



# **Taxing Wages applications: Which tax policy questions can be addressed?**

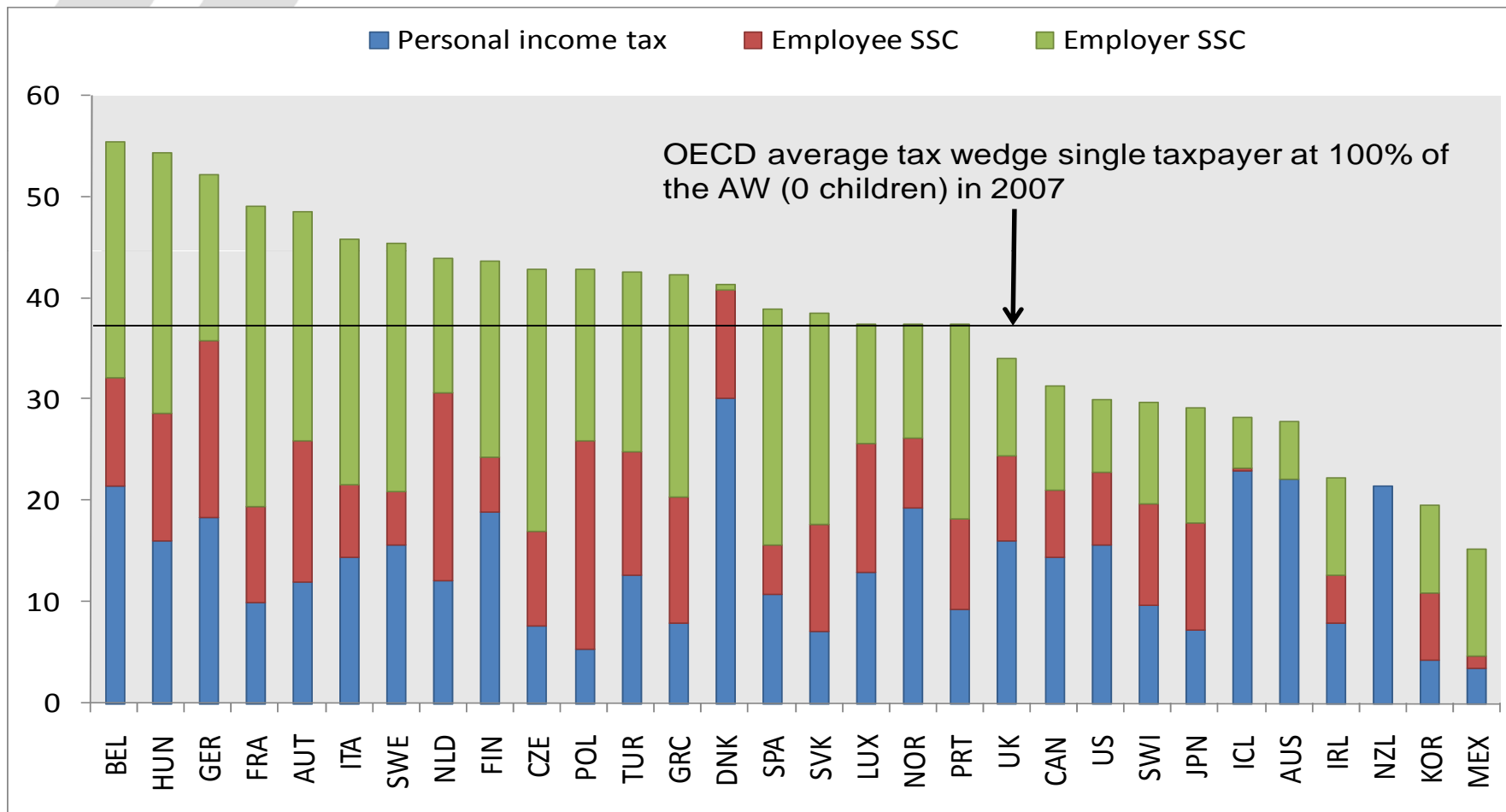
**Bert Brys**

**OECD  
Centre for Tax Policy and Administration**

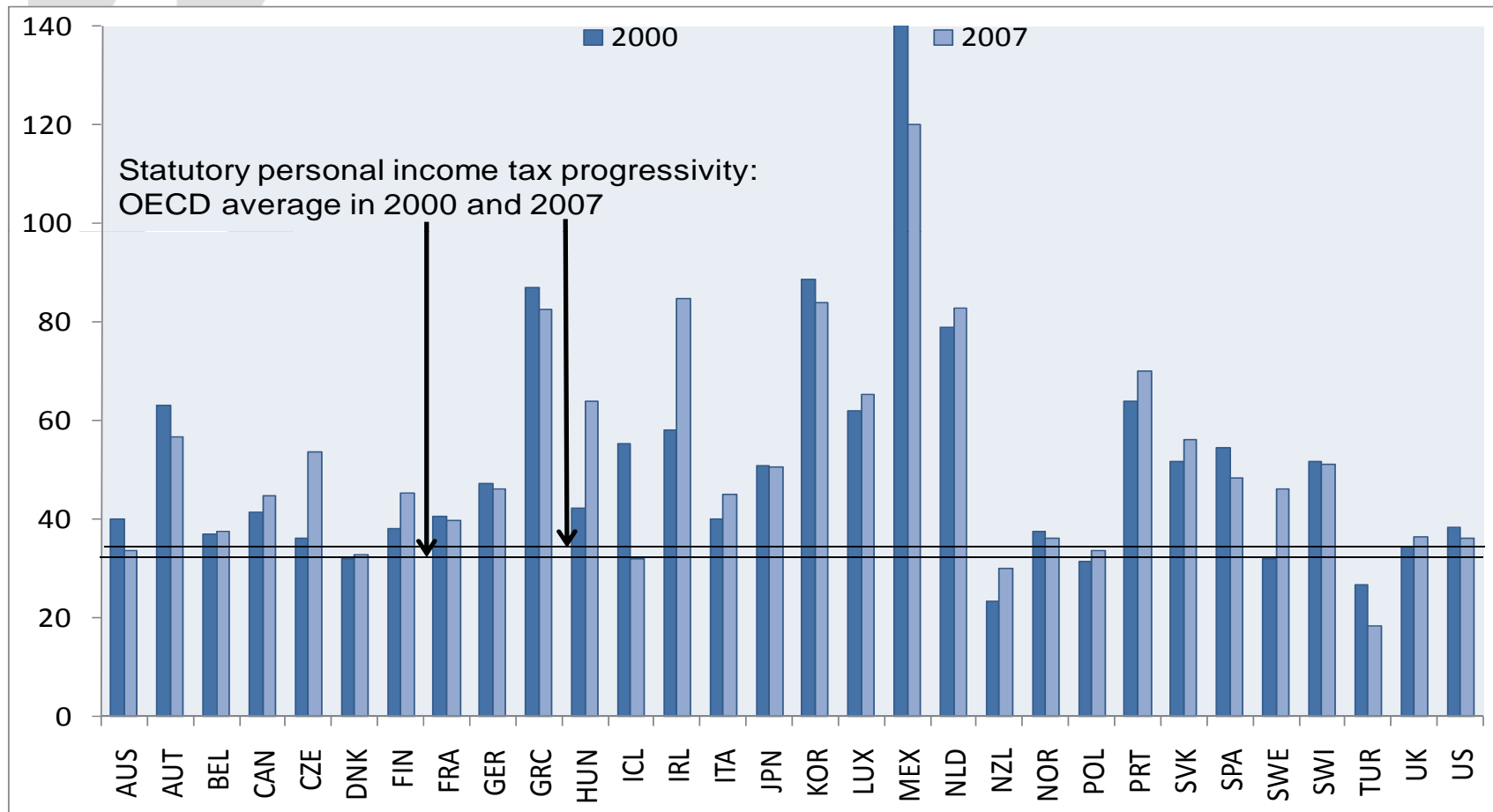


**DECOMPOSITION OF THE TAX WEDGE,  
INTERNATIONAL COMPARISON,  
STATUTORY TAX WEDGE PROGRESSIVITY**

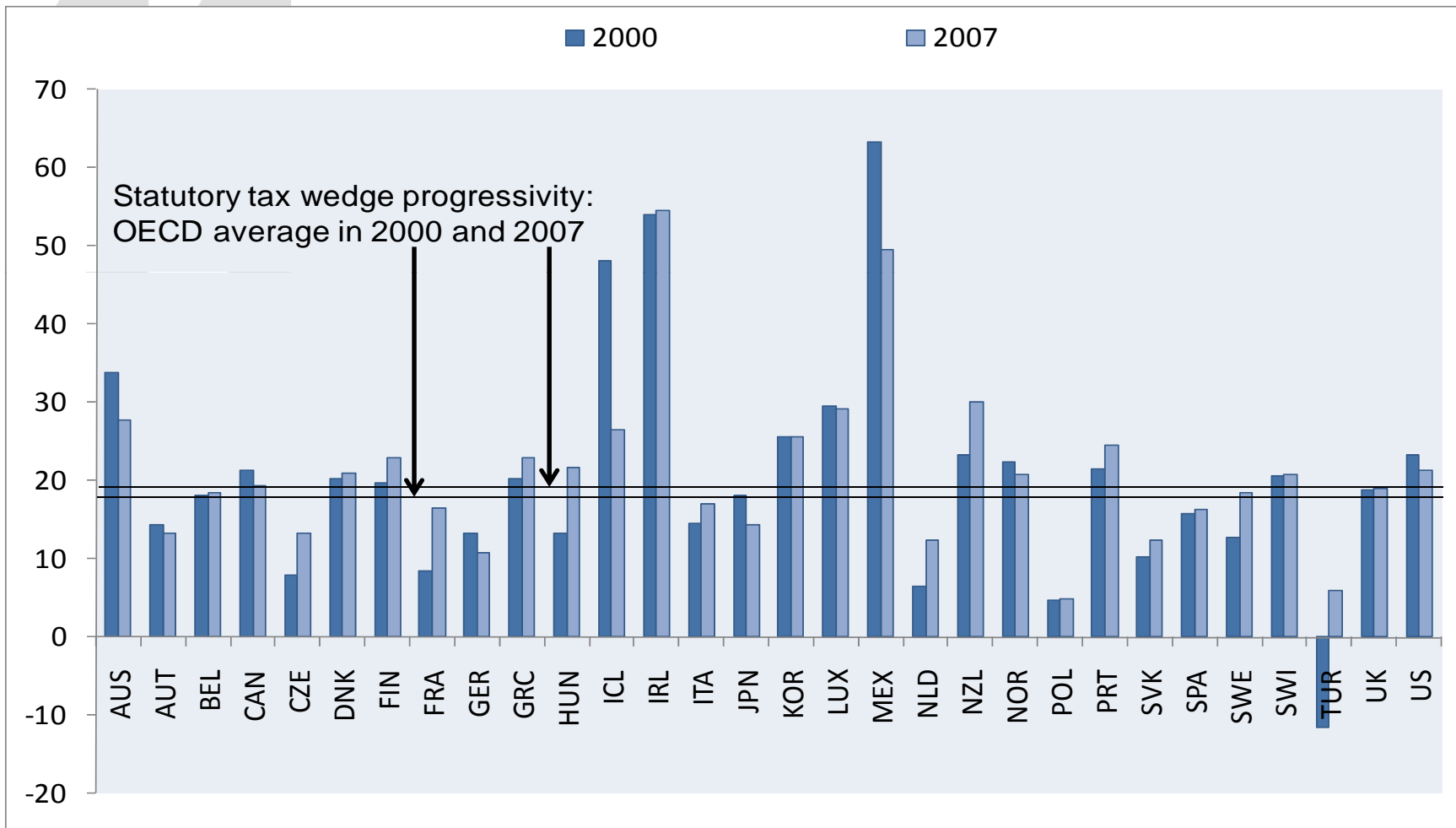
# Tax wedge components single taxpayer at 100% of the AW, 0 children (2007)



# Average personal income tax progressivity $((T_{167}-T_{67})/T_{167}) * 100$



# Average tax wedge progressivity $((TW_{167}-TW_{67})/TW_{167}) * 100$

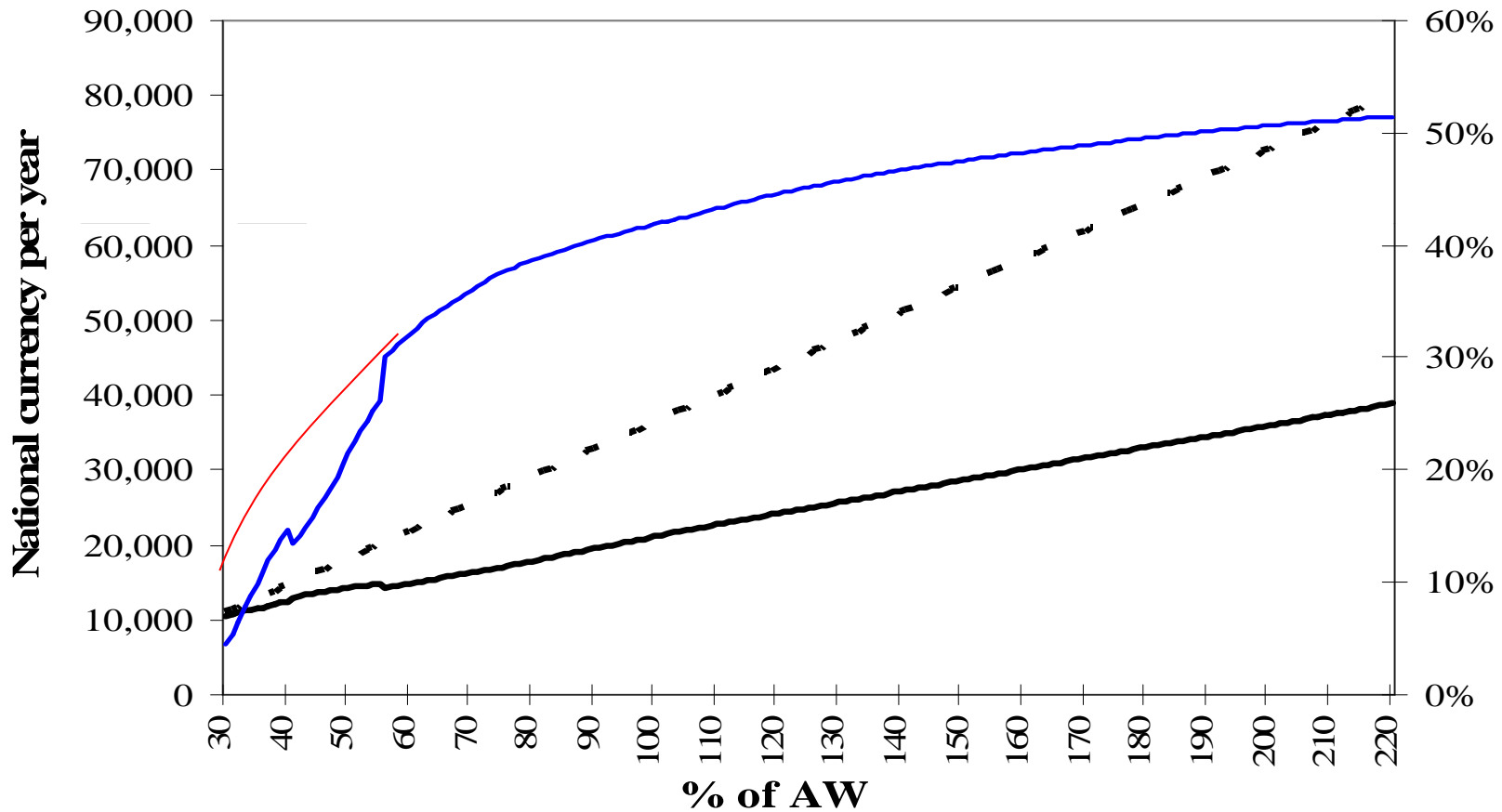




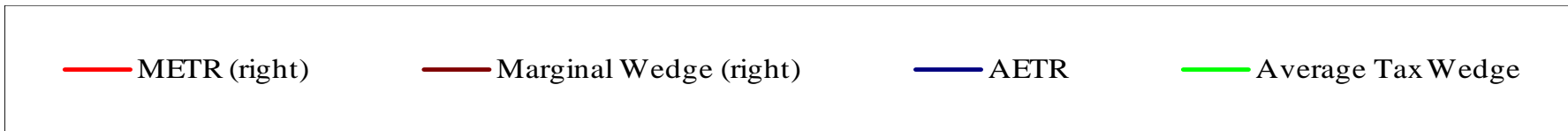
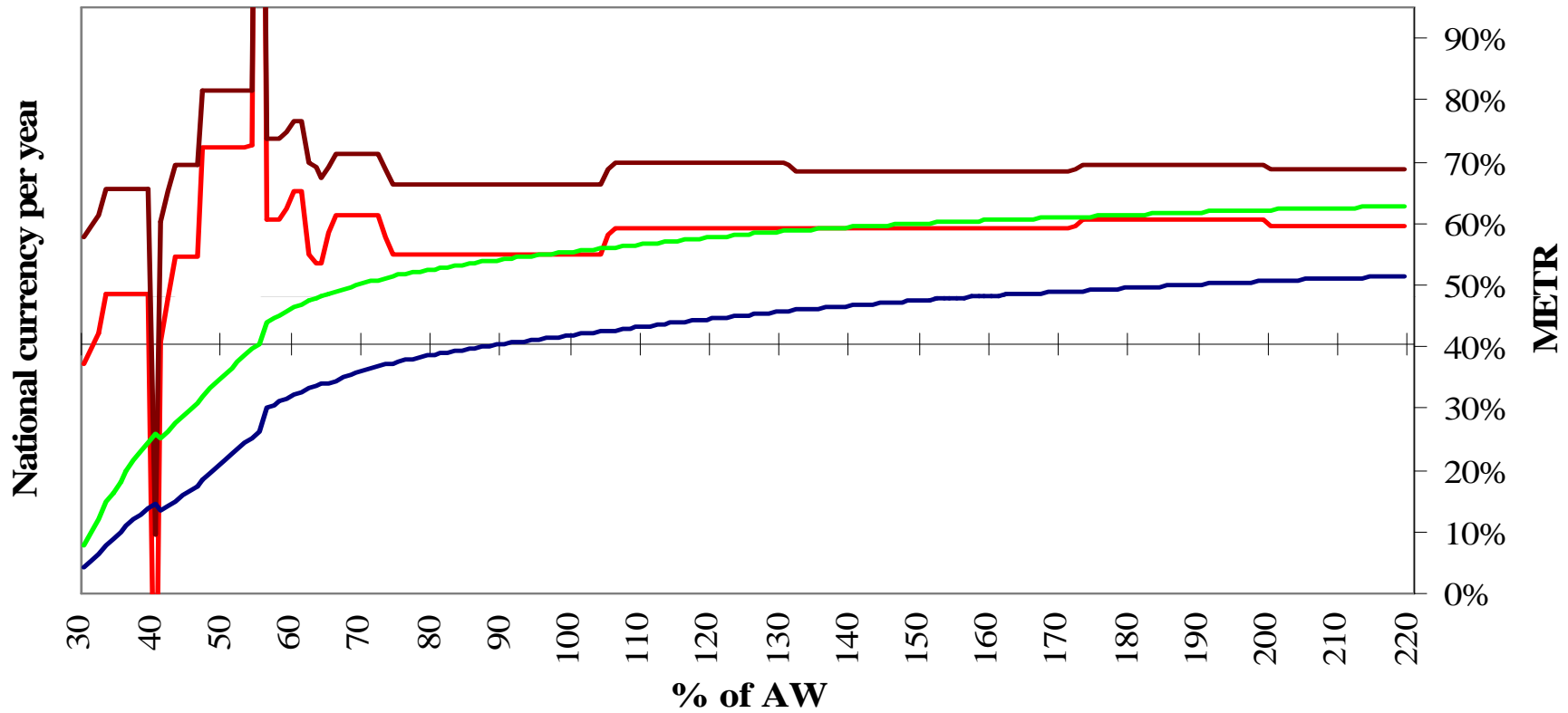
# **MAKE WORK PAY POLICIES / IN-WORK TAX CREDITS**

# BELGIUM: single, 0 children, 2005

## Average income tax + employee SSC – cash transfers



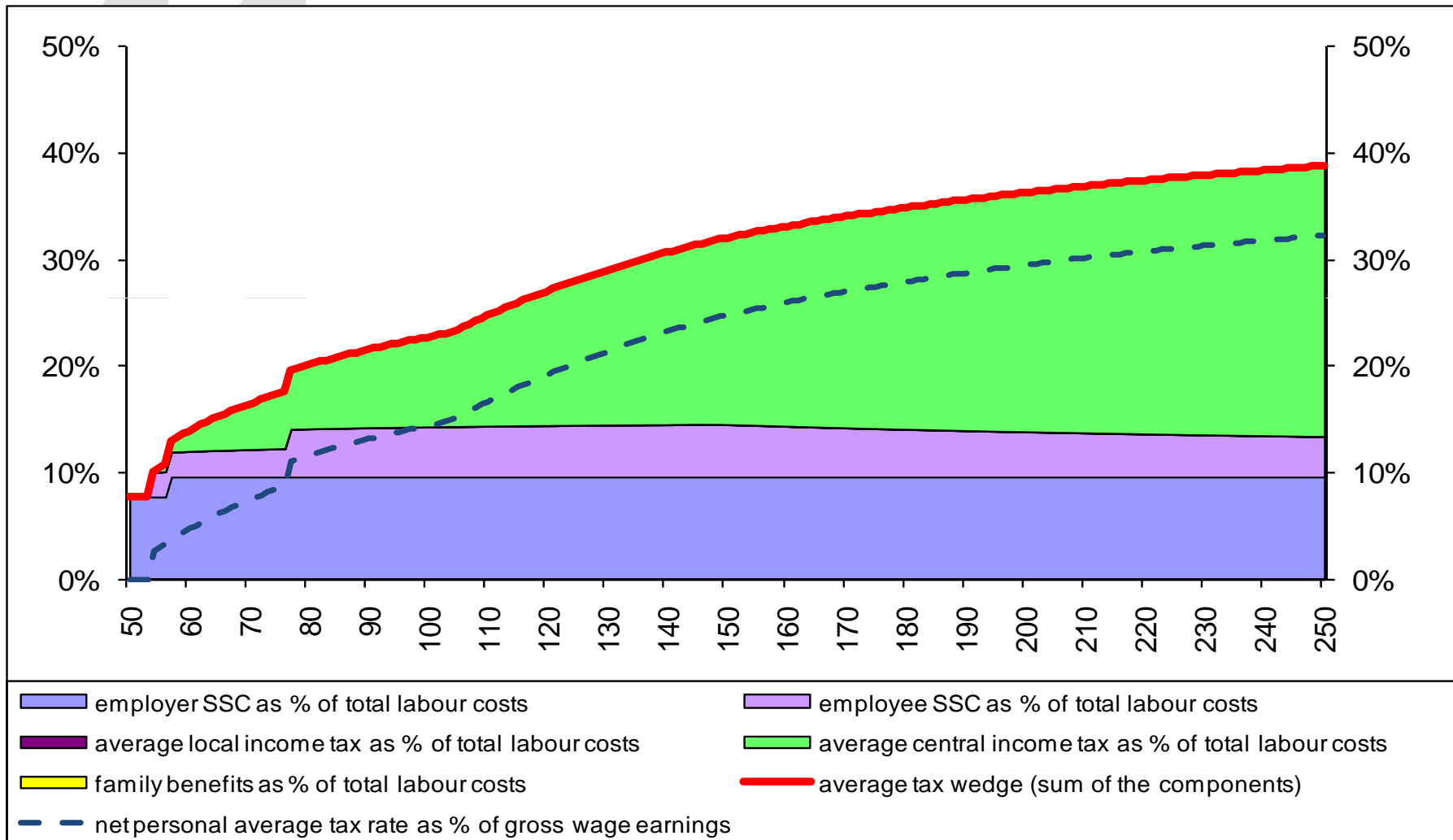
# BELGIUM: single, 0 children, 2005



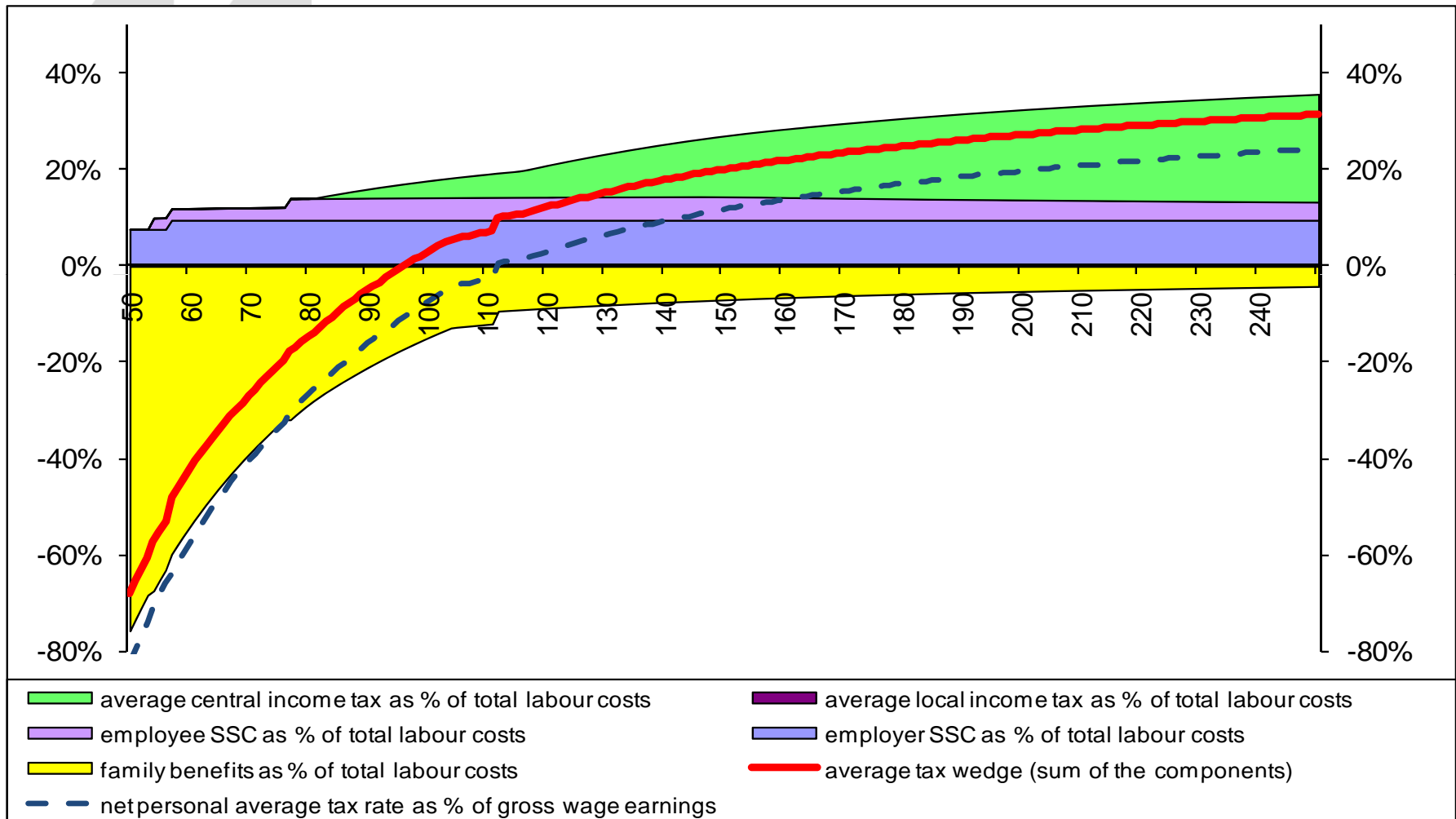


# HOW GENEROUS IS A COUNTRY'S BENEFIT SYSTEM?

# Ireland, single taxpayer 0 children 2007



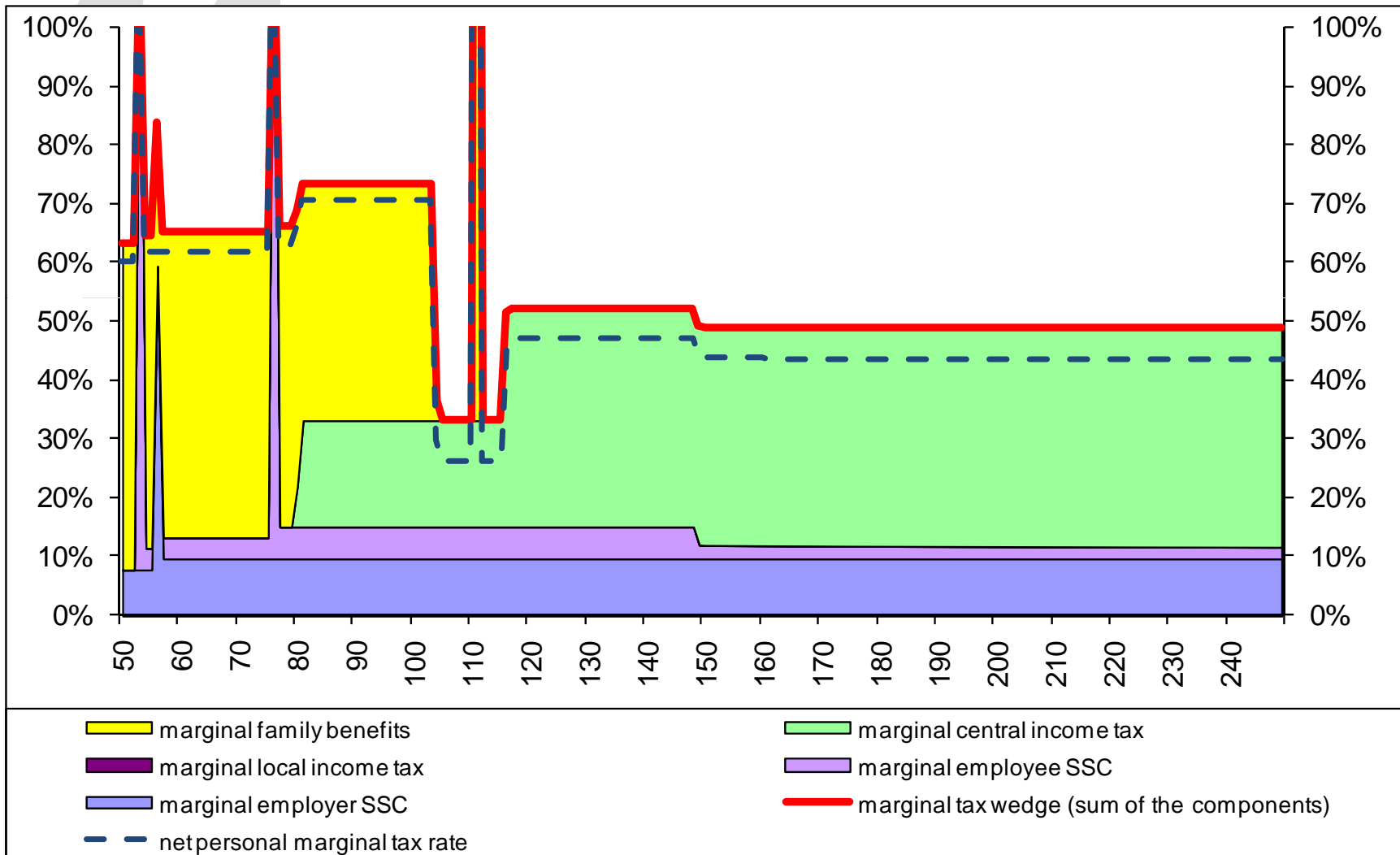
# Ireland, single parent 2 children 2007





**WHAT IS THE IMPACT OF REDUCING  
THE AVAILABLE CHILD BENEFITS  
WITH INCOME?**

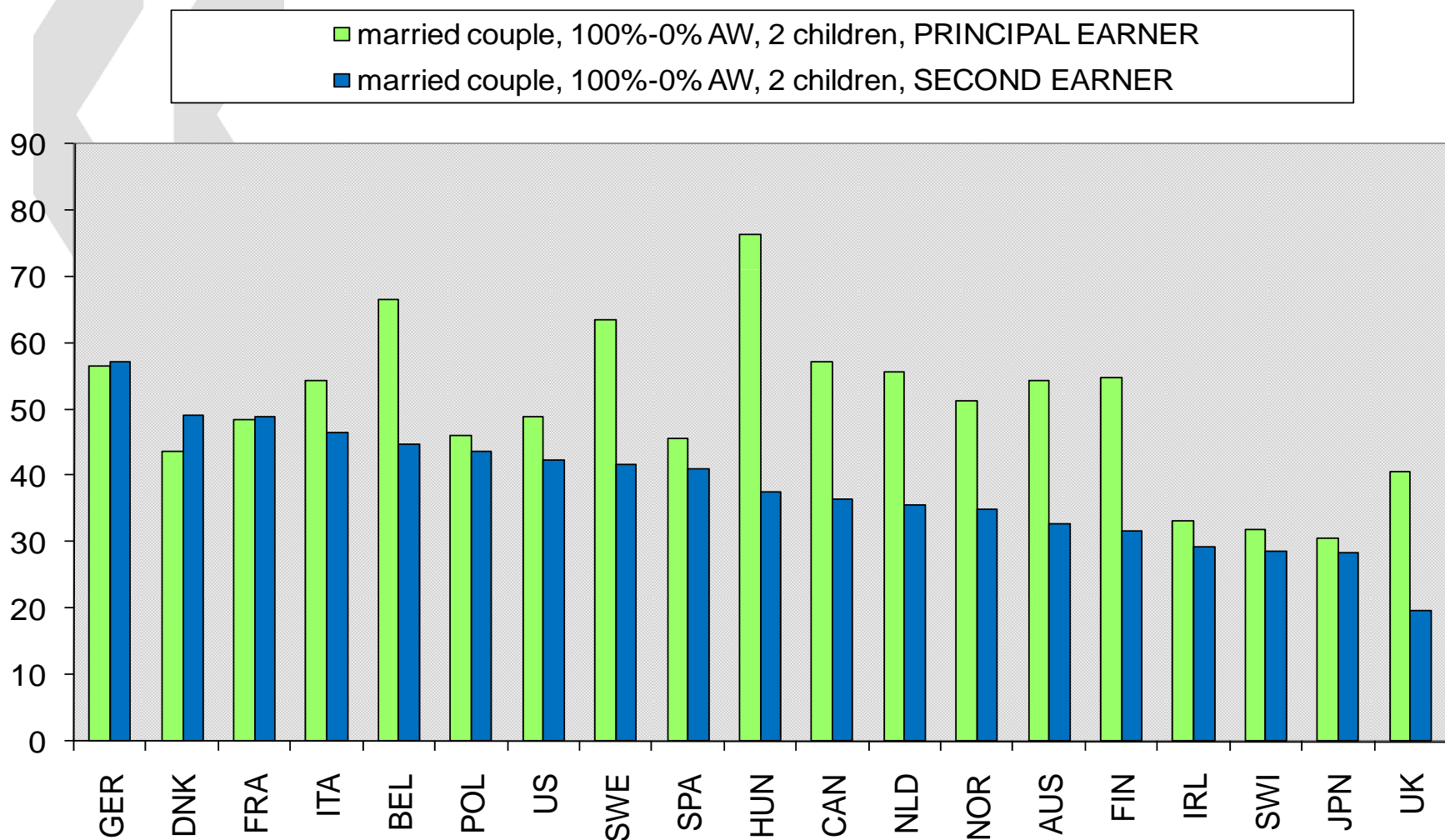
# Ireland, single parent 2 children 2007





**DO SECONDARY EARNERS FACE A  
TAX-INDUCED INCENTIVE  
TO ENTER THE LABOUR MARKET?**

# Marginal tax wedge one-earner married couple, 2 children, 2006





## **BENEFITS AND WAGES:**

**About benefits, poverty lines, net replacement rates and unemployment trap**

# Benefits and Wages publication: including additional benefits in the Taxing Wages framework

- Unemployment insurance
- Unemployment assistance
- Social assistance
- Benefits available to the young unemployed
- Housing benefits
- Family benefits
- Lone-parent benefits
- Employment-conditional benefits

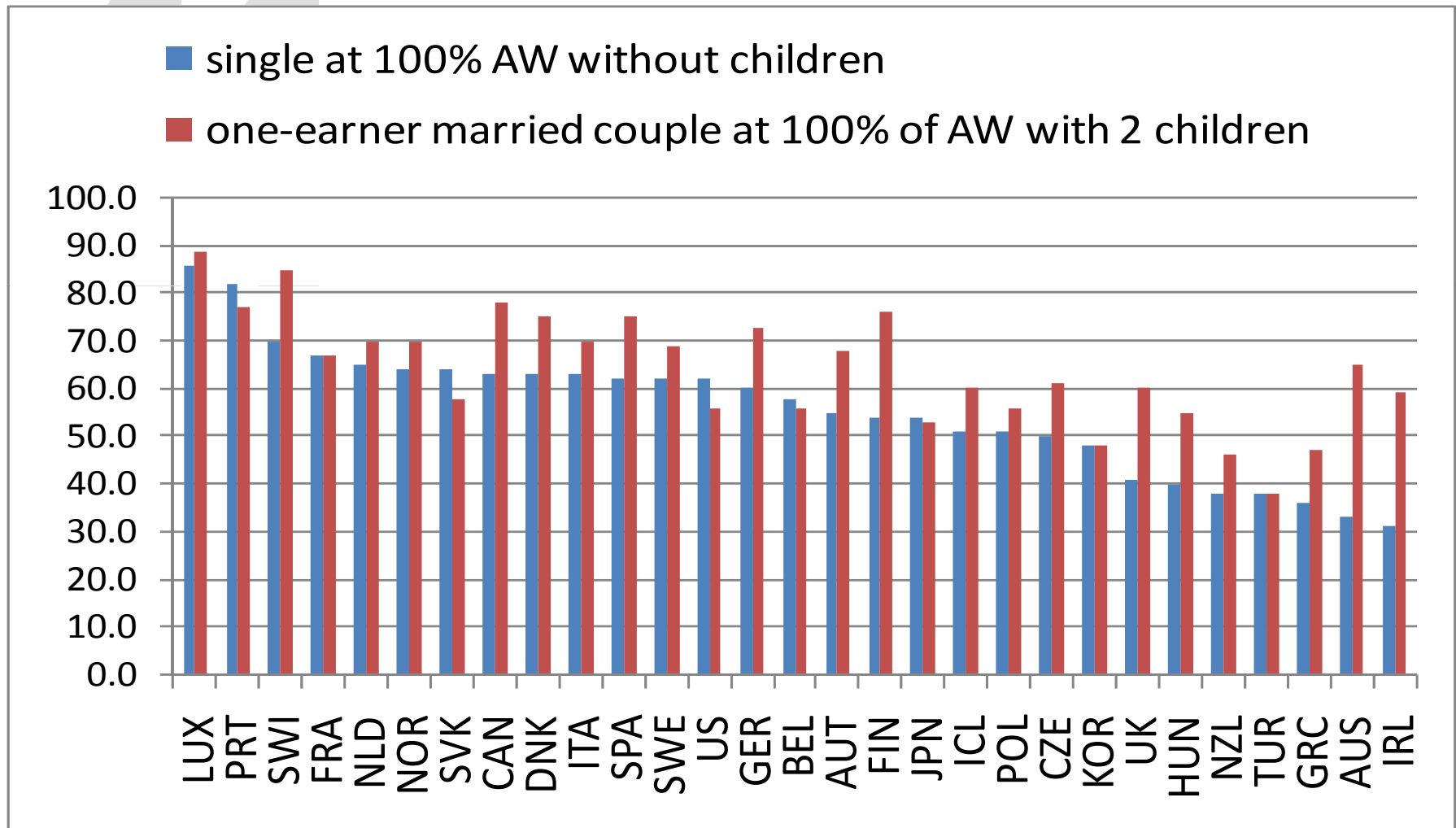
## Net replacement rates

- Net replacement rates (NRR) measure to which extent tax-benefit regulations assure income adequacy in case of loss of employment.

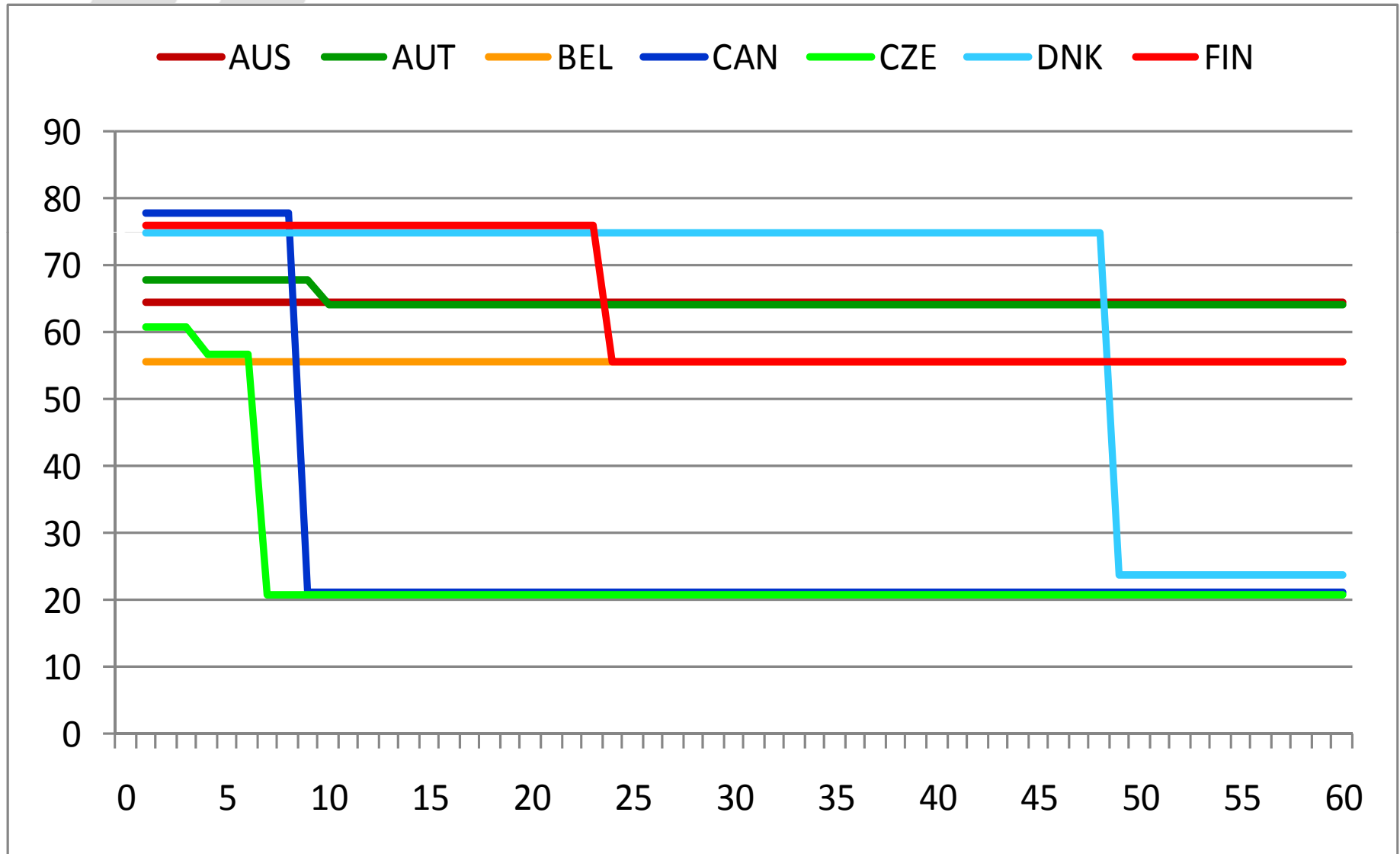
$$\text{NRR} = \text{net income while out of work} / \text{net income while in work}$$

- NRRs compare total family income between two different work situations of one particular household member. They capture the degree of income protection provided by both the tax-benefit system (and any incomes of other household members)

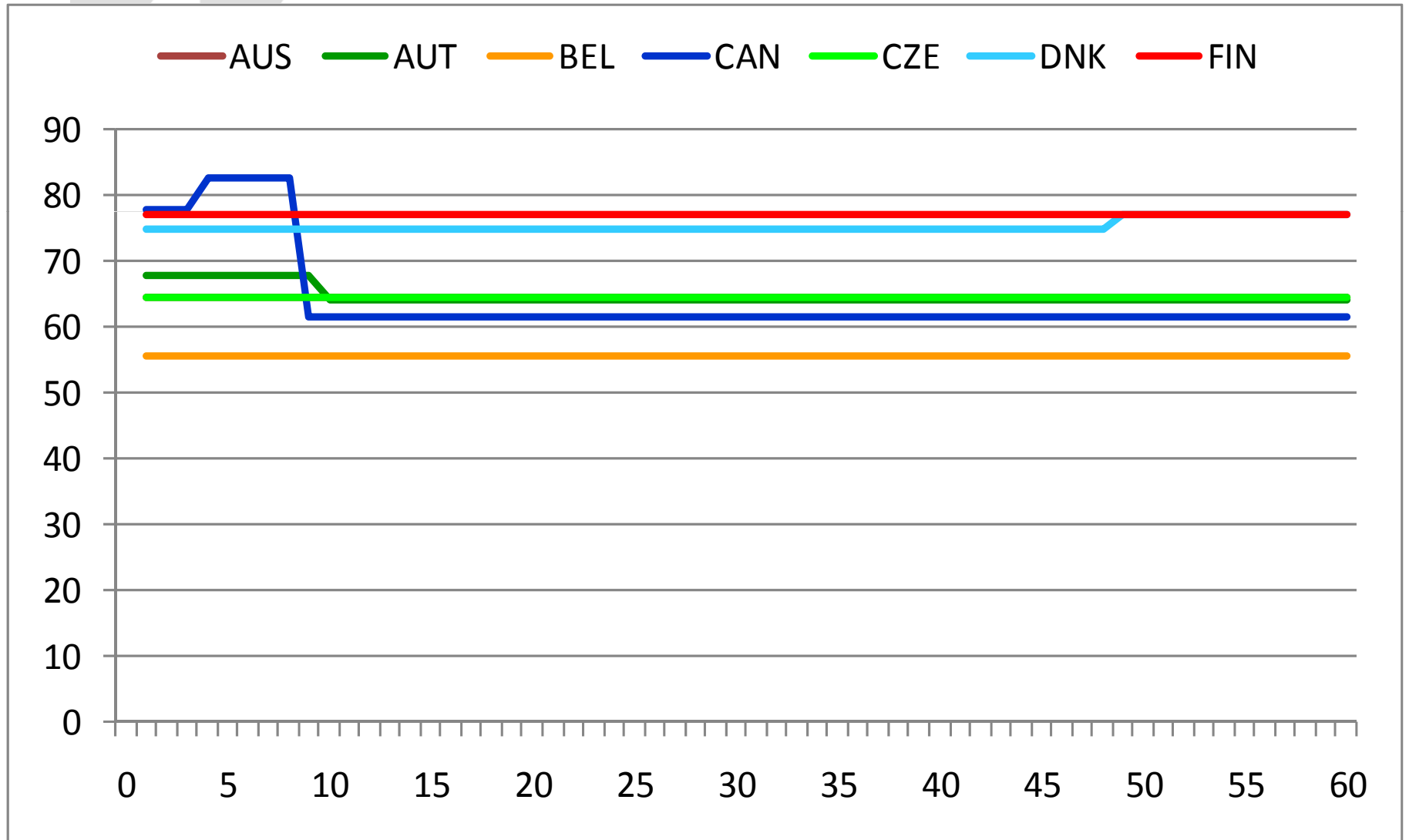
# Net replacement rates II



# Net replacement rates over a five-year period, 2005 (not including SA)



# Net replacement rates over a five-year period, 2005 (including SA)



## Unemployment / inactivity traps

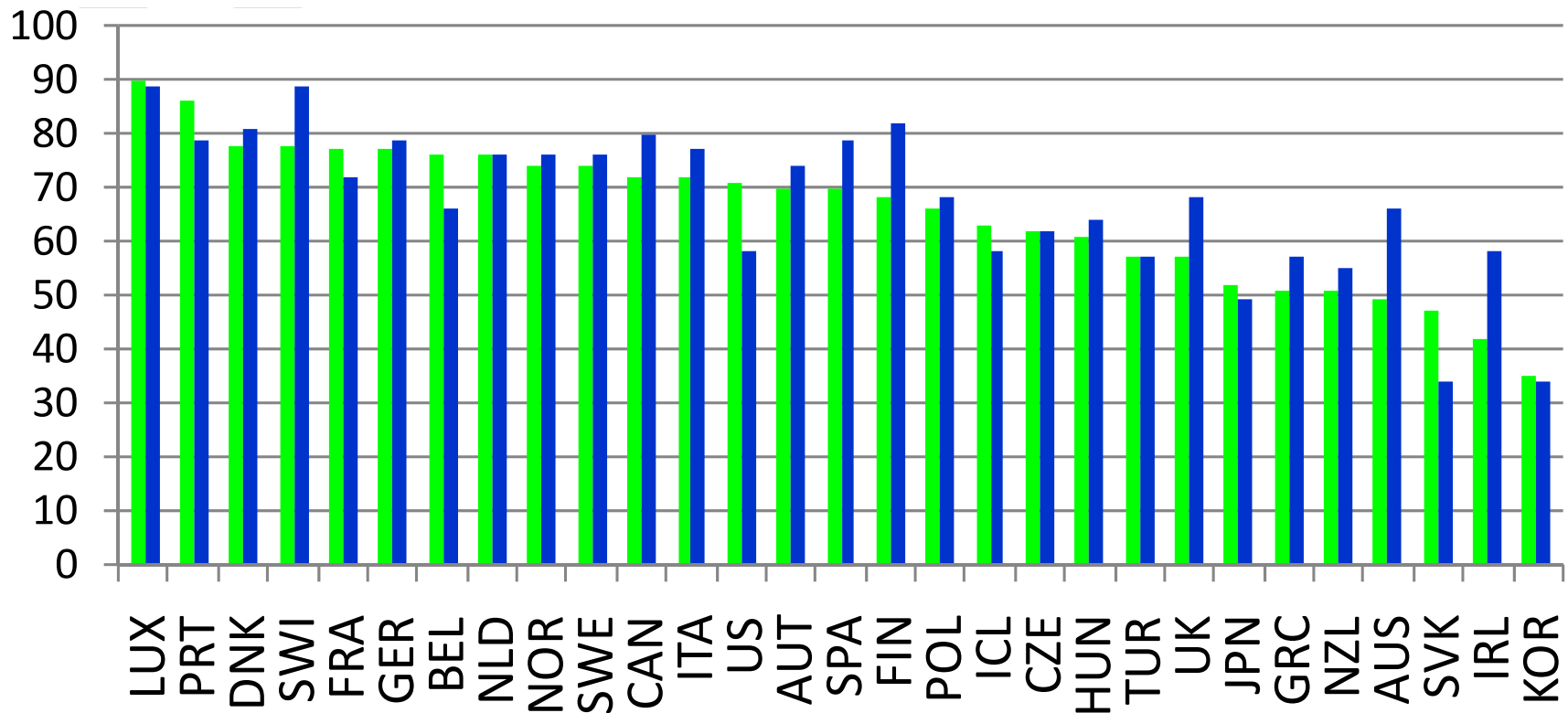
- AETRS measures by how much benefits decrease and taxes increase when entering employment
- Does it pay to enter the labour market?

- $$\text{AETR} = 1 - \frac{\text{change in net income}}{\text{change in gross income}}$$

# AETRs for short-term unemployed persons re-entering employment, 2005

■ single, 0 children: from 0% to 100% of AW

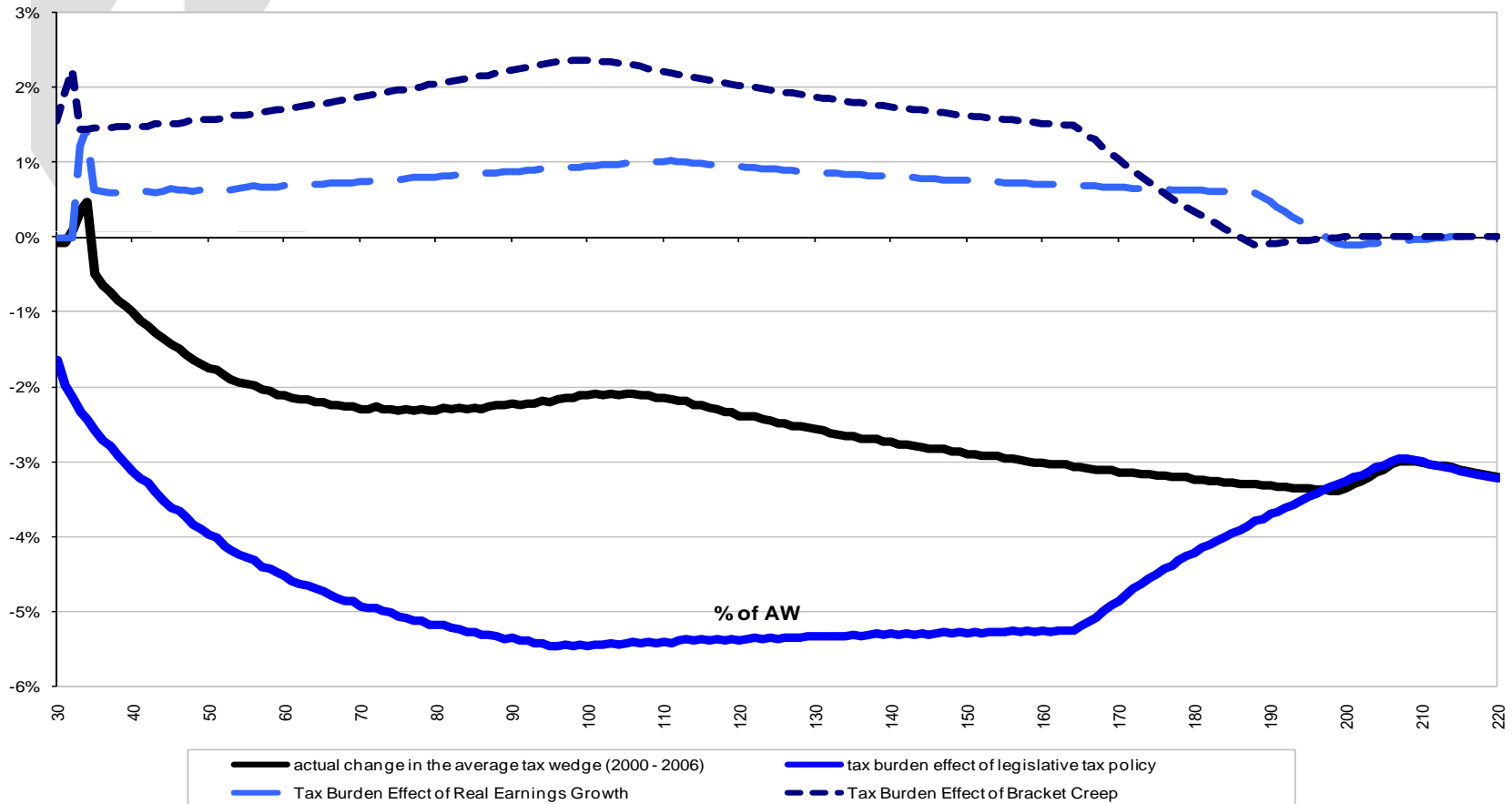
■ one-earner married couple, 2 children: from 0% to 100% of AW



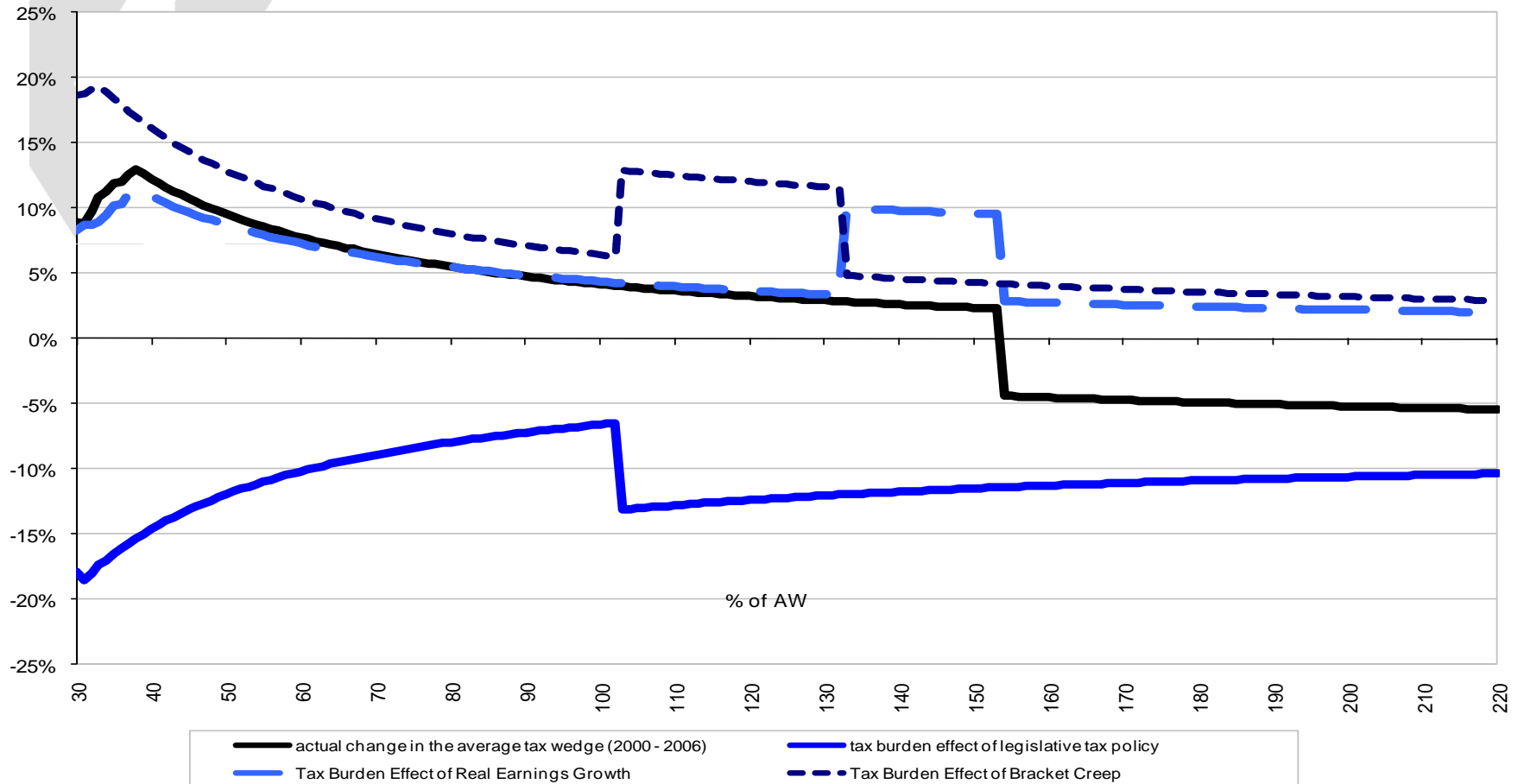


# WHAT IS THE EFFECT OF BRACKET CREEP?

# Bracket creep in Luxembourg: single taxpayer (2000-2006)



# Bracket creep in Iceland: single parent (2000-2006)





**Thank you for your attention!**

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