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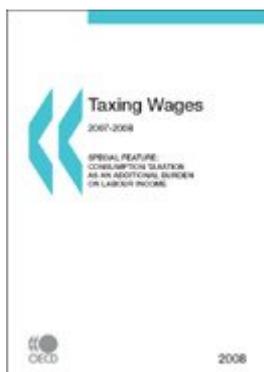
# Taxing Wages 2007/2008: 2008 Edition

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## Taxing Wages 2007/2008: 2008 Edition

Taxing Wages provides unique information on income tax paid by workers and social security contributions levied on employees and their employers in OECD countries. In addition, this annual publication specifies family benefits paid as cash transfers. Amounts of taxes and benefits are detailed program by program, for eight household types which differ by income level and household composition.

Results reported include the marginal and effective tax burden for one- and two-earner families, and total labour costs of employers.

These data on tax burdens and cash benefits are widely used in academic research and the preparation and evaluation of social and economic policy-making. This year's issue includes a Special feature entitled: "Consumption Taxation as an Additional Burden on Labour Income".

The Excel™ spreadsheets used to create the tables and charts in this book are available via the [StatLinks](#) printed in this book.

Description also available in [German](#).

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### 1. New material

Unique information on income tax, social security contributions and cash benefits as they affect typical families. Graphs give a breakdown of the average and marginal tax wedge.

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#### Overview

Special Feature: Consumption taxation as an additional burden on labour income

Part I: International Comparisons

Part II: Tax Burden Trends 2000-2008

Part III: Country Details, 2008

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### 3. Excerpt

This annual publication provides details of taxes paid on wages in all thirty member countries of the OECD. The information contained in the Report covers the personal

income tax and social security contributions paid by employees and their employers, and cash benefits received by families. The objective of the Report is to illustrate how personal income taxes and social security contributions are calculated and to examine how these levies and cash family benefits impact on net household incomes. The results also allow quantitative cross-country comparisons of labour cost levels and of the overall tax and benefit position of single persons and families.

The Report shows the amounts of taxes, social security contributions and cash benefits for eight family-types, which differ by income level and household composition. It also presents the resulting average and marginal tax rates. Average tax rates show that part of gross wage earnings or total labour costs which is taken in tax (before and after cash benefits) and social security contributions. Marginal tax rates show the part of an increase of gross earnings or total labour costs that is paid in these levies.

The focus of the Report is the presentation of accurate estimates of the tax/benefit position of employees in 2008. In addition, the Report shows definitive data on the tax/benefit position of employees for the year 2007 and shows tax burdens for the period 2000-2008.

This excerpt from the full Report provides an overview of the results for 2008. It includes tables and graphs comparing results by country. A full version of the Report is available on line at [new.sourceOECD.org](http://new.sourceOECD.org).

#### Review of results for 2008

[Table O.1](#) presents the total tax wedge between total labour costs to the employer and the corresponding net take-home pay for single workers without children at average earnings levels in 2008 and analyses the change in the tax wedge between 2007 and 2008 for all OECD countries. The tax wedge varied widely across OECD countries (column 1): it exceeded 50 per cent in Belgium, Hungary and Germany and was lower than 22 per cent in New Zealand, Korea and Mexico. The increase between 2007 and 2008 of the tax wedge of an average worker (column 2) varied between 0.7 percentage point in the Netherlands and -3.2 percentage points in Poland. Turkey (-3.0 percentage points), the United Kingdom and Spain (-1.2 percentage points), Mexico and Australia (-0.8 percentage point), Sweden (-0.7 percentage point) and Germany (-0.6 percentage point) were the only other OECD member countries in which the tax wedge fell by 0.5 percentage point or more. The tax wedge has increased by 0.5 percentage points or more also in Korea (+0.6 percentage point). The tax wedge has increased in fifteen OECD member countries and fell in the other fifteen countries.

The reduction in the tax wedge is entirely or almost entirely driven by the reduction in income taxes in Hungary, Sweden, Spain, Portugal, Luxembourg, the United Kingdom, Switzerland, Australia, New Zealand and Mexico. In Denmark, the three components of the tax wedge have decreased. In Finland, the small increase in income taxes is more than offset by the reduction in employee SSC. In Germany and Poland, the small increase in income taxes is more than offset by the reduction in employee and employer SSC. In Turkey, the reduction in the tax wedge is primarily due to a reduction in income taxes and employer SSC.

To a large extent, the increase in tax wedges reflects increases in income taxes. In eight countries (France, Italy, the Czech Republic, Greece, the Slovak Republic, Norway, the US, Iceland and Ireland), the increase in the tax wedge is (almost) entirely driven by the increase in income taxes. In Canada, the increase in income taxes is partly offset by a decrease in employee and employer social security contributions. In the Netherlands, the increase in income taxes and employer social security contributions is partly offset by a decrease in employee social security contributions. In Japan, the minor increase in the

tax wedge is caused by small increases in employee and employer social security contributions. In Korea, the three components of the tax wedge have slightly increased.

The mix of taxes paid out of total labour costs varies greatly between countries. [Table O.2](#) and [Figure O.1](#) break down the tax wedge in the income tax, the employee and the employer social security contributions. The portion of labour costs paid in personal income tax is 3.3 per cent in Mexico and 4.4 per cent in Korea; whereas it exceeds 30 per cent in Denmark (30.1 per cent). The portion representing employee social security contributions also varies widely, ranging from zero per cent in Australia and New Zealand to 17.2 per cent in Germany, 17.4 per cent in the Netherlands and 18.1 per cent in Poland. Employers pay 29.7 per cent of total labour costs in social security contributions (including payroll taxes where applicable) in France, 25.9 per cent in the Czech Republic and 25.7 per cent in Hungary. In contrast, employers in New Zealand are not subject to these levies, while in Denmark employer contributions are negligible (0.5 per cent).

The mix of taxes paid out of gross wage earnings varies greatly between countries. [Figure O.2](#) provides a graphical representation of the personal average tax rate decomposed between income tax and employee social security contributions. 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 Germany, Belgium, and Denmark. In Ireland, Korea and Mexico, the personal average tax rate was below 15 per cent. Average workers in Australia and New Zealand pay only income tax while their counterpart in Poland is paying almost entirely 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. [Figure O.3](#) 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 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 compared to a single worker are greater than 15 per cent of labour costs in Belgium, Germany, Iceland, Ireland, New Zealand and greater than 22 per cent of labour costs in the Czech Republic and Luxembourg. In contrast, there is no difference in Mexico. The burden of income tax plus employee social security contributions less cash benefits for married one-earner couples is higher in Greece because employers pay higher wages to married couples with children, which implies that these employees will have to pay more taxes. It is also interesting to note that when cash benefits are taken into account, married one-earner couples face a negative tax burden in Ireland and the Czech Republic because cash benefits exceed the income tax and employee social security contributions.

#### Graphical exposition of the 2008 estimated tax burden

This edition of the Taxing Wages report includes graphs that show the estimated tax burden on labour income in 2008 for gross wage earnings between 50 per cent and 250 per cent of the average wage (AW). For each OECD member country, the tax burden is shown for four family types: single taxpayers without children, single parents with 2 children, one-earner married couples without children and one-earner married couples with 2 children. Both the average and the marginal tax wedge are presented in a separate graph for each of these family types. The different components of the tax wedge are also presented; the graphs show respectively central income tax, local income tax, employee social security contributions, employer social security contributions and family benefits as a percentage of total labour costs (TLC). In addition, the net personal average and marginal tax rate ((the change in) personal income tax and employee social security contributions net of cash benefits as a percentage of (the change in) gross wage earnings) are included in the graphs that show respectively the average and the marginal

tax wedge. The [graphs for Belgium](#) are included here as an example.

#### Special Feature: Consumption taxation as an additional burden on labour income

The Special Feature in the 2008 edition of Taxing Wages explores the possible consequences of broadening the TW model by introducing consumption taxes, and so include the taxes that workers pay when they spend their wages in addition to the taxes that are paid when they earn them. An experimental methodology has been developed, using microdata from Household Budget Surveys to simulate consumption taxes for the eight Taxing Wages family types. Once calculated, these taxes are added to the income taxes traditionally calculated in Taxing Wages, in order to obtain an overall tax wedge that reflects simultaneously the amount of income and consumption taxes paid by families in relation to total labour costs. The methodology has shown substantial differences in VAT/sales tax among the analyzed countries (the excise results being less robust). These differences offset the differences in income tax wedges to a considerable extent. In short, it can be concluded that, though the methodology is far from being an accurate approach, it proves that the inclusion of consumption taxation has a significant effect in the Taxing Wages comparisons, so improved or alternative ways of including it should be explored.

**Table 0.1. Comparison of total tax wedge**  
As % of labour costs<sup>1</sup>

Country	Total Tax wedge 2008	Annual change 2008/07 (in percentage points)			
		Tax wedge	Income tax	Employee SSC	Employer SSC
	(1)	(2)	(3)	(4)	(5)
Belgium	56.0	0.20	0.13	-0.01	0.07
Hungary	54.1	-0.44	-0.40	0.01	-0.05
Germany	52.0	-0.57	0.25	-0.42	-0.41
France	49.3	0.04	0.04	0.00	0.00
Austria	48.8	0.20	0.27	0.02	-0.09
Italy	46.5	0.25	0.25	0.00	0.00
Netherlands	45.0	0.69	0.70	-0.61	0.60
Sweden	44.6	-0.71	-0.70	-0.01	0.00
Finland	43.5	-0.06	0.38	-0.44	0.00
Czech Republic	43.4	0.46	0.46	0.00	0.00
Greece	42.4	0.12	0.12	0.00	0.00
Denmark	41.2	-0.19	-0.14	-0.03	-0.02
Turkey	39.7	-3.00	-2.27	0.13	-0.86
Poland	39.7	-3.18	0.57	-2.34	-1.40
Slovak Republic	38.9	0.29	0.29	0.00	0.00
Spain	37.8	-1.16	-1.16	0.00	0.00
Norway	37.7	0.15	0.15	0.00	0.00
Portugal	37.6	-0.05	-0.05	0.00	0.00
Luxembourg	35.9	-0.45	-0.45	0.00	-0.01
United Kingdom	32.8	-1.21	-1.14	-0.03	-0.04
Canada	31.3	0.15	0.32	-0.09	-0.08
United States	30.1	0.44	0.44	0.00	0.00
Japan	29.5	0.19	0.00	0.09	0.09
Switzerland	29.5	-0.29	-0.29	0.00	0.00
Iceland	28.3	0.20	0.20	0.01	0.00
Australia	26.9	-0.78	-0.78	0.00	0.00
Ireland	22.9	0.18	0.14	0.04	0.00
New Zealand	21.2	-0.36	-0.36	0.00	0.00
Korea	20.3	0.59	0.15	0.22	0.21
Mexico	15.1	-0.82	-0.78	-0.04	0.00

1. Figures for a single individual without children at the income level of the average worker.

Source: Country submissions.

Table 0.2. **Income tax plus employee and employer social security contributions**  
As % of labour costs, 2008<sup>1</sup>

Country <sup>2</sup>	Total tax wedge <sup>3</sup>	Income tax	Social security contributions		Labour costs <sup>4</sup>
			Employee	Employer	
	(1)	(2)	(3)	(4)	(5)
Germany	52.0	18.6	17.2	16.2	61 635
Belgium	56.0	21.8	10.7	23.4	59 758
United Kingdom	32.8	14.8	8.3	9.7	56 764
Austria	48.8	12.3	14.0	22.5	56 610
Luxembourg	35.9	13.3	10.6	11.9	56 173
Netherlands	45.0	13.7	17.4	13.8	55 943
Norway	37.7	19.4	6.9	11.3	53 620
France	49.3	9.9	9.6	29.7	51 279
Switzerland	29.5	9.5	10.0	10.0	51 118
Korea	20.3	4.4	6.9	8.9	50 079
Sweden	44.6	14.8	5.3	24.5	49 798
Japan	29.5	7.2	10.8	11.6	48 862
Greece	42.4	8.0	12.5	21.9	46 044
Finland	43.5	19.2	5.0	19.4	45 887
United States	30.1	15.8	7.1	7.2	44 039
Australia	26.9	21.3	0.0	5.7	43 425
Denmark	41.2	30.1	10.5	0.5	41 710
Ireland	22.9	8.5	4.7	9.7	40 661
Italy	46.5	15.0	7.2	24.3	39 947
Spain	37.8	9.7	4.9	23.2	39 595
Canada	31.3	14.5	6.5	10.3	39 317
Iceland	28.3	23.1	0.2	5.1	35 066
Portugal	37.6	9.6	8.9	19.2	30 708
New Zealand	21.2	21.2	0.0	0.0	30 005
Czech Republic	43.4	8.2	9.3	25.9	25 690
Turkey	39.7	10.4	12.5	16.8	22 982
Hungary	54.1	15.8	12.6	25.7	22 507
Poland	39.7	6.0	18.1	15.6	21 587
Slovak Republic	38.9	7.5	10.6	20.8	19 160
Mexico	15.1	3.3	1.2	10.6	11 442

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

2. Countries ranked by decreasing labour costs.

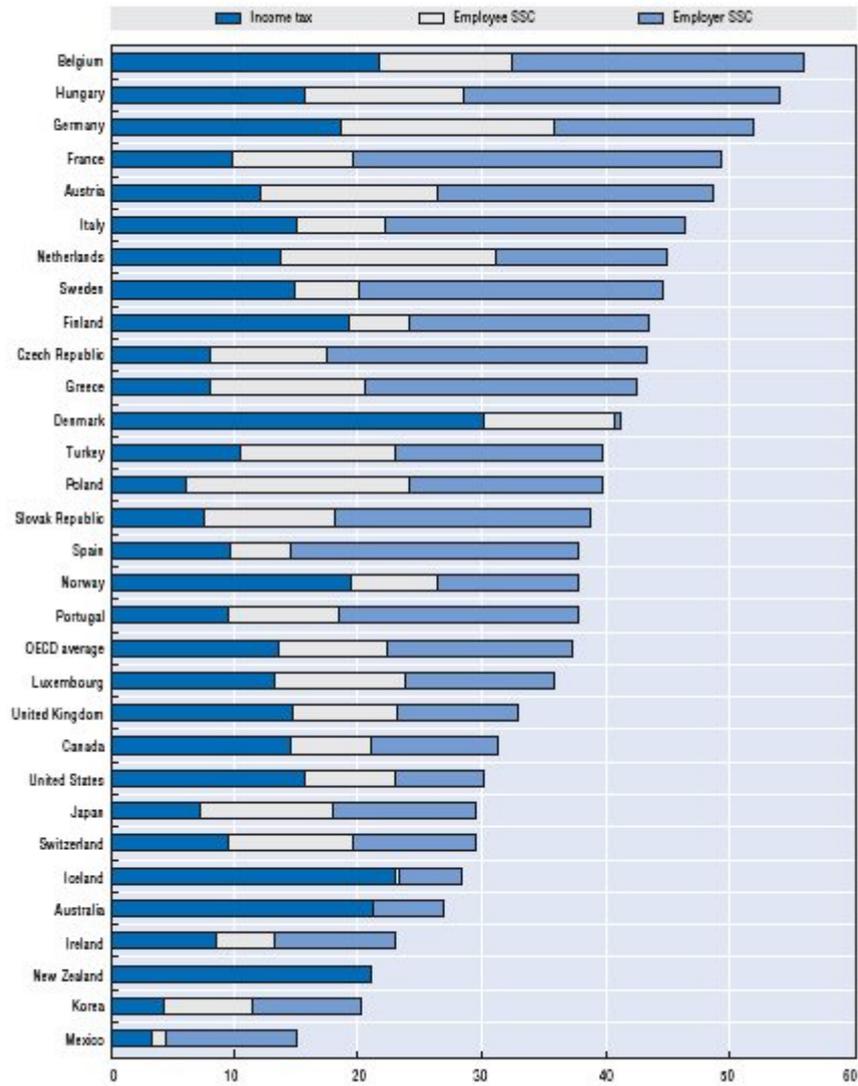
3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.

4. Dollars with equal purchasing power.

Source: Country submissions; OECD Economic Outlook 84 (December 2008).

StatLink  <http://dx.doi.org/10.1787/556080806237>

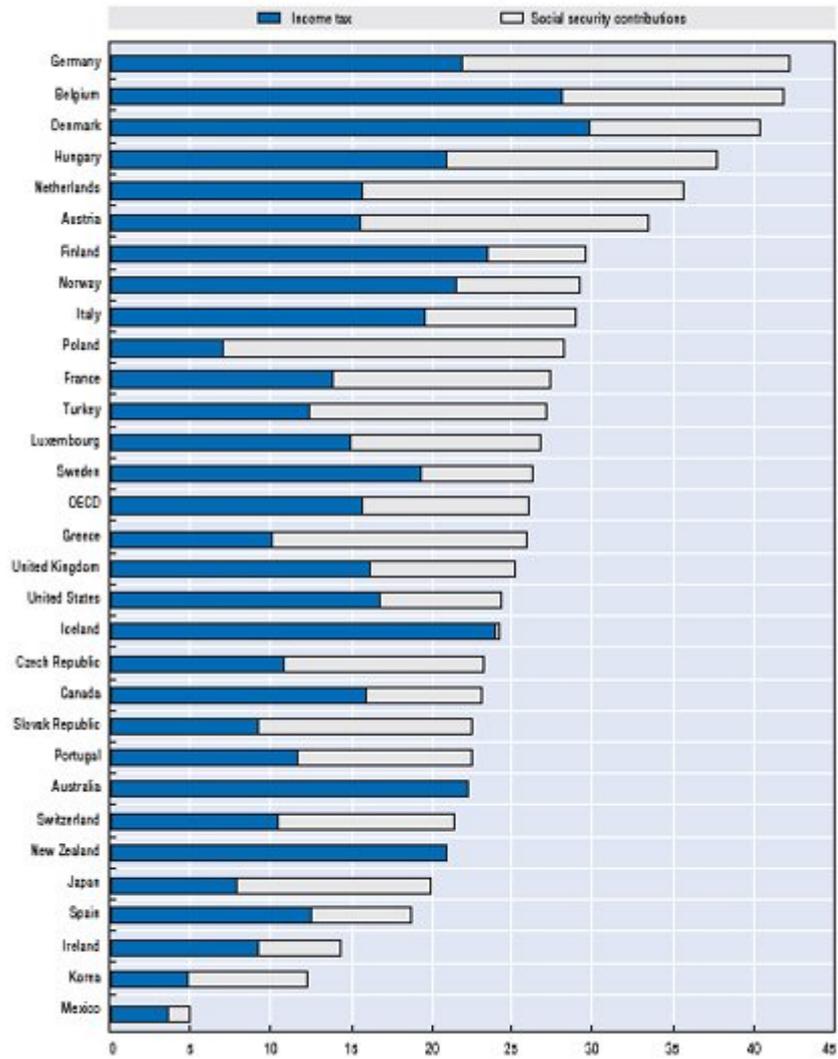
Figure 0.1. Income tax plus employee and employer social security contributions  
As % of labour costs, 2008<sup>1</sup>



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

StatLink  <http://dx.doi.org/10.1787/554021713472>

Figure 0.2. Percentage of gross wage earnings paid in income tax and employee social security contributions, 2008<sup>1,2</sup>



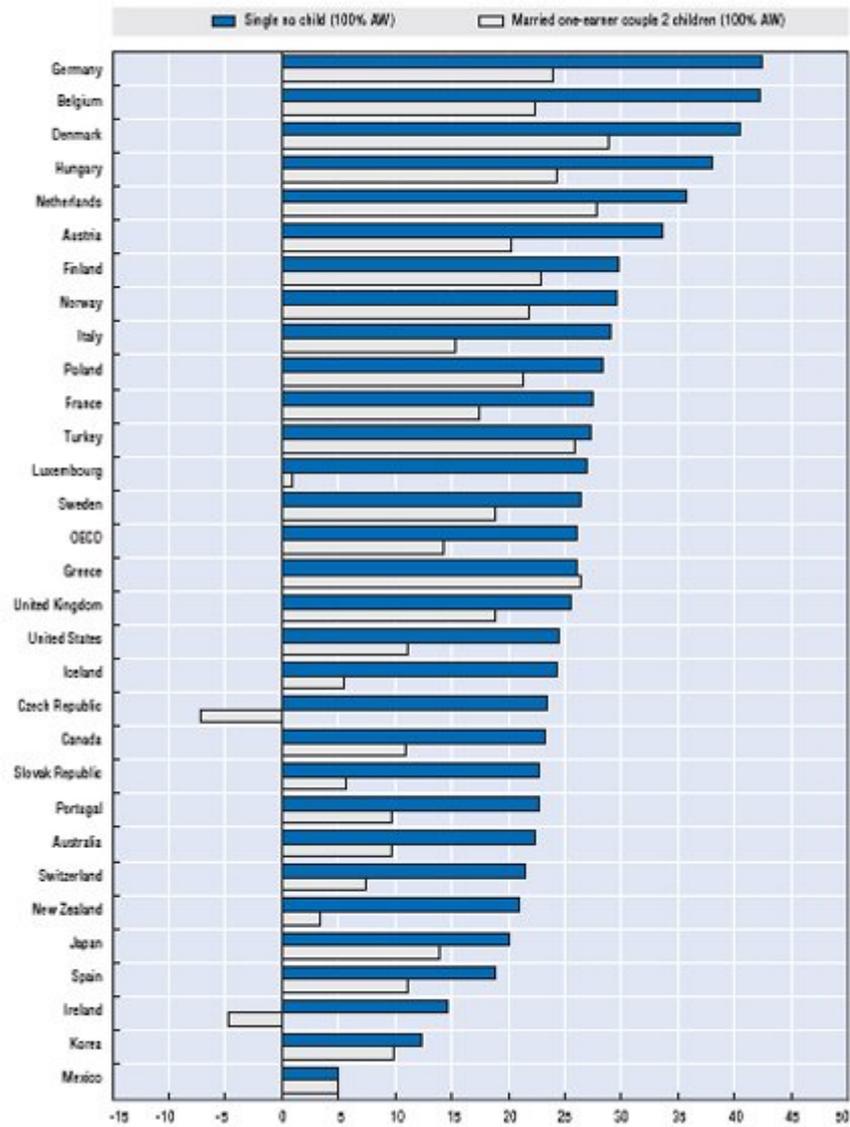
1. Countries ranked by decreasing tax burden.

2. Single individuals without children at the income level of the average worker.

Source: OECD calculations based on country submissions and OECD, *Economic Outlook* No 84, December 2008.

StatLink  <http://dx.doi.org/10.1787/554024027744>

Figure 0.3. Income tax plus employee contributions less cash benefits, by family-type  
As % of gross wage earnings, 2008<sup>1</sup>



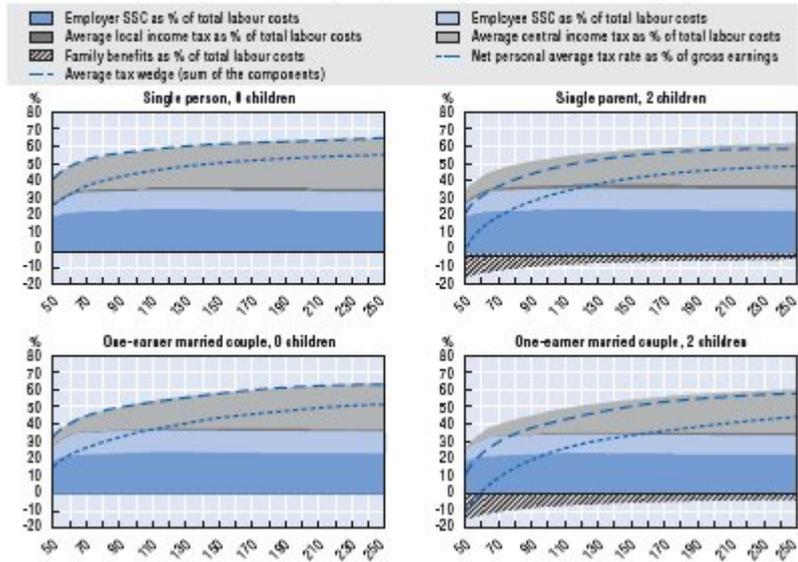
1. Countries ranked by decreasing tax burden.

Source: OECD calculations based on country submissions and OECD, Economic Outlook No 84, December 2008.

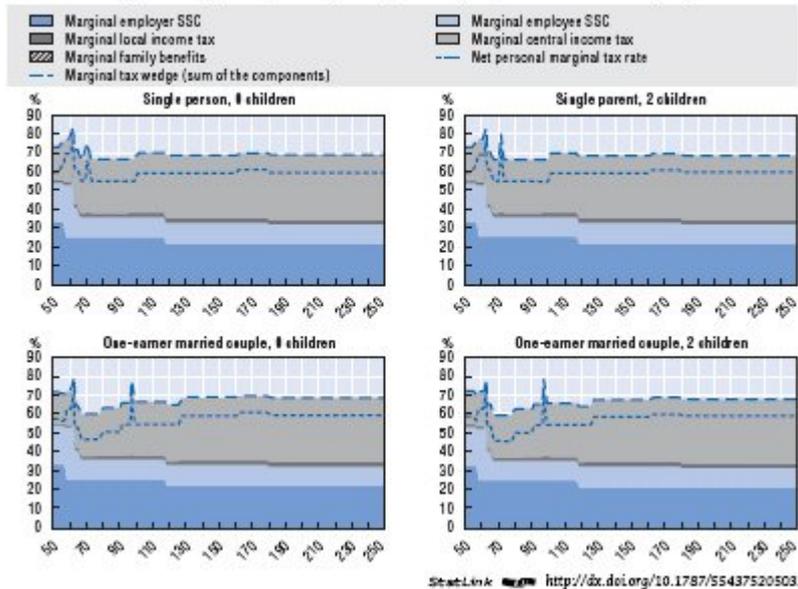
StatLink  <http://dx.doi.org/10.1787/554028737814>

## Belgium, 2008

Average tax wedge decomposition, by level of gross earnings expressed as a % of the average wage



Marginal tax wedge decomposition, by level of gross earnings expressed as a % of the average wage



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