NEW DIRECTION
THE FOUNDATION FOR EUROPEAN REFORM

The Tax Burden of Typical Workers in the EU 27

2013 Edition

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May 2013

INSTITUT ÉCONOMIQUE MOLINARI

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This report was produced by *New Direction – The Foundation for European Reform*, a free market, euro-realist think-tank established in 2010 in Brussels. It is affiliated to the Alliance of European Conservatives and Reformists (AECR). *New Direction* seeks to promote policies and values consistent with the 2009 Prague Declaration to help steer the European Union on a different course and to shape the views of governments and key opinion formers in EU member states and beyond.

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This publication received funding from the European Parliament. However, the views expressed in it do not necessarily reflect those of the European Parliament.

May 2013

Printed in Belgium

ISBN: 978-2-87555-032-3

Publisher and copyright holder:
New Direction – The Foundation for European Reform
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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.

In addition, the study tracks year-to-year trends in the taxation of labour.

Study interest

Numerous studies rank political systems by various measures of "economic freedom". While valuable to economists, the aggregate data in these studies fails to shed light on the working individual's role in financing their state and social security.

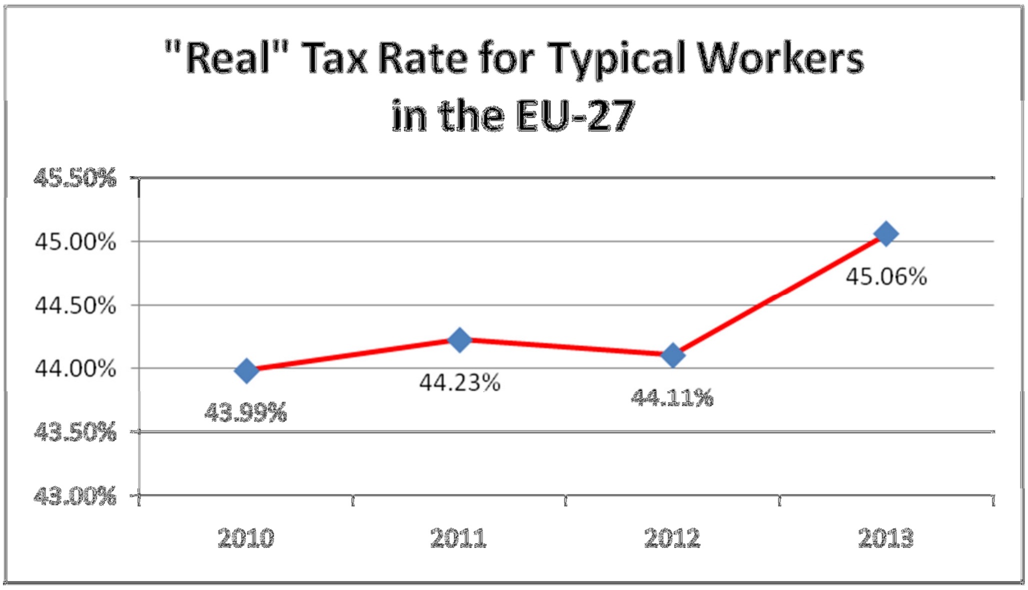
In addition, many think tanks determine an annual "tax freedom day" for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

This study aims to create an "apples to apples" comparison of "real tax rates", with data that reflect the reality experienced by real, working people in the European Union. Further, it serves as a guide to the true cost of hiring employees in each state.

Main Results

Taxes continue to rise in Europe

Typical workers in the European Union saw their average “real tax rate” rise again this year, from 44.89% in 2012 to 45.06% in 2013. The rise of 1.07% since this study series began in 2010 is, to a large extent, a consequence of VAT increases in 16 EU member states.



43.4% 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 (54.5%) of EU citizens are not in the labour force[1]. Tax-wise, working people 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 0.2%.

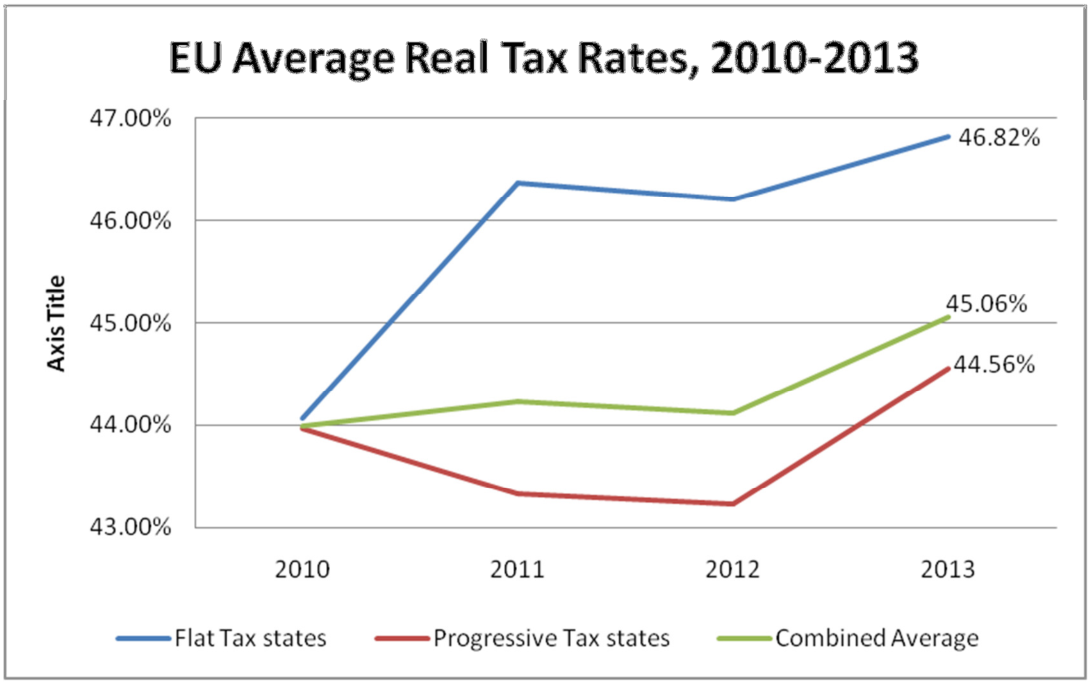
Losers and winners

Belgium retains its ranking as the country that taxes labour at the highest rate in the European Union. An employer in Brussels now spends 2.52€ (0.07€ more than a year ago) to put 1€ into a typical worker’s pocket – and that worker’s tax liberation day is August 8.

Belgium has held its position since 2011 when Hungary, previously the most severe tax collector, implemented a flat tax scheme (see below).

Flat tax policies offer mixed results

Flat tax policies have offered considerable tax relief to workers in some countries – notably Hungary, where a 16% rate has brought that country's tax liberation day forward by 22 days over three years. However, overall taxes remain higher in "flat tax" countries (46.82%) than in "progressive" systems (44.56%) – a gap that has widened since 2010 (when they were nearly identical).



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, after all, only a flat *income tax* rate. Social security contributions in these countries are far higher than in progressive systems. Moreover, 5 of the EU's 6 flat tax countries (all except Bulgaria) have raised VAT rates since 2009, with Hungary implementing two increases totalling 7%.

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:

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

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

2013 Tax Liberation Day Calendar

MARCH	14	Cyprus
APRIL	24	Ireland
	29	Malta
MAY	13	United Kingdom
	18	Bulgaria
	25	Luxembourg
JUNE	04	Portugal
	06	Denmark
	07	Slovenia
	12	Poland
	12	Spain
	14	Estonia
	17	Greece
	18	Lithuania
	19	Finland
	19	Czech Republic
	20	Slovakia
	22	Sweden
	27	Netherlands
	27	Latvia
JULY	01	Romania
	10	Italy
	13	Germany
	16	Hungary
	23	Austria
	26	France
AUGUST	08	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 2013
Austria	51,552	12,289	39,263	7,782	7,095	24,386	20.0%	1,585	22,801	55.77%	23 July
Belgium	58,235	15,495	42,740	12,338	5,558	24,844	21.0%	1,696	23,148	60.25%	8 August
Bulgaria†[4]	3,956	586	3,370	294	435	2,642	20.0%	172	2,470	37.56%	18 May
Cyprus[5]	25,680	1,635	24,045	582	1,635	21,828	18.0%	1,277	20,551	19.97%	14 March
Czech Republic	15,498	3,932	11,566	1,383	1,272	8,910	21.0%	608	8,302	46.43%	19 June
Denmark	51,610	290	51,321	19,080	145	32,096	25.0%	2,608	29,488	42.86%	6 June
Estonia†	13,327	3,411	9,916	1,620	476	7,821	20.0%	508	7,312	45.13%	14 June
Finland	50,919	9,474	41,445	8,691	3,159	29,595	24.0%	2,308	27,287	46.41%	19 June
France	53,647	17,788	35,859	2,204	8,795	24,860	19.6%	1,584	23,276	56.61%	26 July
Germany	52,440	8,585	43,855	8,492	9,089	26,274	19.0%	1,622	24,652	52.99%	13 July
Greece	26,197	5,740	20,457	1,888	3,273	15,296	23.0%	1,143	14,153	45.98%	17 June
Hungary†	11,546	2,561	8,985	1,467	1,662	5,856	27.0%	514	5,342	53.73%	16 July
Ireland	36,372	3,530	32,842	4,654	1,049	27,139	23.0%	2,029	25,110	30.96%	24 April
Italy	37,699	8,668	29,031	6,871	2,755	19,405	21.5%	1,356	18,049	52.12%	10 July
Latvia†	14,230	2,763	11,467	2,359	1,261	7,847	21.0%	536	7,312	48.62%	27 June
Lithuania†[6]	9,145	2,201	6,944	1,041	625	5,277	21.0%	360	4,917	46.23%	18 June
Luxembourg	57,219	7,329	49,890	7,476	6,136	36,278	15.0%	1,769	34,510	39.69%	25 May
Malta	21,482	1,953	19,529	2,160	1,953	15,416	18.0%	902	14,514	32.44%	29 April
Netherlands	55,065	9,161	45,904	8,320	7,192	30,392	21.0%	2,074	28,317	48.57%	27 June
Poland	11,277	1,839	9,439	640	2,027	6,772	23.0%	506	6,266	44.44%	12 June
Portugal	21,766	4,177	17,589	2,057	1,935	13,597	23.0%	1,016	12,580	42.20%	4 June
Romania†	7,307	1,618	5,689	760	939	3,990	24.0%	311	3,679	49.66%	1 July
Slovakia	13,058	3,400	9,658	913	1,294	7,451	20.0%	484	6,967	46.65%	20 June
Slovenia	20,170	2,797	17,373	1,273	3,839	12,261	20.0%	797	11,464	43.16%	7 June
Spain	32,764	7,541	25,223	4,086	1,602	19,535	21.0%	1,333	18,201	44.45%	12 June
Sweden	57,421	13,728	43,693	10,784	0	32,909	25.0%	2,674	30,235	47.35%	22 June
United Kingdom	46,767	4,545	42,222	6,448	3,937	31,837	20.0%	2,069	29,768	36.35%	13 May

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

An expanded 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 3,370€ (Bulgaria) to 51,321€ (Denmark). The median gross salary among EU Member States was 24,045€ (Cyprus), and the average among the 27 states was 25,900€.

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% in Sweden and Denmark to nearly 50% in France.

Individual Contributions to Social Security

Visible on employees' payslips, the lower and upper reaches of these deductions are also set, respectively, by Sweden and Denmark (less than 1%) and France (nearly 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 39.5% of the average gross salaries as social security contributions; 3.6% more than progressive systems. This gap has narrowed from 9% in 2011 and 5.6% in 2012.

Personal Income Taxes

In Denmark, where combined social security contributions remain the lowest (as a percentage), personal income taxes are the highest (37.2%).

Notwithstanding the low rates advertised by governments imposing a flat tax, 9 of the 10 countries assessing income taxes at the lowest rates have progressive systems (the exception being Bulgaria).

Estimated Value-Added Tax (VAT)

16 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%), Spain (from 16 to 21%), Romania (from 19 to 24%) and Greece (from 19 to 23%). ***Since 2009, the average VAT rate in the EU-27 has risen from 19.5 to 21.3%.***

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.

Country Notes

Belgium

Those who believed Belgian taxes could only move in one direction (down) were proven wrong again in this year's study; 2013's "tax liberation day" for Belgian workers falls three days later than in 2012. Looking forward, Belgium's leaders seem keen on holding their country's "No. 1" position. In March 2013, the Di Rupo government announced plans to reduce debt to 100% of GDP by selling state assets, cutting spending and - of course - raising taxes.

Czech Republic

On 01 January 2013 the Czech Republic abandoned its flat tax regime in favour of a "two-bracket" system. The 15% flat rate of income tax still applies to gross earnings below CZK 100,000 (approximately 3,885€) per month; a rate of 22% is applied to higher amounts.

Italy

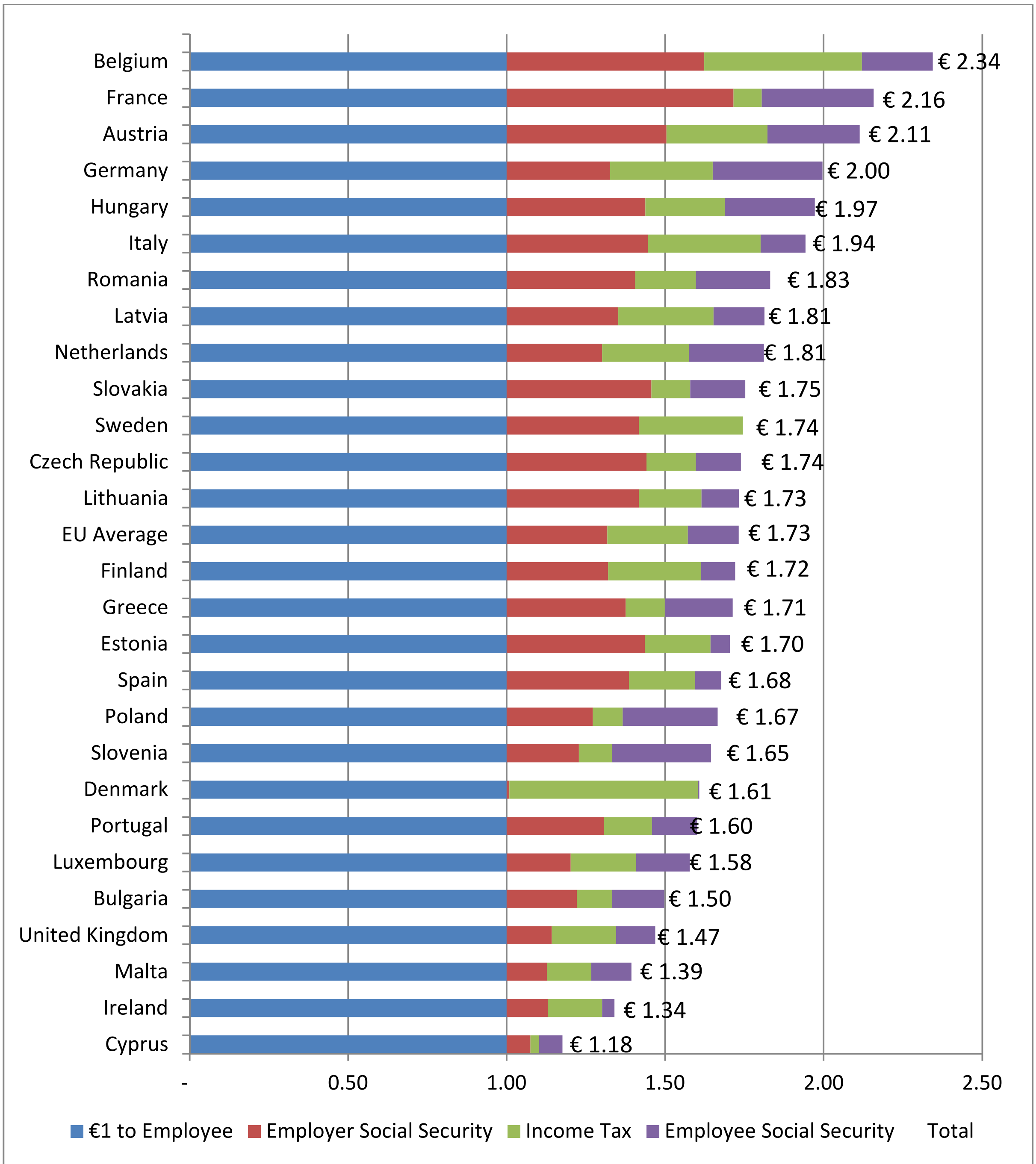
Italy's VAT rate rose from 20% to 21% at the end of 2011 and will rise to 22% on 01 July 2013. Thus the typical Italian worker will pay 21% for the first half of 2013 and 22% in the second half. In this report, consequently, we show 21.5% as Italy's VAT rate.

Slovakia

Slovakia also called an end to its flat tax regime and, like the Czechs, implemented a "two-bracket" system. The 19% flat rate of income tax still applies to gross earnings below 39,600€ per year; a rate of 25% is applied to higher amounts.

Appendix 1: Employer Cost of €1 net

The chart below shows what employers must spend to pay each net euro to an employee. The figures do not include VAT.



Appendix 2: Taxation of Workers and Tax Revenue as a Portion of GDP

The table below compares the “real tax rate” paid by typical workers in each EU member state to that same country’s ratio of tax revenue to Gross Domestic Product (GDP). Most countries that have a high “real tax rate” also have high taxes overall, though some, notably in Eastern Europe, combine high taxes on labour with a relatively low overall burden.

Country	Real Tax Rate	total tax revenue as a percentage of GDP[7]
Romania	49.7%	28.0%
Ireland	31.0%	28.2%
Slovakia	46.7%	28.8%
Latvia	48.6%	28.9%
Lithuania	46.2%	30.3%
Greece	46.0%	31.2%
Portugal	42.2%	31.3%
Spain	44.5%	33.6%
Poland	44.4%	31.7%
Estonia	45.1%	32.8%
Bulgaria	37.6%	33.3%
Czech Republic	46.4%	35.3%
United Kingdom	36.4%	35.5%
Hungary	53.7%	35.7%
Slovenia	43.2%	36.8%
Germany	53.0%	37.1%
Luxembourg	39.7%	37.1%
Netherlands	48.6%	38.7%
Cyprus	20.0%	39.2%
Austria	55.8%	42.1%
Italy	52.1%	42.9%
Finland	46.4%	43.4%
Belgium	60.3%	44.0%
France	56.6%	44.2%
Sweden	47.3%	44.5%
Denmark	42.9%	48.1%
Malta	32.4%	48.2%

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Endnotes

Data provided by
ERNST & YOUNG
Quality In Everything We Do

[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]Unless otherwise noted, Average Gross Salary figures are from Eurostat's *Annual gross earnings in industry and services* (2010) or the OECD's *Taxing* Wages (2011).

[4]Average Gross Salary figure for Bulgaria is for the manufacturing sector, 2010 data from the International Labour Organization (www.ilo.org).

[5]Average Gross Salary figure for employees in Cyprus sourced from www.mof.gov.cy (2011).

[6]Average Gross salary for manufacturing sector from *Statistikos Departamentas* (National Statistics Office of Lithuania) database (stat.gov.lt), 2011.

[7]Figures for "total tax revenue as a percentage of GDP" are from the OECD (Oct 2012) or, where unavailable, from Eurostat (2008, for Romania, Latvia, Lithuania, Bulgaria, Cyprus and Malta).

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May 2013

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