

Taxation policy

The rich will pay

The Economist, March 28th 2011

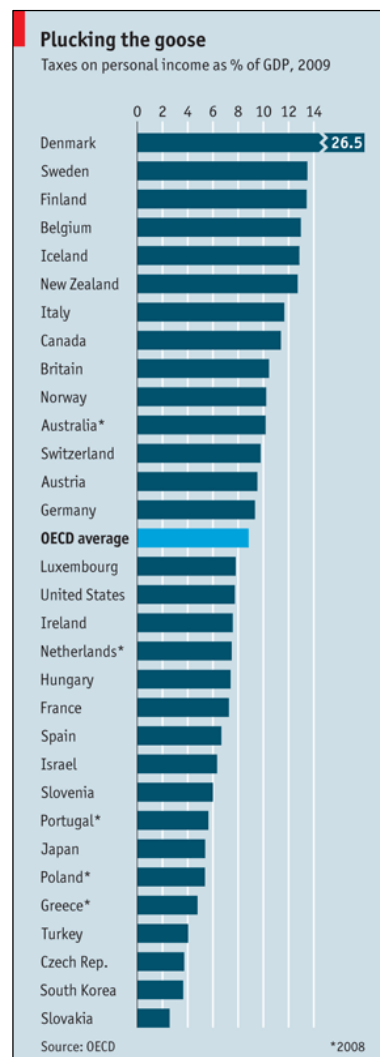
NO CUTS. That was the slogan of one British protester who walked through my neighbourhood on Saturday. It seemed an extraordinary hope for a country with a £150 billion deficit. My colleague Bagehot found that most protesters accept that some cuts are necessary; they just disagree on the pace and scale. But there is a school of thought that cuts can be avoided entirely by closing tax loopholes for the corporate sector or by taxing the rich.

We hope to run a chart on corporate tax revenues later in the week but here are the OECD data for personal tax rates as a proportion of GDP. As you can see, Britain's tax take from income is well above the OECD average, although not at Scandinavian levels. It is higher, however, than France or Germany

Now, of course, it is possible that the tax take might be high as a result of punishing poor working stiffs, while the rich get off scot-free. Scott Hodge of the Tax Foundation used an OECD study to calculate the relative shares of income tax paid by the top 10%, with their share of national income (see below). On average income tax systems in the OECD are progressive in the sense that the richest pay proportionately more; the ratio is 1.11. The UK weighs in at 1.2.

Now, of course, income tax is only part of the story; money is also raised via sales taxes which are more regressive. The US rich, for example, pay proportionately more of the income tax but the US's income tax burden is below the OECD average. Britain, however, has an above average income tax burden and is more progressive than average. These geese are already well plucked.

Leaving Denmark aside, what if Britain aimed to be, say, Sweden? It could try to get another 3% of GDP that way (although the budget deficit is in double digits). However, who are the British rich? Many of them are based in the City, and are not necessarily British at all, but American, French etc. They are not in London for the weather or the transport system and could move elsewhere. For those who doubt that there is a trade-off between tax rates and tax take, note that the Swedish system has high marginal tax rates but in terms of tax *take*, is less progressive than Britain.



No Country Leans on Upper-Income Households as Much as U.S.

[Scott A. Hodge](#), Tax Policy Blog, March 21, 2011

During my recent testimony before the Senate Budget Committee ([found here](#)), I cited an OECD statistic that the U.S. has the most progressive income tax system among industrialized nations¹. [1] This prompted one Senator to point out that if the richest 10% of taxpayers earn the most of any OECD country, shouldn't it make sense that they bear the largest tax burden of any country?

The answer can be found in the OECD table below. This table shows the share of taxes paid by the richest 10 percent of households, the share of all market income earned by that group, and the ratio of what that 10 percent of households pays in taxes versus what they earn as a share of the nation's income.

The first column shows that the top 10 percent of households in the U.S. pays 45.1 percent of all income taxes (both personal income and payroll taxes combined) in the country. Italy is the only other country in which the top 10 percent of households pays more than 40 percent of the income tax burden (42.2%). Meanwhile, the average tax burden for the top decile of households in OECD countries is 31.6 percent.

By contrast, column #2 shows that the richest decile in America earned 33.5 percent of the market income in the country in 2005 - the year in which this snapshot was taken, but little has changed since then. But, a few other countries do have a greater or similar concentration of income as does the U.S. For example, the OECD table shows that the wealthiest decile of households in Italy and Poland earn a

¹ "Growing Unequal? Income Distribution and Poverty in OECD Countries," Organization for Economic Cooperation and Development, 2008. p. 112.

greater share of their country's market income than do our "rich" - 35.8 percent and 33.9 percent respectively - while the share of income earned by the top decile of households in the U.K. is about on par with those in the U.S. at 32.3 percent.

The table then adjusts for the underlying allocation of income by showing the ratio of income taxes paid to the share of income earned by the top decile in each country. The ratio for U.S. households is 1.35, far greater than the ratio of taxes to income in any other country. Even in the three countries with a comparable distribution of income, the ratio of taxes to income was less, 1.18 in Italy, 0.84 in Poland, and 1.20 in the U.K.

Interestingly, countries with top personal income tax rates that are higher than in the U.S., such as Germany, France, or Sweden, have ratios that are closer to 1 to 1. Meaning, the share of the tax burden paid by the richest decile in those countries is roughly equal to their share of the nation's income. By contrast, we prefer to have the wealthiest households in this country pay a share of the tax burden that is one-third greater than their share of the nation's income.

Table 4.5.
Alternative measures of progressivity of taxes in selected OECD countries, mid-2000s

	A. Concentration of household taxes and market income			B. Percentage share of richest decile		
	1. Concentration coefficient for household taxes	2. Gini coefficient of market income	3. Ratio of concentration coefficients (1/2)	1. Share of taxes of richest decile	2. Share of market income of richest decile	3. Ratio of shares for richest decile (1/2)
Australia	0.53	0.46	1.16	36.8	28.6	1.29
Austria	0.38	0.43	0.88	28.5	26.1	1.10
Belgium	0.40	0.49	0.80	25.4	27.1	0.94
Canada	0.49	0.44	1.13	35.8	29.3	1.22
Czech Republic	0.47	0.47	0.99	34.3	29.4	1.17
Denmark	0.35	0.42	0.84	26.2	25.7	1.02
Finland	0.43	0.39	1.11	32.3	26.9	1.20
France	0.37	0.48	0.77	28.0	25.5	1.10
Germany	0.47	0.51	0.92	31.2	29.2	1.07
Iceland	0.27	0.37	0.72	21.6	24.0	0.90
Ireland	0.57	0.42	1.37	39.1	30.9	1.26
Italy	0.55	0.56	0.98	42.2	35.8	1.18
Japan	0.38	0.44	0.85	28.5	28.1	1.01
Korea	0.38	0.34	1.12	27.4	23.4	1.17
Luxembourg	0.42	0.45	0.92	30.3	26.4	1.15
Netherlands	0.47	0.42	1.11	35.2	27.5	1.28
New Zealand	0.50	0.47	1.05	35.9	30.3	1.19
Norway	0.38	0.43	0.87	27.4	28.9	0.95
Poland	0.38	0.57	0.67	28.3	33.9	0.84
Slovak Republic	0.42	0.46	0.92	32.0	28.0	1.14
Sweden	0.34	0.43	0.78	26.7	26.6	1.00
Switzerland	0.22	0.35	0.63	20.9	23.5	0.89
United Kingdom	0.53	0.46	1.16	38.6	32.3	1.20
United States	0.59	0.46	1.28	45.1	33.5	1.35
OECD-24	0.43	0.45	0.96	31.6	28.4	1.11

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