



# The Tax Burden of Typical Workers in the EU 28—2015

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Tax calculations provided by



## ABSTRACT

The purpose of this study is to compare the tax and social security burdens of individual employees earning typical salaries in each of the 28 member states of the European Union and, in doing so, to determine a “tax liberation day” — measuring how much of each year’s work is devoted to paying taxes — for workers in each country.

In addition, the study tracks year-to-year trends in the taxation of labour.

## Background

Numerous studies rank political systems by various measures of “economic freedom”. While valuable to economists, the aggregate data in these studies fail to shed light on the working individual’s role in financing their state and social security.

In addition, many organizations determine an annual “tax freedom day” for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

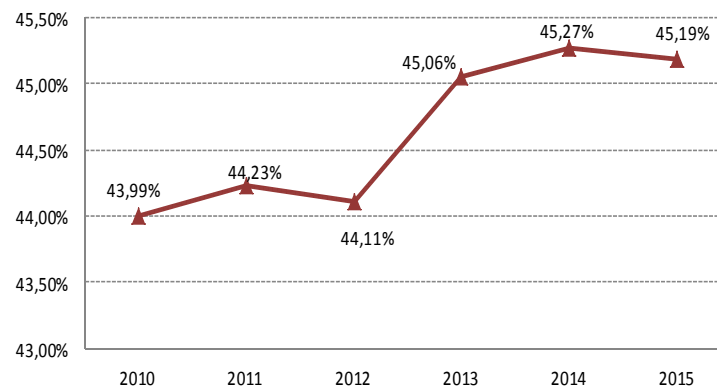
This study aims to create an “apples to apples” comparison of tax rates, with data that reflect the reality experienced by real, working people in the European Union. Finally, it serves as a guide to the true cost of hiring employees in each member state.

## MAIN RESULTS

### On average, a respite for workers from ever-rising taxes...

For the second time in the six years since this study was first published, typical workers in the European Union see their average “real tax rate” dip slightly (0.08%) this year, from 45.27% in 2014 to 45.19%. Still, workers’ taxes remain 1.2% higher than in 2010, due in large part to VAT increases in 20 of the 28 member states during this period (including Luxembourg in 2015).

#### *Real tax rate for typical workers in the European Union*



### ...while prevalence of “hidden” tax contributions grows

Employer contributions to social security, which are paid on top of gross salaries and do not appear on most workers’ payslips, represent 44.6% of all payroll taxes collected in the EU in 2015, a 0.5% increase in the past year.

#### Noteworthy in 2015

For the fifth consecutive year, **Belgium** taxes labour at the highest rate in the European Union. 59.47% of the cost of a salary goes to the government there, making the Belgian worker’s tax liberation day the 6th of August — unchanged from last year.

**France**, whose government has consistently imposed the second-highest taxes on labour, draws closer to Belgium on the table. A French worker’s real tax rate rises 0.36% to 57.53% this year, adding one more day of work before his 28 July tax liberation day.

In **Romania**, a series of tax cuts, including reduced employer social security contributions, lowers workers' tax burdens this year even as gross salaries are rising. The result: Romanians are working a full week less to pay their taxes than last year, and can anticipate additional tax cuts in 2016.

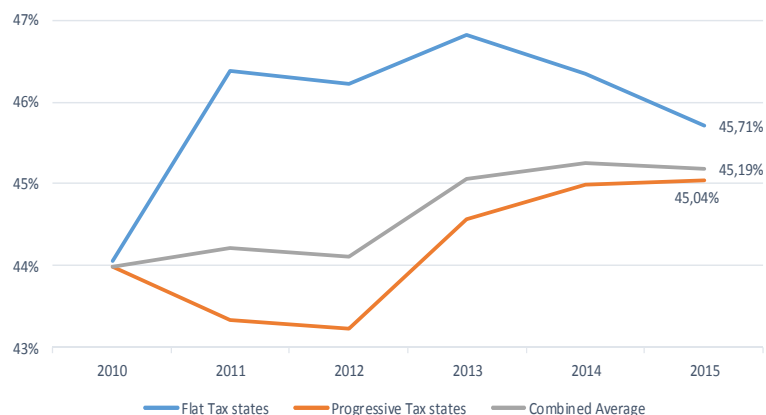
Though unchanged from last year, the Tax Liberation Day in **Greece** (14 July) is 31 days later than in 2010 (13 June). Salaries have dropped as taxes have risen, such that a typical Greek worker's take-home pay has dropped nearly 20%, (3,220 €) during this period.

**Luxembourg** became the 20th EU member state to increase the standard VAT rate since 2009. The Grand Duchy's rate rose from 15% to 17% on 01 January 2015.

### Flat taxes: Higher rates for Europe's poorest workers

The gap narrows this year, but Europe's governments with "flat tax" policies continue to tax workers at higher rates than those in progressive tax countries. Six member states — all among the EU's ten poorest — have flat tax policies.

**EU Average Real Tax Rates, 2010-2015**



Generally, flat tax policies impose a fixed rate on income tax, the lowest being 10% in Bulgaria. Social security contribution rates in these countries are higher than in progressive systems — on average, social contributions make up 73% of payroll taxes collected in "flat tax" countries. (Not that the flat income tax rates are lower, either: Of the 10 countries assessing the lowest income tax rates on workers, 8 have progressive income tax systems.) In addition, 5 of the EU's 6 flat tax countries (all except Bulgaria) have raised VAT rates since 2009, with Hungary implementing two increases totalling 7%.

## OUTLOOK

Higher pension and health care expenditures are among the primary effects of the ageing of Europe's population, and there are fewer workers to pay for these costs; only 43.8% of EU citizens were in the labour force in 2014<sup>1</sup>, down nearly 2% since the first edition of this study in 2010. Consequently, budget cuts and economic growth are workers' best hopes against tax increases in the near term.

## DEFINITIONS AND METHODOLOGY

The following terms are used in this study:

**Real Gross Salary** represents the total cost of employing an individual, including social security contributions made on top of an employee's salary.

**Real Net Salary** is the "bottom line" figure: How much cash a worker has left over to spend that will not be paid to the state (other additional taxes — such as those on petrol, airline tickets and alcohol — are not considered in this study.)

An individual's **Real Tax Rate** is:

$$\frac{\text{Social Security Contributions + Income Tax + VAT}}{\text{Real Gross Salary}}$$

This percentage of 365 determines the **Tax Liberation Day**, the calendar date on which an employee (beginning work, in theory, on January 1<sup>st</sup>), would earn enough to pay his annual tax burden.

1. CIA World Factbook, estimates of EU population (2014) and labour force (2014).

## 2015 TAX FREEDOM DAY CALENDAR

MARCH	31	Cyprus
APRIL	19	Malta
	28	Ireland
MAY	9	United Kingdom
	18	Bulgaria
JUNE	2	Luxembourg
	7	Denmark
	7	Spain
	8	Slovenia
	10	Lithuania
	12	Portugal
	13	Estonia
	14	Poland
	18	Croatia
	18	Latvia
	18	Netherlands
	19	Czech Republic
	19	Slovakia
	21	Sweden
	22	Finland
	23	Romania
JULY	2	Italy
	10	Germany
	14	Greece
	17	Hungary
	25	Austria
	29	France
AUGUST	6	Belgium

## DATA SUMMARY (ALL FIGURES IN EUROS)

Country	Real Gross Salary <sup>2</sup>	Employer Social Security	Gross Salary <sup>3</sup>	Income Tax	Employee Social Security	Take-home Pay (Net Income)	VAT Rate	Estimated VAT	Real Net Salary	Real Tax Rate	Tax Liberation Day 2015
Austria	54 743	13 050	41 693	8 645	7 534	25 514	20%	1 658	23 855	56.42%	25 Jul
Belgium	62 111	15 301	46 810	13 707	6 087	27 016	21%	1 844	25 172	59.47%	6 Aug
Bulgaria <sup>4</sup>	5 583	827	4 755	414	614	3 728	20%	242	3 485	37.57%	18 May
Croatia <sup>5</sup>	14 555	2 136	12 419	1 388	2 484	8 547	25%	694	7 853	46.05%	18 Jun
Cyprus <sup>6</sup>	26 355	2 781	23 574	502	1 839	21 233	19%	1 311	19 922	24.41%	31 Mar
Czech Republic	14 465	3 670	10 795	1 272	1 187	8 336	21%	569	7 767	46.31%	19 Jun
Denmark	53 456	290	53 166	19 924	145	33 096	25%	2 689	30 407	43.12%	7 Jun
Estonia <sup>†</sup>	15 629	3 966	11 664	1 988	467	9 209	20%	599	8 610	44.91%	13 Jun
Finland	52 521	10 028	42 493	9 102	3 411	29 980	24%	2 338	27 642	47.37%	22 Jun
France	55 805	18 825	36 980	2 400	9 230	25 350	20%	1 648	23 702	57.53%	29 Jul
Germany	53 877	8 707	45 170	8 536	9 226	27 408	19%	1 692	25 716	52.27%	10 Jul
Greece	26 262	5 658	20 604	3 957	3 400	13 247	23%	990	12 257	53.33%	14 Jul
Hungary <sup>†</sup>	11 787	2 614	9 173	1 534	1 697	5 941	27%	521	5 420	54.02%	17 Jul
Ireland	35 862	3 481	32 381	4 762	1 295	26 324	23%	1 968	24 356	32.08%	28 Apr
Italy	38 574	8 870	29 704	6 084	2 819	20 801	22%	1 487	19 313	49.93%	2 Jul
Latvia <sup>†</sup>	10 619	2 027	8 592	1 562	902	6 128	21%	418	5 710	46.23%	18 Jun
Lithuania <sup>18</sup>	12 026	2 895	9 131	1 073	822	7 236	21%	494	6 743	43.94%	10 Jun
Luxembourg	60 779	7 877	52 902	8 984	6 506	37 412	17%	2 067	35 345	41.85%	2 Jun
Malta <sup>9</sup>	17 448	1 586	15 862	1 240	1 586	13 035	18%	763	12 273	29.66%	19 Apr
Netherlands	56 826	8 717	48 109	8 793	6 530	32 786	21%	2 238	30 548	46.24%	18 Jun
Poland	11 628	1 997	9 631	667	2 068	6 895	23%	515	6 380	45.13%	14 Jun
Portugal	21 452	4 117	17 335	2 541	1 907	12 887	23%	963	11 924	44.42%	12 Jun
Romania <sup>10</sup>	7 368	1 400	5 968	797	985	4 186	24%	326	3 859	47.62%	23 Jun
Slovakia	13 540	3 525	10 015	925	1 342	7 748	20%	504	7 245	46.50%	19 Jun
Slovenia	20 446	2 835	17 611	1 277	3 892	12 442	22%	890	11 552	43.50%	8 Jun
Spain	33 809	7 782	26 027	3 751	1 653	20 623	21%	1 408	19 215	43.16%	7 Jun
Sweden	54 327	12 988	41 338	9 948	0	31 390	25%	2 550	28 839	46.91%	21 Jun
United Kingdom	50 334	4 870	45 464	6 382	4 235	34 847	20%	2 265	32 582	35.27%	9 May

Flat tax countries are marked with a dagger (†).

2. Total cost of employment, social security contributions, personal income tax figures and net income calculated by EY.

Social security and income tax calculations from Institut économique Molinari.

3. Unless otherwise noted, Average Gross Salary figures are from OECD's Taxing Wages or Eurostat's Annual gross earnings in industry and services.

4. Average Gross Salary figure for Bulgaria from the national statistics office: <http://www.nsi.bg>

5. Average Gross Salary figure for Croatia from the national statistics office: <http://www.dzs.hr>

6. Average Gross Salary figure for Cyprus from the national statistics office: [www.mof.gov.cy](http://www.mof.gov.cy)

7. Average Gross salary for Latvia from the national statistics office: <http://csb.gov.lv>

8. Average Gross salary for Lithuania from the national statistics office: <http://db1.stat.gov.lt>

9. Average Gross salary for Malta from the national statistics office: <http://nso.gov.mt>

10. Average Gross salary for Romania from the national statistics office: <http://insse.ro>

Tax calculations provided by





## RESEARCH NOTES

### Gross Salary

When available, salary figures come from the OECD's *Taxing Wages* and from Eurostat's *Average gross annual earnings in industry and services*. Others are sourced from government statistics offices (see footnotes on page 7).

In euros, gross salaries ranged from 4,755€ (Bulgaria) to 53,166€ (Denmark). The average gross salary among the 28 states was 26,049€.

### Employer Contributions to Social Security

These taxes — which are invisible to most employees, who see only deductions from their gross salaries on their pay slips — vary to a great degree. For typical workers, these costs range from less than 1% of gross salary (Denmark) to 51% (France).

### Individual Contributions to Social Security

Visible on employees' payslips, the lower and upper reaches of these deductions are also set, respectively, by Sweden and Denmark (less than 1%) and France (nearly 25%).

### Total Contributions to Social Security

France (75.9%) is the only country taking more than half of a typical worker's gross salary for social security contributions. Austria, at 49.4%, collects the second-highest percentage.

As a group, flat tax countries collected 38.3% of average gross salaries as social security contributions, 3.2% more than in progressive systems.

### Personal Income Taxes

In Denmark, where combined social security contributions remain the lowest (as a percentage), personal income taxes are the highest (37.5%). At 2.1% of gross salary, typical workers in Cyprus have the lowest income tax rates in the EU.

## Estimated Value-Added Tax (VAT)

20 of the 28 EU member states have increased VAT rates since 2009, with the largest hikes implemented in Hungary (from 20 to 27%), the United Kingdom (from 15 to 20%), Spain (from 16 to 21%), Romania (from 19 to 24%) and Greece (from 19 to 23%). The countries without VAT increases since 2009 are: Austria, Belgium, Bulgaria, Denmark, Germany, Latvia, Malta, and Sweden.

To determine estimated VAT we assume, conservatively, that only 32.5% of a worker's net income will be subject to VAT. *Estimated Rent* is assumed to be 35% of the employee's net (take-home) income. After subtracting rent, remaining net income is divided in half to estimate the sum left over that will be subject to VAT when spent.

## ABOUT THE AUTHORS

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## APPENDIX: EMPLOYER COST OF €1 NET

The chart below shows what employers must spend to pay each net euro to an employee. The figures do not include VAT.

