The PEPPER Report II Summary

The following summary is meant to compare the results of the European Union Member States participation in the PEPPER schemes since the last report of the Commission in 1991, following the Council Recommendation of 27 July 1992 (92/443/EEC). The Council Recommendation, which is largely based on the previous PEPPER report, asks that the Member States recognize the benefits of the PEPPER schemes and attempt to increase the participation in the schemes throughout the states.

Those Member States which promote the PEPPER schemes include France, the UK, Finland, the Netherlands, and Ireland. Other countries such as Germany and Italy refer in this respect to the responsibilities of the social partners. In Ireland a specific National Programme was launched and Austria has also taken part in the encouragement of PEPPER schemes by developing a learning programme which was included in the training for works councils and employers. Currently the Member States do not exchange ideas about legislation of PEPPER schemes or other pertinent information.

Belgium: There have been no further promotions for PEPPER schemes nor new initiatives for employee participation. From 1994-1996 the government even prevented further growth of schemes by prohibiting the establishment of new financial plans in the context of the general wage freeze. However, some progress was made in June 1995 under a new government programme which promotes profit-sharing as part of income-policy and wage moderation to stimulate employment. Currently there is no specific legislation, nor tax incentives for profit-sharing, either cash or deferred. Share schemes continue to dominate in numbers over profit-sharing. It appears that the government has remained passive about the promotion of PEPPER schemes even though a few proposals for laws have been formulated in the nineties after some EU-countries experiences.

Denmark: Although Denmark has no legislation designed to encourage cash-based profit-sharing, there are three PEPPER schemes in effect: two based on shares (SPS) and (ESO), and one based on bonds (BPS). Schemes remain voluntary but the individual must apply for permission to apply them because they involve certain tax concessions. There is a steady but modest use of PEPPER schemes.

Germany: Although the number of schemes have changed only slightly, there was a bit of progress made in 1995 when the government suggested that social partners consider employee share-ownership and other related schemes as part of their wage-agreements. The government has also recently taken the initiative to develop legislative regulations in which individual firm level schemes could be promoted, developed, disseminated and sustained within the context of central agreements between social partners. Cash-based profit-sharing still remains without incentives or legislation. The government notes that although there has encouragement for further employee participation, their use is not widespread.

Greece: No new regulations have been reported. The government continues to actively support PEPPER schemes with tax incentives to both companies and employees. There is a particular legal framework for employee participation. The two principal types of PEPPER scheme are cash-based profit-sharing and employee share-ownership which are voluntary.

Spain: There is no policy regarding PEPPER schemes. Extra payments are regulated by the Workers' Statute. Legislation does offer the possibility of introducing employee participation in enterprise profits, although no special benefits are provided either to firms or to employees. A 1986-law regulates employee buy-outs and there are no plans to introduce legislation to change these tax arrangements. There are two ways in which profits may be distributed: as direct labor compensation or through the establishment of funds for specific collective goals. There are no specific statistics on the schemes.

France: Showing its continuing support for PEPPER schemes, France created new legislation in both 1993 and 1994, removing some obstacles in the legislation of 1990, simplifying regulations of 1986, and extending fiscal incentives. The law 1994 also increased substantially the tax advantages for deferred profit-sharing and company savings plans. For cash-based profit-sharing the 1994 legislation has been reinforced and adapted to some of he conditions to be fulfilled for tax relief

(including social security contributions). More than 2.5 million employees are now covered by about 8,000 agreements for cash-based profit-sharing.

Deferred profit-sharing is also very important in France's financial participation schemes. France is the only member state which requires that financial participation of employees be mandatory. All firms with a minimum workforce of 50 workers must have deferred profit-sharing fund. The 1994 law also raised the tax advantages to smaller firms with less than 50 workers if they were to begin a deferred profit-sharing fund. Also developed in 1994 was the Superior Council of Participation which now watches over the application for participation and the management of financial participation in firms among other related duties.

IRELAND: While the choice remains optional to employers, legislation in Ireland gives certain tax relief to participants of approved share-based profit-sharing and stock option scheme. There is no legislation on cash-based financial participation. The Finance Acts of 1982 and 1986 introduced tax concessions for their employees and their companies. The Finance Act of 1995 increased the limit of relief in order to generate more companies to want to participate as well as to increase the number of PEPPER schemes.

ITALY: A major break through in PEPPER schemes was made by the 23 July 1993 agreement between the government and the social partners. The two forms of participation introduced were participation of employees in a company's results and in its equity. No specific incentives are offered. Another development which has enhanced profit-sharing relates to direct participation in business-employee relations, which is a way for the employees to be more involved in decision-making. The estimate of the number of employees involved in financial participation schemes is around 900,000 workers and 300 schemes, or under 6% of the working population.

LUXEMBOURG: There is still no legislation which would encourage financial participation in Luxembourg, however, there is a growing interest in developing some regulations by the

government and social partners. The problem is that there is no agreement on what type of participation should be introduced. Trade unions favor the idea of employee share schemes while employers seem to approve of pay, and still yet the government is interested in profit-sharing. There had been a growth of financial participation even though there is no legal structure established. Since there is a growing interest by social partners and in Parliament, the government is considering legal initiatives.

NETHERLANDS: Tax incentives for profit-sharing took place in the eighties in the Netherlands, however from January 1, 1994 more financial participation schemes have been encouraged and more fiscal incentives offered in order to encourage employers to adopt financial schemes. The main basis of the law is for a saving scheme or personnel fund but also gives a general legal frame. Fiscal incentives are available for both cash-based profit-sharing and deferred profit-sharing. The 1994 law also features the wage-saving scheme. The government also encouraged profit-sharing by raising the tax free benefit. Unions do not approve of cash-based profit-sharing and financial participation remains the choice of the employer.

AUSTRIA: PEPPER schemes continue to be seen as skeptical in Austria. Any promotion of the schemes has little impact. There is only a legal basis for profit-sharing. The scheme is developed between the Works Council and the employer and cannot be given on an individual worker basis but rather company wide. Since 1994 the law permits a reduction price on shares to employees. Unfortunately, because PEPPER schemes are seen as skeptical, it is unlikely that they will be become wide spread.

PORTUGAL: Employee participation is part of the labor law and since 1969 has not be considered remuneration. Portugal does not have a tradition of financial participation and therefore equity participation is the most common scheme. The government does offer special tax concessions to those who participate in profit-sharing.

FINLAND: The "Personnel funds and profit bonus system" was introduced in 1990. The deferred profit-sharing scheme provides tax incentives to employers and aims to create an accumulation of capital by employers over a period of time. There are no legal obstacles to cash-based or share-based profit-sharing schemes. The Income Tax Law gives the right for employees to subscribe to shares or interests at a favorable price. If a majority of the workers are given the advantage, a tax free discount is given at 10% of the current price, at most. Since the introduction in 1990, few new funds have been set up.

SWEDEN: There are no tax incentives for employers or employees for financial participation. However, according to a statutory provision in the Act of 1981 on Social Contributions, there is an exception aimed at promoting certain specific indirect benefits for employees. These funds which are specially transferred into a foundation are intended to reward the employee and are not taxed.

UNITED KINGDOM: There is a long history of voluntary financial participation in the United Kingdom, which offers tax incentives to employees and employers. The incentives extend to profit-sharing and employee share-ownership schemes. The 1995 Finance Act made significant changes to the restrictions on part-time employees inclusion on the tax relief for share owning. The new law ensures that part-timers may participate in the financial schemes. The 1996 Finance Act introduced a new Company Share Option Plan aimed at middle managers and those in the middle and lower income ranges. There are various types of schemes including statutory profit-sharing, share-ownership, and share option schemes as well as non-statutory schemes. There has been a significant growth in financial participation over the last decade in the UK. The government encourages financial participation and supports a number of initiatives including the Inland Revenue report which indicated the need better the awareness of tax advantages and the various schemes available. Employee involvement is an important issue in the government.

Conclusions

There has been little change among the member states and the government policy since the first PEPPER report in 1991. France and UK have long traditions of financial participation schemes and continue to support initiatives to increase the schemes. In other countries such as Belgium, Denmark, Germany, Greece, Spain, Italy, Luxembourg, Portugal, Austria, and Sweden, the governments are less involved in the support of financial participation. In Ireland, Netherlands, and Finland there seems to be further involvement by the government to increase financial participation.

The PEPPER report offers ideas for reinforcement of PEPPER. The PEPPER II report offers the following suggestions in order to increase the amount of financial participation in member states:

- Develop a framework law
- Clarify the distinction between wages subject to social changes and the advantages derived from PEPPER schemes
- Enhancement of eligibility
- National wage saving system as a vehicle for share-ownership and profit-sharing
- Provide for a stimulating climate
- Set up PEPPER schemes in the course of privatization of public bodies
- Integrate PEPPER schemes into programmes on employee-involvement
- Make an appeal to the social partners
- Avoid irresponsible risks for employees
- Tackle the problem for intra-EU schemes involving subsidiaries in different national circumstances
- Promote the development of clear and understandable models and plans for introduction
- Stimulate information exchange between Member States