

Taxing wages – Tax wedge decomposition

■Source

■Contact person/organisation

Contact: [Taxing Wages Enquiry](#)

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■Source metadata

These tables, which are also reported in the OECD Taxing Wages publication, provide unique information for each of the OECD countries on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers.

The amounts of taxes and social security contributions paid and cash benefits received are set out, programme by programme, for 8 different household types characterised by marital status, number of children, earnings levels expressed as proportion of average wages and whether there are one or two earners.

The results reported include the average and marginal tax burden for each household type. These data on tax burdens and cash benefits are widely used in academic research and the preparation and evaluation of social economic policy-making.

A glossary of terms used can be found at the following OECD website: [Glossary of Statistical Terms](#). However, some definitions may differ from other datasets within OECD.Stat. The Taxing Wages <http://www.oecd.org/tax/tax-policy/taxing-wages.htm> provides further information on the terminology used in Taxing Wages datasets together with a set of downloadable tables and charts.

■Data Characteristics

■Other data characteristics

This current Taxing Wages model has evolved from 2 earlier versions. The latest version is based on calculations for the Average Worker (AW) in the private sector ([see glossary term](#)), and the results are shown for 8 household types covering one- and two-earner families of varying size and different fractions of average gross wage earnings. There are 14 separate tax burden measures that describe the tax and benefit position of these families.

This approach was first followed in the 2005-2006 Taxing Wages publication, which also applied these assumptions to calculate tax burden measures as of 2000. These assumptions have been applied since then in the more recent Taxing Wages publications and website databases.

The first version of the Taxing Wages model (historical model A) was based on a more narrow definition of the average worker: the Average Production Worker (APW) solely from the manufacturing sector ([see glossary term](#)). It included only two of the current 8 family types, and the results are shown for only 3 of the existing 14 tax burden measures. This model was applied to data for years 1979-2004.

The second version (historical model B) continued to use the Average Production Worker (APW) basis for its calculations, but was expanded to cover the full 8 family types that are currently used, and increased the number of tax burden measures to 12 of the 14 currently used. This model was applied to data for years 1997-2004.

■Other Aspects

■Recommended uses and limitations

The simple approach of comparing the tax/benefit position of example households avoids many of the conceptual and definitional problems involved in more complex international comparisons of tax burdens and transfer programmes. However, a drawback of this methodology is that the earnings of an average worker will usually occupy a different position in the overall income distribution in different economies, although the earnings relate to workers in similar jobs in various OECD Member countries.

Because of the limitations on the taxes and benefits covered in the Report, the data cannot be taken as an indication of the overall impact of the government sector on the welfare of taxpayers and their families. Complete coverage would require studies of the impact of indirect taxes, the treatment of non-wage labour income and other income components under personal income taxes and the effect of other tax allowances and cash benefits. Complete coverage would also require that consideration be given to the effect on welfare of services provided by the state, either free or below cost, and the incidence of corporate and other direct taxes on earnings and prices. Such a broad coverage is not possible in an international comparison of all OECD countries. The differences between the results shown here and those of a full study of the overall impact on employees of government interventions in the economy would vary from one country to another. They would depend on the relative shares of different kinds of taxes in government revenues and on the scope and nature of government social expenditures.

The Report shows only the formal incidence of taxes on employees and employers. The final, economic incidence of taxes may be quite different, because the tax burden may be shifted from employers onto employees and vice versa by market adjustments to gross wages.

The income left at the disposal of a taxpayer may represent different standards of living in various countries because the range of goods and services on which the income is spent and their relative prices differ as between countries. In those countries where the general government sector provides a wide range of goods and services (generous basic old age pension, free health services, public housing, university education, etcetera), the taxpayer may be left with less cash income but may enjoy the same living standards as a taxpayer receiving a higher cash income but living in a country where there are fewer publicly provided goods and services.