

## Taxing Wages - Australia

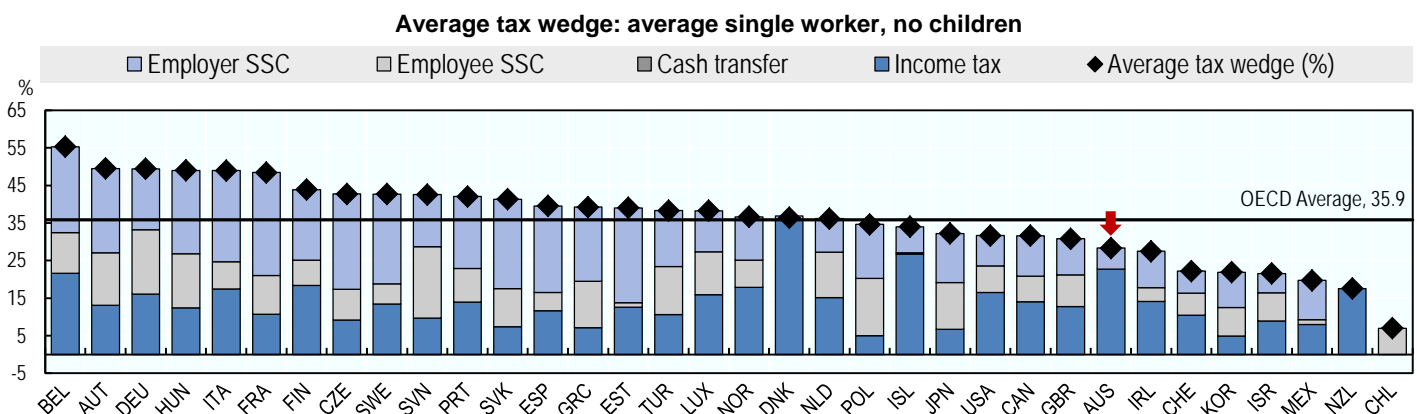
### Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

$$\text{TAX WEDGE ON LABOUR INCOME} = \frac{(\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits}}{\text{Total labour costs (gross wages} + \text{employer SSCs)}}$$

### Single worker

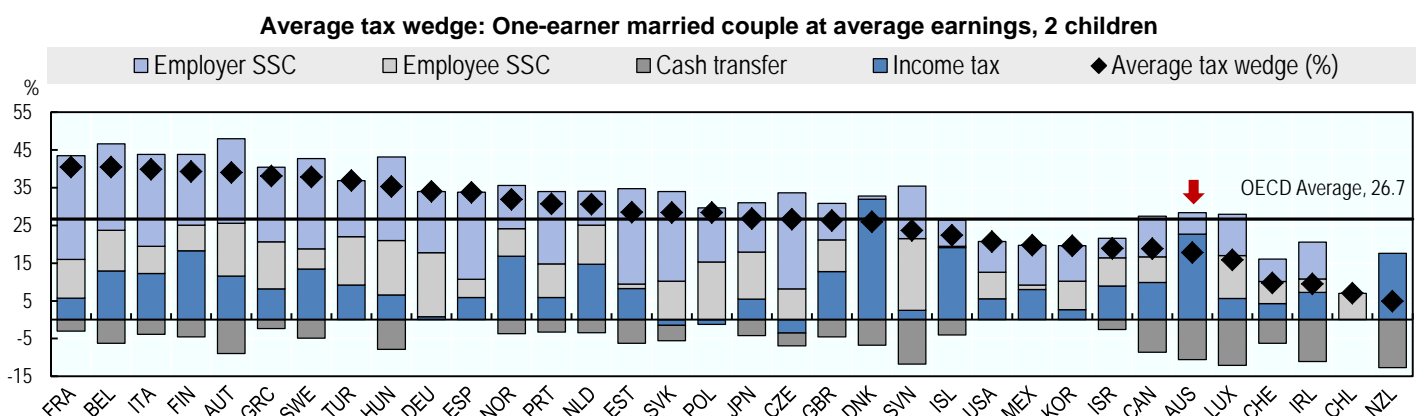
- Australia has the 8<sup>th</sup> lowest tax wedge among the 34 OECD member countries in 2015, compared with the 7<sup>th</sup> lowest position in 2014. The average single worker in Australia faced a tax wedge of 28.4% in 2015 compared with the OECD average of 35.9%.
- In Australia, income tax and employer payroll taxes (which are included as employer social security contributions) combine to account for the entire tax wedge, compared with 77% of the OECD average tax wedge. In Australia, employees are not required to pay social security contributions.



### One-earner married couple with two children

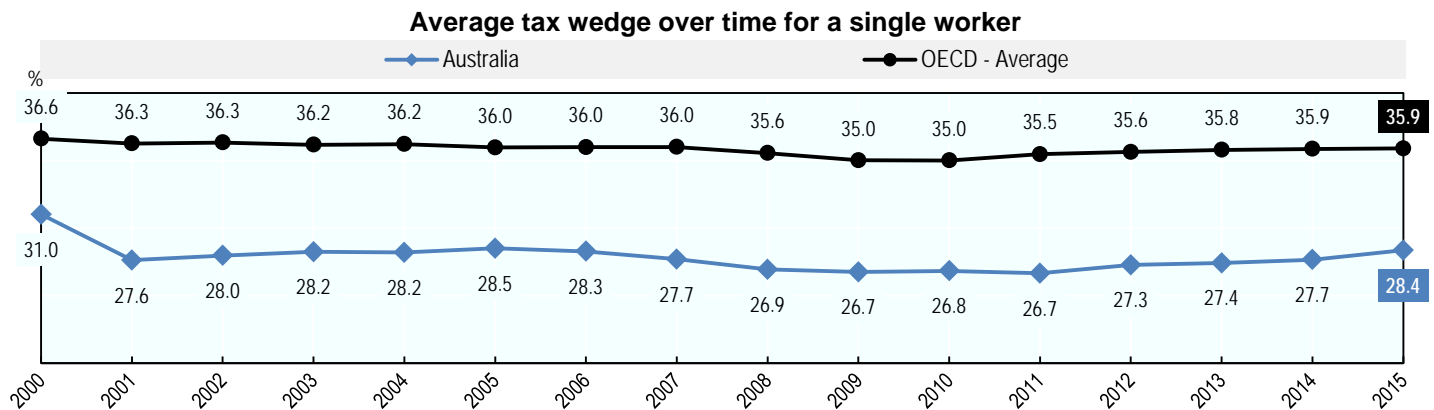
The tax wedge for a worker with children may be lower than for a worker on the same income without children, since many OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

- Australia has the 6<sup>th</sup> lowest tax wedge in the OECD for an average married worker with two children at 17.8% in 2015, which compares with the OECD average of 26.7%. The country occupied the same position in 2014.
- Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Australia in 2015, this reduction (10.6 percentage points) was greater than the OECD average (9.2 percentage points).



## Tax wedge trends between 2000 and 2015

- In Australia, the tax wedge for the average single worker decreased by 2.6 percentage points from 31.0 to 28.4% between 2000 and 2015. During the same period, the average tax wedge across the OECD decreased by 0.7 percentage points from 36.6 to 35.9%.
- Since 2009, the tax wedge for the average single worker increased by 1.7 percentage points in Australia. During this same period, the tax wedge for the average single worker across the OECD increased by 0.9 percentage points.

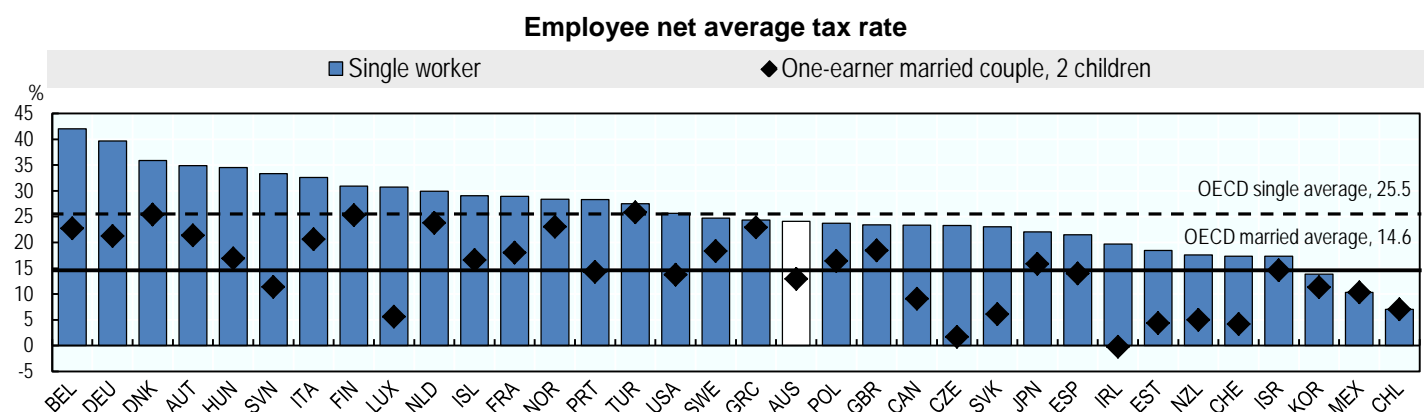


## Employee tax on labour income

The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

$$\text{EMPLOYEE NET AVERAGE TAX RATE} = \frac{(\text{Employee personal income tax and employee social security contributions}) - \text{Family Benefits}}{\text{Gross wages}}$$

- In Australia, the average single worker faced a net average tax rate of 24.1% in 2015 compared with the OECD average of 25.5%. In other words, in Australia the take-home pay of an average single worker, after tax and benefits, was 75.9% of their gross wage.
- Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Australia was reduced to 12.9% in 2015, compared with 14.6% for the OECD average. This means that an average married worker with two children in Australia had a take-home pay, after tax and family benefits, of 87.1% of their gross wage compared to 85.4% for the OECD average.



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