Executive Summary

In 2019 the OECD average tax wedge for the single worker earning the average wage was 36.0%, a decrease of 0.11 percentage points from 2018 and the sixth consecutive annual decrease. The tax wedge measures the difference between the labour costs to the employer and the corresponding net take-home pay of the employee. It is calculated as the sum of the total personal income tax (PIT) and social security contributions (SSCs) paid by employees and employers, minus cash benefits received, as a proportion of the total labour costs for employers.

The OECD average tax wedge decreased for the single worker in 2019, although the tax burden decreased in only 17 out of the 36 OECD countries. Across the board, with the exception of Lithuania, the decreases in the tax wedge were small at less than one percentage point. The largest decrease was in Lithuania (3.43 percentage points), where the implementation of a major policy reform involved a significant reduction in employer SSCs, with most of this reduction being replaced with an increase in the tax burden of employees and a corresponding increase in their gross wages.

Despite the decrease in the OECD average, 19 OECD countries experienced an increase in the tax wedge on the single worker earning the average wage in 2019. The increases in the tax wedge were even smaller than the decreases observed and did not exceed half a percentage point in any country, except for Estonia (1.08 percentage points). In Estonia, an income related tax allowance decreased due to an increase in average wage earnings between the two years.

The OECD average tax wedge for the one-earner couple also continued its decrease, for the fifth consecutive year. It declined by 0.07 percentage points to 26.4% in 2019. That year, the tax wedge for the one-earner couple decreased in 17 OECD countries, with the largest decreases seen in Lithuania (4.24 percentage points), Austria (3.67 percentage points) and France (2.34 percentage points). The tax wedge for this household type was steady in Chile and increased in the other 18 OECD countries. There were increases of greater than one percentage point in Slovenia (3.32 percentage points), Poland (2.62 percentage points), New Zealand (1.55 percentage points), Estonia (1.37 percentage points) and the Czech Republic (1.03 percentage points).

The report also contains a Special Feature, which draws on the Taxing Wages framework to examine – for a selected group of countries – whether differences in tax treatment across worker types create tax arbitrage opportunities. Tax systems may give rise to arbitrage opportunities either for firms in their selection of the type of labour contract offered to workers (e.g., a full-time employment contract versus a contract for services) or for individuals in their choice of organisational form (e.g., standard employment versus self-employment). To the extent that such arbitrage opportunities are large, tax systems may be encouraging the adoption of certain tax-advantageous employment forms. This can undermine the equity of the tax system, while also threatening levels of public revenue.

Key findings

The average tax wedge in the OECD decreased in 2019 relative to 2018

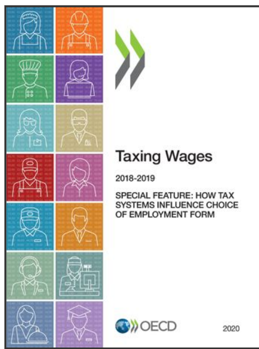
- Across OECD countries, the average PIT and total employee and employer SSCs on employment incomes was 36.0% in 2019, a decrease of 0.11 percentage points.
- In 2019, the highest average tax wedges for single workers with no children earning the average national wage were in Belgium (52.2%), Germany (49.4%), Italy (48.0%), Austria (47.9%) and France (46.7%). The lowest were in Chile (7.0%) and New Zealand (18.8%).
- Between 2018 and 2019, the tax wedge increased in 19 of 36 countries and fell in 17. The decrease was greater than 1 percentage point in only Lithuania (as detailed above), and the only other decreases in excess of 0.5 percentage points were seen in Australia (0.94 percentage points), the Netherlands (0.56 percentage points) and Finland (0.52 percentage points). Estonia was the only country to experience an increase exceeding one percentage point. Aside from Estonia, there were no increases in the tax wedge of the single worker of above 0.5 percentage points. The next largest increases were in Mexico (0.39 percentage points), Slovenia (0.38 percentage points) and New Zealand (0.34 percentage points).

The average tax wedge for families with children in 2019 was 26.4%

- In 2019, the highest tax wedge for one-earner couples with two children at the average wage was in Italy (39.2%). Finland, Greece, Sweden and Turkey had tax wedges of between 37% and 38%. New Zealand had the lowest tax wedge (3.5%), followed by Chile (7.0%) and Switzerland (9.9%).
- Between 2018 and 2019, the largest increases in the tax wedge for this household type were in Slovenia (3.32 percentage points), Poland (2.62 percentage points), New Zealand (1.55 percentage points), Estonia (1.37 percentage points) and the Czech Republic (1.03 percentage points). The largest decreases were in Lithuania (4.24 percentage points), Austria (3.67 percentage points) and France (2.34 percentage points).
- The tax wedge for one-earner couples with children is lower than for single individuals without children in all OECD countries except in Mexico, where both household types face the same tax levels. The differences are around 15% or more of labour costs in Belgium, Canada, the Czech Republic, Germany, Hungary, Ireland, Luxembourg, New Zealand, Poland and Slovenia.

How Tax Systems Influence Choice of Employment Form (Special Feature)

- Across OECD countries, growing shares of workers earn income outside of traditional employee-employer relationships. While this trend has been in place for some time and is driven by many factors (e.g., demographic change, labour market regulation), policymakers should consider the extent to which differences in tax treatment across working types may contribute as well.
- There is a need to evaluate and re-evaluate tax systems to ensure that tax policy keeps pace with changes in the labour market.
- Tax and benefit systems may need to be reformed to ensure that they do not unduly incentivise firms to hire workers as self-employed. However, this consideration is subject to the caveat that, while tax design principles suggest that tax systems should be strictly neutral across employment forms, differences between workers, such as differences in entitlement to benefits, can merit differential tax treatment.



From:

Taxing Wages 2020

Access the complete publication at:
https://doi.org/10.1787/047072cd-en

Please cite this chapter as:

OECD (2020), “Executive Summary”, in *Taxing Wages 2020*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/2e2cf5ba-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.

OECD