Taxing Wages 2020

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Taxing Wages 2020

The OECD's *Taxing Wages 2020* report provides unique information for each of the 36 OECD countries on the income taxes paid by workers, their social security contributions, the transfers they receive in the form of cash benefits, as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for one- and two-earner households, and the implied total labour costs for employers.

This brochure summarises the main results of this edition by:

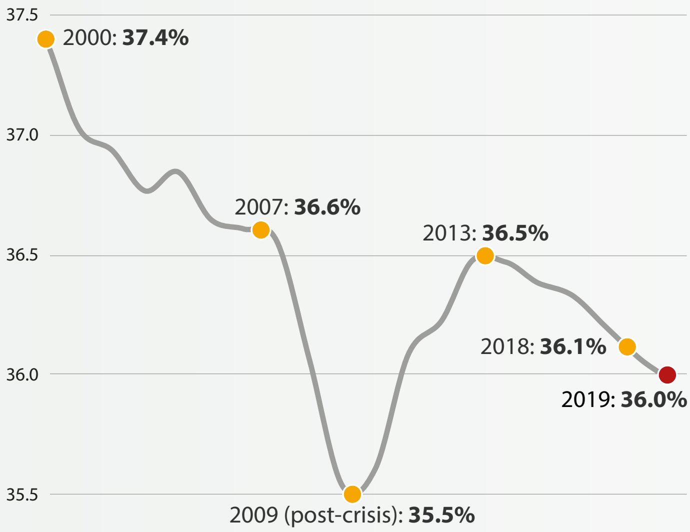
- Presenting an analysis of the average tax wedge in OECD countries in 2019, the changes from the previous year and the trends between 2000 and 2019 for a selection of household types that are covered in *Taxing Wages 2020*.
- Presenting a brief analysis of the net personal average tax rate for a single average worker across OECD countries for 2019.

The brochure also presents the main results of the associated report on *Taxing Wages in Selected Partner Economies: Brazil, China, India, Indonesia and South Africa* in 2018 (see Box 2).

Taxing Wages 2020 presents results for 2019, so does not include the impact of COVID-19 on wages or tax rates. However, it provides an important baseline to measure the impact of COVID-19 on labour taxation, in advance of next year's edition, which will include the impact of COVID-19 on these indicators in 2020.

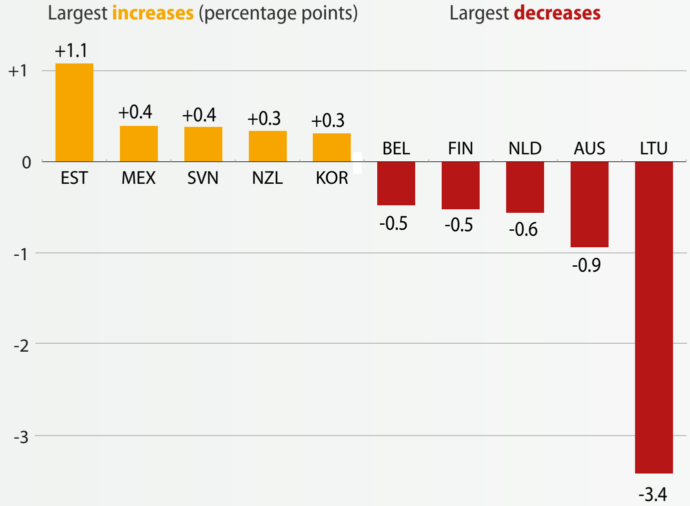
Trends in labour taxes across OECD countries

The tax wedge continues to decline on average in the OECD



Change in tax wedge: 2018-2019

↗ 19 OECD countries saw their tax wedge **increase**
↘ 17 OECD countries saw their tax wedge **decrease**



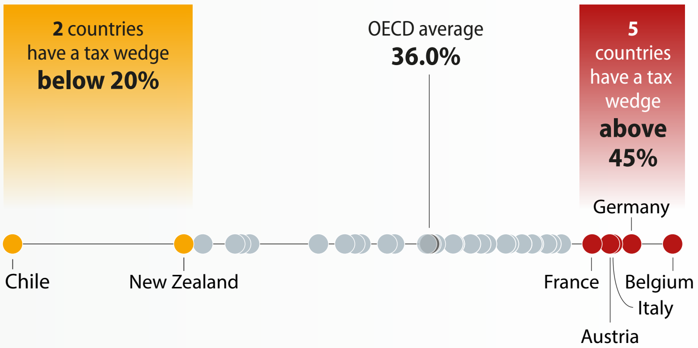
The tax wedge

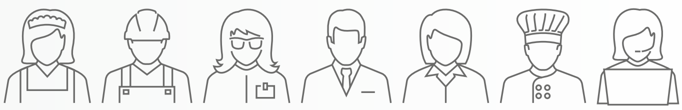
Tax wedge for the average worker in OECD countries

Table 1 shows that the tax wedge between the labour costs to the employer and the corresponding net take-home pay for single workers without children, at average earnings levels, varied widely across OECD countries in 2019 (see column 1). While in Austria, Belgium, France, Germany, Hungary and Italy, the tax wedge was about 45% or more, it was lower than 20% in Chile and New Zealand. The highest tax wedge is observed in Belgium (52.2%) and the lowest in Chile (7.0%). Table 1 shows that the average tax wedge in OECD countries was 36.0% in 2019.

The changes in tax wedge between 2018 and 2019 for the average worker without children are described in column 2 of Table 1. The OECD average decreased by 0.11 percentage points. Among the OECD member countries, the tax wedge increased in 19 countries and fell in 17. Most of the increases and decreases were comparatively small: a decrease of more than one percentage point was observed only in Lithuania (3.43 percentage points); and only Estonia saw an increase exceeding one percentage point (1.08 percentage points).

The average tax wedge in 2019 varied considerably across OECD countries, from 7% in Chile to over 52% in Belgium



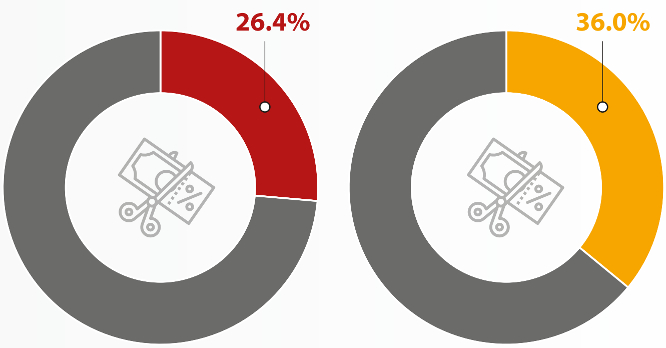


Box 1: **The Tax Wedge**

Taxing Wages 2020 presents several measures of taxation on labour. Most emphasis is given to the **tax wedge** – a measure of the difference between labour costs to the employer and the corresponding net take-home pay of the employee – which is calculated by expressing the sum of personal income tax, employee and employer social security contributions plus any payroll taxes, minus any benefits received by the employee, as a percentage of labour costs. Employer social security contributions and (in some countries) payroll taxes are added to gross wage earnings of employees in order to determine a measure of total labour costs. However, it should be recognised that this measure may be less than the true labour costs faced by employers because, for example, employers may also have to make *non-tax compulsory payments*.[1] The average tax wedge measures that part of labour costs which is taken in tax and social security contributions net of cash benefits. In contrast, the marginal tax wedge measures that part of an increase of total labour costs that is paid in taxes and social security contributions less cash benefits.

1. Non-tax compulsory payments are requited and unrequited compulsory payments to privately-managed funds, welfare agencies or social insurance schemes outside general governments and to public enterprises (http://www.oecd.org/tax/tax-policy/tax-database.htm#NTCP).

One-earner married couples with two children face a lower average tax wedge



Tax wedge for a **one-earner married couple with two children** compared to the **average single OECD worker**, as a share of the labour costs

TABLE 1. **COMPARISON OF TOTAL TAX WEDGE FOR THE AVERAGE WORKER IN OECD COUNTRIES**

As % of labour costs, 2019

Country[1]	Total Tax wedge 2019 (1)	Annual change, 2019/18 (in percentage points)[2] Tax wedge (2)	Income tax (3)	Employee SSC (4)	Employer SSC[3] (5)
Belgium	52.2	-0.48	-0.47	0.00	-0.01
Germany	49.4	-0.18	0.03	-0.52	0.31
Italy	48.0	0.24	0.24	0.00	0.00
Austria	47.9	0.29	0.34	0.01	-0.06
France	46.7	-0.33	0.03	-0.45	0.09
Hungary	44.6	-0.46	0.10	0.13	-0.69
Czech Republic	43.9	0.18	0.28	0.01	-0.11
Slovenia	43.6	0.38	0.38	0.00	0.00
Sweden	42.7	-0.32	-0.32	0.00	0.00
Latvia	42.6	-0.04	-0.03	0.00	0.00
Finland	41.9	-0.52	0.02	0.07	-0.62
Slovak Republic	41.9	0.07	0.20	0.02	-0.15
Portugal	41.0	0.20	0.20	0.00	0.00
Greece	40.8	-0.12	0.08	-0.10	-0.09
Spain	39.5	0.10	0.10	0.00	0.00
Turkey	39.1	-0.12	-0.12	0.00	0.00
Luxembourg	38.4	0.20	0.33	0.02	-0.15
Netherlands	37.3	-0.56	-1.02	0.12	0.34
Estonia	37.2	1.08	1.08	0.00	0.00
Lithuania	37.2	-3.43	6.29	12.30	-22.02
Norway	35.7	-0.14	-0.14	0.00	0.00
Poland	35.6	-0.17	-0.18	0.00	0.01
Denmark	35.4	0.06	0.01	0.00	0.00
Ireland	33.2	0.30	0.22	0.00	0.08
Iceland	33.1	-0.22	-0.09	0.00	-0.13
Japan	32.7	0.05	0.02	-0.01	0.04
United Kingdom	30.9	-0.09	-0.12	0.02	0.02
Canada	30.5	-0.35	0.06	0.12	-0.53
United States	29.8	0.16	0.21	0.00	-0.06
Australia	27.9	-0.94	-0.94	0.00	0.00
Korea	23.3	0.31	0.17	0.14	0.00
Israel	22.7	0.20	0.18	-0.02	0.04
Switzerland	22.3	0.07	0.07	0.00	0.00
Mexico	20.1	0.39	0.42	0.00	-0.03
New Zealand	18.8	0.34	0.34	0.00	0.00
Chile	7.0	0.04	0.04	0.00	0.00
Unweighted average					
OECD Average	**36.0**	**-0.11**	**0.22**	**0.33**	**-0.66**

Notes: Single individual without children at the income level of the average worker.

1. Countries ranked by decreasing total tax wedge.
2. Due to rounding, the changes in tax wedge in column (2) may differ by one-hundredth of a percentage point from the sum of columns (3)-(5). For Denmark, the Green Check (cash benefit) contributes to the difference as it is not included in columns (3)-(5).
3. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.

The highest tax wedge is observed in Belgium (52.2%) and the lowest in Chile (7.0%). The OECD average tax wedge was 36.0% of labour costs in 2019.

In general, the rises in tax wedge rates were driven by higher income taxes (see column 3). This was the major factor for the majority of countries showing an overall increase, the exceptions being Japan and Korea. Among the group of countries with higher tax wedges in 2019, the largest increase in personal income taxes as a percentage of labour costs was in Estonia (1.08 percentage points), as the income related basic tax allowance decreased while gross wage earnings increased between 2018 and 2019. In Japan and Korea, the personal income tax and the total social security contributions as a percentage of labour costs increased evenly.

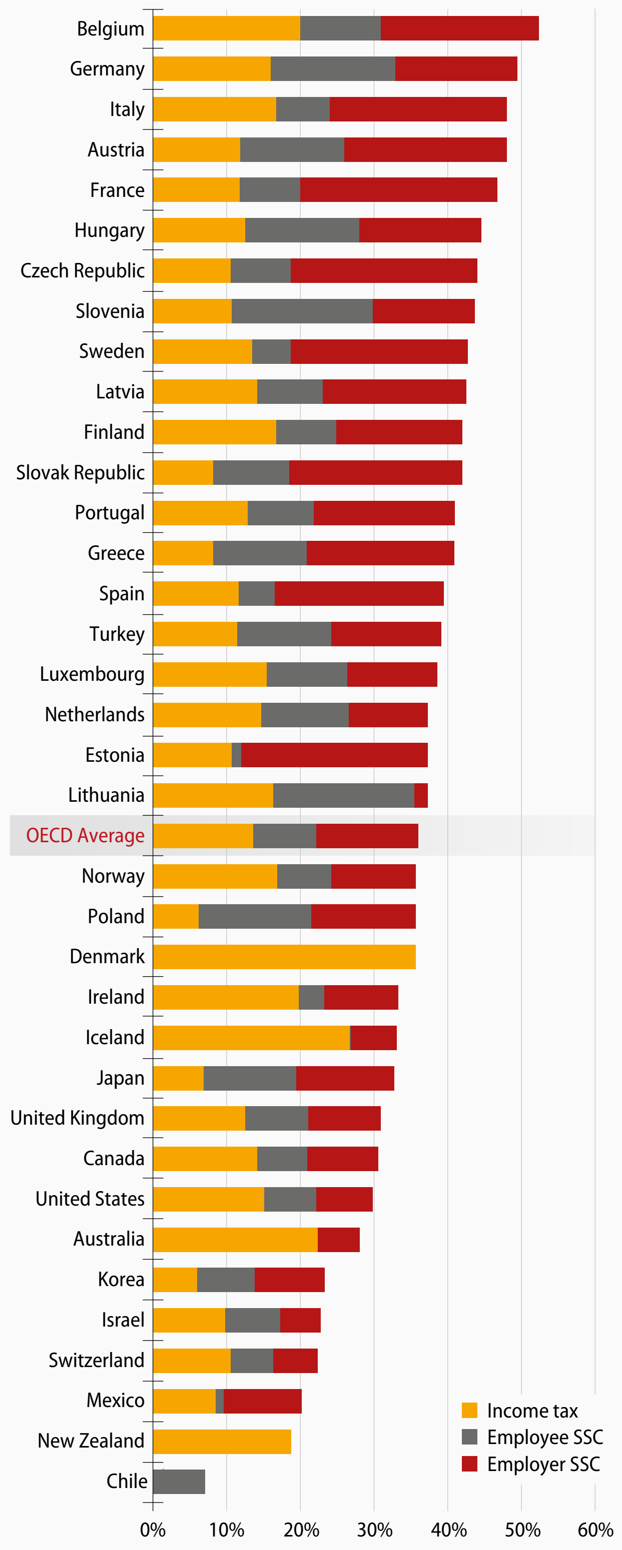
Decreases in the tax wedge were also derived for the most part from lower income taxes in nine OECD countries (Australia, Belgium, Latvia, the Netherlands, Norway, Poland, Sweden, Turkey and the United Kingdom). In seven other OECD countries with decreasing tax wedges (Canada, Finland, France, Germany, Greece, Hungary and Lithuania), the changes were mostly driven by lower social security contributions. Employer social security contributions as a percentage of labour costs decreased in Canada (0.53 percentage points), Finland (0.62 percentage points), Hungary (0.69 percentage points) and Lithuania (22.02 percentage points). In Lithuania, a reform of labour taxation was introduced in 2019, which involved a major reduction in employer social security contributions, with most of this reduction being replaced with an increase in employee social security contributions and a corresponding increase in gross wages. The total employer's social security contribution rate, including the payroll tax rate, declined from 31.2% in 2018 to 1.79% in 2019 while the total employee‘s social security contribution rate increased from 9% to 19.5%. In addition, an income ceiling of around 9.5 times the average wage was also introduced for employee and employer social security contributions. To offset the increase in employee social security contributions the reform also required employers to increase gross wages by 28.9%. In France and Germany the employee social security contributions as a percentage of labour costs decreased by 0.45 and 0.52 percentage points respectively. In Greece, the decreases in the employee and the employer social security contributions (by 0.19 percentage points in total) more than offset the increase in the income tax (0.08 percentage points). For Iceland, the decrease in the tax wedge resulted from a decline of almost the same magnitude in the income tax (0.09 percentage points) and in employers' social security contributions (0.13 percentage points).

Figure 1 shows the constituent components of the tax wedge in 2019, i.e. income tax, employee and employer social security contributions (including payroll taxes where applicable), as a percentage of labour costs for the average worker without children.

The highest tax wedge is observed in Belgium (52.2%) and the lowest in Chile (7.0%)

FIGURE 1. **INCOME TAX PLUS EMPLOYEE AND EMPLOYER SOCIAL SECURITY CONTRIBUTIONS, OECD COUNTRIES, 2019**

As % of labour costs



Notes: Single individual without children at the income level of the average worker. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2020* (OECD)

The percentage of labour costs paid in income tax varies considerably across OECD countries. The lowest figures are in Chile (0.05%), with Greece, Israel, Japan, Korea, Mexico, Poland and the Slovak Republic also below 10%. The highest values are in Denmark (35.6%), with Australia and Iceland over 20%. The percentage of labour costs paid in employee social security contributions also varies widely, ranging from zero in Australia, Denmark and New Zealand to 19.0% in Slovenia and 19.2% in Lithuania. Employers in France pay 26.6% of labour costs in social security contributions, the highest amongst OECD countries. The corresponding figures are also more than 20% in 8 other countries - Austria, Belgium, the Czech Republic, Estonia, Italy, the Slovak Republic, Spain and Sweden.

As a percentage of labour costs, the total of employee and employer social security contributions exceeds 20% in more than half of the OECD countries. It also represents at least one-third of labour costs in five OECD countries: Austria, the Czech Republic, France, Germany and the Slovak Republic.

Single compared to one-earner couple taxpayers in OECD countries

Table 2 compares the tax wedges for a one-earner married couple with two children and a single individual without children, at average earnings levels. These tax wedges varied widely across OECD countries in 2019 (see columns 1 and 2). The size of the tax wedge for the couple with children is generally lower than the one observed for the individual without children, since many OECD countries provide a fiscal benefit to households with children through advantageous tax treatment and/or cash benefits. Hence, the OECD average tax wedge for the one-earner couple with two children was 26.4% compared to 36.0% for the single average worker. This gap has narrowed slightly (by 0.03 percentage points) since 2018.

Box 2: **Taxing Wages in selected partner economies**

The associated report *Taxing Wages in Selected Partner Economies* examines the taxation of labour income in five major countries: **Brazil, China, India, Indonesia** and **South Africa** (the BIICS countries). It sets out the key features of the taxation of labour income in each of the five countries in 2018 and then uses this information together with corresponding details for earlier years to model changes to the tax burden between 2010 and 2018 in each case.

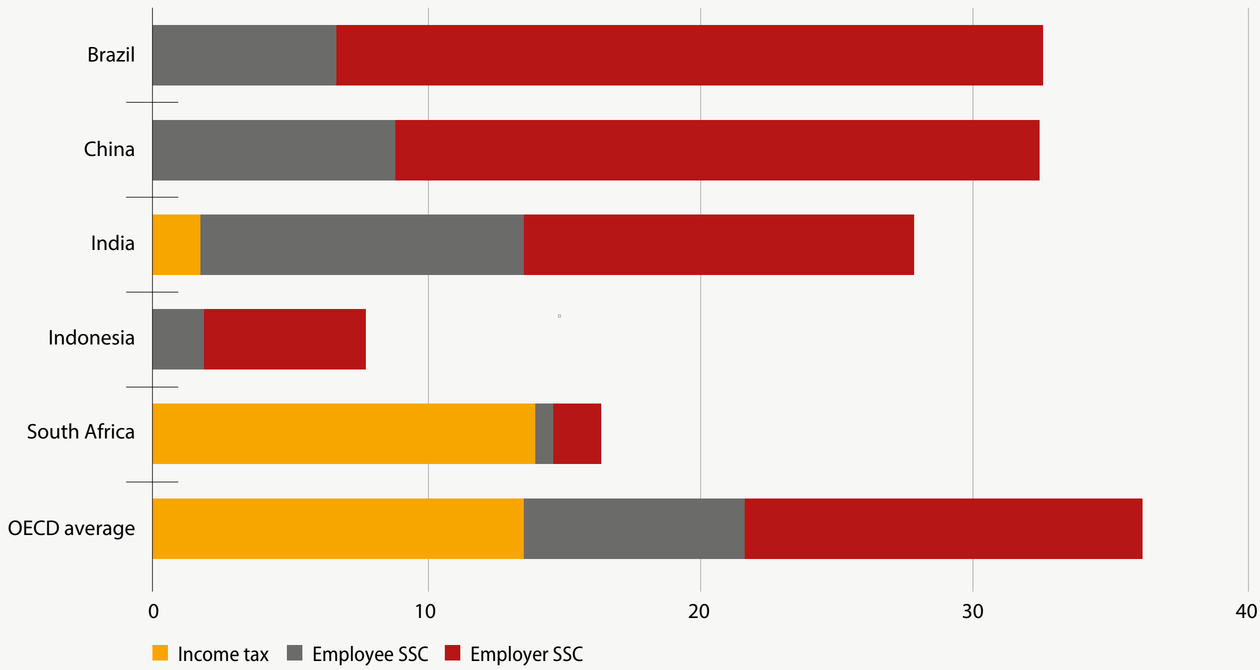
Across the BIICS countries, there are two main groups of countries with regard to tax wedge levels for the single worker, as shown in the Figure below. In Brazil and China (where the modelling assumes the worker is based in Shanghai), the average tax wedges in 2018 (column 1) were 32.5% and 32.4%, respectively; slightly below the OECD average of 36.1%. The corresponding averages in Indonesia and South Africa are 7.8% and 16.3%, which are low compared with the vast majority of OECD countries. The same is true in India where two scenarios are considered. In India, SSCs are paid in businesses with more than 20 employees, which is the minority case. Thus, the first scenario, which is more representative of the workforce, does not include any SSCs. As a result, the tax wedge for the average single worker only counts the PIT and amounts to 2.0%. The state income tax accounts for the whole PIT (the modelling focuses on the state of Maharashtra), as no central income tax is levied at that level of earnings. The second scenario for India covers the situation where the employee works in a business with more than 20 employees and includes the applicable SSCs. In that particular case the tax wedge is 27.8%.

The composition of the tax wedge also differs between the BIICS countries. In Brazil, China, India and Indonesia, the average worker pays little or no PIT and the employer SSC component forms 50% to 80% of the tax wedge. In South Africa, there is a different picture – the PIT component of the tax wedge (13.93%) is 0.43 percentage points above the OECD average (13.50%) and it forms more than 80% of the total tax wedge.

The Figure below shows a graphical illustration of the tax wedge components.

FIGURE A. **INCOME TAX PLUS EMPLOYEES' AND EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS IN THE BIICS, 2018**

For a single worker on average wage, as % of labour costs



Notes: Single individual without children at the income level of the average worker.
India: the scenario when SSCs are payable
Includes payroll taxes where applicable.

Source: www.oecd.org/tax/tax-policy/taxing-wages-in-selected-partner-economies.pdf

TABLE 2. **COMPARISON OF TOTAL TAX WEDGE FOR SINGLE AND ONE-EARNER COUPLE TAXPAYERS, 2019**

As % of labour costs

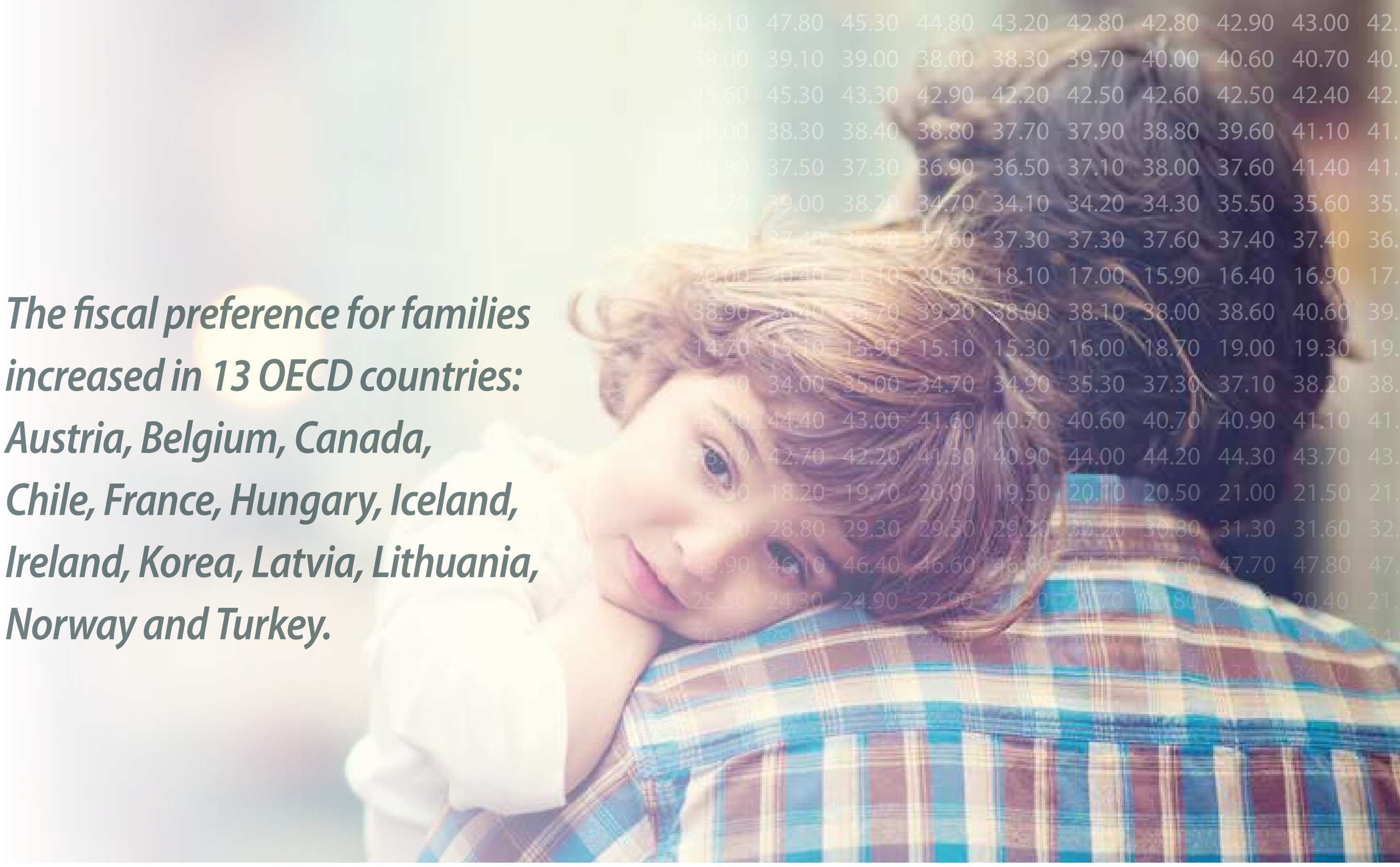
			Annual change, 2019/18 (in percentage points)		
Country[1]	Family[2] Total Tax wedge 2019 (1)	Single[3] Total Tax wedge 2019 (2)	Family Tax wedge (3)	Single Tax wedge (4)	Difference between single and family (4)-(3) (5)
Italy	39.2	48.0	0.58	0.24	-0.34
Greece	37.8	40.8	-0.11	-0.12	-0.01
Finland	37.5	41.9	-0.48	-0.52	-0.04
Turkey	37.5	39.1	-0.21	-0.12	0.09
Sweden	37.4	42.7	-0.29	-0.32	-0.03
France	36.8	46.7	-2.34	-0.33	2.01
Belgium	36.5	52.2	-0.96	-0.48	0.48
Germany	34.3	49.4	-0.09	-0.18	-0.08
Spain	34.2	39.5	0.26	0.10	-0.16
Austria	33.7	47.9	-3.67	0.29	3.96
Latvia	32.4	42.6	-0.20	-0.04	0.17
Netherlands	32.3	37.3	-0.52	-0.56	-0.04
Norway	32.1	35.7	-0.27	-0.14	0.14
Slovak Republic	31.1	41.9	0.51	0.07	-0.44
Hungary	29.6	44.6	-0.59	-0.46	0.13
Portugal	29.4	41.0	0.34	0.20	-0.14
Lithuania	29.0	37.2	-4.24	-3.43	0.81
Slovenia	28.5	43.6	3.32	0.38	-2.94
Japan	27.5	32.7	0.07	0.05	-0.02
Estonia	27.5	37.2	1.37	1.08	-0.29
Czech Republic	26.6	43.9	1.03	0.18	-0.85
United Kingdom	26.3	30.9	0.02	-0.09	-0.11
Denmark	25.2	35.4	0.22	0.06	-0.16
Iceland	21.6	33.1	-0.59	-0.22	0.36
Australia	20.8	27.9	-0.78	-0.94	-0.16
Korea	20.6	23.3	-0.36	0.31	0.67
Israel	20.3	22.7	0.24	0.20	-0.05
Mexico	20.1	20.1	0.39	0.39	0.00
United States	18.8	29.8	0.33	0.16	-0.17
Ireland	17.9	33.2	0.25	0.30	0.05
Poland	17.7	35.6	2.62	-0.17	-2.79
Luxembourg	17.3	38.4	0.23	0.20	-0.03
Canada	11.6	30.5	-0.45	-0.35	0.10
Switzerland	9.9	22.3	0.12	0.07	-0.04
Chile	7.0	7.0	0.00	0.04	0.04
New Zealand	3.5	18.8	1.55	0.34	-1.22
Unweighted average					
OECD Average	**26.4**	**36.0**	**-0.07**	**-0.11**	**-0.03**

Notes:

1. Countries ranked by decreasing tax wedge of the family.
2. One earner married couple with two children and earnings at the average wage level.
3. Single individual without children and earnings at the average wage level.

Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.

In all OECD countries, the tax wedge for families on average earnings with children was either lower or, in Mexico, the same, as the average single earner without children.



The fiscal preference for families increased in 13 OECD countries: Austria, Belgium, Canada, Chile, France, Hungary, Iceland, Ireland, Korea, Latvia, Lithuania, Norway and Turkey.

The tax savings realised by a one-earner married couple with two children compared to a single worker without children were greater than 20% of labour costs in Luxembourg, and 15% of labour costs or more in nine other countries – Belgium, Canada, the Czech Republic, Germany, Hungary, Ireland, New Zealand, Poland and Slovenia. The tax burdens of one-earner married couples and single workers on the average wage were the same in Mexico and differed by three percentage points or less in Chile, Greece, Israel, Korea and Turkey (see columns 1 and 2).

In 27 of the 36 OECD countries, there was only a small change (not exceeding plus or minus one percentage point) in the tax wedge of an average one-earner married couple with two children between 2018 and 2019 (see column 3). There was no change in Chile. There were increases of greater than one percentage point in Slovenia (3.32 percentage points), Poland (2.62 percentage points), New Zealand (1.55 percentage points), Estonia (1.37 percentage points) and the Czech Republic (1.03 percentage points). In contrast, the tax wedge for families fell by more than one percentage point in three countries: Lithuania (4.24 percentage points), Austria (3.67 percentage points) and France (2.34 percentage points). For most of those countries, the changes in the tax wedge resulted from the introduction of, or changes in, tax provisions or cash benefits for dependent children. For Lithuania, the decrease in the tax wedge of an average one-earner married couple with two children was mainly driven by reduced employer social security contributions resulting from the reform of labour taxation. By comparison, the decrease in the tax wedge of a single taxpayer without children at the average wage level was also greater than one percentage point in Lithuania. Detailed explanations on the labour taxation reform in Lithuania are given in the section on the tax wedge above and also in the country details in Part II of the report.

A comparison of the changes in tax wedges between 2018 and 2019 for one-earner married couples with two children and single persons without children, at the average wage level, is shown in column 5 of Table 2 The fiscal preference for families increased in 13 OECD countries: Austria, Belgium, Canada, Chile, France, Hungary, Iceland, Ireland, Korea, Latvia, Lithuania, Norway and Turkey. Additionally, the effects of changes in the tax system on the tax wedge were of the same magnitude for both household types only in Mexico. In seven countries: Finland, Greece, Japan, Luxembourg, the Netherlands, Sweden and Switzerland, the fiscal preference for families decreased by less than 0.05 percentage points.

Tax wedge for two-earner couples in OECD countries

The preceding analysis focuses on two households with comparable levels of income: the single worker at 100% of the average wage, and the married couple with one earner at 100% of the average wage, with two children. This section extends the discussion to include a third household type: the two-earner married couple, earning 100% and 67% of the average wage, with two children.

For this household type, the OECD average tax wedge as a percentage of labour costs for the household was 30.5% in 2019 (Figure 2 and Table 3). Belgium had a tax wedge of 44.5%, which was the highest among the OECD countries. The other countries with tax wedges exceeding 40% were Italy (41.9 %), and Germany

TABLE 3. **COMPARISON OF TOTAL TAX WEDGE FOR TWO-EARNER COUPLES WITH CHILDREN, OECD COUNTRIES, 2019**

As % of labour costs

Country[1]	Total Tax wedge 2019 (1)	Annual change, 2019/18 (in percentage points)[2]				
		Tax wedge (2)	Income tax (3)	Employee SSC (4)	Employer SSC[3] (5)	Cash benefits (6)
Belgium	44.5	-0.63	-0.62	-0.01	-0.03	-0.02
Germany	42.5	-0.16	0.05	-0.52	0.31	0.00
Italy	41.9	0.34	0.29	0.00	0.00	-0.05
France	39.9	-0.48	0.06	-0.44	-0.09	0.00
Sweden	38.7	-0.35	-0.37	0.00	0.00	-0.02
Greece	38.3	-0.11	0.08	-0.10	-0.09	-0.01
Austria	38.3	-2.00	-2.09	0.01	-0.06	-0.14
Turkey	37.2	0.37	-0.31	-0.12	0.80	0.00
Slovak Republic	37.1	0.27	0.31	0.02	-0.15	-0.08
Finland	36.8	-0.56	-0.04	0.07	-0.62	-0.03
Spain	36.5	0.16	0.16	0.00	0.00	0.00
Portugal	35.9	0.30	0.30	0.00	0.00	0.00
Slovenia	35.8	0.53	0.37	0.00	0.00	-0.16
Hungary	35.6	-0.54	-0.23	0.13	-0.69	-0.26
Czech Republic	35.4	0.58	0.53	0.01	-0.11	-0.15
Latvia	35.4	-0.12	-0.21	0.00	0.00	-0.10
Norway	32.3	-0.23	-0.15	0.00	0.00	0.08
Iceland	31.9	-0.25	-0.12	0.00	-0.13	0.00
Lithuania	31.1	-5.24	6.46	12.30	-22.02	1.98
Estonia	30.9	0.99	1.00	0.00	0.00	0.01
Denmark	30.7	0.11	0.00	0.00	0.00	-0.10
Japan	29.7	0.05	0.01	-0.01	0.04	-0.01
Netherlands	29.3	-0.79	-0.98	-0.03	0.34	0.13
Luxembourg	26.7	0.32	0.36	0.02	-0.15	-0.10
United Kingdom	26.6	-0.03	-0.14	0.02	0.02	-0.07
Australia	25.8	-1.11	-1.11	0.00	0.00	0.00
Ireland	25.5	0.52	0.32	0.00	0.08	-0.13
Poland	25.1	-2.11	-0.01	0.00	0.01	2.10
United States	24.1	0.17	0.24	0.01	-0.07	0.00
Canada	23.9	-0.34	0.06	0.17	-0.53	0.03
Korea	20.7	-0.08	0.22	0.14	0.00	0.44
Mexico	18.6	0.36	0.39	0.00	-0.04	0.00
New Zealand	17.3	0.23	0.23	0.00	0.00	0.00
Israel	16.3	0.14	0.11	-0.03	0.03	-0.03
Switzerland	16.1	0.09	0.06	0.00	0.00	-0.03
Chile	6.7	0.00	0.00	0.00	0.00	0.00
Unweighted average						
OECD Average	**30.5**	**-0.27**	**0.14**	**0.32**	**-0.64**	**0.09**

Notes: Two-earner married couple, one at 100% and the other at 67% of the average wage, with 2 children.

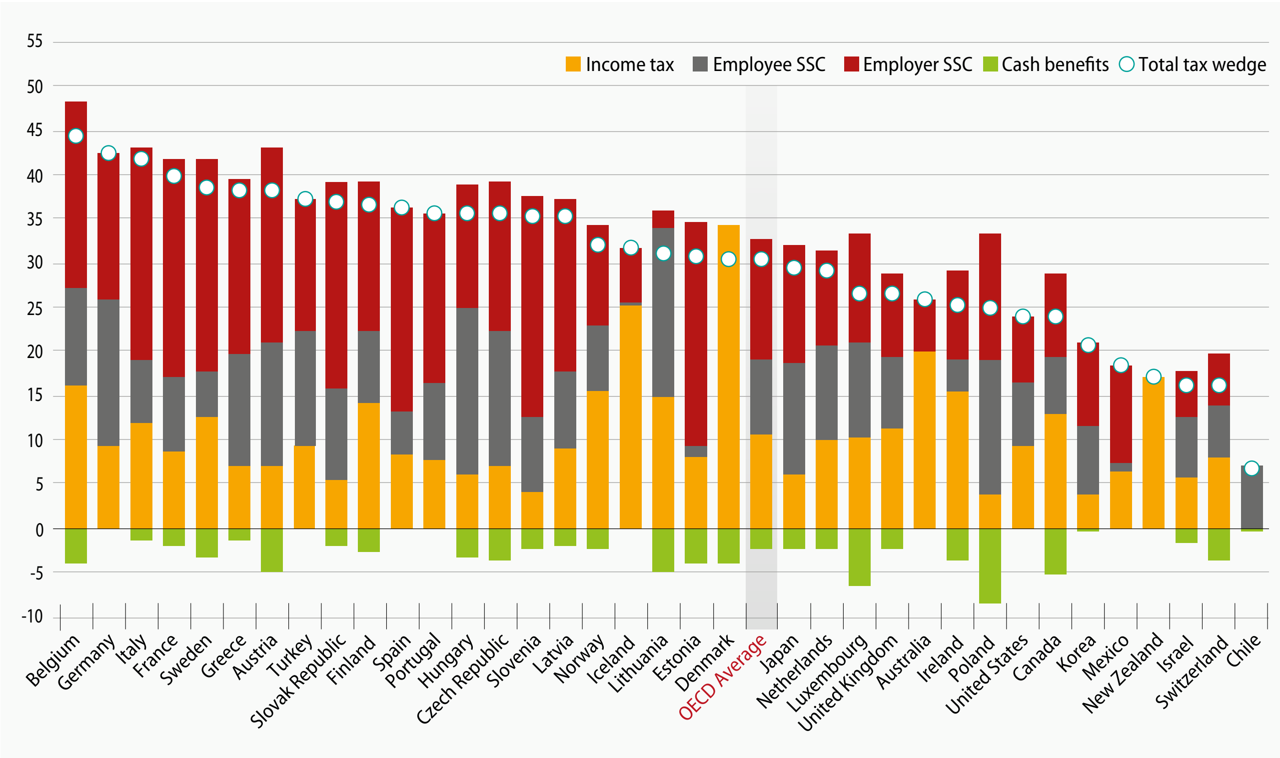
1. Countries ranked by decreasing total tax wedge.
2. Due to rounding, the changes in tax wedge in column (2) may differ by one hundredth of a percentage point from the sum of columns (3)-(6).
3. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.

In OECD countries, most of the increases in income tax or social security contributions were augmented or alleviated by changes in cash benefits.

FIGURE 2. **INCOME TAX PLUS EMPLOYEE AND EMPLOYER SOCIAL SECURITY CONTRIBUTIONS LESS CASH BENEFITS, 2019**

For two-earner couples with two children, as % of labour costs



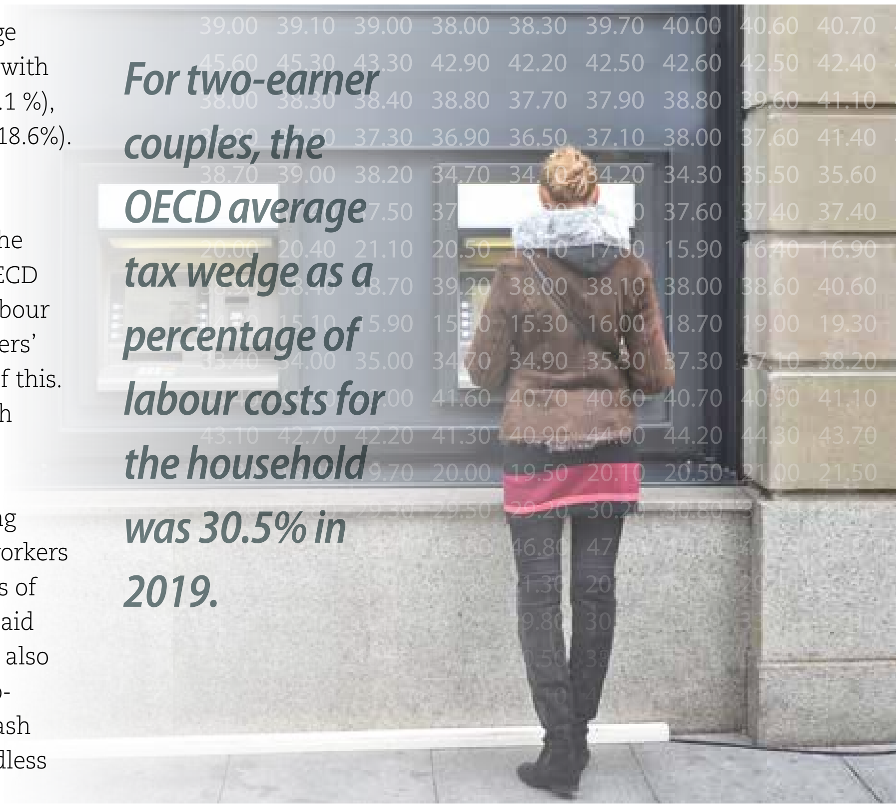
Note: Two-earner married couple, one at 100% and the other at 67% of the average wage, with 2 children. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.

(42.5%). At the other extreme, the lowest tax wedge was observed in Chile (6.7%). The other countries with tax wedges of less than 20% were Switzerland (16.1 %), Israel (16.3 %), New Zealand (17.3%) and Mexico (18.6%).

Figure 2 shows the average tax wedge and its components as a percentage of labour costs for the two-earner couple for 2019. On average across OECD countries income tax represented 10.7% of the labour costs and the sum of the employees' and employers' social security contributions represented 22.1% of this. The OECD tax wedge is net of cash benefits, which represented 2.3% of labour costs in 2019.

The cash benefits that are considered in the Taxing Wages publication are those universally paid to workers in respect of dependent children between the ages of six to eleven inclusive. In-work benefits that are paid to workers regardless of their family situation are also included in the calculations. For the observed two-earner couple, Denmark paid an income-tested cash benefit (the Green Check) that also benefited childless single workers.



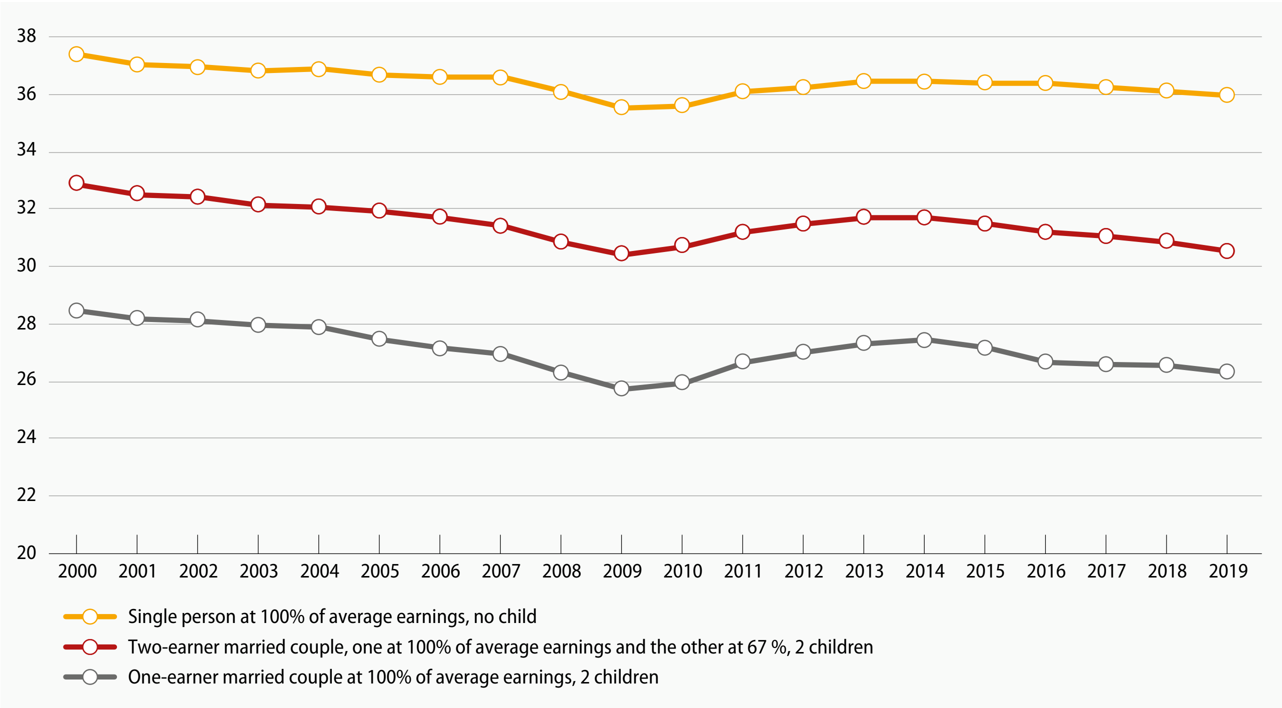
Compared to 2018, the OECD average tax wedge of the two-earner couple decreased by 0.27 percentage points in 2019, as indicated in Table 3 (column 2), although it increased for 17 out of the 36 OECD countries and decreased in 18 countries. The tax wedge for the two-earner couple remained unchanged for Chile. There were no increases of more than one percentage point. For six of those countries with an overall increase, the changes were less than 0.20 percentage points (Denmark, Israel, Japan, Spain, Switzerland and the United States). In contrast, decreases of more than one percentage point were observed in four countries: Lithuania (5.24 percentage points), Poland (2.11 percentage points), Austria (2.00 percentage points) and Australia (1.11 percentage points). In Australia, both spouses had their income tax liabilities reduced due to the introduction of the Low and Middle Income Tax Offset in 2019. In Austria, the decrease resulted from the introduction of a tax credit for dependent children and in Poland, it is due to an increase in the cash benefit for dependent children. For Lithuania, the decrease in the tax wedge was due to a reform of labour taxation that is described in the section on the tax wedge above.

In most countries with an increasing tax wedge, the change was mainly driven by higher income taxes. They accounted for the whole increase in the tax wedge, before the impact of cash benefits is taken into account, in 14 countries: the Czech Republic, Estonia, Ireland, Israel, Italy, Luxembourg, Mexico, New Zealand, Portugal, the Slovak Republic, Slovenia, Spain, Switzerland and the United States. In contrast, increasing employer social security contributions were the main factor in Japan and Turkey. However, most of those increases in income tax or social security contributions were augmented or alleviated by changes in cash benefits. In Denmark, the decrease in cash benefits as a percentage of labour costs represented the bulk of the increase in the tax wedge.

In Australia, both spouses had their income tax liabilities reduced due to the introduction of the Low and Middle Income Tax Offset in 2019.

FIGURE 3. **OECD TAX WEDGES SINCE 2000**

For three household types, as % of labour costs

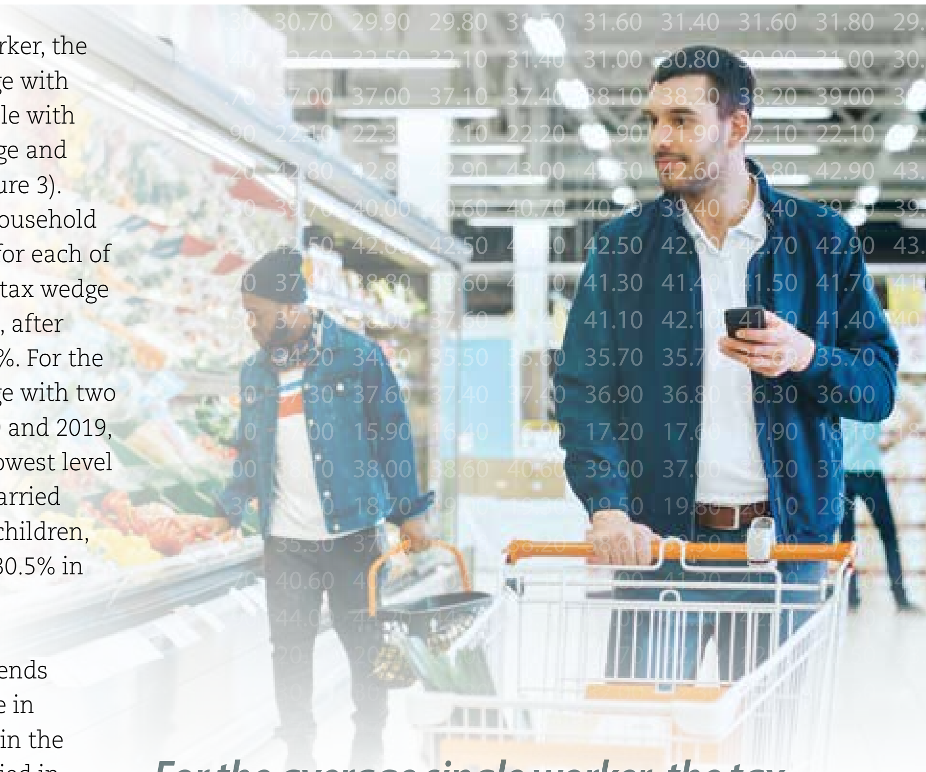


Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.

OECD tax wedge trends since 2000

The OECD tax wedge for the single average worker, the one-earner married couple on the average wage with two children and the two-earner married couple with total wage earnings at 167% of the average wage and two children have declined since 2000 (see Figure 3). The tax burden trend is similar for the three household types, with the lowest tax wedge seen in 2009 for each of these cases. For the average single worker, the tax wedge decreased from 37.4% in 2000 to 36.0% in 2019, after having reached its lowest level in 2009, at 35.5%. For the one-earner married couple on the average wage with two children, the tax wedge declined between 2000 and 2019, from 28.5% to 26.4% after having reached its lowest level of 25.7% in 2009. Finally, for the two-earner married couple on 167% of the average wage with two children, the tax wedge changed from 32.8% in 2000 to 30.5% in 2019, with the lowest rate being 30.4% in 2009.

Taxing Wages 2020 presents OECD tax wedge trends up to 2019. Labour taxes continued to decrease in OECD countries for the sixth consecutive year in the run-up to 2020. The emergency measures applied in 2020 to address the COVID-19 pandemic's impact on business and household cash flows, in some countries via concessions related to social security contributions (SSCs), may strengthen the observed trend.



For the average single worker, the tax wedge decreased from 37.4% in 2000 to 36.0% in 2019...

The net personal average tax rate in OECD countries

Taxing Wages 2020 presents a second main indicator, which measures income tax plus employee social security contributions less cash benefits as a percentage of gross wage earnings; i.e. the **net personal average tax rate**. On average, the net personal average tax rate for a single worker at average earnings in OECD countries was 25.9% in 2019 (see Figure 4). In other words, disposable or after tax income[2] represented 74.1% of the gross wage earnings for the single average worker.

Belgium and Germany had the highest net personal average tax rate at 39.3% of gross wages for both countries, with Denmark and Lithuania being the only other countries with rates of more than 35%. Chile and Mexico had the lowest net personal average tax rates at 7.0% and 10.8% of gross average earnings respectively. *Taxing Wages* 2020 also shows the net personal average tax rates for other household types with or without children.

2. The Taxing Wages indicators focus on the structure of income tax systems on disposable income. To assess the overall impact of the government sector on people's welfare other factors such as indirect taxes (e.g. VAT) should also be taken into account, as should other forms of income (e.g. capital income). In addition, non-tax compulsory payments that affect households' disposable incomes are not included in the calculations presented in the publication, but further analyses on those payments are presented in the online report: www.oecd.org/tax/tax-policy/non-tax-compuslory-payments.pdf.

Box 3: **Methodology**

The analysis in *Taxing Wages 2020* focuses on full-time private sector employees. It is assumed that their annual income from employment is equal to a given percentage of the average full-time adult gross wage earnings for each OECD economy, referred to as the average wage (AW).

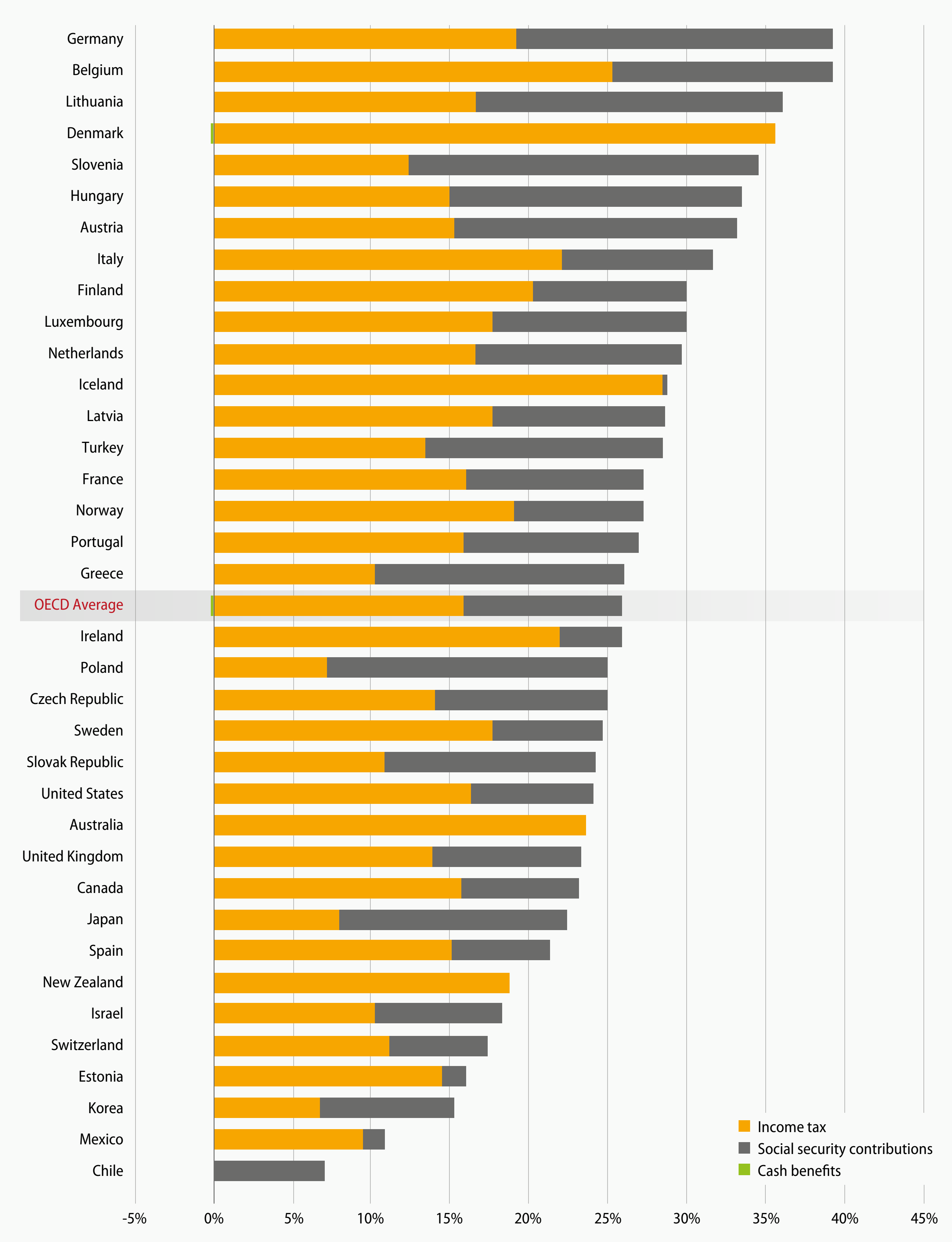
The term tax includes the personal income tax, social security contributions and payroll taxes (which are aggregated with employer social contributions in the calculation of tax rates) payable on gross wage earnings. Consequently, any income tax that might be due on non-wage income and other kinds of taxes – e.g. corporate income tax, net wealth tax and consumption taxes – are not taken into account. The benefits included are those paid by general government as cash transfers, usually in respect of dependent children.

For most OECD countries, the tax year is equivalent to the calendar year, the exceptions being Australia, New Zealand and the United Kingdom. In the case of New Zealand and the United Kingdom, where the tax year starts in April, the calculations apply a 'forward-looking' approach. This implies that, for example, the tax rates reported for 20189are those for the tax year 2019-20. However, in Australia, where the tax year starts in July, it has been decided to take a 'backward looking' approach in order to present more reliable results. So, for example, the year 2019 in respect of Australia has been defined to mean its tax year 2018-2019.

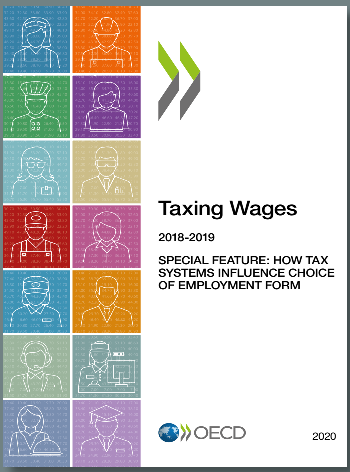
For information on the tax burden on other household types, please see *Taxing Wages 2020*. A full description of the methodology is set at in the *Taxing Wages 2020* Annex.

FIGURE 4. **INCOME TAX AND EMPLOYEE SOCIAL SECURITY CONTRIBUTIONS LESS CASH BENEFITS, 2019**

For a single worker on average wage, as % of gross wage earnings



Source: Data from *Taxing Wages 2020* (OECD), www.oecd.org/ctp/tax-policy/taxing-wages.htm.



OECD (2020), *Taxing Wages 2020*, OECD Publishing, Paris, https://doi.org/10.1787/047072cd-en.

FURTHER READING

OECD, Non-tax compulsory payments (NTCPs) as an additional burden on labour income in 2018. https://oe.cd/taxing-wages-associated-materials

OECD, Taxing Wages associated paper: selected partner economies (Brazil, China, India, Indonesia and South Africa), 2017-2018. https://oe.cd/taxing-wages-associated-materials

OECD/IDB/CIAT (2016), *Taxing Wages in Latin America and the Caribbean 2016*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264262607-en

Paturot, D. (2018), "Taxing wages: How taxes affect the disposable income of workers and wage costs of employers in OECD countries", *OECD Observer*, https://dx.doi.org/10.1787/dc903af5-en.

Paturot, D., K. Mellbye and B. Brys (2013), "Average Personal Income Tax Rate and Tax Wedge Progression in OECD Countries", *OECD Taxation Working Papers*, No. 15, OECD Publishing, Paris. http://dx.doi.org/10.1787/5k4c0vhzsq8v-en

OTHER STATISTICAL SOURCES

OECD Tax Database, http://oe.cd/tax-database

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For more information:

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