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PAC/COM/PUB(2008)5

Paris, 11 March 2008

### **Fiscal drag hits some taxpayers harder than others, new OECD study shows**

Families with children have paid less in tax as a percentage of their income in recent years in Australia, Hungary, Ireland and New Zealand, thanks to family-friendly tax policies, but wage-earners in some other OECD countries, including Greece, Iceland, Korea and Mexico, have wound up with higher tax bills due to so-called fiscal drag.

On average across OECD countries, the share of taxes and social security payments as a proportion of total labour costs fell slightly at most earnings levels between 2000 and 2006, according to the latest edition of OECD's annual *Taxing Wages*. But wage-earners in some countries still found themselves paying the same or more in taxes, as pay increases pushed them into new tax brackets where higher rates are charged or because tax reliefs, such as those related to children, have eroded in value.

In many OECD countries, average full-time earnings rose considerably between 2000 and 2006, the most recent year for which comparative figures are available, with nine countries - the Czech Republic, Greece, Hungary, Iceland, Korea, Mexico, Portugal, the Slovak Republic and Turkey - showing nominal increases of more than 40%. In countries where tax rates go up by steps as taxable income rises, pay rises to reflect inflation can lead to higher taxes - a phenomenon known as fiscal drag -- unless tax bands are adjusted to compensate.

During the period under review, while many countries cut headline tax rates or introduced more generous tax concessions, such moves often failed to reduce individual earners' tax bills in any significant way. The fiscal drag effect was especially strong in countries whose tax rates rose sharply as earnings increased or where earnings growth was above-average.

Across OECD countries, tax changes have tended to favour low-wage earners. But in a few countries - Australia, Canada, Germany, Iceland, Korea, Luxembourg, Norway and the United States - tax reforms have mainly benefited higher-income groups. In addition, low wage-earners can find themselves paying higher taxes if targeted tax concessions such as employment-conditional benefits or tax credits are not adjusted to take account of inflation. Where such tax reliefs exist, fiscal drag can erode their value, with particularly strong effects on low-wage earners.

In Germany, for example, there was little or no change between 2000 and 2006 in the tax burden for unmarried taxpayers at average or less-than-average earnings, in spite of changes in tax legislation. In the U.S., taxpayers in higher income brackets saw their tax burden drop by around 1.6 percentage points, those on average or below-average earnings saw little change, while in Greece, Mexico and Korea the tax burden for almost all taxpayers increased in spite of tax reforms during the period under review (see Table 1).

JT03242120

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**Taxing Wages** compares countries according to what they levy in the form of a so-called 'tax wedge', calculated as 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.

Belgium, Hungary and Germany imposed the highest tax wedges – including income taxes and social security charges -- among OECD countries on a single person employed at average earnings levels in 2007, while Mexico, Korea and New Zealand took the least. For a single-earner married couple with two children on average earnings, Hungary, Turkey and Greece charged the most, while New Zealand and Iceland took the least along with Ireland – which actually paid a bonus, thanks to generous benefits, over and above the cost of employment to the employer.

In 2007, single individuals without children earning the average wage in services and manufacturing industries faced a tax wedge of 55.5% of the cost of their labour to their employers in Belgium, 54.4% in Hungary and 52.2% in Germany, compared with 15.3% in Mexico, 19.6% in Korea and 21.5% in New Zealand. The average for OECD countries was 37.7% (see Table 2).

For a single-earner married couple with two children on average earnings, the tax wedge ranged from 43.8% in Hungary, 42.7% in Turkey and 42.6% in Greece to -1.1% in Ireland, 2.8% in New Zealand and 11.4% in Iceland. The average for OECD countries was 27.3% (see Table 3).

To obtain a copy of the report, journalists should contact the OECD's Media Division (tel. + 33 1 4524 9700). For further information, journalists are invited to contact Christopher Heady in the OECD's Centre for Tax Policy and Administration (tel. + 33 1 4524 9322).

The report can be purchased in paper or electronic form through the OECD's Online Bookshop. Subscribers and readers at subscribing institutions can access the online version via SourceOECD.

Table 1. Tax wedge: Change between 2000 and 2006

	Single worker, different wage levels, in percentage points									
	AW		33-67% of AW		67-100% of AW		100-150% of AW		150-200% of AW	
	actual change	fiscal drag	actual change	fiscal drag	actual change	fiscal drag	actual change	fiscal drag	actual change	fiscal drag
Australia	-2.2	+5.0	+0.1	+4.6	-1.4	+4.5	-3.3	+4.6	-3.6	+3.4
Austria	+0.9	+2.1	-0.3	+2.4	+0.8	+2.0	+1.0	+1.0	+0.2	-1.5
Belgium	-1.6	+2.1	-3.3	+5.1	-1.6	+2.3	-1.5	+1.9	-1.9	+1.6
Canada	-1.3	+0.7	-1.1	+1.0	-1.0	+1.3	-1.6	+0.4	-2.3	+0.9
Czech Republic	-0.1	+1.6	-1.7	+1.3	-0.6	+1.5	+0.3	+1.6	+1.3	+2.0
Denmark	-3.1	+2.3	-1.5	+1.0	-2.9	+1.4	-2.6	+2.3	-2.0	+1.7
Finland	-3.7	+2.4	-4.3	+2.4	-3.6	+2.6	-3.4	+2.5	-3.5	+2.1
France	+0.6	+0.6	-6.5	+3.6	+0.0	+0.8	+1.0	+0.7	+1.5	+0.9
Germany	-0.8	+1.1	+0.3	+1.9	-0.6	+1.5	-1.4	+0.4	-2.0	-0.2
Greece	+3.4	+5.4	+0.0	+2.0	+2.0	+4.4	+3.3	+5.0	+3.9	+5.2
Hungary	-2.7	+4.9	-9.2	+4.5	-5.3	+6.1	-2.8	+1.9	-2.3	-0.5
Iceland	+3.4	+11.6	+6.9	+10.0	+4.1	+7.2	+2.7	+10.7	-4.3	+3.4
Ireland	-5.9	+7.1	-4.3	+7.0	-4.3	+7.3	-6.3	+5.4	-5.3	+2.6
Italy	-0.9	+1.5	-1.9	+1.9	-0.7	+1.4	-1.1	+1.2	-0.3	+1.4
Japan	+4.0	-0.0	+4.0	-0.0	+4.0	-0.0	+3.9	-0.1	+2.9	-0.0
Korea	+1.8	+4.2	+1.0	+1.0	+1.3	+2.8	+2.4	+5.1	+0.2	+4.5
Luxembourg	-2.0	+3.4	-1.8	+2.4	-2.2	+3.0	-2.4	+2.9	-3.1	+1.3
Mexico	+2.4	+5.4	+4.1	+4.0	+3.5	+6.2	+3.0	+5.6	+2.4	+5.3
Netherlands	+4.7	+3.5	-2.8	+2.9	-0.4	-0.9	+2.2	+1.6	+1.0	+2.2
New Zealand	+1.7	+1.7	+0.5	+0.5	+0.6	+0.6	+2.2	+2.2	+2.5	+2.5
Norway	-1.1	+4.1	-1.2	+2.3	-0.6	+3.4	-1.6	+3.3	-2.2	+2.4
Poland	+0.6	+0.5	+0.5	+0.9	+0.6	+0.6	+0.6	+0.4	+1.0	+1.5
Portugal	+0.1	+3.2	-0.7	+2.8	+0.1	+3.6	+0.1	+3.5	+0.7	+3.6
Slovak Republic	-3.2	+2.9	-6.3	+1.7	-3.9	+2.2	-3.5	+2.6	-4.7	+0.2
Spain	+0.5	+1.5	+1.0	+2.5	+0.7	+1.7	+0.7	+0.8	+1.6	-1.0
Sweden	-2.4	+2.6	-2.9	+1.0	-2.5	+1.4	-2.0	+2.1	-1.1	+1.9
Switzerland	-0.6	+0.7	-0.5	+0.5	-0.6	+0.6	-0.6	+0.8	-0.8	+0.8
Turkey	+2.3	-8.3	+2.9	-1.4	+2.5	-7.1	+5.0	-6.3	+9.9	-3.2
United Kingdom	+1.5	+0.4	+1.7	+3.1	+1.5	+1.6	+1.7	+1.8	+2.0	+2.2
United States	-0.5	+2.5	-0.5	+1.3	-0.5	+1.3	-0.9	+2.1	-1.6	+1.5
OECD average	-0.1	+2.6	-0.9	+2.5	-0.4	+2.2	-0.2	+2.3	-0.3	+1.6

**Table 2 Comparison of total tax wedge (as percentage of labour costs)<sup>1</sup>**

Country	Total Tax wedge 2007	Annual change 2007/06 (in percentage points)			
		Tax wedge	Income tax	Employee SSC	Employer SSC
	(1)	(2)	(3)	(4)	(5)
Belgium	55.5	0.0	0.042	0.006	-0.029
Hungary	54.4	2.5	0.550	1.988	-0.045
Germany	52.2	-1.1	0.159	-0.611	-0.613
France	49.2	-1.0	-0.966	0.092	-0.126
Austria	48.5	0.3	0.278	0.000	0.000
Italy	45.9	0.3	0.118	0.227	0.000
Sweden	45.4	-2.4	-2.471	-0.004	0.080
Netherlands	44.0	-0.4	0.601	-1.207	0.250
Finland	43.7	-0.5	-0.431	-0.027	0.000
Czech Republic	42.9	0.3	0.316	0.000	0.000
Poland	42.8	-0.9	0.109	-0.965	0.000
Turkey	42.7	0.0	-0.020	0.000	0.000
Greece	42.3	0.4	0.401	0.000	0.000
Denmark	41.3	0.1	0.134	-0.047	-0.022
Spain	38.9	-0.2	0.014	0.017	-0.265
Slovak Republic	38.5	0.0	0.018	0.000	0.000
Luxembourg	37.5	1.0	0.663	0.315	0.001
Norway	37.5	0.1	0.478	0.031	-0.391
Portugal	37.4	0.0	-0.004	0.000	0.000
United Kingdom	34.1	0.1	0.023	0.019	0.022
Canada	31.3	-0.5	-0.363	-0.090	-0.091
United States	30.0	0.1	0.108	0.000	-0.005
Switzerland	29.6	0.1	0.107	0.000	0.000
Japan	29.3	0.5	0.794	-0.156	-0.174
Iceland	28.3	-1.2	-0.829	-0.009	-0.404
Australia	27.7	-0.6	-0.578	0.000	0.000
Ireland	22.3	-0.7	-0.740	0.035	0.000
New Zealand	21.5	0.5	0.470	0.000	0.000
Korea	19.6	1.4	1.022	0.113	0.263
Mexico	15.3	0.3	0.293	-0.039	0.021

1. Figures of the average worker single without children.

Sources: Country submissions.

Table 3. Evolution of the tax burden, 2000-2007

**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	2006	2007
Australia	22.7	18.3	18.4	19.6	15.2	16.0	17.2	15.1
Austria	35.2	34.9	35.3	35.7	36.4	36.6	37.3	37.9
Belgium	42.6	42.6	42.4	41.6	42.7	40.3	40.3	40.5
Canada	23.9	22.4	22.3	21.5	21.5	21.5	21.9	19.9
Czech Republic	22.7	24.5	24.5	27.1	29.0	27.2	26.1	21.3
Denmark	31.0	30.6	30.0	29.9	29.4	29.2	29.5	29.7
Finland	40.7	39.5	39.4	38.7	38.0	38.4	38.1	37.8
France	40.7	40.5	40.7	41.1	41.4	41.6	41.9	41.9
Germany	37.4	36.8	36.5	37.5	36.5	36.9	37.4	36.4
Greece	40.1	39.9	40.7	39.5	41.3	41.8	43.1	42.6
Hungary	43.9	43.9	42.2	39.4	41.0	40.7	41.2	43.8
Iceland	4.7	5.2	8.3	9.7	10.1	11.1	12.0	11.4
Ireland <sup>1</sup>	15.5	12.8	9.1	6.4	6.4	5.8	1.9	-1.1
Italy	35.9	35.1	33.8	33.1	33.7	33.0	33.3	33.8
Japan	21.1	21.3	27.1	23.8	23.5	23.9	23.7	23.8
Korea <sup>1</sup>	15.7	15.7	15.5	15.8	16.1	16.2	16.8	17.3
Luxembourg	15.4	14.0	11.9	12.1	12.1	12.6	13.1	14.3
Mexico	12.6	13.2	15.8	16.8	15.3	14.7	15.0	15.3
Netherlands	29.6	28.2	28.3	27.8	29.5	29.4	36.9	36.6
New Zealand	13.6	14.9	16.0	17.2	18.0	14.4	3.1	2.8
Norway	28.4	29.3	29.7	29.6	29.9	29.6	30.0	30.4
Poland	38.4	38.0	37.7	41.3	41.5	41.8	42.2	37.4
Portugal	30.2	27.1	27.1	27.3	28.5	27.7	27.9	27.5
Slovak Republic	30.4	32.0	31.3	31.9	28.1	23.1	23.7	24.2
Spain	32.1	32.7	33.1	32.5	32.9	33.2	33.6	32.7
Sweden	44.3	42.9	41.8	42.4	42.8	42.6	41.6	39.4
Switzerland	18.7	18.8	19.0	18.6	18.4	18.5	18.2	18.3
Turkey <sup>1</sup>	40.4	43.6	42.5	42.2	42.8	42.8	42.7	42.7
United Kingdom	27.8	25.6	25.8	27.5	27.8	28.0	28.2	28.3
United States	20.6	20.1	20.1	17.3	17.3	17.4	17.8	18.1
<i>Unweighted average:</i>								
OECD	28.5	28.1	28.2	28.2	28.2	27.9	27.9	27.3
EU-15	33.2	32.2	31.7	31.5	32.0	31.8	32.3	31.9
EU-19	33.4	32.7	32.2	32.2	32.6	32.1	32.5	31.8

1. Wages figures are based on the old definition of average worker (ISIC D, rev 3).