ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
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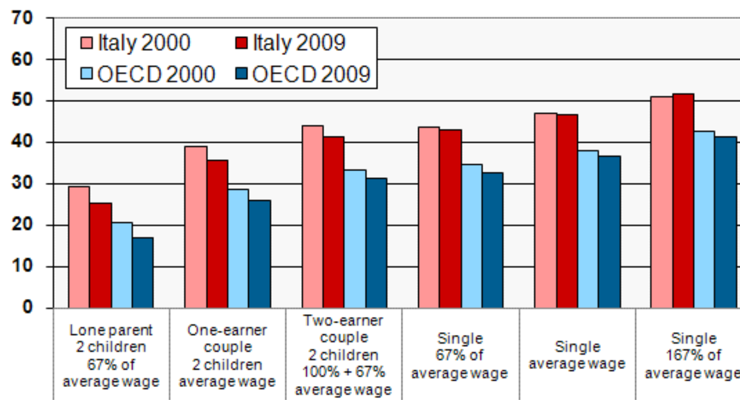
Taxing Wages: Country note for Italy

Italy is among the OECD countries that levy a relatively high tax and social security burden on labour income. Single taxpayers at average earnings take home less than 55% of what they cost to their employer ("total labour costs"); taxpayers at high earnings take home even less than 50%. The average tax wedge (the average income taxes plus employee and employer social security contributions minus cash transfers as a percentage of total labour costs) in Italy is about 10 percentage points higher than the OECD average. Lone-parents at 67% of the average wage face the lowest tax wedge but it remains about 8 percentage points above the OECD average.

Average Tax Wedge for different wage levels and household types in % of total labour costs



Lone parents and married couples have benefited the most from the tax cuts implemented over the past 10 years. The tax wedge increased slightly only for high-income single taxpayers.

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In 2009, the overall tax burden hardly changed for most types of households analysed in the Taxing Wages Report. For a single employee with an average wage the tax wedge stayed constant at 46.5% of total labour costs. A single-earner married couple with 2 children at average wage earnings saw their tax wedge decrease by 0.4 percentage point to 35.7% of labour costs. The tax wedge decreased the most for lone parents with 2 children at 67% of the average wage; their tax wedge decreased with 0.5 percentage point to 25.0% of total labour costs.

Employers in Italy are required to make contributions for the Trattamento di Fine Rapporte (TFR) on behalf of their employees. The TFR is a severance pay; this postponed wage is paid to the employee at the end of the working relationship. Contributions to the TFR consist of the yearly employer contribution equal to 7.4074 per cent (1/13.5) of the annual gross wage earnings of the employee in 2009. These payments accumulate at a rate that is linked to the inflation rate. Because the total amount will be paid to the employee at the end of the labour contract, these contributions are considered as "requited" payments, implying that they are not taxes which are "compulsory unrequited payments to general government". Because the TFR contributions are not taxes, they are not modeled in Taxing Wages. However, this year's edition of Taxing Wages includes a Special Feature that focuses on "non-tax compulsory payments" (NTCPs). When the TFR contributions are also taken into account, the overall tax and NTCP burden increases with about 3 percentage points on average across Italian families. The combined tax and NTCP wedge (net of cash benefits for children) increases the most (+4 percentage points) for single parents with 2 children at two-thirds of the average wage up to 29 per cent of total costs for the employer of employing that individual. The total wedge for single individuals earning the average wage increases to 49.3%.

The tax wedge in Taxing Wages is calculated on the basis of the average gross wage earnings of full-time employees in the private sector (including employees at management level). The corresponding 2009 annual average gross wage in Italy was EUR 26,181..

More Information

This web page is also available in Italian.

Taxing Wages country chapter of Italy – a detailed description of the Italian tax system and the calculations of the tax wedge in Italy is included in the Taxing Wages Report.

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Also available:

- Taxing Wages: Italia (Italian)