NEW DIRECTION

THE FOUNDATION FOR EUROPEAN REFORM

The Tax Burden of Typical Workers in the EU 27

2012

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May 2012

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Data provided by
ERNST & YOUNG
Quality In Everything We Do

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NOTE: Figures for three countries – Cyprus, Malta and Sweden – have been amended since this report was first published. These changes, listed in detail on page 9, have not been incorporated into tables and averages elsewhere in this document, however they are included in all calculations made for the 2013 and later versions of this study.

Table of Contents

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.

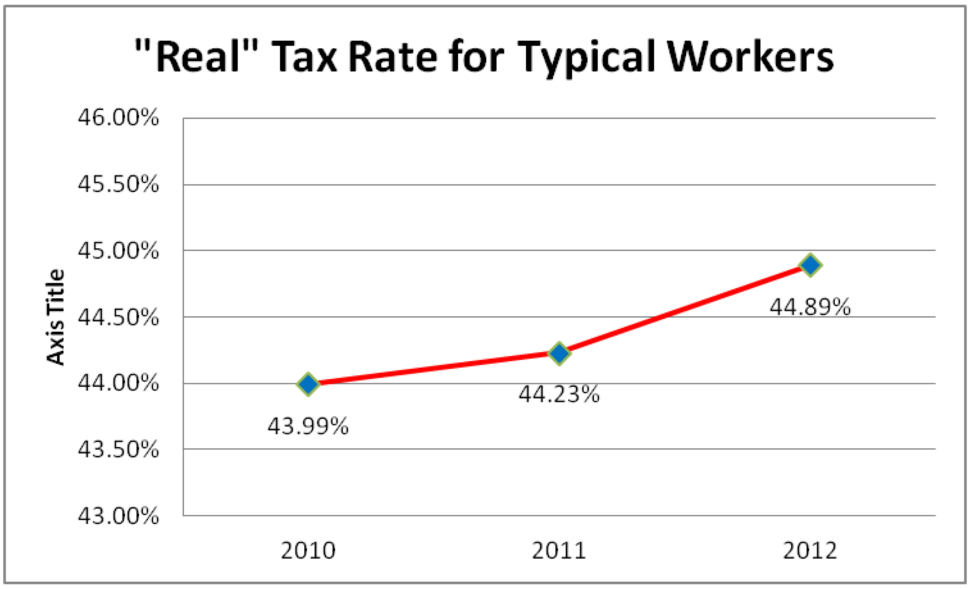
In addition, many think tanks determine an annual "tax liberation day" for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

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.

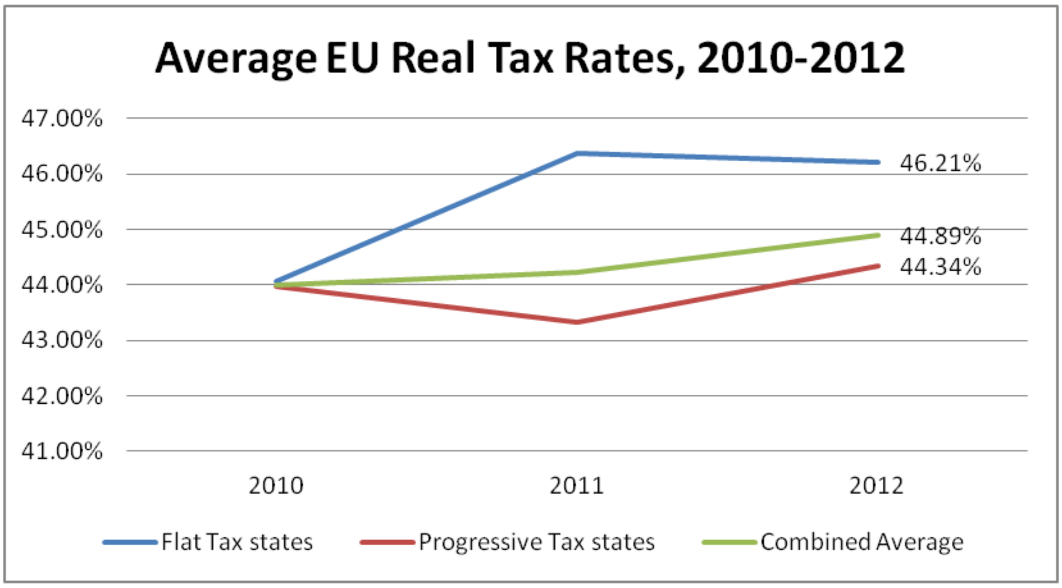
Is geography destiny?

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 Salaryrepresents 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

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 Freedom 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[1]	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[2]	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[3]	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

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

[1] (April 2013) The following figures for Cyprus have been amended (new figure in parentheses): Real Gross Salary (22,759), Employer Social Security (1,449), Income Tax (72), Employee Social Security (1,449), Take-home Pay (19,789), Estimated VAT (965), Real Net Salary (18,824), Real Tax Rate (17.29%), Tax Liberation Day (03 MAR).
[2] (April 2013) The following figures for Malta have been amended (new figure in parentheses): Income Tax (1,195), Take-home Pay (12,916), Estimated VAT (756), Real Net Salary (12,161), Real Tax Rate (29.49%), Tax Liberation Day (18 APR).
[3] (April 2013) The following figures for Sweden have been amended (new figure in parentheses): Income Tax (6,389), Take-home Pay (18,571), Estimated VAT (2,321), Real Net Salary (26,249), Real Tax Rate (46.87%), Tax Liberation Day (21 JUN).

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 Rentis 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 *StatistikosDepartamentas* (National Statistics Office of Lithuania) database.

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