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Taxation and the future of work: How tax systems influence choice of employment form

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Taxation and the Future of Work: How Tax Systems Influence Choice of Employment Form

Abstract

Recent policy discussion has highlighted the variety of ways in which the world of work is changing. One development prevalent in some countries has been an increase certain forms of non-standard work. Is this beneficial, representing increased flexibility in the workforce, or detrimental, representing a deterioration in job quality driven by automation, globalisation and the market power of large employers? These changes also raise crucial issues for tax systems. Differences in tax treatment across employment forms may create tax arbitrage opportunities. This paper investigates the potential for such opportunities for eight countries. It models the labour income taxation, inclusive of social contributions, of standard employees and then of self-employed workers (with applicable tax rules detailed in the paper's annex). The aim is to understand whether countries' tax systems treat different employment forms differently, before approaching the broader question of whether differential treatment has merit when evaluated against tax design principles.

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SUMMARY

Recent policy discussion has highlighted the variety of ways in which the world of work is changing. In this regard, one recent development has been that many countries have seen increases in forms of non-standard work. This raises questions over whether such trends have been beneficial, representing increased flexibility and adaptability in the workforce, or detrimental, representing a deterioration in job quality driven by automation, globalisation, labour market deregulation and the increasing market power of large employers.

These changes also raise crucial issues for tax systems. Labour taxes (i.e., personal income tax and social security contributions) are the largest tax category in an overwhelming majority of OECD countries. Tax differentials across employment types therefore have the potential to produce significant labour market effects, along with significant tax revenue consequences. This raises questions of the extent to which increases in some forms of non-standard work are driven by tax considerations. Moreover, it raises questions of whether tax systems need to adapt to increases in non-standard work in OECD countries and, if so, how.

Building on the OECD's *Taxing Wages* framework, this paper analyses the labour (and, where relevant, capital) income taxation, inclusive of social contributions and non-tax compulsory payments, of different employment forms for a set of eight countries. The key question of interest is whether the tax treatment of self-employment differs from that of standard employment, as tax treatment differentials between these two groups may create tax arbitrage opportunities. This paper assesses whether differential treatment has merit when evaluated against accepted notions of good tax design.

The main results are as follows:

- Firms that contract labour from self-employed workers instead of hiring standard employees generally face lower tax burdens on a per-worker basis. In countries where this tax treatment differential is large (e.g., the Netherlands, the United Kingdom), the tax system may be a driver of increased self-employment.
- The contract type that minimises the tax cost of labour may vary with the wage and other factors, such as bargaining power. For each country, the paper shows results for individuals earning a low wage through to those earning 250 percent of the average wage. In general, firms that contract labour from self-employed workers face a lower tax burden across the wage spectrum.
- Firms may have the ability to further reduce their tax burdens by deducting labour-related costs and other labour-related corporate income tax provisions from the corporate income tax base. As they can vary by employment form, deductibility rules are an important factor to consider in assessing which contract types tax systems may be incentivising.

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TAXATION AND THE FUTURE OF WORK: HOW TAX SYSTEMS INFLUENCE CHOICE OF EMPLOYMENT FORM

1. Introduction

1. Recent policy discussion has highlighted the myriad of ways in which the world of work is changing (OECD, 2019a). In a number of OECD countries, growing shares of workers earn income outside of traditional employee-employer relationships. While these trends are driven by many factors, including labour market regulation and demographic change, there is concern that rising shares of non-standard forms of employment in some countries may be unduly driven by incentives embedded in tax systems. In particular, differences in the tax treatment of standard employees relative to non-standard workers may create tax arbitrage opportunities, both for firms in their selection of labour contracts offered to workers (e.g., a full-time employment contract versus a contract for services) and for individuals in their choice of organisational form (e.g., employee versus unincorporated or incorporated self-employment). This paper investigates the potential for such opportunities by assessing the extent to which the taxation of self-employment differs from the taxation of standard employment.

2. For a set of eight countries – Argentina, Australia, Hungary, Italy, the Netherlands, Sweden, the United Kingdom and the United States – the analysis models the labour income taxation, inclusive of social contributions, of standard employees according to 2017 tax rules as well as the labour (and, where relevant, capital) income taxation of non-standard employment forms and, in particular, of self-employed workers. The aim is to understand whether countries' tax systems treat standard employees and self-employed workers differently, before approaching the broader question of whether differential treatment has merit when evaluated against accepted notions of good tax design. To the extent that they exist, opportunities for tax arbitrage across employment forms diminish the effectiveness of tax systems. This can mean that firms and individuals carrying out similar activities may be subject to different levels of taxation, with implications for equity, tax revenue generation and the future sustainability of social protection systems.

3. The paper is organised as follows. Section 2 discusses tax system design principles in light of variation in employment form. Section 3 presents three stylised cases of employment, outlining how the tax treatment of standard employment may differ from that of self-employment. Section 4 provides a typology of non-standard employment forms, working with established definitions, for the set of countries analysed. Section 5 presents the methodology, including new tax system information collected for the analysis and an overview of the measures employed to analyse labour taxation. Section 6 presents the results, first using the Netherlands as a case study to show the analysis in greater detail for a single country, and second showing the results across the eight countries. Finally, Section 7 discusses policy considerations and potential directions for future work.

2. Tax System Design Principles Applied to Employment Form

4. This section elaborates upon two overarching principles of tax policy – equity and neutrality – as they relate to employment form, as these principles are key to assessing the merit of differential tax treatment.

2.1. Equity

5. One long-accepted criteria of good tax design is equity, the aim that taxation be "fair" for all taxpayers. Equity is broken down into two notions: vertical equity, which stipulates that individuals with a greater "ability to pay" should bear proportionally higher tax burdens, unpinning progressivity in tax systems; and horizontal equity,[1] which demands that similarly situated individuals (e.g., of the same age, with the same number of dependents, with similar income levels, etc.) face similar tax burdens.

6. This paper is concerned with the topic of horizontal equity applied to employment form and whether individuals carrying out similar activities and deriving similar income from these activities should exhibit differences in tax liabilities on the basis of their employment status. Consider, for example, a difference in tax treatment solely on the basis that one individual carries out an activity as an employee while the other as a self-employed contractor. Is differential tax treatment equitable? How should policymakers trade off differences in taxation across employment form with the policy aim of horizontal equity?

7. As discussed comprehensively by Freedman & Chamberlain (2001), this policy area is full of challenges, including the fact that different legal codes (e.g., labour, tax and social security) may offer different guidance (as discussed in further detail in Section 4.3). Designing rules that ensure a horizontally equitable tax system would involve clear definition, in the tax and social security systems, of employment forms and the broad alignment of tax treatments and benefits entitlements applied across them.

8. However, some claim that there is a fundamental difference in the economic reality of different employment forms, namely, of employees and genuinely self-employed workers. Employees and self-employed workers in many ways face different economic realities in terms of the agency they have over their work, the social protections they are afforded, and the risks they bear. According to this view, they are not simply individuals carrying out the same activities; and because there are fundamental differences between employment forms, there is no breach of horizontal equity.

9. This gives rise to the question of whether there are fundamental differences between different employment forms, and whether those differences can justify departures from the principle of horizontal equity in tax treatment. It also raises the question of whether, as the lines between these employment forms become more blurry, the case for differing tax treatments becomes weaker. There are a variety of reasons why differences between employed and self-employed workers can merit departures from the principle of horizontal equity.

10. A common point made in justifying differences in tax treatment is that there are fundamental differences between employees and the self-employed with respect to the variety of risks that characterise self-employment: of job uncertainty, investment loss and overall competitive pressure. It could, therefore, be argued that the self-employed should

[1] While the idea that the tax structure should impose similar burdens on equally well-off individuals has roots in the writings of Thomas Hobbes and John Stuart Mill, it was first mentioned in the twentieth century by Henry C. Simons and A.C. Pigou: "[T]ax burdens should bear similarly upon persons whom we regard as in substantially similar circumstances" (Simons, 1938); "[T]axes should bear similarly upon persons similarly situated" (Pigou, 1949). The term "horizontal equity" was coined by R.A. Musgrave (Musgrave, 1959). It came into common usage in the 1960s and 1970s, including by J.E. Meade in his influential report examining the UK tax structure: "A good tax system should be horizontally equitable, i.e. should treat like with like" (Meade, 1978).

face lower tax liabilities as compensation for the greater risk they assume. According to this view, the government, through the tax system, should share in the risk associated with self-employment. However, in competitive markets, self-employed workers should demand a wage premium relative to employees for the higher risks they bear (holding all else equal), obviating the role of the government in reducing risk differentials across employment forms. Workers' abilities to demand a wage premium will depend on their bargaining power.

11. A similar and related argument that is often made is that employees are entitled to greater employment rights and so should face higher tax burdens. However, this is a cost to the firm, not a benefit received by the government so this should likewise be priced in to the wage offered.

12. Rationales for departures from horizontal equity across employment forms can also stem from the fact that employees may have different benefit entitlements than self-employed workers. In such cases, there can be a case for higher effective tax rates on employees to finance these benefits. In countries where social benefits are closely tied to social security contributions (SSCs) paid by employees, many countries levy different levels of SSCs across employment types. However, where social benefits are financed largely or wholly from tax revenues, there may be a case for different tax treatment as well.

13. Differences in horizontal equity can also be motivated by different costs of working between self-employed workers and employees. In practice, few countries itemise deductions for employed workers, and so standard deductions proxy for the employment costs for these workers. However, self-employed workers often provide their own facilities and equipment (consider for example, the specialised tools of a dentist or a plumber), which may merit more generous deductions for self-employed workers than for employees.

14. In addition, there may be a need for different tax treatments due to differences between employees and the self-employed in evasion or tax avoidance opportunities. While employed workers often have their tax deducted at source, self-employed workers often remit their own taxes to the tax authority. Tax remittance plays a key part in taxpayer compliance. Employees are also usually subject to third-party reporting of their income to the tax authority, which is often not the case with self-employed workers. A wide literature points to the importance of third-party reporting in ensuring taxpayer compliance. Sometimes it is suggested that the tax treatments of these two broad categories of workers may need to be different from a compliance and audit perspective, with self-employed workers taxed at different rates depending on their responses.

15. Finally, the complex tax treatment of corporate and capital income needs to be considered. As discussed above, self-employed workers often make capital investments in the form of facilities and equipment. In this sense, their income is a composite of labour and capital income. In most countries, capital income is taxed differently to labour income. Therefore, there is a horizontal equity argument in these countries for the capital component of self-employed income to be taxed at similar rates to that of other forms of capital income.[2] This logic may justify departures from strict horizontal equity between self-employed and employed income tax. Furthermore, such investments can result in losses in certain years of a self-employed business. This raises the question of the extent to which

[2] This is notwithstanding other arguments that taxing capital and labour income differently may introduce arbitrage opportunities and lead to the self-employed or other workers re-characterising labour income as capital income (OECD, 2018d).

provisions such as loss-offsets, commonly available to corporations but not to individuals, should be made available to the self-employed.

2.2. Neutrality

16. Closely linked to the notion of horizontal equity is tax neutrality. If similarly situated individuals face the same tax burden, tax will not be a factor in their decision to shift organisational form; thus, we can say that the tax treatment is neutral. However, if the opposite is true and tax is a factor in an individual's decision to shift organisational form (or in a firm's decision to hire a worker of a different contract type), then the tax treatment is non-neutral. It is important to note that similar tax treatment can also be non-neutral (e.g., given differences in benefit entitlements).

17. Neutrality as a basic concept is simple: tax systems should strive to be neutral so that decisions are made on their economic merits and not for tax reasons. In practice, however, trade-offs between neutrality and other, competing goals can be difficult to resolve and, thus, taxes often end up being non-neutral.

18. It is important for policymakers to also consider ways in which departures from horizontal equity can have negative neutrality consequences. The self-employed are often entitled to larger deductions than the standardised deductions typically offered to employed workers. However, economic research points to the higher elasticity of deductions with respect to income tax rates than declared income. This means that self-employed workers may have higher opportunities to inflate or falsify deductions than employed workers to reduce their tax liability. Thus, departures from horizontal equity can result in negative neutrality consequences.

19. A similar argument holds with respect to labour and capital income. As discussed, part of self-employed workers' income can be considered to be the returns on capital that they have invested (e.g., in tools or equipment) which is often taxed at lower rates in OECD countries. However, this can create incentives for the self-employed to re-characterise their labour income as capital income.

20. In some cases, deviations from a neutral tax system are unavoidable. It is widely agreed that tax payments should increase with some measure of well-being, like income, consumption or wages (i.e., vertical equity). In other cases, deviations from a neutral tax system reflect the goals of policymakers. For example, tax systems are often designed to encourage home ownership, contributions to charity, health insurance, and higher education and to discourage smoking and drinking alcohol. Environmentally-related taxes aim to curb pollution, while R&D tax credits aim to spur innovation.

21. In the domain of organisational and employment form, how should policymakers think about tax neutrality? On the one hand, tax systems are clearly not neutral with respect to organisational form simply by virtue of the fact that corporate entities face a different tax structure compared to non-corporate entities. In addition, countries commonly aim to encourage entrepreneurship by taxing the self-employed at lower rates, placing the aim of economic growth and job creation above neutrality. In light of the fact that tax systems may not be neutral with respect to organisational and employment form, the next two sections examines the related empirical literature. How countries' other policy aims may fit with horizontal equity and tax neutrality is discussed further in Section 7.

3. Taxation of Different Employment Forms: Three Stylised Cases

22. In order to provide a broad sense of how differences in taxation across employment forms may matter, this section presents an overview based on three stylised cases (leaving detailed definitions of these employment forms to the following section):

- Case 1: Standard employee;
- Case 2: Unincorporated self-employed worker (contractor); and
- Case 3: Incorporated self-employed worker (worker is the owner-manager of his/her own company organised as a corporation).

The stylised tax treatment of these three cases illustrates the ways in which different employment forms can give rise to different tax treatments, which in turn can give rise to incentives to shift from one employment form to another. See Table 1.

23. In Case 1, a firm that hires a standard employee typically faces a labour cost consisting of the employee's gross wage and employer social contributions made on his/her behalf. The employee is typically liable for personal income tax (PIT) and employee social contributions.

Table 1. Taxation of Different Employment Forms: Three Stylised Cases

Case 1: Standard employee	Case 2: Unincorporated self-employed contractor	Case 3: Incorporated self-employed contractor
Firm	*Contracting firm*	*Contracting firm*
A firm hires a worker under a standard employment contract. Labour cost typically consists of: • Wage • Employer social contributions	A firm hires an unincorporated self-employed worker as a contractor. Labour cost typically consists of only the wage (no employer social contributions)	A firm hires the corporation of the self-employed worker as a contractor. Labour cost typically consists of only the wage (no employer social contributions)
Employee	*Contractor*	*Contractor / owner-manager*
An employee is hired under a standard employment contract. He/she is typically liable for: • PIT • Employee social contributions	An unincorporated self-employed worker is hired as a contractor. He/she is typically liable for: • PIT • Self-employed social contributions	The corporation of the self-employed worker is hired as a contractor. He/she is typically liable for: • PIT (on labour income) • Self-employed social contributions (or contributions an owner-manager must make on their own behalf) • CIT & any taxes on capital income

Source: Authors, based on analysis of OECD questionnaire responses.

24. In Cases 2 and 3, a firm hires a contractor (and is therefore "the contracting firm"). Whether the contractor is unincorporated or incorporated, the contracting firm faces a labour cost consisting of only the wage, as firms are often not liable for employer social

contributions on behalf of workers they engage as contractors. The worker's tax liability will depend on whether he/she is incorporated. If unincorporated, the contractor is liable for PIT and self-employed social contributions (or contributions that an owner-manager must make on his/her own behalf; these may be akin to employee or employer contributions, where the individual is considered the employer of him/herself); if incorporated, the contractor is liable for PIT on the portion of income derived from labour, self-employed social contributions, and corporate income tax (CIT) on the portion of income derived from capital as well as any other taxes on capital income (e.g., dividend or capital gains taxes).

25. This paper is concerned with the incentives of a firm in choosing between employment forms, i.e., whether to offer a worker a contract befitting Cases 1, 2 or 3. For a firm, the interesting choice will be between Cases 1 and 2, as there is little difference for a contracting firm between Cases 2 and 3. For firms, the option to engage self-employed contractors rather than standard employees lends flexibility (though there are many other labour market regulation issues to bear in mind, such as the need to comply with health and safety codes, working times, etc.). Smaller firms, in particular, may lack the capacity to hire permanent, full-time employees; contractors, including platform workers, may offer diverse and less expensive inputs compared to those available in local markets.

26. In addition, hiring workers under non-standard contracts often offers cost advantages, which can incentivise a firm to hire workers as independent contractors rather than as traditional employees. Some of these costs are directly linked to the tax system. A firm must balance the labour cost advantage against what is lost in terms of better monitoring of workers' effort and the productivity gains that come with investments in firm-specific human capital. This trade-off likely varies by sector and labour market structure. These hiring decisions may also be affected by a range of other non-tax considerations.

27. Additionally, it is concerned with the incentives of an individual in choosing between employment forms, i.e., whether to enter standard employment or to organise as a self-employed worker and, within the choice for self-employment, whether to incorporate or not. In the choice between Cases 1 and Cases 2 and 3, i.e., the choice of self-employment over standard employment, many non-tax factors will be relevant.

28. Non-standard work arrangements may offer increased work-hour and work location flexibility as well as opportunities to supplement wage income. However, tax also plays a role. In many countries, the self-employed are able to take advantages of more generous expensing rules for business-related tax costs. In addition, individuals may differ in the degree of social insurance that they want. In this case, individuals may prefer to be self-employed if the social security system in their country allows them to opt out.

29. Another margin along which individuals may choose their organisational form is the decision to operate as an unincorporated self-employed worker or to organise under a corporate structure. Incorporation allows firms to benefit from the greater ease of trading shares, which makes it easier to sell equity to outside investors and thereby spread risk across a larger number of investors. Incorporation may also carry the benefit of limited liability, exempting owners from the legal liability for the corporation's debt.[3] Limited

[3] Even though the benefits of limited legal liability are available in theory, in many cases in practice the requirement for directors and/or shareholders to provide collateral and personal guarantees in the case of small and medium enterprises (SMEs) can lead to the owners and directors of a small

liability is an advantage of organising as an S corporation in the United States, for example. Tax will play a role here as well, as different tax provisions apply to unincorporated versus incorporated firms. When the corporate tax rate is low relative to an individual's personal tax rate, the individual has an incentive to reclassify earnings as corporate rather than personal income for tax purposes. Entrepreneurs would find this easy to do in most countries, since they merely have to incorporate and retain their earnings within the firm, generating taxable corporate income instead of wage and salary income.

30. One factor limiting the attractiveness of the corporate form is that, typically, a corporation not only faces CIT on any earnings not paid out as wages or interest, but shareholders, in addition, face PIT liabilities on dividend pay outs and realised capital gains. Unincorporated firms, in contrast, face payroll taxes and PIT on the firm's profits. The treatment of tax losses may differ according to corporate status as well. Which form will end up being the most favourable will depend on the personal versus corporate income tax rate differential.

31. On the other hand, there are also many non-tax reasons for choosing standard employment over non-standard employment, namely, security. Standard employees often have open-ended contracts as opposed to finite and potentially insecure contract work. While certain traits often associated with self-employment – flexibility and mobility – are often cast as unambiguously good, other individuals may prefer stability to flexibility. Here as well, tax plays a role. Individuals may prefer standard employment for the sake of future benefit entitlements.

32. Finally, it is important to note that, as a practical matter, it is not always the case that individuals have a choice in the organisational form under which they are engaged. In the face of bargaining power imbalances, an individual with a strict preference for a standard employment contract may only have the option of contract or "gig" work. This will be dictated by the labour market power of firms' vis-à-vis individuals.

33. These three cases provide an overview of the modelling described in more detail in Section 5. While this paper focuses on the ways that tax affects employment form, it does not claim that tax is the only, or even the most important, motivating factor. By way of a simplified summary, there are two key sources of variation in tax treatment across employment forms. First, there are differences across employment form in social contribution liabilities (of both firms and of individuals). Second, there are differences across employment form resulting from incorporation (where a portion of income becomes taxed as corporate income rather than labour income). How these two features impact firms' and individuals' overall tax liabilities will be shown in Section 6.

34. Of course, employment forms in specific countries do not match these stylised cases in a straightforward way. The following section will make clear the variety of employment forms that exist in the countries considered. Moreover, as will be discussed, there is considerable ambiguity across different employment categories and how they are defined in countries' legal systems.

corporation assuming similar levels of liability in respect of debt obligations as would be the case if they were an unincorporated self-employed worker.

4. Forms of Non-standard Work

35. The term "standard work" has become shorthand for certain features of employment contracts that have been common across many OECD countries: full-time, open-ended and dependent employment. "Non-standard" tends to be defined by what work relationships are not instead of what they are. This section discusses definitions of non-standard work and self-employment using definitions of employment forms developed by international organisations. It then presents a typology of employment forms and describes some of the challenges in defining self-employment in a consistent manner across countries. It then summarises the non-standard employment forms considered in this paper, organised according to the typology.

4.1. Narrowing the Scope of Non-standard Work

36. Despite the growing interest in non-standard employment, there is no universal definition of this category (European Commission, 2017). Instead, a variety of definitions of non-standard work have been developed by various international organisations. According to the OECD (2015) definition, non-standard work includes self-employment (including own account workers); temporary or fixed-term contracts; and part-time work.

37. Other definitions distinguish between salaried employment comprising standard employment (i.e. full-time permanent contracts) and non-standard employment (e.g. part-time, temporary contracts, zero-hour etc.); and self-employment. According to the International Labour Organisation (ILO) (2016), non-standard work refers to "jobs that fall outside of the realm of standard work arrangements, including temporary or fixed-term contracts, temporary agency or dispatched work, dependent self-employment, as well as part-time work, including marginal part-time work." The European Commission's definition of non-standard work refers to fixed-term contracts, temporary agency work, part-time work and independent contract work (European Commission, 2015).

38. This paper relies upon the OECD definition as it considers self-employment to the broadest extent; the ILO definition includes only dependent self-employment and the European Commission definition only independent contractor work. It is important to note that, for simplicity and because the primary interest of this paper is the tax treatment of the self-employed, this paper does not consider the tax treatment of temporary contracts or part-time work. It focuses on the tax treatment of the self-employed relative to the tax treatment of standard work, leaving analysis of the full set of employment forms for future work.

39. Finally, it will help to distinguish between self-employed individuals who engage employees and own-account workers (see ILO, 1993). This paper focuses on own-account workers: "those workers who, working on their own account or with one or more partners, hold the type of job defined as a 'self-employment job,' and have not engaged on a continuous basis any 'employees' to work for them during the reference period."

4.2. A Typology of Employment Forms

40. Having narrowed the employment forms considered from the full set of non-standard work to own-account workers, it is also useful to distinguish between different types of own-account workers, as the tax treatment across these different kinds of workers may differ. Eurofound (2010) identifies five basic categories of self-employment: entrepreneurs; traditional "free professionals"; craft workers, traders and farmers; self-

employed workers in skilled but unregulated occupations; and self-employed workers in unskilled occupations.

Table 2. Typology of Employment Forms

This table presents a typology of employment forms. It takes its definition of non-standard work from OECD (2015) and its definition of self-employment from Eurofound (2010).

Standard work	**Standard employees**		
Non-standard work	Temporary contracts		
	Part-time work		
	Fixed-term contracts		
	Self-employed	Self-employed with employees = entrepreneurs	
		Own-account workers	Free professionals
			Craft workers, traders, farmers
			Skilled workers
			Unskilled workers

Source: Authors, based on OECD (2015) and Eurofound (2010).

41. Entrepreneurs are self-employed individuals who run their business with the help of employees. As such, they are not considered own-account workers but self-employed workers with employees. This paper considers the remaining types of self-employed to be own-account workers and focuses on the analysis of these individuals. Free professionals are self-employed individuals who, in order to work in their occupation, must meet specific requirements, abide by regulations and duty-bound codes and often pass examinations to be listed in public registers. They generally carry out their activities alone or in association with other professionals and with the help of a limited number of employees, if any. This includes, for example, doctors, lawyers, etc. Craft workers, traders and farmers represent the traditional forms of self-employment. These self-employed workers often work with their family members and possibly a small number of employees. Finally, two varieties of self-employed are identified: self-employed workers in skilled but unregulated occupations and self-employed workers in unskilled occupations. Both generally run their business without the help of employees.

42. The employment forms discussed thus far are presented in Table 2 as a typology. The forms of non-standard work that are not considered here – temporary contracts, part-time work and self-employed with employees – appear in grey to emphasise that they are not analysed. This paper does not consider the entrepreneur and his or her employer jointly. It considers standard employment and the various forms of own-account workers.

4.3. Challenges in arriving at a Consistent Definition of Self-employment

4.3.1. Inconsistent Approaches across Countries

43. In our analysis across countries, it is useful to arrive at a consistent definition of own-account workers in order to ensure that we are comparing "like with like," i.e., similar kinds of workers with consistency. However, this is challenging, as countries have taken a variety of approaches to defining all forms of employment, including the self-employed. In particular, definitions of self-employment across countries span different legal categories, including labour law, tax law, trade law, civil law and social security law.

44. Table 3 summarises the legal categories according to which self-employment is defined in OECD countries. In some countries – the United Kingdom and Ireland – there is no statutory definition of self-employment. In place of a legal definition, the United Kingdom relies upon judicial guidance in cases dealing with tax and employment laws (Barnard and Blackham, 2015; Eurofound, 2010), while Ireland relies upon codes of conduct. In other countries – Finland, Hungary, the Netherlands and Poland – alternative terms stand in for "self-employment." The term "entrepreneur" is used in Finland, Hungary and the Netherlands. Hungary also uses the term "sole proprietor" or "sole trader." In Poland, "conducting business activity outside agriculture" is the expression used; this form of activity may refer to both entrepreneurs (self-employed with employees) and some categories of own-account workers as defined in Section 4.2 (e.g., craft workers).

Table 3. Definitions of Self-employment across Legal Categories in OECD Countries

In the table below, an "X" indicates the presence of a definition according to that particular legal category.

	Labour law	Tax law	Trade law	Civil / common law	Social security law
Australia				X	
Austria	X	X			X
Belgium		X			X
Czech Republic	X				X
Denmark		X			X
Estonia		X	X	X	
Finland	X				X
France					X
Germany		X			X
Greece					X
Hungary		X			X
Iceland		X			X
Ireland		X			X
Italy				X	
Latvia	X				X
Lithuania		X			X
Luxembourg					X
The Netherlands		X			X
Norway		X			X
Poland		X			X
Portugal		X	X		
Slovak Republic			X		
Slovenia	X				X
Spain	X				X
Sweden		X			
Switzerland					X
Turkey					X
United Kingdom				X	
United States	X	X			

Source: European Commission (2017) for EU countries and Iceland, Norway, Switzerland and Turkey; OECD questionnaire responses for non-EU countries.

45. Looking across countries, it emerges that the most common definition of self-employment is rooted in social security law. This is likely due to the rigour that social security systems impose in clearly delineating who pays for, and thus who is entitled to, different social benefits. Following social security law, countries' tax laws also commonly contain definitions of self-employment. Similarly, this is likely due to the importance in raising tax revenue of clearly assigning tax liabilities.

46. Where employment forms are not defined by tax law, this paper's key task is to understand and model those forms based on their tax treatment. As will be demonstrated below, the ambiguity that can arise when employment forms are not clearly defined by tax law can in itself be an opportunity for tax arbitrage.

4.3.2. Inconsistent Definitions across Legal Categories & Implied Challenges

47. Where self-employment is not defined within a certain legal category, or the definition of self-employment with respect to one legal category does not correspond to the definition according to another, problems may arise from the ease with which individuals can be categorised as one employment form or another. Legal regulation divides the labour market into a number of predetermined categories, to which benefits and obligations are then attached. If employment form can be easily manipulated, so can the benefit entitlements of individuals and the tax liabilities of both individuals and firms. While this paper does not discuss these inconsistencies per country, it is concerned with the challenges that result from such ambiguity.

48. Adams, Freedman & Prassl (2018) outline the ways in which, in the United Kingdom, long-established taxonomies used in tax and employment law are coming under increasing pressure. Under the current tax and employment law systems, similar economic activities can be classified according to different legal forms, creating financial and regulatory incentives to adopt one legal form over another.

49. Two perspectives can be considered. First, what incentives do labour law and the tax system provide to individuals or firms who contract services? Second, what incentives are provided to the individuals supplying those services? The authors suggest that, in the United Kingdom, both labour law and the tax system offer incentives for hiring firms to treat individuals who supply services as self-employed contractors. On the other hand, the tax system provides incentives for those individuals to incorporate. Thus, while an individual supplying services may be better off within the protective scope of labour law, he/she may be able to increase his/her take-home pay by being treated as self-employed or by providing services through a company.

50. In essence, if employment form can be shifted with relative ease, it will respond to incentives – either the incentives of individuals or firms seeking to contract services or the incentives of service providers in choosing their employment form.

4.4. Employment Forms Considered in this Paper

4.4.1. Forms of Own-account Workers Revealed in Countries' Questionnaire Responses

51. Notwithstanding the definitional consistency issues referenced above, this paper presented information on the forms of own-account workers that exist in the countries under consideration via a questionnaire distributed to delegates of the OECD's Working Party No. 2 on Tax Policy Analysis and Tax Statistics. Table 4 summarises the responses.

Of the four categories of own-account workers presented in Table 2 (free professionals; craft workers, traders and farmers; skilled workers; unskilled workers), only the categories free professionals and craft workers, traders and farmers were indicated in countries' responses. The categories skilled and unskilled workers were not mentioned in the responses of the eight countries, which simply indicated that those forms must exist not in these eight but in other countries; these two categories have therefore been dropped from present consideration. Table 4 summarises the forms of self-employment that will be modelled.

Table 4. Forms of Own-account Workers from Questionnaire Responses

This table summarises the forms of own-account workers that exist in the eight countries considered in this paper. The definitions of each form are contained in the country files in the Annex.

	Self-employed own-account workers		
	Self-employed categories defined by ILO (2010)		Other: forms of self-employment outside of the ILO (2010) definition but indicated in questionnaire responses
	Free professionals	Craft workers, traders, farmers	
Argentina	Contractors, sole traders	Contractors, sole traders	Self-employed workers eligible for simplified tax regime
Australia	Contractors, sole traders		
Hungary	Sole traders		Quasi-self-employed: a form to legalise people erroneously designated self-employed prior to 2006
Italy	Contractors, sole traders	Some free professionals may be considered artisans or merchants	Continuous and coordinated workers
The Netherlands	Contractors, sole traders		
Sweden	Contractors, sole traders		
United Kingdom	Sole traders		Workers
United States	Sole proprietorship; S corporation		

Source: OECD questionnaire responses.

52. For simplicity, country delegates were asked to consider forms of full-time work (not part-time or overtime). The varieties of own-account workers included: contractors, sole traders or proprietors and S corporations, defined as follows:

- Contractor (same as independent contractor): A contractor is engaged by a principal (the other party) to perform services under a contract for services (commonly called a contractor agreement). Contractors are self-employed and earn income by invoicing a principal for their services. Compared to employees, contractors have more control over how work is done. They also provide their own tools. Contractors are not covered by most employment-related laws. This means they are not entitled to, for example, annual leave or sick leave, they cannot bring

personal grievances, they must pay their own tax, and general civil law determines most of their rights and responsibilities.

- Sole trader or proprietorship: A sole trader business structure is a person trading as the individual legally responsible for all aspects of the business. This includes any debts and losses, which cannot be shared with others. The individual is solely responsible for paying tax on profits. A sole trader business or a sole proprietorship is generally the simplest and relatively least expensive business structure an individual can choose.
- S corporation (United States): An S corporation is a closely held corporation (the name connotes a "small business corporation") that makes an election to be taxed under Subchapter S of the Internal Revenue Code. In general, S corporations do not pay any income taxes. Instead, the corporation's income or losses are divided among and passed through to its shareholders. The shareholders must then report the income or loss on their own individual income tax returns.

53. Some countries indicated other categories that do not fit neatly into the ILO (2010) sub-categorisation of self-employed workers. Those are: quasi-self-employed in Hungary; continuous and coordinated workers in Italy; and workers in the United Kingdom. Therefore, these forms of self-employment have been added in the far right-hand column as a category unto themselves. Thematically, they represent a variety of own-account worker who is not fully autonomous. However, a key commonality is that these forms of employment have been introduced to give vulnerable categories of self-employment some rights, benefits and protections. Quasi-self-employed, continuous and coordinated workers and workers are defined as follows:

- Quasi-self-employed (Hungary): Quasi-self-employment indicates a mid-way contractual relationship, that is, between employment and self-employment. It is not a legal relationship but a form of tax payment – the Simplified Public Burden Contribution (*egyszerűsített közteherviselési hozzájárulás*, or EKHO) created to legalise the status of a group of people who were in "fake self-employment" prior to 2006. Its most widespread form is when an employee is registered with the employer as a minimum wage earner, but at the same time he/she is employed as a self-employed worker as well. The self-employed worker pays taxes in the form of EKHO on the basis of the income from the latter commercial relationship.
- Continuous and coordinated workers (Italy): Continuous and coordinated workers (*collaborazioni coordinate e continuative*, or COCOCO) are individuals engaged under a pseudo-subordinated type of contract. This contract involves an employment relationship which is continuous over time without being defined by a formal employment contract. The main feature of this contract is the non-subordinated position of the worker with respect to the employer. The worker is a collaborator of the firm with which the contract is signed and the activity is established according to the requirements of the project he/she is working on. It is a coordinated activity in the sense that the worker is required to adjust his/her activity according to the organisational framework and the productive structure of the firm. This contract was introduced through the Civil Code during the seventies. Since 1996, pension contributions to a special fund (*Gestione Separata*) within the social security administration have been imposed on workers holding this type of contract. Since 2001, income coming from this type of contract has been considered payroll income. Examples of individuals eligible for a continuous and coordinated worker contract are: freelancers with no social security, companies'

CEOs, board and court participants and athletes. This contract requires the firm to pay lower social security and welfare fees, compared to a permanent employee contract. Workers hired on a COCOCO have the right to social security benefits.

- Workers (United Kingdom): An individual is classified as a worker if he/she has a contract or other arrangement (written or unwritten) to do work or services personally for a reward. The reward may be money or a benefit in kind, for example, the promise of a contract or future work. Workers can only have limited rights to sub-contract work to others. The contracting firm must provide work to be completed as long as the contract or arrangement lasts. Finally, individuals who perform work in an arrangement where the "employer" is actually a customer or client are not "workers"; they are self-employed.

4.4.2. Considering Incorporated Forms of Self-employment

54. This section has focused so far on categorising unincorporated forms of self-employment. However, as mentioned, this paper's key task is to understand and model employment forms based on their different tax treatments. For this, it is important to consider that self-employed workers may have the option to form incorporated businesses, changing the tax treatment applicable to them.

55. In all countries considered, self-employed workers can be either unincorporated or incorporated. Unincorporated self-employed individuals, as discussed above, include contractors and sole traders. Individuals performing tasks through digitalised platforms often fall into this category (Prassl and Risak, 2015).

56. Incorporated self-employed individuals, including owner-managers of limited liability companies, are also employees from a contract perspective. However, from an authority perspective, they can be seen as employers who also work in their own corporation. A key feature of owner-managers is that they can choose the form through which to realise their returns (e.g., labour income may be converted into capital income, such as dividends or capital gains). We model this choice according to certain assumptions, as described in Section 5.

57. Incorporated forms of self-employment also vary across countries. In general, the incorporated self-employed individual may choose the portion of income to allocate to labour and to capital. Guidance or rules may be imposed to calculate a minimum attributed wage that the owner-manager pays him/herself. An incorporated self-employed individual is liable for CIT on the portion of capital income (where he or she may be able to deduct wages paid to him or herself from the CIT base).

58. Table 5 shows the full set of forms of non-standard work considered in this paper: unincorporated and incorporated own-account workers. This paper models each of these employment forms according to the 2017 tax code information provided by Working Party No. 2 delegates.

Table 5. Forms of Non-standard Work from Questionnaire Responses

This table summarises the forms of non-standard work that exist in the eight countries considered in this paper. Within the category of own-account workers, there are unincorporated workers and incorporated workers. This distinction arises from the differential tax treatment implied by incorporation.

	Non-standard work			
	Own-account workers			
	Unincorporated own-account workers			Incorporated own-account workers
	Free professionals	Craft workers, traders, farmers	Other	
Argentina	Contractors, sole traders	Contractors, sole traders	Self-employed workers eligible for simplified tax regime	
Australia	Contractors, sole traders			Incorporated contractors; Owner-managers
Hungary	Sole traders		Quasi-self-employed: a form to legalise people erroneously designated self-employed prior to 2006	Owner-managers
Italy	Contractors, sole traders	Some free professionals may be considered artisans or merchants	Continuous and coordinated workers	CIT-paying firms
The Netherlands	Contractors, sole traders			Incorporated self-employed
Sweden	Contractors, sole traders			Entities with business income
United Kingdom	Sole traders		Workers	Owner-managers
United States	Sole proprietorship; S corporation			C corporations

Source: OECD questionnaire responses.

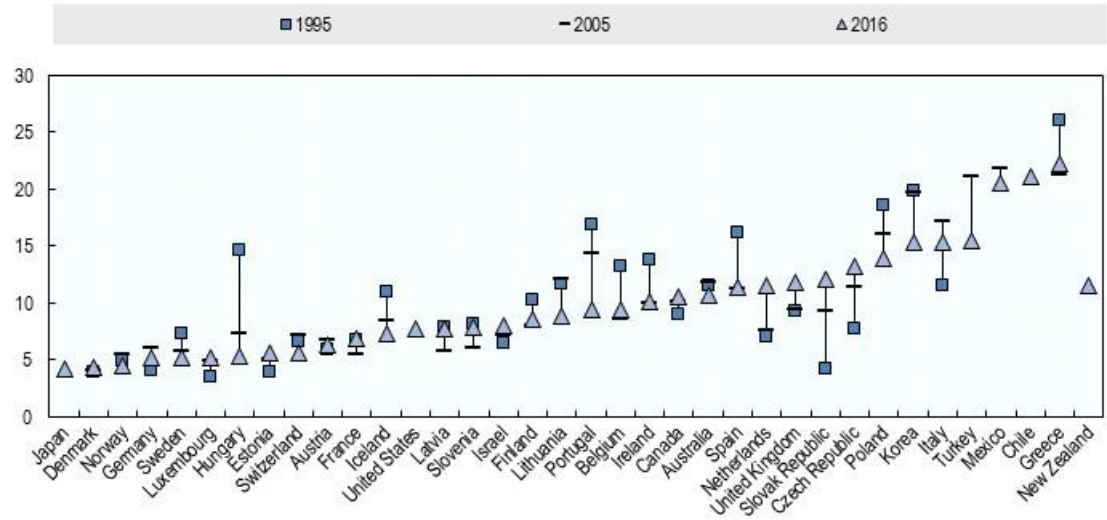
4.5. Trends in Non-standard Employment Forms

59. While there has been no clear trend across the OECD on average in the share of own-account workers in total employment between 1995 and 2016 (see Figure 1), there have been substantial increases in some countries like the Netherlands, the Slovak Republic and the United Kingdom. While much has been written on the growth of the platform economy and platform economy workers, several countries have seen increases in the number of own-account workers as a result of tax and regulatory incentives embedded in their systems, rather than as a consequence of technological change.

60. When it comes to measuring the platform economy labour force, capturing platform work through existing household and labour force surveys has, until recently, been impossible. Various ad hoc attempts exist, though differences in terms of platform

definition, time period covered, and survey methodology have made it difficult to compare estimates. For example, some surveys cover only income from labour platforms (i.e. technologies that allow users to sell their labour, such as chauffeuring others or doing remote data entry), while others also include income from capital platforms (i.e. technologies that allow users to sell or rent property, such as apartments or used goods).

Figure 1. Share of Own-account Workers in Total Employment



Note: Data are for 1996 (instead of 1995) for Hungary and Switzerland; 1997 (instead of 1995) for Estonia, Czech Republic and Poland; 1998 (instead of 1995) for Latvia, Lithuania and the Slovak Republic; 2006 (instead of 2005) for Turkey; and 2015 (instead of 2016) for New Zealand.
Source: OECD Gender - Entrepreneurship database.

61. Data sources include face-to-face surveys, phone surveys, online surveys, administrative data such as tax records or bank data, and, more recently, new questions added to labour force and household surveys. Overall, the best evidence indicates that platform work still only represents a small share of overall employment (less than 1 percent) (Katz and Krueger, 2016; Farrell and Greig, 2016). There is some indication that it has grown fast, but there are also signs that this growth may have levelled off in recent times (Farrell and Greig, 2016).

5. Methodology

62. The empirical analysis models the tax treatment of workers' income within and across countries. Within countries, the set of employment forms considered consists of standard employees as well as the forms of non-standard work identified in Table 5. Across countries, the analysis is performed for Argentina, Australia, Hungary, Italy, the Netherlands, Sweden, the United Kingdom and the United States.

63. This section outlines the methodological framework according to which the taxation of different employment forms is modelled. It describes new information on the tax treatment of non-standard work, modelling assumptions, the approach to modelling the tax treatment of different employment forms and an overview of three measures used to assess the tax burden across employment forms.

5.1. New Information on the Tax Treatment of Non-standard Work

64. The first step of the methodology was to gather data on the tax treatment of non-standard work in the countries under consideration. The OECD already gathers, in the context of its annual *Taxing Wages* publication (OECD, 2018a), information on the tax treatment of labour income earned by full-time employees. This paper compiles new information on the tax treatment of employment forms other than standard employees (e.g., contractors, sole traders, and other forms of both unincorporated and incorporated self-employed workers).

65. *Taxing Wages* covers PIT and SSCs paid by employees, SSCs and payroll taxes paid by employers and cash benefits received. Non-tax compulsory payments (NTCPs) – contributions to social security schemes outside of the general government sector – are not analysed in the *Taxing Wages* print publication. However, they are analysed in an associated paper (OECD, 2018b). This paper includes NTCPs in its scope.

66. In addition to information on the tax treatment of individuals across employment forms, this paper gathers information on the tax treatment of firms that employ workers of different types, including firm tax allowances and credits, and information on the rules governing deductibility of employers' labour costs from their CIT liabilities.[4] The information gathered pertains to the 2017 tax year.[5]

5.1.1. Tax Treatment of Firms with Respect to Different Employment Forms

67. The information on the tax treatment of firms with respect to different employment forms spans the following categories: employer SSCs, employer NTCPs, payroll taxes, firm tax allowances and firm tax credits. In addition, there is information regarding the rules governing deductibility of employers' labour costs from their CIT liabilities. The following tables summarise tax liabilities across each of these categories for the eight pilot countries, inclusive of the relevant tax bases, rates and applicable thresholds as well as minimum and maximum contributions. Table 6 contains information on employer SSCs and NTCPs across employment form for each of the eight countries considered.

[4] It should be noted that the value-added tax (VAT) treatment of different employment forms could merit consideration in the future. A firm with a standard employee on its payroll is liable for VAT on her/his wages whereas the worker's services become intermediate inputs when the firm contracts them out. In principle, a self-employed worker becomes liable for VAT, but if the exemption threshold in a given country is above the worker's earnings, neither the firm nor the worker may end up paying VAT. However, VAT treatment is not within the current scope.

[5] For most OECD countries, the tax year is equivalent to the calendar year. Exceptions include Australia and the United Kingdom. In the United Kingdom, the tax year starts in April; we apply a "forward-looking" approach. This implies that the tax rates reported for 2017 are those for the tax year 2017-18. In Australia, the tax year starts in July; we apply a "backward-looking" approach in order to present more reliable results. So, for example, the year 2017 in respect of Australia has been defined to mean its tax year 2016-17. This is consistent with the approach taken in *Taxing Wages*.

Table 6. Employer Social Contributions across Employment Forms, 2017

This table summarises social security contributions (SSCs) and non-tax compulsory payments (NTCPs) required of employers on behalf of unmarried individuals who have no children. Information is presented for eight countries: Argentina, Australia, Hungary, Italy, the Netherlands, the United Kingdom and the United States. Payments categorised as NTCPs within the OECD's *Taxing Wages 2018* framework are indicated as such in parentheses. For the benefit of cross-country comparability, figures expressed in local currency amounts are also expressed as a percentage of the average wage (AW) in that country for 2017. The 2017 AWs in each of the eight countries are as follows: Argentina: ARS 327,613; Australia: AUD 83,542; Hungary: HUF: 3,730,608; Italy: EUR 30,755; the Netherlands: EUR 50,909; Sweden: SEK 435,821; the United Kingdom: GBP 38,208; the United States: USD 52,544.

Country	Employment form	Category of employer contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
Argentina	Employees	Pension	Gross wages	10.17%	ARS 28,406 (9% AW)	None
		Health insurance for retired		1.5%	ARS 28,406 (9% AW)	
		Unemployment		0.89%	ARS 28,406 (9% AW)	
		Health insurance for employees		0.9% ≤ ARS 31,200 (10% AW); else 0.6%	None	
		Healthcare (NTCP)		5.1% ≤ ARS 31,200 (10% AW); else 5.4%	None	
		Work injury insurance (NTCP)		4%	ARS 28,406 (9% AW)	
	Unincorporated self-employed	None				
	Unincorporated self-employed eligible for taxation under simplified regime	None				
Australia	Employees	Superannuation Guarantee (NTCP)	Gross wages	9.5%	AUD 513 (% AW)	AUD 19,616 (% AW)
		Accident, injury and sickness (NTCP)[6]		1.34%	AUD 72.4 (% AW)	AUD 2,766.8 (% AW)
	Independent contractors treated as employees	Superannuation Guarantee (NTCP)	Gross wages	9.5%	AUD 513 (% AW)	AUD 19,616 (% AW)
		Accident, injury and sickness (NTCP)		1.34%	AUD 72.4 (% AW)	AUD 2,766.8 (% AW)

[6] Where employers are liable for sub-national social contributions, this table assumes a specific location within a country. These assumptions align with *Taxing Wages*. The information for accident, injury and sickness insurance in Australia is for New South Wales.

Country	Employment form	Category of employer contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
	Genuine independent contractors			None		
Hungary	Employees	Pension	Gross wages	15.75%	None	None
		Healthcare		4.51%		
		Labour market funds		1.74%		
	Quasi self-employed workers			None		
	Unincorporated self-employed			None		
	Incorporated self-employed			None		
Italy	Employees	Pension	Gross wages	23.81% ≤ EUR 100,324 (326% AW); else 0%	None	EUR 23,887 (78% AW)
		Sickness		2.22% ≤ EUR 100,324 (326% AW); else 0%		EUR 2,227 (7% AW)
		Layoff insurance		2% ≤ EUR 100,324 (326% AW); else 0%		EUR 2,006 (7% AW)
		Unemployment insurance		1.61% ≤ EUR 100,324 (326% AW); else 0%		EUR 1,615 (5% AW)
		Family bonus fund		0.68% ≤ EUR 100,324 (326% AW); else 0%		EUR 682 (2% AW)
		Extraordinary layoff insurance		0.6% ≤ EUR 100,324 (326% AW); else 0%		EUR 602 (2% AW)
		Maternity		0.46% ≤ EUR 100,324 (326% AW); else 0%		EUR 461 (1% AW)
		Severance pay insurance		0.2% ≤ EUR 100,324 (326% AW); else 0%		EUR 201 (<1% AW)
	Continuous and coordinated workers[7]	Pension	Gross wages	(2/3) * 32% ≤ EUR 100,324 (326% AW); else 0%	None	EUR 21,402 (70% AW)
		Unemployment insurance		(2/3) * 0.51% ≤ EUR 100,324 (326% AW); else 0%		EUR 341 (1% AW)
		Sickness		(2/3) * 0.5% ≤ EUR 100,324 (326% AW); else 0%		EUR 334 (1% AW)

[7] Employers of workers on continuous and coordinated contracts are liable for two-thirds of total (employee and employer) SSCs. As the total rate for SSCs in 2017 amounted to 33.23 percent, the employer share is 22.15 percent.

Country	Employment form	Category of employer contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
		Maternity		(2/3) * 0.22% ≤ EUR 100,324 (326% AW); else 0%		EUR 147 (<1% AW)
	Unincorporated self-employed			None		
	Incorporated self-employed			None		
The Netherlands	Employees	Unemployment - general fund	Gross wages less employee NTCPs	2.64% ≤ EUR 53,701 (95% AW); else 0%	None	EUR 1,418 (3% AW)
		Unemployment - industrial association redundancy payments fund		1.36% ≤ EUR 53,701 (95% AW); else 0%		EUR 730 (1% AW)
		Disability		7.82% ≤ EUR 53,701 (95% AW); else 0%		EUR 4,199 (8% AW)
		Pension (NTCP)	Gross wages net of pension franchise of EUR 13,225	13.31% ≤ EUR 103,317 (203% AW); else 0%		EUR 13,751 (27% AW)
		Early retirement (NTCP)	Gross wages	0.1% ≤ EUR 103,317 (203% AW); else 0%		EUR 103 (<1% AW)
		Healthcare contribution		6.65% ≤ EUR 53,701 (95% AW); else 0%		EUR 3,571 (7% AW)
	Unincorporated self-employed	Healthcare contribution	Gross wages net of employee NTCPs	5.4% ≤ EUR 53,701 (95% AW); else 0%		EUR 2,900 (6% AW)
	Incorporated self-employed	Healthcare contribution				
Sweden	Employees	General wage tax	Gross wages	10.72%	None	None
		Pension		10.21%		
		Health insurance		4.35%		
		Unemployment insurance		2.64%		
		Parental insurance		2.6%		
		Survivors' pension		0.7%		
		Occupational health		0.2%		
	Unincorporated self-employed	General wage tax	Gross wages	10.72%	None	None
		Pension		10.21%		

Country	Employment form	Category of employer contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
		Health insurance		4.44%		
		Unemployment insurance		0.10%		
		Parental insurance		2.6%		
		Survivors' pension		0.7%		
		Occupational health		0.2%		
	Incorporated self-employed	General wage tax	Gross wages	10.72%	None	None
		Pension		10.21%		
		Health insurance		4.35%		
		Unemployment insurance		2.64%		
		Parental insurance		2.6%		
		Survivors' pension		0.7%		
		Occupational health		0.2%		
United Kingdom	Employees	National Insurance contribution, Class 1 [8]	Gross wages	0% ≤ GBP 8,164 (21% AW); else 13.8%	None	None
	Unincorporated self-employed / workers	None				
	Incorporated self-employed	National Insurance contribution, Class 1	Gross wages	0% ≤ GBP 8,164 (21% AW); else 13.8%	None	None
United States	Employees	Pension, survivor & disability	Gross wages	6.2% ≤ USD 127,200 (242% AW); else 0%	None	USD 7,886 (15% AW)

[8] In the United Kingdom, there are different 'classes' of National Insurance, where class depends on a worker's employment status and earnings. More information can be found here: https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions.

Country	Employment form	Category of employer contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
		Medicare		1.45% ≤ USD 200,000 (381% AW); else 2.35%		None
		Federal unemployment insurance		6.0% ≤ USD 7,000 (13% AW); else 0%		USD 420 (<1% AW)
		State unemployment insurance[9]		3.59% ≤ USD 9,000 (17% AW); else 0%		USD 423 (<1% AW)
		State worker's compensation insurance (NTCP)		1.6%		None
	Sole proprietorships			None		
	S corporations			None		
	C corporations			None		

Source: OECD questionnaire responses.

[9] Where employers are liable for sub-national social contributions, this table assumes a specific location within a country. These assumptions align with *Taxing Wages*. The information for state unemployment insurance and worker's compensation insurance in the United States is for the state of Michigan.

68. The information in Table 6 reveals employers are generally liable for SSCs and NTCPs on behalf of employees. This tends to include contributions for pension, health insurance, unemployment and accident, sickness or injury insurance. Italy and Sweden both levy a fuller range of social contributions. For employees, Italy levies employer SSCs spanning eight categories: pension, sickness, layoff insurance, unemployment insurance, extraordinary unemployment insurance, a family bonus, maternity and severance pay insurance. Sweden, as well, levies employer SSCs spanning seven categories: a general wage tax, pension, health insurance, unemployment insurance, parental insurance, survivor's pension and occupational health. In contrast, some of the other countries only levy payments for unemployment insurance and disability.

69. For employees, employer social contribution rates in the eight countries range between 10.84 (Australia) and 31.88 percent (the Netherlands), as shown in Table 7. While the Netherlands has the highest rates, those in Italy and Sweden are close in magnitude.

Table 7. Combined Employer Contribution Rates (SSCs and NTCPs) in Respect of Employees and the Self-employed (Levied on Gross Income, Expressed in Percent)

Country	Employees	Self-employed
Argentina	22.56	0
Australia	10.84	10.84
Hungary	22.0	0
Italy	31.58	0, with the exception of 21.15 for continuous and coordinated staff
The Netherlands	31.88	5.4
Sweden	31.42	28.97 for unincorporated self-employed, 31.42 for incorporated self-employed
United Kingdom	13.8	0
United States	12.64	0

Source: OECD questionnaire responses.

70. Employer liability for social insurance does not tend to extend to self-employed workers, as shown in the second column of Table 7. In Argentina, Hungary, Italy, the United Kingdom and the United States, employers are not required to make contributions of any kind on behalf of self-employed workers. The exceptions to this include Australia and Sweden. In Australia, employers are required to make contributions on behalf of contractors deemed to be workers for the purposes of legislation governing workers insurance (whether they are contractors or sole traders). In Sweden, employers are liable for the same social contributions across employment form. This stems from the fact that, in Sweden, contributions are tied to a worker's type of income rather than to employment categorisation; as long as there is labour income, there will be an employer liability. Another exception is Italy, where the continuous and coordinated staff form was created to give labour protection to this specific class of workers. However, Italian employers are not liable for contributions on behalf of self-employed workers other than continuous and coordinated staff.

71. In addition to information on employer SSCs and NTCPs, the questionnaire gathered information on payroll taxes as well as tax allowances and tax credits. The three countries of the eight countries considered with payroll taxes were Australia, Hungary and

Sweden. In each of these countries, employers are liable for payroll taxes on behalf of all workers hired, regardless of employment form.

72. Regarding tax allowances and tax credits, two countries offer tax credits that vary by employment form. In the Netherlands, firms are eligible for a low income employee tax credit, which is not available for the hiring of workers other than standard employees. In the United States, firms may take advantage of a state-level tax credit for unemployment contributions. As unemployment contributions are made only on behalf of employees, this tax credit does not apply to the hiring of workers other than standard employees. It is important to note that the deductibility of wages and employer social contributions has the same economic effect as a tax allowance, and that such deductibility varies by employment form. The extent to which deductibility from a firm's CIT liability varies across employment form is discussed below.

5.1.2. Tax Treatment of Individuals with Respect to Different Employment Forms

73. The information on the tax treatment of individuals with respect to different employment forms spans the following categories: PIT, employee SSCs, employee NTCPs, individual tax allowances, individual tax credits, cash transfers and any other non-standard tax reliefs or preferential tax treatment. In addition, there is information regarding the rules governing deductibility of employees' labour costs from PIT as well as deductibility of business expenses. Table 8 contains information on employee SSCs across employment form for each of the eight countries considered.

Table 8. Social Contributions at the Individual Level across Employment Forms (2017)

This table summarises SSCs and NTCPs required of employees or workers of other employment forms who are unmarried and have no children. Information is presented for eight countries: Argentina, Australia, Hungary, Italy, the Netherlands, the United Kingdom and the United States. Payments categorised as NTCPs within the OECD's *Taxing Wages* framework are indicated as such in parentheses. For the benefit of cross-country comparability, figures expressed in local currency amounts are also expressed as a percentage of the average wage (AW) in that country for 2017. The 2017 AWs in each of the eight countries are as follows: Argentina: ARS 327,613; Australia: AUD 83,542; Hungary: HUF: 3,730,608; Italy: EUR 30,755; the Netherlands: EUR 50,909; Sweden: SEK 435,821; the United Kingdom: GBP 38,208; the United States: USD 52,544.

Country	Employment form	Category of employee contribution	Base	Rates & applicable thresholds	Minimum contribution	Maximum contribution
Argentina	Employees	Pension	Gross wages	11% ≤ ARS 7,746,872 (2,365% AW); else 0%	ARS 28,406 (9% AW)	ARS 923,177 (282% AW)
		Healthcare		0.45% ≤ ARS 7,746,872 (2,365% AW); else 0%		
		Retirement healthcare		3% ≤ ARS 7,746,872 (2,365% AW); else 0%		
		Healthcare (NTCP)		2.55%	ARS 31,200 (14% AW)	None
	Unincorporated self-employed	Pension	Presumed income	27%	None	None
		Healthcare		5%		
	Unincorporated self-employed eligible for taxation under simplified regime	Pension	Gross wages	Fixed amount dependent upon gross income, business activity and other factors. For individuals selling	ARS 3,600 (1%)	ARS 9,337 (3%)
		Healthcare	Flat amount	Fixed amount of ARS 5,028 (2% AW)	ARS 5,028 (2% AW)	ARS 5,028 (2% AW)
Australia	Employees	None[10]				
	Independent contractors treated as employees	None				
	Genuine independent contractors	None				
Hungary	Employees	Pension	Gross wages	10%	None	None

[10] While employee SSCs are not levied in Australia, all individuals resident for tax purposes are liable for the Medicare Levy. In 2016-17, taxpayers with taxable income exceeding AUD 21,655 were liable for a Medicare Levy equal to 2 percent of taxable income.

		Healthcare		7%		
		Unemployment		1.5%		
	Quasi self-employed workers	Pension	Gross wages	10%	None	None
		Healthcare		7%		
	Unincorporated self-employed: sole traders	Pension	Gross wages	10%	Calculated as a percentage of minimum wage[11]	None
		Healthcare		7%		
		Unemployment		1.5%		
	Incorporated owner-managers	Pension	Gross wages	10%	None	None
		Healthcare		7%		
Italy	Employees	Pension	Gross wages	9.19% ≤ EUR 46,123 (150% AW); 10.19% ≤ EUR 100,324 (326% AW); else 0%	None	EUR 9,762 (32% AW)
		Layoff insurance		0.3%		None
	Continuous and coordinated workers[12]	Pension	Gross wages	One third of total SSCs (=11.07%)	None	None
		Layoff insurance				
	Unincorporated self-employed	Pension	Gross wages	23.64% ≤ EUR 100,324 (326% AW); else 0%	EUR 3,683 (12% AW)	EUR 23,716 (77% AW)
		Maternity	Flat amount	Flat amount	EUR 7.44 (<1% AW)	EUR 7.44 (<1% AW)
	Incorporated self-employed	Pension	Gross wages	23.64% ≤ EUR 100,324 (326% AW); else 0%	EUR 3,683 (12% AW)	EUR 23,716 (77% AW)

[11] Minimum contributions depend on skill level, with distinctions between low- and high-skilled workers. This results from the fact that the minimum contribution amount is tied to the minimum wage, and there are two minimum wages in Hungary: low- and high-skilled. In 2017, the minimum wage of low-skilled workers was HUF 127,500 per month; for high-skilled it was HUF 161,000 per month. The contribution for each category is calculated by applying the rate to the minimum wage of the given worker. For example, the minimum annual pension contribution for low-skilled workers is 10 percent of the low-skilled annual minimum wage, or HUF 153,000 (10 percent * 127,500 * 12).

[12] Employees on continuous and coordinated contracts are liable for one-third of total (employee and employer) SSCs. As the total rate for SSCs in 2017 amounted to 33.23 percent, the employee share is 11.07 percent.

		Maternity	Flat amount	Flat amount	EUR 7.44 (<1% AW)	EUR 7.44
The Netherlands	Employees	Pension (AOW, Pillar 1)	Taxable income	17.9% ≤ EUR 33,791 (66% AW); else 0%	None	EUR 6,049 (12% AW)
		Long-term care (WLZ, Pillar 1)		9.65% ≤ EUR 33,791 (66% AW); else 0%		EUR 3,261 (6% AW)
		Survivor's pension (ANW, Pillar 1)		0.1% ≤ EUR 33,791 (66% AW); else 0%		EUR 34 (<1% AW)
		Pension premium (NTCP, Pillar 2))	Gross wages net of the pension franchise amount of EUR 13,225	6.12% ≤ EUR 103,317 (203% AW); else 0%		EUR 6,323 (12% AW))
		Early retirement contribution (NTCP, Pillar 2)	Gross wages	0.02%≤ EUR 103,317 (203% AW); else 0%		EUR 21 (<1% AW)
		Healthcare contribution[13]	Flat amount	EUR 1,346 (3% AW)		None
	Unincorporated self-employed	Pension (AOW, Pillar 1)	Taxable income	17.9% ≤ EUR 33,791 (66% AW); else 0%	None	EUR 6,049 (12% AW)
		Long-term care (WLZ, Pillar 1)		9.65% ≤ EUR 33,791 (66% AW); else 0%		EUR 3,261 (6% AW)
		Survivor's pension (ANW, Pillar 1)		0.1% ≤ EUR 33,791 (66% AW); else 0%		EUR 34 (<1% AW)
		Healthcare contribution	N/A – flat amount	EUR 1,346 (3% AW)		None
	Incorporated owner-managers	Pension (AOW, Pillar 1)	Taxable income	17.9% ≤ EUR 33,791 (66% AW); else 0%	None	EUR 6,049 (12% AW)
		Long-term care (WLZ, Pillar 1)		9.65% ≤ EUR 33,791 (66% AW); else 0%		EUR 3,261 (6% AW)
		Survivor's pension (ANW, Pillar 1)		0.1% ≤ EUR 33,791 (66% AW); else 0%		EUR 34 (<1% AW)
		Healthcare contribution	N/A – flat amount	EUR 1,346 (3% AW)		None
Sweden	Employees	Pension	Gross wages	0% ≤ 42.3% * amount specified by basic allowance; else 7%	None	SEK 34,700
		Burial fee (NTCP)	Taxable income	0.23%		

[13] For basic healthcare insurance, each individual (whether a standard employee or self-employed) pays an average of EUR 1,346 per year to a self-chosen, private health insurance company. Against this cost, a healthcare benefit for individuals with taxable income less than EUR 27,857 is offered.

	Unincorporated self-employed	Pension	Gross wages	0% ≤ 42.3% * amount specified by basic allowance; else 7%		SEK 34,700
		Burial fee (NTCP)	Taxable income	0.23%		
	Incorporated self-employed	Pension	Gross wages	0% ≤ 42.3% * amount specified by basic allowance; else 7%		SEK 34,700
		Burial fee (NTCP)	Taxable income	0.23%		
United Kingdom	Employees	National insurance, Class 1[14]	Gross wages	0% ≤ GBP 8,164 (21% AW); 12% ≤ GBP 45,000 (118% AW); else 2%	None	None
	Unincorporated self-employed	National insurance, Classes 2, 4		0% ≤ GBP 6,025 (16% AW)); GBP 148 ≤ GBP 8,164 (21% AW); GBP 148 + 9% ≤ GBP 45,000 (118% AW); else 2%		
	Incorporated self-employed	National insurance, Class 1	Gross income from labour	0% ≤ GBP 8,164 (21% AW); 12% ≤ GBP 45,000 (118% AW); else 2%	None	None
United States	Employees	Pension, survivor & disability	Gross wages	6.2% ≤ USD 127,200 (242% AW); else 0%	None	None
		Medicare		1.45% ≤ USD 200,000 (381% AW); else 2.35%		
	Sole proprietorships	Pension, survivor & disability	Gross wages	11.45% ≤ USD 137,737 (262% AW); else 0%	None	None
		Medicare		2.68% ≤ USD 216,567 (412% AW); else 3.51%		
	S corporations	Pension, survivor & disability	Gross wages	6.2% ≤ USD 127,200 (242% AW); else 0%	None	None
		Medicare		1.45% ≤ USD 200,000 (381% AW); else 2.35%		
	C corporations	Pension, survivor & disability	Gross wages	6.2% ≤ USD 127,200 (242% AW); else 0%	None	None
		Medicare		1.45% ≤ USD 200,000 (381% AW); else 2.35%		

Source: OECD questionnaire responses.

[14] As described, there are different 'classes' of National Insurance in the United Kingdom, where class depends on a worker's employment status and earnings.

74. While employee SSCs and NTCPs vary across employment forms for these eight countries, it is usually the case that both employees and self-employed workers are liable for some amount. Contributions rates paid by employees and self-employed workers are shown in Table 9 below.

Table 9. Combined Contribution Rates (SSCs and NTCPs) Paid by Employees and Self-employed (Expressed in Percent)

Country	Employees	Self-employed
Argentina	17.0	32.0
Australia	0	0
Hungary	18.5	18.5 for unincorporated self-employed, 17 for incorporated self-employed
Italy	10.49	11.07 for continuous and coordinated staff, 23.64 for other self-employed
The Netherlands	33.79 + EUR 1,346	27.65 + EUR 1,346
Sweden	7 on gross wages; 0.23 on taxable income	7 on gross wages; 0.23 on taxable income
United Kingdom	12	9 for unincorporated self-employed, 12 for incorporated self-employed
United States	7.65	14.13 for sole proprietorships, 7.65 for S and C corporations

Note: Employee contributions are levied on gross income in all countries considered except in the Netherlands, where they are levied on taxable income. In Sweden, the burial fee of 0.23 percent that applies to employees is levied on taxable income.
Source: OECD questionnaire responses.

75. In some countries, the self-employed face rather higher social contribution liabilities compared to standard employees. For example, in Argentina, the combined rate for pension, healthcare and retirement healthcare is 17 percent for employees, while it is 32 percent for the unincorporated self-employed not eligible for taxation under the simplified regime. In the United States, sole proprietorships, in particular, face higher contribution rates: the rate for pension, survivor and disability is double for sole proprietors (11.45 percent) compared to employees, which leads to a total combined rate of 14.13 percent compared to 7.65 percent.

76. The questionnaire gathered information on PIT deductions, tax allowances and tax credits and cash transfers. Table 10 shows this information for the eight countries across employment forms. No countries offered cash transfers for the worker type considered: a single individual without children.

Table 10. Individual Deductions from PIT, Tax Allowances & Tax Credits from PIT, 2017 (Other than Work-related or Business Expenses)

This table summarises the deductions allowed from PIT as well as tax allowances and tax credits. Note that this table does not include the deductibility of work-related or business expenses. This analysis models standard deductions, where available, but not work-related or business expenses as doing so would require assumptions about a firm's or an individual's business activity.

Country	Employment form	Deductions from PIT	Tax allowances & credits
Argentina	Employees	Employee SSCs & NTCPs; tax allowances	Basic allowance; earned income allowance
	Unincorporated self-employed	Employee SSCs; tax allowances	As for employees, though lower amounts
	Unincorporated self-employed eligible for taxation under simplified regime	None	None
Australia	Employees	None	Multiple offsets
	Independent contractors treated as employees	None	Multiple offsets
	Genuine independent contractors – sole traders	None	Multiple offsets
	Genuine independent contractors – incorporated	None	Multiple offsets
Hungary	Employees	None	None
	Quasi self-employed workers	None	None
	Unincorporated self-employed: sole traders	None	None
	Incorporated owner-managers	None	None
Italy	Employees	Employee SSCs	Employee tax credit; 80 Euro bonus (monthly)
	Continuous and coordinated workers	Employee SSCs	As for employees
	Unincorporated self-employed	Employee SSCs	Low-income tax credit
	Incorporated self-employed	Employee SSCs	Low-income tax credit
The Netherlands	Employees	None	General tax credit; work credit
	Unincorporated self-employed	Self-employed deduction; SME exemption	As for employees
	Incorporated self-employed	None	As for employees
Sweden	Employees	Basic allowance, employee SSCs	Earned income tax credit
	Unincorporated self-employed	Basic allowance, employee SSCs	Earned income tax credit
	Incorporated self-employed	Basic allowance, employee SSCs	Earned income tax credit
United Kingdom	Employees	Basic personal allowance	Basic personal allowance
	Unincorporated sole traders	Basic personal allowance; trade allowance	Basic personal allowance; trade allowance
	Incorporated owner-managers	Basic personal allowance	Basic personal allowance; dividend allowance
	Employees	Earned income tax credit	Earned income tax credit

Country	Employment form	Deductions from PIT	Tax allowances & credits
United States	Sole proprietorships	Earned income tax credit	Earned income tax credit
	S corporations	Earned income tax credit	Earned income tax credit applicable to labour income
	C corporations	Earned income tax credit	Earned income tax credit applicable to labour income

Source: OECD questionnaire responses.

5.2. Modelling Assumptions

77. The previous sub-section summarised the tax rules according to which different employment forms are modelled. This sub-section describes key modelling assumptions, which interact with the tax rules to determine the tax treatment.

5.2.1. Individual Worker

78. This paper makes the following assumptions about the individual under consideration and, where relevant, certain business decisions:

- The individual is assumed to be unmarried and without children. In contrast to *Taxing Wages*, where the aim is to examine labour taxation across household type, no other household types are considered here. Focus is placed, instead, on tax treatment differentials across employment forms.
- The set of employment forms considered consists of standard employees as well as the forms of non-standard work identified in Table 5.
- In countries where sub-national taxation applies, municipal and regional liabilities are modelled according to the assumptions in *Taxing Wages*. In Australia, an individual resides in New South Wales; in Italy, an individual resides in Rome (Lazio); and in the United States, an individual resides in Detroit, Michigan.
- It is assumed that the owner-managers of incorporated businesses fully distribute profits each year (i.e., there are no retained earnings or capital gains taxes). Distributed profits are taxed according to applicable CIT and dividend rates.

79. The paper makes no assumptions regarding the business activity the worker engages in. Where tax treatment differs on the basis of individual characteristics, the analysis is carried out for each of the cases that may occur. For example, minimum social contributions in Hungary depend on the minimum wage, which in turn depends on a worker's skill level. Thus, for Hungary, results are generated for low- and high-skilled sole traders, and low- and high-skilled owner-managers.

5.2.2. Wage Levels

80. For each country, the paper's baseline results are generated according to the assumption that a standard employee earns the annual average gross wage consistent with

Taxing Wages 2018.[15] By focusing on results generated for a single wage level, it is easier to decompose the total tax generated as a result of taxing labour income into different tax categories. However, results are also generated for wage levels between 10 and 250 percent of the average wage. The employment form found to be tax-preferable at the average wage, whether from the perspective of a firm or an individual, may differ from that which is tax-preferable at other levels of earnings.

5.2.3. Labour versus Capital Income

81. For employees and unincorporated self-employed workers, income is normally taxed as labour income. For incorporated self-employed workers, taxable income generally consists of a combination of labour and capital income, as individuals who organise as incorporated business owners may choose the form in which to realise their returns.[16] Labour income may be converted into capital income, such as dividends or capital gains.

82. To provide a sense of how the results are impacted by different splits between labour and capital income, this analysis models three different cases of incorporated employment forms: 75 percent labour income and 25 percent capital income; 50 percent labour income and 50 percent capital income; and 25 percent labour income and 75 percent capital income. The results are shown at the average wage as well as for wage levels between 10 and 250 percent of the average wage.

5.3. Modelling the Tax Treatment of Different Employment Forms

83. Using the tax rules and modelling assumptions described in the previous two sub-sections, the central analytical exercise of this paper is to model the tax treatment of different employment forms, inclusive of social contributions. In doing so, this paper adheres closely to OECD's *Taxing Wages* framework (OECD, 2018a), described briefly in Box 1.[17]

Box 1. Description of the *Taxing Wages* Framework

Taxing Wages presents several measures of taxation on labour, focusing on full-time 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). This covers both manual and non-manual workers for either industry sectors C-K inclusive with reference to the International Standard Industrial Classification of All Economic Activities, Revision 3 (ISIC Rev.3) or industry sectors B-N inclusive with reference to the International Standard Industrial Classification of All Economic Activities, Revision 4 (ISIC Rev.4).

[15] The figures for average wages are based on a full-time adult worker in the industry sectors C-K as defined by the United Nation's International Standard Industrial Classification (ISIC). Further detail is provided in *Taxing Wages*.

[16] The exceptions are "pass-through" employment forms, such as S corporations in the United States, in which case capital income is taxed at PIT rather than CIT rates.

[17] Note that whereas the print publication of *Taxing Wages* does not include analysis of NTCPs, an associated paper does (see OECD, 2018b). This paper includes NTCPs in its analysis.

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.

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 PIT, employee and employer SSCs plus any payroll taxes, minus any benefits received by the employee, as a percentage of labour costs. Employer SSCs and (in some countries) payroll taxes are added to gross wage earnings of employees in order to determine a measure of total labour costs. The average tax wedge measures that part of labour costs which is taken in tax and social security contributions net of cash benefits. However, it should be recognised that the tax wedge may be less than the true labour costs faced by employers because, for example, employers may also have to make NTCPs. These are included in the average compulsory payment wedge, published in a separate paper alongside the annual *Taxing Wages* publication (OECD, 2018b).

Taxing Wages 2018 presents comparable information for six other family types, assessing the tax wedge at different levels of earnings, for two earner couples, and single workers with or without children. A full description of the methodology is set out in the *Taxing Wages 2018* Annex (OECD, 2018a).

84. For each country, each model begins with the assumed average wage for an employee. The average wage is used to calculate all applicable tax liabilities, including PIT, employee SSCs and NTCPs, employer SSCs and NTCPs, CIT (for incorporated self-employed workers), dividend taxes, and all applicable tax provisions, including tax allowances and credits. The labour taxation of an employee is then summarised by:

- The total employment cost to a firm of hiring an employee; and
- A breakdown of the total employment cost into two components:
    - The employee's take-home pay; and
    - The resulting payment wedge.

An employee's take-home pay is defined as the gross wage less the sum of PIT, employee SSCs and employee NTCPs and any other tax liabilities or social contributions required by tax law, and plus any applicable benefits.

85. The payment wedge is defined as the net amount that government receives as a result of taxing the employee's labour income, inclusive of social contributions. The payment wedge also includes NTCPs payments to parties other than non-governments organisations, such as compulsory payments to private insurance or private pension funds (e.g., compulsory superannuation guarantee contributions paid into superannuation funds in Australia). In addition to measuring the tax liabilities and social contributions (SSCs and NTCPs) made by the individual employed, the payment wedge also captures the tax liabilities and social contributions (SSCs and NTCPs) made by the firm or employer in respect of that employee's employment. The calculation of the payment wedge is provided in Section 5.4 below.

86. The results presented in Section 6 and in the Annex show the total employment cost for each employment form, broken into the two components: take-home pay and the payment wedge. The payment wedge is broken down further into its components.

87. In modelling the tax treatment of employment forms other than standard employees, it is important to note that the paper uses "employee SSCs and NTCPs" for these other forms (even though these individuals are not engaged under standard employee-employer relationships). For employment forms other than standard employees, these should be understood as contributions or compulsory payments that a worker makes in respect of work that he or she performs. Incorporated self-employed workers may be liable for employer SSCs or NTCPs on account of employing themselves within their own closely held corporation. However, these are not "employer SSCs" or "employer NTCPs" but self-employed SSCs and NTCPs. The terms "employer SSC" and "employer NTCP" are reserved for firms that hire employees in the context of a traditional employee-employer relationship or that contracting labour from a self-employed worker.

88. In addition, in modelling the tax treatment of employment forms other than standard employees, there is a fork in the road, namely, whether to model a given employment form according to the perspective of an individual worker or according to a firm employing the worker. Both perspectives are important, as individuals have one set of incentives in choosing amongst different employment forms while firms may have another in choosing amongst different contract types.[18]

89. The individual perspective is modelled by equalising the total employment cost of a firm across employment forms. If all employment forms have the same total cost, the firm will be indifferent between contract types. This allows us to focus on which employment form is tax-preferable to an individual, thereby shedding light on the tax system-based incentives facing individuals. An individual will choose the employment form that maximises his or her take-home pay.

90. Next, the firm perspective is modelled by equalising the take-home pay of an individual across employment forms. If all employment forms offer the same take-home pay, an individual will be indifferent between them. This allows us to focus on which employment form is tax-preferable to a firm, thereby shedding light on the tax system-based incentives facing firms. While the choice of contract offered will depend on factors beyond the tax system, if we abstract to consider the tax system in isolation, a firm will choose the employment form that minimises its total employment cost.

91. These two exercises may be viewed as simulations that correspond to two different cases of tax incidence. In equalising the total employment cost of a firm, the incidence is assumed to be fully on the worker; in equalising the take-home pay, it is assumed to be fully on the firm. In reality, incidence is likely to be somewhere in between and will depend on the competitive structure of the labour market.

[18] It is recognised that the demand for a particular type of worker will have an impact on the ability of the worker to choose among different forms of employment. For example, a high-skilled worker that is in demand may be able to choose their employment form, whereas a low-skilled worker may be offered employment on a 'take-it or leave it' basis. In the latter case, it can be expected that the employer's incentives are likely to carry more weight than those affecting the employee.

5.4. Measures of the Tax Burden

92. This paper relies on three measures of the tax burden across employment forms: the payment wedge, an extension of the payment wedge that accounts for deductibility of labour-related tax costs as well as tax allowances and tax credits from the CIT tax base, and an indicator of the differential tax treatment of non-standard work relative to that of standard employment. Each is described in more detail below.

5.4.1. The Payment Wedge

93. The average compulsory payment wedge ("payment wedge") is defined as the net amount that government receives as a result of taxing income from work, inclusive of social contributions (SSCs and NTCPs), over the total employment cost of the worker under consideration. The payment wedge also includes NTCPs payments to parties other than non-governments organisations, such as compulsory payments to private insurance companies. The payment wedge can be expressed as the difference between the firm's total employment cost and the worker's net take-home pay (from both labour and from capital) as a percentage of the total employment cost, as follows:

$$Payment\ wedge = \frac{total\ employment\ cost\ - take\ home\ pay}{total\ employment\ cost}$$

where

$$\begin{aligned} Total\ employment\ cost = \\ & take\ home\ pay + income\ tax \\ & + employee\ SSCs\ \&\ NTCPs + \ employer\ SSCs\ \&\ NTCPs \\ & + payroll\ taxes - \ cash\ transers \end{aligned}$$

Substituting the expression for the total employment cost into the above expression for the payment wedge yields:

$$Payment\ wedge = \frac{income\ tax + \ employee\ SSCs\ \&\ NTCPs\ + \ employer\ SSCs\ \&\ NTCPs}{total\ employment\ cost} + \frac{payroll\ taxes - cash\ transfers}{total\ employment\ cost}$$

94. Thus, equivalently, the payment wedge can be calculated as the sum of income tax (on labour income and on capital income), employee SSCs and NTCPs, employer SSCs

and NTCPs, payroll taxes[19] and less any cash transfers,[20] over the total employment cost. This expression is especially useful because it reveals how the payment wedge can be decomposed into different components.

95. While these equations apply in straightforward manner to the case of a standard employee, it is worth highlighting some nuances that apply to the modelling of self-employed workers. The first is that self-employed workers may be liable for self-employed SSCs and NTCPs (in addition to employee SSCs and NTCPs). In this case, these amounts will factor as additional terms in the numerator of the payment wedge (as well as entering into the total employment cost in the denominator).

96. The second is that incorporated self-employed workers will have both labour and capital income. Correspondingly, there will be two components to take-home pay: a labour component and a capital component. The expressions for take-home pay are as follows:

$$Take\ home\ pay_{\ capital} = \\ capital\ income\ (or\ profit) - tax\ liability\ on\ capital\ income$$

and

$$Take\ home\ pay_{\ labour} = \\ labour\ income\ (or\ gross\ wage) - tax\ liability\ on\ labour\ income \\ - employee\ SSCs\&NTCPs$$

97. Take-home pay from capital income is equal to capital income (or the profit of the self-employed business) less the tax liability on capital income (which may be PIT, CIT or dividend tax). Note that, in the employee case, take-home pay from capital is equal to zero. Take-home pay from labour is equal to the gross wage less the tax liability on labour income (PIT) and employee SSCs and NTCPs.

98. In the modelling of incorporated self-employed workers, owner-managers who pay themselves a wage may be allowed to deduct their wage earnings (and labour-related costs such as SSCs and NTCPs) from the CIT base. This is factored in to the analysis.

99. It is useful to remain mindful of these components when viewing the results presented in Section 6 and in the Annex. The results show the total employment cost for each employment form, broken into the two components: take-home pay and the payment wedge, and the payment wedge broken into its components: income tax, employee SSCs, employer SSCs, payroll taxes and cash transfers.

[19] Payroll taxes are included given that they increase the gap between gross labour costs and net take-home pay in the same manner as income tax and SSCs. The main difference compared to SSCs is that the payment of payroll taxes does not confer an entitlement to social security benefits.

[20] As benefits such as cash transfers are often for families, they do no feature much in this analysis, which focuses on an individual who is unmarried and without children.

5.4.2. Extension of the Payment Wedge to Account for CIT Deductibility of Labour-related Costs and other Labour-related CIT Provisions

100. As mentioned, this paper also considers an extension of the payment wedge. The need for an extension stems from the fact that a firm, in hiring an employee or in contracting labour to a worker, may benefit from the ability to deduct labour-related costs, such as wages and employer social contributions, from the CIT base. It is important to note that this assumes that the hiring business is a corporation.

101. The extension takes this deductibility into account. It is calculated as follows:

$$\begin{aligned} &total\ employment\ cost_{effective} \\ &\quad = total\ employment\ cost - \delta(deductible\ employment\ cost) \end{aligned}$$

where

$$\begin{aligned} &Payment\ wedge\ accounting\ for\ deductibility \\ &\quad = \frac{total\ employment\ cost_{effective} - take\ home\ pay}{total\ employment\ cost_{effective}} \end{aligned}$$

and

$$\begin{aligned} \delta = &\frac{corporate\ tax\ liability\ of\ firm\ without\ deductibility}{deductible\ employment\ cost} \\ &- \frac{corporate\ tax\ liability\ of\ firm\ with\ deductibility}{deductible\ employment\ cost} \end{aligned}$$

102. Accounting for the permitted deductibility of labour-related costs from the CIT base and other labour-related CIT provisions is important in accurately measuring the total cost of labour to the firm. It is also important for tax policymakers to be aware of the fiscal costs of deductibility. While the impact of CIT provisions is a topic of much research, we are not aware of any studies of the impact of labour-related cost deductibility from the CIT base on, for example, hiring. The question of whether deductibility is a worthwhile feature of CIT design may warrant greater investigation.

Table 11. Deductibility of Labour-related Costs and Other Labour-related CIT Provisions from the CIT Base

This table summarises the deductibility of labour-related costs and other labour-related CIT provisions from firms' CIT liabilities allowed by tax rules across the eight countries. As deductibility, tax allowances and tax credits may vary by employment form, these are reported for each employment form. Additional detail is provided in the country files in the Annex.

Country	Employment Form	Deductibility of Labour-related Costs				Other Labour-related CIT Provisions	
		Wages	Employer SSCs	Employer NTCPs	Payroll Taxes	Tax Allowances	Tax Credits
Argentina	Employees	Yes	Yes	Yes	-	-	-
	Self-employed workers	No	No	No	-	-	-
Australia	Employees	Yes	-	-	Yes	-	-
	Independent contractors treated as employees	Yes	-	-	Yes	-	-
	Genuine independent contractors	NA	-	-	Yes	-	-
Hungary	Employees	Yes	Yes	-	Yes	-	-
	Quasi self-employed workers	Yes	Yes	-	Yes	-	-
	Unincorporated sole traders	Yes	Yes	-	Yes	-	-
	Incorporated owner-managers	Yes	Yes	-	Yes	-	-
Italy	Employees	Yes	Yes	-	-	-	-
	Continuous coordinated staff	Yes	Yes	-	-	-	-
	Unincorporated self-employed	Yes	Yes	-	-	-	-
	Incorporated self-employed	Yes	Yes	-	-	-	-
The Netherlands	Employees	Yes	Yes	Yes	-	-	Low income credit
	Unincorporated self-employed	Yes	Yes	Yes	-	-	-
	Incorporated self-employed	Yes	Yes	Yes	-	-	-
Sweden	Employees	Yes	Yes	-	-	-	-
	Unincorporated self-employed	Yes	Yes	-	-	-	-
	Incorporated self-employed	Yes	Yes	-	-	-	-
United Kingdom	Employees	Yes	Yes	-	-	-	-
	Unincorporated sole traders	Yes	Yes	-	-	-	-
	Incorporated owner-managers	Yes	Yes	-	-	-	-
United States	Employees	Yes	Yes	No	-	-	-
	Sole proprietorships	Yes	Yes	No	-	-	-
	S corporations	Yes	Yes	No	-	-	-
	C corporations	Yes	Yes	No	-	-	-

Note: For Italy, the analysis includes deductibility from IRAP as well as from CIT. While both wages and employer SSCs are deductible from both CIT and IRAP for employees and the self-employed, these two costs are only deductible from CIT for continuous coordinated staff (and not from IRAP).
Source: OECD questionnaire responses.

103. Moreover, the permitted deductibility of labour-related costs from the CIT base and other labour-related CIT provisions may vary by employment type. So, whereas analysis based on the payment wedge may give us one answer with respect to the employment type that is tax-preferable to a firm, analysis based on the extended payment wedge may yield a different answer. Table 11 summarises the deductibility of labour-related costs as well as other labour-related CIT provisions from firms' CIT liabilities across the eight countries by employment form. While the deductibility of wages and employer SSCs does not vary across employment form in Hungary, the Netherlands or the United States, there is potentially important variation in these two costs in the other countries.

5.4.3. Indicator of Differential Tax Treatment Relative to Standard Employment

104. Having computed measures of the taxation on labour for the different employment forms within a given country, it is useful to return to the question initially set out by this paper: to what extent do tax systems treat non-standard work differently from standard work? For this, we construct a simple indicator calculated as the percentage difference between the total employment cost of a non-standard worker compared to the total employment cost of a standard employee. This relates to the exercise in which the individual's net take-home pay is fixed across employment forms. Where the total employment cost of a non-standard worker is lower than that of a standard employee, this indicator can be interpreted as the extent to which the tax systems enables a firm to save on labour costs by selecting a non-standard worker as opposed to a standard employee.

6. Results

105. This section presents the results of the empirical analysis in two parts. The first sub-section shows results using a single country – the Netherlands – as a case study. This allows us to show and discuss the tax policies driving the results in greater detail. For the other countries, the equivalent detail and discussion are provided in the Annex. The second sub-section shows results across countries using the measures presented in Section 5: the payment wedge, the payment wedge accounting for deductibility at the CIT level and the indicator of differential tax treatment.

6.1. Case Study: the Netherlands[21]

106. The empirical analysis for the Netherlands considers three employment forms: standard employees, unincorporated self-employed workers and incorporated self-employed workers. For each employment form, this paper analyses the tax treatment of workers' income according to 2017 tax rules. For employees and unincorporated self-employed workers, this consists of labour income; for incorporated self-employed workers, this consists of a combination of labour and capital income.

[21] The paper's analysis of the Netherlands, as well as the methodology more generally, benefitted from analysis performed by the Dutch Ministry of Finance (Bureau Strategic Analysis of the Dutch Ministry of Finance, 2015).

107. The analysis of the labour taxation of an employee begins with an assumption that annual gross earnings totalled EUR 50,909 in the Netherlands in 2017, chosen for consistency with *Taxing Wages 2018*. For the case of an employee, this gross wage is used to calculate all applicable tax liabilities, including PIT (accounting for tax allowances and credits), employee SSCs and NTCPs, employer SSCs and NTCPs, healthcare contributions and benefits, and CIT (for incorporated self-employed workers). As described in Section 5, the labour taxation of an employee is then summarised according to:

- The total employment cost to a firm of hiring an employee; and
- A breakdown of the total employment cost into the employee's take-home pay and the resulting payment wedge, i.e., the net amount that government receives as a result of taxing the labour income of the employee, inclusive of social contributions.

108. Focusing on the payment wedge, the analysis of the labour taxation of other employment forms then proceeds according to the two perspectives analysed. To consider the perspective of a firm, the analysis equalises the individual worker's take-home pay across employment forms. This allows for focus on which employment form is tax-preferable to a firm, thereby shedding light on the tax system-based incentives facing firms. A firm will choose the employment form that minimises its total employment cost.

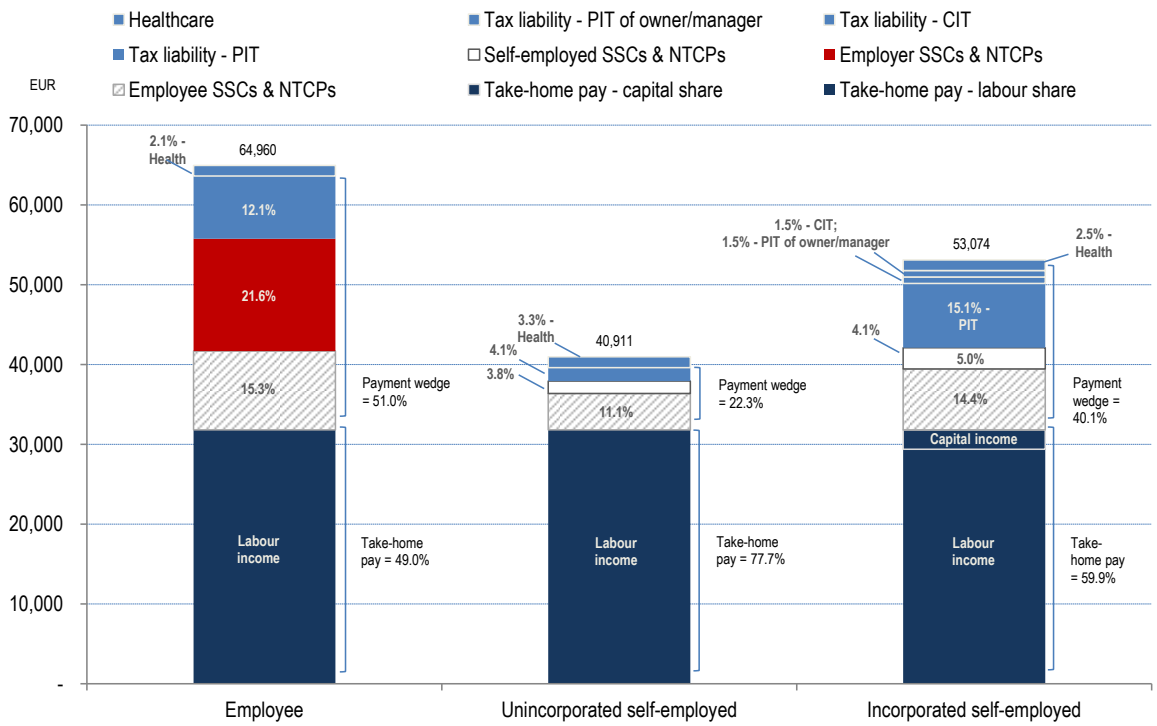
109. The analysis based on the firm perspective (i.e., where the individual's take-home pay is fixed across employment forms) is presented in Figure 2. Figure 2 shows the total employment cost to a firm of hiring workers of the three employment types that exist in the Netherlands. The bars represent, from left to right, the total employment cost of a standard employee, that of an unincorporated self-employed worker and that of an incorporated self-employed worker. For each employment type, the total employment cost is broken into two pieces: the worker's take home pay (the dark blue segments of each bar) and the payment wedge.

110. For an employee (see the left-most bar), take home pay represents 49 percent of the total employment cost while the payment wedge represents 51 percent. This means that 51 percent of the total employment cost of the worker goes to government in the form of taxes, social contributions and non-tax compulsory payments (including to pension funds, unemployment funds and health insurance companies). It is, in other words, the tax, benefit and compulsory payment cost of the worker. The payment wedge is broken down further into tax and social contribution components and NTCPs. The nominal healthcare contribution at the top of the left-most bar is 2.1 percent; PIT is next at 12.1 percent; employer social contributions and NTCPs are next at 21.6 percent; employee social contributions and NTCPs are next at 15.3 percent.

111. Looking across employment forms (and given that the take-home pay of the other employment forms is held equal to the take-home pay of an employee), it can be seen that unincorporated self-employed workers have a payment wedge of 22.3 percent, take-home pay of 77.7 percent and a total employment cost of EUR 40,911. Incorporated self-employed workers have a payment wedge of 40.1 percent, take-home pay of 59.9 percent and a total employment cost of EUR 53,074. Compared to the total employment cost of a standard employee of EUR 64,960, all else being equal, a firm would rather offer an employment contract to an unincorporated self-employed worker, thereby saving more than EUR 20,000.

Figure 2. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – the Netherlands (2017)

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. This ensures indifference on the individual's behalf with respect to employment form and is done in order to assess the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

112. The tax treatment of the three different employment forms is described in detail in the Annex. However, the results demonstrate that there are three key differences between the taxation of standard employees and the taxation of the self-employed:

i. Firms are not liable for the same level of social contributions for contracted labour (on behalf of self-employed workers). This is seen in Table 6 and summarised in Table 9, which shows a combined employer social contribution rate of 31.88 percent for employees but a combined rate of 5.4 percent for the self-employed. This is not atypical; in fact, among the countries considered, it is true of all except for Australia and Sweden. However, some other countries require self-employed workers to make higher social contributions on their own behalf at higher rates (e.g., Italy, the United States). Lower social contributions for contracted labour, combined with the fact that self-employed workers in the Netherlands are not required to replace these contributions themselves, translates into lower overall social contributions for self-employed workers.

ii. Unincorporated self-employed workers are entitled to two deductions from PIT: a self-employed deduction equal to a lump sum of EUR 7,280 and a small business deduction that entitles them to deduct a further 14 percent of self-employment

income minus the self-employment deduction. These deductions have the effect of lowering the PIT liability of unincorporated self-employed workers relative to that of employees and incorporated self-employed workers.

iii. With respect to incorporated self-employed workers, the corporation they own is liable for CIT on business income (20 percent on profits less than EUR 200,000 and 25 percent on amounts over EUR 200,000) in 2017. In addition to PIT on the attributed wage, an incorporated self-employed worker pays a personal income tax of 25 percent on profits distributed to the owner-manager (PIT Box 2). The personal income tax also applies to profits made by selling shares in the corporation.

Finally, it is interesting to note that, in the Netherlands, all employment forms are liable for employee social contributions and, generally, at the same rate (with a reduced employee SSC rate for individuals older than official retirement age).

113. In Figure 2, the fact that firms that contract self-employed workers are not liable for employer social contributions can be seen in the fact that the red portion of the left-most bar for a standard employee drops away for the other two employment forms. In addition, the overall amount paid for total social contributions remains much lower for the self-employed compared to the standard employee. As mentioned in Section 5.3, the terms "employer SSCs" and "employer NTCPs" indicate liabilities of firms that hire employees in the context of a traditional employee-employer relationship or that contracting labour from a self-employed worker. In the Netherlands, employers are liable for SSCs and NTCPs for employees only. However, self-employed individuals are still liable for SSCs and NTCPs on account of employing themselves. This appears as "self-employed SSCs and NTCPs" in Figures 2 and 3.

114. The fact that the unincorporated self-employed are entitled to two deductions from PIT can be seen in the much reduced royal blue portion of the middle bar for the unincorporated self-employed is small compared to the two other cases, as those deductions have reduced this individual's PIT liability. Finally, the fact that the corporation is liable for CIT and dividend tax and the incorporated self-employed worker is liable for PIT, can be seen in the fact that there are three royal blue bars in the right-most bar for the incorporated self-employed, reflecting each of these three liabilities.

115. In summary, in the Netherlands, this analysis shows that the tax system provides an incentive for a firm to hire an unincorporated self-employed worker, as by doing so it pays a total employment cost of EUR 40,911 instead of EUR 64,960 for a standard employee or EUR 53,074 for an incorporated self-employed worker. This can also be seen by looking at the payment wedge: it is lowest for unincorporated self-employed workers (22.3 percent), followed by incorporated self-employed workers (40.1 percent) and then by employees (51 percent). It should be noted that self-employed individuals may volunteer to self-insure.

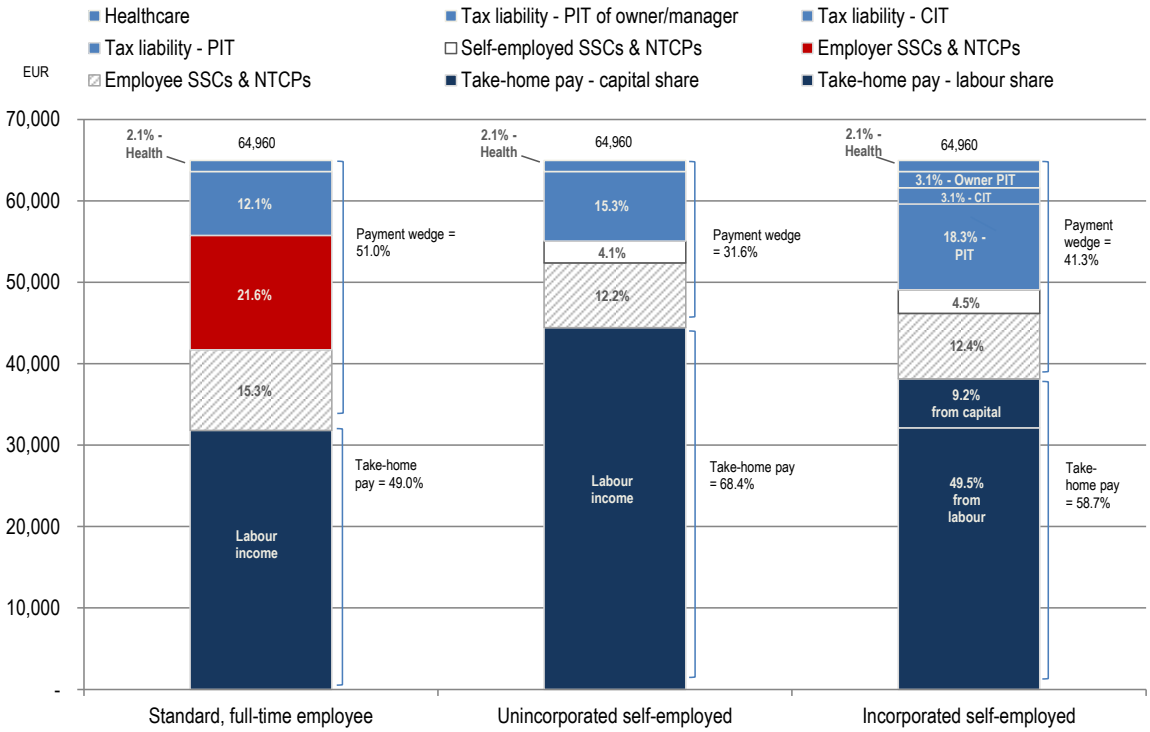
116. Moving on from the firm perspective, the analysis next considers the individual perspective, in which firm's total employment cost is held equal across employment forms. This allows for focus on which employment form is tax-preferable to an individual, thereby shedding light on the tax system-based incentives facing individuals. An individual will choose the employment form that maximises his or her take-home pay, taking into account the various insurance levels.

117. The analysis from the individual perspective (i.e., where the firm's total employment cost is fixed across employment forms) is presented in Figure 3. Figure 3

shows the total employment cost to a firm of hiring workers of the three employment types that exist in the Netherlands. Again, the bars represent, from left to right, the total employment cost of a standard employee, that of an unincorporated self-employed worker and that of an incorporated self-employed worker. Figure 3 shows that the tax system provides an incentive for an individual to organise him/herself as an unincorporated self-employed worker, as doing so results in a take-home pay of EUR 44,434 (or 68.4 percent of the total employment cost) instead of EUR 31,821 for standard employment (or 49 percent of the total employment cost) or EUR 38,130 for incorporated self-employment (or 58.7 percent of the total employment cost).

Figure 3. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – the Netherlands (2017)

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. This ensures indifference on the firm's behalf with respect to employment form and is done in order to assess the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



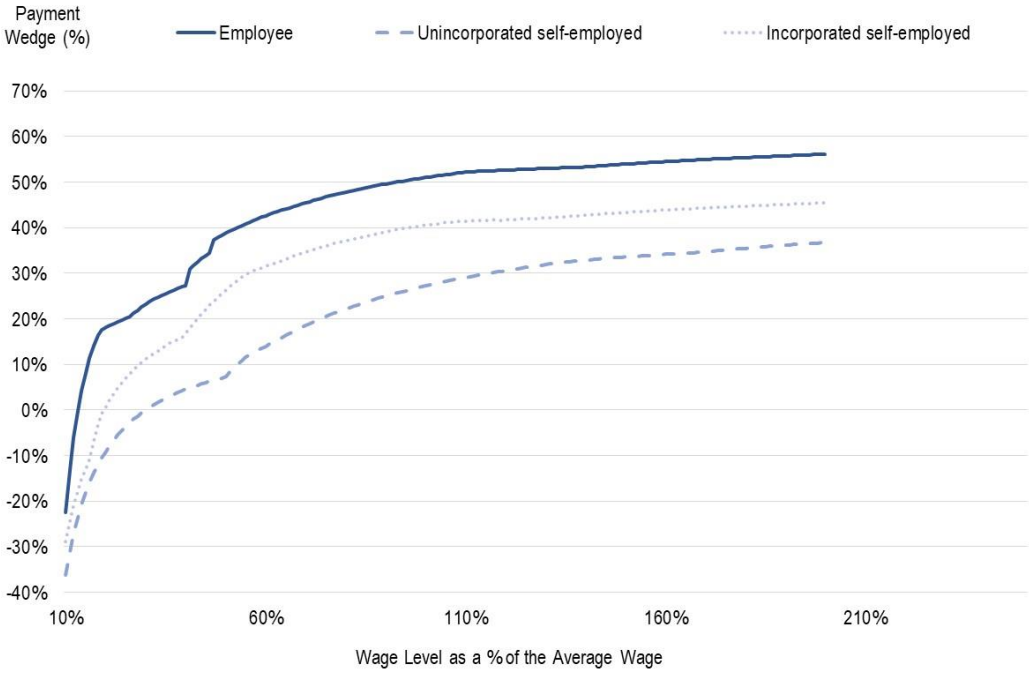
Source: Authors' calculations based on OECD questionnaire response.

118. The paper's baseline results (Figures 2 and 3, together) are generated according to the assumption that a standard employee earns the annual average gross wage consistent with *Taxing Wages 2018*. By focusing on results generated for a single wage level, it is easier to decompose the total tax generated as a result of taxing labour income into different tax categories. However, as discussed in Section 5, it is important to also look at the results for other wage levels. Figure 4 presents the payment wedge results for wage levels between 10 and 200 percent of the average wage. As shown in Figures 2 and 3, the employment form with the lowest payment wedge for the analysis performed at the average wage was the unincorporated self-employed worker. It can be seen from Figure 4 that this remains

true for all wage levels. In contrast, the employment form with the highest payment wedge across all wage levels is the employee.

Figure 4. Payment Wedges by Employment Type across Different Wage Levels – the Netherlands (2017)

The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (EUR 5,191) and continuing through 200% of the average wage (EUR 101,818).



Source: Authors' calculations based on OECD questionnaire response.

119. The paper's baseline result (see Figure 3) for the incorporated self-employed employment form assumes that this individual elects to take 75 percent of his or her income in the form of labour income and 25 percent in the form of capital income. To provide a sense of how the results are impacted by different splits between labour and capital income, this analysis models two additional cases: 50 percent labour income and 50 percent capital income; and 25 percent labour income and 75 percent capital income.

120. Figure 5 shows the results for the three cases of incorporated self-employed workers. From left to right, the underlying assumptions are: 75 percent labour income, 25 percent capital income; 50 percent labour income, 50 percent capital income; and 25 percent labour income, 75 percent capital income.[22] The exercise shown is that in which the employee faces the average wage (EUR 50,909) and total employment cost is held equal (corresponding to Figure 3), as the focus here is the incentive of an individual worker and,

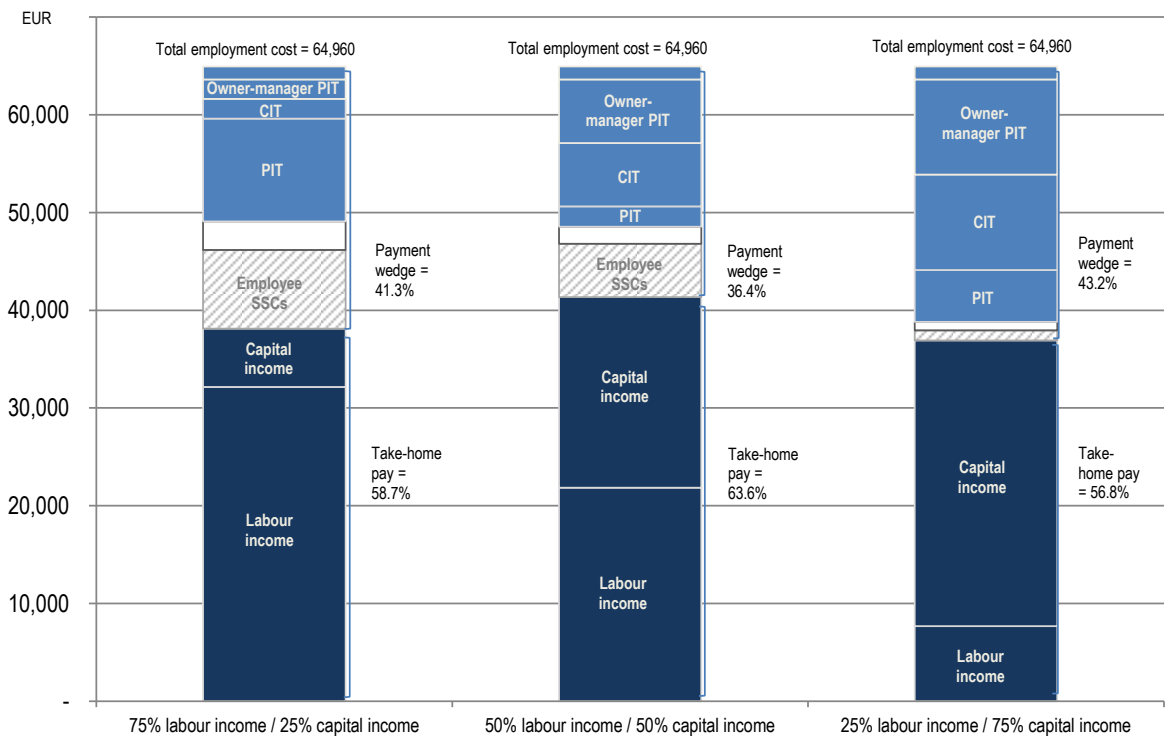
[22] In the Netherlands in 2017, incorporated self-employed workers earning the average wage (EUR 50,909) were required to attribute themselves a wage of EUR 45,000. The first case below respects this restriction, even though it leads to a scenario in which labour income is greater than 75 percent of the total employment cost. The second and third cases below do not abide by this restriction, allowing labour income to be 50 percent and 25 percent of the total employment cost, respectively. Thus, these results are only hypothetical in nature, as they violate the attributed wage rule.

namely, the mixture of labour and capital income that he or she would be incentivised to choose given that they operate as an incorporated self-employed worker.

121. The results show that the tax system incentivises an incorporated self-employed worker to select 50 percent labour income and 50 percent capital income, as this is the split (of the three considered) that maximises take-home pay (at 63.6 percent). It should be noted, however, that this exercise is only theoretical; in the Netherlands, self-employed workers face a minimum attributed wage of EUR 45,000. The analysis underlying Figure 5 is based on an assumption of labour income equal to EUR 32,480 and capital income equal to EUR 32,480. In practice, Dutch tax law would require labour income of EUR 45,000, leaving capital income of EUR 19,960.

Figure 5. Decomposition of the Total Employment Cost for an Incorporated Self-employed Worker, with Varied Portions of Labour and Capital Income (75%/25%; 50%/50%; and 25%/75%) – the Netherlands (2017)

The figure below shows results for incorporated self-employed workers only, where the difference across the three cases is the portion of income taken in the form of labour income and capital income.



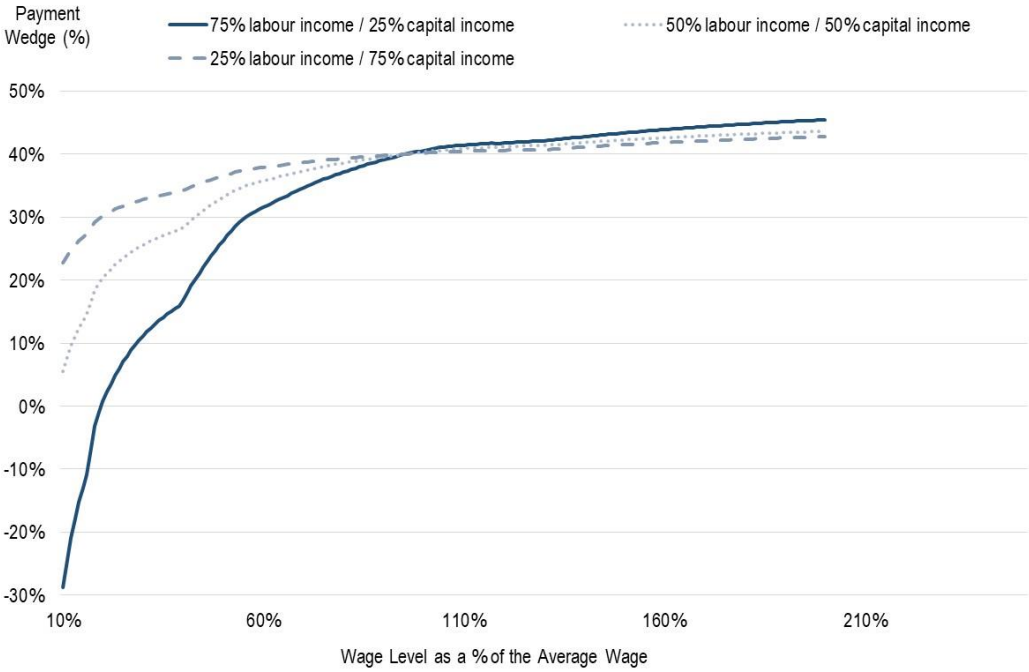
Source: Authors' calculations based on OECD questionnaire response.

122. Figure 5 was based on the scenario in which the employee faces the average wage and total employment cost is held equal. Figure 6 presents results for the three cases of incorporated self-employed workers, which vary according to the portions of labour and capital income assumed, for wage levels between 10 and 200 percent of the average wage. It shows that, just below the average wage (EUR 48,873 or 96 percent of the average wage), the payment wedges of the three different cases are equal (at 40 percent). Below this wage level, the employment form with the lowest payment wedge is an incorporated self-employed worker that selects 75 percent labour income and 25 percent capital income.

Above this wage level, the employment form with the lowest payment wedge is an incorporated self-employed worker that selects 25 percent labour income and 75 percent capital income. These results demonstrate that there is room for tax arbitrage within the incorporated self-employment form at lower wages. However, the scope for tax arbitrage within this form is limited at higher income levels.

Figure 6. Payment Wedges of an Incorporated Self-employed Worker, with Varied Portions of Labour and Capital Income (75%/25%; 50%/50%; and 25%/75%) – the Netherlands (2017)

The figure below shows payment wedges for an incorporated self-employed worker across different wage levels, starting at 10% of the average wage (EUR 5,091) and continuing through 200% of the average wage (EUR 101,818). Three cases are presented, each corresponding to a different portion of labour versus capital income: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income.



Source: Authors' calculations based on OECD questionnaire response.

123. In summary, the tax treatment of self-employed workers differs from the tax treatment of standard employees in the Netherlands. This is driven by two key factors. First, the Dutch tax system requires lower social contributions for self-employed workers. This is due to the fact that firms are not required to make social contributions for contracted labour, and is compounded by the fact that self-employed workers are not required to replace these contribution amounts themselves (as is the case in Italy and in the United States for sole proprietors). The second difference in tax treatment affects unincorporated self-employed workers, in particular. Unincorporated self-employed workers are entitled to two deductions from PIT, which have the effect of lowering the PIT liability of unincorporated self-employed workers.

124. As a result, unincorporated self-employed workers have the lowest payment wedge, both at the average wage but also across the entire wage spectrum considered. This

translates into a tax system incentive for firms to contract labour rather than offer standard employment contracts, potentially misclassifying workers in the process. It also implies a tax system that incentivises individuals to become self-employed. While tax treatment is not the only factor in the decision over which contract type to offer or accept, this is evidence that the tax system may be driving increases in self-employment in the Netherlands.

6.2. Results for All Countries

125. This section presents the results for the eight countries using the three measures described in Section 5.4. In addition, Section 6.2.3 presents results for the three cases of incorporated self-employed workers (that is, varied portions of labour and capital income).

6.2.1. Payment Wedges at the Average Wage, across Countries

126. Figure 7 shows the payment wedge of each employment form in a given country, for each of the eight countries considered. Recall that the payment wedge measures the net amount that government receives as a result of taxing income from work, inclusive of social contributions (SSCs and NTCPs), as a percentage of the total employment cost. Thus, higher values reflect greater tax and benefit costs. The payment wedges for standard employees have been calculated at the point of the average wage in each country, and the payment wedges for other employment forms have been calculated while equalising take-home pay (thereby placing focus on the incentives faced by firms).

127. Two key observations can be made. First, in some countries the payment wedges for different employment forms are rather clustered. This is true, in particular, for Hungary, Italy, Sweden and the United States. See Table 12 for the minimum, average and maximum payment wedges in each county. In each of these three countries, the difference between the maximum and minimum payment wedges is around 5 percentage points. On the other hand, the payment wedges for different employment forms are strikingly dispersed in the Netherlands and in Argentina. The difference between the maximum and minimum payment wedges in the Netherlands is 28.7 percent and the difference in Argentina is 25.8 percent. A moderate degree of dispersion is seen in Australia and the United Kingdom.

Table 12. Payment Wedge Summary across Employment Forms – All Countries (2017, Expressed in Percent)

Country	Minimum	Average	Maximum	Difference (Max. – Min.)
Argentina	6.4	18.9	32.3	25.8
Australia	24.4	31.5	35.5	10.6
Hungary	43.0	44.1	46.2	3.2
Italy	44.6	47.0	49.7	5.1
The Netherlands	22.3	37.8	51.0	28.7
Sweden	40.4	41.3	43.1	2.7
United Kingdom	20.4	25.6	30.9	10.6
United States	31.8	33.0	35.6	3.9

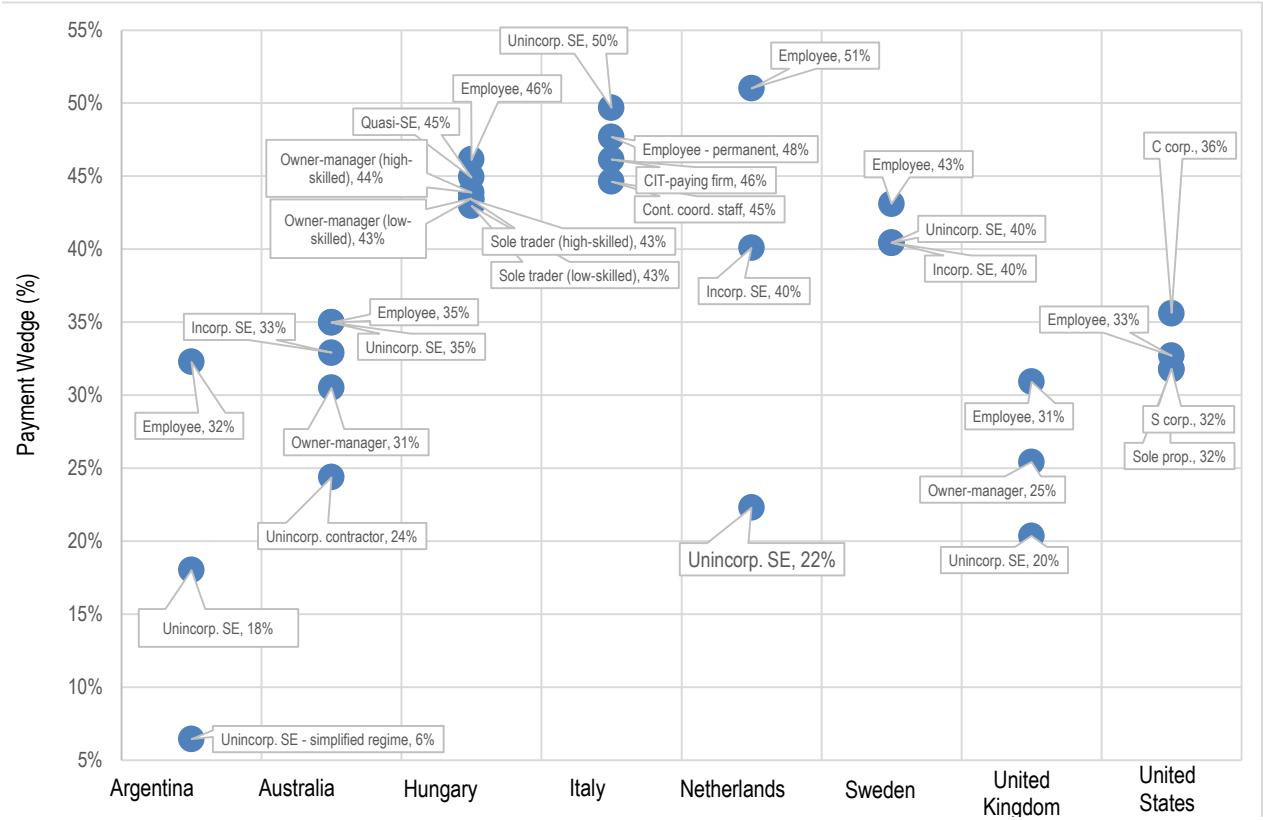
Note: The payment wedges for employees have been calculated at the point of the average wage in each country and the payment wedges for other employment forms have been calculated while equalising take-home pay across employment forms.

Source: Authors' calculations based on OECD questionnaire responses.

128. The degree of dispersion between payment wedges across different employment forms within a given country is important because it reflects the incentive – whether of individuals or of firms – to shift between employment forms for tax reasons. Clustered payment wedges reflect little incentive to shift between forms, while very disperse payment wedges reflect a great incentive to shift between forms.

Figure 7. Comparison of Payment Wedges Calculated at Average Gross Earnings by Employment Type across Pilot Countries, 2017

This figure presents the payment wedge for each employment form in a country, then across the eight countries. The vertical axis shows the payment wedge in percent. The payment wedges for employees have been calculated at the point of the average wage in each country, and the payment wedges for other employment forms have been calculated while equalising take-home pay.



Source: Authors' calculations based on OECD questionnaire responses.

129. As described in Section 6.1, the dispersion in the Netherlands stems from two deductions available to the unincorporated self-employed, specifically, as well as the fact that firms who hire self-employed workers are not liable for employer SSCs and that workers of this form are not liable for the equivalent of employer SSCs on their own behalf. Of course, in many cases, it would be sensible for the self-employed to voluntarily self-insure.

130. The second key observation is that, to the extent that a lower payment wedge for a given form of employment indicates an incentive for labour to shift into this form, tax systems appear to dis-incentivise standard employment. In Figure 7, this can be seen in the fact that in many countries, employees are the employment form with the highest payment wedge (e.g., Argentina, Hungary, the Netherlands, Sweden and the United Kingdom). In the other countries, employees are the employment form with the second highest payment wedge. As discussed previously, such disincentives must be viewed in a full context, as non-tax factors are also relevant.

131. Regarding the average levels of payment wedges across employment forms, Italy has the highest average payment wedge (47.3 percent), followed by Hungary (44.1 percent), Sweden (41.3 percent) and the Netherlands (37.8 percent). The absolute highest payment wedge is found for employees in the Netherlands (51 percent). The average payment wedges across employment forms are lowest in Argentina (18.9 percent), followed by the United Kingdom (25.6 percent), the United States (33 percent) and Australia (31.5 percent). The absolute lowest payment wedge is found for self-employed workers eligible for taxation under the simplified tax regime in Argentina (6.4 percent).

132. For each country, Table 13 shows the payment wedges by employment form along with the decomposition of the payment wedge into employee SSCs and NTCPs, employer SSCs and NTCPs, payroll taxes and taxes (PIT, CIT and dividend taxes).

Table 13. Payment Wedges and Decompositions across Employment Forms, Equalised Take-home Pay – All Countries (2017)

Country		Payment wedge	Employee SSCs and NTCPs	Employer SSCs and NTCPs	Payroll taxes	PIT, CIT and dividend taxes
Argentina	Employee	32.3	13.9	18.4	0.0	0.0
	Self-employed worker	18.0	6.8	0.0	0.0	11.2
	Self-employed worker (simplified tax regime)	6.4	3.5	0.0	0.0	2.9
Australia	Employee	35.0	0.0	9.3	4.7	21.0
	Independent contractor treated as employee	35.0	0.0	9.3	4.7	21.0
	Genuine independent contractor - incorporated	32.9	0.0	7.0	3.5	27.3
	Genuine independent contractor – sole trader	24.4	0.0	0.0	0.0	24.4
	Genuine independent contractor – owner-manager	30.5	0.0	7.3	0.0	26.6
Hungary	Employee	46.2	15.0	19.0	0.0	12.1
	Quasi self-employed	44.9	32.8	0.0	0.0	12.1
	Sole trader (low-skilled)	43.0	24.9	0.0	0.0	18.1
	Sole trader (high-skilled)	43.4	25.3	0.0	0.0	18.1
	Owner-manager (low-skilled)	43.5	25.5	0.0	0.0	18.0
	Owner-manager (high-skilled)	43.9	25.9	0.0	0.0	18.0
Italy	Employee	47.7	7.2	24.0	0.0	16.5
	Continuous and coordinated staff	44.6	9.1	18.1	0.0	17.4
	Unincorporated self-employed	49.7	23.7	0.0	0.0	26.0
	CIT-paying firm	46.1	17.7	0.0	0.0	28.4
The Netherlands	Employee	51.0	15.2	21.6	0.0	14.2
	Unincorporated self-employed	22.3	14.9	0.0	0.0	7.4
	Incorporated self-employed	40.1	19.4	0.0	0.0	20.7
Sweden	Employee	43.1	5.3	23.9	0.0	13.9
	Unincorporated self-employed	40.4	5.6	20.3	0.0	14.5
	Incorporated self-employed	40.4	4.0	17.9	0.0	18.5
United Kingdom	Employee	30.9	8.5	9.8	0.0	12.6
	Unincorporated sole trader	20.4	7.2	0.0	0.0	13.2
	Incorporated sole trade (owner-manager)	25.4	12.3	0.0	0.0	13.1
United States	Employee	32.7	7.0	9.0	0.0	16.7
	Sole proprietorship	31.8	14.1	0.0	0.0	17.6
	S corporation	31.8	13.3	0.0	0.0	18.5
	C corporation	35.6	13.3	0.0	0.0	22.3

Source: Authors' calculations based on OECD questionnaire responses.

6.2.2. Payment Wedges at all Wage Levels, across Countries

133. The calculations underlying these payment wedge results rely on average gross earnings in each country in 2017. While this is fine as a snapshot at the average wage, it is also important to look at how these results may change across the wage spectrum. In particular, it is important to be aware that the employment form that appears tax-preferable at one wage level may change when considering another wage level. The payment wedges for each employment type, by country, are presented in Figures 8 and 9.

134. As with the payment wedges calculated at the average wage, greater degrees of dispersion amongst payment wedge curves for different employment forms reflect greater incentives to shift between employment forms for tax reasons. As above, this is most clearly in evidence for Argentina and the Netherlands. The dispersion of the payment wedges for the different employment forms remains pronounced at nearly all wage levels. In contrast, the payment wedge curves for different employment forms are rather clustered in Hungary, Italy, Sweden and the United States.

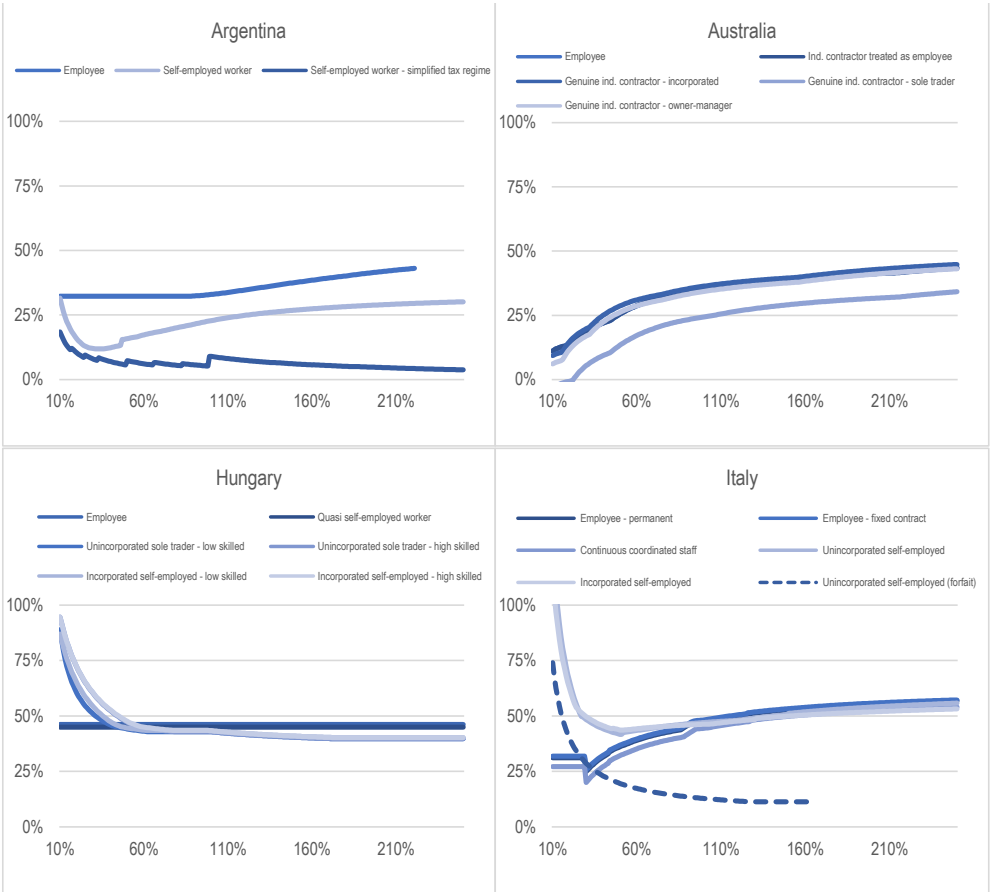
135. In Hungary, employees and quasi self-employed face flat payment wedge curves: the payment wedge for an employee remains 46.2 percent from 10 percent of average earnings through to 250 percent of average earnings, and for a quasi-self-employed individual the payment wedge remains slightly lower at 44.9 percent. For this reason, the payment wedge curves of the other employment forms cross those of the employee and of the quasi-self-employed. At around 40 percent of the average wage, it becomes tax-preferable to hire an unincorporated self-employed worker of low skill relative to an employee. For an unincorporated self-employed worker of high skill, this crossing point happens at 53 percent of the average wage.

136. In Italy, fixed contributions for the self-employed, both unincorporated and incorporated, which are even relevant at very low wages, mean that the payment wedge for these employment forms can exceed 100 percent. Thus, the tax system entirely dis-incentivises entrepreneurship at low earning levels. The payment wedges for the self-employed converge to magnitudes comparable to the other employment forms at around 50 percent of the average wage.

137. In Sweden, unincorporated self-employed workers have the lowest payment wedge for span below the average wage, after which incorporated self-employed workers have the lowest payment wedge. In the United Kingdom, unincorporated self-employed is the employment form with the lowest payment wedge across the wage spectrum, although this is dependent on the assumption that 75 percent of income from incorporated owner managers is employment income, which is not generally true for the United Kingdom. In the United Kingdom, it is standard for owner-mangers to take GBP 8,164 as labour income. Labour income of GBP 8,164 and the remainder of the average wage taken as capital income yields a payment wedge of 18.8 percent. In the United States, sole proprietorships are the employment form with the lowest payment wedge up until 30 percent of the average wage, after which point it is S corporations. For all wage levels, C corporations are the employment form with the highest payment wedge.

Figure 8. Payment Wedges across Wage Levels by Employment Type – Argentina, Australia, Hungary, Italy (2017)

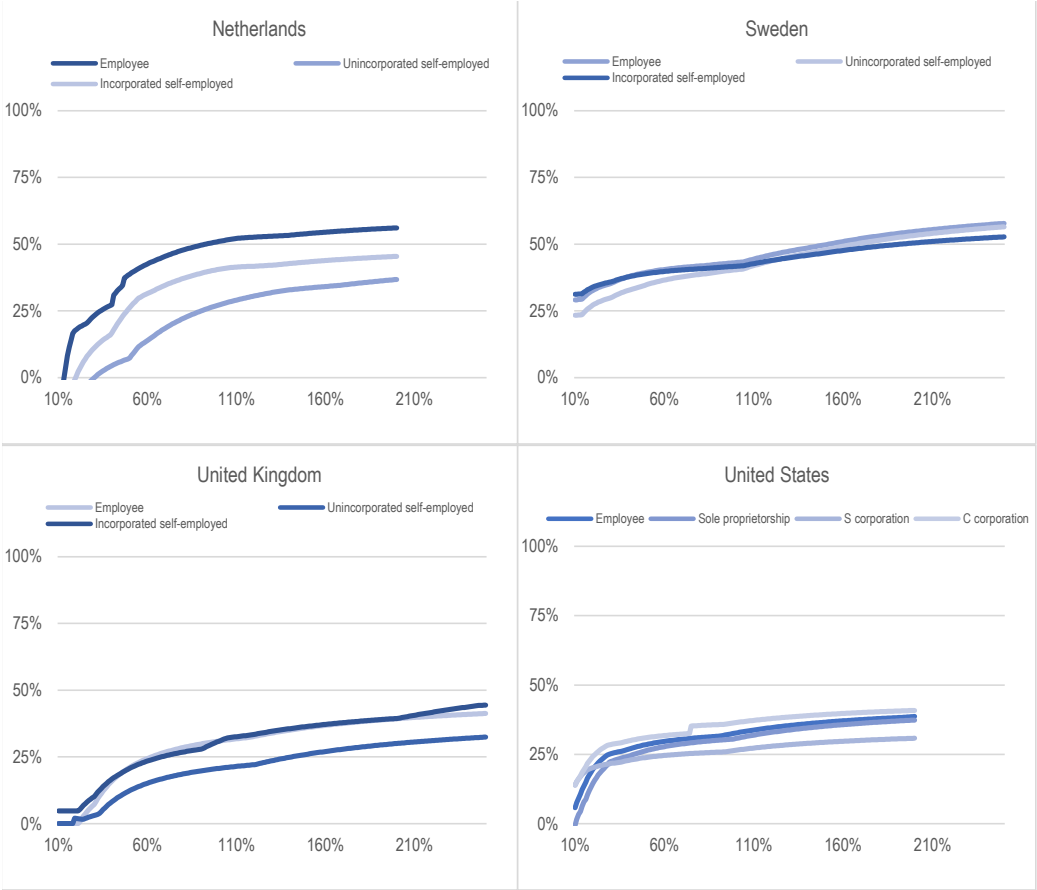
These figures present the payment wedges across wages levels for each employment form in a country. The vertical axis is the payment wedge expressed as a percent (of total labour costs) while the horizontal axis is the percentage of the average wage.



Source: Authors' calculations based on OECD questionnaire responses.

Figure 9. Payment Wedges across Wage Levels by Employment Type – Netherlands, Sweden, United Kingdom, United States (2017)

These figures present the payment wedges across wages levels for each employment form in a country. The vertical axis is the payment wedge expressed as a percent (of total labour costs) while the horizontal axis is the percentage of the average wage.



Source: Authors' calculations based on OECD questionnaire responses.

6.2.3. Payment Wedges for Incorporated Self-employed at the Average Wage, across Countries

138. To provide a sense of how the results are impacted by different splits between labour and capital income, this analysis models three different cases of incorporated employment forms: 75 percent labour income and 25 percent capital income; 50 percent labour income and 50 percent capital income; and 25 percent labour income and 75 percent capital income. Figure 10 shows the payment wedges for incorporated self-employed workers for each of the three cases and across countries. In Australia, Italy, Sweden, the United Kingdom and in the United States (for S corporations), taking a higher portion of income in the form of capital (and, as a result, a lower portion in the form of labour) reduces the payment wedge.

Figure 10. Payment Wedges for Incorporated Self-employed Workers across Countries, 2017

This figure presents the payment wedge and comprehensive payment wedge, side by side, for each employment form in a country, then across the eight countries. Note that Argentina does not appear because Argentina did not have an incorporated form of self-employment in 2017. The vertical axis shows the payment wedge in percent. These payment wedges were calculated using the average gross earnings in each country in 2017. It should be noted that the combinations of labour and capital income analysed below are not always permitted. For example, the assumption of 25% employment income, 75% business income is not permitted in the Netherlands due to the requirement of a minimum attributed wage of EUR 45,000. In addition, according to the rules applicable for incorporated self-employed workers in Sweden, the assumption of 50% employment income, 50% business income and 25% employment income, 75% business income are only possible under some very special circumstances. These options cannot be considered as pure incentives to operate as an incorporated self-employed business; they are shown only for the sake of comparison with other countries.

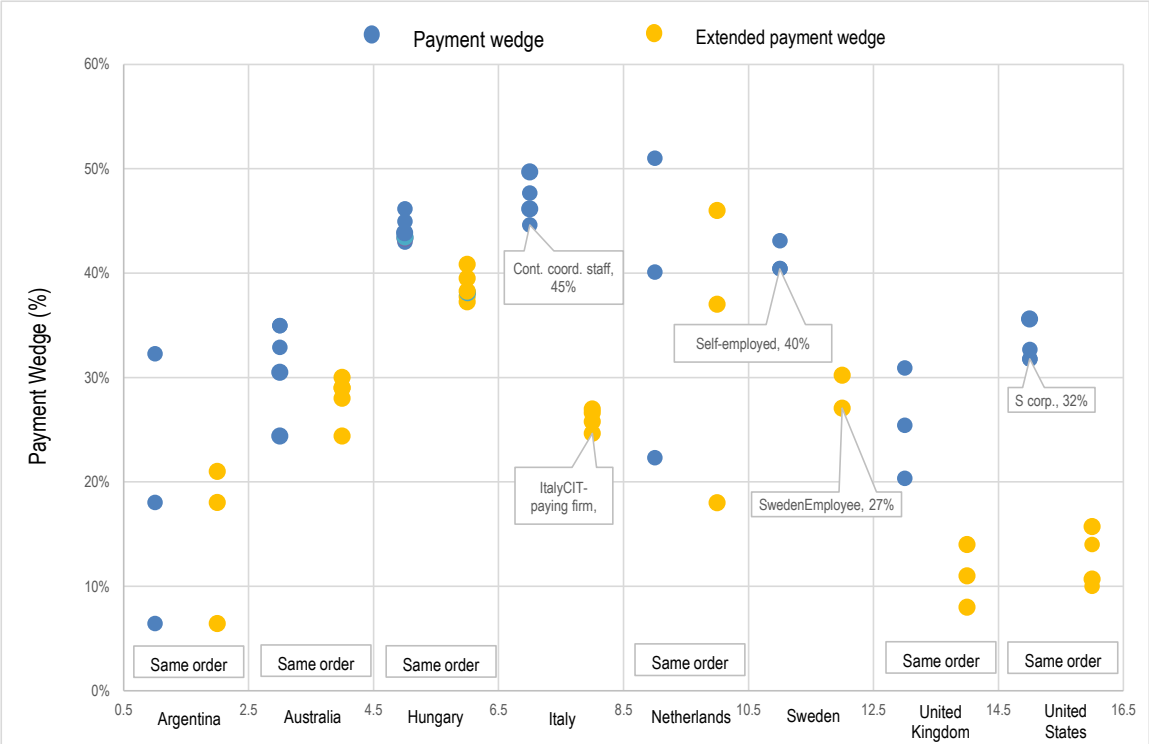
Source: Authors' calculations based on OECD questionnaire responses.

6.2.4. Extended Payment Wedge at the Average Wage, across Countries

139. Setting aside the payment wedge results to consider the comprehensive payment wedge results, see Figure 11. As mentioned, because the rules governing which labour-related costs are deductible from firms' CIT liabilities may vary across employment forms, as may labour-related tax allowances and tax credits against CIT, it is important to take the "true labour cost" of firms into account in assessing which form of employment is favoured by the tax system. Figure 11 shows the payment wedge and the extended payment wedge of the different employment forms side-by-side, and makes note of where accounting for deductibility from CIT changes the rank order regarding which employment form is most tax preferable with respect to the tax system (i.e., the lowest comprehensive payment wedge).

Figure 11. Payment Wedge versus Extended Payment Wedge Calculated at Average Gross Earnings by Employment Type across Pilot Countries, 2017

This figure presents the payment wedge and comprehensive payment wedge, side by side, for each employment form in a country, then across the eight countries. The vertical axis shows the payment wedge in percent. These payment wedges were calculated using the average gross earnings in each country in 2017.



Source: Authors' calculations based on OECD questionnaire responses.

140. It can be seen from the figure that in Argentina, Australia, Hungary, the Netherlands and the United States, the rank order when we consider the payment wedge is the same as the rank order when we consider the extended payment wedge. This is either because no deductibility is allowed from CIT or because the deductibility that is allowed applies relatively evenly across employment forms. However, in other countries – Italy and Sweden – it does matter, as the rank ordering of employment form changes. Such changes point to the importance of the adjustment made in incorporating deductibility and taking account of the total labour cost of the firm.

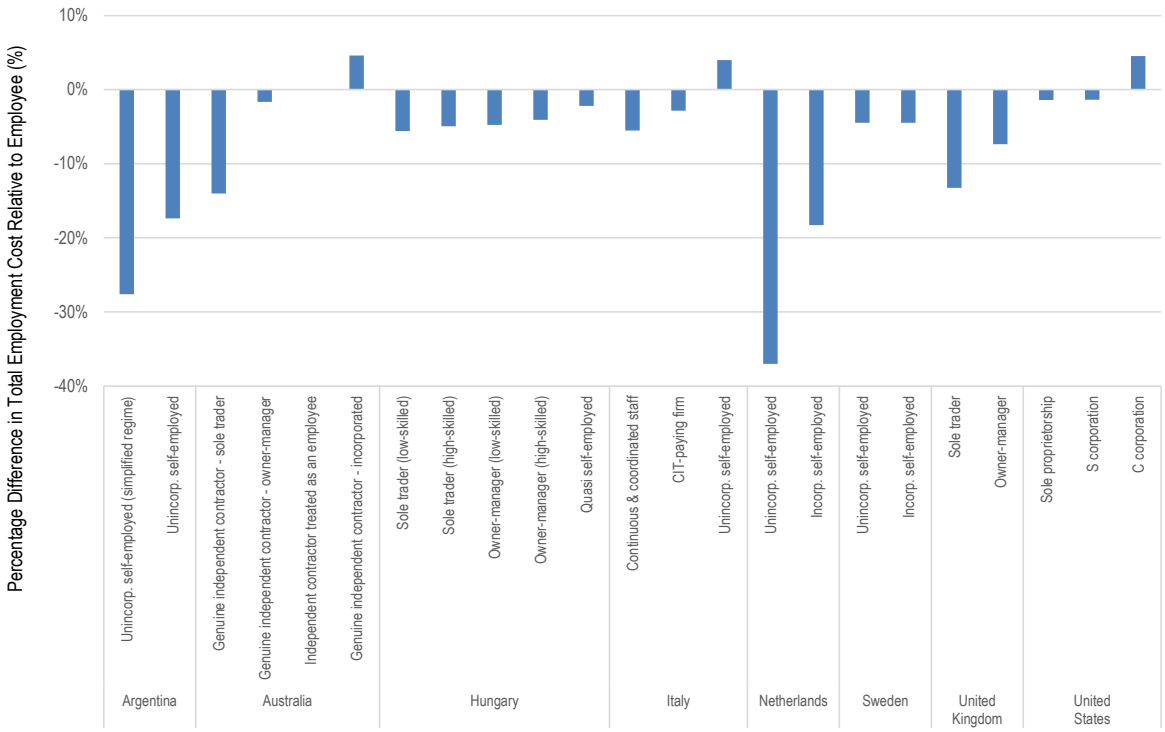
141. Aside from changing the order with respect to employment forms, it is also important to pay attention to the magnitude by which the deductibility permitted may reduce the tax collected by governments. The drops between the payment wedge and the comprehensive payment wedge appear most pronounced in Italy and Sweden.

6.3. Indicator of Differential Tax Treatment

142. The indicator of the extent to which the tax treatment of non-standard work differs from that of standard employment is presented in Figure 12, for all countries across the horizontal axis and for all forms of non-standard work. The vertical axis indicates the percentage by which the total employment cost of a non-standard worker differs from the total employment cost of a standard employee in each country. Where the percentage is negative, the total employment cost of the non-standard worker is lower than that of a standard worker. This indicates the extent to which the tax systems enables a firm to save on labour costs by selecting a non-standard worker as opposed to a standard employee. The indicator is, in other words, a measure of the incentive to shift away from standard employment. On the other hand, where the percentage is positive, the total employment cost of the non-standard worker is higher.

Figure 12. Indicator of Differential Tax Treatment Relative to Standard Employment

In this figure, each bar represents the percentage difference in payment wedge of the non-standard form of work indicated relative to the payment wedge of a standard employee. In this sense, it is a measure of the extent to which the taxation of non-standard work differs from the taxation of standard work. The vertical axis shows the percentage by which the payment wedge of a given employment type is different from the payment wedge of a standard employee, per country. This analysis was performed at the average wage and using the exercise where take-home pay is help equal across employment forms. The incorporated self-employed workers represented are those with a 75 percent labour income and 25 percent capital income split.



Source: Authors' calculations based on OECD questionnaire responses.

143. On average, the percentage differences in Figure 12 are negative, indicating that there is a tendency across the eight countries considered for the tax system to incentivise non-standard work. A tax system that is neutral across employment forms would exhibit zero values in the figure above.

7. Policy Considerations

144. Recent work at the OECD, as well as widespread commentary in the media and in the policy community, has highlighted the increasing changes to the world of work. Many countries have seen increases in some forms of non-standard work. This raises questions of whether the increasing adoption of these forms of work represents a beneficial increase in flexibility and adaptability in the workforce or a deterioration in job quality driven by automation, globalisation, labour market deregulation and the increasing market power of large employers. These questions will dominate policy debates for years to come. A recent OECD paper surveyed how countries are responding to new forms of work (OECD, 2019b). In addition, many of these issues are explored in greater detail in the OECD Employment Outlook 2019 (OECD, 2019a).

145. These changes also raise crucial issues for tax systems. Labour taxes are the largest tax category in almost every OECD country. Tax differentials across employment types therefore have the potential to produce significant labour market effects, along with significant tax revenue consequences. This raises questions of the extent to which the changes in labour markets are tax-driven. Moreover, it raises questions of whether tax systems need to adapt to increases in non-standard work in OECD countries and, if so, how.

146. This paper provides a first step towards evaluating these issues by enriching the analytical framework used to assess the labour (and, where relevant, capital) income taxation, inclusive of social contributions and non-tax compulsory payments, of different employment forms. The example of the Netherlands is highlighted as a case study in order to examine which tax provisions lead to differential taxation across employment forms. Results are then presented for eight countries, which allows for a comparison of tax treatment differentials across countries.

147. In the Netherlands, the tax treatment of self-employed workers differs markedly from that of standard employees. This is driven by two key factors. First, the Dutch tax system requires lower social contributions for self-employed workers. Firms are not required to make social contributions for contracted labour. While this is not unusual across the other countries analysed, the effect is compounded by the fact that self-employed workers are not required to replace these contribution amounts themselves through self-employed social contributions (as is the case in Italy and in the United States for sole proprietors). Future work should consider whether the differences in social contributions are aligned with differences in future benefit entitlements.

148. Second, the Dutch tax system entitles unincorporated self-employed workers, in particular, to two deductions from PIT, which have the effect of lowering the PIT liability of unincorporated self-employed workers compared to employees. As a result, unincorporated self-employed workers have the lowest payment wedge, both at the average wage but also across the wage spectrum. This translates into a tax system incentive for firms to contract labour rather than offer standard employment contracts, potentially misclassifying workers in the process. It also implies a tax system that incentivises individuals to become self-employed.

149. However, countries have profiles regarding differential tax treatment across employment forms. The Netherlands is a particularly interesting example because it is a country in which tax treatment differentials are rather pronounced. In looking at the results across countries, there are some in which the payment wedges of different employment forms are dispersed (as in the Netherlands) and some in which the payment wedges are more closely aligned. Thus, opportunities for tax arbitrage appear greater in some countries and more restricted in others (bearing in mind that tax is but one of many factors at play in these dynamics). Future work will analyse an expanded set of countries.

150. The paper also explores how tax differentials across employment forms are affected by the wage level. This is particularly important, as workers' bargaining power is likely weaker at the low end of the wage spectrum but stronger at the high end, necessitating potentially different policy considerations and responses. In addition, the paper explores, for incorporated self-employed employment forms, different portions of labour versus capital income. In addition to tax arbitrage opportunities across employment forms, this analysis illustrates the potential for tax arbitrage within the frame of incorporated self-employment. Arbitrage within the choice of incorporated self-employment could be limited by, for example, requiring owner-managers to attribute themselves a minimum salary.

151. Having observed larger tax treatment differentials across employment forms in some countries, the next step is policy evaluation. However, much more needs to be done to formulate coherent policy advice in this area.

152. The first best outcome of optimal tax theory is the principle of neutrality: policymakers must ensure that tax systems impose similar tax burdens on similarly situated individuals. However, this aim may be adjusted where other policy objectives take priority. For example, the discussion of horizontal equity in Section 2 raised the question: to what extent can individuals of different employment forms be considered "similarly situated?" The situation of individual workers may differ with respect to the costs of working, their behavioural responses, and their willingness to engage in tax avoidance and evasion, as well as the degree of investment in their ventures, with such differences sometimes motivating cases for differential tax treatment.

153. In addition, as this paper has shown, employees and self-employed workers may have different benefit entitlements. In summary, while neutrality appears to be a straightforward guiding principle, upon closer look there may be several reasons warranting deviations from neutrality. Identifying the appropriate rationale for tax treatment differentials and then deducing their appropriate magnitudes, is an exciting path for future work.

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