Taxing Wages 2021

Tax wedges in the OECD in the context of COVID-19

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Taxing Wages 2021

The OECD's *Taxing Wages 2021* report provides unique information for each of the 37 OECD countries on the income taxes paid by workers, their social security contributions, the transfers they receive in the form of cash benefits, as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for one- and two-earner households, and the implied total labour costs for employers.

This brochure summarises the main results of this edition by:

- Presenting an analysis of the average tax wedge in OECD countries in 2020, the changes from the previous year and the trends between 2000 and 2020 for a selection of household types that are covered in *Taxing Wages 2021*.
- Presenting a brief analysis of the net personal average tax rate for a single average worker across OECD countries for 2020.

The brochure also presents the impact of tax and benefit measures in response to the COVID-19 pandemic on the above main indicators.

Box 1: **The Tax Wedge**

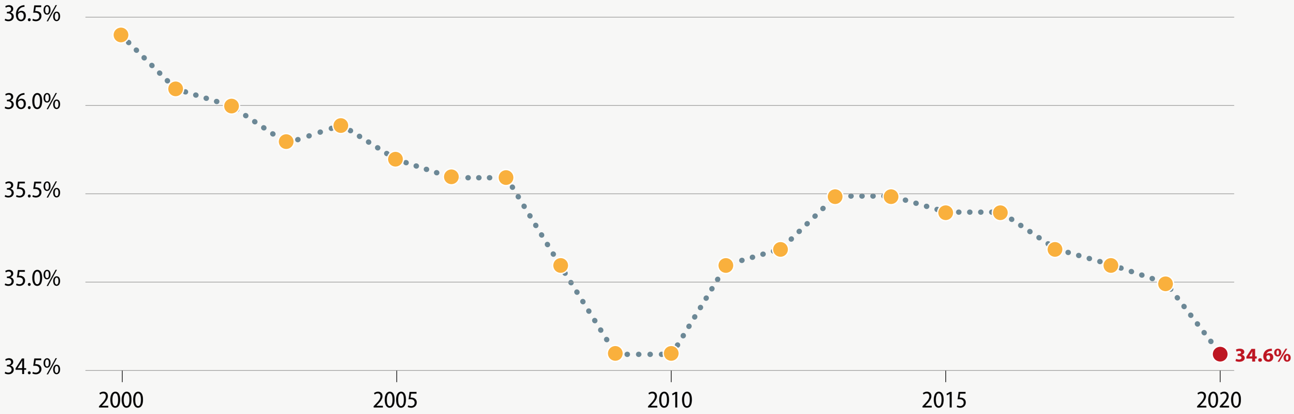
Taxing Wages 2021 presents several measures of taxation on labour. Most emphasis is given to the **tax wedge** – a measure of the difference between labour costs to the employer and the corresponding net take-home pay of the employee – which is calculated by expressing the sum of personal income tax, employee and employer social security contributions plus any payroll taxes, minus any benefits received by the employee, as a percentage of labour costs. Employer social security contributions and (in some countries) payroll taxes are added to gross wage earnings of employees in order to determine a measure of total labour costs. However, it should be recognised that this measure may be less than the true labour costs faced by employers because, for example, employers may also have to make non-tax compulsory payments . The average tax wedge measures that part of labour costs which is taken in tax and social security contributions net of cash benefits. In contrast, the marginal tax wedge measures that part of an increase of total labour costs that is paid in taxes and social security contributions less cash benefits.

1. Non-tax compulsory payments are required and unrequited compulsory payments to privately-managed funds, welfare agencies or social insurance schemes outside general governments and to public enterprises (http://www.oecd.org/tax/tax-policy/tax-database.htm#NTCP).

TRENDS IN LABOUR TAXES ACROSS OECD COUNTRIES

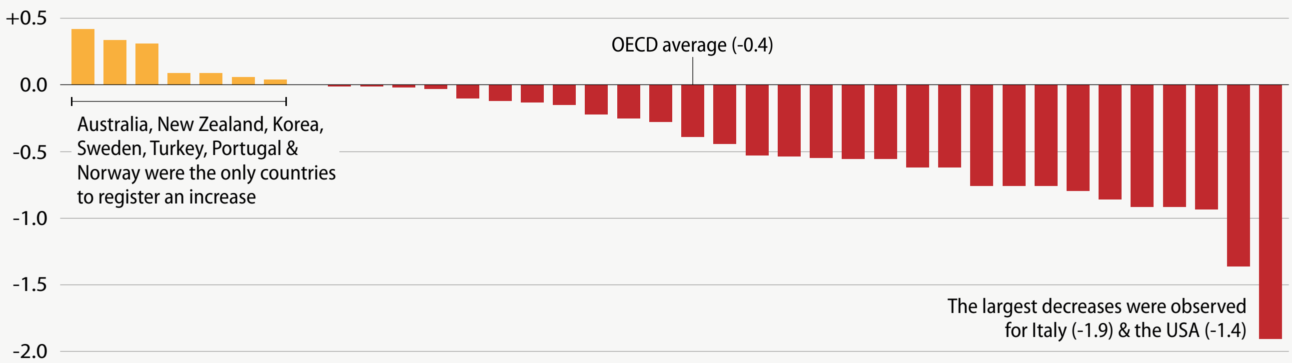
The COVID-19 crisis resulted in the largest decrease in the average tax wedge since the global financial crisis of 2008-2009

Income tax plus employee & employer social security contributions minus cash benefits, as % of labour costs for the average OECD worker, 2000-2020



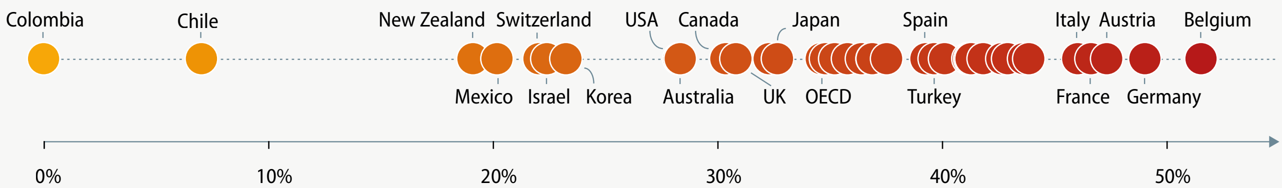
The tax wedge for the average single worker increased in 7 countries, remained unchanged in 1 and decreased in 29 between 2019 and 2020

Change in the average tax wedge in OECD countries between 2019 and 2020, in percentage points



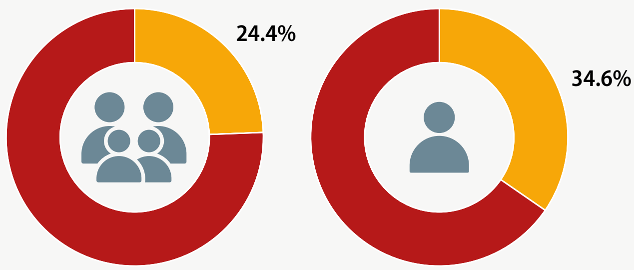
Labour taxes vary considerably across OECD countries with the tax wedge for the average single worker ranging from 0% in Colombia to 51% in Belgium

Tax wedge for the average single worker in OECD countries, as % of labour costs (2020)



One-earner married couples with two children face a lower tax wedge than the average single worker

Tax wedge for one-earner married couples with 2 children vs single worker, as % of labour costs (2020)



Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

TABLE 1. **COMPARISON OF TOTAL TAX WEDGE FOR THE AVERAGE WORKER IN OECD COUNTRIES**

As % of labour costs, 2020

		Annual change, 2020/19 (in percentage points)[2]			
Country[1]	Total Tax wedge 2020 (1)	Tax wedge (2)	Income tax (3)	Employee SSC (4)	Employer SSC[3] (5)
Belgium	51.5	-0.76	-0.73	-0.01	-0.02
Germany	49.0	-0.28	-0.35	0.03	0.03
Austria	47.3	-0.56	-0.49	0.02	-0.09
France	46.6	-0.56	-0.55	0.00	-0.01
Italy	46.0	-1.91	-1.91	0.00	0.00
Czech Republic	43.9	-0.03	-0.03	0.00	0.00
Hungary	43.6	-0.94	0.21	0.26	-1.41
Slovenia	42.9	-0.55	-0.55	0.00	0.00
Sweden	42.7	0.09	0.08	0.01	0.00
Latvia	41.8	-0.62	-0.62	0.00	0.00
Portugal	41.3	0.06	0.06	0.00	0.00
Slovak Republic	41.2	-0.62	-0.50	0.02	-0.15
Finland	41.2	-0.92	-0.09	0.43	-1.26
Greece	40.1	-0.80	-0.32	-0.24	-0.25
Turkey	39.7	0.09	0.09	0.00	0.00
Spain	39.3	-0.12	-0.12	0.00	0.00
Luxembourg	37.5	-0.92	-0.87	0.00	-0.04
Lithuania	36.9	-0.76	-0.76	0.00	0.00
Estonia	36.9	-0.13	-0.13	0.00	0.00
Netherlands	36.4	-0.54	-0.06	-0.59	0.11
Norway	35.8	0.04	0.04	0.00	0.00
Denmark	35.2	-0.25	-0.26	0.00	0.00
Poland	34.8	-0.76	-0.76	0.00	0.00
Japan	32.7	-0.02	-0.03	0.00	0.02
Ireland	32.3	-0.86	-0.94	0.00	0.08
Iceland	32.3	-0.44	-0.22	0.00	-0.22
United Kingdom	30.8	-0.10	0.09	-0.19	0.00
Canada	30.4	-0.15	-0.08	0.06	-0.08
Australia	28.4	0.42	0.42	0.00	0.00
United States	28.3	-1.37	0.50	0.00	-0.03
Korea	23.3	0.31	-0.09	0.24	0.16
Israel	22.4	-0.53	-0.25	-0.19	-0.09
Switzerland	22.1	-0.22	-0.49	0.13	0.13
Mexico	20.2	-0.01	-0.13	-0.01	0.14
New Zealand	19.1	0.34	0.34	0.00	0.00
Chile	7.0	-0.01	-0.01	0.00	0.00
Colombia	0.0	0.00	0.00	0.00	0.00
Unweighted average					
OECD average	**34.6**	**-0.39**	**-0.26**	**0.00**	**-0.08**

Notes: Single individual without children at the income level of the average worker.
1. Countries ranked by decreasing total tax wedge.
2. Due to rounding, the changes in tax wedge in column (2) may differ by one-hundredth of a percentage point from the sum of columns (3)-(5). For Canada, Denmark and the United States, cash benefits contribute to the difference as they are not included in columns (3)-(5).
3. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

The highest tax wedge is observed in Belgium (51.5%) and the lowest in Colombia (0.0%). The OECD average tax wedge was 34.6% of labour costs in 2020.

The tax wedge

Tax wedge for the average worker in OECD countries

Table 1 shows that the tax wedge between the labour costs to the employer and the corresponding net take-home pay for single workers without children, at average wage levels, varied widely across OECD countries in 2020 (see column 1). While in Austria, Belgium, France, Germany and Italy, the tax wedge was more than 45%, it was lower than 20% in Chile, Colombia and New Zealand. The highest tax wedge is observed in Belgium (51.5%) and the lowest in Colombia (0.0%). In Colombia, the single worker at the average wage level did not pay personal income taxes in 2020, and their contributions to pension, health and employment risk insurances are considered to be non-tax compulsory payments (NTCPs) and therefore are not included as taxes in the *Taxing Wages* calculations. Table 1 shows that the average tax wedge in OECD countries was 34.6% in 2020.

2. In Colombia, the general social security system for healthcare is financed by public and private funds. The pension system is a hybrid of two different systems: a defined-contribution, fully-funded pension system; and a pay-as-you-go system. Each of those contributions are mandatory and more than 50% of total contributions are made to privately managed funds. Therefore, they are considered to be non-tax compulsory payments (NTCPs) (further information is available in the country details in Part II of the report). In addition, in Colombia, all payments for employment risk are made to privately managed funds and are considered to be NTCPs. Other countries also have NTCPs (please see http://www.oecd.org/tax/tax-policy/tax-database/non-tax-compulsory-payments.pdf).

Across the OECD, countries have largely chosen to provide support to households and businesses outside the labour tax system in response to the COVID-19 crisis.

Box 2: **COVID-19 related measures in the *Taxing Wages* calculations**

Taxing Wages 2021 provides indicators for 2020, a year heavily affected by the crisis related to the COVID-19 pandemic. It pays particular attention to changes in average wages driven by the pandemic as well as the changes made by countries to tax and benefit systems in response to the pandemic (insofar as they fall within the standard *Taxing Wages* assumptions). In particular, the measures considered include changes in personal income tax (central and local/state levels), social security contributions, payroll taxes and cash benefits paid to workers. Consistent with the approach in *Taxing Wages*, these measures must affect the majority of full-time workers that are covered within the sectors B to N in ISIC rev 4, and deferrals of tax liability are not considered.

The special feature finds that the falls in country tax wedges for the single worker, the one-earner couple with two children, and the single parent, resulted predominantly from changes in tax policy settings, although falling average wages also contributed in some countries. By contrast, increases in the tax wedge were almost all driven by rising average wages, offset slightly by policy change.

Across the OECD, countries have largely chosen to provide support to households and businesses outside the labour tax system. While the *Taxing Wages* models are unable to take account of many of these changes, the results presented in this special feature do include direct measures implemented through the system to address COVID-19 for ten countries. These countries have largely delivered support through the provision of enhanced or one-off cash benefits, with a focus on supporting families with children. Taken together, the impact of these COVID-19 measures is smaller than other policy changes; accounting for roughly two-fifths of the decrease in the OECD average between 2019 and 2020 for the single parent and the one-earner couple, and one-fifth for the single worker.

Further information can be found in the *Taxing Wages 2021* Special Feature. Furthermore, detailed information on the COVID-19 related measures in each country is given within the country chapters in Part II of *Taxing Wages 2021*.

The changes in tax wedge between 2019 and 2020 for the average worker without children are described in column 2 of Table 1. The OECD average decreased by 0.39 percentage points. The decrease was significant compared to those observed in the previous years. Across the period covered by *Taxing Wages* (2000-2020), the decrease in the OECD tax wedge for the average worker without children in 2020 was the third largest after the decreases in 2008 (0.48 percentage points) and in 2009 (0.52 percentage points), in the context of the global financial crisis. Among OECD member countries, the tax wedge increased in 2020 in seven countries and fell in 29, relative to 2019, with no change for the average worker in Colombia. The increases were comparatively small and none of them exceeded half a percentage point: the largest increase was observed in Australia (0.42 percentage points). In contrast, there were decreases exceeding one percentage point in the United States (1.37 percentage points) and Italy (1.91 percentage points).

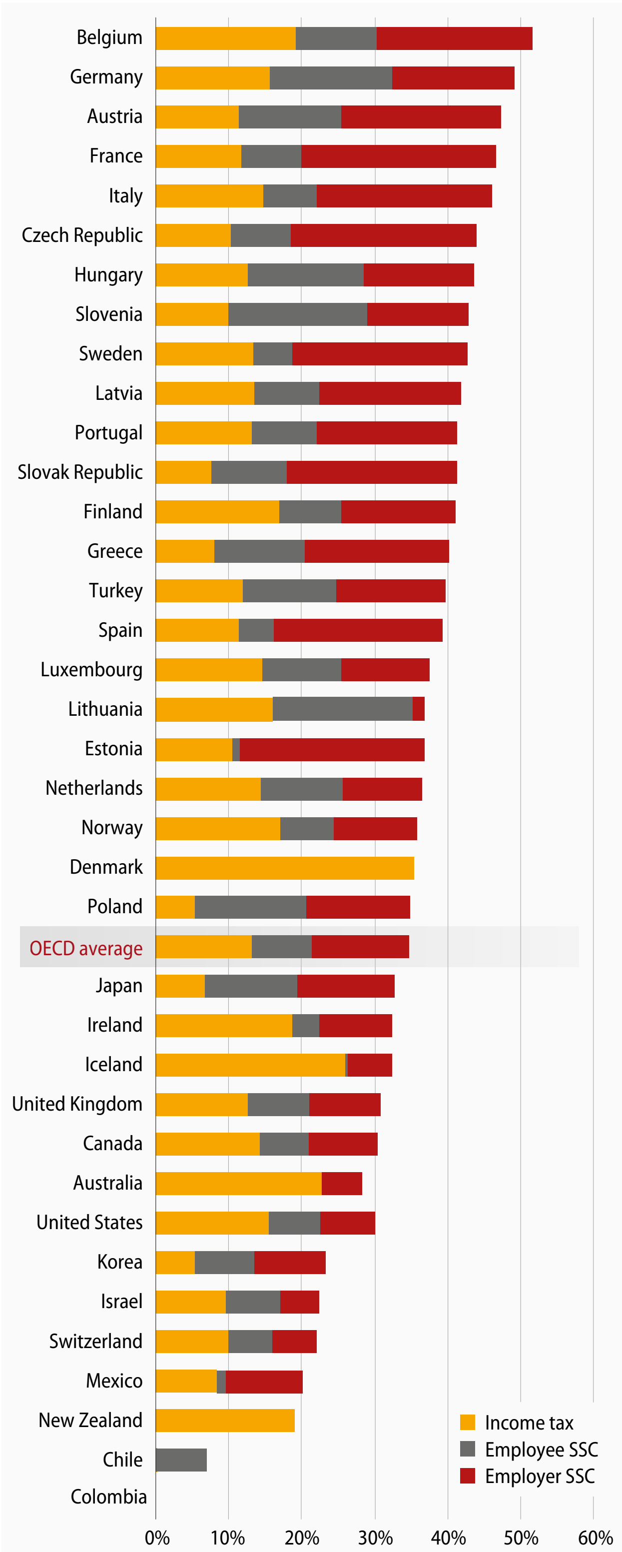
In general, the rises in tax wedge were driven by higher income taxes (see column 3). This was the major factor for most of the countries showing an overall increase, the exception being Korea. For the latter, the increase in the tax wedge was due to higher employee and employer SSCs as a percentage of labour costs, whereas income tax slightly decreased.

In 21 of the 29 OECD countries that saw a decrease in the tax wedge, the decrease was primarily derived from lower income taxes (Austria, Belgium, Chile, the Czech Republic, Denmark, Estonia, France, Germany, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Mexico, Poland, the Slovak Republic, Slovenia, Spain and Switzerland). In Austria and Lithuania, there were policy changes related to the COVID-19 crisis. In Austria, a marginal tax rate within the income tax schedule was reduced. In Lithuania, the tax-exempt amount was increased. In other countries with a decreasing tax wedge due to lower income taxes, there were changes in the income tax system that were not related to the COVID-19 crisis and that affected the income taxes at the average wage level. In France, Poland and Slovenia, there was a reduction in one or more income tax rates within the income tax schedules. In Italy, the income tax reduction was due to a temporary additional PAYE tax credit that was introduced in 2020.[3] In Japan, there was a tax relief reform in 2020.

3. The additional PAYE tax credit was finally included in the draft budget law for 2021 as measure introduced on permanent basis in Italian PIT system.

FIGURE 1. **INCOME TAX PLUS EMPLOYEE AND EMPLOYER SOCIAL SECURITY CONTRIBUTIONS, OECD COUNTRIES, 2020**

As % of labour costs



Notes: Single individual without children at the income level of the average worker. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

In 21 of the 29 OECD countries that saw a decrease in the tax wedge, the decrease was primarily derived from lower income taxes.

In five other OECD countries with decreasing tax wedges, the changes were mostly driven by lower SSCs (Finland, Greece, Hungary, the Netherlands and the United Kingdom). Employer SSCs as a percentage of labour costs decreased by more than one percentage point in Finland (1.26 percentage points) and Hungary (1.41 percentage points). In Finland, the employer SSC rate was reduced by 1.8 percentage points in 2020 (from 20.49% to 18.69%). In Hungary, the employer SSC rate dropped by 2 percentage points in July 2020, from 17.5% to 15.5%. Although the measure resulted from a permanent change in labour taxation in Hungary, the timing was closely linked to the COVID-19 crisis. In Greece, both employee and employer SSC rates decreased between June 2019 and June 2020 from 15.75% to 15.33% and from 24.81% to 24.33%, respectively, leading to a decrease in both employee and employer SSCs (0.24 and 0.25 percentage points respectively). In the United Kingdom, employee SSCs decreased for the single average worker due to an increase in the income exempt limit in 2020. In the Netherlands, employee SSCs were reduced by increased tax credits.

In Iceland, the decreasing tax wedge derived from an even reduction in income taxes and employer SSCs as a percentage of labour costs.

In two countries, decreases in the tax wedge were also driven by cash benefit payments to the single worker at the average wage level. In Canada, the decline in the tax wedge resulted from a one-time special payment through the Goods and Services Tax credit that was delivered on 9 April 2020, in response to the COVID-19 crisis, and that was treated as a cash benefit in the *Taxing Wages* calculations. The cash benefit represented a change of 0.04 percentage points in the tax wedge. In the United States, the decrease in the tax wedge was mainly due to the Economic Impact Payment (EIP) that was part of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) in response to the COVID-19 pandemic. The EIP was a tax credit that could be claimed on the 2020 tax return to be filed in 2021. An advance payment of the credit was made in 2020 and is treated as a cash benefit in the *Taxing Wages* calculations. The cash benefit resulted in a change of 1.84 percentage points in the tax wedge.

Figure 1 shows the constituent components of the tax wedge in 2020, i.e. income tax, employee and employer social security contributions (including payroll taxes where applicable), as a percentage of labour costs for the average worker without children.

The percentage of labour costs paid in income taxes varies considerably across OECD countries. The lowest figures are in Colombia (0.0%) and Chile (0.03%), with Greece, Israel, Japan, Korea, Mexico, Poland and the Slovak Republic also below 10%. The highest values are in Denmark (35.3%), with Australia and Iceland also over 20%. The percentage of labour costs paid in employee social security contributions also varies widely, ranging from zero in Australia, Colombia, Denmark and New Zealand to 19.0% in Slovenia and 19.2% in Lithuania. Employers in France pay 26.6% of labour costs in social security contributions, the highest amongst OECD countries. The corresponding figures are also more than 20% in eight other countries – Austria, Belgium, the Czech Republic, Estonia, Italy, the Slovak Republic, Spain and Sweden.

As a percentage of labour costs, the total of employee and employer social security contributions exceeds 20% in more than half of the OECD countries. It also represents at least one-third of labour costs in five OECD countries: Austria, the Czech Republic, France, Germany and the Slovak Republic.

TABLE 2. **COMPARISON OF TOTAL TAX WEDGE FOR SINGLE AND ONE-EARNER COUPLE TAXPAYERS, 2020**

As % of labour costs

			Annual change, 2020/19 (in percentage points)		
Country[1]	Family[2] Total Tax wedge 2020 (1)	Single[3] Total Tax wedge 2020 (2)	Family Tax wedge (3)	Single Tax wedge (4)	Difference between single and family (4)-(3) (5)
Turkey	38.2	39.7	0.16	0.09	-0.08
France	37.9	46.6	-0.77	-0.56	0.21
Sweden	37.5	42.7	0.21	0.09	-0.12
Greece	37.1	40.1	-0.82	-0.80	0.02
Finland	36.7	41.2	-1.00	-0.92	0.07
Italy	36.4	46.0	-2.68	-1.91	0.77
Belgium	34.9	51.5	-1.71	-0.76	0.95
Spain	33.9	39.3	-0.16	-0.12	0.04
Germany	32.9	49.0	-1.38	-0.28	1.10
Norway	32.2	35.8	0.04	0.04	0.01
Austria	32.0	47.3	-1.66	-0.56	1.10
Latvia	31.1	41.8	-1.13	-0.62	0.51
Hungary	30.1	43.6	-0.22	-0.94	-0.72
Slovak Republic	30.1	41.2	-0.88	-0.62	0.25
Netherlands	30.0	36.4	-1.93	-0.54	1.39
Portugal	30.0	41.3	0.08	0.06	-0.02
Japan	27.5	32.7	-0.06	-0.02	0.04
Estonia	26.8	36.9	-0.24	-0.13	0.11
United Kingdom	26.4	30.8	-0.09	-0.10	-0.02
Czech Republic	26.1	43.9	-0.37	-0.03	0.34
Slovenia	25.5	42.9	-0.24	-0.55	-0.31
Denmark	25.1	35.2	-0.23	-0.25	-0.02
Australia	20.8	28.4	0.07	0.42	0.34
Mexico	20.2	20.2	-0.01	-0.01	0.00
Lithuania	20.1	36.9	-9.88	-0.76	9.12
Israel	19.9	22.4	-0.60	-0.53	0.07
Iceland	18.6	32.3	-1.27	-0.44	0.82
Korea	18.3	23.3	-2.06	0.31	2.36
Luxembourg	16.3	37.5	-1.12	-0.92	0.20
Ireland	16.1	32.3	-1.71	-0.86	0.85
United States	14.0	28.3	-4.62	-1.37	3.25
Poland	13.2	34.8	-4.32	-0.76	3.56
Canada	10.1	30.4	-2.10	-0.15	1.95
Switzerland	9.6	22.1	-0.37	-0.22	0.15
Chile	7.0	7.0	0.00	-0.01	-0.01
New Zealand	5.0	19.1	1.58	0.34	-1.24
Colombia	-5.4	0.0	-1.02	0.00	1.02
Unweighted average					
OECD average	**24.4**	**34.6**	**-1.15**	**-0.39**	**0.76**

Notes:
1. Countries ranked by decreasing tax wedge of the family.
2. One earner married couple with two children and earnings at the average wage level.
3. Single individual without children and earnings at the average wage level.

Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

In all OECD countries, the tax wedge for families on average wage with children was lower than (or in Mexico, the same as) the tax wedge for the average single earner without children.

Single compared to one-earner couple taxpayers in OECD countries

Table 2 compares the tax wedges for a one-earner married couple with two children and a single individual without children, both at average wage levels (see columns 1 and 2). The size of the tax wedge for the couple with children is generally lower than the one observed for the single individual without children, since many OECD countries provide a fiscal benefit to households with children through advantageous tax treatment and/or cash benefits. Hence, the OECD average tax wedge for the one-earner couple with two children was 24.4% compared to 34.6% for the single average worker. This gap has widened (by 0.7 percentage points) since 2019.

The tax savings realised by a one-earner married couple with two children compared to a single worker without children were greater than 20% of labour costs in Canada, Luxembourg and Poland, and more than 15% of labour costs in seven other countries – Austria, Belgium, the Czech Republic, Germany, Ireland, Lithuania and Slovenia. The tax burdens of one-earner married couples and single workers on the average wage were the same in Mexico and differed by three percentage points or less in Chile (0.03%), Greece, Israel and Turkey (see columns 1 and 2).

In 19 of the 37 OECD countries, there was only a small change (not exceeding plus or minus one percentage point) in the tax wedge of an average one-earner married couple with two children between 2019 and 2020 (see column 3). There was no change in Chile only. There was an increase of more than one percentage point in New Zealand (1.58 percentage points) resulting entirely from a lower income related cash benefit payment in 2020. There were decreases of one percentage point or more in 16 countries – Austria, Belgium, Canada, Colombia, Finland, Germany, Iceland, Ireland, Italy, Korea, Latvia, Lithuania, Luxembourg, the Netherlands, Poland and the United States. For most of those countries, the changes in the tax wedge resulted from the introduction of, or changes in, tax provisions or cash benefits for dependent children. Several of these countries introduced measures related to the COVID-19 crisis in 2020. In Austria (1.66 percentage points), there was a change in the income tax schedule (reduced income tax rate) in response to the COVID-19 crisis. In addition, an extra child benefit was paid in response to the COVID-19 crisis. In Lithuania (9.88 percentage points), as previously mentioned, the tax-exempt amount was increased in response to the COVID-19 crisis and also a one-off child benefit payment was made to families in response to the COVID-19 crisis. Extra or one-off cash benefit or tax provision payments in response to the COVID-19 crisis were also made in Canada (2.10 percentage points), Germany (1.38 percentage points), Iceland (1.27 percentage points), Korea (2.06 percentage points) and the United States (4.62 percentage points). Detailed explanations on COVID-19 related measures are given in the country details in Part II of the report.

A comparison of the changes in tax wedges between 2019 and 2020 for one-earner married couples with two children and single persons without children, at the average wage level, is shown in column 5 of Table 2. The fiscal preference for families increased in 27 OECD countries: Australia, Austria, Belgium, Canada, Colombia, Czech Republic, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, the Slovak Republic, Spain, Switzerland and the United States. Additionally, the effects of changes in the tax system on the tax wedge were of the same magnitude for both household types only in Mexico. In four countries: Chile, Denmark, Portugal and the United Kingdom; the fiscal preference for families decreased, by less than 0.03 percentage points in each country.

Extra or one-off cash benefit or tax provision payments in response to the COVID-19 crisis were made in several OECD countries.

TABLE 3. COMPARISON OF TOTAL TAX WEDGE FOR TWO-EARNER COUPLES WITH CHILDREN, OECD COUNTRIES, 2020

As % of labour costs

Country[1]	Total Tax wedge 2020 (1)	Annual change, 2020/19 (in percentage points)[2]				
		Tax wedge (2)	Income tax (3)	Employee SSC (4)	Employer SSC[3] (5)	Cash benefits (6)
Belgium	43.4	-1.23	-0.87	0.06	-0.24	0.17
Germany	41.5	-0.92	-0.99	0.03	0.03	0.00
France	40.2	-1.48	-0.83	0.07	-0.66	0.07
Italy	40.0	-1.75	-1.66	0.00	0.00	0.09
Sweden	38.7	0.16	0.08	0.01	0.00	-0.07
Turkey	37.8	0.16	0.16	0.00	0.00	0.00
Greece	37.4	-1.11	-0.58	-0.24	-0.25	0.04
Austria	37.0	-1.33	-0.59	0.02	-0.09	0.67
Portugal	36.4	0.09	0.09	0.00	0.00	0.00
Slovak Republic	36.3	-0.82	-0.64	0.02	-0.15	0.05
Spain	36.3	-0.14	-0.14	0.00	0.00	0.00
Finland	35.9	-1.10	-0.17	0.37	-1.26	0.04
Hungary	35.6	-0.51	0.47	0.26	-1.41	-0.17
Slovenia	35.5	-0.17	-0.12	0.00	0.00	0.05
Czech Republic	35.1	-0.22	-0.21	0.00	0.00	0.02
Latvia	33.9	-1.31	-1.32	0.00	0.00	-0.02
Norway	32.5	0.07	0.07	0.00	0.00	0.00
Estonia	30.5	-0.17	-0.13	0.00	0.00	0.04
Denmark	30.5	-0.26	-0.26	0.00	0.00	-0.01
Iceland	29.9	-1.13	-0.33	0.00	-0.22	0.59
Japan	29.7	-0.03	-0.03	0.00	0.02	0.02
Lithuania	29.4	-2.50	-1.06	0.00	0.00	1.43
Netherlands	28.5	-0.48	-0.04	-0.63	0.11	-0.07
United Kingdom	26.5	-0.12	0.11	-0.23	0.00	0.00
Australia	26.3	0.48	0.48	0.00	0.00	0.00
Luxembourg	25.5	-1.30	-0.92	-0.01	-0.04	0.33
Ireland	24.2	-1.20	-1.12	0.00	0.08	0.16
Canada	23.5	-0.54	-0.15	0.13	-0.07	0.45
Poland	22.0	-2.97	-0.73	0.00	0.00	2.24
United States	21.3	-2.78	0.38	0.00	-0.03	3.12
Korea	19.3	-1.11	-0.10	0.24	0.16	1.41
Mexico	18.7	-0.13	-0.30	-0.01	0.18	0.00
New Zealand	17.6	0.24	0.24	0.00	0.00	0.00
Israel	16.0	-0.53	-0.15	-0.23	-0.11	0.04
Switzerland	15.7	-0.42	-0.51	0.13	0.13	0.17
Chile	6.6	-0.02	0.00	0.00	0.00	0.02
Colombia	-6.4	-1.22	0.00	0.00	0.00	1.22
Unweighted average						
OECD average	**28.9**	**-0.75**	**-0.32**	**0.00**	**-0.10**	**0.33**

Notes: Two-earner married couple, one at 100% and the other at 67% of the average wage, with 2 children.

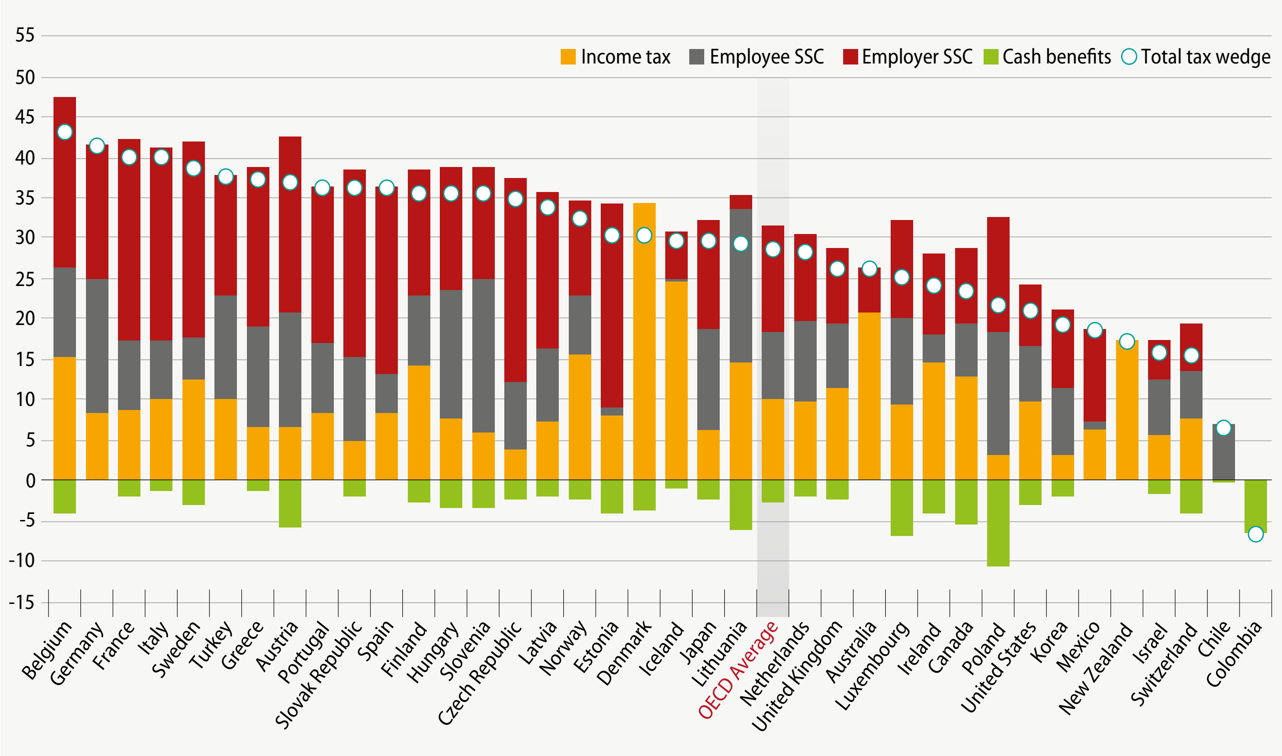
1. Countries ranked by decreasing total tax wedge.
2. Due to rounding, the changes in tax wedge in column (2) may differ by one hundredth of a percentage point from the sum of columns (3)-(6).
3. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

In OECD countries, most of the increases in income tax or social security contributions were augmented or alleviated by changes in cash benefits.

FIGURE 2. **INCOME TAX PLUS EMPLOYEE AND EMPLOYER SOCIAL SECURITY CONTRIBUTIONS LESS CASH BENEFITS, 2020**

For two-earner couples with two children, as % of labour costs



Note: Two-earner married couple, one at 100% and the other at 67% of the average wage, with 2 children. Includes payroll taxes where applicable.

Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

Tax wedge for two-earner couples in OECD countries

The preceding analysis focuses on two households with comparable levels of income: the single worker at 100% of the average wage, and the married couple with one earner at 100% of the average wage, with two children. This section extends the discussion to include a third household type: the two-earner married couple, earning 100% and 67% of the average wage, with two children.

For this household type, the OECD average tax wedge as a percentage of labour costs for the household was 28.9% in 2020 (Figure 2 and Table 3). Belgium had a tax wedge of 43.4%, which was the highest among OECD countries. The other countries with tax wedges exceeding 40% were Italy (40.04 %),France (40.2%) and Germany (41.5%). At the other extreme, the lowest tax wedge was observed in Colombia (-6.4%). In Colombia, the tax wedge was negative as this household type did not pay income taxes at that level of earnings. The household paid contributions that are not considered to be taxes[4] and that are not included in the calculations. This household type received cash benefits that were paid on top of their wages, resulting in a negative tax wedge. The other countries with tax wedges of less than 20% were Korea (19.3%), Mexico (18.7%), New Zealand (17.6%), Israel (16.0%), Switzerland (15.7%) and Chile (6.6%).

Figure 2 shows the average tax wedge and its components as a percentage of labour costs for the two-earner couple for 2020. On average across OECD countries, income tax represented 10.2% of labour costs and the sum of the employees' and employers' social security contributions represented 21.4%. The OECD tax wedge is net of cash benefits, which represented 2.7% of labour costs in 2020.

The cash benefits that are considered in the *Taxing Wages* publication are those universally paid to workers in respect of dependent children between the ages of six to eleven inclusive. In-work benefits that are paid to workers regardless of their family situation are also included in the calculations. For the two-earner couple, Denmark paid an income-tested cash benefit (the Green Check) that also benefited childless single workers.

4. See note 2.

Measures related to the COVID-19 crisis in OECD countries included extra or one-off cash benefit or tax provision payments for two-earner couples with children in Austria, Canada, Korea, Iceland, Lithuania and the United States.

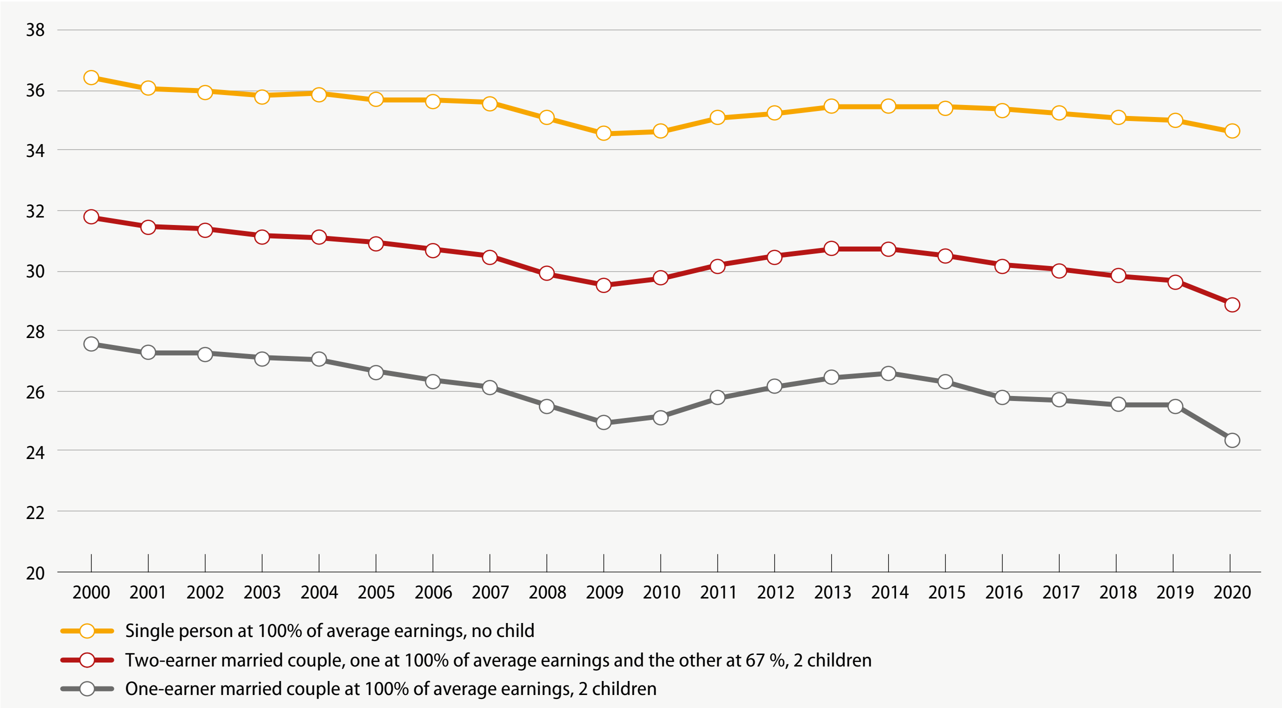
In response to the COVID-19 crisis, workers without children also received cash benefits in Canada and the United States as observed in the previous section on the tax wedge for the average single worker.

Compared to 2019, the OECD average tax wedge of the two-earner couple decreased by 0.75 percentage points in 2020, as indicated in Table 3 (column 2) as a consequence of decreasing tax wedges in 31 out of 37 OECD countries. It increased in six countries only – Norway (0.07 percentage points), Portugal (0.09 percentage points), Sweden and Turkey (both by 0.16 percentage points), New Zealand (0.24 percentage points) and Australia (0.48 percentage points). In most countries with decreasing tax wedges for families with children between 2019 and 2020, the lower tax wedges resulted from changes in income tax systems and SSCs, as observed for the single workers, and also from increased cash benefits or tax provisions for dependent children between the two years. Decreases of more than one percentage point were observed in 15 countries – Poland (2.97 percentage points), the United States (2.78 percentage points), Lithuania (2.50 percentage points), Italy (1.75 percentage points), France (1.48 percentage points), Austria (1.33 percentage points), Latvia (1.31 percentage points), Luxembourg (1.30 percentage points), Belgium (1.23 percentage points), Colombia (1.22 percentage points), Ireland (1.20 percentage points), Iceland (1.13 percentage points), Greece and Korea (both by 1.11 percentage points) and Finland (1.10 percentage points). As observed for the one-earner couples with children in the previous section, among some of these countries, measures related to the COVID-19 crisis were introduced in 2020. Extra or one-off cash benefit or tax provision payments in response to the COVID-19 crisis were made to two-earner couples with children in Austria, Canada, Korea, Iceland, Lithuania and the United States. In addition to an extra child benefit payment in response to the COVID-19 crisis, a marginal income tax rate within the income tax schedule was reduced in Austria and a tax-exempt amount was increased in Lithuania. In Poland, which had the second largest increase in the cash benefit as a percentage of labour costs (2.24 percentage points) after the United States (3.12 percentage points) for two-earner couples with children, the increase was due to a reform of the family benefit system that was introduced in July 2019 and that was not related to the COVID-19 crisis.

Among the six countries where tax wedges increased for two-earner couples with children in 2020, the increase in income tax as a percentage of labour costs represented the bulk of the increase in the tax wedge in five of them: Norway (0.07 percentage points), Portugal (0.09 percentage points), Turkey (0.16 percentage points), New Zealand (0.24 percentage points) and Australia (0.48 percentage points). In Sweden, the increase in the tax wedge was mainly driven by higher income tax and reduced cash benefits as a percentage of labour costs (0.08 percentage points and -0.07 percentage points).

FIGURE 3. **OECD TAX WEDGES SINCE 2000**

For three household types, as % of labour costs



Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.

OECD tax wedge trends since 2000

The OECD tax wedge for the single average worker, the one-earner married couple on the average wage with two children and the two-earner married couple with total wage earnings at 167% of the average wage and two children have declined since 2000 (see Figure 3). The tax burden trend is similar for the three household types, with the lowest tax wedge seen in 2009 in the context of the global financial crisis and in 2020 in the context of the COVID-19 pandemic for each of these cases. For the average single worker, the OECD average tax wedge decreased from 36.4% in 2000 to 34.6% in 2009, increased to 35.5% in 2013 and then steadily declined to 34.6% in 2020. For the one-earner married couple on the average wage with two children, the tax wedge declined between 2000 and 2009, from 27.6% to 24.9% , increased to 26.6% in 2014 and then steadily declined to reach its lowest level of 24.4% in 2020. Finally, for the two-earner married couple on 167% of the average wage with two children, the tax wedge changed from 31.8% in 2000 to 28.9% in 2020, with the second lowest rate being 29.5% in 2009.

For the average single worker, the tax wedge decreased from 36.4% in 2000 to 34.6% in 2020.

The net personal average tax rate

Taxing Wages 2021 presents a second main indicator, which measures income tax plus employee social security contributions less cash benefits as a percentage of gross wage earnings; i.e. the **net personal average tax rate**. On average, the net personal average tax rate for a single worker at average earnings in OECD countries was 24.8% in 2020 (see Figure 4). In other words, disposable or after tax income[5] represented 75.2% of the gross wage earnings for the single average worker. Germany had the highest net personal average tax rate at 38.9% of gross wages, with Belgium, Denmark and Latvia being the only other countries with rates of more than 35%. Chile and Mexico had the lowest net personal average tax rates at 7.0% and 10.8% of gross average earnings respectively. In Colombia, the net personal average tax rate is zero for the single worker at the average wage level, who did not pay personal income taxes in 2020, while their contributions to pension, health and employment risk insurances are considered to be non-tax compulsory payments (NTCPs)[6] and therefore are not included as taxes in the *Taxing Wages* calculations. *Taxing Wages 2021* also shows the net personal average tax rates for other household types with or without children.

5. The *Taxing Wages* indicators focus on the structure of income tax systems on disposable income. To assess the overall impact of the government sector on people's welfare other factors such as indirect taxes (e.g. VAT) should also be taken into account, as should other forms of income (e.g. capital income). In addition, non-tax compulsory payments that affect households' disposable incomes are not included in the calculations presented in the publication, but further analyses on those payments are presented in the online report: http://www.oecd.org/tax/tax-policy/tax-database/non-tax-compulsory-payments.pdf.

6. See note 2.

Box 3: **Methodology**

The analysis in *Taxing Wages 2021* focuses on full-time private sector employees. It is assumed that their annual income from employment is equal to a given percentage of the average full-time adult gross wage earnings for each OECD economy, referred to as the average wage (AW).

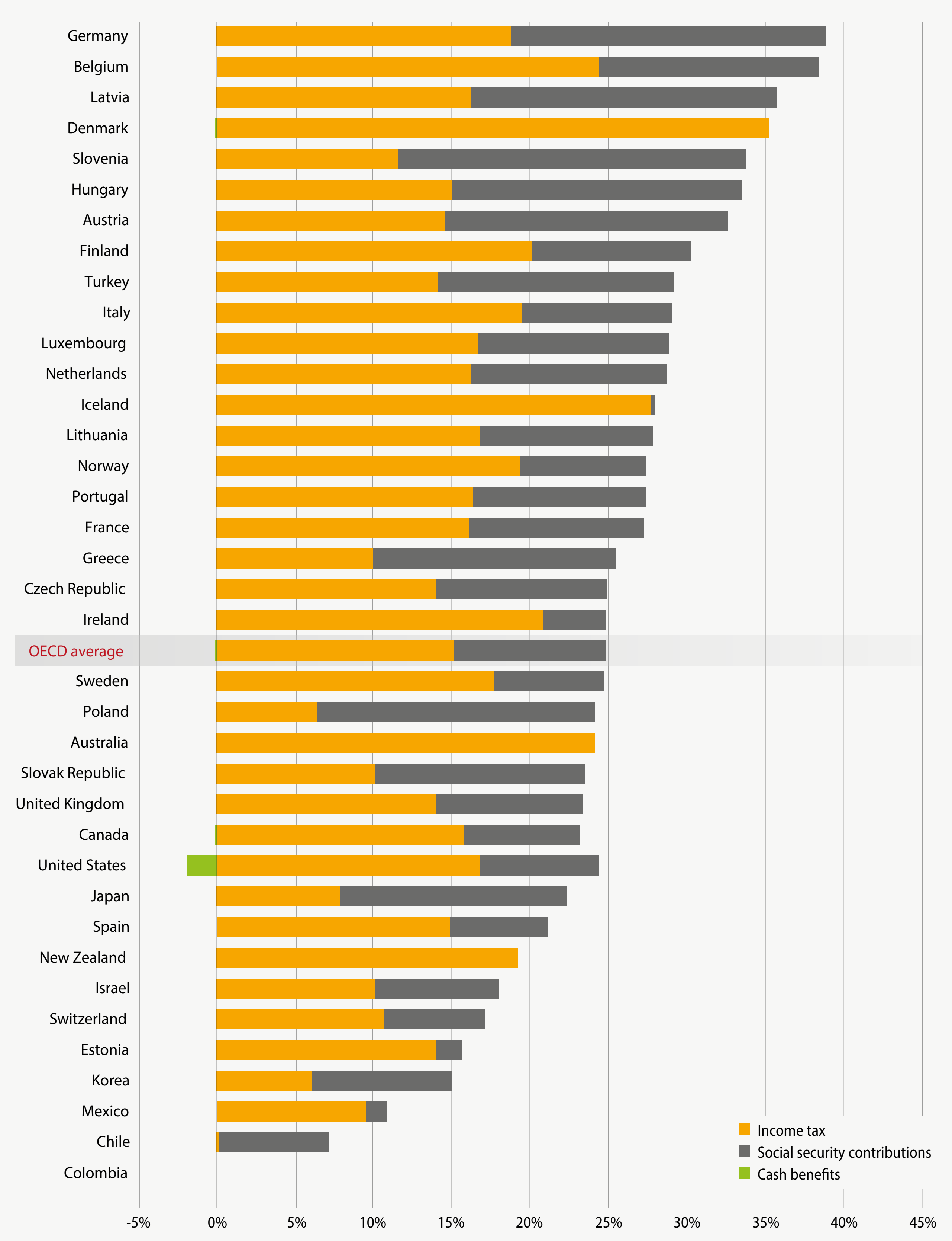
The term **tax** includes the personal income tax, social security contributions and payroll taxes (which are aggregated with employer social contributions in the calculation of tax rates) payable on gross wage earnings. Consequently, any income tax that might be due on non-wage income and other kinds of taxes – e.g. corporate income tax, net wealth tax and consumption taxes – are not taken into account. The benefits included are those paid by general government as cash transfers, usually in respect of dependent children.

For most OECD countries, the tax year is equivalent to the calendar year, the exceptions being Australia, New Zealand and the United Kingdom. In the case of New Zealand and the United Kingdom, where the tax year starts in April, the calculations apply a 'forward-looking' approach. This implies that, for example, the tax rates reported for 2020 are those for the tax year 2020-21. However, in Australia, where the tax year starts in July, it has been decided to take a 'backward looking' approach in order to present more reliable results. So, for example, the year 2020 in respect of Australia has been defined to mean its tax year 2019-2020.

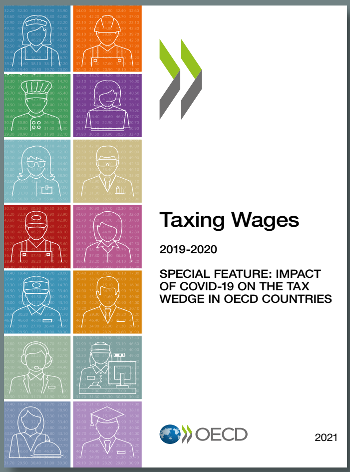
For information on the tax burden on other household types, please see *Taxing Wages 2021*. A full description of the methodology is set at in the *Taxing Wages 2021* Annex.

FIGURE 4. **INCOME TAX AND EMPLOYEE SOCIAL SECURITY CONTRIBUTIONS LESS CASH BENEFITS, 2020**

For a single worker on average wage, as % of gross wage earnings



Source: Data from *Taxing Wages 2021* (OECD), http://oe.cd/taxingwages.



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FURTHER READING

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OECD/IDB/CIAT (2016), *Taxing Wages in Latin America and the Caribbean 2016*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264262607-en

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Paturot, D., K. Mellbye and B. Brys (2013), "Average Personal Income Tax Rate and Tax Wedge Progression in OECD Countries", *OECD Taxation Working Papers,* No. 15, OECD Publishing, Paris. http://dx.doi.org/10.1787/5k4c0vhzsq8v-en

OTHER STATISTICAL SOURCES

OECD Tax Database, http://oe.cd/tax-database

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