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Executive summary

After increasing each year since 2011, the tax burden on the average worker remained at 35.9% in OECD countries for a second consecutive year in 2015. The tax burden or tax wedge is measured by taking the total taxes and social security contributions (SSCs) paid by employees and employers, minus family benefits received as a proportion of the total labour costs for employers. This measure provides an analysis of how these levies and cash benefits combine together to impact on net household income.

Although the OECD average remained stable, 24 OECD countries have experienced a higher labour tax burden compared with 2014, however, this was offset by reductions in the tax burden in 8 countries. Among these, the countries with the largest decreases were Estonia, Greece and Spain, all with decreases of at least one percentage point.

In those countries where there was a higher tax burden on the average worker, the main factor contributing to the increase were changes to personal income taxes (PIT), even though only 2 countries raised statutory PIT rates at the average wage level (Denmark and the Netherlands). Most of the PIT increases were driven by a higher proportion of earnings becoming subject to tax as the value of tax free allowances and tax credits fell relative to earnings. In most countries where there was a fall in the tax burden, reductions in PIT were the key factor, however, lower SSCs also played a significant role in the case of Estonia, Greece and the Netherlands.

Over the past five years, the labour tax burden has increased in 24 OECD countries and fallen in 9 others. At the same time, PIT burdens have risen in 25 out of 34 countries. In 2015, only 7 countries had higher statutory PIT rates for workers on average earnings than in 2010, although 2 others had higher surtaxes. In 8 countries, the PIT rates were lower compared with 2010. This report looks at how these changes affect various types of household, such as single earners, families with or without children, or single parents. In all OECD countries, the tax wedge for families with children is either lower or, in a small minority of cases, the same as single earners without children.

The report also contains a Special Feature examining how the tax and in-work benefit systems, including provisions targeted at children, have impact on the incentives for second earners to enter the workforce. The size of the second earners' average tax burden, and therefore the incentives to enter the labour market, not only depend on the underlying PIT and SSCs levied on the second earner's income, but are also influenced by a number of design aspects of PIT systems, including the withdrawal of dependent spouse tax provisions and family-based taxation.

There are two main reasons for this. First, the second earner average tax burden may be higher because a dependent spouse tax allowance or tax credit – which lowers the tax burden on the income of a primary earner who has a dependent (i.e. non-working) spouse –

is fully or partially lost when the second earner moves into employment. Second, the tax wedge can be higher for second earners due to the adoption of family-based rather than individual-based taxation. Family-based taxation has been adopted by a number of countries for equity purposes as it ensures that families with the same total income pay the same total income tax – irrespective of who has earned the income. However, under family-based taxation, the second earner effectively pays tax at a higher part of the income tax rate schedule than they would under individual-based taxation because the primary earner is already gaining the full benefit from the lower part of the tax rate schedule. This effect increases with the level of the primary earner's income.

Key findings

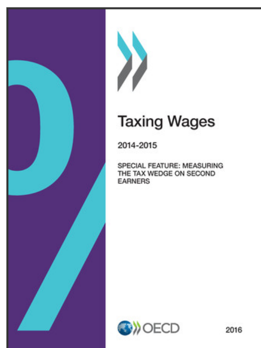
The average tax burden in the OECD remained unchanged in 2015

- Across OECD countries, the average tax and social security burden on employment incomes remained at 35.9% for a second consecutive year in 2015. This followed a rise totalling 0.9 percentage points between 2010 and 2014. This reversed the decline from 36.0% to 35.0% between 2007 and 2010.
- The highest average tax burdens for childless single workers earning the average national wage were in Belgium (55.3%), Austria (49.5%), Germany (49.4%) and Hungary (49.0%). The lowest were in Chile (7%), New Zealand (17.6%) and Mexico (19.7%).
- In 2015, the tax wedge increased in 24 of 34 countries, fell in 8 and remained unchanged in Chile and Hungary.
- There was an increase of more than 0.4 percentage points in the overall tax burden in 5 countries – Australia, Luxembourg, Israel, Italy and Portugal. All of these countries had significant PIT increases and two also had significant SSC increases.
- A decline of one percentage point or more was experienced in 3 countries – Greece (-1.3 percentage points), Spain (-1.2 percentage points) and Estonia (-1.0 percentage point). Another 2 countries – Ireland and the Netherlands – had decreases of more than -0.4 percentage points. Of these 5 countries, 3 had significant SSC decreases and 3 had significant PIT decreases.
- Changes to the PIT were the main contributor to an increasing total tax wedge in 20 of the 24 countries. The largest increase was in the Netherlands (+1.23 percentage points) although the overall tax wedge decreased by 0.59 percentage points as there was a shift away from SSCs towards PIT.
- Changes to PIT were also the primary contributing factor in most countries where the tax burden fell in 2015. The exceptions were the Netherlands, where the employee SSCs fell by 1.71 percentage points, and Greece, where the employer SSCs declined by 0.92 percentage points.

Tax burdens in families with children

- The highest tax wedges for one-earner families with two children at the average wage were in France (40.5%) and Belgium (40.4%). Austria, Finland and Italy had tax wedges of between 39% and 40%. New Zealand had the smallest tax wedge for these families (4.9%), followed by Chile (7%), Ireland (9.5%) and Switzerland (9.8%). The average for OECD countries was 26.7%.

- The largest increases in the tax burden for one earner families with children were in Iceland (1.5 percentage points) and New Zealand (1.2 percentage points) and the largest fall in Estonia (-4.4 percentage points) mainly due to increased cash benefits.
- The tax wedge for families with children is lower than that for single individuals without children in all OECD countries except in Chile and Mexico, where both family types have the same level of tax burden. The differences are more than 15% of labour costs in the Czech Republic, Germany, Ireland, Luxembourg and Slovenia.



From:

Taxing Wages 2016

Access the complete publication at:

https://doi.org/10.1787/tax_wages-2016-en

Please cite this chapter as:

OECD (2016), “Executive summary”, in *Taxing Wages 2016*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/tax_wages-2016-2-en

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