The tax burden of workers in the EU: a summary

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First published in 2010, the 2017 Tax Burden study by the Institut économique Molinari measures the tax and social security burdens on individual employees earning typical salaries in each of the 28 Member States.

The three EU laggards on taxation are France, Belgium and Austria. With respective real tax rates of 57.41%, 56.74% and 54.28%, these citizens are the last in the EU to celebrate their "Tax Freedom Day". Cyprus, Malta and Ireland are the first countries to celebrate "Tax Freedom Day" on 29 March, 19 April and 26 April, respectively.

For the third year in a row, the average real tax rate for the typical EU employee has decreased slightly to 44.8%. However, this rate remains higher than in 2010, with a general increase of 0.81%. This also means that the average EU employer must spend €185 to provide an employee with €100 of real purchasing power. In seven EU Member States employers must spend more than €200.

Introduction

First published in 2010, the 2017 study by the Institut économique Molinari (IEM) underscores the latest fiscal developments within the EU. The study compares the tax and social security burdens of individual employees earning typical salaries in each of the 28 Member States. The main purpose of the report is to determine a "Tax Freedom Day", measuring how much of the year's work is devoted to paying taxes for workers in each member country. In addition, the study tracks year-to-year trends in both the taxation on and cost of salaried labour in the EU28.

Whilst there are several studies that rank political systems by measuring specific features of economic freedom (e.g. economic openness, rule of law, ease of doing business, regulatory efficiency and government size), they usually fail to shed light on the working individual's role in financing the state and social security. Thus, the IEM Tax Burden study creates a comparison of tax rates, with data that reflects the reality experienced by the average worker in the EU. Finally, the report serves as a guide to the true cost of hiring employees in each Member State. The publication of this report coincides with Belgium's 2017 "Tax Freedom Day".

Where do EU citizens pay more taxes?

In order to determine a "Tax Freedom Day" calendar for the 28 Member States, the study calculates the tax burden of European workers by aggregating the main taxes or expenses that are borne directly or indirectly by average employees. Consequently, the report takes into account social security contributions, payroll taxes, income tax and VAT.

Once again, France and Belgium report the highest tax burden. With a real tax rate of 57.41%, France's 2017 Tax Freedom Day occurs on 29th July. This means that the average French employees have to work 209 days for the State before starting to earn money for themselves. Belgium remains second in the EU28 with a real tax rate of 56.74% and their Tax Freedom Day on 27th July.

The three EU Member States where workers are the least taxed are Cyprus, Malta and Ireland. With a respective real tax rate of 23.40%, 29.82% and 31.77%, employees celebrate their Tax Freedom Day either in March or April.

What about the EU and the Eurozone as a whole?

For the third consecutive year, the average real tax rate for the typical EU employee has decreased slightly and it is now at 44.8% (0.16% less than last year). However, it remains higher than in 2010, with a general increase of 0.81%. Thus, for 2017, the average EU employee generating €100 of income before taxes and charges will have €55.20 of actual purchasing power at their disposal.

Tax Freedom Day Calendar 2017

March	April	May	June	July
27 Cyprus	19 Malta	9 United Kingdom	1 Denmark	5 Hungary
	26 Ireland	21 Bulgaria	8 Spain	8 Italy
		29 Luxembourg	9 Estonia	10 Greece
			9 Slovenia	10 Germany
			11 Portugal	18 Austria
			12 Croatia	27 Belgium
			14 Poland	29 France
			19 Finland	
			20 Lithuania	
			20 Czech Republic	
			20 Romania	
			20 The Netherlands	
			20 Latvia	
			20 Slovakia	
			23 Sweden	

15 EU countries have reduced their real tax rates since the last report 12 months ago. In nine of these countries the reduction in real tax rates have enabled them to celebrate their Tax Freedom Day at least one day earlier. This is especially the case for Hungary, a country with a 2017 tax burden of 50.88% (-3.22% vs. 2016). The other eight EU Member States that have recorded a decline in their real tax rate and an improvement in their "Tax Freedom Day" since 2016 are: Luxembourg (+5 days), Portugal and Ireland (+4 days), Finland and Romania (+3 days), Cyprus (+ 2 days), Croatia and Austria (+1 day).

With a real tax rate increase of 7.51% (Greece), 6.31% (Spain), 5.60% (Italy), 4.05% (Cyprus) and 4.01% (Luxembourg) between 2010 and 2017, typical workers have seen their real purchasing power eroding in these EU Member States.

Workers in the remaining 13 EU countries have been subject to an increase in compulsory taxes. In seven of them these increases have meant that they do not start earning for themselves until later in the year compared to 2016. These countries include Sweden, Malta and Latvia (-1 day), Greece and Bulgaria (-3 days), Italy (-6 days) and Lithuania (-7 days).

It should also be noted that the gap between the 19 eurozone countries and the nine non-eurozone Member States continues to increase. Between 2010 and 2013 (during the first four editions of the Tax Burden report), the euro area benefited from a more favourable average real tax rate than the rest of the EU. This situation was reversed in 2014. The difference between the average real tax rate of the euro area (45.18%) and that of the other EU countries (44.02%) equates to 1.16% for 2017.

Real Tax Rate	2017	2017 vs 2010	2010
Croatia	44.42%	N/A	N/A
Greece	52.10%	7.51%	44.59%
Spain	43.31%	6.31%	37.00%
Italy	51.56%	5.60%	45.96%
Cyprus	23.40%	4.05%	19.35%
Luxembourg	40.76%	4.01%	36.75%
Portugal	44.33%	3.47%	40.86%
Latvia	46.77%	3.04%	43.73%
Malta	29.82%	2.98%	26.84%
Estonia	43.57%	2.83%	40.74%
Austria	54.28%	2.09%	52.19%
Czech Republic	46.66%	1.77%	44.89%
Poland	45.20%	1.57%	43.63%
Slovakia	46.78%	1.32%	45.46%
Finland	46.36%	1.18%	45.18%
Lithuania	46.60%	1.17%	45.43%
France	57.41%	0.96%	56.45%
Ireland	31.77%	-0.10%	31.87%
Slovenia	43.78%	-0.93%	44.71%
Bulgaria	38.39%	-1.16%	39.55%
United Kingdom	35.08%	-1.25%	36.33%
Belgium	56.74%	-1.76%	58.50%
Romania	46.69%	-1.89%	48.59%
Sweden	47.40%	-1.95%	49.35%
Germany	52.27%	-2.33%	54.60%
The Netherlands	46.75%	-3.43%	50.18%
Denmark	41.41%	-4.34%	45.75%
Hungary	50.88%	-8.49%	59.37%

In seven EU countries (France, Belgium, Austria, Germany, Greece, Italy and Hungary) employers must spend more than €200 to provide employees with €100 of real purchasing power.

Employers' tax burden

According to the 2017 Tax Burden report, the average EU employer will have to pay €185 to provide employees with €100 of real purchasing power. The remaining €85 will be spent in charges and taxes. The tax burden on the average employer varies greatly from one country to another. French and Belgian employers have to pay €235 and €231 respectively to guarantee their employees a real purchasing power of €100. By contrast, employers in the UK, Ireland, Malta and Cyprus have to pay between €131 and €154. A particular feature of the IEM report is that it measures the impact on real purchasing power of less visible taxes such as social security contributions. In some EU countries, the difference between the employer's and the employee's rates of social security is minimal. This is the case in Germany, Poland, Malta, the United Kingdom and Luxembourg. In Malta, both the employer and the employee pay €13 each for their respective social security contributions. In other EU countries, including Estonia, Spain, Lithuania and Italy, employer social security contribution rates are significantly higher than the employees' ones.

Conclusion

The IEM's 2017 Tax Burden report continues to highlight the magnitude of the change in charges and taxes in the EU since 2010. As they emerged from the deep 2009 recession, a significant number of EU countries have sought to rebalance their public accounts by increasing taxes on employers and individuals rather than cutting spending. Thus, the majority of EU Member States avoided free-market policies to boost economic growth and stimulate business activity.

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Employees were hit hard twice by the increase in the real tax rates. On the one hand, employers, who now bear higher charges, have been less inclined to raise their workers' gross wages. On the other hand, net salaries remain de facto halved by various payroll taxes, income tax and VAT. **In 2017, a hypothetical EU worker's full salary would be €32,652. After income tax, VAT and other indirect taxes, the actual purchasing power of this typical EU employee equates to just €17,658 (or €1,471 per month).**