



## Taxing Wages - Mexico

### Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

**TAX WEDGE ON LABOUR INCOME**

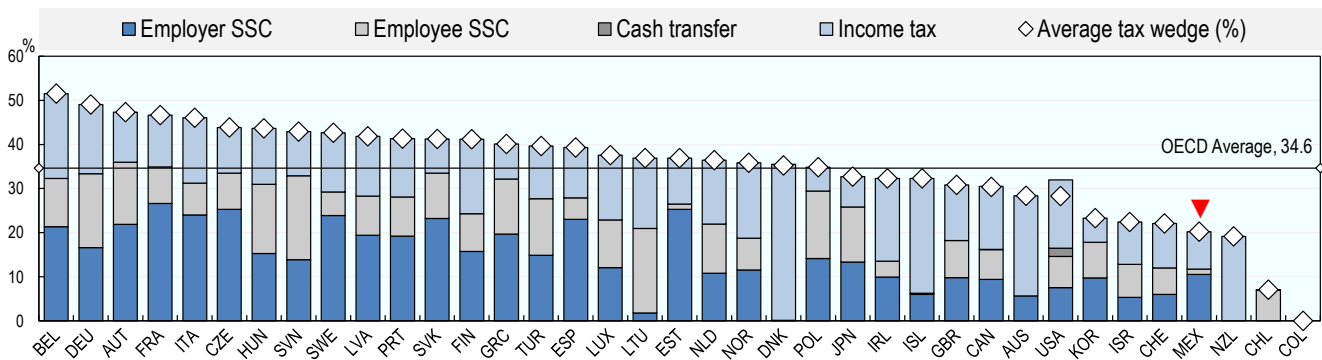
$$\frac{((\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits})}{(\text{Total labour costs (gross wages} + \text{employer SSCs)})}$$

### Single worker

The tax wedge for the average single worker in Mexico remained unchanged at 20.2% in 2019 and 2020. The OECD average tax wedge in 2020 was 34.6% (2019, 35.0%). In 2020, Mexico had the 34th lowest tax wedge among the 37 OECD member countries, occupying the same position in 34th 2019.

In Mexico, income tax and employer social security contributions combine to account for 94% of the total tax wedge, compared with 76% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children



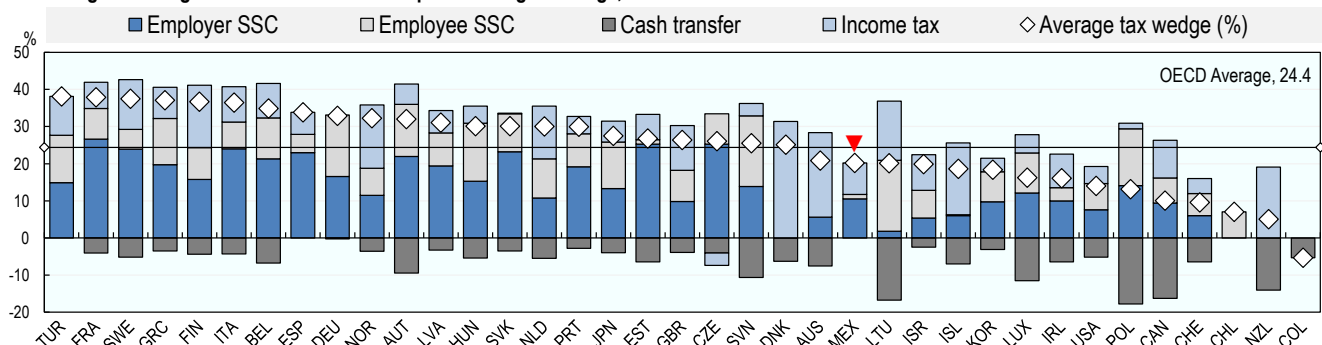
### One-earner married couple with two children

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since most OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

Mexico had the 24th lowest tax wedge in the OECD for an average married worker with two children at 20.2% in 2020, which compares with the OECD average of 24.4%. The country occupied the 27th lowest position in 2019.

Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. Across the OECD there was a reduction of 10.2 percentage points for the average married worker with two children. This contrasts with the position in Mexico, where the tax burden was the same for both household types.

Average tax wedge: One-earner married couple at average earnings, 2 children



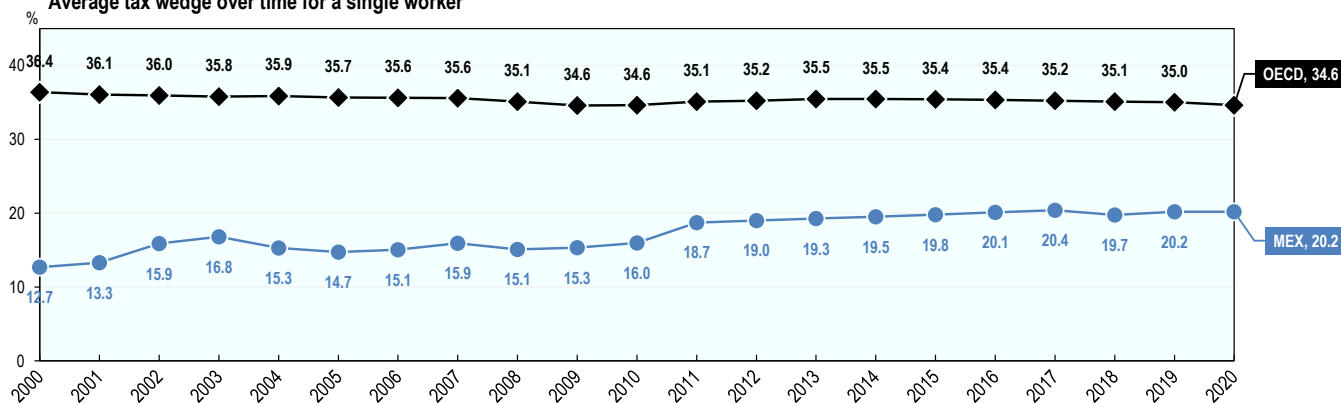


## Tax wedge trends between 2000 and 2020

» In Mexico, the tax wedge for the average single worker increased by 7.5 percentage points from 12.7% to 20.2% between 2000 and 2020. During the same period, the average tax wedge across the OECD decreased by 1.8 percentage points from 36.4% to 34.6%.

Between 2009 and 2020, the tax wedge for the average single worker increased by 4.9 percentage points in Mexico. During this same period, the tax wedge for the average single worker across the OECD increase slowly to 35.5% in 2013 and 2015 before decreasing back to 34.6% in 2020 .

Average tax wedge over time for a single worker



## Employee tax on labour income

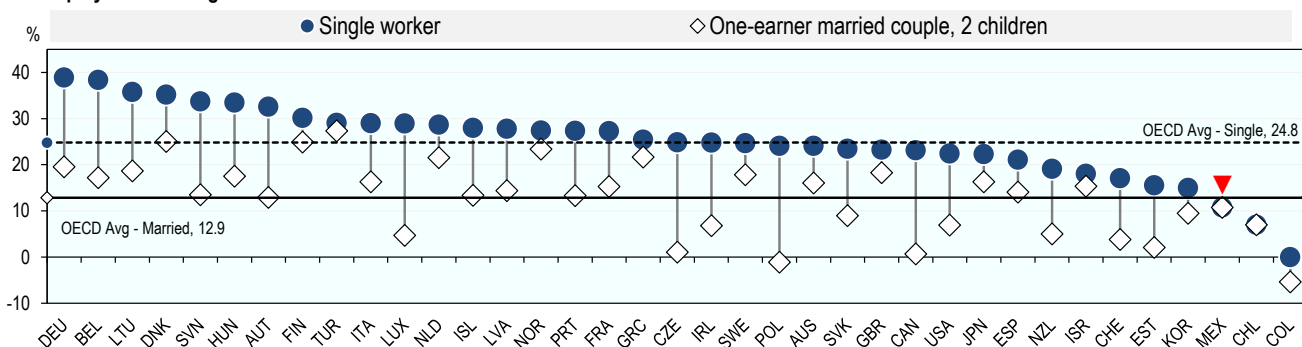
The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

$$\text{EMPLOYEE NET AVERAGE TAX RATE} = \frac{(\text{Employee personal income tax and employee social security contributions}) - \text{Family Benefits}}{\text{Gross wages}}$$

» In Mexico, the average single worker faced a net average tax rate of 10.8% in 2020, compared with the OECD average of 24.8%. In other words, in Mexico the take-home pay of an average single worker, after tax and benefits, was 89.2% of their gross wage, compared with the OECD average of 75.2%.

» Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Mexico was 10.8% in 2020, which is the 24th lowest in the OECD, and compares with 12.9% for the OECD average. This means that an average married worker with two children in Mexico had a take-home pay, after tax and family benefits, of 89.2% of their gross wage, compared to 87.1% for the OECD average.

Employee net average tax rate



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