

TAXING WAGES:

TAX WEDGES CONTINUE TO FALL

The latest edition of the publication *Taxing Wages* demonstrates that tax wedges on labour, or the difference between what employers pay out in wages and social security charges and what employees take home after tax and social security deductions, are falling in many OECD countries, helping to reduce a major obstacle to job creation and people's willingness to work. It also confirms some significant features common to taxation systems in most OECD countries. For example, they continue to offer significant benefits to married couples with children compared to single earners.

This excerpt from the full report, which will be published this Spring, presents a country-by-country overview of the taxes paid by individuals at different income levels and with different family situations. It includes charts and graphs comparing results by country. The first two sections summarise results for the years 2003 and 2002, while the final section briefly describes the study's methodology.

A. Review of results for 2003

Table I.1 shows gross wage earnings of the average production worker in each OECD Member country for years 2002 (column 1) and 2003 (column 2). The annual change of the nominal wage of an average production worker — shown in column 3 — varied between -1.3 per cent (Japan) and 23.1 per cent (Turkey). To a large extent, this significant spread reflects the different inflation levels of individual OECD countries — see column 4 of Table I.1. The annual change of real wage levels (before personal income tax and employee social security contributions) is found to be in the 0–3 per cent range for almost all countries; see column 6 of Table I.1. Only the Czech Republic (4.9 per cent), Japan (-0.4 per cent), Canada (-0.5 per cent) and Turkey (-5.6 per cent) show changes in real wage before tax outside this range.

The real disposable wage of the average production worker is also influenced by the change in the personal average tax rate — shown in column 6 of Table I.1. In 2003, in almost all countries the change of this tax burden measure at the average production workers' wage level remained between minus and plus one per cent. The only exception is in Hungary where the tax burden dropped by 3.8 percentage points.

Table I.2 summarises personal average tax rates — defined as income tax plus employee social security contributions as a percentage of gross wage earnings — in 2003. At the average earnings level, single workers without children pay over 40 per cent of their annual wages in personal income tax and employee social security contributions in Belgium, Denmark and Germany. In Greece, Ireland, Japan, Korea, Mexico, Portugal, the Slovak Republic and Spain the personal average tax rate was below 20 per cent.

The mix of taxes paid out of gross wage earnings varies greatly between countries. Chart I.1 provides a graphical representation of the personal average tax rate decomposed between income tax and employee social security contributions. Average production workers in Australia, Iceland and New Zealand essentially pay only income tax while their counterpart in Greece is virtually paying only social security contributions.

Many OECD countries provide a fiscal benefit to families with children relative to single individuals through advantageous tax treatment and/or cash transfers. Chart 1.2 provides the burden of income tax plus employee social security contributions less cash benefits for single individuals at 100 per cent of the earnings of an average production worker and for a married one-earner couple with two children at the same earnings level. The savings realised by a one-earner married couple is greater than 20 per cent of earnings in Belgium, Germany, Hungary, Iceland and Luxembourg. In contrast, the burden is virtually the

same (the gap is less than 1 per cent of gross earnings) in Greece, Korea, Mexico, New Zealand and Turkey. It is interesting to note that when cash benefits are taken into account, married one-earner couples face a negative burden in Ireland and Luxembourg because cash benefits exceed the income tax and social security payments.

In most OECD countries, employers pay significant social security contributions. In addition, some countries impose un-earmarked payroll taxes that are distinguished from social security contributions in that they do not create an entitlement to benefit for the corresponding employees and may not even be used to fund social security contributions. For the purposes of this Report, labour costs are defined as being equal to the gross wages paid to employees plus these employer social security contributions and payroll taxes (if any). In 2003, the tax wedge between total labour costs to the employer and the corresponding net take-home pay to single workers without children, at average earnings levels varied widely across OECD countries (See column 4 in Table I.3). The tax wedge exceeded 50 per cent in Belgium and Germany and was lower than 20 per cent in Korea and Mexico.

It is interesting to look at the constituent components of the tax wedge shown in Table I.3. The portion of labour costs paid in personal income tax is less than 5 per cent in Greece, Korea and Mexico whereas it exceeds 30 per cent in Denmark. The portion representing employee social security contributions also varies widely, ranging from zero per cent in Australia, Iceland and New Zealand to over 20 per cent in the Netherlands and Poland. Employers pay 29 per cent of total labour costs in social security contributions (including payroll taxes where applicable) in France, 28 per cent in the Slovak Republic, 27 per cent in Hungary and 26 per cent in the Czech Republic. In contrast, employers in New Zealand are not subject to these levies, while in Denmark employer contributions are negligible.

As a percentage of labour costs, the total of employee and social security contributions exceed 25 per cent of total labour costs in half of the OECD countries. They exceed one-third of total labour costs in 10 OECD countries: Austria, Belgium, the Czech Republic, France, Germany, Greece, Hungary, Netherlands, Poland and the Slovak Republic. This result is not surprising given that the social security contribution revenues in these countries amounted to more than 25 per cent of their Gross Domestic Product in 2001.

Clearly, the impact of taxes and benefits on worker's take-home pay varies greatly among OECD countries. Such wide variations in the size and make-up of tax wedges reflect in part differences in:

- i. the overall ratio of aggregate tax revenues to Gross Domestic Product; and,
- ii. the share of personal income tax and social security contributions in national tax mixes.

Table 4 exhibits the combined burden of income tax and employee social security contributions, in the form of net personal average tax rates as the levies due have been reduced by the amount of cash benefits each specific family-type is entitled to. Chart 3 illustrates this burden for single individuals without children and married one-earner couples with two children, respectively. Comparing Tables 3 and 4, the average tax rates for families with children (columns 4–7) are lower in Table 4, because many OECD countries support families with children through cash benefits. A lower burden is observed for a single individual without children at 67 per cent of the APW only in the case of Canada as this person is entitled a cash transfer as a way of mitigating the burden imposed by the federal consumption tax.

Cash benefits are provided in a majority of OECD countries. For the case of single parents with two children earning 67 per cent of the APW wage level, 22 countries provide benefits that range from 27.8 per cent of income (Austria) to 5.6 per cent (Poland) and average 17.4 per cent. The benefit exceeds 25 per cent of income in 3 other countries: Ireland (27.6 per cent), Australia (26.6 per cent) and Denmark (25.4 per cent). For a one-earner married couple with two children earning 100 per cent of the APW wage level, the number of countries providing benefits falls to 21 and the benefits relative to income are less generous,

ranging from 18.5 per cent (Austria) to 0.2 per cent (New Zealand) and averaging 8.7 per cent. This reduction in the importance of cash benefits can be attributed to three reasons: single parents may be eligible for more generous treatment; the benefits themselves may be fixed; and/or the benefits may be subject to income testing.

Table 5 and Chart 4 extend the presentation to include employers' social security contributions. In this case total levies due minus transfers received are expressed as a percentage of total labour costs, defined as gross wage *plus* employers' social security contributions (including payroll taxes). The gap between labour costs and the corresponding net take-home pay is also known as the 'wedge'. In the case of a single person at the APW wage level the wedge ranges from 14.1 per cent (Korea) and 17.3 per cent (Mexico) to 52.0 per cent (Germany) and 54.5 per cent (Belgium). For a one-earner married couple with two children at the same wage level the wedge is lowest in Ireland (7.4 per cent) and Iceland (8.9 per cent) and highest in Poland (41.3 per cent) and Turkey (42.1 per cent). The wedge tends to be lower for a married couple with two-children at this wage level than for single individual without children due to receipt of cash benefits and/or more advantageous tax treatment. It is also interesting to note that the wedge for a single parent with two children earning 67 per cent of the APW wage level is less than zero in Australia (-0.4 per cent), the United Kingdom (-10.8 per cent) and Ireland (-15.3 per cent). This result is due to the fact that the cash benefits received by these families as well as the value of any applicable non wastable tax credits exceed the sum of the tax due and the total contributions.

Table I.1 Comparison of wage levels

| Country | Gross wage in national currency | | Annual change 2003/2002 (in percentage) | | | |
|-----------------|---------------------------------|----------------|--|------------------------|----------------------|--|
| | 2002 | 2003 | Gross wage | Inflation ¹ | Real wage before tax | Change in personal average tax rate ² |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Australia | 48 568 | 50 732 | 4.5 | 2.5 | 1.9 | -0.1 |
| Austria | 23 881 | 24 405 | 2.2 | 1.4 | 0.7 | 0.3 |
| Belgium | 30 629 | 31 238 | 2.0 | 1.4 | 0.6 | -0.6 |
| Canada | 38 867 | 40 103 | 3.2 | 3.7 | -0.5 | 0.2 |
| Czech Republic | 206 412 | 220 773 | 7.0 | 2.0 | 4.9 | 0.4 |
| Denmark | 304 925 | 316 772 | 3.9 | 2.4 | 1.5 | 0.0 |
| Finland | 27 682 | 28 888 | 4.4 | 1.4 | 2.9 | -0.3 |
| France | 21 978 | 22 533 | 2.5 | 1.6 | 0.9 | -0.4 |
| Germany | 32 902 | 33 810 | 2.8 | 0.8 | 1.9 | 0.4 |
| Greece | 11 395 | 11 908 | 4.5 | 3.4 | 1.1 | -0.4 |
| Hungary | 1 077 816 | 1 164 915 | 8.1 | 5.2 | 2.7 | -3.8 |
| Iceland | 2 567 086 | 2 694 083 | 4.9 | 2.5 | 2.4 | 0.2 |
| Ireland | 25 477 | 26 939 | 5.7 | 4.1 | 1.6 | -0.1 |
| Italy | 21 408 | 22 114 | 3.3 | 2.3 | 1.0 | -0.9 |
| Japan | 4 254 270 | 4 200 199 | -1.3 | -0.9 | -0.4 | 0.2 |
| Korea | 22 885 416 | 24 467 930 | 6.9 | 3.8 | 3.0 | 0.0 |
| Luxembourg | 31 358 | 32 198 | 2.7 | 2.3 | 0.3 | 0.4 |
| Mexico | 59 702 | 62 687 | 5.0 | 4.4 | 0.6 | 0.7 |
| Netherlands | 30 575 | 31 790 | 4.0 | 2.4 | 1.5 | -0.7 |
| New Zealand | 39 912 | 41 452 | 3.9 | 2.0 | 1.8 | 0.5 |
| Norway | 292 200 | 307 307 | 5.2 | 3.2 | 1.9 | 0.0 |
| Poland | 26 352 | 27 193 | 3.2 | 1.4 | 1.7 | 0.0 |
| Portugal | 8 410 | 8 677 | 3.2 | 3.2 | 0.0 | 0.1 |
| Slovak Republic | 137 316 | 150 000 | 9.2 | 8.7 | 0.5 | 0.4 |
| Spain | 16 360 | 16 975 | 3.8 | 2.9 | 0.8 | -0.8 |
| Sweden | 237 820 | 247 908 | 4.2 | 2.4 | 1.8 | 0.4 |
| Switzerland | 64 169 | 65 256 | 1.7 | 0.7 | 0.9 | 0.0 |
| Turkey | 9 938 274 440 | 12 233 294 119 | 23.1 | 30.3 | -5.6 | -0.3 |
| United Kingdom | 19 420 | 20 276 | 4.4 | 3.1 | 1.2 | 0.2 |
| United States | 32 360 | 33 459 | 3.4 | 2.4 | 0.9 | -0.2 |

1. Estimated percentage change in the total consumer price index.

2. Difference in the personal average tax rate of the average production worker (single without children) between 2003 and 2002.

Sources: Country submissions; *OECD Economic Outlook*, June 2003.

Table I.2. **Income tax plus employee social security contributions¹**

(as% of gross wage earnings), 2003

| Country ² | Income tax | Social security contributions | Total payment ³ | Gross wage earnings ⁴ |
|----------------------|------------|-------------------------------------|-------------------------------|-------------------------------------|
| | (1) | (2) | (3) | (4) |
| Australia | 24 | 0 | 24 | 37 396 |
| Denmark | 32 | 11 | 42 | 37 243 |
| Germany | 21 | 21 | 42 | 35 480 |
| Belgium | 27 | 14 | 41 | 34 610 |
| Switzerland | 10 | 11 | 21 | 34 543 |
| Norway | 21 | 8 | 29 | 33 746 |
| Netherlands | 9 | 25 | 34 | 33 721 |
| Korea | 2 | 5 | 7 | 33 620 |
| United States | 16 | 8 | 24 | 33 459 |
| Canada | 18 | 7 | 25 | 32 926 |
| Luxembourg | 9 | 14 | 22 | 32 873 |
| United Kingdom | 16 | 8 | 24 | 30 947 |
| Japan | 6 | 12 | 17 | 29 975 |
| Finland | 25 | 6 | 31 | 29 255 |
| New Zealand | 21 | 0 | 21 | 28 568 |
| Iceland | 25 | 0 | 25 | 28 480 |
| Italy | 18 | 9 | 27 | 26 819 |
| Austria | 11 | 18 | 29 | 26 362 |
| Ireland | 11 | 5 | 16 | 25 613 |
| Sweden | 24 | 7 | 31 | 25 111 |
| France | 13 | 14 | 27 | 24 394 |
| Spain | 12 | 6 | 19 | 21 439 |
| Greece | 0 | 16 | 16 | 15 494 |
| Czech Republic | 12 | 13 | 24 | 15 417 |
| Turkey | 15 | 15 | 30 | 15 305 |
| Poland | 6 | 25 | 31 | 14 511 |
| Portugal | 6 | 11 | 17 | 12 130 |
| Hungary | 13 | 13 | 26 | 9 318 |
| Mexico | 3 | 2 | 4 | 9 298 |
| Slovak Republic | 6 | 13 | 19 | 9 034 |

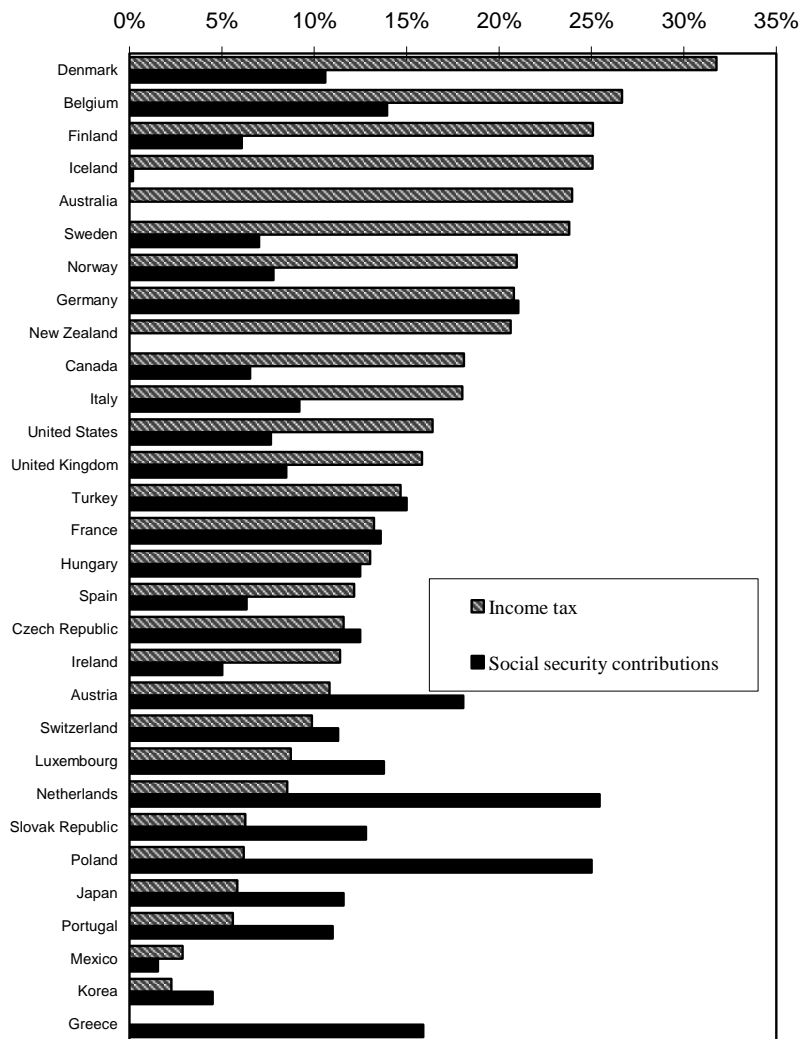
1. Single individual without children at the income level of the average production worker.

2. Countries ranked by decreasing gross wage earnings.

3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions

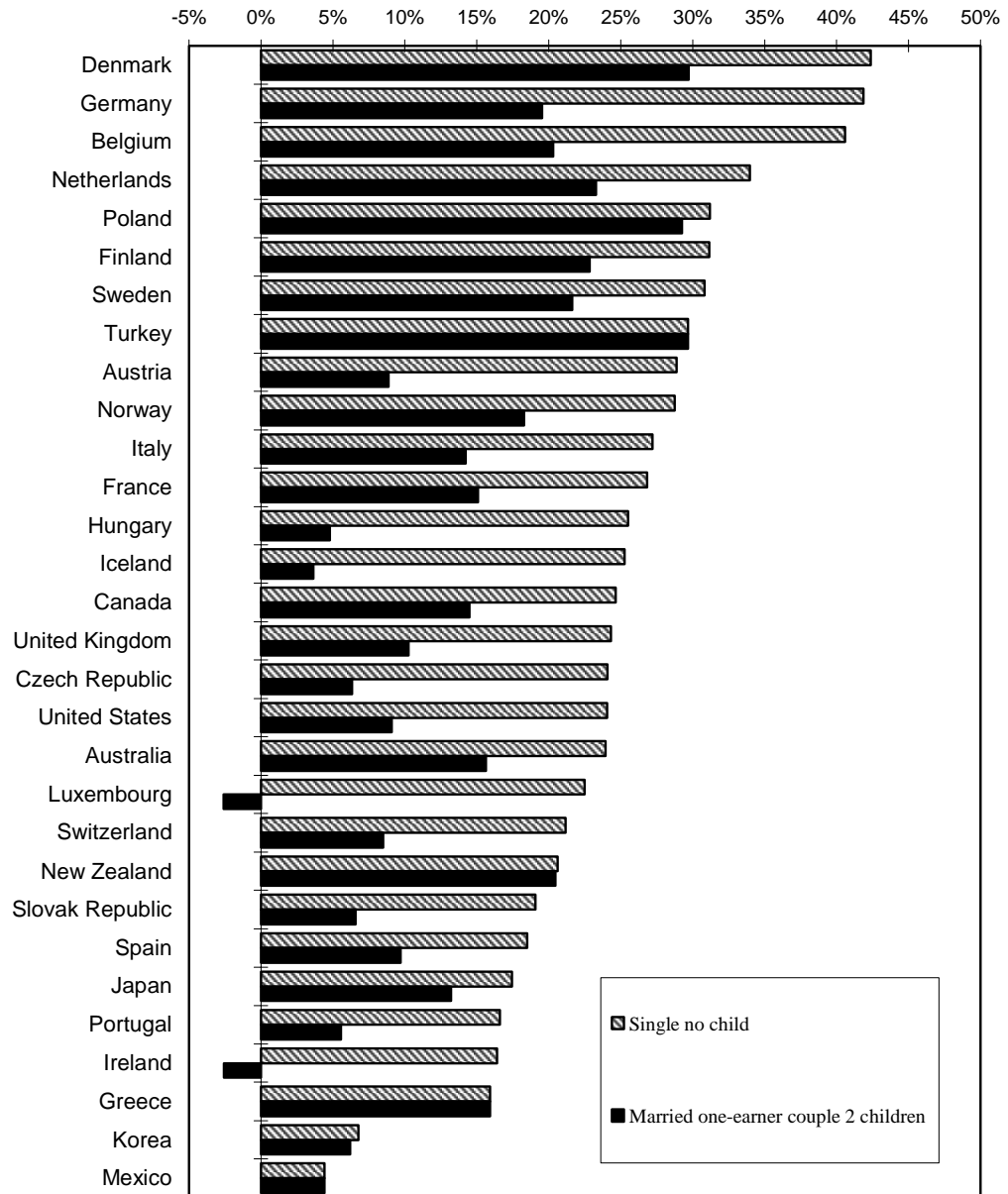
4. Dollars with equal purchasing power.

Chart I.1. Percentage of gross wage earnings paid in income tax and employees social security contributions, 2003 ¹⁾²⁾



1. Countries ranked by decreasing tax burden .
2. Single workers at the income level of the average production worker.

Chart I.2. Income tax plus employee contributions less cash benefits, by family-type
(as % of gross wage), 2003 ^{1,2}



1. Countries ranked by decreasing single no child rates.

2. Corresponds to Table 4 , column 2 and 5.

Table I.3. **Income tax plus employees' and employers' social security contributions**

(as % of labour costs), 2003¹

| Country ² | Income tax (1) | Social security contributions | | Total ³ (4) | Labour costs ⁴ (5) |
|----------------------|-------------------|-------------------------------|-----------------|---------------------------|----------------------------------|
| | | employee (2) | employer (3) | | |
| Belgium | 20 | 11 | 23 | 54 | 45 187 |
| Germany | 17 | 17 | 17 | 52 | 42 949 |
| Australia | 23 | 0 | 6 | 28 | 39 639 |
| Netherlands | 7 | 22 | 14 | 43 | 39 045 |
| Switzerland | 9 | 10 | 10 | 29 | 38 447 |
| Norway | 19 | 7 | 11 | 37 | 38 065 |
| Denmark | 32 | 11 | 1 | 43 | 37 453 |
| Luxembourg | 8 | 12 | 12 | 32 | 37 294 |
| Canada | 16 | 6 | 10 | 32 | 36 694 |
| Korea | 2 | 4 | 8 | 14 | 36 488 |
| Finland | 20 | 5 | 19 | 44 | 36 276 |
| United States | 15 | 7 | 7 | 29 | 36 019 |
| Italy | 14 | 7 | 25 | 45 | 35 690 |
| France | 9 | 10 | 29 | 48 | 34 537 |
| Austria | 8 | 14 | 23 | 45 | 34 068 |
| United Kingdom | 14 | 8 | 9 | 31 | 34 004 |
| Japan | 5 | 10 | 12 | 27 | 33 881 |
| Sweden | 18 | 5 | 25 | 48 | 33 352 |
| Iceland | 24 | 0 | 5 | 29 | 30 112 |
| New Zealand | 21 | 0 | 0 | 21 | 28 568 |
| Ireland | 10 | 5 | 10 | 25 | 28 367 |
| Spain | 9 | 5 | 23 | 38 | 27 999 |
| Czech Republic | 9 | 9 | 26 | 44 | 20 812 |
| Greece | 0 | 12 | 22 | 34 | 19 825 |
| Turkey | 12 | 12 | 18 | 42 | 18 596 |
| Poland | 5 | 21 | 17 | 43 | 17 475 |
| Portugal | 5 | 9 | 19 | 33 | 15 011 |
| Hungary | 10 | 9 | 27 | 46 | 12 770 |
| Slovak Republic | 5 | 9 | 28 | 41 | 12 467 |
| Mexico | 2 | 1 | 13 | 17 | 10 743 |

1. Single individual without children at the income level of the average production worker.

2. Countries ranked by decreasing labour costs.

3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.

4. Dollars with equal purchasing power.

Table 4. **Income tax plus employee contributions less cash benefits,
by family-type and wage level (as % of gross wage), 2003**

Tableau 4. **Impôt sur le revenu et cotisations des salariés diminués des prestations
versées, par catégorie de famille et niveau de salaire (en % du salaire brut), 2003**

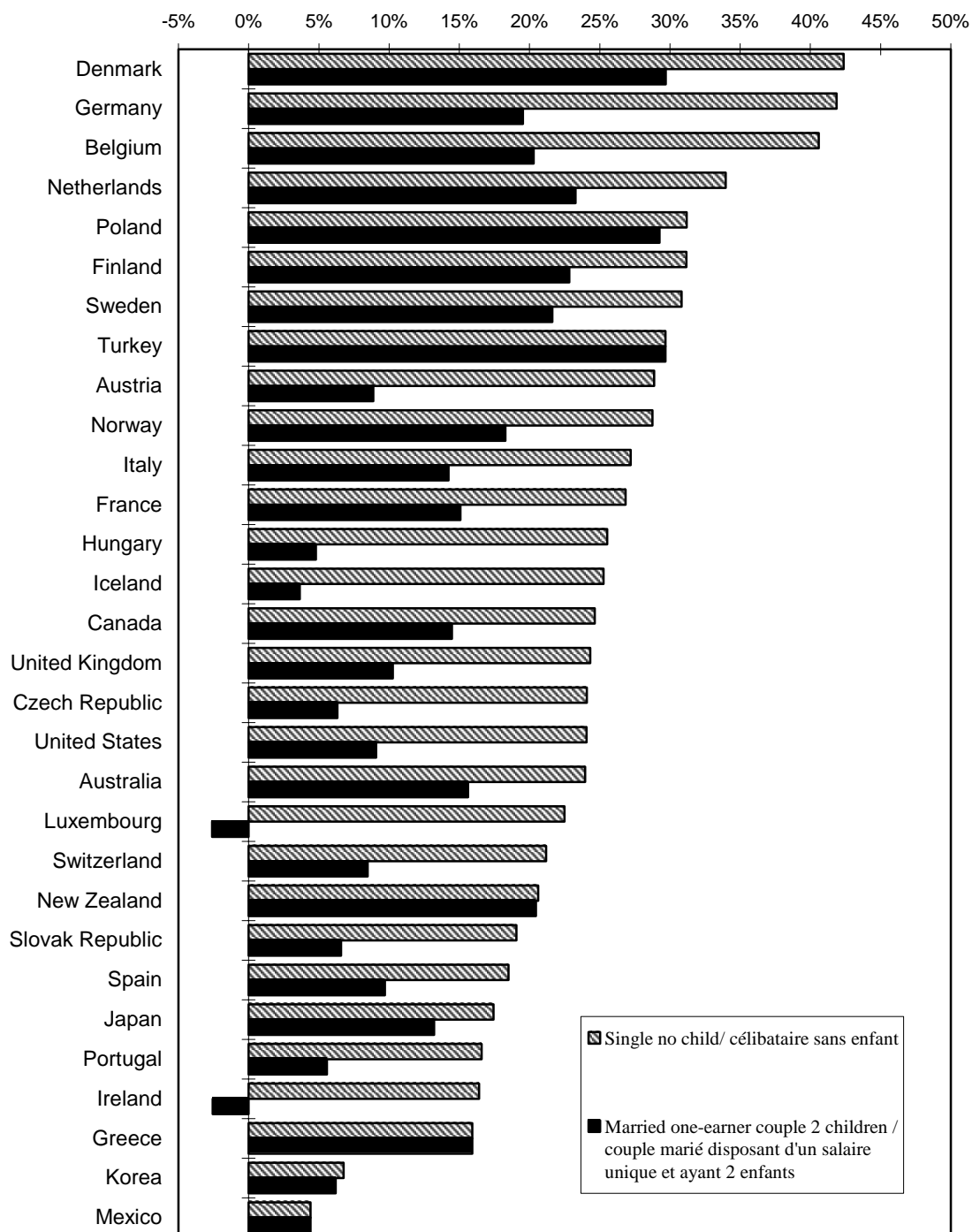
| Family-type: | single no ch | single no ch | single no ch | single 2 ch | married 2 ch | married 2 ch | married 2 ch | married no ch |
|------------------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------------------|----------------------------|----------------------------|
| Wage level (% of APW): | 67 (1) | 100 (2) | 167 (3) | 67 (4) | 100-0 (5) | 100-33 ¹ (6) | 100-67 ¹ (7) | 100-33 ¹ (8) |
| Australia | 20.2 | 24.0 | 32.9 | -6.4 | 15.6 | 17.5 | 19.9 | 20.7 |
| Austria | 22.7 | 28.9 | 35.7 | -8.1 | 8.9 | 12.0 | 15.3 | 25.8 |
| Belgium | 32.5 | 40.6 | 47.6 | 12.1 | 20.3 | 26.5 | 31.4 | 35.6 |
| Canada | 19.4 | 24.6 | 27.7 | -9.8 | 14.5 | 18.2 | 21.0 | 21.8 |
| Czech Republic | 21.7 | 24.1 | 27.3 | -7.1 | 6.3 | 14.3 | 18.6 | 22.5 |
| Denmark | 39.3 | 42.4 | 50.1 | 13.9 | 29.7 | 34.4 | 37.1 | 39.3 |
| Finland | 24.9 | 31.2 | 38.5 | 8.3 | 22.8 | 21.3 | 23.7 | 27.5 |
| France | 20.4 | 26.8 | 30.5 | 9.9 | 15.1 | 16.5 | 18.5 | 23.0 |
| Germany | 35.5 | 41.9 | 48.8 | 15.4 | 19.5 | 26.9 | 32.1 | 35.5 |
| Greece | 15.9 | 15.9 | 23.4 | 15.9 | 15.9 | 15.9 | 15.9 | 16.8 |
| Hungary | 18.1 | 25.5 | 40.0 | -9.3 | 4.8 | 6.7 | 10.1 | 22.3 |
| Iceland | 19.4 | 25.3 | 35.0 | -3.5 | 3.6 | 13.7 | 19.7 | 19.4 |
| Ireland | 9.6 | 16.4 | 28.2 | -25.1 | -2.6 | 3.0 | 7.4 | 10.8 |
| Italy | 21.8 | 27.2 | 33.7 | 1.2 | 14.2 | 17.6 | 21.4 | 22.7 |
| Japan | 16.5 | 17.4 | 20.5 | 13.3 | 13.2 | 14.9 | 15.8 | 16.5 |
| Korea | 5.4 | 6.8 | 12.1 | 14.4 | 6.2 | 6.0 | 6.0 | 6.2 |
| Luxembourg | 17.4 | 22.5 | 31.6 | -10.9 | -2.6 | 1.4 | 5.0 | 15.9 |
| Mexico | -2.4 | 4.4 | 11.5 | -2.4 | 4.4 | -0.4 | 1.7 | -0.4 |
| Netherlands | 27.6 | 34.0 | 35.1 | 5.0 | 23.3 | 25.0 | 27.3 | 30.1 |
| New Zealand | 18.9 | 20.6 | 26.4 | 3.7 | 20.4 | 19.7 | 19.9 | 19.7 |
| Norway | 25.2 | 28.8 | 36.1 | 3.8 | 18.3 | 20.5 | 22.8 | 26.2 |
| Poland | 29.7 | 31.2 | 32.4 | 24.1 | 29.2 | 29.7 | 30.6 | 29.7 |
| Portugal | 12.9 | 16.6 | 23.5 | -0.1 | 5.6 | 6.9 | 10.0 | 13.7 |
| Slovak Republic | 17.6 | 19.1 | 23.5 | 0.3 | 6.6 | 9.0 | 13.8 | 17.7 |
| Spain | 12.2 | 18.5 | 23.6 | 6.4 | 9.7 | 13.9 | 13.9 | 15.5 |
| Sweden | 28.4 | 30.8 | 36.7 | 14.7 | 21.6 | 22.4 | 24.4 | 29.3 |
| Switzerland | 18.3 | 21.2 | 25.9 | 2.2 | 8.5 | 11.2 | 14.6 | 18.7 |
| Turkey | 28.2 | 29.7 | 32.5 | 28.2 | 29.7 | 28.8 | 29.1 | 28.8 |
| United Kingdom | 20.0 | 24.3 | 26.9 | -20.2 | 10.3 | 12.8 | 16.8 | 20.0 |
| United States | 21.5 | 24.1 | 29.6 | -4.0 | 9.1 | 14.4 | 17.3 | 21.6 |

Note : ch = children / enfants.

1. Two-earner family / famille disposant de deux revenus.

Chart 3. Income tax plus employee contributions less cash benefits, by family-type (as % of gross wage), 2003

Graphique 3. Impôt sur le revenu et cotisations des salariés diminués des prestations versées, par catégorie de famille (en % du salaire brut), 2003



Note: corresponds to Table 4, columns 2 and 5 / correspond au tableau 4, colonnes 2 et 5.

Table 5. **Income tax plus employee and employer contributions
less cash benefits, by family-type and wage level (as % of labour costs), 2003**

Tableau 5. **Impôt sur le revenu plus cotisations des salariés et des employeurs
diminués des prestations versées, par catégorie de famille et niveau de salaire
(en % des coûts de main-d'œuvre), 2003**

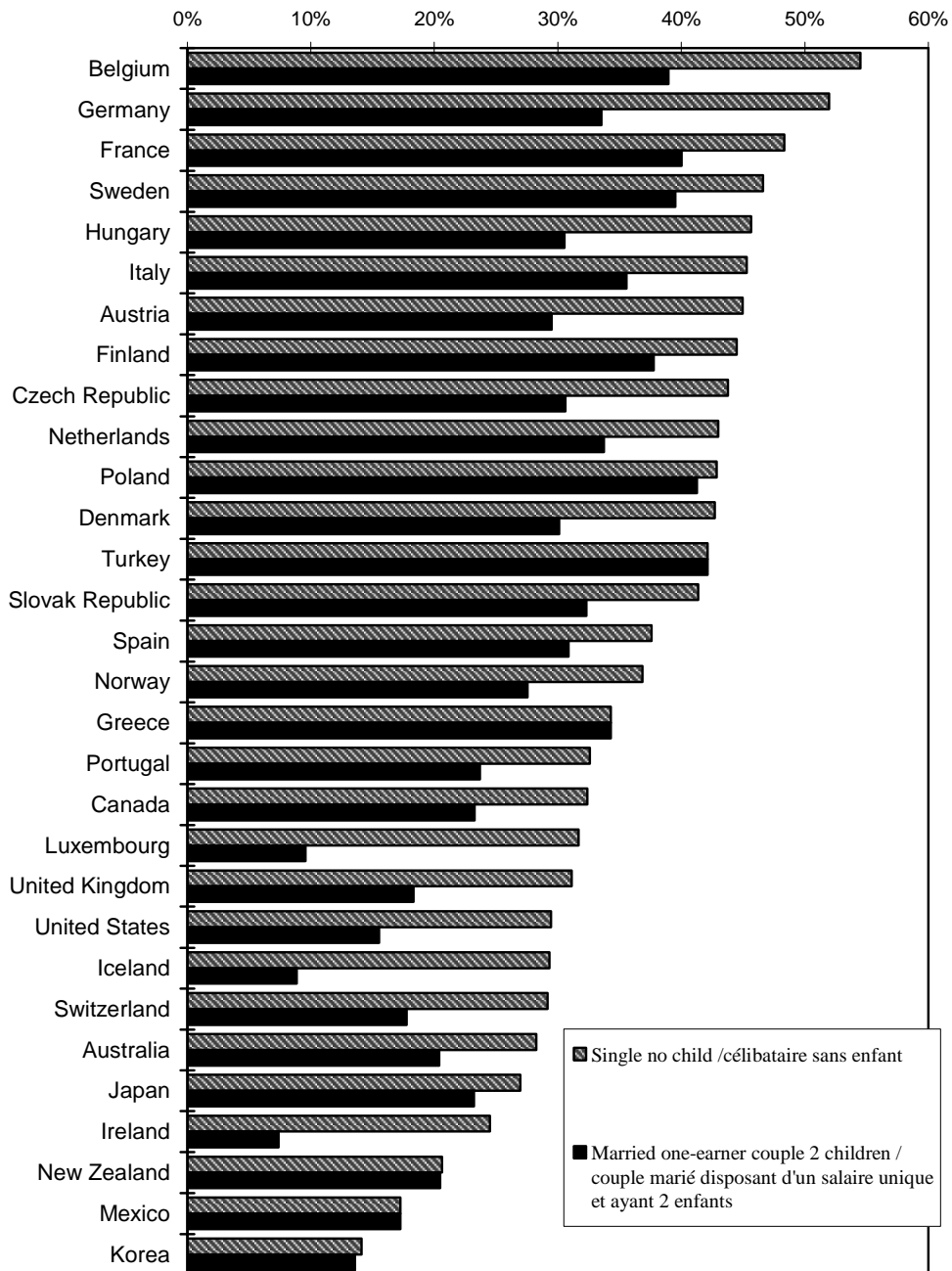
| Family-type: | single no ch | single no ch | single no ch | single 2 ch | married 2 ch | married 2 ch | married 2 ch | married no ch |
|------------------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------------------|----------------------------|----------------------------|
| Wage level (% of APW): | 67 (1) | 100 (2) | 167 (3) | 67 (4) | 100-0 (5) | 100-33 ¹ (6) | 100-67 ¹ (7) | 100-33 ¹ (8) |
| Australia | 24.7 | 28.3 | 36.7 | -0.4 | 20.4 | 22.2 | 24.4 | 25.2 |
| Austria | 40.2 | 45.0 | 50.2 | 16.3 | 29.5 | 31.9 | 34.4 | 42.6 |
| Belgium | 47.5 | 54.5 | 60.3 | 31.7 | 39.0 | 41.0 | 47.2 | 48.3 |
| Canada | 27.6 | 32.4 | 33.3 | 1.4 | 23.3 | 26.5 | 29.1 | 29.7 |
| Czech Republic | 42.0 | 43.8 | 46.2 | 20.7 | 30.6 | 36.5 | 39.7 | 42.6 |
| Denmark | 39.9 | 42.7 | 50.3 | 14.6 | 30.1 | 34.9 | 37.5 | 39.9 |
| Finland | 39.5 | 44.5 | 50.4 | 26.0 | 37.8 | 36.5 | 38.4 | 41.6 |
| France | 37.6 | 48.3 | 50.7 | 29.4 | 40.0 | 39.0 | 40.1 | 43.8 |
| Germany | 46.7 | 52.0 | 57.0 | 30.1 | 33.5 | 39.6 | 43.9 | 46.7 |
| Greece | 34.3 | 34.3 | 40.2 | 34.3 | 34.3 | 34.3 | 34.3 | 35.0 |
| Hungary | 41.0 | 45.7 | 55.8 | 21.3 | 30.5 | 32.8 | 34.8 | 44.0 |
| Iceland | 23.8 | 29.3 | 38.5 | 2.1 | 8.9 | 18.4 | 24.0 | 23.8 |
| Ireland | 16.7 | 24.5 | 35.2 | -15.3 | 7.4 | 12.0 | 15.7 | 19.1 |
| Italy | 41.3 | 45.3 | 50.2 | 25.8 | 35.5 | 38.1 | 40.9 | 41.9 |
| Japan | 26.1 | 27.0 | 29.6 | 23.3 | 23.2 | 24.8 | 25.5 | 26.2 |
| Korea | 12.9 | 14.1 | 19.0 | 21.1 | 13.6 | 13.4 | 13.4 | 13.6 |
| Luxembourg | 27.3 | 31.7 | 39.6 | 2.5 | 9.6 | 13.2 | 16.3 | 26.0 |
| Mexico | 12.4 | 17.3 | 23.0 | 12.4 | 17.3 | 14.5 | 15.3 | 14.5 |
| Netherlands | 37.6 | 43.0 | 39.9 | 18.0 | 33.7 | 35.2 | 37.3 | 39.6 |
| New Zealand | 18.9 | 20.6 | 26.4 | 3.7 | 20.4 | 19.7 | 19.9 | 19.7 |
| Norway | 33.7 | 36.8 | 43.3 | 14.7 | 27.6 | 29.5 | 31.6 | 34.6 |
| Poland | 41.6 | 42.9 | 43.9 | 37.0 | 41.3 | 41.6 | 42.4 | 41.6 |
| Portugal | 29.6 | 32.6 | 38.1 | 19.1 | 23.7 | 24.8 | 27.3 | 30.3 |
| Slovak Republic | 40.3 | 41.4 | 44.6 | 27.8 | 32.3 | 34.0 | 37.5 | 40.4 |
| Spain | 32.8 | 37.6 | 41.5 | 28.3 | 30.9 | 34.1 | 34.1 | 35.3 |
| Sweden | 44.8 | 46.6 | 51.2 | 34.1 | 39.5 | 40.1 | 41.6 | 45.4 |
| Switzerland | 26.6 | 29.2 | 33.4 | 12.1 | 17.8 | 20.2 | 23.3 | 27.0 |
| Turkey | 40.9 | 42.1 | 44.5 | 40.9 | 42.1 | 41.4 | 41.6 | 41.4 |
| United Kingdom | 26.2 | 31.1 | 34.2 | -10.8 | 18.3 | 19.6 | 23.9 | 26.2 |
| United States | 27.1 | 29.4 | 34.6 | 3.4 | 15.5 | 20.5 | 23.2 | 27.2 |

Note : ch = children / enfants.

1. Two-earner family / famille disposant de deux revenus.

Chart 4. Income tax plus employee and employer contributions less cash benefits, by family-type (as % of labour costs), 2003

Graphique 4. Impôt sur le revenu plus cotisations des salariés et des employeurs diminués des prestations versées, par catégorie de famille (en % des coûts de main-d'oeuvre), 2003



Note: corresponds to Table 5, columns 2 and 5 / correspond au tableau 5, colonnes 2 et 5.

B. Results for 2002

This section reviews very briefly the definitive results for 2002 reported in Tables 15-16 and what they show about changes between 2002 and 2003. The format of Tables 15-16 is identical to that of Tables 4-5 reviewed in the preceding Section. Thus, changes between 2002 and 2003 for the various cases considered can be traced by comparing the same columns in Tables 15-16, to those in Tables 4-5. The following commentary on Tables 15-16 focuses on changes in tax burdens and marginal tax rates for single employees without children at the APW wage level (column 2 of the tables) and for married one-earner families with two children at the APW wage level (column 5 of the tables). Comparing the columns 1, 3-4 and 6-8 of the tables would give the results for the remaining six family-types distinguished in this report. Moreover, generally only changes exceeding 1 percentage point for average effective rates are flagged.

Table 15 provides the combined burden of income tax and social security contributions while levies due have been reduced by the amount of cash family benefits received by each qualifying family-type. For single persons at average earnings, changes between 2002 and 2003 are identical to those reported in Table 14. Reductions in the average tax rate of one-earner married couples exceeding one percentage point are noted for Ireland and Japan (-1.9 percentage points), the United States (-2.4 percentage points), and Hungary (-3.7 percentage points). On the other hand, the average tax rate increased in Germany and the Netherlands by 1.2 percentage points, New Zealand (1.6 percentage points), the Czech Republic (2.5 percentage points) and the Slovak Republic (5.7 percentage points); compare column 5 of Tables 4 and 15.

Table 16 extends the presentation to include employers' social security contributions. In this case all amounts due (less transfers received) are expressed as a percentage of total labour costs, that is gross wage plus employers' social security contributions (including payroll taxes). In most countries, changes in the gap between total labour costs and the corresponding net take-home pay in 2003 as compared to 2002 remain within plus or minus one percentage point. However, for the single average production worker, the wedge in Japan fell by 2.8 percentage points and in Hungary by 3.3 percentage points; compare column 2 of Tables 6 and 16. It increased in Mexico by 1.2 percentage points and in the United Kingdom by 1.6 percentage points. For married one-earner couples (compare column 5 of Tables 5 and 16), the wedge decreased by more than one percentage point in 4 countries: Ireland (1.7 percentage points lower), the United States (2.3 percentage points lower), Japan (3.0 percentage points lower) and Hungary (3.4 percentage points lower). For this family, the wedge increased by more than one percentage point in 5 countries: Mexico (1.2 percentage points), Germany (1.3 percentage points), New Zealand (1.6 percentage points), the Czech Republic (1.9 percentage points), and the Slovak Republic (4.1 percentage points).

Table 15. **Income tax plus employee contributions less cash benefits,
by family-type and wage level (as % of gross wage), 2002**

Tableau 15. **Impôt sur le revenu et cotisations des salariés diminués des prestations
versées, par catégorie de famille et niveau de salaire (en % du salaire brut), 2002**

| Family-type: | single no ch | single no ch | single no ch | single 2 ch | married 2 ch | married 2 ch | married 2 ch | married no ch |
|------------------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------------------|----------------------------|----------------------------|
| Wage level (% of APW): | 67 (1) | 100 (2) | 167 (3) | 67 (4) | 100-0 (5) | 100-33 ¹ (6) | 100-67 ¹ (7) | 100-33 ¹ (8) |
| Australia | 20.3 | 24.0 | 32.9 | -6.7 | 15.6 | 17.5 | 19.9 | 20.8 |
| Austria | 22.3 | 28.6 | 35.4 | -8.3 | 8.9 | 12.0 | 15.2 | 25.6 |
| Belgium | 33.6 | 41.2 | 48.2 | 12.6 | 21.0 | 27.8 | 32.6 | 37.0 |
| Canada | 19.1 | 24.4 | 27.5 | -9.9 | 14.3 | 18.4 | 21.3 | 21.6 |
| Czech Republic | 21.5 | 23.7 | 26.8 | -10.7 | 3.8 | 12.9 | 18.1 | 22.1 |
| Denmark | 39.3 | 42.3 | 50.1 | 13.8 | 29.7 | 34.4 | 37.1 | 39.3 |
| Finland | 25.2 | 31.5 | 38.8 | 7.8 | 22.8 | 21.4 | 23.8 | 28.0 |
| France | 20.0 | 26.8 | 30.8 | 9.2 | 14.6 | 16.1 | 18.1 | 22.8 |
| Germany | 34.6 | 41.0 | 47.8 | 14.1 | 18.3 | 25.8 | 31.1 | 34.6 |
| Greece | 15.9 | 16.3 | 23.2 | 15.9 | 16.8 | 16.6 | 16.5 | 17.1 |
| Hungary | 23.8 | 29.4 | 40.5 | -8.3 | 8.5 | 10.8 | 14.6 | 26.5 |
| Iceland | 19.1 | 25.1 | 36.8 | -5.1 | 3.2 | 13.0 | 19.1 | 19.1 |
| Ireland | 9.6 | 16.4 | 27.4 | -22.4 | -0.7 | 4.8 | 8.8 | 10.9 |
| Italy | 23.7 | 28.1 | 33.3 | 2.4 | 14.7 | 19.9 | 22.6 | 24.0 |
| Japan | 18.3 | 19.3 | 22.1 | 15.2 | 15.1 | 16.8 | 17.6 | 18.4 |
| Korea | 5.4 | 6.7 | 13.9 | 4.8 | 6.1 | 5.9 | 5.9 | 6.2 |
| Luxembourg | 17.1 | 22.1 | 31.2 | -11.5 | -3.0 | 1.1 | 4.3 | 15.7 |
| Mexico | -2.9 | 3.7 | 11.3 | -2.9 | 3.7 | -1.1 | 1.1 | -1.1 |
| Netherlands | 26.8 | 33.1 | 34.9 | 4.6 | 22.1 | 24.0 | 26.5 | 29.1 |
| New Zealand | 18.9 | 20.1 | 25.9 | 2.0 | 18.8 | 19.3 | 19.6 | 19.3 |
| Norway | 25.3 | 28.8 | 36.2 | 3.0 | 17.9 | 20.1 | 22.6 | 26.1 |
| Poland | 29.6 | 31.1 | 32.4 | 23.9 | 29.2 | 29.6 | 30.5 | 29.6 |
| Portugal | 12.8 | 16.5 | 23.4 | -0.2 | 5.4 | 6.8 | 9.9 | 13.7 |
| Slovak Republic | 17.3 | 18.7 | 22.9 | -8.1 | 0.9 | 4.6 | 10.5 | 17.3 |
| Spain | 13.8 | 19.3 | 24.2 | 6.3 | 10.5 | 14.6 | 14.9 | 16.1 |
| Sweden | 28.0 | 30.4 | 36.0 | 13.6 | 20.8 | 21.9 | 23.7 | 29.1 |
| Switzerland | 18.5 | 21.4 | 26.2 | 2.3 | 8.6 | 11.3 | 14.8 | 18.9 |
| Turkey | 28.6 | 30.0 | 32.3 | 28.6 | 30.0 | 29.2 | 29.4 | 29.2 |
| United Kingdom | 18.8 | 23.2 | 26.1 | -20.6 | 9.9 | 11.5 | 15.6 | 18.8 |
| United States | 21.8 | 24.3 | 30.3 | -2.0 | 11.5 | 16.8 | 19.3 | 22.4 |

Note : ch = children / enfants.

1. Two-earner family / famille disposant de deux revenus.

Table 16. Income tax plus employee and employer contributions
less cash benefits, by family-type and wage level (as % of labour costs), 2002

Tableau 16. Impôt sur le revenu plus cotisations des salariés et des employeurs
diminués des prestations versées, par catégorie de famille et niveau de salaire
(en % des coûts de main-d'œuvre), 2002

| Family-type: | single no ch | single no ch | single no ch | single 2 ch | married 2 ch | married 2 ch | married 2 ch | married no ch |
|------------------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------------------|----------------------------|----------------------------|
| Wage level (% of APW): | 67 (1) | 100 (2) | 167 (3) | 67 (4) | 100-0 (5) | 100-33 ¹ (6) | 100-67 ¹ (7) | 100-33 ¹ (8) |
| Australia | 24.8 | 28.3 | 36.7 | -0.7 | 20.4 | 22.2 | 24.5 | 25.3 |
| Austria | 39.9 | 44.7 | 50.0 | 16.2 | 29.5 | 31.9 | 34.4 | 42.4 |
| Belgium | 48.5 | 55.1 | 60.9 | 32.3 | 39.7 | 44.1 | 48.2 | 51.2 |
| Canada | 27.3 | 32.2 | 33.1 | 1.2 | 23.1 | 26.6 | 29.3 | 29.5 |
| Czech Republic | 41.8 | 43.5 | 45.8 | 18.0 | 28.7 | 35.5 | 39.3 | 42.3 |
| Denmark | 39.9 | 42.7 | 50.3 | 14.5 | 30.1 | 34.9 | 37.5 | 39.9 |
| Finland | 40.2 | 45.2 | 51.1 | 26.3 | 38.3 | 37.2 | 39.0 | 42.4 |
| France | 37.6 | 48.2 | 50.8 | 29.1 | 39.5 | 38.6 | 39.8 | 43.4 |
| Germany | 45.8 | 51.1 | 55.9 | 28.8 | 32.2 | 38.5 | 42.9 | 45.8 |
| Greece | 34.3 | 34.6 | 40.0 | 34.3 | 35.0 | 34.8 | 34.7 | 35.2 |
| Hungary | 46.0 | 49.0 | 56.4 | 23.2 | 33.9 | 36.7 | 38.8 | 47.9 |
| Iceland | 23.1 | 28.8 | 40.0 | 0.1 | 8.0 | 17.3 | 23.1 | 23.1 |
| Ireland | 16.7 | 24.5 | 34.5 | -12.8 | 9.1 | 13.6 | 17.0 | 19.1 |
| Italy | 42.6 | 46.0 | 49.9 | 26.6 | 35.9 | 39.8 | 41.8 | 42.9 |
| Japan | 29.0 | 29.8 | 32.3 | 26.3 | 26.2 | 27.7 | 28.4 | 29.1 |
| Korea | 12.9 | 14.1 | 20.7 | 12.4 | 13.6 | 13.4 | 13.4 | 13.6 |
| Luxembourg | 27.1 | 31.3 | 39.3 | 1.9 | 9.2 | 12.9 | 15.8 | 25.7 |
| Mexico | 11.3 | 16.1 | 22.4 | 11.3 | 16.1 | 13.4 | 14.2 | 13.4 |
| Netherlands | 37.0 | 42.5 | 40.3 | 17.8 | 33.1 | 34.5 | 36.8 | 38.9 |
| New Zealand | 18.9 | 20.1 | 25.9 | 2.0 | 18.8 | 19.3 | 19.6 | 19.3 |
| Norway | 33.8 | 36.9 | 43.5 | 14.0 | 27.2 | 29.2 | 31.4 | 34.5 |
| Poland | 41.6 | 42.8 | 43.8 | 36.8 | 41.2 | 41.6 | 42.3 | 41.6 |
| Portugal | 29.6 | 32.6 | 38.1 | 19.0 | 23.6 | 24.7 | 27.2 | 30.2 |
| Slovak Republic | 40.1 | 41.1 | 44.1 | 21.6 | 28.2 | 30.8 | 35.1 | 40.1 |
| Spain | 34.0 | 38.2 | 42.0 | 28.3 | 31.5 | 34.6 | 34.8 | 35.7 |
| Sweden | 45.8 | 47.6 | 51.8 | 35.0 | 40.3 | 41.2 | 42.5 | 46.6 |
| Switzerland | 26.9 | 29.6 | 33.8 | 12.4 | 18.1 | 20.5 | 23.6 | 27.3 |
| Turkey | 41.3 | 42.4 | 44.3 | 41.3 | 42.4 | 41.7 | 41.9 | 41.7 |
| United Kingdom | 24.5 | 29.5 | 32.9 | -12.1 | 17.3 | 17.7 | 22.1 | 24.6 |
| United States | 27.3 | 29.7 | 35.3 | 5.2 | 17.8 | 22.7 | 25.1 | 27.9 |

Note : ch = children / enfants.

1. Two-earner family / famille disposant de deux revenus.

C. Basic Methodology

This section briefly introduces the methodology employed for this report, which focuses on employees. It is assumed that their annual income from employment is equal to a given fraction of the average gross wage earnings of adult, full-time workers in the manufacturing sector of each OECD economy also referred to as the APW wage. Additional assumptions are made regarding other relevant personal circumstances of these wage earners to enable their tax/benefit position to be determined. The taxes included in the present report are confined to personal income tax, social security contributions, and payroll taxes, (which, in this report are aggregated with employers' 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, as well as all other kinds of taxes —e.g. corporate income tax, net wealth tax and consumption taxes — are not taken into account in this report. The benefits included are those paid by general government as cash transfers, usually in respect of dependent children.

Personal average tax rate is the term used when personal income tax and/or employees' social security contributions are expressed as a percentage of gross wage earnings. Net personal average tax rate is the term used when the personal income tax and employee social security contributions net of cash benefits are expressed as a percentage of gross wage earnings.

Tax wedges — a measure of the difference between labour costs to the employer and the corresponding net take-home pay of the employee — are calculated by expressing the sum of personal income tax, employee plus employer social security contributions together with any payroll tax, minus benefits as a percentage of labour costs. To determine a measure of total labour costs, employer social security contributions and — in some countries — payroll taxes are added to gross wage earnings of employees. Of course, it should be recognised that this measure may not reflect the true labour costs faced by employers.

Thus, *Taxing Wages* seeks to determine the combined effect of personal income taxes, social security contributions and family cash benefits on the net incomes of various illustrative family-types and on the labour costs faced by employers. Information is provided on employees at comparable levels of income