



★ The Tax Burden of Typical Workers in the EU—2020

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Eleventh Edition

2020

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Data provided by



Abstract

The purpose of this study is to compare the taxes imposed on individual employees earning typical salaries in each of the member states of the European Union; and, in doing so, to determine a “tax liberation day” – measuring how many days of each year’s work are devoted to paying taxes – for workers in each of these countries.

Background

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

Further, many organizations calculate an annual “tax freedom day” for their countries. Unfortunately, inconsistent 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 reference to the true cost of hiring employees in each member state and to the real purchasing power of those employees.

Impact of Brexit on this study

Ceteris paribus, Britain’s departure from Europe (and the numbers herein) will, statistically, increase the average real tax rate on EU workers’ salaries by 0.3%, to 45.0% (please see chart on page 3).

Still a member of the European Union in January 2020, the United Kingdom is included in the charts, tables and calendar of this year’s edition.

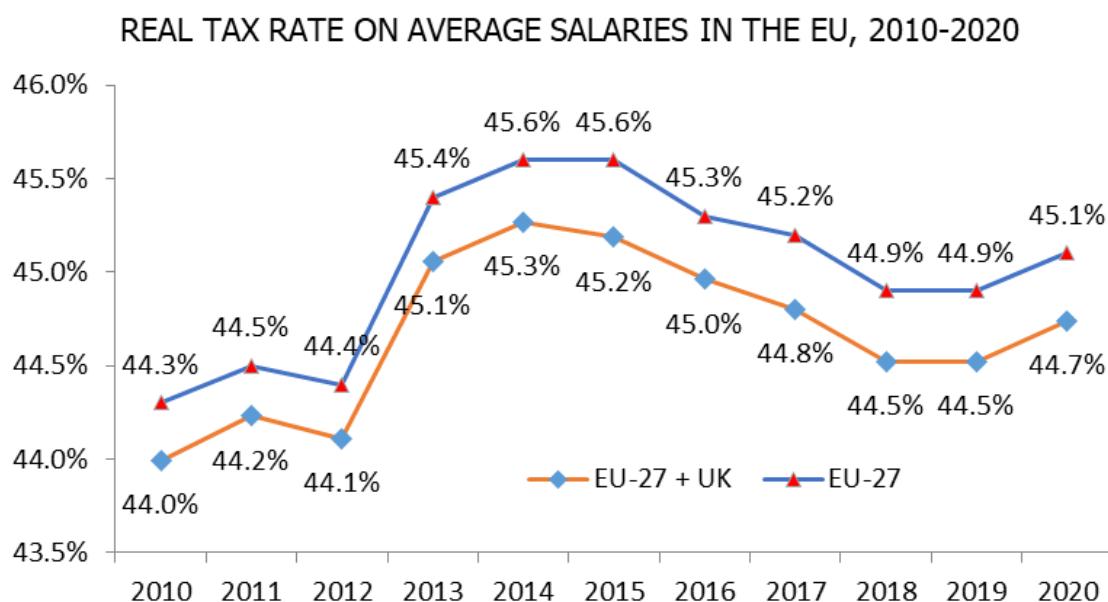
The 12th edition of this study will be adapted to reflect current EU membership.

Main Results

On average, taxes on EU workers' salaries rise again...

After four years of decline and one year at rest, the average “real tax rate” for typical workers in the European Union ticked up this year to 44.7% – however there is no general trend among the member states: 2020’s “Tax Liberation Day” arrives earlier in 7 countries, later in 7, and on the same day in 14.

The total percentage of EU workers’ salaries is now 0.7% higher than when this study was first published in 2010 – due primarily to VAT increases in 20 of the 28 member states.



...while prevalence of “hidden” tax contributions continues

For every 100 euros of payroll taxes collected by EU governments, 41 euros is paid “on top” of gross salaries as employer contributions to social security. In many countries, these levies do not appear on workers’ payslips. The weight of these “invisible” taxes dropped from 44% in 2014, due principally to tax shifts in Belgium and Lithuania that lowered these rates.

Noteworthy in 2020

Austria's COVID-19 response leaves French workers as the highest-taxed

In 2019, the real tax rate for French workers was only 0.01% higher than in Austria; slight reductions in income tax implemented by Macron's government this year were expected to allow France to gently cede its long-held title as the champion of taxation in the EU.

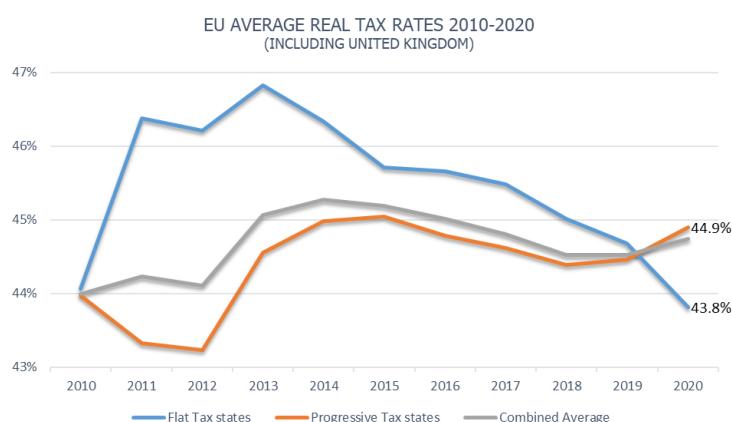
In June 2020, however, Austria's new Greens-People's Party coalition government announced a reduction of the lowest income tax band, from 25% to 20%, retroactive to January 2020 – moving the tax liberation day one day forward in the calendar.

Greece

Elected on July 9th of last year, Prime Minister Kyriakos Mitsotakis has delivered on his pledge to cut taxes for workers in Greece: They celebrate their tax liberation day on July 10th – 18 days earlier than last year, but still nearly a month later than a decade ago (June 13th). Greek salaries, which had plummeted in recent years, have nearly returned to their 2010 level.

The “flat tax” pack wanes

Ten years ago, eight EU governments had “flat tax” policies in place. Today, only half that number remain. Consequently, for the first time since in this study’s history, the real tax rate for workers in progressive systems is higher than in flat tax systems.



Flat tax regimes impose a fixed rate on income tax, but not other taxes: Social security rates in flat tax countries are, on average, higher than in progressive states; social contributions make up 77.9% of payroll taxes collected in flat tax countries (versus 67.4% in progressive systems).

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; despite a decrease in the unemployment rate since the first publication of this study (from 9.7% in 2010 to 6.7% in 2020), only 239 million (46.5%) of the EU's 514 million citizens are in the labour force¹; this figure has risen only 0.8% in the past ten years.

The COVID-19 pandemic creates considerable budget worries for governments across the EU, who increasing expenditures for health care and unemployment in a period of recession.

Making it less expensive to hire employees will ensure that the greatest number are hired; the more of their income workers can keep (and spend), the better our chances to return to growth.

¹Estimates of EU population (2018) from Eurostat and labour force (2016) from CIA World Factbook.

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:

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

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

2020 Tax Liberation Day Calendar

APRIL	13	Cyprus
	19	Malta
MAY	8	United Kingdom
	17	Ireland
	24	Bulgaria
	28	Estonia
	30	Denmark
JUNE	3	Luxembourg
	8	Spain
	11	Portugal
	11	Slovenia
	11	Croatia
	12	Poland
	13	Finland
	16	Latvia
	19	Romania
	20	Slovakia
	21	Netherlands
	22	Greece
	23	Sweden
	23	Czech Republic
	28	Hungary
JULY	4	Germany
	8	Lithuania
	8	Italy
	16	Belgium
	18	Austria
	19	France

Data Summary

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 2020
Austria	61,421	14,301	47,120	9,015	8,538	29,567	20.0%	1,922	27,645	54.99%	18 Jul
Belgium	59,768	11,313	48,455	12,490	6,301	29,664	21.0%	2,025	27,640	53.76%	16 Jul
Bulgaria ⁴	8,389	1,376	7,013	605	966	5,442	20.0%	354	5,089	39.35%	24 May
Croatia ⁵	15,871	2,248	13,623	1,260	2,725	9,639	25.0%	783	8,856	44.20%	11 Jun
Cyprus ⁶	26,721	3,465	23,256	242	2,547	20,468	19.0%	1,264	19,204	28.13%	13 Apr
Czech Republic	20,240	5,113	15,127	2,056	1,664	11,408	21.0%	779	10,629	47.49%	23 Jun
Denmark	56,718	304	56,414	19,849	152	36,413	25.0%	2,959	33,454	41.02%	30 May
Estonia [†]	21,417	5,314	16,103	1,905	580	13,619	20.0%	885	12,734	40.55%	28 May
Finland	53,115	9,131	43,984	7,792	4,449	31,744	24.0%	2,476	29,268	44.90%	13 Jun
France	56,461	17,025	39,436	2,704	9,364	27,368	20.0%	1,779	25,589	54.68%	19 Jul
Germany	60,339	9,793	50,546	8,602	10,375	31,569	17.5% ⁷	1,796	29,774	50.66%	4 Jul
Greece	26,477	5,263	21,214	2,761	3,341	15,112	24.0%	1,179	13,933	47.38%	22 Jun
Hungary [†]	14,970	2,390	12,580	1,887	2,327	8,366	27.0%	734	7,632	49.02%	28 Jun
Ireland	51,943	5,169	46,774	9,777	1,871	35,126	23.0%	2,626	32,500	37.43%	17 May
Italy	40,636	9,344	31,292	7,204	2,970	21,118	22.0%	1,510	19,609	51.75%	8 Jul
Latvia	14,744	2,862	11,881	1,971	1,307	8,604	21.0%	587	8,016	45.63%	16 Jun
Lithuania ⁸	11,317	197	11,121	3,064	2,169	5,888	21.0%	402	5,486	51.53%	8 Jul
Luxembourg	68,510	9,014	59,497	10,218	7,320	41,959	17.0%	2,318	39,641	42.14%	3 Jun
Malta ⁹	20,818	1,893	18,925	1,474	1,893	15,559	18.0%	910	14,649	29.63%	19 Apr
Netherlands	63,525	11,958	51,567	8,680	6,798	36,088	21.0%	2,463	33,625	47.07%	21 Jun
Poland	15,400	2,632	12,768	770	2,742	9,256	23.0%	692	8,565	44.39%	12 Jun
Portugal	22,699	4,356	18,343	2,617	2,018	13,708	23.0%	1,025	12,684	44.12%	11 Jun
Romania ^{†10}	11,526	254	11,273	733	3,945	6,595	19.0%	407	6,187	46.32%	19 Jun
Slovakia	16,401	4,270	12,131	1,157	1,626	9,348	20.0%	608	8,740	46.71%	20 Jun
Slovenia	22,838	3,167	19,671	1,591	4,347	13,734	22.0%	982	12,752	44.17%	11 Jun
Spain	34,973	8,050	26,923	3,980	1,710	21,233	21.0%	1,449	19,784	43.43%	8 Jun
Sweden	56,967	13,620	43,347	10,764	0	32,583	25.0%	2,647	29,935	47.45%	23 Jun
United Kingdom	52,445	5,121	47,324	6,457	4,297	36,571	20.0%	2,377	34,194	34.80%	8 May

All figures in euros. "Flat tax" countries are marked with a dagger (†).

² Total cost of employment, social security, income tax and net income calculated by EY. Other calculations by 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

⁷ In response to the COVID-19 pandemic, Germany temporarily reduced VAT, from 19% to 16%, from 1 July to 31 December 2020.

⁸ Average Gross salary for Lithuania from the national statistics office: <http://osp.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>

Research Notes

Gross Salary

When available, salary figures come from the OECD's *Taxing Wages*. Others are sourced from government statistics offices (see footnotes on page 9).

In euros, gross salaries ranged from 7,013€ (Bulgaria) to 59,497€ (Luxembourg). The average gross salary among the 28 states was 29,204€.

Employer Contributions to Social Security

These taxes vary to a great degree and are invisible to employees in some countries, where only deductions from gross salaries appear on pay slips. For typical workers, these costs range from less than 1% of gross salary (Denmark) to 43% (France).

Individual Contributions to Social Security

Visible on employees' payslips, the lower and upper reaches of these deductions are set, respectively, by Sweden (zero) and Romania (35%).

Total Contributions to Social Security

France (67%) is the only country taking more than half of a typical worker's gross salary for social security contributions. Slovakia (49%) and its neighbour Austria (48%) collect the next-largest shares; in Denmark the total is only 0.9%.

Personal Income Taxes

In Denmark, where combined social security contributions remain the lowest (as a percentage), personal income taxes are the highest (35.2%). At 1% of gross salary, typical workers in Cyprus have the lowest income tax rates in the EU.

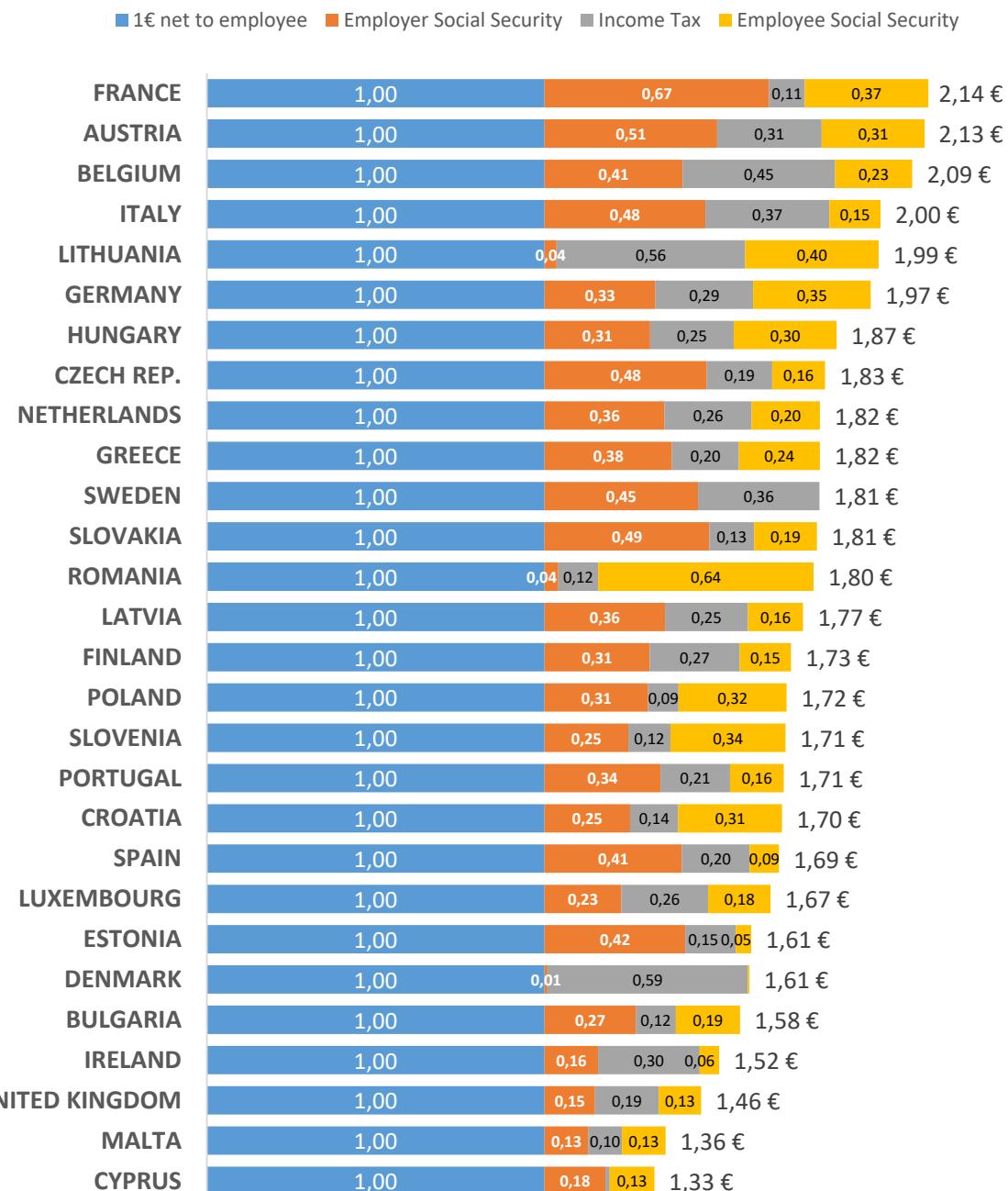
Estimated Value-Added Tax (VAT)

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%), Greece (from 19% to 24%), and Romania (from 19% to 24%, then back to 19%). The eight 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.

Appendix 1: Cost to employer of €1 net to employee

The chart below shows what employers must spend to give 1€ of purchasing power to an employee earning the average salary in each country.



Appendix 2: Rankings by total cost of employment, total tax burden and real net salary¹¹

Rank	TOTAL EMPLOYMENT COST	TOTAL TAX BURDEN	REAL NET SALARY
1	Luxembourg 68,510	Austria 33,449	Luxembourg 39,641
2	Netherlands 63,525	Belgium 32,129	United Kingdom 34,194
3	Austria 61,421	France 30,872	Netherlands 33,625
4	Germany 60,339	Germany 30,565	Denmark 33,454
5	Belgium 59,768	Netherlands 29,900	Ireland 32,500
6	Sweden 56,967	Luxembourg 28,870	Sweden 29,935
7	Denmark 56,718	Sweden 27,031	Germany 29,774
8	France 56,461	Finland 23,848	Finland 29,268
9	Finland 53,115	Denmark 23,264	Austria 27,972
10	United Kingdom 52,445	Italy 21,028	Belgium 27,640
11	Ireland 51,943	Ireland 19,443	France 25,589
12	Italy 40,636	United Kingdom 18,252	Spain 19,784
13	Spain 34,973	Spain 15,188	Italy 19,609
14	Cyprus 26,721	Greece 12,544	Cyprus 19,204
15	Greece 26,477	Slovenia 10,087	Malta 14,649
16	Slovenia 22,838	Portugal 10,016	Greece 13,933
17	Portugal 22,699	Czech Republic 9,611	Slovenia 12,752
18	Estonia 21,417	Estonia 8,684	Estonia 12,734
19	Malta 20,818	Slovakia 7,661	Portugal 12,684
20	Czech Republic 20,240	Cyprus 7,517	Czech Republic 10,629
21	Slovakia 16,401	Hungary 7,339	Croatia 8,856
22	Croatia 15,871	Croatia 7,015	Slovakia 8,740
23	Poland 15,400	Poland 6,835	Poland 8,565
24	Hungary 14,970	Latvia 6,727	Latvia 8,016
25	Latvia 14,744	Malta 6,169	Hungary 7,632
26	Romania 11,526	Lithuania 5,831	Romania 6,187
27	Lithuania 11,317	Romania 5,339	Lithuania 5,486
28	Bulgaria 8,389	Bulgaria 3,301	Bulgaria 5,089

¹¹ All figures in Euros (€). Total tax burden and real net salary figures include social charges, income taxes and estimated VAT.

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