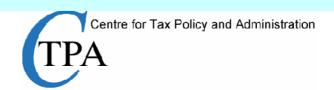# A JOINT OECD-EC PROJECT TO CALCULATE THE TAX BURDEN ON LABOUR AND INCENTIVES TO WORK

Christopher Heady copyright with the author
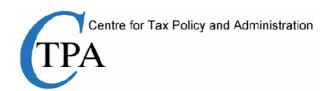
OECD Centre for Tax Policy and Administration

Workshop on Indicators and Policies to Make Work Pay

Brussels, 17 March 2005
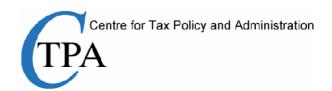
Outline

- Introduction
- Methodology
- Illustrations
    - Taxation of low-paid workers
    - Tax treatment of families
    - Tax advantages for two-earner couples
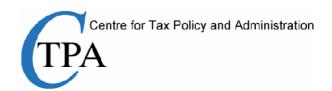- Conclusions

Introduction

- Joint project between the OECD and EC
- Need for incentives & adequate income levels
- Role of policy indicators
    - Identify sub-groups
    - Measure progress
    - International comparison

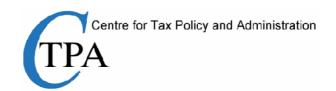- *Taxing Wages* and *Benefits and Wages*

Methodology

- Based on 'typical families'
  - Internationally comparable policy indicators
  - Focus on *policy rules* rather than policy outcomes: abstracts from population differences
  - Tax-benefit position in a particular situation
  - Plus: effects of *transitions* → financial incentives

- Taxing Wages
  - Taxes (including social security contributions) and universal benefits only
  - Incomes from 67% to 167% of APW
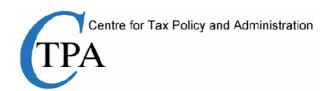
COMPARISON WITH IMPLICIT TAX RATES

- Substantial differences between ITR and tax wedge for single average production worker

- Good time series correlation between the two measures for most countries, but some important exceptions

- There are a number of possible reasons for differences
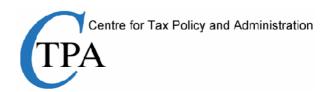
REASONS FOR DIFFERENCES (1)

- Difference in sector coverage
  - Uncertain effect
- Inclusion of part-time workers
  - Lowers ITR
- Inclusion of other employer costs
  - Lowers ITR
- Averaged over actual population
  - Uncertain effect

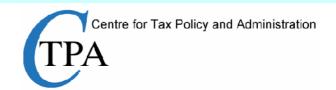# REASONS FOR DIFFERENCES (2)

- Inclusion of non-standard reliefs
  - Substantially reduces ITR
- Exclusion of cash benefits
  - Not relevant for single workers but important for families
- Diversity of households
  - Including families lowers ITR compared to single worker wedge
  - Wage diversity probably increases ITR

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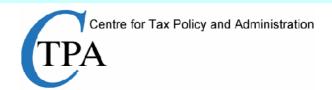
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ADVANTAGES OF ITR & TW

- Implicit Tax Rates
  - Coverage of all workers
  - Reflects actual collections

- Taxing Wages
  - Can reflect policies that target specific types of workers (e.g. lower paid)
  - Includes cash benefits that are similar to tax reliefs
  - Produces marginal tax rates as well as average

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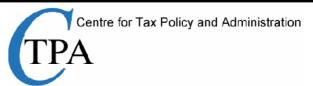# COMPARISON WITH MICRO-SIMULATION MODELS

- Micro-simulation models can do everything that the Taxing Wages approach can do

- However, they usually use a representative population sample
  – Advantages and disadvantages

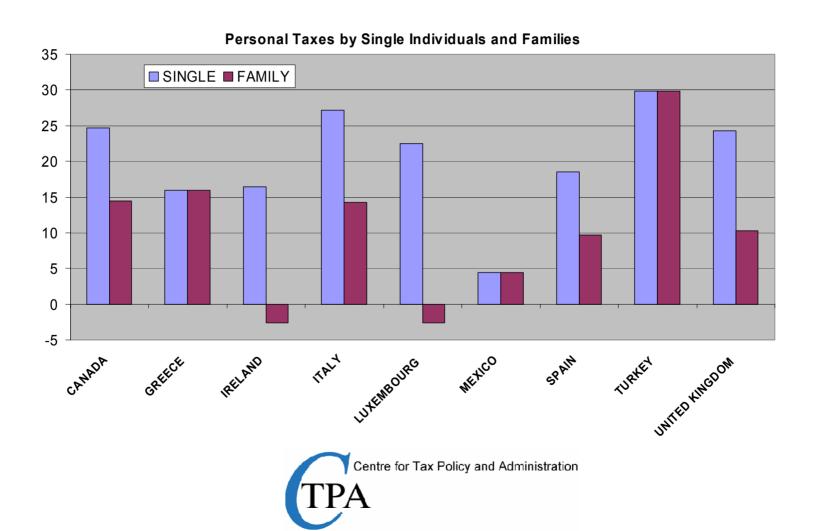- They require much more data to yield their extra realism and detail

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Tax Wedges for Low-wage Workers

	2004 Values		Increase since 2000	
	Average	Marginal	Average	Marginal
BELGIUM	46.9	74.1	-3.0	+8.2
FINLAND	38.6	50.5	-3.9	-3.8
FRANCE	32.5	55.5	-7.1	-17.0
GERMANY	45.4	58.8	-1.1	-1.4
HUNGARY	41.5	54.7	-4.7	-1.6
ITALY	41.7	52.7	-1.6	+2.5
KOREA	15.3	17.8	+0.1	+0.2
MEXICO	10.6	15.4	+0.7	-1.5
NETHERLANDS	38.1	55.6	-2.5	+1.3
SWEDEN	46.2	51.7	-1.5	-1.9
U.S.A.	27.3	34.1	-1.7	-0.5

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Tax treatment of families

Personal Taxes by Single Individuals and Families

Tax advantages for two-earner couples

COUNTRIES	100% APW	133% APW	167% APW
Australia	3.2	6.6	10.3
Denmark	-2.5	2.8	6.8
Finland	10.9	10.3	13.8
France	3.0	0.9	0.3
Germany	0.9	0.2	-2.4
Japan	-0.4	-0.1	0.6
Mexico	10.6	9.0	10.9
Slovak Republic	2.0	1.5	2.6
United States	0.0	0.0	0.0

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Conclusions

- *Taxing Wages* provides policy-relevant indicators that are suitable for international comparisons of tax and benefit structures

- Different indicator(s) appropriate for different policy issues

- The models contain details of *policy rules* → examine different family and labour market situations

- Flexible framework that can generate additional indicators as the need arises