Chapter 4

Wage and salary taxation

Contents

4. WAGE AND SALARY TAXATION

SUMMARY

Australia's total wage and salary tax take as a proportion of GDP is low compared with the OECD-30 and the OECD-10. While Australia's individual income tax burden is relatively high compared to the OECD-30 and OECD-10, once social security contributions and payroll taxes are accounted for, Australia has the second lowest level of direct taxation on individuals and payroll in the OECD-10.

The components of wage and salary taxation considered in this chapter include personal income tax, social security contributions and payroll taxes.

Different countries use various methods of taxing wages and salaries and different methods of providing assistance to groups such as low income earners, families and the unemployed. In order to make meaningful comparisons, a comprehensive measure is required that considers all components of the tax burden. The most comprehensive measure available is the 'tax wedge'. This measure encompasses the entirety of wage-based taxes imposed by governments, taking into account the interchangeablity of cash benefits and tax relief.

The average tax rate (total tax as a proportion of income) for a worker earning the male average wage in Australia has been steady at around 22 per cent over the past 40 years. The marginal tax rate (the rate of tax paid on an additional dollar of income) for the same worker has averaged around 35 per cent.

Australia's personal income tax structure (including rates and base) has similar characteristics to the OECD-10 and OECD-30. Australia's top marginal tax rate of 48.5 per cent is slightly higher than the average top marginal tax rate for both the OECD-10 (second highest) and the OECD-30 (eleventh highest). Australia's threshold, to which the top marginal tax rate applies, is sixth highest in the OECD-10 and twelfth highest in the OECD-30. Based on available information, at least three of the OECD-10 (Canada, the Netherlands and the United States) automatically index their national personal income tax thresholds to inflation. Many of the other OECD-10 use some form of partial indexation.

The combined progressivity of Australia's personal income tax system and welfare system is higher than for most of the OECD-10. This particularly reflects the targeted nature of the welfare system. However, it should be noted that progressivity does not in itself equate to equity.

Australia's tax wedge is ranked amongst the lowest four in the OECD-10 for seven of the eight different family scenarios considered by the OECD. However, Australia's tax wedge

for a single person earning 167 per cent of the average wages[1] is ranked fifth highest in the OECD-10. Australia's tax wedge is ranked amongst the lowest eight in the OECD-30 for the eight different family scenarios.

As a result of Australia's tightly targeted welfare system, effective marginal tax rates are generally ranked higher against the OECD-10 than is the case for average tax rates. Australia's marginal tax wedge is ranked second highest in the OECD-10 for two of the eight family scenarios. Comparisons with the OECD-30 vary considerably depending on the income of the household.

Another measure of tax burden considered in this chapter is the net personal average tax rate. The net personal average tax rate includes personal income tax plus employee social security contributions minus cash benefits. Australia's net personal average tax rate is generally higher than the OECD-10 average, but lower than the OECD-30 average. The marginal equivalent for this measure for the eight family types show that Australia generally has a higher net personal marginal tax rate than the OECD-10, while the results for the OECD-30 vary depending on the family type considered.

Comparisons between the different family situations are considered in Appendices 4.3 and 4.4. The comparisons show the effect of the tax treatment for singles and families, the inclusion of dependants for single- and dual-income families, and the tax burden for secondary earners entering the workforce.

- Generally, across all OECD-30 countries the tax wedge for single- and dual-income families decreases with the inclusion of children. Australia is no exception; in fact, the decrease in the tax wedge in Australia exceeds both the OECD-30 and OECD-10 average decrease for both the single- and dual-income families considered.

- Australia's marginal tax wedge increases for families with dependent children owing to the phasing-out of cash benefits.

4.1 INTRODUCTION

Wage and salary income is often described as earned income and is distinguished from more passive forms of income such as investment income or capital income. More detail on capital income is considered in Chapter 7.

Wage and salary income is subject to three forms of direct taxation — personal income tax, social security contributions and payroll tax. All three of these aspects are considered in this chapter. For a discussion on social security contributions and Australia's Superannuation Guarantee see Box 2.1.

This chapter presents a methodology for considering the overall tax and benefits position for households. This comprehensive measure is the tax wedge and it takes into consideration the key factors that determine an individual's disposable income. Much of the analysis contained

1 Average wage is as defined by the OECD. This is explained in Box 4.2. In Australian dollar terms, 167 per cent of average wages in Australia in 2004-05 was A$85,452; 100 per cent of average wages in Australia in 2004-05 was A$51,169; 67 per cent of average wages in Australia in 2004-05 was A$34,283.

in Appendices 4.1 and 4.3 compares the tax wedge for a number of different family situations.

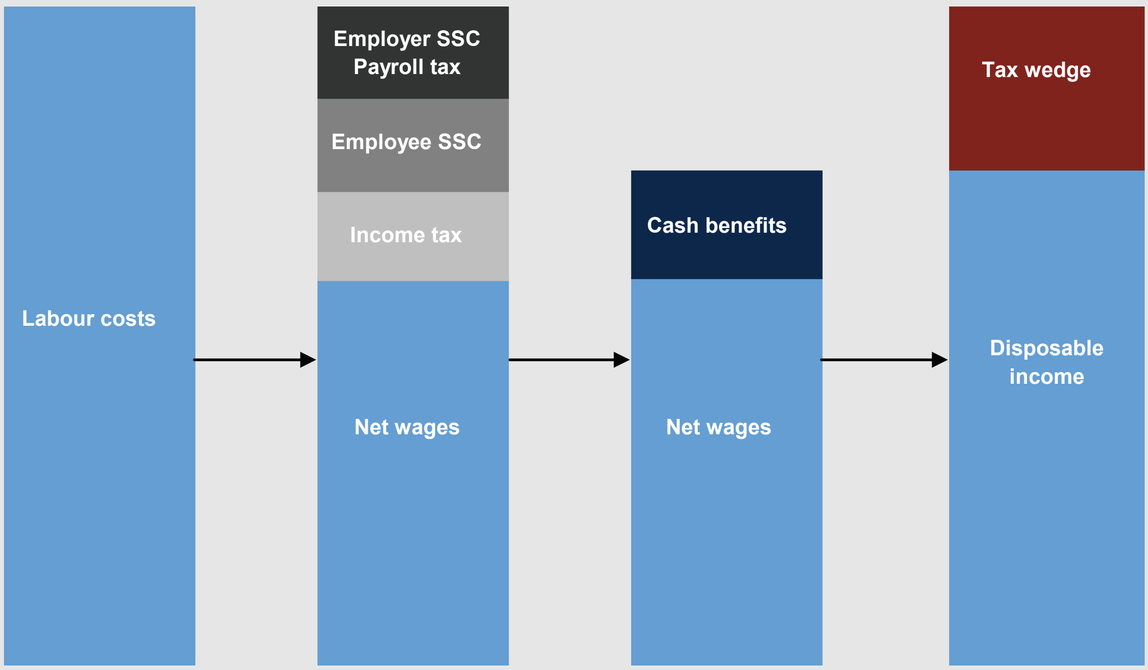
No single measure can capture all the salient aspects of any given taxation system. The optimal insight into a country's taxation system is obtained through the collective consideration of all available measures, rather than through any particular measure in isolation.

This chapter also considers other important aspects of the personal income tax system such as the system's rates and thresholds, progressivity and base.

Box 4.1: Tax wedge

The tax wedge is a measure of the difference between the total labour cost to an employer and the corresponding disposable income of an employee. The tax wedge is the sum of personal income tax (at all levels of government), employee and employer social security contributions (SSC) and payroll taxes minus any cash benefits from government welfare programmes. The tax wedge is usually expressed as a percentage of the total labour costs. This measure is illustrated diagrammatically in Chart 4.1.

Chart 4.1: Illustration of the tax wedge



4.2 Broad international comparisons

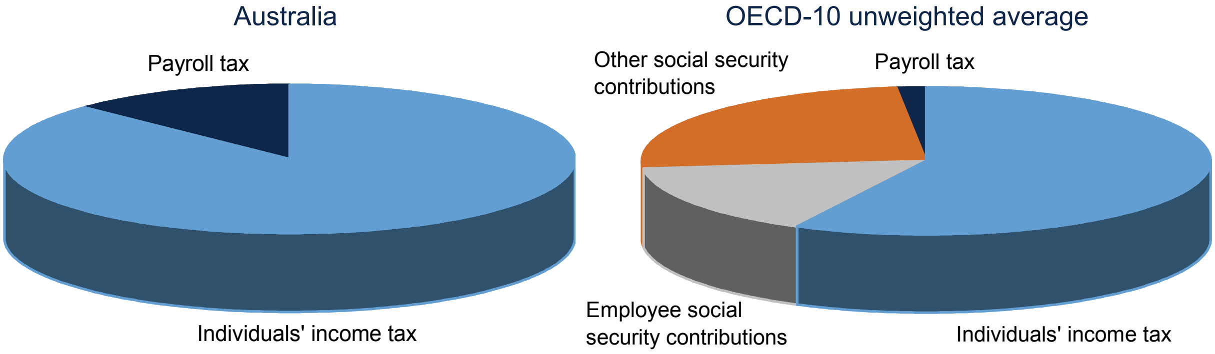
4.2.1 Direct tax mix in respect of individuals and payroll

Like other OECD countries, Australia raises the majority of its taxation revenue (60.9 per cent in 2003) from direct taxation levied on incomes — wages, salaries and profits, however, the composition of Australia's taxation of earned income is different from that of most other OECD countries (Chart 4.2 and 4.3).

As discussed in Chapter 3, payroll taxes are levied on a similar basis to social security contributions and as such are considered a form of tax on labour. While it is difficult to substantiate the actual incidence of payroll taxes, it is widespread practice to assume that taxes levied in respect of remuneration are ultimately borne by the employee.

Chart 4.2 compares Australia's direct tax mix in respect of individuals and payroll with the average for the OECD-10. Australia's income tax from individuals accounts for over 85 per cent of the total direct tax mix in respect of individuals and payroll, compared with the average for the OECD-10 of around 60 per cent of the total tax mix. Social security contributions and payroll taxes account for the remaining 40 per cent of the total tax in respect of individuals and payroll for the OECD-10.

Chart 4.2: Australia's direct tax mix in respect of individuals and payroll
OECD-10, 2003



Source: OECD *Revenue Statistics*, 2005.

4.2.2 Direct taxation in respect of individuals and payroll

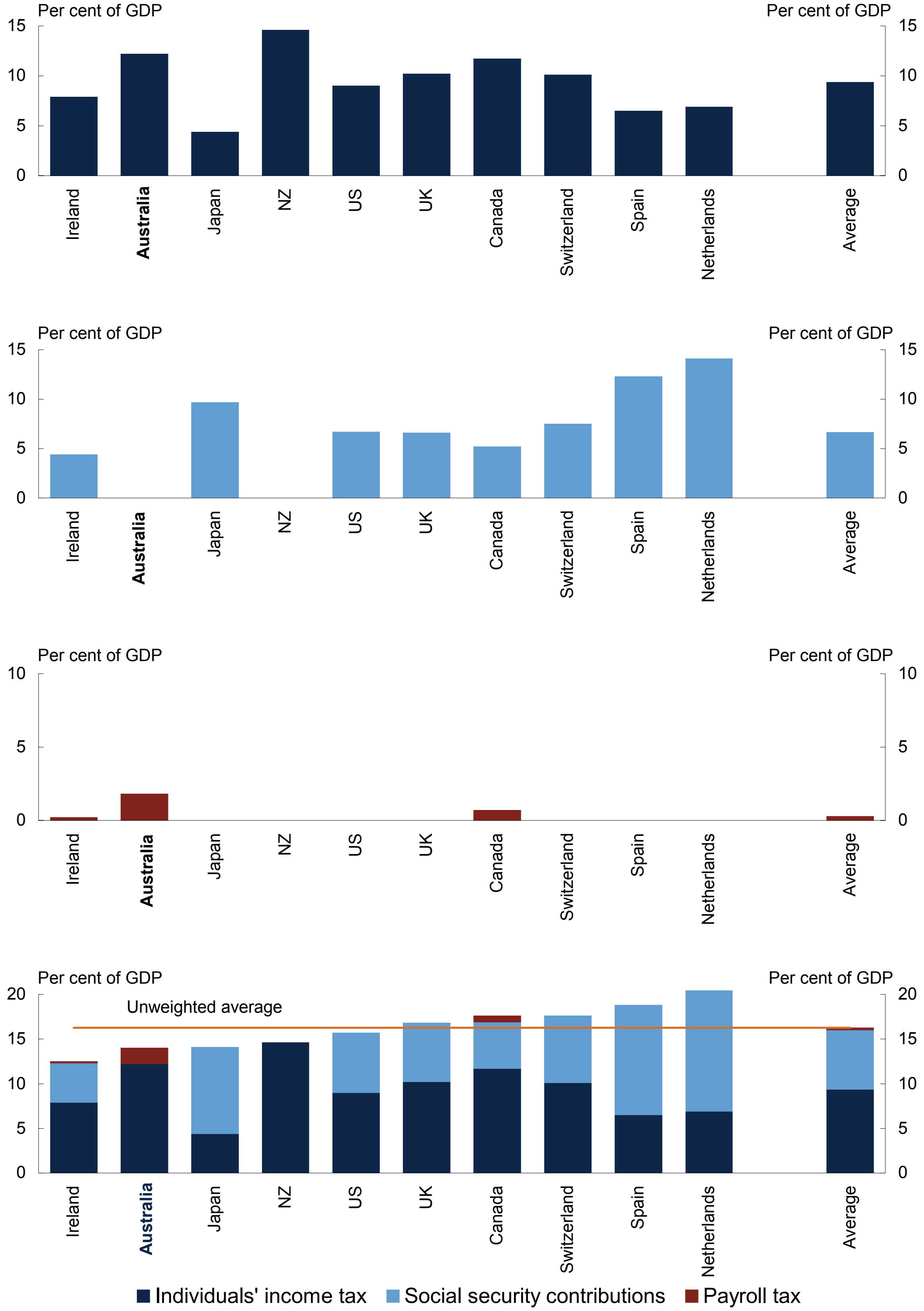
As discussed in detail in Appendix 3.1, classification issues make comparisons of the headline income tax burden on individuals difficult. Despite these limitations, including the need to exercise care when analysing income tax data disaggregated into its personal and corporate components, this is the most frequent measure used in commentary about tax burden.

Chart 4.3 compares Australia's direct tax burden in respect of individuals and payroll with the OECD-10. Casual observers often conclude that Australia has relatively high levels of taxation on individuals' incomes because Australia's individual income tax burden is second highest in the OECD-10.

However, once social security contributions and payroll taxes are accounted for, Australia has the second lowest level of direct taxation on individuals and payroll in the OECD-10 (14.0 per cent of GDP). This is below the unweighted average of 16.3 per cent of GDP. In Japan, the Netherlands and Spain, social security contributions are a larger source of taxation revenue than individuals' income tax.

Chart 4.3: Components of direct taxation in respect of individuals and payrolls[(a)]

OECD-10, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



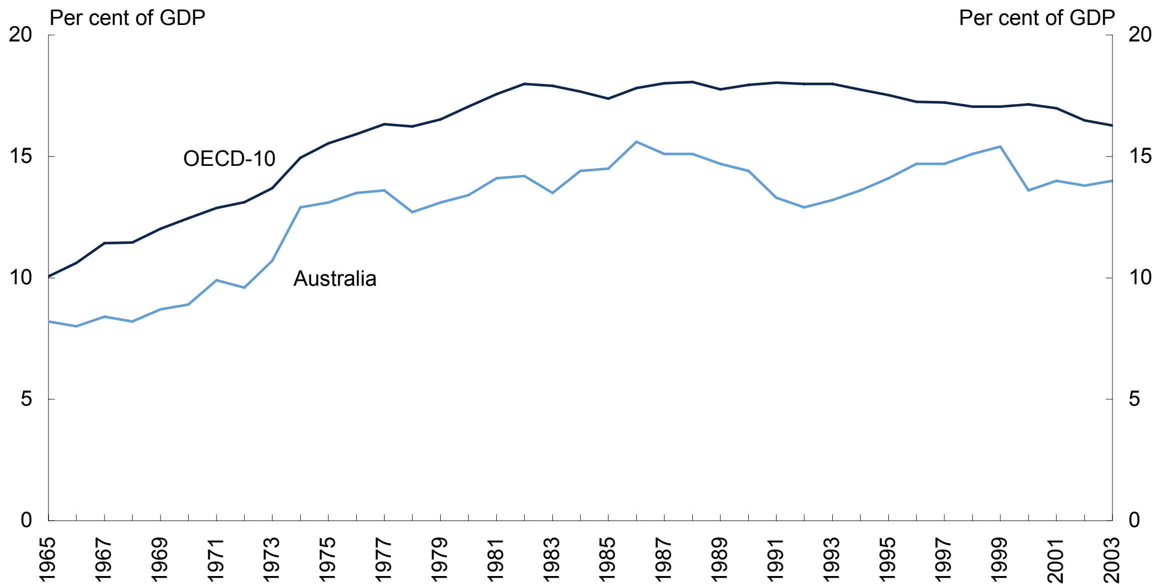
(a) For the purpose of international comparison, there are significant risks in relying on disaggregated data, especially in disaggregating taxes on income, profits and capital gains into its individuals, corporate and other components. A description of these is provided in Appendix 3.1.

Source: OECD *Revenue Statistics*, 2005.

Australia has always had a low tax burden in respect of individuals and payroll, when compared with the OECD-10 (Chart 4.4). In fact, Australia's tax burden has on average been around 20 per cent lower than the OECD-10 over the period since 1965.

Chart 4.4: The Australian personal tax burden in perspective

OECD-10, total direct taxation revenue in respect of individuals and payroll as a proportion of GDP, 1965-2003



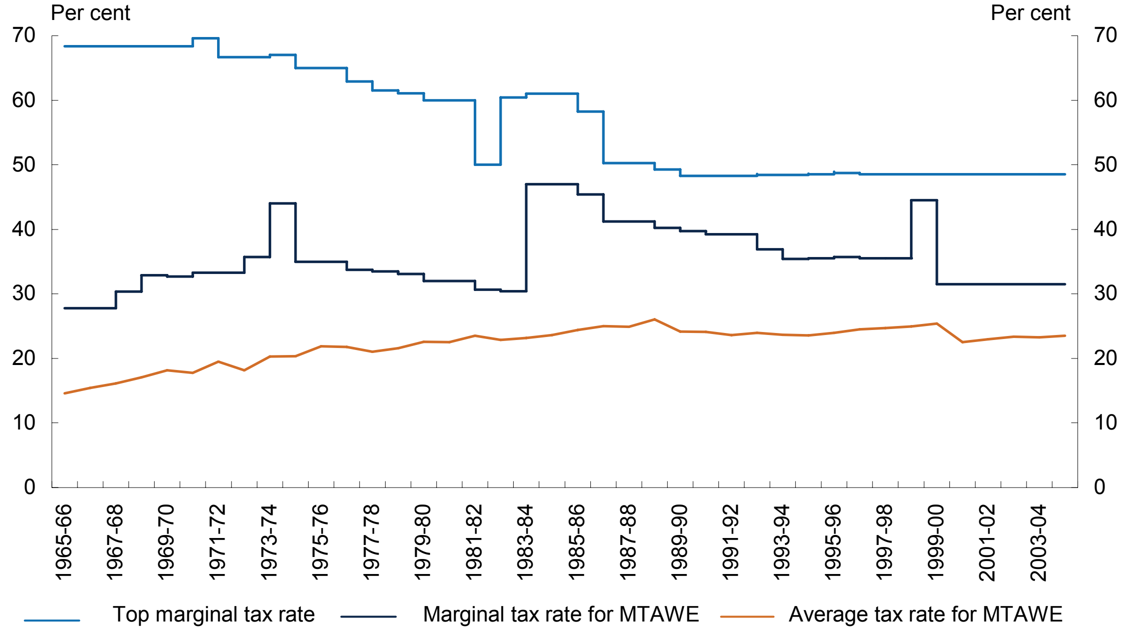
Source: OECD *Revenue Statistics*, 2005.

Over the past 40 years Australia's personal tax burden has increased from around 8 per cent of GDP to 14 per cent of GDP. After an increase in the tax burden in the early 1970s, the burden has remained relatively stable between 13 and 16 per cent of GDP.

4.2.3 History of average and marginal tax rates

Chart 4.5 shows the top marginal tax rate, the marginal and average tax rates applicable to a male earning an average wage (male total average weekly earnings or MTAWE). Both measures include the Medicare levy where applicable.

Chart 4.5: Marginal and average personal tax rates
Australia, 1965-66 to 2004-05



Source: Australian Treasury estimates.

Australia's top marginal tax rate has decreased over the past 40 years from almost 70 per cent to its current level of 48.5 per cent (including the Medicare levy). The marginal tax rate for MTAWE has ranged from 28 per cent to 47 per cent. Since 2000-01, the marginal tax rate for a person on MTAWE has been 31.5 per cent (including Medicare levy).

The average tax rate (total tax as a proportion of income) for a person on MTAWE in Australia has been steady at around 22 per cent over the past 40 years. In comparison, the marginal tax rate (the rate of tax paid on an additional dollar of income) for the same person has averaged around 35 per cent.

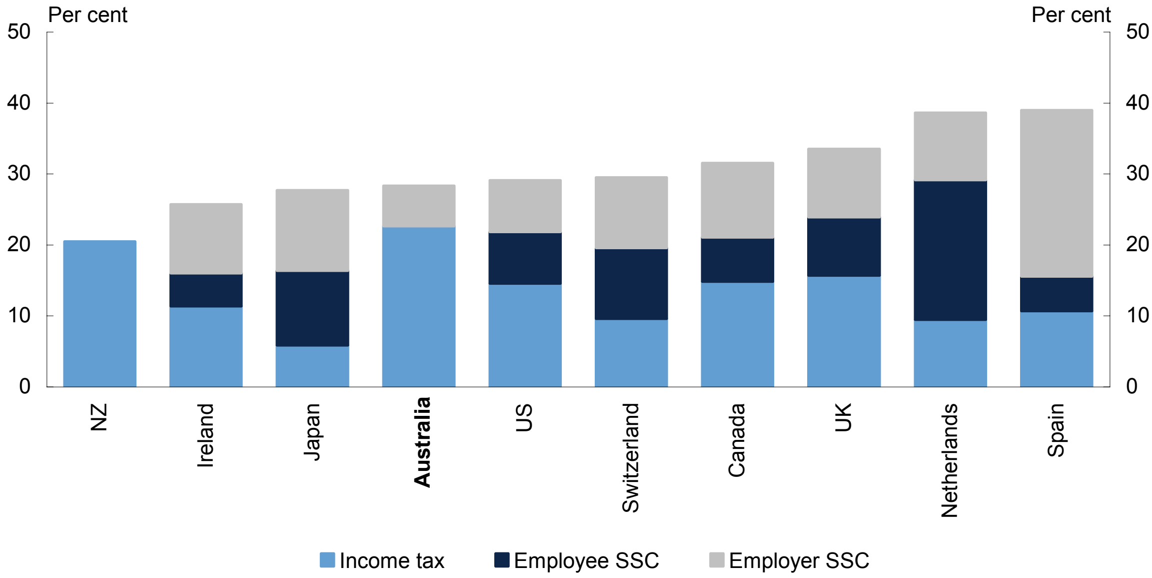
4.2.4 Tax wedge

The tax wedge captures the overall difference between the disposable income of an employee and the corresponding costs incurred by their employer. It is the standard measure used for comparing tax burdens on wage income across countries and through time and is the cornerstone of the OECD's publication *Taxing Wages*.

Tax wedge analysis demonstrates how personal income tax, social security contributions paid by employees and employers and cash benefits affect various types of families in different countries in the OECD. This allows for a country-based comparison of labour costs and the overall tax and benefit position of families. This analysis is discussed in greater detail in Appendix 4.1. Another measure of tax burden is the net personal average tax rate and this is considered in Appendix 4.2.

Chart 4.6 shows the composition of the tax wedge for the OECD-10 for an average worker with no dependent children. Cash benefits are not included as the average worker with no children does not receive any cash benefits in any OECD country. Chart 4.6 shows that the tax wedge for an average worker with no children in Australia is the fourth lowest in the OECD-10.

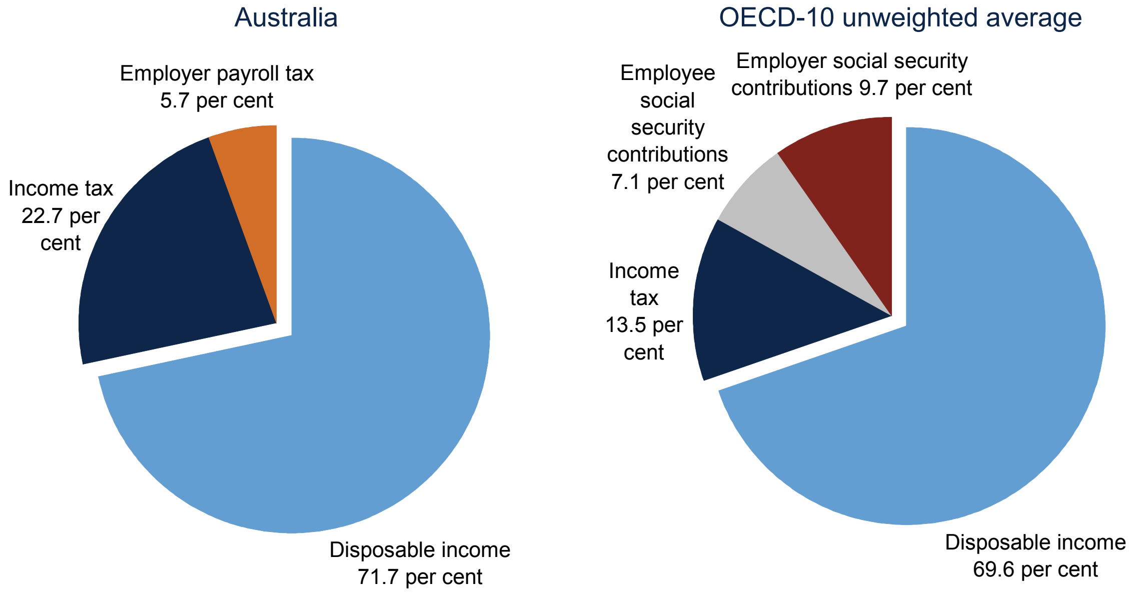
Chart 4.6: Tax wedge for an average worker
OECD-10, 2005[(a)]



(a) Refers to a single average worker with no dependants. The tax wedge includes income tax plus employee and employer social security contributions. The OECD's *Taxing Wages* publication includes payroll taxes in its treatment of employer social security contributions.
Source: OECD *Taxing Wages*, 2005.

Chart 4.7 shows the composition of the tax wedge for an average worker with no children in Australia against the OECD-10. This shows that while Australia's structure of direct taxes on individuals and payroll varies from the average, the end result is that the proportion of labour costs that the average worker receives as disposable income in Australia is very similar to that for the average worker for the OECD-10. The actual disposable income depends on the wage levels as well as tax wedges.

Chart 4.7: Comparison of the tax wedge components for an average worker[(a)]
Australia and OECD-10, 2005



(a) Refers to a single average worker with no dependants.

Source: OECD *Taxing Wages*, 2005.

The tax wedge varies depending on the level and composition of the family and private income. In order to compare tax systems, the OECD calculates tax wedges for eight different hypothetical family scenarios. Appendix 4.1 outlines these family scenarios and illustrates and compares the tax wedge across the OECD-30. Comparisons between the different family scenarios are considered in Appendix 4.3. The comparisons show the effect of the inclusion of dependants for single-and dual-income households as well as the effect of secondary earners entering the workforce.

In summary, the tax wedge for workers in Australia is consistently ranked among the lowest eight in the OECD-30 for each of the eight family types considered and among the lowest six in the OECD-10 countries. Australia's tax wedge is lower than the average for the OECD-10 for all eight scenarios except for a single-income person earning 167 per cent of average wages.

Another measure of the tax burden is the net personal average tax rate. The net personal average tax rate is a measure of the employee's total wage-based tax burden. The net personal average tax rate can be described as a measure of a family household's wage-based disposable income, and is important since it is a measure of the employee's incentive to increase the number of hours they work or to seek promotion.

The net personal average tax rate is the sum of personal income tax plus employee social security contributions, minus cash benefits as a percentage of gross wage earnings. That is, this measure excludes employer social security contributions and payroll taxes and the base is gross wages rather than total labour costs. The results of the net personal average tax rate for the eight different family types are contained in Appendix 4.2.

Australia's net personal average tax rate is generally higher than the average for the OECD-10 with two exceptions, sole parents with two children earning 67 per cent of average wages and single-income families with two children earning 100 per cent of average wages.

Box 4.2: Measures of wage earnings

The wage measure used in this chapter is the average wage for an average worker (AW). This measure is the OECD's average wage measure and therefore allows for international comparisons. The average wage is the average gross wage for persons engaged in full-time manual or non-manual labour for a certain range of industries.[2]

In 2004-05 Australia's average wage was A$51,169 (on a US dollars purchasing power parity basis this is US$36,851).

The OECD's average wage measure differs from other commonly used average wage indicators in Australia.

One measure of wage earnings is average weekly ordinary time earnings for full-time adults (AWOTE). This measure includes all cash earnings of an employee which are received on a regular and recurring basis but excludes overtime payments. The average value of AWOTE for 2004-05 was A$51,206.

Another Australian measure of wage earnings is average weekly earnings (AWE). AWE is calculated on both full-time and part-time workers. AWE includes all cash earnings of an employee which are received on a regular and recurring basis, such as ordinary time and overtime payments. The average value of AWE for 2004-05 was A$40,356.

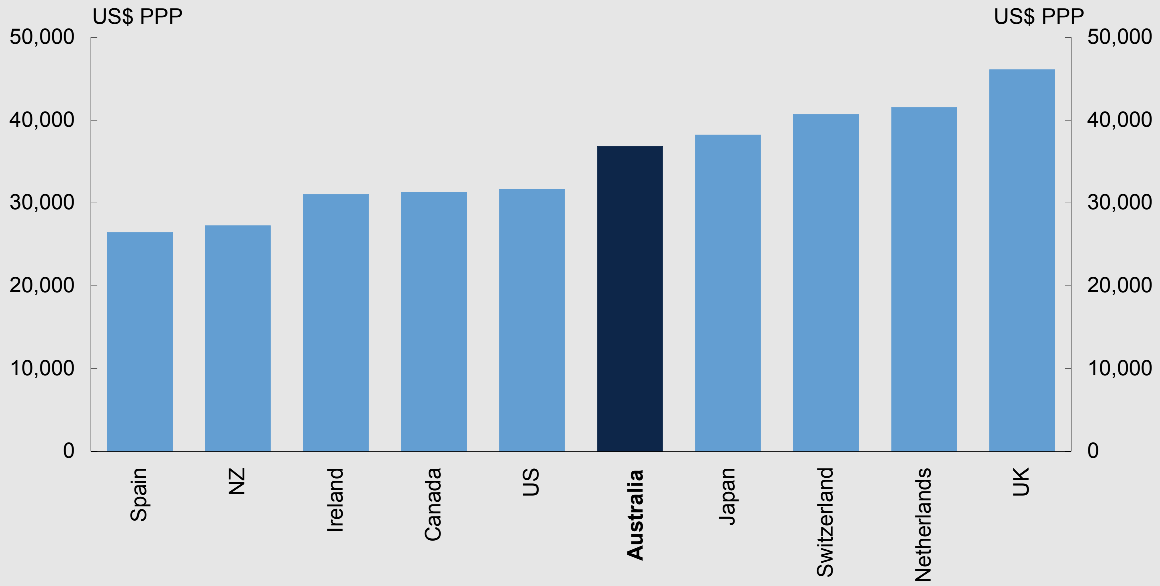
Male total average weekly earnings (MTAWE) is the same as AWE, but is calculated across males only. MTAWE has been used in the analysis in Chart 4.8 as it is the only wage series in Australia that is available back to 1960s. In 2004-05, MTAWE was around A$48,056.

Chart 4.8 shows the average wage across the OECD-10 on a purchasing power parity basis.

2 The average gross wage of a person engaged in full-time manual or non-manual labour in industry sectors C-K (inclusive) in the international classification. For Australia these sectors are: manufacturing, electricity gas and water, construction, wholesale trade, retail trade, accommodation, cafes and restaurants, transport and storage, communication services and finance and insurance.

Box 4.2: Measures of wage earnings (continued)

Chart 4.8: Gross wage earnings for an average worker
OECD-10, 2005 (US dollars)



Source: OECD *Taxing Wages*, 2005.

4.3 Description of tax rates

This section sets out the key attributes of the rate schedules for personal income tax, social security contributions and payroll taxes. The rates for the various components of wage and salary taxation impact on the tax wedge analysis.

4.3.1 Personal income tax rates

All of the OECD-10 have progressive personal income tax rates (that is, the average tax rate rises with income) with multiple rates and thresholds (progressivity is covered in greater detail in section 4.5).

Australia's personal income tax system is progressive through the application of the A$6,000 tax free threshold and marginal tax rates for graduated levels of income. In addition, the low income tax offset ensures low income taxpayers with income up to A$21,600 have a tax free threshold of A$7,567 in 2005-06.

Based on available information, at least three of the OECD-10 automatically index their national income tax thresholds to inflation each year (Canada, the Netherlands and the United States). Canada introduced indexation of national income tax thresholds in 2000. Thresholds are indexed by the increase in the consumer price index for the period ending on 30 September of the preceding taxation year. The Netherlands indexes for inflation at the beginning of each year. The United States indexes its tax thresholds annually to inflation. Most US states do not index their tax thresholds.

Other countries do not appear from the available information to have automatic indexation based on a legislative requirement to increase thresholds in line with inflation each year and instead rely on discretionary regular adjustments or other adjustment systems. Switzerland is required to make an adjustment after the cumulative inflation rate has increased by at least seven per cent since the last adjustment. Spain indexes its tax thresholds at 2 per cent to mitigate the effects of inflation. The United Kingdom also indexes thresholds by the increase in the retail price index unless the Parliament specifies this is not to occur.

In addition to national taxes, based on available information, four of the OECD-10 levy income tax on a sub-national basis (Canada, Japan, Switzerland and the United States). Analysis of the overall personal tax burden must take into account these taxes (national and sub-national tax rate schedules are documented in Appendix 4.5). Sub-national taxes may include state or provincial taxes as well as taxes levied at a local or municipal level.

The effect of the personal income tax rates for all levels of government is included in the tax wedge analysis.

4.3.2 Social security contributions rates

Social security contributions are payments to institutions of general government that are earmarked to provide social security benefits.

Examples of social security benefits funded through social security contributions include: unemployment insurance benefits and supplements; accident, injury and sickness benefits; old-age, disability and survivors' pensions; family allowances; reimbursements for medical and hospital expenses and provision of hospital or medical services.

Social security contributions are usually levied on both employees and employers and there are generally separate contributory structures for different types of schemes. Generally social security contributions are levied as a function of gross earnings, payroll or the number of employees.

Social security contributions are generally imposed at a flat rate, however they can be progressive or regressive. They are generally applied up to a maximum level.

Rates and maximum levels vary greatly between countries which makes comparisons difficult (detailed information is contained in Appendix 4.5 in local denomination).

The OECD reports (OECD 2001) that while income taxes are progressive in all OECD countries, employee social security contributions are either neutral or regressive, particularly at high income levels.

4.3.3 Payroll tax rates

Payroll taxes are levied on a similar basis to social security contributions and as such classified as a tax on labour. While robust incidence analysis is extraordinarily difficult, it is widespread practice to assume that taxes levied in respect of remuneration are ultimately borne by the employee.

Unlike employer social security contributions, payroll taxes are not collected for the specific purpose of funding social security programmes.

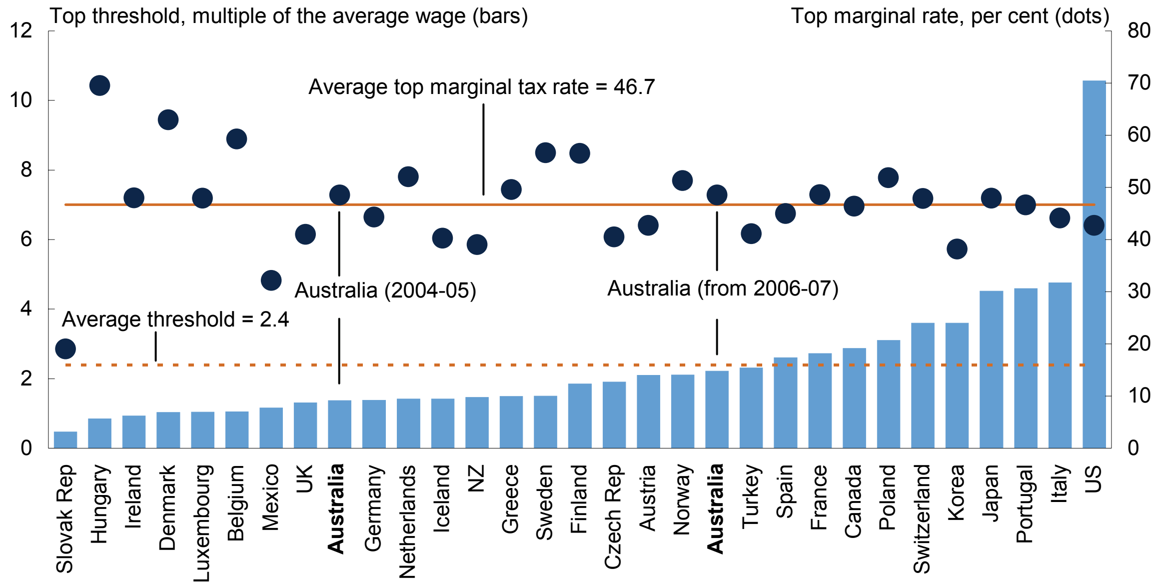
Payroll taxes can be paid by employers, employees or the self-employed either as a proportion of payroll or as a fixed amount per person.

4.4 TOP MARGINAL TAX RATE

Chart 4.9 shows the top marginal tax rate[3] for all OECD countries and the threshold to which the top marginal tax rate applies. The top marginal tax rate threshold is expressed as a multiple of the OECD's measure of average wages (see Box 4.2).

Chart 4.9: Top marginal tax rates and thresholds (unweighted averages)

OECD-30, 2005



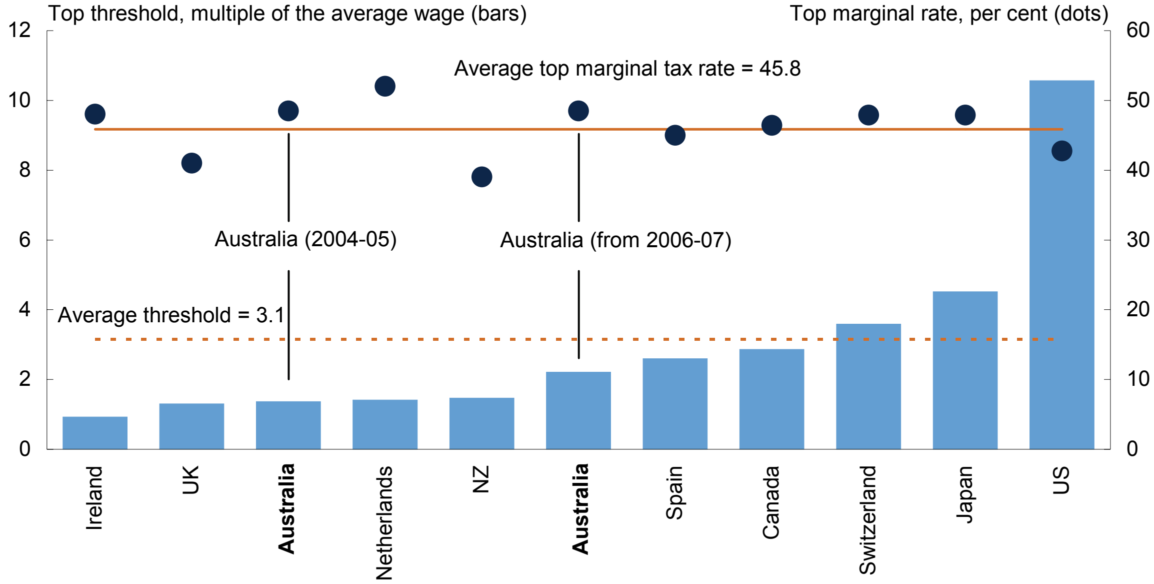
Source: OECD Tax Database (preliminary data).

In 2004-05 Australia's top marginal tax rate applied to incomes over A$70,000. This equated to around 1.4 times average wages. The top marginal tax rate in 2006-07 will apply to incomes over A$125,000. This equates to around 2.2 times average wages. Australia's top marginal tax rate is 48.5 per cent (including the Medicare levy). Chart 4.9 includes unweighted OECD-30 averages for the top marginal tax rate and the top threshold. The unweighted OECD-30 average threshold is 2.4 times average wages and the unweighted OECD-30 average top marginal tax rate is 46.7 per cent.

Australia's top marginal tax rate is eleventh highest in the OECD-30. The threshold to which Australia's top rate applies is currently ninth lowest in the OECD-30. However, changes to the threshold from 1 July 2006 will result in Australia's ranking moving to twelfth highest in the OECD-30.

3 The top marginal tax rate is the all-in top marginal tax rate as calculated by the OECD. The all-in top marginal tax rate includes national and sub-national government personal income tax, plus employee social security contributions (as well as the impact of deductibility of social security contributions from national government taxes), resulting from a unit increase in gross wages.

Chart 4.10: Top marginal tax rates and thresholds (unweighted averages)
OECD-10, 2005

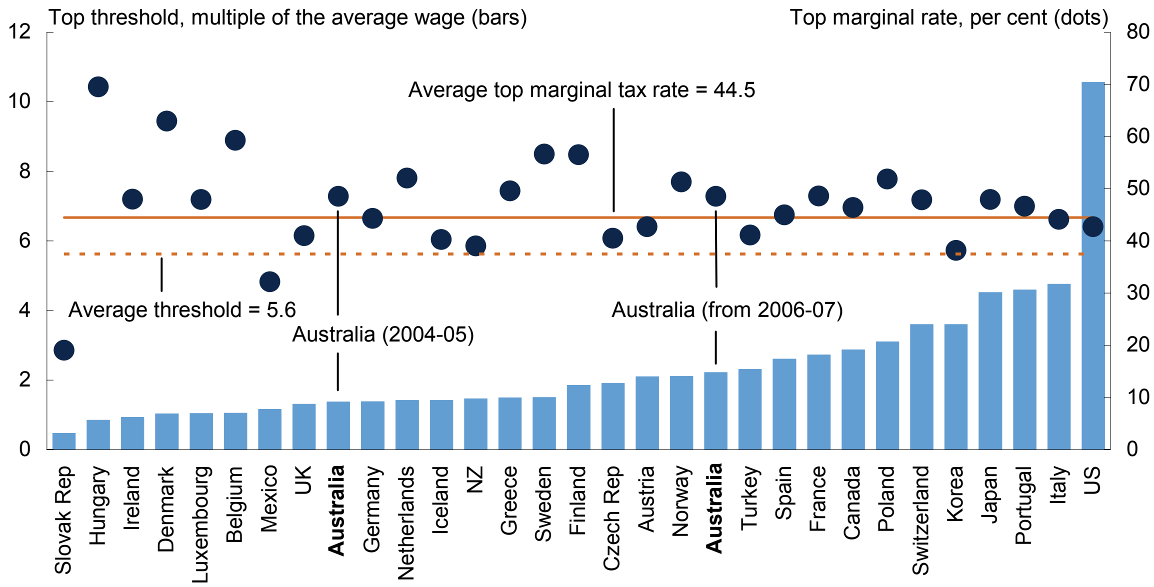


Source: OECD Tax Database (preliminary data).

Chart 4.10 isolates the top marginal tax rate and threshold for only the OECD-10. The unweighted average threshold is 3.1 times average wages and the unweighted average top marginal tax rate is 45.8 per cent.

Chart 4.11 replicates Chart 4.9 but uses GDP OECD-30 weighted averages rather than OECD-30 unweighted averages.

Chart 4.11: Top marginal tax rates and thresholds (weighted averages)
OECD-30, 2005

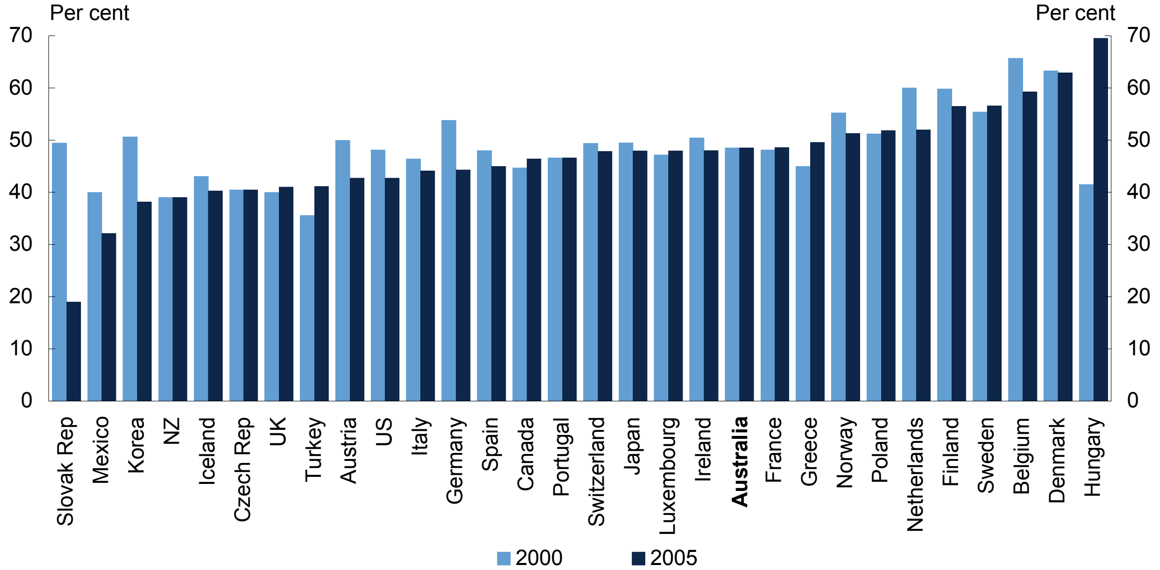


Source: OECD Tax Database (preliminary data).

The weighted average threshold is 5.6 times average wages. Chart 4.11 illustrates the significance of the United States when computing a measure of weighted averages as the weighted average threshold is higher than the individual threshold for every other OECD country.

Chart 4.12 shows the change in the top marginal tax rate for the OECD-30 from 2000 to 2005.

Chart 4.12: Top marginal tax rates
OECD-30, 2000 and 2005

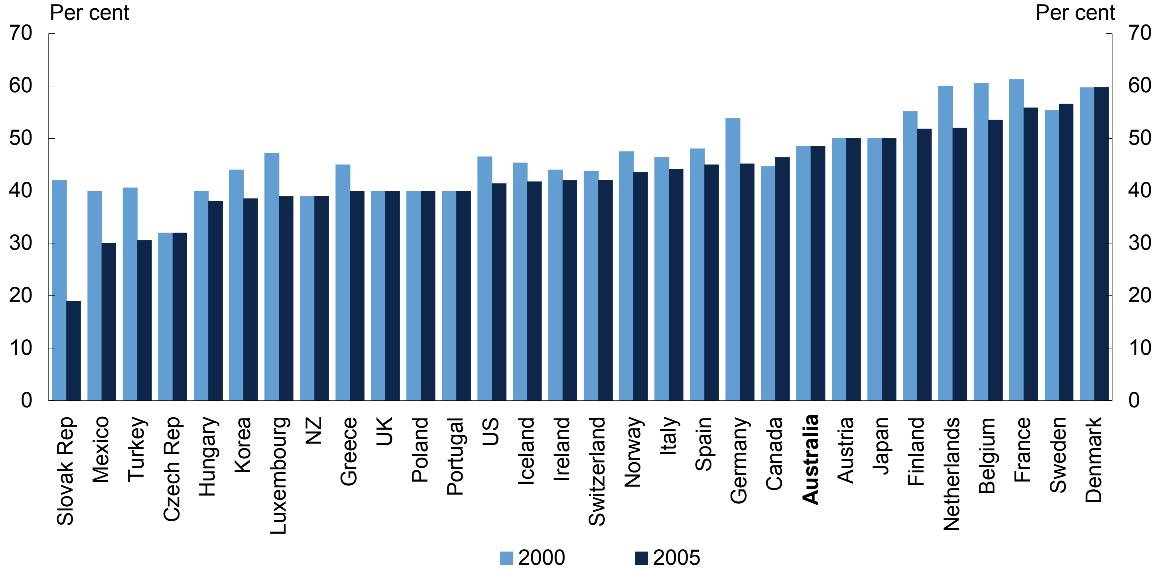


Source: OECD Tax Database (preliminary data).

Since 2000, seventeen countries in the OECD-30 have reduced their top marginal tax rate by varying magnitudes. This includes six countries in the OECD-10. Nine countries in the OECD-30 have increased their top marginal tax rate including two of the OECD-10. Australia is one of four countries in the OECD-30 that has not changed the top marginal tax rate (one of two in the OECD-10).

Chart 4.13 shows the change in the top *statutory* marginal tax rate for the OECD-30 from 2000 to 2005. The statutory rate is a partial measure that only includes the combined national and sub-national personal income tax rates. It does not include employee social security contributions.

Chart 4.13: Top statutory marginal tax rate
OECD-30, 2000 and 2005



Source: OECD Tax Database (preliminary data).

Since 2000, nineteen countries in the OECD-30 have reduced their top statutory marginal tax rate by varying magnitudes. This includes five OECD-10 countries. Only two countries in the OECD-30 increased the top statutory marginal tax rate (only one in the OECD-10). Australia is one of nine countries in the OECD-30 that has not changed the top statutory marginal tax rate (one of four in the OECD-10).

Charts 4.12 and 4.13 are limited to changes in marginal tax rates and do not consider movements in thresholds. In Australia's case, the threshold to which the top marginal tax rate applies has increased from A$50,000 in 1999-00 to A$70,000 in 2004-05 and will move to A$125,000 in 2006-07.

Box 4.3: Australia-United States comparison[4]

Calculating the tax wedge can be highly dependent on the location of the individual even within a country.

A highly stylised cameo that illustrates the difference in the tax wedge across and within countries is to compare a single high-income earner in Sydney to a single high-income earner in New York, Los Angeles and Houston.

The results in the table below illustrate the importance of taking into consideration all elements of the tax wedge when making international comparisons.

An analysis of the tax wedge includes the impact of federal, state, and city income taxes, social security contributions, the Medicare levy and payroll taxes. The analysis allows for state and local taxes to be claimed as a deduction from United States federal income tax. United States taxpayers are also entitled to a 'personal exemption' on their federal income tax. However, the analysis does not take into consideration the full range of deductions, such as work related deductions, that are available to the taxpayer in each country.

All-in tax wedge — single individual, no dependants

Income A$	Australia — Sydney resident 2006-07 (per cent)	United States — New York city resident 2006-07 (per cent)	United States – Los Angeles resident 2006-07 (per cent)	United States – Houston resident 2006-07 (per cent)
100,000	34.9	38.2	36.8	30.7
125,000	37.2	39.8	38.7	32.4
150,000	39.6	39.6	38.5	32.1

Source: Australian Treasury calculations; United States Revenue Service; New York State Department of Taxation and Finance; Californian Franchise Tax Board; Texas Workforce Commission.

4 Rates, thresholds and deductions for the New York state and city analysis are based on the latest information. However, New York State's budget is currently under negotiation and some items could change retroactively for tax year 2006. Calculations for Los Angeles are based on the latest Californian tax rates in 2005 (2006 rates are not available until August). Texas does not levy state personal income tax.

Box 4.4: Flat income tax systems in Eastern Europe

Over the past ten years there has been an increase in the number of flat income tax systems, especially in Eastern Europe. Flat income tax systems have been adopted in Estonia (1994), Lithuania (1994), Latvia (1995), Russia (2001), Serbia (2003), Slovakia (2004), the Ukraine (2004), Georgia (2005) and Romania (2005).

A pure flat income tax system taxes income at the same percentage rate along the full range of income. Most countries that have a flat income tax system also have either tax credits or a tax free threshold which adds a degree of progressivity to the system.

The main reasons that flat income tax rate systems have been adopted in Eastern Europe are:

- to encourage higher compliance with the tax system. Tax administration in some economies was extremely weak, with significant informal economic activity outside the tax system;
- to reduce complexity. Many of the economies in Eastern Europe that have adopted flat income taxes had various taxes at a range of rates that made it difficult for taxpayers to understand their tax obligations; and
- as part of broader tax reform to join the European Union.

Economies that have adopted flat income tax systems tend to have high levels of social security contributions. In many of the Eastern European economies social security contributions are the main element of the tax burden on labour.

The effect of introducing a flat income tax system on the tax burden can be illustrated by considering the experience in the Slovak Republic. This is the only 'flat tax country' in Eastern Europe that is a member of the OECD and as such is the only economy where OECD data are available on the tax wedge. The taxation of labour income in the Slovak Republic is similar to other Eastern European economies as social security contributions greatly exceed personal income taxation revenue.

In 2003, the personal income tax system in the Slovak Republic had five income brackets, with tax rates varying from 10 per cent to 38 per cent. A taxpayer on average earnings would face a marginal tax rate of 20 per cent. The corporate tax rate was 25 per cent, while the VAT rate was 20 per cent. In 2004, all of these rates were replaced with a flat tax rate of 19 per cent. The introduction of the flat rate was combined with a large increase in the basic allowance (it was more than doubled) and the removal of many forms of tax relief which led to a broadening of the tax base.

Box 4.4: Flat income tax systems in Eastern Europe (continued)

Table 4.1 compares average income tax rates and the tax wedge for a single individual in 2003 and 2004 (before and after the introduction of a flat tax system) for different percentages of average earnings. Despite the introduction of a flat income tax system, there have only been small changes in the tax wedge facing individuals for different income levels (see Table 4.1).

Table 4.1: Average income tax and tax wedge for a single individual before and after Slovak reform (2003 versus 2004)

	67% of average wages		100% of average wages		167% of average wages	
	2003	2004	2003	2004	2003	2004
Income tax (per cent)	4.8	3.7	6.3	7.9	10.7	11.3
Tax wedge (per cent)	40.3	38.8	41.4	42.0	44.6	44.5

Source: OECD *An International Perspective on Japanese Tax Reform*, 2006.

Russia also introduced a flat income tax system in 2001. A single 12 per cent rate replaced a progressive schedule with rates of 12, 20 and 30 per cent; various exemptions from tax were eliminated; social security contribution rates were reduced; and the maximum tax free threshold was increased. As Russia is not a member of the OECD there is no comparative tax wedge data available to analyse the net effect of these changes.

4.5 PROGRESSIVITY

Progressivity measures the extent to which the income tax burden increases with income. Hence a more progressive tax system would have people on higher incomes paying a higher proportion of their income in tax than people on lower incomes.

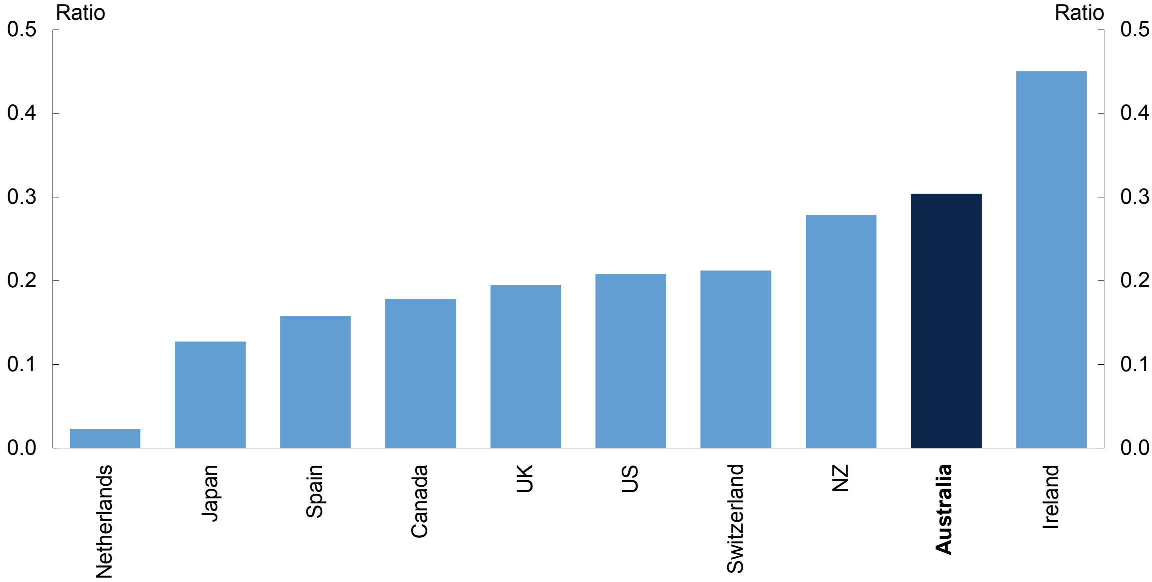
Progressive personal income tax systems reflect the redistributive role played by governments. Progressive taxes are characterised by an increasing average rate of tax as income rises. As such (and in the absence of negative taxes), the marginal personal income rate of tax must lie above the average rate of tax.

However, it should be noted that progressivity does not in itself equate to equity. A progressive system may not be equitable if it results in a large number of higher income earners avoiding or evading taxes. The measure of progressivity discussed below is only relevant to questions of vertical equity. More broadly the progressivity of a tax system does not measure the equity of various expenditures. Lastly, a more progressive tax and welfare system generally results in higher effective marginal tax rates.

There are different measures of progressivity which vary in complexity. It is beyond the scope of this study to provide an in-depth analysis of these methods.

The OECD (OECD 2006) has developed a simple measure of determining progressivity. Using this methodology Chart 4.14, compares the progressivity of the tax wedge for a single individual with no dependants on 67 and 167 per cent of average wages.[5] Higher numbers indicate higher progressivity.

Chart 4.14: Progressivity between 67 and 167 per cent average wages[(a)]
OECD-10, 2005



(a) Comparison for a single worker with no dependants.
Source: OECD *Taxing Wages*, 2005.

On this measure, Australia has the second most progressive tax system in the OECD-10 after Ireland for single incomes between 67 per cent of average wages and 167 per cent of average wages.

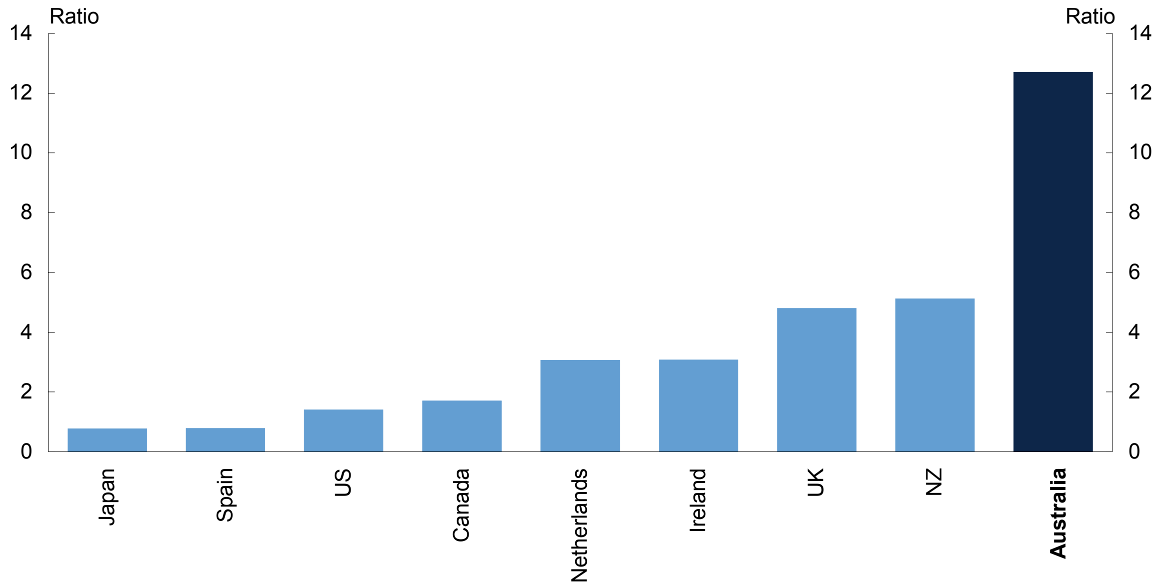
An OECD report (Whiteford 2005) shows that, of the 24 OECD countries considered in this study, Australia has the most progressive distribution of benefits on two different measures (Chart 4.15). This is the result of the relatively tightly targeted nature of Australia's welfare system. The study also calculates a measure of churning (the notion that households can be both recipients of welfare and taxpayers simultaneously) across OECD countries where data were available. The results shows that Australia has the lowest level of churning across those countries.

5 Progressivity between 67 to 167 per cent average wages is calculated by $((T_{167}-T_{67})/T_{167})$ where T_{167} is the tax wedge at 167 per cent average wages and T_{67} is the tax wedge at 67 per cent average wages.

Chart 4.15 shows progressivity of transfers through a ratio of the benefits received by the poorest quintile to benefits received by the richest quintile for the total population for the OECD-10.

Chart 4.15: Progressivity of transfers

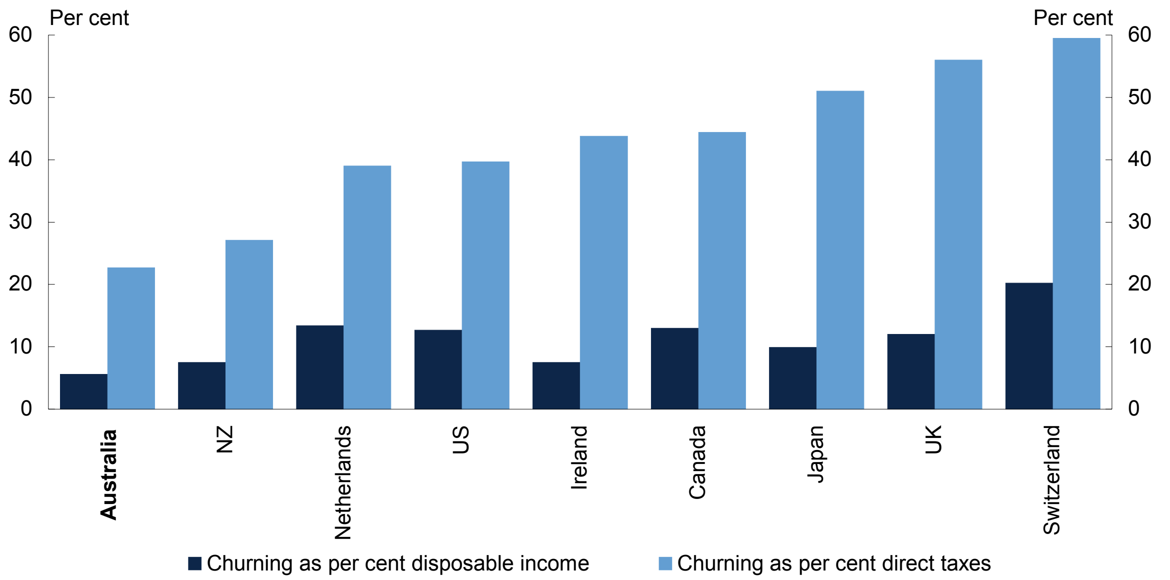
OECD-10, around 2000



Source: Whiteford, OECD (2005).

Chart 4.16 shows Whiteford's measure of churning[6] as a percentage of household disposable income and as a percentage of direct taxes. In both measures Australia has the lowest level of churn. Caution should be exercised when interpreting these results as the tax mix within a country can significantly affect the results. For example, countries with a high reliance on indirect taxes will have a high percentage of churn as a percentage of direct taxes.

Chart 4.16: Measures of churn
Sub-set of OECD-10, 2000[(a)]



(a) Data on Spain not available.
Source: Whiteford, OECD (2005).

4.6 Effective marginal tax rates

Effective marginal tax rates measure the percentage of a one dollar increase in income that is lost to income tax and income tests on government payments and services.

Appendices 4.1 and 4.2 detail results for the marginal tax wedge and the net personal marginal tax rate which are measures of effective marginal tax rates at specified income levels.

The results show that Australia's marginal tax wedge and net personal marginal tax rate are generally relatively higher than the other OECD-10 countries. Again this is the result of the relatively tightly targeted nature of Australia's welfare system.

Effective marginal tax rates can also be adjusted to take account of other factors that influence the decision to enter the workforce. One factor is child care which is considered in Box 4.5.

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6 Churning is calculated by comparing the level of transfers by each decile with the level of direct taxes (income taxes and employee social security contributions) paid by each decile. Where transfers exceed taxes, the churning is the level of taxes and where taxes exceed transfers, churning is the level of transfers. This measure of churning only counts direct financial transfers, not indirect transfers through subsidised services such as health and education.

Box 4.5: Child care

A range of different measures are used to provide assistance for families who use child care. These measures can be delivered either through the tax system or through direct payments.

In some countries, child care payments are tax deductible. This approach can reduce the progressivity of the tax system. Other countries use tax credits and direct payments such as child care-related means-tested payments. These payments tend to be targeted towards low-income families or socially disadvantaged groups such as sole parents and are progressive because they are higher at lower levels of income. Support is sometimes available for parents caring for their own children at home (home-care or child-raising allowances).

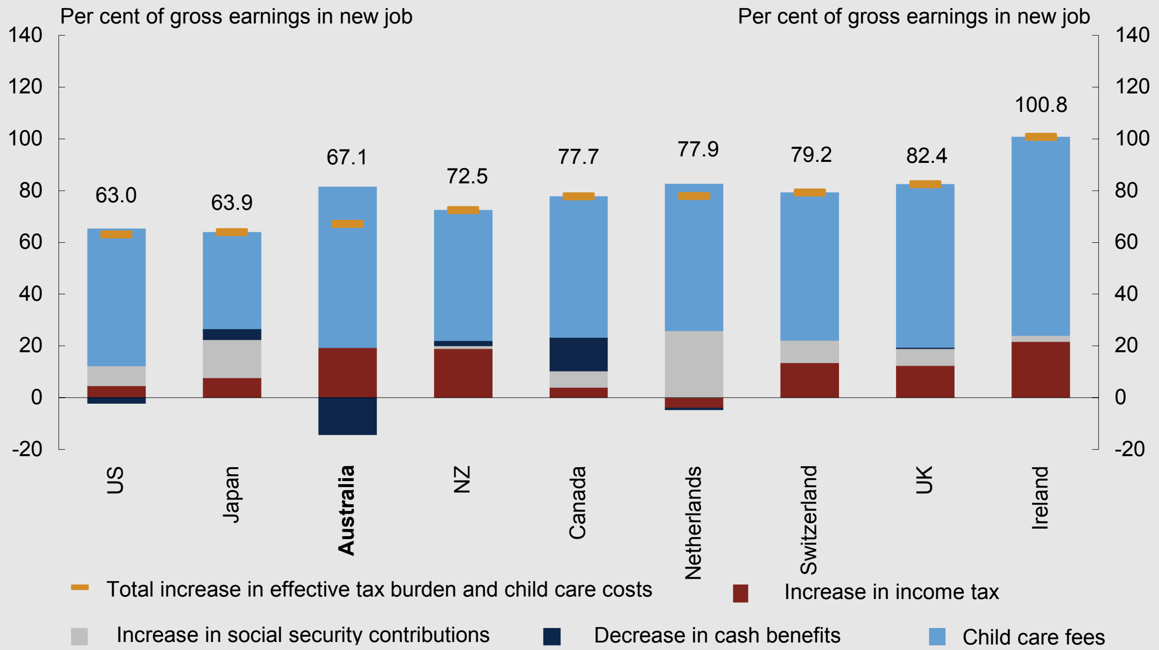
Some countries, including Australia, use a combination of tax and direct payments. For example, Australia provides assistance through the Child Care Benefit (a means-tested payment) and the Child Care Tax Rebate (a non-refundable tax credit).

The OECD quantifies (OECD 2005) the net cost of purchasing centre-based child care (including the impact of child care related tax concessions and cash benefits available to parents) and provides an estimate of the effective tax burden including child care costs.

Chart 4.17 shows secondary earners and sole parents in Australia have the third lowest increase in the effective tax burden (including child care costs) as a per cent of gross earnings when starting a new job compared to the OECD-10. The effective tax burden includes the effect of income taxes, employees' social security contributions, cash benefits as well as child care costs.

Chart 4.17: Effective tax burden including child care costs for secondary earner

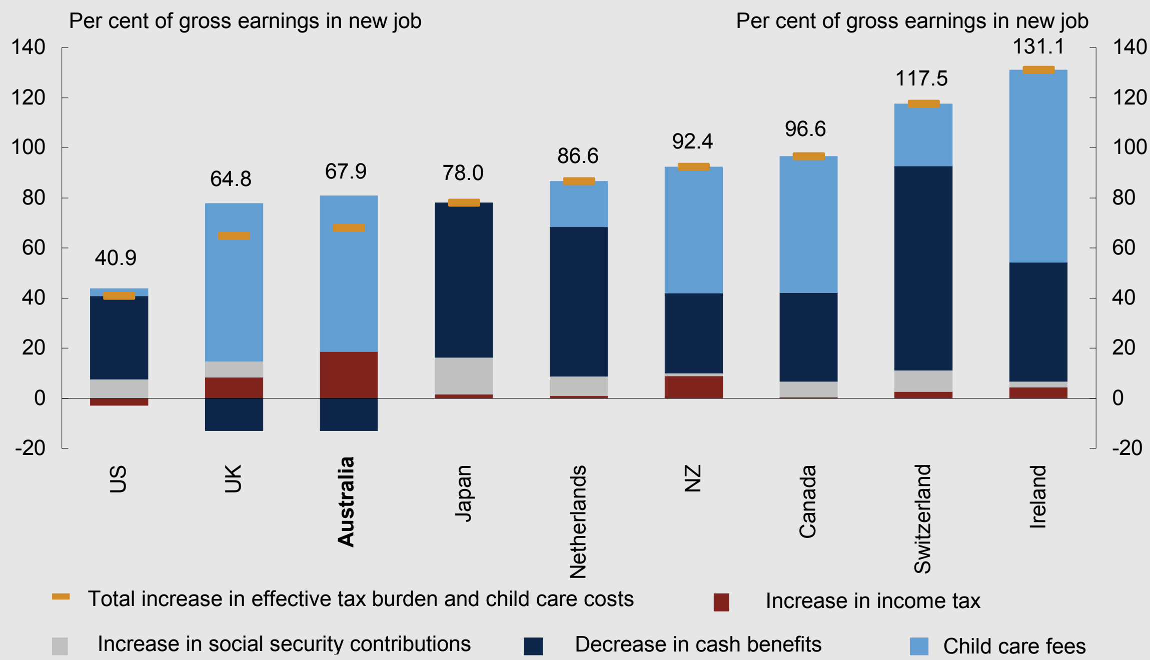
Sub-set of OECD-10, 2002(a)



(a) Data on Spain not available.
Source: OECD (2005).

Box 4.5: Child care (continued)

Chart 4.18: Effective tax burden including child care costs for sole parent
Sub-set of OECD-10, 2002[(a)]



(a) Data on Spain not available.
Source: OECD (2005).

This analysis is based on 2002 data and as such does not reflect recent policy initiatives, including in Australia's case the Child Care Tax Rebate.

4.7 DESCRIPTION OF THE TAX BASE

Personal income tax systems are founded on an income base. Typically, a country's assessable personal income base may include the following items: wages; salaries; allowances; tips; capital income (dividends, capital gains, interest payments and royalties); rents; partnership income; distribution from trusts; fringe benefits; imputed rents from owner-occupied housing; and income transfers (pensions, disability compensation, unemployment benefits and sick pay).

The majority of the OECD-10 include fringe benefits in the taxable income base. Nonetheless, most countries have a number of concessions and exclusions for fringe benefits in the tax base. Australia and New Zealand are the only two countries in the OECD-10 that levy a separate fringe benefits tax (see Appendix 4.5).

To calculate taxable income, assessable income is reduced by deductions. Deductions can be broadly categorised into personal allowance deductions and specific deductions.

Personal allowance deductions

Personal allowance deductions are provided on the basis of the individual's family situation rather than their financial situation.

In many of the OECD-10, a personal allowance is provided with higher amounts paid to married couples with dependants. Personal allowances are provided in Ireland, Japan, the Netherlands, Spain, Switzerland, the United Kingdom and the United States.

An alternative to a personal allowance deduction is a tax free threshold. Australia has a tax free threshold rather than a personal allowance.

In addition, countries may operate a system of tax credits (or offsets) which are applied against a person's tax liability rather than their income. In Canada a basic credit reduces a person's tax liability but is available to all individuals and as such is equivalent to a tax free threshold.

Specific deductions

The majority of the OECD-10 countries allow for work-related deductions that are directly related to gaining or producing assessable income.

Table 4.2: Deduction for work-related expenses for OECD-10

Country	Work-related expenses	Comment
Australia	Yes	Directly related to gaining or producing an employee's assessable income.
Canada	Limited	Only deductions specifically legislated are allowed, for example, accounting and legal fees are allowable deductions.
Ireland	Yes	Expenses incurred wholly, exclusively and necessarily in the performance of duties.
Japan	Limited	Specific deductions which exceed the standard deduction for employment income are allowed. Specific deductions include travelling expenses.
Netherlands	Yes	All expenses which are necessary to collect or maintain income.
New Zealand	Limited	Condition excludes expenditure that is of a capital nature, private, nature, exempt income, and non-residents' foreign-sourced income nature, and also limits employment expenses due to withholding taxes.
Spain	No	Only a general standard deduction is available. Expenses relating to employment are generally not deductible.
Switzerland	Yes	
United Kingdom	Yes, conditional	Most deductions in the United Kingdom must be incurred wholly, exclusively and necessarily in the performance of an employee's duties, a condition that precludes the deduction of many employment related expenses.
United States	Yes	Employees can deduct work-related expenses subject to limitation (expenses generally only deductible to the extent they exceed 2 per cent of adjusted gross income). The United States allows taxpayers the option of claiming a standard deduction in lieu of itemising deductions.

Many of the OECD-10 that levy social security contributions also allow this expense as a deduction. The United States also allows individuals to claim state and local taxes as a deduction from their federal income tax.

Tax unit

The tax unit can be based on an individual or on a person's spouse and dependants.

While the majority of the OECD-10 countries have the individual as the tax unit, joint taxation is possible in Canada, Spain, Ireland, Switzerland and the United States. According to the OECD (OECD 2006) the only countries in the OECD-10 where couples with average earnings can benefit from joint taxation are Ireland, Switzerland and the United States.

Australia's personal income tax system is based on the individual. There are a few areas of personal income tax that are based on the combined family income. For example, the Australian Government levies a Medicare levy surcharge for individuals who do not have private health insurance and whose family income exceeds the relevant threshold. Family income, for Medicare levy surcharge purposes only, includes the income of both the taxpayer and their spouse.

Appendix 4.5 provides more detail on the tax base and the tax unit for each of the OECD-10.

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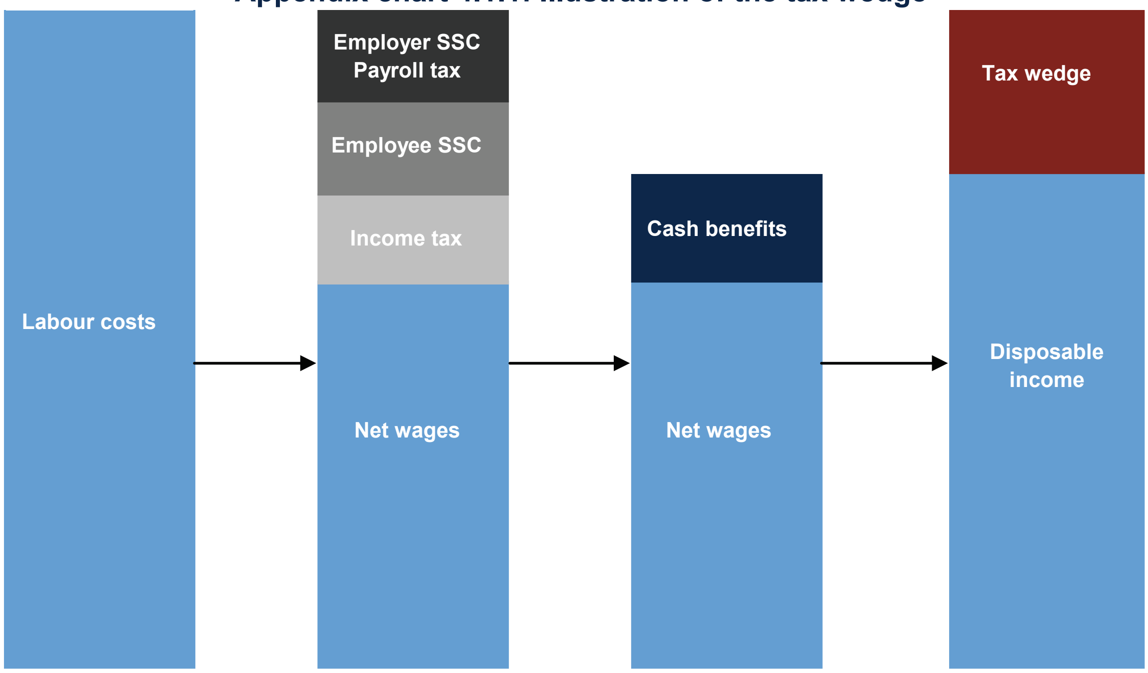
APPENDIX 4.1: TAX WEDGE ANALYSIS

TAX WEDGE ANALYSIS

The tax wedge is the sum of personal income tax (at all levels of government), employee and employer social security contributions and payroll taxes minus any cash benefits from government welfare programmes. The tax wedge is usually expressed as a percentage of the total labour costs. This measure is illustrated diagrammatically in Appendix chart 4.1.1.

Appendix chart 4.1.1: Illustration of the tax wedge



The tax wedge is the most useful measure of the tax burden to consider because it takes into account the interchangeability of cash benefits and tax relief. The tax wedge for workers in Australia is consistently ranked amongst the lowest eight in the OECD-30 (Appendix table 4.1.3) for each of the eight family types considered later in this Appendix. Australia's tax wedges are among the lowest six of the OECD-10 for all the family types (Appendix table 4.1.4).

TAX WEDGE COMPOSITION

Appendix table 4.1.1 outlines the composition of the tax wedge for a single individual earning the average wage with no dependants. In general, the tax wedge consists of income tax, employee and employer social security contributions, payroll tax, and cash benefits. For simplicity, only the components of an average worker's tax wedge are examined. This illustrates that the composition of the tax wedge and the proportions of the components vary significantly amongst the OECD-30.

Appendix table 4.1.1: Tax wedge for a single worker earning the average wage with no dependants, 2005

Country	Total tax wedge	Income tax	Employee social security contributions	Employer social security contributions plus payroll tax	Labour costs in US dollars using purchashing pwer parities
Korea	17.3	2.5	6.5	8.2	41,086
Mexico	18.2	5.6	1.4	11.2	12,031
New Zealand	20.5	20.5	0.0	0.0	27,274
Ireland	25.7	11.4	4.7	9.7	34,395
Japan	27.7	5.9	10.5	11.3	43,122
Australia	28.3	22.7	0.0	5.7	39,062
Iceland	29.0	23.4	0.2	5.4	33,953
United States	29.1	14.6	7.3	7.3	34,144
Switzerland	29.5	9.6	10.0	10.0	45,191
Canada	31.6	14.8	6.2	10.5	34,965
United Kingdom	33.5	15.7	8.2	9.6	50,982
Luxembourg	35.3	11.1	12.3	11.9	46,531
Portugal	36.2	8.1	8.9	19.2	24,933
Norway	37.3	18.8	6.9	11.6	43,554
Slovak Republic	38.3	6.9	10.6	20.8	15,748
Netherlands	38.6	9.5	19.7	9.5	45,910
Greece	38.8	4.3	12.5	21.9	33,050
Spain	39.0	10.7	4.9	23.4	34,545
Denmark	41.4	30.2	10.6	0.5	38,664
Turkey	42.7	12.7	12.3	17.7	22,610
Poland	43.6	5.3	21.3	17.0	19,548
Czech Republic	43.8	8.6	9.3	25.9	20,559
Finland	44.6	20.1	5.1	19.4	43,443
Italy	45.4	13.6	6.9	24.9	36,011
Austria	47.4	10.9	14.0	22.6	47,692
Sweden	47.9	18.1	5.3	24.5	43,916
France	50.1	10.8	9.6	29.7	47,824
Hungary	50.5	14.3	10.0	26.3	18,559
Germany	51.8	17.3	17.3	17.3	53,278
Belgium	55.4	21.4	10.7	23.3	53,581
Unweighted average:					
OECD	37.3	13.3	8.8	15.2	36,205

Source: OECD *Taxing Wages*, 2005.

ANALYSIS OF THE TAX WEDGE FOR DIFFERENT FAMILY TYPES

The OECD collects data on tax wedges for eight different hypothetical family types. These family types provide a broad representation of a large number of common circumstances. These eight cameos are summarised in Appendix table 4.1.2.

Appendix table 4.1.2: Characteristics of the different family types

Family type	Marital status	Number of children	Number of earners	First wage	Second wage
1	Single	0	1	67%	0%
2	Single	0	1	100%	0%
3	Single	0	1	167%	0%
4	Single	2	1	67%	0%
5	Married	2	1	100%	0%
6	Married	2	2	100%	33%
7	Married	2	2	100%	67%
8	Married	0	2	100%	33%

Source: OECD *Taxing Wages*, 2005.

Australia's position for the eight family types

Appendix chart 4.1.2 and Appendix chart 4.1.3 show the tax wedge of the OECD-30 for the eight family types, with Australia's position highlighted. Australia is always ranked within the lowest eight amongst the OECD-30 for all the family types. Appendix chart 4.1.4 and Appendix chart 4.1.5 show the marginal tax wedge of the OECD-30 for the eight family types. The OECD averages and Australia's rankings for the tax wedge and marginal tax wedge for the eight family types are summarised in Appendix table 4.1.3 to Appendix table 4.1.6.

The tax wedge for an average single worker in Australia is 28.3 per cent, which is the sixth lowest in the OECD-30 and is the fourth lowest in the OECD-10. New Zealand, Ireland and Japan have smaller tax wedges. Australia's marginal tax wedge for an average worker is 35.4 per cent, placing it sixth lowest in the OECD-30 and fourth lowest in the OECD-10.

Australia's tax wedge for a single worker earning 67 per cent of the average wage is 24.8 per cent, which is the sixth lowest in the OECD-30 and third lowest in the OECD-10. New Zealand and Ireland have smaller tax wedges. Australia's marginal tax wedge for this worker is 35.4 per cent, which is tenth lowest in the OECD-30 and fourth largest in the OECD-10. Among the OECD-10, the United Kingdom, Spain and the Netherlands have larger marginal tax wedges.

In Australia, the tax wedge for a single worker earning 167 per cent of the average wage is 35.6 per cent placing it eighth lowest in the OECD-30 and sixth lowest in the OECD-10. Australia's marginal tax wedge for this worker is 51.4 per cent, which is sixteenth lowest in the OECD-30 and second largest in the OECD-10 after the Netherlands. Australia's marginal tax wedge is slightly above the OECD-30 average.

Australia's tax wedge for a single parent earning 67 per cent of the average wage with two children is -5.5 per cent which is second lowest in the OECD-30 and the OECD-10 after Ireland. This means that the benefits received as cash transfers are larger than the total tax burden. New Zealand, the United States and Canada also provide a net benefit for this worker. The marginal tax wedge in Australia for this single parent is 68.3 per cent of labour costs, which is the third largest in the OECD-30 after Belgium and the United Kingdom and is the second largest in the OECD-10.

The tax wedge in Australia for a single-income married couple earning the average wage with two children is 16.0 per cent of labour costs, which is the sixth lowest in the OECD-30 and fourth lowest amongst the OECD-10. Ireland has the lowest tax wedge for this family type. Australia's marginal tax wedge for this family type is 54.2 per cent, which is the tenth largest in the OECD-30 and the third largest in the OECD-10 after Canada and New Zealand.

In Australia, the tax wedge for a dual-income married couple with one partner earning 100 per cent and the other 33 per cent of the average wage with two children is 20.5 per cent, which is eighth lowest in the OECD-30 and fourth lowest amongst the OECD-10 countries. The United States, New Zealand and Ireland have lower tax wedges. Australia’s marginal tax wedge for this family type is 35.4 per cent which places Australia eighth lowest in the OECD-30 and sixth lowest in the OECD-10.

For a dual-income married couple with one partner earning 100 per cent and the other 67 per cent of the average wage with two children in Australia the tax wedge is 23.1 per cent, which is seventh lowest in the OECD-30 and fourth lowest in the OECD-10. Australia’s marginal tax wedge for this family type is 35.4 per cent which places Australia seventh lowest in the OECD-30 and fifth lowest in the OECD-10.

In Australia, a dual-income married couple with one partner earning 100 per cent and the other 33 per cent of the average wage with no children has a tax wedge of 25.2 per cent, which is sixth lowest in the OECD-30 and third lowest in the OECD-10 after New Zealand and Ireland. Australia’s marginal tax wedge for this family type is 35.4 per cent which places Australia eighth lowest in the OECD-30 and sixth lowest in the OECD-10.

In summary, Australia’s tax wedge is substantially closer to the OECD-10 average than the OECD-30 average. Of particular note is the tax wedge for a single parent earning 67 per cent of the average wage with two dependent children which is - 5.5 per cent. Spain, Netherlands, Switzerland and the United Kingdom generally have a higher tax wedge than Australia in all eight family scenarios. New Zealand and Ireland generally have a lower tax wedge than Australia for most family types.

Australia’s marginal tax wedge is above both the OECD-30 and OECD-10 averages for a single worker earning 167 per cent of the average wage with no children, a single parent earning 67 per cent of the average wage with two children and for a single income married couple earning the average wage with two children. For families with dependants, any high marginal tax wedges are a result of Australia’s relatively highly targeted social security system.

Appendix table 4.1.3: Australia's tax wedge — comparison with OECD-30

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's tax wedge	24.8	28.3	35.6	-5.5	16.0	20.5	23.1	25.2
OECD-30 average tax wedge	33.7	37.3	42.1	19.0	27.7	30.0	32.4	34.3
Australia's rank in the OECD-30	6	6	8	2	6	8	7	6

Note: The country with the smallest tax wedge has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix table 4.1.4: Australia's tax wedge — comparison with OECD-10

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married 2 children 100%-33%
Australia's tax wedge	24.8	28.3	35.6	-5.5	16.0	20.5	23.1	25.2
OECD-10 average tax wedge	27.7	30.4	35.0	7.5	20.5	23.5	26.1	27.6
Australia's rank in the OECD-10	3	4	6	2	4	4	4	3

Note: The country with the smallest tax wedge has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix table 4.1.5: Australia's marginal tax wedge — comparison with OECD-30

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's marginal tax wedge	35.4	35.4	51.4	68.3	54.2	35.4	35.4	35.4
OECD-30 average marginal tax wedge	43.0	46.5	49.2	46.7	46.8	44.5	45.5	44.6
Australia's rank in the OECD-30	10	6	16	28	21	8	7	8

Note: The country with the smallest marginal tax wedge has a rank of one.
Source: OECD *Taxing Wages*, 2005.

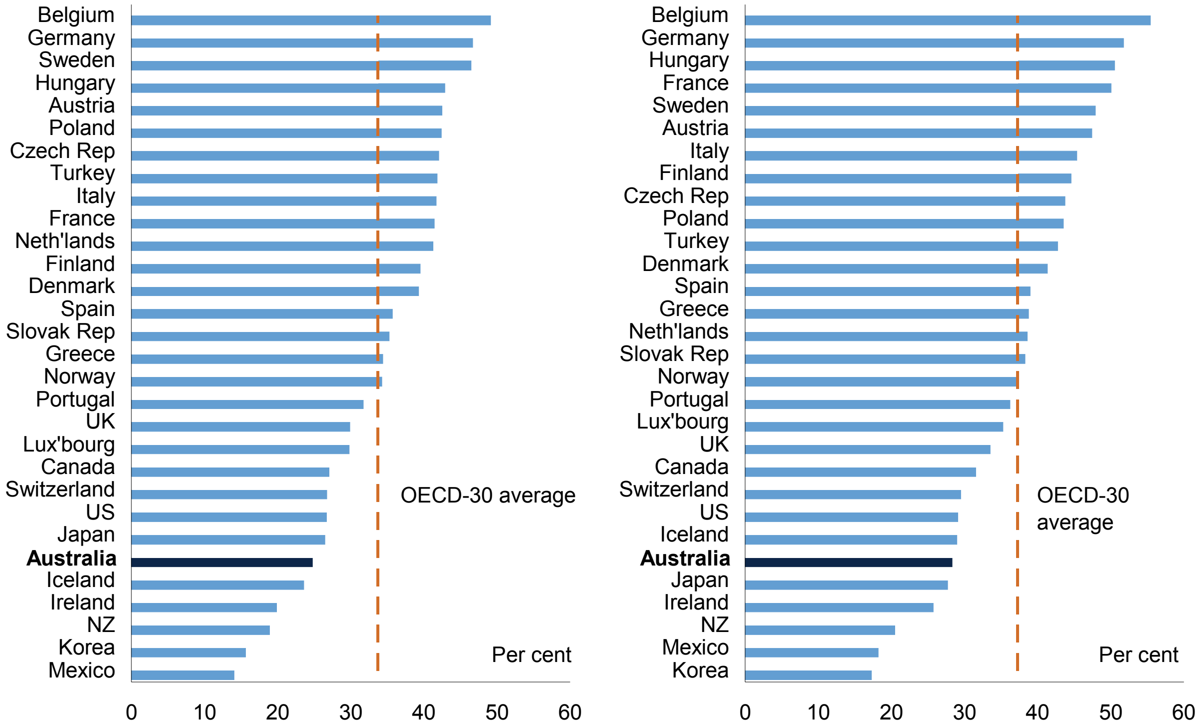
Appendix table 4.1.6: Australia's marginal tax wedge — comparison with OECD-10

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's marginal tax wedge	35.4	35.4	51.4	68.3	54.2	35.4	35.4	35.4
OECD-10 average marginal tax wedge	36.8	40.1	43.0	48.2	45.4	38.0	38.4	38.0
Australia's rank in the OECD-10	7	4	9	9	8	6	5	6

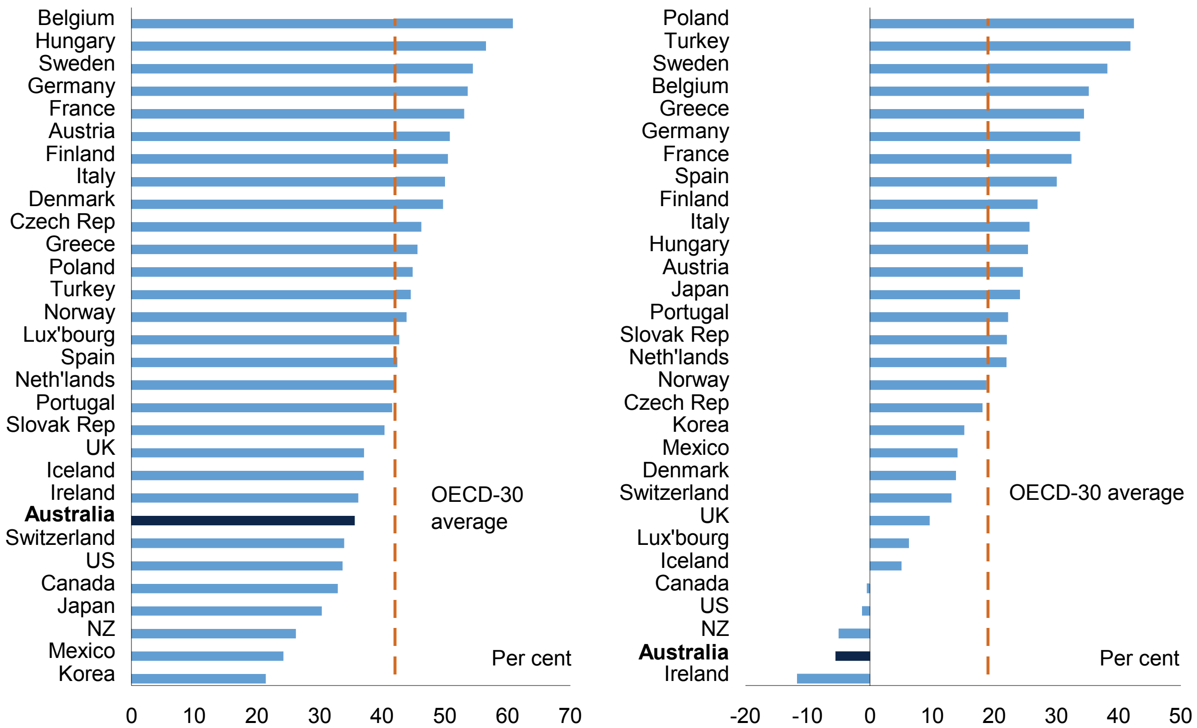
Note: The country with the smallest marginal tax wedge has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.1.2: Tax wedge (as a percentage of labour costs) for singles

Tax wedge for a single worker earning 67 percent of the average wage with no children (left) and for an average worker with no children (right), OECD-30



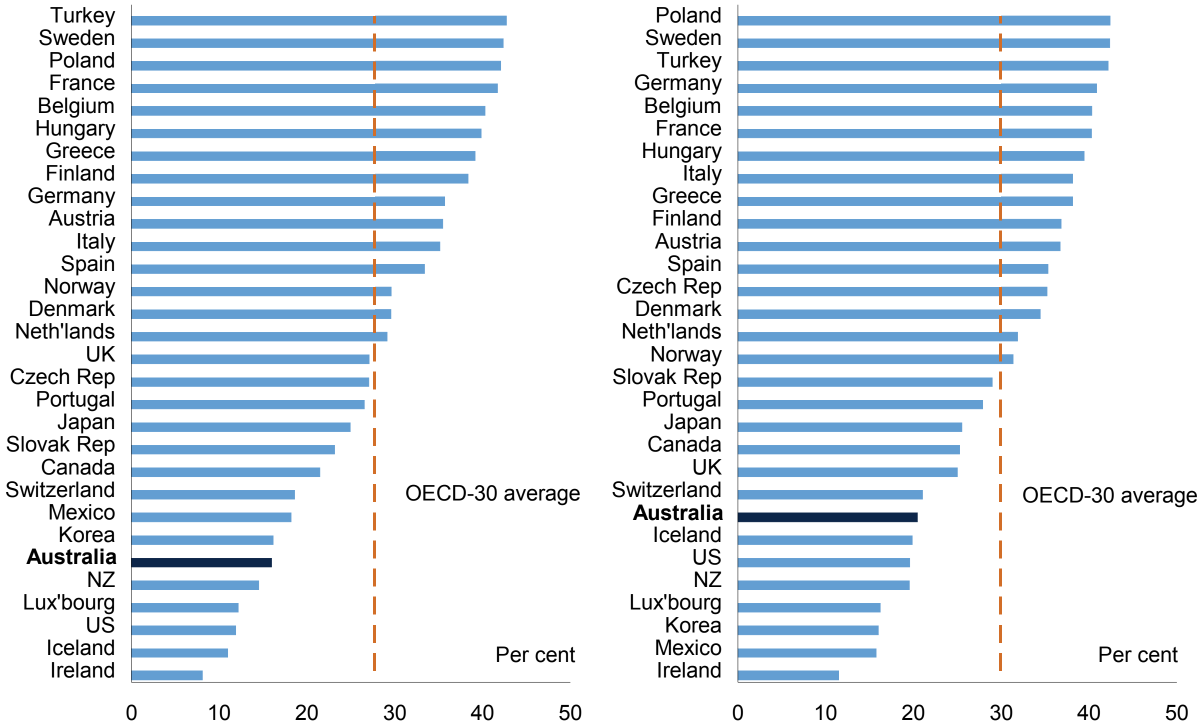
Tax wedge for a single average worker earning 167 per cent of the average wage (left) and for a single parent earning 67 per cent of the average wage with two children (right), OECD-30



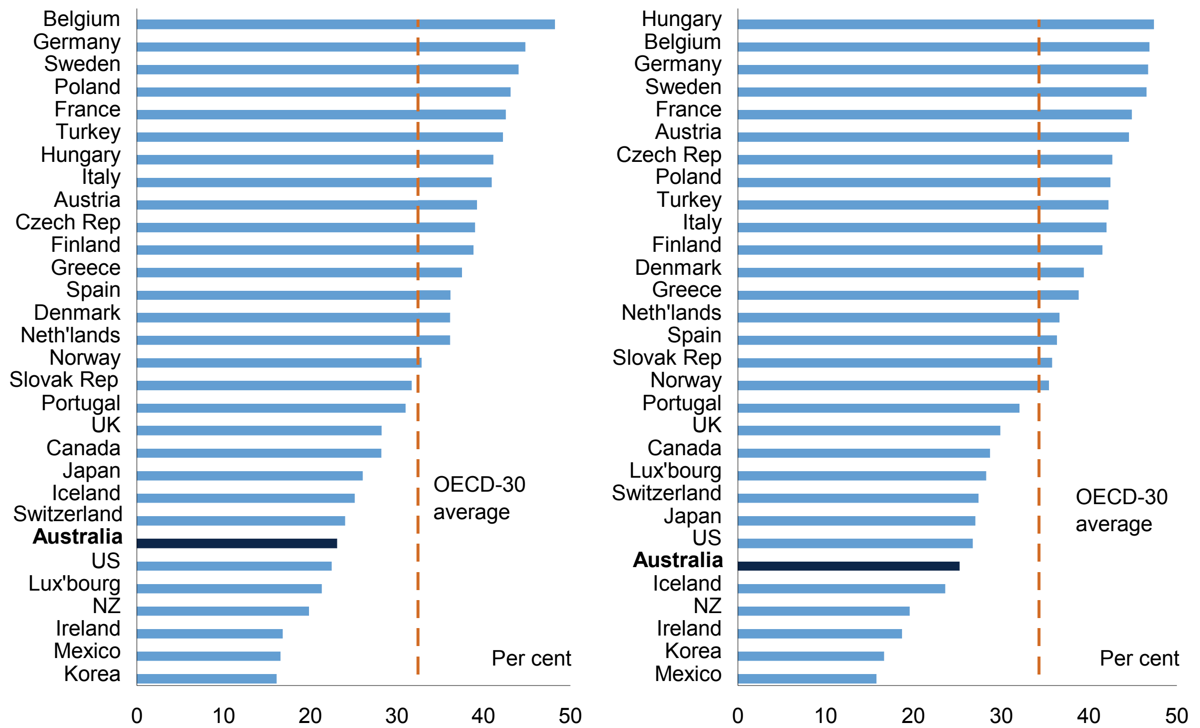
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.1.3: Tax wedge (as a percentage of labour costs) for married couples

Tax wedge for a single income married couple earning the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent of the average wage with two children (right), OECD-30



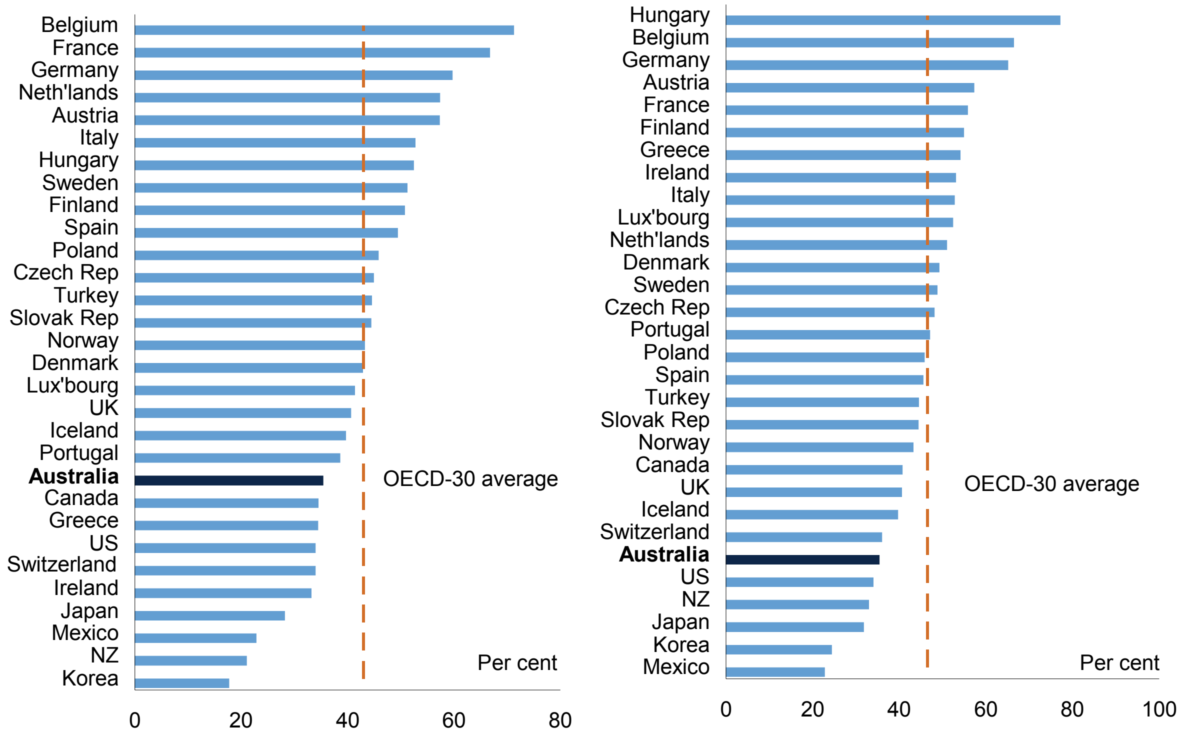
Tax wedge for a dual income married couple earning 100 and 67 per cent of the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent with no children (right), OECD-30



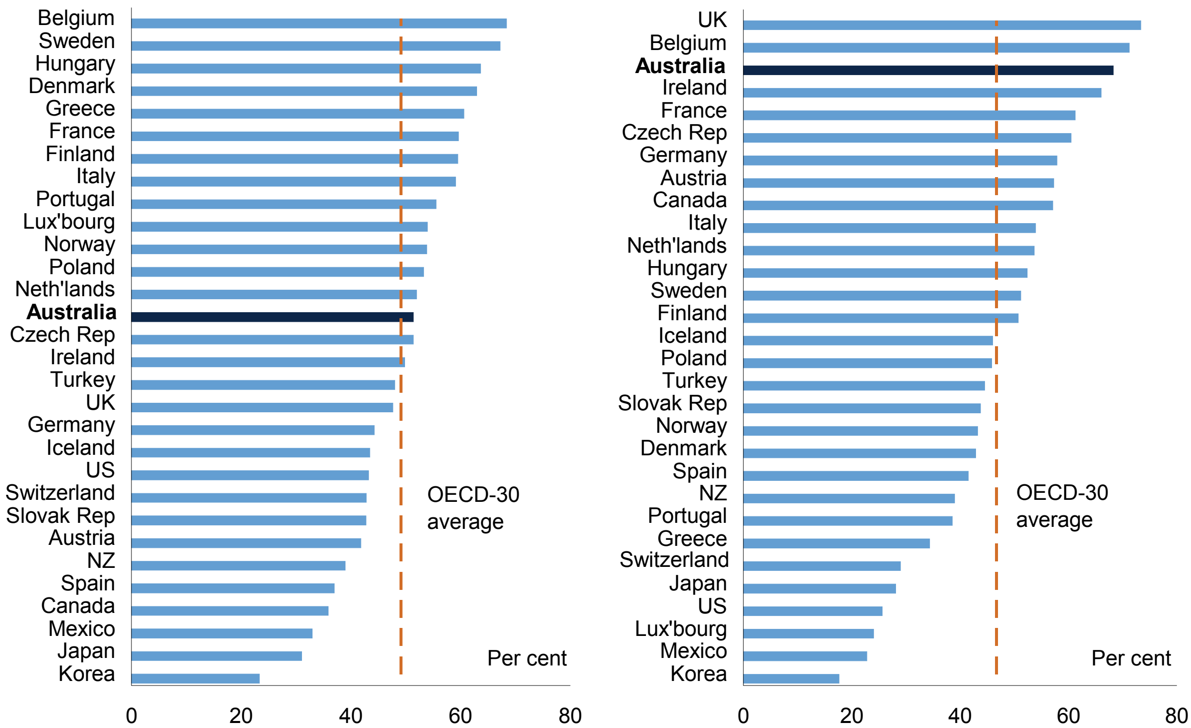
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.1.4: Marginal Tax wedge for singles

Marginal tax wedge for a single worker earning 67 per cent of the average wage with no children (left) and for an average worker with no children (right), OECD-30



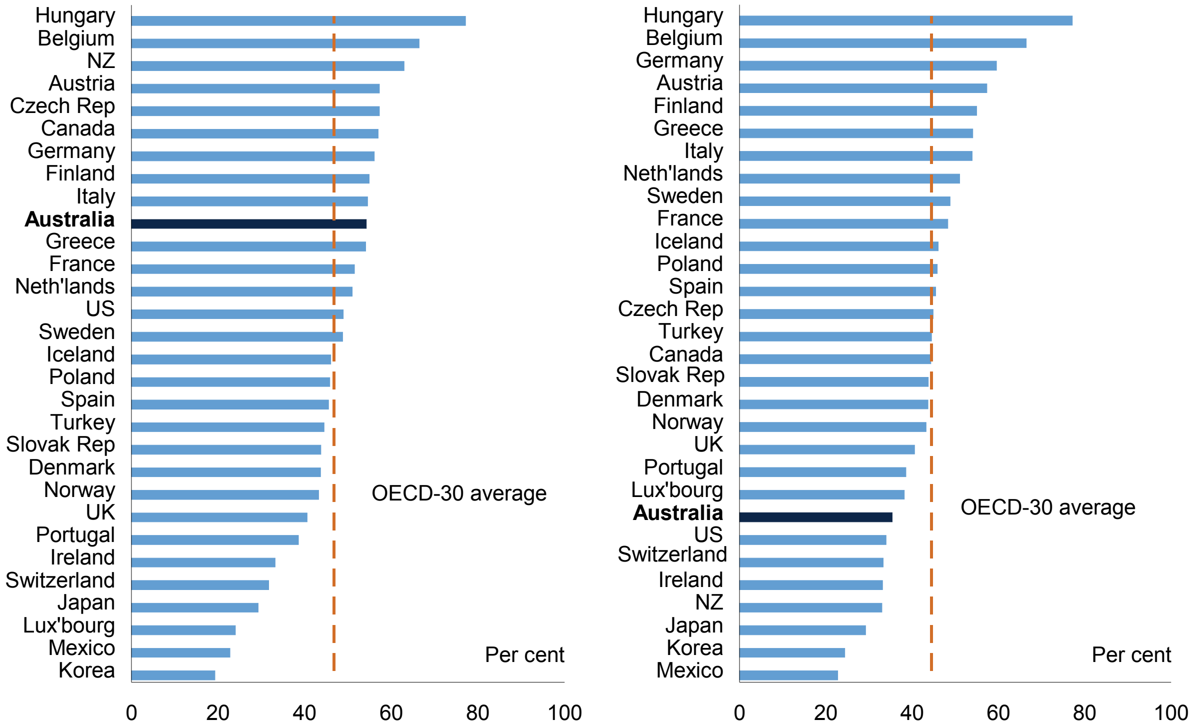
Marginal tax wedge for a single average worker earning 167 per cent of the average wage (left) and for a single parent earning 67 per cent of the average wage with two children (right), OECD-30



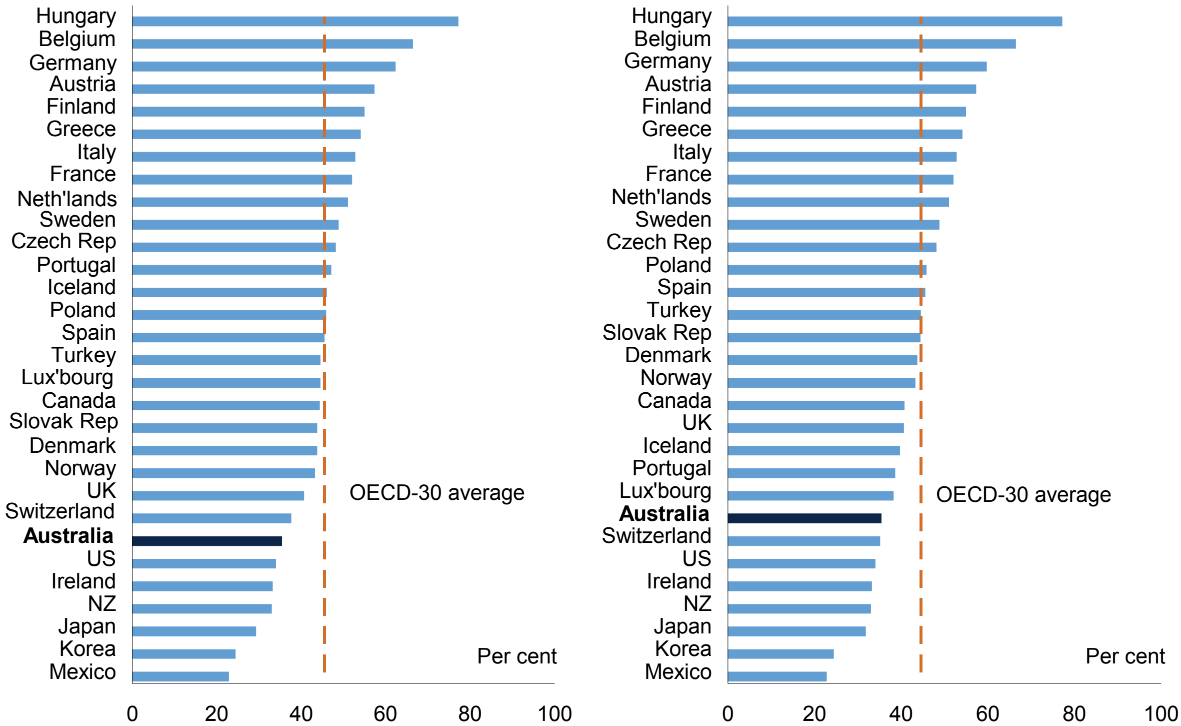
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.1.5: Marginal Tax wedge for married couples

Marginal tax wedge for a single income married couple earning the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent of the average wage with two children (right), OECD-30



Marginal tax wedge for a dual income married couple earning 100 and 67 per cent of the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent with no children (right), OECD-30

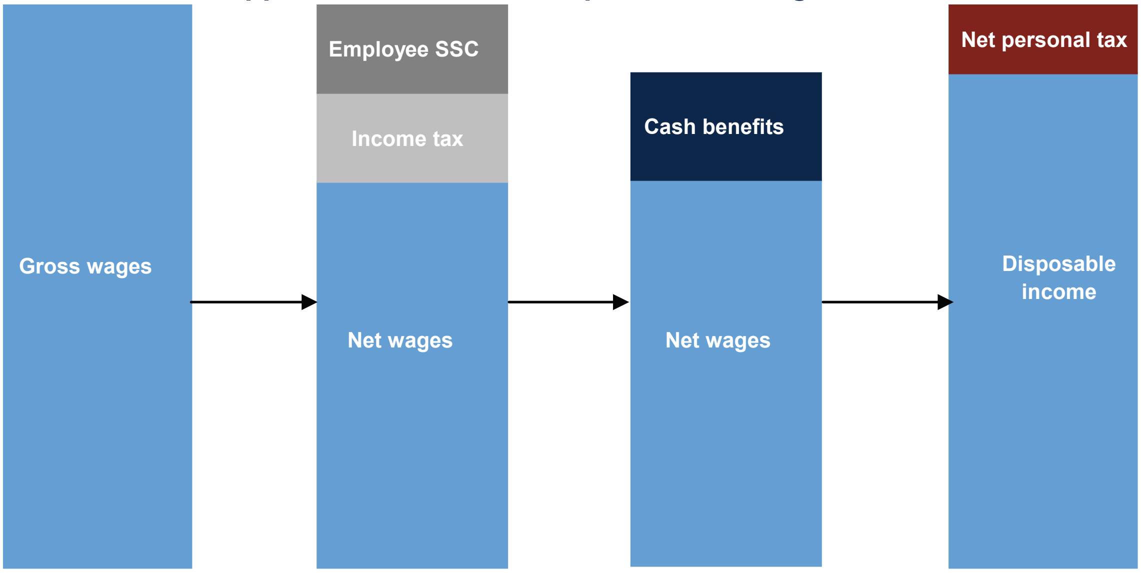


Source: OECD *Taxing Wages*, 2005.

APPENDIX 4.2: NET PERSONAL AVERAGE TAX RATE ANALYSIS

The net personal average tax rate is a measure of an employee's total wage-based tax burden. It is the sum of personal income tax plus employee social security contributions, less cash benefits as a percentage of gross wages. The net personal average tax rate is represented diagrammatically in Appendix chart 4.2.1.

Appendix chart 4.2.1: Net personal average tax rate



The net personal average tax rate can be described as a measure of a family household's wage-based disposable income, and is important since it is a measure of the employee’s incentive to increase the number of hours they work or to seek promotion.

The following analysis details Australia’s position amongst the OECD-30 countries for each of the eight family types using the net personal average tax rate and net personal marginal tax rate. In general, the net personal average tax rate in Australia is consistently ranked between eleventh and fifteenth lowest in the OECD-30 for seven of the eight different family types. (see Appendix table 4.2.1).

AUSTRALIA'S POSITION FOR THE EIGHT FAMILY TYPES

Appendix chart 4.2.2 and Appendix chart 4.2.3 show the net personal average tax rate of the OECD-30 for the eight family types, with Australia's position highlighted. Appendix chart 4.2.4 and Appendix chart 4.2.5 show the net personal marginal tax rate of the OECD-30 for the eight family types. The OECD averages and Australia's rankings for the net personal average tax rate and net personal marginal tax rate are summarised in Appendix table 4.2.1 to Appendix table 4.2.4.

Australia's net personal average tax rate for an average worker is 24.0 per cent, which places it thirteenth lowest in the OECD-30 and third largest in the OECD-10 after the United Kingdom and the Netherlands. The net personal marginal tax rate in Australia for an average worker with no children is 31.5 per cent, placing it ninth lowest in the OECD-30 and fifth lowest in the OECD-10.

In Australia, the net personal average tax rate for a single worker earning 67 per cent of the average wage with no children is 20.3 per cent, placing it fourteenth lowest in the OECD-30 and fourth highest in the OECD-10. The United States and the United Kingdom both have higher net personal average tax rates, while Canada and New Zealand have lower net personal average tax rates. The net personal marginal tax rate for a worker earning 67 per cent of the average wage in Australia is 31.5 per cent and is the thirteenth lowest in the OECD-30 and fourth highest in the OECD-10. This is within two percentage points of both OECD averages.

In Australia, a single worker earning 167 per cent of the average wage with no children has a net personal average tax rate of 31.7 per cent, placing it fifteenth lowest in the OECD-30 and the second largest in the OECD-10. This value is slightly below the OECD-30 average and above the OECD-10 average. The net personal marginal tax rate for this worker in Australia is 48.5 per cent of gross wages placing it eighth highest in the OECD-30 and second highest in the OECD-10.

For a single parent earning 67 per cent of the average wage with two children in Australia, the net personal average tax rate is -11.8 per cent, which is third lowest in the OECD-30 and the OECD-10. Eight other countries in the OECD-30 provide a net overall benefit to this family type and therefore have a negative net personal average tax rate. The net personal marginal tax rate in Australia for this single parent is 66.4 per cent, which is the second highest in the OECD-30 and the OECD-10 after the United Kingdom. For these single parents, the United States and Luxembourg are the only countries which have reasonably large net benefits and relatively low net personal marginal tax rates.

For a single-income married couple earning the average wage with two children, the net personal average tax rate is 10.9 per cent in Australia, placing it eleventh lowest in the OECD-30 and fourth lowest in the OECD-10. The lowest net personal average tax rate for this family type is in Ireland. The net personal marginal tax rate in Australia for this family type is 51.5 per cent, which is the fifth highest in the OECD-30 and third highest in the OECD-10.

In Australia a dual-income married couple with one partner earning 100 per cent and the other 33 per cent of the average wage with two children has a net personal average tax rate of 15.7 per cent placing it twelfth lowest in the OECD-30 and fifth lowest in the OECD-10. Ireland has the lowest net personal average tax rate for these families.

In Australia, a dual-income married couple earning 100 per cent and 67 per cent of the average wage with two children has a net personal average tax rate of 18.5 per cent, which places Australia twelfth lowest in the OECD-30 and the fifth largest in the OECD-10.

For a dual-income married couple earning 100 per cent and 33 per cent of the average wage with no children, the Australian net personal average tax rate is 20.8 per cent of gross wages, which is thirteenth lowest in the OECD-30 and seventh lowest in the OECD-10.

In Australia, the net personal marginal tax rates for the last three family types discussed above all have a value of 31.5 per cent which places Australia either eleventh or thirteenth lowest in the OECD-30 and fifth highest in the OECD-10. The Netherlands and Canada have the highest net personal marginal tax rate in the OECD-10 for these family types.

In summary, Australia's net personal average tax rate is placed between eleventh and fifteenth lowest in the OECD-30 for seven out of the eight family types. The exception is for a single worker earning 67 per cent of the average wage with two children for which Australia is third lowest in the OECD-30. Australia's net personal marginal tax rate is above both the OECD-30 and OECD-10 averages for a single worker earning 167 per cent of the average wage with no children, a single parent earning 67 per cent of the average wage with two children and for a single income married couple earning the average wage with two children. For families with dependants, any high net personal marginal tax rates are a result of Australia's relatively highly targeted social security system.

Appendix table 4.2.1: Australia's net personal average tax rate — comparison with OECD-30

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's net personal average tax rate	20.3	24.0	31.7	-11.8	10.9	15.7	18.5	20.8
OECD-30 average net personal average tax rate	22.1	26.2	32.1	5.0	14.9	17.6	20.4	22.8
Australia's rank in the OECD-30	14	13	15	3	11	12	12	13

Note: The country with the smallest net personal average tax rate has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix table 4.2.2: Australia's net personal average tax rate — comparison with OECD-10

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's net personal average tax rate	20.3	24.0	31.7	-11.8	10.9	15.7	18.5	20.8
OECD-10 average net personal average tax rate	19.6	22.9	28.4	-2.5	12.0	15.3	18.0	19.8
Australia's rank in the OECD-10	7	8	9	3	4	5	6	7

Note: The country with the smallest net personal average tax rate has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix table 4.2.3: Australia's net personal marginal tax rate — comparison with OECD-30

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's net personal marginal tax rate	31.5	31.5	48.5	66.4	51.5	31.5	31.5	31.5
OECD-30 average net personal marginal tax rate	32.4	37.2	42.3	36.3	37.3	34.8	36.0	35.0
Australia's rank in the OECD-30	13	9	23	29	26	13	11	13

Note: The country with the smallest net personal marginal tax rate has a rank of one.
Source: OECD *Taxing Wages*, 2005.

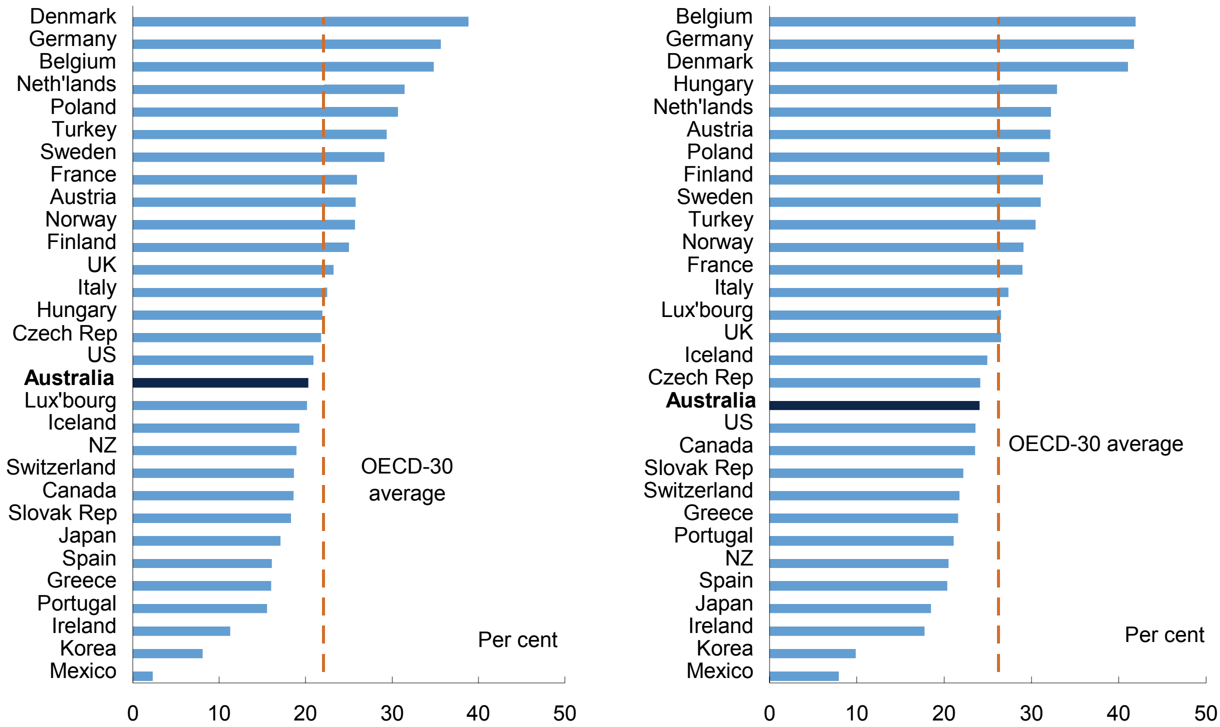
Appendix table 4.2.4: Australia's net personal marginal tax rate — comparison with OECD-10

	Single no children 67%	Single no children 100%	Single no children 167%	Single 2 children 67%	Married 2 children 100%-0%	Married 2 children 100%-33%	Married 2 children 100%-67%	Married no children 100%-33%
Australia's net personal marginal tax rate	31.5	31.5	48.5	66.4	51.5	31.5	31.5	31.5
OECD-10 average net personal marginal tax rate	29.6	33.6	39.8	41.9	39.0	31.2	31.7	31.3
Australia's rank in the OECD-10	7	5	9	9	8	6	6	6

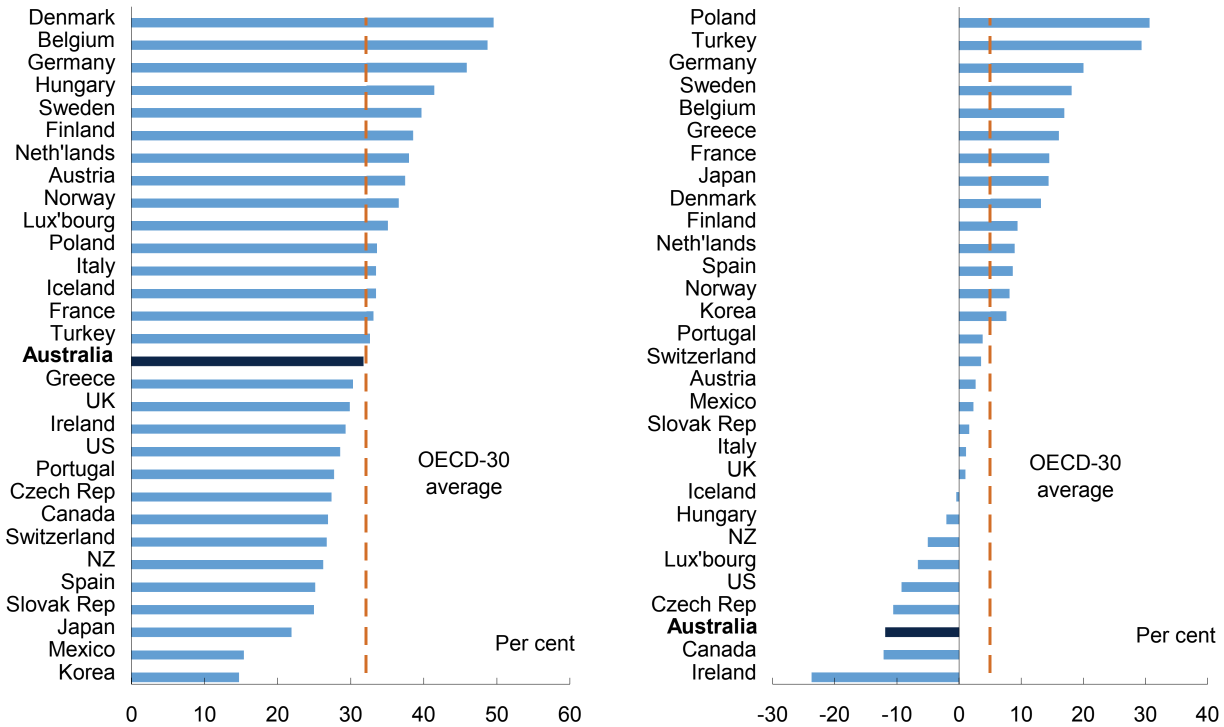
Note: The country with the smallest net personal marginal tax rate has a rank of one.
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.2.2: Net personal average tax rate (as a percentage of gross wage earnings) for singles

Net personal average tax rate for a single worker earning 67 percent of the average wage with no children (left) and for an average worker with no children (right), OECD-30



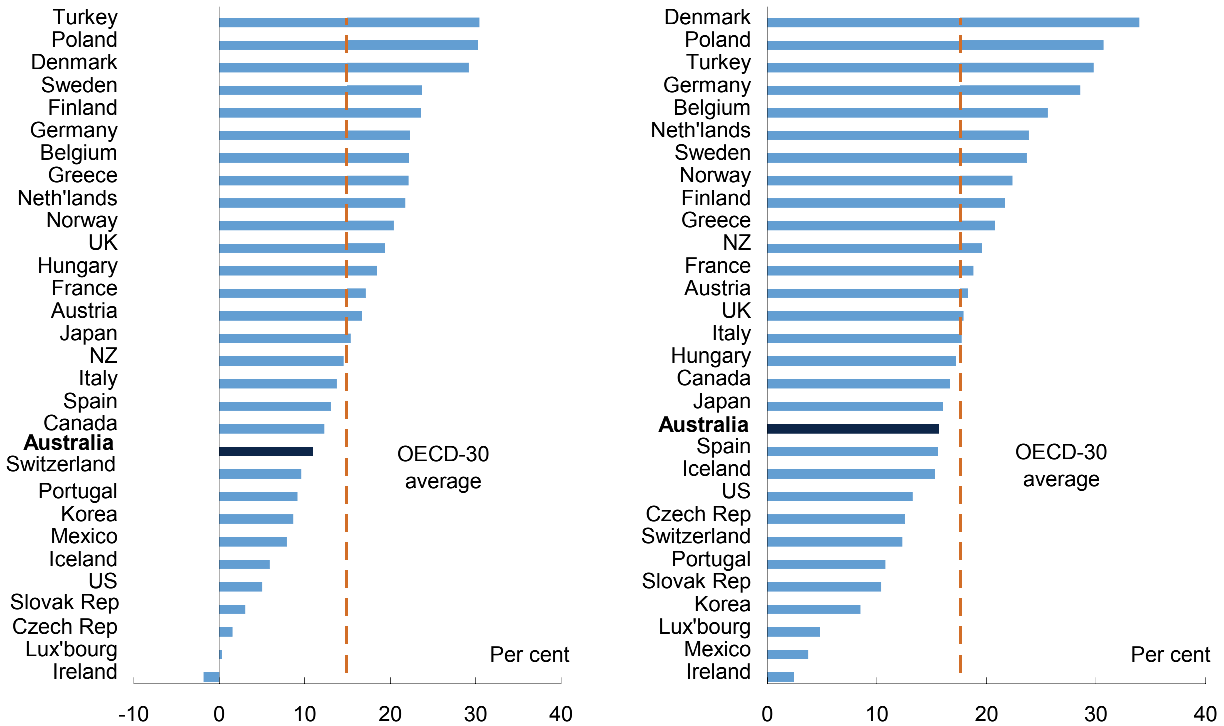
Net personal average tax rate for a single worker earning 167 per cent of the average wage (left) and for a single parent earning 67 per cent of the average wage with two children (right), OECD-30



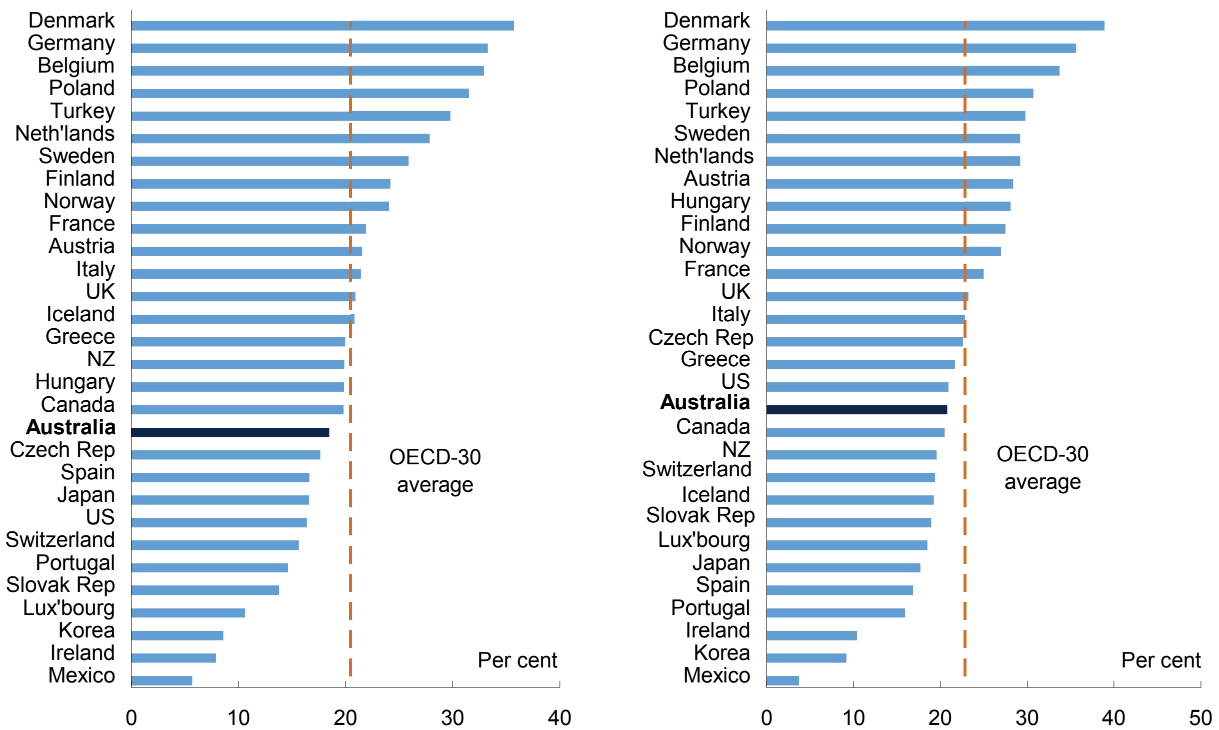
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.2.3: Net personal average tax rate (as a percentage of gross wage earnings) for married couples

Net personal average tax rate for a single income married couple earning the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent of the average wage with two children (right), OECD-30



Net personal average tax rate for a dual income married couple earning 100 and 67 per cent of the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent with no children (right), OECD-30

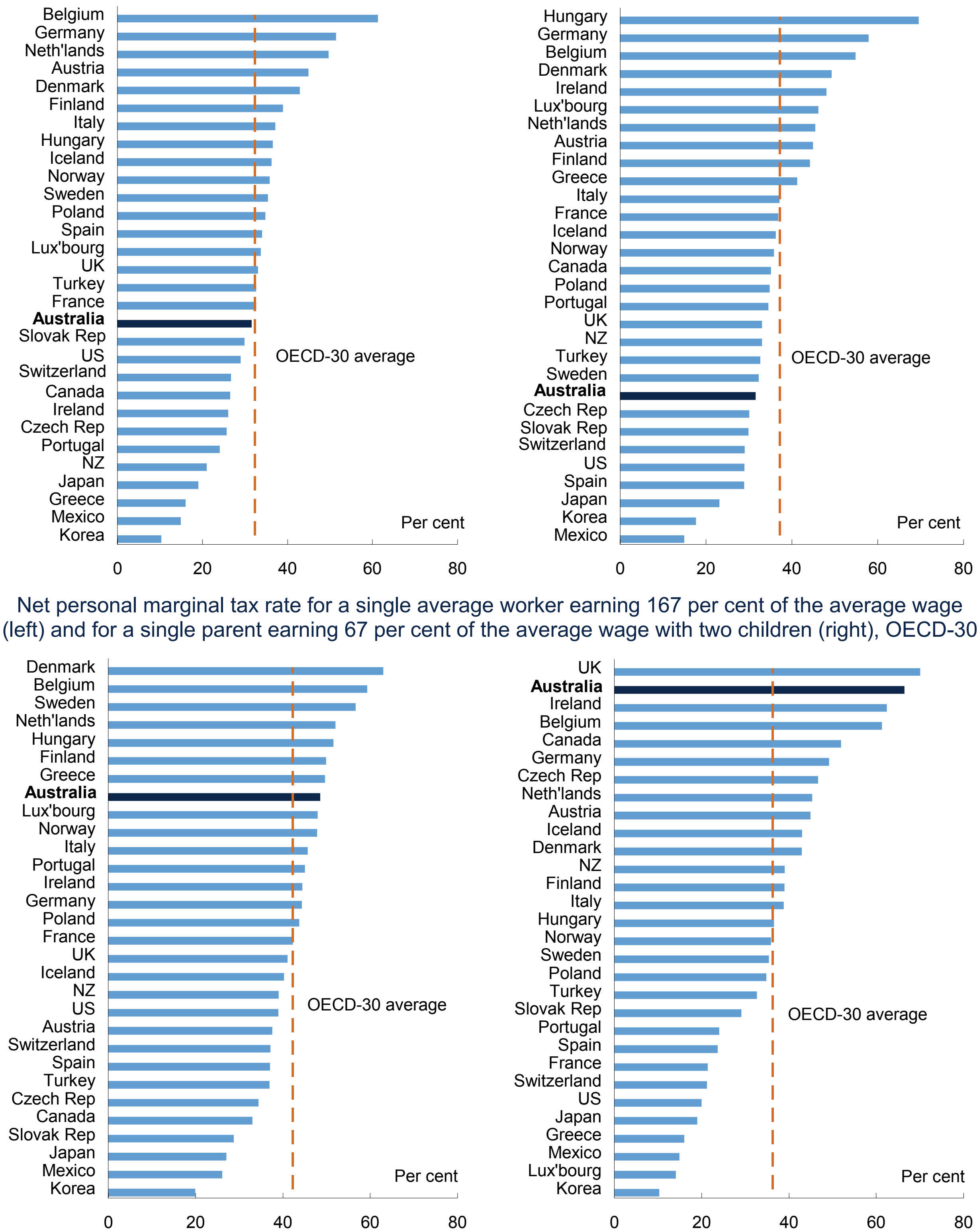


Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.2.4: Net personal marginal tax rate for singles

Net personal marginal tax rate for a single worker earning 67 percent of the average wage with no children (left) and for an average worker with no children (right), OECD-30

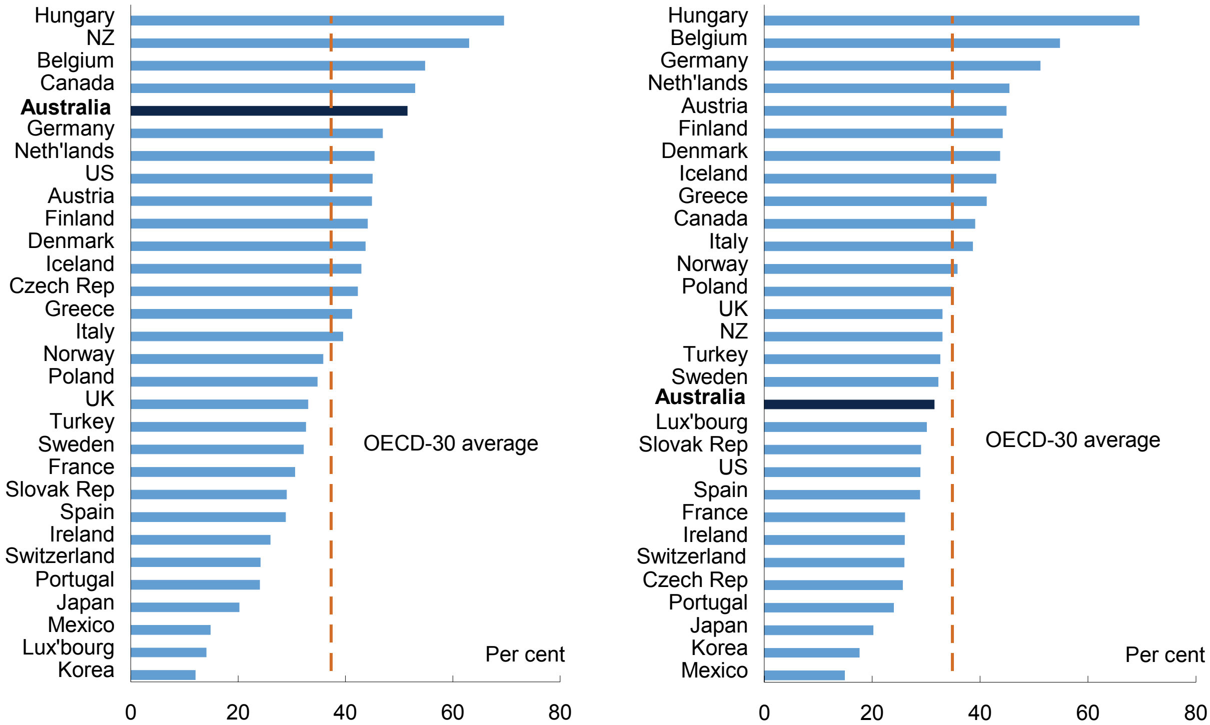
Net personal marginal tax rate for a single average worker earning 167 per cent of the average wage (left) and for a single parent earning 67 per cent of the average wage with two children (right), OECD-30



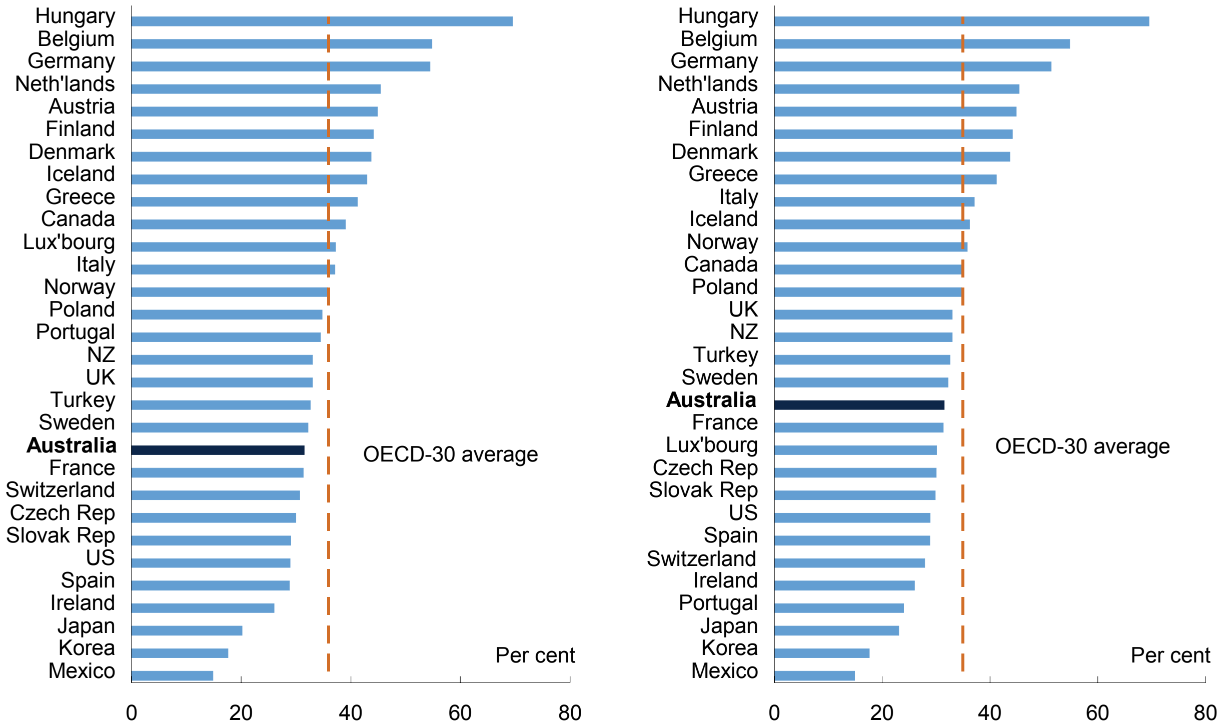
Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.2.5: Net personal marginal tax rate for married couples

Net personal marginal tax rate for a single income married couple earning the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent of the average wage with two children (right), OECD-30



Net personal marginal tax rate for a dual income married couple earning 100 and 67 per cent of the average wage with two children (left) and for a dual income married couple earning 100 and 33 per cent with no children (right), OECD-30



Source: OECD *Taxing Wages*, 2005.

APPENDIX 4.3: TAX WEDGE FAMILY COMPARISONS

This appendix analyses the family type comparison of the tax wedge and the marginal tax wedge for each country in the OECD-30. Comparing different family types provides insights into the effects on tax and benefits of family composition and of additional earnings from a second earner. The family type comparisons examined in this appendix are:

(a) comparing the average worker (AW) with no children to a single-income married couple earning the average wage with two children. This demonstrates the difference between the tax treatment of singles and families;

(b) comparing a single worker earning 67 per cent of the average wage, to the same worker with two dependent children. This shows how the tax system treats the inclusion of dependants for single workers;

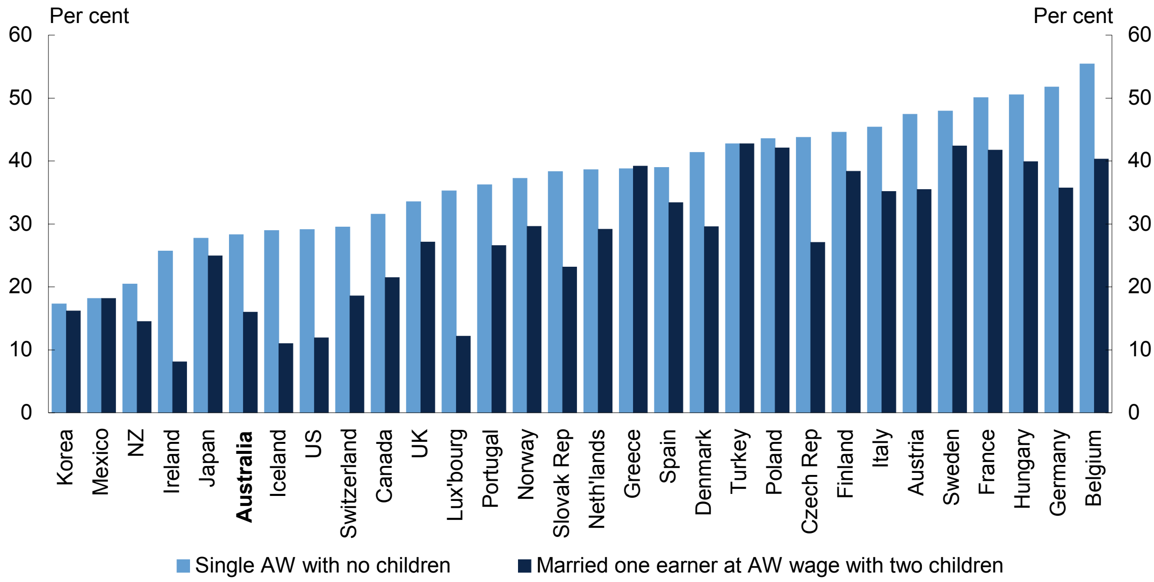
(c) comparing a dual-income married couple with no children, earning an average wage and 33 per cent of an average wage, to the same couple with two dependent children. This shows how the tax system treats the inclusion of dependants for married couples; and

(d) comparing a single-income married couple earning the average wage with two children, to a dual-income married couple with two children, with the second income being 33 per cent of the average wage. This shows the effect of a partner starting work or re-entering the labour force.

In general:

- Families receive assistance from cash benefits or the tax system in most OECD-30 countries compared to singles. Australia’s tax wedge reductions are the ninth largest in the OECD-30.
- Sole parents receive significant cash benefits across the OECD-30. Australia’s tax wedge reductions are the second largest in the OECD-30.
- Most OECD-30 countries offer assistance to families with dependant children, compared to families without children. Australia’s tax wedge reduction is similar to the OECD-30 average.
- Approximately half the OECD-30 countries have an increased tax wedge for families with a second earner compared to a single-income family. Australia’s tax wedge also increases for dual-earner families with higher incomes.

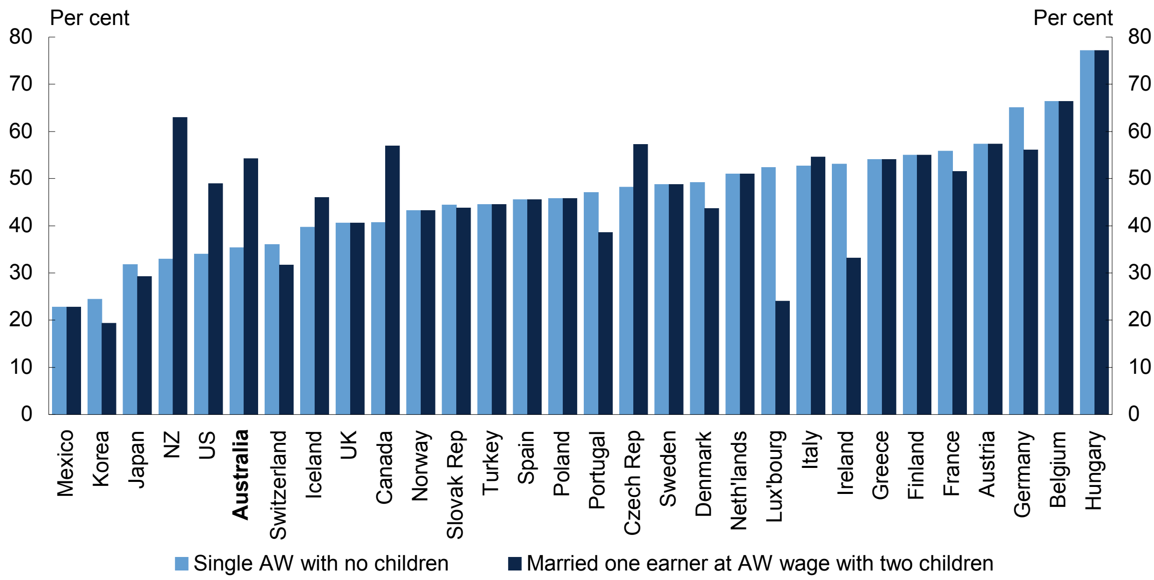
Appendix chart 4.3.1: Tax wedge comparison of a single average worker with no children to a single-income married couple earning the average wage with two children
OECD-30



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.1 shows the tax wedge for a single worker earning the average wage compared to a single-income married couple earning the average wage with two children. In Australia, the tax wedge for a single-income married couple earning the average wage with two children is 12.3 percentage points lower than that of the average worker. Most OECD-30 countries reduce the tax wedge of married couples with dependent children, compared to the average single worker either through cash benefits or tax relief. Australia's tax wedge reduction of 12.3 percentage points is the ninth largest in the OECD-30.

Appendix chart 4.3.2: Marginal tax wedge comparison of a single average worker with no children to a single-income married couple earning the average wage with two children
OECD-30

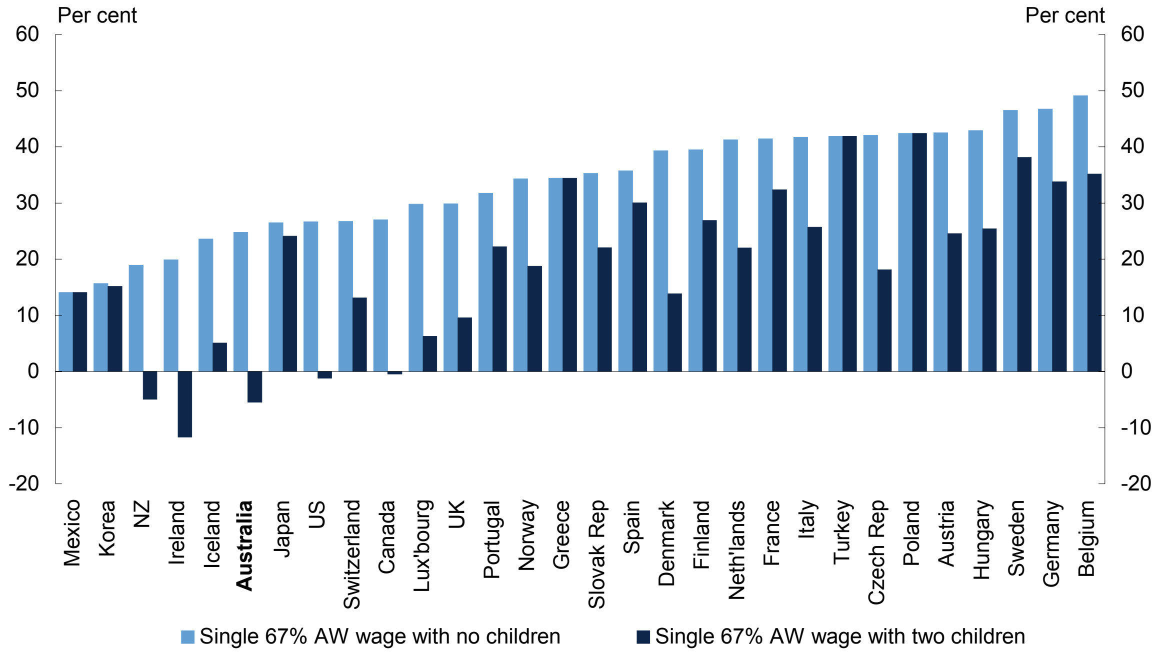


Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.2 shows the marginal tax wedge for a single worker earning the average wage compared to a single-income married couple earning the average wage with two children. In Australia, the marginal tax wedge for this married couple is 18.9 percentage points larger than that of an average worker. This is the second highest difference in the OECD-30 after New Zealand, which has a difference of 30 percentage points. Canada and the United States have increases of 14 percentage points or more for the family with two children compared to the average worker.

Appendix chart 4.3.3: Tax wedge comparison of a single worker earning 67 per cent of the average wage with no children to a single parent earning 67 per cent of the average wage with two children

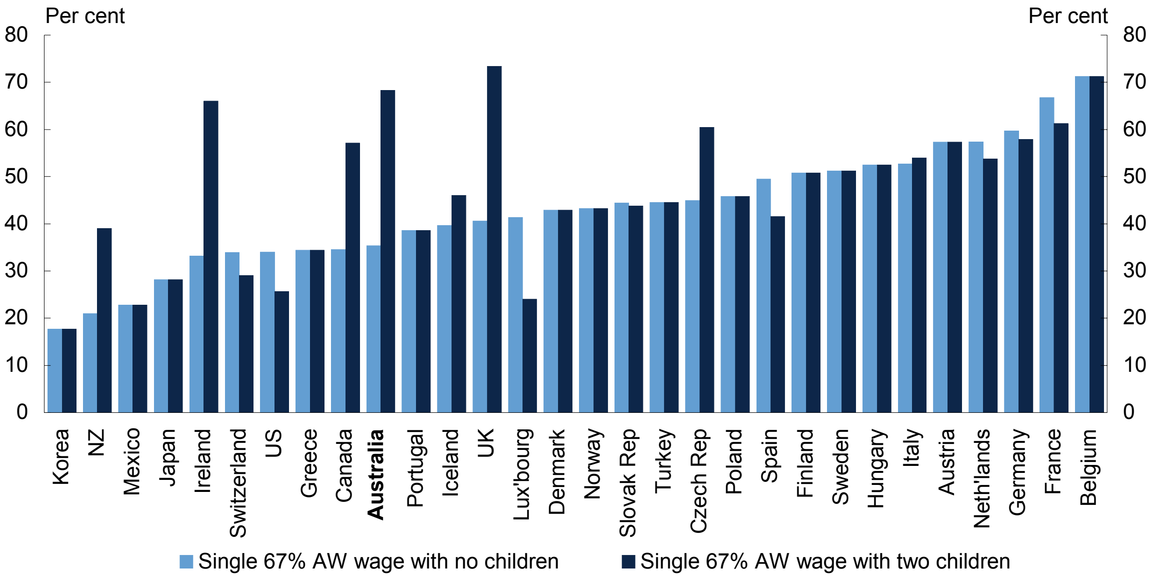
OECD-30



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.3 shows the tax wedge for a single worker earning 67 per cent of the average wage with no children, compared to a single worker earning the same amount with two children. In Australia, the tax wedge for a single parent earning 67 per cent of the average wage with two children is 30.3 percentage points lower than the corresponding single worker with no children. This is the second largest difference in the OECD-30 after Ireland. The United States and Canada also have differences larger than 25 percentage points.

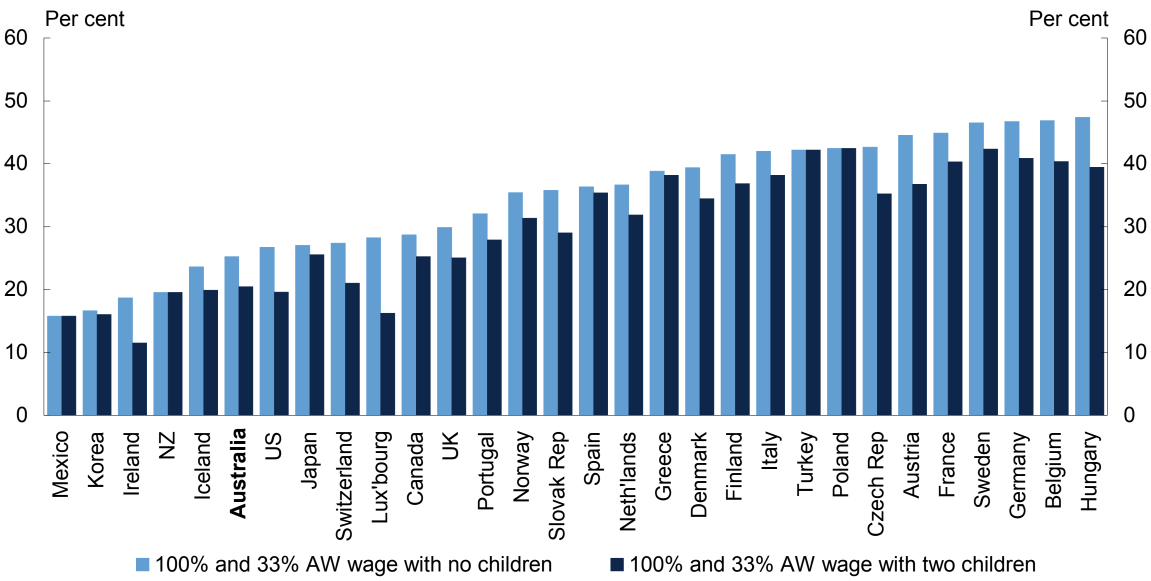
Appendix chart 4.3.4: Marginal tax wedge comparison of a single worker earning 67 per cent of the average wage with no children to a single parent earning 67 per cent of the average wage with two children
OECD-30



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.4 shows the marginal tax wedge for a single worker earning 67 per cent of the average wage with no children compared to the same worker with two children. In Australia, the marginal tax wedge for this worker with two children is 32.9 percentage points larger than that of the corresponding worker with no children. This is the largest difference in the OECD-30 followed by Ireland, the United Kingdom, Canada and New Zealand.

Appendix chart 4.3.5: Tax wedge comparison of a dual-income family earning 100 per cent and 33 per cent of the average wage with no children to the same family type with two children
OECD-30

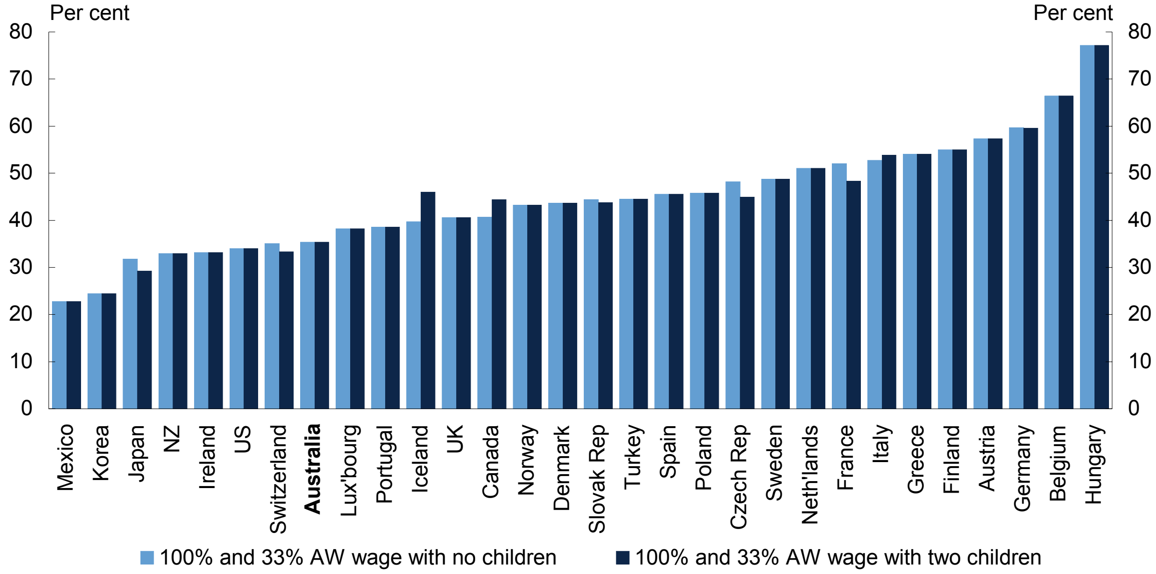


Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.5 shows the tax wedge for a dual-income married couple earning 100 per cent and 33 per cent of the average wage with no children, compared to the same couple with two children. The tax wedge in Australia for this family with two children is 4.8 percentage points lower than the corresponding family with no children and is almost the same as the OECD-30 average, placing Australia thirteenth largest in the OECD-30.

Appendix chart 4.3.6: Marginal tax wedge comparison of a dual-income family earning 100 per cent and 33 per cent of the average wage with no children to the same family type with two children

OECD-30

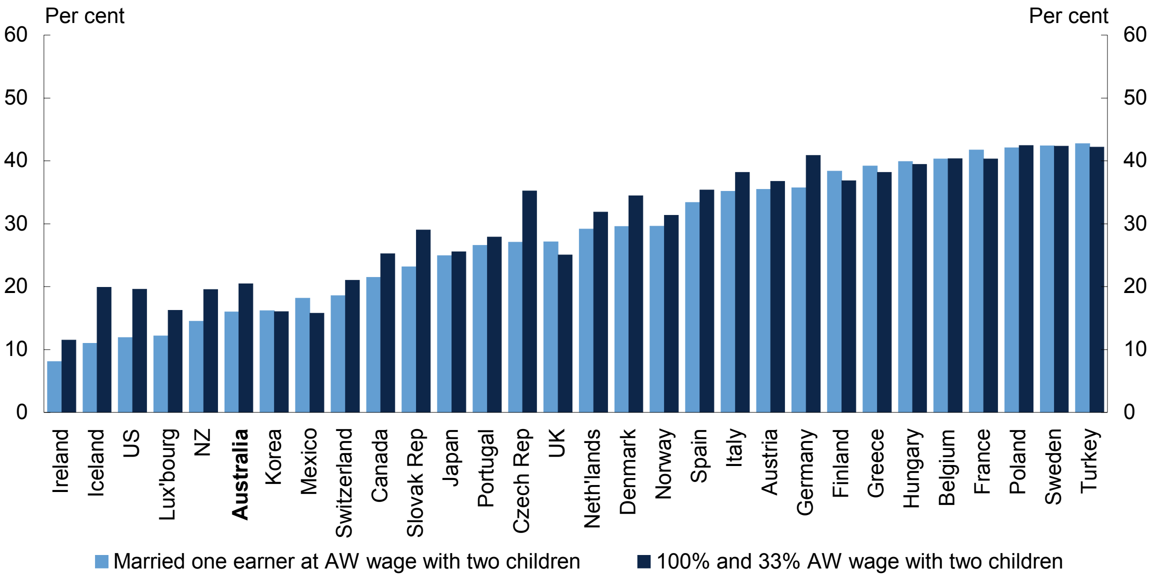


Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.6 shows the marginal tax wedge for a dual-income married couple earning 100 per cent and 33 per cent of the average wage with no children, compared to the same couple with two children. The Australian marginal tax wedge is the same for both of these families. This is because the family tax benefit for families with two children at this income level is paid as a flat rate per child until a much higher income is reached. This is also the case for twenty other countries in the OECD-30.

Appendix chart 4.3.7: Tax wedge comparison of a single-income married couple earning the average wage with two children to a dual-income couple earning 100 per cent and 33 per cent with two children

OECD-30

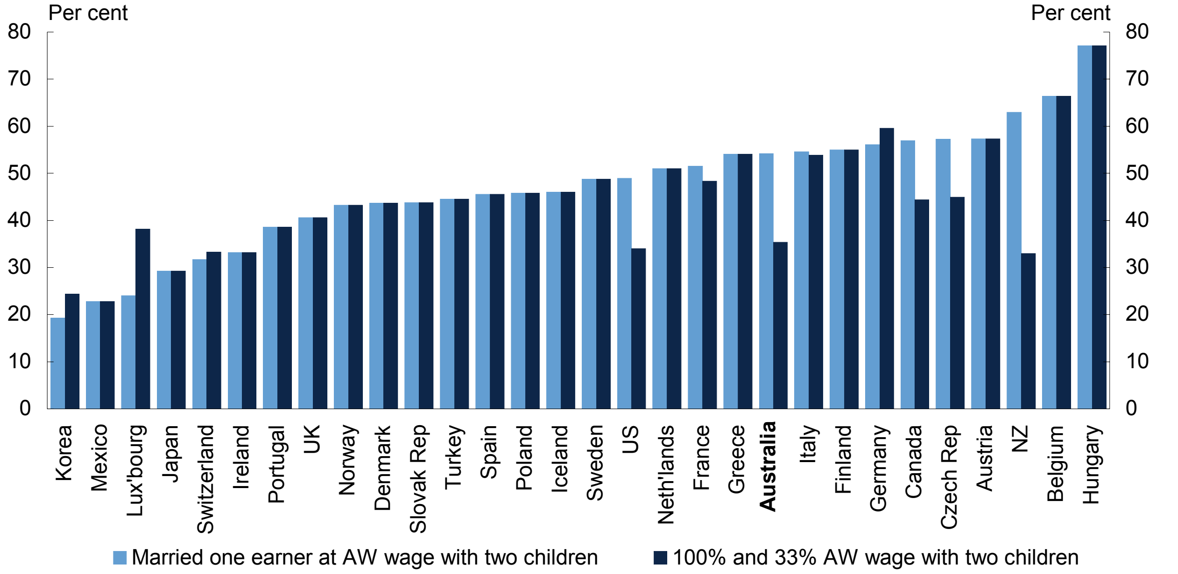


Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.3.7 shows the tax wedge for a single-income married couple earning the average wage with two children compared to the same couple with a second income of 33 per cent of the average wage. In Australia, if a previously unemployed spouse returns to work and earns 33 per cent of the average wage, the overall tax wedge of the family increases by 4.5 percentage points. This is the result of family benefits being progressively phased out as the family income increases. Australia's increase in tax wedge is the eighth largest in the OECD-30. Most OECD-30 countries follow the same trend, with the tax wedge increasing at least slightly.

Appendix chart 4.3.8: Marginal tax wedge comparison of a single-income married couple earning the average wage with two children to a dual-income couple earning 100 per cent and 33 per cent with two children

OECD-30



Source: OECD *Taxing Wages*, 2005.

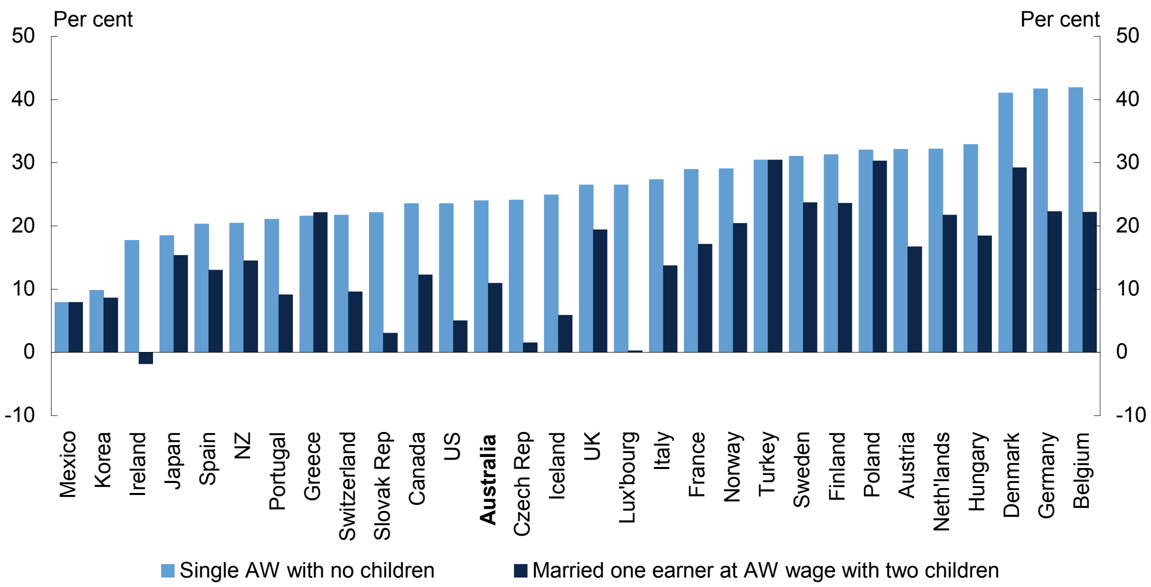
Appendix chart 4.3.8 shows the marginal tax wedge for a single-income married couple earning the average wage with two children compared to the same couple with a second income of 33 per cent of the average wage. Australia's marginal tax wedge is 18.9 percentage points lower for the dual-income family, compared to the single-income family. This is because the single-income family receives family benefits that are included in its marginal tax wedge, while the dual-income family does not. This is the second largest decrease in the OECD-30. Only New Zealand has a larger decrease of 30 percentage points, while the United States and Canada have decreases of 12 percentage points or more.

APPENDIX 4.4: NET PERSONAL AVERAGE RATE FAMILY COMPARISONS

This appendix contains a comparison of the net personal average tax rates between the pairs of family types discussed in Appendix 4.3.

Appendix chart 4.4.1: Net personal average tax rate comparison of a single average worker with no children to a single-income married couple earning the average wage with two children

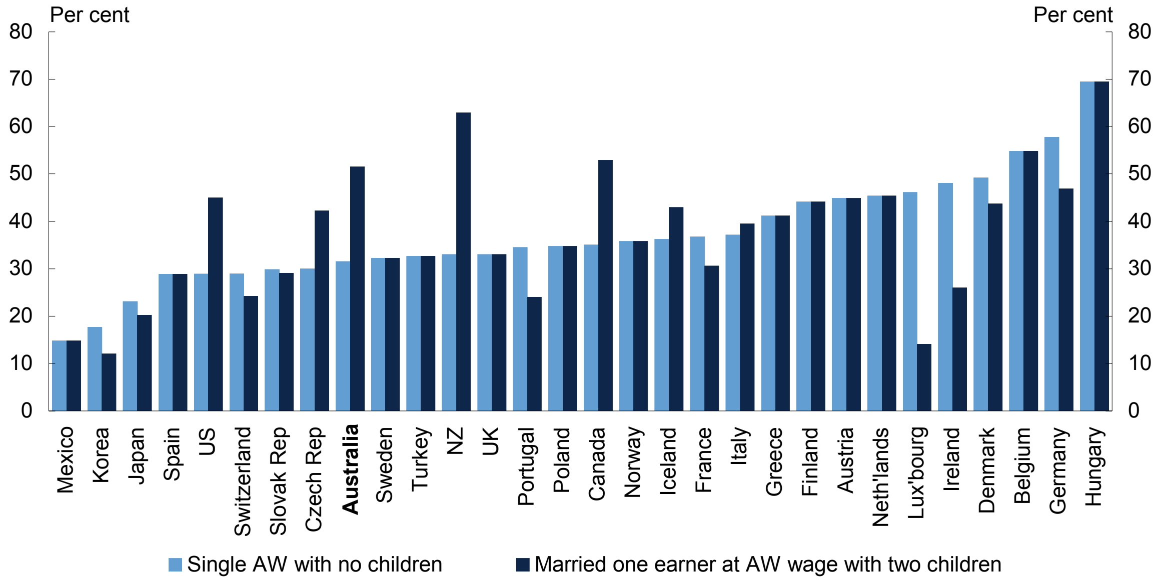
OECD-30



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.1 shows the net personal average tax rate for a single average worker, compared to a single-income married couple earning the average wage with two children. In Australia, the net personal average tax rate of this family with two children is 13.1 percentage points lower than that for the average worker. This is the twelfth largest difference in the OECD-30, and is just above the OECD-30 average. Of the OECD-10 Ireland and the United States have larger differences than Australia.

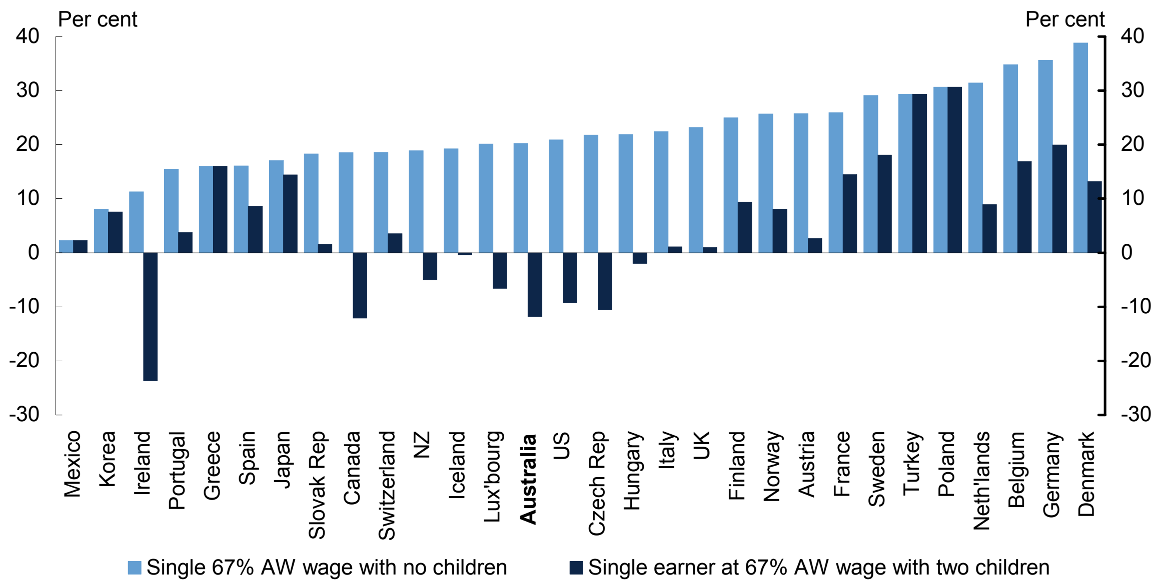
Appendix chart 4.4.2: Net personal marginal tax rate comparison of a single average worker with no children to a single-income married couple earning the average wage with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.2 shows the net personal marginal tax rate for a single worker earning the average wage compared to a single-income married couple earning the average wage with two children. In Australia, the net personal marginal tax rate for this married couple is 20 percentage points larger than that of an average worker. This is the second largest increase in the OECD-30. Ten countries in the OECD-30 have lower net personal marginal tax rates for families than for average workers without children.

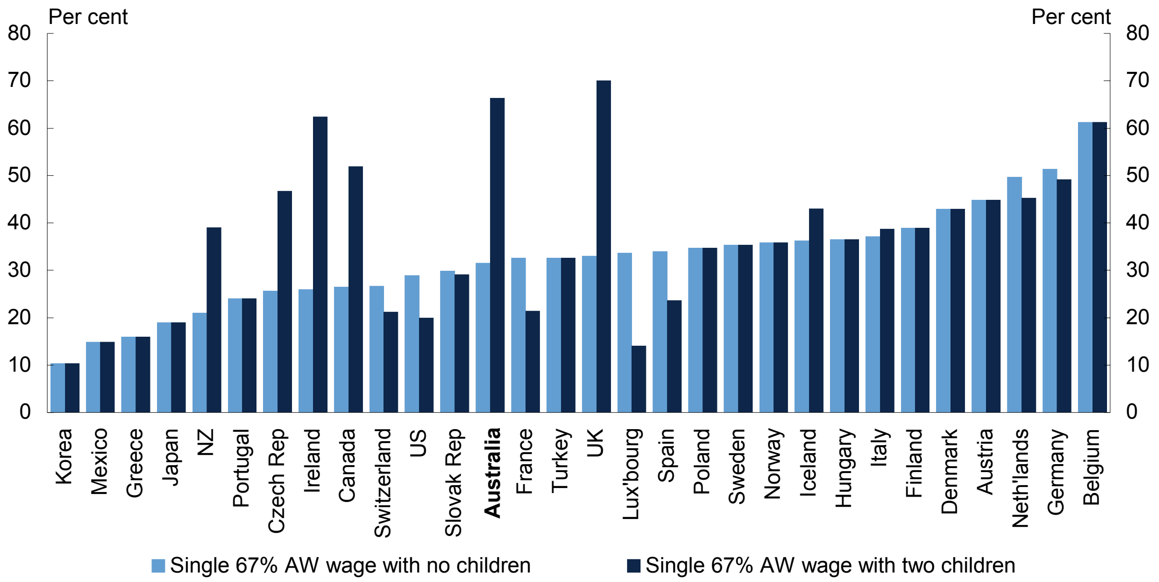
Appendix chart 4.4.3: Net personal average tax rate comparison of a single worker earning 67 per cent of the average wage with no children to a single parent earning 67 per cent of the average wage with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.3 shows the net personal average tax rate for a single worker earning 67 per cent of the average wage with no children, compared to the same worker with two children. The net personal average tax rate provided by Australia to the single worker with two children is 32.1 percentage points lower than for the single person with no children. This decrease is the third-largest in the OECD-30. Ireland has the largest difference.

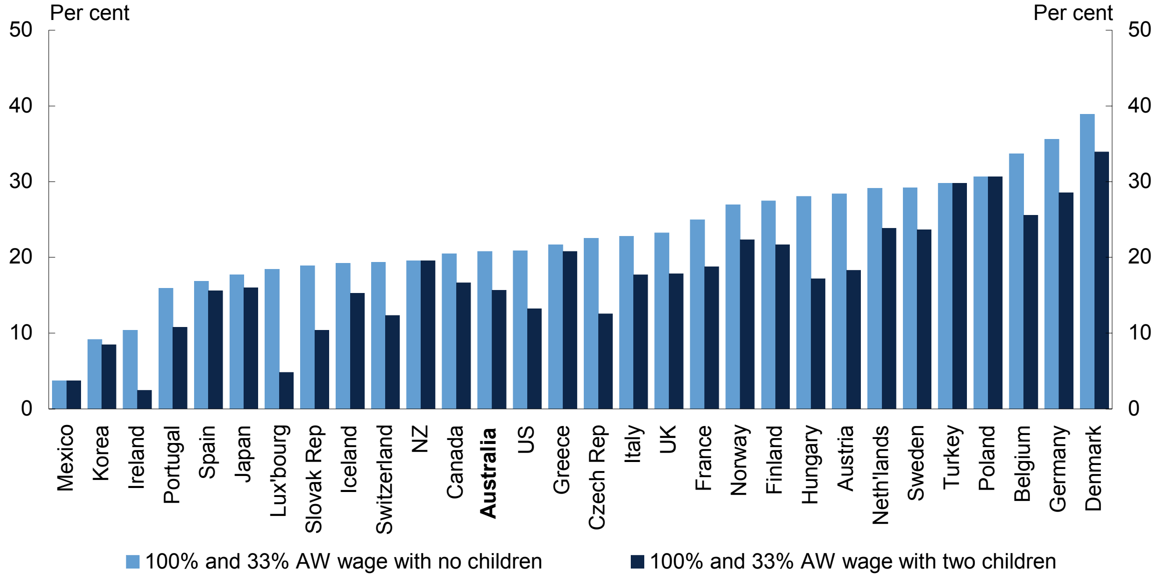
Appendix chart 4.4.4: Net personal marginal tax rate comparison of a single worker earning 67 per cent of the average wage with no children to a single parent earning 67 per cent of the average wage with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.4 shows the net personal marginal tax rate for a single worker earning 67 per cent of the average wage with no children compared to the same worker with two children. In Australia, the net personal marginal tax rate for this single parent is 34.9 percentage points larger than the same worker with no children. This is the third largest increase in the OECD-30 after the United Kingdom and Ireland. Eight countries in the OECD-30 have a higher net personal marginal tax rate for the single parent with two children.

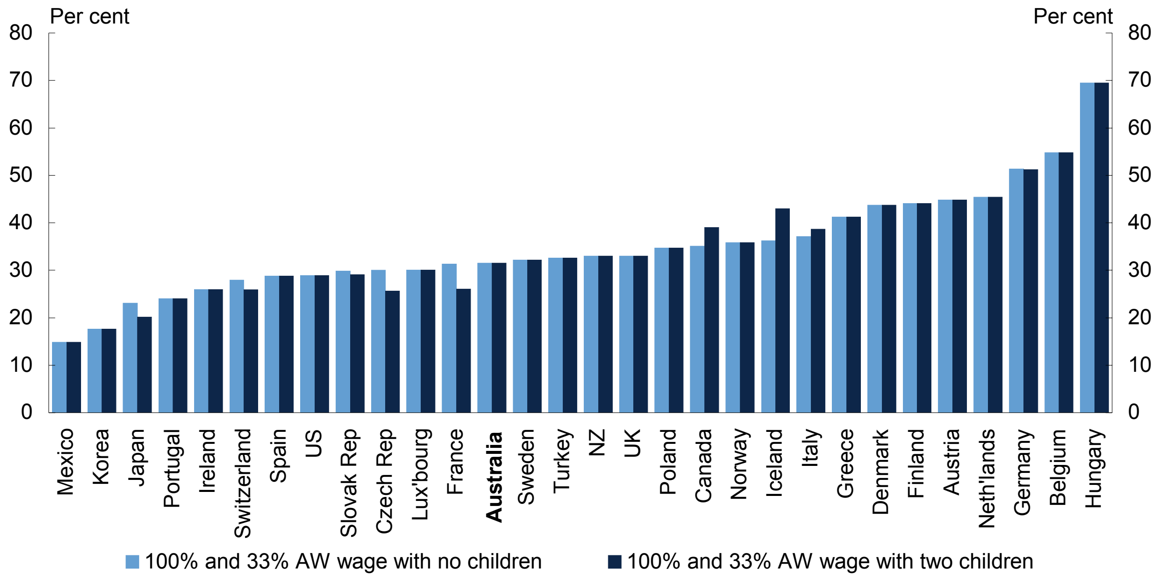
Appendix chart 4.4.5: Net personal average tax rate comparison of a dual-income family earning 100 per cent and 33 per cent of the average wage with no children to the same family type with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.5 shows the net personal average tax rate for a dual-income married couple, earning 100 per cent and 33 per cent of the average wage with no children, compared to the same couple with two children. In Australia, the net personal average tax rate for this family with two children is 5.1 percentage points lower than for the corresponding family with no children. This is the thirteenth smallest difference in the OECD-30 and is almost the same as the OECD-30 average difference of 5.2 percentage points.

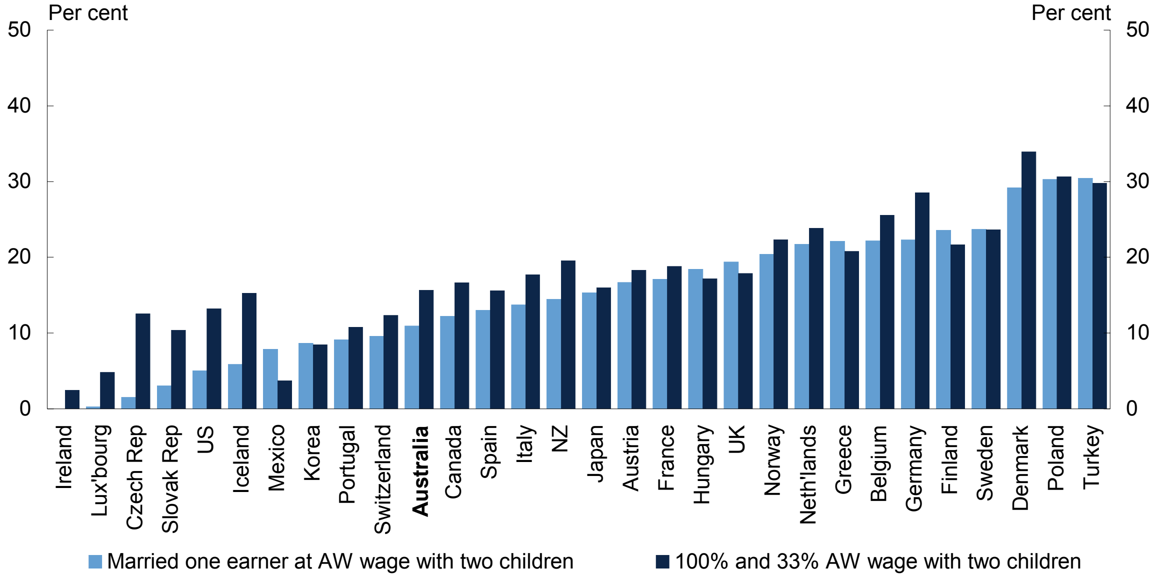
Appendix chart 4.4.6: Net personal marginal tax rate comparison of a dual-income family earning 100 per cent and 33 per cent of the average wage with no children to the same family type with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.6 shows the net personal marginal tax rate for a dual-income married couple earning 100 per cent and 33 per cent of the average wage with no children compared to the same couple with two children. Like the marginal tax wedge, the Australian net personal marginal tax rate is the same for both these families. This is because the family tax benefit for families with two children at this income level is paid as a flat rate per child until a much higher income is reached. Twenty other countries in the OECD-30 also have the same net personal marginal tax rates for these family types. The differences for most OECD-30 countries are generally quite small.

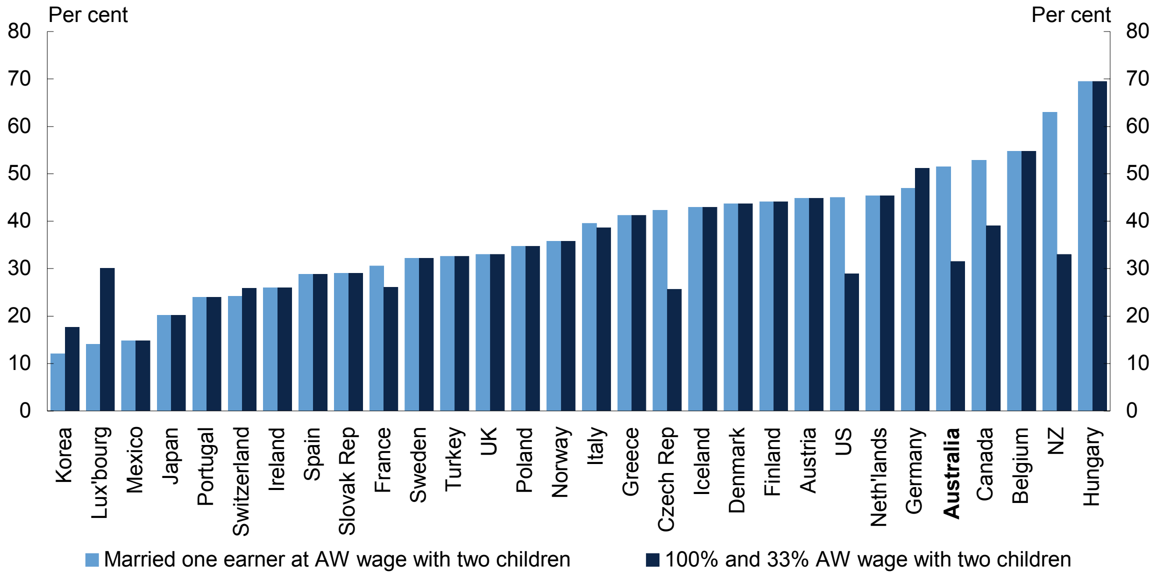
Appendix chart 4.4.7: Net personal average tax rate comparison of a single-income married couple earning the average wage with two children to a dual-income couple earning 100 per cent and 33 per cent with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.7 shows the net personal average tax rate for a single-income married couple earning the average wage with two children, compared to a dual-income married couple earning 100 per cent and 33 per cent of the average wage with two children. The net personal average tax rate in Australia for this dual-income family is 4.7 percentage points higher than for the single-income family. This difference is the seventh-largest increase in the OECD-30.

Appendix chart 4.4.8: Net personal marginal tax rate comparison of a single-income married couple earning the average wage with two children to a dual-income couple earning 100 per cent and 33 per cent with two children



Source: OECD *Taxing Wages*, 2005.

Appendix chart 4.4.8 shows the net personal marginal tax rate for a single-income married couple earning the average wage with two children, compared to a dual-income married couple earning 100 per cent and 33 per cent of the average wage with two children. In Australia, the net personal marginal tax rate is 20.0 percentage points smaller for the dual-income family than the single-income family. This is the second largest difference in the OECD-30 after New Zealand.

APPENDIX 4.5: OECD-10-DESCRIPTIVE WAGE AND SALARY TAXATION TABLES

Appendix table 4.5.1: OECD-10 assessable and exempt income

Country	Assessable income	Exempt income
Australia	Salary and wage income, allowances, dividends, interest, capital gains, business income, pensions, rents, royalties, partnership income, distributions from trusts, employee share/option interest. Fringe benefits are also taxed, although under a different rate structure to personal income tax.	Number of types of exempt income, including disability support pensions, veterans affairs disability pensions, certain pay and allowances for defence force personnel, amounts on which family trust distribution tax has been paid, family payments such as family tax benefit and child care benefit.
Canada	Income tax sources (worldwide income) — employment income, business income, property income and capital gains. Property income consists of passive income, such as rent, interest, royalties and dividends, earned through investment activities. Fringe benefits are part of the tax base.	Several types of exempt income, including capital gains realised on the disposition of a principal residence, damages for personal injury, death benefits received under a life insurance policy.
Ireland	Income is taxed according to a schedular system, based on the nature of the income source. The current applicable schedules are: C: profits from payment of interest and dividends out of public revenue when payable in Ireland; D Case I: trading profits, Case II: profits from the exercise of professions, Case III: untaxed interest and foreign income, Case IV: any other income or profit not otherwise taxable, Case V: rental income from land in Ireland; E: income from employment and pensions; F: distributions from resident corporations.	Specific exemptions are granted for several items, for example, royalties received by resident taxpayers from patents (provided that the activity leading to its invention was carried out in Ireland).
Japan	Total worldwide income of resident individuals is subject to income tax. There are 10 income sources that income taxes apply to: interest, dividend, real estate, business, employment, retirement, forestry, capital gains, occasional and miscellaneous income. Some benefits in kind received by the taxpayers are assessable to the taxpayer, for example, private use of an employer provided automobile.	Several forms of exempt employment income, such as some benefits in kind (for example moving expenses), commuter allowance up to a maximum threshold. Exemption for interest accrued from current bank deposits.
Netherlands	A schedular system operates. Only the items included in the schedule are taxable. The schedule contains different boxes. Box 1 includes income from employment, business, other activities, periodical payments (from individuals and the state), owner-occupied dwellings. Fringe benefits are included in the definition of the taxable wage. Box 2 is income from substantial shareholdings (dividends and capital gains) both resident and non-resident companies. Box 3 is income from savings and investment.	Exempt income Box 3 — a number of assets are excluded from the taxable base, including owner-occupied dwellings and certain capital insurance policies used to finance owner-occupied dwellings.

Appendix table 4.5.1: OECD-10 assessable and exempt income (continued)

Country	Assessable income	Exempt income
New Zealand	Residents are subject to income tax on their worldwide income. An individual who is an employee is subject to tax on all monetary remuneration paid by an employer. Monetary remuneration means any salary, wage, allowance, bonus, gratuity, extra salary, compensation for loss of employment, emolument of whatever kind, or other benefit in money, in respect of or in relation to the employment or service of the taxpayer. Generally, fringe benefits are not included in assessable income but are instead subject to fringe benefits tax at a different rate.	Range of exempt income — including reimbursing allowances, worker's compensation under the *Worker's Compensation Act 1956,* whether received as a lump sum or weekly payments.
Spain	Income tax is levied on all worldwide income. Taxpayer income is classified into five categories: employment income, investment income, business income, capital gains and imputed income. Income is taxable in the year of accrual of the income, regardless of the time of cash receipt. If the income has been generated during more than two years, only 60 per cent of it is taxable.	Several exempt forms of income, such as pensions paid by social security to severely disabled taxpayers.
Switzerland	Taxable on worldwide income including: earned income, employment income, investment income, social security payments and income from other sources. Benefits in kind are included in employment income at their market value. These include: company cars and child care or education expenses of children paid by the employer.	Several types of exempt income, including interest on savings accounts (up to certain limits), inheritances, gifts and matrimonial property rights.
United Kingdom	Total income comprises income from all sources. Income received by an individual as salary and wages is subject to income tax as emoluments received from an office of employment. Income also includes pension income, dividends, interest, royalties, rental income and capital gains.	A number of specific exempt income categories, including interest on income tax repayments.
United States	United States citizens and residents are taxed on all income from all sources. This includes wages, salary, business income, and investment income. All income (other than capital gains and certain dividends) is combined and taxed at the same rate.	There are a number of categories of exempt income, including gifts and inheritances, and interest on bonds issued by US states and municipalities for qualified public purposes.

Source: various, see Chapter 1 (1.4.1).

Appendix table 4.5.2: OECD-10 deductions

Country	Personal allowances	Work-related deductions	Taxes/social security	Other deductions
Australia		Work-related deductions are directly related to gaining or producing an employee's assessable income.		Other deductions include gifts, film industry incentives and expenses such as the cost of managing tax affairs.
Canada		Employees only deduct expenses specifically legislated (fairly limited). Examples of specific deductions which are all subject to certain conditions — accounting and legal fees, allowable motor vehicle expenses, travelling expenses, parking, supplies, substitute's salary, office rent and work-in-the-home expenses.	A taxpayer may deduct certain amounts contributed to an RPP (a registered pension plan)	
Ireland	Total exemption applies from income tax for incomes up to €5,210 (double for married taxpayers).	Expenses incurred wholly, exclusively and necessarily in the performance of the duties of the office or employment are deductible. In general, deductions are allowed for expenditure on special clothing worn in the performance of the taxpayer's duties, expenditure on tools and extra expenditure incurred by commercial travellers.		
Japan	Types of allowances available: basic, spouse, dependants. Basic: taxpayer may deduct ¥380,000 from income. Spouse: ¥380,000 (must meet requirements). Dependant: ¥380,000 per dependant (same requirements as for the spouse).	Specific deductions that exceed the standard deduction for employment income are allowed. Specific deductions include travelling expenses.		Deductions for employment income, social insurance premiums and medical expenses.
Netherlands	Box 3 — a basic allowance of €19,522 (double for married couples).	In general, in computing taxable income from Boxes 1 and 2, all expenses incurred which are necessary to obtain, collect or maintain income may be deducted. In the case of Box 3, expenses are treated as liabilities deductible from the taxable base. Certain expenses of a mixed character are not deductible, or are deductible subject to certain limits.		

Appendix table 4.5.2: OECD-10 deductions (continued)

Country	Personal allowances	Work related deductions	Taxes/social security	Other deductions
New Zealand		Expenses incurred in producing gross income may be claimed as a deduction from income limits expenditure that is of a capital, private, exempt income and non-residents' foreign-sourced income nature, and also limits employment expenses due to withholding taxes.		
Spain	Personal allowance of €3,400 for each taxpayer, double for spouses filing a joint tax return. Family allowance depends on the number of dependants, their age and income.		Social security contributions.	Trade union fees, compulsory fees paid to professional associations and legal expenses in connection with the termination of employment.
Switzerland	Taxpayer may deduct CHF6,100 in 2006 for: • each child under 18 years of age who is supported by the taxpayer; • each child older than 18 years who is studying or learning a trade and who is supported by the taxpayer; and • each other person incapable of gaining employment. For a married couple, an annual deduction of CHF7,600 from 2006 is granted from the earned income of the spouse with the lower income.	Necessary work-related expenses are deductible.	Obligatory social security premiums are fully deductible.	Premiums for health insurance, private accident and life insurances (as well as interest received from savings accounts) are deductible up to CHF1,700 in 2006 per year for a single taxpayer and CHF3,300 in 2006 for a married couple, plus 700 for each minor child or dependent person in need. If no premiums are paid, single taxpayers may deduct CHF2,550 in 2006 and married taxpayers CHF4,950 in 2006. Interest paid on debts (limited to a maximum of CHF50,000 plus investment income), alimony and child support payments, expenses for sickness (if exceeding 5 per cent of the net income) and donations (limited).

Appendix table 4.5.2: OECD-10 deductions (continued)

Country	Personal allowances	Work related deductions	Taxes/social security	Other deductions
United Kingdom	United Kingdom personal allowance available to all taxpayers — £4,895 for 2005/2006.	Most deductions in the United Kingdom must be incurred wholly, exclusively and necessarily in the performance of an employee's duties, a condition that precludes the deduction of many employment-related expenses.		
United States	Federal personal exemption of US$3,300 in 2006. Exemption is indexed each year with inflation.	Expenses directly related to employment income may be deducted.	State and local taxes are deductible where a taxpayer chooses to itemise deductions.	Taxpayers can take a standard deduction (the amount depends on the taxpayer's filing status) or itemise their deductions.

Source: various, see Chapter 1 (1.4.1).

Appendix table 4.5.3: OECD-10 countries — tax unit

Country	Tax Unit
Australia	Individual
Canada	Individual is the tax unit, but joint taxation is also possible.
Ireland	Generally based on marital status and number of dependents, however married taxpayers can choose separate treatment.
Japan	Individual
Netherlands	Individual
New Zealand	Individual
Spain	Government regulates whether a person is taxed individually or jointly.
Switzerland	Married couples generally have to lodge tax returns together and the income is then aggregated.
United Kingdom	Individual
United States	Tax rates vary depending on the return status of the taxpayer. There are four categories: • married persons filing joint returns that combine all their income and deductions; • heads of households; • unmarried individuals, that is single taxpayers; and • married persons filing separate returns, with each spouse reporting their own income and deductions on a separate return.

Source: various, see Chapter 1 (1.4.1).

Appendix table 4.5.4: OECD-10 — National personal income tax rates and credits

Country	Tax rates	Credits
Australia	Tax rate brackets from 1 July 2006: Up to A$6,000 0 per cent A$6,000 A$21,600 15 per cent A$21,600 A$70,000 30 per cent A$70,000 A$125,000 42 per cent Over A$125,000 47 per cent Medicare levy of 1.5 per cent. Lower rates apply for low income individuals and families. Medicare levy surcharge is applied to individuals who do not have private health insurance and whose income exceeds the relevant threshold (A$50,000 for singles, A$100,000 for couples). Fringe benefits are taxed at 48.5 per cent and the tax is paid by employers.	Low income tax offset — maximum of $235. Payable up to incomes of A$21,600, phasing out at 4 cents in the dollar up to A$27,475. Range of other offsets including offsets for dependants, seniors, pensioners and medical expenses. Three refundable tax offsets — baby bonus, private health insurance and franking tax offset.
Canada	Tax rate brackets from 1 January 2006: Up to C$36,378 15 per cent C$36,378 C$72,756 22 per cent C$72,756 C$118,285 26 per cent Over C$118,285 29 per cent Thresholds are indexed to inflation. Individuals can be subject to an alternative minimum federal income tax. The base for minimum tax purposes differs from the normal tax base. The individual multiplies their income for minimum tax purposes by the lowest federal tax rate (15 per cent). If the resulting tax exceeds normal federal tax payable, the taxpayer must pay the minimum tax amount.	Basic credit: All taxpayers qualify for a basic personal tax credit of C$1,356 in 2006. Other credits include spousal credit for spousal income, disabled dependent's credit, an age credit, disability credit, tuition and education credit, transfer of spouse's credits, medical expenses credit, charitable donations, and pension credits. Credits of 15 per cent are available for contributions to the Canada or Quebec Pension Plans and their Employment insurance premiums, but not exceeding the maximum premium allowed.

Appendix table 4.5.4: OECD-10 — National personal income tax rates and credits (continued)

Country	Tax rates	Credits
Ireland	Individuals can determine, for national income tax purposes, if they are taxed separately or jointly. The standard and higher rates of income tax are 20 and 42 per cent respectively. Tax at the standard rate is chargeable on income up to the standard rate cut-off point. Standard cut-off point Single/widower — €32,000 Married couple (one income) — up to €41,000 Married couple (two incomes) — up to a max of €64,000 (threshold is increased by the amount of the lowest income to a maximum of €23,000) One parent family — €36,000 Taxpayers with income below twice the relevant exemption limit (relevant exemption limit is €5,210 for singles and €10,420 for married persons) pay a lower rate of tax known as the marginal relief tax. The marginal relief limits the tax burden to 40 per cent.	A single person is entitled to a credit of €1,630 per year. The married person's credit is €3,260 per year. Other credits are available where taxpayers are eligible, such as the PAYE credit, widow's credit, dependent relative's credit, and one parent family credit.
Japan	The formula is income A-B-C, where A is the taxable income by tax rate, B is standard deduction, and C is proportional tax reduction. Tax rate brackets: Taxable Income Over / Not Over — Tax Rate (per cent) A — Deductible amount of each bracket B 0 / ¥3.3M — 10 — 0 ¥3.3M / ¥9M — 20 — ¥0.33M ¥9M / ¥18M — 30 — ¥1.23M ¥18M / — 37 — ¥2.49M Proportional tax reduction (C): 10 per cent of A-B (ceiling ¥125,000). Tax rate changes have been proposed to take effect from 1 January 2007 that are yet to be legislated.	

Appendix table 4.5.4: OECD-10 — National personal income tax rates and credits (continued)

Country	Tax rates	Credits
Netherlands	For 2006, Box 1 income rates Up to €17,046: 34.15 per cent (2.45 per cent income tax, 31.7 per cent National insurance contributions) €17,046 – €30,631: 41.45 per cent (9.75 per cent income tax, 31.7 per cent National insurance contributions) €30,631 – €52,228: 42 per cent (income tax) Over €52,228: 52 per cent (income tax) Thresholds are indexed to inflation. Box 2 income is flat at 25 per cent. In Box 3, the net yield of 4 per cent is taxed at a flat rate of 30 per cent, resulting in a tax of 1.2 per cent on the net assets.	For 2006 income year: General Tax Credit for under 65 of €1990; Employment Tax Credit of €1,357. There are other credits available, such as the child tax credit and the combination tax credit.
New Zealand	Tax rate brackets: Up to NZ$38,000: 19.5 per cent NZ$38,000 – NZ$60,000: 33 per cent Over NZ$60,000: 39 per cent Fringe benefits can either be calculated at a flat rate of 64 per cent or on a multi-rate based on the employee's remuneration.	The maximum low income rebate is NZ$427.50 which iscalculated at 4.5 cents in the dollar for income up to NZ$9,500. Where income is in the range NZ$9,500 to NZ$38,000, the maximum rebate is reduced by 1.5 cents for every dollar over NZ$9,500.
Spain	Tax rate brackets for the 2006 income year: Up to €4,162: 15 per cent €4,162 – €14,358: 24 per cent €14,358 – €26,842: 28 per cent €26,842 – €46,818: 37 per cent Over €46,818: 45 per cent Since 1 January 2005, the thresholds have been indexed by 2 per cent to mitigate the effect of inflation.	

Appendix table 4.5.4: OECD-10 — National personal income tax rates and credits (continued)

<table>
<tr><th>Country</th><th>Tax rates</th><th>Credits</th></tr>
<tr><td>Switzerland</td><td>The total tax burden is limited to 11.5 per cent.

Tax rate brackets in 2006 for married couples living together, and to widowed, separated, divorced or single persons living with children who are minor or studying at their expense:
<table>
<tr><th colspan="2">Taxable Income</th><th>Tax on lower amount</th><th>Rate on excess</th></tr>
<tr><td>0</td><td>CHF29,100</td><td>0</td><td></td></tr>
<tr><td>CHF29,200</td><td>CHF47,800</td><td>CHF25</td><td>1</td></tr>
<tr><td>CHF47,900</td><td>CHF54,800</td><td>CHF212</td><td>2</td></tr>
<tr><td>CHF54,900</td><td>CHF70,800</td><td>CHF352</td><td>3</td></tr>
<tr><td>CHF70,900</td><td>CHF85,000</td><td>CHF832</td><td>4</td></tr>
<tr><td>CHF85,100</td><td>CHF97,300</td><td>CHF1,400</td><td>5</td></tr>
<tr><td>CHF97,400</td><td>CHF108,000</td><td>CHF2,015</td><td>6</td></tr>
<tr><td>CHF108,100</td><td>CHF116,900</td><td>CHF2,657</td><td>7</td></tr>
<tr><td>CHF117,000</td><td>CHF123,900</td><td>CHF3,280</td><td>8</td></tr>
<tr><td>CHF124,000</td><td>CHF129,200</td><td>CHF3,840</td><td>9</td></tr>
<tr><td>CHF129,300</td><td>CHF132,800</td><td>CHF4,317</td><td>10</td></tr>
<tr><td>CHF132,900</td><td>CHF134,600</td><td>CHF4,677.99</td><td>11</td></tr>
<tr><td>CHF134,700</td><td>CHF136,400</td><td>CHF4,875</td><td>12</td></tr>
<tr><td>CHF136,500</td><td>CHF843,500</td><td>CHF5,091</td><td>13</td></tr>
<tr><td>CHF843,600</td><td></td><td>CHF97,014</td><td>11.5</td></tr>
</table>
If taxable income exceeds CHF843,600, a flat rate of 11.5 per cent applied to the whole income for both types of taxpayers.

Switzerland is required to make a threshold adjustment after the cumulative inflation rate has increased by at least 7 per cent since the last adjustment.</td><td></td></tr>
<tr><td>United Kingdom</td><td>Tax rate brackets income and capital gains
<table>
<tr><td>Up to</td><td>£2,090</td><td>10 per cent</td></tr>
<tr><td>£2,090</td><td>£32,400</td><td>22 per cent</td></tr>
<tr><td>Over</td><td>£32,400</td><td>40 per cent</td></tr>
</table>
Thresholds are indexed in line with inflation unless the Parliament specifies this is not to occur</td><td>Low income families may be entitled to a working tax credit or child tax credit.</td></tr>
</table>

Appendix table 4.5.4: OECD-10 — National personal income tax rates and credits (continued)

Country	Tax rates	Credits
United States	The tax thresholds vary depending on the filing status of a taxpayer. There are four categories of taxpayer: married persons filing jointly, heads of households and unmarried and married persons filing jointly. The rates that apply are the same. For unmarried (single taxpayers) the tax rate brackets for 2006 are as follows: Up to US$7,550 10 per cent US$7,550 US$30,650 15 per cent US$30,650 US$74,200 25 per cent US$74,200 US$154,800 28 per cent US$154,800 US$336,550 33 per cent Over US$336,550 35 per cent Individuals are subject to alternative minimum tax if the alternative minimum tax exceeds their regular tax. The base for the alternative minimum tax is slightly different. To calculate the alternative minimum tax the taxpayer determines the alternative minimum taxable income (AMTI) and subtracts the AMTI exemption amount. Thresholds are indexed annually for inflation.	Low income workers with dependants are entitled to a refundable earned income credit.

Source: various, see Chapter 1 (1.4.1).

Appendix table 4.5.5: OECD-10 sub-national personal income taxes

Country	Base	Rates	Credits
Australia	No sub-national personal income taxes.		
Canada	For all provinces, except Quebec, the federal government collects both individual and corporate tax on behalf of the provinces. In consideration, the provinces use the federal income tax base. Provinces also impose provincial surtaxes on provincial tax or income above specified amounts. The OECD uses the Province of Ontario as the representative sub-central government, as this is the most populous province.	The top rate varies across the provinces from 24 per cent in Quebec to 10 per cent in Alberta. Ontario's basic tax rate brackets from 1 January 2006 are: Up to C$34,758 6.05 per cent C$34,758 C$69,517 9.15 per cent Over C$69,517 11.16 per cent The thresholds are indexed to inflation. Ontario also levies a surtax with rates of 20 per cent and 36 per cent depending on the taxpayer's income.	Ontario has a basic income tax credit of C$8,377. Credits for the Canada Pension Plan and for Employment Insurance premiums.
Ireland	No sub-national personal income taxes.		
Japan	Sub-national income taxes in Japan consist of a prefectural inhabitants' tax levied by prefectures and a municipal inhabitants' tax levied by cities, towns and villages. Standard per capita tax rate of prefectural inhabitants' is ¥1,000. Standard per capita tax rate of Municipal inhabitants' is ¥2,000 to ¥3,000 depending on the size of the municipality. Tax liability is obtained by multiplying the taxable income by tax rate (A) and deducting the amount (B). In addition, Proportional Reduction (C).	Proportional tax reduction (C): 7.5 per cent of calculated amount, that is A-B (ceiling ¥20,000). Taxable Income Over / Not Over — Tax Rate (per cent) A — Deductible amount of each bracket B Prefectual Inhabitants' tax 0 ¥7M 2 0 ¥7M 3 ¥0.07M Municipal Inhabitants' tax 0 ¥2M 3 0 ¥2M ¥7M 8 ¥0.1M ¥7M 10 ¥0.24M Tax rate changes are proposed for 1 January 2007. Combined flat rate of 10 per cent.	
Netherlands	No sub-national personal income taxes.		
New Zealand	No sub-national personal income taxes.		
Spain	No sub-national personal income taxes, however, we have received conflicting information on this issue.		

Appendix table 4.5.5: OECD-10 sub-national personal income taxes (continued)

Country	Base	Rates	Credits
Switzerland	There are no rules on whether worldwide or only domestic income is taxable. Taxable income includes all recurrent and non-recurrent income from dependent and independent activities and from movable and immovable property. It also includes pensions and social security benefits. Various forms of income are exempt, including damages for mental or physical pain suffered. The OECD uses Zurich as the example cantonal. For all cantons, all expenses that are necessary in order to realise taxable income are deductible. Social security contributions and contributions to approved savings plans, premiums for health, private accident and life insurances up to certain limits are all deductible. The standard deduction is also available with higher amounts for married couples and amounts vary from canton to canton.	The cantons may set their own tax rates. The cantonal laws must provide tax reductions for unseparated spouses, as well as for widowed, separated, divorced and single taxpayers maintaining children or needy persons. Zurich has 13 different tax brackets at a maximum rate of 13 per cent. Municipal income taxes are levied in the form of a surcharge on the cantonal tax. The surcharge is equal to the basic cantonal tax, multiplied by a municipal coefficient. The coefficient for the capital city Zurich in the canton of Zurich is 1.22 (for 2005).	
United Kingdom	No sub-national personal income taxes.		
United States	Income tax is imposed by most states (some using a progressive) and by some municipalities but it is deductible for federal tax purposes for taxpayers that itemise deductions. Some states also levy a sales tax. Personal allowances and standard deductions vary from state to state.	State and local income tax rates vary from 9.5 per cent in Vermont to 3 per cent in Illinois. New York imposes both state and city income taxes. California imposes state income tax. Texas does not levy state income tax. Michigan has a flat income tax rate of 3.90 per cent. The average worker in the cameo analysis of the tax wedge and net personal average tax rate is assumed to live in Detroit, Michigan. Most states do not index their thresholds.	Credits vary from state to state.

Source: various, see Chapter 1 (1.4.1).

Appendix table 4.5.6: OECD-10 payroll taxes

Country	Payroll taxes
Australia	States levy payroll taxes. The OECD uses NSW as the indicative state. In NSW, payroll tax applies at a 6 per cent flat rate above the A$600,000 firm wages threshold.
Canada	n/a
Ireland	n/a
Japan	n/a
Netherlands	n/a
New Zealand	n/a
Spain	n/a
Switzerland	n/a
United Kingdom	n/a
United States	n/a

Source: various, see Chapter 1 (1.4.1).
Note: payroll taxes that are earmarked for social security expenditure are included in employer social security contributions (refer to Table 4.7).

Appendix table 4.5.7: OECD-10 social security contributions (SSC)

Country	Employee SSC	Employer SSC	Self-employed SSC
Australia	No social security contributions levied.		
Canada	Employment insurance — C$729 per week. Canada Pension Plan (CPP) — 4.95 per cent of income up to a maximum of C$1,910.70 for income above C$3,500.	CPP — 4.95 per cent for earnings above C$3,500 up to a maximum of C$1,910.70. Payroll taxes levied in some jurisdictions. Ontario levy 1.95 per cent to Employer Health Tax if payroll exceeds C$400,000. Employers also contribute to provincial workers' compensation plan. Rates vary for example in Ontario employers in C to K industry pay an average of 2.61 per cent.	The self employed contribute to CPP at rate of 9.9 per cent.
Ireland	Social insurance is levied on all earned income by employed and self-employed persons. Employees pay 4 per cent social insurance between certain incomes between €6,604 and €46,600. A health levy is charged at 2 per cent on all income.	Employer contributions are payable as a percentage of gross employee earnings less allowable superannuation contributions different categories. The total rate is 10.75 per cent on all employment income (no ceiling).	Self-employed persons pay 3 per cent social insurance on all income. A health levy contribution of 2 per cent is also payable on all income by all persons whose annual income is at least €18,512.
Japan	Pension: 7.144 per cent of total remuneration, up to the insurable ceiling of ¥620,000 monthly and ¥1,500,000 for a one off payment. The premium rate for the employee's pension is raised by 0.354 per cent every year from October 2004, reaching a maximum of 18.30 per cent in 2017 onward. Sickness: 4.1 per cent of total remuneration, up to insurable ceiling of ¥980,000 (monthly). Unemployment: 0.8 per cent of gross remuneration. Workmen's accident compensation insurance: 0.45 per cent of gross yearly remuneration. Public nursing care: 0.615 per cent of monthly remuneration and bonus for employer and employee aged over 40 up to a maximum of ¥6,027 (note the premium rate of 0.615 per cent applied from 1 May 2006).	Pension: 7.144 per cent of total remuneration, up to the insurable ceiling of ¥620,000 (monthly) and ¥1,500,000 for a one off payment. Sickness: 4.1 per cent of total remuneration, up to insurable ceiling of ¥980,000 (monthly). Unemployment: 1.15 per cent of gross remuneration. Workmen's accident compensation insurance: 0.45 per cent of gross yearly remuneration. Public nursing care: 0.615 per cent of monthly remuneration and bonus for employer and employee aged over 40 up to a maximum of ¥6,027 (note the premium rate of 0.615 per cent applied from 1 May 2006).	National pension is ¥13,860 per month. The monthly premium is raised by ¥280 every year from April 2005 and will be fixed at ¥16,900 in 2017 and onward.

Appendix table 4.5.7: OECD-10 social security contributions (SSC) (continued)

Country	Employee SSC	Employer SSC	Self-employed SSC
Netherlands	Tax and national social security contributions are levied as an aggregate amount. Contributions are: • Old Age Pension: 17.9 per cent of first and second tax brackets (Box 1). Individuals 65 and over are exempt. • Widows and orphans pension: 1.25 per cent of first and second tax brackets (Box 1). • Exceptional Medical expenses and disability: 12.55 per cent of first and second tax brackets (Box 1). • Also levies unemployment and public insurance for medical care social security contributions.	Netherlands levies employer social security contributions for the general unemployment fund, unemployment fund for industrial insurance associations, invalidity, public insurance for medical care.	
New Zealand	No social security contributions are levied.		
Spain	General contribution system has a minimum and maximum contribution base that is adjusted annually. For 2006 the maximum monthly base is €2,897.70. Employed persons General risks — 4.7 per cent Unemployment insurance — 1.6 per cent Professional training — 0.1 per cent	General risks — 23.6 per cent Unemployment — 6.0 per cent Wages fund — 0.4 per cent Professional training — 0.6 per cent Employers must pay a work accident insurance which varies depending on job type, for example 0.99 per cent for office work, 13.5 per cent for airlines.	The self-employed taxpayers' effective rate is 29.8 per cent.
Switzerland	The employer withholds employee's contribution. Old age and survivor insurance — 4.20 per cent Disability insurance — 0.7 per cent Military compensation — 0.15 per cent Unemployment insurance — 1 per cent however, no contribution is levied on income in excess of CHF106,800. Health insurance is mandatory; however, it is the responsibility of the individual. Non-accident insurance premiums are paid by the employees and vary between 1 per cent and 4 per cent. Employees with annual wages above CHF19,350 are also subject to a company's pension scheme. Contributions and insured salary vary depending on the pension scheme.	Old age and survivor insurance — 4.20 per cent Disability insurance — 0.7 per cent Military compensation — 0.15 per cent Unemployment insurance — 1 per cent however, no contribution is levied on income in excess of CHF 106,800.	Old age and survivor insurance — 7.8 per cent Disability insurance — 1.4 per cent Military compensation — 0.3 per cent Lower rates apply for self-employed persons with gross income between CHF7,800 and 50,700.

Appendix table 4.5.7: OECD-10 social security contributions (SSC) (continued)

Country	Employee SSC	Employer SSC	Self-employed SSC
United Kingdom	National Insurance contributions — 11 per cent for earnings between £94 and £630 and 1 per cent on all earnings above £630. Reductions to 9.4 per cent available if the employees participates in an employer-sponsored pension scheme or a personal pension plan, which contract the employee out of the State Earnings Related Pension Scheme (SERPS).	Employers' contributions of 12.8 per cent for earnings above £94 per week. For employees who are contracted out there is a rebate of 3.5 per cent on earnings between £82 and £630 per week.	Self-employed persons contribute at flat rate of £2.10 per week. There is a small earnings exemption limit of £4,345.
United States	Two social security taxes are imposed by the national government: the old age, survivors and disability insurance tax (OASDI) and the hospital insurance tax (Medicare). The tax is imposed in equal percentages on the employer and employee. OASDI: 6.2 per cent imposed on wages up to a maximum of US$94,200 in 2006. Medicare: 1.45 per cent on employee's wages.	OASDI: 6.2 per cent imposed on earnings up to US$94,200 in 2006. Medicare: 1.45 per cent on all employees' wages. Unemployment Tax: 6.2 per cent on earnings up to US$7,000. Employers who pay the state unemployment tax, on a timely basis, receive an offset credit of up to 5.4 per cent.	Self-employed taxpayers are responsible for paying both the employee and employer OASDI and Medicare contributions.

Source: various, see Chapter 1 (1.4.1).

APPENDIX 4.6: WAGE AND SALARY TAXATION DATA

Appendix table 4.6.1: Gross wage earnings in national currency and in US dollars for an average worker

Country	Gross wage earnings in national currency	Gross wage earnings in US dollars using purchasing power parities
Australia	51,169	36,851
Austria	33,624	36,934
Belgium	36,396	41,101
Canada	40,341	31,297
Czech Republic	221,886	15,229
Denmark	328,390	38,454
Finland	32,722	35,035
France	30,219	33,619
Germany	41,074	44,086
Greece	18,339	25,808
Hungary	1,778,552	13,681
Iceland	2,949,759	32,113
Ireland	31,663	31,056
Italy	22,759	27,060
Japan	4,953,747	38,235
Korea	28,729,826	37,702
Luxembourg	40,500	40,984
Mexico	79,997	10,688
Netherlands	37,759	41,560
New Zealand	40,949	27,274
Norway	379,934	38,509
Poland	30,000	16,232
Portugal	13,299	20,148
Slovak Republic	216,780	12,478
Spain	20,701	26,451
Sweden	309,854	33,154
Switzerland	71,595	40,694
Turkey	15,256	18,609
United Kingdom	28,571	46,091
United States	31,666	31,666

Appendix table 4.6.2: Top marginal tax rate and threshold

	Combined top marginal tax rate(a)	All-in top marginal rate	Threshold multiple (average production wage)
Slovak Republic	2.9	19.0	0.5
Hungary	56.0	69.5	0.8
Ireland	42.0	48.0	0.9
Denmark	55.0	63.0	1.0
Luxembourg	33.9	47.9	1.0
Belgium	45.1	59.3	1.1
Mexico	22.5	32.1	1.2
United Kingdom	40.0	41.0	1.3
Australia (2004-05)	48.5	48.5	1.4
Germany	44.3	44.3	1.4
Netherlands	52.0	52.0	1.4
Iceland	40.2	40.2	1.4
New Zealand	39.0	39.0	1.5
Greece	33.6	49.6	1.5
Sweden	56.6	56.6	1.5
Finland	49.9	56.5	1.9
Czech Republic	28.0	40.5	1.9
Austria	42.7	42.7	2.1
Norway	43.5	51.3	2.1
Australia (2006-07 on)	48.5	48.5	2.2
Turkey	26.1	41.1	2.3
Spain	45.0	45.0	2.6
France	36.5	48.6	2.7
Canada	46.4	46.4	2.9
Poland	26.2	51.8	3.1
Switzerland	37.8	47.9	3.6
Korea	35.6	38.2	3.6
Japan	47.1	47.9	4.5
Portugal	35.6	46.6	4.6
Italy	44.1	44.1	4.8
United States	41.3	42.7	10.6
Unweighted average	39.9	46.7	2.4
Weighted average	41.4	44.5	5.6

Source: OECD Tax database (preliminary data) and Australian Treasury estimates.
(a) Combined top marginal tax rate includes the national government and sub-national government (top marginal) rate, calculated as the additional national and sub-national government personal income tax resulting from a unit increase in gross wage earnings. The combined rate takes account of the effects of tax credits, the deductibility of sub-central taxes in central government taxes etc.