

Economy: Labour market disruption and COVID-19 support measures contribute to widespread falls in taxes on wages in 2020

29/04/2021 – The COVID-19 crisis has resulted in the largest decrease in taxes on wages since the global financial crisis of 2008-09, according to a new OECD report.

[Taxing Wages 2021](#) shows that declining household incomes coupled with tax reforms linked to the pandemic are driving widespread declines in effective taxes on wages across the OECD.

The report highlights record falls across the OECD during 2020 in the tax wedge – the total taxes on labour paid by both employees and employers, minus family benefits, as a percentage of the labour cost to the employer.

The tax wedge for a single worker at the average wage was 34.6% in 2020, a decrease of 0.39 percentage points from the previous year. This is a significant fall, but is smaller than the decreases seen in the global financial crisis – 0.48 percentage point in 2008, and 0.52 percentage points in 2009. The tax wedge increased in 7 of the 37 OECD countries over the 2019-20 period and fell in 29, mainly due to lower income taxes.

The drop in the tax wedge was even more significant for households with children, bringing tax rates on these family types to new lows. The average tax wedge for a one-earner couple at the average wage with children in 2020 was 24.4%, a decrease of 1.1 percentage points versus 2019. This is the largest fall and lowest level seen for this household type since the OECD started producing *Taxing Wages* in 2000.

Between 2019 and 2020, the tax wedge for this household type decreased in 31 countries, and rose in only 6. It decreased by more than 1 percentage point in 16 countries. The largest decreases were in Lithuania, the United States, Poland, Italy, Canada and Korea. The only increase over 1 percentage point was in New Zealand.

The gap between the OECD average tax wedge for the single average worker (34.6%) and the one-earner couple with children (24.4%) has widened by 0.7 percentage points since 2019, reflecting policy changes that provided additional support to families with children during the COVID-19 crisis.

The falls in country tax wedges for the single worker, the one-earner couple with two children, and the single parent resulted predominantly from changes in tax policy settings, although falling average wages also contributed in

some countries. By contrast, increases in the tax wedge were almost all driven by rising average wages, offset only slightly by policy changes.

Of the ten countries where specific COVID-19 measures affected the indicators, support was primarily delivered through enhanced or one-off cash benefits, with a focus on supporting families with children.

The report shows that labour taxation continues to vary considerably across the OECD, with the tax wedge on the average single worker ranging from zero in Colombia to 51.5% in Belgium.

Further information and individual country notes: <https://www.oecd.org/tax/taxing-wages-20725124.htm>.

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An embeddable data visualisation for this publication is available at:
www.compareyourcountry.org/taxing-wages

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