

## Taxing Wages - Denmark

### Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

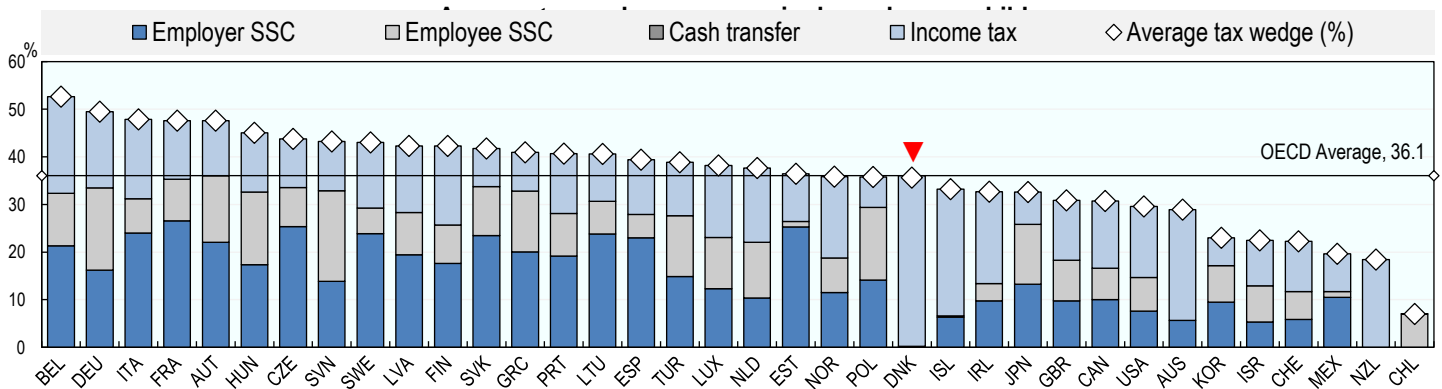
#### TAX WEDGE ON LABOUR INCOME

$$\frac{((\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits})}{(\text{Total labour costs (gross wages} + \text{employer SSCs)})}$$

### Single worker

» The tax wedge for the average single worker in Denmark decreased by 0.1 percentage points from 35.8 in 2017 to 35.7 in 2018. The OECD average tax wedge in 2018 was 36.1 (2017, 36.2). In 2018 Denmark had the 23rd lowest tax wedge among the 36 OECD member countries, compared with the 22nd in 2017.

» In Denmark income tax accounts for 100% of the total tax wedge, compared with 37% of the OECD average tax wedge. In Denmark employees do not pay social security contributions, but they contribute to a Labour Market Supplementary Pension scheme.



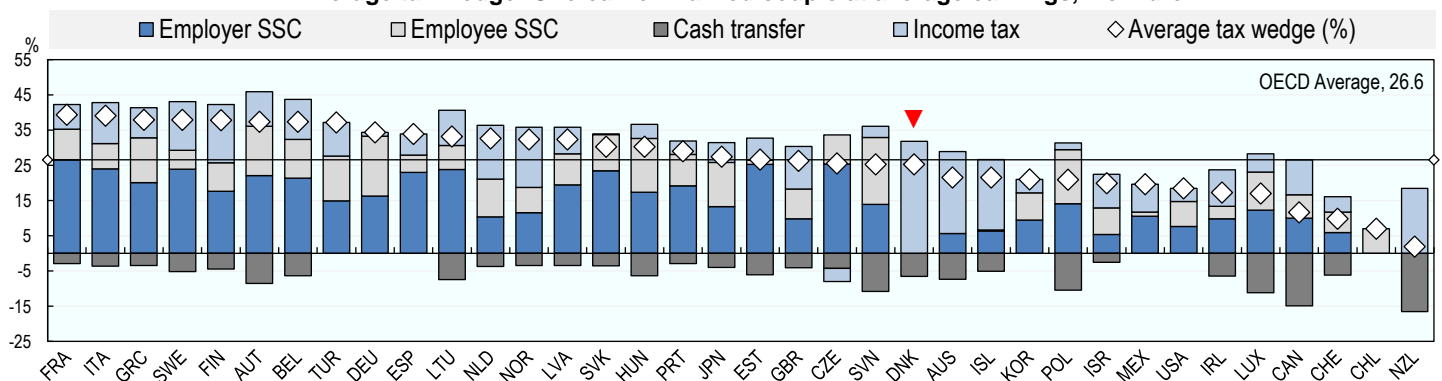
### One-earner married couple with two children

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since most OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

» Denmark had the 23rd lowest tax wedge in the OECD for an average married worker with two children at 25.2% in 2018, which compares with the OECD average of 26.6%. The country occupied the 22nd lowest position in 2017.

» Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Denmark in 2018, this reduction (10.4 percentage points) was greater than the OECD average (9.5 percentage points).

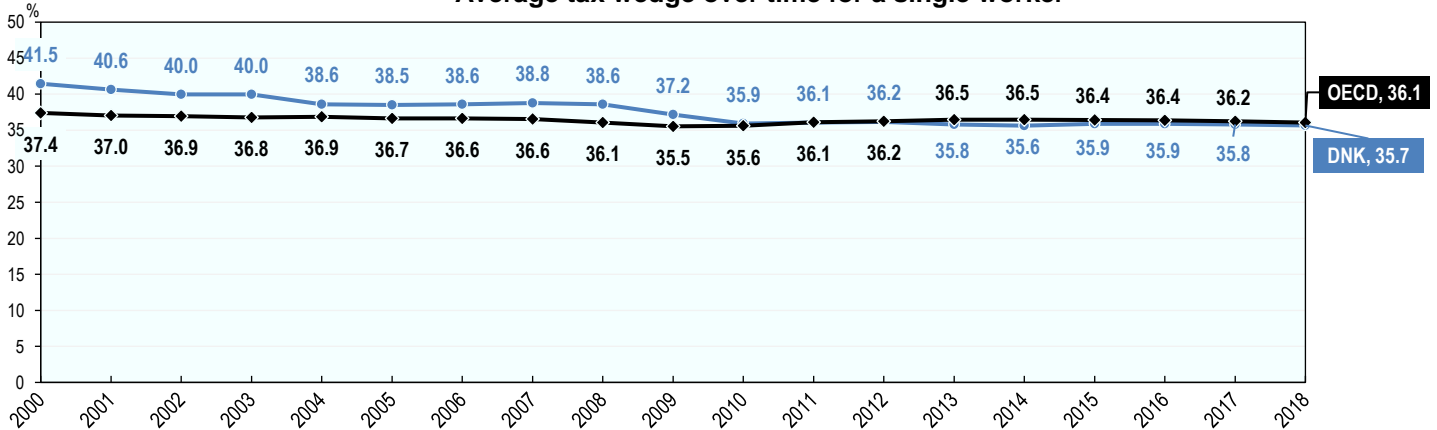
#### Average tax wedge: One-earner married couple at average earnings, 2 children



## Tax wedge trends between 2000 and 2018

- » In Denmark, the tax wedge for the average single worker decreased by 5.8 percentage points from 41.5% to 35.7% between 2000 and 2018. During the same period, the average tax wedge across the OECD decreased by 1.3 percentage points from 37.4% to 36.1%.
- » Since 2009, the tax wedge for the average single worker decreased by 1.5 percentage points in Denmark. During this same period, the tax wedge for the average single worker across the OECD increased by 0.6 percentage points.

Average tax wedge over time for a single worker



## Employee tax on labour income

The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

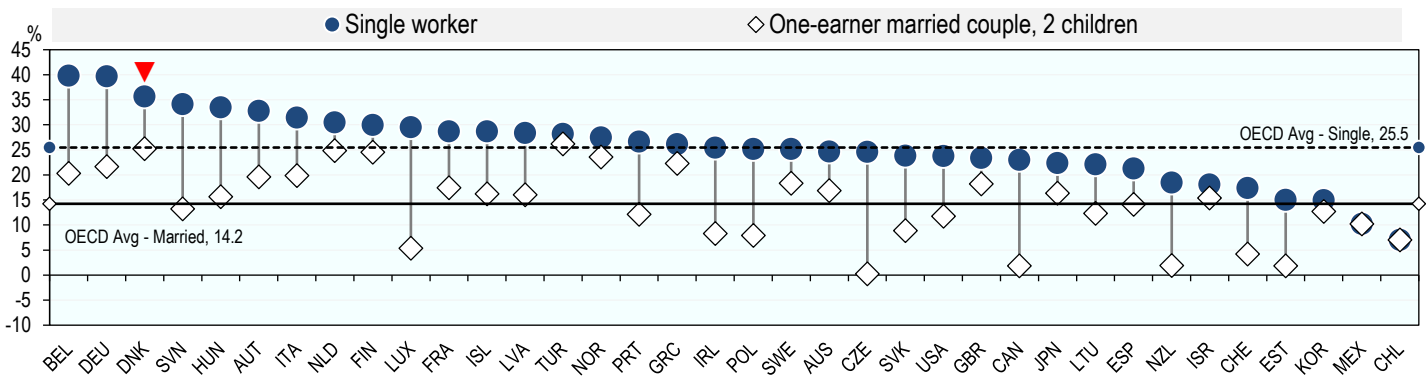
### EMPLOYEE NET AVERAGE TAX RATE

$$\frac{\text{(Employee personal income tax and employee social security contributions)} - \text{Family Benefits}}{\text{Gross wages}}$$

- » In Denmark, the average single worker faced a net average tax rate of 35.7% in 2018, compared with the OECD average of 25.5%.
- » In other words, in Denmark the take-home pay of an average single worker, after tax and benefits, was 64.3% of their gross wage, compared with the OECD average of 74.5%.

- » Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Denmark was reduced to 25.2% in 2018, which is the 2nd highest in the OECD, and compares with 14.2% for the OECD average. This means that an average married worker with two children in Denmark had a take-home pay, after tax and family benefits, of 74.8% of their gross wage compared to 85.8% for the OECD average.

Employee net average tax rate



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