Neutrality of tax systems

Families can choose among different labour supply options to procure a desired level of disposable income. Tax systems are defined as "neutral" if they provide equal incentives to work for both partners. Often, men are the main earners in couple families. In practice, therefore, this indicator is associated with gender equity in the distribution of paid work within households.

The nature of the tax unit is an important factor in determining the extent to which tax systems favour dual earner couples or single breadwinner families. Under "joint" taxation systems, the marginal tax rate of the second earner will be the same as the marginal tax rate of the primary earner. If the taxation system is progressive, this rate will be higher than the marginal rate for a single person at the same level of earnings. This causes adverse incentives for the second earner (most commonly the female partner) to participate in the paid labour market. With progressive tax rates, individual taxation means that a second earner will be taxed less heavily than the primary earner for the same level of additional earnings, implying that couples can achieve higher levels of disposable income by becoming a dual-earner family. Most OECD countries have individual based tax systems, those with joint tax systems are listed in Table 1.

The OECD uses tax models to simulate the effects of the differences in tax systems across countries. Table 2 summarizes the results of one of these simulations. The Table shows how tax systems may affect the distribution of earnings among spouses in couple families. It looks at how couple families with incomes of 133 percent of average earnings may best allocate earnings among themselves. Three alternatives are considered at two earnings levels:

1. "Single-earner couples" – one earner with 133 percent of average earnings;
2. "Dominant dual-earner couples" – the main or primary earner with an average or 1.5 times average earnings and a second earner with one-third or half of average earnings; and
3. "Equal dual-earner couples"– both spouses earn the same, either average earnings or 67 percent of average earnings.

Table 1

OECD countries with joint taxation or with an option for joint taxation[a)]

Country	Regulation holds for
Czech Republic	Couples with children
France	Families
Germany	Married couples
Ireland	Married couples
Luxembourg	Married couples
Norway	Optional
Poland	Married couples
Spain	Optional
Switzerland	Married couples
US	Married couples

[a)] Not included are countries with individual based tax systems that exhibit some "joint elements", such as tax reliefs and tax credits which are transferable between partners. This is the case, for example, in Denmark, Iceland and the Netherlands.

Source: OECD (2009).

For each of these cases, Table 2 shows how much "net taxes" (the difference between taxes paid and family and other benefits received) would be paid by the household to the government. For example, at 133 percent of average worker earnings, the net transfers for an Australian single-earner family amounts to almost 18 percent of gross earnings, while this is 5 percentage points lower for couples, both partners having the same level of earnings. In other words, at the given levels of household income, the Australian tax system favours dual-earner couples over single-earner families.

When looking at the net tax transfers, families have to make to the government at the same earnings level (compare columns 1, 2 and 3 in Table 2), it appears that the proportion of net transfers to the government by families in most countries diminishes with a more equal distribution of earnings across spouses. In other words, most tax systems favour dual-earner over single-earner couples. This is also shown in the last column of Table 2 which presents the difference in net transfers by single and equal-dual earner couples as a percentage of net transfers to government by single earner couples. The majority of values are positive which indicates that single-earner families generally pay more in net transfers to the government than equal dual-earner families with a similar level of household earnings. In the Czech Republic, Estonia, France, Iceland, Poland and the Slovak Republic, the tax systems appear to be largely neutral (within 5 percentage points either side of zero) between dual and single-earner couples. Only in Germany the tax system significantly favours single breadwinner couples over dual-earner families.

On the whole, the calculations above indicate that tax systems in most OECD countries provide strong

Table 2

Incentives to share paid work in OECD countries, 2008

	Single-earner couples	Dominant dual-earner couples	Equal dual-earner couples	Difference in net transfers to government: single and equal dual-earner couples
Gross income	133–0 1	100–33 2	67–67 3	133 4 (1–3)/1)*100
Australia	17.6	14.3	12.6	28.5
Austria	27.6	21.1	19.6	29.0
Belgium	30.2	26.2	27.1	10.4
Bulgaria	14.4	15.6	14.4	0.1
Canada	17.8	15.4	13.6	24.0
Czech Rep.	4.8	6.4	4.9	-0.5
Denmark	35.9	33.5	33.4	7.0
Estonia	8.5	8.5	8.5	0.1
Finland	29.6	21.1	18.7	36.8
France	19.7	17.9	20.0	-1.7
Germany	27.5	28.9	28.9	-5.2
Greece	35.2	27.8	24.4	30.7
Hungary	32.9	22.9	17.8	45.9
Iceland	13.6	13.7	13.7	-1.1
Ireland	10.2	3.3	4.4	57.2
Italy	25.0	18.2	18.2	27.0
Japan	16.7	15.5	15.1	9.3
Korea	12.8	9.5	8.8	31.5
Latvia	19.1	18.2	18.1	5.0
Lithuania	20.0	17.3	17.3	13.6
Luxembourg	9.8	7.1	7.1	27.3
Malta	12.3	12.8	9.8	20.1
Mexico	10.7	0.9	-1.4	112.9
Netherlands	28.4	23.1	22.4	21.2
New Zealand	15.7	11.2	9.7	38.1
Norway	27.5	22.7	21.7	20.9
Poland	19.0	18.3	18.3	3.7
Portugal	15.9	11.8	11.8	25.3
Romania	24.5	21.6	21.3	13.2
Slovak Rep.	11.7	11.7	11.7	-0.2
Slovenia	20.2	18.7	19.6	3.0
Spain	16.5	14.5	11.1	32.5
Sweden	27.4	18.9	18.3	33.3
Switzerland	11.8	10.4	10.4	12.2
Turkey	28.2	27.1	26.7	5.5
United Kingdom	22.8	18.1	18.1	20.8
United States	12.0	12.0	12.0	0.0
OECD	20.5	16.8	16.0	22.7

Note: The table shows how much net tax would be paid by couples with incomes of 133 percent of average earnings.

Source: OECD tax models.

financial incentives for both adults in couples to engage in paid work. These results vary with income level and with the age and number of children.

S. F.

References

OECD Family Database (2010), PF1.4: Neutrality of Tax/Benefit Systems, OECD, Paris.

OECD (2009), *Taxing Wages 2007–2008*, OECD, Paris.