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## OECD Study Shows Tax Wedges Continue to Fall

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.

According to the forthcoming edition of the OECD's annual publication **Taxing Wages**, the tax wedge for a typical married production worker with two children, measured as a percentage of the overall cost to the employer, has declined over the last seven years by about one and half percentage points across the OECD's 30 member states.

Ireland saw the biggest fall in the tax wedge from 1996 to 2003, with a reduction of 18.3 percentage points, followed by Hungary (9.9 percentage points), the United States (8.3 percentage points), Italy (8.2 percentage points) and the United Kingdom (7.0 percentage points). However, in a number of countries the tax wedge increased over the period, with Iceland seeing the biggest increase, at 9.5 percentage points, followed by the Slovak Republic (7.1 percentage points), and Turkey (3.8 percentage points) (see Chart A).

The report, due out this Spring, will highlight the widely varying rates of personal income taxes, social security contributions and cash benefits that apply to workers in OECD countries, depending on income, family circumstances and country of residence. But it will also confirm some significant features common to taxation systems in most OECD countries. Most OECD countries continue, for example, to offer significant benefits to married couples with children compared to single earners (see Table A). And a comparison between the tax rates imposed on various levels of income shows all OECD countries taking account of the individual's ability to pay in fixing the levels of taxes on income (see Table B).

Based on 2003 figures, the tax wedge for a single worker with average earnings was highest in Belgium (54.5 percent), followed by Germany (52.0 percent), and lowest in Korea (14.1 percent), followed by Mexico (17.3 percent). For a one-earner married couple with two children at the same earnings level, the tax wedge ranged from 42.1 percent in Turkey and 41.3 percent in Poland to 7.4 percent in Ireland and 8.9 percent in Iceland. On average, the tax wedge for a single production worker on average earnings represented 36.5% of labour costs, compared with 26.9% for a one-earner married couple with two children.

A review of the tax burdens for single workers earning two-thirds more than the average with those for single workers earning one-third less than the average shows fairly significant differences in the level of taxes paid. Based on 2003 figures, a single worker earning two-thirds more than an average production worker faces a tax wedge of, on average, 41.4% of labour costs, while a single worker earning one-third less than an average production worker faces a tax wedge of 32.7%.

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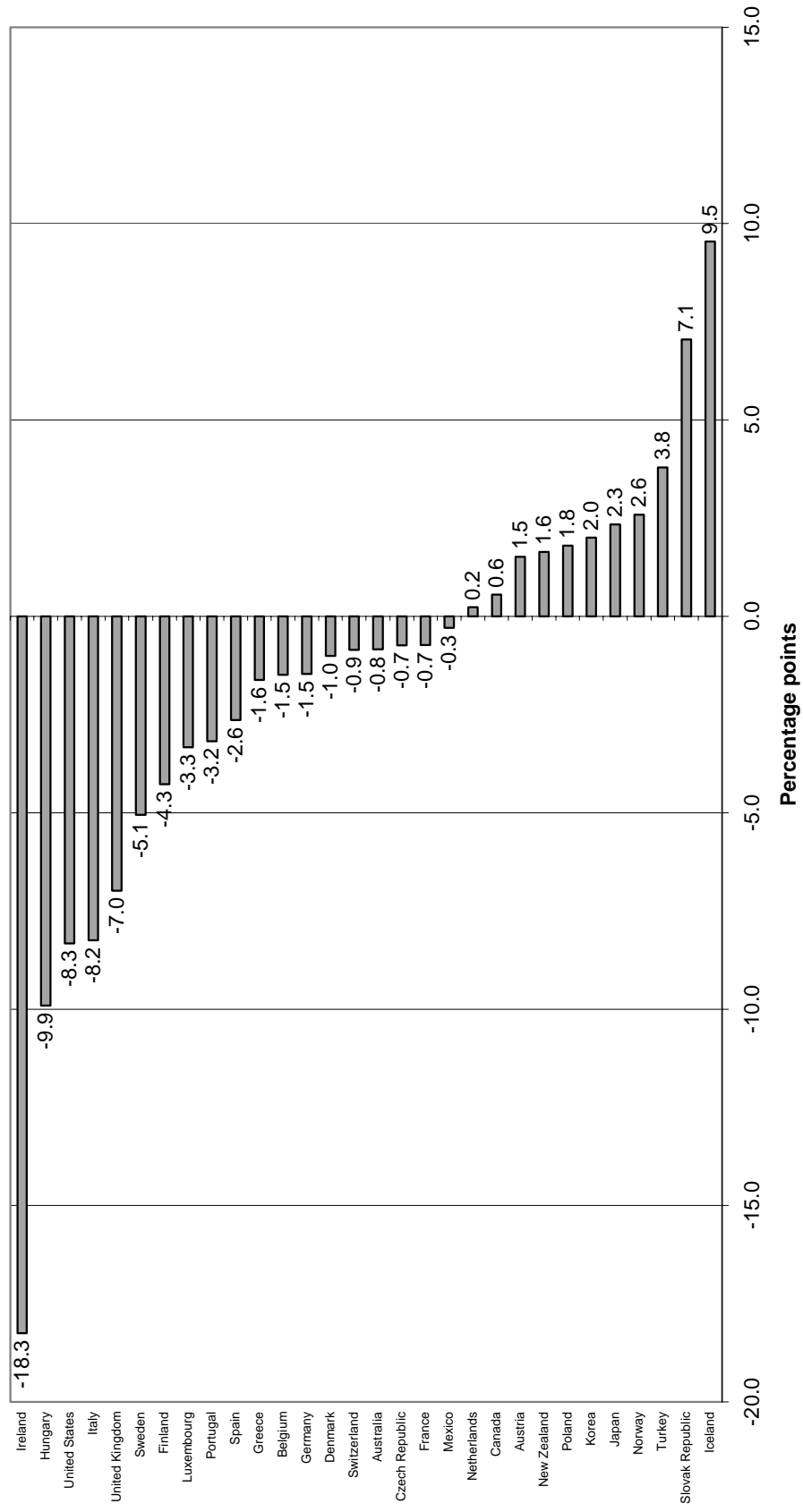
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In addition to reporting tax burdens and the size of tax wedges for various household types at different income levels, **Taxing Wages** contains a detailed description of national wage taxes and cash benefits applying in all OECD countries. Further findings are available on the OECD's Web site at: [www.oecd.org/ctp/taxingwages](http://www.oecd.org/ctp/taxingwages).

For additional comment, journalists are invited to contact Christopher Heady, Head of the OECD's Tax Policy, Tax Statistics and Horizontal Programmes Division (tel. (33) 1 4524 9322 or [christopher.heady@oecd.org](mailto:christopher.heady@oecd.org)).

**Chart A**  
**Change in the tax wedge for a married average production worker with two children from 1996 to 2003**



Note: The data displayed have been adjusted to account for the impact of methodological changes that are identified within the Report.  
 Source: *Taxing Wages 2002-2003*

**Table A**  
**Household Tax Wedge in 2003**  
(as a % of total labour costs equivalent to the average production worker) (1)

Country	Single persons without children	One earner family with two children	Absolute Difference	Difference relative to the burden of single person (%)
Australia	28.3	20.4	-7.9	-27.9
Austria	45.0	29.5	-15.5	-34.4
Belgium	54.5	39.0	-15.5	-28.4
Canada	32.4	23.3	-9.1	-28.1
Czech Republic	43.8	30.6	-13.2	-30.1
Denmark	42.7	30.1	-12.6	-29.5
Finland	44.5	37.8	-6.7	-15.1
France	48.3	40.0	-8.3	-17.2
Germany	52.0	33.5	-18.5	-35.6
Greece	34.3	34.3	0.0	0.0
Hungary	45.7	30.5	-15.2	-33.3
Iceland	29.3	8.9	-20.4	-69.6
Ireland	24.5	7.4	-17.1	-69.8
Italy	45.3	35.5	-9.8	-21.6
Japan	27.0	23.2	-3.8	-14.1
Korea	14.1	13.6	-0.5	-3.5
Luxembourg	31.7	9.6	-22.1	-69.7
Mexico	17.3	17.3	0.0	0.0
Netherlands	43.0	33.7	-9.3	-21.6
New Zealand	20.6	20.4	-0.2	-1.0
Norway	36.8	27.6	-9.2	-25.0
Poland	42.9	41.3	-1.6	-3.7
Portugal	32.6	23.7	-8.9	-27.3
Slovak Republic	41.4	32.3	-9.1	-22.0
Spain	37.6	30.9	-6.7	-17.8
Sweden	46.6	39.5	-7.1	-15.2
Switzerland	29.2	17.8	-11.4	-39.0
Turkey	42.1	42.1	0.0	0.0
United Kingdom	31.1	18.3	-12.8	-41.2
United States	29.4	15.5	-13.9	-47.3
Unweighted Average	36.5	26.9	-9.6	-26.3

(1) The tax wedge reflects Income tax plus employee contributions less cash benefits plus employer social security contributions.

Source: *Taxing Wages 2002-2003*

**Table B**  
**Tax Wedge for Single Persons in 2003**  
 (as a % of total labour costs) (1)

Country	Single persons at 167% of APW earnings	Single persons at 67% of APW earnings	Absolute Difference	Difference relative to the burden of the higher paid worker (%)
Australia	36.7	24.7	-12.0	-32.7
Austria	50.2	40.2	-10.0	-19.9
Belgium	60.3	47.5	-12.8	-21.2
Canada	33.3	27.6	-5.7	-17.1
Czech Republic	46.2	42.0	-4.2	-9.1
Denmark	50.3	39.9	-10.4	-20.7
Finland	50.4	39.5	-10.9	-21.6
France	50.7	37.6	-13.1	-25.8
Germany	57.0	46.7	-10.3	-18.1
Greece	40.2	34.3	-5.9	-14.7
Hungary	55.8	41.0	-14.8	-26.5
Iceland	38.5	23.8	-14.7	-38.2
Ireland	35.2	16.7	-18.5	-52.6
Italy	50.2	41.3	-8.9	-17.7
Japan	29.6	26.1	-3.5	-11.8
Korea	19.0	12.9	-6.1	-32.1
Luxembourg	39.6	27.3	-12.3	-31.1
Mexico	23.0	12.4	-10.6	-46.1
Netherlands	39.9	37.6	-2.3	-5.8
New Zealand	26.4	18.9	-7.5	-28.4
Norway	43.3	33.7	-9.6	-22.2
Poland	43.9	41.6	-2.3	-5.2
Portugal	38.1	29.6	-8.5	-22.3
Slovak Republic	44.6	40.3	-4.3	-9.6
Spain	41.5	32.8	-8.7	-21.0
Sweden	51.2	44.8	-6.4	-12.5
Switzerland	33.4	26.6	-6.8	-20.4
Turkey	44.5	40.9	-3.6	-8.1
United Kingdom	34.2	26.2	-8.0	-23.4
United States	34.6	27.1	-7.5	-21.7
Unweighted Average	41.4	32.7	-8.7	-21.0

(1) The tax wedge reflects Income tax plus employee contributions less cash benefits plus employer social security contributions.

Source: *Taxing Wages 2002-2003*