

## THRESHOLDS FOR PAYING INCOME TAX

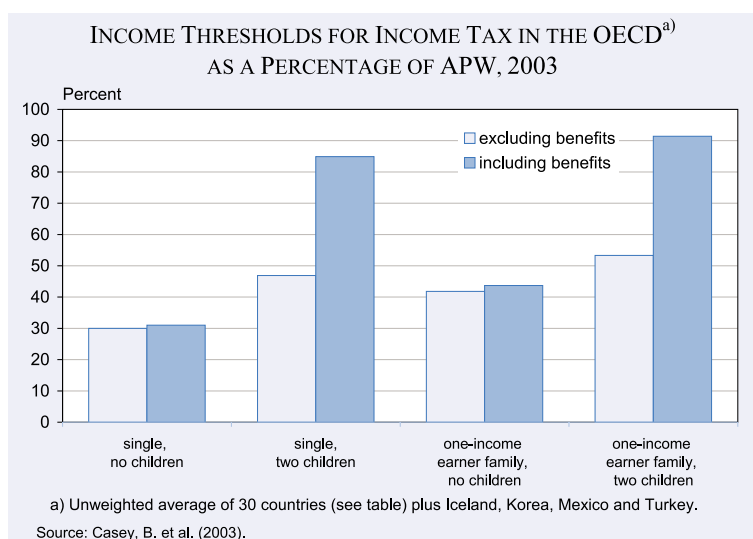
The minimum level of earnings at which personal income tax must be paid – the income tax threshold – is an important tax policy issue for several reasons. First, it is one of the determinants of the degree of progressivity in an income tax system. Secondly, the threshold where income tax starts being paid may influence the point at which “poverty traps” may become operative, with reference to effective tax rates that take into account both income tax and the means-testing of tax credits and benefits. Thirdly, the tax threshold will impact on the revenue yield from the personal income tax – increasing the threshold is generally costly in terms of revenue forgone. Fourthly, a significant increase in the tax threshold may be used to simplify tax administration by moving a substantial proportion of the population out of the income tax system. On the one hand, this option could greatly reduce aggregate compliance costs of the household sector. On the other hand, as more low-income households find themselves outside the income tax system, it will prove more difficult, for example, to use the income tax as a vehicle for delivering benefits to the needy.

The Table reports income thresholds for income tax (combined central and state/local) and income tax minus benefits as a percentage of earnings of an average production worker (APW) for family types for 2003. The reason for comparing income thresholds across countries both including and excluding benefits is that an increasing number of countries provide benefits through the tax system (by non-wastable tax credits), whereas other countries still mainly provide benefits by the use of cash grants. Such differences in policies are reflected in the table, where the income threshold is almost unaltered by the introduction of benefits in some countries whereas the difference is large in other countries.

For a single individual without children, the threshold levels in 2003 were 30 percent of APW earnings on average among the

OECD member countries excluding and 31 percent including benefits, ranging from 0.0 percent in France and Italy to 99.9 percent in Greece. For a sole parent, the average threshold levels in 2003 were 46.9 percent of APW earnings excluding and 84.9 percent including benefits. The thresholds excluding benefits range from 0.0 percent in France and Italy to 108.9 percent in Greece. Including benefits, the thresholds range from 39 percent in Germany to 155 percent in Luxembourg. For a one-income earner family without children, the average threshold levels in 2003 were 41.8 percent of APW earnings excluding and 43.7 percent including benefits. The thresholds range from 0.0 percent in France and Italy to 90.8 percent in Greece. For a one-income earner family with two children, the average threshold levels in 2003 were 53.5 percent of APW earnings excluding and 91.4 percent including benefits. The thresholds range from 0.0 percent in France and Italy to 131.6 percent in Luxembourg excluding benefits. Including benefits, the thresholds vary from 45.9 percent in Denmark to 211.2 percent in Luxembourg.

From these comparisons, it becomes apparent that income thresholds are higher for families with children, be it sole parents or one-income earner families, than for families without children in most countries (see Figure). The differences tend to be higher when benefits are included, although the tax system itself favours families with children in several countries in the sense that the income threshold is higher. The income threshold element of tax systems also seems to favour families over single individuals/parents. If one compares singles without children with one-income earner families with



Income thresholds<sup>a)</sup> including and excluding benefits as a percentage of APW<sup>b)</sup>, 2003

Country	Single, no children	Single, two children	One-income earner family, no children	One-income earner family, two children
Australia				
income tax	2.7	15.1	32.4	2.7
income tax less benefits	28.5	71.1	32.4	71.1
Austria				
income tax	54.0	63.5	63.5	63.5
income tax less benefits	54.0	137.2	63.5	137.2
Belgium				
income tax	29.5	40.5	39.5	53.6
income tax less benefits	29.5	68.0	39.5	82.1
Canada				
income tax	20.6	38.0	38.0	39.1
income tax less benefits	25.0	85.3	45.5	84.6
Czech Republic				
income tax	19.7	44.0	30.9	55.3
income tax less benefits	19.7	101.5	30.9	119.4
Denmark <sup>c)</sup>				
income tax	12.7	12.7	25.0	25.0
income tax less benefits	12.7	62.9	25.0	45.9
Finland				
income tax	7.5	7.5	7.5	7.5
income tax less benefits	7.5	62.1	7.5	53.5
France <sup>d)</sup>				
income tax	0.0	0.0	0.0	0.0
income tax less benefits <sup>e)</sup>	0.0	81.4	0.0	82.7
Germany				
income tax	31.2	39.0	58.4	58.4
income tax less benefits	31.2	39.0	58.4	58.4
Greece				
income tax	99.9	108.9	90.8	99.9
income tax less benefits	99.9	108.9	90.8	99.9
Hungary				
income tax	51.9	82.8	51.9	82.8
income tax less benefits	51.9	125.4	51.9	121.8
Ireland				
income tax	43.1	71.3	71.3	85.6
income tax less benefits	43.1	121.1	71.3	137.6
Italy				
income tax	0.0	0.0	0.0	0.0
income tax less benefits	0.0	79.8	49.7	92.1
Japan				
income tax	26.4	47.7	47.7	74.6
income tax less benefits	26.4	47.7	47.7	74.6
Luxembourg				
income tax	42.1	106.3	76.9	131.6
income tax less benefits	42.1	155.0	76.9	211.2
Netherlands				
income tax	16.7	46.8	37.3	46.8
income tax less benefits	16.7	93.2	37.3	92.8
New Zealand				
income tax	11.7	11.7	11.7	11.7
income tax less benefits	11.7	60.9	11.7	60.9
Norway				
income tax	20.6	30.9	30.9	30.9
income tax less benefits	20.6	76.1	30.9	62.5
Poland				
income tax	32.4	32.4	53.7	53.7
income tax less benefits	32.4	73.4	53.7	94.7
Portugal				
income tax	56.1	89.4	74.0	97.2
income tax less benefits	56.1	121.3	74.0	143.3
Slovak Republic				
income tax	29.6	55.3	38.8	64.5
income tax less benefits	29.6	138.5	38.8	136.2
Spain				
income tax	43.4	70.8	62.3	77.2
income tax less benefits	43.4	70.8	62.3	77.2
Sweden				
income tax	7.7	7.7	7.7	7.7
income tax less benefits	7.7	48.7	7.7	48.7

Continued Table

Country	Single, no children	Single, two children	One-income earner family, no children	One-income earner family, two children
Switzerland				
income tax	14.8	34.7	25.4	35.8
income tax less benefits	14.8	117.7	25.4	120.9
United Kingdom				
income tax	44.1	85.3	56.6	85.3
income tax less benefits	44.1	97.6	56.6	97.0
United States				
income tax	19.2	87.7	22.4	96.2
income tax less benefits	19.2	87.7	22.4	96.2
OECD-unweighted average <sup>d)</sup>				
income tax	30.0	46.9	41.8	53.3
income tax less benefits	31.0	84.9	43.7	91.4

<sup>a)</sup> Income thresholds are calculated, using the country calculation files used in producing *Taxing Wages*, by finding the first unit of earned income where there is payable income tax. – <sup>b)</sup> Average production worker. – <sup>c)</sup> The labour market contribution of 8% is not included in these calculations. – <sup>d)</sup> Including CSG and CRDS. Excluding CSG and CRDS, the thresholds are 68.6%, 111.4%, 96.6% and 127.0% of APW respectively for the four family types excluding benefits. – <sup>e)</sup> Including CSG and CRDS. Excluding CSG and CRDS, the respective thresholds are 68.6%, 175.0%, 96.6% and 200.8% of APW. – <sup>f)</sup> The above mentioned countries plus Iceland, Korea, Mexico and Turkey.

Source: OECD, *Taxing Wages 2002–2003*, Paris 2004, pp. 42–44.

out children, the thresholds are higher for the latter group in 20 countries including and 19 countries excluding benefits. Comparing sole parents with two children and one-income earner families with two children, the thresholds are higher for families in about half of the member countries both including and excluding benefits, whereas the reverse is true in two countries excluding benefits (Australia and Greece) and nine countries including benefits (Canada, Denmark, Finland, Greece, Hungary, Netherlands, Norway, the Slovak Republic and the United Kingdom).

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## Reference

OECD, *Taxing Wages 2002–3*, Paris 2004 (Special Feature).