

# THE COST OF 'TAXES' ON JOBS AROUND THE WORLD

HOW SOCIAL SECURITY PAYMENTS AND OTHER EMPLOYER COSTS IMPACT JOB CREATION AND WAGE GROWTH IN DIFFERENT ECONOMIES

FEBRUARY 2016



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## INTRODUCTION

Social security payments and other costs businesses must bear when employing workers - from pension contributions and healthcare costs to mandatory insurance - can be a significant burden for firms, which they must factor in on top of the direct cost of salaries.

Understanding the impact of such “taxes” on jobs – particularly in terms of job creation and wage growth - is vital.

We have conducted an extensive study to identify whether countries around the world are putting themselves at a significant advantage or disadvantage compared to their global peers in this respect.

We studied data from 29 countries across our international network, calculating the value of these additional payments, and measuring them as a proportion of salary. We looked at four key salary bands – USD15,000, USD30,000, USD75,000 and USD300,000 - comparing our findings against a similar study we conducted in 2012 to see what trends could be identified.

Our findings reveal significant disparities between different economies (even reasonable comparable ones), and show that some countries are rapidly increasing levels of employment taxes, while others are lowering them dramatically.

With the global economy strengthening only gradually and the recovery in many countries still very fragile, keeping employment-related taxes under control is vital to employment growth. After all, high labour costs will accelerate the substitution of staff for technology. So how are businesses faring across the globe?



# 1 – KEY FINDINGS

Key findings\* and analysis from our research include:

- The global average extra cost to businesses in social security and other employment taxes has fallen by 5% since 2012 - but still remains surprisingly high
- Businesses around the world are paying out an average of 21% of employees' wages in social security payments and other "taxes" on jobs - on top of their annual salaries
- Businesses in China, Israel and France have all seen substantial increases in employment costs in the last three years, putting job creation and real income growth at risk
- Israel has seen double-digit increases over three years across all salary levels studied
- In Europe, firms pay on average just under a quarter (23%), while in the G7, the average is a fifth (20%).
- Brazil still has the highest employer taxes of any country in the study - 71% of salary
- This is over 19 times higher than the country with the lowest employment costs in the study – Egypt, where firms pay just 3.7% extra.

\* Based on earnings of USD30,000

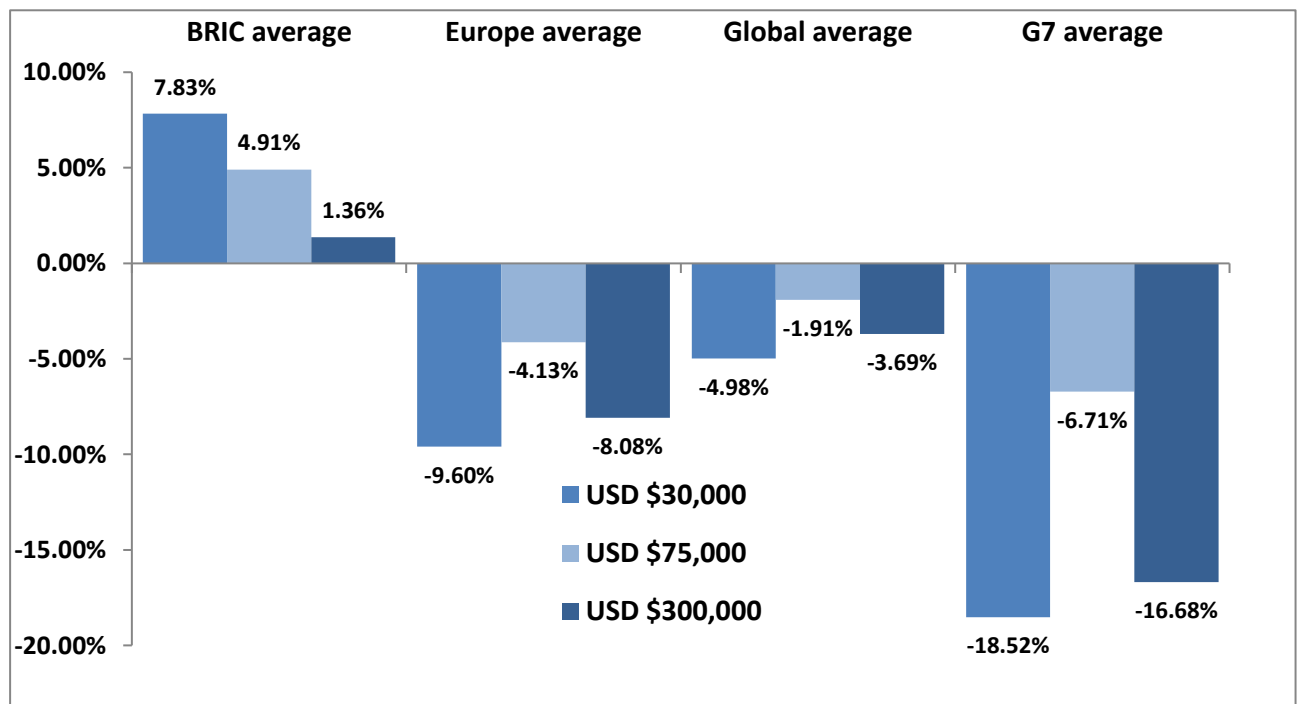


Figure 1 - Percentage change in employment "taxes" as a proportion of gross salary for USD30,000, USD75,000 and USD300,000 income bands 2015 (compared to 2012)

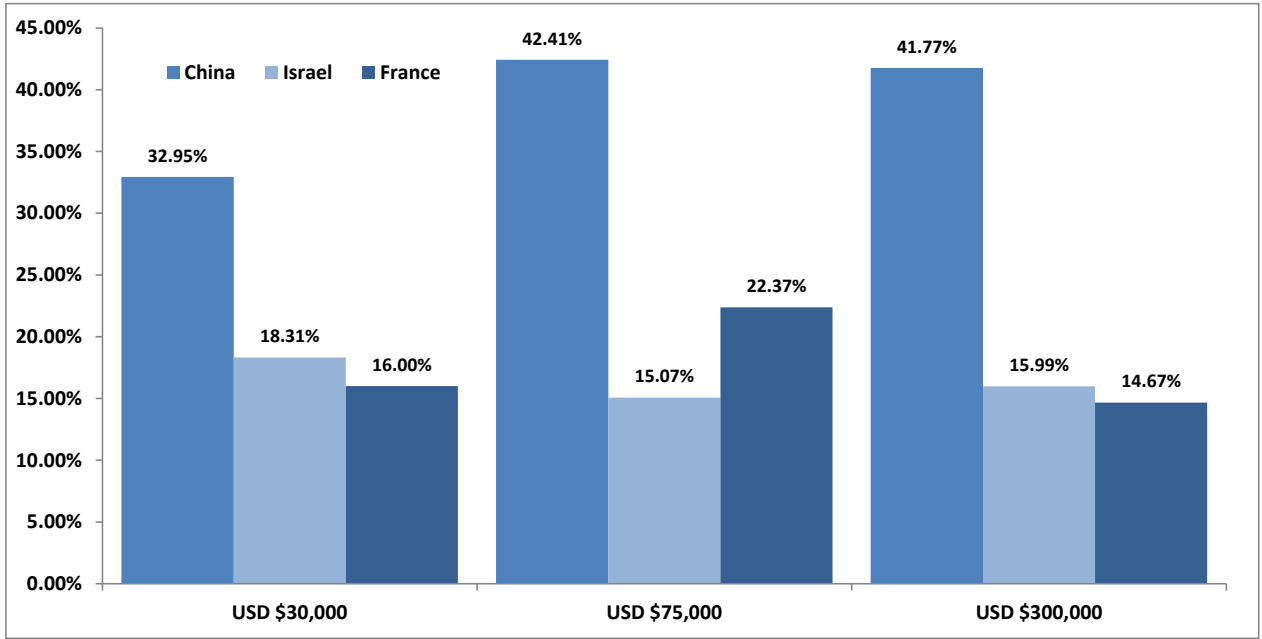


Figure 2 - Top three economies with biggest increases in employer taxes 2012-2015



## 2 – WESTERN EUROPE

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Belgium, France and Italy have among the highest employment-related taxes as a percentage of gross salary anywhere in the world, all coming within the top five for each salary band we studied.

For example, for employees at the USD30,000 income bracket, employers in these countries are required to pay out 49%, 43% and 39%, respectively in employment “taxes”. This is despite Italy having seen some of the largest decreases in the proportional burden of any country in our study – a 45% decrease since 2012 for the highest category of employees.

This means that employers in France are shouldering costs of USD12,797 in social security payments and other costs on top of each USD30,000 salary – in spite of many special exemptions for employers of younger workers.

In Belgium, the figure is USD14,608 – more than 11 times higher than in nearby Denmark, which has the lowest “taxes” on jobs of any country in our study except Egypt, remaining consistently low across all the income bands we looked at.

There are several key factors behind Belgium’s high levels. As well as substantial social security contribution requirements there are several complementary contributions such as the “double holiday bonus”, which equates to almost an extra month’s salary.

While Italy still has some of the highest employment costs in the world, it has clearly been making great efforts to bring them down over the past few years. For example, Italy has recently introduced targeted changes, with new tax and social security exemptions for employers offering first jobs, or permanent jobs to those previously unemployed.

Meanwhile, although the Netherlands currently levies employer taxes broadly in line with the European average, it is seeing some of the fastest rises of any country we looked at, rising by as much as USD30,000 - or more than double the amount of 2012 - for the highest category of staff in our study (USD300,000).

By contrast, businesses in Ireland and the UK, as well as Denmark, enjoy far lower employer taxes at 11%, 8% and 4% respectively as a proportion of a USD30,000 salary, although the UK intends to remedy that with compulsory pension contributions.

The UK has also introduced targeted incentives to tackle youth unemployment – e.g. National Insurance Contributions exemptions for younger staff. This, together with the new Employer NIC allowance of £2,000, may to some extent offset increasing costs arising from “auto-enrolment” compulsory pension contributions.

The burden on UK businesses is much higher for those employing higher earners – it rises to 13.2% of a USD300,000 salary. Such significant increases at senior management level could risk a brain drain if firms, particularly SMEs, feel unable to absorb the high additional costs of employing top staff - nearly USD40,000 extra.

Indeed, this is an issue for Europe as a whole, which has by far the highest average proportional employment “taxes” for higher salaried workers – 15% for those earning USD 300,000.

Ireland's stringent austerity regime in recent years, together with its low-tax, pro-business approach, are likely to be a key factors behind its continued low employer taxes. However Spain, which has undergone similar austerity measures and faces continuing tough unemployment challenges charges a far higher employer tax burden.

As well as healthcare and pensions, employers in Spain are also required to contribute towards work accidents and sickness, unemployment and professional training. That said, with high levels of youth unemployment, Spain operates many special exemptions for younger workers, although the system is complex, with many variables.

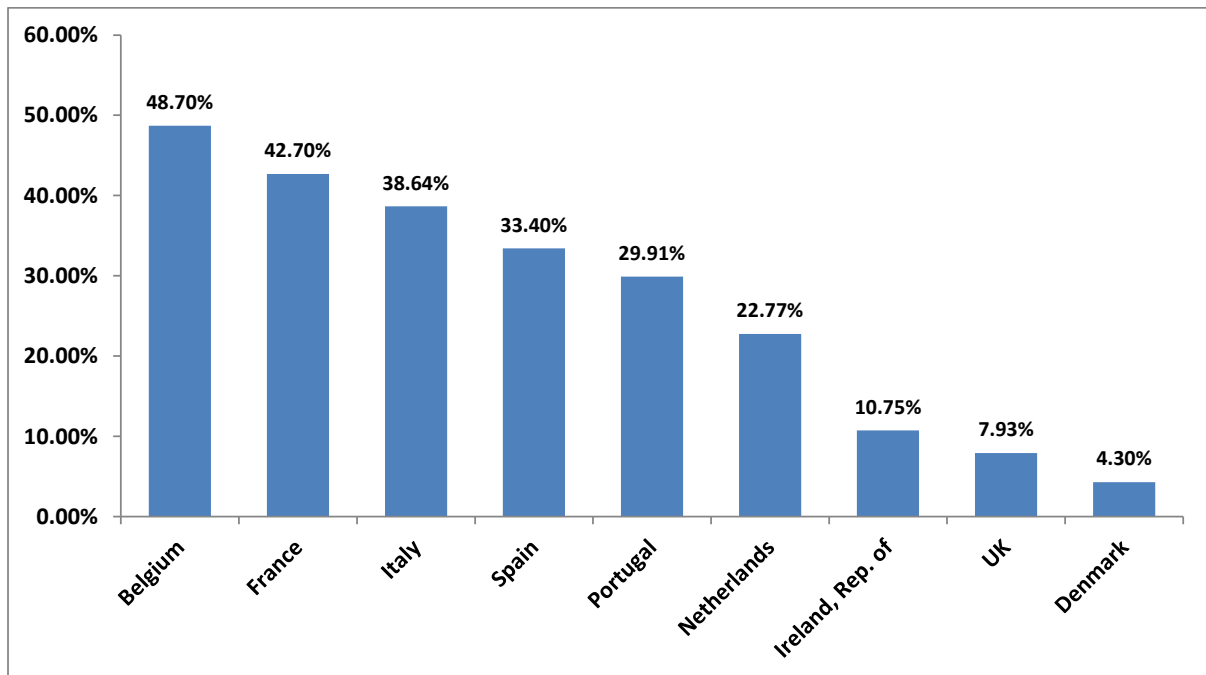


Figure 3 - Levels of employer-related taxes in Western European economies as a percentage of a USD30,000 gross salary

In Germany, social security contributions are evenly split between employer and employee, with unemployment insurance, accident insurance and nursing care insurance payments required, as well as pension contributions and health insurance. This could be one reason why such employer "taxes" are so much lower than in France, for example, where the contributions from businesses are far higher than those made by staff.

In Croatia, despite an obligation on employers to deduct pension contributions from pay and send it to collecting agencies on their behalf, only social security contributions (principally healthcare and unemployment insurance) come out of the employers' own pockets.

This could go some way towards explaining why Croatia's employer-related taxes are the lowest of any country we studied in this region. There are also incentives for employers of apprentices or those starting their first jobs.

## 3 – THE BRICS ECONOMIES

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This year, as in 2012, Brazil heads the table with the highest employer taxes in the study at almost three-quarters (71%) of salary. At USD21,408 in payments on top of a USD30,000 salary, this is almost 19 times higher than the country with the lowest employment costs in the study – Egypt, where firms pay just 4% extra (USD 1,108).

China has seen the fastest rise in employer taxes as a proportion of wages at this income band over the past three years out of the BRIC nations, with a 33% rise (to 42% of salary), while India saw employment taxes frozen (remaining at 12% of salary).

Employers in China are now paying USD3,255 more per year respectively in extra employment costs for each worker earning USD30,000 than they did in 2012. In China, the size of the ‘social insurance’ contribution made by an employer is based on average wages in the region, and wages have risen sharply in the last few years.

India’s employer taxation levels remain relatively low (at 12%), falling well below the global average (at 21%). It will be interesting to see whether India’s government feels there is scope to raise employer taxes further in the future, given that its growth rate has been surging ahead, in the face of global volatility. India has also recently undertaken a major reform of the structure of its Employee Provident Fund.

In Russia, employer-related taxes are also lower than the global average across all salary bands, and levels have dropped slightly since 2012. With falling oil prices and western sanctions adversely impacting its economy, keeping employer costs low should play an important part in supporting business and industry.

As countries such as Brazil, India and China struggle to regain their economic momentum, having seen growth slowing dramatically, rising wealth in the last few decades means there is still strong political pressure to offer social security safety nets. They are starting to face the same challenges seen in developed economies of the need to balance welfare provision, economic growth and fiscal responsibility. Having powered ahead until now despite this burden, going forward it could start to feel much heavier.



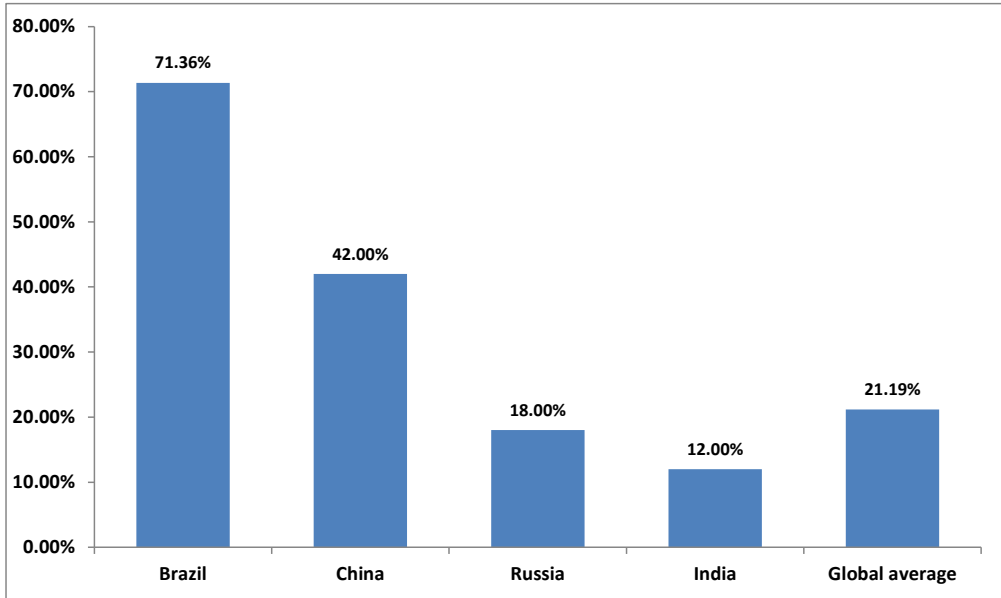


Figure 4 - Levels of employer-related taxes in the BRIC economies as a percentage of a USD30,000 gross salary



## 4 – ASIA AND ASIA PACIFIC

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In Japan, in addition to paying half of the health insurance and pension contributions for each employee (who pays the other half), social security also consists of a children upbringing tax (paid only by the company) and nursing insurance. The latter is only payable for staff aged 40-65 years old, making it comparatively more expensive to employ older workers, which could have a positive impact on youth unemployment.

Now that many parts of the world – with Japan being a prime example – have increasingly elderly populations and fewer workers contributing to the social security system, existing social security structures could become even more of a burden for businesses.

Australia operates a combination of federal and state/territory-based systems, where rates and thresholds can vary. Like several other countries, Australia is implementing targeted measures to tackle unemployment. For instance, in New South Wales, (which includes Sydney) an AUD\$5,000 rebate is available for businesses creating new jobs, while other Australian states offer rebates and exemptions for apprentices.

Among those countries with consistently low levels of employer taxes is New Zealand, with levels ranging from just 4.5% on a USD30,000 salary to 3.4% on a USD300,000 income. This is because key features of New Zealand's tax system include no payroll, social security or healthcare taxes, with benefits mainly funded by Income Tax and the Goods and Services Tax.

# 5 – THE AMERICAS

In contrast to many other developed Western economies, the USA and Canada have managed to keep taxes on employers relatively low as a percentage of workers' incomes – something which is likely to have had a bearing on improving unemployment rates.

In the US, employers and employees pay an even split for social security taxes and Medicare (hospital insurance tax), enabling the burden on employers to remain relatively light compared to many other countries.

Conversely, in Mexico employers bear the vast majority of the cost of social security payments. However, it does offer targeted incentives for employers with staff over retirement age.

Social security and healthcare in Argentina are jointly funded by employers and employees, with employers paying a larger share. At 26% of earnings on a USD30,000 salary, this is higher than the global average, but still well below taxation levels in neighbouring Brazil. However, there is no specific payroll tax.

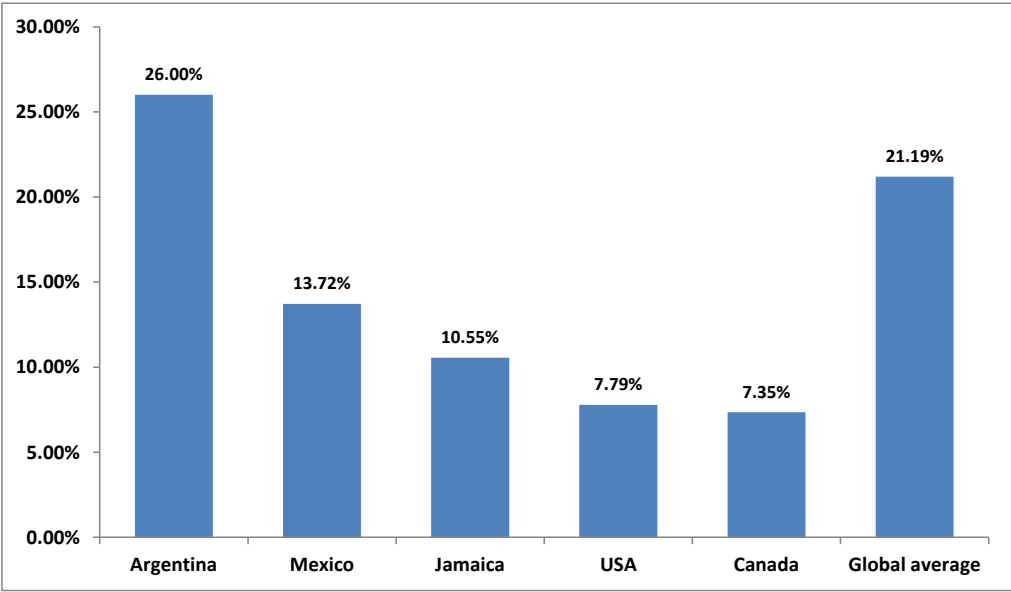


Figure 5 - Levels of employer-related taxes in the Americas as a percentage of a USD30,000 gross salary

## 6 – THE GULF

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The UAE requires compulsory medical insurance to be paid for all residents, and many senior expats will have written into their contracts medical cover for themselves and families which for a platinum policy could add in the region of USD35,000. A general norm for middle level employees is around USD3,500 per year.

However, there are no compulsory pension or national insurance contributions imposed by the government, nor are there any other employment taxes - a key factor in keeping the mandatory burden on employers relatively light. There is however a gratuity system which provides employees with a final settlement based on longevity of employment by an employer.

Private company employers in Egypt must provide pensions contributions as well as healthcare, with employees also paying a social security contribution, albeit to a lesser extent.

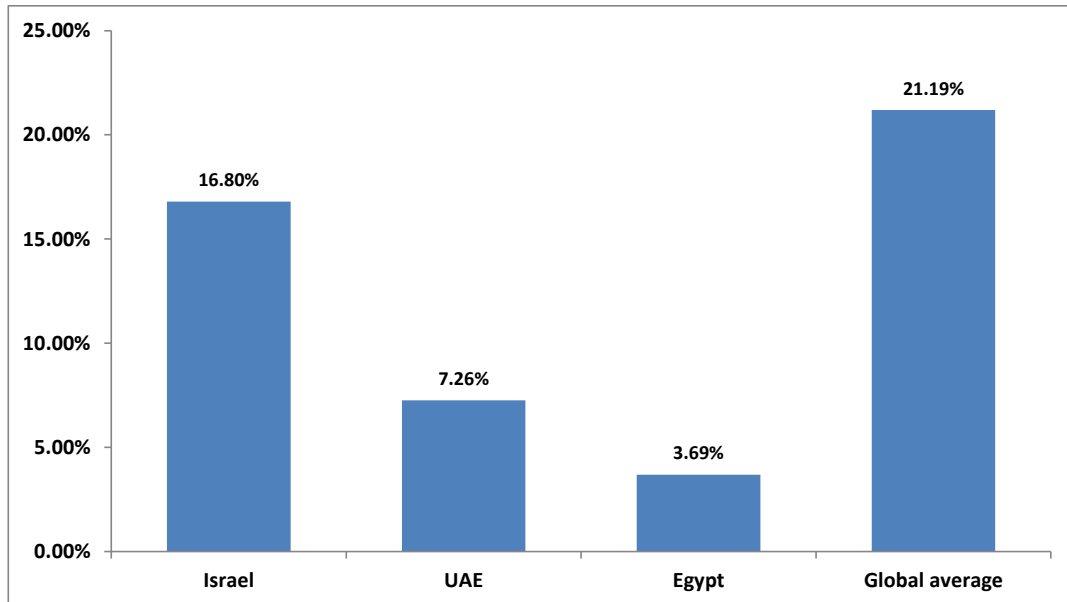


Figure 2 - Levels of employer-related costs and levies in the Middle East as a percentage of a USD 30,000 gross salary

## 7 – SUMMARY

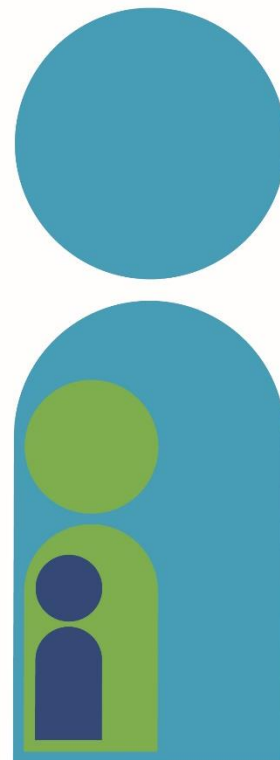
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Despite a fall in employment “taxes” globally, several economies risk putting themselves at a significant disadvantage through social security models which make it harder for businesses to take on the staff they need. Even for very successful businesses, paying out a significant proportion of salary for each new hire again in costs can be difficult to absorb.

Not only can this undermine efforts to cut unemployment, it could adversely impact real incomes, hamper labour market flexibility, and make it very difficult for firms to take advantage of growth opportunities.

While governments recognise the logic of reducing employment taxes, many fear that across-the-board cuts cannot be afforded, particularly given the costs associated with ageing populations. Increasingly we are seeing measures targeted at particular socio-economic groups, such as the unemployed or the young, as a compromise.

The challenge for many countries now is how to maintain services such as healthcare provision while continuing to manage their deficits, without putting growth at risk or undermining the job creation agenda. Our findings shine a fascinating spotlight onto how different governments are dealing with this issue.



## DATA ANNEXES:

Payments made by businesses on top of gross salaries by USD and payments as a percentage of gross salary 2015 – ranked by percentage change since 2012.

Table 1 - GROSS ANNUAL SALARY of USD15,000

#	COUNTRY	EMPLOYMENT TAX PAID BY EMPLOYERS IN USD\$	PERCENTAGE OF GROSS SALARY PAID IN EMPLOYMENT TAX	% CHANGE IN PROPORTION OF EMPLOYMENT TAXES PAID SINCE 2012
1	IRELAND, REPUBLIC OF	\$1,275	8.50%	100.00%
2	ROMANIA	\$3,465	23.10%	70.86%
3	ISRAEL	\$2,319	15.46%	13.93%
4	CHINA	\$6,259	42.00%	13.51%
5	NETHERLANDS	\$3,416	22.77%	13.00%
6	DENMARK	\$1,279	8.50%	12.14%
7	FRANCE	\$5,993	39.95%	8.53%
8	AUSTRALIA	\$2,243	14.95%	3.46%
9	BRAZIL	\$10,704	71.36%	0.00%
9=	SPAIN	\$5,009	33.40%	0.00%
9=	INDIA	\$1,800	12.00%	0.00%
12	RUSSIA	\$3,900	26.00%	-0.34%
13	UAE***	\$1,318	8.75%	-8.66%
14	CANADA	\$1,101	7.34%	-16.02%
15	UNITED KINGDOM	\$310	2.06%	-24.54%
16	ITALY	\$6,078	40.52%	-26.49%
17	MEXICO	\$2,058	13.72%	-29.64%
	BELGIUM	\$7,304	48.70%	**
	BRIC AVERAGE	<b>\$5,666</b>	<b>37.84%</b>	**
	PORTUGAL	\$5,036	33.57%	**
	ARGENTINA	\$3,900	26.00%	**
	EUROPE AVERAGE	<b>\$3,592</b>	<b>23.92%</b>	**
	GLOBAL AVERAGE	<b>\$3,204</b>	<b>21.35%</b>	**
	POLAND	\$3,111	20.74%	**
	GERMANY	\$3,062	20.41%	**
	G7 AVERAGE	<b>\$2,860</b>	<b>19.06%</b>	**
	CROATIA	\$2,578	17.19%	**
	MALTA	\$2,365	15.51%	**
	JAPAN	\$2,285	15.23%	**
	JAMAICA	\$1,694	11.61%	**
	USA	\$1,190	7.93%	**
	EGYPT	\$1,108	7.39%	**
	NEW ZEALAND	\$671	4.50%	**

Table 2 - GROSS ANNUAL SALARY of USD \$30,000

#	COUNTRY	EMPLOYMENT TAX PAID BY EMPLOYERS IN USD\$	PERCENTAGE OF GROSS SALARY PAID IN EMPLOYMENT TAX	% CHANGE IN PROPORTION OF EMPLOYMENT TAXES PAID SINCE 2012
1	CHINA*	\$12,518	42.00%	32.95%
2	ISRAEL	\$5,039	16.80%	18.31%
3	FRANCE	\$12,797	42.70%	16.00%
-	BRIC AVERAGE	\$10,732	35.84%	7.83%
4	NETHERLANDS	\$6,831	22.77%	4.55%
5	JAPAN	\$4,570	15.23%	3.46%
5=	AUSTRALIA	\$4,485	14.95%	3.46%
7	BRAZIL	\$21,408	71.36%	0.00%
7=	SPAIN	\$10,018	33.40%	0.00%
7=	INDIA	\$3,600	12.00%	0.00%
7=	IRELAND	\$3,225	10.75%	0.00%
11	RUSSIA	\$5,400	18.00%	-0.33%
12	UNITED KINGDOM	\$2,380	7.93%	-2.58%
-	GLOBAL AVERAGE	\$6,355	21.19%	-4.98%
13	UAE***	\$2,182	7.26%	-5.35%
-	EUROPE AVERAGE	\$6,798	22.67%	-9.60%
14	DENMARK	\$1,279	4.30%	-10.23%
15	GERMANY	\$6,124	20.41%	-10.52%
16	USA	\$2,337	7.79%	-11.88%
-	G7 AVERAGE	\$6,001	20.01%	-18.52%
17	CANADA	\$2,206	7.35%	-20.11%
18	ITALY	\$11,596	38.64%	-25.42%
19	MEXICO	\$4,115	13.72%	-26.43%
20	ROMANIA	\$6,930	23.10%	-34.63%
	BELGIUM	\$14,608	48.70%	**
	PORTUGAL	\$8,973	29.91%	**
	ARGENTINA	\$7,800	26.00%	**
	MALTA	\$6,959	22.82%	**
	POLAND	\$6,222	20.74%	**
	CROATIA	\$5,156	17.19%	**
	JAMAICA	\$3,080	10.55%	**
	NEW ZEALAND	\$1,341	4.50%	**
	EGYPT	\$1,108	3.69%	**

Table 3- GROSS ANNUAL SALARY of USD \$75,000

#	COUNTRY	EMPLOYMENT TAX PAID BY EMPLOYERS IN USD\$	PERCENTAGE OF GROSS SALARY PAID IN EMPLOYMENT TAX	% CHANGE IN PROPORTION OF EMPLOYMENT TAXES PAID SINCE 2012
1	CHINA*	\$13,451	18.00%	42.41%
2	FRANCE	\$33,942	45.30%	22.37%
3	NETHERLANDS	\$17,078	22.77%	17.98%
4	ISRAEL	\$8,305	11.07%	15.07%
5	BRIC AVERAGE	\$21,468	28.64%	4.86%
6	AUSTRALIA	\$11,213	14.95%	3.46%
7	UNITED KINGDOM	\$8,590	11.45%	1.87%
-	BRAZIL	\$53,521	28.64%	0.00%
8	INDIA	\$9,000	12.00%	0.00%
8=	IRELAND, REPUBLIC OF	\$8,061	10.75%	0.00%
8=	RUSSIA	\$9,900	13.20%	-0.38%
11	GLOBAL AVERAGE	\$13,710	18.28%	-1.92%
12	EUROPE AVERAGE	\$15,307	20.41%	-4.12%
-	USA	\$5,780	7.71%	-6.47%
13	ROMANIA	\$11,242	14.99%	-6.66%
-	G7 AVERAGE	\$14,875	19.84%	-6.69%
14	CANADA	\$4,087	5.45%	-7.16%
15	SPAIN	\$16,159	21.55%	-9.45%
-	UAE***	\$4,772	6.36%	-9.66%
16	JAPAN	\$10,311	13.75%	-11.52%
17	GERMANY	\$13,260	17.68%	-16.13%
18	ITALY	\$28,153	37.52%	-24.70%
19	MEXICO	\$6,091	8.12%	-27.63%
20	DENMARK	\$1,279	1.70%	-32.54%
	BELGIUM	\$36,520	48.70%	**
	PORTUGAL	\$20,786	27.71%	**
	ARGENTINA	\$19,500	26.00%	**
	MALTA	\$19,218	25.21%	**
	CROATIA	\$12,891	17.19%	**
	POLAND	\$8,493	11.32%	**
	JAMAICA	\$7,237	9.92%	**
	NEW ZEALAND	\$3,353	4.50%	**
	EGYPT	\$1,108	1.48%	**



Table 3- GROSS ANNUAL SALARY of USD \$75,000

#	COUNTRY	EMPLOYMENT TAX PAID BY EMPLOYERS IN USD\$	PERCENTAGE OF GROSS SALARY PAID IN EMPLOYMENT TAX	% CHANGE IN PROPORTION OF EMPLOYMENT TAXES PAID SINCE 2012
1	CHINA*	\$13,451	18.00%	42.41%
2	FRANCE	\$33,942	45.30%	22.37%
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14	CANADA	\$4,087	5.45%	-7.16%
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-	UAE***	\$4,772	6.36%	-9.66%
16	JAPAN	\$10,311	13.75%	-11.52%
17	GERMANY	\$13,260	17.68%	-16.13%
18	ITALY	\$28,153	37.52%	-24.70%
19	MEXICO	\$6,091	8.12%	-27.63%
20	DENMARK	\$1,279	1.70%	-32.54%
	BELGIUM	\$36,520	48.70%	**
	PORTUGAL	\$20,786	27.71%	**
	ARGENTINA	\$19,500	26.00%	**
	MALTA	\$19,218	25.21%	**
	CROATIA	\$12,891	17.19%	**
	POLAND	\$8,493	11.32%	**
	JAMAICA	\$7,237	9.92%	**
	NEW ZEALAND	\$3,353	4.50%	**
	EGYPT	\$1,108	1.48%	**

Table 4- GROSS ANNUAL SALARY of USD \$300,000

#	COUNTRY	EMPLOYMENT TAX PAID BY EMPLOYERS IN USD\$	PERCENTAGE OF GROSS SALARY PAID IN EMPLOYMENT TAX	% CHANGE IN PROPORTION OF EMPLOYMENT TAXES PAID SINCE 2012
1	NETHERLANDS	\$68,310	22.77%	110.44%
2	CHINA*	\$13,451	4.48%	41.77%
3	ISRAEL	\$12,844	4.28%	15.99%
4	FRANCE	\$122,517	40.80%	14.67%
5	AUSTRALIA	\$31,195	10.40%	9.59%
6	MEXICO	\$14,191	4.73%	8.74%
7	UNITED KINGDOM	\$39,640	13.21%	2.64%
-	BRIC AVERAGE	<b>\$73,984</b>	<b>24.66%</b>	<b>1.31%</b>
8	INDIA	\$36,000	12.00%	0.00%
8=	IRELAND, REPUBLIC OF	\$32,245	10.75%	0.00%
8=	BRAZIL	\$214,083	71.36%	0.00%
11	UAE**	\$19,177	6.38%	-0.31%
12	RUSSIA	\$32,400	10.80%	-0.37%
-	GLOBAL AVERAGE	<b>\$40,402</b>	<b>13.54%</b>	<b>-3.69%</b>
13	USA	\$11,708	3.90%	-4.75%
-	EUROPE AVERAGE	<b>\$44,685</b>	<b>14.89%</b>	<b>-8.06%</b>
14	SPAIN	\$16,160	5.39%	-9.41%
15	JAPAN	\$15,166	6.06%	-12.17%
-	G7 AVERAGE	<b>\$41,291</b>	<b>13.97%</b>	<b>-16.65%</b>
16	GERMANY	\$13,653	4.55%	-23.40%
17	CANADA	\$5,662	2.36%	-23.87%
18	ROMANIA	\$27,667	9.22%	-32.45%
19	ITALY	\$80,693	26.88%	-44.93%
20	DENMARK	\$1,279	0.43%	-68.84%
	BELGIUM	\$146,077	48.70%	***
	MALTA	\$98,685	32.36%	***
	PORTUGAL	\$79,848	26.62%	***
	ARGENTINA	\$78,000	26.00%	***
	CROATIA	\$51,566	17.20%	***
	JAMAICA	\$28,023	9.60%	***
	POLAND	\$13,440	4.48%	***
	NEW ZEALAND	\$10,200	3.40%	***
	EGYPT	\$1,108	0.37%	***

\* Based on figures for Shanghai as a representative city of Chinese costs

\*\*Including levies

\*\*\*Unranked as 2012 data unavailable



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