Family Tax Rates

In 2006, the tax wedge between labour costs to the employer and the corresponding net take-home pay for a one-earner married couple with two children, at average earnings levels, varied widely across OECD countries (see column 1 in the Table). The size of the tax wedge is generally lower than the one observed for a single average worker without children (see column 2 in the Table), since many OECD countries provide a fiscal benefit to families with children relative to single individuals without children through advantageous tax treatment and/or cash transfers.

The savings realised by a one-earner married couple compared to a single worker are greater than 18 per cent of labour costs in Iceland, New Zealand, Ireland and Luxembourg. In contrast, families are slightly worse off in terms of tax burden in Greece, while the tax burden is the same in Mexico and Turkey (see column 3 in the Table).

These tax wedge figures include employer social security contributions, which are independent of the family type. Therefore, the same pattern is seen for the net personal average tax rate across family types – burden of income tax plus employee social security contributions less cash benefits. The Figure provides the net personal average tax rate for single individuals at 100 per cent of the earnings of an average worker and for a married one-earner couple with two children at the same earnings level. The savings realised by a one-earner married couple are greater than 20 per cent of earnings in the Czech Republic, Luxembourg and Ireland. In contrast, the burden is the same in Mexico and Turkey and it is higher in Greece. Employers pay higher wages to married employees with children in Greece, which then implies that these employees will have to pay more taxes. This is the main reason why the net personal average tax rate for married one-earner couples in Greece exceeds the net personal average tax rate for single individuals at 100 per cent of average earnings. It is also interesting to note that when cash benefits are taken into account, married one-earner couples face a negative burden in Ireland because cash benefits exceed the income tax and social security payments.

W.O.

Reference

OECD, Taxing Wages 2005/2006.

Total tax wedge by family type, 2006
As percentage of labour costs[a)]

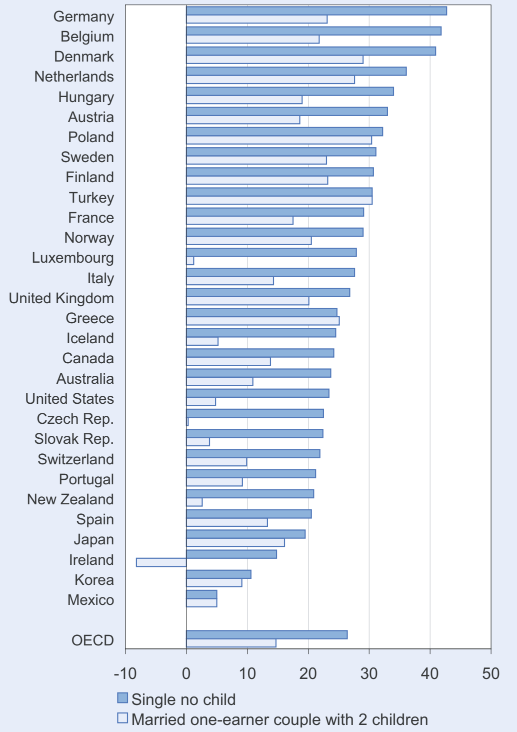
Country[b)]	Family total tax wedge	Single total tax wedge	Difference between family and single
	(1)	(2)	(1) – (2)
Turkey	42.8	42.8	0.0
Poland	42.2	43.7	–1.5
France	42.0	50.2	–8.2
Sweden	41.8	47.9	–6.1
Greece	41.5	41.2	0.3
Belgium	40.1	55.4	–15.3
Hungary	39.8	51.0	–11.2
Finland	38.0	44.1	–6.1
Netherlands	37.0	44.4	–7.4
Austria	36.9	48.1	–11.2
Germany	36.2	52.5	–16.3
Italy	35.1	45.2	–10.1
Spain	33.6	39.1	–5.5
Norway	29.9	37.3	–7.4
Denmark	29.5	41.3	–11.8
United Kingdom	27.8	33.9	–6.1
Portugal	26.6	36.3	–9.7
Czech Republic	26.1	42.6	–16.5
Japan	25.8	28.8	–3.0
Slovak Republic	23.7	38.5	–14.8
Canada	22.8	32.1	–9.3
Switzerland	18.9	29.7	–10.8
Korea	16.8	18.1	–1.3
Australia	16.0	28.1	–12.1
Mexico	15.0	15.0	0.0
Luxembourg	13.0	36.5	–23.5
United States	11.7	28.9	–17.2
Iceland	10.4	28.6	–18.2
New Zealand	2.6	20.9	–18.3
Ireland	2.3	23.1	–20.8

[a)] Figures for a one-earner married couple with two children and for the average worker single without children. – [b)] Countries ranked by decreasing family tax wedge.

Source: OECD, Taxing Wages 2005/2006, pp. 13+18.

INCOME TAX PLUS EMPLOYEE CONTRIBUTIONS LESS CASH BENEFITS BY FAMILY-TYPE, 2006

as % of gross wage earnings



Source: OECD, Taxing Wages 2005/2006, p. 47.