Taxing Wages - Main Trends

The 2010 edition of Taxing Wages provides estimates of tax burdens and of the tax wedge between labour costs and net take-home pay for 2010. The Report presents detailed results for 2010, definitive results for 2009 and discusses the changes between 2009 and 2010. The Report also reviews historical changes in tax burdens from 2000.

Table O.1 presents the total tax wedge between total labour costs to the employer and the corresponding net take-home pay for single workers without children at average earnings levels in 2010 and analyses the change in the tax wedge between 2009 and 2010 for all OECD countries. The tax wedge varied widely across OECD countries (column 1): it exceeded 50 per cent in Belgium and was lower than 20 per cent in Korea, New Zealand, Mexico and Chile. The increase between 2009 and 2010 of the tax wedge of an average worker (column 2) varied between 3.29 percentage points in Iceland and -6.65 percentage points in Hungary. Germany (-1.84 percentage points), Greece (-1.58 percentage points) and Denmark (-1.24 percentage points) were the only other OECD member countries in which the tax wedge fell by 1 percentage point or more. The tax wedge increased with more than 1 percentage point also in the Netherlands (1.18 percentage points), Japan (1.35 percentage points) and Spain (1.36 percentage points). The tax wedge has increased in 22 OECD member countries and fell in 11 member countries.

To explain these changes it is interesting to look at the constituent components of the tax wedges shown in Table O.1: the income tax (see column 3), the employee social security contributions (employee SSC; see column 4) and the employer social security contributions (employer SSC; see column 5).

The reduction in the tax wedge is entirely or almost entirely driven by the reduction in income taxes in Germany, Greece, New Zealand and Sweden. In Denmark, income taxes decreased and benefits have increased (the effect of the latter is not shown directly in Table O.1) as a result of the introduction of a green check to compensate for increased environmental taxes. Both income taxes and employer SSC decreased in Hungary.

Table 0.1. **Comparison of total tax wedge**

As percentage of labour costs[1]

Country	Total Tax wedge 2010	Annual change 2010/09 (in percentage points)			
		Tax wedge	Income tax	Employee SSC	Employer SSC
	(1)	(2)	(3)	(4)	(5)
Belgium	55.4	0.02	0.13	0.02	–0.13
France	49.3	0.07	0.07	0.00	0.00
Germany	49.1	–1.84	–1.63	–0.10	–0.11
Austria	47.9	0.09	0.09	0.00	0.00
Italy	46.9	0.03	0.03	0.00	0.00
Hungary	46.4	–6.65	–4.60	0.42	–2.46
Sweden	42.7	–0.53	–0.52	–0.01	0.00
Slovenia	42.4	0.11	0.11	0.00	0.00
Czech Republic	42.2	0.15	0.15	0.00	0.00
Finland	42.0	–0.32	–0.52	0.67	–0.47
Estonia	40.0	0.84	–0.23	0.78	0.29
Spain	39.6	1.36	1.36	0.00	0.00
Netherlands	38.4	0.43	–0.15	0.21	0.38
Denmark	38.3	–1.24	–0.93	0.04	0.00
Slovak Republic	37.8	0.08	0.08	0.00	0.00
Portugal	37.7	0.26	0.26	0.00	0.00
Turkey	37.4	0.01	0.01	0.00	0.00
Norway	36.8	–0.05	–0.05	0.00	0.00
Greece	36.6	–1.58	–1.58	0.00	0.00
Poland	34.3	0.12	0.12	0.00	0.00
Luxembourg	34.0	0.18	0.20	0.00	–0.02
United Kingdom	32.7	0.24	0.12	0.06	0.07
Iceland	31.3	3.29	0.77	0.37	2.15
Japan	30.5	1.35	–0.16	0.74	0.78
Canada	30.3	–0.36	–0.35	–0.01	0.00
United States	29.7	0.11	0.15	0.00	–0.04
Ireland	29.3	0.37	–0.22	0.59	0.00
Australia	26.2	–0.02	0.15	0.00	–0.17
Switzerland	20.8	0.02	0.02	0.00	0.00
Israel	20.2	–0.01	–0.28	0.13	0.13
Korea	19.8	0.46	0.16	0.15	0.15
New Zealand	16.9	–0.81	–0.81	0.00	0.00
Mexico	15.5	0.23	0.18	0.00	0.05
Chile	7.0	0.00	0.00	0.00	0.00

1. Figures for a single worker at the average wage without children.

Sources: Country submissions.

StatLink http://dx.doi.org/10.1787/888932380810

The increase in the tax wedge is almost entirely driven by the increase in employee SSC in the Netherlands and Estonia and by the increase in employer SSC in Iceland. Both employee and employer SSC increased in Japan with about 0.7 percentage point. The increase in the tax wedge is the result of an increase in income taxes in Spain.

The mix of taxes paid out of total labour costs varies greatly between countries. Table O.2 and Figure O.1 decompose the tax wedge in the income tax, the employee and the employer social security contributions. The portion of labour costs paid in personal income tax is 0 per cent in Chile, 2.2 per cent in Greece, 3.7 per cent in Korea and 3.8 per cent in Mexico; whereas it exceeds 20 per cent in Australia (20.4 per cent), Belgium (21.6 per cent), Iceland (22.8 per cent) and Denmark (27.9 per cent). The portion representing employee social security contributions also varies widely, ranging from zero per cent in Australia and New Zealand to 17.2 per cent in Germany and 19.0 per cent in Slovenia. Employers pay 29.7 per cent of total labour costs in social security contributions (including payroll taxes where applicable) in France, 25.6 per cent in Estonia and 25.4 per cent in the Czech Republic. In contrast, employers in New Zealand and Denmark are not subject to these levies.

Table 0.2. **Income tax plus employee and employer social security contributions**

As % of labour costs, 2010[1]

Country[2]	Total tax wedge[3]	Income tax	Social security contributions		Labour costs[4]
			Employee	Employer	
	(1)	(2)	(3)	(4)	(5)
Germany	49.1	15.7	17.2	16.2	61 971
Belgium	55.4	21.6	10.8	23.0	61 810
Austria	47.9	11.4	14.0	22.6	60 576
Luxembourg	34.0	12.7	10.9	10.3	59 726
United Kingdom	32.7	14.7	8.3	9.7	59 372
Netherlands	38.4	14.8	14.1	9.5	58 102
Norway	36.8	18.6	6.9	11.3	56 390
France	49.3	9.9	9.6	29.7	55 252
Sweden	42.7	13.5	5.3	23.9	53 754
Switzerland	20.8	9.4	5.7	5.7	53 205
Finland	42.0	18.0	5.8	18.2	51 263
Ireland	29.3	13.0	6.6	9.7	49 830
Japan	30.5	6.8	11.5	12.2	49 690
Italy	46.9	15.4	7.2	24.3	47 347
Korea	19.8	3.7	7.1	9.0	47 284
United States	29.7	13.9	7.0	8.8	47 207
Denmark	38.6	27.9	10.7	0.0	46 235
Spain	39.6	11.7	4.9	23.0	44 875
Australia	26.2	20.4	0.0	5.8	43 793
Canada	30.3	13.3	6.5	10.4	40 020
Iceland	31.3	22.8	0.5	8.0	35 272
Portugal	37.7	9.7	8.9	19.2	34 307
Israel	20.2	8.3	7.5	4.5	33 226
New Zealand	16.9	16.9	0.0	0.0	31 152
Greece	36.6	2.2	12.5	21.9	30 877
Slovenia	42.4	9.5	19.0	13.9	30 694
Czech Republic	42.2	8.6	8.2	25.4	28 876
Estonia	40.0	12.3	2.1	25.6	24 784
Hungary	46.4	11.0	13.2	22.2	24 372
Turkey	37.4	10.3	12.9	14.2	23 047
Poland	34.3	5.9	15.5	12.9	23 014
Slovak Republic	37.8	6.4	10.6	20.8	22 896
Mexico	15.5	3.8	1.2	10.5	12 287
Chile	7.0	0.0	7.0	0.0	11 552

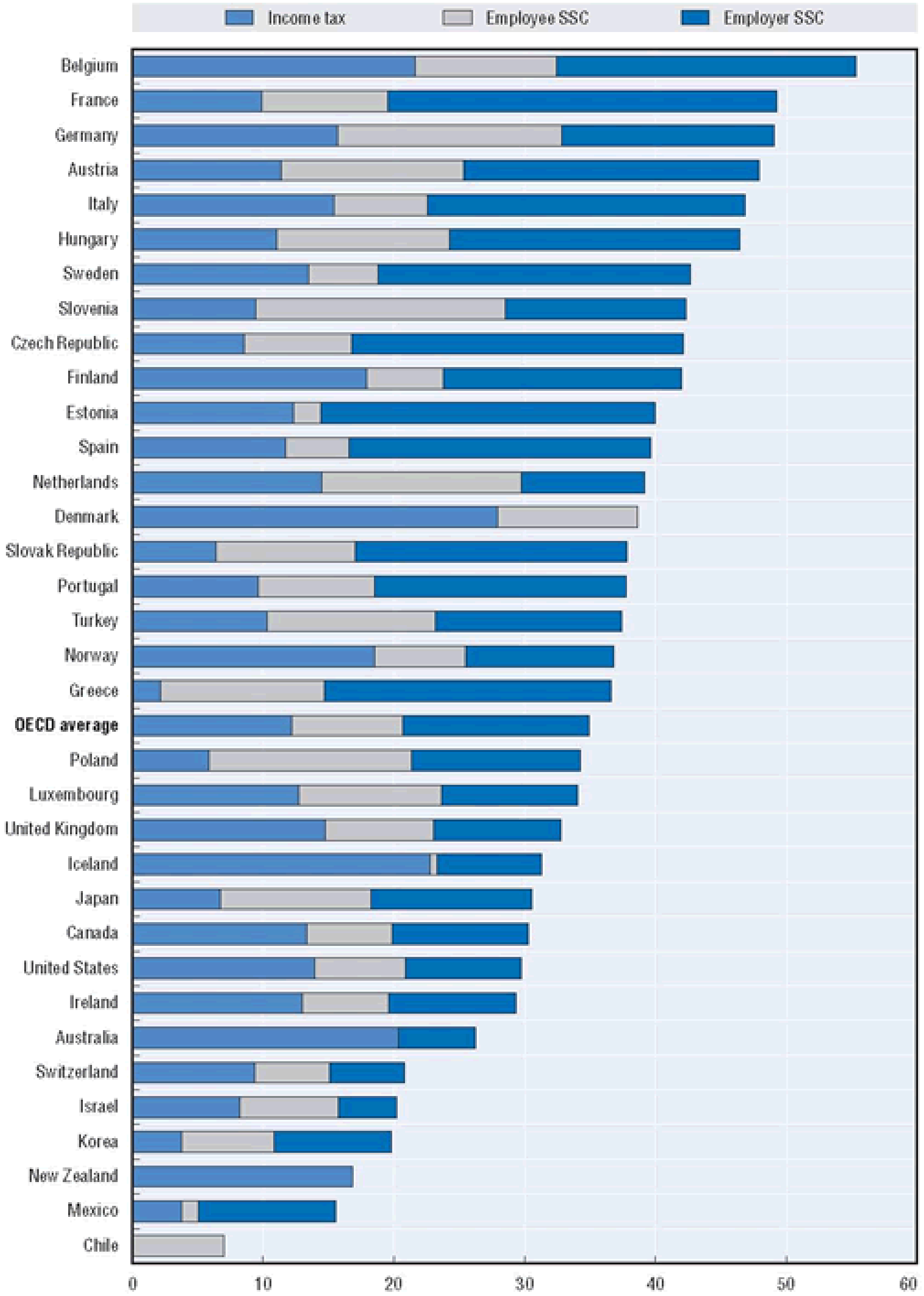
1. Single individual without children at the income level of the average worker.
2. Countries ranked by decreasing labour costs.
3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.
4. Dollars with equal purchasing power.

Source: Country submissions; *OECD Economic Outlook 88* (December 2010).

StatLink http://dx.doi.org/10.1787/888932380829

Figure 0.1. **Income tax plus employee and employer social security contributions**

As % of labour costs, 2010[1]

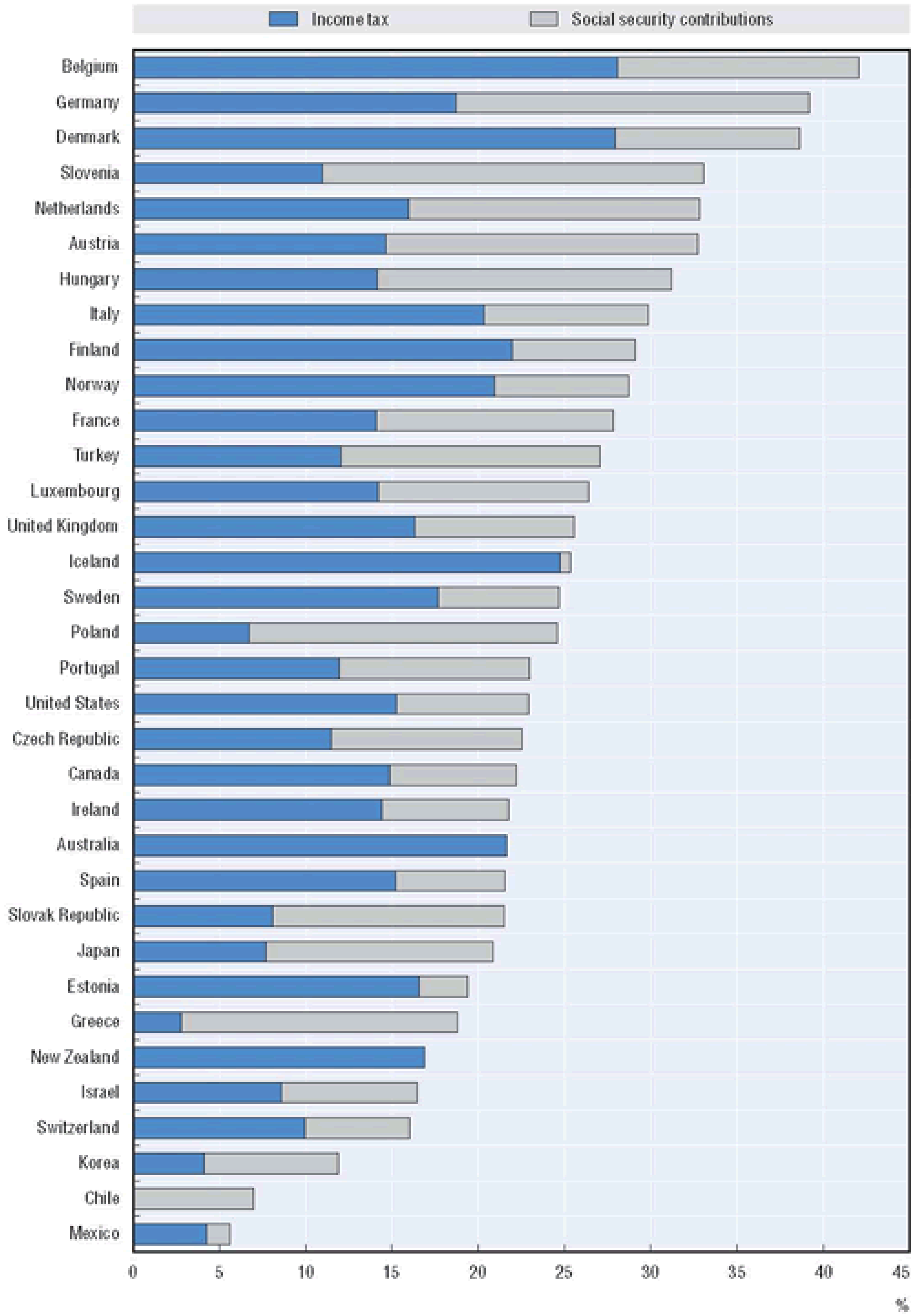


1. Single individual without children at the income level of the average worker.

StatLink http://dx.doi.org/10.1787/888932378720

The mix of taxes paid out of gross wage earnings varies greatly between countries as well. Figure O.2 provides a graphical representation of the personal average tax rate decomposed between income tax and employee social security contributions. At the average earnings level, single workers without children pay over 40 per cent of their annual wages in personal income tax and employee social security contributions in Belgium. In Estonia, Greece, New Zealand, Israel, Switzerland, Korea, Chile and Mexico, the personal average tax rate was below 20 per cent. The mix of taxes paid out of gross wage earnings varies greatly between countries. Average workers in Australia and New Zealand pay only income tax while their counterpart in Chile is paying only employee social security contributions.

Figure 0.2. **Percentage of gross wage earnings paid in income tax and employee social security contributions 2010**[1, 2]



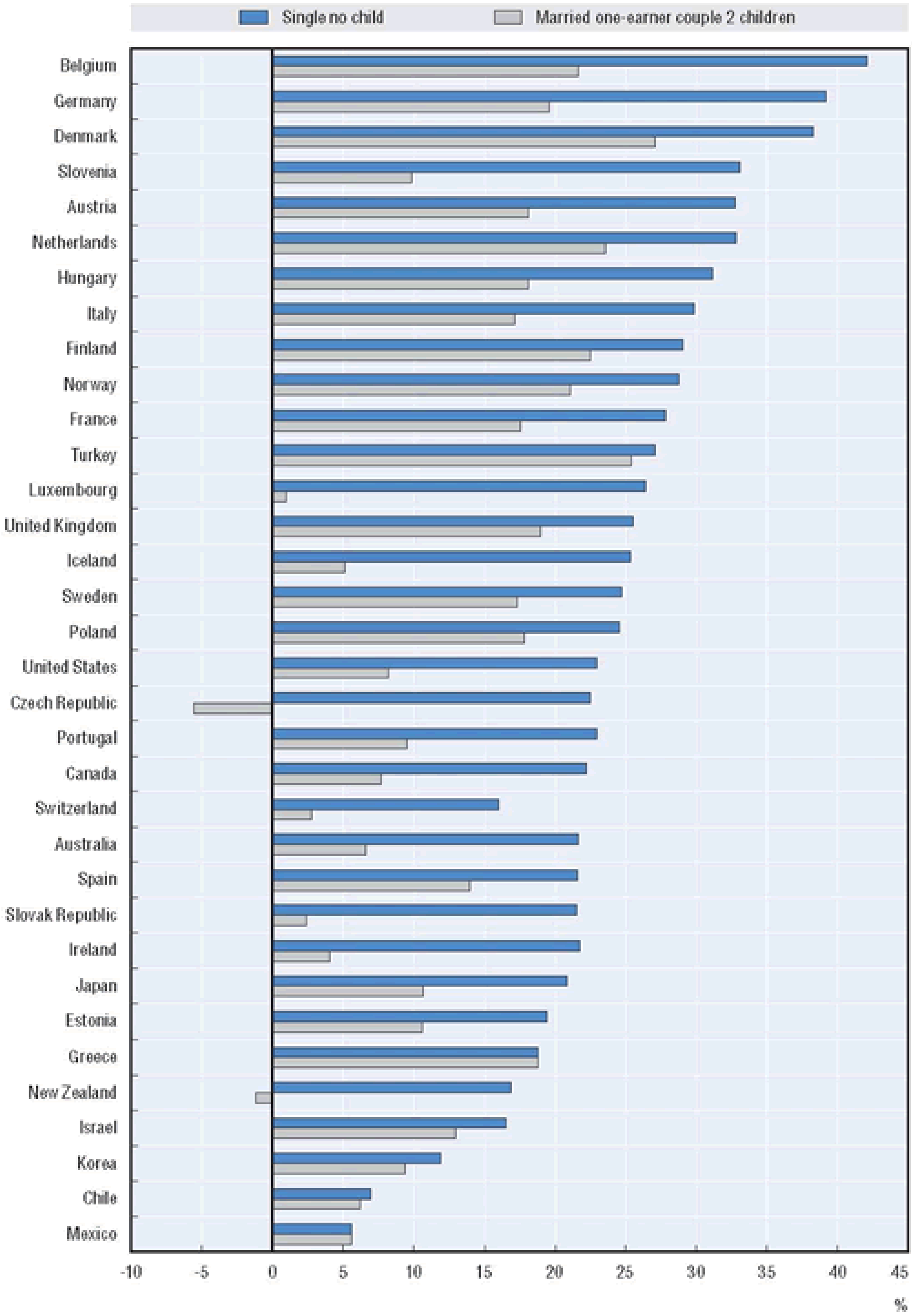
1. Countries ranked by decreasing tax burden.
2. Single individuals without children at the income level of the average worker.

StatLink http://dx.doi.org/10.1787/888932378739

Many OECD countries provide a fiscal benefit to families with children relative to single individuals through advantageous tax treatment and/or cash transfers. Figure O.3 provides the burden of income tax plus employee social security contributions less cash benefits for single individuals at 100 per cent of the earnings of an average worker and for one-earner married couples with two children at the same earnings level. The savings realised by a one-earner married couple are equal to or greater than 20 per cent of earnings in the Czech Republic, Luxembourg, Slovenia, Iceland and Belgium. In contrast, the burden is the same in Mexico and in Greece. It is also interesting to note that when cash benefits are taken into account, one-earner married couples with 2 children face a negative burden in the Czech Republic and New Zealand because cash benefits exceed the income tax and social security payments.

Figure 0.3. **Income tax plus employee contributions less cash benefits, by family type**[1, 2]

As % of gross wage earnings, 2010

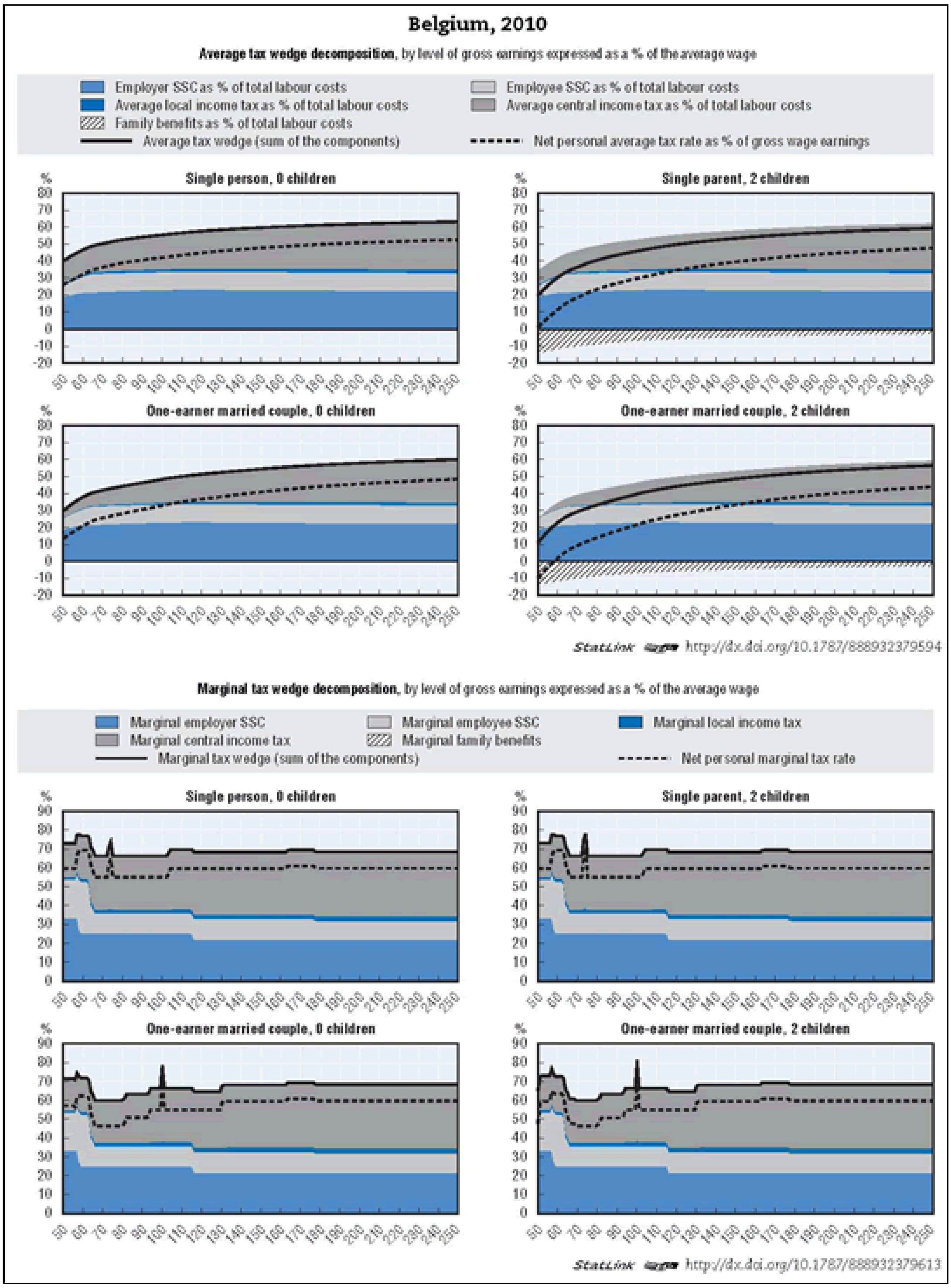


1. Countries ranked by decreasing rates for single taxpayer without children.
2. Corresponds to Table 4, column 2 and 5.

StatLink http://dx.doi.org/10.1787/888932378758

Graphical Exposition of the 2010 estimated Tax Burden

This edition of the Taxing Wages report includes graphs that show the estimated tax burden on labour income in 2010 for gross wage earnings between 50 per cent and 250 per cent of the average wage (AW). For each OECD member country, the tax burden is shown for four family types: single taxpayers without children, single parents with 2 children, one-earner married couples without children and one-earner married couples with 2 children. Both the average and the marginal tax wedge are presented in a separate graph for each of these family types. The different components of the tax wedge are also presented; the graphs show respectively central income tax, local income tax, employee social security contributions, employer social security contributions and family benefits as a percentage of total labour costs (TLC). In addition, the net personal average and marginal tax rate ((the change in) personal income tax and employee social security contributions net of cash benefits as a percentage of (the change in) gross wage earnings) are included in the graphs that show respectively the average and the marginal tax wedge. The graphs for Belgium are included here as an example.



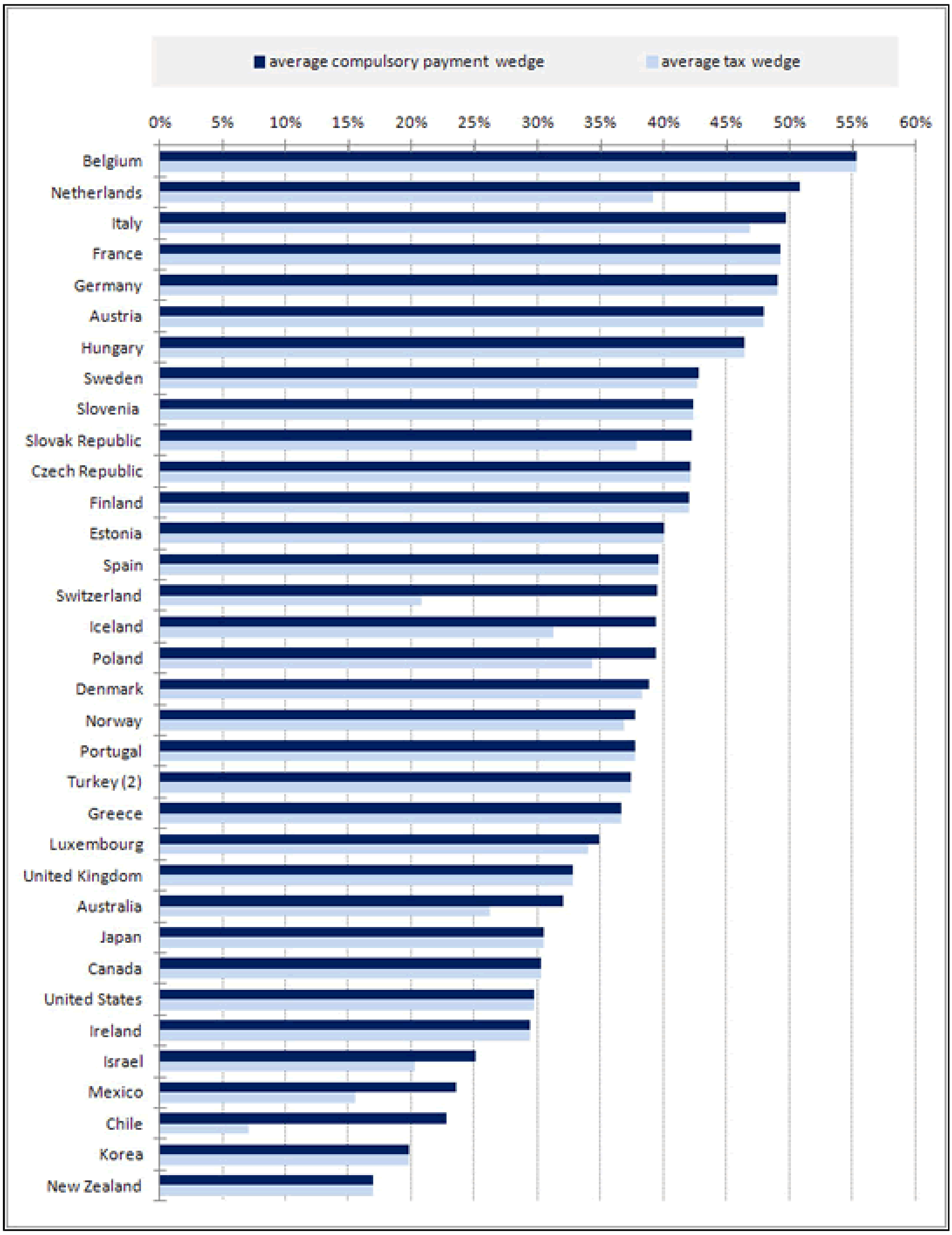
Non-tax compulsory payments as an additional burden on labour income

In many OECD countries employers have to make compulsory payments on behalf of their employees which do not qualify as taxes and social security contributions. These mainly arise either where the payments are made to organizations outside the government sector or because they are not unrequited in the sense the benefits provided are directly related to the level of the payments. In the same way, employees often have to pay additional contributions that are not classified as taxes.

However these "non-tax compulsory payments" (NTCPs) operate in a similar way to taxes in that they serve either to increase the employer's labour costs or to reduce the employee's net take-home pay. The OECD has therefore calculated a set of "compulsory payment indicators" which are designed to show the combined impact of taxes and NTCPs net of benefits. Information on these contributions and indicators is included in the OECD Tax Database (www.oecd.org/ctp/taxdatabase).

Large NTCPs have to be paid in Australia, Chile, Iceland, Israel, Italy, Mexico, the Netherlands, Norway, Poland, the Slovak Republic and Switzerland. Including NTCPs in the tax burden measures has a strong impact on the ranking of countries in terms of the overall tax and NTCP burden. This is especially the case in the Netherlands, Italy, the Slovak Republic, Switzerland, Iceland, Poland, Australia, Mexico and Chile (See Figure S.1). NTCPs are mainly paid by employers – thereby increasing total labour costs – and in most countries consist primarily of pension contributions. Only in Chile, Iceland, Israel, the Netherlands, Poland and Switzerland have employees to pay a considerable amount of NTCPs, thereby reducing net-take home pay.

Figure S.1. Average compulsory payment wedge and average tax wedge for single taxpayers without children at average earnings, 2010[1]



1. Countries are ranked by decreasing average compulsory payment wedge.
2. Turkey wage figures are based on the old definition of average production worker (Sector D in ISIC Rev.3).

There are 12 OECD countries (Australia, Belgium, Chile, the Czech Republic, Denmark, Germany, New Zealand, Poland, Portugal, Spain, Switzerland and the United States) where it is compulsory for employers to insure their employees against work-related accidents and occupational diseases with a private insurance company. These NTCPs have not been included in the compulsory payments indicators as most of these countries face difficulties in calculating a representative insurance premium/rate.

Special Feature: Wage income tax reforms and changes in tax

burdens: 2000-2009

This year's edition of Taxing Wages includes a Special Feature that looks at tax burden changes over the 2000-2009 period. The Special Feature calculates the changes in the tax burden on wage income ranging from 50% to 250% of the average wage and calculates the respective contributions of changes in income taxes, employee social security contributions (SSC), employer social security contributions and cash benefits. The analysis focuses on changes in average and marginal tax wedges as well as changes in net personal average and marginal tax rates.
The text of this Special Feature is included in the "Further analysis" section of this website. The graphical analysis for each country is included in the country specific Taxing Wages web pages: see the "Information by country" section of this website, which also includes a note with guidelines on how to interpret these graphs.

Back to the Taxing Wages home page

Top of page