

***The Taxing Wages Framework:* some applications**

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2nd meeting of the SEE Working Group on Tax Policy
Analysis

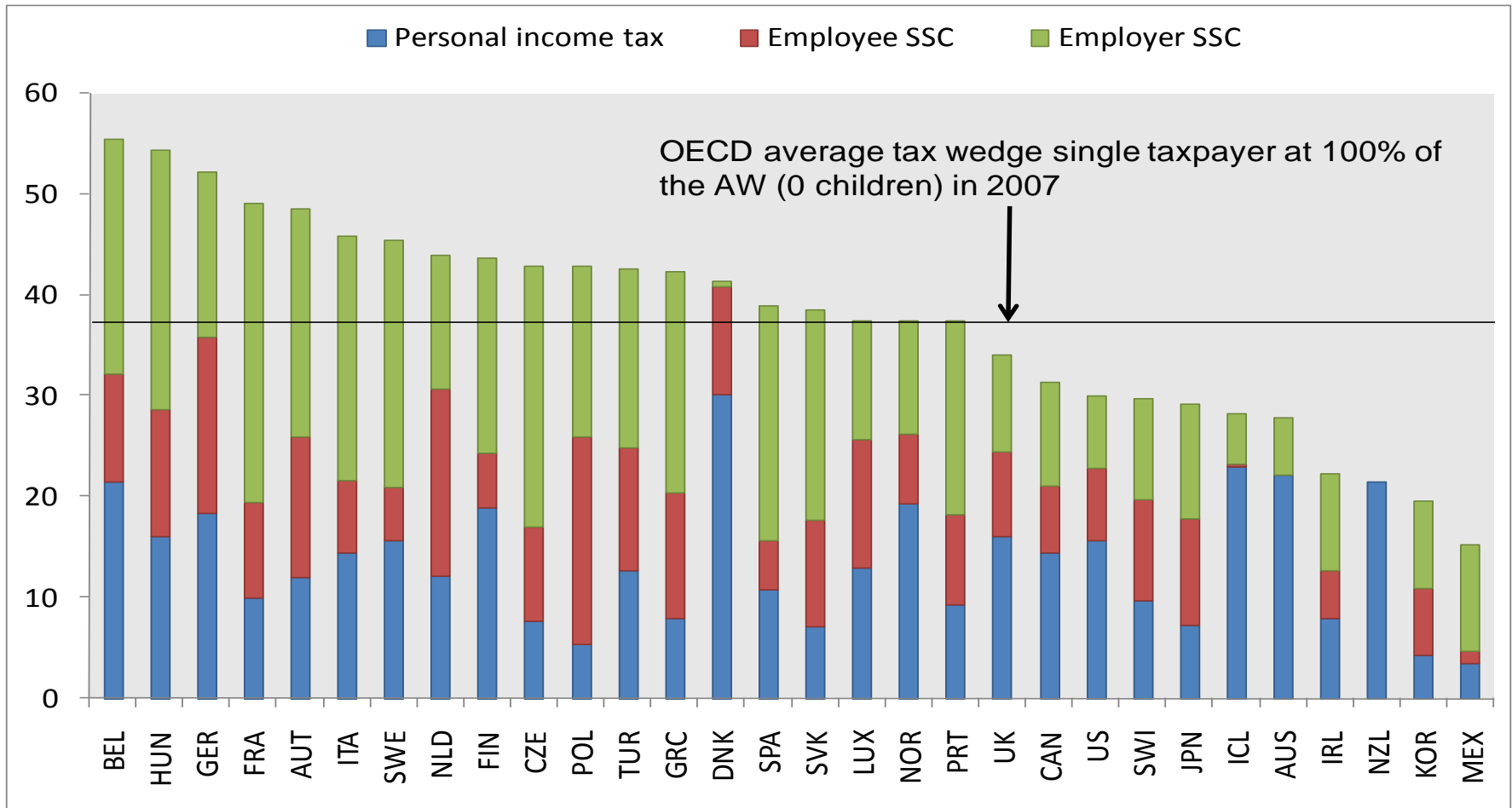
16-19 June 2009, Dubrovnik

What will we look at?

- **Cross country comparison of average and marginal wedges**
- **Progressivity**
- **SSC and low income workers**
 - **In-work tax credits**
- **Generosity of benefit systems**
- **Income abatement of benefits**
- **Secondary earner work incentives**
- **“Benefits and Wages” (extension of Taxing Wages framework)**
 - **Replacement rates**
 - **AETRs**
- **Bracket creep**

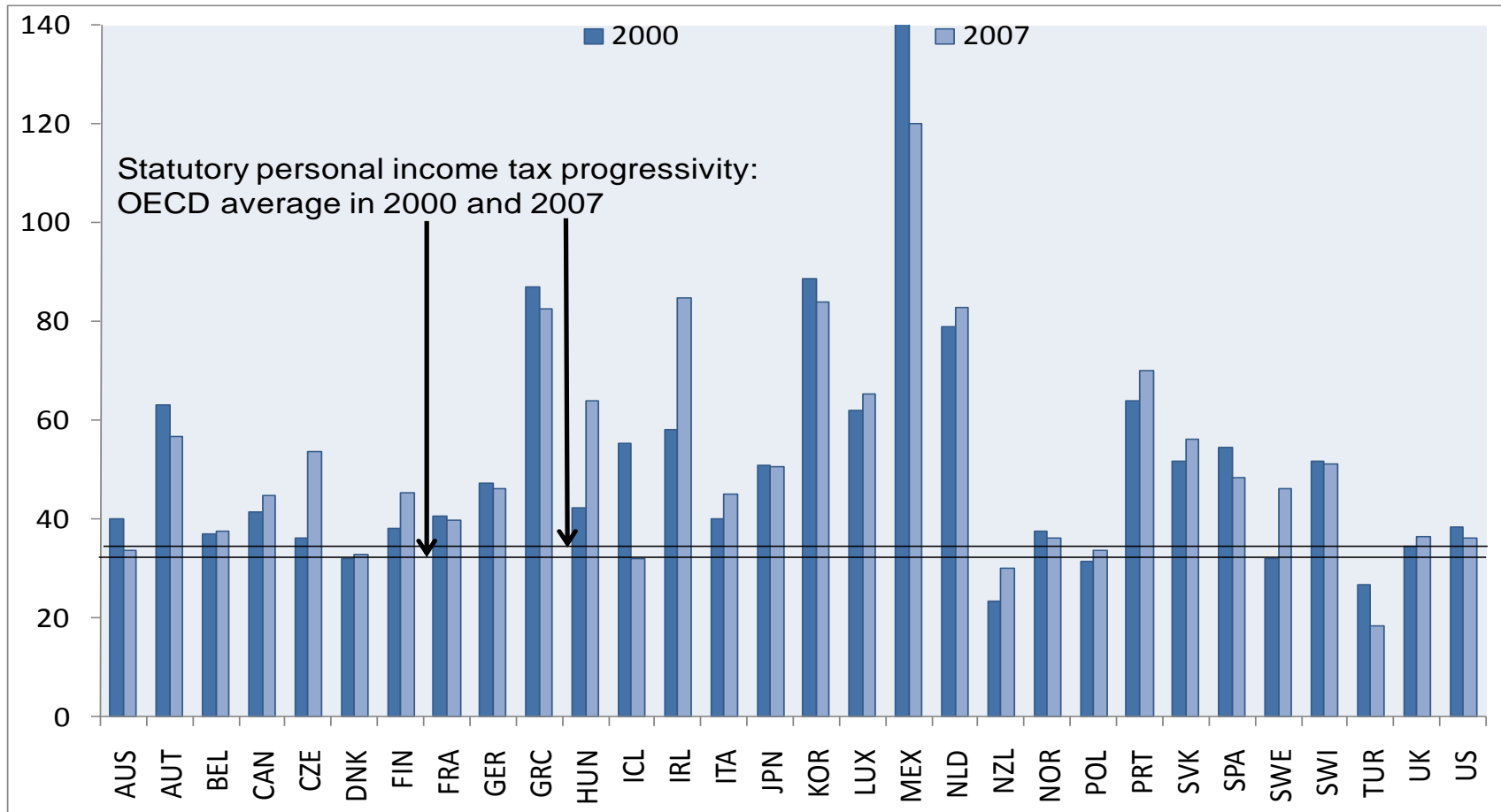
CROSS COUNTRY COMPARISONS

Average tax wedge components, 2007 (single, no children, 100% of AW)



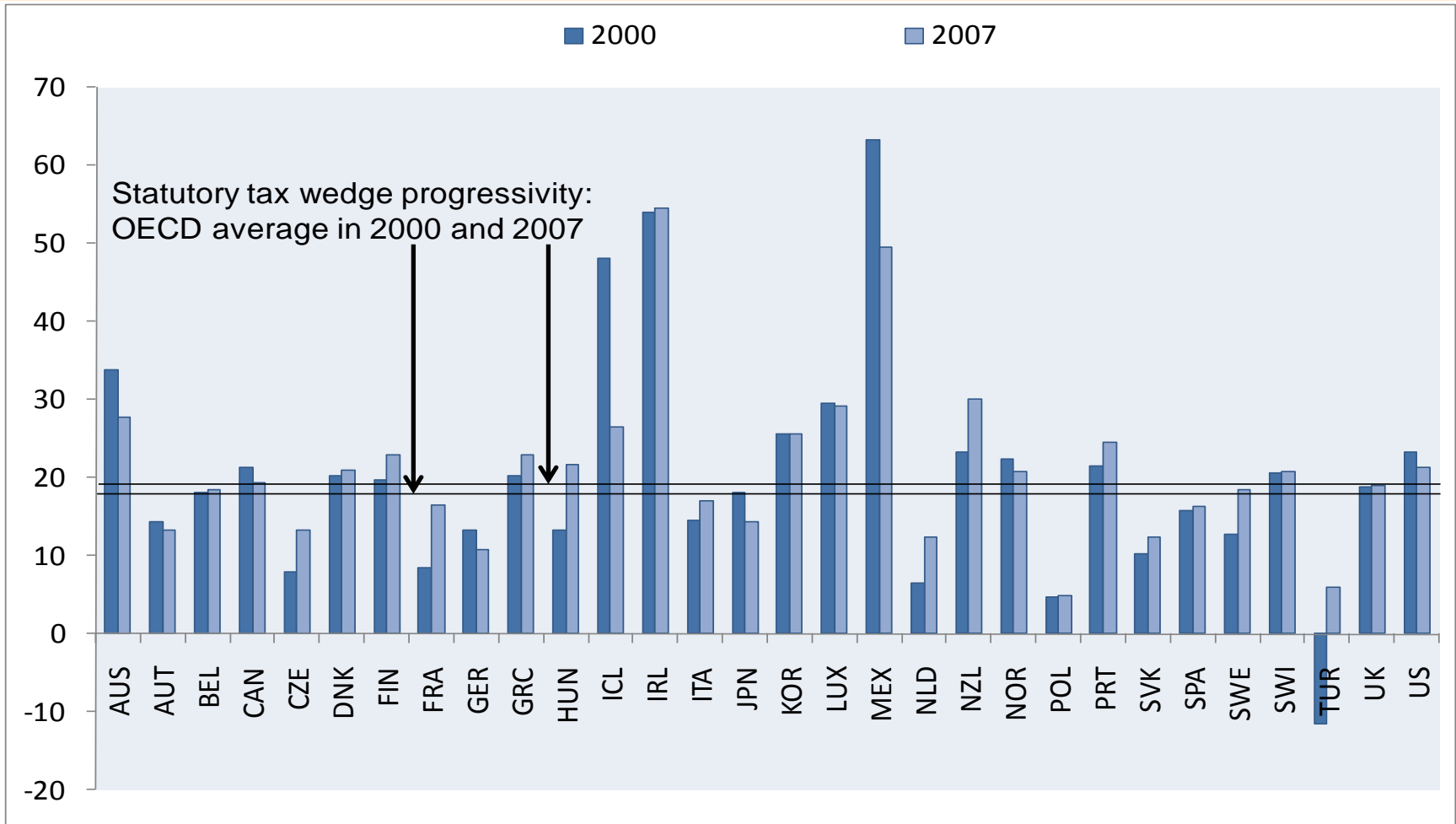
HOW PROGRESSIVE IS THE TAX SYSTEM?

Average income tax progressivity

$$((T167-T67)/T167)*100$$


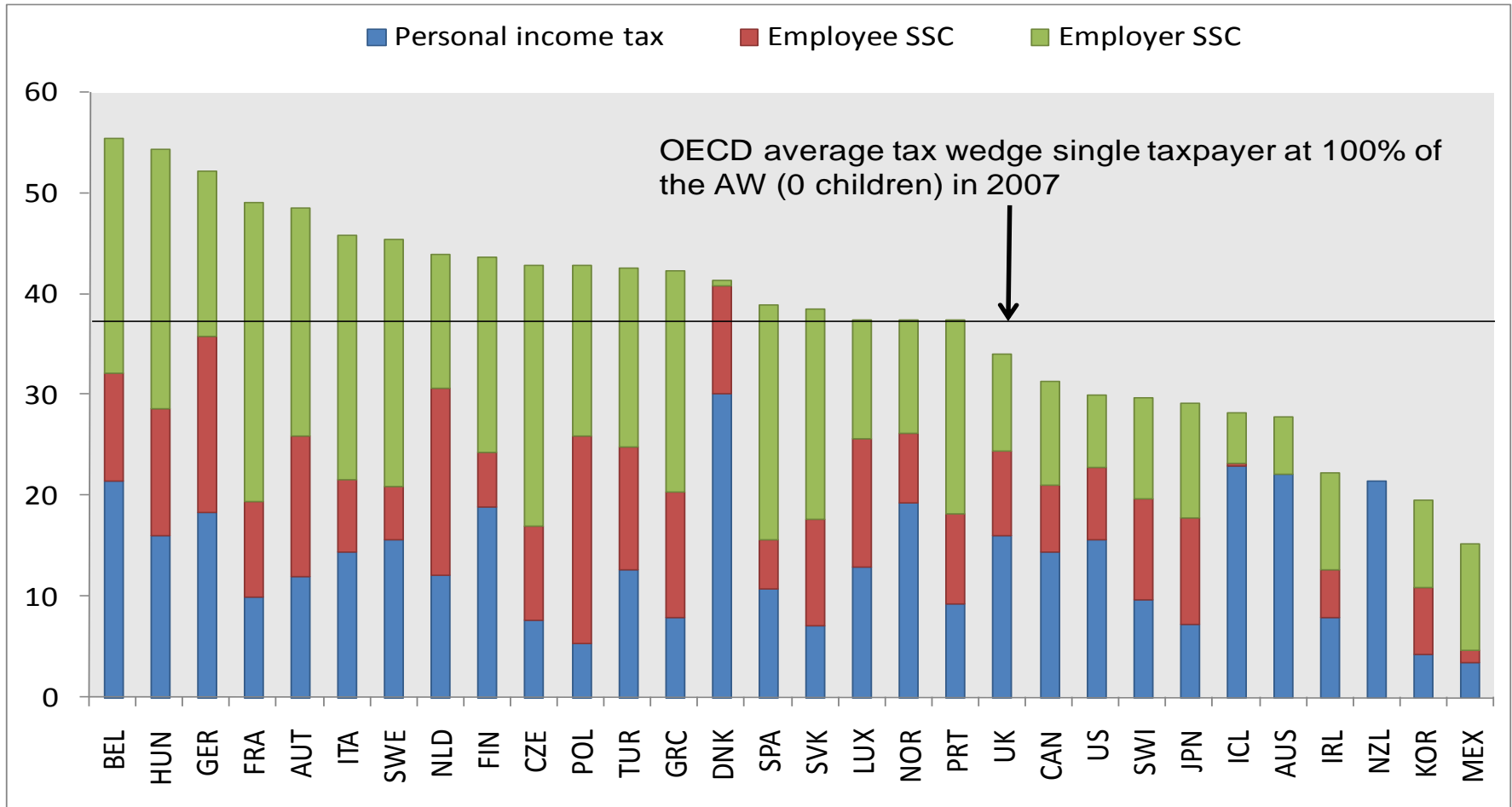
Average tax wedge progressivity

$((T167-T67)/T167)*100$

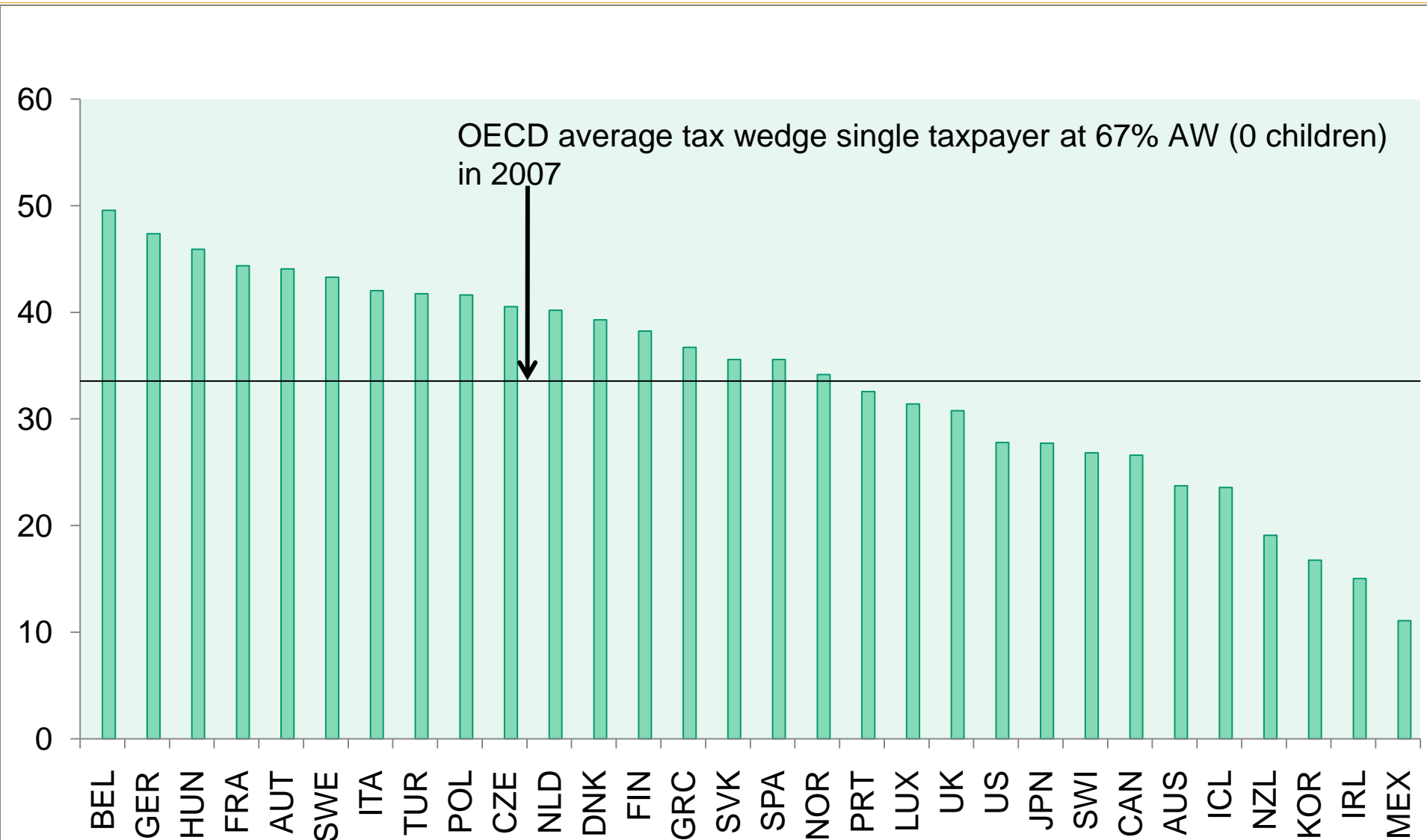


SOCIAL SECURITY CONTRIBUTIONS AND LOW INCOME WORKERS

Average tax wedge components, 2007 (single, no children, 100% of AW)



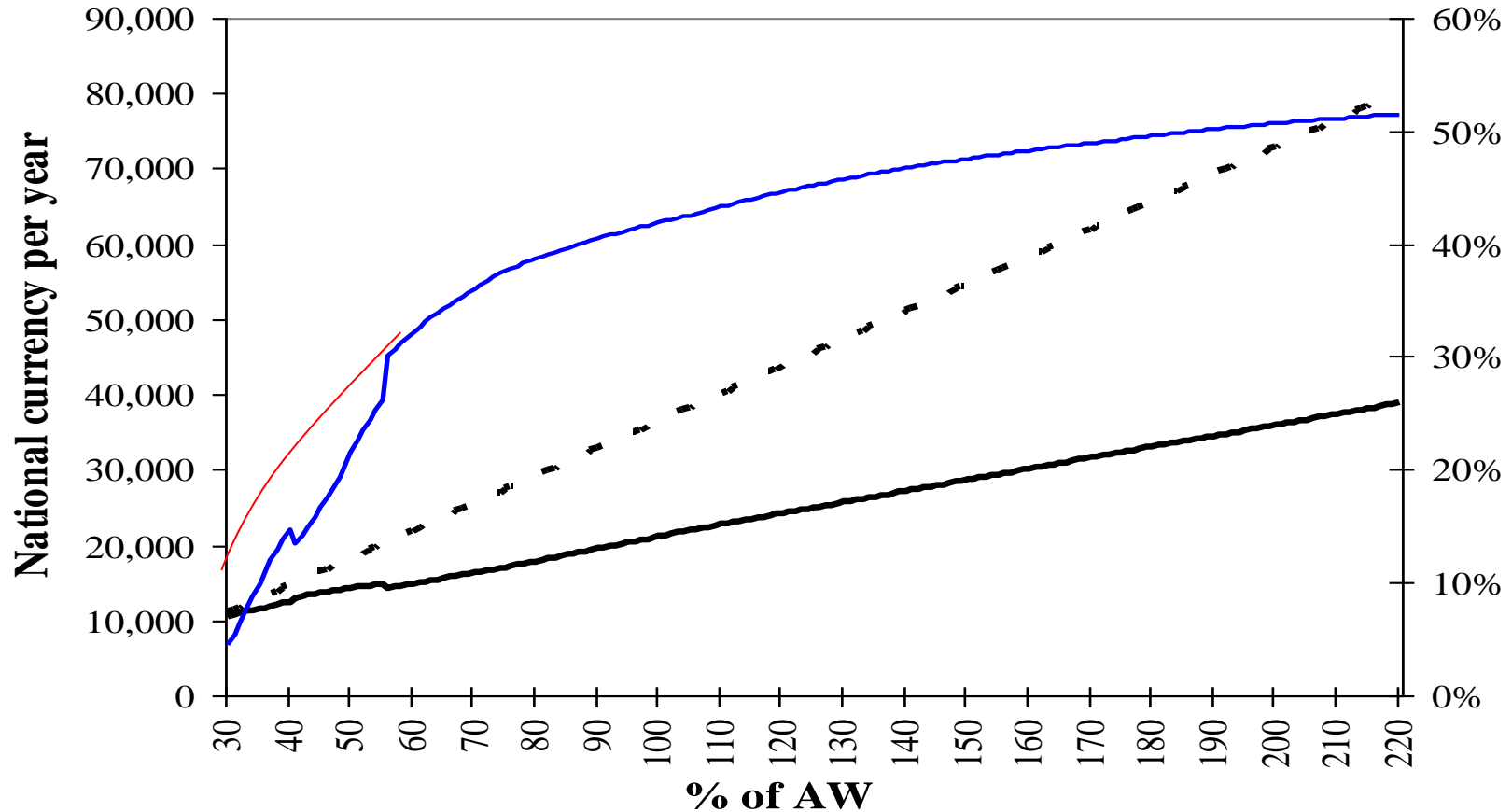
Average tax wedge, 2007 (single, no children, 67% of AW)



MAKING WORK PAY (IN-WORK TAX CREDITS)

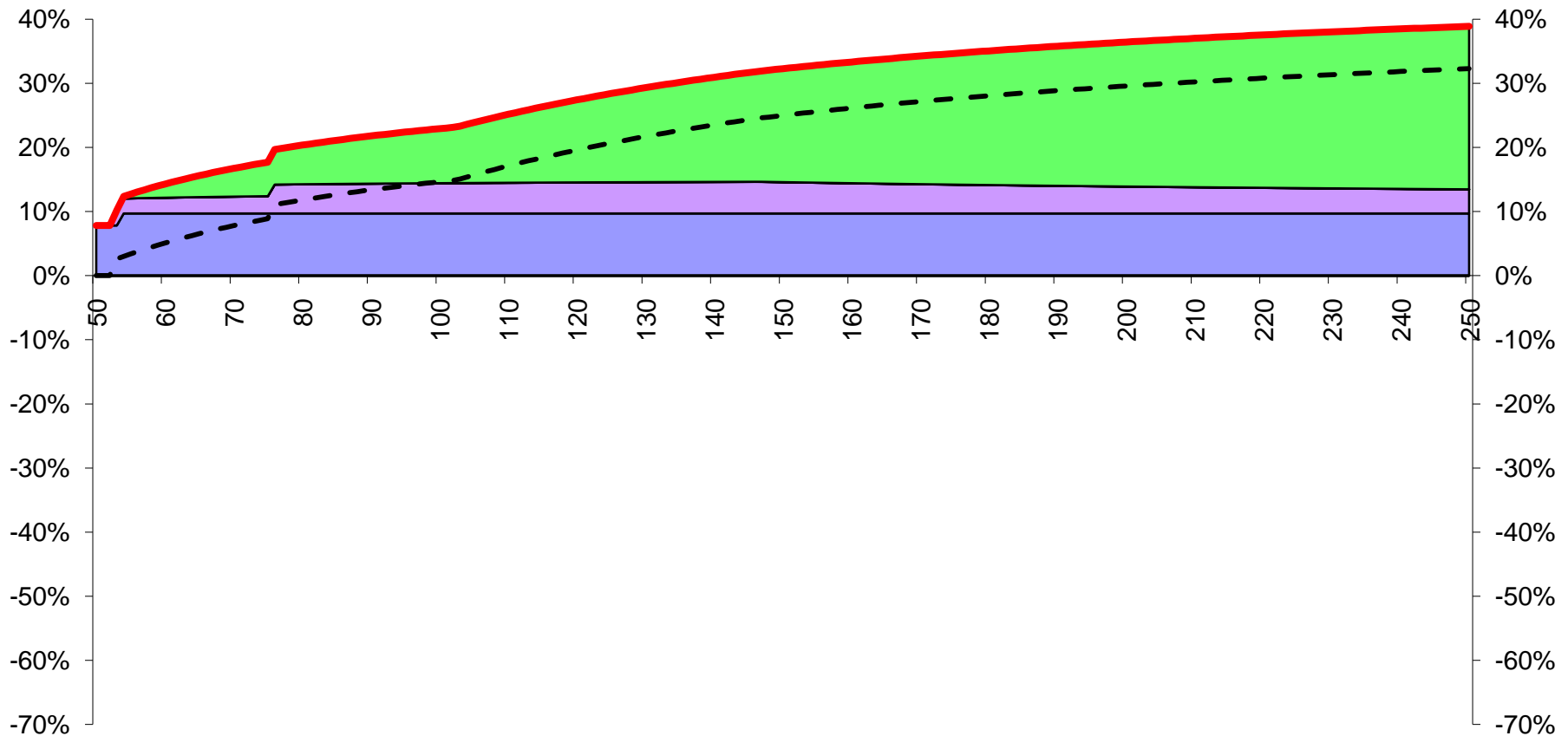
BELGIUM: single, 0 children, 2005

Average income tax + employee SSC – cash transfers



HOW GENEROUS IS A COUNTRY'S BENEFIT SYSTEM?

Average tax wedge decomposition: Ireland (single, no children, 2008)



■ employer SSC as % of total labour costs

■ average local income tax as % of total labour costs

■ family benefits as % of total labour costs

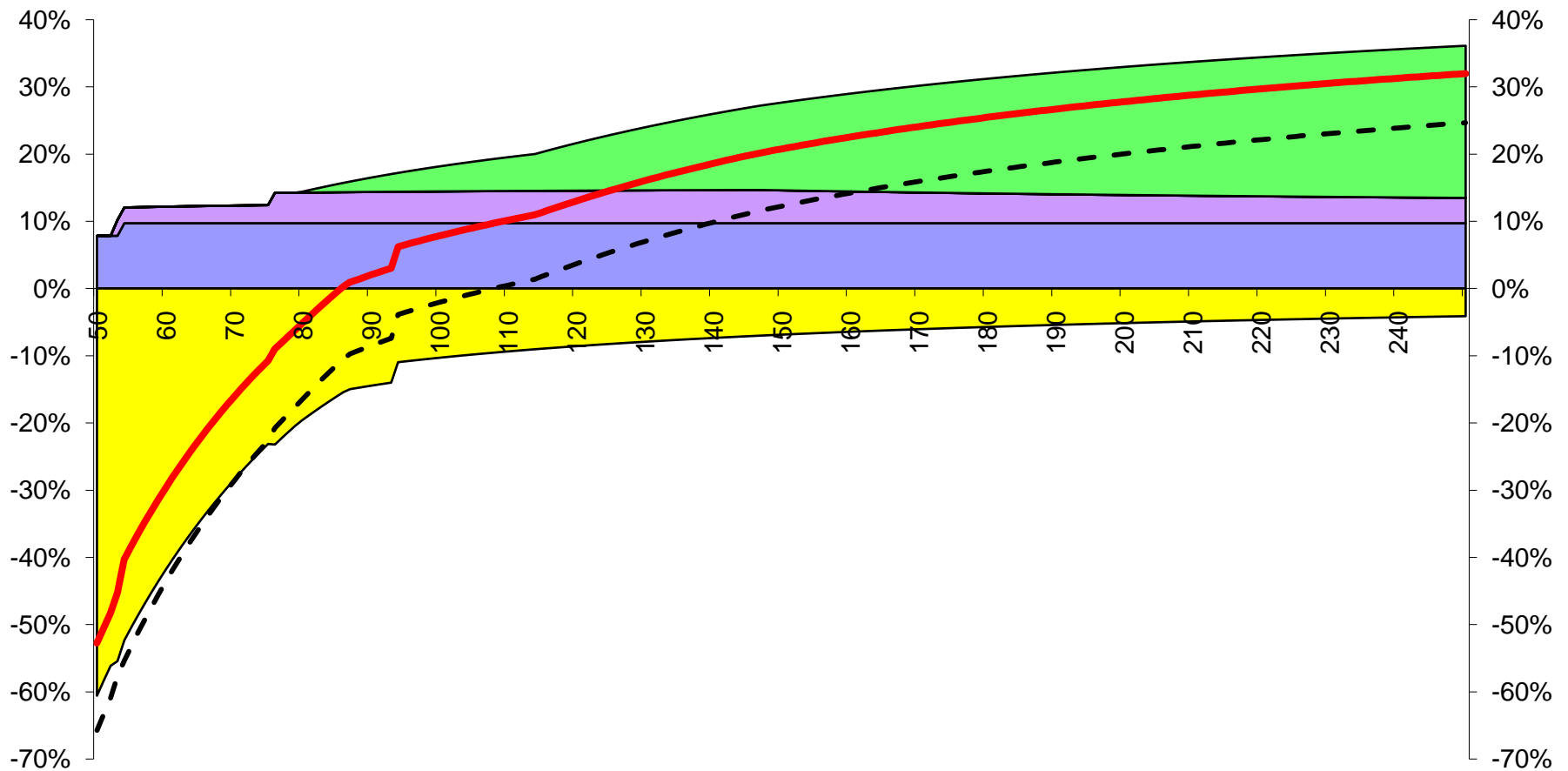
--- net personal average tax rate as % of gross wage earnings

■ employee SSC as % of total labour costs

■ average central income tax as % of total labour costs

— average tax wedge (sum of the components)

Average tax wedge decomposition: Ireland (single, 2 children, 2008)



average central income tax as % of total labour costs

employee SSC as % of total labour costs

family benefits as % of total labour costs

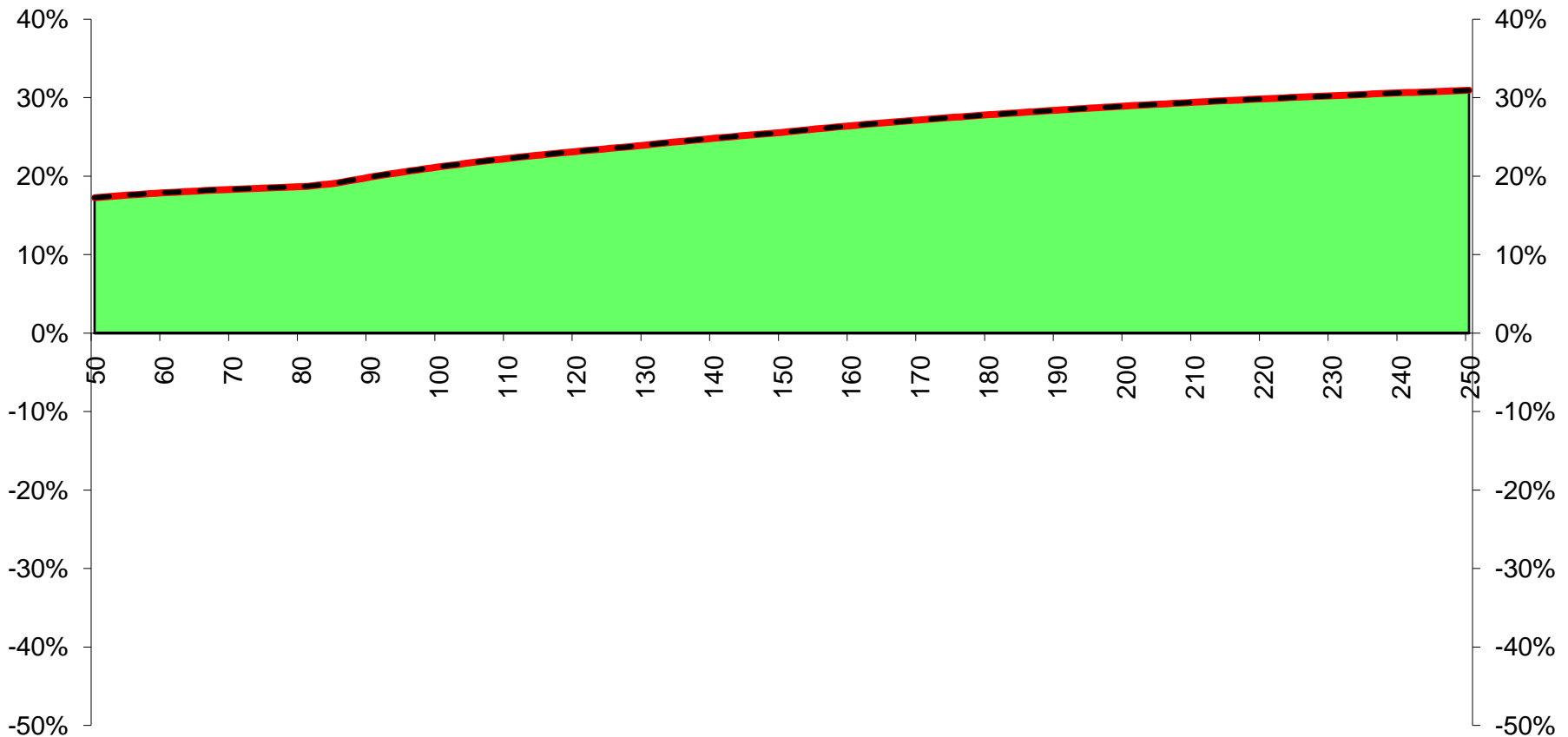
net personal average tax rate as % of gross wage earnings

average local income tax as % of total labour costs

employer SSC as % of total labour costs

average tax wedge (sum of the components)

Average tax wedge decomposition: New Zealand (single, no children, 2008)



employer SSC as % of total labour costs

average local income tax as % of total labour costs

family benefits as % of total labour costs

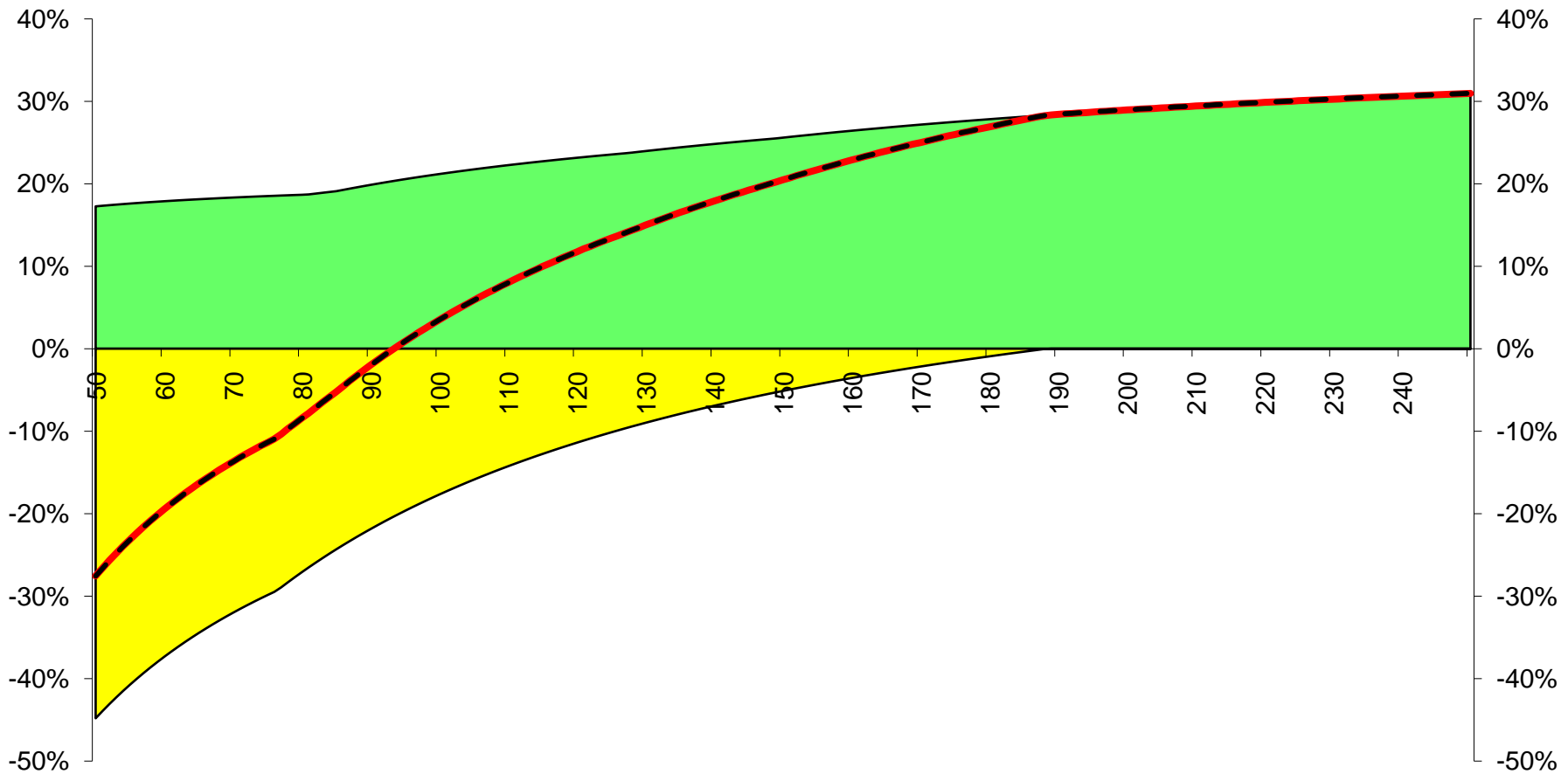
net personal average tax rate as % of gross wage earnings

employee SSC as % of total labour costs

average central income tax as % of total labour costs

average tax wedge (sum of the components)

Average tax wedge decomposition: New Zealand (single, 2 children, 2008)



average central income tax as % of total labour costs

employee SSC as % of total labour costs

family benefits as % of total labour costs

net personal average tax rate as % of gross wage earnings

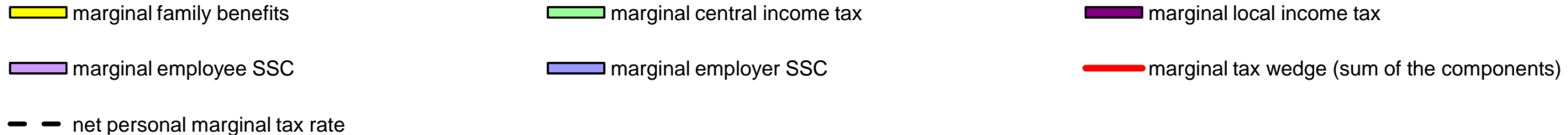
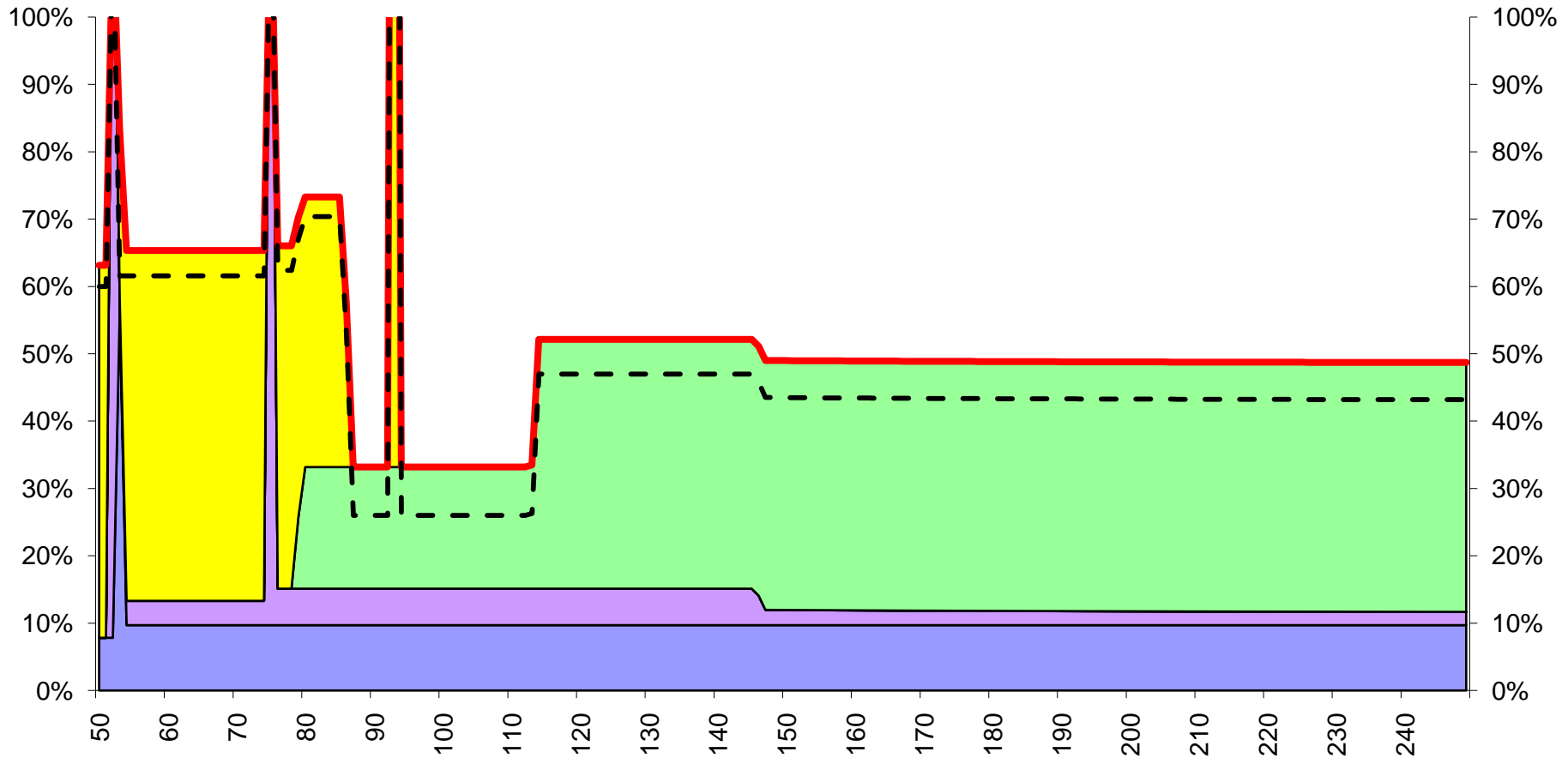
average local income tax as % of total labour costs

employer SSC as % of total labour costs

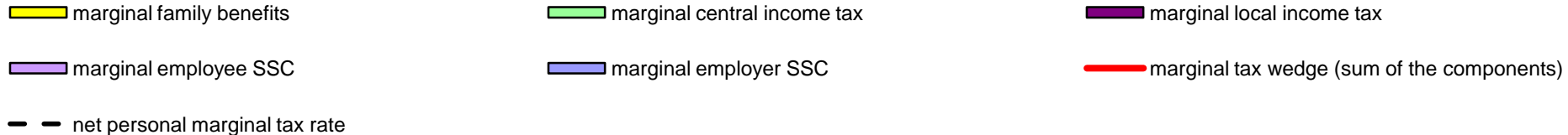
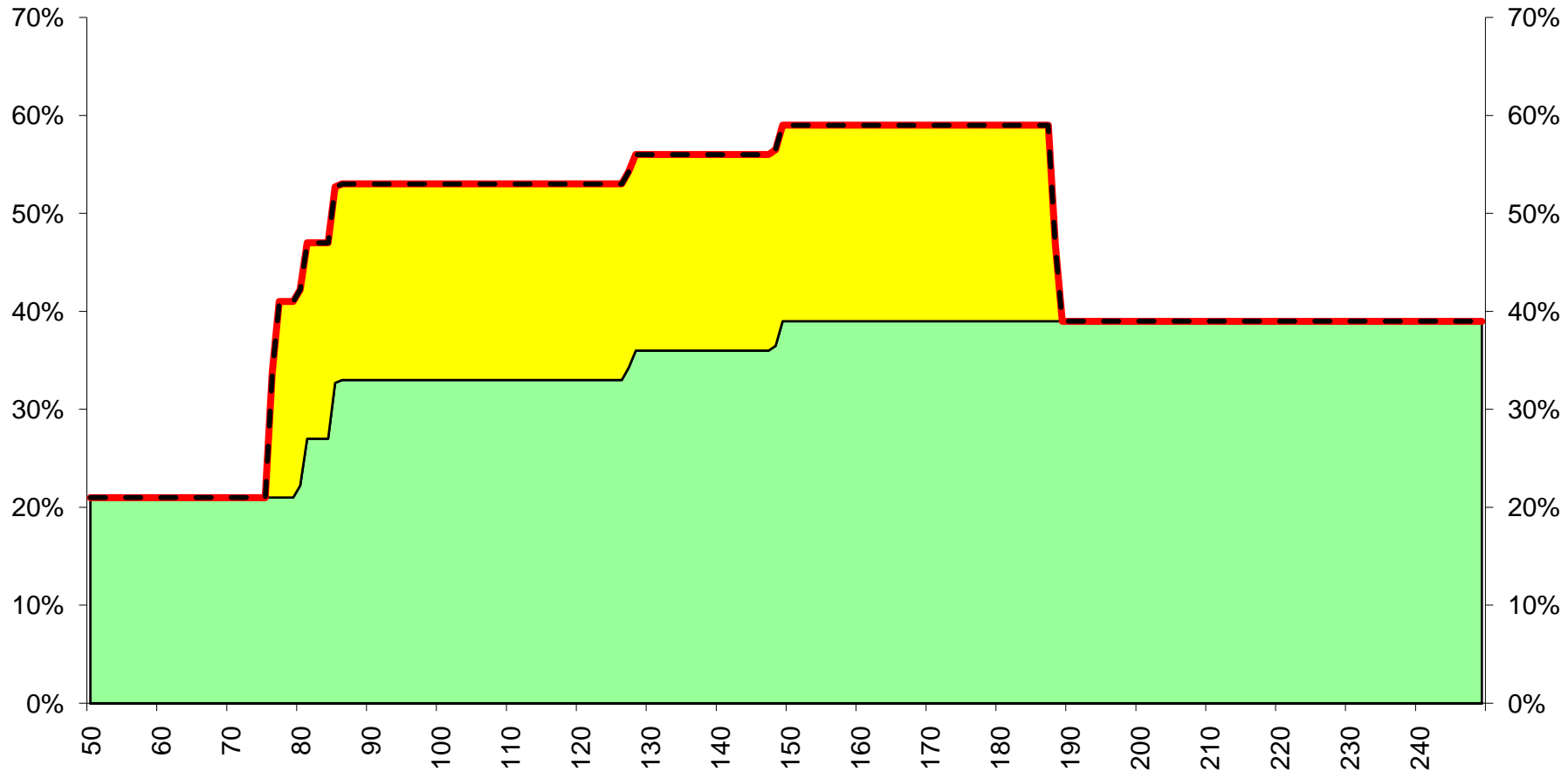
average tax wedge (sum of the components)

WHAT IS THE IMPACT OF REDUCING BENEFITS AS INCOME INCREASES?

Marginal tax wedge decomposition: Ireland (single, 2 children, 2008)



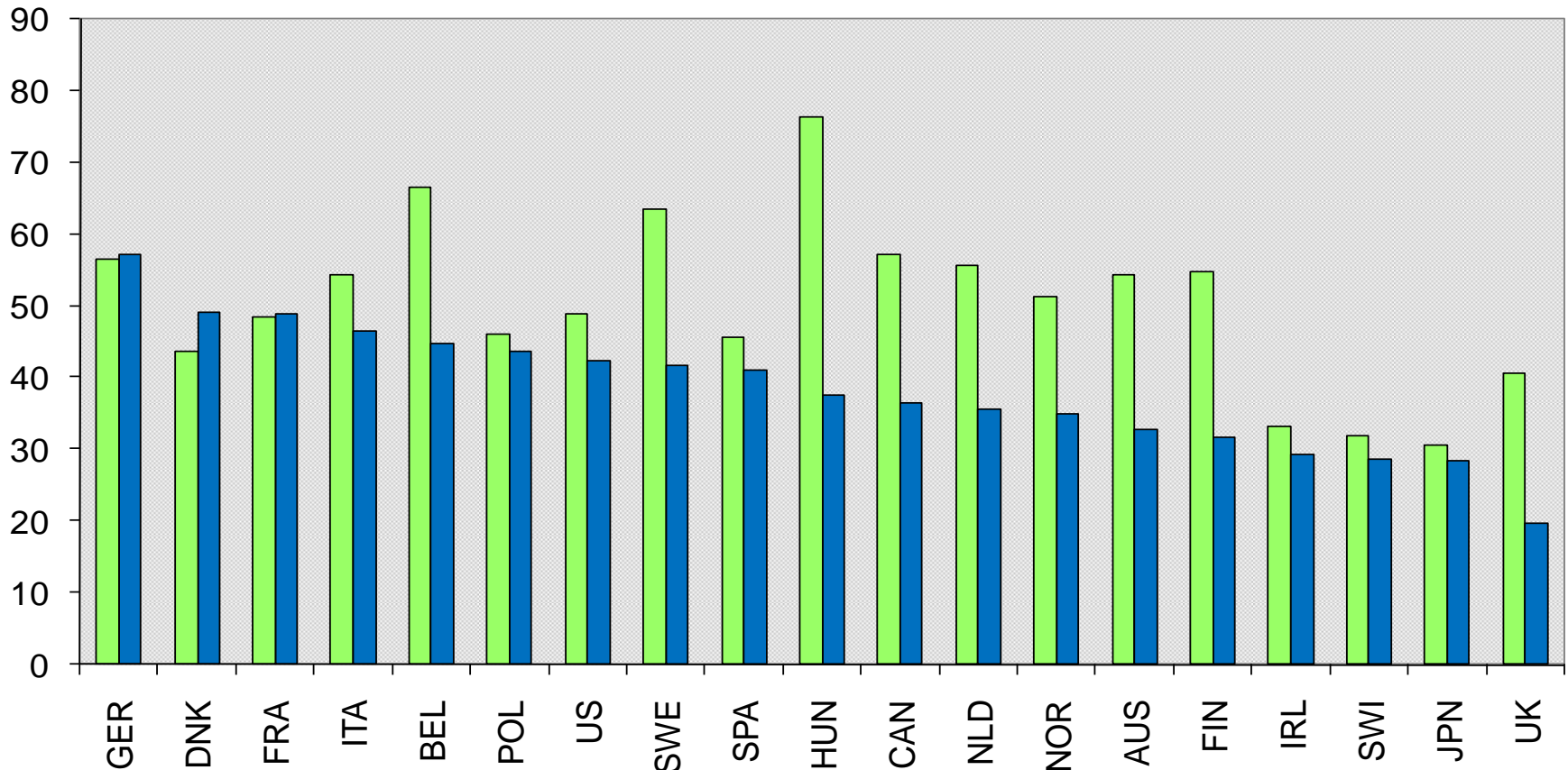
Marginal tax wedge decomposition: New Zealand (single, 2 children, 2008)



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

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

■ married couple, 100%-0% AW, 2 children, PRINCIPAL EARNER
■ married couple, 100%-0% AW, 2 children, SECOND EARNER



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

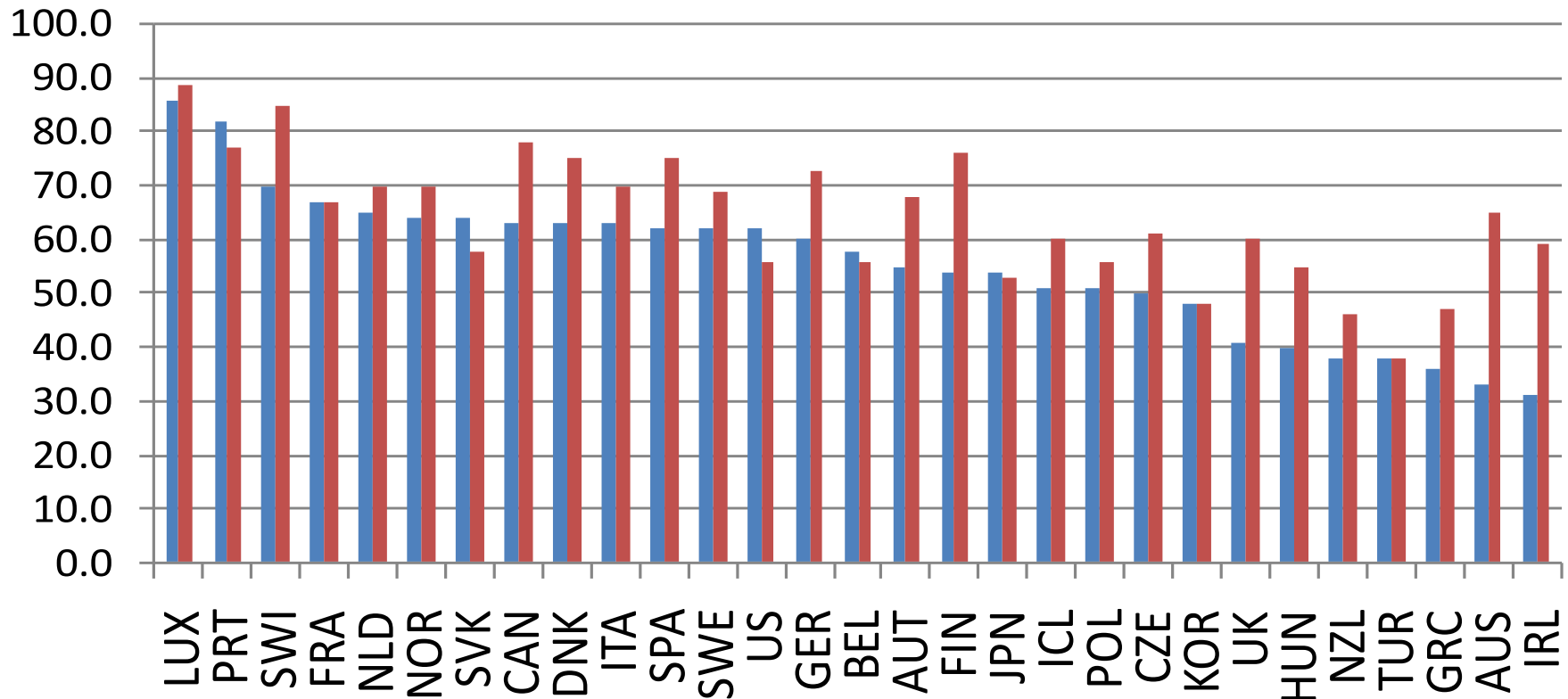
- Net replacement rates (NRR) measure to what extent tax-benefit regulations assure income adequacy in case of loss of employment.

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

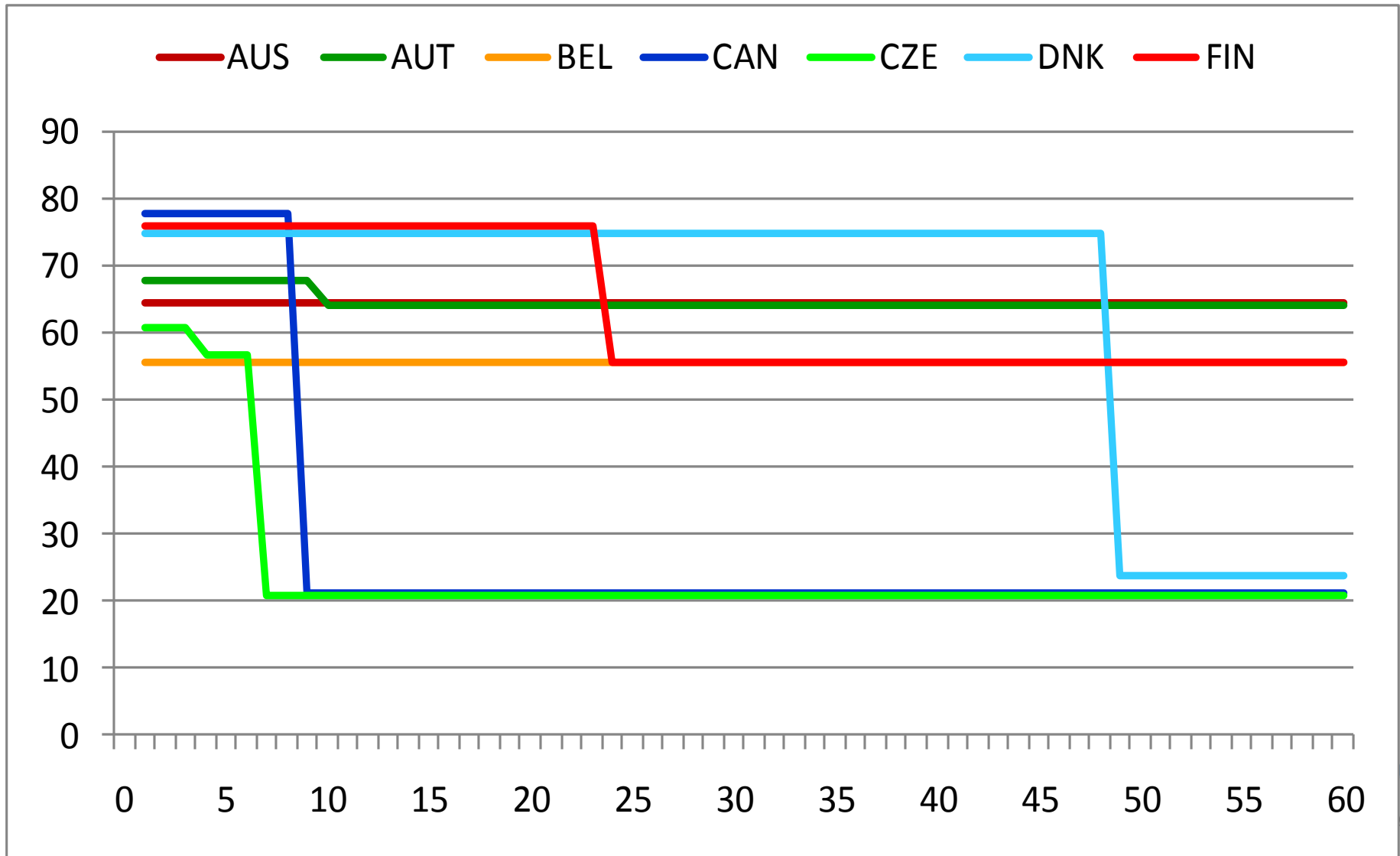
- NRRs compare total family income between two different work situations of one particular household member. They capture the degree of income protection provided by both the tax-benefit system (and any incomes of other household members)

Net replacement rates II

- single at 100% AW without children
- one-earner married couple at 100% of AW with 2 children



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



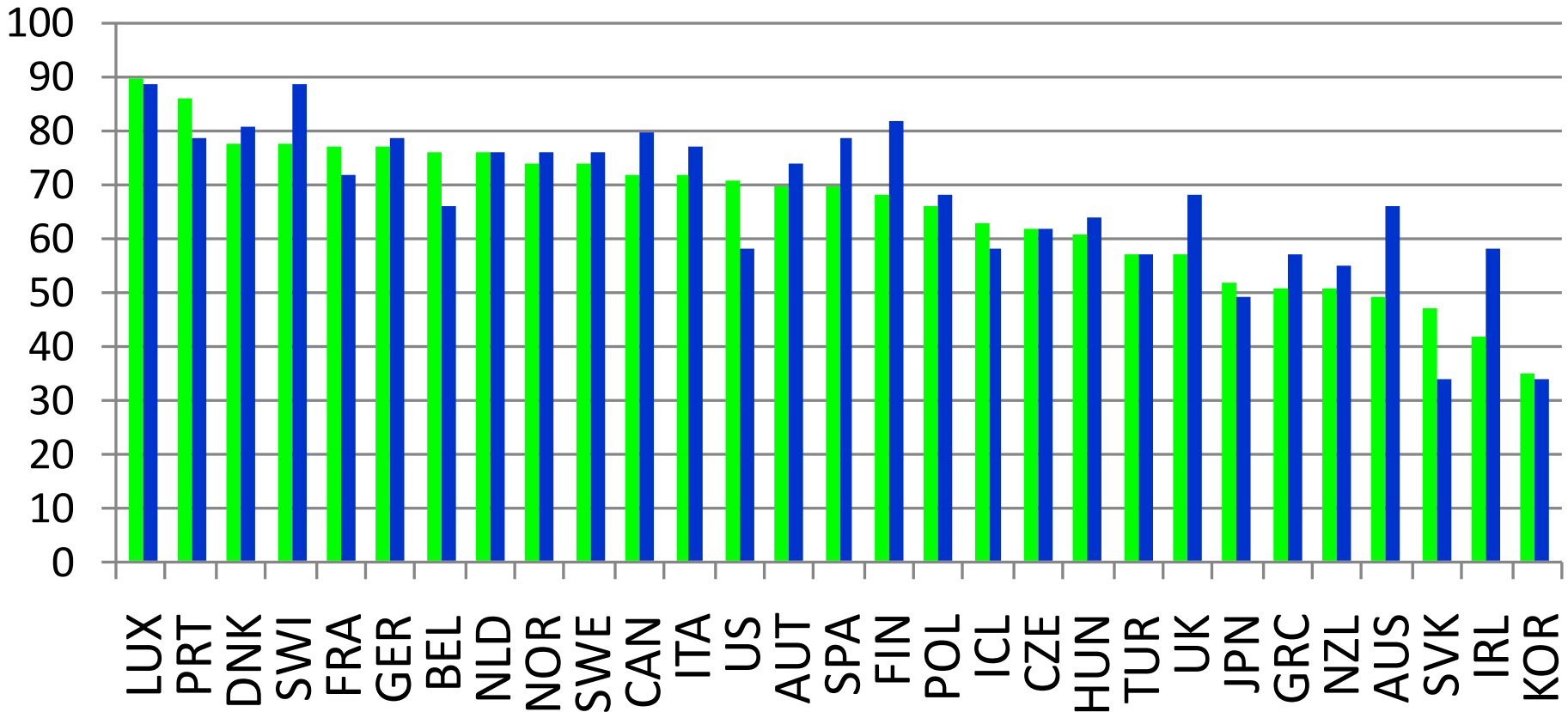
Unemployment / inactivity traps

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

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

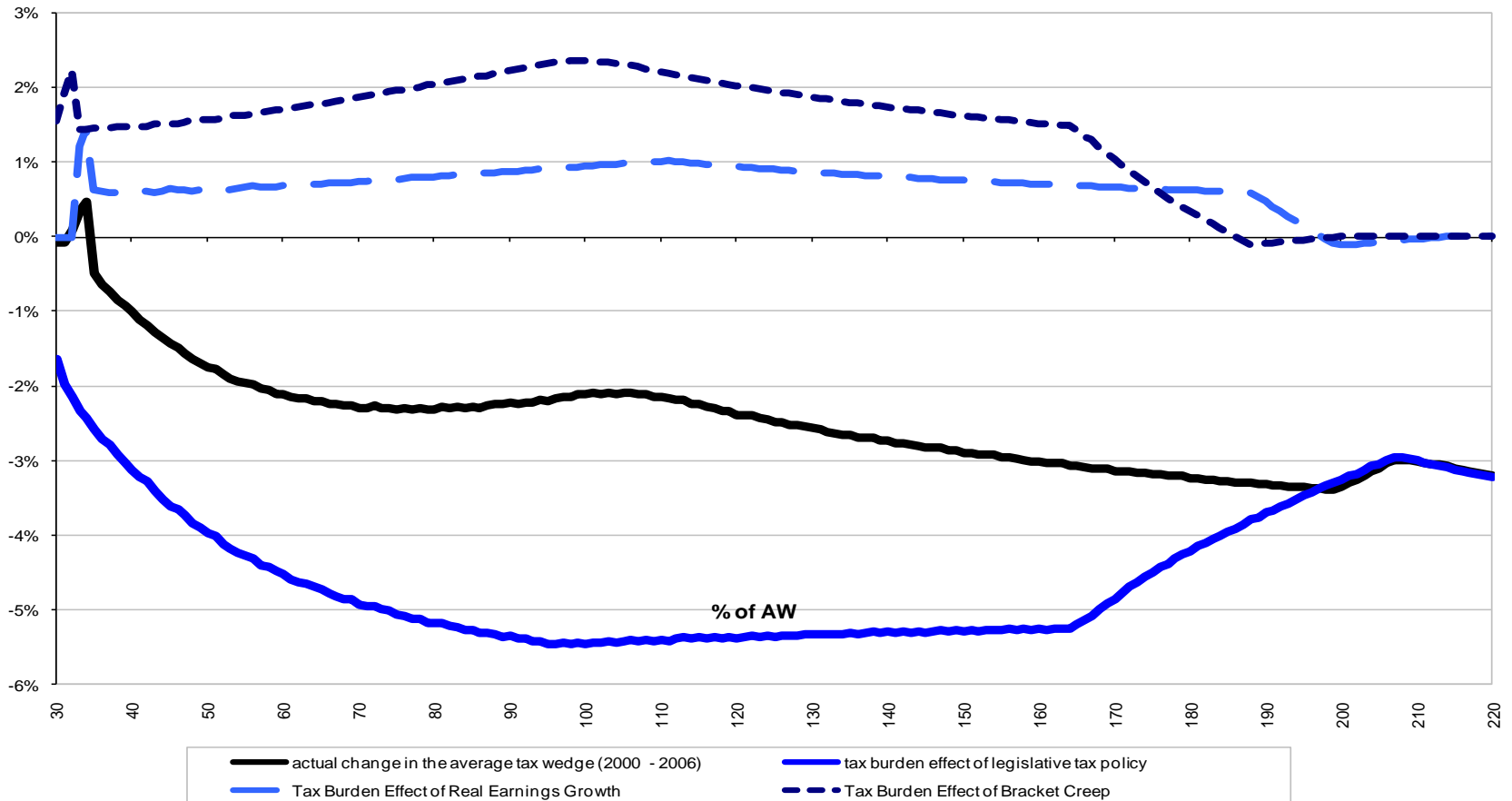
AETRs for short-term unemployed persons re-entering employment, 2005

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

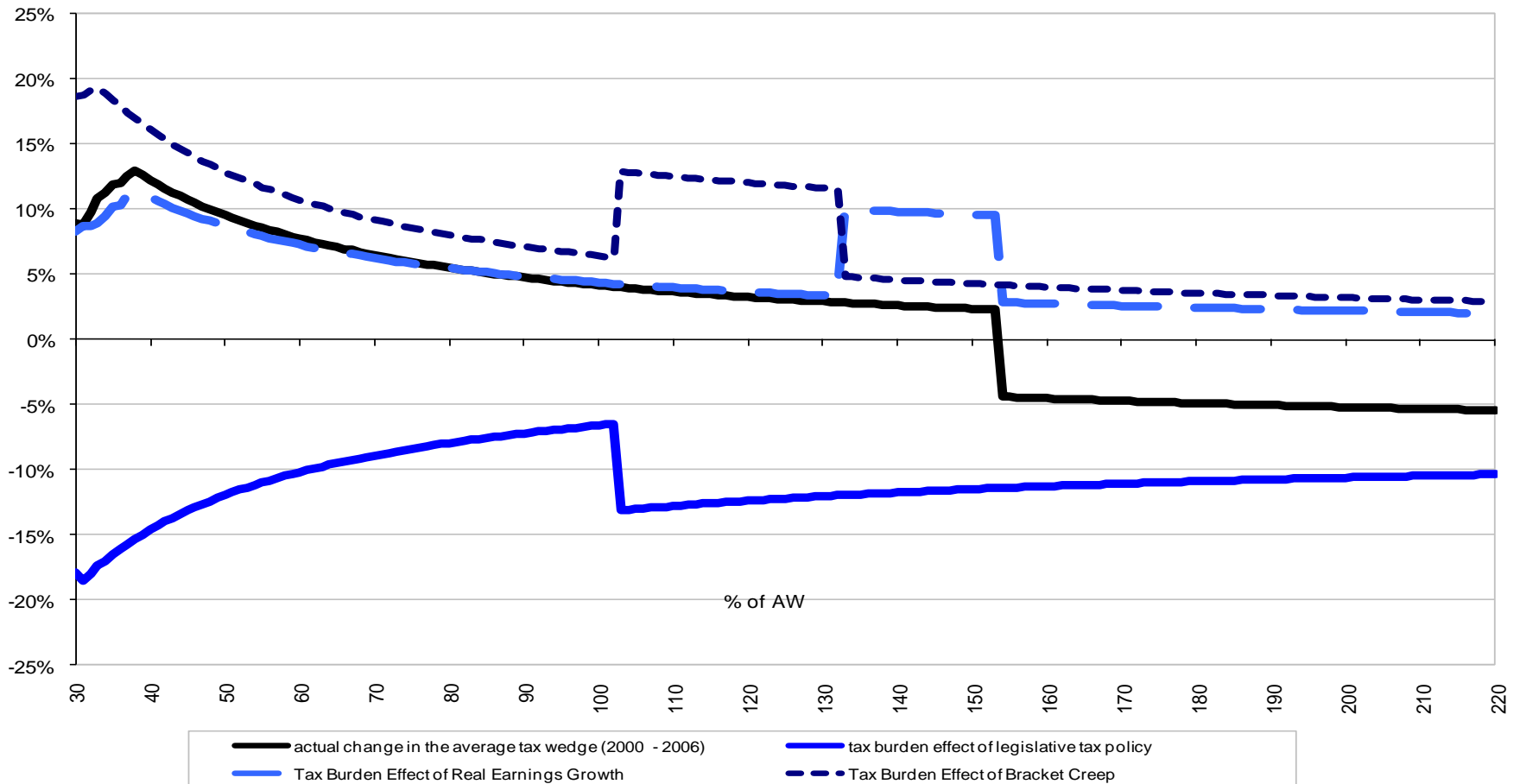


WHAT IS THE EFFECT OF BRACKET CREEP?

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



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



Thank you.