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THE FOUNDATION FOR EUROPEAN REFORM


# The Tax Burden of Typical Workers in the EU 27

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INSTITUT ÉCONOMIQUE MOLINARI

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Data provided by

NEW DIRECTION
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# Objective of the study

The purpose of this study is to compare the tax and social burdens of salaried employees in the 27 Member States of the European Union and, in doing so, determine a "tax liberation day" for *individuals* who are *working* in those countries.

# Study interest

Numerous studies have ranked political systems offering low taxes and "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.

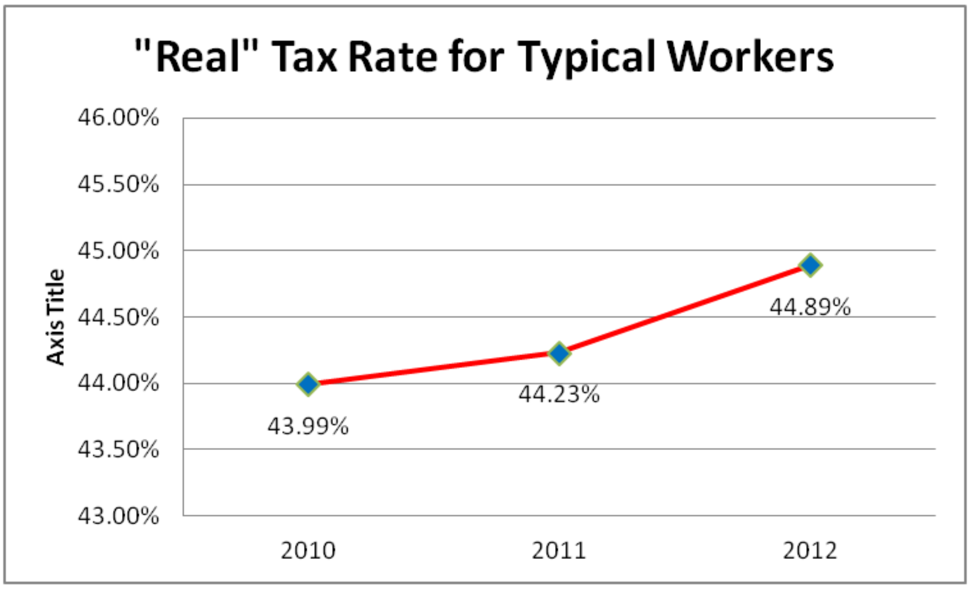
In addition, many think tanks determine an annual "tax liberation day" for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

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. Further, it will gauge the true cost of hiring employees in each state.

## Main results

### Taxes are on the rise in Europe and are largely invisible

As a single economic entity, typical workers in the European Union saw their average "real tax rate" rise again this year, from 44.23% in 2011 to 44.89% in 2012. The rise of nearly one full percent since 2010 is largely a consequence of VAT increases in 15 EU member states since 2009.




43.3% of all payroll taxes collected in the EU – employer contributions to social security paid on top of gross salaries – are largely invisible to employees.

Retired, disabled, disenfranchised or simply too young, more than half (54.7%) of EU citizens are not in the labour force[1]. Tax-wise, working people most carry most of the weight – a weight that grows heavier as populations grow even older. Since 2010, the proportion of Europeans outside the labour force has grown 0.4%.

### Losers and winners

Belgium retains its ranking as the country that taxes labour at the highest rate in the European Union; an employer in Brussels spends 2.45€ to put 1€ into a typical worker's pocket – and that worker's tax liberation day is August 5. Belgium has held its position since 2011 when Hungary, previously the most severe tax collector, implemented a flat tax scheme.

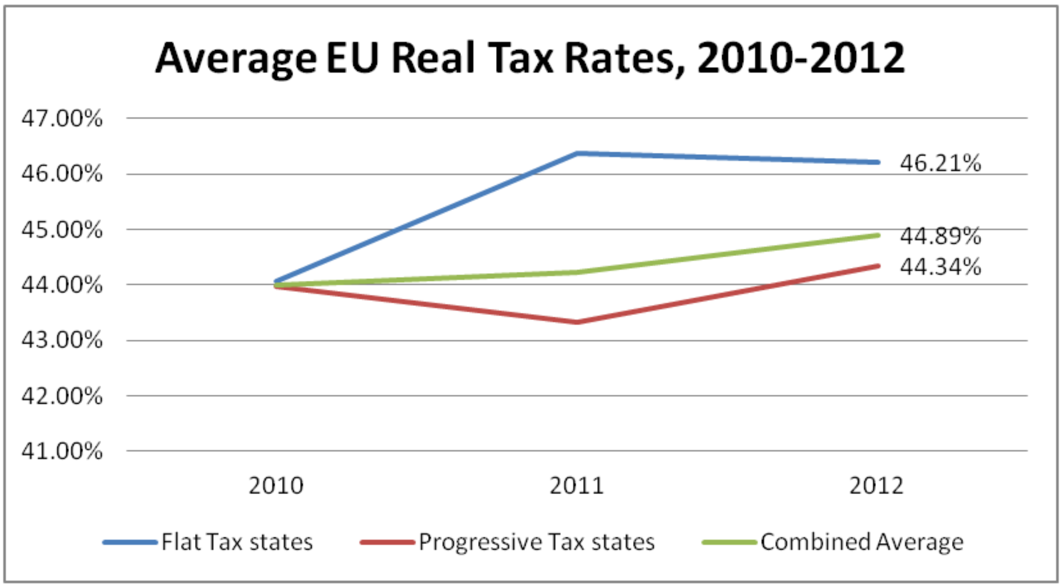
## Is geography destiny?

Workers in Malta are the lowest-taxed in the EU.

As in 2010, the four EU governments situated on islands – Cyprus, Malta, Ireland and the United Kingdom – took the smallest cut of their workers' earnings.

## Flat tax policies have offered considerable tax relief to workers

Flat tax policies have offered considerable tax relief to workers – notably in Hungary, where a new 16% rate has pushed that country's tax liberation day forward by 25 days in just two years. However, total taxes remain higher in "flat tax" countries (46.4%) than in "progressive" systems (43.3%) – a gap that has widened since 2010.




Many of the purported benefits of flat tax rates have been proven true: Their simplicity facilitates compliance. Their low, "not-worth-the-crime" rates have prompted many underground dealers to emerge as "legitimate" businessmen. While providing tax relief to typical workers, they have also been successful in increasing overall tax revenues.

The flat rate is, however, only a flat *income tax* rate. As noted, social security contributions in these countries are far higher than in progressive systems. Moreover, 7 of the EU's 8 flat tax countries (all except Bulgaria) have raised VAT rates since 2009, with Hungary implementing two increases.

# 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 to spend that will not be paid to the state. (Other additional taxes – such as those on petrol, cigarettes, and alcohol – are not considered in this study.)

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

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

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

*Note: 2012 is a leap year. However, to maintain year-to-year consistency, this year's study assumes a 365-day calendar.*

## 2012 Tax Liberation Day Calendar

| | | |
|---|---|---|
| APRIL | 11 | Malta |
| | | |
| MAY | 10 | Cyprus |
| | 11 | Ireland |
| | 12 | United Kingdom |
| | 18 | Bulgaria |
| | 23 | Spain |
| | 26 | Luxembourg |
| | 31 | Greece |
| | | |
| JUNE | 03 | Portugal |
| | 06 | Denmark |
| | 07 | Slovenia |
| | 08 | Poland |
| | 11 | Estonia |
| | 14 | Finland |
| | 18 | Netherlands |
| | 18 | Czech Republic |
| | 18 | Lithuania |
| | 21 | Slovakia |
| | 23 | Romania |
| | 25 | Latvia |
| | | |
| JULY | 03 | Italy |
| | 08 | Sweden |
| | 12 | Germany |
| | 13 | Hungary |
| | 16 | Austria |
| | 26 | France |
| | | |
| AUGUST | 05 | Belgium |

# Data Summary

**(all figures in euros)**

| Country | Real Gross Salary[2] | Employer Social Security | Gross Salary[3] | Income Tax | Employee Social Security | Take-home Pay (Net Income) | VAT Rate | Estimated VAT | Real Net Salary | Real Tax Rate | Tax Liberation Day 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Austria** | 44,168 | 10,529 | 33,639 | 5,788 | 6,079 | 21,772 | 20.0% | 1,415 | 20,357 | 53.91% | 16 JUL |
| **Belgium** | 54,942 | 13,535 | 41,407 | 11,969 | 5,385 | 24,054 | 21.0% | 1,642 | 22,412 | 59.21% | 05 AUG |
| **Bulgaria†** | 4,440 | 658 | 3,782 | 329 | 488 | 2,965 | 20.0% | 193 | 2,772 | 37.56% | 18 MAY |
| **Cyprus** | 26,165 | 4,855 | 21,310 | 0 | 3,543 | 17,767 | 15.0% | 866 | 16,901 | 35.41% | 10 MAY |
| **Czech Republic†** | 15,157 | 3,846 | 11,311 | 1,347 | 1,244 | 8,720 | 20.0% | 567 | 8,153 | 46.21% | 18 JUN |
| **Denmark** | 50,687 | 291 | 50,397 | 18,690 | 145 | 31,561 | 25.0% | 2,564 | 28,997 | 42.79% | 06 JUN |
| **Estonia†[4]** | 12,161 | 3,113 | 9,048 | 1,537 | 253 | 7,257 | 20.0% | 472 | 6,786 | 44.20% | 11 JUN |
| **Finland** | 46,629 | 8,204 | 38,425 | 8,066 | 2,744 | 27,615 | 23.0% | 2,064 | 25,551 | 45.20% | 14 JUN |
| **France** | 50,584 | 16,802 | 33,782 | 2,011 | 8,273 | 23,498 | 19.6% | 1,497 | 22,001 | 56.51% | 26 JUL |
| **Germany** | 49,985 | 8,235 | 41,750 | 7,786 | 8,715 | 25,249 | 19.0% | 1,559 | 23,690 | 52.61% | 12 JUL |
| **Greece** | 22,441 | 4,917 | 17,524 | 490 | 2,804 | 14,231 | 23.0% | 1,064 | 13,167 | 41.33% | 31 MAY |
| **Hungary†** | 9,994 | 2,217 | 7,778 | 1,254 | 1,361 | 5,162 | 27.0% | 453 | 4,709 | 52.88% | 13 JUL |
| **Ireland** | 43,807 | 4,252 | 39,555 | 7,797 | 1,318 | 30,440 | 23.0% | 2,275 | 28,164 | 35.71% | 11 MAY |
| **Italy** | 36,136 | 8,309 | 27,827 | 5,946 | 2,641 | 19,240 | 21.0% | 1,313 | 17,927 | 50.39% | 03 JUL |
| **Latvia†** | 9,665 | 1,876 | 7,789 | 1,540 | 857 | 5,391 | 22.0% | 385 | 5,006 | 48.21% | 25 JUN |
| **Lithuania†[5]** | 8,829 | 2,125 | 6,704 | 1,006 | 603 | 5,095 | 21.0% | 348 | 4,748 | 46.23% | 18 JUN |
| **Luxembourg** | 56,695 | 7,262 | 49,433 | 7,538 | 6,084 | 35,811 | 15.0% | 1,746 | 34,066 | 39.91% | 26 MAY |
| **Malta** | 17,247 | 1,568 | 15,679 | 842 | 1,568 | 13,269 | 18.0% | 776 | 12,493 | 27.56% | 11 APR |
| **Netherlands** | 52,021 | 7,595 | 44,426 | 7,452 | 7,126 | 29,847 | 19.0% | 1,843 | 28,004 | 46.17% | 18 JUN |
| **Poland** | 9,892 | 1,472 | 8,420 | 567 | 1,808 | 6,045 | 23.0% | 452 | 5,593 | 43.46% | 08 JUN |
| **Portugal** | 21,726 | 4,170 | 17,556 | 2,049 | 1,931 | 13,576 | 23.0% | 1,015 | 12,561 | 42.18% | 03 JUN |
| **Romania†** | 6,835 | 1,514 | 5,321 | 711 | 712 | 3,898 | 24.0% | 304 | 3,594 | 47.41% | 23 JUN |
| **Slovakia†** | 13,981 | 3,640 | 10,341 | 1,025 | 1,386 | 7,930 | 20.0% | 515 | 7,415 | 46.97% | 21 JUN |
| **Slovenia** | 19,216 | 2,665 | 16,551 | 1,189 | 3,658 | 11,704 | 20.0% | 761 | 10,944 | 43.05% | 07 JUN |
| **Spain** | 31,723 | 7,302 | 24,421 | 2,364 | 1,551 | 20,506 | 18.0% | 1,200 | 19,306 | 39.14% | 23 MAY |
| **Sweden** | 49,403 | 11,811 | 37,592 | 9,021 | 2,632 | 25,939 | 25.0% | 2,108 | 23,832 | 51.76% | 08 JUL |
| **United Kingdom** | 41,598 | 3,987 | 37,611 | 5,732 | 3,468 | 28,411 | 20.0% | 1,847 | 26,565 | 36.14% | 12 MAY |

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

*A full version of the data table is available at:* http://www.institutmolinari.org

# Research Notes

## Gross Salary

When available, figures from the OECD's *Taxing Wages* and from Eurostat's *Average gross annual earnings in industry and services* served as a starting point for our calculations; other figures came from government statistics offices.

In euros, gross salaries ranged from 3,782€ (Bulgaria) to 50,397€ (Denmark). The median gross salary among EU Member States was 21,310€ (Cyprus), and the average among these states was 24,421€.

Gross salary figures can be misleading, especially in those countries levying high employer taxes for social security (see below).

## 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 per cent in Denmark to nearly 50 per cent in France.

## Individual Contributions to Social Security

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

## Total Contributions to Social Security

Recent tax cuts in Hungary have included social security contributions, leaving France (74.2%) as the only country taking more than half of a typical worker's gross salary for social security contributions.

As a group, flat tax countries collected 40.6% of the average gross salaries as social security contributions; 5.7% more than progressive systems. This gap narrowed from 9% in 2011.

## Personal Income Taxes

In Denmark, where social security costs are lowest (as a percentage), personal income taxes are the highest (37.9%, a rise of 0.6% over 2011).

Notwithstanding the low rates advertised by governments imposing a flat tax, the 6 countries assessing income taxes at the lowest rates (Cyprus, Greece, Malta, France, Poland, and Slovenia) have progressive systems.

## Estimated Value-Added Tax (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. Thus to determine Estimated VAT we assume, conservatively, that only 32.5% of a worker's net income will be subject to VAT.

15 EU Member States have increased VAT rates since 2009, with the largest hikes implemented in Hungary (from 20 to 27% since 2009), the United Kingdom (from 15 to 20%), Romania (from 19 to 24%) and Greece (from 19 to 23%).

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# References

[1] CIA World Factbook, estimates of EU population (2012) and labour force (2011).

[2] Total cost of employment, social security contributions, personal income tax figures and net income calculated by Ernst & Young from gross salary figures provided.

[3] Average Gross salary figures are from Eurostat's *Annual gross earnings in industry and services* or from the OECD's *Taxing* Wages (2010) unless otherwise noted.

[4] Average Gross salary figure from pub.stat.ee (2011)

[5] Average Gross salary for manufacturing sector from *Statistikos Departamentas* (National Statistics Office of Lithuania) database.

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