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International comparison of taxes and social security contributions

Questions are sometimes asked in Parliament and there is often discussion in the press about the weight of taxation in the United Kingdom and how the United Kingdom compares with other countries. This article gives some figures for recent years, describes the basis on which they are calculated, and notes some of the problems involved in their calculation and interpretation.

Table A below shows taxes including social security contributions as a percentage of gross national product at factor cost for fourteen leading industrial countries within the Organisation for Economic Co-operation and Development. The figures are based on returns supplied to the OECD by national statistical offices, which are summarised in *National Accounts of OECD Countries 1958-67*, published in May 1969. These returns are made according to standardised definitions which are designed to ensure that as far as possible the figures are on a comparable basis.

Taxes including social security contributions as a percentage of gross national product at factor cost

Table A — Percentages

	1965	1966	1967
Austria	40·8	42·3	42·2
Belgium	32·5	34·8	35·8
Canada	31·9	33·2	34·8
Denmark	33·8	36·6	37·3
France	45·2	45·8	45·7
Germany(1)	39·4	40·0	40·9
Italy	33·3	33·1	34·8
Japan	21·4	20·7	20·3
Netherlands	37·2	39·7	41·2
Norway	39·2	41·1	42·6
Sweden	42·3	44·8	46·6
Switzerland	24·9	23·4	23·6
United Kingdom	33·8	35·8	37·7
United States	29·7(2)	30·5(2)	30·8(2)

(1) Federal Republic of Germany and West Berlin.
(2) Including estate and gift taxes.

For Table A gross national product for all countries is taken at factor cost and not at market prices. The presentation of the United Kingdom national accounts gives precedence to gross national product at factor cost, which is used in answering parliamentary questions on this subject. The valuation at factor cost is the sum of domestic factor incomes, after deducting stock appreciation, which arise from the production of goods and services, *plus* net income from abroad. Gross national product at market prices is the sum of what purchasers actually pay for the goods and services produced, which includes taxes on expenditure, and is reduced by subsidies. If this valuation were adopted the gross national product to which the taxes are related would be higher for all countries and the percentage of taxes correspondingly lower. The effect would be relatively greater for a country with high taxes on expenditure because the high level of taxes on expenditure would raise the figure of gross national product with which the taxes are being compared. However, gross national product is frequently valued at market prices in international publications. A full discussion of the alternative measures of gross national product is given in *National Accounts Statistics: Sources and Methods*, pages 13-15.

Total taxes include both central and local government taxes, but taxes on capital are excluded as these are regarded as a form of capital transfer not directly related to income*. In the United Kingdom the bulk of the taxes excluded are death duties which are not related to income and obviously result in a sudden reduction of personal capital assets. Taxes on capital gains, that is to say taxes on short and long-term capital gains, including those assessed under corporation tax and the betterment levy, are also regarded as taxes on capital since they are assessed on capital and the gains do not contribute to the aggregate national income. Social security contributions are shown together with taxes because they are compulsorily levied by the government, and public social security schemes must be regarded as an instrument of public policy rather than as comparable with private insurance schemes. Taxes excluding social security contributions are shown as a percentage of gross national product at factor cost in Table B below, but these figures do not exclude altogether the effect of social security schemes on taxation because of the differing degrees to which such schemes are financed from general taxation as well as by direct contributions.

Taxes excluding social security contributions as a percentage of gross national product at factor cost

Table B — Percentages

	1965	1966	1967
Austria	31·9	33·1	32·8
Belgium	23·0	24·9	26·0
Canada	29·6	29·5	31·0
Denmark	31·6	34·4	35·1
France	28·6	28·7	28·3
Germany(1)	28·1	28·3	28·9
Italy	21·6	21·7	22·7
Japan	17·6	16·7	16·4
Netherlands	24·9	26·3	27·2
Norway	31·5	32·8	32·7
Sweden	35·7	37·8	38·5
Switzerland	19·2	18·2	18·3
United Kingdom	28·4	30·3	32·2
United States	25·0(2)	25·1(2)	25·1(2)

(1) Federal Republic of Germany and West Berlin.
(2) Including estate and gift taxes.

Although these figures have been put on a comparable basis as far as is statistically possible, corresponding items which are difficult to classify are not always treated in the same way in the returns for all countries, and the differences between countries both in total taxation and forms of taxation can be affected by differing economic and financial structures. The economic effects of a given level of taxation will depend also on the nature of public

* The detailed definitions of taxes employed in the United Kingdom national accounts are described in detail in *National Accounts Statistics: Sources and Methods*, pages 259-60, 262-6, 274 and 309.

expenditure, particularly as between direct expenditure on goods and services on the one hand and grants and subsidies on the other. For these reasons the figures can be regarded as providing only a broad indication of the relative weight of taxation in the countries under comparison. For example, the total figure of taxes will vary according to the extent to which government assistance and incentives are given by way of grants or subsidies paid for out of taxation receipts, or by way of tax reliefs. Thus United Kingdom taxation has been increased relative to gross national product by the introduction of investment grants to industry in place of investment allowances against tax. Subsidies, which may be regarded as negative taxes on expenditure, vary considerably between countries, as is shown in Table C. Social security benefits and other grants to persons may be exempt from tax or treated as part of taxable income, with the effect of reducing the benefit received by better-off households; a country adopting the former approach will show a total level of taxation lower than one paying similar benefits after deduction of tax. Difficulties of comparability also arise with regard to social security payments in respect of public employees. In the United Kingdom contributions for government employees are included in social security contributions, but contributions to public sector occupational schemes are not; practice in other countries varies according to the kind of social insurance provision made for government employees, in particular the extent to which such provision is separate from general social security arrangements, and whether it is contributory or non-contributory.

Subsidies as a percentage of gross national product at factor cost

Table C

Percentages

	1965	1966	1967
Austria	2·2	2·3	1·9
Belgium	1·3	1·5	1·5
Canada	0·7	1·0	1·0
Denmark	1·0	1·1	1·5
France	2·6	2·5	2·6
Germany(1)	1·0	1·0	0·9
Italy	1·7	1·6	1·8
Japan	0·5	0·6	0·7
Netherlands	0·8	0·8	0·8
Norway	5·2	5·2	5·0
Sweden	1·6	1·8	1·7
Switzerland	1·1	1·0	1·1
United Kingdom	1·8	1·7	2·3
United States	0·2(2)	0·3(2)	0·2(2)

(1) Federal Republic of Germany and West Berlin.
(2) After deducting surpluses of government enterprises.

Table D shows what proportion of total taxes (including social security contributions) was paid in 1967 in four major categories: taxes on income of households including unincorporated businesses and of corporations, taxes on expenditure and social security contributions*. Taxes on income (direct taxes) comprise, for the United Kingdom, income tax and surtax (*less* the estimated amount of tax on capital gains) payable by households, and corporation tax (*less* overspill relief and the estimated amount of tax on capital gains) and residual amounts of income tax and profits tax payable by corporations. Taxes on expenditure (indirect taxes) are those which enter directly into costs of production and distribution, such as purchase tax, Customs and Excise duties and selective employment tax (net of refunds). Taxes on final buyers associated with the possession or use of particular goods (such as local authority rates on property and motor vehicle licence duties) are also classified as taxes on expenditure, as are stamp duties on the transfer of assets. Social security contributions comprise contributions to the national insurance scheme (both flat rate and graduated contributions), the industrial injuries scheme, the national health service and the Redundancy Fund. Since employers' contributions to social security are akin to a tax on expenditure on wages and salaries as far as the employer is concerned, these are shown separately in the last column of the table. Employers form a wider category than corporations, including unincorporated businesses and public authorities.

* See note on page xviii.

Composition of taxes including social security contributions in 1967

Table D

	Taxes on income		Taxes on expenditure	Social security contributions	
	Households	Corporations		Total	*Of which* paid by employers
As a percentage of total taxes					
Austria	29·3	5·5	42·8	22·4	*17·7*
Belgium	23·0	6·7	42·9	27·4	*19·0*
Canada	26·5	12·0	50·5	11·0	*6·0*
Denmark	43·0	3·0	48·1	5·9	*2·2*
France	11·3	5·3	45·2	38·2	*27·8*
Germany(1)	23·3	6·1	41·3	29·3	*15·1*
Italy	16·8	5·7	42·8	34·7	..
Japan	22·0	19·2	39·6	19·2	*11·8*
Netherlands	30·3	6·8	28·9	34·0	*25·5*
Norway	31·8	4·0	41·0	23·2	*12·8*
Sweden	45·0	4·1	33·4	17·5	*9·0*
Switzerland	36·0	9·6	31·8	22·6	*7·8*
United Kingdom	31·2	7·9	46·2	14·7	*7·4*
United States	35·4(2)	14·7	31·5	18.4	*9·5*
As a percentage of gross national product at factor cost					
Austria	12·4	2·3	18·1	9.4	*7·5*
Belgium	8·2	2·4	15·4	9·8	*6·8*
Canada	9·2	4·2	17·6	3·8	*2·1*
Denmark	16·1	1·1	17·9	2·2	*0·8*
France	5·2	2·4	20·7	17·4	*12·7*
Germany(1)	9·5	2·5	16·9	12·0	*6·2*
Italy	5·8	2·0	14·9	12·1	..
Japan	4·5	3·9	8·0	3·9	*2·4*
Netherlands	12·5	2·8	11·9	14·0	*10·5*
Norway	13·6	1·7	17·4	9·9	*5·5*
Sweden	21·0	1·9	15·6	8·1	*4·2*
Switzerland	8·5	2·3	7·5	5·3	*1·8*
United Kingdom	11·8	3·0	17·4	5·5	*2·8*
United States	10·9(2)	4·5	9·7	5·7	*2·9*

(1) Federal Republic of Germany and West Berlin
(2) Including estate and gift taxes.
.. Not available.

This comparison of the composition of taxes is, of course, also affected by differences in the economic and financial structures of the various countries. For example,

the division of taxes on income between households and corporations is affected by the extent to which small businesses are incorporated, and, as already noted, social security schemes may be financed by different proportions of general taxation and direct contributions.

The figures for the United Kingdom in these tables are consistent with those given in the Blue Book, *National Income and Expenditure 1968*, on which the return to the OECD was based. An adjustment is made to conform with the accounting conventions of the OECD which are based on *A Standardised System of National Accounts, 1958 edition*, published by the Organisation for European Economic Cooperation. The gross national product at factor cost is slightly modified by the inclusion in net property income from abroad of the net amount of tax paid in the country of origin on remitted dividends and interest. The United Kingdom tax on dividends and interest remitted abroad is correspondingly excluded from United Kingdom receipts of taxes on income. The effect of these adjustments, made to assist comparability with the figures of other countries, is small. The United Kingdom figures in Tables A and B would be around 0·3 per cent higher if the figures were taken direct from the 1968 Blue Book, and gross national product excluded net taxes on property income from abroad and taxes included all receipts by the United Kingdom government, including amounts falling on property income paid abroad.

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