NEW DIRECTION

THE FOUNDATION FOR EUROPEAN REFORM


# The Tax Burden of Typical Workers in the EU 28

## 2014 Edition

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May 2014

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The report is produced with *Institut économique Molinari*, an economic think tank based in Paris.

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# Objective of the study

The purpose of this study is to compare the tax and social security burdens of salaried employees in the 28 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 fail to shed light on the working individual's role in financing their state and social security.

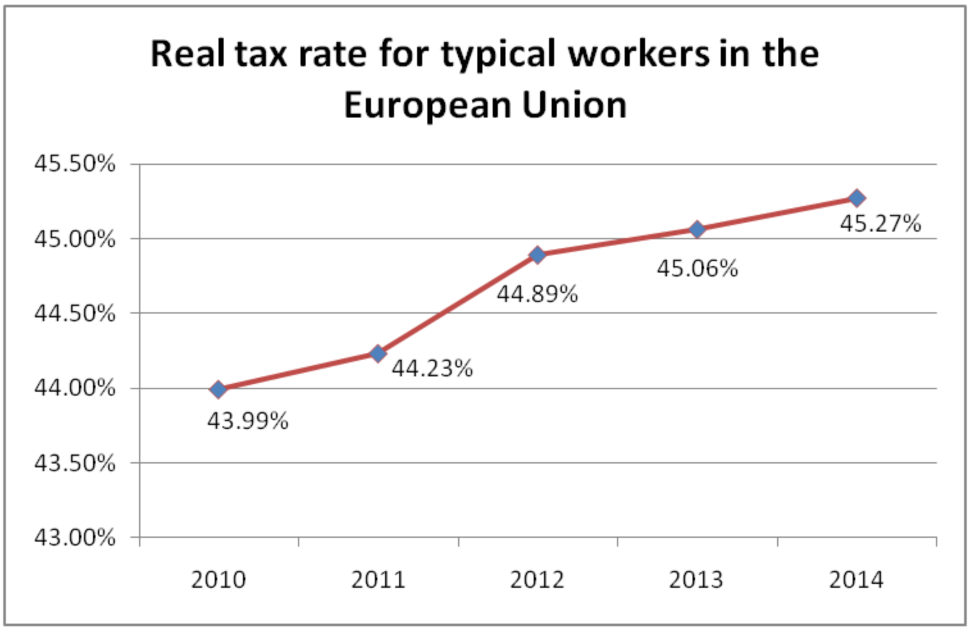
In addition, many think tanks determine an annual "tax freedom day" for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

This study aims to create an "apples to apples" comparison of 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 45.06% in 2013 to 45.27% in 2014. This continues a trend of rises since this study series began in 2010. The rise of 1.28% since 2010 is, to a large extent, a consequence of VAT increases in 19 EU member states.




Employer contributions to social security, which are paid on top of gross salaries, represent 44.1% of all payroll taxes collected in the EU. These taxes, along with VAT, are largely invisible to employees.

Retired, disabled, disenfranchised or simply too young, more than half (54.6%) 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 ever older. Since 2010, the proportion of Europeans outside the labour force has grown by 0.3%.

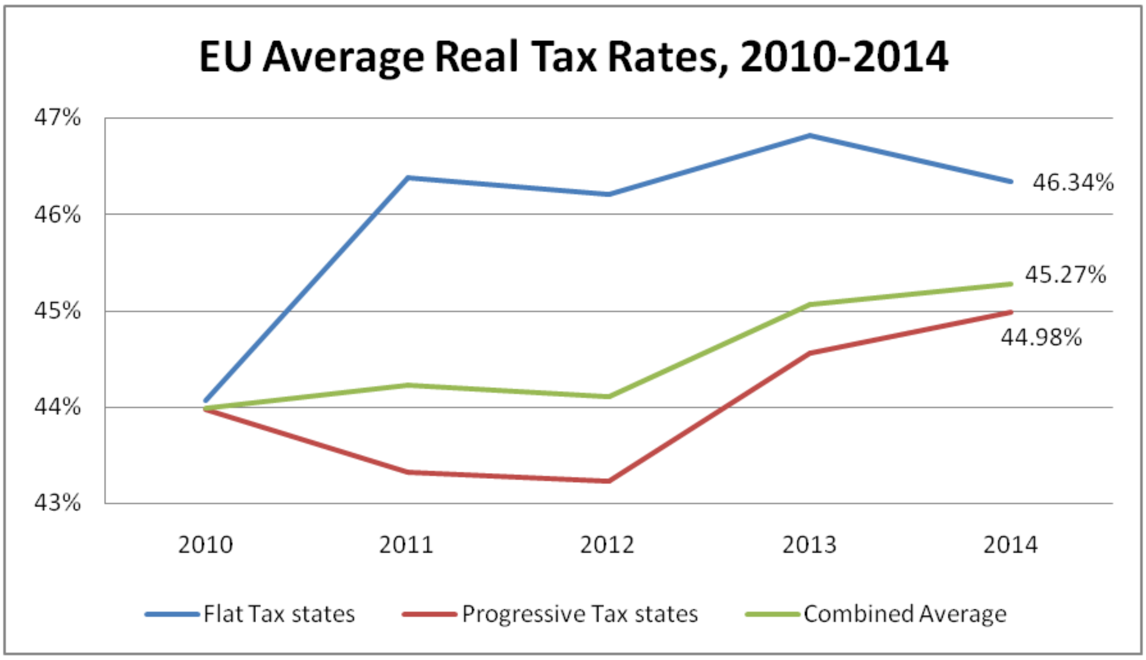
## Losers and Winners

Belgium retains its ranking as the country that taxes labour at the highest rate in the European Union. An employer in Brussels spends 2.31€ to put 1€ into a typical worker's pocket – and that worker's tax liberation day is August 6.

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 pushed 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.




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.

So 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.

# 2014 Tax Liberation Day Calendar

| | | |
|---|---|---|
| MARCH | 21 | Cyprus |
| APRIL | 28 | Malta |
| | 28 | Ireland |
| MAY | 12 | United Kingdom |
| | 18 | Bulgaria |
| | 30 | Luxembourg |
| JUNE | 06 | Portugal |
| | 07 | Denmark |
| | 08 | Slovenia |
| | 10 | Estonia |
| | 12 | Spain |
| | 13 | Croatia |
| | 14 | Poland |
| | 18 | Lithuania |
| | 19 | Czech Republic |
| | 20 | Finland |
| | 20 | Slovakia |
| | 20 | Latvia |
| | 21 | Netherlands |
| | 23 | Sweden |
| | 30 | Italy |
| JULY | 01 | Romania |
| | 11 | Germany |
| | 14 | Greece |
| | 16 | Hungary |
| | 25 | Austria |
| | 28 | France |
| AUGUST | 06 | 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 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Austria** | 53,643 | 12,788 | 40,855 | 8,347 | 7,382 | 25,126 | 20% | 1,633 | 23,493 | 56.20% | 25-Jul |
| **Belgium** | 61,122 | 15,057 | 46,065 | 13,576 | 5,990 | 26,499 | 21% | 1,809 | 24,690 | 59.60% | 6-Aug |
| **Bulgaria**†[4] | 4,454 | 660 | 3,794 | 330 | 489 | 2,975 | 20% | 193 | 2,781 | 37.56% | 18-May |
| **Croatia**[5] | 14,014 | 1,849 | 12,165 | 1,327 | 2,433 | 8,405 | 25% | 683 | 7,722 | 44.90% | 13-Jun |
| **Cyprus**[6] | 26,237 | 1,898 | 24,339 | 588 | 1,898 | 21,852 | 19% | 1,349 | 20,503 | 21.86% | 21-Mar |
| **Czech Republic** | 14,635 | 3,713 | 10,921 | 1,292 | 1,201 | 8,428 | 21% | 575 | 7,853 | 46.34% | 19-Jun |
| **Denmark** | 52,905 | 290 | 52,616 | 19,659 | 145 | 32,812 | 25% | 2,666 | 30,146 | 43.02% | 7-Jun |
| **Estonia**† | 14,673 | 3,723 | 10,950 | 1,937 | 219 | 8,794 | 20% | 572 | 8,223 | 43.96% | 10-Jun |
| **Finland** | 50,926 | 9,448 | 41,478 | 8,892 | 3,157 | 29,429 | 24% | 2,295 | 27,133 | 46.72% | 20-Jun |
| **France** | 55,314 | 18,641 | 36,673 | 2,265 | 9,069 | 25,339 | 20% | 1,647 | 23,692 | 57.17% | 28-Jul |
| **Germany** | 53,448 | 8,637 | 44,811 | 8,531 | 9,152 | 27,128 | 19% | 1,675 | 25,452 | 52.38% | 11-Jul |
| **Greece** | 25,602 | 5,516 | 20,086 | 3,858 | 3,314 | 12,914 | 23% | 965 | 11,949 | 53.33% | 14-Jul |
| **Hungary**† | 11,854 | 2,629 | 9,225 | 1,523 | 1,707 | 5,995 | 27% | 526 | 5,469 | 53.86% | 16-Jul |
| **Ireland** | 36,133 | 3,507 | 32,626 | 4,828 | 1,305 | 26,493 | 23% | 1,980 | 24,513 | 32.16% | 28-Apr |
| **Italy** | 37,540 | 8,632 | 28,908 | 5,769 | 2,743 | 20,396 | 22% | 1,458 | 18,938 | 49.55% | 30-Jun |
| **Latvia**† | 10,352 | 1,976 | 8,376 | 1,583 | 879 | 5,914 | 21% | 404 | 5,510 | 46.77% | 20-Jun |
| **Lithuania**†[7] | 9,658 | 2,324 | 7,333 | 1,100 | 660 | 5,573 | 21% | 380 | 5,193 | 46.23% | 18-Jun |
| **Luxembourg** | 58,952 | 7,640 | 51,312 | 8,393 | 6,310 | 36,609 | 15% | 1,785 | 34,824 | 40.93% | 30-May |
| **Malta** | 21,273 | 1,934 | 19,339 | 2,062 | 1,934 | 15,343 | 18% | 898 | 14,445 | 32.09% | 28-Apr |
| **Netherlands** | 55,283 | 8,865 | 46,418 | 7,494 | 7,466 | 31,458 | 21% | 2,147 | 29,311 | 46.98% | 21-Jun |
| **Poland** | 11,298 | 1,967 | 9,331 | 634 | 2,004 | 6,693 | 23% | 500 | 6,193 | 45.19% | 14-Jun |
| **Portugal** | 19,453 | 3,733 | 15,720 | 1,984 | 1,729 | 12,007 | 23% | 898 | 11,109 | 42.89% | 6-Jun |
| **Romania**† | 7,539 | 1,670 | 5,869 | 784 | 968 | 4,116 | 24% | 321 | 3,795 | 49.65% | 1-Jul |
| **Slovakia** | 13,278 | 3,457 | 9,821 | 940 | 1,316 | 7,565 | 20% | 492 | 7,073 | 46.73% | 20-Jun |
| **Slovenia** | 20,001 | 2,774 | 17,227 | 1,229 | 3,807 | 12,191 | 22% | 872 | 11,319 | 43.41% | 8-Jun |
| **Spain** | 33,200 | 7,642 | 25,558 | 4,180 | 1,623 | 19,755 | 21% | 1,348 | 18,407 | 44.56% | 12-Jun |
| **Sweden** | 57,360 | 13,714 | 43,646 | 10,876 | 0 | 32,769 | 25% | 2,663 | 30,107 | 47.51% | 23-Jun |
| **United Kingdom** | 47,851 | 4,672 | 43,179 | 6,364 | 4,055 | 32,759 | 20% | 2,129 | 30,630 | 35.99% | 12-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 3,794€ (Bulgaria) to 52,615€ (Denmark). The average gross salary among the 28 states was 25,665€.

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 Sweden and 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 Sweden and Denmark (less than 1 per cent) and France (nearly 25%).

### Total Contributions to Social Security

Recent payroll tax cuts in Hungary have included social security contributions, leaving France (75.6%) 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 39.3% of the average gross salaries as social security contributions; this is 6% higher than in progressive systems. This gap has narrowed from 9% in 2011.

**Personal Income Taxes**

In Denmark, where combined social security contributions remain the lowest (as a percentage), personal income taxes are the highest (37.4%).

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)**

19 of the 28 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-28 has risen from 19.5 to 21.5%.***

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

**Cyprus**

The VAT rate in Cyprus rose from 18% to 19% in 2014. VAT makes up 23.5% of all taxes measured herein, the highest proportion in the EU-28.

**France**

France’s VAT rate rose from 19.6% to 20% on January 1, 2014.

**Italy**

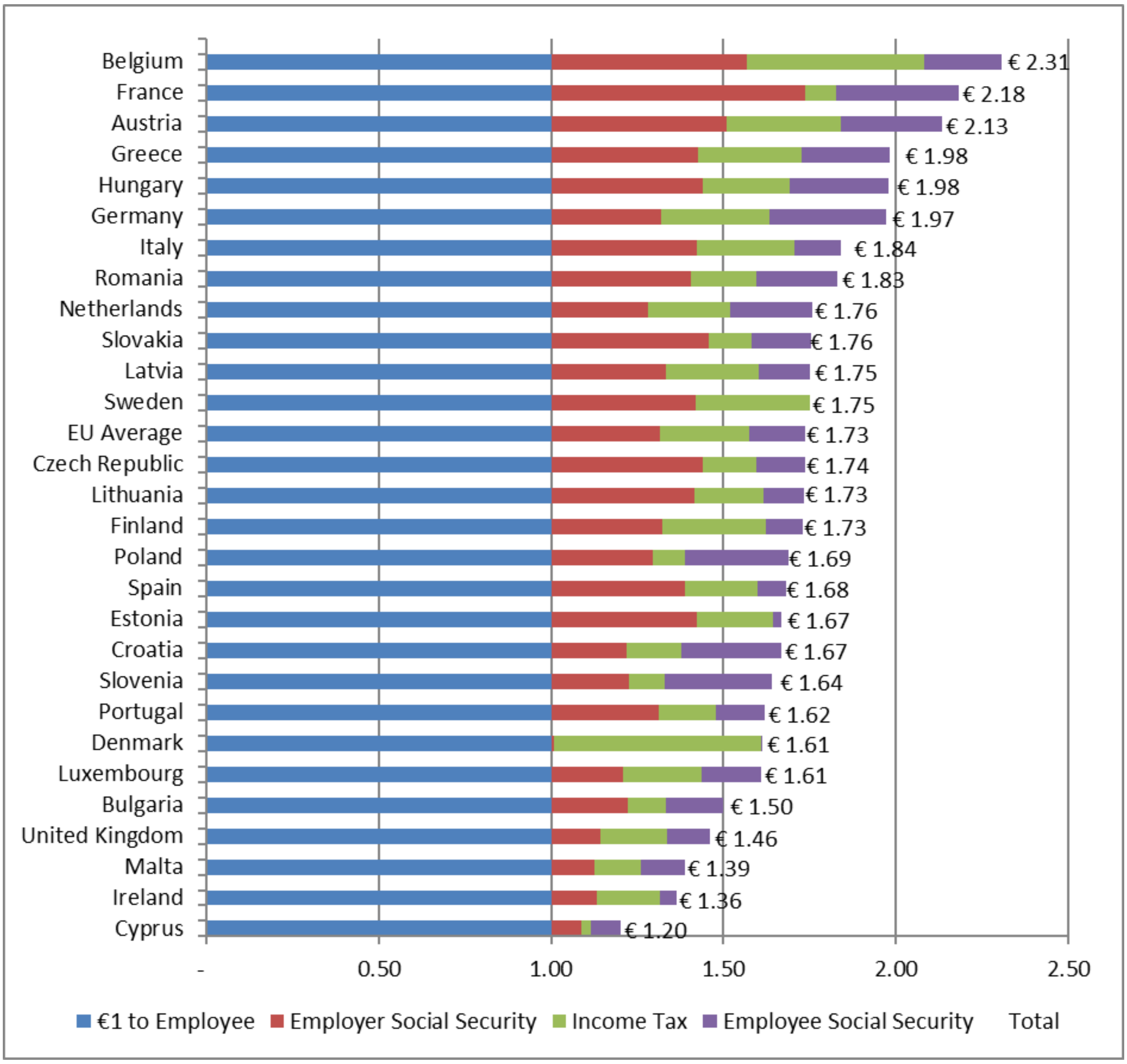
Italy’s VAT rate rose from 21% to 22% in October 2013. This followed a rise from 20% to 21% at the end of 2011.

**Slovenia**

Slovenia’s VAT rate rose from 20% to 22% on 01 July 2013.

# 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 vis-à-vis 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).

| Country | Real Tax Rate | total tax revenue as a percentage of GDP[8] |
|---|---|---|
| Romania | 49.65% | 28.20% |
| Greece | 53.33% | 32.40% |
| Lithuania | 46.23% | 26.00% |
| Latvia | 46.77% | 27.60% |
| Croatia | 44.90% | 26.60% |
| Slovakia | 46.73% | 28.50% |
| Hungary | 53.86% | 37.00% |
| Belgium | 59.60% | 44.10% |
| Austria | 56.20% | 42.00% |
| Germany | 52.38% | 38.70% |
| France | 57.17% | 43.90% |
| Spain | 44.56% | 31.40% |
| Poland | 45.19% | 32.40% |
| Czech Republic | 46.34% | 34.40% |
| Estonia | 43.96% | 32.80% |
| Bulgaria | 37.56% | 27.20% |
| Portugal | 42.89% | 33.20% |
| Netherlands | 46.98% | 38.40% |
| Italy | 49.55% | 42.50% |
| Slovenia | 43.41% | 37.20% |
| Luxembourg | 40.93% | 37.20% |
| Finland | 46.72% | 43.40% |
| Ireland | 32.16% | 28.90% |
| Sweden | 47.51% | 44.30% |
| United Kingdom | 35.99% | 36.10% |
| Malta | 32.09% | 33.70% |
| Denmark | 43.02% | 47.70% |
| Cyprus | 21.86% | 35.20% |

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# Endnotes

Data provided by

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[1] CIA World Factbook, estimates of EU population (2013) and labour force (2013).

[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 OECD's *Taxing* Wages (2012), Eurostat's *Annual gross earnings in industry and services* (2011).

[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 employees in Cyprus from the national statistics office: www.mof.gov.cy

[7] Average Gross salary for Lithuania from national statistics office: db1.stat.gov.lt

[8] Figures for "total tax revenue as a percentage of GDP" are from Eurostat's *Taxation Trends in the European Union,* 2013 edition (figures are from 2011).

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