which tax offices collect the contributions for the social security administration
- Parallel collection systems that support each other (for example, by sharing or passing on relevant information on income)

It is unlikely that tax administrations would be asked to manage payments at the current volumes seen in many situations: Tax administrations generally do not have the necessary infrastructure and tools for the large volume of payments often involved and which may need to be issued urgently.

While the trend toward integration is becoming more pronounced, this does not mean that the integration process is becoming easier. Modern information and communication technology (ICT) approaches make integration more achievable, but logistical considerations are still major administrative challenges. These considerations suggest the following:

- Countries planning integration would do well to review the problems that early adopters had to face.
- Former communist countries may have some advantages in planning integration. Often they can start from scratch and therefore have the possibility of creating public administrations aligned to 21st century service concepts and technology.
- Integration will not succeed if pre-existing independent systems lack key attributes, specifically: (1) joint registers of employers and insured persons; (2) a single identification number system on a government-wide basis [at a minimum, a shared reference number system seems essential]; (3) straightforward systems for reporting insured earnings and for the withholding of contributions at source.
- An integrated approach makes no sense at all if either of the two systems does not work properly. Systemic defects in administrative processes cannot be removed by simply turbo-charging the ICT environment.

The analysis also demonstrates the following:

- Cooperation between tax and social security administrations provides better clarity on the interactions between the different programs and on the overall outcomes achieved.
- There are different but effective techniques possible for managing information transfers between social security and tax administrations.
- Coordinating aspects of taxation and social security will facilitate e-government initiatives.

Introduction

Transformation is occurring in social security administration today. This phenomenon can be seen in Europe, as well as in countries across other continents, including Australia, Asia, and the Americas. Some transformations clearly include new forms of interaction or collaboration with income taxation systems.[1,2] Other transformations are being undertaken in ways that clearly suggest that future integration or other coordination will be considered—for example, in Australia and Japan.

In many other cases, no obvious intention for increased collaboration is apparent. Nevertheless, the modernization approach in some situations could be readily interpreted as designed to facilitate future changes in the policies concerned if economic or social developments require greater coordination of collection mechanisms or other forms of integration of the taxation and social security programs.

The purpose of this research is to assist policy makers in understanding the types of collaboration now becoming practical due to advances in technology. Moreover, such collaboration is becoming increasingly relevant as part of the response to the challenges of long-term affordability and more transparent relationships between citizens and governments in the crucial areas of taxation and social security. This research is also aimed at facilitating more intensive and effective e-government initiatives in this area.

Young students of social security policy today might well be puzzled by the wide diversity of arrangements that can be seen from country to country and may well wonder why the integration of taxation and social security collection systems did not occur many years ago. Once students begin to analyze the historical reasons, they find not only complex technical reasons but also fundamental issues based on the balance of functions between central and regional agencies, not to mention concerns about data protection and related civil rights.

Fifty years ago, the technology to manage universal income taxation systems that combined sophisticated social insurance collection and the associated collection and recording of data in lifelong computerized records did not exist on an affordable basis. Income taxes were only beginning to represent a major component of the resources of many governments. In many situations, the social security system did not apply fully (if at all) to persons with earnings in the income tax brackets. For example, in Ireland and the United Kingdom, white-collar workers with relatively low incomes were excluded from social insurance for many years. In other countries, such as Saudi Arabia and Kenya, employers with small workforces were excluded from social insurance.

In addition, historically, tax and social security agencies have faced very different business imperatives. Tax systems are oriented to deal with the biggest taxpayers on an annual basis. Social agencies can expect that many of their clients will have no or low intermittent incomes, and typically entitlements will depend on accurate records built up over a period of time—sometimes many years.

It seems inevitable that there will be greater coordination of personal income taxation and social security in most countries in the years ahead. In some cases, this will include integrated systems to collect contributions. In other cases, tax credits (negative income tax) and tax incentives that encourage private pension and health insurance provision will be the major form of coordination. Each country will follow its own path, balancing the powers of different administrative organs and responding to evolving social needs. However, with the increasing globalization of commerce, there may be greater regional, or even global, uniformity in some fiscal and social strategies so as to avoid loss of competitiveness and stimulate inward investment for job creation purposes.

The purpose of this research, therefore, is to provide some benchmarks to assist policy makers in understanding the different models, to inform them of the implementation sequences that have emerged as most successful, and to help them plan their modernization programs in ways that will not inhibit future collaboration even where this is not currently a foreseeable outcome. The research provides insights into developments in a number of countries; it is hoped that some relevant analogues will be found among the countries selected.

One country that addressed collaboration within a fairly fast time period was Ireland. Ireland was a slow starter in generalized income taxation and in adopting information technology. However, in a 20-year period (beginning in 1960), it made huge strides. The speed of development and the phasing may have some relevance to countries in transition, and for this reason the major stages over the past 100 years are set out in Appendix II. It is also interesting to compare it with the development in Estonia, a former Soviet state and member of the European Union since May 2004 (see Appendix III).

It is intended that additional research will be undertaken leading to more specific ideas on how policy makers can "insure" future flexibility as well as suggestions on how greater collaboration might be undertaken in the near future.

There is a growing body of literature on this topic that policy makers can consult. It appears that the International Monetary Fund (IMF) considers that integrated collection will become more prevalent. One document published at an International Social Security Association (ISSA) conference in Poland in 2003[3] analyzes the two main models outlined in this report and also briefly looks at a third model in which commercial fund managers undertake collection.[4] The IMF/ISSA document also classified some Central and Eastern European countries by reference to whether integration projects were underway, had already succeeded, or had stalled.

Scope of the Research

This project describes the current degree of interaction, coordination, and integration between the social security and income tax agencies in a number of European countries that represent a variety of administrative arrangements. As a result, it provides a high-level typology of the relations between those administrations in each of the selected countries, and also highlights the challenges and opportunities of the various types of relationship. This typology can serve as a basis for further research in the field.

The countries chosen for detailed research were Austria, Belgium, Denmark, Estonia, Germany, Ireland, Italy, the Netherlands, and the United Kingdom. Countries with different roots of social security were selected in order to evaluate the varying impact on cooperation between social security and tax institutions in Europe. Estonia, a new member state of the enlarged European Union, was researched as an example of former communist countries. These countries faced major changes and reforms after 1989 not only regarding social security, but also their entire administrative system. Accordingly, a subsidiary aim was to evaluate to what extent the development of cooperation differs between new democratic nations and the long-established Western European countries, which have known continuous development in this field.

Key Definitions

Unless the context otherwise requires:

- *Tax authority* means the national agency or agencies responsible for the assessment and collection of income taxes and related levies from earnings (or equivalent income) of individuals.
- *Social security* means any program that provides or supplements incomes to persons and households whose incomes are inadequate due to illness, unemployment, retirement, or other factors such as family size. The support may take the form of subsidization such as contributions toward costs of housing or medical services or even direct provision of certain services that achieve analogous effects.

The research concentrated on statutory social security programs. There was no focus on compensatory programs and supplementary pension programs. However, it may be appropriate at a future time to assess the extent to which supplementary pension provisions, especially where they are encouraged by taxation arrangements, may evolve to become a major component of the pension element of the wider social security arrangements.

Structure of the Research and the Report

The presentation of the research is mainly descriptive and the comparisons of the fields of research are carried out in a horizontal way for the different countries. The first section of the report deals with the cooperation between social security and tax institutions for the purposes of social security—that is, contribution collection and payment of benefits.

The second section explores general data exchange issues between the two types of institutions, including a focus on privacy and data protection. It also touches upon new developments in the field of e-government, concentrating on the various forms of information exchange used by tax and social security institutions to approach citizens.

A common structure was adopted for all countries; however, this proved to be somewhat of a constraint in describing the extent to which issues of social security and tax differ, sometimes fundamentally, from country to country. Therefore, Appendix I provides brief descriptions of each country and its social security and tax administrations, as well as the major issues regarding cooperation between both institutions. The more narrative overview offered in Appendix I may assist readers in understanding certain issues discussed in the report.

The examples highlighted in the text are not exhaustive for any country. This is not the aim of the study. Rather, the aim is to present the most interesting developments regarding cooperation between social security and tax administrations in the selected countries.

In addition, there is a detailed historical overview of the developments in two small EU countries (Ireland in Appendix II and Estonia in Appendix III), which may help emerging countries and countries in transition understand their options.

Acknowledgments

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Cooperation in the Financing of Social Security and the Payment of Benefits

This section gives an overview of the cooperation between social security institutions and tax authorities regarding the financing of social security and the payment of benefits. First, the role of tax administrations acting as collectors of social security contributions is described. Second, the currently less prevalent function of tax administrations paying out social security benefits to citizens is reviewed.

Tax Authorities as the Collector of Social Security Contributions

As social protection systems are usually financed through a variety of sources, the scope of this research needs to be understood. The research concentrates on two major forms of contributions levied from socially insured persons. These are:

- Traditional contributions paid by employees and their employers, as well as by self-employed people.[5]
- Social security financed by so-called alternative means (such as general social security contributions levied on income, and earmarked taxes for healthcare levied on tobacco, alcohol, car insurance, etc.)

Two important clarifications need to be made:

It should be noted that in addition to programs financed by the two categories above, there are many instances of social programs that are mainly financed through the general budget via taxation. Examples include social assistance and compensation plans. Programs not financed substantially by categories (a) or (b) are not in the scope of this research. Apart from the transfer of the financial resources from the tax authorities to social security, there is no direct cooperation in place between the tax and social security institutions.

This report does not cover taxation collected as a general government resource unless the amounts collected were specifically earmarked and identifiable for social security purposes.

An integrated collection approach does not make a social contribution a "tax," unless the shared collection leads to a merging of the contributions into the overall tax revenues and the contributions are not (theoretically) kept separate before being transferred into the different social security funds.[6]

This section focuses on the role of tax administrations regarding these two means of financing social security. For this purpose, we consider both types of levies under the general heading of "social security contributions."

Two major approaches for the collection of social contributions can be observed: a *parallel* approach, which refers to a system whereby social security institutions collect social contributions and tax authorities collect taxes, and an *integrated* approach, where tax authorities collect both—social contributions and taxes—within one procedure.

It has to be stressed that these two distinct collection approaches represent only theoretic models. In the parallel system, social contributions may be levied by the social security institutions themselves without any cooperation from the taxation agency. Alternatively, where some support is provided, it may be restricted to the transfer of relevant income information. (This approach is described in more detail in the section "Cooperation in Data Exchange," which begins on page 17.) Another parallel model arises where social security institutions are responsible only for the financing of some of the insurance plans, whereas other programs are covered by contri-

Table 1: Different Forms of Collection Systems

Parallel collection system	Social security institutions and tax authorities collect social contributions and tax in strictly separated ways using distinct systems and potentially with systems based on fundamentally different architectures.
Integrated collection system	Tax authorities collect tax *and* social contributions.
Partially integrated collection system	Tax authorities collect social contributions for some social security programs or specific groups of people (e.g., self-employed), but not for all.

butions levied by tax authorities. In such a situation, parallel collection and integrated collection co-exist in the same social security system. This is referred to as a "partially integrated collection system" (described in detail on page 12).

Parallel Collection Systems

Austria and Germany. Historically, parallel collection systems have mainly developed in Western Europe. Two typical examples are Austria and Germany. Their administration systems are very similar. In both countries, contributions are calculated and paid on the total earnings of an employed person up to an upper earnings limit, which is not only a limit for levying contributions, but also for allocating benefits. The contributions are determined by fixed contribution rates, which are defined percentages applied to an assessed income (which does not always reflect the real income). These percentages differ from branch (that is, benefit contingency) to branch. Contributions for medical, pension, and unemployment insurance are divided between the employer and the employee. Accident insurance is fully financed by the employer.

Closely related to the calculation of contributions is the obligation to be registered with the responsible social security institution and to deliver the necessary contribution data. In principle, the employer is the insurance contribution debtor. Thus, the employer has to immediately register a new employee and must normally submit any subsequent changes in the situation of the employee that might affect social insurance status. Employers have to deliver the due contributions to the responsible social security institution at their own cost, but can (and normally do) deduct the part to be paid by the employees from the relevant wages. A self-employed worker pays the contributions directly and submits relevant information affecting his or her status.

In Austria and Germany, the health insurance institutions collect all social security contributions and redistribute elements of the contributions received to pension, accident, and unemployment insurance agencies or programs. In Germany, the health insurance institutes are explicitly reimbursed by the pension system for the collection costs.

Belgium. In Belgium, a country that has, like Germany and Austria, a strong tradition of working with professional social insurance,[7] similar methods apply. However, mainly in the field of alternative financing, some specific social security contributions are applied in which the tax authorities play a major role in collaboration with social security. This arises in the case of a special social security contribution by all employees that was introduced in 1994. The contribution is calculated as a percentage of family income in accordance with tax law. The tax administration calculates the contributions (based on the information received via the Crossroads Bank[8]), collects them, and transfers the money to the National Institute for Sickness and Invalidity Insurance.

The interesting aspect here is that the tax authorities assess and collect the contributions that are subsequently transferred to the social security agency. However, in order to carry this out accurately, the tax authorities receive information from the social security institutions (via the Crossroads Bank). In other words, for the same task, a two-way collaboration occurs: tax administration levying social security contributions and (for that specific purpose) tax administration receiving the information from the social security authorities.

A parallel collection system does not completely exclude cooperation between social security and tax authorities.

An integrated collection system does not make a social contribution a tax levy, as long as it is kept separate from the general budget.

As will be demonstrated later, the transfer of relevant information is also a key element in the financing of the social security system for self-employed people. In that situation, however, the tax authorities provide the social security administration with relevant information on self-employed income (see the section "Assessing the Liable Social Security Income: The Case of Self-Employed People" on page 21).

Integrated Collection Systems

Three countries that have completely integrated collection services are Denmark, Ireland, and the United Kingdom.

Denmark. Social protection in Denmark is financed primarily through general taxation and, therefore, the impact of contributions is rather marginal. Nevertheless, the tax authorities play a major role in collecting the social security contributions that do arise. The nature of the cooperation between tax administrations with regard to contribution is restricted to the following four programs for which contributions have to be levied:

1. The supplementary pension plan (ATP[9])
2. The special pension savings plan
3. Insurance against employment injuries and occupational diseases (AES[10])
4. Unemployment insurance

With the exception of the ATP plan, all contributions are exclusively borne by the employer.

Labor market contribution is a special 8 percent tax on gross income and is levied by the Inland Revenue, which is transferred to the Labor Market Fund. This fund mainly helps to finance the state's share of costs of the unemployment insurance, but it also covers activation measures, daily benefits for sickness and maternity, holiday allowances, and other smaller benefits. Contributions for the employment injuries and occupational diseases program are also collected by the Inland Revenue—the governmental department responsible for the collection of taxes—and transferred to the responsible authorities (private insurance companies).

In 1998, a special pension saving plan within the framework of ATP was introduced. The contribution is:

- 1 percent of the gross wage, and
- Mandatory

Pensions will be paid out over a limited period of 10 years.

The Tax Authority (Danish Inland Revenue) collects the contribution together with the 8 percent of the labor market contribution, and both are later transferred to the appropriate social security institutions.

In contrast to the special pension savings plan, the employer pays contributions for the Danish labor market supplementary pension directly to ATP every three months. It should also be noted that the employer does not specify the identity of the individual employees when making the quarterly payment; the supporting information about the contribution paid for each employee is, in fact, first collected by the Tax Authority.

Each year the employer reports to the Tax Authority detailed information on:

- Wages paid
- Income taxes withheld, and
- ATP contributions for each employee

The Tax Authority transmits this information to the ATP (in February of the following year).

Thus, the Tax Authority collects the data about the contributions, but not the contributions themselves. This is, therefore, a form of data exchange as dealt with in the section "Cooperation in Data Exchange," beginning on page 17.

The cooperation can be summarized as follows:

For three of the Danish social security programs, the Tax Authority directly levies the contributions with no input from the social security side. However, for the ATP plan, the Tax Authority does not collect but instead provides the information needed to assess and collect the contributions for the supplementary pension.

Ireland. In Ireland, since 1980 the social insurance contributions of employees have been deducted by their employers and collected by the revenue commissioners under a "Pay As You Earn" (PAYE) cumulative income tax process. A tax authority thus collects social security contributions under a service agreement with the social security administration. The revenue commissioners transfer the money to the Social Insurance Fund, which is used for day-to-day administration of social security benefits. A record of the contribution paid by an individual is also sent to the Department of Social and Family Affairs, which is in charge of administering the Pay Related Social Insurance programs (social insurance programs financed by contributions). That department directly collects contributions from a proportion of low-income self-employed persons, certain groups such as "share fishermen"[11] and artists, and voluntary contributors, specifically to avoid imposing burdens on the tax administration for persons who would otherwise be exempt from income tax processes because their earnings are low. Appropriate interchanges of data are designed to prevent abuse of the arrangements for these low-income groups.

United Kingdom. In the UK, the tax authorities are in charge of collecting income tax as well as social security contributions. The relevant information has to be delivered by the employer on a monthly basis via a Pay As You Earn, or PAYE, system: Every new employee receives a tax code, which means that the employer knows how much to deduct from the gross wage. New employees are assumed to have only minimum allowances until documentation is produced. The most common documentation is a slip from the last employer, called a P45. The employer does the calculation on the basis that the salary is expected to continue to the end of the financial year, and remits the contributions and income tax from each paycheck to the Inland Revenue. Minor adjustments in liability (taxable income as the basis of contribution calculation) are dealt with by changes in the tax code,[12] which means that both tax bills and direct rebates are unusual for someone who has no income outside employment.

Partially Integrated Collection Systems

This section discusses hybrid arrangements where features of different models work together. A simple classification into "integrated" and "parallel" collection systems is useful in describing the main patterns. However, "mixed" systems are often found in Europe and elsewhere.

The Netherlands. In the Netherlands, insurance-based social security programs are traditionally divided into two categories: general insurance programs and employee insurance programs. The collection of contributions for the employee insurance programs takes place via the Institute for Employee Insurance Programs. The Tax Authority (Inland Revenue) collects the contributions for the general insurance programs and the Self-Employed Persons Disablement Benefits Act.

The government is now planning to shift toward a more integrated system by 2006. The plan (which is reflected in a new law) entails increased cooperation between the Institute for Employee Insurance Programs and the Tax Authority (Inland Revenue). From 2006, the collection of contributions for employee insurance will be transferred completely to the tax administration. In this way, taxes and contributions will be collected in one combined return. The law also specifies how the money collected is to be transferred to the different funds. The expectations are that by the year 2006, all taxes and contributions will be collected in this way and the collection systems will become fully integrated.

Estonia. Proposals and indeed successful projects to transfer the collection of social contributions to tax authorities are not confined to Western European countries. Former communist countries, and some member states that recently acceded to the European Union, have also undergone major changes in this field.

The patterns of development seen in the countries in transition differ compared to the old EU member states since their entire public administrative systems have been moving from a centrally planned economy to a market-oriented economy. Therefore, the developments in these countries were relatively more radical and took place in a very short space of time.

The case of Estonia is an especially relevant one, because it represents both a former Soviet republic and a new member state of the European Union trying to reach Western European standards. The Estonian tax system contains two direct state taxes: the income tax and a special earmarked tax called "social tax."

The responsible authorities for state taxes are the Tax Board and its local offices. Their duties are to verify the correctness of the calculation and payment of the taxes, and to monitor the payment having regard for the procedures provided by the law.

The information collected is recorded in a state register, established by the Estonian government to facilitate the statutory functions of the tax authorities. The register holds information regarding the following types of person:

- Taxable persons
- Insurable persons in accordance with the Social Tax Act
- Persons who pay premiums pursuant to the Unemployment Insurance Act, which are collected by the Labor Market Board

Two Estonian insurance programs are primarily financed by a social tax, which corresponds to social contributions because the money is kept strictly separate from other state revenues. The rate is 33 percent of the tax base, of which 20 percentage points are allocated to the pension insurance and 13 percentage points to health insurance.

The unemployment insurance program, which was added to the Estonian social security system only recently, is exclusively financed by contributions that are levied by the Unemployment Insurance Fund (the only social contribution that is levied by a social security institution).

The pension insurance is subsidized by the state budget, and all other programs are completely financed out of general taxation.

In general, all programs operate on a pay-as-you-go basis, although cash reserves can be set aside to provide a type of buffer fund.

- Employers pay the total rate of social tax to the Tax Board, declaring the amount of social tax paid on behalf of each insured person separately.
- The Tax Board then transfers the 20 percent to the Social Insurance Board and the 13 percent to the Health Insurance Fund.
- The data collected from such returns is entered into the tax system and immediately made available to the Social Insurance Board and the Health Insurance Fund via online data exchange.[13] However, the tax institutions only collect data, which is necessary for tax calculation. The calculation of social benefits falls under the scope of the social security institutions.

Table 2: Overview of Collection Systems Applied in European Countries

Parallel collection system	**Austria, Germany, Belgium, Italy**
Parallel collection system without any cooperation	None
Parallel collection system with cooperation	**Austria** (fraud), **Germany** (fraud), **Italy** (fraud), **Belgium** (special contributions)
Integrated collection system	**Denmark, Ireland, United Kingdom**
Partially integrated collection system	**Estonia** (not for unemployment insurance program), **Netherlands** (not for employment-related programs)

Tax Authorities as the Payer of Benefits

Although less frequently seen, tax authorities can also directly pay out (cash[14]) benefits to socially insured persons. More frequently, tax agencies make indirect payments of benefits via the tax system. Before discussing the issue of cooperation of social security institutions and tax authorities with regard to the payout of benefits, it is necessary to consider the difference between direct and indirect payments. The first arrangement is clear. A direct payout of a benefit is a transfer of money to the bank account of the entitled person, or applicants can even receive their periodic benefits directly from a desk officer in the responsible institution.

Indirect benefit payments are more complex because no money is transferred in any way, but the benefit recipient does not have to pay the full amount of mandatory public charges—in other words, tax. This way of placing a person in a more favorable position with regard to public charges is frequently called “tax expenditure.”

Table 3: Different Ways of Paying Out Social Security Benefits

Direct payout of benefits	Indirect payout of benefits
Money is paid directly to the beneficiary.	The beneficiary benefits from a more favorable income tax position.

Across Europe there are numerous forms and objectives of tax expenditures, like economic investments, environmental protection, and so on. The objectives include encouraging investment in certain activities or expenditures (such as contributions to pensions and medical insurance), or promoting saving or assisting in particular costs incurred by individuals (such as mortgage interest relief and health expenses).

The research included tax expenditures that achieve equivalent outcomes to social security programs in other countries. "Tax expenditures" in reality exist in a number of different forms: tax exemptions (income excluded from the tax base), tax allowances (amounts deducted from gross income to arrive at taxable income), tax credits (amounts deducted from tax liability), tax relief (a reduced tax rate), tax deferrals (relief that takes the form of a delay in payment), and so on. As more or less every European country uses its own definition of tax expenditures, a very broad definition has been chosen here in order to compare national approaches: Tax expenditure is defined as "every deviation of the benchmark provisions of the respective country's tax system."[15]

The analysis revealed that the technique of using tax expenditures rarely involves strong cooperation between social security administrations and tax authorities. Often tax expenditures are nothing more than a form of social policy that is being applied in the taxation system with no intensive cooperation between the two administrations. Hence, we did not attempt to describe comprehensively all possible forms of tax exemptions. However, instances that illustrate the potential for collaboration were used to inform and validate aspects of this research.

Direct Payout of Benefits

The findings of this research show that, in general, tax institutions in the selected countries do not directly pay out social security benefits. Usually the responsible social security fund transfers the benefit to the client without making use of the administrative framework of the tax authorities. As a justification, tax authorities traditionally put forward the proposition that they lack experience[16] or, alternatively, that they lack the necessary infrastructure to effectively pay out benefits to the insured persons. However, some exceptions were found.

Denmark. In Denmark, the tax authorities allocate a child benefit for children younger than 16 years of age. This was not always the case. It started as a deduction of taxable income. Denmark had a progressive income tax, which meant that high-income parents benefited the most. Then it was changed into a tax credit in order to be the same for everybody irrespective of income, and was finally completely abolished with the 1987 tax reform. However, it was soon reintroduced as a benefit paid out by tax authorities to the mother of each child under 18 (now 16). One of the arguments to change the tax credit to a benefit was that a direct quarterly payment to the mother of a child is more likely to be used for the benefit of the child than a reduction in income tax. The benefit is provided irrespective of the parent's income—that is, it is not means tested.

United Kingdom. In the UK, the child benefit office of the Inland Revenue, in general, administers the child benefit program. The benefit, which is tax-free, non-contributory, and not means tested, is paid to a person who is responsible for at least one child up to the age of 16 or 19 when the child is in full-time non-advanced education. This benefit is paid directly by the Inland Revenue.

Austria. In Austria, parents can benefit from an allowance[17] for every child when the annual income does not exceed a certain limit (Kinderabsatzbetrag). This amount is not deducted from tax (as the name would indicate) but directly paid out together with family benefits—and only as long as parents qualify for the latter. Family benefits are financed out of the Family

Tax authorities can not only levy social security contributions but also directly pay out benefits.

Benefits Fund, while the allowance is financed out of general tax. In reality, this is not a benefit paid by the tax authorities, but is in fact an increase of family benefits financed by the state. Hence, strictly speaking, it does not fall under the category of social security benefits paid out by tax authorities.

Indirect Payout of Benefits: Tax Allowances

There is widespread use of tax allowances that have effects equivalent to social security. For example, a specific tax treatment of social security *contributions* (which are frequently used to reduce taxable income)[18] and a special taxation of social security *benefits* (which are either exempt from taxation or are subject to a reduced tax rate) are both commonly used. Furthermore, the tax system is also used to pay out benefits to the population through indirect ways.

It appears that social security assistance delivered through income tax systems are mainly used to support families; however, increasingly, the tax system is also used to alleviate healthcare costs, which are borne in the first instance directly by the patient.

It is widely recognized that bigger families have additional household costs. Some tax systems recognize this by giving more favorable treatment to larger families—that is, to those families with more dependents.

Different techniques were seen during the analysis, such as the deduction of a fixed amount from the tax to be paid, the deduction of a fixed amount from the taxable basis, and the deduction of a specific cost (such as education costs or interest payments on student loans) from the taxable income or tax-liable income. The amount of the deductions may vary depending on the income of the supported person, the number of children, or other factors such as being a lone parent or head of the family.

Although taxation is used in this context as a tool for social policy, very little cooperation was, nevertheless, found between the tax authority and social security administration. Apparently, tax concessions based on household size are frequently being directly applied by the tax administration without making use of any information or data support from

Table 4: Overview of Tax Expenditures

	Direct Payout	Indirect Payout
Austria	Child deduction amount *(Kinderabsatzbetrag)*	• Tax deduction of social contributions • Family benefits
Belgium		• Tax deduction of social contributions • Family benefits • Maximum Bill for Medical Care
Denmark	Child benefit (less than 16 years old)	• Tax deduction of social contributions • Family benefits
Estonia		• Tax deduction of social contributions • Family benefits
Germany		• Tax deduction of social contributions • Family benefits
Ireland		• Tax deduction of social contributions • Family benefits • Maximum Bill for Medical Care
Italy		• Tax deduction of social contributions • Family benefits
The Netherlands		• Tax deduction of social contributions • Family benefits
United Kingdom	Child benefit	• Tax deduction of social contributions • Family benefits

the social security authorities. Even where some cooperation did exist, it was mainly applied to check whether a tax exemption was not being enjoyed together with the grant of family benefits by social security. However, this check was typically achieved by an indirect and inefficient process that depended on the citizen accurately informing the tax authorities of the amount of child benefits being paid.

Germany. In Germany, family benefits can be either a tax exemption or a child allowance. These two benefits cannot be aggregated, and applicants do not have a right to select which arrangement (i.e., exemption or allowance) will be applied in their case. Tax exemptions only have practical effects at the end of the financial year. In other cases, the entitled person may receive the child allowance during the year on a monthly basis paid out by the responsible "Familienkasse," which is the local unemployment institution. At the end of the year, the tax administration calculates if the amount of the child allowance was equal to the amount of an eventual tax exemption. If it is lower, the difference (at least €5) will be granted as a tax exemption.

In other countries reviewed for this research, child benefits are granted alongside the tax exemption (in some cases, however, they form part of the taxable income, resulting in a possible reduction of the real value of the social security benefit).

Belgium and Ireland. Concrete cooperation was found in the tax concessions granted for healthcare costs actually incurred by the (socially insured) patient. Countries such as Belgium and Ireland have special arrangements with regard to tax expenditures in the healthcare sector. Both countries have the concept of a Maximum Bill for Medical Care (MBMC). The relevant institutions in those countries establish an annual or monthly threshold amount of money to be spent by an individual or family on medical care. Once the threshold level is reached in the relevant period, subsequent costs are either avoided altogether or can be reclaimed.

In Belgium, the excess payment on insured medical care is refunded. The maximum varies according to the income. This maximum bill involves an intensive interplay between the tax authorities and healthcare administrations. In Belgium, the RIZIV[19] sends the information on medical costs on a regular basis (through the Crossroads Bank) to the tax administration for processing and referral back to the RIZIV. When the tax administration is informed about the actual amount exceeding the maximum bill people have to pay, it is deducted in the final tax assessment. Later on, the RIZIV will have to refund the tax reduction.

The Belgian system has features that some commentators have criticized. The scope of the research on this did not permit systematic analysis of potential adverse features that each system may in fact have.

- The MBMC is deducted via a tax exemption only for people with a high income.
- People with a low income and persons suffering from chronic diseases are directly refunded via their mutual sickness fund.
- Reasons given for the two-tier system vary depending upon the level of income or seriousness of the disease.
- Granting an MBMC on the basis of a tax exemption does not work for people with a low income since they pay no tax at all or have such low tax liabilities that tax reductions cannot have a full effect.
- In any event, for needy cases the tax refund mechanism is relatively slow. Refunds are received by taxpayers one year after the healthcare costs have been incurred.

In Ireland, tax is refunded at the person's marginal tax rate on the excess amount paid over the threshold, tending to give some advantage to higher paid workers. However, many lower paid workers have access to medical cards, which relieve them of most expenses. As regards prescribed medicines, each family has to pay for medicines up to a monthly ceiling if they do not have medical cards; however, the amounts so expended may be eligible for tax refunds (at the marginal tax rate) if the total annual expenditure on eligible medical costs (including non-routine dental treatment) exceeds specified amounts. Additionally, in Ireland, generous tax arrangements encourage many persons to avail themselves of private voluntary health insurance, thus reducing the incidence of persons seeking tax refunds and again highlighting the increasing convergence in the administration of tax and the wider social security framework.

Cooperation in Data Exchange

In this section, we identify specific data flows concerning social security issues. These include sharing of tax data with social security institutions to calculate benefits or the income levels on the basis of which contributions are to be paid, to know about the applicant's income in the case of income-tested benefits, to tackle fraud, or even, in a more advanced way, to better target social benefits. In the other direction, a data flow from social security to tax administrations can facilitate the taxation of benefits or the filling out of income declarations for citizens.

The first part examines the forms of data transfer between tax and social security administrations. To provide context, we have to go beyond the strict worlds of tax and social security administration. In other words, we explore the general environment of data processing between public administrations, of which taxation and social security are a part. Only in this way do we get the full picture of how data are transferred between the tax authorities and social security offices in the countries analyzed.

The second part deals more with the fields where the data transfer is applied. The main focus here is on the assessment of the liable social security income (applied to the category of self-employed people), the fight against social and tax fraud, and the applied use of data exchange in the field of e-government.

Before describing the data flows in detail, some background is provided regarding the relevance of privacy protection in the sharing/transferring of information between administrations and the growing importance of e-government in the organization of data flows. This material relates to flows between different administrative units and also between the public agencies and citizens.

Background

Privacy Protection

Public administration would be ineffective and potentially impracticable without communication and cooperation between the different administrative branches. The transfer of data between public institutions, however, has to be clearly regulated to avoid any invasion of citizens' privacy through the use of personal information in daily administration.

In all countries, virtually all statutes dealing with the establishment and functioning of public administrative bodies include (perhaps indirectly) some general provision stating (albeit in different words) that all different public administrations "shall work together to guarantee the smooth running of their daily business."

Typically, these general statements do not define any concrete situation when data can or cannot be transferred from one institution to the other. Accordingly, these general provisions have to be read together with the national laws on data protection, which are very similar all over Europe and contain four typical elements:

- Obligations on those processing personal data
- Rights attributed to persons about whom the data is being processed
- Legal sanctions when obligations or rights are not respected
- The establishment of an independent body to oversee adherence to the legislation

The similarity in approach arises substantially from the legislation of the European Union on data protection (Directive 95/46 EC[20]). In addition, internal

E-Government is not only about modernizing public administration through information technology, but also about enabling the building of citizen-centric, cooperative, and modern governance.

guidelines may regulate in more detail the cooperation and exchange of information between administrative institutions, but always in the framework of privacy protection.

Data Exchange and E-Government: Toward a More Proactive Approach of Administering Social Security and Taxation

E-government does not simply imply the use of various new information and communication technologies by public institutions to improve their internal functioning, but it also tries to improve the relationship between the public administration and the citizen. A "top-down" approach of a strictly hierarchically organized public administration is gradually being replaced by a more horizontal approach. On the basis of "e-technology," the process whereby public services are generated and delivered will be, according to many informed commentators, fundamentally transformed. Alongside a smoother functioning administration, there are expectations for an improved government relationship with the citizen. E-government thus incorporates a double dimension.

To facilitate contact with the citizen, more transparent administrations invest increasingly in e-technology, for example, the Internet. Internet sites usually start at the governmental level and provide links to the different ministries and their subordinated administrative bodies in order to facilitate citizen access to the required services.[21] In a more developed sense, e-government should also relate to a more proactive approach, meaning that the administration should try to single out, beforehand, potential claimants of benefits and services.

When developing e-government in the area of social security administration and taxation, it may be useful to approach the citizen through reference to day-to-day events (sometimes called "life events") such as graduation, employment, illness, marriage, birth of a child, retirement, and divorce. This often results in an approach where different agencies across public services have to participate in new forms of service, and this is likely to include the creation of websites or call centers focusing on issues related to life events. The emphasis is placed not only on transferring information between public bodies, but also on joint handling of information that is proactively used to serve the citizen.

Forms of Data Exchange

This part focuses on the general environments of data processing and special features of collaboration between public administrations at the national level. With this approach, we were able to identify three general categories of data exchange between public administrative bodies, including social security and tax institutions.

The first is the existence of a "crossroads data"[22] bank through which data is accessed and transferred—to a certain extent, even automatically (Belgium and Estonia). The aim of a crossroads bank is not to record data, but to link databases of different public bodies and refer the authorized applicant to the data bank where the required information is stored. The second category makes use of a central data bank (Ireland and the Netherlands). This type of data bank gathers information from different bodies and records it in a central data bank. In this case, the authorized applicant can directly access the information from this central data bank. The third residual category consists of those countries that do not have an established institution for data transfer like a crossroads or central data bank. Although this does not mean that no forms of cooperation exist between the tax and social security authorities, we cannot describe them in a structured way. Hence, we will not deal further with this category.

E-government can be the basis for joint management of information by social security and tax institutions.

Data transfer goes beyond the relationship of fiscal and social security administration.

Crossroads Data Banks

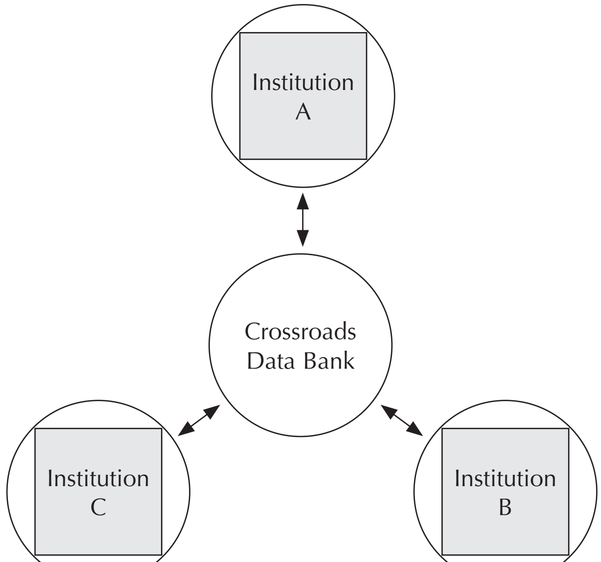
Belgium. In order to simplify social security administration, Belgium created the Crossroads Bank of Social Security (KSZ[23]). KSZ developed an electronic network that connects different institutions of social security and enables them to exchange data in a secured way through a computerized network.

Almost all social security institutions participate in the network; only a few public centers of social welfare are not yet connected. The data bank is considered to be very effective. In the year 2001 alone, 219 million electronic messages were exchanged among the various institutions of social security.

Since 2002, the data flow has not been restricted to social security institutions but also open to other public services—tax administrations, for example. The social security system required employers to furnish quarterly declarations of data concerning salary and working hours of their employees. However, employers were also required to send similar information to the tax department for tax reasons.

The introduction of a multifunctional declaration meant that both requirements could be fulfilled in one integrated procedure. The data, now collected just once, is used for the calculation of social contributions, the collection of taxes, and the calculation of diverse tax deductions. Moreover, the tax administration can use this information to calculate the special contributions for social security and the Maximum Bill for Medical Care.[24]

Figure 1: Transfer of Information Stored in Various Institutions via the Crossroads Bank



This form of data exchange favors an automatic allocation of rights.[25] Many public institutions active outside of the social security field can obtain information to determine people's rights automatically. For example, the inhabitants of the City of Ghent have to buy their litterbags directly from the Commune. Persons with replacement income have the right to receive a certain amount of bags for free. The Commune had two options: either to make these people apply for the free bags or to find information about those who receive replacement income via the KSZ and send the litterbags automatically to them. The Commune chose the second option and made an arrangement with the KSZ. This example shows the use of the KSZ by an institution that has, strictly speaking, nothing to do with social security.

As the contributions of the self-employed are calculated on the basis of their income over three years, the tax administration is obliged to inform the Institute for Social Insurance for Self-employed People about the income of the self-employed to calculate their social contributions. This data exchange is not yet carried out via the crossroads system, but is planned for the near future.

Estonia. The origin and development of the Crossroads bank in Estonia were different. After gaining independence, Estonia underwent two major periods of change in the area of governmental information systems. The first wave at the beginning of the 1990s replaced paper-document folders and register systems with a discrete database management system (DBMS). The second wave is an attempt to connect all the stand-alone databases over an Internet-accessed data resource. The major advantage Estonia had, compared to Western European countries, was that it could start from scratch with a new IT program without having to adapt existing hardware or software. However, even without the complications of legacy systems, the Estonian approach had many difficulties. A report published by the International Social Security Association in Beijing in September 2004 referred to certain problems in the Estonian experience.[26]

The variety of databases—such as population registers, business registers, driver's license databases, tax and social security databases, and many others—became too complicated to be accessed by citizens. Every site had different interfaces over the Internet, and the overall effect became so complicated that many citizens were no longer able to remember details such as all the different Personal Identification Number (PIN) codes. This was the point of departure for the idea to develop an environment where all the above-mentioned problems could be solved by a more coordinated and integrated approach to public sector database design, management, and utilization.

The aim of the Crossroads (X-roads) project was to develop software, hardware, and organizational methods for the standardized use of national databases. Over time, different databases evolved to a point where essential operations needed more and more connections between different databases that did not necessarily adhere to common standards (definition, currency, integrity, etc.).

To guarantee the smooth running of daily business in connection with the data flow between administrative institutions over the Internet, it was necessary to use one set of program components with suitable software for all different governmental organizations. The development of standard program components was also needed to provide standard interface facilities that support interaction by users (civil servants, citizens, and entrepreneurs) and dialogue with a growing population of databases (12 database suites at the time of the analysis). Standardized user interfaces reduce resource utilizations while aiding user interaction and potentially eliminating the need for special advisers whose purpose is to guide people through a maze of databases (see also the section dealing with e-government on page 23).

Central Data Banks

The Netherlands. In the Netherlands, the idea behind this approach was to have multiple uses of data through a central data bank at the Institute for Employee Insurance Programs (UWV[27]). This data bank contains information about the insured person's social insurance (data about the insured person, his employer, type of employment, wages, and other information) and data from a virtual database known as "Fi-base" (an abbreviation for Fiscal Base and containing information on taxable income, contributions for the general insurance programs, and social tax number[28]).

UWV registers all the information about the insured employees, which comes from the employers via the tax administration, in the "polis" administration (the polis data bank is a summary of data of several public institutions, not just fiscal data). The data is received through the tax declaration on tax returns (these are the data presently found in the Fi-base). The tax administration then delivers the data to UWV to register the data in the polis administration system. UWV uses the information from the polis administration to establish benefits—for example, unemployment, sickness, and incapacity to work.

Other institutions, such as the National Health Services and the statistics agency, can also use the data in the polis administration, as well as the tax administration. UWV has the obligation to provide the tax administration with this data in conformity with the SUWI law.[29] Beginning January 1, 2006, an increased use of data from the polis administration is planned.

Figure 2: Storage and Dispersal of Information from the Central Data Bank

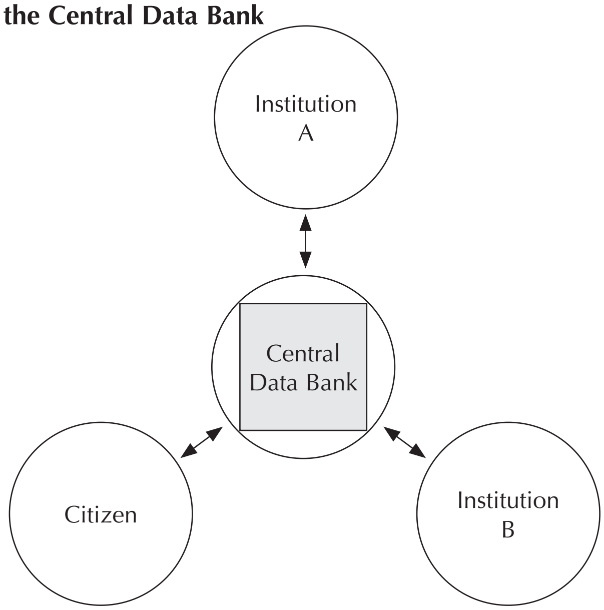


Table 5: Different Types of Data Banks and Their Fields of Application

	Crossroads Data Bank	Central Data Bank
Belgium	Social security	
Estonia	All public administration	
Ireland		Social security
The Netherlands		Social security including polis data

Ireland. In Ireland, a record of paid contributions is made by the Tax Authority (Revenue Commissioners) and passed to the Department of Social and Family Affairs, where it is maintained on the Central Records System (CRS). These records are then used for the determination of eligibility for a benefit. People can check[30] their social insurance record covering personal identification, family, employment, and financial data using a Personal Public Service (PPS) number. This unique reference number is needed to gain access to social welfare benefits and information from public service agencies in Ireland, such as the Department of Social and Family Affairs, the Revenue Commissioners, and the health boards. The PPS number is the new name for the Revenue and Social Insurance (RSI) number.

On a more general level, the Irish government established an agency called REACH[31] to develop the infrastructure for the integration and improvement of services to customers of the public service, with the mandate to provide a single mechanism for access to public services. REACH developed an Inter-Agency-Messaging Service (IAMS) to support the electronic exchange of customer data among agencies in the public service.

The first service launched was the exchange of birth registrations between the Central Register Office, the Department of Social and Family Affairs, and the Central Statistics Office. This service will then be expanded to include notification of data among a wider range of agencies including tax institutions. The IAMS system enhances cooperation and information sharing across a broad range of service providers. The lessons learned will be useful in finally designing and creating a Public Service Broker (that is, a standard means of access to integrated public services, see page 25 for more on Ireland's e-government initiatives).

Fields Where Data Exchange Is Applied

Assessing the Liable Social Security Income: The Case of Self-Employed People

Tax data can be helpful for social security administrations to establish income on the basis of which contributions are to be paid. This is especially true for self-employed persons, as they themselves have to declare their income to the public authorities.

Unlike wage earners, where the employment relationship has an inherent opposing interest between employee and employer, self-employed persons declare their income for tax and social security purposes. As a consequence, there is a danger of under declaration of income.[32] Public authorities need well-established income control procedures, and cooperation between tax and social security administrations could be useful in this case. Tax and social security face similar problems in determining the *professional* income of self-employed persons. In the case of wage earners, the professional income is the wage paid by the employer on a regular basis (weekly, monthly). The declared wage[33] is, in other words, the basis for calculating contributions.

Apart from the risk of manipulation, the income of self-employed persons is much more open to fluctuation. It is very often earned on an irregular basis. There may be significantly different tax and social security interpretations of the concepts of benefits-in-kind enjoyed by self-employed persons. The use of similar criteria to determine the income of the self-employed person for both purposes would be an important simplification.[34]

Given the various risks and weaknesses in monitoring the tax and social security position of self-employed persons, it should come as no surprise that an enhanced cooperation between tax and social security administrations for the purpose of financing the social protection systems of the self-employed existed in the countries reviewed.

Some countries refrain from setting up cooperation between tax and social security authorities, particularly in cases where the tax system is underperforming.

Before describing the cooperation models identified, it is interesting to note the reasons that some social security institutions invoked for *avoiding* cooperation with their national tax authorities. Opposition to cooperation was strongest where there was a perception that tax collection does not function well or where cooperation with the tax services was considered "too complicated." Social security institutions in some countries argued that an income declaration given to tax authorities is not always reliable. For this reason, some Central and Eastern European countries have introduced contribution collection arrangements that are completely separated from the tax administration.

In a related vein, policies that avoid true collaboration in assessing the liabilities of the self-employed for tax and social security can be seen in Spain and Germany:

- Spain opts to work with fixed income rates from which the self-employed can choose for paying their contributions. There is a direct relation between the chosen income category and the level at which the benefits are to be paid eventually; this is intended to discourage choices based on the lowest levels.
- Germany applies fixed contribution rates for certain groups of self-employed that have little relation at all to the real income earned.

Cooperation with the tax services can take place in two ways. Countries such as Denmark, the UK, Ireland,[35] and the Netherlands generally leave the collection of social security means to the tax administration. This is not only in cases where social security is financed from general means, but it can also happen by letting the tax services collect the contributions.

Other countries consider the collection of social security contributions by the tax services as too extreme and use only the information about income sent by the tax services as a basis. This is the case in Belgium, Austria, and Italy. However, this system often turns out to be complicated. Using known tax information results in a time gap. In other words, the basis for the social security contribution no longer reflects the last known income of the self-employed person. For example, Belgium has chosen to work with fixed tax information—that is, revenues that have been determined definitively for tax purposes—but which is three years old at the time it is actually used. A similar situation is also found in Italy, where craftsmen and traders pay fixed contributions for the current year and in the following year pay supplementary contributions on the basis of tax declarations. Eventually, the definitive contributions are determined on the basis of the taxable income two years after the first declaration.

The determination of the fiscal basis for contribution differs considerably among the member states. For example, some member states will determine a social income; this is the net taxable income without certain fiscal deductions. Austria adjusts the income of self-employed people for social security purposes: for example, the deduction for investments is not used in the basis for determining the contribution for social security purposes. Professional costs that could give a false image of the personal income of the self-employed person are left out.

Data Exchange to Combat Tax Fraud and Social Security Abuse

Traditionally, information is shared between social security and tax authorities to control and combat fraud.

United Kingdom. In the United Kingdom, legislation includes detailed provisions about situations when the Tax Authority (Inland Revenue) can obtain or has to provide information concerning tax or social contributions to other public bodies—for example, to enforce the National Minimum Wage, to check the accuracy of information, to prevent or detect crime, and even to protect public funds.

Belgium. In Belgium, within the framework of the Crossroads Bank (KSZ), a data warehouse (OASIS) was created for the inspection services of the federal Public Social Security Service; the National Office of Social Security; the Federal Public Employment, Labor and Social Service; and the National Office of Employment. The purpose is to more effectively combat social security fraud. However, no initiative has yet been taken to include tax authorities in this program.

Austria. In 2003, Austria introduced new provisions in social security and tax law stipulating that only one executive body should be responsible for investigations into all income-related charges: social contributions and taxes. Thus, every investigation is both a tax and a social insurance investigation. The agents responsible for investigation in the area of tax and social security remain affiliated to their institutions of origin, but act externally as experts for both fields.

The preparation, implementation, and evaluation of the Austrian investigations are based on common principles to guarantee a clear and efficient procedure. The former regulations regarding investigation for income tax, social insurance, and external audit have been brought together in one legal act: the law on Basic Principles for the Joint Investigation for All Income Related Charges (GPLA-G[36]). This joint procedure combines income tax, local charges, and social insurance investigation. The latter is focused mainly on the mandatory registration of employed persons to the responsible social security institution and the determination of the basis of assessment for the calculation of social security contributions.

The general objective of the combined investigation is to guarantee a uniform method of assessment for social security contributions and taxes at a national level in one efficient procedure for the benefit of insured persons. On the one hand, it is less time-consuming for the employer to have only one general investigation (every three to five years) and, on the other hand, it is economically more efficient for the tax and social security institutions.

The preparation of the investigation starts with a plan to share the investigations between tax and social security institutions. This is done taking into account the number of available investigating agents in the respective institutions and the number of reports on suspicion of fraud or abuse concerning either the field of social security or taxes. Moreover, no employer can be reviewed by the same investigation team consecutively, thus reducing the potential for collusion between defaulting employers and investigators.

The Austrian investigating agents have full authority to check all files on social insurance and tax issues. In the end, the responsible institution prepares a report and, where inconsistencies exist, the employer is contacted before the launch of an administrative procedure. This process will then take place within the strictly separate tax or social security authority.

Even though there is no direct data transfer in the narrow interpretation of the term, two typically separate institutions have access to all data regarding social security and taxes of the controlled private citizen or professional organization.

Ireland. Joint investigation units have operated for more than 20 years in Ireland and have proven very effective. Since 1980, the aligning of certain administrative functions more closely to the responsibilities of the different agencies has resulted in significant improvements—for example, in the registration of basic details for new entrants. These activities require extensive sharing of data subject to the constraints required by data protection.

The Role of E-Government in Cooperation between Tax and Social Security

Although all member states in the review claim to apply techniques of e-government to facilitate citizen access, we found only a few examples where tax and social security administrations are horizontally integrated on the basis of e-technology. Collaboration between social security and tax authorities based on e-government is scarce. For example, shared or integrated Internet sites or portals are rarely present in any of the countries. Both branches have, in a way, developed separately from the other.

In the field of social security, the healthcare sector is the most dominant representative in e-government, and has been placed under the label of "e-health." Typically, simple homepages provided by social security institutions offer general information about benefits and related procedures.

However, more sophisticated sites already provide information about specific health issues, such as diseases, vaccination, and medicines (for example, in Austria, Germany, and the United Kingdom), and even enable a patient to make an appointment with a doctor via the Internet and to be reminded automatically about it one or two days prior. The Netherlands offers medical consultations with expertly qualified doctors in a range of clinical specialization over the Internet for citizens. Personal pages are protected by SSL, user name, and password, which makes it more secure than simple e-mail consultation. The program helps to reduce the growing demand for public medical care in the Netherlands, where there is a shortage of available doctors, and saves the citizens from having to wait weeks for a consultation.

Some countries provide online information for the citizen to facilitate the filling out of tax declarations or even offer submission of tax forms electronically.

Where, atypically, shared applications of e-government were found, they often were still in the stage of a plan or project. Yet they had some interesting elements that are worth highlighting.

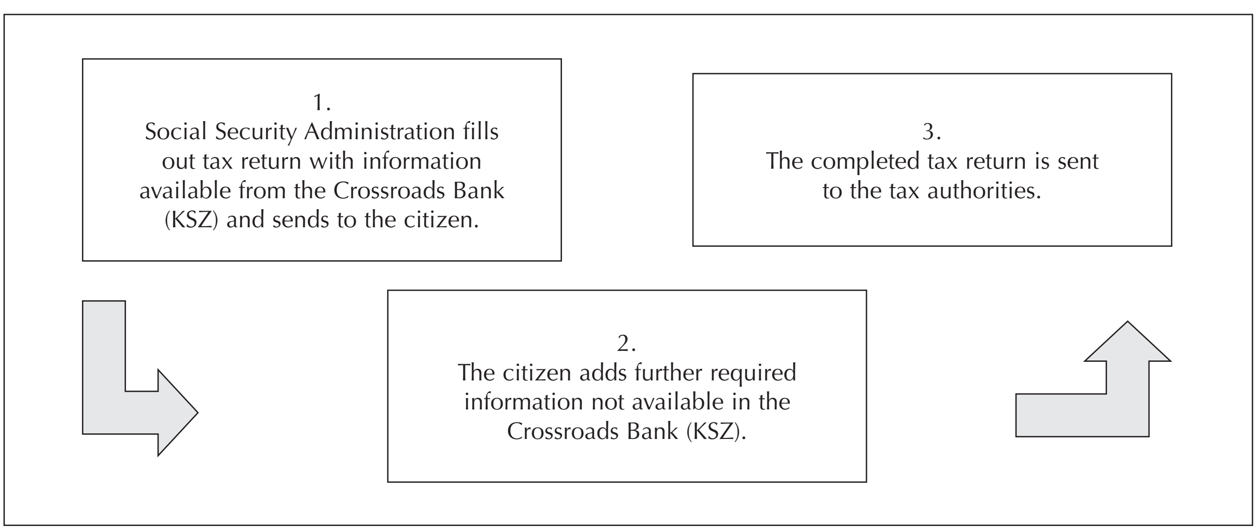
Austria. E-government was launched very recently in Austria. The idea is to connect the social security chip card with a national citizen card (Bürgerkarte), neither of which had existed before. It should be noted that this "national citizen card" will not be a "card" in the strict sense, but rather "personal data" registered on the chip of a "real" card—in this case, the future social security card. The citizen card will enable citizens to interact with authorities to accomplish such activities as processing relevant social insurance data to the responsible institution or submitting a tax return. It will be used like a key to identify and authenticate the person involved. At the time of this review, however, only information and printouts of application forms could be obtained.[37]

Belgium. As already described, Belgium seeks to combine back-office integration and an e-portal solution to facilitate interaction with its citizens. The integration of different public bodies will result in a complete Service Level Management Framework among all the various Belgian government levels. It is intended to support the possibility of an automatic allocation of rights and hence create a more proactive approach in the delivery of social services. The Crossroads Bank (KSZ) will play a crucial role in this development.

Another important Belgian project for the future is the pre-filled-out tax return. This project will support closer cooperation between social security and tax administrations. Social security institutions enter the basic data known to them, such as wages and income from social security, on the tax returns. This form will then be sent to the citizen to add any additional information not available through the KSZ before submitting the tax return to the tax authorities. Furthermore, the automatic exchange of information will also relieve employers of the obligation to turn in a tax return for each employee (see Figure 3).

In Belgium, an "SIS," or electronic card, provides socially insured persons with their unique number of social identification. It enables the responsible institutions to access data on social security and to simplify administrative formalities for the socially insured persons. Provisionally, the SIS card is mainly used for the administration of healthcare insurance and as proof of insurance when in contact with care dispensers, such as pharmacists and hospitals. In the future, it might also be used for tax purposes.

Figure 3: Belgium's Proposed Pre-Filled-Out Tax Return Process



Estonia. In Estonia, a Citizen Portal offers a user interface tailored to fit every user's needs. Previously, citizens had to search for the service they needed via the menus of each public institution. Today, only the services that are relevant for the user appear on the user's homepage. Citizens can access the system via their bank card and choose among 14 menus (which include, among others, medical records and tax data) where they can interact with public administrations. Some services even send reminders to citizens—for example, for periodic vaccination. All citizens have their own account in the general crossroads system.

This development offers citizens access, 24 hours a day, seven days a week, to national databases (common data storage) within the limits of data protection laws, as well as easier access for civil servants to the decision-making process within the authority's limits. Via this crossroads data bank, the government becomes more transparent and easier to access for citizens, and the cost of public administration can be lowered thanks to unified user interfaces.

The challenge of access and privacy using a standardized authentication service has been solved with specific service PIN codes to be used in combination with the bank card. As an additional option for Estonian organizations that have data security issues, a special standard Mini-Info-System Portal (MISP), which is very similar to the Citizen Portal, has been developed. Designed primarily for civil servants to use internally in their offices, MISP includes one additional function: the authorization of users. A project for the creation of a similar tool has been launched for private companies.

Ireland. The Irish e-government agenda includes decisions to develop the REACH initiative and to create a Public Services Broker.[38] The broker will have two dimensions: a system that REACH will develop and an agency to operate the system. It will be the gateway to integrated electronic public services including local authorities and health services.

With regard to taxes, Ireland's Revenue On-Line Service (ROS)[39] is the central plank in the Revenue's strategy in the development of quality electronic services. ROS is a system for the electronic filing and payment of business returns. Special attention is paid to non-compliant taxpayers. The implementation of e-filing is tailoring Revenue's business to increase focus on the non-compliant customer.

Denmark. The Open Digital Government system helps local municipalities in Denmark to personalize their services, and supports citizens by giving them 24-hour access to these services as well as to their own personal data. It is developed across several public services.

Conclusions

A number of important issues arose from the research. First, there is a growing trend toward increased integration of collection processes. Although less pronounced, there is also some evidence of growing interest in collaboration in the payment of benefits. However, it is unlikely in the medium term that tax agencies could, even if willing, undertake the volume of payments administered at present by typical social security agencies. The evolution of negative income concepts may increase the role for tax offices to undertake some benefit payment functions. But for the vast majority of cases—for example, long-term beneficiaries with no net tax liabilities—it seems improbable that tax administrations would be asked to manage payments along current volumes.

While the trend toward integration is becoming more pronounced, this does not mean that the integration process is becoming easier. More modern ICT approaches make integration more achievable. But the logistical considerations involved in retraining hundreds of thousands of officials and millions of employers, workers, and other collaborators in the wider system are still—and will remain—major administrative challenges.

The challenges can be tackled; they have been in the UK and Ireland and are well underway in other countries. However, countries planning integration would do well to review the problems faced by early adopters.

Options for Interaction

The survey of countries shows that considerable interaction already takes place between tax and social security administrations with regard to the collection of financial means for social security systems. This was expected because the public authorities in question have many common functions: collecting money and distributing it to the spending authorities. In effect, in the cases of collaboration examined, the tax agencies were providing services to the social security agencies whether collecting contributions or data, or in the isolated cases where they actually made payments of benefits.

Surprisingly, no concrete examples were found in the surveyed countries of social security administrations that support tax authorities in their core activities, that is, in collecting taxes and refunding overpaid taxes. Some support was provided, however, for secondary tax administration tasks, such as the combating of fraud and the administrative handling of information collected from taxpayers. Theoretically, social security offices could collect certain taxes for the tax administration.

More importantly, where negative income taxation is being implemented, modern integrated social and income tax systems may also have to pay out sums. Where this arises, established social benefit payment systems could be used to deliver negative tax credits to the persons concerned. Apparently, this opportunity is not likely to be adopted in the near future, if at all, by the countries surveyed.

Options for Integration

With regard to the role of tax administrations in raising social security contributions, we learned that this could essentially be done either through an integrated collection system (where tax offices then collect the contributions for the social security administration) or by keeping parallel collection systems that support each other (for example, by sending through relevant information on income). In reality, member states often combine the two systems, leading to what we have called partially integrated collection systems. Before looking further into the question of whether integrated collection systems are the way forward, we cannot stress enough that collection of social security contributions by tax authorities does not turn them into "taxes" unless common collection merges the contributions into the overall tax revenues. Where the contributions are (theoretically) kept separate before being transferred to the different social security funds, they remain social insurance contributions irrespective of the collection mechanism or the basis used to calculate liabilities.

The distinction between taxes and social security contributions is important as recent European case law shows.[40] Labeling a levy as contribution or tax can, for example, have far-reaching consequences for the implementation of relevant (European) legislation.

Trend Toward Increased Integration in Collection

The survey shows that many states opted deliberately not to work with an integrated system. The historical evolution of a given social security system should not be underestimated. Countries with long-established systems may encounter problems in pushing through reforms, with traditionalists stating that the system worked well in the past and should therefore be maintained in the future, with only slight adaptations.

In this respect, the former communist countries have an advantage. They can start from scratch and therefore may have a greater possibility of creating public administrations aligned to 21st century service concept and technology.

Overall, there appears to be an accelerating movement toward integrated collection approaches. Often, the main argument put forward is the reduction in costs of public administration by merging two collection institutions with similar core tasks into one. However, as was highlighted in a recent ISSA document,[41] success will be dependent on other factors. The following are key aspects of a successful integrated collection approach:

- A register of employers and insured persons.
- A single identification number on a government-wide basis. This number must be protected against official or other misuse to ensure protection of privacy.
- Straightforward systems for the reporting of insured earnings and for the withholding of contributions at source.
- Processes that avoid complexity and duplication of activities.

Information technology systems, including computerization and telecommunication networks, can under certain conditions be used to swiftly carry out the assignment of ID numbers, collection of data, and record keeping. However, there are fundamental prerequisites.

An integrated approach makes no sense at all if either of the two systems does not work properly. The section on the assessment of income for self-employed made this clear (see pages 21–22). Some states deliberately refrain (or should better refrain) from integrating or cooperating with tax authorities when the tax system as such does not seem to be reliable. Systemic defects cannot be removed by simply modernizing the ICT environment.

For example, if there is no reliable mechanism to establish earnings, social security systems will still have to work within vague parameters to estimate an income that in theory is liable for social security contributions (such as surface of the land worked on by farmers, average comparable wages, and so on). Integration of public services may not be the only way forward to strengthen cooperation between tax and social security administrations. Less radical methods such as properly supported sharing of information or setting up common (control) procedures might in some situations prove more useful and effective for the improvement of collaboration between the tax and social security worlds.

Impact of Integration of Tax and Social Security Collection in Ireland

The income taxation system in Ireland underwent profound but phased change in the 1960s and 1970s, and this partially obscures the impact of the integration of social insurance and income tax collection. Some details of the phases are set out in Appendix II.

Nevertheless, outcomes achieved by the Irish experience suggest that integration improved the efficiency of collection under both headings and that the integrated arrangement also reduced the resistance to income taxation by the waged and salaried sectors.

Following the introduction of a PAYE[42] income tax system, the tax take began to increase quickly, leading to large-scale protests and demonstrations in March 1978, when the combined tax of social insurance and income tax on employees' earnings amounted to 10 percent.

Some minor adjustments were made in the income tax system in response to the protests, but the overall take remained at about 10 percent. Following full integration of the tax and social security systems, the take rose to about 13 percent, and the public tolerated this level.

Without access to very detailed records, it is hard to identify all the factors at play. But it seems reasonable to suppose that the bigger firms[43] made sure that workers were paying their full share of taxes and other deductions whereas smaller enterprises were picking and choosing their level of compliance. The integration of the two collection systems meant that some employers and workers either went fully into the system or had to go fully outside. It seems reasonable that the bias was toward compliance, particularly in light of the high unemployment rates that prevailed at that time. Jobs were less secure and the social safety net was therefore an important asset.

In summary, integration of taxation and social insurance collections in Ireland increased the general level of compliance and made the public more tolerant of taxation levels that had previously been viewed as unacceptable.

Direct Benefit Payments

There were very few cases where tax authorities were responsible for paying out benefits directly. However, examples of indirect payment via tax exemptions were very evident. Tax administrations generally consider that they do not have the necessary infrastructure and tools to redistribute money directly to the persons in need.

Yet, some examples of direct payment were found, mainly in the area of family benefits. This is the result of some countries having structurally integrated family benefits into their tax system. Usually, the family benefit program is also financed from the general tax budget.

Despite some reluctance reported by tax agencies, there appears to be a driving force for payouts of family benefits directly by tax authorities. This seems to derive from the view that a benefit directly paid out to the beneficiary (typically the mother) is more likely to be used for the benefit of the child than a reduction in income tax (tax exemption) would be.

Outside the area of family benefits, tax authorities can have relevant information on the income side of taxpayers. This can be useful, for example, when certain types of benefits, such as social assistance benefits and financial support for healthcare payments, are to be paid. Accordingly, in these areas we might expect increasing use of direct benefit payments through tax authorities. But this will probably happen at a slow pace due to ingrained fears in many tax administrations that this type of activity could overburden their systems by increasing the number of tax entities to be managed and recorded without a commensurate increase in tax collection.

Indirect Benefits (Tax Expenditures)

Indirect payment of benefits (via different types of tax exemptions) is frequently applied by tax administrations. They feel more comfortable with this approach of benefit payment since the tax exemption is structurally incorporated in the tax system: It does exclude (parts of the) taxable income or conceal or artificially depress the taxable income base. For similar reasons, as with direct payments, it is noticeable that the technique of tax exemptions is very much present in the field of family benefits.

Social security benefits are often made subject to more favorable taxation tariffs (that is, lower tax rates or complete exemption). This clearly indicates potential for additional cooperation between social security and tax administrations.

Tax administrations frequently struggle with payment of benefits (specifically negative income taxes) directly to specific groups of citizens. This raises questions as to why social security administrations are not called on to take over these types of tasks since they are usually well equipped to pay benefits. Where negative income tax is considered or the operation of tax bonuses (which cannot be set off against taxes due), modern income tax administrations will increasingly have to pay out sums of money to the beneficiaries.

Tax Exemptions That Support Social Policy Objectives

Appropriate forms of cooperation are important when a member state applies tax exemptions that touch upon social security policies. The research findings indicated that, especially in the field of family policy, tax systems apply many special tax arrangements. In every country, the family breadwinner (and/or member of the family) is in a more favorable tax position than the person without any family charge. In cases where a social security system also provides family units with benefits, the effects of the combined (tax and social security) programs should be assessed.

One important advantage of close cooperation is greater clarity regarding the interactions of different programs (taxation and social security) that affect personal and household incomes, so that unintended adverse affects (for example, poverty traps or overcompensation) can be minimized. Hence, cooperation between tax and social security authorities is not only required from a purely technical point of view, but also is crucial for developing social policies in a coherent way.

The role of tax administrations in making social policies more proactive should not be underestimated. Tax administrations have valuable information that can support means tests for targeted social security benefits. This information can help in targeting social security benefits to the right people, particularly where there are problems of take-up. The poorest sections of society are often badly informed about their rights, and low take-up of benefits by certain vulnerable segments is a recognized problem of social security administration. Income tax data may help to track down these people.

Even where traditional social security benefits may not be explicitly linked to taxable income, such information is increasingly used to regulate access to health, housing, education, and other social benefits and services. Here as well, closer cooperation on income information could help to develop a more efficient social policy.

Protecting Privacy

The research shows that many tax and social security administrations already have long traditions of transferring information to each other. This form of cooperation is becoming more effective and more frequent when properly supported by ICT. On the other hand, there is justified concern about the privacy of citizens.

Sharing information can facilitate the citizen's interaction with the government and can have many important and beneficial effects. For example, sometimes citizens are confronted with the fact that if they want to submit an application to administration A, they have to show a confirmation from administration B that they fulfill the preconditions. The question arises as to why the data is not automatically transferred from administration B to administration A.

One typical reason is the need to protect the privacy of the individual. However, it may be possible to achieve a greater balance between a citizen's need for social security and the need to protect privacy. It might be argued that modern ICT, with extensive audit trail capabilities, will make it easier for controlled data interchange that can be audited to ensure the principles of privacy are not violated.

By definition, data transfer contains elements of information sharing. But do such procedures inevitably jeopardize a citizen's privacy rights? All administrations surveyed responded to the effect that elaborate legislation and administrative frameworks are in place to safeguard the privacy rights of citizens. However, it could be interesting to explore to what extent privacy protection could potentially limit further evolution of information transfer. There is a risk that privacy protection could be invoked to block (or at least slow down) important and beneficial data transfer between public authorities for hidden reasons—or merely due to a reluctance to embrace change.

Controlling Data Exchange

As with the financing of social security, several techniques have been identified relating to information transfers between social security and tax administrations. Having central data registers is one of them. But data is transferable as efficiently via interfaces such as crossroads banks linking up the various administrations in posses-

sion of data files. This latter approach appears sensible in countries where tax and/or social security is spread over various public and private administrative offices, and administrative centralization is not likely to happen.

The example of Austria is interesting in that, strictly speaking, institutions do not transfer information between themselves, but they do share common procedures where several institutions (tax and social security) cooperate with each other. Instead of having a similar procedure (for example, control of the employer on paying the due levies) carried out twice, one institution can perform two sets of controls (and hence represent the other). This example clearly shows that a core intention of cooperation was to render investigations into social security abuse and tax fraud more efficiently.

Combating Fraud

The fields where most cooperation takes place through information transfer are essentially those linked to combating tax and social security fraud. This applies in both directions and does not just relate to the control of the liable income. Tax administrations can, for example, offer useful mechanisms that ensure social security benefits reach the right beneficiaries and are controlled properly (for example, by verifying that those receiving benefits are not employed at the time).

Furthermore, transferring information is also used to levy or calculate contributions more easily. Transfer of income from tax to social security administrations helps the latter institutions to define the contribution basis. However, more advanced ways of cooperation are about to take place, especially with the improved use of e-technology.

E-Government Issues

Information flow between public authorities needs to be improved, but the information flow between public authorities (in general) and the citizen must also develop. This idea has, of course, been around for some time, but our survey reveals that it is still applied in a fragmented way: Each institution—tax and/or social security—tries to improve contact with the citizen in its own way, leading again to a complicated situation where the citizen has to deal with many different interfaces of public institutions on the Internet instead of a common portal for public services.

To safeguard—indeed, to develop and extend the objectives of e-government—greater emphasis should be placed on an integrated improvement of the relationship between public authorities and citizens. Examples of this tendency are expected to arise where tax and social security systems interact with the citizen; this was supported by the experiences (sometimes still in project phase) found in most of the investigated countries. With its common portal, Estonia has the most advanced concepts and practical progress of the countries in the group selected for research. But other interesting examples, very often restricted to a single application (for example, an automatic application of tax exemption on the basis of social security data), were also present in Belgium, Ireland, and Denmark.

A strategic element that the research suggests is increasing in importance is an enhanced proactive approach of the administration. Simply facilitating contact with the citizen is not enough. Through e-government, administrations can become more proactive in approaching the client, that is, the citizen.

Traces of this were especially found in the filling out of income declarations (for example, in Belgium). However, e-government in the context of social security can go one step further. A proactive approach could also result in better take-up of benefits. We have already referred to the relevance of sharing information for a more efficient development of social and tax policies. Enhanced cooperation between tax and social security administrations could also become useful in concrete terms by contacting potential beneficiaries. This could have enormous benefits, especially for the most vulnerable segments of the population.

In general, proactive approaches will mean more translating of existing structures and procedures into understandable situations that citizens recognize as daily events. When developing e-government in the areas of social security and taxation, it appears to be increasingly relevant to approach citizens by reference to the routine day-to-day events a person may be confronted with ("life events" such as the birth of a child, unemployment, illness, retirement, death, and so on). This implies that different agencies will need the flexibility to branch out from their own structures and participate in new forms of servicing the citizen. This will result, among other things, in more life-event-driven websites or call centers.

Appendix I: Country Descriptions

Austria

Surface	33,000 sq. miles
Inhabitants	8.1 million—245 per sq. mile
Capital	Vienna, 1.6 million inhabitants
Political system	Federal republic
Official languages	German, Slovenian (regional), Croatian (regional)
GDP	US$226 billion

The Austrian social security system is based on three major branches: social insurance, social assistance, and public support or social compensation. The two latter branches are exclusively financed out of the general budget. The first, a compulsory work-related insurance program, is financed mostly out of contributions levied on economically active people—the employer, the employees, and the self-employed.

Austrian social insurance covers the risks of sickness, maternity, labor accidents and professional disease, work incapacity, old age, unemployment, and the breadwinner's death. These programs are covered by different legal acts and administrative institutions. The sickness branch is administered by nine regional sickness insurance funds (GKK[44]), accident insurance by the General Accident Insurance Institute (AUVA[45]), pension insurance by the Pension Insurance Institute (PVA[46]), and unemployment insurance by the Labor market service (AMS[47]). The Social Insurance Institute for Trade and Industry manages the sickness and pension insurance for the self-employed. In addition, special insurance systems for civil servants, farmers, miners, and railway workers exist. All these institutions are grouped under one association, the Association of Social Insurance Institutions (HVB[48]). The Austrian social security system is organized according to the principle of "self-government" (Selbstverwaltung) and is supervised by different ministries, mainly the Ministry of Social Affairs and Generations. Social assistance is the responsibility of the nine regions, and not administered at the federal level.

The Austrian tax system is administered by the nine regional tax authorities,[49] which are supervised by the Ministry of Finance. They are responsible for the levy of all taxes and duties, but not social security contributions, and are supplemented by local offices, which improves access for the citizen. With regard to the collection of social contributions, Austria uses a parallel collection system.

Cooperation between social security and tax institutions was found in the field of investigations into social security abuse and tax fraud in the form of a common investigation procedure, which requires reinforced data exchange.

Belgium

Surface	12,000 sq. miles
Inhabitants	10.2 million—850 per sq. mile
Capital	Brussels, 954,000 inhabitants
Political system	Parliamentary monarchy
Official languages	Dutch, French, German
GDP	US$297 billion

Belgian social security law distinguishes between social insurance and social assistance. The system consists of three insurance programs for different professional groups. Social insurance programs for employees are under the authority of the Ministry of Social Affairs, and the Ministry of Labor and Employment is responsible for unemployment benefits.

The administration of the industrial injuries insurance program is entrusted to private insurance companies and mutual insurance funds. For all other programs, the National Institute for Social Security (RSZ[50]) is entrusted with the collection of contributions and their distribution over the various insurance branches for employees. The payment of benefits for these programs is entrusted to the responsible institutions, namely, the National Institute for Sickness and Invalidity Insurance (RIZIV[51]), the National Institute for Employment (RVA[52]), and the National Institute for Pensions (RVP[53]).

Social protection of the self-employed falls within the political responsibility of the Ministry for Telecommunications, Public Enterprises and Participation, except where the sickness and invalidity insurance program is concerned. The latter is the responsibility of the Ministry of Social Affairs.

The Belgian administration for direct taxes, including income tax, is in the federal authority of the Ministry of Finance, which is represented by regional and local tax offices (Belastingkantoor).

A crossroads bank connects the Belgian social security institutions, and therefore considerable information is already transferred automatically. This system can also be accessed, to a certain extent, by tax authorities for any data needed to calculate tax expenditures and tax deductions related to the Maximum Bill of Medical Care.

A very specific form of cooperation exists for the calculation of social security contributions of the self-employed, which are based on income over three years of work. Tax authorities have to provide social security institutions with this data. Concerning the collection of social contributions, Belgium uses a parallel collection system.

Denmark

Surface	17,000 sq. miles
Inhabitants	5.3 million—312 per sq. mile
Capital	Copenhagen, 1.4 million inhabitants
Political system	Parliamentary monarchy
Official languages	Danish
GDP	US$156 billion

The Danish social security system distinguishes between social insurance and social assistance. The social insurance programs comprise social and part-time pensions, daily benefits for sickness, and maternity and child benefits. Furthermore, in a broader sense, this includes benefits related to occupational damage insurance (industrial injuries and occupational diseases), additional labor market pensions (the so-called ATP, comprising the additional labor market pension as such, temporary pension savings and special pension savings), unemployment insurance, as well as healthcare services. Social assistance also exists in various forms.

As the Danish social security system is very decentralized, each local community council has a commission[54] that is responsible for administering the different branches of social security. The actual administration of social security takes place under the supervision of the *Sociale Udvalg* by a unique local community service to which everybody has access in order to claim benefits. The *Sociale Udvalg* is organized as an association at the national level.

The Ministry of Social Affairs is responsible for most forms of social protection. However, the Ministry of Health is in charge of the healthcare sector and the Ministry of Labor of the cash benefits for the unemployed.

The Ministry of Taxation supervises the Central Customs and Tax Administration, which is in charge of organizing the collection of all taxes and duties for the state. These are levied by 275 local councils spread out all over Denmark, which are also used as information centers for all citizens.

Social security is financed mostly out of general taxation, and the contributions for the few other programs are exclusively levied by the Inland Revenue (integrated collection system). Denmark is one of the very few countries where a social benefit is paid out by a tax institution (child benefit for children under the age of 16).

Estonia

Surface	18,000 sq. miles
Inhabitants	1.4 million—78 per sq. mile
Capital	Tallinn, 408,300 inhabitants
Political system	Parliamentary democratic republic
Official languages	Estonian
GDP	US$16 billion

In Estonia, the Ministry of Social Affairs is exclusively responsible for general social security administration and policy elaboration. It entrusts day-to-day administration to specialized governmental agencies, the Social Insurance Board[55] and the Labor Market Board.[56]

The most important agency is the Social Insurance Board, which deals with pension insurance, family benefits, social benefits for disabled persons, and funeral grants. This institution also maintains a State Pension Insurance Registry, which contains data on all insured persons and the contributions paid on their behalf, as well as data on beneficiaries. Direct contact with the citizen is made via four regional Pension Offices with branches in all 15 counties. These offices process benefit applications, grant benefits, and arrange payment through banks and post offices.

The Labor Market Board administers the program of state unemployment allowances by maintaining a registry of unemployed persons. All registration of persons, processing of claims, and granting of benefits is carried out by 16 regional employment offices, which are subordinated to the Board.

Furthermore, two public legal bodies exist: the Estonian Unemployment Insurance Fund[57] and the Estonian Health Insurance Fund.[58] The Estonian Unemployment Insurance Fund is in charge of the new insurance-based unemployment program introduced in January 2002. Even though the fund operates in the area of administration of the Ministry of Social Affairs, it is not subordinate to it. However, it is directly responsible for the granting and payment of unemployment insurance benefits.

The Estonian Health Insurance Fund runs the health insurance program via seven regional branches. The areas of social assistance and social services are the responsibility of the 241 municipalities.

The two Estonian tax authorities are the Customs Board and the Tax Board with its local offices. The latter is in charge of collecting all kinds of direct and indirect taxes, including the so-called social tax to finance a major part of the social protection system (partially integrated collection system). The Ministry of Finance supervises both administrative bodies.

Estonia uses a crossroads bank to exchange data between all the various public administrations. Thus, social security and tax authorities have direct access to data within the limits of data protection laws.

Germany

Surface	139,000 sq. miles
Inhabitants	82 million—590 per sq. mile
Capital	Berlin, 3.4 million inhabitants
Political system	Parliamentary democratic federal republic
Official languages	German
GDP	US$2.184 trillion

The German social security system is based on a Bismarckian type of work-related insurance system and is therefore linked to economic activity. Three major branches of social security can be distinguished: social insurance, social compensation, and social assistance. In addition to the so-called classic social insurance programs—sickness, accident, and pension—unemployment and care insurance programs exist as well. While social insurance is mainly financed out of contributions, the other two branches are financed out of the general budget. The administration of the health insurance sector is done by the different Health Insurance Funds.[59] The injury insurance and the disability and old age insurance programs are administered by their respective representative institutions. Nearly all categories of administrative bodies have federations at the national level and are organized as corporations under public law.

The administration of the unemployment insurance program is hierarchically structured and entrusted to the National Institute for Work.[60] This institution is subdivided into the federal headquarters and the regional and local unemployment offices. Social assistance is the responsibility of the different regions[61] and completely financed from general taxation. Local offices do the day-to-day work.

The German tax system is organized at the federal level and headed by the Ministry of Finance. The tax authorities at the regional and local levels are in charge of collecting all taxes and duties. Social contributions are exclusively levied by the local Sickness Insurance Fund (parallel collection system).

The collaboration of social security and tax institutions is very limited. No featured cooperation exists with regard to data exchange for the calculation of contributions or the payout of benefits.

Ireland[62]

Surface	27,000 sq. miles
Inhabitants	3.7 million—137 per sq. mile
Capital	Dublin: 1 million inhabitants
Political system	Parliamentary democratic republic
Official languages	Irish, English
GDP	US$119 billion

In Ireland, almost all social security[63] programs are administered at a central level. The Department of Social and Family Affairs is in charge of the management, the administration, and the development of the Irish social protection system. The Minister for Social and Family Affairs is the head of this department; the daily management and administration is delegated to the secretary general. The department is responsible for all insurance-based payments, social assistance (means-tested) payments, associated secondary benefits, and child benefits.

The Social Welfare Service is the executive arm of the department and is responsible for the day-to-day running and delivery of social welfare payments.

The country is divided into 10 social welfare regions, each of which is managed by a regional manager who is responsible for the delivery of services in that region. The social assistance program (supplementary welfare allowance) is administered at the regional level by the health boards.

Social assistance expenditure is borne entirely by the state. The same applies for child benefits and family income supplements. The state also finances most of the medical care expenditure. The remaining costs are met by health contributions.

In Ireland, the revenue commissioners are responsible for the levy of all public charges, taxes, and social contributions (integrated collection system). The board comprises a chairman and two commissioners, who all have the title of secretary general. The chairman of the board is also the accounting officer for revenue. There are more than 100 revenue offices countrywide, and the revenue regions are responsible for customers within their geographical area.

The main features of cooperation between the social security and tax authorities are the levy of social contributions by the Inland Revenue and tax deductions with regard to the Maximum Bill of Medical Care.

Italy

Surface	118,000 sq. miles
Inhabitants	57.6 million—488 per sq. mile
Capital	Rome, 2.6 million inhabitants
Political system	Parliamentary democratic republic
Official languages	Italian, German (regional), French (regional)
GDP	US$1.438 trillion

Italian social security distinguishes between social assistance and social insurance. The latter branch covers loss of income for reasons of sickness, maternity, and tuberculosis, as well as unemployment. Furthermore, it comprises all different kinds of pensions (old age, disability, and survivor), but industrial injuries and occupational diseases are a separate insurance program. A national health service exists as well.

The National Social Security Institute (INPS[64]) is responsible for the area of cash benefits for sickness and maternity, as well as for insuring the risk of old age, death, disability, family allowance, and unemployment. A committee has been established within the institute to control pension expenditure.

The decentralized services of the INPS include regional inspectorates, provincial services, town and district services, and service and information centers at the local level. The National Institute for Insurance Against Industrial Injuries (INAIL[65]) is organized in the same hierarchical way as the INPS.

Health protection is entrusted to the National Health Service, which operates via local units and administrative bodies of the regions.

The Italian social assistance program is currently being reformed. In 2000, new legislation was introduced that defined the purview of the state and the regional authorities. The latter are responsible for the concrete definition of benefits, whereas the state defines their minimum level. The program is financed fully out of the state budget.

Social security institutions collect social contributions (parallel collection system), and collaboration with tax institutions is limited to mutual aid to avoid tax fraud and social security abuse.

The Italian taxation system is administered by the Ministry of Finance, which supervises the subordinate institutions at the regional and local levels. The tax registry department ("anagrafe tributaria") is the national center for the collection and processing of fiscal data, which contains records of physical and legal persons.

The Netherlands

Surface	16,000 sq. miles
Inhabitants	15.8 million—988 per sq. mile
Capital	Amsterdam: 715,000 inhabitants
Political system	Parliamentary monarchy
Official languages	Dutch, Friesian (regional)
GDP	US$434 billion

In the Netherlands, two types of social security programs can be distinguished: social insurance and social provisions. Social insurance programs are financed by contributions, whereas social provisions are financed out of the general budget.

The branch of social insurance can be divided into two parts: the programs for employee insurance and general insurance. The employee insurance programs,[66] the programs for disabled self-employed persons and young persons, and the Supplementary Benefits Acts are administered by the Institute for Employee Insurance Programs (UWV).[67] The general insurance programs[68] for the risks of old age, death, and dependent children are administered by the Social Insurance Bank.[69] The Ministry of Social Affairs and Employment supervises the activities of the UWV and the Social Insurance Bank.

Social assistance is of major importance in the Dutch social protection system, as its scope of application is very wide, even covering non-Dutch citizens who reside legally in the Netherlands. Furthermore, it should be noted that no specific program for employment injury and occupational disease exists.

The Dutch Ministry of Finance is organized in a hierarchical way. The minister and the state secretary head four directorates-general, each of which is composed of a number of directorates. The central directorates provide management-supported services similar to management-support departments within a company. One of these four directorates-general is the Directorate for Tax and Customs Administration, which is entrusted with the implementation and administration of tax issues. The directorate operates via 13 regional tax offices spread throughout the whole country.

Cooperation in the fields of social security and tax administration exists mainly with regard to the collection of social contributions, where the contributions for the general insurance programs are collected by the tax authorities (partially integrated collection system).

United Kingdom

Surface	95,000 sq. miles
Inhabitants	59.1 million—622 per sq. mile
Capital	London: 7.1 million inhabitants
Political system	Parliamentary monarchy
Official languages	English
GDP	US$1.52 trillion

The United Kingdom[70] has a comprehensive state-administered social security system, which covers the entire population. The Department for Work and Pensions administers the Social Fund and the Child Support System, and pays out social security benefits. Furthermore, it is responsible for the branches of sickness and maternity, disability, retirement, widowhood, unemployment, general assistance for single mothers, and cash help for housing costs aimed at low-income groups (administered by local authorities).

The costs of the insurance benefits are borne by contributions (six different classes) levied on the insured persons and the employers. The contributions are deposited in the National Insurance Fund. They can be supplemented with funds from general taxation. Means-tested benefits and child benefits are fully financed from general taxation. The National Health Service is also mostly financed out of the general budget and supplemented with a small amount from the National Social Insurance Fund.

The British income support program acts as a safety net under the social protection system. The entitlement demands several conditions, among them a means test.

The Inland Revenue is responsible, under the overall direction of the Treasury Ministry, for the efficient administration of all taxes, including income taxes, and child benefits. The department's responsibility is to provide an effective and fair tax service to the country and government. It is also responsible for the payment of the working tax credit, child tax credit, and child benefits.

The cooperation of the two institutions occurs mainly in the field of collecting social security contributions, where the Inland Revenue collects social contributions together with income tax and transfers it later on to the responsible social security funds (integrated collection system). Moreover, two major tax expenditures with regard to social security were introduced recently.

Appendix II: History of Social Security and Taxation Issues in Ireland[71]

1908 First element of the modern social security system was established by the Old Age Pensions Act 1908. The administration was initially part of the Revenue service (Customs & Excise).

1911 First elements of social insurance system introduced.

1952 An integrated social security framework was introduced, bringing together welfare and social insurance programs into one mainly centralized service with an extensive local network of offices.

Social insurance contributions were paid using stamps purchased at post offices. All workers in the private sector paid a fixed rate. Workers in the public service also paid fixed-rate contributions but at a lower rate.

1952 New Taxes Central Collection Office was established in the Irish Revenue Commissioners.[72] Responsible for the Dublin area only, this was a forerunner of the Office of the Collector General. In the pre–Pay As You Earn era, collectors of taxes often visited small employers on paydays to collect something on account from employees.

1957 The Commission on Income Taxation was established. From the recommendations of the Income Tax Committee emerged the concept of Pay As You Earn (PAYE), introduced three years later.[73]

1957 Revenue ventured toward the world of computers beginning with a mechanized accounting system into which data-coded cards were punched. Requiring 13 operators, it was used for some tax work and cut the time spent on manual files.

1960 PAYE came into operation almost unheralded and set the tone for the decades to follow in Ireland, which then had the lowest rate of personal taxation in Europe. The number of taxpayers would rise dramatically as a result of these revolutionary tax changes, which would provide increased funding for government expenditure. The tax cases to be processed would treble.

1960 Social insurance based on the Old Age Pension system was introduced. Contributions were collected by increasing the stamp-based contributions.[74]

1962 Powers to tackle evasion of tax and requirements that taxpayers make their business records available were introduced.

1963 Streamlining of tax work was undertaken for the first time with the aid of computers because the volume of work generated by PAYE was labor- and time-intensive. Revenue's first modern computer was an ICL 1301. This was the second computer installed in any Irish organization.

1964 A centralized and integrated tax collection agency was established. Previously, local collectors of taxes had carried out the collection. A minor tax collection service had also been provided by the Department of Posts and Telegraphs, where taxpayers, including those on PAYE, could purchase tax stamps against their liabilities.

1964 The minister for finance told the Irish Parliament (Dail) that, as far as he was aware, "no other Revenue administration was as fully computerized as the Irish Revenue Service."

1967 A major consolidated and updated Income Tax Act was passed into law. This act replaced the 1918 Great Britain and Ireland Act.

Staff numbers in the Chief Inspector of Taxes doubled to 1,400 out of a 4,000-strong Revenue complement.

The 1960s saw income tax yields surpassing the customs and excise duties, which had traditionally topped Revenue's tax heads.

Work began shortly afterwards on a system of Pay Related Social Insurance contributions that were collected using PAYE mechanisms from 1973.

1972 Value Added Tax (VAT) came into effect. In the Chief Inspector of Taxes area, many former desk-bound staff would now spend much of their time out on VAT work.

1973 Ireland joined the EEC.

1973 Revenue also began collecting Pay Related Social Insurance contributions (PRSI) on behalf of the Department of Social Welfare. The flat-rate, stamp-based contributions continued in parallel. Two reference numbers were required to compile the full social insurance record. The social insurance number set up in 1952 had the main record that was used to establish basic entitlements. The tax reference number was used to support supplementary (pay-related) benefits that were paid in conjunction with unemployment, sickness, maternity, and occupational injuries (work related, including diseases due to the nature of the occupation) benefits.[75]

1973 Computer terminals (VDUs) used on a small number (30) of desks for social security administration.

1974 For the first time in Ireland's history, the farming sector came into the tax net.

1976 VDUs on many tax officials' desks.

1976 Public servants' salaries came under PAYE.

1978 Proposals to integrate the collection of all social insurance contributions with the PAYE system and to use the tax number for social security were adopted.

1980 Integrated collection process began operation. Joint investigation units (combining tax and social security staff) were initiated.

1981 Changeover to use of PAYE number undertaken, and benefit claims dependent exclusively on contributions collection under PAYE processes began.[76]

1986 A review of the operational effects of PAYE collection undertaken resulted in certain functions being reassigned between Revenue and the Social Security Department.

1987–92 Following detailed review of exposures to fraud and other risks, many new legislative provisions and strengthened joint operations were introduced.

1988 Social insurance for self-employed persons came into effect. Revenue collected in majority of cases. However, direct collection by Social Security Department was used were persons had "nil net" tax liabilities to avoid overburdening the tax administration system.

21st Century Increasing efforts are being made to encourage workers (and self-employed) to invest more in private occupational pensions by increasing the taxation concessions and by increasing the options that persons can exercise over their pension investments. Recent measures include an increase in the proportion of income that can be invested (and thus protected from PAYE or other income taxes) to 30 percent for workers over 50 years of age.

Improvements for younger workers include the introduction of a low-cost and theoretically easier-to-understand Personal Retirement Savings Account (PRSA) for persons who do not have access to employer-provided programs. Employers are obliged to make deductions from employees' wages for transmission to a PRSA if workers seek this. And both employees and the self-employed can invest part of their pension fund in new ways. Previously, the entire fund had to be invested in purchasing annuities (which died with the pensioner).[77]

Appendix III: History of Social Security and Taxation Issues in Estonia

1900 Since social security systems are subject to ideological constraints, being based on the way a society sees itself, with all the value judgments, they cannot be seen separately from a country's state and economic structures. The effects of the Russian interpretation of Marx's theories can be described by slogans like "Marxism-Leninism," "Stalinism," or "centrally planned economy." The major principles that were elaborated by these doctrines ("principalnost," adherence of principles) became the general political Russian attitude under Lenin at the beginning of the 20th century.

1904 The first state insurance for workers against consequences of accidents, illness, and old age was introduced, but applied only to industrial enterprises.

1918 The Russian social system was based on the ideas of Dr. Semashko, who stated at a conference on medicine and public health in 1918 that free medical care for the entire population must be part of the Soviet health program, which should also be centrally organized and commissioned. To ensure equal access, emphasis was put on geographical distribution of sources throughout the country in the form of state-owned facilities that were managed by regional and district authorities under direct control of the central government. Primary healthcare was provided in outpatient clinics, so-called polyclinics. A further characteristic of this "Semashko model" was an extensive network of primary and secondary care that resulted in parallel systems of healthcare for different groups of the population.

1930s In the mid-1930s, the USSR had more highly developed social benefits than a number of wealthier Western European states. The social insurance system was administered by the trade unions and continued to pay wages in the case of illness, disability, and old age. However, there was no unemployment insurance; instead, vocational training and higher mobility (to other industrial centers in USSR) were obligatory.

After 1945 Establishment of a social security system in the countries of the Soviet Union, which remained more or less faithful to the model of the Soviet Union. The same can be said about the tax system. All taxes had to be transferred to the central All-Union budget, from which elements were transferred back to finance social security.

1945-1989 The essentials of state socialism of the Soviet Union after World War II were based on the expectation of continuous growth of the economy and on "man" liberated from his social and individual dysfunctions. A social contract came about which guaranteed the security of every single job, with relatively stable, centrally fixed prices. This kind of social policy preferred services in kind, and greater importance was attached to exercising influence on social relations than on cash benefits. As the centrally planned economy was not able to achieve the goal of continuous growth, people's social needs could not be satisfied.

1970s The unity of economic and social policy had a paralyzing effect on the achievement of any improvement in the people's living conditions—for example, pension systems were de facto universally applied, but their coverage was absolutely insufficient.

1989 Collapse of communist states and fall of the Berlin Wall.

1990 Estonia's social security and tax systems were fully integrated with the Soviet Union's programs until 1990.

1991 After gaining independence, Estonia started to totally restructure its public administration, including taxation and social security systems, to adapt them to Estonian needs and preferences. Under the new system, most cash benefits are funded and administered through newly created funds: the National Insurance Board and the Health Insurance Fund. The National Insurance Board is entrusted with the administration of pension insurance, family benefits, and funeral grants. The National Labor Market Board provides active and passive labor market support. Some social and assistance benefits are administered by local authorities and funded from general revenues.

A tax reform replaced the Soviet tax structure by a Western-type structure that includes a personal tax, a corporate income tax, and a value-added tax.

1992 Also, the modernization of the interaction between public administrations was tackled at the beginning of the '90s. This was envisaged in two steps. First, from 1992 on, all paper-document-based folder and register systems were replaced by data-based management systems (DBMS). This was accomplished by the end of the '90s.

1996 To guarantee the protection of the data registered, a law on personal data protection was drafted in 1995 and enacted in 1996.

1997 The National Insurance Board created a subordinate body, the State Pension Insurance Registry, to perform this task.

1999 Both bodies transferred the authority for collecting social contributions to the tax office.

2000 The second step to the reform of data sharing in public administration has begun: the so-called X-roads project. All stand-alone databases are to be gathered into a web-based, commonly accessible data source.

2002 A national ID card with an integrated chip was issued (smartcard), allowing citizens to access the X-roads data bank. The law on data protection was adapted with regard to the network.

2003 X-roads project successfully completed, establishing a 24/7 service for citizens.

2004 Estonia joins the EU on May 1, 2004, and introduces the European Health Insurance Card on June 1, 2004.

So far, more than a dozen public administration registers have joined the X-roads project, including health, pension (first and second pillar), and taxation registers.

Endnotes

1. In Uruguay, for example, an unusual approach has been discussed—namely, to shift tax collection to social security agencies.

2. Argentina has integrated collection arrangements by unifying the collections of social security and income taxes when they implemented personal income taxes about 10 years ago. An interesting point is that Argentina used an external agency to manage the initial four years of effort (integration and collection) and "insourced" the collection operations when the new administration arrangements had stabilized.

3. Theme 1: Efficient collection of Social Security contributions—Stanford G Ross (IMF consultant and former commissioner of the U.S. Social Security Administration).

4. For example, Australia, Chile, and Peru.

5. There are many examples in which persons who would be classified "not employed" or "professionally non-active" also have to contribute to social security. This includes individuals receiving an income replacement (such as pensioners paying for healthcare) or, in the framework of a people's insurance, all citizens resident in the country and paying for a general social insurance program.

6. Contributions may not necessarily be referred to explicitly as contributions in certain countries (there are even countries which refer to "social tax") in order to be distinguished from tax, but it was crucial for the purposes of the research definition that the levied amounts were separate from the general budget and were clearly identified and intended for social security purposes.

7. The term *professional social insurance* describes the fact that social insurance is linked to employment and not simply to the fact of residence in a country.

8. The Belgian Crossroads Bank for Social Security is a central organizing unit in the social security system that coordinates and optimizes information management and traffic between social security institutions. The bank itself does not store any data but connects databases.

9. Arbejdsmarkedets Tillægspension (ATP).

10. Arbejdsmarkedets Erhvervssygdomssikring (AES).

11. These are persons who share in the profits of the fishing activities and who are not considered to be employed (i.e., in a master-servant relationship) in the normal sense specified in the relevant legislation.

12. Tax codes are made up of numbers and letters. By changing them or adding different letters, a change in the personal situation of the liable person can be taken into account immediately.

13. Estonia uses a crossroads data bank system. For more details, see "Options for Integration" in the "Conclusions" section.

14. We restricted ourselves to cash benefits, which include payments by check and other methods. Benefits in kind have not been taken into account.

15. Only direct personal taxes have been examined.

16. Some have also argued that attempting to make huge volumes of payments to critical deadlines would either overburden the system and/or would distort priorities, in either event leading to potential damage to the tax collection processes.

17. The amount was €50,90 per month at the time of the analysis.

18. In other cases—for example, in Ireland—there are special tax credits designed to achieve analogous effects for workers in the PAYE system.

19. Rijksinstituut voor Zieket en Invaliditeitsverzekering (Sickness and Invalidity Insurance Fund).

20. OJ No 128 of November 23, 1995, pp. 31–50.

21. See on this issue, for example, our study: IBM and EISS, *E-business Utilization in European Social Security Systems,* 2000, Middlesex, IBM United Kingdom Limited, p. 50.

22. The term "crossroads bank" is used here in a generic sense, but the phrase was inspired by national systems that use these words to name their systems.

23. Kruispuntbank Sociale Zekerheid (KSZ).

24. The data collected may be shared only with the tax authorities for fulfillment of their mission.

25. See endnote 23.

26. On page 63 of the report "Information and Communications Technology Social Security Project Management—Ten Issues on ICT Management in Social Security Organizations," it was stated that in addition to all the usual risks expected during typical modification and development of ICT systems, the following issues were encountered in social security projects in Estonia:

- Problems in calculating "residence periods" during the period of transition (because some of the records of the social security institution are not complete)
- Lack of precision in measuring "employment/insurance periods" (same issue as above)
- The need to implement new EU regulations, new Estonian administrative rules, and a modified ICT system at the same time
- Different character sets in different member states, thus imposing a need to store data in the database in the Western European character set and in the Estonian character set at the same time

27. Uitvoeringsinstituut Werknemersverzekeringen (Institute for Employee Insurance Programs).

28. "SOFI" Number (Social Fiscal Number).

29. Wet structuur uitvoeringsorganisatie werk en inkomen (Law on structure of the organization of work and income).

30. Applicants get statements, on request, showing their contribution history. In some countries—for example, Italy—insured persons have Internet techniques available to allow them to verify recent contribution histories.

31. Progress in achieving some of the REACH objectives has been slower than initially anticipated. However, the creation of a new steering group representing the interests of core partners seems to be accelerating the progress.

32. This is not just a European phenomenon. At a recent Conference between Officials from Japan, Canada and Australia and the US and international experts from IBM, UK and Ireland this topic emerged as a major issue.

33. Declared wages affect the employer's tax liabilities and therefore manipulations, if they occur, have some compensating fiscal features. Furthermore, in many social security systems underdeclaration of wages reduces not only just contributions but also the benefits levels that will eventually arise.

34. Self-employed persons may have personal advantages from the use of business facilities (cars, travel, phones, meals etc) which cannot be readily distinguished from essential operating overheads. These features can also be used to distort tax and social security liabilities.

35. However, as already stated, low-income self-employed persons in Ireland do not pay contributions through the tax system but are dealt with directly by the Department of Social and Family Affairs; this may be the situation in some other countries as well.

36. Gemeinsame Prüfung aller lohnabhängigen Abgaben-Gesetz (GPLA-G).

37. http://www.help.gv.at.

38. http://www.taoiseach.gov.ie/index.asp?docID=326.

39. http://www.revenue.ie.

40. ECJ, February 15, 2000, CSG, case C-169/98; ECJ, February 15, 2000, CDRS, case C-34/98; ECJ, March 8, 2001, Jauch, case C-215/99; ECJ, March 8, 2001, Commission of the European Communities v. Federal Republic of Germany, case C-68/99 (Künstlersozialabgabe).

41. ISSA report on Efficient Collection of Social Security Contributions, Krakow, Poland, June 3–4, 2004, pp. 4–6.

42. A pay-as-you-earn personal income taxation based on current earnings, which closely resembled the UK system with the same name.

43. Firms whose affairs were most open to tax scrutiny and where the workforce was most likely to be well organized.

44. Gebietskrankenkassen.

45. Allgemeine Unfallversicherungsanstalt.

46. Pensionsversicherungsanstalt für Arbeiter und Angestellte.

47. Arbeitsmarktservice.

48. Hauptverband der österreichischen Sozialversiche rungsträger.

49. Finanzlandesdirektionen.

50. Rijksdienst voor Sociale Zekerheid.

51. Rijksinstituut voor Zieket en Invaliditeitsverzekering.

52. Rijksdienst voor Arbeidsvoorzieningen.

53. Rijksdienst voor Pensioenen.

54. The *Sociale Udvalg*.

55. Sotsiaalkindlustusamet.

56. Tööturuamet.

57. Eesti Töötukassa.

58. Eesti Haigekassa.

59. Krankenkassen.

60. Bundesanstalt für Arbeit.

61. Bundesländer.

62. See also Appendix II.

63. In Ireland, the term "social welfare" is used instead of social security.

64. Instituto nationale della previdenca sociale, INPS.

65. Instituto nationale per l'assicurazione contro gli infortuni sul lavoro, INAIL.

66. Werknemersverzekeringen.

67. Uitvoeringsinstituut Werknemersverzekeringen (UWV).

68. Volksverzekeringen.

69. Sociale verzekeringsbank.

70. Although there are separate social security systems for Great Britain and Northern Ireland, both systems are generally mirrored to provide a single system of social security in the United Kingdom.

71. Tax issues for 1950 to 1976 are based mainly on the following web pages:
http://www.revenue.ie/publications/corppubs/1950.htm
http://www.revenue.ie/publications/corppubs/1959.htm
http://www.revenue.ie/publications/corppubs/1968.htm
http://www.revenue.ie/publications/corppubs/1977.htm
Social security issues are based on interviews with a former official in the Department of Social and Family Affairs.

72. The Irish agency responsible for the collection of income taxes, capital taxes, the Value Added Tax, customs and other duties, and taxes that form part of the overall resources of the government.

73. The Irish PAYE concept had many similarities with the UK model introduced in 1944.

74. The social insurance framework was further extended in the following years with the introduction of insurance contributions for Redundancy Payments and for Occupational Injuries. These were also collected by the stamp-based system. The Social Security Department collected the Redundancy Contributions (on separate cards) on behalf of the Labor Department.

75. While pay-related supplementary benefits were initially used to sell the concept of pay-related social insurance contributions, it is worth noting that these benefits were substantially withdrawn during the 1980/1990s because costs escalated and there were perceptions that the supplementary benefits worsened some poverty-trap situations.

- A pay-related maternity benefit, however, has continued.
- The underlying benefits (mainly unemployment and sickness) were, however, made liable to income tax, and it can be argued that this partially continues the concept of pay relation in these benefits.
- Proposals to introduce pay-related pensions were abandoned, and these remain flat-rate benefits with some broad (and arguably imperfect) adjustments to reflect the overall period of employment throughout a person's working life based on the average number of weekly contributions.

76. Most claims required (and many still do) amalgamation of PAYE-collected contributions with the old contribution records. In some cases, records dating back 40+ years are used to determine pension entitlements.

77. These new arrangements (Approved Minimum Retirement Fund and Approved Funds—AMRF & ARF) may also encourage persons to invest in pensions for legacy planning purposes. The implicit opportunity to hedge their investments against risks that the rate of personal income taxes could rise substantially during the period of the annuity may also operate as an incentive (many persons were fearful that tax rises in the years ahead, in response to the aging of the population and other factors, could obliterate (and possibly even give a very negative outcome on) the current tax savings that are offered to prompt the investments during the working period.

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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.

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