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### Tax wedges on earnings vary sharply in OECD countries

Belgium, Germany and Hungary impose the highest taxes among OECD countries on the pay of a single person on average earnings, while Korea, Mexico and New Zealand take the least, according to the latest edition of the OECD's annual publication **Taxing Wages**.

For a single-earner married couple with two children on average earnings, by contrast, Turkey, Sweden and Poland impose the biggest 'tax wedge', while Ireland, Iceland and the United States take the smallest slice in tax. **Taxing Wages** compares the shares of employee earnings taken by governments in OECD countries through taxation by calculating what it calls the 'tax wedge', the difference between labour costs to the employer and the net take-home pay of the employee, including any cash benefits from government welfare programmes.

In 2005, single individuals without children earning the average wage in services and manufacturing industries faced a tax wedge of 55.4% of the cost of their labour to their employers in Belgium, 51.8% in Germany and 50.5% in Hungary, compared with 17.3% in Korea, 18.2% in Mexico and 20.5% in New Zealand. The average for OECD countries was 37.3%. See Table 1.

For a one-earner married couple with two children on average earnings, the tax wedge ranged from 42.7% in Turkey, 42.4% in Sweden and 42.1% in Poland to 11.9% in the United States, 11% in Iceland and 8.1% in Ireland. The average for OECD countries was 27.7%. See Table 2.

These tax wedges result from the combined effects of a range of policy instruments at the disposal of governments: personal income tax, employee and employer social security contributions, payroll taxes and cash benefits. Variations in their levels reflect the differing priorities of governments and voters in different countries with respect to the desired level, composition and financing method of government expenses, including social benefits.

Tax wedges have shrunk over the past few years in most OECD countries, partly reflecting governments' desire to get more people into work so as to offset the effects on output and prosperity of ageing populations. However, these tax cuts have been limited by the need to maintain sufficient government revenues. In 2000, the average tax wedge for single persons without children was 37.9%, with Belgium at the top end of the range, with 57.1%, and Korea and Mexico at the bottom end, with 16.4% and 16.8% respectively.

Some countries have focussed their tax wedge reductions on lower paid workers, as this is the group that often experiences particularly high unemployment rates. Table 3 shows that the reductions in the tax wedge for single workers earning two-thirds of the average wage have fallen particularly sharply since 2000 in France (47.4% to 41.4%), Hungary (48.5% to 42.9%) and the Slovak Republic (40.6% to 35.3%).

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**Taxing Wages** is available for journalists on the OECD password protected website ([www.oecd.org/media/protectedsite](http://www.oecd.org/media/protectedsite)) or from the OECD's Media Division (tel. 33 1 4524 9700 or [news.contact@oecd.org](mailto:news.contact@oecd.org)).

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Table 1. **Evolution of the tax burden, 2000-2005**  
**Single persons without children at 100% of average earnings**  
**Income tax plus employee and employer contributions less cash benefits as a % of labour costs**

	2000	2001	2002	2003	2004	2005
Australia	30.6	27.3	27.7	28.0	28.0	28.3
Austria	47.3	46.9	47.1	47.4	47.5	47.4
Belgium	57.1	56.7	56.3	55.7	55.4	55.4
Canada	33.2	32.0	32.1	32.0	32.0	31.6
Czech Republic	42.7	42.6	42.9	43.2	43.5	43.8
Denmark	44.3	43.6	42.6	42.6	41.3	41.4
Finland	47.8	46.4	45.9	45.0	44.5	44.6
France	49.6	49.8	49.8	49.8	49.8	50.1
Germany	53.9	53.0	53.6	51.5	53.3	51.8
Greece	38.4	38.1	37.7	37.7	38.3	38.8
Hungary	52.7	54.0	53.7	50.8	51.8	50.5
Iceland	26.1	26.9	28.4	29.2	29.4	29.0
Ireland	28.9	25.8	24.5	24.2	26.2	25.7
Italy	46.4	46.0	46.0	45.0	45.4	45.4
Japan	24.8	24.9	30.5	27.4	27.4	27.7
Korea	16.4	16.4	16.1	16.3	17.2	17.3
Luxembourg	38.2	36.2	33.6	34.1	34.6	35.3
Mexico	16.8	15.9	17.5	18.1	16.2	18.2
Netherlands	39.7	37.2	37.4	37.1	38.6	38.6
New Zealand	19.4	19.4	19.5	19.7	20.0	20.5
Norway	38.6	39.2	38.6	38.1	38.1	37.3
Poland	43.2	42.9	42.9	43.1	43.3	43.6
Portugal	37.3	36.4	36.6	36.8	36.8	36.2
Slovak Republic	41.8	42.8	42.5	42.9	42.5	38.3
Spain	38.6	38.8	39.1	38.5	38.7	39.0
Sweden	50.1	49.1	47.8	48.2	48.4	47.9
Switzerland	30.0	30.1	30.1	29.7	29.4	29.5
Turkey	40.4	43.6	42.5	42.2	42.8	42.7
United Kingdom	32.1	31.8	31.9	33.3	33.4	33.5
United States	29.7	29.6	29.4	29.2	29.1	29.1
<i>Unweighted average:</i>						
OECD	37.9	37.5	37.5	37.2	37.4	37.3
EU-15	43.3	42.4	42.0	41.8	42.1	42.1
EU-19	43.7	43.1	42.7	42.5	42.8	42.5

*Note:* EU-15 area countries are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

EU-19 area countries are: EU-15 countries plus Czech Republic, Hungary, Poland and Slovak Republic.

Table 2. Evolution of the tax burden, 2000-2005  
**One-earner married couple with two children at 100% of average earnings**  
**Income tax plus employee and employer contributions less cash benefits as a % of labour costs**

	2000	2001	2002	2003	2004	2005
Australia	22.7	18.3	18.4	19.6	15.2	16.0
Austria	35.2	34.9	35.3	35.7	35.3	35.5
Belgium	42.6	42.6	42.4	41.6	42.7	40.3
Canada	23.9	22.4	22.3	21.5	21.5	21.5
Czech Republic	22.7	24.5	24.5	27.1	29.0	27.1
Denmark	31.0	30.6	30.0	29.9	29.4	29.6
Finland	40.7	39.5	39.4	38.7	38.0	38.4
France	40.7	40.5	40.9	41.3	41.5	41.7
Germany	37.3	36.8	36.7	33.8	36.6	35.7
Greece	39.8	39.7	39.5	38.1	38.7	39.2
Hungary	41.5	41.6	42.2	39.4	41.0	39.9
Iceland	5.7	5.8	8.3	9.7	10.6	11.0
Ireland	15.5	12.8	9.1	6.4	8.5	8.1
Italy	38.0	37.1	35.7	35.0	35.6	35.2
Japan	21.1	21.3	27.1	23.8	24.6	24.9
Korea	15.7	15.7	15.5	15.8	16.1	16.2
Luxembourg	14.7	13.2	11.3	11.6	11.7	12.2
Mexico	16.8	15.9	17.5	18.1	16.2	18.2
Netherlands	29.6	28.2	28.3	27.8	29.1	29.1
New Zealand	13.5	14.9	15.9	17.2	18.0	14.5
Norway	28.4	29.3	29.7	29.6	29.9	29.6
Poland	38.8	38.4	41.3	41.6	41.8	42.1
Portugal	30.2	27.1	27.1	27.3	27.4	26.6
Slovak Republic	30.5	32.1	31.3	31.9	28.1	23.2
Spain	32.1	32.7	33.1	32.5	32.9	33.4
Sweden	44.3	42.9	41.8	42.4	42.7	42.4
Switzerland	18.7	18.8	19.0	18.6	18.4	18.6
Turkey	40.4	43.6	42.5	42.2	42.8	42.7
United Kingdom	27.0	24.9	25.1	26.6	26.8	27.1
United States	15.9	15.1	14.3	11.8	11.8	11.9
<i>Unweighted average:</i>						
OECD	28.4	28.0	28.2	27.9	28.1	27.7
EU-15	33.1	32.1	31.7	31.2	31.8	31.6
EU-19	33.2	32.5	32.4	32.0	32.5	31.9

*Note:* EU-15 area countries are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

EU-19 area countries are: EU-15 countries plus Czech Republic, Hungary, Poland and Slovak Republic.

Table 3. **Evolution of the tax burden, 2000-2005**  
**Single persons without children at 67% of average earnings**  
**Income tax plus employee and employer contributions less cash benefits as a % of labour costs**

	2000	2001	2002	2003	2004	2005
Australia	25.4	23.2	23.7	24.3	24.3	24.8
Austria	43.2	42.9	43.1	43.5	43.4	42.5
Belgium	51.3	50.7	50.5	49.6	48.9	49.1
Canada	27.8	27.2	27.4	27.2	27.5	27.0
Czech Republic	41.4	41.3	41.5	41.7	41.9	42.1
Denmark	41.2	40.5	39.8	39.8	39.3	39.3
Finland	43.0	41.4	40.9	40.0	39.4	39.5
France	47.4	47.6	47.4	45.0	42.3	41.4
Germany	48.6	47.7	48.2	45.5	47.9	46.7
Greece	35.5	35.1	34.3	34.4	34.4	34.4
Hungary	48.5	48.1	48.2	44.5	44.8	42.9
Iceland	19.7	20.9	22.6	23.6	23.8	23.6
Ireland	18.1	17.4	16.7	16.2	20.5	19.9
Italy	43.1	42.7	42.7	41.1	41.4	41.7
Japan	23.4	23.5	29.3	26.1	26.1	26.5
Korea	14.9	15.0	14.8	15.0	15.5	15.6
Luxembourg	32.5	30.6	28.6	28.9	29.2	29.8
Mexico	11.0	10.3	12.1	12.8	11.0	14.1
Netherlands	42.0	38.9	39.1	40.0	40.4	41.3
New Zealand	18.5	18.6	18.7	18.8	18.8	18.9
Norway	35.1	35.2	35.2	34.9	35.0	34.3
Poland	42.2	41.8	41.7	41.9	42.2	42.4
Portugal	33.2	32.2	32.3	32.4	32.4	31.7
Slovak Republic	40.6	41.3	40.8	40.9	39.6	35.3
Spain	34.7	35.3	35.7	34.7	35.2	35.7
Sweden	48.6	47.8	46.8	47.0	47.1	46.5
Switzerland	27.3	27.3	27.3	26.9	26.6	26.7
Turkey	39.1	42.6	41.5	41.0	41.9	41.9
United Kingdom	28.3	28.0	28.1	29.6	29.7	29.9
United States	27.2	27.1	27.0	26.7	26.7	26.7
<i>Unweighted average:</i>						
OECD	34.4	34.1	34.2	33.8	33.9	33.7
EU-15	39.4	38.6	38.3	37.8	38.1	38.0
EU-19	40.2	39.5	39.3	38.8	38.9	38.5

*Note:* EU-15 area countries are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

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