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Sources of Government Revenue in the OECD, 2018

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Key Findings

- In 2015, OECD countries relied heavily on consumption taxes, such as the value-added tax, and social insurance taxes, such as the payroll tax.
- The United States relied heavily on the individual income tax, at 40.5 percent of total government tax revenue.
- On average, OECD countries collected little from the corporate income tax (8.9 percent of total tax revenue).

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Introduction

Developed countries raise tax revenue through a mix of individual income taxes, corporate income taxes, social insurance taxes, taxes on goods and services, and property taxes. However, the extent to which an individual country relies on any of these taxes can differ substantially.

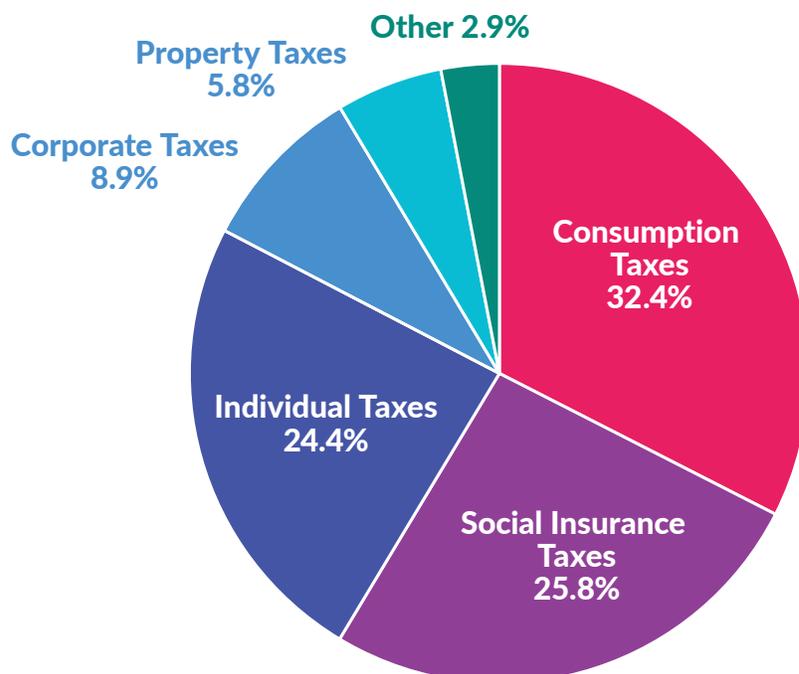
A country may decide to have a lower corporate income tax to attract investment, which may reduce its reliance on the corporate income tax revenue and increase its reliance on other taxes, such as social insurance taxes or consumption taxes. For example, in 2015, Estonia raised only 6.2 percent of total revenue from corporate income taxes but made it up by raising a combined 75.2 percent of total revenue from social insurance taxes and consumption taxes.

Countries may also be situated near natural resources that allow them to rely heavily on taxes on related economic activity. Norway, for example, has a substantial oil production industry on which it levies a high (78 percent) income tax and thus raised a significant amount of corporate income tax revenue.¹

These policy and economic differences among Organisation for Economic Co-operation and Development (OECD) countries have created differences in how they raise tax revenue.

OECD Countries Raised the Most Revenue from Consumption, Individual Income, and Social Insurance Taxes in 2015

FIGURE 1.
OECD Average Sources of Tax Revenue, 2015



Source: OECD.StatExtrats, <http://stats.oecd.org>.

1 EY, "2017 Global Oil and Gas Tax Guide, Norway," 2017. <http://www.ey.com/gl/en/services/tax/global-oil-and-gas-tax-guide---xmlqs?preview&XmlUrl=/ec1mages/taxguides/GOG-2017/GOG-NO.xml>

Per the most recent data from the OECD (2015), consumption taxes were the largest source of tax revenue for OECD countries.² On average, countries raised approximately 32.4 percent of their tax revenue from consumption taxes. This is unsurprising given that all OECD countries (except the United States) levy value-added taxes at relatively high rates.

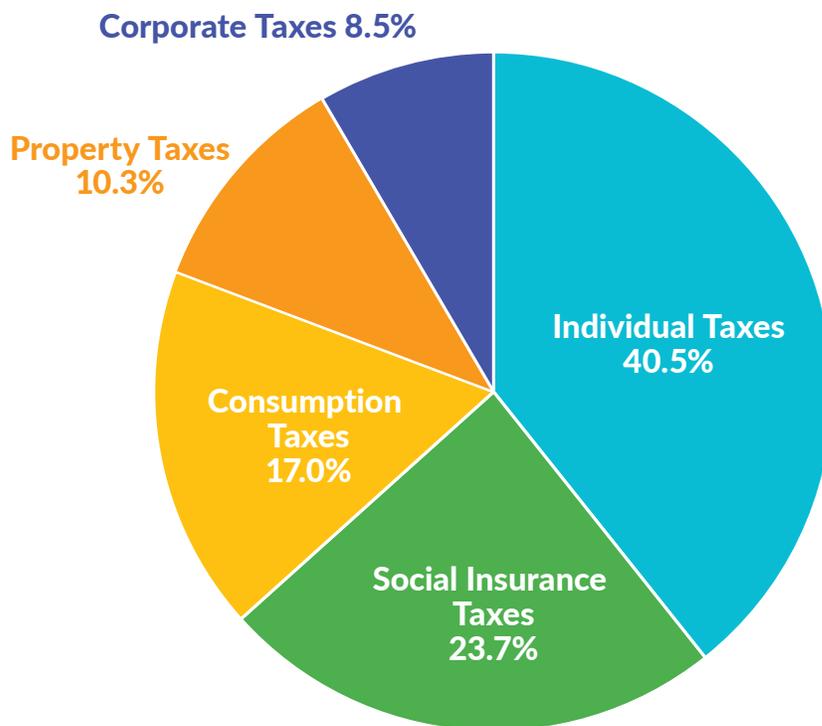
The next significant source of tax revenue is social insurance taxes. OECD countries raised approximately 25.8 percent of total revenue from social insurance taxes.

Individual income taxes accounted for 24.4 percent of total revenue across the OECD. Corporate income taxes accounted for only 8.9 percent of total revenue. Of the main categories, property taxes raised the least across the OECD, accounting for only 5.8 percent of total revenue.

The United States Relied Heavily on Individual Income Taxes

FIGURE 2.

United States' Sources of Tax Revenue, 2015



Source: OECD.StatExtracts, <http://stats.oecd.org>.

In 2015, the United States relied the most on individual income taxes. According to OECD data, the United States (federal, state, and local combined) raised approximately 40.5 percent of all tax revenue from individual income taxes (compared to the 24.4 percent among all OECD countries).

Social insurance taxes made up the second largest source of government revenue in the United States (23.7 percent compared to the OECD average of 25.8 percent).

The United States relied much less on taxes on goods and services than other OECD countries. In 2015, the United States raised 17.0 percent of its total tax revenue from taxes on goods and services (consumption taxes), compared to 32.4 percent among OECD countries.

The smallest source of tax revenue for the United States was the corporate income tax. Federal, state, and local governments in the United States collected 8.5 percent of their total tax revenue from corporate income taxes in 2015, compared to the OECD average of 8.9 percent.

FIGURE 3.

The United States Relies More on Individual Income Taxes and Property Taxes Than the Rest of the OECD

Share of Tax Revenue as a Percent of Total, U.S. and OECD Averages, 2015

Individual Taxes **Social Insurance Taxes** **Consumption Taxes**
Corporate Taxes **Property Taxes** **Other**



Source: OECD.StatExtrats, <http://stats.oecd.org>.

Taxes on Goods and Services

Consumption taxes are taxes on goods and services. These are in the form of excise taxes, value-added taxes, or retail sales taxes. Most OECD countries levy consumption taxes through value-added taxes and excise taxes. The United States is the only country in the OECD with no value-added tax. Instead, most state governments apply a retail sales tax on the final sale of products and excise taxes on the production of goods such as cigarettes and alcohol.

In 2015, Chile relied the most on taxes on goods and services, raising approximately 54.1 percent of its total tax revenue from these taxes. Chile was followed by Turkey (44.3 percent) and Hungary (43.8 percent). (Table 1, below.)

The United States raised the least amount of tax revenue in the OECD from consumption taxes, as a share of total revenue, at 17.0 percent in 2015. Japan raised slightly more, at 21.0 percent, followed by Switzerland, at 21.8 percent.

Social Insurance Taxes

Social insurance taxes are typically levied in order to fund specific programs such as unemployment insurance, health insurance, and old age insurance. In most countries, these taxes are applied to both an individual's wages and an employer's payroll. For example, the United States levies social insurance taxes at both the state and federal level in order to fund programs such as Social Security, Medicare, and Unemployment Insurance.

The Czech Republic relied the most on social insurance taxes (43.1 percent of total revenue) followed by the Slovak Republic (42.7 percent), and Slovenia (39.7 percent). (Table 1, below.)

Denmark raised the least, at 0.1 percent. Australia and New Zealand are the only countries that do not levy specific social insurance taxes on workers to fund government programs.

Individual Income Taxes

Income taxes are levied directly on an individual's income, beginning with wage income. Many nations, such as the United States, also levy their individual income tax on investment income such as capital gains, dividends, interest, and business income. These taxes are typically levied in a progressive manner, meaning that an individual's average tax rate increases as income increases.

The country with the highest reliance on individual income taxes in 2015 was Denmark (55.2 percent), followed by Australia (41.5 percent). (Table 1, below.)

The Slovak Republic (9.7 percent) and Chile (9.8 percent) raised the least amount of revenue from individual income taxes.

Corporate Income Taxes

The corporate income tax is a direct tax on corporate profits. All OECD countries levy a tax on corporate profits. However, countries differ substantially in how they define taxable income and the rate at which they apply the tax. Generally, the corporate income tax raises little revenue compared to other sources. Chile relied the most on its corporate income tax, at 21.0 percent of total tax revenue. Mexico (20.1 percent) and Australia (15.3 percent) also relied heavily on their corporate income tax compared to the OECD average of 8.9 percent. (Table 1, below.)

In 2015, Slovenia (4.0 percent), Hungary (4.6 percent), and France (4.6 percent) relied the least on the corporate income tax.

Property Taxes

A much smaller source of tax revenue for most OECD countries is the property tax. The property tax is levied on the value of an individual's or business's property. In the United States, property taxes are most typically levied on real estate, cars, and other personal property by state and local governments. Other types of property taxes include estate, gift, and inheritance taxes, and net wealth taxes. The United Kingdom relied the most on property taxes in the OECD (12.6 percent), followed by Korea (12.4 percent), Canada (11.8 percent), and Australia (10.7 percent). (Table 1, below.)

Estonia relied the least on property taxes, raising only 0.8 percent of total revenue. The Slovak Republic (1.3 percent), Austria (1.3 percent), and the Czech Republic (1.4 percent) also relied very little on property taxes.

Conclusion

In general, developed nations lean more on tax revenue from social insurance taxes and consumption taxes. The United States, in contrast, relies more on individual income taxes, while raising relatively little from consumption taxes. This policy difference matters, considering that consumption-based taxes raise revenue with less economic damage and distortionary effects than taxes on income.

TABLE 1.

Source of Tax Revenue, OECD Countries, 2015

	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Property Taxes	Consumption Taxes	Other
Australia	41.5%	15.3%	0.0%	10.7%	27.5%	5.0%
Austria	24.1%	5.2%	33.6%	1.3%	27.3%	8.4%
Belgium	28.3%	7.4%	31.9%	7.8%	23.8%	0.8%
Canada	36.9%	9.9%	15.1%	11.8%	23.1%	3.2%
Chile	9.8%	21.0%	6.9%	4.4%	54.1%	3.8%
Czech Republic	10.7%	10.8%	43.1%	1.4%	33.5%	0.5%
Denmark	55.2%	5.6%	0.1%	4.1%	31.6%	3.4%
Estonia	17.2%	6.2%	33.4%	0.8%	41.8%	0.5%
Finland	30.2%	4.9%	28.9%	3.3%	32.4%	0.3%
France	18.9%	4.6%	37.1%	9.0%	24.3%	6.1%
Germany	26.5%	4.7%	37.6%	2.9%	27.8%	0.5%
Greece	15.0%	5.9%	29.4%	8.5%	39.4%	1.8%
Hungary	13.7%	4.6%	32.4%	3.3%	43.8%	2.2%
Iceland	36.7%	6.5%	9.8%	5.4%	32.4%	9.3%
Ireland	31.6%	11.3%	16.8%	6.4%	32.6%	1.2%
Israel	19.4%	9.5%	16.4%	10.6%	38.0%	6.1%
Italy	26.0%	4.7%	30.1%	6.5%	27.3%	5.4%
Japan	18.9%	12.3%	39.4%	8.2%	21.0%	0.3%
Korea	17.2%	13.1%	26.6%	12.4%	28.0%	2.7%
Latvia	20.4%	5.5%	28.7%	3.4%	41.3%	0.6%
Luxembourg	24.5%	11.9%	29.0%	8.9%	25.5%	0.3%
Mexico	20.6%	20.1%	13.9%	2.0%	38.6%	4.9%
Netherlands	20.5%	7.2%	37.8%	3.8%	29.6%	1.1%
New Zealand	38.1%	13.8%	0.0%	6.1%	38.4%	3.6%
Norway	27.9%	11.5%	27.3%	2.9%	30.4%	0.0%
Poland	14.4%	5.7%	38.5%	4.2%	35.9%	1.3%
Portugal	21.2%	9.0%	26.1%	3.7%	38.4%	1.6%
Slovak Republic	9.7%	11.5%	42.7%	1.3%	33.7%	1.1%
Slovenia	14.0%	4.0%	39.7%	1.7%	40.0%	0.5%
Spain	21.3%	7.0%	33.8%	7.7%	29.7%	0.5%
Sweden	29.1%	6.9%	22.4%	2.4%	28.1%	11.1%
Switzerland	31.1%	10.8%	24.6%	6.7%	21.8%	5.0%
Turkey	14.6%	5.7%	29.0%	4.9%	44.3%	1.5%
United Kingdom	27.7%	7.5%	18.7%	12.6%	32.9%	0.5%
United States	40.5%	8.5%	23.7%	10.3%	17.0%	0.0%
OECD - Average	24.4%	8.9%	25.8%	5.8%	32.4%	2.9%

Source: OECD.StatExtrats, <http://stats.oecd.org>