



# Tax and benefit indicators

## Reference metadata on methodology and quality<sup>1</sup>

Concept Name	Description
<b>A</b>	<b>Data description (metadata)</b>
Data description	Personal income taxes, social contributions and social benefits have an important impact on the financial incentives to work and to hire. The tax and benefits indicators database provides useful information for examining the likely impacts of tax and benefit policies on economic growth and employment. The main sources of the database are OECD calculation models that allow calculating tax liabilities, benefit entitlements and labour costs. These models use official policy rules provided and validated directly by the relevant ministries in each country to produce a set of reliable and internationally accepted indicators of benefit generosity, work incentives and tax burdens.
Statistical population	Hypothetical households (different family types at different wage levels)
Reference period	All indicators except the “tax wedge” are calculated using the policies in place on the first day of the fiscal year (1 January for most countries). The tax wedge indicator is based on a weighted average of the policy parameters that were in place throughout the fiscal year.
Frequency of dissemination	The database is updated once a year, usually in March.
Geographical reference area	EU Members States and EU aggregates, IS, NO, CH, JP, TR, UK, US.
Unit of measure	Unit of national currency or %, depending on indicator (see definitions).
	<p><b>Tax wedge</b></p> <p>The tax wedge measures the difference between the total labour cost of employing a worker and the worker’s net earnings. A high tax wedge can exert a negative impact both on labour supply and demand, weakening incentives to look for work, to work additional hours and to hire new staff.</p> <p>The tax wedge is defined as the sum of personal income taxes and employee and employer social security contributions net of family benefits, expressed as a percentage of total labour costs (the sum of the gross wage and social security contributions paid by the employer).</p> <p><b>Marginal effective tax rates (“traps”)</b></p> <p>Marginal effective tax rates measure what part of an increase in earnings, due for instance to an increase in the number of hours worked or to a transition from unemployment to employment, is “taxed away” by higher taxes and employee social security contributions as well as the possible withdrawal of means-tested benefits. As a result, the higher the indicator the lower the financial incentive to actively search and take up employment.</p> <p>Depending on the initial situation, such benefits can include:</p> <ul style="list-style-type: none"> <li>• social assistance and minimum income benefits (SA)</li> <li>• housing benefits for rented accommodation (HB)</li> <li>• family benefits, including lone-parent maintenance benefits and home-care allowances (FB)</li> <li>• unemployment insurance and assistance benefits (UB)</li> <li>• in-work benefits (IWB)</li> </ul> <p>The higher the marginal effective tax rate, the lower the incentives to look for work or to work additional hours. Because high marginal effective tax rates may discourage a change in employment situation, they are often referred to as “traps”.</p> <p>The <b>unemployment trap</b> measures the financial incentive for an unemployed person receiving unemployment assistance or unemployment insurance benefits to actively search and take up employment. It is defined as the share of additional gross earnings that is lost to higher taxes and lower means-tested benefits when moving into work. This indicator is also known as the Participation Tax Rate (PTR) for claimants of unemployment benefits.</p> <p>Example: A person received EUR 500 in unemployment benefits and does not pay taxes. Taking up work provides a gross salary of EUR 1000 while personal income taxes and employee social security contributions amount to EUR 200 and unemployment benefits are fully withdrawn. The person’s new net income will be EUR 800. The increase in the net income is EUR 300, which means that 70% of the additional earnings (EUR 1000) is “taxed away” by lower benefits (EUR 500) and higher taxes (EUR 200).</p> <p>The <b>inactivity trap</b> measures the financial incentive for a person without employment claiming minimum income benefits, but not entitled to unemployment benefits (e.g. because they have expired), to actively search and take up employment. It is defined as the share of additional gross earnings that is lost to higher taxes and lower means-tested benefits when moving into work. This indicator is also known as the Participation Tax Rate (PTR) for claimants of minimum income benefits.</p> <p>The <b>low-wage trap</b> measures the financial incentive to increase the level of earnings by working additional hours. It is defined as the share of additional gross earnings that is lost to higher taxes and lower means-tested benefits when increasing the working hours. This indicator is also known as the Marginal Effective</p>
Basic statistical concepts and definitions	

<sup>1</sup> This document is based on a template provided by Eurostat and based on the SIMS standard for reporting about reference metadata and quality of statistical products. The content is the sole responsibility of the publisher.

Tax Rate (METR).

#### Net increase in disposable income

Like the inactivity and unemployment traps, the net increase in disposable income indicator provides a measure of the financial incentives related to the transition from unemployment or inactivity into work. It is defined as the increase in disposable income when moving from unemployment or inactivity to employment, expressed as a percentage of the initial disposable income when unemployed or inactive. The higher the rate, the higher the incentive to look for work.

Example: An inactive person receives EUR 500 in social assistance, net of taxes. Taking up work provides a gross salary of EUR 800 per month, with income taxes and employee social security contributions amounting to EUR 150, and social assistance benefits are fully withdrawn. The additional net income is of EUR 150, corresponding to an increase in disposable income of 30 %.

#### Net replacement rate

The net replacement rate provides a measure of the generosity of unemployment and other social benefits at a selected point in the unemployment spell of a person who has lost their job. It is defined as the household income of an unemployed person expressed as a share of household income before the job loss. The higher the rate is, the more generous the benefits system, and consequently, the lower the financial incentives to return to work. The indicator can be measured at different points in time, as the duration of unemployment benefits is generally limited, and their generosity can decline over the unemployment spell.

The database also provides information about the gross and net income at different income levels expressed as percentage of average wage. It also provides information on the income tax/social security contributions-free earnings threshold and about the earnings level at which social benefits are withdrawn entirely.

Classifications used See the methodology reports for the [OECD tax-benefit model \("TaxBEN"\)](#) and the [OECD Taxing Wages](#) models.

Statistical Confidentiality Not applicable.

## B Data quality

Relevance The tax and benefits indicators database is used to examine the likely impacts of tax policies on economic growth and employment, and is a basis for the Commission's evidence based policy making. The data provide inputs into EC flagship publications, the European Semester country reports and recommendations, as well as a number of EC publications that provide monitoring capabilities in the context of key convergence objectives, such as the Council Recommendations on Access to Social Protection, and the European Pillar of Social Rights. The indicators also feature regularly in analytical reports and studies undertaken, commissioned or supported by the EC.

Timeliness Net Earnings data - 3 months after the end of the reference year.  
Low Wage and Unemployment trap data – 9 months after the end of the reference year.

Accuracy and reliability **Source data:** The data are calculated with the OECD calculation models of tax liabilities, benefit entitlements and labour costs. These models use official policy rules provided and are validated directly by the relevant ministries in each country to produce a set of reliable and internationally accepted indicators of benefit generosity, work incentives and tax burdens.

**Data collection and methods used:** The OECD annual publication "Taxing Wages" sets out the methodologies and the sources used for the net earnings, tax rates and tax wedge indicators. The methodology used for the inactivity, unemployment and low wage trap indicators as well as for the net replacement rate are described in [ANNEX A of the OECD TaxBEN methodology report](#).

Accessibility and clarity The Tax and Benefit Indicators data are publicly accessible through [https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/tax-and-benefits-indicators-database\\_en](https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/tax-and-benefits-indicators-database_en).

Coherence and comparability See [OECD methodology report](#).

## C Contact and update

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