Sources of Government Revenue in the OECD, 2019

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Key Findings

- In 2017, OECD countries raised one-third of their tax revenue through consumption taxes such as the Value-Added Tax (VAT), making consumption taxes on average the most important revenue source.
- Social insurance taxes and individual income taxes were the second and third most important sources of tax revenue in the OECD, respectively, at approximately 25 percent each, a change from 1990, when individual income taxes accounted for more revenue than social insurance taxes.
- On average, OECD countries collected little from the corporate income tax (9.2 percent) and the property tax (5.7 percent).

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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.

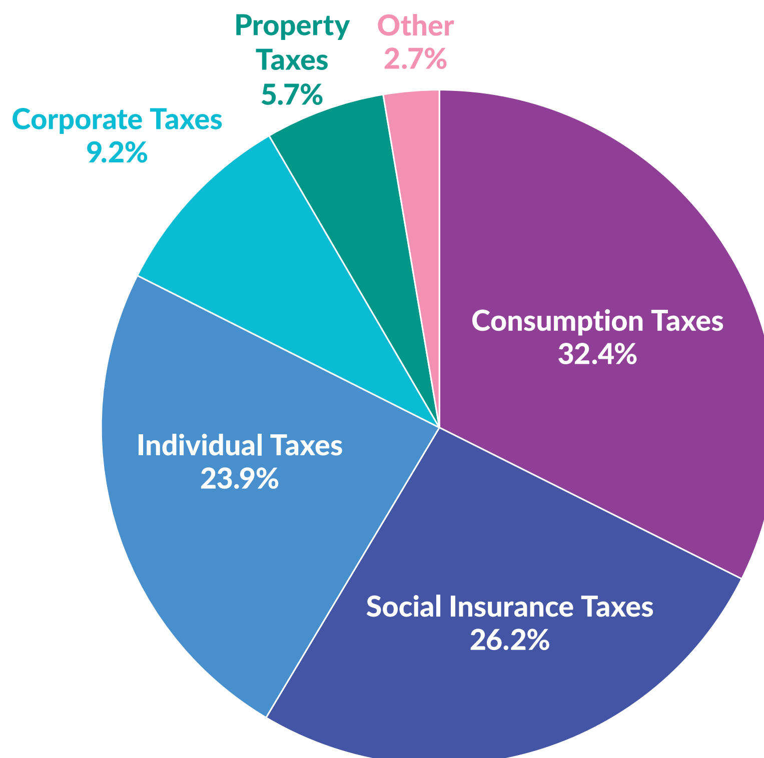
A country may decide to have a lower corporate income tax to attract investment, which may reduce its reliance on the corporate income tax revenue and increase its reliance on other taxes, such as social insurance taxes or consumption taxes. For example, in 2017, Estonia raised only 4.7 percent of total revenue from corporate income taxes, but a combined 76.8 percent of total revenue came 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 raises 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.

Average OECD Revenue Sources

FIGURE 1.
OECD Average Sources of Tax Revenue, 2017



Source: OECD Global Revenue Statistics Database, https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

1 EY, "2017 Global Oil and Gas Tax Guide, Norway," 2017, https://www.ey.com/Publication/vwLUAssets/ey-oil-and-gas-tax-pdf/$File/ey-oil-and-gas-tax-pdf.pdf.

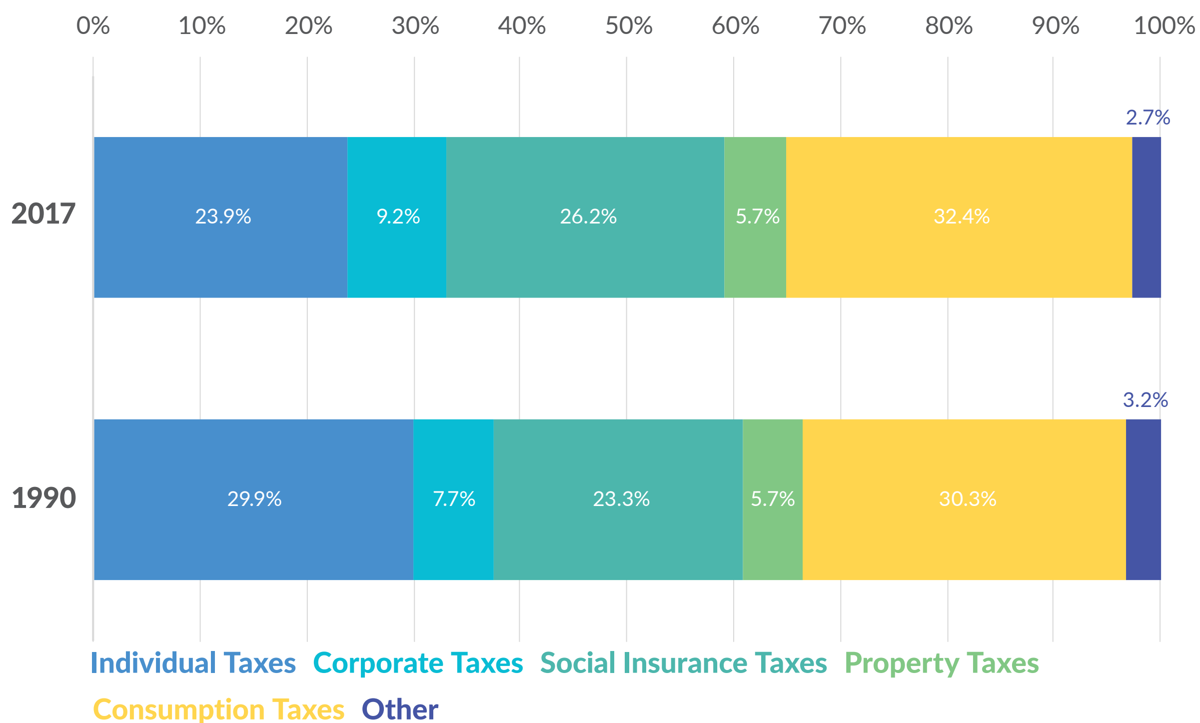
Per the most recent data from the OECD (2017),[2] taxes on consumption and labor made up the largest shares of tax revenue among OECD countries. On average, countries raised 32.4 percent of their tax revenue from consumption taxes. This is unsurprising given that all OECD countries (except the United States) levy Value-Added Taxes (VAT) at relatively high rates.

The next significant source of tax revenue is social insurance taxes at 26.2 percent of revenue on average. Individual income taxes accounted for 23.9 percent of total revenue across the OECD. The smallest shares of revenue were from corporate income taxes (9.2 percent) and property taxes (5.7 percent).

OECD Revenue Sources, 2017 Compared to 1990

FIGURE 2.

OECD Tax Revenue Sources, 2017 and 1990



Note: The OECD included 24 countries in 1990 and 36 countries in 2018. Therefore, the average revenue sources in 2017 are based on more countries than the average sources in 1990.
Source: "OECD Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

When comparing average 2017 and 1990 OECD tax revenue sources, the most notable change is a decrease in individual income taxes versus increases in social insurance and consumption taxes. Revenue sources from corporate income taxes have also increased compared to 1990 (despite declining corporate income tax rates[3]). The relative importance of property taxes as a source of revenue has stayed constant.

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2 OECD, "Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

3 Daniel Bunn and Elke Asen, "Higher Corporate Tax Revenues Globally Despite Lower Tax Rates," Tax Foundation, Jan. 22, 2019, https://taxfoundation.org/higher-corporate-tax-revenues-lower-tax-rates/.

Sources of Tax Revenue

Consumption Taxes

Consumption taxes are taxes on goods and services. These are in the form of excise taxes, Value-Added Taxes (VAT), or retail sales taxes. Most OECD countries levy consumption taxes through VATs and excise taxes. The United States is the only country in the OECD with no VAT. Instead, most U.S. state governments and many local 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.[4]

In 2017, Chile relied the most on taxes on goods and services, raising approximately 54.8 percent of its total tax revenue from these taxes. Chile was followed by Turkey (43.4 percent) and Estonia (42.9 percent) (Table 1, below).

The United States raised the least amount of tax revenue from consumption taxes in the OECD at 15.9 percent in 2017. Japan raised slightly more, at 20.4 percent, followed by Switzerland, at 22.3 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 wage and an employer's payroll.

The Slovak Republic relied the most on social insurance taxes (44.1 percent), followed by the Czech Republic (43 percent) and Lithuania (41.4 percent) (Table 1, below).

Denmark raised the least, at 0.1 percent, because social programs in Denmark are mostly funded from taxes other than dedicated social insurance taxes. 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 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 2017 was Denmark (53.4 percent), followed by Australia (40.8 percent) and the United States (38.6 percent) (Table 1, below).

Chile (9.7 percent), the Slovak Republic (10.3 percent), and the Czech Republic (11.6 percent) relied the least on individual income taxes.

4 Janelle Cammenga, "State and Local Sales Tax Rates, 2019," Tax Foundation, Jan. 30, 2019, https://taxfoundation.org/sales-tax-rates-2019/.

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 21.1 percent of total tax revenue. Mexico (21 percent) and Australia (16.5 percent) also relied heavily on their corporate income tax compared to the OECD average of 9.2 percent (Table 1, below).

In 2017, Estonia (4.7 percent), Slovenia (4.9 percent), and Hungary (4.9 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. Other types of property taxes include estate, gift, and inheritance taxes, and net wealth taxes.

The United States relied the most on property taxes in the OECD (15.4 percent), followed by the United Kingdom (12.6 percent) and Canada (11.9 percent) (Table 1, below).

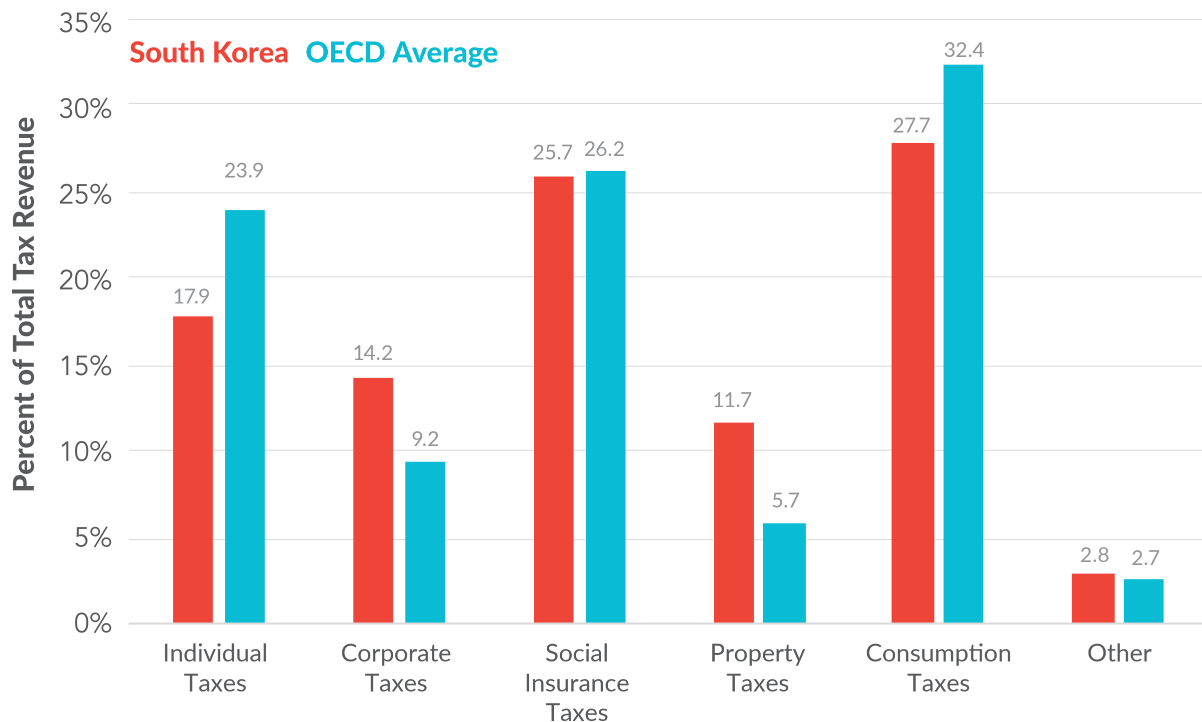
Estonia relied the least on property taxes, raising only 0.7 percent of total revenue. Austria, Lithuania, and the Slovak Republic (all at 1.3 percent) also relied very little on property taxes.

Revenue Sources of Selected Countries Compared to the OECD Average

The OECD averages described above reflect overall tendencies in revenue collections of developed countries. However, many OECD countries deviate from these averages quite substantially, reflecting social and economic differences across countries. The following country profiles illustrate different distributions of tax revenue sources.

FIGURE 3.

Sources of Tax Revenue in South Korea and the OECD, 2017

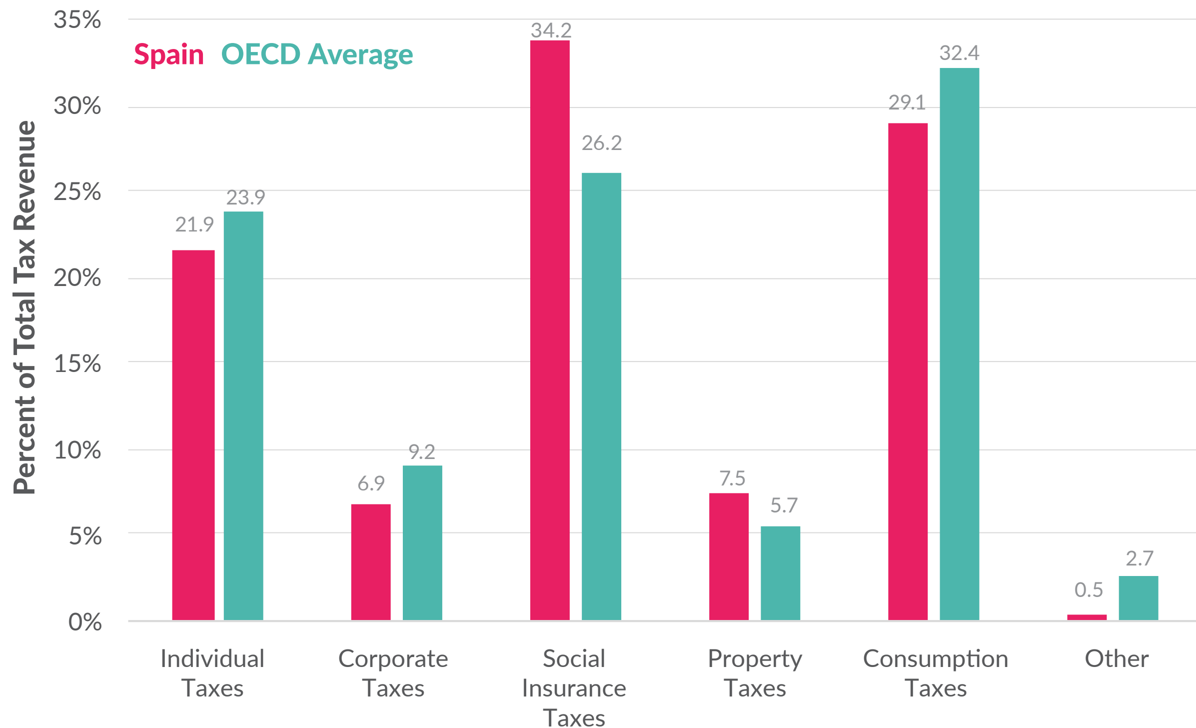


Source: "OECD Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

South Korea relies less on individual income and consumption taxes than the OECD average. Instead, corporate income and property taxes account for a larger share of tax revenue. Social insurance taxes are slightly lower than the OECD average.

FIGURE 4.

Sources of Tax Revenue in Spain and the OECD, 2017

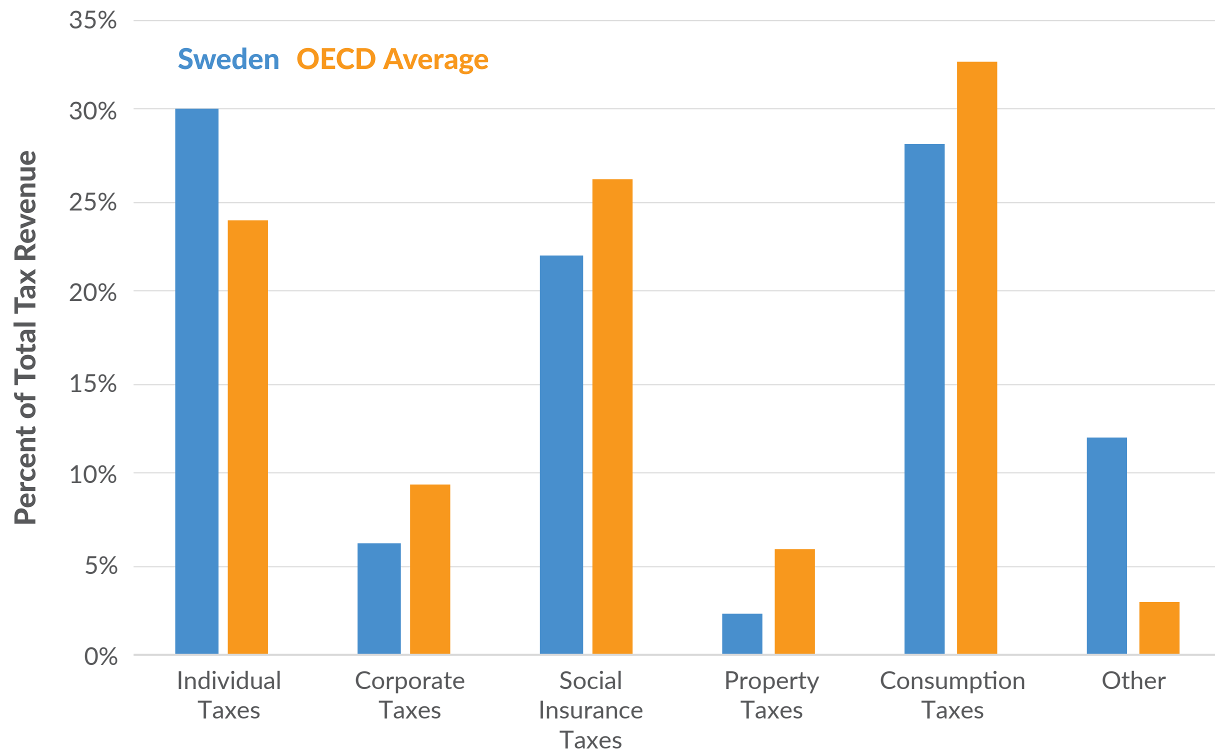


Source: "OECD Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL

In 2017, social insurance taxes accounted for more than one-third of Spain's tax revenue, compared to an OECD average of approximately one-fourth, making it the country's most important revenue source. Spain's share of property tax revenue was also above the OECD average. At the same time, the country relies less on revenue from individual income taxes, corporate income taxes, and consumption taxes.

FIGURE 5.

Sources of Tax Revenue in Sweden and the OECD, 2017



Source: "OECD Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

Sweden, the country with the fourth highest tax burden in 2017 as measured by total tax revenue as a percentage of GDP,[5] also deviates in its revenue source distribution from the OECD average. Sweden's individual income tax revenue share is above the OECD average, and it levies a high payroll tax, which generates 11.9 percent of its tax revenue. Sweden relies less on corporate income taxes, social insurance taxes, property taxes, and consumption taxes.

Conclusion

In general, OECD countries lean more on tax revenue from consumption taxes, social insurance taxes, and individual income taxes than on corporate income taxes and property taxes. Compared to 1990, OECD countries have on average become more reliant on consumption taxes and less reliant on individual income taxes. These policy changes matter, considering that consumption-based taxes raise revenue with less economic damage and distortionary effects than taxes on income.

5 OECD, "Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

TABLE 1.

Source of Tax Revenue, OECD Countries, 2017

	Individual Taxes	Corporate Taxes	Social Insurance Taxes	Property Taxes	Consumption Taxes	Other
Australia (a)	40.8%	16.5%	0.0%	10.8%	27.1%	4.9%
Austria	21.7%	5.9%	34.8%	1.3%	28.2%	8.2%
Belgium	27.2%	9.3%	30.5%	7.9%	24.3%	0.9%
Canada	35.9%	10.6%	14.3%	11.9%	24.0%	3.3%
Chile	9.7%	21.1%	7.3%	5.4%	54.8%	1.8%
Czech Republic	11.6%	10.6%	43.0%	1.4%	32.9%	0.5%
Denmark	53.4%	6.6%	0.1%	4.0%	31.9%	4.1%
Estonia	17.3%	4.7%	33.9%	0.7%	42.9%	0.5%
Finland	29.1%	6.3%	27.9%	3.6%	32.8%	0.2%
France	18.5%	5.1%	36.4%	9.5%	24.4%	6.1%
Germany	27.2%	5.4%	37.9%	2.7%	26.2%	0.6%
Greece (b)	15.4%	5.7%	29.6%	8.1%	39.1%	2.1%
Hungary	13.3%	4.9%	33.9%	2.8%	42.5%	2.5%
Iceland	38.5%	7.4%	9.3%	5.4%	33.3%	6.1%
Ireland	31.4%	12.2%	17.0%	5.6%	32.5%	1.2%
Israel	20.7%	10.1%	16.2%	10.0%	34.7%	8.4%
Italy	25.7%	5.0%	30.4%	6.0%	28.4%	4.4%
Japan (a)	18.6%	12.0%	40.4%	8.3%	20.4%	0.3%
Korea	17.9%	14.2%	25.7%	11.7%	27.7%	2.8%
Latvia	21.8%	5.2%	27.7%	3.3%	41.4%	0.6%
Lithuania	13.0%	5.1%	41.4%	1.3%	38.5%	0.8%
Luxembourg	23.6%	13.6%	28.6%	9.6%	24.3%	0.3%
Mexico (a)	20.4%	21.0%	13.0%	1.9%	38.8%	5.0%
Netherlands	21.6%	8.5%	35.7%	4.0%	29.1%	1.1%
New Zealand	37.7%	14.7%	0.0%	6.0%	38.4%	3.2%
Norway	26.3%	12.0%	27.1%	3.3%	31.1%	0.1%
Poland	14.7%	5.7%	37.9%	3.6%	34.4%	3.7%
Portugal	18.8%	9.4%	26.8%	4.0%	39.8%	1.2%
Slovak Republic	10.3%	9.8%	44.1%	1.3%	33.4%	1.1%
Slovenia	14.2%	4.9%	40.0%	1.8%	38.6%	0.5%
Spain	21.9%	6.9%	34.2%	7.5%	29.1%	0.5%
Sweden	29.9%	6.0%	22.0%	2.2%	28.0%	11.9%
Switzerland	30.7%	11.5%	23.6%	7.1%	22.3%	4.8%
Turkey	14.5%	6.8%	29.3%	4.5%	43.4%	1.3%
United Kingdom	27.4%	8.5%	19.2%	12.6%	31.5%	0.8%
United States	38.6%	7.1%	23.1%	15.4%	15.9%	0.0%
OECD Simple Average	23.9%	9.2%	26.2%	5.7%	32.4%	2.7%

(a) Data for Australia, Japan, and Mexico is from 2016 because 2017 data was not available yet.
(b) For Greece, only the aggregate *Taxes on Income, Profits and Capital Gains* was available for the year 2017. To split this aggregate into the three subcategories—*Individual Income Taxes, Corporate Income Taxes and Other Income Taxes*—each subcategory's average share of the three years prior (2014-2016) was used to weigh it.
Source: "OECD Global Revenue Statistics Database," https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.