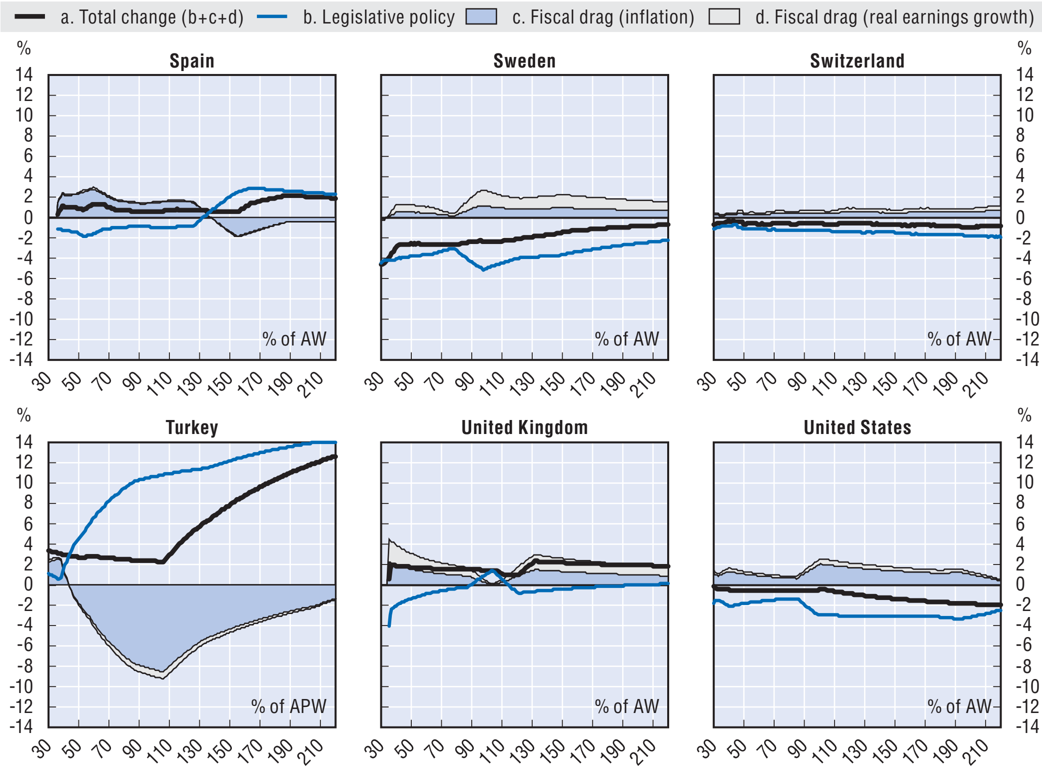
Figure S.4. **Tax-wedge difference 2006 versus 2000: Single individuals** *(cont.)*



StatLink http://dx.doi.org/10.1787/187566285311

Note: Difference 2006 minus 2000 in percentage points. Earnings below the statutory minimum wage of a full-time worker are not shown in countries where statutory minima exist. The effects of "legislative tax policy" include all changes in relevant tax parameters, whether due to larger tax reforms or, for instance, to adjustment measures listed in Annex Table S.A4. See Annex B for details on the decomposition of tax-burden trends.

Source: Taxing Wages calculation models.

increased in most countries, often reflecting growing policy concerns about low birth rates or child poverty.[10]

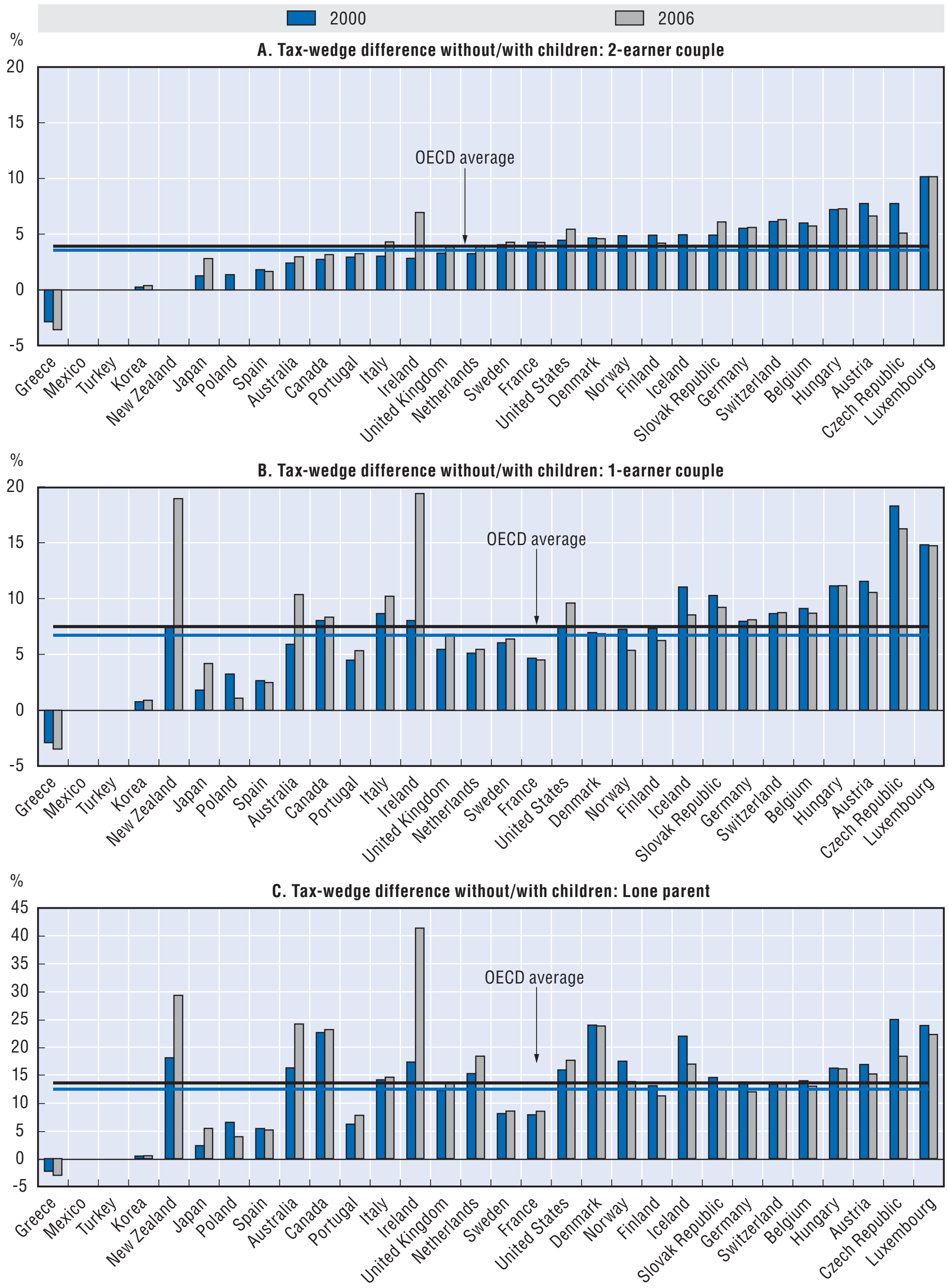
Averaged across countries, two children reduce the total tax wedge of two-parent families by between 4 (two-earner families) and 7.5 percentage points (one-earner couple). Yet, at the earnings levels shown, family-related benefits or tax concessions are, or have become, much smaller or non-existent in a few countries (**Greece,**[11] **Korea, Mexico, Poland** and **Turkey**).

Family benefits or child-related tax reductions are substantially more generous for low-income lone parents than for two-parent families (Panel c of Figure S.5). The OECD average has increased over the 2000-2006 period, from 12.7 to 13.6 percentage points. At close to 10 percentage points or more, the most generous increases were implemented in **Australia**, **Ireland** and **New Zealand**. Yet, low-wage lone parents in a considerable number of countries saw their tax advantages reduced. This was especially the case in the **Czech Republic, Iceland,** and also in **Norway**, where tax reductions for lone parents have previously been above the OECD average.

As a result of the more generous tax credits and family benefits for this group, there is more scope for inflation and real earnings growth to erode the value of these support measures relative to average earnings and in real terms. On average, fiscal drag effects for

Figure S.5. **Child-related benefits and tax concessions: Tax advantage of families with children**

Selected countries



StatLink http://dx.doi.org/10.1787/187585615124

Note: Countries are ordered in relation to the two-earner family results for the year 2000 in all three panels. The tax advantage is shown in per cent of total labour costs and is calculated as the difference between the tax wedges faced by a family without children and an otherwise similar family with two children (see Part IV for age-groups covered in these calculations). Child-related benefits vary by earnings level. The results are therefore based on an average of tax wedges at different earnings levels as follows: 50% to 100% of AW in the case of the lone parent; 67% to 133% of AW in the case of the one-earner family; and 33% to 133% of AW in the case of the two-earner family (with the other partner earning 67% of AW).

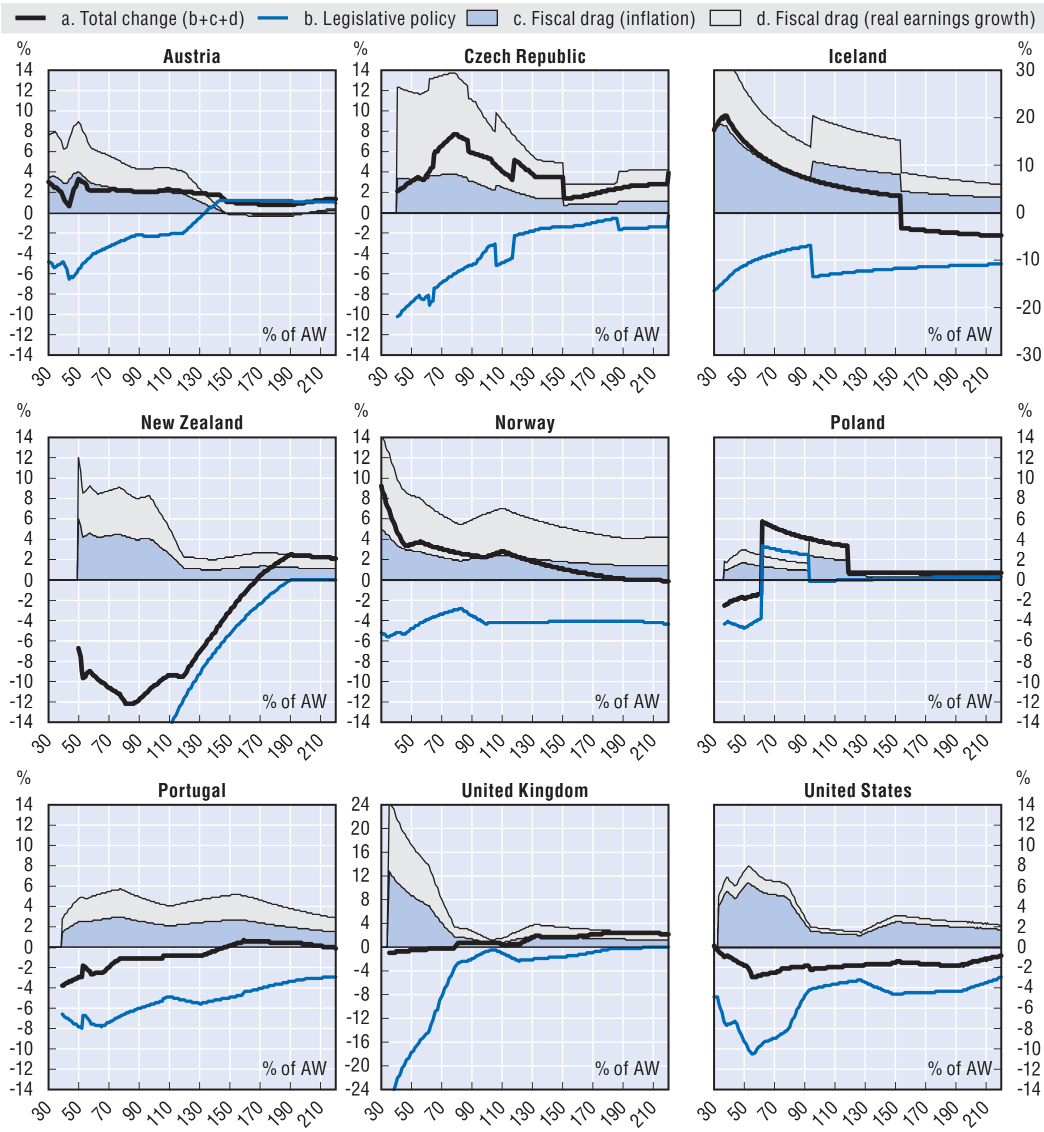
Source: Taxing Wages calculation models.

lone parents sum to as much as 7 percentage points at lower wage levels (compared to around 2 percentage points for single individuals).

More detailed results for lone parents are shown in Figure S.6 for a selected group of countries where tax-burden changes diverge from the OECD trend (a complete set of results is available on the Internet: see notes at the bottom of the Figure). A comparison of tax-burden trends for single individuals and lone-parent households shows that lone

Figure S.6. **Tax-wedge difference 2006 versus 2000: Lone parents**

Selected countries[1]



StatLink http://dx.doi.org/10.1787/187626076271

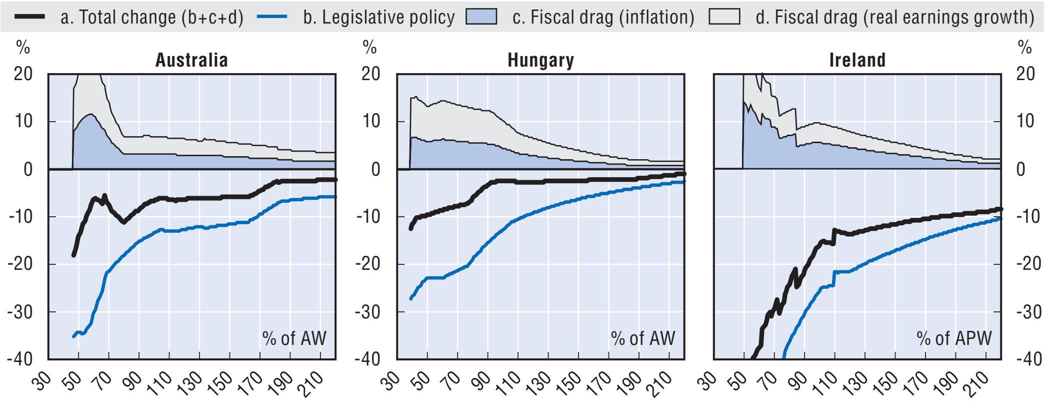
Note: Two children (see Part IV for age-groups covered). Difference 2006 minus 2000 in percentage points. Earnings below the statutory minimum wage of a full-time worker are not shown in countries where statutory minima exist. The effects of "legislative tax policy" include all changes in relevant tax parameters, whether due to larger tax reforms or, for instance, to adjustment measures listed in annex Table S.A4. See Annex B for details on the decomposition of tax-burden trends.

1. Graphs for all countries are available through StatLink.

Source: Taxing Wages calculation models.

Figure S.6. **Tax-wedge difference 2006 versus 2000: Lone parents** *(cont.)*

Selected countries[1]



StatLink http://dx.doi.org/10.1787/187626076271

Note: Two children (see Part IV for age-groups covered). Difference 2006 minus 2000 in percentage points. Earnings below the statutory minimum wage of a full-time worker are not shown in countries where statutory minima exist. The effects of "legislative tax policy" include all changes in relevant tax parameters, whether due to larger tax reforms or, for instance, to adjustment measures listed in annex Table S.A4. See Annex B for details on the decomposition of tax-burden trends.

1. Graphs for all countries are available through StatLink.

Source: Taxing Wages calculation models.

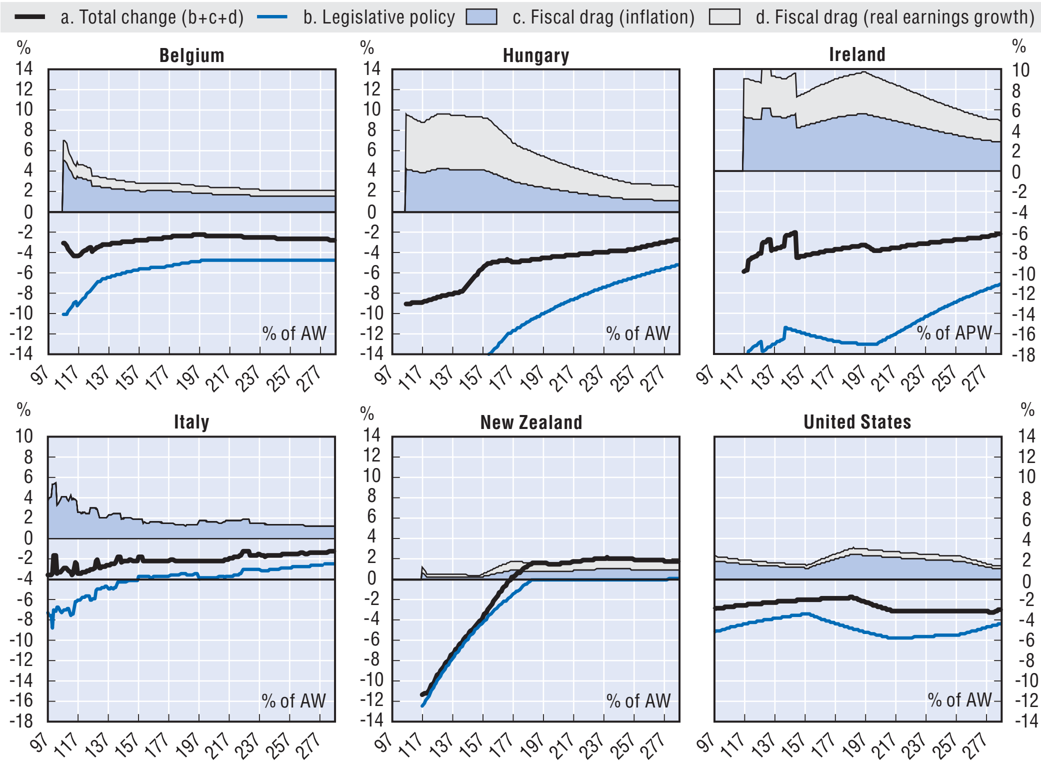
parents in **New Zealand**, **Portugal** and the **United States** saw marked tax-wedge reductions despite increasing (or only slightly decreasing) tax burdens for single persons without children (compare Figure S.6a and Figure S.4). Among the countries with increasing tax burdens, there are only five (**Austria**, **Czech Republic**, **Iceland**, **Norway** and **Poland**), where tax increases were significantly greater for lone-parent families than for single individuals. In the case of Austria, the Czech Republic and Iceland, this is largely explained by the more sizable fiscal drag effect suffered by lone parents. In other words, legislative policy measures in these countries were less effective at counter-acting fiscal-drag related tax increases when children are present. This suggests that, in these countries, adjustments for rising prices and real earnings are less frequent and/or complete in the case of child-related policy instruments.

At the same time, support measures were targeted towards lone parents in several of the countries where tax wedges declined more generally for most other family types as well. Together, these measures resulted in very sizable tax-wedge reductions for lone parents in **Australia, Hungary and Ireland** (Figure S.6b).

In seven countries, tax-wedge reductions for two-earner families with children were also more generous than for single individuals (Figure S.7). In **Belgium** and **Hungary**, two of the countries with the highest tax wedges in the OECD, this is mainly a result of lower tax burdens for two-earner couples (regardless of whether or not they have children), while in **Ireland**, **Italy** and **New Zealand**, tax advantages or cash support for children appear to play a decisive role. In the **United States**, both factors were important: Married couples benefited from larger tax reductions than single individuals but the difference was even more pronounced for families with children.

Figure S.7. **Tax-wedge difference 2006 versus 2000: Two-earner families**

Selected countries[1]



StatLink http://dx.doi.org/10.1787/187631723852

Note: Two children (see Part IV for age-groups covered). The first spouse earns 2/3 of the average wage throughout. Difference 2006 minus 2000 in percentage points. Earnings below the statutory minimum wage of a full-time worker are not shown in countries where statutory minima exist. The effects of "legislative tax policy" include all changes in relevant tax parameters, whether due to larger tax reforms or, for instance, to adjustment measures listed in Annex Table S.A4. See Annex B for details on the decomposition of tax-burden trends.

1. Graphs for all countries are available through StatLink.

Source: Taxing Wages calculation models.

5. Conclusions

On average across the OECD, tax wedges at most earnings levels have declined somewhat during the 2000-2006 period. The policies adopted in different countries, and their effects on after-tax incomes and labour costs, have differed markedly however. While most countries have implemented tax-cutting measures, such as lowering tax rates or making tax concessions more generous, these initiatives have not always led to the significant tax-burden decreases one might expect.

Where the effect of measures aimed at reducing tax burdens was limited, the main reason was a lack of regular adjustments of tax policy parameters to higher earnings levels. In many OECD countries, average full-time earnings have increased considerably over the 2000-2006 period, with nominal increases exceeding 40% in 9 countries. With progressive tax systems in place, higher earnings usually translate into higher tax burdens (fiscal drag). Unless tax systems are adjusted to compensate these effects, the evolution of earnings levels can have substantial effects on the tax burdens employees face.

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- Without counter-balancing policy measures, the combination of inflation and real earnings growth would have led to significant tax-wedge increases in almost all OECD countries. The fiscal drag effect is especially strong where tax systems are particularly progressive or where earnings growth has been above-average (*e.g.* Greece, Iceland, Korea, and Mexico).
- Most OECD countries do employ some form of adjustments, such as indexing tax band limits for inflation, in order to prevent large tax-burden changes as a result of inflation or real earnings growth. These adjustments are, however, incomplete or infrequent in most countries. As a result, the impact of tax reforms that aim at lowering tax burdens in a given year can to a large extent be offset by fiscal drag effects accumulated over extended periods. In a small number of countries that saw tax burdens go up over the 2000-2006 period, the fiscal drag effect has in fact been the main driver of these developments.
- As a result of generous targeted tax cuts or benefit increases, families with children in a number of countries, including Australia, Ireland and New Zealand, tend to be better off, with lower tax burdens and more net income to spend in 2006 than six years earlier. Benefits and tax reliefs also represent significant proportions of the incomes available to families with children in other countries. However, the results in this chapter show that families with children can be faced with significant tax-burden increases over time if transfer payments and tax concessions are not adjusted in relation to changing price and earnings levels.
- Across the OECD, tax-burden changes have tended to favour low-wage earners. But in a significant minority of countries, tax reforms have mainly benefited higher-income groups. Like families with children, low-wage earners also benefit from targeted tax concessions in a large number of OECD countries. Where such tax reliefs exist, fiscal drag can erode their value over time and, as a result, have particularly strong effects on low-wage earners.

Notes

1. The choice of 2000 as the base period is made for reasons of data availability (OECD tax calculation models are maintained on a consistent basis from 2000 onwards). A number of countries enacted changes shortly before or after the 2000-2006 period, and a small change of the period under consideration would therefore produce different results for these countries. Annex Table S.A2 summarises relevant policy changes before and after the 2000-2006 period.
2. AW values are shown in Table 0.5.
3. Parts III and IV of this publication provide details on the methodology.
4. Details on the calculation of the fiscal drag measures are provided in Annex B.
5. For comparability across countries, social security contributions are shown separately from income taxes. In the Netherlands it is customary to include national social insurance contributions paid by employees under the "general scheme" as part of the income tax (see Annex Table S.A1b).
6. The coefficient of variation of income tax burdens for single average-wage earners declined from 0.50 in 2000 to 0.44 in 2006.
7. At higher earnings levels, it is less likely that wages and salaries are the only income source. As the tax treatment of other income sources, notably income from capital, is not accounted for in the Taxing Wages methodology, high-wage earners may in fact face different tax burdens than the ones reported here.

8. The exceptions are Japan, where price *deflation* caused nominal wages to remain at their year-2000 levels, and Turkey, where extremely high inflation rates would have almost completely eroded the cap on social contribution payments. See also annex Table S.A3.
9. While this has reduced the tax wedge, the total cost of employing minimum-wage workers in France has nevertheless gone up as a result of generous increases of the statutory wage floor (OECD, 2007b).
10. Means-tested transfers, such as social assistance or housing benefits, may be available to low-income families but are not taken into account here. See OECD (2007c) for details on these and other social benefits.
11. Family benefits are taxable in some countries, especially if they constitute an element of wage income. This is, for instance, the case in Greece where the resulting additional wage income for families with children can lead to increased tax wedges. Importantly, however, their after-tax income is nevertheless higher than that of similar families without children.

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