Tax policy analysis

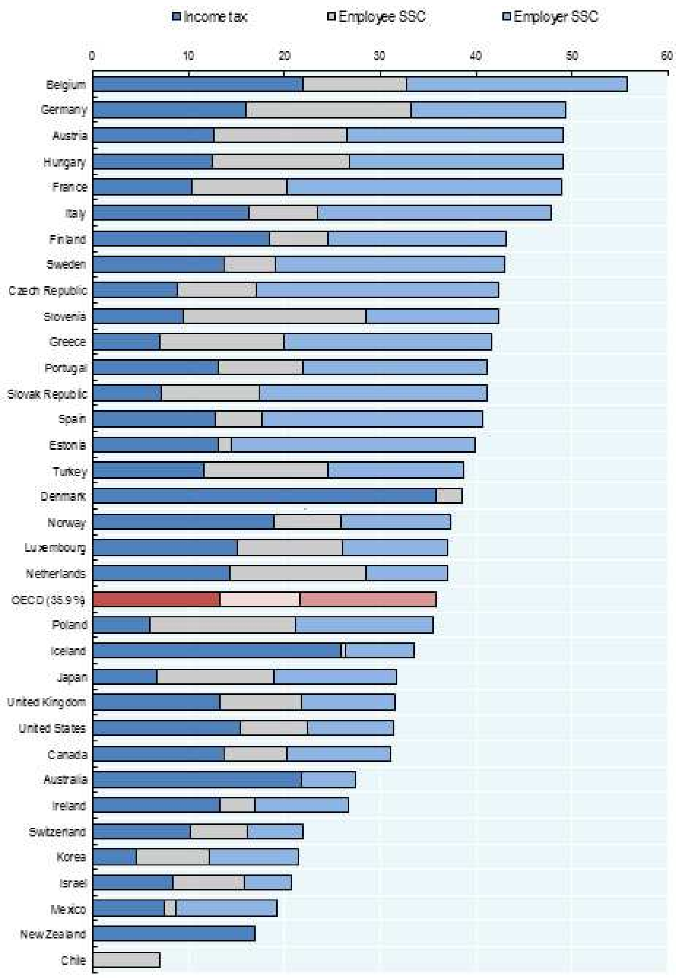
Aggressive tax planning
Consumption tax
Dispute resolution
Exchange of information
Fiscal federalism network
Global relations in taxation
Tax administration
Tax policy analysis
Tax treaties
Tax and crime
Transfer pricing

Taxing Wages: tax burden on labour income in 2013 and recent trends

A. The tax wedge overview for an average single worker in the OECD in 2013

The tax wedge between total labour costs to the employer and the corresponding net take-home pay for the average single workers without children in OECD countries varied between Belgium (56%) and Chile (7%) in 2013. The tax wedge was around 50% in Germany (49.3%), Austria (49.1%), Hungary (49.0%) and France (48.9%), and under 20% in Mexico (19.2%) and New Zealand (16.9%). The OECD average tax wedge was **35.9%** of total labour cost in 2013 (Tax Wedge 2013)

Tax wedge components as a % of labour costs[1,2] in 2013



1. Single individual without children at the income level of the average worker.
2. Includes payroll taxes where applicable.

Sources: country submissions, OECD Economic Outlook Volume 2013 (No. 94).

The percentage of labour costs paid in income tax varies considerably within OECD countries. The lowest figures are in Chile (zero) and Korea (4.6%). The highest values are in Denmark (35.8%), with Australia, Belgium and Iceland all over 20%.

The percentage of labour costs paid in employee social security contributions also varies widely ranging from zero in Australia and New Zealand to 17.1% in Germany and 19% in Slovenia.

Employers in France pay 28.7% of total labour costs in social security contributions, the highest amongst OECD countries. The corresponding figures are also more than 20% in ten other countries - Austria, Belgium, the Czech Republic, Estonia, Greece, Hungary, Italy, the Slovak Republic, Spain and Sweden.

As a percentage of labour costs, the total of employee and employer social security contributions exceeds 20% in more than half of the OECD countries. It also exceeds one-third of total labour costs in eight OECD countries: Austria, Belgium, the Czech Republic, France, Germany, Greece, Hungary and the Slovak Republic.

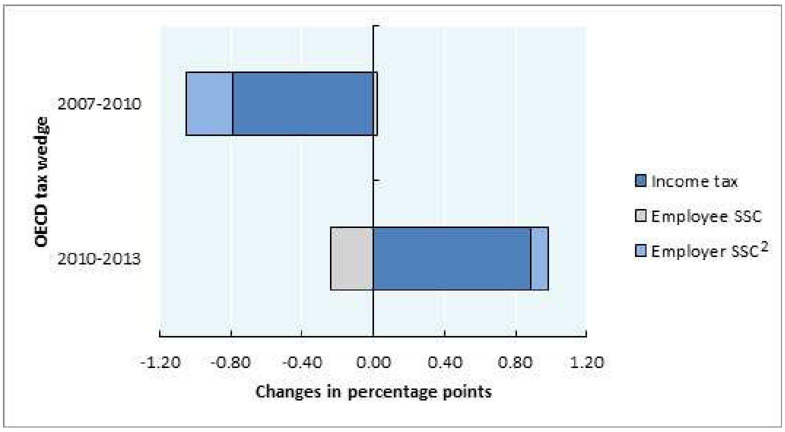
B. Employer social security contributions as the main contributors

C. Tax wedge trends for the average single worker since 2007

The OECD average tax wedge as percentage of total labour cost for those earning the average wage.

- increased by 0.2 percentage points from **35.7** to **35.9%** between 2012 and 2013,
- increased by 0.8 percentage points from **35.1** to **35.9%** between 2010 and 2013,
- previously declined by 1 percentage point from **36.1** to **35.1%** between 2007 and 2010. (Changes in OECD Tax wedge components between 2007 and 2013)

Changes in OECD tax wedge components between 2007 and 2013[1]



1.Single individual without children at the average wage level.

2. Includes payroll taxes.

Sources: country submissions, OECD Economic Outlook Volume 2013 (No. 94).

Between 2007 and 2010, the tax wedge decreased in 23 OECD countries and increased in 10. The largest decreases were in Hungary (-7.9 percentage points), Turkey (-4.8 percentage points), Israel (-4.2 percentage points) and New Zealand (-4.1 percentage points) (Tax wedge annual change between 2007 and 2010).

The tax wedge decline was mostly due to lowered PIT burden.

- Reduced statutory tax rates in 5 countries (Israel, Finland, Canada, Austria and Norway).
- Tax schedules were extended with additional lower income brackets and tax rates in Greece, New Zealand and Mexico. The medium tax bracket was suspended in Denmark. In Australia, income thresholds were increased and consequently income bracket scales broadened.
- Tax allowances and credits increased relative to earnings in 9 countries (Hungary, Sweden, Israel, Finland, the Slovak Republic, Switzerland, the United Kingdom, Germany and Portugal) due to tax relief reformed schemes or increased basic amounts.
- The average worker tax burden was also alleviated by tax credits or universal cash transfers that were introduced during that period in Denmark (“Green Check”), Luxembourg (“wage earner refundable tax credit”) and Turkey (“Minimum Living Relief”).

Between 2010 and 2013, the tax wedge rose in 21 OECD countries and fell in 9, partially reversing the reductions between 2007 and 2010 (Tax wedge annual change between 2010 and 2013).

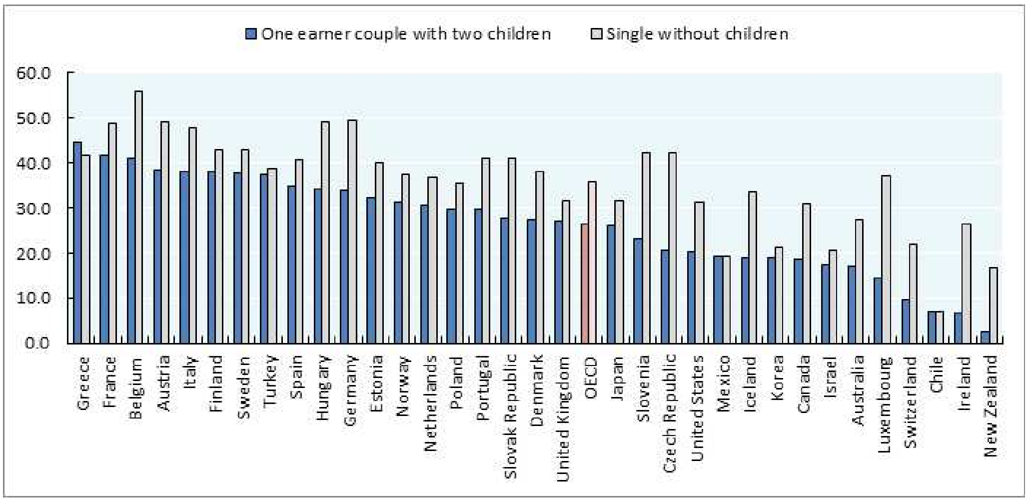
PIT was the main factor in the OECD tax wedge increase between 2010 and 2013. PIT burdens rose in 25 out of 34 countries between 2010 and 2013, largely because a higher proportion of earnings was subject to tax as the value of tax free allowances and tax credits fell relative to earnings. Only 6 countries (Australia, Denmark, Greece, the Netherlands, Portugal and Spain) increased their statutory income tax rates for workers on average earnings. Surtaxes introduced during that period were still in place at the end of 2013 in 2 countries:

- In Japan, taxpayers have been required to file tax returns and make tax payments for additional 2.1% of the base income taxes from 2013 through 2037 annually together with the regular income tax of respective years.
- In Portugal, a surtax was introduced in 2011 and re-introduced in 2013 for taxable income above the annual national minimum wage, with a tax credit for dependents.

D. Tax wedge for families with children

The OECD average tax wedge for a one earner couple with two children was **26.4%** of the total labour cost in 2013. This figure was 9.5 percentage points lower than the one observed for the individual without children (Comparison of total tax wedge by family type). In fact, many OECD countries provide a fiscal benefit to the former through advantageous tax treatment and/or cash transfers.

Tax wedge by family type in 2013[1,2]



1.Countries ranked by decreasing tax wedge of the one earner couple with two children.

2. The households are at the average wage level.

Sources: country submissions, OECD Economic Outlook Volume 2013 (No. 94).

In 2013, the highest tax wedges for one earner couples with two children at the average wage were in Greece (44.5%), France (41.6%) and Belgium (41.0%). New Zealand had the smallest tax wedge for these families (2.4%), followed by Ireland (6.8%), Chile (7%), and Switzerland (9.5%).

The savings realised by a one earner married couple compared to a single worker were greater than 20 per cent of labour costs in the Czech Republic and Luxembourg and greater than 15 per cent of labour costs in three other countries - Germany, Ireland and Slovenia.

At the other end of the scale, the tax burdens were the same in Chile and Mexico and different by less than three percentage points in Greece, Korea and Turkey.

In 2013, the tax wedge of a one earner married couple with two children increased in 21 and fell in 12 OECD countries (Comparison of total tax wedge by family type)

- In 80% of countries the change did not exceed plus or minus one percentage point.
- There were increases of greater than 1 percentage point in four countries - New Zealand and Portugal (+1.9), the Slovak Republic (+1.8) and the United States (+1.6).
- The tax wedge fell by 1.5 percentage points in France and the Netherlands; and by lower amounts in ten other countries: Belgium, the Czech Republic, Denmark, Estonia, Germany, Hungary, Italy, Slovenia, Switzerland and the United Kingdom.

The fiscal preference for families compared with singles increased in 7 OECD countries: Belgium, the Czech Republic, France, Italy, Luxembourg, Portugal and Switzerland. Additionally, the effects of changes in the tax system on the tax wedge were independent of the family type in Chile, Denmark, Ireland, Japan, Mexico and Turkey.

Downloadable tables/figures

Tax wedge 2013

Annual change of tax wedge components between 2012 and 2013

Changes in OECD Tax wedge components between 2007 and 2013

Annual change of tax wedge components between 2007 and 2010

Annual change of tax wedge components between 2010 and 2013

Comparison of total tax wedge by family type

Tax wedge definitions

Back to the home page

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Related websites

- The OECD Tax database
- Revenue Statistics 2013 edition
- Benefits and Wages: OECD Indicators
- Tax & Benefit indicators database (European Commission)

Tax articles

- Taxing Working Families: A Distributional Analysis (*Tax Policy Study N° 12*)
- Modelling the Tax Burden on Labour Income in Brazil, China, India, Indonesia and South Africa *(Tax policy working paper N° 14)*
- Non-Tax Compulsory Payments as an Additional Burden on Labour Income (*Tax policy working paper N° 8*)
- Fundamental Reform of Personal Income Tax (*Tax Policy Study N° 13*)
- Consumption Taxation as an Additional Burden on Labour Income (*Tax policy working paper N° 7*)
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