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## TAXATION OF LABOR INCOME IN DIFFERENT COUNTRIES THAT ARE NOT MEMBERS OF THE EUROPEAN UNION

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### Abstract

*A proper understanding of the "coordinate" system of labor income taxation of individuals in our country can be made aware of the essential elements of similar systems of taxation both in European countries, States or the European Union and most developed countries outside Europe. To draw accurate conclusions from the performance level comparisons of rates of labor income of individuals from different countries must be taken into account the specificities and characteristics of tax systems in those countries. In making such comparisons must take into account the fact that there is no official source, no national or international, to the matter of taxes, social contributions and taxes in the countries under analysis. The following is presented in the following taxation of labor income countries that are not members of the European Union: Albania. Bosnia - Herțegovina. Croatia. Switzerland. Iceland. Macedonia. Moldova. Norway. Ukraine. Kazakhstan. Japan. Canada. China. Australia. United States of America.*

**Keywords:** taxes, social contributions, tax, tax system, income from employment, individuals, taxation of labor income, the tax rate, tax base, tax base, deductions; matter taxable taxpayers, tax progressive flat tax base.

**JEL Classification:** G15, F30, E44.

A proper understanding of the "coordinate" system of labor income taxation of individuals in our country is possible only knowing the essential elements of similar tax systems of EU countries and most developed countries in the world. To draw accurate conclusions from the performance level comparisons of rates of labor income of individuals from different countries must be taken into account the specificities and characteristics of the tax system.

In making such comparisons must take into account the fact that there is no official source at the national level or international level, to the matter of taxes, taxes and social contributions (1) of the European Union countries, (2) countries Europe who are not members of the European Union (3) of the world's most developed countries and (4) countries where we have a direct interest (in which the Romanian people to work more and / or Romanian firms are involved). Comparing systems of

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labor income taxation of individuals should be based on data from the same year and the imposition of the same elements as "the quota", "tax base" type and size of the "deductions", "matter taxable", "taxpayers", etc.. and illuminating information, revealing.

Even if it were present, by an official body (national or international), the comparison of these shares, the same year, for several countries, in some countries the rates are known subsequent changes, as large as it is Frequently, not only from year to year, but even within the same year, Romania's case is illustrative in this regard (for example, in 2008, the rates of contributions for health were changed three times).

Knowledge "of tax-exempt income", called "tax relief" (or simply, "deductions") is particularly important.

There are countries, including Romania, where many employees do not owe no tax on wages/ income as a result of deductions they receive.

Peculiarities of each country tax system is essential, even critical analysis, understanding and appreciation of a fair tax system and for making accurate comparisons.

Any feedback, any judgments about the fairness and effectiveness of a tax system without a thorough knowledge and without a thorough analysis of deductions/incentives granted (= exempt from tax revenues) leads, definitely, the numerous and serious errors.

For example, making tax assessments between the two systems, one uses flat tax of 16%, which gives the above deductions, but without any knowledge about them, and one still using the single rate, but 10% but such deductions shall not be wrong to conclude that the tax system with the lowest tax burden is one that works on a flat 10%. Similarly things in terms of "base" of the tax.

For example, even in our country for a long enough period of time, "base" of the tax was "the basic salary. Subsequently, the "base" of the tax has changed radically, passing from their "base salary" to "gross income", which led to increased taxable income (= tax base) by 3-5 times within certain categories of employees paid from public money, the revenues 'side' of salary, and incentives were, by 2010, from 3 to 5 times base salary.

There are countries, especially between the developed West, where most of the income tax rates remain unchanged for long periods, up to 10 to 15 years, while in other tax rates change frequently, particularly when changing political party and / or government in the country's leadership. From 2000 to date shows that while some countries have increased tax rates, others have decreased. In some countries it shifted in the calculation of tax on income from employment of individuals, from flat to progressive rates (in the frequent cases in disguised form) and in other countries, since the flat tax progressive.

At the same time, substantial changes were most countries, both in broadening the tax base and reconsidering the level of rates and facilities (facilities, exemptions, reductions) in tax.

Given that in many countries have frequent changes of tax rates (from 2-3 years and even annually), the mere discretion, only after the level of these allowances, reduced or enlarged, but without taking into account the changes in the level tax base (in some cases extended solid) leads to wrong conclusions. To ensure an accurate assessment of the "details" of the tax system in our country, to the tax systems of other countries, especially compared to the European Union countries, the evolution and trend (direction of improvement) of their , it must be known the main features and peculiarities of taxation systems, if only for countries that have data. Our country's representatives in international organizations (especially in the EU) and countries which play a key role in economic and social development worldwide, and in those where we have a direct interest (which is the most Romanian work and / or the Romanian companies are involved) should be really active in the study, evaluate and inform about trends (evolution) of these phenomena, including interventions in the literature and media, so as is the case in other countries.

It is important that either the level of each ministry (depending on the competence of the ministry) or the Government to ensure, internet, information at least annually, more accurate and complete systems of taxation, contributions social, other budgetary obligations applied in the countries listed above.

The current crisis, with its numerous and serious adverse economic and social, reported in U.S. since August 2007, came to us after more than a year, but without representatives of the Romanian state, especially those from abroad, to be informed and made aware of it. Most important is to consider the fact that the very economic and social development of each country depends to a large extent, the ability of its representatives in international organizations and countries that have a direct interest, to apply, evaluate and capitalize on time so everything is better in other countries, developments and trends and phenomena tax, financial, economic and social development in these and internationally.

This recital is to be known, especially during periods of "critical" (as the crisis) both tax systems, calculation of pension and social security most developed countries but in particular, trends, guidelines, strategies to be applied therein. To ensure an accurate assessment of the direction of improving the tax system in our country, it must be the main characteristics and features of the taxation systems in countries for which we have data. In connection with sources of information on essential elements of the taxation systems in European Union countries and most developed countries in the world is made clear that they are missing for some countries, be incomplete (especially in terms of knowledge base account of budgetary obligations and whether the tax rates, as simple or progressive) or they are from previous years.

We say this considering the fact that in some countries, the taxes, fees, contributions have remained unchanged for several years, in some cases even up to 10-15 years, while in other countries such as Romania, they change frequently (annually for social contribution rates).

It is important and an indication that the materials are presented about the tax systems of different countries can not fix some of the essential elements of those tax system.

**ALBANIA**

Albania practice progressive taxation for individuals. Progressive tax scale contains five tax rates ranging from 5% to an annual income between 14,000 and 40,000 Leka, and 30% for income exceeding 500,000 Leka. Employee social security contributions accounted for 11.2% of gross income, while 30.7% of employers.

**BOSNIA-HERZEGOVINA**

Bosnia-Herzegovina practice progressive taxation for individuals. Personal income derived from its basic function is liable to 5%. For out of office income base tax rate is 30%. Any other income is taxed at 50%.

**CROATIA**

Croatia practical progressive taxation for individuals. Tax rates for income tax ranges from 15% for annual incomes of less than 38,400 kuna and 45% for income in excess of 268,800 kuna.

**SWITZERLAND**

Switzerland practical progressive taxation for individuals, both those due to the federal state, as well as those due to the cantons and communes. In Switzerland, the peculiarities of the administrative-territorial system is reflected in the taxes to be paid (a) Federal State (2) of the 26 cantons and (3) municipalities (such as taxes and taxes/ local taxes in Romania) . Tax rates on individual income is compared to the level of government, federal state level are different from, the cantons and communes.

1. Personal income taxation at the federal level. Taxable income includes all sources, including those in kind, calculated at market value. Federal tax payment is due March 31 next year and is due to the fiscal body in whose jurisdiction the taxpayer resides. Determination of tax at the federal level, is based on sliding scale below.

2. Cantonal taxes. Each canton is free to determine the annual income tax rate. Income tax rates in cantons do not generally exceed 19%. Are special rules for taxing assets, singles, couples.

3. Municipal taxes. Each commune is free to set the annual tax on income and wealth, according to the needs of their budgets as a percentage of cantonal taxes involved. Cantonal and communal taxes is (1) during the year in 10 installments in the form of prepayments, (2) and after the fiscal year, within 30 days after the ruling, for any differences resulting from adjustments.

Nr. crt.	Venitul impozabil, în franci elvețieni	Cota de impozit, %
0	1	2
1	Sub 27.400	0
2	27.401. – 788.400	1 – 15
3	Peste 788.400	11,5

*Note: a Swiss franc, denoted CHF exchange with (approximately) 0.65 euros.*

## ICELAND

Iceland practical progressive taxation for individuals. So as a general rule in personal income tax, the tax is computed and withheld at source (ie income is not paid until the tax is calculated and retained). Taxpayers due a national tax rate 24.75% and 12.98% local tax. At higher income 4,191,686 Icelandic crowns (Icelandic crown changes about 0.013 euros), so around 5450 euros, is due to additional tax at the rate of 4%. Independent of taxes paid on income from employment, each taxpayer participating 5738 annual Icelandic krona (about 75 euros) to establish a central fund for the construction of nursing homes for the elderly. Capital income tax rates are subject to 10%.

## MACEDONIA

Macedonia practice progressive taxation based on the following scale of taxation. The scale of annual personal income tax in Macedonia, in 2006. 1 euro = about 61 shillings Macedonian (MKD).

Nr. crt.	Tranșa de venit	Cota de impozit, %
0	1	2
1	Până la 360.000 MkD (circa 6.000 de euro)	15
2	360.001 – 720.000 MkD (circa 6.000 – 11.800 de euro)	18
3	Peste 720.000 MkD (circa 11.800 de euro)	24

## MOLDOVA

In Moldova, progressive taxation is practiced. The "Article 15. Tax rates "in the Tax Code of the Republic of Moldova states: "The total amount of income tax is determined: a) for individuals, except in households (farms) and private entrepreneurs, in the amount of: - 7% of annual taxable income does not exceed 25,200 lei (about 7,000 euros on 08/13/2010, based on exchange rate of 1 euro = 0.2779 MDL) - 18% on annual taxable income exceeds the sum of 25,200 lei (7,000 euros on 13.08. 2010 based on exchange rate of 1 euro = 0.2779 MDL), b) for legal persons - in the amount of 0% of taxable income, c) for farmers (farmers) and individual entrepreneurs - worth 0% of taxable income, d) for traders whose income has been estimated in accordance with art. 225 - in an amount exceeding 15% of the estimated income from gross income recorded in the accounts of the trader. "

## NORWAY

Norway Norway nonstandard. In practice a progressive tax, taxpayers are divided into two classes. In class I shall include individual taxpayers and wives who opt for separate taxation. In the second class to include couples and single parents, the concept of "torque" and "single parent family" with the meaning and scope defined by Norwegian law. By art. 5 of the "Government Emergency Ordinance no. 105/2003 on the additional family allowance and support allowance for single parent

family "as" single-parent family 'includes' single person families with children aged under 18 and dependents who live with it. " The concept of "couple" means "pair made up of people (opposite sex)" as DEX, and "union of two persons of the opposite sex are in some respect, mate", according NODEX. In countries that legalized marriage between same-sex, a "couple" has the meaning of "couple of persons of the opposite sex and same-sex" and the "union of two persons of the opposite sex, or same sex are in some respect, mate. " Tax rates vary between 12% and 28%, being a function of income. Distinct and unrelated to the income tax is due and a tax on wealth, which varies between 0.2% and 0.7%, depending on the size and type of property.

#### RUSSIA

Russian tax practice based on a so-called single rate of 13%, but in reality is not unique if we take into account numerous tax rates and tariffs, and 9% for dividend income, 30% for any Income derived by a resident, 35% for income from prizes, the bank deposits over a certain size (considered very large), the profits (benefits) of insurance etc.

#### SERBIA

Share of "standard" labor income tax (the income earned by individuals) is 14% on the general principle "by withholding" called "by withholding at source" which expresses the rule that "tax payable on income that is deducted from income before the beneficiary can raise the money due to him. " Annual revenues of Serbian citizens who are more than four times the average annual salary is taxed separately at the rate of 10%. Share of 10% applies to non-residents only if their annual revenues are more than 10 times the average annual salary.

#### MONTENEGRO

Serbia and Montenegro was a union state in the south-eastern Europe. Belgrade was the capital of the state union, while Serbia's capital, which had a hegemonic position. On May 21, 2006 Montenegro's population of 55.4% of votes decided separation from Serbia, the union almost ceased to exist on June 3, when Serbia officially proclaimed its independence. Tax rules are different from those in Montenegro from Serbia. In Montenegro, the personal income tax in the period 1 January 2006 to 30 June 2007, was made by applying progressive taxation on the scale below.

Nr. crt.	Tranșele de venit impozabil, în euro	Cotele de impozit, %
0	1	2
1	0 – 785	0
2	786 – 2.615	16
3	2.616 – 4.577	20
4	Peste 4.577	24

## TURCIA

Turcia aplică impozitarea *progresivă*. Pentru veniturile din salarii mai mici de 6.600 de lire turcești (o liră turcească se schimbă pe circa 0,625 euro), cota de impozit este de 15%, iar pentru veniturile mai mari de 78.000 de lire turcești cota de impozit este de 35%. Pentru celelalte categorii de venituri (adică pentru cele obținute din alte surse decât din salarii), impozitul se calculează pe baza aceluiași barem, dar cu cote de impozit majorate cu 5%.

## UCRAINA

În anul 2007, Ucraina impozita veniturile persoanelor fizice cu *cota unică* de 15%.

## KAZAHSTAN

Kazahstanul aplică impozitarea *progresivă*. Baremul anual de impunere *progresivă* a veniturilor persoanelor fizice în Kazahstan, în anul 2006, este redat mai jos.

1 euro = circa 160 KZT

Nr. crt.	Tranșa de venit	Cota de impozit, %
0	1	2
1	Până la 185.400 (1.160 EUR)	5
2	185.401 – 494.400 (1.161 – 3.090 EUR)	8
3	494.401 – 2.472.000 (3.091 – 15.450 EUR)	13
4	2.472.001–7.416.000 (15.451 – 46.350 EUR)	15
5	Peste 7.416.000 (46.350 EUR)	20

## JAPAN

Japan progresivă. În taxat on personal income tax, levied a tax in Japan is national and local taxes. National income tax is determined based on the following sliding scale:

Nivelul veniturilor (în yeni japonezi - JPY <sup>25</sup> )	Cota de impunere (%)
Mai puțin de 3.300.000	10
3.300.001 – 9.000.000	20
9.000.000 – 18.000.000	30
Mai mult de 18.000.000	37

Instead, local income taxes are divided into: 1. A per capita tax, levied on each person living in Japan, directed toward two types of local authorities: 3,000 yen owed by the municipality in which the taxpayer lives and 1,000 yen Prefecture that is embedded owe this city. 2. A tax based on income levels, ranging from 5% for lower income of 2,000,000 yen) and 13% for income exceeding 7,000,000. yen.

<sup>25</sup> 1 Japanese Yen (JPY) = 0.01 €.

## CANADA

Canada progresivă. În taxat, the tax system is organized at both central and local provinces. Personal income tax is due to central authority (federal) and local authorities. Tax owed the central fiscal authority (federal) is calculated based on the following sliding scale:

Nivelul veniturilor, în dolari canadieni (CND)	Cota de impunere, în %
0 – 35.595	16
35.596 – 44.549	22
44.550 – 115.739	26
Peste 115.739	29

Provinces and territories of tax owed is calculated based on the following sliding scale:

Provincia/Teritoriul	Cotele de impunere (%)
Newfoundland și Labrador	10,57 – 18,02
Insula Prințul Edward	9,80 – 16,70
Noua Scoție	8,79 – 17,50
New Brunswick	9,78 – 17,40
Ontario	6,05 – 11,16
Manitoba	10,90 – 17,40
Saskatchewan	11,00 – 15,00
Alberta	10,00
Columbia Britanică	6,05 – 14,07
Yukon	7,04 – 12,76
Teritoriile de Nord-Vest	5,09 – 14,05
Nunavut	4,00 – 11,50

Quebec is the only province that has a special tax status in the income tax is between 16 and 24%.

## CHINA

China Applies Progressive Taxation. In China the following Rules apply to personal income tax: 1. Other Income from wages and income is taxed the Same kind per month, based on a progressive system, with tax rates ranging from 5% for taxable income below 500 yuan and 45% for taxable income exceeding 100,000 yuan. 2. Personal deductions are awarded 4,000 yuan per month for non-residents and between 800-1600 yuan for residents. 3. For income from intellectual property rights is granted a deduction of 30% of gross income, therefore taxable income (70% of gross income) is taxed by 20%. 4. Interest and dividend income is taxed at the rate of 20%. Hong Kong, a territory that is now under Chinese control, receive a proper tax system. In Hong Kong, personal income is taxed at progressive rates ranging from 2-20%.



## AUSTRALIA

Australia apply progressive tax. Australian tax system distinguishes between personal income and income derived by resident individuals of non-residents. Personal income taxation is based on the following sliding scale:

Venituri impozabile obținute de rezidenți (în dolari australieni <sup>26</sup> )	Cota de impunere	Venituri impozabile obținute de nerezidenți (în dolari australieni)	Cota de impunere
0 – 6.000	0	0 – 21.600	29%
6.001 – 21.600	15% pentru ceea ce depășește 6.000	21.601 – 63.000	6.264 + 30% pentru ceea ce depășește 21.600
21.601 – 63.000	2.340 + 30% pentru ceea ce depășește 21.600	63.001 – 95.000	18.684 + 42% pentru ceea ce depășește 63.000
63.001 – 95.000	14.740 + 42% pentru ceea ce depășește 63.000	Peste 95.000	32.124 + 47% pentru ceea ce depășește 95.000
Peste 95.000	28.200 + 47% pentru ceea ce depășește 95.000		

## UNITED STATES OF AMERICA

United States of America apply progressive tax. Since the United States of America are the most powerful country in the world of economic, military, political influence and scope of technological development, we considered it necessary to make a comprehensive presentation on taxation in this country. Federation "USA" is composed of 50 federal states, of which 48 are States continental contiguous (form a contiguous territory), and two states, Alaska and Hawaii, are exclave, separated from the territory of being 48, the first of Canada The second of the Pacific Ocean. In those states plus the Federal District of Columbia (DC), obtained by federal territory equal donations from Maryland and Virginia states. United States of America is a federal state. Each state has legal sovereignty has its own parliament (generally called the assembly - assembly), often bicameral, directly elected governor of the state population, it led government and its judiciary, including Supreme Court justice. Very many responsibilities, such as police, civil and criminal justice, education, taxation, which in other countries, are the prerogative of the central authorities in the U.S. are

<sup>26</sup> Australian \$ 1 = 0.64 €.

the prerogative of states. Each state has its own tax system. The U.S. taxation is regulated at both federal and states that make up the federation.

Each state federation has made up a parallel system of taxation of benefits, both direct taxes as well as indirect taxes. Income tax paid by every American is of two types, federal and state. Some states choose not to levy income tax, preferring to bring the budget money from the sales tax (sales tax). The U.S. does not apply value added tax, instead imposing a "general tax on sales, which is equivalent to" value added tax, levied in most European countries. However, the budgets of states and federal authorities are often insufficient amounts allocated to states for certain destinations. Their allocation is frequently subject to certain conditions, thus ensuring the federal authorities, indirectly, that those states are the policy areas that he wants the federal government. There are cases when some states refuse these allocations and maintain an independent economic and social policy. They are often torn between a policy and receive its own additional federal funds. From the semantic point of view, should be made clear that the U.S. uses a charge for both the tax and for the taxes and contributions. Each employer stops taxes / fees of the employee's salary and remitted directly to the Government. Annually, each American citizen and every resident who works or has worked in the United States must complete income statement and submit the tax authority by 15 April.

The income statement, each person must state all income, their sources, taxes / fees paid for that income and calculate the differences in taxes / fees are due the state or of the additional paid in accordance with the law. American authorities for taxes and fees will compare the information received by the employee with information supplied by the employer, and payment decisions for differences / refunded shall be issued. It is working in the U.S. tax system.

Usually, taxes / fees are higher than taxes withheld / taxes due the state and such employee is entitled to reclaim any differences, but in rare cases it may be noted that the employer would be less of taxes / fees owed. In situations where the employee has paid less taxes / fees than they should, the employee becomes indebted and must pay the difference in taxes / fees due to U.S. tax authorities.

In the U.S., over 70 years, subject only to income tax progressive work.

In his "Political Economy" by Paul A. Samuelson and William D. Nordhaus, translated into Romanian and published by theory, are the following clarifications regarding the maximum tax rate in the United States of America which, during the World War II, came to 94% (emphasis added):

1. On page 385 is present following of former President Reagan, accompanied by the comment authors: "<<Am Started making money making movies during World War de-al Mondial>> Reagan used to say. <<In that time, the income tax had risen to 90%>>. If you examine the [...] you'll notice that the actor Reagan was on the other side of the curve during the Second World War, when the maximum tax rates exceeded 90%. But by 1980, the maximum marginal tax rate applied to income was only 50% reaction of the President seemed to apply to older generations of workers. "

2. On page 372: "To get money to support the war effort, the tax rates have increased rapidly, reaching up to 94%. After the war, the income tax continued to be the most important federal tax. However, the tax rate paid by people with the highest incomes was reduced to 70% in 1965 to 50% in 1982, reaching 28% in the 80s to increase again in 1993 to 40%". Currently, income from employment is subject only to progressive taxation based on a scale of five installments, the maximum being 35%. From 1 January 2011, ending the tax reductions implemented during the Bush government, top marginal rate of returns during the Clinton government, namely from 39.6%. The U.S. also apply a progressive tax on inheritance shares between 18% and 55%. Properties over \$ 10 billion of the deceased is subject to an additional tax of 5%. The deductions (= exempt from income tax) is as complex as it is consistent, ranging up to 50% for donations. Personal income taxation is based on a sliding scale, tax rates ranging between 10-35%. Earnings / capital income and dividends received by an individual are considered taxable income and are taxed according to the taxable portion of income falling. In light of that employment, earnings / capital income and dividends are taxed at 5% if taxable income can be classified in the first two installments of tax or 15% for higher taxable income. / Tax base is determined by taking into account the broad categories of deductible expenses

Rates of personal income tax in 2005, the U.S.

Nr. crt.	Married Persons submitting Group statement	Singles	Person who is head of household	Married people who submit a separate statement	Irregular rate of commitments
0	1		2	3	4
	0 – 14.600	0 – 7.300	0 – 10.450	0 – 7.300	10
1	14.601 – 59.400	7.301 – 29.700	10.451 – 39.800	7.301 – 29.700	15
2	59.401 – 119.950	29.701 – 71.950	39.801 – 102.800	29.701 – 59.975	25
3	119.951 – 182.800	71.951 – 150.150	102.801 – 166.450	59.976 – 91.400	28
4	182.801 – 326.450	150.151 – 326.450	166.451 – 326.450	91.401–163.225	33
5	Peste 326.451	Peste 326.451	Peste 326.451	Peste 163.225	35

Taxation in the United States. Most U.S. states levy income tax, profit tax and a "general tax on sales" which is equivalent to "value added tax" as perceived in most European countries. Few local tax authorities are not using their full powers, giving local taxing one or two of the categories of income for that right, especially for income tax and / or income tax. In relation to income tax, tax rates are low, the highest rates, such as 9.5%, being achieved only in Vermont and the District of Columbia and only the highest income. In most states, the federal tax paid is deductible from the state imposing the tax. Most states use a progressive income tax system, while fewer of them, like Colorado, Illinois, Indiana, Pennsylvania, applies a flat rate of tax. And state level, as in the federal income tax take into account family circumstances of the taxpayer as ordinary tax per couple.

## Conclusions

The analysis of taxation (progressive taxation based or flat pa) to 19 countries outside the European Union, individual income is taxed progressively in 17 countries, a country with two tax rates apply to a single country and uses so-called flat tax, but in reality is not unique if we take into account numerous tax rates applied. Personal income is taxed progressively in the following 17 countries: 1. Albania. 2. Bosnia - Herzegovina. 3. Croatia. 4. Switzerland. 5. Iceland. 6. Macedonia. 7. Moldova. 8. Norway. 9. Montenegro. 10. Turkey. 11. Ukraine. 12. Kazakhstan. 13. Japan. 14. Canada. 15. China. 16. Australia. 1. United States of America. Russian tax practice based on a so-called single rate, but in reality is not unique if we take into account numerous tax rates applied. Serbia practical two tax rates.

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