Executive Summary

The tax wedge, the primary indicator presented in this Report, measures the difference between the labour costs to the employer and the corresponding net take-home pay of the employee. It is calculated as the sum of the total personal income tax and social security contributions (SSCs) paid by employees and employers, minus cash benefits received, as a proportion of the total labour costs for employers.[2]

This Report finds that labour taxation rebounded across the OECD in 2021 as countries recovered from the severe economic contraction experienced in 2020 as a result of the COVID-19 pandemic. In most countries, COVID-19 measures were withdrawn or scaled back and average wages rose, while a number of countries also enacted significant reforms to labour taxation. As a result, the tax wedge for most household types increased in a majority of OECD countries between 2020 and 2021, even though the OECD average tax wedge declined slightly due to large decreases in a small number of countries. In most countries, increases to the tax wedge in 2021 have more than offset the sharp declines recorded in 2020 and have seen the tax wedge rebound to higher levels than in 2019, before the pandemic.

For the single worker earning the average wage, the OECD average tax wedge was 34.6% in 2021, a decrease of 0.06 percentage points from 2020. The tax wedge increased in 24 of the 38 OECD countries, decreased in 12 and remained unchanged in two. Increases larger than one percentage point were observed in Israel (1.02 percentage points), the United States (1.20 percentage points) and Finland (1.33 percentage points). In almost all countries where the tax wedge increased for the single worker, the rise was driven by higher personal income tax. In some countries, this was a result of higher average wages interacting with progressive income tax systems. In others, it was driven by a higher proportion of earnings becoming subject to tax as the value of tax allowances and tax credits fell relative to the average wage.

The decrease in the tax wedge for the single worker earning the average wage was greater than one percentage point in Australia (-1.25 percentage points), Latvia (-1.73 percentage points), Greece (-2.23 percentage points) and the Czech Republic (-4.12 percentage points). Where the tax wedge decreased, this was primarily due to lower personal income tax in a majority of cases. In Australia, the income tax schedule was reformed by enlarging the tax brackets, and the employer’s payroll tax rate decreased from 5.45% to 4.85%[3] in the 2020-2021 tax year. Chile and Sweden both raised the income threshold within their tax schedule. In the Czech Republic, the personal income tax base was reformed to include only the employee’s gross income in 2021. In Germany, the Solidarity Surcharge (a surtax) paid by the single worker earning the average wage in 2020 was not paid in 2021, as the exempt income limit was significantly increased. In Latvia, the tax allowance for workers on the average wage was raised in 2021. In Mexico, the decrease in personal income tax derived from a decline in the average wage.

The OECD average tax wedge for the two-earner couple with two children decreased by 0.36 percentage points between 2020 and 2021 to 28.8%. For this household type, the tax wedge increased in 23 countries, decreased in 14 and remained the same in one. Increases exceeded one percentage point in Luxembourg and Canada (1.14 percentage points), Lithuania (1.25 percentage points), Austria (1.28 percentage points), Israel (1.4 percentage points) and Finland (1.49 percentage points). Decreases of more than one percentage point were observed in Chile (-15.28 percentage points), the Czech Republic (-4.8 percentage points), Greece (-2.2 percentage points), Mexico (-1.54 percentage points) and Australia (-1.43 percentage points).

The OECD average tax wedge for the couple with one earner and two children decreased by 0.42 percentage points between 2020 and 2021 to 24.6%. The tax wedge increased in 27 countries, decreased in 10 and remained unchanged in one. For the single parent household type, which is examined in detail in the Special Feature, the tax wedge increased slightly on average by 0.1 percentage points to 15.04% in 2021. It increased in 26 countries, declined in 11 and stayed the same in one. In most countries where the tax wedge for families with children declined between 2020 and 2021, this resulted from changes in income tax systems and SSCs, as well as from increased cash benefits or tax provisions for dependent children, including COVID-19 support measures.

The Report contains a Special Feature on the impact of COVID-19 on the tax wedge in OECD countries. This examines the cumulative impact of the COVID-19 crisis on labour taxation in the OECD, and compares this with longer-term trends and the impact of the Global Financial Crisis on the tax wedge.

Key findings

The average tax wedge for single workers increased in the majority of countries in 2021

- Across OECD countries, the average personal income tax and total employee and employer SSCs on employment incomes of single workers with no children earning the average national wage was 34.6% in 2021, a decrease of 0.06 percentage points from 2020.
- Between 2020 and 2021, the tax wedge for this household type increased in 24 OECD countries and fell in 12. Increases larger than one percentage point were observed in Israel, the United States and Finland. The decrease was greater than one percentage point in Australia, Latvia, Greece and the Czech Republic.
- In 2021, the largest average tax wedges for this household type were observed in Belgium (52.6%), Germany (48.1%), Austria (47.8%), France (47.0%) and Italy (46.5%). The smallest were observed in Colombia (zero), Chile (7.0%) and New Zealand (19.4%).
- The personal average tax rate for a single worker at average earnings in OECD countries was 24.6% of gross wage earnings in 2021. Belgium had the highest rate at 39.8%; Denmark, Germany and Lithuania were the only other countries with rates above 35%. The lowest personal average tax rates were observed in Costa Rica (10.5%), Mexico (10.2%), Chile (7.0%) and Colombia (0.0%).
- The average wage for the single worker increased in all OECD countries, with the exception of Mexico and Greece. Real wages (before personal income tax and employee SSCs) increased by more than two percentage points in thirteen countries and decreased by more than two percentage points in two countries.

The average tax wedge for households with children varied across the OECD in 2021

- The OECD average tax wedge for the two-earner couple with two children was 28.8% in 2021, larger than the tax wedge for couples with one earner at the average wage (24.6%) and the single parent household (15.5%).
- The largest decline across all eight household types between 2020 and 2021 was observed in the tax wedge for couples with one earner at the average wage and two children. This decreased by 0.42 percentage points on average despite declining in only 10 of 38 countries. Decreases of more than one percentage point were observed in five countries: Chile (-25.52 percentage points),

the Czech Republic (-5.04 percentage points), Greece (-2.38 percentage points), Australia (-1.73 percentage points) and the United States (-1.59 percentage points).

- In 2021, the tax wedge for this household type was highest in France (39.0%), with Finland, Turkey, Italy, Sweden and Belgium also exceeding 35.0%. Colombia and Chile had negative tax wedges, of -5.0% and -18.5%, respectively.
- The tax wedge for married couples with one earner and two children was lower than for the single worker in almost all OECD countries. The difference was greater than 20% of labour costs in Chile, Luxembourg and Poland, and it exceeded 15% of labour costs in Belgium, the Czech Republic, Germany and the United States.

The impact of COVID-19 on the tax wedge in OECD countries (Special Feature)

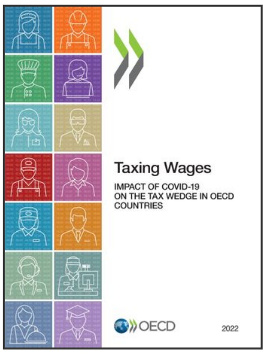
- Tax wedges declined on average and across a majority of OECD countries in 2020 as governments implemented a range of policies in response to the COVID-19 pandemic.
- However, tax wedges rebounded in the majority of countries in 2021 as most of these measures were withdrawn or scaled back and average wages increased in 36 out of 38 countries.
- For the one-earner couple with two children on 100% of the average wage and for the single parent on 67% of the average wage, the tax wedge was greater in 2021 than it was in 2019 in 21 countries (versus 16 countries for the single worker on 100% of the average wage).
- The average tax wedge for the one-earner couple declined by -1.2 percentage points and for the single parent household by -1.0 percentage point between 2019 and 2021, which was larger than the average decline for the single worker (-0.6 percentage points).

Notes

[1] Earlier editions were published under the title The Tax/Benefit Position of Employees (1996–1998 editions) and The Tax/Benefit Position of Production Workers (editions published before 1996).

[2] While the *Taxing Wages* models calculate the tax wedge (as well as average and marginal tax rates) for eight household types, the analysis in this Report focuses on four of those household types: the single worker earning the average wage, two-earner couples with two children earning 100% and 67% of the average wage, couples with one earner at the average wage and two children, and a single parent earning 67% of the average wage.

[3] In Australia, employer payroll tax rates, thresholds and deductions differ between States. The payroll tax rate that is applied in the State of New South Wales is used in the Taxing Wages calculations.



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