Savings and Investment: The Tax Treatment of Stock and Retirement Accounts in the OECD

FISCAL FACT
No. 766
May 2021

Daniel Bunn
Vice President
of Global Projects

Elke Asen
Policy Analyst

Key Findings

- There are two layers of tax on investment income. First, corporations pay the corporate income tax on their profits. Second, shareholders pay an income tax on the dividends they receive (dividends tax) and capital gains they realize (capital gains tax).
- On average, in the OECD, long-term capital gains from the sale of shares are taxed at a top rate of 19.1 percent, and dividends are taxed at a top rate of 24.4 percent.
- To encourage long-term retirement savings, countries commonly provide tax preferences for private retirement accounts. These usually provide a tax exemption for the initial principal investment amount and/or for the investment returns.
- Tax-preferred private retirement accounts often have complex rules and limitations. Universal savings accounts could be a simpler alternative—or addition—to many countries' current system of private retirement savings accounts.

Editor, Rachel Shuster
Designer, Dan Carvajal

Tax Foundation
1325 G Street, NW, Suite 950
Washington, DC 20005

202.464.6200

taxfoundation.org

Introduction

Long-term savings and investment play an important role in individuals' financial stability and the economy overall. Taxes often impact whether, and what share of, income individuals set aside for savings and investments. There are various factors that determine the amount of taxes one is required to pay on these savings and investments, such as the type of asset, the individual's income level, the period over which the asset has been held, and the savings purpose.

While long-term savings and investment can come in many forms, this paper generally focuses on the tax treatment of stocks in publicly traded companies.[1] Each OECD country approaches the taxation of stocks differently, but most countries levy some form of capital gains and dividend taxes on individuals' income from owning stocks. Capital gains and dividend taxes are levied after corporate income taxes are paid on profits at the entity level, and thus constitute a second layer of taxation.

However, lawmakers have recognized the need to incentivize long-term savings—particularly when it comes to private retirement savings. Thus, OECD countries commonly provide tax preferences for individuals who save and invest within dedicated private retirement accounts—usually by exempting the initial principal investment amount or the investment returns from tax. These tax-preferred private retirement accounts play a significant role when looking at an economy's total savings and investments. For example, in the United States, about 30 percent of total U.S. equity is held in tax-preferred retirement accounts. Foreigners hold 40 percent of U.S. equity, and only about 25 percent is estimated to be in taxable accounts.[2]

This paper will first explain how dividends and capital gains taxes impact one's investment income, and how tax-preferred private retirement accounts lower the tax burden on such investments. Second, a survey of capital gains taxes, dividends taxes, as well as the tax treatment of private retirement accounts shows how the taxation of savings and investments differs across OECD countries. Finally, we briefly highlight the importance of simplicity when it comes to retirement savings and explain how universal savings accounts could be a step in that direction.

Understanding the Tax Treatment of Savings and Investment

Savings and investment can come in many forms. This paper focuses on saving in the form of owning stocks in publicly traded companies. Stocks provide two ways for investors to get income.

The first is by buying a stock and selling it later at a higher price. This results in a capital gain. An investor who buys a stock for $100 and later sells it for $110 has earned a $10 capital gain.

The second way to get income from stocks is to purchase stocks in companies that regularly pay out dividends to shareholders. A company that pays out annual dividends at $1 per share would provide an individual that owned 10 shares of that company $10 each year.

1 Often, the tax treatment of stocks or ownership shares of private companies or other tradeable properties receive similar tax treatment to that of publicly traded stocks.

2 Steve Rosenthal and Theo Burke, "Who's Left to Tax? US Taxation of Corporations and Their Shareholders," New York University School of Law, Oct. 27, 2020, https://www.law.nyu.edu/sites/default/files/Who%E2%80%99s%20Left%20to%20Tax%3F%20US%20Taxation%20of%20Corporations%20and%20Their%20Shareholders-%20Rosenthal%20and%20Burke.pdf.

Two types of taxes apply to those different earnings: capital gains taxes and taxes on dividends, respectively. A capital gains tax applies to the $10 in gains the investor made, and a dividends tax applies to the $10 in dividends that were paid out.

Both taxes create a burden on savings. If an individual has a savings goal and needs an 8 percent total return on investment to reach that goal, a capital gains tax would require that individual's actual return on investment to be higher than 8 percent to meet the goal. If the capital gains tax is 20 percent, then the individual's before-tax return on investment would need to be 10 percent.

Similarly, taxes on dividends reduce earnings for investors.

For workers who are investing their money after paying individual income taxes, taxes on capital gains and dividends represent an additional layer of tax on their earnings.

However, when it comes to retirement savings, governments regularly provide tax exemptions for either the wages used to contribute to a savings account or an exemption on the gains.

Table 1 shows there are four basic tax regimes for investors. The two dimensions of taxation concern the principal, or the initial deposit, and the returns to investment. Systems generally fall into one of the four categories in the table.

Some investments are taxed both on the initial principal and on the return. These include investments in brokerage accounts. For this type of investment there is usually no exemption or deduction for the initial cost of purchasing stocks and the income from the investment (whether a capital gain or a dividend) is taxable.

Private retirement savings, on the other hand, usually face an exemption from tax on the initial principal investment amount or on the returns to that investment. In the U.S. this is referred to either as "Traditional" or "Roth" treatment for Individual Retirement Arrangements (IRAs). With traditional treatment, there is no tax on the initial investment principal, but there is a tax on the total amount (principal plus gains) upon withdrawal. Roth treatment includes taxable principal investments and no tax upon withdrawal.

In the U.S., health savings accounts provide an exemption from tax both on the principal and the returns upon contribution as well as withdrawal, representing the fourth type of tax treatment on investment where neither the principal nor the returns are taxed at any point.

TABLE 1.

Four Tax Regimes for U.S. Investors

	Tax on Principal Investment Amount	No Tax on Principal Investment Amount
Tax on Returns/Withdrawal	Individual Brokerage Accounts	Defined Benefit Pensions, Traditional IRAs, and 401(k)s
No Tax on Returns/Withdrawal	Roth IRAs and Roth 401(k)s	Health Savings Accounts

The Multiple Layers of Taxes on Investment

Individual investors who save outside of a retirement account will face several layers of taxation. If an investor buys stock in a corporation, that company will owe the corporate income tax, and the investor will owe dividends tax on any dividend income or capital gains tax if the investor sells the stock at a higher price.

The following example shows how $47.47 in tax would apply to $100 in corporate profits when accounting for both corporate taxes and taxes on dividends. First, the corporation earns $100 in profits. If it is a U.S. company and faces the combined state and federal corporate income tax rate, it would pay $25.77 in corporate taxes on that income.

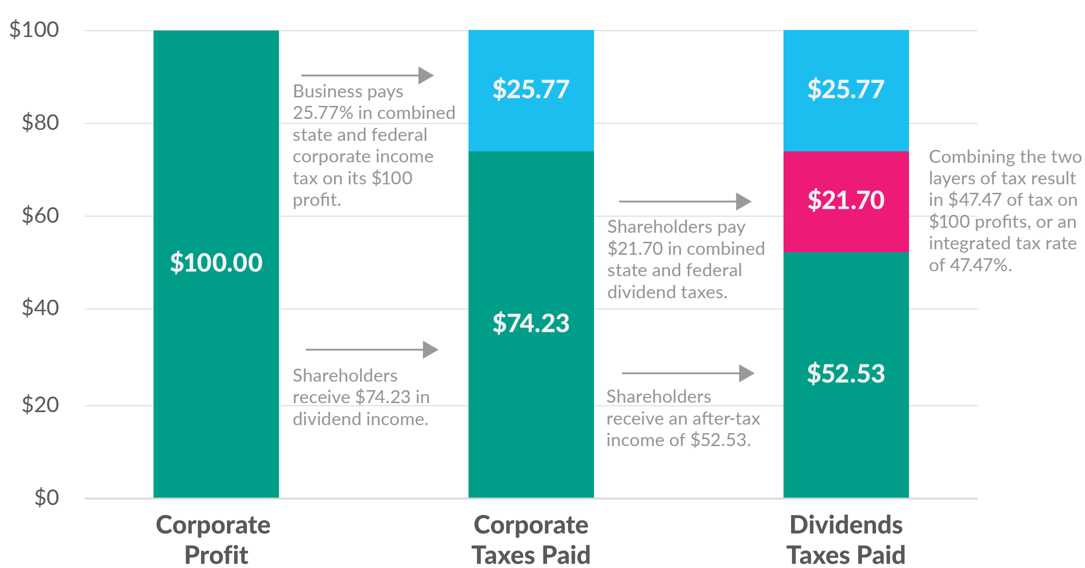
This leaves $74.23 available for a dividend. The shareholder would owe an additional $21.70 in dividend taxes.

From the $100 in profits, just $52.53 in after-tax profit remains for the shareholder in the form of a dividend.

FIGURE 1.

How Corporate Income is Taxed Twice

Total Tax on Corporate Income Distributed as a Qualifying Dividend in the United States, 2020



Note: Includes federal and state corporate and dividend taxes, as well as the net investment income tax (NIIT) levied on high-income earners.
Source: Authors' calculations.

In a similar way, the capital gains tax is an additional layer on corporate income.

However, some countries have integrated tax systems.[3] This means that if a company pays corporate taxes on its profits, an investor can claim a (partial or full) credit against taxes on capital gains and dividends. This results in investors only paying taxes to the extent that capital gains or dividends tax liabilities are more than the (partial or full) credit for corporate taxes paid.

3 Taylor LaJoie and Elke Asen, "Double Taxation of Corporate Income in the United States and the OECD," Tax Foundation, Jan. 13, 2021, https://www.taxfoundation.org/double-taxation-of-corporate-income/.

Tax Treatment of Private Retirement Accounts

Most individuals in OECD countries can utilize a tax-preferred savings account to build up individual retirement savings—often in addition to public pensions. Two general forms of tax treatment are the most common and fall into the categories discussed earlier.

One approach allows individuals to contribute to retirement accounts using money that has already been taxed as wages. However, returns on the investment and withdrawals from the account are tax-exempt. This is what is called a Taxed, Exempt, Exempt (or TEE) approach, referring to the policy's treatment of contributions, returns on investment, and withdrawals from a retirement account. In the U.S., this is referred to as "Roth" treatment for retirement savings.[4]

The other approach allows individuals to contribute to accounts with either pretax earnings or provide a tax deduction for contributions. Returns on the investment do not face tax, but withdrawals from the account (principal plus earnings) are taxed. This is called an Exempt, Exempt, Taxed (EET) approach. In the U.S., "Traditional" retirement vehicles follow this approach.

Figure 2 compares how these two preferences for retirement savings impact an investor and compares them to an investor who is saving outside a retirement account.

In each scenario, $1,000 is the initial deposit. In the first and second scenarios, a 20 percent tax applies to that initial deposit. Think of this as a tax on the wages that are being used to fund the investment.

So, right off the bat, scenarios 1 and 2 have $800 for investing. Scenario 3 does not include a tax on wages used for contributing to a retirement account and allows the full $1,000 to be invested because it is an EET approach (meaning that contributions are tax-exempt).

In each scenario, the investor leaves the funds in their investment account for 20 years and earns a 7 percent annual return. At the end of this period, both scenarios 1 and 2 have the same amount of money in their investment account, $3,095.75. Because scenario 3 started off with a larger initial deposit, that scenario has $3,869.68 in their investment account.

Now, when funds are withdrawn, taxes apply both to amounts withdrawn in scenario 1 and scenario 3, but not scenario 2. Scenario 2 operates as a TEE account, so withdrawals are exempt from tax.

Upon withdrawal, Scenario 1 pays a 20 percent tax on the gains (final amount minus the $800 initial investment). This results in final, after-tax earnings of $2,636.60. Scenario 2 does not owe taxes on gains or principal upon withdrawal; the final earnings are $3,095.75. Scenario 3 owes a 20 percent tax on the withdrawn amount which includes both the principal and gains—so the total withdrawal amount—and has final earnings of $3,095.75, the same as in Scenario 2.

4 Named for the late Senator William Roth (R-DE).

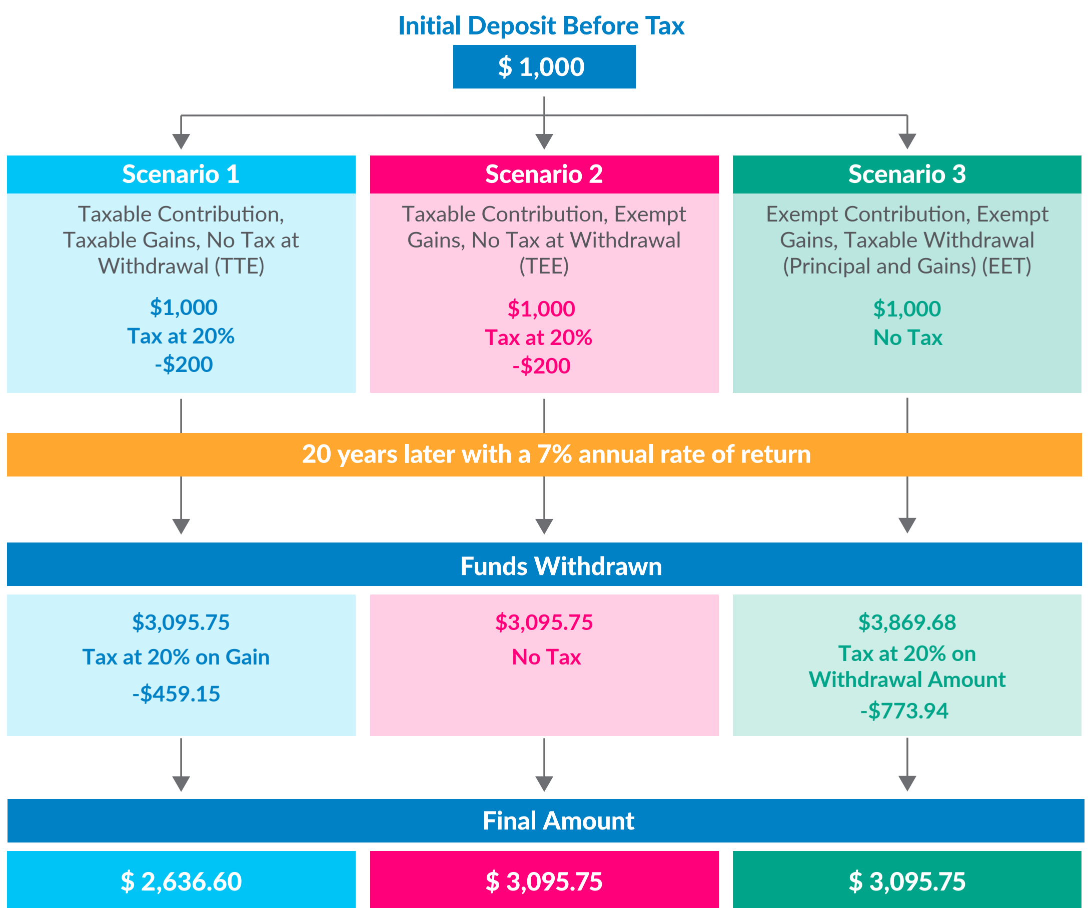
This example shows two things. First, because fully taxable accounts have more than one layer of taxes, they result in lower after-tax investment earnings. Second, if the tax rate on the principal in Scenario 2 and the tax rate on principal and gain upon withdrawal in Scenario 3 is the same, then the earnings from both will be equivalent.

The tax rates on deposit and withdrawal may not always be the same, however. Many tax systems have a progressive rate structure for wages which may mean an individual will be in a different tax bracket when the investment is made than when they have retired and begin making withdrawals.

If an individual faces a 30 percent tax rate when they invest, but a 15 percent tax rate when they withdraw their earnings, it would be advantageous to use an investment account as in Scenario 3.

FIGURE 2.

Tax Burdens on Different Types of Savings Accounts



Source: Authors' calculations.

Other Types of Tax-Preferred Savings Accounts

In addition to retirement accounts, some countries offer tax preferences for other savings purposes. Examples include savings for future education and health-related costs.

For example, the United States offers so-called "qualified tuition plans" for future education cost, also known as "529 plans."[5] Depending on the U.S. state and type of 529 plan, savers may be able to deduct contributions from state income tax or receive matching grants; gains are not subject to tax; and withdrawals are exempt from state and federal income tax.

Similarly, Canada offers a Registered Education Savings Plan (RESP), which exempts earnings as they accrue, and a government savings bonus is paid (earnings and bonus are taxed at the student's tax rate upon withdrawal).

In the United States, there is also a Health Savings Account (HSA), which can be used to pay for qualified medical expenses. As shown in Table 1, contributions are made from pretax earnings, gains are tax-exempt, and withdrawals are not taxed either.

Survey of Capital Gains Taxes, Dividend Taxes, and Retirement Savings in OECD Countries

While most OECD countries levy some form of tax on savings and investment, the tax treatment differs not only between countries but also between types of investment income and savings purpose.

For example, the average top long-term capital gains tax rate in the OECD is 19.1 percent, while dividends face an average tax rate of 24.4 percent. When it comes to private retirement savings, the tax treatment as well as contribution limits also vary significantly.

Capital Gains Tax Rates

Many OECD countries tax capital gains at various rates depending on the holding period, the individual's income level, and the type of asset sold.

Recognizing the importance of long-term savings, some OECD countries tax the gains from long-term savings at a lower capital gains tax rate than those from short-term savings. For example, in Slovenia, capital gains on the disposition of immovable property, shares, or other capital participations are taxed at 27.5 percent if held up to five years, at 20 percent if held between five and 10 years, at 15 percent if held between 10 and 15 years, at 10 percent if held between 15 and 20 years, and at 0 percent if held for more than 20 years.

5 Named for the relevant section of the U.S. tax code.

While some countries levy flat capital gains tax rates regardless of an individual's income level, others include capital gains when calculating personal income taxes—which in most countries results in a progressive taxation of capital gains. Still other countries have a separate progressive capital gains tax structure. Some countries have an annual exempt amount for capital gains. For example, in the United Kingdom the first £12,300 (US $15,800) of realized capital gains are tax-free.

Many OECD countries exempt owner-occupied residential property from capital gains tax.

Table 2 on the following page shows the top marginal capital gains tax rates levied on individuals in the OECD, taking into account exemptions and surtaxes. If a country has more than one capital gains tax rate, the table shows the tax rate applying to the sale of listed shares after an extended period of time.

Denmark levies the highest top marginal capital gains tax on long-held shares in the OECD, at a rate of 42 percent. Chile's top capital gains tax rate is the second highest, at 40 percent, followed by Finland and France, at 34 percent each.

Roughly one-fourth of all OECD countries does not levy capital gains taxes on the sale of long-held shares. These are Belgium, the Czech Republic, Korea, Luxembourg, New Zealand, Slovakia, Slovenia, Switzerland, and Turkey.

On average, long-term capital gains from the sale of shares are taxed at a top marginal rate of 19.1 percent in the OECD.

Dividend Tax Rates

While some countries tax dividends at the same rate as capital gains, other countries differentiate between the two forms of income. In addition, as previously mentioned, several OECD countries have integrated their taxation of corporate profits and dividends paid. Table 3 shows the top marginal dividends tax rates levied in each OECD country, taking into account credits and surtaxes.

As with capital gains tax, some OECD countries levy personal income taxes on dividend income, while others levy a flat, separate dividends tax. Exemption thresholds are also relatively common. For example, the United Kingdom provides a £2,000 ($2,600) dividend allowance, above which a progressive dividend tax is levied.

On average, OECD countries levy a top marginal tax rate of 24.4 percent on dividend income. However, as with capital gains, there is significant variation. Ireland's top dividend tax rate is the highest among OECD countries, at 51 percent.

Estonia and Latvia are the only OECD countries that do not levy a tax on dividend income. This is due to their cash-flow-based corporate tax system. Instead of levying a dividend tax, Estonia and Latvia impose a corporate income tax of 20 percent when a business distributes its profits to shareholders.

Of the OECD countries with a tax on dividend income, Greece's is the lowest, at 5 percent. Second and third are Slovakia and Colombia, at 7 percent and 10 percent, respectively.

TABLE 2.

Capital Gains Tax Rates in the OECD, as of April 2021

Top Marginal Capital Gains Tax Rates on Individuals Owning Long-Held Listed Shares without Substantial Ownership (includes Exemptions and Surtaxes)

OECD Country	Top Marginal Capital Gains Tax Rate	Additional Comments
Australia (AU)	23.50%	Capital gains are subject to the normal PIT rate and there is a 50% exemption if the asset was held for at least 12 months.
Austria (AT)	27.50%	-
Belgium (BE)	0.00%	Capital gains are only taxed if they are regarded as professional income.
Canada (CA)	26.75%	Capital gains are subject to the normal PIT rate but only 50% of the gains are included as taxable income.
Chile (CL)	40.00%	Only certain gains on the sale of traded shares of Chilean corporations are tax-exempt.
Colombia (CO)	10.00%	10% rate applies for assets that were held for two or more years; otherwise, capital gains taxed as ordinary capital income at 31%.
Czech Republic (CZ)	0.00%	Capital gains included in PIT but exempt if shares of a joint stock company were held for at least three years (five years if limited liability company).
Denmark (DK)	42.00%	Capital gains are subject to PIT.
Estonia (EE)	20.00%	Capital gains are subject to PIT.
Finland (FI)	34.00%	-
France (FR)	34.00%	Flat 30% tax on capital gains, plus 4% for high-income earners.
Germany (DE)	26.38%	Flat 25% tax on capital gains, plus a 5.5% solidarity surcharge.
Greece (GR)	15.00%	-
Hungary (HU)	15.00%	Capital gains are subject to flat PIT rate at 15%.
Iceland (IS)	22.00%	-
Ireland (IE)	33.00%	-
Israel (IL)	28.00%	Flat 25% tax on capital gains, plus a 3% surtax for high-income earners.
Italy (IT)	26.00%	-
Japan (JP)	20.32%	Flat 20.315% tax on capital gains (15.315% national tax and 5% local inhabitant's tax).
Korea (KR)	0.00%	Capital gains on listed shares owned by non-large shareholders are not taxed. Other types of capital gains are taxed.
Latvia (LV)	20.00%	-
Lithuania (LT)	20.00%	Capital gains are subject to PIT, with a top rate of 20%.
Luxembourg (LU)	0.00%	Capital gains are tax-exempt if a movable asset (such as shares) was held for at least six months and is owned by a non-large shareholder. Taxed at progressive rates if held <6 months.
Mexico (MX)	10.00%	-
Netherlands (NL)	31.00%	Net asset value is taxed at a flat rate of 31% on a deemed annual return (the deemed annual return varies by the total value of assets owned).
New Zealand (NZ)	0.00%	Does not have a comprehensive capital gains tax.
Norway (NO)	31.68%	Capital gains are subject to PIT (an adjustment factor applies).
Poland (PL)	19.00%	-
Portugal (PT)	28.00%	-
Slovakia (SK)	0.00%	Shares are exempt from capital gains tax if they were held for more than one year and are not part of the business assets of the taxpayer.
Slovenia (SI)	0.00%	Capital gains rate of 0% if asset was held for more than 20 years (rate up to 27.5% for periods less than 20 years).
Spain (ES)	26.00%	-
Sweden (SE)	30.00%	-
Switzerland (CH)	0.00%	Capital gains on movable assets such as shares are normally tax-exempt.
Turkey (TR)	0.00%	Shares that are traded on the Stock Exchange and that have been held for at least one year are tax-exempt (two years for joint stock companies).
United Kingdom (GB)	20.00%	-
United States (US)	29.20%	29.2% applies if the asset was held for more than one year; includes federal and state taxes on capital gains, as well as the 3.8% Net Investment Income Tax (NIIT) for high-income earners.

Note: "PIT" refers to personal income tax.

Sources: Bloomberg Tax, "Country Guide," https://www.bloomberglaw.com/product/tax/toc_view_menu/3380/; and PwC, "Worldwide Tax Summaries Online," https://www.taxsummaries.pwc.com/.

TABLE 3.

Dividends Tax Rates in the OECD, 2021

Top Marginal Dividends Tax Rates on Individuals (Includes Credits and Surtaxes)

OECD Country	Top Marginal Dividends Tax Rates
Australia (AU)	24.28%
Austria (AT)	27.50%
Belgium (BE)	30.00%
Canada (CA)	39.34%
Chile (CL)	33.33%
Colombia (CO)	10.00%
Czech Republic (CZ)	15.00%
Denmark (DK)	42.00%
Estonia (EE)	0.00%
Finland (FI)	28.90%
France (FR)	34.00%
Germany (DE)	26.38%
Greece (GR)	5.00%
Hungary (HU)	15.00%
Iceland (IS)	22.00%
Ireland (IE)	51.00%
Israel (IL)	33.00%
Italy (IT)	26.00%
Japan (JP)*	20.32%
Korea (KR)	43.95%
Latvia (LV)	0.00%
Lithuania (LT)	15.00%
Luxembourg (LU)	21.00%
Mexico (MX)	17.14%
Netherlands (NL)	26.90%
New Zealand (NZ)	15.28%
Norway (NO)	31.68%
Poland (PL)	19.00%
Portugal (PT)	28.00%
Slovakia (SK)	7.00%
Slovenia (SI)	27.50%
Spain (ES)	26.00%
Sweden (SE)	30.00%
Switzerland (CH)	22.29%
Turkey (TR)	20.00%
United Kingdom (GB)	38.10%
United States (US)*	29.20%

Note: Japan's and the U.S.' dividends tax rates for 2021 were not available in the OECD dataset. The 2020 dividends tax rates were used instead. Colombia's rate was researched individually, as it was also missing in the OECD's dataset.

Source: OECD, "Tax Database: Table II.4. Overall statutory tax rates on dividend income," column "Net personal tax," updated Apr. 29, 2021, https://www.stats.oecd.org/Index.aspx?QueryId=59615.

Tax Treatment of Retirement Savings in the OECD

In addition to universal pension systems, most OECD countries provide tax preferences for private retirement savings. As explained above, the most common tax treatment of retirement savings accounts is TEE (contributions are taxed, but gains are tax-exempt and there is no tax upon withdrawal) and EET (contributions and gains are tax-exempt, but withdrawals—principal plus gains—are taxed).

OECD countries generally limit the amount of savings one can place in tax-preferred retirement accounts. This is done through annual contribution caps. For example, in Spain, total employer and employee contributions made to personal and occupational pension plans are limited to €8,000 ($9,100) per year. Ireland and the United Kingdom are the only two OECD countries that also have a lifetime contribution limit for tax-preferred retirement savings accounts, at €2 million ($2.3 million) and £1,073,100 ($1.4 million), respectively.

Some countries impose penalty fees on withdrawals made before a certain age is reached. For example, in the United States early withdrawal from an Individual Retirement Account (IRA) prior to age 59½ is subject to being included in gross income plus a 10 percent additional tax penalty.

Details on the tax treatment of private retirement savings in each OECD country can be found in Appendix Table 1.

Simplification

Long-term savings and investments play an important role in individuals' financial stability and the economy overall. Lawmakers have recognized the need to incentivize savings through tax- and non-tax-related policies. However, in many cases, tax-preferred savings accounts come with a myriad of complex rules and limitations, which ultimately may deter individuals from opening such tax-preferred savings accounts and potentially lower the amount of total savings.

Universal Savings Accounts

Universal savings accounts can significantly simplify a country's tax-preferred savings system. These accounts are not limited to a certain type of savings (e.g., retirement savings) and have no income limitations or withdrawal penalties. Returns to the account would not be subject to tax, mirroring the tax treatment of most tax-preferred private retirement savings accounts in the OECD. Annual contribution limits could be set to ensure that the tax benefits are capped at a certain level.[6]

6 For more details on universal savings accounts, see Robert Bellafiore, "The Case for Universal Savings Accounts," Tax Foundation, Feb. 26, 2019, https://www.taxfoundation.org/case-for-universal-savings-accounts/.

Since 2009, Canada has had a universal savings account, the so-called "Tax-Free Savings Account (TFSA)." The annual contribution limit in 2021 is $6,000 CAD ($4,500). Contributions are made with after-tax dollars, earnings grow tax-free, and withdrawals can be made for any reason without triggering additional taxes or penalties. If someone makes less than the maximum contribution one year, the remaining contribution eligibility is added to the next year's maximum contribution.[7]

The United Kingdom has had a similar program of Individual Savings Accounts (ISAs) since 1999. ISAs have an annual contribution limit of £20,000 (approximately $25,700). As with TFSAs, contributions are made with after-tax dollars, and earnings grow tax-free; unlike with TFSAs, however, the rollover option is not allowed.[8]

There have been several proposals by U.S. lawmakers to introduce a universal savings account, though none have been enacted.[9] Establishing a universal savings account in the United States that has an annual contribution limit of $2,500 per year, uses after-tax contributions, and allows earnings to grow tax-free would reduce federal revenue by about $15.1 billion from 2022 to 2031. Due to the annual contribution limit of $2,500 the losses in federal tax revenue would be relatively small. However, it would slightly increase the after-tax return to saving, leading to small increases in output and after-tax incomes.[10]

Conclusion

Due to the importance of long-term savings and investment for individuals as well as the economy overall, dividend and capital gains taxes should be kept at a relatively low level—particularly when taking into account the corporate taxes paid at the entity level. On average in the OECD, long-term capital gains from the sale of shares are taxed at a top rate of 19.1 percent, and dividends are taxed at a top rate of 24.4 percent.

To encourage private retirement savings, OECD countries commonly provide tax-preferred retirement accounts. However, in many countries, including the United States, the system of tax-preferred retirement accounts is complex, which may deter savers from using such accounts—and potentially lower overall savings. Canada and the United Kingdom have implemented universal savings accounts, and thus provide an example for how the system of tax-preferred retirement accounts can be simplified while providing more flexibility for what the funds can be used for.

7 Government of Canada, "The Tax-Free Savings Account," https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html.

8 Gov.uk, "Individual Savings Accounts (ISAs)," https://www.gov.uk/individual-savings-accounts.

9 See H.R. 937, H.R. 6757, and S. 232 from the 115th Congress.

10 See Option 63 in Tax Foundation, "Options for Reforming America's Tax Code 2.0," Apr. 19, 2021, https://www.taxfoundation.org/tax-reform-options/.

Appendix

APPENDIX TABLE 1.

Tax Treatment of Funded Private Retirement Savings in the OECD, as of June 2020

OECD Country	Type of Fund/ Contributions	Contributions	Returns on Investments/ Funds Accumulated	Withdrawals	Annual Contribution Limit	Lifetime Contribution Limit
Australia (AU)	Concessional Contributions	T	T (15%)	E	AUD 25,000 (15% tax rate on contributions up to cap, individual's marginal tax rate for contributions above cap; 30% tax rate on contributions from high-income earners).	None
Austria (AT)	Pension Companies (Pensionskassen) and Occupational Group Insurance (Betriebliche Kollektivversicherung)	T	E	T	Employee contributions are capped to the sum of annual employer contributions (cap does not apply for first EUR 1,000).	None
Belgium (BE)	Occupational Pension Plans	E	E	T	Tax benefits limited to total retirement contributions (including the statutory pension) not exceeding 80% of the last gross annual salary.	None
Canada (CA)	All	E	E	T	Tax benefits limited by various caps based on annual income (18% of income plus dollar amount caps) and monthly contributions (in some cases limited to CAD 2,000); 1% penalty for monthly excess over-contributions can apply.	None
Chile (CL)	Mandatory Individual Accounts	E	E	T	10% of an individual's salary up to 80.2 UF (UF—Unidad de Fomento—is a price-indexed unit of account).	None
Colombia (CO)	All	E	E	E	Voluntary contributions (which are in addition to mandatory contributions) cannot exceed 30% of the annual taxable income up to 3,800 UVT annually (value of each tax unit UVT—Unidad de Valor Tributario—is equivalent to COP 35,607 in 2020); different cap applies if individual makes contribution to private pension fund that also receives his/her mandatory contributions.	None
Czech Republic (CZ)	Supplementary Plans (Individual's Contributions)	T	E	E	Tax benefits capped at CZK 24,000 annually.	None
Denmark (DK)	All Plans Except "Age Savings Plans"	E	T (15.3%)	T	Tax benefits capped at DKK 57,200 for contributions to funds that have programmed withdrawal.	None
Estonia (EE)	Mandatory Pension Plan	E	E	T	No cap per se, but fixed contribution rates (employee contributions are set at 2% of the gross salary and government matching contributions are set at 4% of the gross salary).	None
Finland (FI)	Mandatory Occupational Plans and Voluntary Occupational Group Plans	E	E	T	Tax benefits capped for individuals at the lesser of 5% of salary or EUR 5,000 per year for voluntary occupational group plans.	None

APPENDIX TABLE 1, CONTINUED.

Tax Treatment of Funded Private Retirement Savings in the OECD, as of June 2020

OECD Country	Type of Fund/ Contributions	Contributions	Returns on Investments/ Funds Accumulated	Withdrawals	Annual Contribution Limit	Lifetime Contribution Limit
France (FR)	All	T	E	T	Tax benefits capped at 10% of earnings net of professional costs of the previous year, with a maximum deduction of EUR 32,419.	None
Germany (DE)	Pension Funds and Direct Insurance	E	E	T	Tax benefits capped at 8% of the social security contribution ceiling (SSC ceiling was EUR 82,800 in 2020).	None
Greece (GR)	Occupational Insurance Funds and Group Pension Insurance Contracts	E	T (5%)	T	None.	None
Hungary (HU)	All	T	E	E	Total tax relief (taking into account all types of personal pension plans) is capped at HUF 280,000 per year, additional caps apply for each plan; tax refund cannot exceed personal income tax liability.	None
Iceland (IS)	All	E	E	T	Tax relief for employees limited to 4% of their salaries.	None
Ireland (IE)	All	E	E	T	Contributions are capped at % of earnings and a value amount (both vary by age); there is also an upper limit on the amount of earnings that are taken into account (EUR 115,000).	Lifetime limit of EUR 2 million on tax relieved pension products
Israel (IL)	All	T	E	E	Tax benefits capped at 7.5% of the salary (max. of 2.5 times the national average salary) for employer contributions, and employee contributions are capped at 20.5% of twice the national average salary.	None
Italy (IT)	All	E	T (0%/ 12.5%/ 20%)	T	Contributions (employer and employee) exempt from personal income tax up to EUR 5,165 per year.	None
Japan (JP)	All	E	E	T	Contributions to defined benefit corporate pension funds are deductible up to a yearly limit of JPY 40,000.	None
Korea (KR)	All	T (13.2% or 16.5% credit depending on income)	E	T	Individual contributions to occupational defined contribution pension plans cannot exceed KRW 18 million per year. Individual contributions are not possible in a defined benefit pension plan.	None
Latvia (LV)	Mandatory contributions	E	E	T	The joint limit for contributions to voluntary pension funds and insurance premiums may not exceed 10% of annual taxable income with a cap of EUR 4,000.	None

APPENDIX TABLE 1, CONTINUED.

Tax Treatment of Funded Private Retirement Savings in the OECD, as of June 2020

OECD Country	Type of Fund/ Contributions	Contributions	Returns on Investments/ Funds Accumulated	Withdrawals	Annual Contribution Limit	Lifetime Contribution Limit
Lithuania (LT)	"Pillar 2" plans	T	E	E	Individual contributions must equal at least 3% of gross salary or income. The total amount of deductible pension contributions, life insurance premiums, and educational expenses must not exceed 25% of taxable income, with an annual cap of EUR 1,500 per year.	None
Luxembourg (LU)	Occupational Plans	T (20%)	E	E	Employer contributions of up to 20% of employee earnings are taxed at 20% but not taxable for the employees. Employee contributions are tax deductible up to EUR 1,200 per year.	None
Mexico (MX)	Mandatory contributions	T	E	E	The maximum deductible amount of voluntary contributions to occupational plans is 12.5% of an employee's salary. The cap applies jointly to employee and employer contributions.	None
Netherlands (NL)	All	E	E	T	The maximum income for eligibility in the EET system is EUR 110,111. Above that threshold a TEE system applies. Contributions to the EET system are deductible up to 13.3% of annual income (with a ceiling of EUR 110,111). The maximum contributions to the TEE system depend on age, and range from 2.3% to 13.8% of annual income.	None
New Zealand (NZ)	All	T	T (10.5% - 28%)	E	Employee contributions are taxed at the individual's marginal income tax rate. Employer contributions are taxed at rates ranging from 10.5% to 33%. No annual contribution limit applies.	None
Norway (NO)	Occupational Defined Contribution Plans (contributions from employers)	E	E	T	When employees are required to contribute, contributions must not exceed 2% of salary in the municipal and public sector defined benefit plans and 4% of salary in private sector plans.	None
Poland (PL)	OFE plans	E	E	T	Contributions into OFE plans are tax-deductible without a limit.	None
Portugal (PT)	All	T	E	T	Annual employer contributions are subject to a cap of 15% of annual total costs of wages and salaries (25% if employees are not covered by social security). Employee contributions to private pension plans are subject to a 20% cap of deductible contributions and a yearly limit based on the individual's age.	None
Slovakia (SK)	"Pillar 2" plans	E	E	E	Employers are required to make annual contributions of 5% of salary in 2020, increasing by 0.25 percentage points each year until reaching 6% in 2024. Mandatory contributions are tax-deductible. Employees can make additional contributions that are not subject to a cap and not tax-deductible.	None

APPENDIX TABLE 1, CONTINUED.

Tax Treatment of Funded Private Retirement Savings in the OECD, as of June 2020

OECD Country	Type of Fund/ Contributions	Contributions	Returns on Investments/ Funds Accumulated	Withdrawals	Annual Contribution Limit	Lifetime Contribution Limit
Slovenia (SI)	All	E	E	T	Employer contributions are not included in employee's taxable income up to 5.844% of employee's gross wages. The amount cannot exceed EUR 2,819.09 per year.	None
Spain (ES)	All	E	E	T	Total employee and employer contributions are limited to EUR 8,000 per year.	None
Sweden (SE)	Plans other than Premium Pension	E	T (15%)	T	For individual pension savings plans, the annual cap on individual contributions is 35% of eligible income (SEK 473,000 in 2020).	None
Switzerland (CH)	All	E	E	T	Individual contributions to occupational pension plans are tax-deductible but capped at CHF 6,768. If an individual does not have an occupational plan, tax-deductible contributions are capped at 20% of annual earnings and the deduction cannot exceed CHF 33,840.	None
Turkey (TR)	Personal Plans	T	T (5%/ 10%/ 15%)	E	No limit on contributions, but contributions are post-tax and subject to the stamp tax rate of 0.759%.	None
United Kingdom (GB)	All	E	E	T	The maximum amount of pension contributions that an individual can get tax relief on annually is the higher of GBP 3,600 and 100% of taxable UK earnings. Pension contributions of more than GBP 40,000 are subject to taxes that effectively limit relief in a year.	The lifetime allowance for private pension plans is GBP 1,073,100. Savings worth more than the lifetime allowance pay a charge on the excess.
United States (US)	Traditional plans (not Roth treatment)	E	E	T	Elective deferral contribution limits depend on the type of plan but range from $13,500 (SIMPLE plans) and $19,500 in 2020. Some plans allow additional contributions for individuals age 50 and older.	None

Source: OECD, "Financial Incentives for Funded Private Pension Plans: OECD Country Profiles 2020," Dec. 4, 2020, https://www.oecd.org/daf/fin/private-pensions/Financial-Incentives-for-Funded-Pension-Plans-in-OECD-Countries-2020.pdf.