

# Taxes on wages hit decade-high in OECD

Governments turn to labour income as an 'easy' way to increase revenues

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Tax rates on wages have hit their highest level in almost a decade across rich countries for a typical single worker, as governments turn to labour income as an “easy” way to raise revenues.

Figures published by the OECD yesterday showed a single worker with no children earning an average national wage faced a total tax burden equal to 35.1 per cent of employment costs on average across its 38, mostly industrialised, member countries in 2025. This figure, which includes employee and employer social security contributions as well as income tax and subtracts any cash benefits received by working families, was up from an average of 34.9 per cent in 2024 and the highest since 2016.

The gap between employers' labour costs and workers' net take-home pay — or tax wedge — increased in 24 of the 38 OECD countries last year for a typical single worker, including in Germany, Israel and Estonia. The UK recorded the largest year-on-year rise.

For most households, including those with children, the average tax wedge was at its highest level last year since before the Covid-19 pandemic.

Alexander Pick, head of the tax data and statistical analysis unit at the OECD, said employment taxes remained “in focus” as strains on public finances forced many OECD countries to increase revenues. On average, about half of tax revenues in those economies already come from labour taxation.

However, higher labour tax burdens tend to weaken incentives to work and hire by reducing take-home pay and raising employers' labour costs.

Taxing labour is “easy” compared with taxing capital, argued Riccardo Marcelli Fabiani, an economist at the consultancy Oxford Economics. He added that “there is a need for more fiscal space” after many governments spent more during the pandemic. Many economies are now also facing higher defence spending needs and ageing populations, Fabiani added.

Governments are also bracing for the economic impact of the war in the Middle East, which has pushed up prices and is expected to weigh on growth.

In the UK, the 2.45 percentage-point rise in the tax burden faced by a typical single worker last year to 32.4 per cent of labour costs was owing to a rise in employer national insurance contributions and fiscal drag, whereby effective tax rates increase when system parameters are not adjusted to inflation.

Estonia increased its personal income tax rate from 20 per cent to 22 per cent in 2025. The increases in the tax wedge in Germany and Israel were a result of higher social security contributions for employers and employees, as well as fiscal drag. The labour tax rate fell in 11 countries, including Italy — owing to larger reliefs for average wage earners — Australia, Ireland and the US.

European countries continued to show the highest levels of employment taxation for the typical single worker with no children, with Belgium at 52.5 per cent, Germany at 49.2 per cent and France at 47.2 per cent. The OECD found tax systems have become more progressive — with higher-income households paying higher taxes — in member countries since 2000.