Taxing Wages - The United States

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

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

The tax wedge for the average single worker in the United States decreased by 2.2 percentage points from 31.8 in 2017 to 29.6 in 2018. The OECD average tax wedge in 2018 was 36.1 (2017, 36.2). In 2018 the United States had the 29th lowest tax wedge among the 36 OECD member countries, compared with the 27th in 2017. The 2018 tax wedge is the lowest an average single worker in the United States has faced over the 2000 - 2018 period.

In the United States, income tax and employer social security contributions combine to account for 76% of the total tax wedge, compared with 77% of the total OECD average tax wedge.

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.

The United States had the 30th lowest tax wedge in the OECD for an average married worker with two children at 18.5% in 2018, which compares with the OECD average of 26.6%. The country occupied the 25th 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 the United States in 2018, this reduction (11.1 percentage points) was greater than the OECD average (9.5 percentage points).
Tax wedge trends between 2000 and 2018

In the United States, the tax wedge for the average single worker decreased by 1.2 percentage points from 30.8% to 29.6% 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 0.7 percentage points in the United States. During this same period, the tax wedge for the average single worker across the OECD increased by 0.6 percentage points.

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.

In the United States, the average single worker faced a net average tax rate of 23.8% in 2018, compared with the OECD average of 25.5%. In other words, in the United States the take-home pay of an average single worker, after tax and benefits, was 76.2% 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 the United States was reduced to 11.7% in 2018, which is the 25th lowest in the OECD, and compares with 14.2% for the OECD average. This means that an average married worker with two children in the United States had a take-home pay, after tax and family benefits, of 88.3% of their gross wage compared to 85.8% for the OECD average.