11/05/2010 - **OECD**

Average tax and social security burdens on employment incomes fell slightly in 24 out of 30 OECD countries last year as governments struggled to shore up faltering economies amid the worst recession in decades. But whether this trend will continue this year is uncertain given the widespread pressures on public budgets.

“Governments have to reconcile support to a still fragile recovery with the need to move to a more sustainable fiscal path”, OECD Secretary-General Angel Gurría said. “Lower taxes on labour can help to boost recovery, but only as part of a broader, balanced package.”

According to the latest edition of the OECD’s annual publication Taxing Wages, some of the biggest falls were in New Zealand, which already imposed relatively low taxes on labour incomes. Turkey and Sweden were among other countries experiencing significant reductions.

Taxes on wages, including both employer and employee social security contributions, are a key factor in companies’ hiring decisions and individuals’ attitudes to work. As such, they indirectly affect employment trends.

Taxing Wages calculates the difference between the total cost to an employer of employing someone and that person’s net take-home pay, including any cash benefits from government welfare programmes, to define what it calls the ‘tax wedge’. The tax burden at any given level of earnings is derived by dividing this ‘tax wedge’ by the total payroll costs. The Taxing Wages publication provides an overview of the taxation of employment income across OECD countries and the distribution of this tax burden across different household types and levels of earnings.

In 2009, Taxing Wages indicates

• Many countries cut income taxes, especially for lower-income households and/or households with children, thereby reducing tax wedges. Some countries also reduced employer social security contributions to encourage firms to retain employees, rather than resorting to lay-offs.

• Smaller tax wedges also reflected lower average wages in some countries as a result of the financial and economic crisis, and the progressivity of tax regimes, so that lower earnings meant a smaller share was taken in tax. This was especially the case in Germany, Japan and the United States.

• Hungary, Greece and France were the highest-tax countries for one-earner married couples with two children earning the average wage, with tax wedges of 43.7% in Hungary and 41.7% in Greece and France. (See Table 1)

• At the bottom end of the scale, New Zealand had the smallest tax wedge for one-earner married couples with 2 children earning the average wage, at 0.6%, followed by Iceland (8.6%) Luxembourg (11.2%). The average for OECD countries was 26%.

• Belgium, Hungary and Germany once again had the highest tax wedges for single workers without children on average wages, at 55.2%, 53.4% and 50.9% respectively, though all three countries showed a small drop from in 2008. (See Table 2)

• At the other end of the scale, Mexico took only 15.3% of the payroll cost of a single person without children on average wages in taxes. In New Zealand, the figure was 18.4% and in Korea it was 19.7%. The average for OECD countries was 36.4%.

• In Turkey, lower employer social security charges led to a 2.29 percentage point reduction in the tax wedge for a single person on the average wage, while in Sweden, cuts in both income taxes and employer social security charges led to a 1.65 percentage point reduction.

• Australia, Austria, Germany, Ireland, Luxembourg, the Netherlands, Portugal, the Slovak Republic, Turkey and the United Kingdom all reduced the tax wedge for single parents with 2 children earning two thirds of the average wage by more than 2 percentage points.

• Ireland increased the tax wedge on average-income single earners by 1.54 percentage points and on one-earner average income married couples with two children by two percentage points as part of a drive to raise more tax revenues. Even so, the tax wedge remained below the OECD average in both cases, at 28.6% and 11.7% respectively.

• In Australia, Iceland, Italy, Mexico, the Netherlands, Norway, Poland and the Slovak Republic, a large additional burden on employment are payments which are compulsory but which are not regarded as tax since they are not paid to government but to privately-managed pension funds or insurance companies. Often, these are paid by the employer, but in Iceland, the Netherlands and Poland a large proportion is paid by employees.