



The Tax Burden of Typical Workers in the EU 28—2016

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Tax calculations provided by



ABSTRACT

The purpose of this study is to compare the tax and social security burdens of individual employees earning typical salaries in each of the 28 member states of the European Union and, in doing so, to determine a “tax liberation day” — measuring how much of each year’s work is devoted to paying taxes — for workers in each country.

In addition, the study tracks year-to-year trends in both the taxation on, and cost of salaried labour in the EU-28.

Background

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 organizations determine an annual “tax freedom day” for their countries. Unfortunately, conflicting approaches to this calculation make cross-border comparisons difficult.

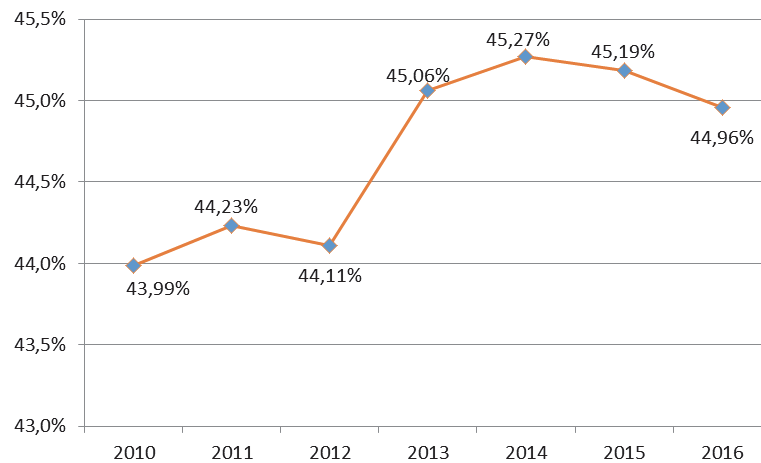
This study aims to create an “apples to apples” comparison of tax rates, with data that reflect the reality experienced by real, working people in the European Union. Finally, it serves as a guide to the true cost of hiring employees in each member state.

MAIN RESULTS

On average, a respite for workers from ever-rising taxes...

For the second time in the six years since this study was first published, typical workers in the European Union see their average “real tax rate” dip slightly (0.23%) this year, from 45.19% to 44.96%. Still, workers’ taxes remain nearly 1% higher than in 2010, due in large part to VAT increases in 20 of the 28 member states during this period.

Real tax rate for typical workers in the EU-28



...while prevalence of “hidden” tax contributions grows

Employer contributions to social security, which are paid on top of gross salaries and do not appear on most workers’ payslips, now represent 44.4% of all payroll taxes collected in the EU. Belgium has substantially reduced this rate in 2016, but other countries have increased their use of this “invisible” tax to the extent that the aggregate EU figure increased by 0.3% over the past two years.

Noteworthy in 2015

France has displaced **Belgium** as the EU member state that taxes labour at the highest rate. 57.67% of the cost of a salary goes to the government there, making the French worker’s tax liberation day the 29th of July. While some French social contributions decreased (family allowances), others increased (sickness, old age, transport), and the percentage paid in income tax rose slightly (due to the increase in the average wage); consequently, the France’s date is the same as in 2015.

Following this study's methodology, the "tax shift" enacted by Charles Michel's government in **Belgium** has reduced the real tax rate for Belgian workers from 59.47% to 56.9%, accelerating the arrival of Belgian workers' Tax Liberation Day by nine days to July 27th. Unfortunately, concurrent increases in the taxes on electricity (from 6% to 21%), diesel fuel, and alcohol will result in little or no extra cash in typical workers' pockets. The outlook is bright, however, as a series of personal income tax cuts are expected to be phased in over the next three years.

Broad cuts in personal income tax rates went into effect in **Austria** in 2016, saving the country's workers from becoming the highest-taxed in the EU-28. The result of the new rates: Austrians are working 15 days less to pay their taxes than last year.

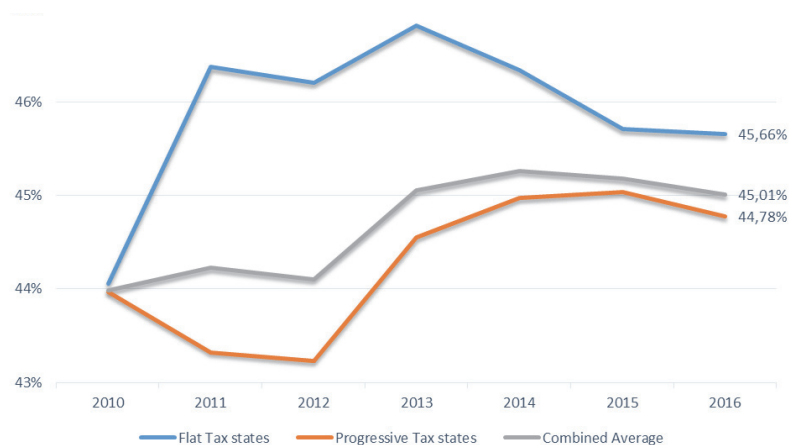
The Tax Liberation Day in **Greece** (7 July) is 24 days later than in 2010 (13 June). Salaries have dropped as taxes have risen, such that a typical Greek worker's take-home pay has dropped nearly 20%, (approximately 3,150€) during this period.

Since 2009, 20 of the 28 EU members have raised VAT rates. In 2016, however, there were no VAT rate changes except in **Romania**, where the standard VAT rate was cut from 24% to 20%; the new rate is still higher than the (19%) rate when this study was first published in 2009.

Flat taxes: Higher rates for Europe's poorest workers

The gap widens this year: Europe's governments with "flat tax" policies continue to tax workers at higher rates than those in progressive tax countries. Six member states — all among the EU's ten poorest — have flat tax policies.

EU Average Real Tax Rates, 2010-2016



Generally, flat tax policies impose a fixed rate on income tax, the lowest being 10% in Bulgaria. Social security contribution rates in these countries are higher than in progressive systems - on average, social contributions make up 72% of payroll taxes collected in “flat tax” countries. (Not that the flat income tax rates are lower, either: Of the 10 countries assessing the lowest income tax rates on workers, 8 have progressive income tax systems.) In addition, 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%.

OUTLOOK

Higher pension and health care expenditures are among the primary effects of the ageing of Europe's population, and there are fewer workers to pay for these costs; only 45.1% of EU citizens were in the labour force in 2015¹, an increase from 43.8% the previous year but down 1% since the first edition of this study was released in 2010. Consequently, budget cuts and economic growth remain workers' best hopes against tax increases in the near term.

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 left over to spend that will not be paid to the state (other additional taxes — such as those on petrol, airline tickets 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.

1. CIA World Factbook, estimates of EU population (2015) and labour force (2015).

2016 TAX FREEDOM DAY CALENDAR

MARCH	29	Cyprus
APRIL	18	Malta
	30	Ireland
MAY	9	United Kingdom
	18	Bulgaria
JUNE	1	Denmark
	4	Luxembourg
	8	Estonia
	8	Spain
	9	Slovenia
	13	Lithuania
	13	Croatia
	14	Poland
	15	Portugal
	19	Latvia
	19	Czech Republic
	20	Slovakia
	20	Netherlands
	22	Sweden
	22	Finland
	23	Romania
JULY	2	Italy
	7	Greece
	11	Germany
	17	Hungary
	19	Austria
	27	Belgium
	29	France

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 2016
Austria	55,750	13,176	42,573	7,846	7,714	27,013	20.0%	1,756	25,257	54.70%	19 Jul
Belgium	59,482	13,018	46,464	12,907	6,042	27,515	21.0%	1,878	25,637	56.90%	27 Jul
Bulgaria ^{†4}	5,927	878	5,049	440	651	3,958	20.0%	257	3,700	37.57%	18 May
Croatia ⁵	14,613	2,145	12,468	1,208	2,494	8,767	25.0%	712	8,054	44.88%	13 Jun
Cyprus ⁶	25,408	2,674	22,734	340	1,773	20,621	19.0%	1,273	19,347	23.85%	29 Mar
Czech Republic	15,476	3,927	11,549	1,402	1,270	8,877	21.0%	606	8,271	46.55%	19 Jun
Denmark	53,555	289	53,265	19,015	145	34,105	25.0%	2,771	31,334	41.49%	1 Jun
Estonia [†]	16,540	4,104	12,436	1,990	448	9,999	20.0%	650	9,349	43.48%	8 Jun
Finland	52,942	10,032	42,910	9,151	3,517	30,241	24.0%	2,359	27,882	47.33%	22 Jun
France	56,246	18,819	37,427	2,474	9,404	25,549	20.0%	1,661	23,889	57.53%	29 Jul
Germany	54,832	8,880	45,952	8,705	9,409	27,839	19.0%	1,719	26,120	52.36%	11 Jul
Greece	25,121	4,953	20,168	3,869	3,126	13,173	23.0%	985	12,189	51.48%	7 Jul
Hungary [†]	12,282	2,724	9,558	1,610	1,768	6,180	27.0%	542	5,638	54.10%	17 Jul
Ireland	38,171	3,705	34,466	5,284	1,379	27,804	23.0%	2,078	25,725	32.61%	30 Apr
Italy	39,559	9,096	30,463	6,326	2,891	21,246	22.0%	1,519	19,727	50.13%	2 Jul
Latvia ^{†7}	11,346	2,166	9,180	1,683	964	6,533	21.0%	446	6,087	46.35%	19 Jun
Lithuania ^{†8}	10,706	2,577	8,129	1,060	732	6,337	21.0%	433	5,905	44.85%	13 Jun
Luxembourg	62,685	8,124	54,560	9,599	6,712	38,249	17.0%	2,113	36,136	42.35%	4 Jun
Malta ⁹	17,759	1,614	16,144	1,221	1,614	13,309	18.0%	779	12,530	29.44%	18 Apr
Netherlands	58,143	9,287	48,856	8,702	6,885	33,269	21.0%	2,271	30,998	46.69%	20 Jun
Poland	11,879	2,030	9,849	686	2,115	7,048	23.0%	527	6,521	45.10%	14 Jun
Portugal	21,577	4,141	17,436	2,789	1,918	12,729	23.0%	951	11,777	45.42%	15 Jun
Romania ^{†10}	7,175	1,363	5,812	776	959	4,076	24.0%	318	3,758	47.62%	23 Jun
Slovakia	13,982	3,640	10,342	979	1,386	7,977	20.0%	519	7,459	46.66%	20 Jun
Slovenia	20,725	2,874	17,851	1,323	3,945	12,584	22.0%	900	11,684	43.62%	9 Jun
Spain	33,984	7,822	26,162	3,897	1,661	20,603	21.0%	1,406	19,197	43.51%	8 Jun
Sweden	58,321	13,943	44,378	10,815	0	33,562	25.0%	2,727	30,835	47.13%	22 Jun
United Kingdom	53,637	5,193	48,444	6,807	4,515	37,122	20.0%	2,413	34,709	35.29%	9 May

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

2. Total cost of employment, social security contributions, personal income tax figures and net income calculated by EY. Other calculations by Institut économique Molinari.

3. Unless otherwise noted, Average Gross Salary figures are from OECD's *Taxing Wages* or Eurostat's *Annual gross earnings in industry and services*.

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

7. Average Gross salary for Latvia from the national statistics office: <http://csb.gov.lv>

8. Average Gross salary for Lithuania from the national statistics office: <http://osp.stat.gov.lt>

9. Average Gross salary for Malta from the national statistics office: <http://nso.gov.mt>

10. Average Gross salary for Romania from the national statistics office: <http://insse.ro>

Tax calculations provided by



RESEARCH NOTES

Gross Salary

When available, salary figures come from the OECD's *Taxing Wages* and from Eurostat's *Average gross annual earnings in industry and services*. Others are sourced from government statistics offices (see footnotes on page 8).

In euros, gross salaries ranged from 5,049€ (Bulgaria) to 54,560€ (Luxembourg). The average gross salary among the 28 states was 26,594€.

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% of gross salary (Denmark) to 50% (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

France (75.4%) is the only country taking more than half of a typical worker's gross salary for social security contributions. Austria, at 49.1%, collects the second-highest percentage, followed by Slovakia (48.6%).

As a group, flat tax countries collected 38.1% of average gross salaries as social security contributions, 3.3% more than in progressive systems.

Personal Income Taxes

In Denmark, where combined social security contributions remain the lowest (as a percentage), personal income taxes are the highest (35.7%). At 1.5% of gross salary, typical workers in Cyprus have the lowest income tax rates in the EU.

Estimated Value-Added Tax (VAT)

20 of the 28 EU member states have increased VAT rates since 2009, with the largest hikes implemented in Hungary (from 20 to 27%), the United Kingdom (from 15 to 20%), Spain (from 16 to 21%), Romania (from 19 to 24, then back to 20%) and Greece (from 19 to 23%). The countries without VAT increases since 2009 are: Austria, Belgium, Bulgaria, Denmark, Germany, Latvia, Malta, and Sweden.

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.

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APPENDIX: 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.

