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Annex - Taxation  
and the Future of Work:  
How Tax Systems Influence  
Choice of Employment Form

Anna Milanez  
Barbara Bratta

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# **Annex - Taxation and the Future of Work: How Tax Systems Influence Choice of Employment Form**

Anna Milanez and Barbara Bratta





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## *Annex: Taxation and the Future of Work: How Tax Systems Influence Choice of Employment Form*

### *Abstract*

*This annex details the tax treatment of standard employees and self-employed workers in eight countries: Argentina, Australia, Hungary, Italy, the Netherlands, Sweden, the United Kingdom and the United States. The accompanying paper models and discusses the labour income taxation, inclusive of social contributions, of standard employees and then of self-employed workers. The aim is to understand whether countries' tax systems treat different employment forms differently, before approaching the broader question of whether differential treatment has merit when evaluated against tax design principles.*

*This is OECD Tax Policy Working Paper No. 42. The paper that accompanies this annex is Tax Policy Working Paper No. 41, accessible here: DOI: <https://doi.org/10.1787/20f7164a-en>.*

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## 1. Argentina

1. This section summarises our understanding of the Argentine tax system based on *Taxing Wages in Latin America and the Caribbean 2016* for standard, full-time employees and, for other employment forms, on the data and information provided via a questionnaire response. The national currency is the Argentine peso (ARS); all currency amounts below are expressed in ARS. For 2017, we assume an average gross wage of ARS 327,613.<sup>1</sup>

### 1.1. Employment Forms

2. In Argentina, any person who performs work or provides services for remuneration in the context of a dependent relationship is an employee, whether the relationship spans a specific or indefinite period of time. Status as an employee implies a labour relationship between an employee and employer, where both parties pay social security contributions (SSCs). Self-employment encompasses a larger proportion of the Argentine employment structure than it does in more developed countries. There is a close tie between informal work and self-employment. A large proportion of informal workers are own-account workers.

3. There are three categories of employment in Argentina:

- Employees (relación de dependencia);
- Self-employed workers (autónomos); and
- Self-employed workers eligible for taxation under a simplified regime (monotributistas).

4. Self-employed workers make contributions according to a taxable base that varies by type of activity and with income. Some self-employed workers fall into a simplified tax regime. These workers make a single, fixed amount tax payment consisting of a tax part and a social contribution, where the amount depends upon the size and type of business activity and is capped at half the maximum paid by dependent workers.

5. The numbers of each worker type are shown in the table below. The majority of workers are employees: in 2016-2017, employees represented 68.1 percent of overall employment, self-employed workers 8.0 percent and self-employed workers eligible for taxation under the simplified regime 23.9 percent.

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<sup>1</sup> This is based on information from Argentina's Ministerio Trabajo, which assumes a monthly gross wage of ARS 25,201 (<http://www.trabajo.gov.ar/left/estadisticas/bel/index.asp>) and which we annualise. A 13<sup>th</sup> month payment is compulsory in Argentina and is thus included in the computation of the gross wage and related SSCs contributions.

**Table 1. Distribution of Employment Form in Argentina**

Employment Category	Number of Workers	Year	Percentage of Total
Employee	6,285,684	2017	73.4
Self-employed worker	581,793	2017	6.8
Self-employed worker, simplified regime	1,739,178	2017	20.3
Total	8,561,085		

Source: OECD questionnaire response.

6. The labour law provision that regulates private wage earners in Argentina (Labour Contract Law No. 20740) limits firms' discretion in offering contracts of various types. The labour relations that involve technical, economic and legal dependence must be governed by this law, though civil or commercial contracts, which fall outside of labour legislation, hide situations of labour fraud on numerous occasions.

7. Whether a worker is an employee or a self-employed worker is a matter of whether the worker is registered or not, which depends upon firms' compliance with regulations. However, there is scope for firms to choose between hiring salaried workers and self-employed workers eligible for taxation under the simplified regime, in which case the burden of social contributions falls entirely on the worker. To the extent that the cost of labour influences employment forms, it is most likely that this would occur between registered and informal employees.

## 1.2. Tax Treatment by Employment Form – Individual Perspective

8. This section covers the tax treatment of an individual according to the employment forms described in Section 1.1.

### 1.2.1. *Deductions Applied Before the Calculation of PIT*

9. Several deductions are to be applied before the calculation of personal income tax (PIT). These include the basic allowance and the earned income allowance, employee SSCs and employee non-tax compulsory payments (NTCPs). While employees can deduct their NTCPs, self-employed workers, irrespective of whether they are eligible for taxation under the simplified regime, cannot.

### 1.2.2. *Calculation of Taxable Income*

10. For employees, taxable income is calculated as gross income less the basic and additional allowances, employee SSCs and employee NTCPs. For self-employed workers, taxable income is calculated as gross income less the basic and additional allowances, employee SSCs and business expenses. For self-employed workers eligible for the simplified regime, taxable income is equal to gross income.

### 1.2.3. *PIT*

11. The same PIT schedule applies to both employees and self-employed workers. In 2017, PIT rates applied to taxable income in Argentina were as follows:

**Table 2. PIT Schedule in Argentina, 2017**

Lower threshold	Upper threshold	Tax due	Tax rate on excess (%)
0	20,000	0	5
20,000	40,000	1,000	9
40,000	60,000	2,800	12
60,000	80,000	5,200	15
80,000	120,000	8,200	19
120,000	160,000	15,800	23
160,000	240,000	25,000	27
240,000	320,000	46,600	31
320,000		71,400	35

Source: OECD questionnaire response.

12. No state and local taxes are levied on wages.
13. Self-employed workers eligible for taxation under the simplified regime are not liable for PIT. However, in lieu of PIT, they are liable for an integrated tax, described below.

#### 1.2.4. *Integrated Tax*

14. Self-employed workers eligible for taxation under the simplified regime are liable for an integrated tax. The integrated tax liability depends upon several parameters (e.g., gross income, rents, area occupied and electricity consumption). The payment varies according to business activity, namely whether the activity is the sale of services (prestaciones de servicios) or the sale of tangible goods (venta de cosas muebles). The analysis in this paper assumes that the worker is engaged in the sale of services. In 2017, integrated tax payments were as in the table below.

**Table 3. Integrated Tax Payments under the Simplified Regime (Annual Amounts in ARS, including 13<sup>th</sup> Month)**

Category	Gross Income	Integrated Tax – Sale of Services	Integrated Tax – Sale of Tangible Goods
A	84,000	884	884
B	126,000	1,703	1,703
C	168,000	2,912	2,691
D	252,000	4,784	4,420
E	336,000	9,100	7,059
F	420,000	12,519	9,217
G	504,000	15,925	11,491
H	700,000	36,400	28,210
I	822,500	0	45,500
J	945,000	0	53,469
K	1,050,000	0	61,425

Source: OECD questionnaire response.

### 1.2.5. *Employee SSCs*

15. The categories of employee SSCs include old age pension, health insurance for the retired<sup>2</sup> and health insurance for employees.<sup>3</sup> Employees are liable for all three employee SSCs, which are calculated as follows for 2017:

- Old age pension contribution: 11 percent of gross income, with a minimum annual contribution of ARS 28,406 and a maximum annual contribution of ARS 923,177;
- Health insurance contribution for employees (*obra social*): 0.45 percent of gross income, with a minimum annual contribution of ARS 28,406 and a maximum annual contribution of ARS 923,177; and
- Health insurance contribution for the retired (*Programa de Atención Médica Integral*, or *PAMI*): 3 percent of gross income, with a minimum annual contribution of ARS 28,406 and a maximum annual contribution of ARS 923,177.

These contributions translate into a combined rate of 14.45 percent of gross income for employees. Annual liabilities for employee are calculated assuming an annual period of 13 months.

16. Employee SSC liabilities vary by employment category. Self-employed workers are liable for the old age pension contribution and the health insurance contribution for the retired, where both liabilities are levied on presumed income. They are calculated as follows:

- Old age pension contribution: 27 percent of presumed income; and
- Health insurance contribution for the retired: 5 percent of presumed income.

Presumed income is determined according to two steps. First, the worker's category is identified based on their business activity and annual gross income. As mentioned above, the analysis in this paper assumes that the worker is engaged in the sale of services. If a worker engaged in the sale of services has an annual gross income less than ARS 20,000, he or she is deemed to be in Category 1; if annual gross income is greater than ARS 20,000, he or she is deemed to be in Category 2. Second, the worker's category is used to determine presumed income according to the following table:

**Table 4. Presumed Income for Self-employed Workers (Annual Amounts in ARS)**

Category	Presumed Income
1	50,411.4
2	70,575.6
3	100,822.8
4	161,316.2
5	221,809.8

Source: OECD questionnaire response.

<sup>2</sup> Health insurance for the retired is managed by the National Institute of Social Services for Retirees and Pensioners (INSSJP), better known as PAMI.

<sup>3</sup> Health insurance for employees is known as "obra social."

Self-employed workers are not liable for health insurance contributions for employees. Thus, the combined rate for self-employed workers is 32 percent of presumed income. Annual liabilities for self-employed workers are calculated assuming an annual period of 12 months.

17. Self-employed workers eligible for taxation under the simplified regime are liable for the old age pension contribution and the health insurance contribution for employees, each of which consists of a fixed amount. These contributions are calculated as follows:

- The old age pension contribution ranges from ARS 3,600 to ARS 9,337.44 per year depending on the level of gross income, as follows:

**Table 5. Old Age Pension under Simplified Regime in Argentina (Annual Amounts in ARS)**

Gross Income	Contribution
Up to 84,000	3,600.00
Up to 126,000	3,960.00
Up to 168,000	4,356.00
Up to 252,000	4,791.60
Up to 336,000	5,270.76
Up to 420,000	5,797.80
Up to 504,000	6,377.64
Up to 700,000	7,015.32
Up to 822,500	7,716.96
Up to 945,000	8,488.56
Up to 1,050,000	9,337.44

Source: OECD questionnaire response.

- The health insurance contribution for employees is fixed at ARS 5,028 per year.

Annual liabilities for self-employed workers eligible for taxation under the simplified regime are calculated assuming an annual period of 12 months. Self-employed workers eligible for taxation under the simplified regime do not make contributions for health insurance for the retired.

#### 1.2.6. *Employee NTCPs*

18. Only employees are liable for employee NTCPs. This consists of a health insurance contribution calculated as 2.55 percent of gross income, with minimum of ARS 31,200 per year (annualised assuming 13 months).

19. Taking employee SSCs and NTCPs together, employees in Argentina are liable for 14 percent pension and health coverage when in retirement, and an additional 3 percent for health coverage while working (*obras sociales*). As reported by IMF (2017), this is a higher rate compared to the rest of Latin America (about 9 percent, on average).

#### 1.2.7. *Deductibility of Employees' Tax Costs*

20. Employees may deduct employee SSCs, employee NTCPs and the two tax allowances (the basic allowance and the earned income allowance) from PIT. Self-employed workers may deduct employee SSCs and the two tax allowances. However, the earned income allowance can only be deducted up to a value of ARS 51,967. Self-employed workers eligible for taxation under the simplified regime are not able to deduct tax costs.

### 1.2.8. *Deductibility of Business Expenses*

21. Business expenses are deductible from PIT in the case of self-employed workers only. Deductibility is not allowed for employees and self-employed workers eligible for taxation under the simplified regime.

### 1.2.9. *Potential Taxation of Income Partly as Labour Income, Partly as Capital Income*

22. In 2017, all income is treated as labour income.

### 1.2.10. *Tax Allowances and Credits Offered Against Labour Costs*

23. There are two main tax allowances in Argentina:

- A basic allowance of ARS 51,967 per year is provided to employees and self-employed workers who live in Argentina at least six months during the calendar year. Self-employed workers eligible for taxation under the simplified regime are not eligible for the basic allowance.
- An earned income tax allowance. The amount is ARS 249,441.6 per year for employees, ARS 51,967 per year for self-employed workers and zero for self-employed workers eligible for taxation under the simplified regime.

24. In addition to the two main tax allowances, a number of individual deductions may be applied to taxable income, both for employees and self-employed workers (but not for self-employed workers eligible for taxation under the simplified regime):

- Medical fee: Medical expenses (for health, medical and paramedical assistance) may be deducted up to 40 percent of all corresponding invoices of the fiscal year, provided the deduction does not exceed 5 percent of net income;
- Healthcare: Contributions to third-party medical schemes are deductible up to a maximum of 5 percent of the net income;
- Mortgage interest deduction: Mortgage interest paid on loans received for the purchase of personal dwelling property is deductible up to ARS 20,000 per year;
- Rental expenses: For individuals who do not have ownership of any real property, 40 percent of rental expenses for personal dwelling are deductible, up to 5 percent of annual net income;
- Life insurance expenses: Up to a maximum of ARS 996.23 per year is deductible;
- Funeral expenses: Up to a maximum of ARS 996.23 per year is deductible; and
- Domestic services compensation: Expenses related to personal domestic services, such as cleaning services, can be deducted up to ARS 51,967 per year.

Itemised expenses are not modelled in our analysis, as we lack data on average expenses deducted by income level and do not wish to make assumptions that take away from the generalisability of the results.

25. Tax is levied on debits and credits in bank accounts held at Argentina financial institutions and on other transactions used to replace the use of bank accounts. A 0.6 percent rate is applicable on each debit and credit. Fund transfers that are made not using bank accounts can be subject to a rate of 1.2 percent. A portion of the tax paid can be used as a tax

credit, with 34 percent of the 0.6 percent tax applied on the credits and a 17 percent portion of the tax applied on the operations subject to the 1.2 percent rate. The tax credits are wasteable. Tax credits and debits in bank accounts are not modelled in our analysis.

#### 1.2.11. *Cash Transfers*

26. There are no cash transfers for single individuals.

### 1.3. Tax Treatment by Employment Form – Firm Perspective

27. This section covers the tax treatment of a firm that elects to hire workers of the employment forms described in Section 1.1.

#### 1.3.1. *CIT*

28. In 2017, the CIT rate in Argentina was 35 percent on net taxable business profits.<sup>4</sup>

#### 1.3.2. *Employer SSCs*

29. Firms are liable for employer SSCs for employees but not for self-employed workers (whether eligible for taxation under the simplified regime or not). Employers contribute 12.56<sup>5</sup> percent of gross income for the following employer SSCs<sup>6</sup>:

- Old age pension contribution: 10.17 percent of gross income, with a minimum annual contribution of ARS 28,406 (and no maximum);
- Unemployment insurance contribution: 0.89 percent of gross income, with a minimum annual contribution of ARS 28,406 (and no maximum); and
- Contribution for health insurance for the retired: 1.5 percent of gross income, with a minimum annual contribution of ARS 28,406 (and no maximum).

Taken together, these translate into a combined rate of 12.56 percent.

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<sup>4</sup> The CIT rate has been reduced to 30 percent for fiscal years beginning on or after 1 January 2018 according to the recent tax reform. The rate will be further reduced to 25 percent for fiscal years beginning on or after 1 January 2020.

<sup>5</sup> This rate applies to all companies except for large companies of commerce and services, which face a rate of 15.44 percent. On the other hand, until December 30, 2017, Law 26940 established discounts on employers' contributions to security for micro-enterprises and new hires for medium-sized and small companies.

<sup>6</sup> For employees with families, employers are also liable for a family allowance contribution equal to 4.44 percent of gross income, with a minimum annual contribution of ARS 28,406 (and no maximum). However, employers do not pay family allowance contributions for a single individual with no children.

**Table 6. Employer SSCs in Argentina (Annual Amounts in ARS)**

Contribution Category	Calculation Base	Rate	Minimum Contribution	Maximum Contribution
Old age pension		10.17		
Unemployment insurance	Gross income	0.89	ARS 28,406	None
Health insurance for the retired		1.5		
Total		12.56		

Source: OECD questionnaire response.

30. Finally, there is an employer contribution for health insurance for employees. For employees who earn less than ARS 31,200 per year, the contribution amount is 0.6 percent of gross income; for those who earn more than ARS 31,200 per year, the contribution amount is 0.9 percent of gross income. There is no minimum contribution, nor is there a maximum contribution.

### 1.3.3. *Employer NTCPs*

31. Employer NTCPs in Argentina include health insurance for employees and work injury insurance. They are calculated as follows:

- Work injury insurance: 4 percent of gross income, with a minimum contribution of ARS 28,406 per year. The percentage varies by company and business activity, since it depends on the accident rate of the sector and the company. The estimate of 4 percent is a weighted average of the rates for different business activities: B, C, D, F, G, H and K from the 4th revision of the International Standard Industrial Classification (ISIC Rev. 4).
- Health insurance for employees: a percentage of monthly gross income. For employees who earn less than ARS 31,200 per year, the contribution amount is 5.4 percent of gross income; for those who earn more than ARS 31,200 per year, the contribution amount is 5.1 percent of gross income. Note that, when combined with the employer SSC for health insurance for employees described above, employers face a combined rate of 6 percent of gross income, regardless of the employee's gross income. There is no minimum contribution, nor is there a maximum contribution.

### 1.3.4. *Employer Payroll Taxes*

32. No employer payroll taxes are collected in Argentina.

### 1.3.5. *Deductibility of Employers' Labour Costs from the CIT Base*

33. Employers' labour costs, including wages, employer SSCs and NTCPs, are deductible from the CIT base for the employment of standard employees. Labour costs incurred for the employment of self-employed workers are not deductible from the CIT base.

### 1.3.6. *Tax Allowances and Credits Offered Against Labour Costs*

34. No tax allowances or credits are offered against labour costs, irrespective of the type of worker.

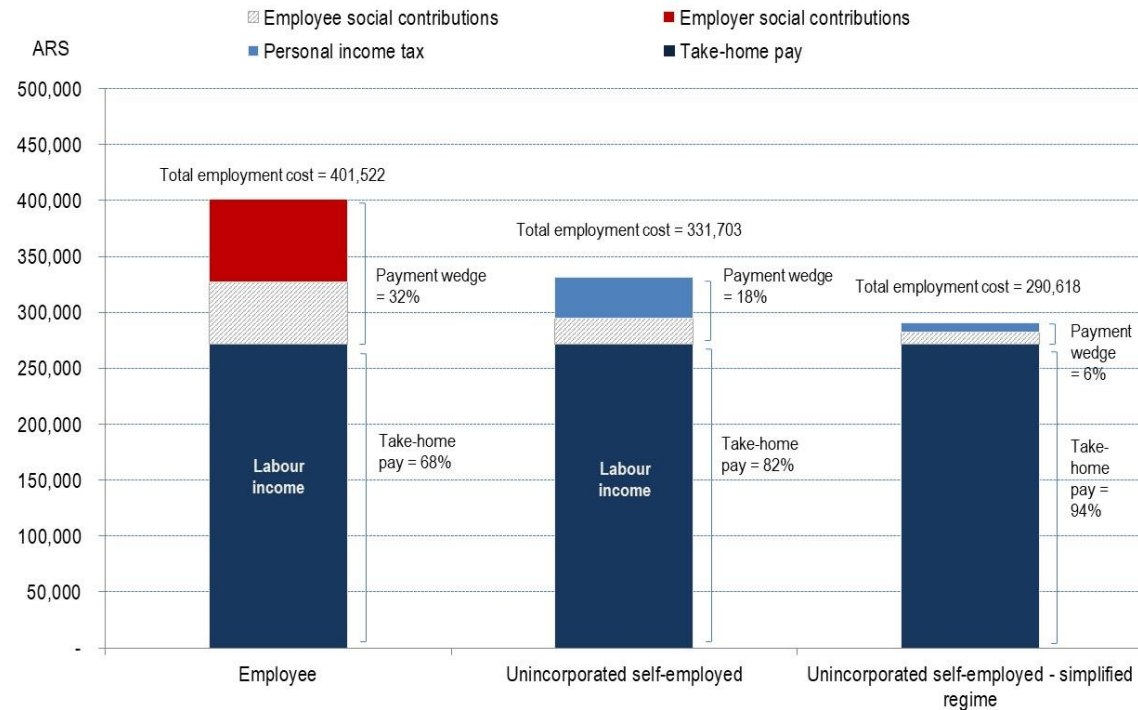
### 1.3.7. *Other Differences in Tax Treatment*

35. Depending on the location of the employee, a specific percentage of the social tax basis of the employer's contributions can be offset against the employer's value-added tax (VAT) liability in its monthly VAT return. This is not modelled in the analysis.

## 1.4. Tables and Figures

**Figure 1. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Argentina (2017)**

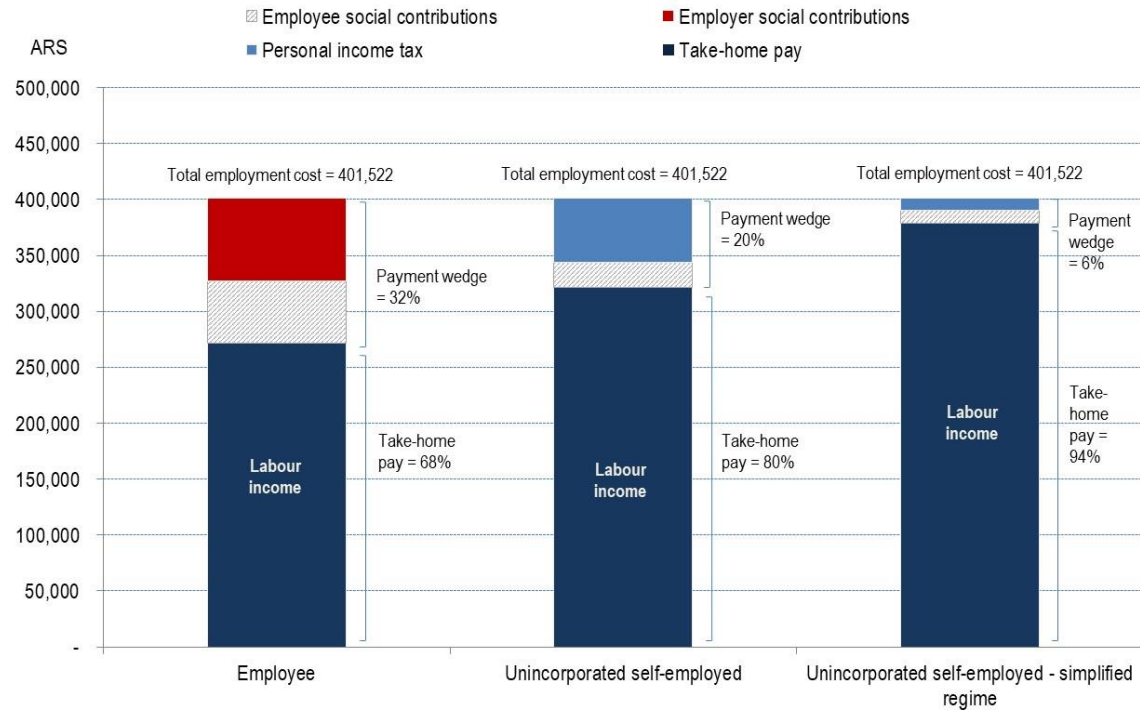
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (ARS 327,613). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 2. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Argentina (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (ARS 327,613). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm’s behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 7. Taxation of Employment Forms where Individual Take-home Pay is Equalised – Argentina (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (ARS 327,613). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 1.

	Employees (relación de dependencia)	Self-employed workers (autónomos)	Self-employed workers under simplified regime (monotributistas)
Labour cost	401,522	331,703	290,618
Profits			
<b>Total labour costs and profits</b>	<b>401,522</b>	<b>331,703</b>	<b>290,618</b>
Employer SSCs & NTCPs	73,909		
of which: employer SSCs	43,114		
old age pension	33,318		
family allowance	-		
unemployment insurance	2,916		
health insurance for retired (PAMI)	4,914		
health insurance for employees (Obra Social)	1,966		
of which: employer NTCPs	30,796		
work injury insurance	13,105		
health insurance for employees (Obra Social)	17,691		
<b>Gross wage</b>	<b>327,613</b>	<b>331,703</b>	<b>290,618</b>
Employee SSCs & NTCPs	55,694	22,584	10,299
of which: employee SSCs	47,340	22,584	10,299
old age pension	36,037	19,055	5,271
health insurance for retired (PAMI)	9,828	3,529	
health insurance for employees (Obra Social)	1,474		5,028
of which: employee NTCPs			
health insurance for employees (Obra Social)	8,354		
Allowance	301,409	103,934	
of which: basic allowance	51,967	51,967	
of which: additional allowance	249,442	51,967	
<b>Taxable income</b>	<b>(29,490)</b>	<b>205,185</b>	<b>290,618</b>
Income tax	-	37,200	8,400
<b>Net take-home pay</b>	<b>271,919</b>	<b>271,919</b>	<b>271,919</b>
<b>Average rates</b>			
Income tax rate	0.0%	11.2%	2.9%
Employee SSC rate	14.5%	6.8%	3.5%
Tax wedge	24.4%	18.0%	6.4%
<i>Including NTCPs</i>			
Income tax	0.0%	11.2%	2.9%
Employee SSCs + NTCPs rate	17.0%	6.8%	3.5%
Payment wedge	32.3%	18.0%	6.4%
<i>Decomposition of the payment wedge</i>			
Tax liability	0.0%	11.2%	2.9%
Employer SSCs & NTCPs	18.4%	0.0%	0.0%
Employee SSCs & NTCPs	13.9%	6.8%	3.5%

Source: Authors' calculations based on OECD questionnaire response.

**Table 8. Taxation of Employment Forms where Total Employment Cost is Equalised – Argentina (2017)**

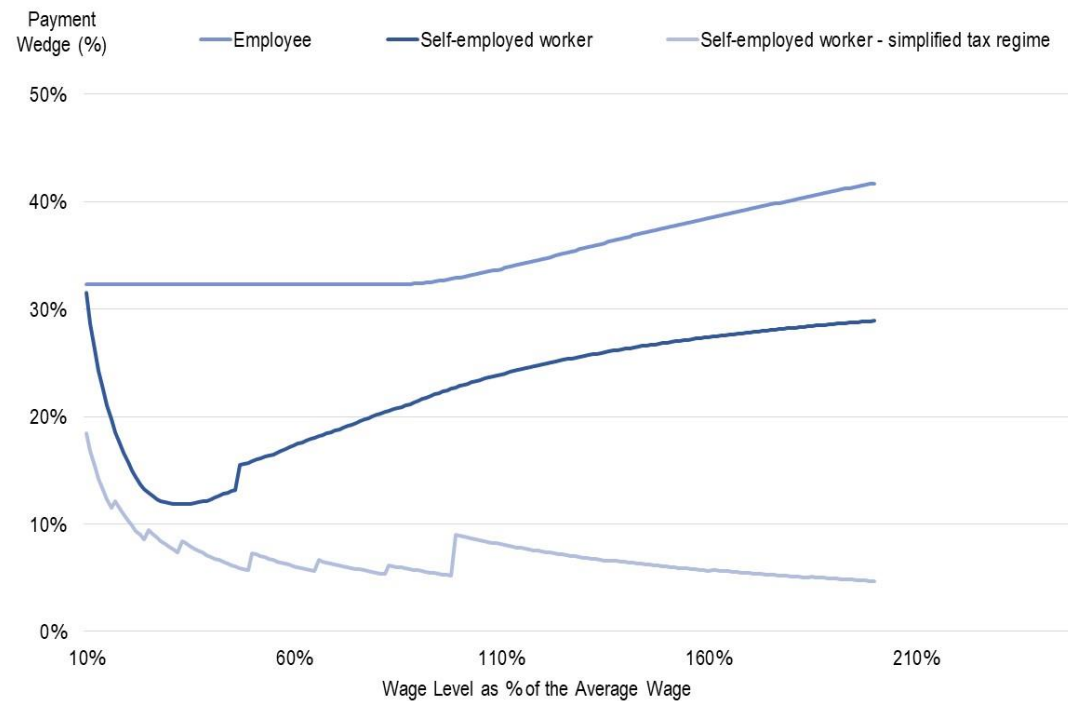
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (ARS 327,613). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 2.

	Employees (relación de dependencia)	Self-employed workers (autónomos)	Self-employed workers under simplified regime (monotributistas)
Labour cost	401,522	401,522	401,522
Profits			
<b>Total labour costs and profits</b>	<b>401,522</b>	<b>401,522</b>	<b>401,522</b>
Employer SSCs & NTCPs	73,909		
of which: employer SSCs	43,114		
old age pension	33,318		
family allowance	-		
unemployment insurance	2,916		
health insurance for retired (PAMI)	4,914		
health insurance for employees (Obra Social)	1,966		
of which: employer NTCPs	30,796		
work injury insurance	13,105		
health insurance for employees (Obra Social)	17,691		
<b>Gross wage</b>	<b>327,613</b>	<b>401,522</b>	<b>401,522</b>
Employee SSCs & NTCPs	55,694	22,584	10,826
of which: employee SSCs	47,340	22,584	10,826
old age pension	36,037	19,055	5,798
health insurance for retired (PAMI)	9,828	3,529	
health insurance for employees (Obra Social)	1,474	-	5,028
of which: employee NTCPs			
health insurance for employees (Obra Social)	8,354	-	-
Allowance	301,409	103,934	
of which: basic allowance	51,967	51,967	-
of which: additional allowance	249,442	51,967	-
<b>Taxable income</b>	<b>(29,490)</b>	<b>275,004</b>	<b>401,522</b>
Income tax	-	57,451	11,556
<b>Net take-home pay</b>	<b>271,919</b>	<b>321,487</b>	<b>379,141</b>
<b>Average rates</b>			
Income tax rate	0.0%	14.3%	2.9%
Employee SSC rate	14.5%	5.6%	2.7%
Tax wedge	24.4%	19.9%	5.6%
<i>Including NTCPs</i>			
Income tax	0.0%	14.3%	2.9%
Employee SSC + NTCP rate	17.0%	5.6%	2.7%
Payment wedge	32.3%	19.9%	5.6%
<i>Decomposition of the payment wedge</i>			
Tax liability	0.0%	14.3%	2.9%
Employer SSCs & NTCPs	18.4%	0.0%	0.0%
Employee SSCs & NTCPs	13.9%	5.6%	2.7%

Source: Authors' calculations based on OECD questionnaire response.

**Figure 3. Payment Wedges by Employment Type across Different Wage Levels – Argentina (2017)**

The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (ARS 32,761) and continuing through 200% of the average wage (ARS 655,226). As shown in Figure 1, the employment type with the lowest payment wedge for the analysis performed at the average wage was a self-employed worker eligible for taxation under the simplified regime. It can be seen from this figure that this remains true for all wage levels. Employees, in contrast, are the employment type with the highest payment wedge at all wage levels.



*Source:* Authors' calculations based on OECD questionnaire response.

## 2. Australia

36. This document summarises our understanding of the Australian tax system based on *Taxing Wages* for standard employees and, related to other types of employment, on the data and information provided via a questionnaire response. Note that we have performed calculations for the 2016-2017 tax year. We assume an average gross wage of AUD 83,542, which aligns with *Taxing Wages 2018*.

### 2.1. Employment Categories

37. This document considers the tax treatment depending on the relationship between an employer or contractor of services (hereafter referred to as a business), and an employee / contractor (hereafter referred to as an individual). An individual worker can be characterised as one of the following employment types:

- An employee
- An independent contractor treated as an employee
- One of two forms of contractors considered to be genuinely independent:
  - A sole trader
  - An incorporated independent contractor
    - An owner-manager

38. Within the category "incorporated independent contractor," there is a further distinction on the basis of whether the business contracting services from an incorporated independent contractor is liable for payroll tax. If the contracting business is liable for payroll tax, the worker is considered an "incorporated independent contractor;" if the contracting business is not liable for payroll tax, the worker is considered an owner-manager.

39. In Australia, tax and super obligations will depend on employment form. These factors include the ability to subcontract/delegate, the basis of payment, who provides any equipment, tools or other assets, who is responsible for commercial risks, who has control over the work and the degree of independence between the individual and business. Apprentices, trainees, labourers and trade assistants are always treated as employees for tax purposes.

40. If an individual is an employee, the business is usually obliged to withhold amounts from the individual's earning at the time of payment and remit these amounts to the tax authority (known as pay-as-you-go (PAYG) withholding).<sup>7</sup> In addition, the business will need to make superannuation contributions (a type of non-tax compulsory payment) for the

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<sup>7</sup> Individual contract workers can, if they meet certain conditions, enter into a voluntary agreement to have an amount withheld (where the payer withholds an amount of tax from each payment made to the contractor). Payments subject to withholding under a PAYG voluntary agreement are not included in PAYG instalment income for paying PAYG instalments.

employee. If an individual is a contractor, the business may still need to make superannuation contributions if the contract is principally for their labour.

## 2.2. Tax Treatment by Employment Form – Individual Perspective

41. This section covers the tax treatment of an individual according to the employment categories described in Section 2.1. As a general matter, income received by an individual is taxed at consistent rates, regardless of whether the individual is an employee, contractor or self-employed. An employer needs to withhold tax on behalf of their employee while a contractor will likely need to make their own regular instalments through the PAYG instalment regime. Other tests determine who may put aside money for Superannuation and whether someone can effectively use companies (and access the company tax rate) or trusts.

### 2.2.1. *Deductions Applied Before the Calculation of PIT*

42. Individuals can reduce the amount of PIT they pay by claiming a deduction for work-related expenses (see Section 2.2.8).

### 2.2.2. *Calculation of Taxable Income*

43. Taxable income is calculated as assessable income less allowed deductions. ‘Assessable income’ may include salary wages, tips, allowances for car, travel, clothing and laundry, certain government payments, rent, interest, dividends and other income from investments, bonuses, and commissions.

### 2.2.3. *PIT*

44. In Australia, PIT liabilities do not vary by employment category. For the 2016-17 year, the tax at general rates on total taxable income were as follows:

**Table 9. General Tax Rates in Australia**

Taxable income (AUD)	Tax rate (percent)
0 – 18,200	0
18,201 – 37,000	19
37,001 – 87,000	32.5
87,001 – 180,000	37
180,001+	45

Source: OECD questionnaire response.

45. A levy is imposed on the taxable incomes of resident taxpayers (notionally a medical levy). More information can be found in Section 2.2.6. There was a temporary budget repair levy of 2.0 percent for all individuals with taxable income above AUD 180,000. This levy ceased to apply from 1 July 2017. The rules above apply to all resident individuals, irrespective of employment form.

### 2.2.4. *Employee NTCPs*

46. There are no employee NTCPs in Australia.

### 2.2.5. *Employee SSCs*

47. In Australia, no contributions are collected from employees specifically for pensions, sickness, unemployment or work injury benefits, family allowances or other benefits. This is the same across all employment categories.

### 2.2.6. *Healthcare Contributions*

48. To nominally contribute towards the cost of basic medical and hospital care a Medicare Levy is imposed on the taxable incomes of resident taxpayers (regardless of employment form). In 2016-17 the levy applied at the rate of 2.0 percent of the taxable income of an individual (inclusive of grossed-up dividends: dividends and attached franking credits). The Medicare levy does not apply to certain low-income taxpayers. In 2016-17, an individual taxpayer was not liable for the levy where their taxable income did not exceed AUD 21,655. A taxpayer in a couple or sole parent family who is not receiving Parenting Payment did not pay the levy if the taxable family income did not exceed AUD 36,541. The threshold is increased by AUD 3,356 for each dependent child. Where an individual's taxable income exceeds AUD 21,655, or a family's income exceeds AUD 36,541 (plus AUD 3,356 for each dependent child), the levy shades in at a rate of 10 percent of the excess of taxable income over the threshold, until the levy is equal to 2.0 percent of the individual's or family's taxable income.

49. For 2016-17, individual senior Australians of pension age were not liable to pay the levy where their taxable income did not exceed AUD 34,244. Where taxable income exceeded AUD 34,244 but did not exceed AUD 42,805, the levy liability was equal to 10 percent of the excess of taxable income over AUD 34,244. Pensioner families (including couples and sole parents on Parenting Payment) and senior Australian families of Age Pension age, did not become liable to pay any Medicare levy until their combined income in 2016-17 exceeded AUD 47,670 (plus AUD 3,356 for each dependent child).

50. Individual taxpayers who had income for surcharge purposes greater than AUD 90,000 in 2016-17 (or if a couple had a combined income greater than AUD 180,000) but who did not have a complying private health insurance policy, are liable for the Medicare levy surcharge, which is applied on their income. The surcharge rates are 1 percent, 1.25 percent and 1.5 percent depending on the taxpayer's income above these thresholds. However, as the policy aims to encourage taxpayers to purchase a complying policy, the cost of such a policy is generally less than the surcharge. The surcharge is therefore not included in this analysis.

### 2.2.7. *Deductibility of Employees' Tax Costs from PIT*

51. The costs of managing tax affairs are deductible for individuals. However, we do not model this deductibility in our analysis as we do not want to make assumptions about the cost of tax affairs for different individuals.

### 2.2.8. *Deductions*

52. Certain work-related expenses may be deducted from PIT, including subscriptions, work-related equipment, work-related travel and car expenses, self-education and other work-related expenses, gifts or donations and the cost of managing tax affairs. In theory, the deductibility of these expenses is the same across employment forms. We understand, however, that the self-employed could claim a significant amount of work-related expenses, potentially more than workers engaged as other employment forms. We do not model the

deductibility of business expenses in our analysis as we do not want to make assumptions about these costs across employment forms.

### 2.2.9. *Taxation of Income Received by Individuals versus Received by Companies*

53. As mentioned in Section 2.1, the principal benefit of incorporating is the ability to access the company tax rate. However, due to Australia's dividend imputation system, all income received, including dividend income, is taxed consistently in the hands of individuals.

54. Australia's fully refundable dividend imputation system enables companies to provide credits (called 'franking credits') to Australian shareholders for the tax the company has paid on its Australian income when they distribute dividends to shareholders. This ensures that income from fully franked dividends is taxed at the shareholder's marginal tax rate.

55. As an example take a company that earns AUD 100 in profit, on which it is taxed at 30 per cent. This leaves AUD 70 to distribute to shareholders. Additionally, this generates AUD 30 of franking credits, which is equal to the value of company tax paid. This company can then distribute the AUD 70 of earnings to a shareholder as a dividend with the \$30 of franking credits attached to the distribution. The shareholder will then pay tax on the dividend and franking credits (called the 'grossed up dividend') at their marginal tax rates. Suppose this shareholder faces a marginal tax rate of 34.5 per cent. They will owe AUD 34.50 on the grossed up dividend of AUD 100 (comprising of the AUD 70 dividend and AUD 30 franking credit). The shareholder then offsets AUD 30 of the tax liability using the franking credit, meaning they are required to pay an additional AUD 4.50 in tax. The effective tax borne by an individual is the same, whether this is received as fully franked dividends via a company or derived directly by the individual.

56. In some cases, the personal services income (PSI) integrity rules may result in the income being taxed in the hands of the individual.<sup>8</sup> The PSI rules assess whether the income received is primarily for the individual's labour and skills as well as the individual's degree of control in carrying out the activities under consideration.<sup>9</sup> PSI integrity rules are designed to prevent employee-like individuals from using incorporated business structures. If PSI integrity rules are deemed to apply, they require that the income received by a company formed by an employee-like worker is treated as the individual's income for tax purposes. In our analysis we model a contractor using a company structure who is not subject to the PSI integrity rules. This analysis assumes that the PSI integrity rules do not apply.

57. The analysis in this paper makes varied assumptions regarding a worker's portion of individual income versus the portion of company income. The analysis highlighted in the paper assumes that 75 percent of the income is received by the individual and 25 percent is received by the company. This annex presents two other scenarios: one in which 50 percent of income is received by the individual and 50 percent by the company, and another in which 25 percent of income is received by the individual and 75 percent by the company.

<sup>8</sup> The PSI rules were introduced to prevent the shifting or splitting of income with other individuals or entities in an attempt to pay less tax. This strategy is known as the alienation of PSI. Alienation occurs when personal services income received is retained by the entity and/or diverted to associates, allowing a lower rate of tax to be paid on that income.

<sup>9</sup> Additional detail on the PSI integrity rules can be found here: <https://www.ato.gov.au/Business/Personal-services-income/>.

Examination of different portions of individual versus company is interesting in many OECD countries, as a key means of individual tax arbitrage is the selection of an employment income to capital income split so as to minimise the overall tax liability.

#### 2.2.10. *Tax Allowances and Credits Offered Against Labour Costs*

58. Certain tax allowances and credits are provided regardless of employment category. The basic relief and the low income tax offset are considered in this analysis.

**Table 10. Tax Allowances and Credits Offered Against Labour Costs**

Tax allowances and credits	Description
Basic relief	Income earned up to AUD 18,200 by resident taxpayers is subject to tax at a zero rate, as reflected in the PIT schedule above.
Low income tax offset	A tax offset worth a maximum of AUD 445 is available for low income earners. Taxpayers whose taxable income was less than AUD 37,000 in 2016-17 are eligible to receive the full amount of the offset. The offset is reduced by AUD 0.015 for every AUD 1 by which a taxpayer's taxable income exceeds AUD 37,000 and is no longer available once a taxpayer's taxable income exceeds AUD 66,667. The offset is non-refundable.
Beneficiary tax offset	The beneficiary tax offset is available for those who receive certain taxable social security benefits called 'rebatale benefits'. It is calculated to ensure that a person who receives a rebatale benefit does not pay any tax on that income. The amount available to an individual is determined by the total amount of the rebatale benefit(s) they receive in an income year. This tax offset reduces tax paid from other sources of income. This offset is non-refundable.
Relief for private health insurance	Australian residents who pay private health insurance premiums on a complying health insurance policy may be able to receive the private health insurance rebate. The vast majority of people claim the rebate as a reduction in the amount of premium they pay to their insurer. Alternatively, it can be a refundable tax offset upon lodging a tax return. The rebate is calculated as a percentage of the insurance premium (whether for a single or family policy) based on the income and age of the individual (the oldest individual for a family policy). For individuals below 65 years of age, without dependants and with annual income for surcharge purposes below AUD 90,000, the rebate is 26.791 percent from 1 July 2016 to 31 March 2017 and 25.934 percent from 1 April 2017 to 30 June 2017.
Zone tax offset	An individual may be able to claim this offset if their usual place of residence was in a designated remote or isolated area, not including an offshore oil or gas rig. Generally the individual is not able to claim this offset if they lived in that area less than 183 days in the financial year. The amount of the offset will depend upon which designated zone the individual resides in. For the 2016-17 financial year, an individual who lives in designated zone A for the entire year will get AUD 338 under the offset. The offset is non-refundable.
Overseas forces tax offset	An individual may be able to claim this offset if they served in a specific overseas locality as a member of the Australian Defence Force, the Australian Federal Police in the United Nations peacekeeping force in Cyprus, or a United Nations armed force (and their income relating to that service is not specifically exempt from tax). The individual must have served in an overseas locality for 183 days or more in the income year.

Source: OECD questionnaire response.

#### 2.2.11. *Cash Transfers*

59. There are no cash transfers in the 2016-17 year.

#### 2.2.12. *Preferential Tax Treatment for Small Businesses*

60. A small business can immediately write-off the business portion of assets which cost less than AUD 20,000 (until 30 June 2019, from 1 July 2019 the threshold is due to revert back to AUD 1,000). To be eligible, the turnover of the entity needs to be less than AUD 2

million between 12 May 2015 and 30 June 2016 and less than AUD 10 million from 1 July 2016.

61. There are also certain small business capital gains tax (CGT) concessions that may be available at the individual level. These concessions are available to 'small business CGT entities' and those who have net asset values of AUD 6 million or under (conditions apply regarding what assets are counted). A small business CGT entity is defined in the legislation as an entity in business with an aggregated turnover of less than AUD 2 million. These concessions will only apply to certain "active assets" of the business (broadly, assets that are used in the business or interests in a business, i.e., shares in a company or units in a trust). There are requirements for how long the individual must have held the asset, and for how long that asset must have been an active asset of the business. If the individual held the asset for more than 15 years, it must have been an active asset of the business for at least 7.5 years. If the individual held an asset for less than 15 years, it must have been an active asset of the business for at least half of that period.

62. There are four separate CGT concessions that may apply. The first is an exemption on the capital gains from the sale of a business asset held for more than 15 years where the asset is disposed of in connection with the individual's retirement or the individual is permanently incapacitated (special rules about involuntary disposals can apply). The second is a 50 percent reduction on the capital gain made from the sale of an active asset of the business by the individual. The third is an exemption on the sale of active assets (if the individual is under 55, the exempt amount must be paid into a complying superannuation fund). There is a lifetime cap of AUD 500,000 for the third exemption. The fourth is a rollover which defers the capital gain from the sale of an active asset if the proceeds are used to replace the asset within two years.

### 2.2.13. *Non-standard Tax Reliefs across Employment Categories*

63. Income averaging rules apply for primary production and special professionals, where special professionals include authors, inventors, performing artists, production associates and sportspersons. The aim of income averaging is to even out years of higher and lower income to ensure, meaning tax is borne on average income at marginal tax rates. This ensures that taxpayers who exhibit inconsistent income between income years do not pay more tax over the averaging period (due to years of higher income bearing more tax under Australia's highly progressive personal tax system) than taxpayers on comparable but steady incomes.

### 2.2.14. *Taxation of Non-primary Employment*

64. Income earned from non-primary employment is added to an individual's assessable income. After the relevant deductions are calculated, the individual is taxed on their total taxable income in accordance with PIT rates and thresholds. For example, assume that an individual earns AUD 70,000 from their primary source of income and AUD 20,000 from their second job. Assuming there are no relevant deductions, the individuals' taxable income would be AUD 90,000.

## 2.3. Tax Treatment by Employment Form – Firm Perspective

65. This section covers the tax treatment of an employer according to the employment categories described in Section 2.1.

### 2.3.1. *Deductions Applied Before the Calculation of CIT or PIT*

66. Certain labour costs may be deductible from company income tax (CIT) or PIT, including wage earnings, payroll taxes and Superannuation Guarantee contributions (see Section 2.3.6). A sole trader cannot pay themselves a salary or wage, but can usually claim a deduction for their own super contributions in their personal tax return.

### 2.3.2. *CIT*

67. In 2016-2017, the central CIT rate was 30.0 percent. There is not sub-central CIT levied. There is a small business entity company tax rate. In 2016-17 this was 27.5 per cent for businesses with less than AUD 10 million turnover. Individuals who are genuine independent contractors of an incorporated structure are liable for CIT.

### 2.3.3. *Employer NTCPs*

68. Employers are legally required to make NTCPs on behalf of their employees for social insurance and private pension purposes. In addition, these payments vary by employment category. There are two main categories of NTCPs: worker's compensation insurance and superannuation.

#### *Worker's compensation insurance*

69. Where worker's compensation insurance is required, it is calculated as 1.34 percent of gross income. This figure is a 2015-16 estimate for New South Wales from a report analysing workers' compensation premiums, entitlements and scheme performance across Australia and New Zealand.<sup>10</sup> This analysis incorporates these insurance contributions for employees and contractors (both those treated as employees and genuinely independent contractors). More detail is provided below. In NSW workers compensation premiums are calculated as a percentage of the employer's wages. Wages for the purposes of workers compensation premiums include wages, bonuses, commissions, superannuation contributions (including the superannuation guarantee levy) and payments for sick leave, public holidays and leave loadings.<sup>11</sup>

#### Employee:

70. It is compulsory for employers to insure their employees against work-related accidents and occupational diseases with a private insurance company. The Australian government is required to insure seafarers, military personnel and its employees. All other employment contracts are regulated by the states. In New South Wales, the state with the highest population, an employer is required to provide workers insurance for its employees (whether they work on a full time, part time or casual basis) unless the employer is exempt. Exempt employers are those who pay AUD 7,500 or less in annual wages, do not employ an apprentice or trainee, and are not a member of a group for insurance premium purposes.

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<sup>10</sup> The full report can be accessed at the following link: <https://www.safeworkaustralia.gov.au/doc/comparative-performance-monitoring-report-19th-edition-part-3>.

<sup>11</sup> A full definition of wages defined for the purposes of workers compensation insurance can be found at the following link: <https://www.sira.nsw.gov.au/languages/wages-definition-manual-january-2014>.

#### Independent contractor treated as an employee:

71. In New South Wales employers are required to take out mandatory workers insurance for contractors who are 'deemed' to be employees for the purposes of the legislation governing worker's insurance. Deemed workers include, but are not limited to, outworkers, salespersons (including canvassers and collectors), contractors under labour hire service arrangements, rural workers, and boxers/wrestlers (including referees and entertainers). Other than deemed workers, employers are not required to provide insurance for contractors in New South Wales.

#### Genuine independent contractor – sole trader:

72. In New South Wales, sole traders cannot take out workers insurance to cover themselves. A sole trader may take out a personal accident and illness policy, but this is not required by the state law. Sole traders are required to take out mandatory workers insurance for employees they hire.

#### Genuine independent contractor – incorporated:

73. Incorporated independent contractors, including owner-managers, are obliged to make accident, injury and sickness contributions on account of employing themselves, i.e., on their individual income.

### *Superannuation*

#### Employee:

74. Employers are required to make contributions to the private pension plans of their employees under the Superannuation Guarantee scheme. While the Superannuation Guarantee scheme is mandated by the Australian government, superannuation is provided through private superannuation funds subject to government regulation. For the 2016-17 tax year, the Superannuation Guarantee required employers to pay 9.5 percent on top of each eligible employee's ordinary time earnings (provided that they earn more than AUD 450 (before tax) in a calendar month. The Superannuation Guarantee rate will remain at 9.5 percent until 2020-21, then increase by 0.5 percentage points each year until it reaches 12 percent in 2025-26. For 2016-17, the upper income limit for determining an employer's obligations was AUD 206,480 per year.<sup>12</sup>

75. Outside of employer superannuation contributions on behalf of employees, any workers who set up a company structure or hire themselves as an employee or pay themselves directors free are also liable for superannuation contributions. However, note that superannuation contributions are levied on earnings; this liability does not apply to dividend or investment income.

#### Independent contractor treated as an employee:

76. Generally, employers are not required to make contributions under the Superannuation Guarantee for contractors. However, employers are required to make

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<sup>12</sup> Australia's superannuation system requires an individual's superannuation contributions to be held in trust by a regulated fund until the individual reaches retirement (or meets another condition of release), when they can start drawing down their superannuation balance. Contributions to and earnings within the superannuation fund are taxed at concessional rates.

contributions under the Superannuation Guarantee for contractors who are paid for their personal labour and skills and perform the work personally (i.e., the contractors are not allowed to delegate). For these contractors, the Superannuation Guarantee requires employers to pay 9.5 percent to the employee's superannuation on top of each eligible employee's ordinary time earnings.

*Genuine independent contractor – sole trader:*

77. For sole traders, paying superannuation to themselves is optional. Our analysis assumes that sole traders do not opt to pay it.

*Genuine independent contractor – incorporated:*

Incorporated independent contractors, including owner-managers, are obliged to make superannuation contributions on account of employing themselves, i.e., on their individual income.

#### 2.3.4. *Employer SSCs*

78. No contributions are collected from employers specifically for pensions, sickness, unemployment or work injury benefits, family allowances or other benefits.

#### 2.3.5. *Employer Payroll Taxes*

79. There are employer payroll taxes in Australia, and they vary by tax law employment category, as follows:

*Employee:*

80. Australian state governments levy payroll taxes on wages, cash or in kind, provided by larger employers to their employees. The rates of payroll tax, thresholds and deductions differ between states. In New South Wales, the payroll tax rate in 2016-17 was 5.45 percent for employers with total Australian wages in excess of AUD 750,000. Employers are entitled to an exemption from tax, or a pro-rated payroll tax threshold, on wages paid in New South Wales up to a maximum of AUD 750,000. The exempt amount is reduced based on the proportion of the employer's New South Wales payroll to its total Australian payroll.

*Independent contractor treated as an employee:*

81. In New South Wales, payments to contractors performing work under a relevant contract are liable for payroll tax unless it is a contract that meets the following conditions:

- For which the basic purpose is to supply goods, and the labour or services provided under the contract is only incidental to the supply;
- Is for services a business does not normally require, and the contractor provides these services to the public generally;
- Is for services normally required by the business for less than 180 days in the financial year;
- Is for services provided up to 90 days in a financial year;
- For which the contractor engages additional labour of two or more people to fulfil;
- For the conveyance for goods in a vehicle

*Genuine independent contractor – sole trader:*

82. A sole trader does not pay payroll tax on their own income. Their income is added to their taxable income and taxed under the PIT regime at the relevant rate. However, sole traders may be required to pay payroll taxes for employees or contractors they employ.

*Genuine independent contractor – incorporated:*

83. Incorporated independent contractors, including owner-managers, are liable for payroll taxes on the wages paid to him or herself. The tax-free exemption described above for employees also applies in this case. That is, owner-managers will not be liable for payroll tax unless annual wages are greater than AUD 750,000.

**2.3.6. Deductibility of Employers' Labour Costs from CIT or PIT**

84. Certain labour costs may be deductible from the company tax liability, including wage earnings, payroll taxes and Superannuation Guarantee contributions. Deductibility depends on the employment category, as follows:

*Wage earnings*

## Employee:

85. Employees' wages are deductible expenses. Employers are able to deduct 100 percent of employee wages.

## Independent contractor treated as an employee:

86. Payments to contractors treated as employees are deductible expenses. Employers are able to deduct 100 percent of employee wages.

## Genuine independent contractor – sole trader:

87. A sole trader is not able to subtract their own income as a deduction. The profits earned by sole traders are taxed under the personal income tax regime at the relevant rate. However, a sole trader is able to claim as a deduction 100 percent of the cost of employees or contractors they may have incurred.

*Payroll taxes*

## Employee and independent contractor treated as an employee:

88. Payroll taxes are deductible expenses. Employers are able to deduct 100 percent of payroll expenses.

## Genuine independent contractor – sole trader:

89. A sole trader may be required to pay payroll taxes for employees or contractors they hire. If they do, then they are able to claim 100 percent of the expense of payroll taxes as a deduction.

Genuine independent contractor – incorporated:

90. An incorporated independent contractor, including an owner-manager, may deduct payroll taxes paid on account of their own salary from their company tax liability.

*Superannuation*

Employee and independent contractor treated as an employee:

91. Employers can claim a deduction for Superannuation contributions made to complying superannuation funds or retirement savings accounts for employees and certain contractors.<sup>13</sup>

Genuine independent contractor – sole trader:

92. Sole traders may be able to claim deductions for personal superannuation contributions. However, they will not be able to claim a deduction if, during the year, they earned more than 10 percent of their total income from salary or wages.

Genuine independent contractor – incorporated:

93. An incorporated independent contractor, including an owner-manager, may deduct superannuation paid on account of their own salary from their company tax liability.

*Worker's compensation insurance*

Employee and independent contractor treated as an employee:

94. Employers can claim a deduction for worker's compensation insurance contributions.

Genuine independent contractor – sole trader:

95. Sole traders may be able to claim deductions for worker's compensation insurance contributions.

Genuine independent contractor – incorporated:

96. An incorporated independent contractor, including an owner-manager, may deduct worker's compensation insurance contributions paid on account of their own salary from their company tax liability.

**2.3.7. Tax Allowances and Credits Offered Against Labour Costs**

97. There are no tax allowances and credits offered against labour costs.

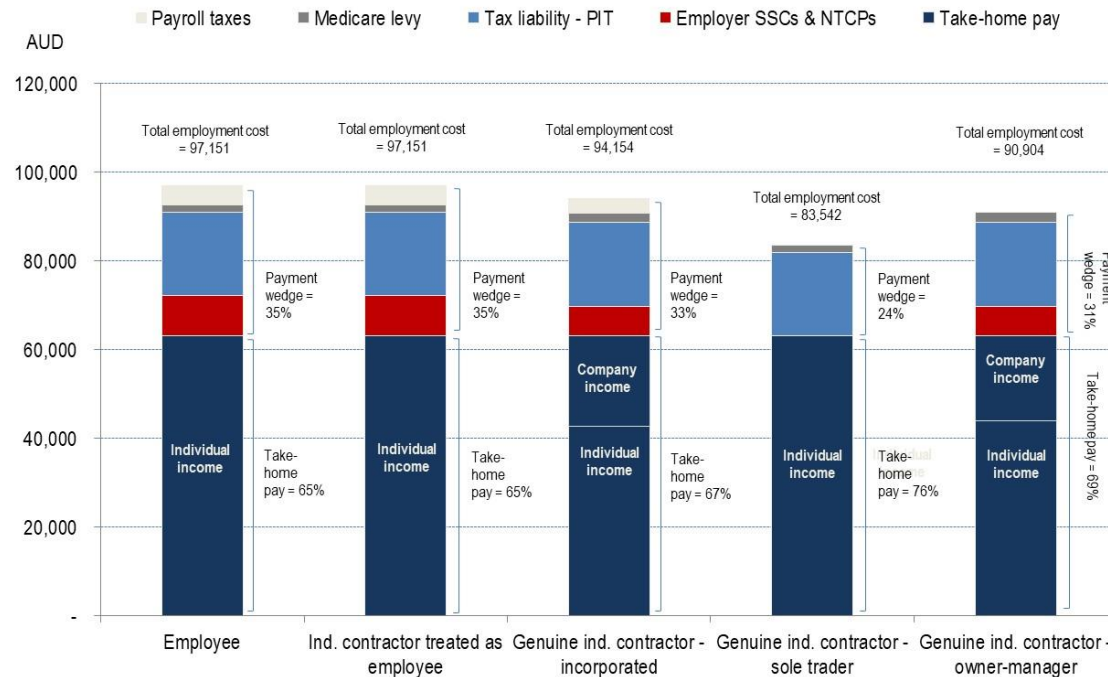
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<sup>13</sup> Note that from 1 July 2017, the requirement that an employee derives less than 10 percent of their income from employment to be eligible to claim a personal super contribution deduction has been abolished. Regardless of the employment arrangement type, an individual may be able to claim a tax deduction. Those aged 65-74 will still need to meet the work test in order to be eligible to make a contribution and claim a tax deduction.

2.4. Tables and Figures

**Figure 4. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Australia (2016-17)**

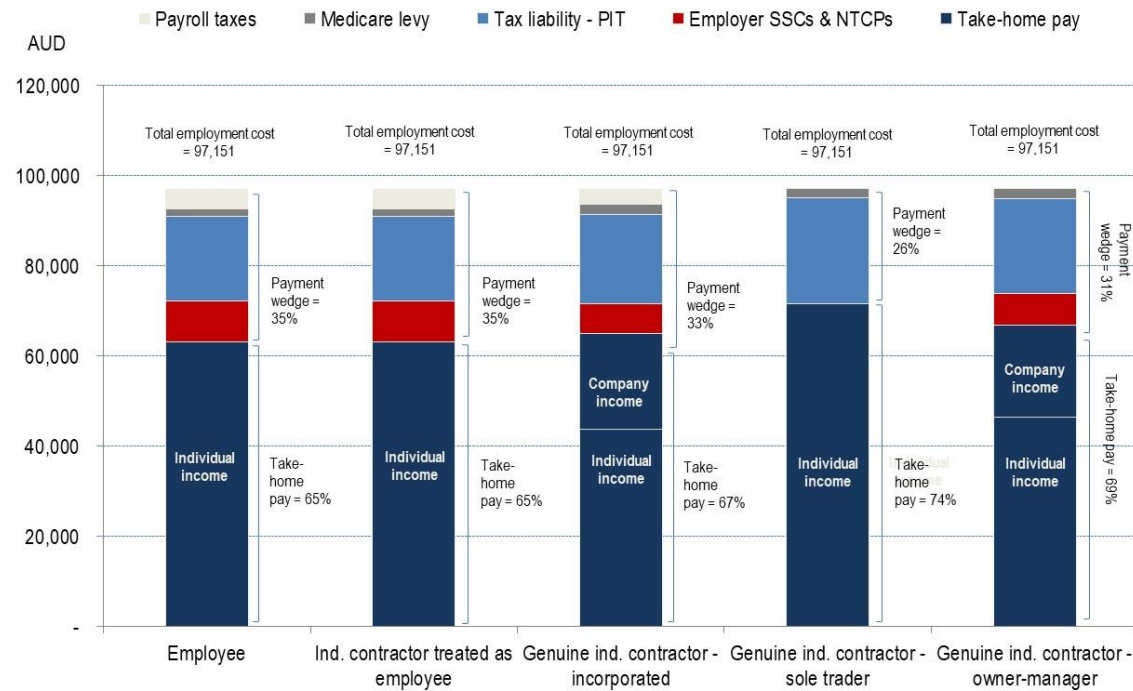
In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (AUD 83,542). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual’s behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 5. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Australia (2016-17)**

In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (AUD 83,542). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm’s behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 11. Taxation of Employment Forms where Individual Take-home Pay is Equalised – Australia (2016-2017)**

In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (AUD 83,542). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 4.

	Employee	Ind. contractor treated as employee	Genuine ind. contractor - incorporated	Genuine ind. contractor - sole trader	Genuine ind. contractor - owner-manager
Labour cost	97,151	97,151	70,615	83,542	68,178
Profit	-	-	23,538	-	22,726
<b>Total employment cost</b>	<b>97,151</b>	<b>97,151</b>	<b>94,153</b>	<b>83,542</b>	<b>90,904</b>
Payroll taxes	4,553	4,553	3,309		-
Employer NTCPs - contracting firm					
of which: accident, injury and sickness	1,119	1,119	814		824
of which: Superannuation contribution	7,936	7,936	5,769		5,843
<b>Gross wage</b>	<b>83,542</b>	<b>83,542</b>	<b>60,723</b>	<b>83,542</b>	<b>61,510</b>
<b>Taxable income</b>	<b>83,542</b>	<b>83,542</b>	<b>84,261</b>	<b>83,542</b>	<b>84,236</b>
Income tax					
of which: gross tax liability (PIT) and temporary budget repair levy					
federal	18,698	18,698	18,932	18,698	18,924
of which: tax allowances and credits					
low income tax offset	-	-	-	-	-
franking credit			7,061		6,818
Other taxes					
Medicare levy	1,671	1,671	2,156	1,671	2,139
CIT			7,061		6,818
<b>Take-home pay - labour share</b>	<b>63,173</b>	<b>63,173</b>	<b>42,701</b>	<b>63,173</b>	<b>44,055</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>20,472</b>	<b>-</b>	<b>19,118</b>
<b>Total take-home pay</b>	<b>63,173</b>	<b>63,173</b>	<b>63,173</b>	<b>63,173</b>	<b>63,173</b>
<b>Average rates</b>					
Income tax rate	24.4%	24.4%	34.7%	24.4%	34.2%
Employee SSC rate	0.0%	0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers	24.4%	24.4%	34.7%	24.4%	34.2%
Tax wedge	28.3%	28.3%	38.1%	24.4%	25.0%
<i>Including NTCPs</i>					
Income tax	24.4%	24.4%	34.7%	24.4%	34.2%
Employee SSC + NTCP rate	0.0%	0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers with NTCPs	35.2%	35.2%	45.6%	24.4%	45.1%
Payment wedge	35.0%	35.0%	32.9%	24.4%	30.5%
<i>Decomposition of payment wedge</i>					
Tax liability	21.0%	21.0%	22.4%	24.4%	23.2%
Employer SSCs & NTCPs	9.3%	9.3%	7.0%	0.0%	7.3%
Payroll taxes	4.7%	4.7%	3.5%	0.0%	0.0%
Employee SSCs & NTCPs	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Authors' calculations based on OECD questionnaire response.

**Table 12. Taxation of Employment Forms where Total Employment Cost is Equalised – Australia (2016-2017)**

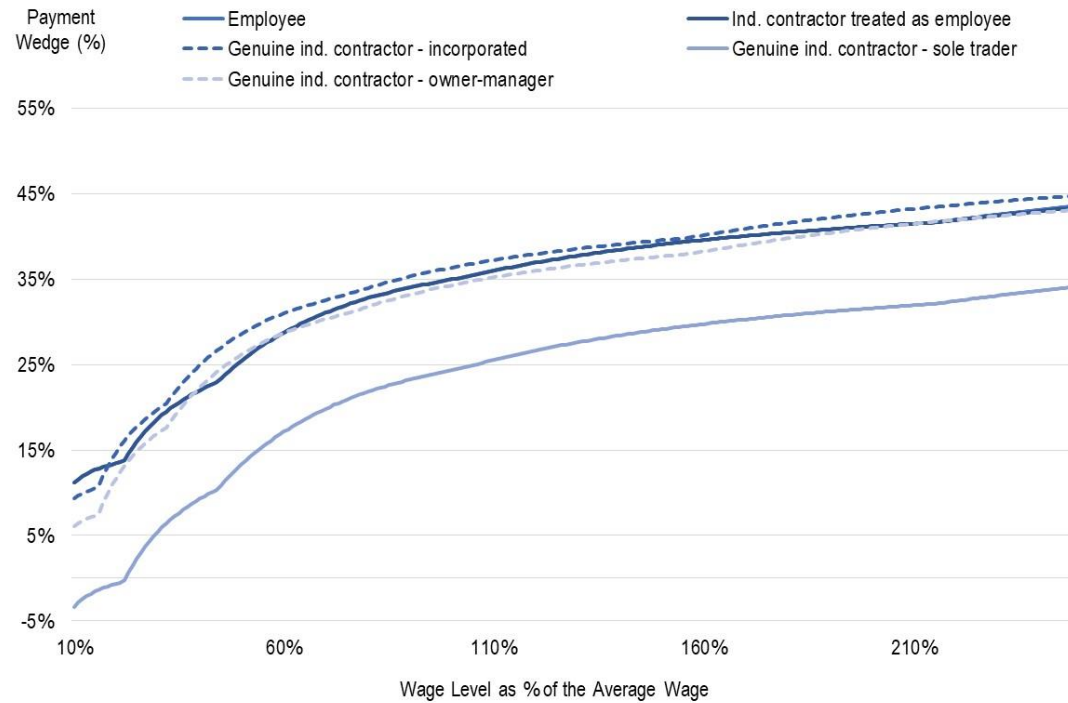
In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (AUD 83,542). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 5.

	Employee	Ind. contractor treated as employee	Genuine ind. contractor - incorporated	Genuine ind. contractor - sole trader	Genuine ind. contractor - owner-manager
Labour cost	97,151	97,151	72,863	97,151	72,863
Profit	-	-	24,288	-	24,288
<b>Total employment cost</b>	<b>97,151</b>	<b>97,151</b>	<b>97,151</b>	<b>97,151</b>	<b>97,151</b>
Payroll taxes	4,553	4,553	3,415	-	-
Employer NTCPs - contracting firm					
of which: accident, injury and sickness	1,119	1,119	840	-	881
of which: Superannuation contribution	7,936	7,936	5,952	-	6,245
<b>Gross wage</b>	<b>83,542</b>	<b>83,542</b>	<b>62,657</b>	<b>97,151</b>	<b>65,738</b>
<b>Taxable income</b>	<b>83,542</b>	<b>83,542</b>	<b>86,944</b>	<b>97,151</b>	<b>90,025</b>
Income tax					
of which: gross tax liability (PIT) and temporary budget repair levy					
federal	18,698	18,698	19,804	23,578	20,941
of which: tax allowances and credits					
low income tax offset	-	-	-	-	-
franking credit	-	-	7,286	-	7,286
Other taxes					
Medicare levy	1,671	1,671	2,225	1,943	2,286
CIT	-	-	7,286	-	7,286
<b>Take-home pay - labour share</b>	<b>63,173</b>	<b>63,173</b>	<b>43,835</b>	<b>71,630</b>	<b>46,502</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>21,080</b>	<b>-</b>	<b>20,296</b>
<b>Total take-home pay</b>	<b>63,173</b>	<b>63,173</b>	<b>64,916</b>	<b>71,630</b>	<b>66,798</b>
<b>Average rates</b>					
Income tax rate	24.4%	24.4%	35.2%	26.3%	35.3%
Employee SSC rate	0.0%	0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers	24.4%	24.4%	35.2%	26.3%	35.3%
Tax wedge	28.3%	28.3%	38.5%	26.3%	25.8%
<i>Including NTCPs</i>					
Income tax	24.4%	24.4%	35.2%	26.3%	35.3%
Employee SSC + NTCP rate	0.0%	0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers with NTCPs	35.2%	35.2%	46.0%	26.3%	46.2%
Payment wedge	35.0%	35.0%	33.2%	26.3%	31.2%
<i>Decomposition of payment wedge</i>					
Tax liability	21.0%	21.0%	22.7%	26.3%	23.9%
Employer SSCs & NTCPs	9.3%	9.3%	7.0%	0.0%	7.3%
Payroll taxes	4.7%	4.7%	3.5%	0.0%	0.0%
Employee SSCs & NTCPs	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Authors' calculations based on OECD questionnaire response.

**Figure 6. Payment Wedges by Employment Type across Different Wage Levels – Australia (2016-2017)**

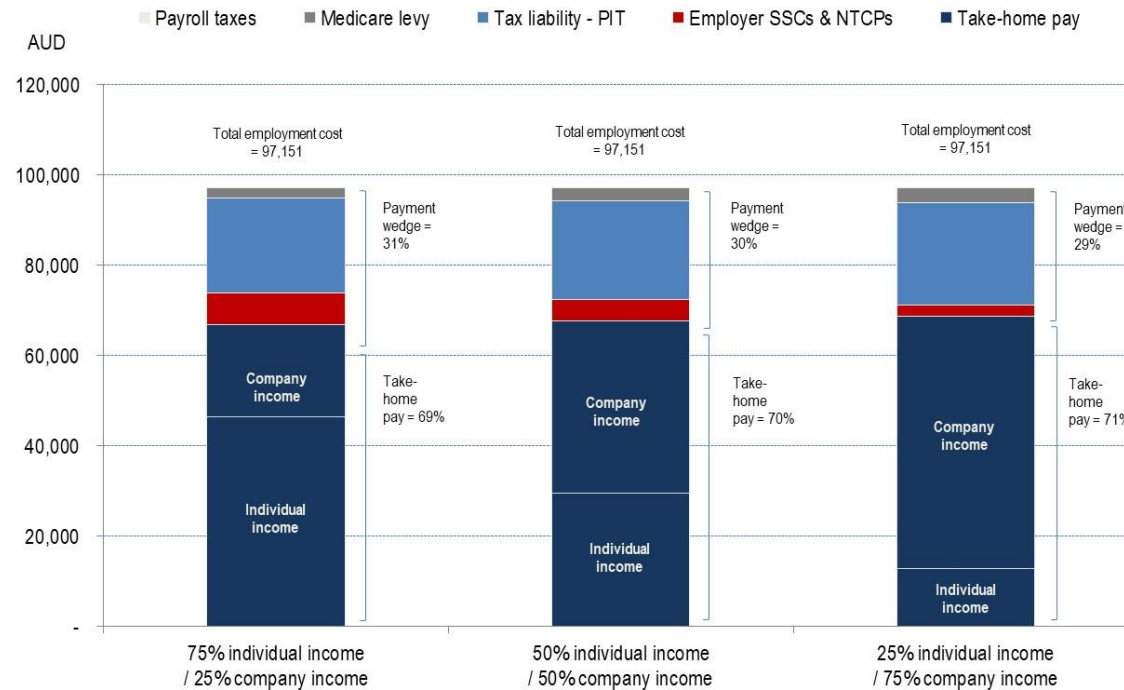
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (AUD 8,354) and continuing through 250% of the average wage (AUD 208,855). As shown in Figures 4 and 5, the employment type with the lowest payment wedge for the analysis performed at the average wage was the independent contractor – sole trader. It can be seen from this figure that this remains true for all wage levels shown.



*Source:* Authors' calculations based on OECD questionnaire response.

**Figure 7. Decomposition of the Total Employment Cost for Owner-managers, with Varied Portions of Individual and Company Income (75% individual income, 25% company income; 50%, 50%; and 25%, 75%) – Australia (2016-2017)**

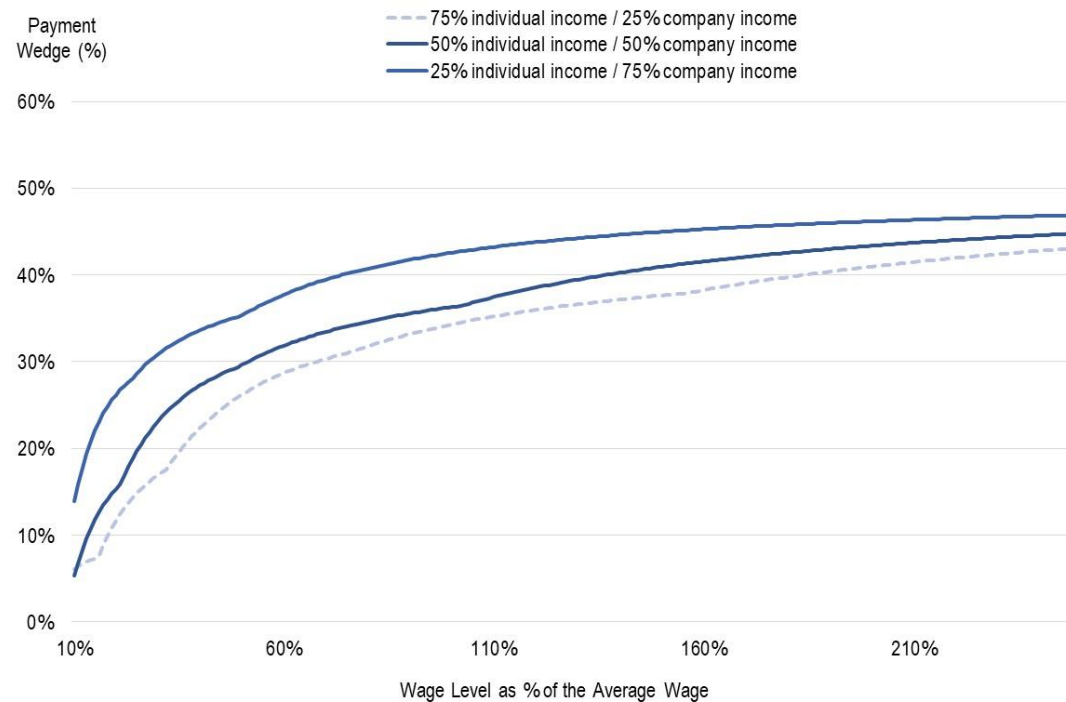
The figure below shows results for the owner-manager employment form only, where the difference across owner-managers is the portion of income taken in the form of individual income and company income. From left to right, the underlying assumptions are: 75% individual income, 25% company income; 50% individual income, 50% company income; and 25% individual income, 75% company income. The calculations assume that the individual analysed is unmarried and without children. The exercise shown is that in which total employment cost is held equal (corresponding to Figure 5), as the focus here is the incentive of an individual worker and, namely, the mixture of individual and company income that he or she would be incentivised to choose given that they operate an owner-manager business. The case of 75% individual income and 25% company income is the one presented as the owner-manager case in Figure 5 and Table 12.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 8. Payment Wedges of Owner-managers, with Varied Portions of Individual and Company Income (75% individual income, 25% company income; 50%, 50%; and 25%, 75%) across Different Wage Levels – Australia (2016-2017)**

The figure below shows payment wedges for an owner-manager across different wage levels, starting at 10% of the average wage (AUD 8,354) and continuing through 250% of the average wage (AUD 208,855). Three cases of owner-manager are presented, each corresponding to a different portion of individual versus company income, as done in Figure 7 (where the analysis was based on the average wage): 75% individual income, 25% company income; 50% individual income, 50% company income; and 25% individual income, 75% company income. The case of 75% individual income and 25% company income is the one presented as the owner-manager case in Figure 6.



Source: Authors' calculations based on OECD questionnaire response.

### 3. Hungary

98. This section summarises our understanding of the Hungarian tax system based *Taxing Wages 2018* for standard, full-time employees and, related to other types of employment, on the data and information provided via a questionnaire response. The national currency is the Hungarian forint (HUF); all currency amounts expressed below are in HUF. We assume an average gross wage of HUF 3,730,608, which aligns with *Taxing Wages 2018*.

#### 3.1. Employment Forms

99. According to tax law, there are four employment forms in Hungary:

- Standard employee;
- Quasi self-employed worker; and
- Two forms of self-employed workers:
  - Unincorporated sole trader
  - Incorporated business (owner-manager of a corporation)

There is also a simplified tax regime that applies to small enterprises, in which they pay lump-sum taxes. However, this simplified tax regime is not modelled in this paper.

#### 3.2. Tax Treatment by Employment Form – Individual Perspective

100. This section covers the tax treatment of an individual according to the employment forms described in Section 3.1.

##### 3.2.1. *Deductions Applied Before the Calculation of PIT*

###### *Employee*

101. No deductions to the PIT base are allowed.

###### *Quasi self-employed worker*

102. No deductions to the PIT base are allowed.

###### *Self-employed*

103. The business-related expenses of self-employed workers can be deducted from gross revenue. Apart from this, no labour-related expenses can be deducted from the PIT base. Note that we will not consider business-related costs in this analysis. We therefore assume that the gross wage is equal to net revenue for the unincorporated self-employed worker and that the gross wage is the net labour cost for the incorporated self-employed worker.

### 3.2.2. *Calculation of Taxable Income*

#### *Employee and quasi self-employed worker*

104. For employees and quasi self-employed workers, PIT taxable income corresponds to the gross wage.

#### *Unincorporated self-employed*

105. For unincorporated self-employed workers, PIT taxable income corresponds to the net (of the business expenses) revenue of the self-employed. This is equivalent to the gross wage in this analysis as business expenses are not modelled.

#### *Incorporated self-employed*

106. An incorporated self-employed worker may choose the portion of income taken in the form of employment income and that take as capital income. This analysis considers three different portions of the employment and capital income split: (i) a case in which 25 percent of the corporation's net revenue is considered profit or capital income, while the remaining 75 percent is considered labour cost or employment income; (ii) one in which 50 percent is capital income and 50 percent is employment income; and (iii) one in which 75 percent is capital income and 25 percent is employment income. For an incorporated self-employed worker, PIT taxable income corresponds to the labour cost.

### 3.2.3. *PIT*

107. PIT is paid by employees and the self-employed as it applies to all income type regardless of the employment contract. No sub-central rates are levied. The PIT consists of a flat tax equal to 15 percent.

### 3.2.4. *Taxation of Dividend Income*

108. Self-employed workers (both unincorporated and incorporated) are subject to dividend taxation on distributed income. More specifically, the profits remaining after the CIT is levied will be distributed to the shareholder as dividends. The distributed income is taxed by applying the PIT rate and a 14 percent special healthcare contribution (EHO). The sum of all the health care contributions (i.e., the 7 percent healthcare contribution and the 14 percent EHO) paid by the manager on all types of income must not exceed a threshold of HUF 450,000 per year. Unincorporated self-employed workers are obligated to withdraw the total amount remaining as dividends and pay the dividend tax and EHO. Incorporated self-employed workers are not obliged to do so; however, for comparability reasons, we assume that both types of self-employed workers withdraw everything through dividends.

### 3.2.5. *Employee NTCPs*

109. There are no employee NTCPs.

### 3.2.6. *Employee SSCs*

#### *Standard employee*

110. Employees are liable for 18.5 percent of their gross wage for employee SSCs. Of this, a 10 percent rate is for the pension contribution, a 7 percent rate is for health security and a 1.5 percent rate is for unemployment insurance. No minimum applies.

#### *Quasi self-employed*

111. Quasi self-employed workers are liable for a pension contribution (10 percent) and for a health security contribution (7 percent), with no minimum.

#### *Unincorporated self-employed*

112. Unincorporated self-employed workers are liable for the same level of employee SSCs as standard employees. However, self-employed workers must make a minimum contribution. The minimum contribution for each category of employee SSCs depends on skill level, there being two groups: low- and high-skilled. This results from the fact that the minimum contribution amount is tied to the minimum wage, and there are two minimum wages in Hungary: low- and high-skilled. In 2017, the minimum wage of low-skilled workers was HUF 127,500 per month; for high-skilled it was HUF 161,000 per month. The contribution for each category is calculated by applying the rate to the minimum wage of the given worker. The minimum contributions are as follows:

- Unemployment insurance:
  - Low skill: The minimum contribution is 1.5 percent of the minimum wage multiplied by 1.5. The minimum wage in 2017 for low skill jobs is HUF 127,500 per month. Therefore, the minimum unemployment insurance contribution is  $1.5 \text{ percent} * 127,500 * 1.5 * 12 = \text{HUF } 34,425$  per year.
  - High skill: The minimum wage for high skilled jobs is HUF 161,000 per month. Therefore, as above, we have a minimum contribution of  $1.5 \text{ percent} * 161,000 * 1.5 * 12 = \text{HUF } 43,470$  per year.
- Health security:
  - Low skill: The minimum contribution is 7.0 percent of the minimum wage multiplied by 1.5. As before, the minimum wage in 2017 for low skill jobs is HUF 127,500 per month. Therefore, the minimum accident, injury and sickness contribution is  $7 \text{ percent} * 127,500 * 1.5 * 12 = \text{HUF } 160,650$  per year.
  - High skill: The minimum wage for high skilled jobs is HUF 161,000 per month. Therefore, as above, we have a minimum accident, injury and sickness contribution of  $7 \text{ percent} * 161,000 * 1.5 * 12 = \text{HUF } 202,860$  per year.
- Old age pension:
  - Low skill: The minimum contribution is 10.0 percent of the minimum wage. As before, the minimum wage in 2017 for low skill jobs is HUF 127,500 per month. Therefore, the minimum old age pension contribution is  $10 \text{ percent} * 127,500 * 12 = \text{HUF } 153,000$  per year.

- High skill: The minimum wage for high skilled jobs is HUF 161,000 per month. Therefore, as above, we have a minimum old age pension contribution of 10 percent \* 161,000 \* 12 = HUF 193,200 per year.

113. Incorporated self-employed workers are liable for employee SSCs on the labour portion of their revenue (on account of employing themselves), according to the same calculations described above for the unincorporated self-employed worker (i.e., applying the minimum thresholds). Notice, however, that no employee SSCs apart from the EHO will be paid on the net profits distributed to the shareholder as dividends. Incorporated self-employed workers are not liable for unemployment insurance contributions.

### 3.2.7. *Tax Allowances and Credits Offered Against Labour Costs*

114. No tax credits or allowances are offered against labour costs.

### 3.2.8. *Cash Transfers*

115. There are no cash transfers.

## 3.3. Tax Treatment by Employment Form – Firm Perspective

116. This section covers the tax treatment of a firm according to the employment forms described in Section 3.1.

### 3.3.1. *Deductions Applied Before the Calculation of CIT*

117. Business-related expenses can be deducted against the CIT tax base. An incorporated self-employed worker will pay CIT only on their profit, i.e., business-related expenses are deducted from total revenue before applying CIT.

### 3.3.2. *CIT*

118. In 2017, the CIT rate was 9 percent.

### 3.3.3. *Employer NTCPs*

119. There are no employer NTCPs.

### 3.3.4. *Employer SSCs*

120. In 2012, employer SSCs were merged into the new payroll tax (i.e., the social contribution tax). The overall rate was 22 percent in 2017 (paid on behalf of employees). Of this, 15.75 percent was paid for pension, 4.51 percent for healthcare and 1.74 percent for labour market funds.

121. Employers who contract labour from a quasi-self-employed worker or from an unincorporated self-employed worker are not liable for employer SSCs on the worker's behalf. Instead, as described in Section 3.2.6, a quasi-self-employed workers is liable for employer SSCs on his/her own behalf.

122. An unincorporated self-employed individual is liable for the employer's share in a standard employment scenario, i.e., 22 percent on net revenue. There is a minimum contribution equal to 22 percent of 112.5 percent of the minimum wage. As above for employee SSCs, the minimum contribution depends on the skill level of the individual:

- Low skill: Minimum contribution is 22 percent \* 127,500 \* 1.125 \* 12 = HUF 378,675.
- High skill: The minimum contribution is computed the high skill minimum wage of HUF 161,000. Therefore, the minimum contribution is 22 percent \* 161,000 \* 1.125 \* 12 = HUF 478,170.

An incorporated self-employed individual is liable for employer SSCs on revenue paid as labour cost.

### 3.3.5. *Employer Payroll Taxes*

123. Employers are liable for a payroll tax of 1.5 percent of the gross wage as a contribution to a training fund on behalf of employees. A quasi self-employed individual is also liable for this tax which applies on top of his or her gross wage. An unincorporated self-employed individual is exempt from training levy liability on his or her labour remuneration, but the tax must be paid on the top of other employees' wages. An incorporated self-employed is liable for this tax on his or her gross wage.

### 3.3.6. *Other taxes*

124. Unincorporated self-employed workers can assign part of their income as labour remuneration and the other part as capital income. While the labour income is taxed by applying PIT, the capital income is taxed applying a PIT tax rate for entrepreneurs (*vállalkozói személyi jövedelemadó*), which is equal to the CIT rate (9 percent). Self-employed can choose which amount to assign to the labour income; however, they will need to pay at least the minimum amount of SSCs.

125. As described in Section 3.2.2, this analysis considers three different portions of the labour and capital income split: (i) a case in which 25 percent of the corporation's net revenue is considered capital income, while the remaining 75 percent is considered labour income; (ii) one in which 50 percent is capital income and 50 percent is labour income; and (iii) one in which 75 percent is capital income and 25 percent is labour income.

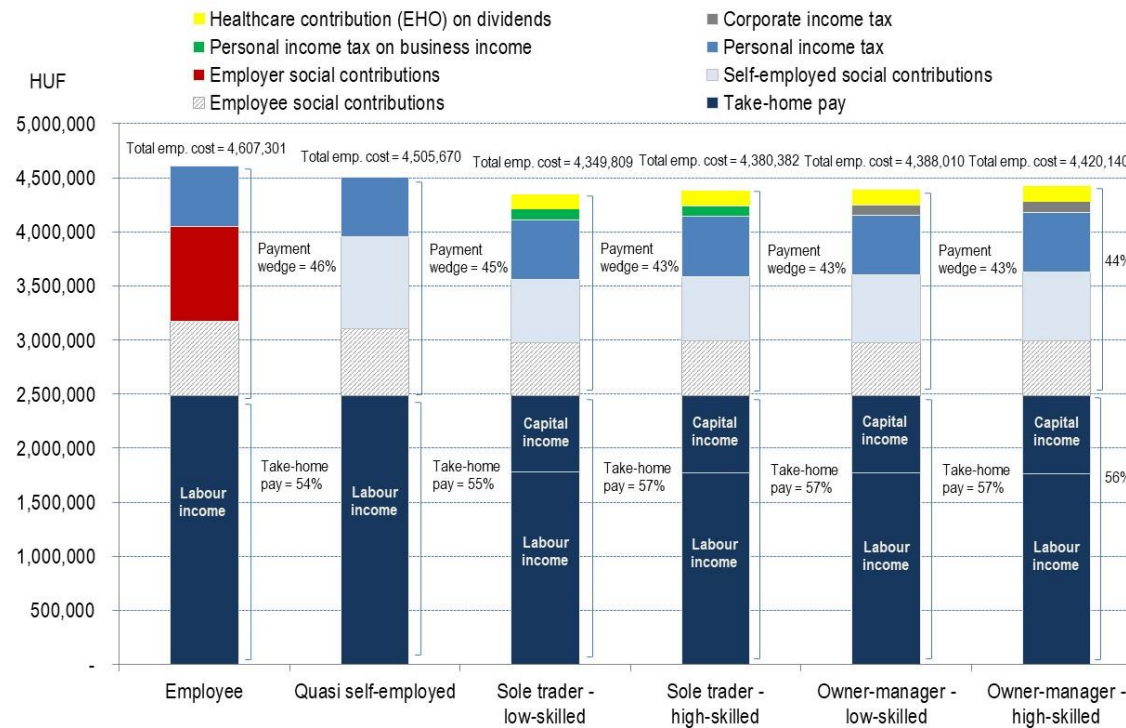
### 3.3.7. *Deductibility of Employers' Labour Costs from CIT*

126. Labour costs (wage, social contribution tax, training levy) can be deducted from the CIT base.

### 3.4. Tables and Figures

**Figure 9. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Hungary (2017)**

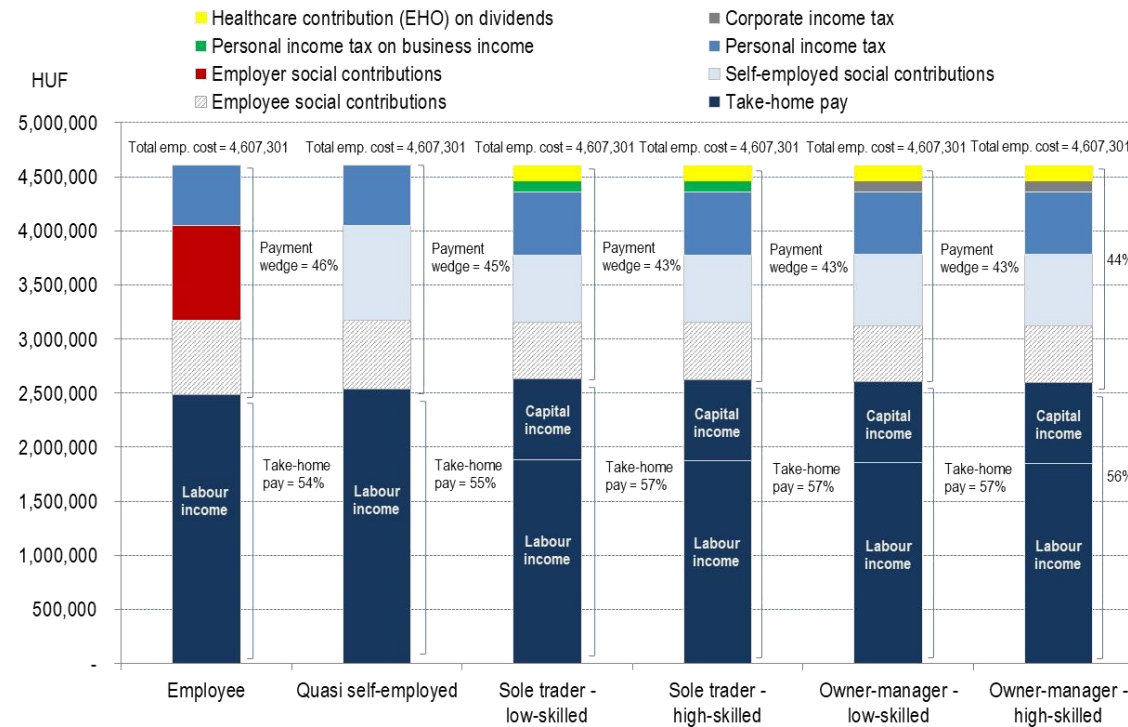
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (HUF 3,730,608). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual’s behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 10. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Hungary (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (HUF 3,730,608). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm’s behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 13. Taxation of Employment Forms where Individual Take-home Pay is Equalised – Hungary (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (HUF 3,730,608). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 9.

	Employee	Quasi self-employed worker	Unincorporated self-employed worker (low-skilled)	Unincorporated self-employed worker (high-skilled)	Incorporated self-employed worker (owner-manager, low-skilled)	Incorporated self-employed worker (owner-manager, high-skilled)
Labour cost	4,607,301	4,505,668	3,262,356	3,285,286	3,291,007	3,315,104
Profits	-	-	1,087,452	1,095,095	1,097,002	1,105,035
<b>Total labour costs and profits</b>	<b>4,607,301</b>	<b>4,505,668</b>	<b>4,349,808</b>	<b>4,380,381</b>	<b>4,388,009</b>	<b>4,420,139</b>
Employer Contributions - contracting firm	876,693					
of which Social Contribution Tax	820,734					
of which Training Levy	55,959					
Employer Contributions - contracted firm		857,354	588,294	592,429	626,224	630,809
of which Social Contribution Tax		802,629	588,294	592,429	586,252	590,545
of which Training Levy		54,725			39,972	40,264
<b>Gross wage</b>	<b>3,730,608</b>	<b>3,648,314</b>	<b>2,674,062</b>	<b>2,692,857</b>	<b>2,664,783</b>	<b>2,684,295</b>
<b>Taxable income</b>	<b>3,730,608</b>	<b>3,648,314</b>	<b>3,663,643</b>	<b>3,689,394</b>	<b>3,663,055</b>	<b>3,689,877</b>
Income tax and general scheme SSCs	1,249,754	1,167,460	1,044,248	1,069,025	1,042,443	1,068,241
of which: gross tax liability (PIT)	559,591	547,247	549,546	553,409	549,458	553,481
of which: general scheme SSCs	690,162	620,213	494,701	515,616	492,985	514,760
Pension	373,061	364,831	267,406	269,286	266,478	268,430
Health security	261,143	255,382	187,184	202,860	186,535	202,860
Unemployment	55,959		40,111	43,470	39,972	43,470
Other taxes			236,412	238,074	238,488	240,235
Special health care contribution (EHO) on dividends			138,541	139,515	139,758	140,781
of which: CIT					98,730	99,453
PIT for unincorporated self-employed			97,871	98,559		
<b>Take-home pay - labour share</b>	<b>2,480,854</b>	<b>2,480,854</b>	<b>1,778,251</b>	<b>1,773,313</b>	<b>1,772,081</b>	<b>1,766,891</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>702,603</b>	<b>707,541</b>	<b>708,773</b>	<b>713,963</b>
<b>Total take-home pay</b>	<b>2,480,854</b>	<b>2,480,854</b>	<b>2,480,854</b>	<b>2,480,854</b>	<b>2,480,854</b>	<b>2,480,854</b>
<b>Average rates</b>						
Income tax rate	15.0%	15.0%				
Employee SSC rate	18.5%	17.0%	18.5%	19.1%	18.5%	19.2%
Total payments less cash transfers	33.5%					
Tax wedge / payment wedge	46.2%	44.9%	43.0%	43.4%	43.5%	43.9%

Source: Authors' calculations based on OECD questionnaire response.

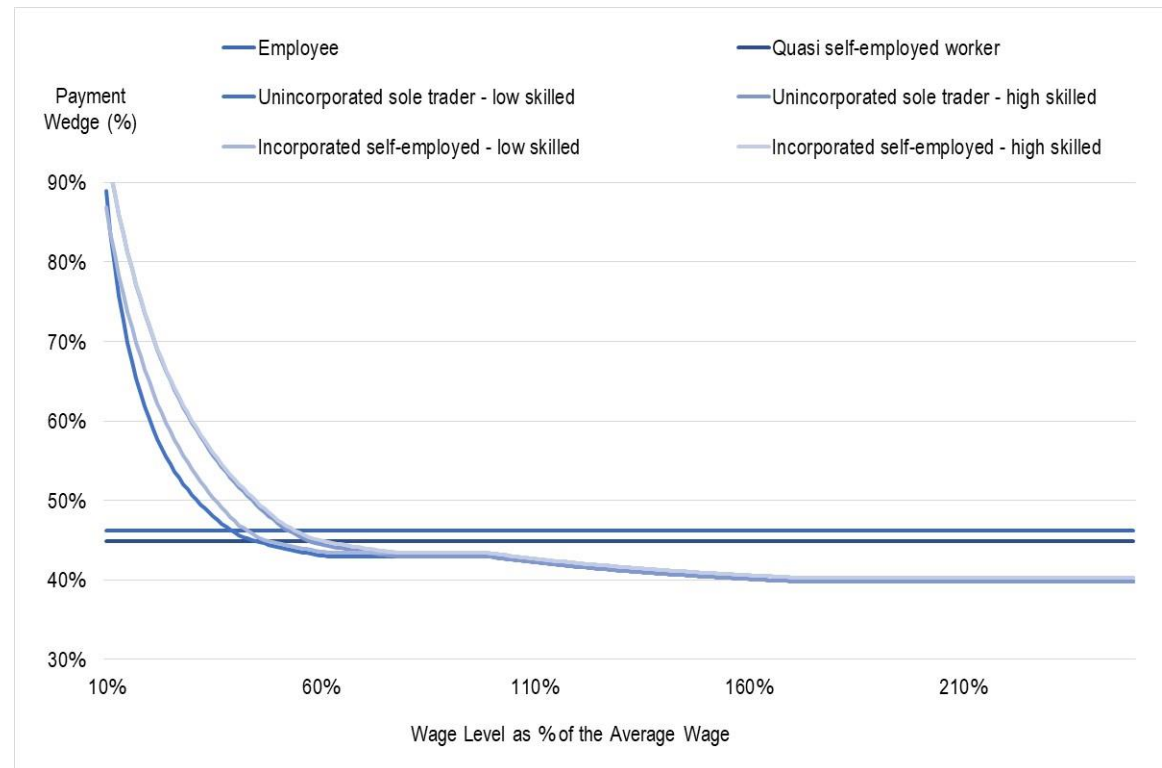
**Table 14. Taxation of Employment Forms where Total Employment Cost is Equalised – Hungary (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (HUF 3,730,608). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 10.

	Employee	Quasi self-employed worker	Unincorporated self-employed worker (low-skilled)	Unincorporated self-employed worker (high-skilled)	Incorporated self-employed worker (owner-manager, low-skilled)	Incorporated self-employed worker (owner-manager, high-skilled)
Labour cost	4,607,301	4,607,301	3,455,476	3,455,476	3,455,476	3,455,476
Profits	-	-	1,151,825	1,151,825	1,151,825	1,151,825
<b>Total labour costs and profits</b>	<b>4,607,301</b>	<b>4,607,301</b>	<b>4,607,301</b>	<b>4,607,301</b>	<b>4,607,301</b>	<b>4,607,301</b>
Employer Contributions - contracting firm	876,693					
of which Social Contribution Tax	820,734					
of which Training Levy	55,959					
Employer Contributions - contracted firm		876,693	623,119	623,119	657,520	657,520
of which Social Contribution Tax		820,734	623,119	623,119	615,550	615,550
of which Training Levy		55,959	66,295	66,295	41,969	41,969
<b>Gross wage</b>	<b>3,730,608</b>	<b>3,730,608</b>	<b>2,832,357</b>	<b>2,832,357</b>	<b>2,797,956</b>	<b>2,797,956</b>
<b>Taxable income</b>	<b>3,730,608</b>	<b>3,730,608</b>	<b>3,880,518</b>	<b>3,880,518</b>	<b>3,846,117</b>	<b>3,846,117</b>
Income tax and general scheme SSCs	1,249,754	1,193,795	1,106,064	1,111,643	1,094,539	1,103,043
of which: gross tax liability (PIT)	559,591	559,591	582,078	582,078	576,918	576,918
of which: general scheme SSCs	690,162	634,203	523,986	529,566	517,622	526,126
Pension	373,061	373,061	283,236	283,236	279,796	279,796
Health security	261,143	261,143	198,265	202,860	195,857	202,860
Unemployment	55,959		42,485	43,470	41,969	43,470
Other taxes			250,407	250,407	250,407	250,407
Special health care contribution (EHO) on dividends			146,743	146,743	146,743	146,743
of which: CIT					103,664	103,664
PIT for unincorporated self-employed			103,664	103,664		
<b>Take-home pay - labour share</b>	<b>2,480,854</b>	<b>2,536,813</b>	<b>1,883,517</b>	<b>1,877,938</b>	<b>1,860,641</b>	<b>1,852,137</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>744,194</b>	<b>744,194</b>	<b>744,194</b>	<b>744,194</b>
<b>Total take-home pay</b>	<b>2,480,854</b>	<b>2,536,813</b>	<b>2,627,712</b>	<b>2,622,132</b>	<b>2,604,835</b>	<b>2,596,331</b>
<b>Average rates</b>						
Income tax rate	15.0%	15.0%	15.0%	15.0%		
Employee SSC rate	18.5%	17.0%	18.5%	18.7%	18.5%	18.8%
Total payments less cash transfers	33.5%					
Tax wedge / payment wedge	46.2%	44.9%	43.0%	43.1%	43.5%	43.6%

**Figure 11. Payment Wedges by Employment Type across Different Wage Levels – Hungary (2017)**

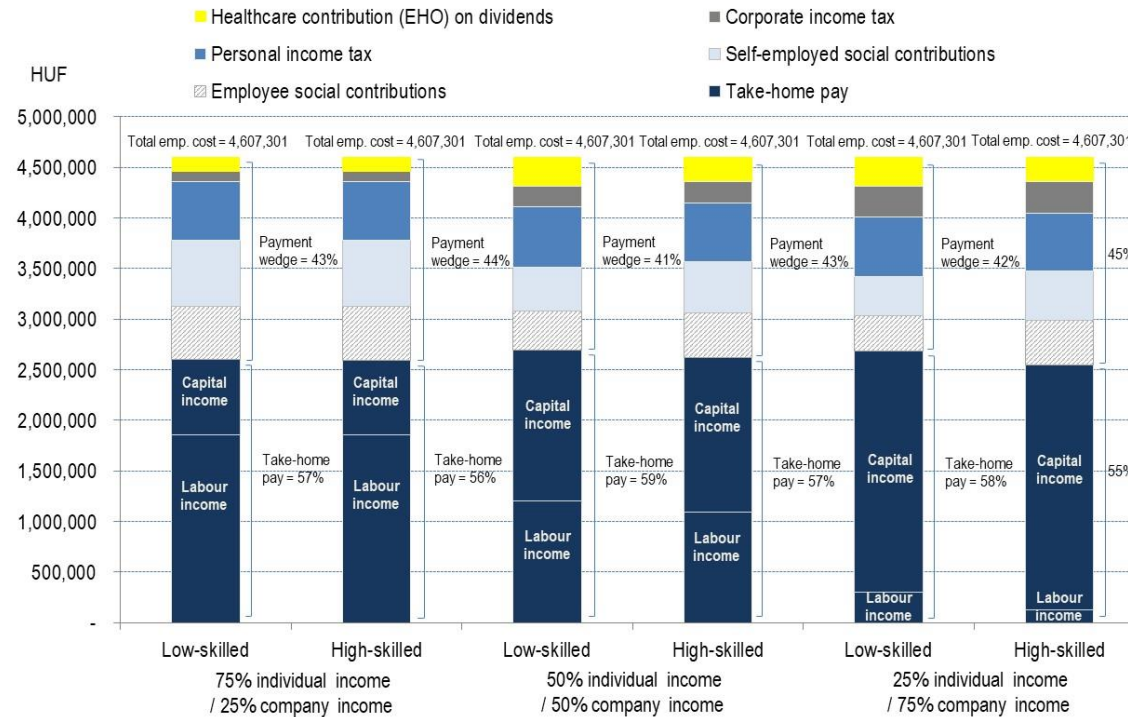
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (HUF 373,061) and continuing through 250% of the average wage (HUF 9,326,520). As shown in Figures 9 and 10, the employment types with the lowest payment wedge for the analysis performed at the average wage were unincorporated sole traders and low-skilled owner-managers. It can be seen from this figure that this remains true for all wage levels past a certain level. However, before around 50% of the average wage, these employment types have higher payment wedges due to minimum levels of social contributions required.



*Source:* Authors' calculations based on OECD questionnaire response.

**Figure 12. Decomposition of the Total Employment Cost for Owner-managers, with Varied Portions of Labour and Capital Income (75% individual income, 25% company income; 50%, 50%; and 25%, 75%) – Hungary (2017)**

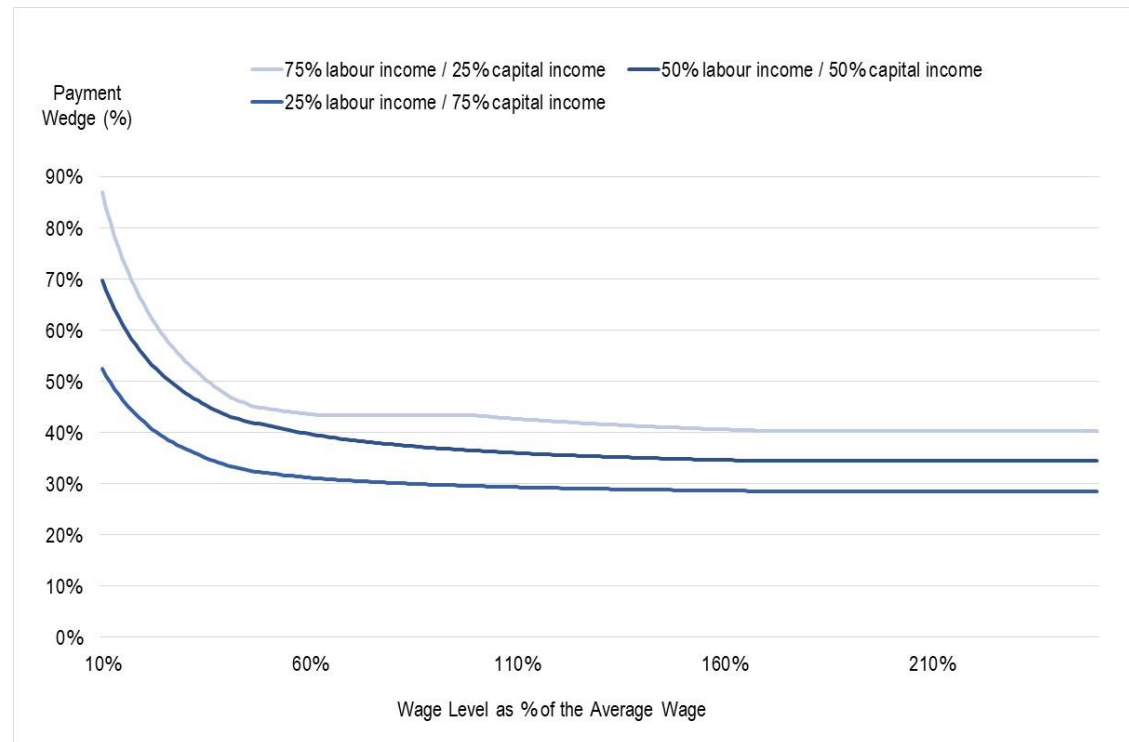
The figure below shows results for the owner-manager employment form only, where the difference across owner-managers is the portion of income taken in the form of labour income and capital income. Both low- and high-skilled owner-managers are considered. From left to right, the underlying assumptions are: 75% labour income, 25% capital income (low- and high-skilled); 50% labour income, 50% capital income (low- and high-skilled); and 25% labour income, 75% capital income (low- and high-skilled). The calculations assume that the individual analysed is unmarried and without children. The exercise shown is that in which total employment cost is held equal (corresponding to Figure 10), as the focus here is the incentive of an individual worker and, namely, the mixture of labour and capital income that he or she would be incentivised to choose given that they operate an owner-manager business. The case of 75% labour income and 25% capital income is the one presented as the owner-manager case in Figure 10 and Table 14.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 13. Payment Wedges of Low-skilled Owner-managers, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) across Different Wage Levels – Hungary (2017)**

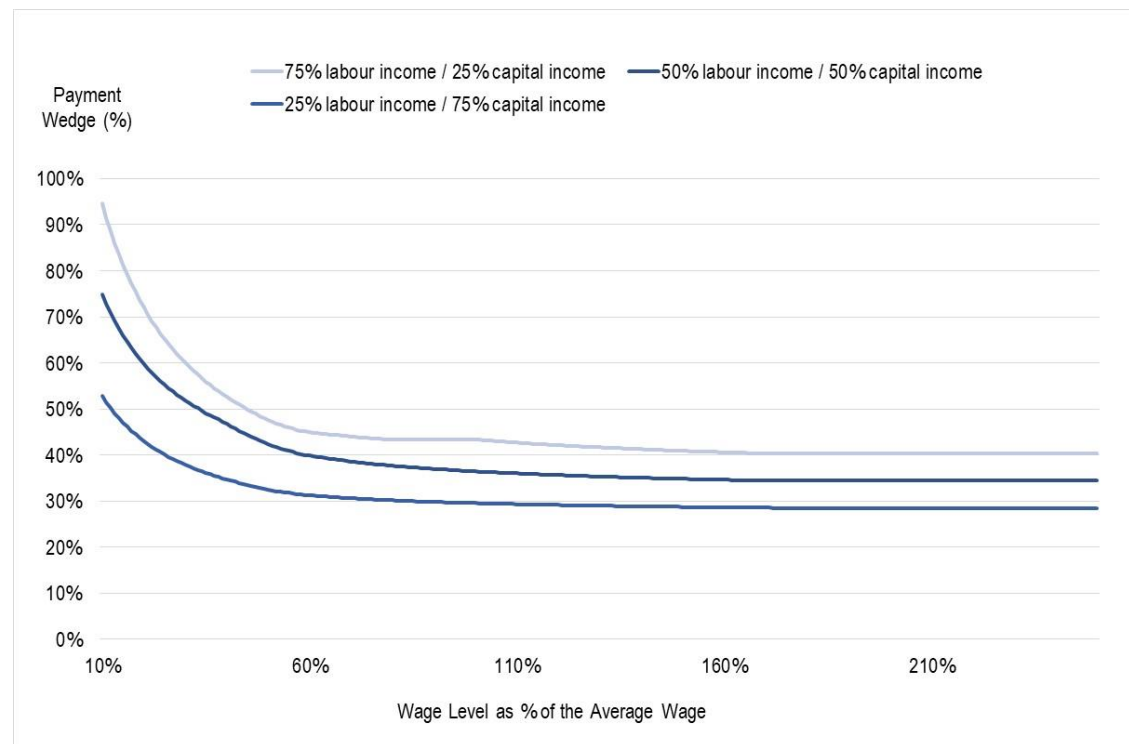
The figure below shows payment wedges for a low-skilled owner-manager across different wage levels, starting at 10% of the average wage (HUF 373,061) and continuing through 250% of the average wage (HUF 9,326,520). Three cases of low-skilled owner-manager are presented, each corresponding to a different portion of labour versus capital income, as done in Figure 12: 75% labour income, 25% labour income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The case of 75% labour income and 25% capital income corresponds to the low-skilled owner-manager results in Figure 11.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 14. Payment Wedges of High-skilled Owner-managers, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) across Different Wage Levels – Hungary (2017)**

The figure below shows payment wedges for a high-skilled owner-manager across different wage levels, starting at 10% of the average wage (HUF 373,061) and continuing through 250% of the average wage (HUF 9,326,520). Three cases of high-skilled owner-manager are presented, each corresponding to a different portion of labour versus capital income, as done in Figure 12: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The case of 75% labour income and 25% capital income corresponds to the low-skilled owner-manager results in Figure 11.



Source: Authors' calculations based on OECD questionnaire response.

## 4. Italy

127. This section summarises our understanding of the Italian tax system based *Taxing Wages 2018* for standard, full-time employees and, related to other types of employment, on the data and information provided via a questionnaire response. The national currency is the Euro (EUR); all currency amounts expressed below are in EUR. We assume an average gross wage of EUR 30,755, which aligns with *Taxing Wages 2018*.

### 4.1. Employment Forms

128. According to the Italian Civil Code, there are three main employment categories: employees, pseudo-employed workers (*collaborazioni coordinate e continuative*, also known as Co.Co.Co.<sup>14</sup>) and self-employed workers. Within the category of self-employment, further distinction is made between individual enterprises, independent contractors and corporate entities (either partnerships or limited liability companies).

129. The Civil Code also identifies activities for which a self-employed worker will be considered an artisan or a merchant.<sup>15</sup> Plumbers, electricians and beauticians are identified as artisans, while shop keepers, commercial brokers and financial dealers are identified as merchants. Artisans and merchants must open an individual enterprise in order to supply their services. Workers that are self-employed but not eligible for designation as artisans or merchants will be considered independent contractors. The professional service supplied by these types of workers is considered mainly intellectual.

130. If an individual chooses to organise as a corporate entity, he or she can choose to form a partnership (*Societa' di Persone*) or a CIT-paying firm (*Societa' di Capitali*). The profits of a partnership are taxed by applying PIT at the partner level, while the profits of a CIT-paying firm are subject to CIT. For self-employed workers under certain turnover and expenses thresholds,<sup>16</sup> a forfait regime is available.

131. In the following sections, we will distinguish between the tax treatment of an individual according to different employment forms and the tax treatment of a firm that has hired or contracted labour from workers of different employment forms.

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<sup>14</sup> In contrast to a standard employee, a pseudo-employed worker is autonomous but his/her activity is continuously provided and coordinated by a firm. Introduced in 1997, this type of labour contract has been modified by different laws over the years.

<sup>15</sup> Article 2195 of the Civil Code lists the activities that identify a merchant.

<sup>16</sup> Turnover in the previous year must have not been higher than the sector-specific threshold. In addition, previous years' expenses for employees must not have exceeded EUR 5,000 and previous years' expenses for fixed assets must not have exceeded EUR 20,000.

## 4.2. Tax Treatment by Employment Form – Individual Perspective

### 4.2.1. *Employee SSCs*

#### *Employees with Permanent and Fixed-term Contracts*

132. Employees engaged under permanent or fixed-term contracts are liable for 9.49 percent of their gross wage in employee SSCs until EUR 46,123, and for 10.49 percent of their gross wage above this threshold. No additional employee SSCs are due for income above EUR 100,324. The standard rate of 9.49 percent is broken down into the following categories: 9.19 percent for pension and 0.3 percent for extraordinary lay-off insurance. An additional 1 percent is added for high income employees, i.e., for gross wages above EUR 46,123.

#### *Continuous and Coordinated Staff*

133. Continuous and coordinated staff are liable for one-third of the total (employee and employer) SSCs. Hence, in 2017 the applicable rate was 11.07 percent.

### 4.2.2. *Self-employed Workers' SSCs*

#### *Individual Enterprises - Merchants*

134. Merchants are liable for SSCs in the amount of 23.64 percent of their gross earnings for pensions plus an additional flat payment of EUR 7.44 for maternity. There is a contribution minimum of EUR 3,682.99 per year, independent of earnings. This minimum amount corresponds to the SSCs the merchant would have paid with earnings equal to EUR 15,548 at a rate of 23.64 percent plus a contribution of EUR 7.44 for maternity. As with employees, no additional SSCs are due once gross income surpasses the upper threshold of EUR 100,324.

#### *CIT-paying Firms*

135. Even if a self-employed worker chooses to supply work through a company, either a partnership or a limited liability entity, he/she is still liable for SSCs on the remuneration attributed to his work.<sup>17</sup> Within a partnership, SSCs will be paid on the labour income assigned to the shareholder.

136. The amount of SSCs to be paid will depend on the activity undertaken. If the activity is classified as commercial, then the rates of the merchant will apply (according to Article 2195 of the Civil Code).

#### *Merchants – Forfait Regime*

137. If a merchant meets the requisite conditions for accessing the forfait regime, a 35 percent reduction in SSCs can be applied (relative to the merchant's contributions). In contrast to the contribution amounts of merchants, SSCs in the forfait regime are computed by applying the rate to the forfait income instead of to the gross wage.

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<sup>17</sup> A Pescara's Court's ruling n.639 (17 June 2014) stated that the SSCs should not be applied to all the partners but only to those working for the firm. More specifically, SSCs should be paid only on the income derived from work and not on capital income.

138. Merchants in the forfeit regime are liable for SSCs in the amount of 15.36 percent (65 percent \* 23.64 percent) of the forfeit income for pensions plus an additional flat payment of EUR 7.44 for maternity. There is a contribution minimum of EUR 2,396.55 per year, independent of earnings.<sup>18</sup> As with employees, no additional SSCs are due once gross income surpasses the upper threshold of EUR 100,324.

#### 4.2.3. *Calculation of Taxable Income*

##### *Employees and Continuous and Coordinated Staff*

139. For employees and continuous and coordinated staff, taxable income for PIT purposes is defined as the gross wage net of employee SSCs.

##### *Self-employed Individual Enterprises*

140. For individuals organised as self-employed individual enterprises, taxable income for PIT purposes is defined as the enterprise's net earnings (i.e., after the deduction of allowed business expenses) net of employee SSCs.

##### *Self-employed CIT-paying Firm*

141. If a self-employed individual supplies his/her labour through a CIT-paying firm, such as a limited liability company, we must distinguish between his/her labour income and the income received as a distribution of the firm's net (after-tax) profit (i.e., capital income). Taxable income for PIT purposes is labour income net of employee SSCs.

142. Capital income is then taxed by applying either a fixed rate equal to 26 percent or the PIT rate, depending on whether the shareholder is qualified or not. It should be noted, however, that labour income and the taxable part of capital income are together subject to PIT, as PIT is applied on comprehensive PIT taxable income, which is calculated as the sum of all of the PIT taxable incomes of the taxpayer. Therefore, the taxable income obtained from any distributed profits will increase the taxable income on which PIT is then computed.

##### *Merchants – Forfeit Regime*

143. As merchants subject to the forfeit regime cannot deduct expenses from their gross income, their PIT taxable base is defined as the difference between the gross turnover multiplied by the merchant's profitability index and employee SSCs. The profitability index is a sector-specific percentage used as proxy for the revenue net of business expenses. The profitability index is multiplied by the merchant's turnover, as shown in the table below.

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<sup>18</sup> This minimum contribution amount corresponds to the SSCs a merchant would have paid with earnings equal to EUR 15,548 considering the reduced rate plus EUR 7.44 for maternity.

**Table 15. Turnover Thresholds and Profitability Index Applied to Merchants in the Forfait Regime**

Sector	Max. turnover in the previous year (2016)	Profitability index
Food and beverages industries	45000	40%
Wholesale and retail trade	50000	40%
Retail sales via stalls and markets of food and beverages	40000	40%
Retail sales via stalls of other products	30000	54%
Construction and real estate	25000	86%
Intermediaries in commerce	25000	62%
Accommodation and food service activities	50000	40%
Professional, scientific, technical activities; health, education and financial and insurance activities	30000	78%
Other economic activities	30000	67%

Source: OECD questionnaire on tax and labour contracts.

#### 4.2.4. *PIT*

144. PIT is paid by standard, full-time employees and self-employed workers. The PIT schedule does not vary by employment type; however, merchants in the forfait regime are not subject to the PIT but instead to a unique tax rate which substitutes for PIT (national and sub-national) and IRAP.

145. In addition to national PIT, a regional and municipal surtax is applied; however, if the national PIT liability after PIT tax credits are applied is lower than EUR 10.33, no PIT surtax applies. It should be noted that, when considering a self-employed individual working as a “working shareholder” in his/her limited liability firm, both PIT paid on labour income and PIT paid on distributed profits must be considered with respect to the threshold of EUR 10.33.

#### *National PIT*

146. In 2017, the following national PIT rates applied:

**Table 16. National PIT Rates – 2017**

Taxable income (EUR)	Tax rate (percent)
0-15000	23
15001-28000	27
28001-55000	38
55001-75000	41
Above 75000	43

Source: OECD questionnaire on tax and labour contracts.

#### *Regional and Municipal PIT Surtax*

147. To calculate regional and municipal tax liabilities, this analysis assumes that the individual is located in Rome; hence, the regional PIT surtax will follow the region Lazio and municipal tax will be computed for the city of Rome.

148. The regional PIT surtax is equal to 1.73 percent for workers with PIT taxable income less than EUR 35,000. If the taxable income is above this threshold, a progressive PIT surtax applies according to the rates shown in the table below. For earnings above EUR 35,000, a rate of 1.73 percent will be applied on the first EUR 15,000, a rate of 2.73 percent on earnings exceeding EUR 15,000 but below EUR 28,000, and so on.

**Table 17. Regional and Municipal Tax Rates – 2017**

Taxable income (EUR)	Tax rate (percent)
0-15000	1.73
15001-28000	2.73
28001-55000	2.93
55001-75000	3.23
Above 75000	3.33

Source: OECD questionnaire on tax and labour contracts.

149. The municipal PIT surtax for Rome is equal to 0.9 percent of the whole PIT taxable base.

#### *Substitute Taxation for Merchants Eligible for Taxation under the Forfeit Regime*

150. Merchants in the forfeit regime are not subject to PIT but instead to a unique tax rate which serves as a substitute for both PIT (national and sub-national) and IRAP. This substitute tax is equal to the 15 percent of forfeit taxable income. For the first five years, the applicable rate is 5 percent.

#### 4.2.5. *PIT Tax Credits*

151. Tax credits can be used to the national PIT liability. They vary according to the type of labour contract. While some tax credits are refundable (i.e., they accrue to the taxpayer even the tax credit is more than the national PIT liability), others are non-refundable (i.e., they can only be creditable against PIT).

#### *Employees and Continuous and Coordinated Staff*

##### Employee Tax Credit

152. A non-fundable employee tax credit is available to employees and continuous and coordinated staff. The credit amount varies by taxable income, as shown in the table below.

**Table 18. Tax Credit Available to Employees and Continuous and Coordinated Staff**

Taxable income (EUR)	Tax credit amount (EUR)
0-8,000	1,880
8,000- 28,000	$978 + 902 \left( \frac{(28,000 - \text{taxable income})}{20,000} \right)$
28,000-55,000	$978 * \left( \frac{(55,000 - \text{taxable income})}{27,000} \right)$
Above 55,000	0

Source: OECD questionnaire on tax and labour contracts.

### 80 Euro Bonus

153. In 2014, Italy introduced an additional refundable tax credit of EUR 960 for employees with income between EUR 8,174 and EUR 24,000, with a phase-out for income between EUR 24,000 and EUR 26,000. This tax credit, also known as an “80 euro bonus” since it consists of a maximum of EUR 80 of additional net earnings each month, is given to employed workers for which national PIT net of the employee tax credit is strictly positive.

**Table 19. 80 Euro Bonus**

Taxable income (EUR)	Tax credit amount (EUR)
0-8,174	0
8,174- 24,000	960
24,000-26,000	$960 * \left( \frac{(26,000 - \text{taxable income})}{2,000} \right)$
Above 26,000	0

Source: OECD questionnaire on tax and labour contracts.

### Self-employed Workers

154. Self-employed workers are not eligible for the employee tax credit nor for the 80 euro bonus. However, they are eligible for a self-employed tax credit. For self-employed workers with PIT taxable income below EUR 4,800, a tax credit of EUR 1,104 is available; the tax credit decreases as income increases above EUR 4,800 until it reaches EUR 55,000. Above the threshold of EUR 55,000, the self-employed tax credit becomes null.

**Table 20. Tax Credit Available to Self-employed Workers**

Taxable income (EUR)	Tax credit amount (EUR)
0 - 4,800	1,104
4,800 – 55,000	$1,104 * \left( \frac{(55,000 - \text{taxable income})}{50,200} \right)$
Above 55,000	0

Source: OECD questionnaire on tax and labour contracts.

### Self-employed Individual Enterprises

155. The self-employed tax credit can be used by individual enterprises.<sup>19</sup> The taxable income used to compute the tax credit is obtained from the earnings (net of deductible expenses) of the individual enterprise.

### Self-employed CIT-paying Firm

156. As mentioned, the PIT taxable income is computed as the sum of both labour PIT taxable income and capital PIT taxable income. Thus, the self-employed tax credit will depend not only on the self-employed labour income but also on the income distributed from a limited company of which the taxpayer has qualified ownership.

<sup>19</sup> For simplicity, we assume that such firms follow a simplified budget.

### Merchants – Forfait Regime

157. Merchants taxed under the forfait regime are not eligible for tax credits.

#### 4.2.6. *Other taxes*

##### *Employees*

158. No other taxes apply to employees.

##### *Self-employed Individual Enterprises: Merchants*

159. In addition to PIT, self-employed workers organised as individual enterprises are subject to an additional tax: a regional production tax called “imposta regionale sulle attività produttive,” or IRAP. This analysis takes the rate applicable to Rome and the associated region, Lazio, which is 4.82 percent applied to the difference between the value of production and certain costs of the firm. IRAP applies to the earnings including the SSCs, i.e., SSCs cannot be deducted from the IRAP tax base.

160. In addition to the IRAP, each individual enterprise must pay an annual fee equal to EUR 53 to the Chamber of Commerce.

##### *Self-employed CIT-paying Firms*

161. In contrast to other self-employed workers, those organised as incorporated limited companies are liable for CIT on the profits of the company. In order to define the profit of the company, the firm can deduct the earnings attributed to the worker as remuneration for his/her work. CIT will then apply to the resulting difference.<sup>20</sup>

162. Once the net, after-tax, profits are distributed to the shareholder, additional tax will be paid on the distributed amount. If the shareholder is a not qualified one, i.e., he/she owns less than 25 percent of the firm and has less than 20 percent of voting power,<sup>21</sup> then a fixed rate of 26 percent will be applied. In contrast, if the shareholder is considered qualified, 58.14 percent of the profit distributed will be taxed at the shareholder level and therefore by applying PIT (national, regional and municipal). In this case, the part of the distributed capital income that is not exempt will increase the PIT taxable income and therefore the PIT paid. For the purpose of this analysis, we assume that the individual is a qualified shareholder.<sup>22</sup>

163. Self-employed workers organised as CIT-paying firms are liable for IRAP. IRAP is due on the net value of production, i.e., SSCs are not deductible and the amount of IRAP to be paid does not change according to what portion of the firm’s total earnings are designated

<sup>20</sup> Under certain conditions, limited companies may choose to opt for transparent taxation, a regime in which profits are taxed immediately at the shareholder level by applying PIT rates. However, this analysis assumes that limited companies opt for the standard regime, i.e., taxation by the CIT.

<sup>21</sup> These percentages refer to companies not publicly listed. If a company is listed, the percentage thresholds are reduced to 5 and 2 percent for ownership and voting power, respectively.

<sup>22</sup> From 2018 onwards, there is no difference in the tax treatment of distributed profits according to qualification criteria since the fixed rate of 26 percent can be applied to all types of shareholders.

as remuneration for labour. Hence, for the purpose of this analysis, the IRAP rate will apply to both labour and capital income.

164. In addition to the above taxes, further compulsory costs must be paid to the Chamber of Commerce. The firm will pay a total of EUR 127.7 (“deposito di bilancio: diritti di segreteria plus imposta di bollo”) plus EUR 309.87 (“tassa di vidimazione libri sociali”) for budget-related compulsory registry plus the annual fee which depends on the company earnings.<sup>23</sup> These liabilities are summarised in the table below. The annual fee cannot exceed EUR 40,000.

**Table 21. Chamber of Commerce Fee**

Company's earnings (EUR)	Annual Chamber of Commerce fee (EUR or %) <sup>24</sup>
0-100,000	120
100,000 – 250,000	0.009%
250,000-500,000	0.00780%
500,000-1,000,000	0.00600%
1,000,000-10,000,000	0.00540%
10,000,000-35,000,000	0.00300%
35,000,000-50,000,000	0.00180%
Above 50,000,000	0.00060%

Source: OECD questionnaire on tax and labour contracts.

#### *Merchants – Forfait Regime*

165. No IRAP is due for merchants in the forfait regime (as the substitute tax is applied instead of PIT and IRAP). Merchants in the forfait regime are liable for the annual Chamber of Commerce fee of EUR 53.

### **4.3. Tax Treatment by Employment Form – Firm Perspective**

#### *4.3.1. CIT of the Employer or Contracting Firm*

166. In 2017, CIT rate in Italy was 24 percent. In addition to the CIT, IRAP (described above) must be applied to the value of net production deriving from activity performed locally. Regarding the type of contract linking the firm to the worker, the full cost of the worker might be deductible from the IRAP tax base. The combined tax rate to be applied to the firm is the result of the IRAP and the CIT applied on the firm's profit after deducting 10 percent of the IRAP paid. For the purpose of this analysis, and following *Taxing Wages*, we assume the firm and the worker to be located in Rome, hence, the IRAP tax rate is assumed to be 4.82 percent.<sup>25</sup>

<sup>23</sup> This analysis does not make assumptions about the costs of production. Thus, the earnings are the sum of the firm's gross profits and gross wage given paid to the shareholder worker.

<sup>25</sup> The standard rate for the IRAP is 3.9%; however, regions can increase it by 0.92 percentage points. Therefore, the 4.82% is the maximum percentage of IRAP.

*Employment of Employees under Permanent Contracts*

167. While the tax base of the CIT is profit, thus making the cost of the worker deductible from the CIT tax base, IRAP applies on a different tax base. The tax base of IRAP is the difference between the value of production and the cost related to this production. While the cost of an employee cannot normally be deducted from the IRAP tax base, since 2015<sup>26</sup> a firm is allowed to deduct the cost of a worker if the firm has hired him or her under a permanent contract.

*Employment of Employees under Fixed-term Contracts*

168. While the cost of the worker is totally deductible from the CIT tax base, no IRAP tax base deductibility is allowed for the cost of worker hired under a fixed term contract.

*Employment of Continuous and Coordinated Staff*

169. While the cost of the worker is totally deductible from the CIT tax base, no IRAP tax base deductibility is allowed for the cost of a worker hired under a continuous and coordinated staff contract.

*Employment of Self-employed Workers*

170. Once a firm stipulates a contract with a self-employed worker, organised as either an individual enterprise, independent contractor or CIT-paying firm, the payment for the services will be treated as cost of the firm and will therefore be deductible from both the firm's CIT tax base and its IRAP tax base.

**4.3.2. Employer SSCs**<sup>27</sup>*Employment of Employees under Permanent Contracts*

171. Employer SSCs for an employee engaged under a permanent contract are equal to 31.58 percent of gross income up to EUR 100,324.<sup>28</sup> For earnings exceeding this threshold, the employer will not pay any additional contributions. The percentage is composed of the following contributions: pension (23.81 percent), sickness (2.22 percent), ordinary lay-off insurance (2 percent),<sup>29</sup> unemployment insurance (1.61 percent), family bonus fund (0.68

<sup>26</sup> Art.1 Law 190/2014

<sup>27</sup> General government employer work-related accident insurance exists in Italy. It is compulsory for employers with employees and contract workers in activities involving the use of machinery and in risky activities as defined by the law. The standard premium to be paid is calculated by applying to remuneration the rates linked to the activity in which the employee works. The rates that vary between 0 to about 13 percent are provided by a special classification that takes into account the different categories of risk between various activities. It is not possible to provide a representative or average rate since the contribution rates vary depending on the industrial activities and other risk factors. Those contributions are not included in the analysis.

<sup>28</sup> Following *Taxing Wages* assumptions, this percentage is the amount of SSCs to be paid by firms with more than 50 employees in the industrial sector (for employee such as *operai* and *Impiegati*).

<sup>29</sup> *Cassa di Integrazione Guadagni Ordinaria*.

percent), extraordinary lay-off insurance (0.6 percent), maternity (0.46 percent) and severance pay insurance (0.2 percent).<sup>30</sup>

#### *Employment of Employees under Fixed-term Contracts*

172. Employer SSCs for an employee engaged under a fixed-term contract are equal to the same as in the permanent contract scenario with an additional 1.4 percent rate for unemployment insurance for non-permanent workers. Therefore, the overall rate of employer SSCs is 32.98 percent on gross income up to EUR 100,324.

#### *Employment of Continuous and Coordinated Staff*

173. Employer SSCs paid on behalf of continuous and coordinated staff follow a different SSCs computation. There is a unique overall rate, without a distinction between employer and employee. However, once the overall rate is computed, two-thirds of the SSCs have to be paid by the employer and the remaining one-third by the worker. The overall rate is 33.23 percent of gross income, which is composed of: pension (32 percent), unemployment (0.51 percent), sickness (0.5 percent) and maternity (0.22 percent). Since two-thirds of the SSCs have to be paid by the employer, the employer's SSCs percentage is 22.15 percent.

#### *Employment of Self-employed Workers*

174. Firms that hire self-employed workers are not liable for any employer SSCs since no employment relationship is in place.

### **4.3.3. Deductibility of Employers' Labour Costs from CIT**

#### *Employment of Employees under Permanent Contracts*

175. Firms that hire employees under permanent contracts are permitted to deduct the full labour cost, gross wage and employer SSCs from the IRAP tax base. Since the labour cost is considered a cost for determining the CIT taxable profit, the overall employment cost will be deductible against the CIT tax base. Finally, 10 percent of IRAP is deductible from the CIT tax base.

#### *Employment of Employees under Fixed-term Contracts and Continuous Coordinated Staff*

176. In contrast to the case of a permanent contract, firms that hire employees under fixed-term contracts or continuous coordinated staff are not able to deduct the labour cost from the IRAP. However, since the labour costs are still considered a cost for the firm, they are deductible from the CIT.

#### *Employment of Self-employed Workers*

177. Since individuals hired by a firm as self-employed workers do not have an employment contract with the contracting firm, the overall employment cost is treated as a cost for both CIT purpose and IRAP purpose. Hence, firms are able to deduct the overall employment cost (gross wage plus profits) both when computing the CIT and the IRAP.

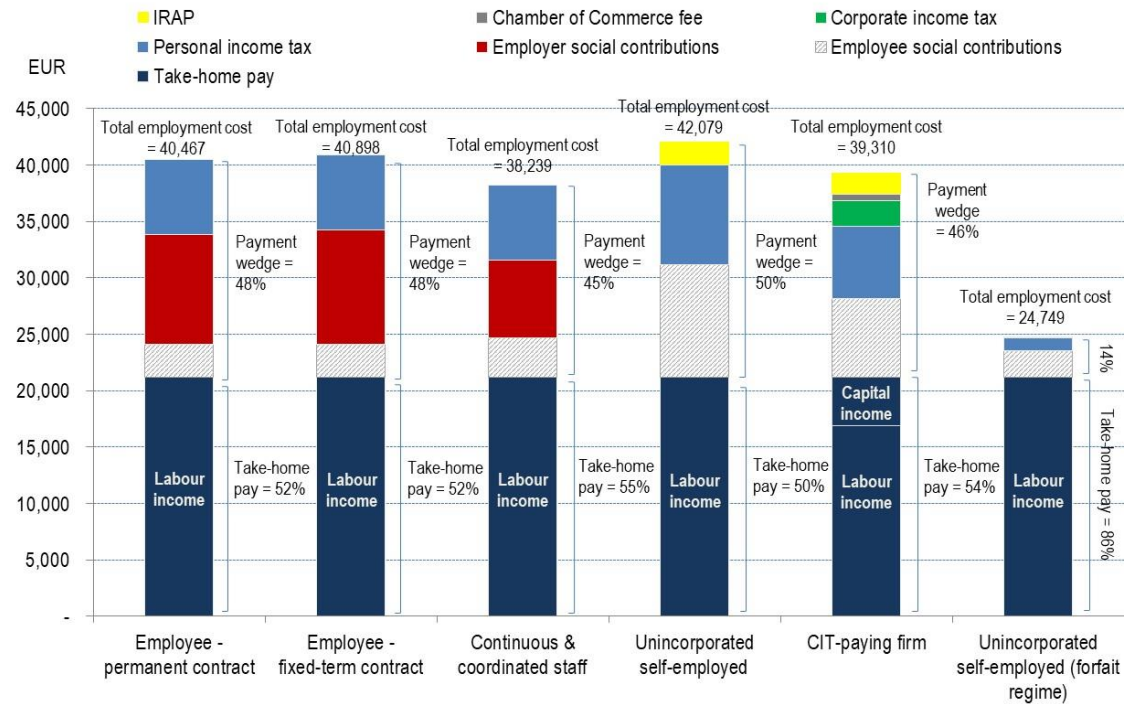
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<sup>30</sup> *Trattamento di Fine Rapporto.*

### 4.5. Tables and Figures

**Figure 15. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Italy (2017)**

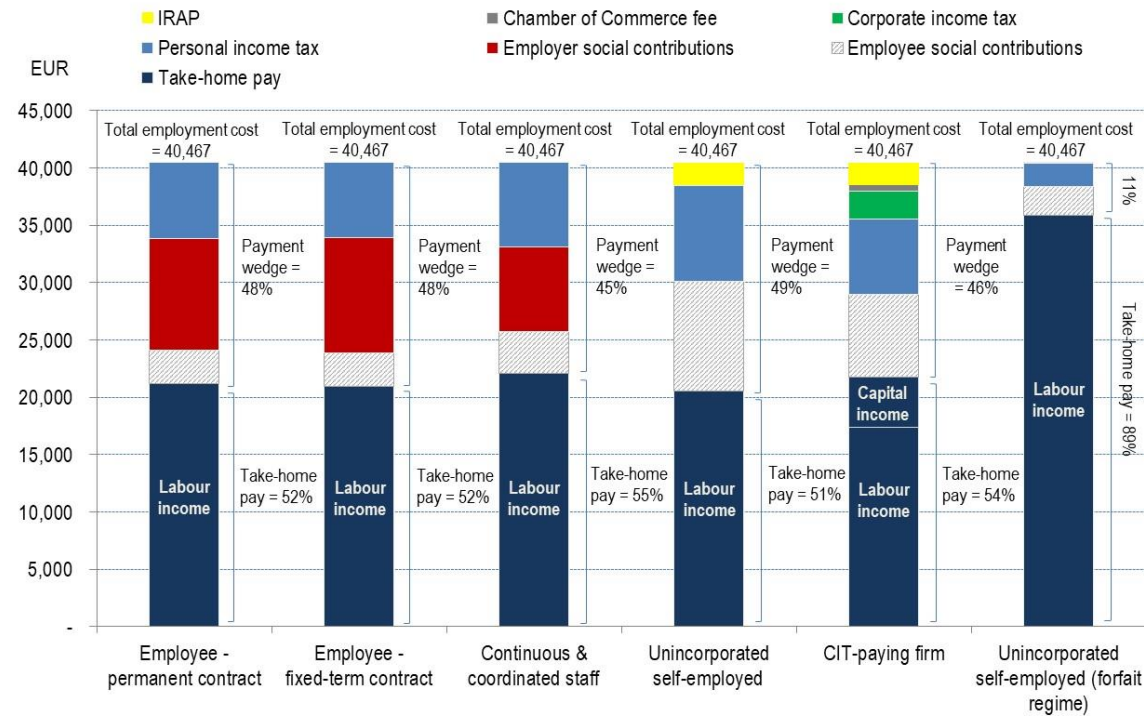
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 30,755). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. This ensures indifference on the individual’s behalf with respect to employment form and is done in order to assess the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 16. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Italy (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 30,755). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. This ensures indifference on the firm’s behalf with respect to employment form and is done in order to assess the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 22. Taxation of Employment Forms where Individual Take-home Pay is Equalised**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 30,755). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. This ensures indifference on the individual's behalf with respect to employment form and is done in order to assess the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 11.

	Employee - permanent contract	Employee - fixed term contract	Continuous and coordinated staffs	Unincorporated self-employed	CIT-paying firm	Unincorporated self-employed (forfait regime)
<b>Profits</b>					9,827.5	
<b>Total labour costs and profits</b>	<b>40,467</b>	<b>40,898</b>	<b>38,239</b>	<b>42,079</b>	<b>39,310</b>	<b>24,749</b>
Employer SSCs or Contracting Firm SSCs	9,712	10,143	6,935			
of which pension (IVS)	7,323	7,323	6,678			
of which Unemployment Assurance	495	495				
of which Fund for assurance of the TFR	62	62				
of which Fund for the Family bonus	209	209				
of which CIG Ordinary	615	615				
of which CIG extraordinary	185	185				
of which Maternity	141	141	46			
of which Sickness (include the family bor	683	683	104			
of which additional NASPI for fixed contracts		431				
of which DISCol Unemployment Assurance			106			
<b>Gross wage (Box 1)</b>	<b>30,755</b>	<b>30,755</b>	<b>31,304</b>	<b>42,079</b>	<b>29,483</b>	<b>24,749</b>
Employee or Contracted Firm SSCs	2,918.6	2,918.6	3,467.4	9,954.8	6,977.1	2,396.5
of which pension	2,826.4	2,826.4	3,339.1	9,947.4	6,969.7	2,389.1
of which additional for high income	-	-		-	-	-
of which CIG extraordinary	92.3	92.3				
of which sickness and family bonus			52.2			
of which maternity			23.0	7.4	7.4	7.4
of which DISCol Unemployment Assurance			53.2			
<b>Taxable income (Box 1)</b>	<b>27,836</b>	<b>27,836</b>	<b>27,836</b>	<b>32,124</b>	<b>25,773</b>	<b>7,503</b>
Tax liability - PIT (after Tax Credits)	6,663	6,663	6,663	8,869	6,394	1,125
of which National	6,916	6,916	6,916	8,527	6,359	
of which Regional	482	482	482	556	446	
of which Municipal	251	251	251	289	232	
Tax Credits						
of which Employee tax credit	985	985	985			
Refundable 80 euro bonus	-	-	-			
Self-employed Tax Credit				503	643	
Other taxes (CIT, IRAP, CoC)				2,081	4,765	53
IRAP				2,028	1,895	
Chamber of Commerce				53	558	53
CIT					2,313	
<b>Net take-home pay</b>	<b>21,174</b>	<b>21,174</b>	<b>21,174</b>	<b>21,174</b>	<b>21,174</b>	<b>21,174</b>
Net take-home pay from labour	21,174	21,174	21,174	21,174	16,922	21,174
Net take-home pay from capital					4,252	
<b>Average Tax Rates</b>						
Average compulsory payment wedge	<b>47.68%</b>	<b>48.23%</b>	<b>44.63%</b>	<b>49.68%</b>	<b>46.14%</b>	<b>14.45%</b>
Effective Average compulsory payment wed	<b>26.61%</b>	<b>31.88%</b>	<b>27.14%</b>	<b>29.42%</b>	<b>24.45%</b>	<b>-20.00%</b>
Income tax rate	<b>21.66%</b>	<b>21.66%</b>	<b>21.28%</b>	<b>25.90%</b>	<b>28.39%</b>	<b>4.55%</b>
Employee SSC rate	<b>9.49%</b>	<b>9.49%</b>	<b>11.08%</b>	<b>23.66%</b>	<b>23.67%</b>	<b>9.68%</b>

Source: Authors' calculations based on OECD questionnaire response.

**Table 23. Taxation of Employment Forms where Total Employment Cost is Equalised**

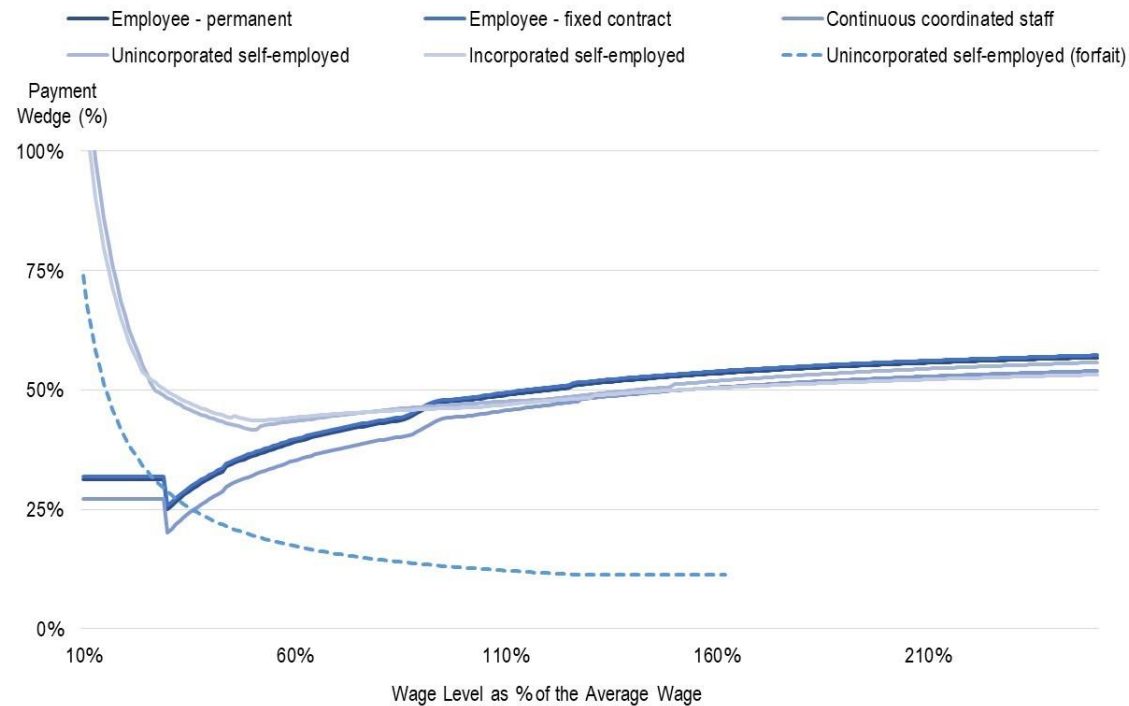
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 30,755). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. This ensures indifference on the firm's behalf with respect to employment form and is done in order to assess the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 12.

	Employee - permanent contract	Employee - fixed term contract	Continuous and coordinated staffs	Unincorporated self-employed	CIT-paying firm	Unincorporated self-employed (forfait regime)
<b>Profits</b>					10,116.9	
<b>Total labour costs and profits</b>	<b>40,467</b>	<b>40,467</b>	<b>40,467</b>	<b>40,467</b>	<b>40,467</b>	<b>40,467</b>
Employer SSCs or Contracting Firm SSCs	9,712	10,036	7,339			
of which pension (IVS)	7,323	7,246	7,067			
of which Unemployment Assurance	495	490				
of which Fund for assurance of the TFR	62	61				
of which Fund for the Family bonus	209	207				
of which CIG Ordinary	615	609				
of which CIG extraordinary	185	183				
of which Maternity	141	140	49			
of which Sickness (include the family bon	683	676	110			
of which additional NASPI for fixed contracts		426				
of which DISCol Unemployment Assurance			113			
<b>Gross wage (Box 1)</b>	<b>30,755</b>	<b>30,431</b>	<b>33,128</b>	<b>40,467</b>	<b>30,351</b>	<b>40,467</b>
Employee or Contracted Firm SSCs	2,918.6	2,887.9	3,669.5	9,573.9	7,182.3	2,494.7
of which pension	2,826.4	2,796.6	3,533.7	9,566.5	7,174.9	2,487.3
of which additional for high income	-	-	-	-	-	-
of which CIG extraordinary	92.3	91.3				
of which sickness and family bonus			55.2			
of which maternity			24.3	7.4	7.4	7.4
of which DISCol Unemployment Assurance			56.3			
<b>Taxable income (Box 1)</b>	<b>27,836</b>	<b>27,543</b>	<b>29,459</b>	<b>30,893</b>	<b>26,532</b>	<b>13,692</b>
Tax liability - PIT (after Tax Credits)	6,663	6,562	7,364	8,342	6,635	2,054
of which National	6,916	6,837	7,514	8,060	6,564	
of which Regional	482	476	510	534	459	
of which Municipal	251	248	265	278	239	
Tax Credits						
of which Employee tax credit	985	999	925			
Refundable 80 euro bonus	-	-	-	530	626	
Self-employed Tax Credit						
Other taxes (CIT, IRAP, CoC)						53
IRAP				1,951	1,951	
Chamber of Commerce				53	558	53
CIT					2,381	
<b>Net take-home pay</b>	<b>21,174</b>	<b>20,981</b>	<b>22,095</b>	<b>20,548</b>	<b>21,761</b>	<b>35,866</b>
Net take-home pay from labour	21,174	20,981	22,095	20,548	17,374	35,866
Net take-home pay from capital					4,386	
<b>Average Tax Rates</b>						
Average compulsory payment wedge	<b>47.68%</b>	<b>48.15%</b>	<b>45.40%</b>	<b>49.22%</b>	<b>46.23%</b>	<b>11.37%</b>
Effective Average compulsory payment wed	<b>26.61%</b>	<b>31.78%</b>	<b>28.16%</b>	<b>28.78%</b>	<b>24.58%</b>	<b>-24.31%</b>
Income tax rate	<b>21.66%</b>	<b>21.56%</b>	<b>22.23%</b>	<b>25.43%</b>	<b>28.48%</b>	<b>5.08%</b>
Employee SSC rate	<b>9.49%</b>	<b>9.49%</b>	<b>11.08%</b>	<b>23.66%</b>	<b>23.66%</b>	<b>6.16%</b>

Source: Authors' calculations based on OECD questionnaire response.

**Figure 17. Payment Wedges by Employment Type across Different Wage Levels – Italy (2017)**

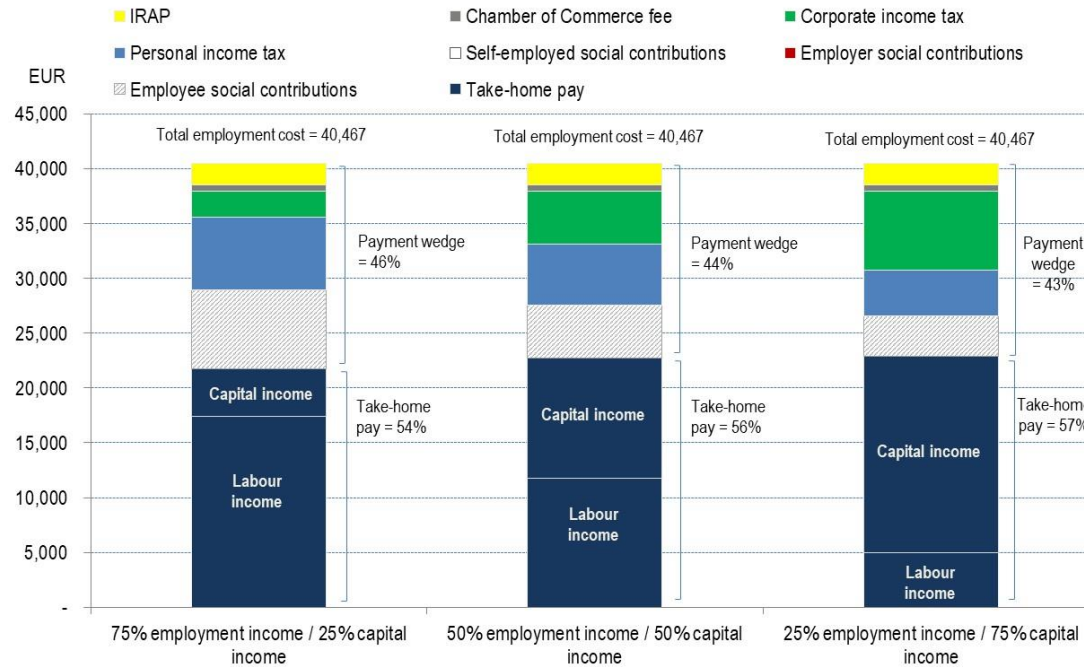
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (EUR 3,078) and continuing through 250% of the average wage (EUR 76,888). As shown in Figures 9 and 10, the employment types with the lowest payment wedge for the analysis performed at the average wage were unincorporated sole traders and low-skilled owner-managers. It can be seen from this figure that this remains true for all wage levels past a certain level. However, before around 50% of the average wage, these employment types have higher payment wedges due to minimum levels of social contributions required.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 18. Decomposition of the Total Employment Cost for CIT-paying firms, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – Italy (2017)**

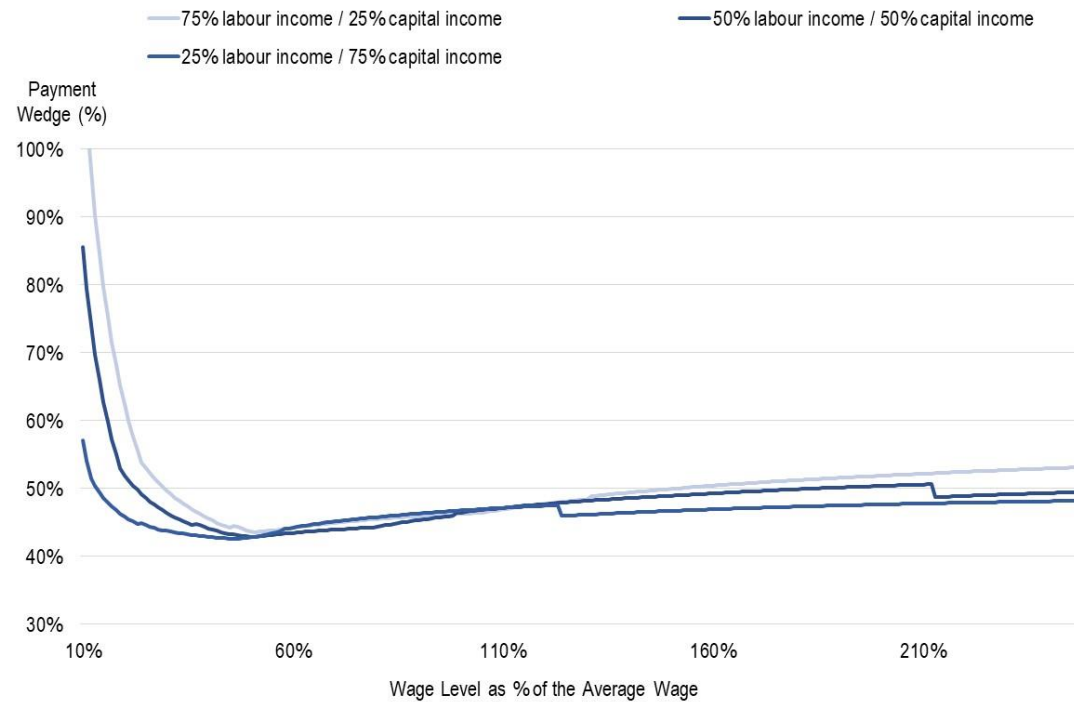
The figure below shows results for the owner-manager employment form only, where the difference across owner-managers is the portion of income taken in the form of individual income and company income. Both low- and high-skilled owner-managers are considered. From left to right, the underlying assumptions are: 75% individual income, 25% company income (low- and high-skilled); 50% individual income, 50% company income (low- and high-skilled); and 25% individual income, 75% company income (low- and high-skilled). The calculations assume that the individual analysed is unmarried and without children. The exercise shown is that in which total employment cost is held equal (corresponding to Figure 10), as the focus here is the incentive of an individual worker and, namely, the mixture of individual and company income that he or she would be incentivised to choose given that they operate an owner-manager business. The case of 75% individual income and 25% company income is the one presented as the owner-manager case in Figure 10 and Table 14.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 19. Payment Wedges of Low-skilled Owner-managers, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – Italy (2017)**

The figure below shows payment wedges for a low-skilled owner-manager across different wage levels, starting at 10% of the average wage (EUR 3,078) and continuing through 250% of the average wage (EUR 76,888). Three cases of low-skilled owner-manager are presented, each corresponding to a different portion of individual versus company income, as done in Figure 12: 75% individual income, 25% company income; 50% individual income, 50% company income; and 25% individual income, 75% company income. The case of 75% individual income and 25% company income corresponds to the low-skilled owner-manager results in Figure 11.



Source: Authors' calculations based on OECD questionnaire response.

## 5. The Netherlands

178. This section summarises our understanding of the Dutch tax system based *Taxing Wages 2018* for standard, full-time employees and, related to other types of employment, on the data and information provided via a questionnaire response. The national currency is the Euro (EUR); all currency amounts expressed below are in EUR. We assume an average gross wage of EUR 50,909, which aligns with *Taxing Wages 2018*.

### 5.1. Employment Forms

179. There are three categories of employment in the Netherlands:

- Standard workers
- Unincorporated self-employed
- Incorporated self-employed

180. The majority of workers in the Netherlands are standard, full-time employees. In 2016, there were 7,419,000 employed persons and 1,205,900 self-employed individuals.<sup>31</sup> Of those who were self-employed, the share of unincorporated self-employed (consisting of cooperating family members, self-employed entrepreneurs and other self-employed) was 83.1 percent and the share of incorporated self-employed (consisting of directors of their companies that are also the majority shareholders, or *directeur-groootaandeelhouder*) was 16.9 percent.

181. Between 2007 and 2016, the number of self-employed individuals grew by 21.2 percent. Within the category of self-employed, the number of unincorporated self-employed individuals grew by 24.5 percent while the number of incorporated individuals grew by 7.5 percent.

### 5.2. Tax Treatment by Employment Form – Individual Perspective

182. This section covers the tax treatment of an individual according to the employment categories described in Section 5.1.

#### 5.2.1. *Deductions Applied Before the Calculation of PIT*

183. Several deductions are to be applied before the calculation of the PIT base. These include an employee NTCP pension contribution for standard, full-time workers as well as for the self-employed in the case that the self-employed self-insure voluntarily. In addition, self-employed may deduct a self-employed tax deduction as well as an exemption for SMEs. The calculation of these amounts is described below.

184. For standard, full-time employees, the employee NTCP pension contribution is calculated as the sum of two amounts:

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<sup>31</sup> Statistics Netherlands, Den Haag/Heerlen.

- A pension premium, calculated as 6.12% of the gross wage net of the pension franchise amount of EUR 13,225 below a gross wage of EUR 103,317 (and as 6.12% of EUR 103,317 net of the pension franchise otherwise).
- An early retirement contribution, calculated as 0.02% of the gross wage below EUR 103,317 (and as 0.02% of EUR 103,317 otherwise).

185. The employee NTCP pension contribution is only required of standard, full-time employees. It is not required for self-employed. The self-employed may, however, choose to self-insure. In the case of self-insurance, the amounts of self-insurance are deductible.

186. A version of our analysis assumes that the self-employed insure themselves for pension and disability. In this case, the amount of voluntary self-insurance for pension is assumed equal to the sum of the employer and employee NTCPs for pension. The employee NTCP for pension is described above and the employer NTCP for pension is described below.

187. Next, the self-employed may be entitled to two reductions in the PIT base:

- A deduction for unincorporated self-employed can be claimed by individuals who work more than 1,225 hours annually in their firms. This deduction is a lump sum of EUR 7,280.
- Unincorporated self-employed are also eligible for an SME exemption equal to 14 percent of the gross profits net of the self-employed deduction.

### 5.2.2. Calculation of Taxable Income

188. For employees, taxable income is the gross wage less employee NTCPs. For the self-employed, taxable income is the gross profit less any applicable deductions for self-employment and amounts of voluntary self-insurance for the self-employed (e.g., for pension and/or disability).

### 5.2.3. PIT

189. PIT is paid by standard, full-time employees and the self-employed (where the incorporated self-employed pay PIT on the attributed wage described below). The PIT schedule does not vary by employment type. In 2017, PIT rates in the Netherlands were:

**Table 24. PIT schedule in the Netherlands**

Taxable income (EUR)	Tax rate (percent)
0 – 19,982	8.9
19,982 – 33,791	13.15
33,791 – 67,072	40.8
67,072+	52.0

Source: Taxing Wages (2018), OECD questionnaire on tax and labour contracts.

### 5.2.4. Employee SSCs

190. Employee SSCs include state pension (*algemene ouderdomswet*, or AOW), long-term care (*wet langdurige zorg*, or WLZ) and survivors' pension (*algemene nabestaandenwet*, or ANW) contributions. Together, these constitute Pillar 1 contributions and do not vary by employment category. Thus, for both standard, full-time employees and for self-employed, these contributions are calculated as follows:

- The pension contribution is calculated as 17.9 percent of taxable income up until a maximum of taxable income of EUR 33,791 (and as 17.9 percent of EUR 33,791 thereafter).
- The long-term care contribution is calculated as 9.65 percent of taxable income up until a maximum of taxable income of EUR 33,791 (and as 9.65 percent of EUR 33,791 thereafter).
- The survivors' pension contribution is calculated as 0.10 percent of taxable income up until a maximum of taxable income of EUR 33,791 (and as 0.10 percent of EUR 33,791 thereafter).

191. These three contributions translate into a combined employee SSC rate of 27.65 percent of taxable income. A reduced employee SSC rate (9.75 percent) applies for individuals older than pension age (65.75 in 2017). These SSC rates also apply to the taxable income of the self-employed.

#### ***5.2.5. Healthcare Contribution & Benefit***

192. For basic healthcare insurance, each individual (whether a standard employee or self-employed) pays an average of EUR 1,346 per year to a self-chosen, private health insurance company.

193. Against this cost, a healthcare benefit for individuals with taxable income less than EUR 27,857 is offered where the benefit is calculated as EUR 1,530 – 2.305 percent \* EUR 20,108 – 13.46 percent \* (taxable income - EUR 20,108). Different amounts apply for families.

#### ***5.2.6. Deductibility of Employees' Tax Costs***

194. Standard employees may deduct NTCP pension contributions and employee health insurance contributions from PIT. Self-employed unincorporated may deduct pension or disability contributions made voluntarily. Self-employed incorporated may deduct their attributed wage from profits taxable at the company level as well as pension or disability contributions made voluntarily.

#### ***5.2.7. Deductibility of Business Expenses***

195. Standard employees can deduct public transportation travel expenses for distances of more than 10 km between home and work. The maximum deduction for employees who travel by public transport is EUR 1,951 for distances of more than 80 km. There is no deduction if the travel expenses are reimbursed or the employer provides transport. Self-employed may deduct (with some exceptions) all business expenses, from PIT in the case of unincorporated self-employed and from CIT in the case of incorporated self-employed.

#### ***5.2.8. Potential Taxation of Income Partly as Labour Income, Partly as Capital Income***

196. Incorporated self-employed (i.e., owner-managers of closely held companies) are required to attribute a wage to themselves equal to a minimum of 75 percent of a comparable wage if they had performed the same work as an employee, with a minimum attributed wage of EUR 45,000. The attributed wage is taxed as labour income.

197. In addition to PIT on the attributed wage, incorporated self-employed pay a personal income tax of 25 percent on profits distributed to the owner-manager (PIT Box 2). The personal income tax also applies to profits made by selling (part of the enterprise). Finally, taxable profit is taxed according to the CIT schedule described below.

### 5.2.9. *Tax Allowances and Credits Offered Against Labour Costs*

198. Two main tax credits accrue to individuals: the general tax credit and the work credit.

199. The general tax credit depends upon taxable income. In 2017, the maximum of the general tax credit was EUR 2,254 when no reduction is applicable (people who are on or above the legal pension age receive less general tax credit, because they do not pay social contributions for the state pension) and taxable income is below or equal to EUR 19,982. For incomes above this threshold, the general tax credit is phased out at a rate of 4.787 percent (per euro). Incomes above EUR 67,072 receive no general tax credit.

200. The work credit depends on the gross wage less employee NTCPs or amounts of voluntary self-insurance for the self-employed (e.g., for pension and/or disability) and is phased in according to two trajectories. The first trajectory runs from EUR 0 to EUR 9,309. On this first trajectory, the work credit equals 1.772 percent of taxable income from work. On the second trajectory, which runs from EUR 9,309 to EUR 20,108, the work credit equals EUR 165 plus 28.317 percent of the portion of income above EUR 9,309. So at an income of EUR 20,108, the maximum of EUR 3,223 is reached. The work credit stays at its maximum till an income of EUR 32,444. After this threshold, the work credit is fully phased out at a rate of 3.60 percent (per euro). 2016 was the first year in which higher incomes receive no work credit.

201. For detail on the health care benefit, see above.

### 5.2.10. *Cash Transfers*

202. There are no cash transfers.

## 5.3. Tax Treatment by Employment Form – Firm Perspective

203. This section covers the tax treatment of a firm according to the employment categories described in Section 5.1.

### 5.3.1. *CIT*

204. In 2017, CIT rates in the Netherlands were:

**Table 25. Corporate Tax Rates in the Netherlands**

Taxable profit	Central	Sub-central	Combined
Under EUR 200,000	20%	NA	20%
Above EUR 200,000	25%	NA	25%

Source: OECD Table II.1, OECD Tax Database, OECD questionnaire on tax and labour contracts.

205. In the case of an incorporated self-employed worker, the incorporation that is owned by him pays CIT on firm profits.

### 5.3.2. *Employer NTCPs & SSCs*

206. Employer NTCPs in the Netherlands include pension and healthcare contributions, which also vary by employment category. This section lays out the calculations for employer NTCPs for all employment types. Employer SSCs in the Netherlands include unemployment and disability contributions, which vary by tax law employment category and which only apply to standard employees.

#### *Employer NTCPs for standard, full-time employees:*

207. The pension contribution is the sum of two amounts:

- A pension premium, calculated as 13.31 percent of the gross wage net of the pension franchise amount of EUR 13,225 below EUR 103,317 (and as 13.31 percent of EUR 103,317 otherwise).
- An early retirement contribution, calculated as 0.10 percent of the gross wage below EUR 103,317 (and as 0.10 percent of EUR 103,317 otherwise).

208. The healthcare contribution is calculated as 6.65 percent of the gross wage net of employee NTCPs for pension until a maximum of gross earnings of EUR 53,701.

#### *Employer SSCs for standard, full-time employees:*

209. The unemployment contribution is the sum of two amounts:

- A contribution to the general unemployment fund, calculated as 2.64 percent of the gross wage less employee NTCPs below EUR 53,701 (and as 2.64 percent of EUR 53,701 otherwise).
- A contribution to industrial insurance associations redundancy payments fund, which is, on average, 1.36 percent of the gross wage less employee NTCPs below EUR 53,701 (and as 1.36 percent of EUR 53,701 otherwise).

210. The disability contribution is calculated as 7.82 percent of the gross wage less employee NTCPs below EUR 53,701 (and as 7.82 percent of EUR 53,701 otherwise).

211. In addition to the employer SSCs and NTCPs mentioned above, the Dutch analysis includes a reservation for income loss through illness, which is, on average, 2.9 percent of the gross wage. This is not included in the current analysis or in *Taxing Wages*.

212. Employer SSCs for non-standard workers (both unincorporated and incorporated self-employed, as these are treated the same):

- No unemployment contribution is required of the self-employed.
- Disability contributions by the self-employed are voluntary. The current analysis does not model voluntary contributions.
- Pension contributions by the self-employed are voluntary. The current analysis does not model voluntary contributions.
- The healthcare contribution for the self-employed is calculated as 5.40 percent the gross wage net of employee NTCPs for pension and of deductions for the self-employed up to a maximum of taxable income of EUR 53,701.

### 5.3.3. *Employer Payroll Taxes*

213. In the Netherlands, payroll taxes consist of:

- The wage tax (Loonbelasting)
- Employer SSCs
- Employer NTCPs: pension contribution, early retirement and healthcare contribution pursuant to the Healthcare Insurance Act

214. The wage tax is withholding as a preliminary levy in advance of PIT and employee SSCs. As the employer withholds wage tax, the employee's PIT liability decreases. Employer NTCPs and SSCs are as described above.

### 5.3.4. *Deductibility of Employers' Labour Costs from the CIT Base*

215. Employer's labour costs are deductible from the CIT base, irrespective of the type of worker.

### 5.3.5. *Tax Allowances and Credits Offered Against Labour Costs*

216. No tax allowances or credits are offered against labour costs, irrespective of the type of worker.

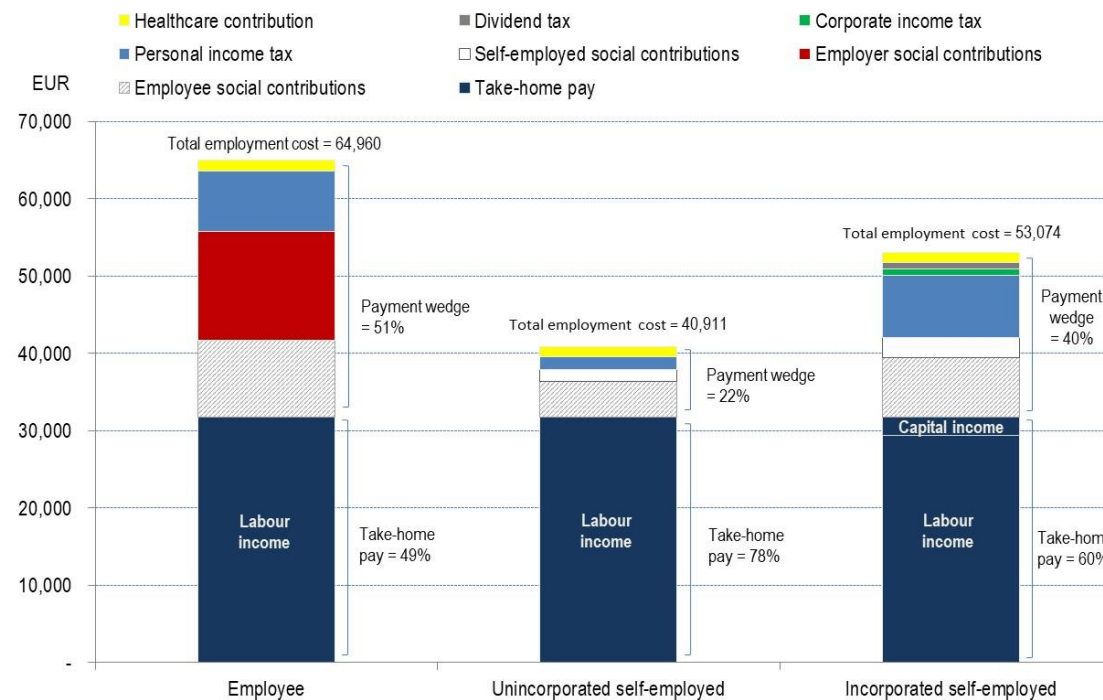
### 5.3.6. *Other Differences in Tax Treatment*

217. Beginning in 2017, employers that pay workers a wage between 100-125 percent of the minimum wage are entitled to a low income credit (for employers) (Lage Inkomensvoordeel). For workers with a wage between 100-110 percent of the minimum wage, the credit is equal to a lump sum of EUR 2,000 per year; for workers with a wage between 110-125 percent of the minimum wage, the credit is EUR 1,000. It is categorised as a government expenditure rather than as a tax credit. This credit only accrues to firms that employ standard, full-time workers. This policy measure is intended to reduce the difference in costs between employees and self-employed around the minimum wage.

### 5.5. Tables and Figures

**Figure 20. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Netherlands (2017)**

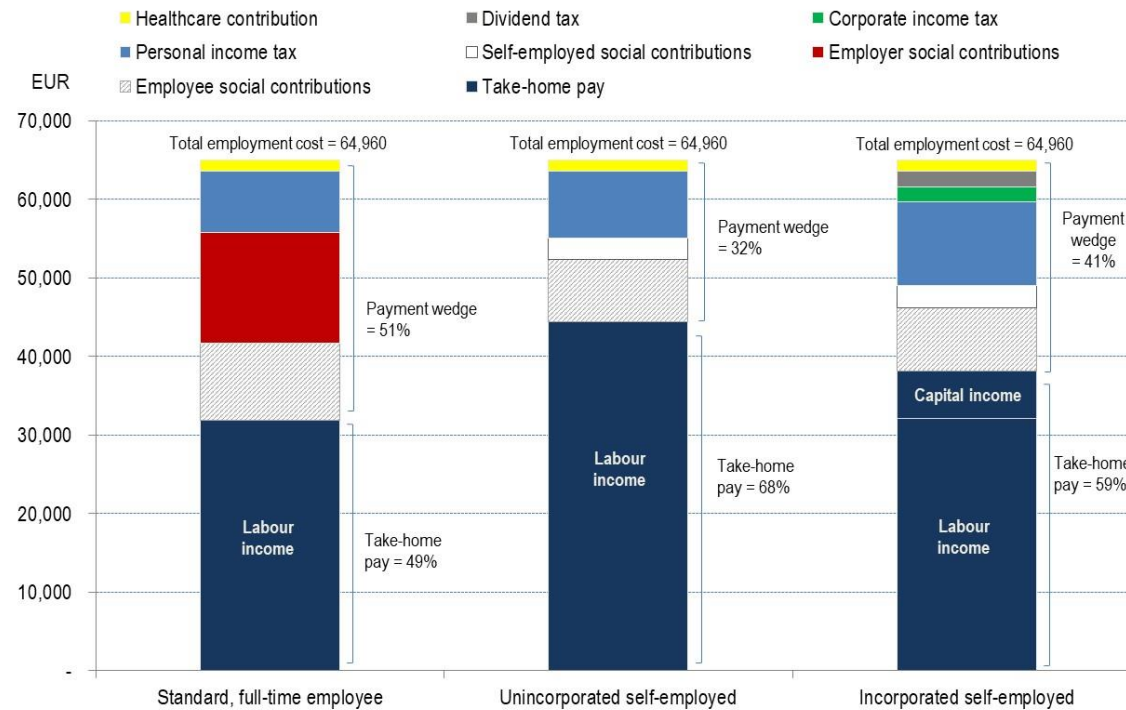
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. This ensures indifference on the individual’s behalf with respect to employment form and is done in order to assess the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 21. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Netherlands (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. This ensures indifference on the firm’s behalf with respect to employment form and is done in order to assess the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 26. Taxation of Employment Forms where Individual Take-home Pay is Equalised – Netherlands (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 20.

Calculate results	Fill results table	Standard, full-time employee	Unincorporated self-employed	Incorporated self-employed
	Assume that the self-employed self-insure? Indicate "Yes" or "No"		No	No
31	Labour cost	64,951	64,951	54,976
30	Profits		-	9,976
29	<b>Total labour cost and profits</b>	<b>64,951</b>	<b>64,951</b>	<b>64,951</b>
	Employer SSCs	14,042		
	of which: pension	5,067		
21 = employer NTCP	pension premium	5,016		
22 = employer NTCP	early retirement	51		
23 = employer NTCP	of which: health care	3,231		
	of which: unemployment	1,944		
24 = employer SSC	general unemployment fund	1,283		
25 = employer SSC	industrial insurance association redundancy payments fund	661		
26 = employer SSC	of which: disability	3,800		
27	reservation/insurance income loss through illness	-		
	Self-employed SSCs		2,678	2,900
	of which: pension			
	pension premium			
	early retirement			
	of which: health care		2,678	2,900
	of which: unemployment			
24 = employer SSC	general unemployment fund			-
25 = employer SSC	industrial insurance associations redundancy payments fund			
26 = employer SSC	of which: disability			
27	reservation/insurance income loss through illness			
0	<b>Gross wage (Box 1)</b>	<b>50,909</b>	<b>64,951</b>	<b>54,976</b>
	Deductions for self-employed		15,354	
5 = deduction for SE	of which: deduction for self-employed	-	7,280	
6 = deduction for SE	of which: exemption for SMEs (14%)	-	8,074	
	Employee NTCPS / voluntary insurance for self-employed	2,316	-	-
	of which: pension	2,316		
1 = employee NTCP	pension premium	2,306		
2 = employee NTCP	early retirement	10		
3 = voluntary insurance for SE	voluntary pension for self-employed	-	-	-
	of which: disability			
4 = voluntary insurance for SE	voluntary disability for self-employed		-	-
7 = 0-1-2-3-4-5-6	<b>Taxable income (Box 1)</b>	<b>48,593</b>	<b>49,597</b>	<b>54,976</b>
	Income tax and general scheme SSCs	15,451	16,497	18,590
	of which: gross tax liability (PIT)	9,633	10,043	12,238
	of which: general scheme SSCs	9,343	9,343	9,343
9 = employee SSC	old age	6,049	6,049	6,049
10 = employee SSC	disability	3,261	3,261	3,261
11 = employee SSC	survivor	34	34	34
12 = tax credit	of which: general tax credit	884	836	579
13 = tax credit	of which: work credit	2,642	2,053	2,412
	Other taxes			3,990
14	of which: health care contribution for non-employed	1,346	1,346	1,346
15	of which: CIT			1,995
16	of which: PIT for owner-managers closely held companies			1,995
	Benefits			0
17	of which: health care benefit	-	-	-
28	of which: low income cash transfer to firms for employment around minimum wage	-	-	0
	<b>Take-home pay - labour share</b>	<b>31,796</b>	<b>44,429</b>	<b>32,140</b>
	<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>5,985</b>
	<b>Total take-home pay</b>	<b>31,796</b>	<b>44,429</b>	<b>38,125</b>
	<b>Average rates</b>			
	Comparable to Taxing Wages (no NTCPS)			
	Income tax rate	18.1%	15.2%	28.9%
	Employee SSC rate	14.9%	12.2%	14.6%
	Rate of total payments less cash transfers to gross wage earnings	30.3%	27.5%	36.3%
	Tax wedge	37.4%	25.4%	36.8%
	Including NTCPS			
	Income tax rate	18.1%	15.2%	28.9%
	Employee SSC + NTCP rate	19.5%	16.4%	19.9%
	Rate of total payments less cash transfers to gross wage earnings	37.5%	31.6%	30.7%
	Payment wedge	51.0%	31.6%	41.3%
	Decomposition of payment wedge			
	Tax liability on labour	14.1%	15.2%	18.3%
	Employer SSCs & NTCPS - contracting firm	21.6%	0.0%	0.0%
	Employer SSCs & NTCPS - contracted firm	0.0%	4.1%	4.5%
	Employee SSCs & NTCPS	15.3%	12.2%	12.4%
	Low income tax credit	0.0%	NA	NA
	Tax liability on capital	0.0%	0.0%	6.1%
	Check on payment wedge calculation above	51.0%	31.6%	41.3%
	<b>Comprehensive payment wedge</b>	<b>51.0%</b>	<b>31.6%</b>	<b>41.3%</b>

Source: Authors' calculations based on OECD questionnaire response.

**Table 27. Taxation of Employment Forms where Total Employment Cost is Equalised – Netherlands (2017)**

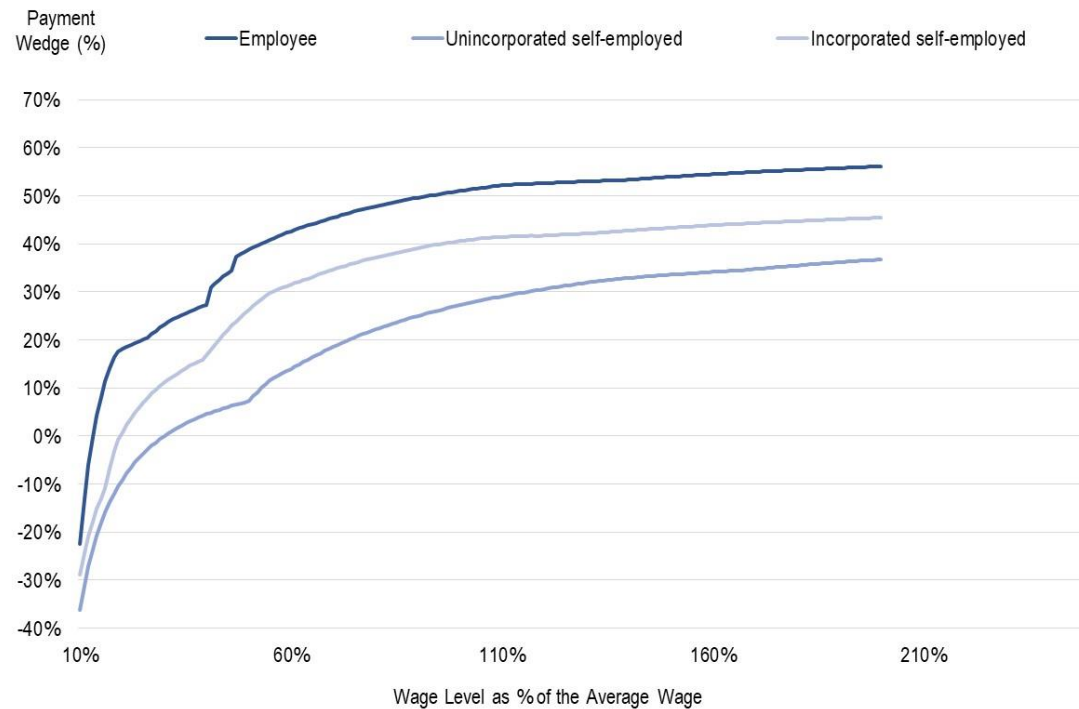
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (EUR 50,909). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 21.

		Standard, full-time employee	Unincorporated self-employed	Incorporated self-employed
	Assume that the self-employed self-insure? Indicate "Yes" or "No"		No	No
31	Labour cost	64,951	40,911	49,037
30	Profits	-	-	4,037
29	<b>Total labour costs and profits</b>	<b>64,951</b>	<b>40,911</b>	<b>53,074</b>
	Employer SSCs - contracting firm	14,042		
	of which: pension	5,067		
21 = employer NTCP	pension premium	5,016		
22 = employer NTCP	early retirement	51		
23 = employer NTCP	of which: health care	3,231		
	of which: unemployment	1,944		
24 = employer SSC	general unemployment fund	1,283		
25 = employer SSC	industrial insurance associations redundancy payments fund	661		
26 = employer SSC	of which: disability	3,800		
27	reservation/insurance income loss through illness	-		
	Employer SSCs - contracted firm		1,562	2,648
	of which: pension			
21 = employer NTCP	pension premium			
22 = employer NTCP	early retirement			
23 = employer NTCP	of which: health care		1,562	2,648
	of which: unemployment			
24 = employer SSC	general unemployment fund			
25 = employer SSC	industrial insurance associations redundancy payments fund			
26 = employer SSC	of which: disability			
27	reservation/insurance income loss through illness			
0	<b>Gross wage (Box 1)</b>	<b>50,909</b>	<b>40,911</b>	<b>49,037</b>
	Deductions for self-employed		11,988	
5 = deduction for SE	of which: deduction for self-employed	-	7,280	
6 = deduction for SE	of which: exemption for SMEs (14%)	-	4,708	
	Employee NTCPs / voluntary insurance for self-employed	2,316	-	-
	of which: pension	2,316		
1 = employee NTCP	pension premium	2,306		
2 = employee NTCP	early retirement	10		
3 = voluntary insurance for SE	voluntary pension for self-employed	-	-	-
	of which: disability			
4 = voluntary insurance for SE	voluntary disability for self-employed	-	-	-
7 = 0-1-2-3-4-5-6	<b>Taxable income (Box 1)</b>	<b>48,593</b>	<b>28,923</b>	<b>49,037</b>
	Income tax and general scheme SSCs	15,451	6,207	15,669
8	of which: gross tax liability (PIT)	9,633	2,954	9,815
	of which: general scheme SSCs	9,343	7,997	9,343
9 = employee SSC	old age	6,049	5,177	6,049
10 = employee SSC	disability	3,261	2,791	3,261
11 = employee SSC	survivor	34	29	34
12 = tax credit	of which: general tax credit	884	1,826	863
13 = tax credit	of which: work credit	2,642	2,918	2,626
	Other taxes			1,615
14	of which: health care contribution for non-employed	1,346	1,346	1,346
15	of which: CIT			807
16	of which: PIT for owner-managers closely held companies			807
	Benefits			0
17	of which: health care benefit	-	-	-
28	of which: low income cash transfer to firms for employment around minimum wage	-	-	0
	<b>Take-home pay - labour share</b>	<b>31,796</b>	<b>31,796</b>	<b>29,374</b>
	<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>2,422</b>
	<b>Total take-home pay</b>	<b>31,796</b>	<b>31,796</b>	<b>31,796</b>
	<b>Average rates</b>			
	Comparable to Taxing Wages (no NTCPs)			
	Income tax rate	18.1%	7.4%	22.4%
	Employee SSC rate	14.9%	11.1%	15.6%
	Rate of total payments less cash transfers to gross wage earnings	30.3%	18.5%	34.7%
	Tax wedge	37.4%	15.2%	35.1%
	Including NTCPs			
	Income tax rate	18.1%	7.4%	22.4%
	Employee SSC + NTCP rate	19.5%	14.9%	21.0%
	Rate of total payments less cash transfers to gross wage earnings	37.5%	22.3%	35.2%
	Payment wedge	51.0%	22.3%	40.1%
	Decomposition of payment wedge			
	Tax liability	14.1%	7.4%	17.7%
	Employer SSCs & NTCPs - contracting firm	21.6%	0.0%	0.0%
	Employer SSCs & NTCPs - contracted firm	0.0%	3.8%	5.0%
	Employee SSCs & NTCPs	15.3%	11.1%	14.4%
	Low income tax credit	0.0%	NA	NA
	Check on payment wedge calculation above	0.0%	0.0%	3.0%
	<b>Comprehensive payment wedge</b>	<b>51.0%</b>	<b>22.3%</b>	<b>40.1%</b>

Source: Authors' calculations based on OECD questionnaire response.

**Figure 22. Payment Wedges by Employment Type across Different Wage Levels – Netherlands (2017)**

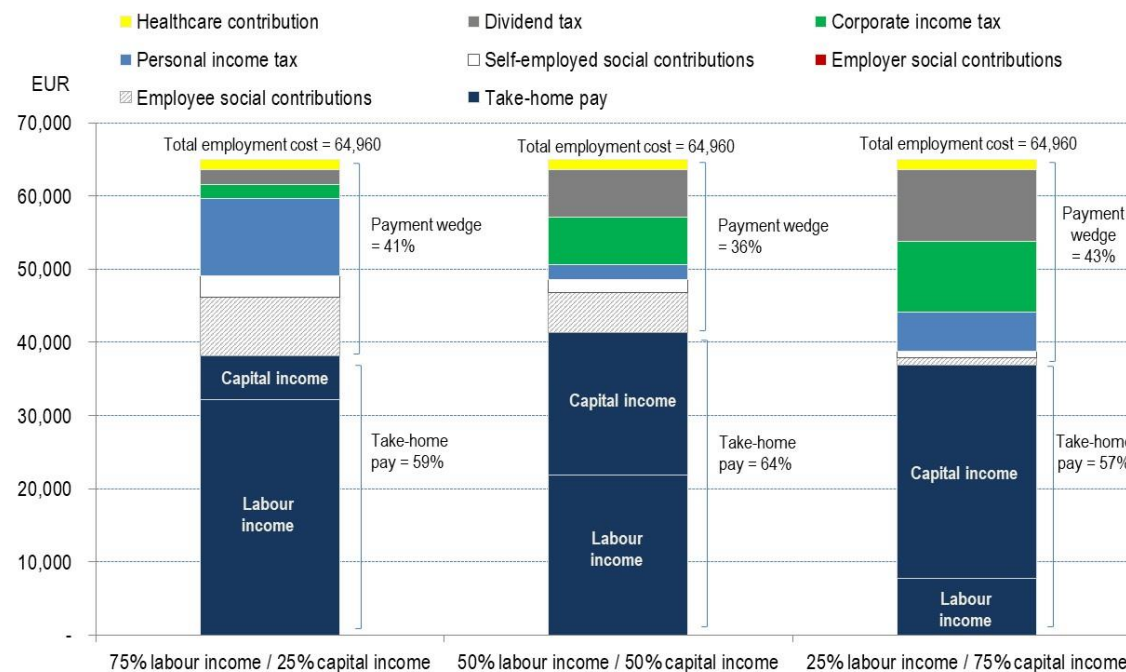
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (EUR 5,091) and continuing through 200% of the average wage (EUR 101,818). As shown in Figures 20 and 21, the employment type with the lowest payment wedge for the analysis performed at the average wage was the unincorporated self-employed worker. It can be seen from this figure that this remains true for all wage levels.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 23. Decomposition of the Total Employment Cost for Incorporated Self-employed, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – Netherlands (2017)**

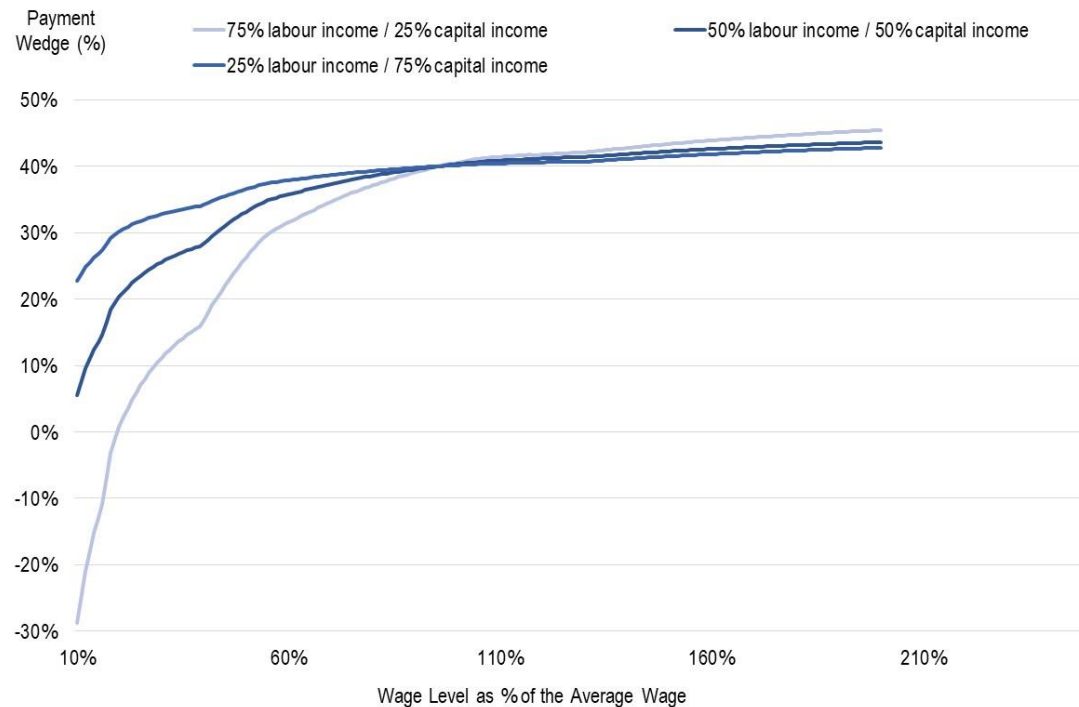
The figure below shows results for incorporated self-employed workers only, where the difference across incorporated self-employed workers is the portion of income taken in the form of labour income and capital income. From left to right, the underlying assumptions are: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The calculations assume that the individual analysed is unmarried and without children. The exercise shown is that in which total employment cost is held equal (corresponding to Figure 21), as the focus here is the incentive of an individual worker and, namely, the mixture of labour and capital income that he or she would be incentivised to choose given that they operate as an incorporated self-employed worker. The case of 75% labour income and 25% capital income is the one presented as the owner-manager case in Figure 21 and Table 27.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 24. Payment Wedges of Incorporated Self-employed Workers, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – Netherlands (2017)**

The figure below shows payment wedges for an incorporated self-employed worker across different wage levels, starting at 10% of the average wage (EUR 5,091) and continuing through 200% of the average wage (EUR 101,818). Three cases of an incorporated self-employed worker's labour taxation are presented, each corresponding to a different portion of labour versus capital income, as done in Figure 23: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The case of 75% labour income and 25% capital income corresponds to the incorporated self-employed results in Figure 22.



Source: Authors' calculations based on OECD questionnaire response.

## 6. Sweden

218. This section summarises our understanding of the Swedish tax system based *Taxing Wages 2018* for employment income and, related to other types of employment and/or income, on the data and information provided via a questionnaire response. The national currency is the Swedish Kronor (SEK); all currency amounts expressed below are in SEK. We assume an average gross wage of SEK 435,821, which aligns with *Taxing Wages 2018*.

### 6.1. Employment Forms / Income Categories

219. Whereas tax law in some countries identifies categories of employment, this is not the case in Sweden. Instead, the Swedish Income Tax Act (*Inkomstskattelag*, 1999:1229) specifies three types of income subject to tax: employment income, business income and capital income. Employment income is defined as income and expenses derived from employment.

220. Business income is defined as income and expenses derived from business activity, where business activity is conducted professionally and independently. The professional nature indicates that the activity should be in pursuit of a lucrative goal and undertaken with continuity, while independence indicates that the business activity undertaken by separate from employment. This definition only pertains to physical persons in distinguishing business income from other forms of income. According to the Swedish Income Tax Act, a legal entity may only have business income (no employment income and no capital income).

221. Capital income is defined as income from dividends, interest and capital gains (e.g., resulting from disposal of an entity).

222. According to the Swedish Income Act, income not categorised as business or capital income will be considered employment income. In our model, employees are individuals with 100 percent employment income. Self-employed individuals are those with 100 percent business income. An owner-manager of a closely held firm (*fåmansföretag*) will likely have both employment and capital income.

### 6.2. Tax Treatment by Employment Form – Individual Perspective

223. This section covers the tax treatment of employment income according to the categories described in Section 6.1.

#### 6.2.1. *Deductions Applied before the Calculation of Central PIT and local PIT*

224. A basic allowance is given for assessed earned income (employment and business income less deductions). It varies between SEK 13,200 and SEK 34,500, depending on income. The basic allowance depends on assessed earned income and the basic amount, which equals SEK 44,800 in 2017. The basic allowance is at its lowest level (SEK 13,200)

when individuals pay central government income tax. For taxpayers older than 65 years, the basic allowance is higher and calculated differently.

225. The basic allowance does not apply to capital income, as capital income is taxed separately from employment and business income. Individuals with both capital and employment income are subject to the basic allowance for their employment income.

**Table 28. Calculating Basic Allowances in Sweden**

Assessed-earned income (SEK) relative to the basic amount	Share of basic amount at lower bracket	For exceeding income
-0.99	0.423	
0.99-2.72	0.423	+0.2
2.72-3.11	0.77	
3.11-7.88	0.77	-0.1
7.88 and above	0.293	

Source: OECD questionnaire on tax and labour contracts.

### 6.2.2. Calculation of Taxable Income

226. Taxable income is calculated as the assessed earned income, i.e. gross wage and net business income less the deductions (described below), less the basic allowance (described below).

### 6.2.3. PIT

227. PIT is due for both employment income and business income at the central and local levels. In 2017, central PIT rates were as follows:

**Table 29. PIT Rates in Sweden**

Year	Taxable income (SEK)	% for exceeding income
2017	0-438,900	0
	438,900-638,500	20
	Over 638,500	25

Source: OECD questionnaire on tax and labour contracts.

228. The average local PIT rate was 32.12 percent.

### 6.2.4. Employee NTCPs

229. All individuals must pay a burial fee to the Church of Sweden (except for two municipalities, where the municipality is responsible for burials). This fee is levied as an additional 0.23 percent of the taxable income, on average, on top of the local tax rate. The calculation of the employee NTCPs is included in the calculation of the local tax.

### 6.2.5. Employee SSCs

230. A general pension contribution of 7 percent of gross income is paid by individuals with employment and business income when income is equal to or greater than 42.3 percent of the basic amount underlying the basic allowance. The contribution cannot exceed SEK

34,700 since the general pension contributions are not paid for income over SEK 496,305 (=  $8.07 * 61,500$ ). Employee SSCs are offset with a tax credit.

#### 6.2.6. *Deductibility of Employees' Tax Costs from PIT*

231. Regarding the deductibility of tax costs, the basic allowance is deducted before calculating PIT. Employee SSCs are deducted from the PIT. The earned income tax credit (EITC) described in Section 6.2.8 is offered against the local PIT. These tax credits are wasteable. The EITC cannot exceed the local PIT. The tax credit for the general pension fee cannot exceed local and central PIT and local and central property taxes.

#### 6.2.7. *Deductibility of Work-related Expenses*

232. Regarding the deductibility of work-related expenses in 2017, some deductions were allowed, e.g.:

- Commuting expenses: the amount of commuting expenses exceeding SEK 11,000;
- Other types of work-related expenses (e.g., tools) exceeding SEK 5,000;
- Double housing expenses due to temporary work away (at the lowest cost as possible). As in *Taxing Wages*, this includes temporary work at other geographical locations (too far from home for commuting); and
- Car use for work expenses: a fixed rate per kilometre.

These are not included in this analysis.

#### 6.2.8. *Tax Allowances and Credits Offered Against PIT*

233. Two tax credits related to employment or business income are offered against the personal income tax:

- 100% of employee SSCs; and
- The EITC granted on employment income.

234. The tax credits are wasteable in the sense that they cannot reduce the individual's tax payments to less than zero. The EITC is deducted from the local government income tax, whereas the tax credit for the social security contributions is deducted from other taxes as well. However, the central government covers the expenses for the tax credits.

235. The EITC is calculated as follows:

**Table 30. EITC Calculation**

Year	Earned income (EI)	EITC
2017	-0.91 BA	$(EI - \text{basic allowance}) * \text{local tax rate}$
	0.91 BA-2.94 BA	$(0.91 \text{ BA} + 0.332 * (EI - 0.91 \text{ BA}) - \text{basic allowance}) * \text{local tax rate}$
	2.94 BA-8.08 BA	$(1.584 \text{ BA} + 0.111 * (EI - 2.94 \text{ BA}) - \text{basic allowance}) * \text{local tax rate}$
	8.08 BA-13.54 BA	$(2.155 \text{ BA} - \text{basic allowance}) * \text{local tax rate}$
	13.54 BA and over	$(2.155 \text{ BA} - \text{basic allowance}) * \text{local tax rate} - 0.03 * (EI - 13.54 \text{ BA})$

Note: BA (basic amount) = SEK 44,800.

Source: OECD questionnaire on tax and labour contracts.

For taxpayers older than 65 the EITC is higher and calculated differently.

### 6.2.9. *Potential Taxation of Income Partly as Employment Income, Partly as Capital Income*

236. An owner of a closely held firm may split income into employment and capital income. This analysis considers three different cases regarding the split between employment and capital income: employment and capital income of 75 and 25 percent, respectively; 50 and 50 percent; and 25 and 75 percent. For business income, an amount equal to the business' equity multiplied by the government borrowing rate (*statslåneränta*) + 6 percent can be taxed as capital income at a tax rate of 30 percent.

### 6.2.10. *Capital Income Tax on Dividends*

237. Dividends are subject to capital income tax, where dividend distribution is always after CIT has been levied on profits. An owner-manager of a closely held firm is granted a dividend allowance of SEK 163,075 (based on the simplified rules) and the applicable tax rate is 20 percent. This analysis takes the case of a single owner, where the owner-manager can increase the dividend allowance based on some specific rules. In particular, if the owner-manager has a minimum employment income of SEK 373,590, the dividend allowance can be increased to 50 percent of employment income. Any dividend exceeding the dividend allowance will be taxed at a rate of 30 percent.

### 6.2.11. *Cash Transfers*

238. There are no universal cash transfers for employed or self-employed persons without children.

## 6.3. Tax Treatment by Employment Form – Firm Perspective

239. This section covers the tax treatment of a firm according to the income categories described in Section 6.1.

### 6.3.1. *Deductions Applied Before the Calculation of CIT*

240. Firms that employ individuals with employment income may deduct wage earnings and employer SSCs from profits.<sup>32</sup> This deductibility is not applicable to individuals with business income.

### 6.3.2. *CIT*

241. In 2017, the central CIT rate in Sweden was 22 percent. There is no local CIT.

### 6.3.3. *Employer NTCPs*

242. There are no employer NTCPs.

### 6.3.4. *Employer SSCs*

243. The aggregate contribution by an employer is 31.42 percent. The employer's contributions are calculated as a percentage of the total sum of salaries and benefits for employment income and owner-manager category in a year. For the business income

<sup>32</sup> The owner is not considered to be employed; thus, if the owner is the sole worker, no wage costs are deductible.

category, the employers' contribution is a percentage of net business income. The rates by employer SSC category for 2017 are listed below.

244. For business income, a general reduction of the social fees by 7.5 percentage points of the gross wage is applicable if income exceeds SEK 40,000 per year, with a maximal reduction of SEK 15,000 per year. Employer SSCs may be lower for some employees working with R&D and in some regional areas. Such cases are not included in this analysis (see the table below).

**Table 31. Employer SSC Schedule**

	Employment income (%)	Business income (%)	Owner-manager (self-employed incorporated) (%)
Unemployment insurance (labour market)	2.64	0.10	2.64%
Parental insurance	2.60	2.60	2.60
Old age pension	10.21	10.21	10.21
Occupational health	0.20	0.20	0.20
Survivors' pension	0.70	0.70	0.70
Health insurance	4.35	4.44	4.35
General wage tax	10.72	10.72	10.72
Total	31.42	28.97	31.42

Source: OECD questionnaire on tax and labour contracts.

### 6.3.5. *Employer Payroll Taxes*

245. Payroll taxes are included in the category above (employer SSCs) as the general wage tax.

### 6.3.6. *Deductibility of Employers' Labour Costs from Profits*

246. As described above, firms that employ individuals with employment income may deduct wage earnings and employer SSCs from profits. This deductibility is not applicable to individuals with business income.

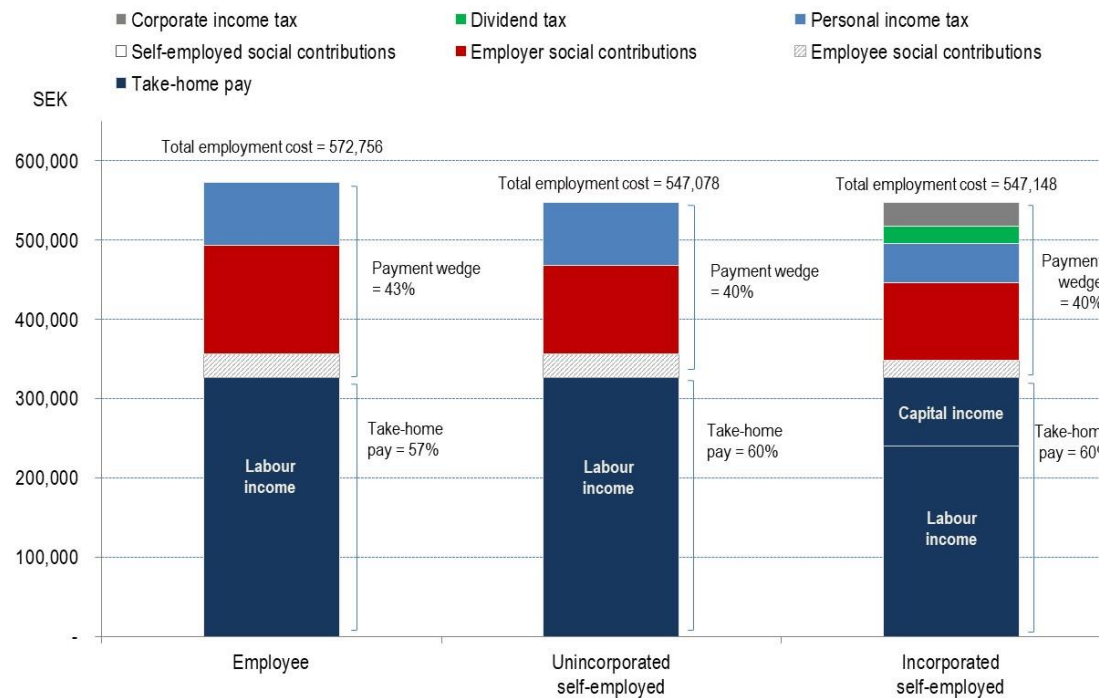
### 6.3.7. *Tax Allowances and Credits Offered Against Labour Costs*

247. There are no tax allowances and credits offered against labour costs.

### 6.4. Tables and Figures

**Figure 25. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – Sweden (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (SEK 435,821). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual’s behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 26. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – Sweden (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (SEK 435,821). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Table 32. Taxation of Employment Forms where Individual Take-home Pay is Equalised – Sweden (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (SEK 435,821). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 25.

	Employee (100% labour income)	Unincorporated self-employed (100% business income)	Incorporated self-employed (75% labour income, 25% business income)
Labour cost	572,756	547,078	410,361
Profits			136,787
<b>Total labour costs and profits</b>	<b>572,756</b>	<b>547,078</b>	<b>547,148</b>
Employer SSCs	136,935	111,257	98,109
of which:			
Unemployment insurance (labour market)	11,506	436	8,243
Parental insurance	11,331	11,331	8,119
Old age pension	44,497	44,497	31,881
Occupational health	872	872	625
Survivors' pension	3,051	3,051	2,186
Health insurance	18,958	19,350	13,583
General wage tax	46,720	46,720	33,473
Deduction for self-employed on Employer SSC	-	15,000	
<b>Gross wage</b>	<b>435,821</b>	<b>435,821</b>	<b>312,252</b>
Basic Allowance	13,200	13,200	17,300
<b>Taxable income</b>	<b>422,600</b>	<b>422,600</b>	<b>294,900</b>
Central and local tax paid after tax credit	79,441	79,441	49,827
Central government Income tax before tax credit	-	-	-
Tax Credit of which:	57,270	57,270	45,573
Employee SSCs	30,500	30,500	21,900
Earned income tax credit	26,770	26,770	23,673
Central government Income tax after tax credit	-	-	-
State local government Income tax of which:	136,711	136,711	95,400
State local government Income tax	135,739	135,739	94,722
Employee NTCPs	972	972	678
State local government Income tax after tax credit	79,441	79,441	49,827
Other taxes of which:			51,432
CIT			30,093
Dividend			21,339
<b>Net take-home pay</b>	<b>325,880</b>	<b>325,880</b>	<b>325,880</b>
Labour income	325,880	325,880	240,525
Profit			85,355
<b>Average rates</b>			
Income tax rate	18.2%	18.2%	16.0%
Employee SSC rate	7.0%	7.0%	7.0%
CIT			22.0%
Dividend tax			20.0%
Tax wedge	43.1%	40.4%	40.4%
<b>Including NTCPs</b>			
Income tax	18.2%	18.2%	16.0%
Employee SSCs + NTCPs	7.2%	7.2%	7.2%
CIT			22.0%
Dividend tax			20.0%
Payment wedge	43.1%	40.4%	40.4%
<b>Decomposition of payment wedge</b>			
Tax liability	13.9%	14.5%	9.1%
CIT			5.5%
Dividend tax			3.9%
Employer SSCs	23.9%	20.3%	17.9%
Employee SSCs	5.3%	5.6%	4.0%

Source: Authors' calculations based on OECD questionnaire response.

**Table 33. Taxation of Employment Forms where Total Employment Cost is Equalised – Sweden (2017)**

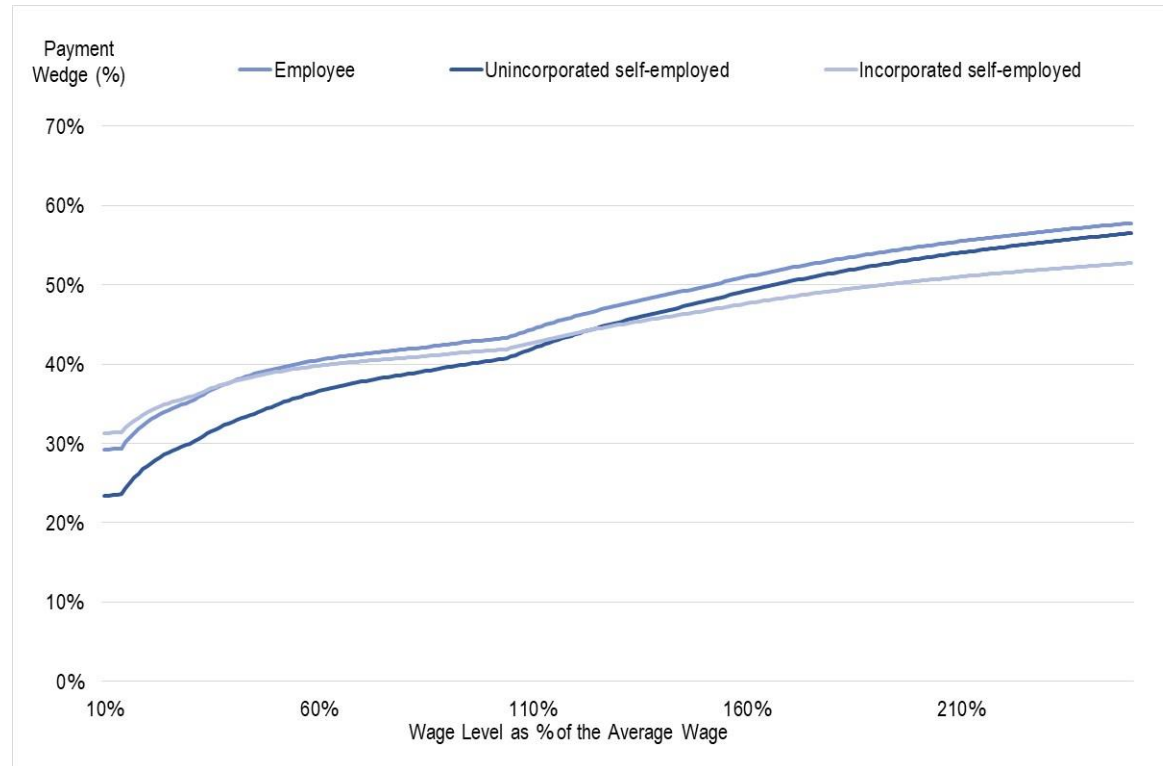
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (SEK 435,821). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 26.

	Employee (100% labour income)	Unincorporated self-employed (100% business income)	Incorporated self-employed (75% labour income, 25% business income)
Labour cost	572,756	572,756	429,567
Profits	-	-	143,189
<b>Total labour costs and profits</b>	<b>572,756</b>	<b>572,756</b>	<b>572,756</b>
Employer SSCs	136,935	117,025	102,701
of which:			
Unemployment insurance (labour market)	11,506	456	8,629
Parental insurance	11,331	11,849	8,499
Old age pension	44,497	46,530	33,373
Occupational health	872	911	654
Survivors' pension	3,051	3,190	2,288
Health insurance	18,958	20,234	14,219
General wage tax	46,720	48,854	35,040
Deduction for self-employed on Employer SSC	-	15,000	-
<b>Gross wage</b>	<b>435,821</b>	<b>455,731</b>	<b>326,866</b>
Basic Allowance	13,200	13,200	15,800
<b>Taxable income (PIT)</b>	<b>422,600</b>	<b>442,500</b>	<b>311,000</b>
<i>Central and local tax paid after tax credit</i>	79,441	85,199	53,032
Central government Income tax before tax credit	-	720	-
Tax Credit of which:			
Employee SSCs	57,270	58,670	47,576
Earned income tax credit	30,500	31,900	22,900
	26,770	26,770	24,676
Central government Income tax after tax credit	-	-	-
State local government Income tax of which:			
State local government Income tax	136,711	143,149	100,609
Employee NTCPs	135,739	142,131	99,893
	972	1,018	715
State local government Income tax after tax credit	79,441	85,199	53,032
Other taxes of which:			
CIT			53,839
Dividend			31,502
			22,337
<b>Net take-home pay</b>	<b>325,880</b>	<b>338,632</b>	<b>340,284</b>
Labour income	325,880	338,632	250,934
Profit			89,350
<b>Average rates</b>			
Income tax (NTCPs is included in the local tax)	18.2%	18.7%	16.2%
Employee SSC	7.0%	7.0%	7.0%
CIT			22.0%
Dividend tax			20.0%
Tax wedge	43.1%	40.9%	40.6%
<i>Including NTCPs</i>			
Income tax (NTCPs is included in the local tax)	18.2%	18.7%	16.2%
Employee SSCs + NTCPs	7.2%	7.2%	7.2%
CIT			22.0%
Dividend tax			20.0%
Payment wedge	43.1%	41.1%	40.7%
<i>Decomposition of payment wedge</i>			
Tax liability (include employee NTCPs)	13.9%	14.9%	9.3%
CIT			5.5%
Dividend tax			3.9%
Employee SSCs	23.9%	20.4%	17.9%
Employee SSCs	5.3%	5.6%	4.0%

Source: Authors' calculations based on OECD questionnaire response.

**Figure 27. Payment Wedges by Employment Type across Different Wage Levels – Sweden (2017)**

The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (SEK 43,486) and continuing through 250% of the average wage (SEK 1,087,147). As shown in Figures 25 and 26, the employment types with the lowest payment wedge for the analysis performed at the average wage were the two forms of self-employed. However, it can be seen from this figure that, at levels below the average wage, unincorporated self-employed have the lowest payment wedge. In addition, above 125% of the average wage, incorporated self-employed have the lowest payment wedge.



Source: Authors' calculations based on OECD questionnaire response.

## 7. The United Kingdom

248. This section summarises our understanding of the British tax system based *Taxing Wages 2018* for standard, full-time employees and, related to other types of employment, on the data and information provided via a questionnaire response. The national currency is Pound Sterling (GBP); all currency amounts expressed below are in GBP. We assume an average gross wage of GBP 38,208, which aligns with *Taxing Wages 2018*.

### 7.1. Employment Forms

249. For tax purposes, there are three employment forms in the United Kingdom: employees, self-employed sole traders and owner-managers (incorporated owners of a limited company).<sup>33</sup>

### 7.2. Tax Treatment by Employment Form – Individual Perspective

250. This section covers the tax treatment of an individual according to the employment forms described in Section 7.1.

#### 7.2.1. *Deductions Applied Before the Calculation of PIT*

251. A basic personal allowance of GBP 11,500 is granted to each individual with income below GBP 100,000. This allowance tapers away by GBP 1 for every GBP 2 of income above GBP 100,000, as indicated in the table below. It is not refundable.

**Table 34. Basic Personal Allowance**

Income (GBP)	Allowance amount (GBP)
0 - 11,500	Income
11,501 - 100,000	11,500
100,001 - 123,000	11,500 - (Income - 100,000) * 2
Over 123,000	0

Source: OECD questionnaire on tax and labour contracts.

#### *Self-employed Sole Traders*

252. In addition to the basic personal allowance, self-employed sole traders are eligible for a trade allowance. This allowance consists of GBP 1,000 to be deducted before the computation of PIT. Self-employed individuals earning less than GBP 1,000 are not liable for PIT or social contributions since their taxable profit is zero. Self-employed individuals earning more than GBP 1,000 may deduct the allowance in the computation of taxable profit or else rely on the method of deducting business-related expenses (though an individual who

<sup>33</sup> Note that the category of “worker” as defined in labour law is not defined in tax law.

chooses the allowance may not deduct business-related expenses). This analysis assumes that the individual will elect to use the trade allowance. The trade allowance will decrease business income (or sole trader profit). In the presence of the trade allowance, the basic personal allowance will be determined by considering income less the trade allowance.

#### *Owner-managers*

253. The basic personal allowance is also available to owner-managers in their capacity as employers of themselves. However, since the allowance amount depends on an individual's overall income, dividend income has to be included in the labour income that the owner-manager attributes to him- or herself in order to compute the correct allowance amount. If the allowance amount is greater than the gross wage and if there is other income to factor in, such as dividend income, the allowance must be used to offset the salary. After that, it may be used to offset the other incomes.

### *7.2.2. Calculation of Taxable Income*

#### *Employees*

254. In order to compute the taxable income for the PIT, the BPA must be deducted from the gross wage. Therefore, for a gross wage less than GBP 11,500, taxable income is equal to zero; for a gross wage above GBP 11,500, taxable income is equal to the gross wage less the BPA.

#### *Self-employed Sole Traders*

255. Taxable income is defined as the gross wage less the BPA and the trade allowance.

#### *Owner-managers (incorporated owners of a limited company):*

256. For the purpose of this analysis, we assume that 25 percent of the employment cost is profit of the limited company and the remaining part is the labour cost. The labour cost itself is defined as the gross wage plus the employer's insurance contributions (due on behalf of the owner-manager). Therefore, while the CIT taxable income is the profit, the PIT taxable income is defined as the gross wage less the BPA. In addition, net profit, i.e., profit after the CIT has been paid, are fully distributed to the unique owner-manager through dividends. Hence, dividend taxable income is defined as dividend income less the remaining BPA not used by the salary income, if any, less the dividend allowance. For more information regarding how to compute the tax on dividends, see Section 3.2.4.

### *7.2.3. PIT*

257. PIT is levied on gross income according to the rates in the table below. Individuals' PIT liability does not vary with employment form.

**Table 35. PIT Schedule – 2017**

Gross income (GBP)	PIT rate (%)
0 - 33,500	20
33,501 - 150,000	40
Over 150,000	45

Source: OECD questionnaire on tax and labour contracts.

#### 7.2.4. *Taxation of Dividend Income*

258. A limited liability company's remaining profit (net of the owner-manager's wage as well as employer insurance contributions paid on account of that wage) will be taxed at the CIT rate and then redistributed to the owner-manager (in this analysis, the sole owner of the company). The redistribution of profit happens through dividends. Dividends are taxed according to the gross income brackets and rates in the table below.

**Table 36. Dividend Tax Schedule – 2017**

Gross income (GBP)	Dividend tax rate (%)
0- 33,500	7.5
33,501 -150,000	32.5
Over 150,000	38.1

Source: OECD questionnaire on tax and labour contracts.

259. There is a dividend tax-free allowance equal to GBP 5,000. Incomes from all other sources (e.g., labour income) must be taxed before dividend income. In addition, the following rules apply in this order:

1. The basic personal allowance must be computed using the sum of labour and dividend incomes;
2. PIT is computed on salary less the basic personal allowance;
3. The following steps describe the computation of the dividend tax liability:
  - a. Any portion of the basic personal allowance not used will be used to decrease the dividend; otherwise, the dividend net of the allowance will be equal to the dividend itself.
  - b. Once we obtain the dividend tax liability net of the basic personal allowance, we consider the tax band in which the last pound of salary was taxed (and hence see how much of the tax band remains before the next band is reached).
  - c. We assign the dividend net of the basic personal allowance to this tax band until the band is fully used and to the next bands for the remaining parts. Notice that the dividend allowance will apply to the first pounds of the dividend and will therefore allow the taxpayer not to pay dividend tax at the lowest dividend tax rate he is paying. Notice, moreover, that even if the allowance is applied, the band will be considered used for the corresponding part (i.e., the band will be used as if no allowance were in place). Therefore, the allowance might have the effect of taxing the remaining part of the dividend income at a higher rate.

#### 7.2.5. *Employee NTCPs*

260. There are no employee NTCPs in the United Kingdom.

#### 7.2.6. *Employee NICs*

261. In the United Kingdom, individuals pay National Insurance contributions (NICs) in order to qualify for certain benefits and the state pension. Broadly speaking, two types of individuals pay NICs:

- Employees earnings above GBP 157 per week (the primary threshold at which employees start paying National Insurance); and
- Self-employed individuals making a profit of GBP 6,205 or more per year.

There are different types of National Insurance, known as “classes,” where the class paid depends upon employment status and earnings. The classes are described in the following table.

**Table 37. National Insurance Classes**

National Insurance class	Description of individual liable for NICs
Class 1	Employees earning more than GBP 157 a week and under State Pension age. These NICs are automatically deducted by the employer
Class 1A or 1B	Employers pay Class 1A or 1B NICs on their employee’s expenses or benefits
Class 2	Self-employed individuals. Not required if annual earnings are less than GBP 6,205; can be made voluntarily
Class 3	Voluntary contributions
Class 4	Self-employed individuals earning profits over GBP 8,164 a year

Source: <https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions>.

#### *Workers:*

262. Employees make NICs of the Class 1 category. The contribution amount depends on gross income, as described in the table below. Individuals with gross income less than GBP 680 per month or GBP 8,164 per year are not liable for NICs. The part of the income above the primary threshold but below the upper earning limit (GBP 3,863 per month or GBP 45,000 per year) is subject to a 12 percent rate and the remaining part of the income (above GBP 45,000) is subject to a 2 percent rate.

**Table 38. Employee Class 1 NIC Rates**

Gross income (GBP)	Class 1 NICs rates (%)
0 - 8,164	0
8,165 - 45,000	12
Over 45,000	2

Source: OECD questionnaire on tax and labour contracts.

#### *Self-employed Sole Traders*

263. Self-employed individuals make NICs of the Class 2 and 4 categories. The contribution amount also depends on gross income. But first, we must calculate gross income less the trade allowance (i.e., the net profit of the self-employed individual). If this amount is below the small profit threshold (GBP 6,025 per year), the individual is not liable for NICs (neither Class 2 nor Class 4). If this amount is instead higher than the small profit threshold but lower than lower profits limit (i.e., lower than GBP 8,164 per year), then the individual is liable for NICs of the Class 2 category but not of the Class 4 category. The contribution amount in the Class 2 category consists of a fixed amount of GBP 2.85 per week (or GBP 148 per year) to be paid independent of the individual’s gross income. For gross income net of trade allowance amounts greater than GBP 8,164, the individual is liable for both Class 2 and Class 4 NICs, as detailed in the table below.

**Table 39. Self-employed Class 2 and Class 4 NIC Amounts & Rates**

Gross income net of trade allowance (GBP)	Class 2 NICs (annual, GBP)	Class 4 NICs rates (%)
0-6,025	0	0
6,026-8,164	GBP 148	0
8,165-45,000	GBP 148	9
Over 45,000	GBP 148	2

Source: OECD questionnaire on tax and labour contracts.

### *Owner-managers*

264. Owner managers of limited companies are liable for NICs on their own behalves, that is, on account of the salary that they pay to themselves. The rates are the same as those outlines for an employee, and these fall within the Class 1 category.

## **7.3. Tax Treatment by Employment Form – Firm Perspective**

265. This section covers the tax treatment of a firm according to the employment categories described in Section 7.1.

### **7.3.1. *Deductions Applied Before the Calculation of CIT***

266. In a limited liability company, after having paid for the wage of the owner-manager and the employer's SSCs on that wage, the remaining profits will be taxed at the CIT rate. After that, they will be redistributed to the owner-manager (which we assume to be the only owner of the company). Regarding the deductions applied before the CIT payed by the contracting firm, see Section 7.3.5.

### **7.3.2. *CIT***

267. The corporate tax rate in United Kingdom is 19 percent of profit.

### **7.3.3. *Employer NTCs***

268. There are no employer NTCs in the United Kingdom.

### **7.3.4. *Employer NICs***

269. The NICs for which are employers are liable vary by employment form. For employees, employer NICs vary according to the gross wage. Income lower the Secondary Threshold (equal to GBP 680 per month or GBP 8,164 per year) is not liable for NICs while the part of income above the primary threshold is subject to 13.8 percent rate. Notice that the employer's NICs are not deducted from the gross wage but are based on gross wage for computation and are added up to the gross wage to compute the total labour cost.

**Table 40. Employer NICs in the United Kingdom**

Gross income (GBP)	Employer NICs (%)
0-8,164	0
Over 8,165	13.8

Source: OECD questionnaire on tax and labour contracts.

*Self-employed Sole Trader*

270. When a firm contracts labour from a self-employed sole trader, no employer NICs are due on this worker's behalf.

*Self-employed incorporated*

271. When a firm contracts labour from an individual organised as an incorporated owner-manager, no employer NICs are due on this worker's behalf. However, the individual's company will pay employer's NICs on any amount paid from that company to the individual as salary.

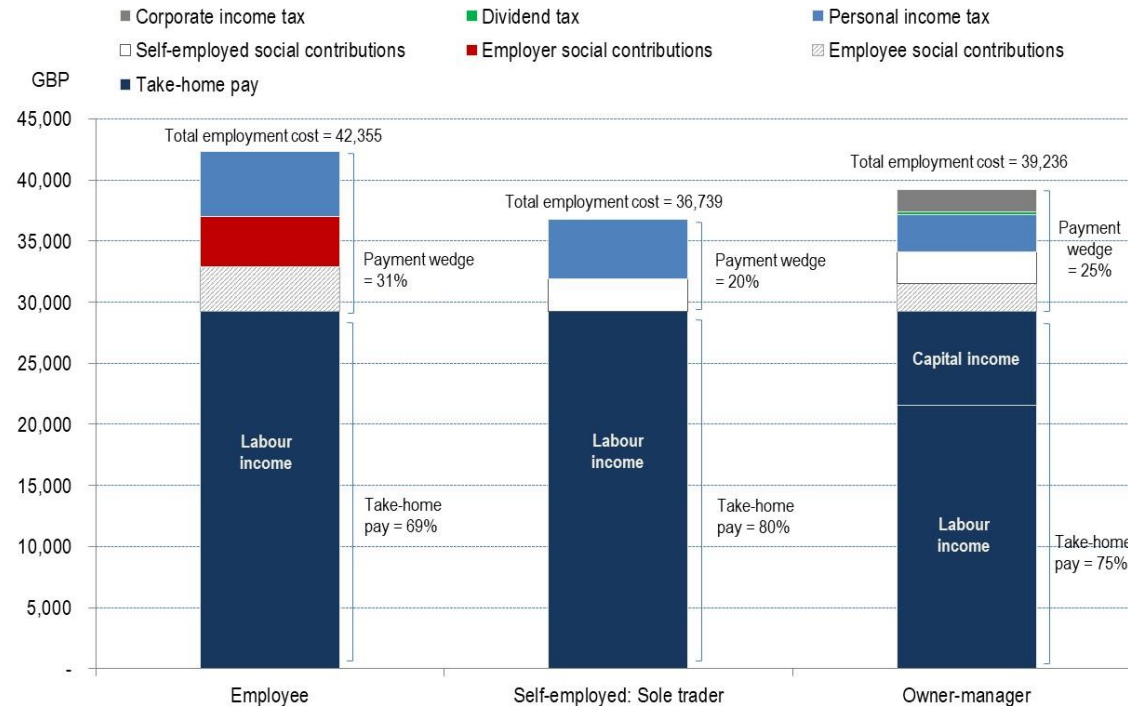
**7.3.5. *Deductibility of Employers' Labour Costs from CIT***

272. The firm hiring a standard worker will be able to deduct the labour cost from the CIT tax base; hence, both the employer's NICs and the gross wage will be deductible. This is also the case for other employment forms.

## 7.4. Tables and Figures

**Figure 28. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – United Kingdom (2017)**

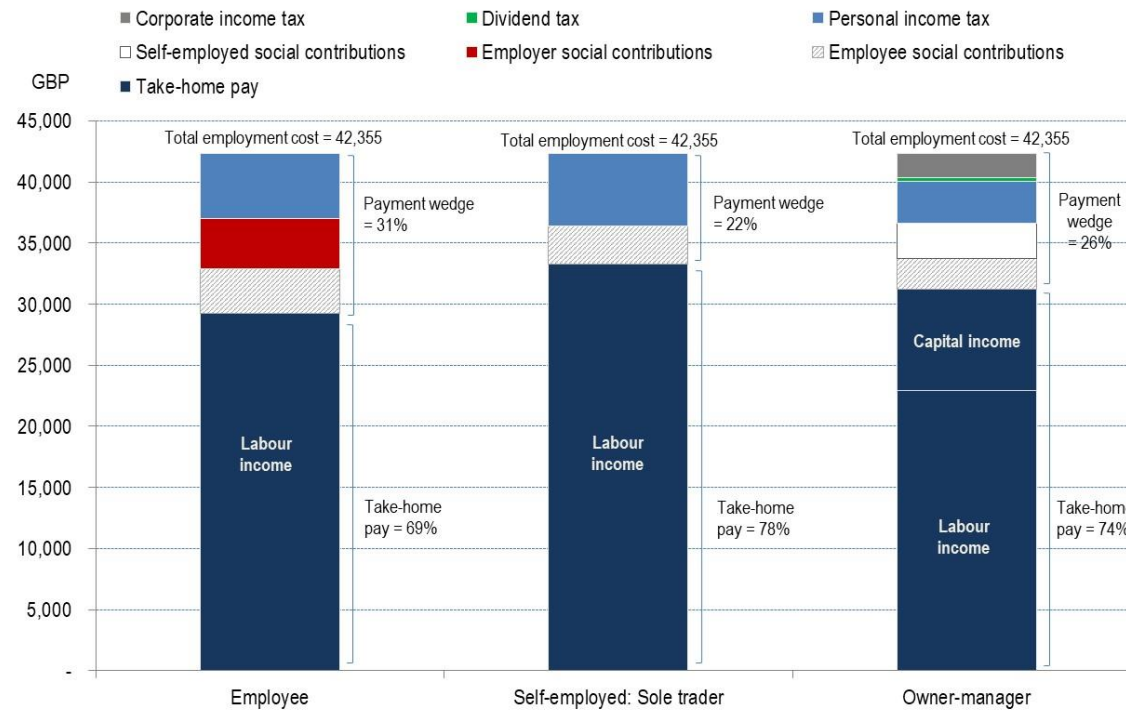
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (GBP 38,208). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 29. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – United Kingdom (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (GBP 38,208). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm’s behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Table 41. Taxation of Employment Forms where Individual Take-home Pay is Equalised – United Kingdom (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (GBP 38,208). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 28.

	<b>Standard employee</b>	<b>Unincorporated self-employed</b>	<b>Incorporated self-employed 75/25</b>
Labour cost	42,355	36,739	29,427
Profits	-	-	9,809
<b>Total labour costs and profits</b>	<b>42,355</b>	<b>36,739</b>	<b>39,236</b>
Employer contributions - contracting firm	4,147	-	-
Employer contributions - contracted firm (i.e., paid by the self-employed on his/her behalf)			2,579
<b>Gross wage (Box 1)</b>	<b>38,208</b>	<b>36,739</b>	<b>26,848</b>
Trade allowance	-	1,000	-
Basic personal allowance	11,500	11,500	11,500
Dividend allowance	-	-	-
<b>Taxable income (Box 1) (for PIT and dividend tax)</b>	<b>26,708</b>	<b>24,239</b>	<b>15,348</b>
Income tax and general scheme SSCs	8,947	8,947	5,312
of which: gross tax liability (PIT)	5,342	4,848	3,070
of which: general scheme SSCs	3,605	2,630	2,242
Other taxes			2,085
CIT	-	-	1,864
Dividend tax	-	-	221
<b>Take-home pay - labour share</b>	<b>29,261</b>	<b>29,261</b>	<b>21,536</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>7,724</b>
<b>Total take-home pay</b>	<b>29,261</b>	<b>29,261</b>	<b>29,261</b>
<b>Average rates</b>			
Income tax rate	14.0%	13.2%	11.4%
Employee SSC rate	9.4%	7.2%	8.4%
Total payments less cash transfers	23.4%	20.4%	-9.0%
Total tax wedge including employer SSCs	30.9%	20.4%	25.4%
<i>Check</i>	30.9%	20.4%	25.4%

*Source:* Authors' calculations based on OECD questionnaire response.

**Table 42. Taxation of Employment Forms where Total Employment Cost is Equalised – United Kingdom (2017)**

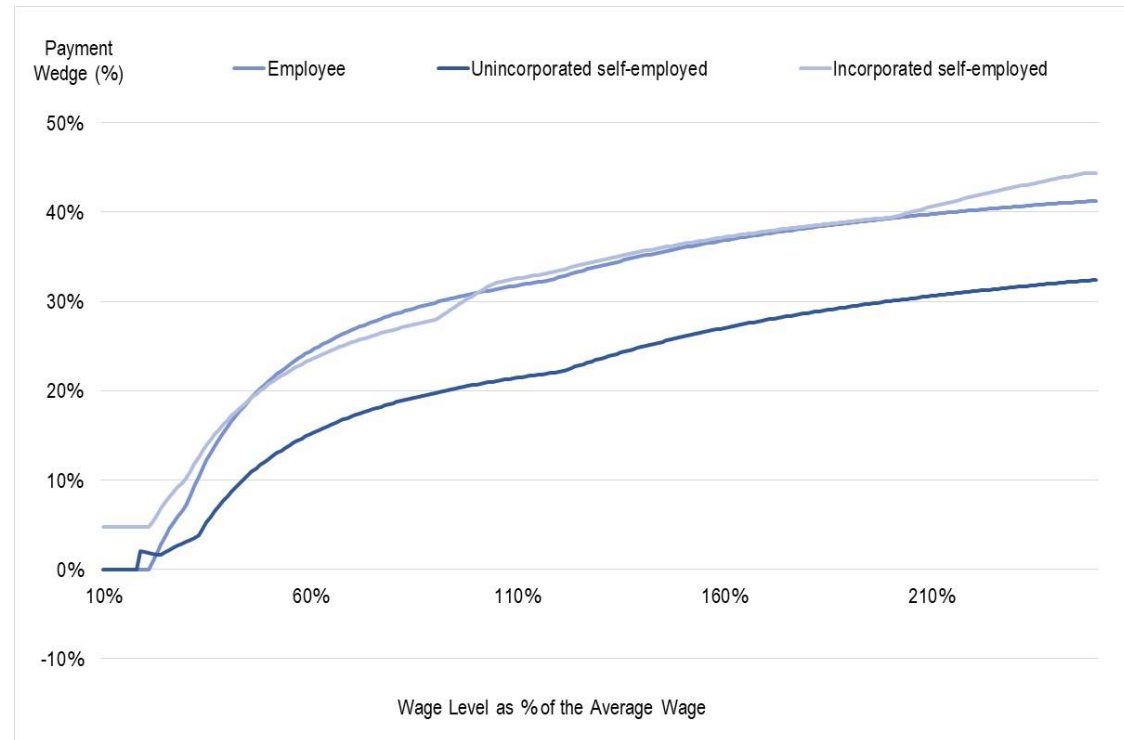
In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (GBP 38,208). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 29.

	Standard employee	Unincorporated self-employed	Incorporated self-employed 75/25
Labour cost	42,355	42,355	31,766
Profits	-	-	10,589
<b>Total labour costs and profits</b>	<b>42,355</b>	<b>42,355</b>	<b>42,355</b>
Employer contributions - contracting firm	4,147	-	
Employer contributions - contracted firm (i.e., paid by the self-employed on his/her behalf)			2,863
<b>Gross wage (Box 1)</b>	<b>38,208</b>	<b>42,355</b>	<b>28,904</b>
Trade allowance		1,000	
Basic personal allowance	11,500	11,500	11,500
Dividend allowance			
<b>Taxable income (Box 1) (for PIT and dividend tax)</b>	<b>26,708</b>	<b>29,855</b>	<b>17,404</b>
Income tax and general scheme SSCs	8,947	8,947	5,969
of which: gross tax liability (PIT)	5,342	5,971	3,481
of which: general scheme SSCs	3,605	3,135	2,489
Other taxes			2,280
CIT			2,012
Dividend tax			268
<b>Take-home pay - labour share</b>	<b>29,261</b>	<b>33,249</b>	<b>22,934</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>8,309</b>
<b>Total take-home pay</b>	<b>29,261</b>	<b>33,249</b>	<b>31,243</b>
<b>Average rates</b>			
Income tax rate	14.0%	14.1%	12.0%
Employee SSC rate	9.4%	7.4%	8.6%
Total payments less cash transfers	23.4%	21.5%	-8.1%
Total tax wedge including employer SSCs	30.9%	21.5%	26.2%
<i>Check</i>	30.9%	21.5%	26.2%

Source: Authors' calculations based on OECD questionnaire response.

**Figure 30. Payment Wedges by Employment Type across Different Wage Levels – United Kingdom (2017)**

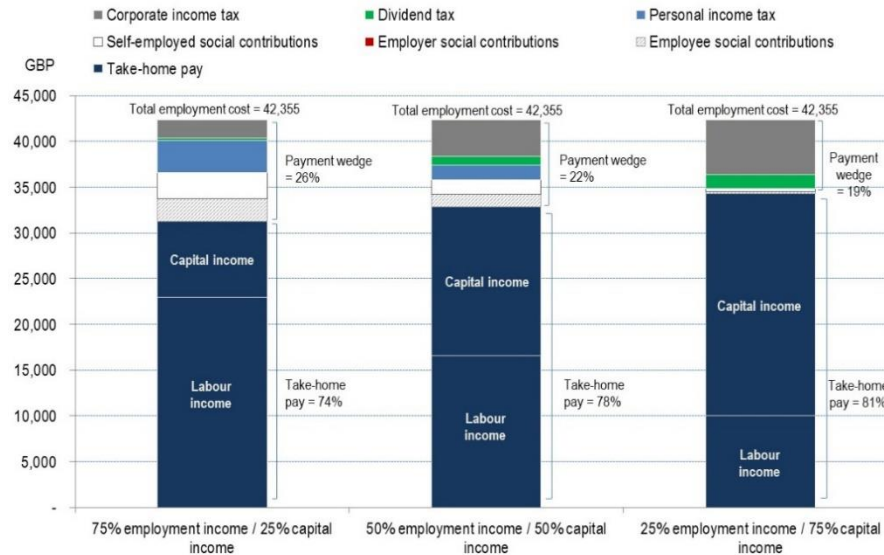
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (GBP 3,823) and continuing through 250% of the average wage (GBP 95,582). As shown in Figures 28 and 29, the employment type with the lowest payment wedge for the analysis performed at the average wage was the unincorporated self-employed worker. It can be seen from this figure that this remains true for all wage levels shown. Employees and incorporated self-employed workers, in contrast, are the employment types that carry the highest payment wedges.



*Source:* Authors' calculations based on OECD questionnaire response.

**Figure 31. Decomposition of the Total Employment Cost for Owner-managers, with Varied Portions of Employment and Capital Income (75% employment income, 25% capital income; 50%, 50%; and 25%, 75%) United Kingdom (2017)**

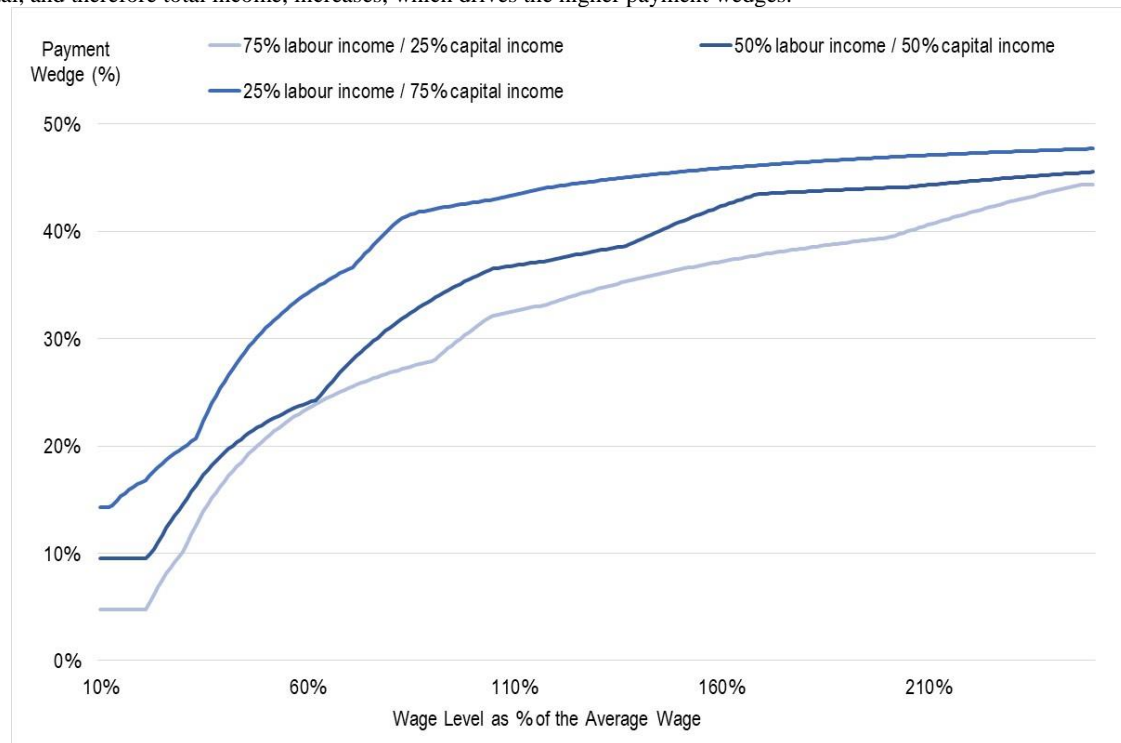
The figure below shows results for incorporated self-employed workers only, where the difference across each is the portion of income taken in the form of employment and capital income. From left to right, the underlying assumptions are: 75% employment income, 25% capital income; 50% employment income, 50% capital income; and 25% employment income, 75% capital income. The calculations assume that the individual analysed is unmarried and without children. The exercise shown is that in which total employment cost is held equal (corresponding to Figure 29), as the focus here is the incentive of an individual worker and, namely, the mixture of employment and capital income that he or she would be incentivised to choose given that they operate an incorporated self-employed business. The case of 75% employment income and 25% capital income is the one presented as the incorporated self-employed case in Figure 29 and Table 42. The figure shows that a decrease in the portion of employment income leads to a lower payment wedge. In addition, varying the portion of employment and capital income leads to a different “tax preferential” ordering of employment forms, i.e., if businesses choose the more beneficial employment / capital income split, then being an incorporated owner-manager yields a lower payment wedge than being an unincorporated self-employed worker. It should also be noted that even a 25% employment income, 75% capital income split overstates employment income for most owner-managers in the United Kingdom. The majority of owner managers will take a salary of GBP 8,164 and the remainder as dividends (i.e., capital income). For a total employment cost of GBP 42,355, this would imply capital income of GBP 34,191, yielding a payment wedge of 18.8 percent.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 32. Payment Wedges of Incorporated Self-employed Workers, with Varied Portions of Employment and Capital Income (75% employment income, 25% capital income; 50%, 50%; and 25%, 75%) across Different Wage Levels – United Kingdom (2017)**

The figure below shows payment wedges for an incorporated self-employed worker across different wage levels, starting at 10% of the average wage (GBP 3,823) and continuing through 250% of the average wage (GBP 95,582). Three cases of incorporated self-employed workers are presented, each corresponding to a different portion of employment versus capital income, as done in Figure 33 (where the analysis was based on the average wage): 75% employment income, 25% capital income; 50% employment income, 50% capital income; and 25% employment income, 75% capital income. The case of 75% employment income and 25% business income is the one presented as the incorporated self-employed case in Figure 30. This figure shows payment wedges for each case for equalised gross wages. Thus, as the share of labour to total income falls, holding the wage constant, the amount of capital, and therefore total income, increases, which drives the higher payment wedges.



Source: Authors' calculations based on OECD questionnaire response.

## 8. The United States

273. This section summarises our understanding of the US tax system based *Taxing Wages 2018* for standard, full-time employees and, related to other types of employment, on the data and information provided via a questionnaire response. The national currency is the US Dollar (USD); all currency amounts expressed below are in USD. We assume an average gross wage of USD 52,544, which aligns with *Taxing Wages 2018*.

### 8.1. Employment Categories

274. According to tax law, there are four categories of employment in the United States:<sup>34</sup>

- Common law employee (“employee,” hereafter)
- Independent contractor, organized as a sole proprietorship
- Independent contractor, organized as an S corporation
- Independent contractor, organized as a C corporation

### 8.2. Tax Treatment by Employment Form – Individual Perspective

275. This section covers the tax treatment of an individual according to the employment categories described in Section 8.1.

#### 8.2.1. *Deductions Applied Before the Calculation of PIT*

##### *Employee SSCs*

276. For an independent contractor organised as a sole proprietorship, social security (survivors and disability insurance) and Medicare contributions – the two SSCs paid by employees – are deductible from PIT by half. For all other categories of employment (employee, independent contractor organised as an S or a C corporation), employee SSCs are not deductible.

##### *Employer SSCs*

277. As discussed below in Section 8.2.6, S and C corporations are liable for employer SSCs on wages paid to their owners. S and C corporations can deduct SSCs paid. In the case of an S corporation owner who pays him/herself a wage, employer SSCs are deducted from S and C corporation income, and therefore is deducted (in full) from the owner’s PIT base.

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<sup>34</sup> In addition to sole proprietorships, S corporations, and C corporations, there are also partnerships that can take various forms as well as have partners who are general or limited, active or passive. The model of an independent contractor being paid via a partnership for services provided to a third-party is somewhat inconsistent; as a result, no further discussion of partnerships is provided.

### *Standard Deduction & Personal Exemption*

278. In 2017, the standard deduction for a single filer was \$6,350; in 2018, it is \$12,000. In addition to the personal exemption, in 2017 single filers were entitled to a personal exemption of \$4,050. This was eliminated for the 2018 tax year.

### *Wage Earnings*

279. Wage earnings are not deductible from PIT for any employment categories.

### **8.2.2. Calculation of Taxable Income**

280. Taxable income is calculated as the gross wage less the standard deduction (described in Section 2.9) and any other applicable deductions described above.

### **8.2.3. PIT**

281. PIT is paid by employees and the self-employed at the federal, and often state and local levels. PIT is due on all wage earnings as well as, for independent contractors organised as S and C corporations, on business income.<sup>35</sup>

282. In 2017 and 2018, federal PIT rates were as outlined below.

**Table 43. PIT in the United States**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 9,325	10.0	2018	0 – 9,525	10.0
	9,325 – 37,950	15.0		9,525 – 38,700	12.0
	37,950 – 91,990	25.0		38,700 – 82,500	22.0
	91,990 – 191,650	28.0		82,500 – 157,500	24.0
	191,650 – 416,700	33.0		157,500 – 200,000	32.0
	416,700 – 418,400	35.0		200,000 – 500,000	35.0
418,400+	39.6	500,000+	37.0		

Source: OECD questionnaire on tax and labour contracts.

283. For state and local taxation, we assume, as in *Taxing Wages*, that the individual lives in Detroit, Michigan. In 2017, there was a Michigan state income tax rate of 4.25 percent and a local income tax rate of 2.4 percent. We assume these figures remain the same for 2018.

284. In 2017, independent contractors organised as sole proprietors or as S corporations paid PIT according to the same rates as an employee. PIT rates did not vary by employment type. However, starting in 2018, a new deduction<sup>36</sup> is available such that some sole proprietors and independent contractors organised as S corporations may deduct 20 percent

<sup>35</sup> The terms “wage income” and “business income” are mutually exclusive (and exhaustive) categories for business owners. Sole proprietors do not earn wages. Owners of S and C corporations must pay themselves reasonable compensation in wages.

<sup>36</sup> The new pass-through deduction is described in Subtitle A on Individual Tax Reform, which became law on December 22, 2017. It is also referred to as Section 199A, the section which describes what constitutes qualified business income, though details are not available at this time.

of qualified business income in certain cases. Thus, they effectively pay taxes on only 80 percent of this income, and therefore effectively face marginal tax rates as outlined below.

**Table 44. PIT for Independent Contractors in the United States**

Year	Taxable income (USD)	Tax rate (percent) Eligible business	Tax rate (percent) Ineligible business
2018	0 – 9,525	8.0	8.0
	9,525 – 38,700	9.6	9.6
	38,700 – 82,500	17.6	17.6
	82,500 – 157,500	19.2	19.2
	157,500 – 200,000	25.6	25.6 – 31.04
	200,000 – 207,500	28.0	33.95 – 35.0
	207,500 – 500,000	28.0	35.0
	500,000+	29.6	37.0

Source: OECD questionnaire on tax and labour contracts.

285. There are several limitations to the pass-through deduction. However, the limitations only apply above certain income levels. High-income individuals in service sectors do not receive the deduction. High-income individuals not in service sectors may not receive the deduction unless the business either (a) pays sufficient wages or (b) has sufficient tangible capital. The limits start phasing in at \$157,500 and are fully phased in by \$207,500 for singles. These thresholds correspond to taxable income computed without respect to the pass-through deduction.

#### 8.2.4. Taxation of Dividend Income

286. S and C corporations may issue dividend income to their owners. For S corporation owners, dividend income is irrelevant for tax purposes because S corporations are “pass-through” entities. In pass-through entities, earnings are treated as if they are distributed to owners regardless of whether they actually are. In general, S corporation income faces ordinary tax rates, not capital tax rates.

287. Non-qualified dividend income<sup>37</sup> is also taxed according to the PIT schedule above, for all types of workers. However, for C corporations, qualified dividend income is taxed at rates lower than PIT rates, like capital gains income. In 2017 and 2018, the, the tax brackets for dividend income have rates as described below.

**Table 45. Taxation of Dividends in the United States**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 37,950	0.0	2018	0 – 38,700	0.0
	37,950 – 418,400	15.0		38,700 – 426,700	15.0
	418,400+	20.0		426,700+	20.0

Source: OECD questionnaire on tax and labour contracts.

<sup>37</sup> Non-qualified dividends are taxed at ordinary income tax rates. Qualified dividends are taxed at lower rates. In order for dividends to be considered “qualified,” the investor must own the stock for a long enough period (generally 60 days for common stock and 90 days for preferred stock) and the dividends must not be part of an employee stock ownership plan, nor may they be issued by a tax-exempt organization.

### 8.2.5. *Employee NTCPs*

288. There are no employee non-tax compulsory payments (NTCPs).

### 8.2.6. *Employee SSCs*

289. Employees pay the following two types of SSCs:

- Social security (survivors and disability insurance): In 2017, 6.2 percent on earnings up to \$127,200; in 2018, 6.2 percent on earnings up to \$128,400.
- Medicare: In 2017 and 2018, 1.45 percent on all earnings (no maximum). Individuals earning more than \$200,000 pay an additional 0.9 percent.

290. Taking the above SSCs into account, we have the following employer SSC rate schedules for 2017 and 2018:

**Table 46. Employee SSCs**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 127,200	7.65	2018	0 – 128,400	7.65
	127,200 – 200,000	1.45		128,400 – 200,000	1.45
	200,000+	2.35		200,000+	2.35

Source: OECD questionnaire on tax and labour contracts.

291. For wages paid by an S or C corporation to its owner (which must meet reasonable compensation thresholds), both social security (survivors and disability insurance) as well as Medicare contributions are due, where the above rate schedule applies. For business income, no SSCs or Medicare contributions are due.

292. Independent contractors organised as sole proprietorships are also liable for social security (survivors and disability) as well as Medicare contributions, however, at rates different to those above. Independent contractors organised as sole proprietors make contributions as follows:

- Social security (survivors and disability insurance): In 2017, 11.45 percent on earnings up to \$137,737; in 2018, 11.45 percent on earnings up to \$139,036.
- Medicare: In 2017 and 2018, 2.68 percent on all earnings (no maximum). Individuals earning more than \$216,567 pay an additional 0.83 percent.

293. Taking the above SSCs into account, the rate schedules for independent contractors organised as sole proprietors for 2017 and 2018 are as follows:

**Table 47. SSC Rate Schedule for Independent Contractors**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 137,737	14.13	2018	0 – 139,036	14.13
	137,737 – 216,567	2.68		139,036 – 216,567	2.68
	216,567+	3.51		216,567+	3.51

Source: OECD questionnaire on tax and labour contracts.

### 8.2.7. *Healthcare Contributions*

294. Individuals are not liable for healthcare contributions.

### 8.2.8. *Deductibility of Employees' Tax Costs from PIT*

295. Regarding the deductibility of tax costs, neither wage earnings or employee SSCs are deductible for employees, independent contractors organised as S or C corporations. However, one-half of total self-employment tax is deductible for independent contractors organised as sole proprietorships.

### 8.2.9. *Deductibility of Business Expenses*

296. In 2017, the standard deduction for a single filer was \$6,350; in 2018, it is \$12,000. As in *Taxing Wages*, it is assumed that workers of all types claim the standard deduction. In addition to the standard deduction, business expenses are deductible. However, this analysis does not model other business deductions, as it does not want to make assumptions about the type of business activity.

### 8.2.10. *Potential Taxation of Income Partly as Labour Income, Partly as Capital Income*

297. To the extent independent contractors are organized as C corporations, any dividends paid to themselves would generally be treated as capital income, not labour income. See Section 8.2.4.

### 8.2.11. *Tax Allowances and Credits Offered Against Labour Costs*

298. One tax credit is offered against labour costs to workers of all types: the earned income tax credit (EITC).

299. For an employee, the EITC phases in, reaches a plateau, and then phases out. Marginal tax rates for 2017 and 2018 are as follows, and apply to “earned income,” which equals wage income for employees as described below.

**Table 48. EITC Calculation**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 6,670	-7.65	2018	0 – 6,800	-7.65
	6,670 – 8,340	0		6,800 – 8,510	0
	8,340 – 15,010	7.65		8,510 – 15,310	7.65

Source: OECD questionnaire on tax and labour contracts.

300. In both 2017 and 2018, the Michigan EITC is refundable and equals 6 percent of the federal EITC. Thus the effective rates above are positive and negative 8.11 percent rather than 7.65 percent.

301. The rate schedule above also applies for an independent contractor organised as a sole proprietorship, S or C corporation. However, for sole proprietors, “earned income” equals 92.35 percent of business income (due to a partial deduction for self-employment

taxes).<sup>38</sup> For S and C corporations, “earned income” equals wage income and does not include any other business income.

#### 8.2.12. *Cash Transfers*

302. There are no cash transfers.

### 8.3. Tax Treatment by Employment Form – Firm Perspective

303. This section covers the tax treatment of a firm according to the employment categories described in Section 8.1.

#### 8.3.1. *Deductions Applied Before the Calculation of CIT*

304. Firms that employ common law employees may deduct employer SSCs from CIT. Regarding the deductibility of wage earnings, wages paid to employees is deductible by the employer (contracting firm) from CIT.

305. Independent contractors organised as C corporations may deduct wages paid to the owner as well as employer SSCs (social security: survivor and disability insurance, Medicare and unemployment) from CIT. Payments for social security, Medicare and unemployment are deductible from federal CIT and state unemployment is deductible from state CIT.

#### 8.3.2. *CIT*

306. In 2017 and 2018, CIT rates in the US were:

**Table 49. Corporate Tax Rates in the United States**

Year	Central	Sub-central	Combined
2017	32.9 percent	6.01 percent	38.91 percent
2018	19.74 percent	6.01 percent	25.75 percent

Source: OECD Table II.1, OECD Tax Database, OECD questionnaire on tax and labour contracts.

307. Of the organisational forms modelled, the one to pay CIT is the independent contractor organised as a C corporation. These forms pay both central and sub-central CIT.

#### 8.3.3. *Employer NTCPs*

308. On behalf of employees, firms are liable for a NTCP for accident, injury and sickness (workers’ compensation) at the state level. This is paid to a private insurance company. According to the Bureau of Labor Statistics’ 2010 National Compensation Survey, workers’ compensation costs represented 1.6 percent of employer spending overall (although rates varied significantly across industry sectors). This analysis assumes that employers contribute an amount equal to 1.6 percent of the gross wage.

309. Independent contractors organised as sole proprietors are exempt from workers’ compensation in Michigan. For S and C corporations, there is no liability for the contracting firm. Though S and C corporation owners may be exempt from workers compensation in Michigan under certain circumstances, this analysis assumes that S and C corporation owners

<sup>38</sup> In 2017 and 2018, the total self-employment tax rate is 15.3 percent. This is applied to 92.35 percent of income, which equals and effective rate of 14.13 percent (11.45 percent for social security contribution plus 2.68 percent for Medicare).

are liable and that they contribute an amount equal to 1.6 percent of the gross wage in each case. NTCPs are generally deductible for S and C corporations.

#### 8.3.4. *Employer SSCs*

310. On behalf of employees, firms pay the following three types of SSCs:

- Social security (survivors and disability insurance): For 2017, 6.2 percent on gross income up to \$127,200; for 2018, 6.2 percent on gross income up to \$128,400.
- Medicare: For 2017 and 2018, 1.45 percent on gross income (no maximum).
- Unemployment: In 2017, employers pay federal unemployment tax of 6.0 percent on gross income up to \$7,000. Michigan businesses received a 5.4 percent credit, making their tax rate 0.6 percent on the first \$7,000 of gross income per employee. We assume this remains the same for 2018. At the sub-central level, for 2017 and 2018, the tax base is the first \$9,000 of gross income and the rate is experience-rated between 0.06 percent and 10.3 percent. A government post says that the average in 2017 was 4.7 percent and is projected to be 4.5 percent in 2018.<sup>39</sup> However, for our calculations, we have aligned with Taxing Wages, which uses 3.59 percent.

311. Taking the above SSCs into account, we have the following employer SSC rate schedules for 2017 and 2018:

**Table 50. Employer SSCs in the United States**

Year	Taxable income (USD)	Tax rate (percent)	Year	Taxable income (USD)	Tax rate (percent)
2017	0 – 7,000	12.95	2018	0 – 7,000	12.75
	7,000 – 9,000	12.35		7,000 – 9,000	12.15
	9,000 – 127,200	7.65		9,000 – 128,400	7.65
	127,200+	1.45		128,400+	1.45

Source: OECD questionnaire on tax and labour contracts.

312. There is no such employer assistance available to independent contractors organised as sole proprietorships. As such, independent contractors organised as sole proprietorships are not liable for any of the above.

313. Independent contractors organised as S or C corporations are not liable for any of the above as contracting firms. S and C corps pay liability as for an employee for wages paid to the owner (which must meet reasonable compensation thresholds), but have no liability on business income.

#### 8.3.5. *Employer Payroll Taxes*

314. There are no employer payroll taxes.

#### 8.3.6. *Deductibility of Employers' Labour Costs from CIT*

315. Labour costs of employees in the form of wage earnings and employer SSCs are deductible from CIT at both the federal and state levels. Unemployment SSCs paid on behalf of employees are deductible at the state level. In addition, C corporations may deduct wages

<sup>39</sup> <http://www.michigan.gov/som/0,4669,7-192-47796-457797--,00.html>

paid (which must meet reasonable compensation thresholds) to the owner/employee as well as employer SSCs at both the federal and state levels. Unemployment SSCs are deductible at the state level.

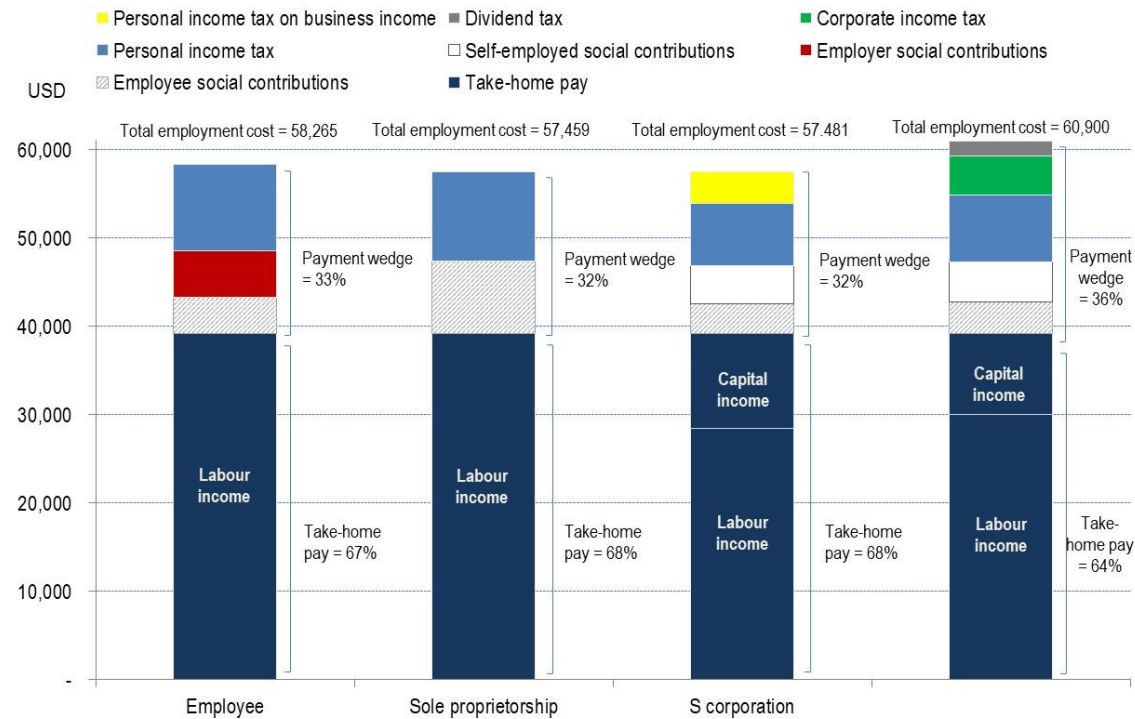
### ***8.3.7. Tax Allowances and Credits Offered Against Labour Costs***

316. Firms are allowed a state-level tax credit for unemployment contributions. Aside from this, there are no tax allowances and credits offered against labour costs.

### 8.4. Tables and Figures

**Figure 33. Decomposition of Total Employment Cost by Employment Form, Take-home Pay Held Equal – United States (2017)**

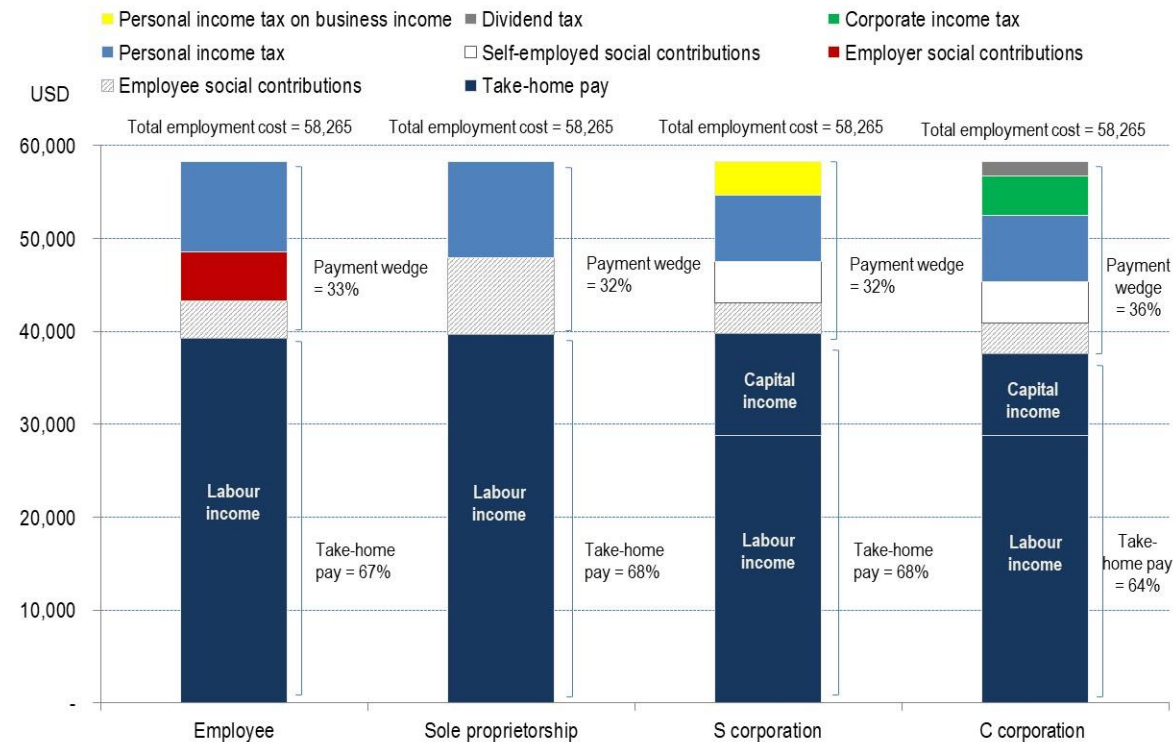
In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (USD 52,544). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual’s behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors’ calculations based on OECD questionnaire response.

**Figure 34. Decomposition of Total Employment Cost by Employment Form, Total Employment Cost Held Equal – United States (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (USD 52,544). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Table 51. Taxation of Employment Forms where Individual Take-home Pay is Equalised – United States (2017)**

In this exercise, the gross wage is equal to the average wage in 2017 for the employee category (USD 52,544). For the other employment forms, the take-home pay of the individual has been equalised to the take-home pay of the employee. As this ensures indifference on the individual's behalf with respect to employment form, it allows an assessment of the incentive of a firm to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 33.

	Common law employee	Independent contractor - sole proprietorship	Independent contractor - S corporation	Independent contractor - C corporation
Labour cost	58,265	57,459	43,111	45,675
Profits	-	-	14,370	15,225
<b>Total labour costs and profits</b>	<b>58,265</b>	<b>57,459</b>	<b>57,481</b>	<b>60,900</b>
Employer NTCPs & SSCs - contracting firm	5,267			
of which: accident, injury and sickness				
state	848			
of which: social security: survivors and disability insurance				
federal	3,286			
of which: medicare				
federal	768			
of which: unemployment				
federal	420			
state	323			
of which: tax credit against federal unemployment				
state	378			
Employer NTCPs & SSCs - contracted firm			4,353	4,590
of which: accident, injury and sickness				
state			690	731
of which: social security: survivors and disability insurance				
federal			2,673	2,832
of which: medicare				
federal			625	662
of which: unemployment				
federal			420	420
state			323	323
of which: tax credit against federal unemployment				
state			378	378
<b>Gross wage</b>	<b>52,998</b>	<b>57,459</b>	<b>43,111</b>	<b>45,675</b>
Standard deduction	6,350	6,350	6,350	6,350
Personal exemption	4,050	4,050	4,050	4,050
<b>Taxable income</b>	<b>42,598</b>	<b>43,000</b>	<b>42,728</b>	<b>45,910</b>
Income tax and general scheme SSCs	13,783	18,244	10,321	11,046
of which: gross tax liability (PIT)				
federal	6,388	6,489	4,341	4,699
state	2,082	2,272	1,662	1,771
local	1,258	1,365	1,020	1,082
of which: general scheme SSCs				
survivors and disability	3,286	6,579	2,673	2,832
medicare	768	1,540	625	662
of which: earned income tax credit (EITC)				
federal	-	-	-	-
state	-	-	-	-
Other taxes				
of which: PIT on business income			3,593	
of which: CIT				
federal				3,721
state				708
of which: dividend tax for owner-managers closely held companies				1,619
<b>Take-home pay - labour share</b>	<b>39,215</b>	<b>39,215</b>	<b>28,437</b>	<b>30,039</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>10,778</b>	<b>9,176</b>
<b>Total take-home pay</b>	<b>39,215</b>	<b>39,215</b>	<b>39,215</b>	<b>39,215</b>
<b>Average rates</b>				
Income tax rate	18.4%	17.6%	24.6%	16.5%
Employee SSC rate	7.7%	14.1%	7.7%	7.7%
Total payments less cash transfers	26.0%	31.8%	40.8%	24.2%
Tax wedge	31.7%	31.8%	30.6%	28.1%
<i>Including NTCPs</i>				
Income tax	18.4%	17.6%	24.6%	16.5%
Employee SSCs + NTCPs	7.7%	14.1%	7.7%	7.7%
Total payments less cash transfers	26.0%	31.8%	42.4%	24.2%
Payment wedge	32.7%	31.8%	31.8%	35.6%

Source: Authors' calculations based on OECD questionnaire response.

**Table 52. Taxation of Employment Forms where Total Employment Cost is Equalised – United States (2017)**

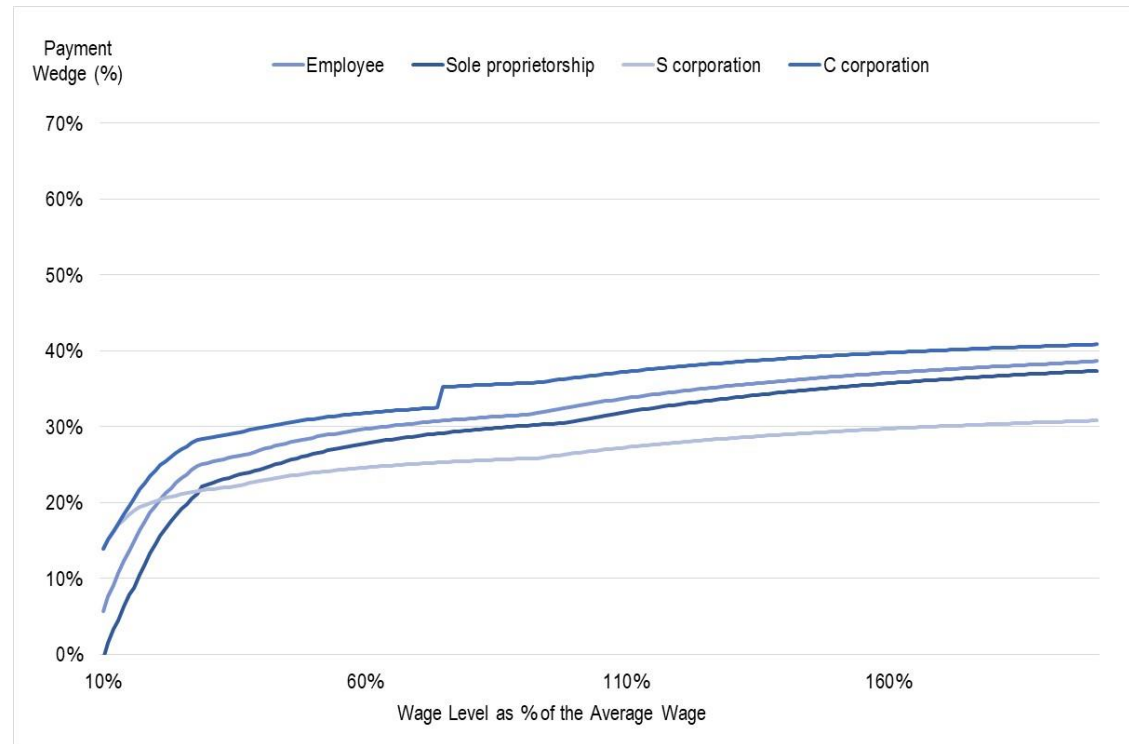
In this exercise, the gross wage is equal to the average wage in 2016-2017 for the employee category (USD 52,544). For the other employment forms, the total employment cost facing the firm has been equalised to the total employment cost for the employee case. As this ensures indifference on the firm's behalf with respect to employment form, it allows an assessment of the incentive of an individual to shift between employment forms. The calculations assume that the individual analysed is unmarried and without children. These figures correspond to those plotted in Figure 34.

	Common law employee	Independent contractor - sole proprietorship	Independent contractor - S corporation	Independent contractor - C corporation
Labour cost	58,265	58,265	43,699	43,699
Profit	-	-	14,566	14,566
<b>Total employment cost</b>	<b>58,265</b>	<b>58,265</b>	<b>58,265</b>	<b>58,265</b>
Employer NTCs & SSCs - <b>contracting firm</b>	5,267			
of which: accident, injury and sickness				
state	848			
of which: social security: survivors and disability insurance				
federal	3,286			
of which: Medicare				
federal	768			
of which: unemployment				
federal	420			
state	323			
of which: tax credit against federal unemployment				
state	378			
Employer NTCs & SSCs - <b>contracted firm</b>			4,407	4,407
of which: accident, injury and sickness				
state			699	699
of which: social security: survivors and disability insurance				
federal			2,709	2,709
of which: Medicare				
federal			634	634
of which: unemployment				
federal			420	420
state			323	323
of which: tax credit against federal unemployment				
state			378	378
<b>Gross wage</b>	<b>52,998</b>	<b>58,265</b>	<b>43,699</b>	<b>43,699</b>
Standard deduction	6,350	6,350	6,350	6,350
Personal exemption	4,050	4,050	4,050	4,050
<b>Taxable income</b>	<b>42,598</b>	<b>43,749</b>	<b>43,458</b>	<b>43,458</b>
Income tax and general scheme SSCs	13,783	18,599	10,487	10,487
of which: gross tax liability (PIT)	9,728	10,366	7,144	7,144
federal	6,388	6,676	4,423	4,423
state	2,082	2,306	1,687	1,687
local	1,258	1,384	1,034	1,034
of which: general scheme SSCs	4,054	8,233	3,343	3,343
survivors and disability	3,286	6,671	2,709	2,709
Medicare	768	1,562	634	634
of which: earned income tax credit (EITC)				
federal	-	-	-	-
state	-	-	-	-
Other taxes				
PIT on business income			3,642	
of which: CIT				4,232
federal				3,554
state				678
of which: dividend tax for owner-managers closely held companies				1,550
<b>Take-home pay - labour share</b>	<b>39,215</b>	<b>39,666</b>	<b>28,804</b>	<b>28,804</b>
<b>Take-home pay - capital share</b>	<b>-</b>	<b>-</b>	<b>10,925</b>	<b>8,784</b>
<b>Total take-home pay</b>	<b>39,215</b>	<b>39,666</b>	<b>39,729</b>	<b>37,588</b>
<b>Average rates</b>				
Income tax rate	18.4%	17.8%	16.3%	16.3%
Employee SSC rate	7.7%	14.1%	7.7%	7.7%
Total payments less cash transfers	26.0%	31.9%	32.5%	24.0%
Tax wedge	31.7%	31.9%	24.4%	27.9%
<i>Including NTCs</i>				
Income tax	18.4%	17.8%	16.3%	16.3%
Employee SSCs + NTCs	7.7%	14.1%	7.7%	7.7%
Total payments less cash transfers	26.0%	31.9%	34.1%	24.0%
Payment wedge	32.7%	31.9%	31.8%	35.5%

Source: Authors' calculations based on OECD questionnaire response.

**Figure 35. Payment Wedges by Employment Type across Different Wage Levels – United States (2017)**

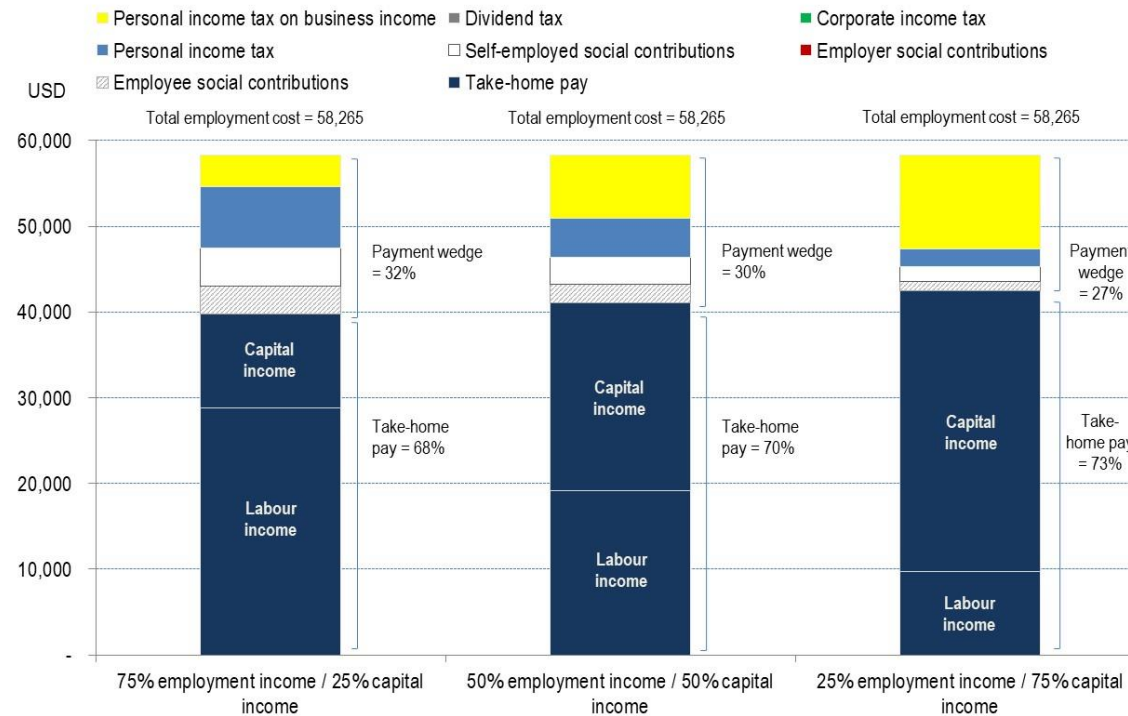
The figure below shows payment wedges by employment type across different wage levels, starting at 10% of the average wage (USD 5,299) and continuing through 200% of the average wage (USD 105,976). As shown in Figures 33 and 34, the employment type with the lowest payment wedge for the analysis performed at the average wage was the S corporation. It can be seen from this figure that this remains true for the majority of wage levels shown (above 20% of the average wage). C corporations, in contrast, are the employment type that carries the highest payment wedges.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 36. Decomposition of the Total Employment Cost for S Corporations, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – United States (2017)**

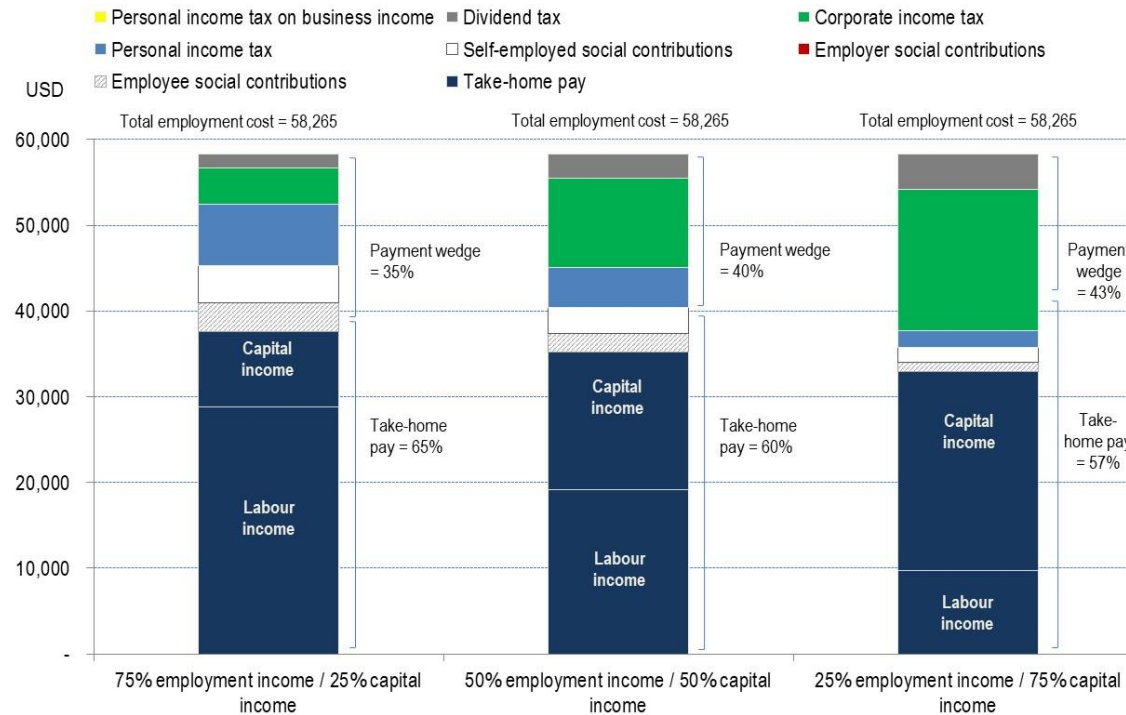
The figure below shows results for the S corporation employment form only, where the difference across S corporations is the portion of income taken in the form of labour and capital income. From left to right, the underlying assumptions are: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 37. Decomposition of the Total Employment Cost for C Corporations, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) – United States (2017)**

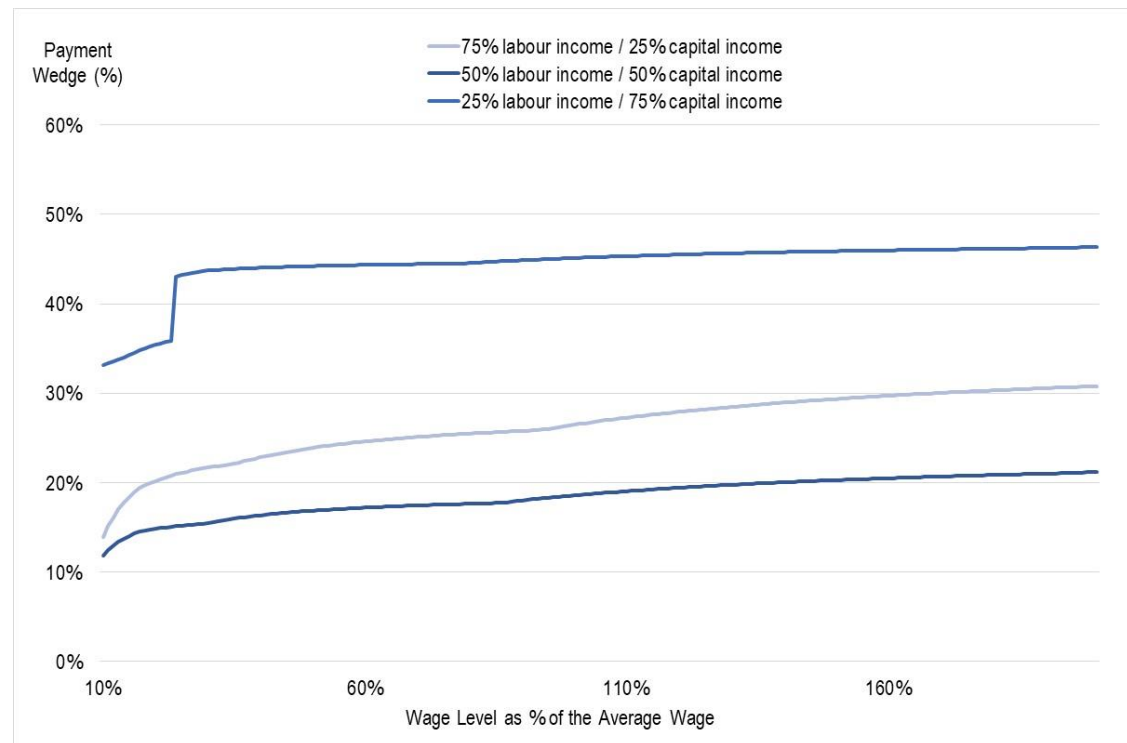
The figure below shows results for the C corporation employment form only, where the difference across C corporations is the portion of income taken in the form of labour and capital income. From left to right, the underlying assumptions are: 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The calculations assume that the individual analysed is unmarried and without children.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 38. Payment Wedges of S Corporations, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) across Different Wage Levels – United States (2017)**

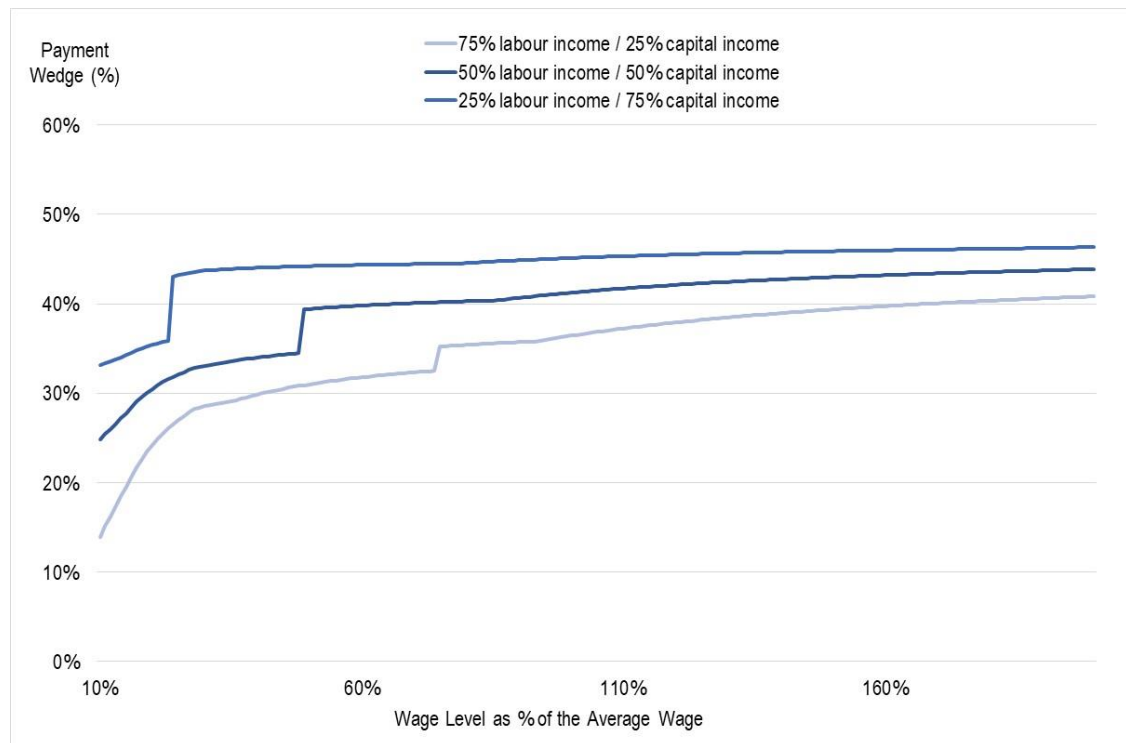
The figure below shows payment wedges for an S corporation across different wage levels, starting at 10% of the average wage (USD 5,299) and continuing through 200% of the average wage (USD 105,976). Three cases of S corporations are presented, each corresponding to a different portion of labour versus capital income, as done in Figure 36 (where the analysis was based on the average wage): 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The case of 75% labour income and 25% capital income is the one presented as the S corporation case in Figure 35.



Source: Authors' calculations based on OECD questionnaire response.

**Figure 39. Payment Wedges of C Corporations, with Varied Portions of Labour and Capital Income (75% labour income, 25% capital income; 50%, 50%; and 25%, 75%) across Different Wage Levels – United States (2017)**

The figure below shows payment wedges for a C corporation across different wage levels, starting at 10% of the average wage (USD 5,299) and continuing through 200% of the average wage (USD 105,976). Three cases of C corporations are presented, each corresponding to a different portion of labour versus capital income, as done in Figure 37 (where the analysis was based on the average wage): 75% labour income, 25% capital income; 50% labour income, 50% capital income; and 25% labour income, 75% capital income. The case of 75% labour income and 25% capital income is the one presented as the C corporation case in Figure 35.



Source: Authors' calculations based on OECD questionnaire response.