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According to KPMG global decline in personal tax rates may reverse due to deficits, stimulus funding pressures

Hungary remains one of the highest taxed countries in the world

The global decline in top personal income tax rates over the past seven years may be coming to an end due to the need for new sources of budgetary and stimulus funding among governments, according to a survey released today by KPMG International, and that shift may have implications for international assignment programs and future global workforce mobility trends. “Hungary is clearly in the high tax category from a global perspective, this is inevitably a drag on the competitiveness of the country,” said Mike Glover, Head of Tax Advisory Services at KPMG in Hungary.

According to KPMG’s 2009 Individual Income Tax and Social Security Rate Survey, the top average personal income tax rate dropped 0.3 percent worldwide in 2009 to 28.9 percent from 29.2 percent in 2008. However, some countries are already making plans to implement personal income tax rate increases for its top earners, while other countries are examining this option, according to subsequent country budgets and income levies.

“In the current economic environment where countries face increasing budget deficits and need funding for various economic stimulus packages, it is becoming clear that some are turning to those in the highest income brackets amongst their current tax bases to increase revenue,” said Rosheen Garnon, global head of KPMG’s International Executive Services practice.

“Our study has recorded a general decline in top personal income rates over the past seven years, but in 2010 we are seeing indications that a reversal may be on the way, as a few countries in the European Union – Ireland and the United Kingdom, specifically – are already proposing rate increases for its top earners,” she added.

According to the KPMG study, the highest personal income taxes in the world are still paid by the citizens of the European Union (EU). But with the introduction of flat rate taxes in a number of Eastern European countries – including Latvia and Poland, which reduced their top rates to 23 and 32 percent respectively for 2009 – average rates have fallen from 41.1 percent in 2003 to 36 percent in 2009.

Denmark – when looking at social security and the personal income tax rate together – has the highest personal income tax rate at 62.3 percent. In the Asia-Pacific region, Japan has the top rate at 50 percent. Chile has the highest rate in the Latin American region at 40 percent.

KPMG’s 2009 survey also included an analysis of social security rates, specifically examining income tax and social security rates for gross incomes of employees earning 100,000USD and 300,000USD. Social security components can vary significantly by country, employer and employee type.

When taking both the personal income tax rate and social security rates into account for employees earning 100,000USD, the countries with the highest rates were Slovenia (54.9 percent), Croatia (53.5 percent) and Hungary (48.1 percent).

“Hungary is clearly in the high tax category from a global perspective. This is inevitably a drag on the competitiveness of the country and can lead to more income escaping the tax net as the benefits of non-payment are high,” said Mike Glover, Head of Tax Advisory Services at KPMG in Hungary.

For employees earning 300,000USD, the countries with the highest rates were Slovenia (60.4 percent), Denmark (57.1 percent) and Croatia (54.5 percent).

“Social security is often a forgotten tax and many countries are talking about increasing contributions made to these programs,” said Garnon. “HR professionals need to consider social security along with the entire gamut of taxes – national, state, municipal, etc. – in order to better inform their international assignment program decisions and discussions.”

The study also reviewed contribution requirements (for both employer and employee) for employees earning gross income of 100,000USD and 300,000USD. France had the highest combined rate at approximately 60 percent under either scenario, followed by Belgium at 47 percent and then Hungary and Italy both in the lower 40 percent range.

“The significant social security costs of employment in Hungary are one of the key factors driving small and medium sized businesses to understate their income levels,” added Glover.

“As HR professionals are being asked to re-evaluate the costs associated with international assignment programs, income tax rates become an important consideration when deciding where to send an assignee,” said Garnon. “Assignees also need to be aware of how various taxes will impact their income both at home and in-country.”

“High income earners typically have the talent and credentials to migrate to countries that have lower personal income tax rates and a need for skilled labor, so a shift in personal income tax rates could potentially impact global workforce mobility trends,” she continued.

Note to editors:

KPMG’s 2009 Individual Income Tax and Social Security Rate Survey is a cross-border survey of personal tax and social security rates with historical data from 2003-2009. The report covers 86 countries, concentrating on the highest level of personal tax payable to the central government. For ease of comparison, the survey has excluded, where possible, other taxes such as state and municipal taxes.

The study was commissioned by the global International Executive Services practice, comprising professionals from several KPMG International member firms.

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