International comparison of taxes and social security contributions, 1968-1970

The tables presented here advance by one year figures given in an article in the May 1971 issue of *Economic Trends*. Previous articles covering the years 1965—67 and 1966—68 appeared in May 1969 and August 1970. The notes contained in the May 1969 article on the methods of calculation are repeated here in summary form. The figures relate to 14 leading industrial countries within the Organisation for Economic Co-operation and Development and are based on returns supplied to the OECD by national statistical offices; these returns are summarised in *National Accounts of OECD Countries 1960—1970*, published earlier this year.

The tables

Table A shows for each country taxes, including social security contributions, as a percentage of gross national product at factor cost. 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; but these figures do not exclude altogether the effect of social security schemes on taxation because of the differing degree to which such schemes are financed from general taxation as well as by direct contributions. The incidence of subsidies, which may be regarded as negative taxes on expenditure, is shown in Table C. Finally, Table D shows the proportion of total taxes (including social security contributions) paid in 1970 divided between 4 major categories: taxes on income of households, including unincorporated businesses; taxes on income of corporations; taxes on expenditure; and social security contributions. Since employers' contributions to social security are akin to a tax on expenditure on wages and salaries so far as the employer is concerned, these are shown separately in the last column of Table D.

The returns to the OECD are made according to standardised definitions and are, so far as possible, on a comparable basis. However, items which are difficult to classify are inevitably not always treated in the same way in the returns for all countries. More important is the fact that 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 on the nature of public 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 consideration. The comparison of the composition of taxes is 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.

Notes and definitions

The *gross national product* is valued at factor cost rather than at market prices. 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; it includes taxes on expenditure, and is reduced by subsidies. If this valuation were adopted the gross national product would be higher and the percentage of taxes correspondingly lower. A fuller discussion of the alternative measures of gross national product is given in *National Accounts Statistics: Sources and Methods*, pages 13—15.

The *taxes* used in the calculations are taxes on income and taxes on expenditure levied by both the central and local government. 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 and taxes on capital gains.

Taxes on income 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* are those which enter directly into costs of production and distribution: purchase tax, Customs and Excise duties and selective employment tax (net of refunds) are the main examples in the United Kingdom. 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. Taxes on expenditure are referred to in international returns as 'indirect taxes.' *Social security contributions* comprise, for the United Kingdom, contributions to the national insurance scheme (both flat rate and graduated contributions), the industrial injuries scheme, the national health service and the Redundancy Fund. The main *subsidies* in the United Kingdom relate to agricultural support, housing, deficit grants to nationalised transport undertakings and, since 1967, selective and regional employment premiums. Detailed definitions of United

Kingdom taxes are given in *National Accounts Statistics: Sources and Methods*, pages 259—60, 262—6, 274 and 309. Details of subsidies will be found on pages 272 and 312 of the same publication.

The figures for the United Kingdom in the tables are consistent with those given in *National Income and Expenditure 1972*. Adjustments are made to conform with the accounting conventions of the OECD which are described in *A Standardised System of National Accounts* (1958 edition) published by the Organisation for European Economic Co-operation. 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, which are made to assist comparability with the figures of other countries, is, however, small.

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