PERSPECTIVES IN LABOR TAXATION IN THE CURRENT ECONOMIC CONTEXT AT THE EUROPEAN UNION LEVEL

Nicoleta Mihăilă
Scientific Researcher III, PhD, Financial and Monetary Research Center „Victor Slăvescu", Bucharest

Abstract: The main purpose of the paper is to analyze labor taxation in the European Union during the period 2018-2022, the methodology used being descriptive, by using various bibliographic sources, mainly from foreign literature, and empirical, by processing and analyzing data taken from international databases (Eurostat, OECD). We consider the analysis of labor taxation at the level of EU member states by using the two indicators, the Implicit Tax Rate (ITR), respectively the Tax wedge, during the mentioned period, as well as some challenges/trends regarding labor and possible tax measures in the current economic context (inflation, the war in Ukraine) to help vulnerable people and the economy as a whole.

Keywords: tax revenues from labor taxation, personal income tax, social contributions, implicit tax rate, tax wedge

1. Introduction

Taxation in the field of labor influences both the decision of each natural person to engage and with what norm (labour supply), as well as the employer's decision to make hires, as they increase the cost of labor (labour demand).

In our paper we analyze the labor taxation in the European Union in the period 2008-2021, through two indicators, the Implicit Tax Rate (ITR), calculated as the sum of the income tax and the social contributions of the employee and the employer, respectively the Tax wedge indicator (The fiscal component of the labor cost), namely the sum of personal income tax, employee and employer social security contributions plus any payroll tax minus cash transfers expressed as a percentage of labor costs.

The objectives pursued are: analysis of labor taxation at the level of EU member states by using the two indicators, Implicit Tax Rate (ITR) and Tax wedge, respectively, in the period 2018-2022, labor challenges/trends and possible fiscal measures in the current economic context (inflation, war in Ukraine) to help vulnerable people and the economy as a whole.

2. Analysis of labor tax revenues in EU countries in the period 2018-2022

In 2022, in some countries, tax revenues from social contributions represent a large share of total tax revenues (in Czech and Slovak tax systems they represent 46% and 43,3%, respectively). In contrast, Denmark collects almost no such revenue and finances welfare state services largely through general taxes, with personal income tax (PIT) accounting for more than 55% of all tax revenues. In Croatia, Romania, Cyprus, Bulgaria and the Czech Republic, PIT accounts for only 10% or less of total revenues.

The changes in the overall EU values hide considerable heterogeneity in the development of tax revenues from personal income taxation and social contributions in recent years. Average PIT revenues in the EU have hardly changed, while social contribution revenues have slightly decreased. However, there are countries where the importance of PIT has increased considerably (Lithuania, Malta, Luxembourg), while in others it has decreased (Romania, Greece, Portugal). Regarding social contributions, Lithuania, the Netherlands, Hungary and France now rely less on them, while Cyprus, Romania, the Czech Republic and Portugal now rely more on SC compared to previous years.

Table 1. Revenues from labor taxation in the EU 27 in the period 2018-2022, % GDP

	2018	2019	2020	2021	2022
EU-27	20,7	20,7	21,3	20,7	20,3
Belgium	22,4	22,0	22,9	21,7	22,3
Bulgaria	10,9	11,1	11,5	11,1	10,4
Czechia	19,0	19,2	20,2	19,0	17,9
Denmark	22,9	23,3	24,2	23,9	22,3
Germany	22,6	23,0	23,2	22,8	22,6
Estonia	16,7	16,8	17,7	17,5	17,2
Ireland	9,5	9,5	8,7	8,7	8,7
Greece	16,6	16,4	17,5	17,2	16,2
Spain	16,8	17,5	19,9	19,3	19,1
France	24,1	23,1	23,3	22,9	23,4
Croatia	13,5	13,4	13,8	12,8	12,6
Italy	20,9	21,5	22,2	21,4	20,7
Cyprus	11,7	13,4	14,2	14,2	14,5
Latvia	14,4	15,0	15,5	15,1	14,6
Lithuania	15,4	15,3	16,0	16,0	15,9
Luxembourg	17,9	18,4	18,9	18,1	18,6
Hungary	16,9	16,6	16,2	14,5	14,6
Malta	10,8	10,8	12,0	12,0	12,2
Netherlands	19,7	19,5	20,5	19,1	18,4
Austria	23,5	23,7	24,2	24,2	23,1
Poland	14,1	14,2	14,3	14,2	13,6
Portugal	14,6	14,8	16,3	16,1	15,9
Romania	12,1	12,0	12,8	12,0	11,4
Slovenia	18,9	18,9	20,0	19,9	19,3
Slovakia	18,1	18,5	18,9	18,9	18,2
Finland	21,0	21,0	20,6	21,0	21,0
Sweden	25,6	24,9	24,6	24,0	23,2

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

During the analyzed period, we observe that labor taxation revenues have a slightly decreasing trend, in 2020 they increase, and then decrease slightly. Compared to the pandemic year 2020, the most significant decreases were in Denmark and Austria (over 2 pp), similar to the EU 27 average, which had the same rate of decrease (the main reason being the various policy measures and actions during the pandemic that supported labor). Compared to 2018, the most significant decrease was in Hungary, - 2,3 pp, the other states registering lighter decreases. We mention Spain and Cyprus, where these revenues increased by approximately 2 pp (2,3 pp, 2,8 pp, respectively). It should be noted that this slight decrease in labor taxation revenues is explained by the reduction of income tax rates in some countries or a low level of collection, as well as certain tax exemptions/ facilities granted to certain categories of taxpayers.

As for *personal income*, in 2022, the statutory personal income tax rates varied depending on the region. While Romania, Bulgaria, Hungary continue to apply flat-rate tax regimes (single rate), other countries, such as the Czech Republic, Austria, Germany, Slovenia, Croatia and Slovakia, use progressive tax regimes. In Austria, in 2021, the personal income tax rate for the first tax bracket was also reduced, from 25% to 20%, Latvia reduced the maximum tax rate from 31,4% to 31% in 2021, and Spain increased the income tax by 2 pp for those with an annual income of more than 300.000 euros (331.485 USD). In 2022, the statutory rate for Slovenia is reduced (from 50% to 45%); in Luxembourg, a solidarity surcharge of up to 9% is applied; Austria has reduced the personal income tax rate for the second tax bracket from 35% to 30%.

The share of revenues from personal income tax (personal income tax) reveals a synchronization between the level of the tax rate and the level of budget revenue; thus, in countries where the tax rate is high (Denmark, Austria, Finland) and the related tax revenues are high. In most EU countries, an upward trend is recorded.

Table 2. Share of tax revenues from personal income taxation (% of GDP) in the period 2018 – 2022

	2018	**2019**	**2020**	**2021**	**2022**
UE27	9,5	9,6	9,9	9,8	9,6
Belgium	11,8	11,3	11,8	11,4	11,9
Denmark	24,2	26,5	26,9	27,6	23,4
Germany	9,7	9,8	9,7	9,6	9,7
Estonia	5,5	5,5	6,2	6,8	6,3
Irland	7,0	6,9	6,6	6,9	6,5
Greece	6,4	5,9	6,3	5,9	5,5
Spain	7,7	8,0	8,8	8,8	9,2
France	9,5	9,4	9,6	9,4	9,8
Croatia	3,5	3,6	3,6	3,0	3,1
Italy	11,6	11,8	12,6	12,5	11,6
Cyprus	3,2	3,2	3,4	3,4	3,5
Latvia	6,0	6,5	6,1	6,0	5,8
Lithuania	4,1	7,2	7,1	7,6	7,6
Luxembourg	9,3	9,4	9,8	10,1	10,4
Malta	7,0	7,1	7,8	8,0	8,2
Netherlands	7,9	8,5	9,0	8,6	8,2
Austria	9,7	9,8	9,4	9,9	9,9
Portugal	6,5	6,3	7,0	7,0	7,0
Slovenia	5,4	5,3	5,4	5,4	5,1
Slovakia	3,6	3,8	3,8	3,9	3,7
Finland	12,2	12,2	12,6	12,8	12,9
Sweden	15,2	14,5	14,8	14,6	13,8
Bulgaria	3,3	3,3	3,5	3,3	3,1
Czechia	4,8	5,0	5,2	3,7	3,6
Hungary	5,1	5,1	5,3	4,1	5,3
Poland	5,3	5,3	5,3	5,4	4,5
Romania	2,4	2,3	2,4	2,4	2,5

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

We note that in 2022, at the level of the countries in the region, compared to 2021, a lower level of these tax revenues was recorded, only Romania has a relatively constant value (2,4% of GDP in 2021 vs 2,5% of GDP in 2022; a factor that contributed to this 0,1 pp increase was the extension of the facility granted to employees in the agricultural and food industry sector); Hungary is the only country in the region that records a higher level compared to 2021, respectively an increase of 1,2 pp (from 4,1% of GDP in 2021, to 5,3% of GDP in

2022); at the opposite pole, Poland stands out, with a decrease of 0,9 pp compared to the previous year. Also, Hungary and Poland have values above the regional average (3,8% of GDP). In Romania, the collection level is the lowest in the EU, two of the reasons being the categories of taxpayers exempt from this tax, as well as the low tax rate.

However, since the income tax is based on a flat rate of 10%, the Romanian tax system is competitive for foreign citizens who become Romanian tax residents, but remain "enrolled" in the social contribution system of other EU Member States that apply a tax base cap or a specific progressive system.

In time, EU countries have sought to increase their tax attractiveness, in order to obtain additional revenues and attract investment, while avoiding the erosion of their domestic tax base, in order to protect their resources (for example, regarding personal income taxation, the principle of a specific tax regime applicable to the income of new tax residents, as well as to the large assets of newly domiciled taxpayers, is applied).

The share of income from social security contributions in GDP provides the most heterogeneous situation in the income structure, from 0,0% in Denmark to 16,0% in Slovenia or 15,9% in the Czechia, a situation that indicates different strategies and mechanisms for approaching this category of contributions. In most of the new member states, the provision of social programs is based more on individual contributions rather than on a general tax base, which makes the revenue streams for social systems dependent, to a large extent, on the contributions of employees and employers, through the tax system. For this reason, this category of income represents an important, constantly growing part of public budgets to ensure the stability of the social security system.

In some of the member states, the financing of social programs is not closely linked to social contributions, their level, but are financed to a large extent on the basis of general revenues of public budgets. The case of Denmark is relevant, where the share of these revenues in GDP, in the analyzed period, is almost non-existent, instead the fiscal pressure on revenues through direct taxation has increased, relatively similar situations being encountered in Sweden and Ireland.

Table 3. Share of revenue from social contributions (% of GDP), in the EU27 in 2018 – 2022

	2018	**2019**	**2020**	**2021**	**2022**
UE27	13,2	13,1	13,5	13,2	12,9
Belgium	13,4	13,3	13,7	13,1	13,0
Denmark	0,0	0,0	0,1	0,1	0,0
Germany	15,6	15,9	16,6	16,2	15,9
Estonia	11,5	11,7	12,4	11,6	11,4
Irland	3,7	3,7	3,2	3,2	3,2
Greece	11,9	12,1	12,9	12,9	12,2
Spain	11,7	12,3	13,8	13,6	12,8
France	16,0	14,8	14,8	14,7	15,0
Croatia	11,5	11,3	11,7	10,9	10,6
Italy	13,0	13,2	13,5	13,5	13,2
Cyprus	8,5	10,3	11,2	11,3	11,2
Latvia	9,1	9,5	10,0	9,7	9,3
Lithuania	12,6	9,7	10,2	10,2	9,8
Luxembourg	10,7	10,9	11,2	10,6	10,6
Malta	5,1	5,0	5,7	5,4	5,1
Netherlands	14,0	13,4	13,6	13,1	12,6
Austria	14,7	14,9	15,5	15,3	14,7
Portugal	9,3	9,6	10,5	10,4	10,2

Slovenia	15,4	15,7	16,8	16,4	16,0
Slovakia	14,7	15,0	15,5	15,5	14,6
Finland	11,8	11,8	11,6	12,0	11,9
Sweden	2,8	2,7	2,8	2,7	2,6
Bulgaria	8,7	8,8	9,2	8,9	8,3
Czechia	15,4	15,4	15,9	16,5	15,9
Hungary	12,0	11,7	11,2	10,5	9,8
Poland	13,1	13,2	13,6	13,0	12,8
Romania	10,6	10,5	11,1	10,5	10,0

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

In the period 2018-2022, these revenues generally had an upward trajectory, with the euro area average exceeding that of the EU 27. In 2022, however, they recorded a decrease in most member states, Hungary, Greece, Slovakia having a level 0,7 pp lower than in 2021, followed by Austria, Spain, with a minus of 0,6 pp. States that recorded modest increases are France, Cyprus, Luxembourg. In the region, in 2022, states recorded decreasing shares compared to the previous year. Romania recorded a level of 10,0% of GDP, 0.5 pp less than the previous year, below the regional average of 11,4%, exceeding Bulgaria (8,3%) and Hungary (9,8%). It should also be mentioned that since 2018 the tax regime of social contributions has been reformed, by transferring contributions to the employee, which led to an increase in their collection by over 2 pp, according to statistical data.

If we refer *to income from labor taxation, as a share of total taxation - Income from work, paid by employers*, we note that the trend is oscillating, in 2022 fiscal income from taxation of employers generally had a relatively constant rhythm, the oscillations not being so great meaningful. However, Lithuania stands out, where a decrease of 26 pp was recorded, from 28,4% of total taxation to 2,3%. Other reductions are in Hungary, Bulgaria, Romania.

Regarding *tax income from employee taxation*, in the analyzed period there are reductions in the states that rely more on indirect taxation and social contributions, namely Bulgaria, the Czech Republic, Poland, Romania, where the decrease is 3,4 pp in 2022, compared to 2018. Also, compared to 2020, they decrease slightly. Again we note Lithuania, where these revenues record the highest growth, of 25,3 pp, in 2022, compared to 2018.

As for ***Romania***, *from the perspective of the structure of tax revenues*, the share of *indirect tax revenues* in tax revenues remains in 2022 at a level higher than the European average (39,3% compared to 32,8%), but below the level recorded by Hungary (51,6%), Bulgaria (51,6%) or Croatia (51,2%). The *share of social security contributions in tax revenues* reached a level of 39%, above the EU average (34,2%); As for *direct taxes*, Romania has one of the lowest shares in tax revenues in the EU, which nevertheless increased to 21,7% in 2022 compared to 18,8% in 2021, being 11,3 pp below the EU27 average, compared to 13,5 pp in 2021.

According to a study (Fiscal Council, 2022), the *low level of tax revenues in Romania* compared to similar economies in the EU can be attributed to the following three factors: (i) low collection rate; (ii) exemptions that reduce the tax base and preferential regimes in certain sectors of activity / categories of taxpayers; (iii) tax rates in some cases below those in the EU.

We also recall that one of the causes of the deficient income structure in Romania in the period 2018-2022 is the fact that in 2018 mandatory contributions were transferred to the employees (previously distributed between the employer and employees). Labor taxation in Romania is carried out mainly through income tax (10% rate applied to salary income) and mandatory social contributions (25% social insurance contribution and 10% health insurance

contribution – both borne by the employee and 2,25% labor insurance contribution – borne by the employer).

Romania stands out for the high level of social security contributions borne by employees. Therefore, in the context of maintaining an excessive level of contributions for labor income, the idea that Romania has a low tax rate (in terms of the 10% income tax rate) is illusory. Net income from work is lower than in countries with higher income tax rates (such as Poland, which has rates of 0%, 12% and 32%). For the same gross salary as in Romania, most Polish employees are left with substantially higher net salary amounts than in Romania.

The effective taxation of labor income in Romania (BNS, 2024) leads to the situation where, compared to the same amount of the average gross salary in the economy, the Romanian employee receives only around 1.000 euros (1.009 euros), while the same gross income, but taxed in Poland, leads to a net income for the Polish employee of 1.246,4 euros (+23,5% compared to the case of taxation under the labor taxation conditions in Romania). In Romania, mandatory withholdings/contributions to the state from employees' salaries have come to represent approximately 43% of the average gross salary, only about 57% being the net amount that remains for employees.

In the context of major macroeconomic imbalances, especially at the level of the budget deficit (estimated at 7,3% for 2024), a possible VAT increase (as an ad-hoc solution to reverse the aggressive slope of deterioration of the budget balance), would further worsen the situation of excessive taxation of income in Romania) as the allocation of income from wages shows that, after covering subsistence expenses, most of the income of the majority of employees in Romania goes towards consumption and not towards saving, due to the low level of wages in Romania.

3. Evolution of the implicit labor tax rate in the EU in the period 2018-2022

Table 4. Evolution of the implicit labor tax rate in the EU, 2018-2022

	2018	2019	2020	2021	2022
EU-27	38,2	37,9	37,7	37,6	37,8
EA-19	38,6	38,3	38,0	38,0	38,4
Belgium	41,2	40,5	40,7	40,4	41,1
Bulgaria	24,8	25,4	25,4	25,2	24,9
Czechia	40,0	40,2	40,3	37,2	36,0
Denmark	34,6	34,8	35,8	36,6	35,4
Germany	37,7	37,7	37,2	37,6	38,0
Estonia	32,2	32,2	32,2	33,2	33,7
Ireland	32,3	32,5	31,4	33,1	34,8
Greece	40,4	40,5	40,5	41,7	42,4
Spain	34,1	34,6	35,9	35,5	36,4
France	41,4	40,3	39,8	39,5	39,7
Croatia	29,1	29,5	27,9	28,0	28,3
Italy	42,7	43,3	43,4	42,8	43,5
Cyprus	25,9	29,2	30,2	31,5	34,3
Latvia	29,5	29,9	30,2	30,8	30,5
Lithuania	31,4	30,2	30,2	30,5	31,3
Luxembourg	31,6	31,8	32,7	33,0	33,2
Hungary	38,9	38,9	37,8	35,3	36,5

Malta	22,2	22,3	23,0	24,6	25,8
Netherlands	33,7	32,5	32,0	31,3	31,1
Austria	41,5	41,4	40,7	41,2	40,4
Poland	33,3	33,3	32,7	33,7	33,1
Portugal	29,2	29,3	30,1	30,0	30,7
Romania	31,6	30,8	32,2	31,4	30,5
Slovenia	35,9	35,3	35,2	35,6	35,1
Slovakia	36,9	37,2	36,9	37,2	36,5
Finland	38,9	38,8	38,2	38,3	39,0
Sweden	39,6	39,1	38,4	38,5	38,5

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

The level of ITR on labour varied substantially across Member States during the period under review; compared to 2020, ITRs increased, most notably in Ireland +3,4 pp, Cyprus +4,1 pp, Malta +2,8 pp. The most significant decrease was in the Czech Republic -4,3 pp and Hungary -1,3 pp. In 2022, the highest ITRs were found in Italy (43,5%), Greece (42,4%) and Belgium (41,1%), and the lowest in Malta (25,8%) and Bulgaria (24,9%).

Social security contributions and payroll taxes account for two-thirds of the ITR for labour taxes. In most Member States, social security contributions account for a much larger share of labour taxes than PIT. On average, in the EU-27, two-thirds of the overall ITR on labour consists of social contributions and payroll taxes paid by employees and employers. In Denmark, where social contributions are very low, PIT accounts for 96% of the ITR on labour. In Ireland and Malta, PIT is also a relatively large component of ITR (61% and 53% respectively). In Romania, on the other hand, PIT accounts for only 13% of the ITR on labour, with 79% of the contribution made from employees' social contributions.

While the EU average did not change significantly between 2019 and 2020, the changes in each country were varied and notable. The ITR on labour fell in most Member States. A strong decline was recorded in Croatia (1,7 pp), followed by Lithuania and Greece (0,8 pp in both cases). On the other hand, the ITR on labour increased significantly in Spain (2,1 pp), Cyprus (1,6 pp) and Luxembourg (1,3 pp). In Spain, labour taxes increased, while compensation of employees decreased. Public interventions, such as leave schemes, helped to support incomes.

Regarding the labour-related ITR components (personal income taxes, social contributions paid by employees and social contributions and payroll taxes paid by employers), annual changes were almost non-existent at EU level. However, at Member State level, there were some significant annual changes. In Denmark, the contribution of personal taxes to ITR increased by over 1 pp. In Spain, the contribution of employers was 1,2 pp higher than the previous year. On the other hand, Hungary recorded a significant decrease in employers taxes, by 1,5 pp, with some compensation from the remaining components. In Croatia, all three components decreased significantly, in the largest combined decrease in the EU.

In the region, Romania stands out for the high level of employee contributions, compared to the particularly low ones of employers and income tax. The situation is different in Bulgaria, where employee contributions are lower than those paid by employers, similarly in the Czech Republic. Poland has employee contributions slightly higher than those borne by employers.

4. Taxation of labor using the Tax wedge indicator

The Tax wedge indicator explores the burden of taxation on different household categories (such as single, couple, family) and income levels (for example, workers on 50%, 67% and 100% of the average wage).

The average tax wedge in 2021 for workers with 50% of average gross earnings was 31,9% in the EU-27, 0,4 pp more than in 2020 (OECD, 2022). In 2021, tax rates for low-income earners were above 40% in Hungary and Germany, and below 20% in Cyprus. In France, there is a considerable gap (almost 21 pp) between tax rates of 50% and 67% of average earnings. Behind this gap is a significant increase in social security contributions by the employer and a decrease in family allowances.

In 2021, only eight Member States recorded an annual decrease in the Tax wedge indicator for low-income single people. The Czech Republic recorded the largest annual decreases (4,4 pp). There were some significant year-to-year increases, notably in Portugal, 7 pp, followed by France, 4,3 pp.

At international level (OECD), in 2021 single workers on an average wage paid around one third of their wages in taxes. In most countries, families had lower tax burdens than single workers without children earning the same income.

Changes to income tax systems have a direct impact on the tax burden on labour: some countries have made substantial changes to income and payroll taxes over the past two decades. Hungary, the OECD/EU country with the highest tax burden on labor in 2000, recorded the most notable decrease in the Tax wedge, from 54,7% to 43,2% in 2021. This is partly due to the introduction of a single tax on income, which reduced the income tax burden in relation to total labor costs. In addition, Hungary reduced its payroll taxes relative to total labor costs. Denmark, Sweden and Lithuania have also substantially reduced their tax burden on labour, with a reduction between 6 and 8,1 pp each.

In Europe, although the level of the Tax wedge is higher, some remarks should be made. Belgium has the highest tax burden on labor at 52,6% (also the highest of any OECD country), followed by Germany and Austria at 48,1% and 47,8% respectively. At the opposite pole, Switzerland had the lowest tax burden at 22,8%.

It is important to note that all European countries provide some tax relief for families with children, usually through lower income taxes. In Germany, a single worker earning the nation's median wage faces a tax burden of 48,1%. A family with two children and one earning adult would face a tax burden of 32,7%.

It should be noted that the COVID-19 pandemic has had an effect on the tax burden for the single worker, the single-wage couple with two children and the single-parent household in 2020 and 2021; the Tax wedge indicator saw sharp declines across the OECD in 2020 due to measures implemented in response to COVID-19. However, they have returned in most countries in 2021 as many of these measures have been reduced, average wages have increased in all but two countries, and new reforms to labor taxation have been introduced.

Within OECD, countries have largely chosen to provide support to households and businesses outside the labor tax system, mostly through the provision of cash, enhanced or one-off benefits, with a focus on supporting families with children.

Table 5. Tax wedge for a single worker with 50% of average earnings, without children

	2018	2019	2020	2021
Belgium	34,1	33,1	32,8	34,6
Bulgaria	34,9	34,9	34,9	34,9
Czechia	38,9	39,4	39,6	35,1
Denmark	30,2	30,4	30,2	30,5
Germany	42,2	42,1	41,6	41,3
Estonia	29,8	30,5	30,8	31,4
Ireland	20,4	20,9	21,2	21,4
Greece	32,8	32,6	32,1	29,9
Spain	29,2	27,9	27,9	27,9

France	27,2	21,4	15,8	20,1
Croatia	31,7	31,3	31,3	31,3
Italy	36,2	36,4	36,3	36,6
Cyprus	17,3	18,1	18,1	18,1
Latvia	36,8	36,7	35,0	35,3
Lithuania	33,5	31,8	29,9	31,1
Luxembourg	26,5	24,4	25,8	26,8
Hungary	45,0	44,6	43,6	43,2
Malta	21,4	22,1	22,4	21,7
Netherlands	24,7	23,9	23,2	22,0
Austria	39,0	38,6	36,8	37,2
Poland	34,5	34,3	33,3	33,5
Portugal	28,1	28,1	28,1	35,1
Romania	**36,0**	**36,6**	**36,9**	**37,2**
Slovenia	36,1	37,2	37,2	39,5
Slovakia	36,9	37,3	36,4	36,6
Finland	32,6	31,8	30,4	32,0
Sweden	39,4	38,8	38,9	38,0

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

At the OECD level, in 2022, Tax Wedge presented the following situation: the countries where personal income taxation prevails (PIT) are Denmark (PIT only), Ireland, Iceland, Belgium. Social contributions paid by employees prevail in Lithuania, Hungary, Poland, Slovenia, Germany (over 15%), and employer contributions prevail in Belgium, Austria, France, Italy, Spain, Czech Republic (over 20%), Slovakia. The OECD average is similar for PIT and social contributions paid by the employer, about 13%, employees have a share of 8.2%.

Table 6. Income tax plus employee and employer social security contributions, % of labor costs, 2022

Country	Total tax wedge	Income tax	Social security contributions	
			employee	employer
Switzerland	23,4	11,4	6,0	6,0
Belgium	53,0	20,7	11,0	21,3
Luxembourg	40,4	17,4	10,8	12,2
Germany	47,8	14,7	16,9	16,6
Austria	46,8	11,9	14,0	21,8
Netherlands	35,5	14,3	10,4	10,7
France	47,0	11,9	8,4	26,7
Norway	35,7	17,1	7,1	11,5
Iceland	32,5	26,4	0,1	6,0
Ireland	34,7	21,2	3,6	10,0
Sweden	42,4	13,1	5,3	23,9
Finland	43,1	17,2	8,5	17,4
Italy	45,9	15,3	6,6	24,0
Denmark	35,5	35,5	0,0	0,0
Spain	39,5	11,6	4,9	23,0

Czechia	39,8	6,3	8,2	25,3
Israel	23,6	10,3	7,8	5,5
Slovenia	42,8	9,9	19,0	13,9
Portugal	41,9	13,9	8,9	19,2
Estonia	39,0	12,5	1,2	25,3
Poland	33,6	4,2	15,3	14,1
Hungary	41,2	13,3	16,4	11,5
Greece	37,1	7,4	11,4	18,3
Lithuania	38,2	17,3	19,2	1,8
Latvia	40,6	13,0	8,5	19,1
Slovak Republic	41,6	8,4	10,3	22,9
OECD Average	34,6	13,0	8,2	13,4

Source: OECD Economic Outlook, Volume 2022 issue 2

The increased share of labor paid by employees is noteworthy, throughout the analyzed period (8,1% of GDP in 2020), compared to employers (5,5% of GDP for 2020), and non-employees (0,8% of GDP, a higher level than the other 3 countries in the region).

Concluding, we consider that the level of labor taxation in Romania, compared to the states in the region, is not the most burdensome, Poland and Czechia having higher tax costs than us. What draws attention are the low level of tax revenue collection from labor taxation in GDP, the high level of employee contributions, the anomalies on the labor market in our country, as well as the high level of undeclared work (% of total employees) in this segment: 22% in Romania, 16% in Bulgaria, 17% in Poland, 7% in Czechia.

Anomalies on the labor market can be: the participation of the theoretically available labor force in economic activity significantly lower than in the countries of the region (8,1 million active people in Romania), among the active population aged between 55 and 64, only 45,6% are present in the labor market, an explanation of this percentage being represented by the category of special pensioners, who leave the activity at very young ages.

According to an analysis (KPMG, Concordia, 2023), in Romania, at the labor market level, a series of structural problems persist*: the tax burden on labor* remains high compared to the EU 27 average, especially for low wages, which discourages formal participation in the labor market, *preferential treatment for certain categories of employees, informal and undeclared work remains a widespread phenomenon, the labor market participation rate is still low* given that a significant part of the working-age population is inactive. At the same time, *significant gaps persist in terms of employment rates at regional level, the number of employees compared to the employed population is much lower than in the countries of the region, the share of employed people exposed to the risk of poverty remains high* as a result of seasonal work, part-time work schedules, self-employed activities and the high level of informality, *labor productivity is relatively low compared to the countries of the region. The share of people engaged in subsistence, non-mechanized and underperforming agriculture remains significant* (approximately 22%), and *discrepancies persist between employers' requirements and candidates' skills*.

5. Current challenges related to labor taxation. Fiscal measures to support vulnerable people

Even before the COVID-19 crisis, many economies were in dire straits. Labor markets in most developed countries had yet to fully recover from the 2008-2009 financial crisis, after which real wage growth remained weak and millions of people were forced to take low-paid, low-skilled jobs in the service sector to support household incomes. Many of these people

worked in the sectors hardest hit by the pandemic: retail, hospitality, travel, leisure, and the office supply chain - cleaners, security guards, and takeaway food.

In response to the COVID-19 crisis, countries around the world have enacted fiscal packages to support businesses and households. In terms of labor-related tax measures, personal income taxes and social security contributions have been used to provide relief to households and employers, but several countries have also increased tax rates for high earners. There have also been tax deferrals and other measures to manage PIT. The most common type of labor-related tax measure across all countries has been the deferral of payments of personal income taxes and social security contributions, expanded or new allowances and income tax credits.

Therefore, some fiscal measures targeting vulnerable people include:

• personal income tax progressivity and reduction of tax exemptions for private education, health and pensions;

• increasing incomes among low- and moderate-income working families by adopting state earned income tax credits.

• maintaining a general tax system that generates sufficient revenues to pay for the basics of shared prosperity, such as education and access to healthcare.

• strengthening financial literacy, helping individuals and households navigate the challenges and opportunities of financial markets and by promoting good budgeting, planning and saving practices • providing a higher degree of equity in work, lifting the pressure on low wages, both for employees and employers;

• ensuring a positive relationship at the state budget level, focusing on consistent tax bases (higher labor income), which would ensure increased tax yields, while maintaining the balance between taxation and labor incentives, through tax and non-tax deductions that would adequately compensate for a higher tax margin.

• adopting a complex reform process, which would target measures related to the labor market, pension systems, health and education, as well as ensuring a decent standard of living.

6. Conclusions

In this paper, we analyzed labor taxation in the European Union, using the Implicit Tax Rate and Tax Wedge indicators. In the area of personal income tax (PIT), most countries continue to reduce the tax burden on personal income, by reducing tax rates or tax bases, in order to support equity, especially for those with low and middle incomes. It should be noted that both personal income tax (PIT) and social contributions (SSC) are essential sources of tax revenue in most countries (developed ones).

Income taxes are usually progressive, being higher as personal income increases, progressive tax is a beneficial solution for most governments in Europe because it creates fiscal equity (in this case the tax rate is levied according to the gross salary) in exchange for fiscal equality as in the case of the flat tax rate (the flat rate applies to any individual regardless of the salary they earn). Progressive taxation leads to a reduction in economic disparities, which implies more social benefits.

If we consider the labor market, in Romania, a series of structural problems persist, including:

- the tax burden on labor remains high compared to the EU 27 average, especially for low wages, which discourages formal participation in the labor market,

- the tax regime provides for preferential treatment for certain categories of employees - informal and undeclared work remains a widespread phenomenon,

- the labor market participation rate is low given that a significant part of the working-age population is inactive. At the same time, significant gaps persist in terms of the employment rate at regional level,

- the number of employees compared to the employed population is much lower than in the countries in the region,
- the share of employed people exposed to the risk of poverty remains high as a result of seasonal work, part-time work schedules, self-employed activities and the high level of informality,
- labor productivity is relatively low compared to the countries in the region. The share of people engaged in subsistence, non-mechanized and underperforming agriculture remains significant (approximately 22%),
- the persistence of discrepancies between employers' requirements and candidates' skills.

Although in our country the tax revenues collected are very low (approx. 27% of GDP), the fiscal pressure felt is high: labor taxation is high (we refer to contributions and taxes on accumulated wages), remaining in the top places in the European Union (6th-7th place). Also, some substantial deductions are missing, which exist in developed EU countries (deductions for families with children, reduced or even zero income tax rates for low wages, etc.). For example, in Belgium (the country with the highest labor taxation), families with two children reach a wage tax of only 38% through the deduction and exemption schemes applied.

We believe that measures are needed to address the challenges on the labor market. While the labor market has resisted during the COVID-19 pandemic, the working-age population is rapidly decreasing, due to aging and emigration. The lack of skills has been a barrier to growth in the past and is likely to continue to be so in the future.

Labour force participation needs to improve and skills need to meet the needs of the Romanian economy. At the same time, the integration of people with low levels of education, especially young people, women and Roma, into the formal labour market is a challenge. Public employment services also need to be strengthened to better adapt to changing labour market needs, to provide individualised support and to expand training programmes.

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