TAX FOUNDATION
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FISCAL FACT
Nov. 2014
No. 443

Sources of Government Revenue in the OECD, 2014

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Key Findings

- OECD countries rely heavily on consumption taxes, such as the value added tax, and social insurance taxes, such as the payroll tax.
- The United States relies heavily on the individual income tax, at 37 percent of total government revenue.
- On average, OECD countries collect little from the corporation income tax (8 percent of total government revenue).

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.

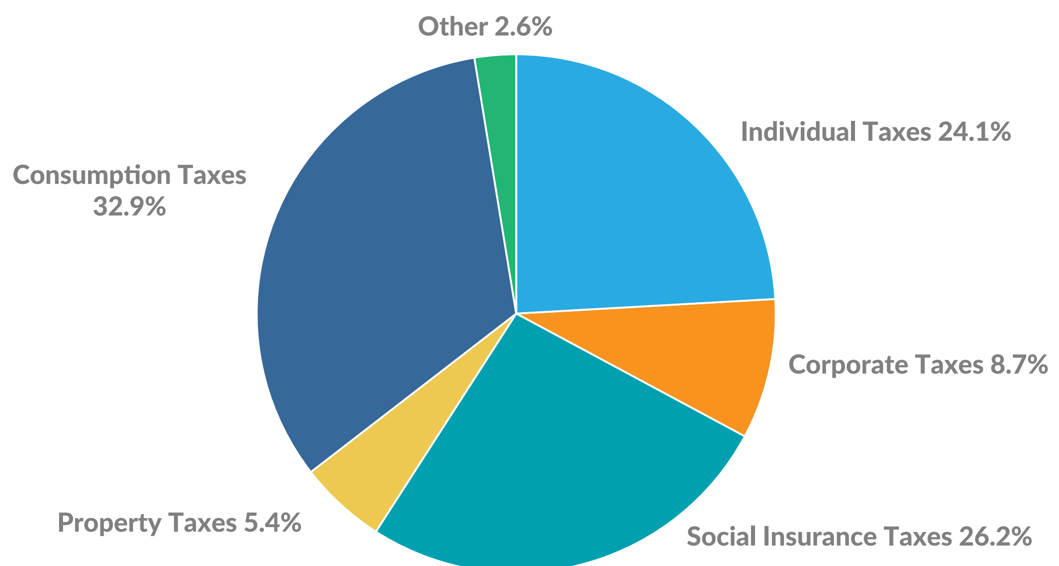
A country may decide to have a lower corporate income tax to attract investment (as many have),[1] which may reduce their reliance on corporate income tax revenue and increase reliance on social insurance taxes or consumption taxes. For example, Estonia only raises 3.8 percent of total revenue from corporate income taxes but makes it up by raising a combined 77.5 percent of total revenue from social insurance taxes and consumption taxes.

Countries may also be situated on natural resources that allow them 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)[2] income tax and thus raises a significant amount of corporate income tax revenue.

These policy and economic differences between OECD countries have created differences in how they raise tax revenue.

OECD Countries Raise the Most Revenue from Consumption Taxes and Social Insurance Taxes

Chart 1. OECD Average Sources of Tax Revenue, 2011



Source: OECD.StatExtracts.

1 From 1982 to 2014, the average top marginal corporate income tax rate in the OECD has declined from around 48 percent to around 25 percent. *See OECD Tax Database, Table II.1,* http://www.oecd.org/ctp/tax-policy/Table%20II.1-May-2014.xlsx.

2 Ernst & Young, *2014 Global oil and gas tax guide,* http://www.ey.com/GL/en/Services/Tax/Global-oil-and-gas-tax-guide---Country-list.

According to the most recent data from the OECD (2011),[3] consumption taxes are the largest source of tax revenue for OECD countries. On average, countries raise approximately 33 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 26 percent of total revenue from social insurance taxes.

Individual income taxes accounted for 24 percent of total revenue across the OECD. Corporate income taxes accounted for only 9 percent of total revenue. Property taxes raised the least across the OECD, accounting for only 5 percent of total revenue.

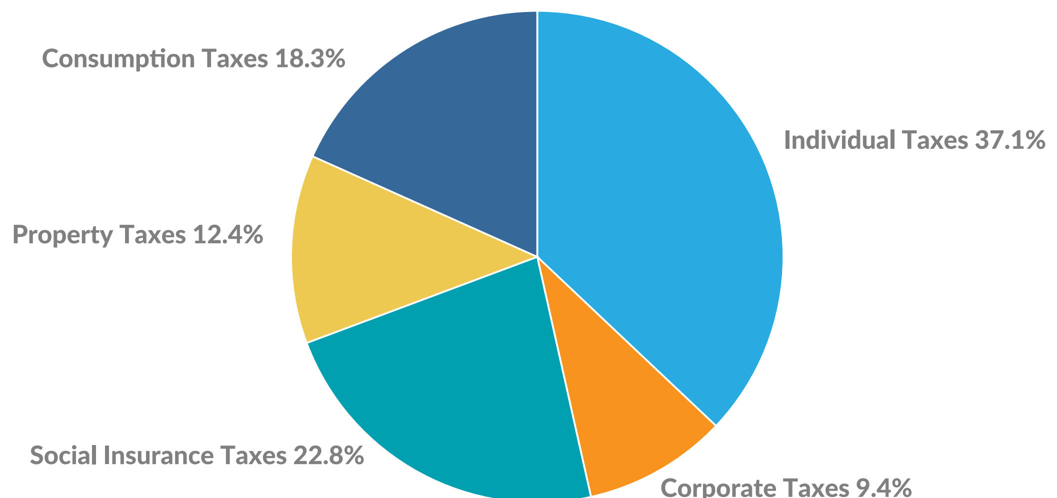
The remaining 3 percent include stamp taxes and certain taxes on goods and services.

The United States Relies Heavily on Individual Income Taxes

The United States relies the most on individual income taxes. According to OECD data, the United States (federal, state, and local combined) raised approximately 37 percent of all tax revenue from individual income taxes, compared to the 24.1 percent among all OECD countries.

Social insurance taxes make up the second largest source of government revenue in the United States at 23 percent of total.

Chart 2. Sources of Tax Revenue in the United States (Federal, State, and Local), 2011



Source: OECD.StatExtracts.

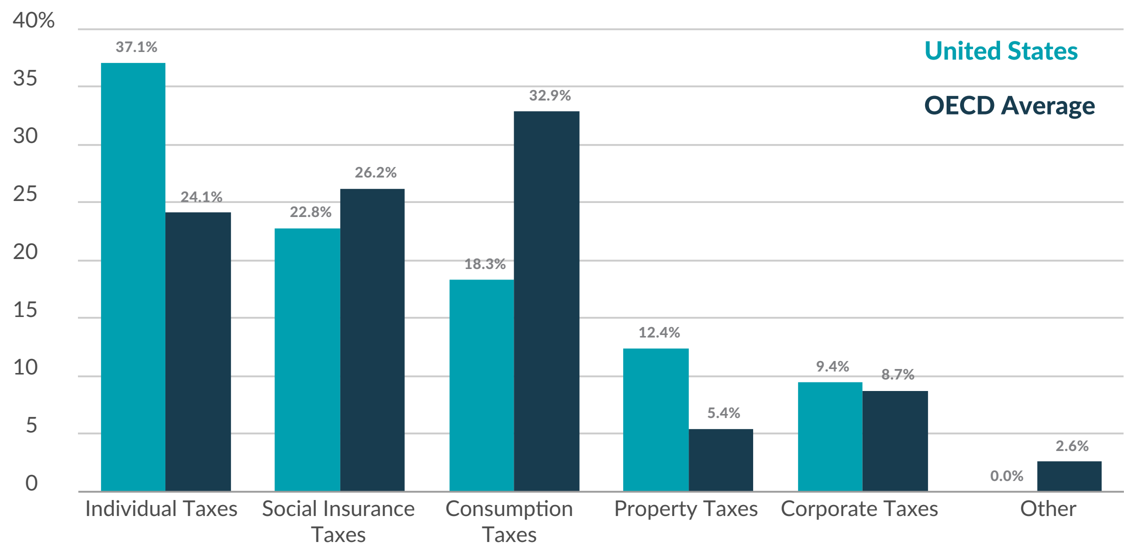
3 Organization for Economic Cooperation and Development, OECD.StatExtracts, *OECD 2014*, http://stats.oecd.org/.

The United States relies much less on taxes on goods and services than other OECD countries. In 2011, the United States raised 18 percent of its total tax revenue from taxes on goods and services, compared to the 33 percent average among OECD countries.

The smallest source of tax revenue is the corporate income tax. Federal, state, and local governments collected approximately 10 percent of total tax revenue from corporate income in 2011. This is slightly higher than the OECD average of 9 percent.

Chart 3. The U.S. Relies More on Individual Income Taxes Than the Rest of the OECD

Share of Tax Revenue as a Percent of Total, U.S. and OECD Average, 2011



Source: OECD.StatExtracts.

Taxes on Goods and Services

Consumption taxes are taxes on goods and services. These can take the form of excise taxes, value added taxes (VATs), and 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 state governments apply a retail sales tax on the final sale of a product and excise taxes on the production of goods such as cigarettes and alcohol.

Mexico relies the most on taxes on goods and services, raising approximately 54 percent of their total tax revenue from these taxes. Mexico is followed by Chile (49.3 percent) and Turkey (45.2 percent). (See Table 1, below.)

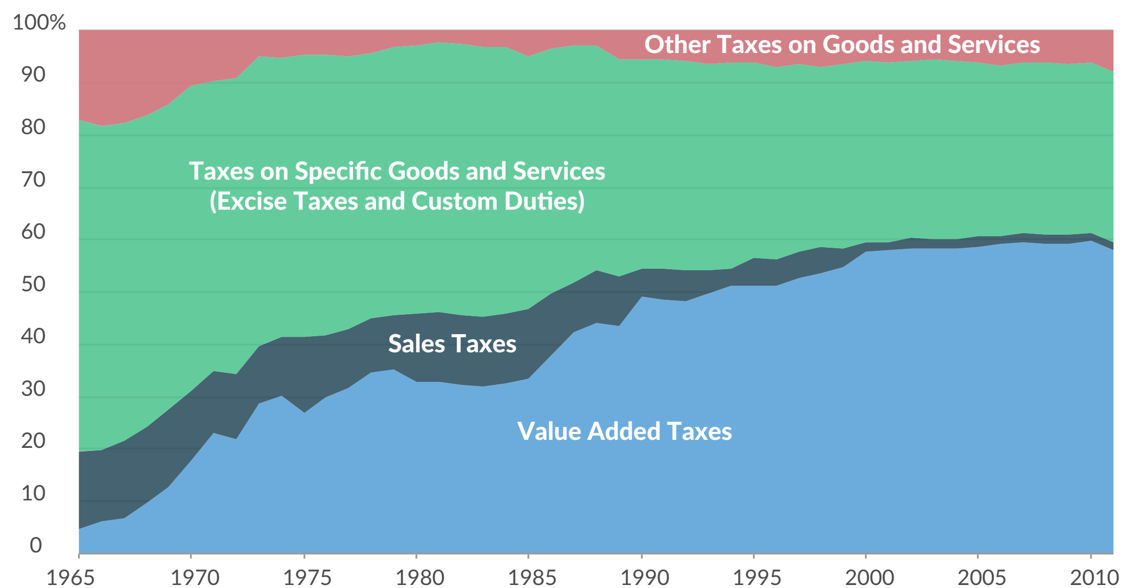
The United States raises the least amount of tax revenue from consumption taxes as a share of total revenue in the OECD at 18.3 percent. Japan raises slightly more at 18.4 percent, followed by Switzerland at 22.3 percent.

The Growth of the Value Added Tax

The structure of consumption taxes in the OECD has drastically changed over time. In 1965 (the earliest year of data available), 78 percent of all revenue from consumption taxes were from excise taxes, customs duties, and sales taxes. No country had a truly broad-based value added tax.[4] Only France levied a VAT on a limited basis. The OECD on average only raised approximately 4.6 percent of total consumption tax revenue from the VAT.

In the 1970s and 1980s, countries started replacing sales taxes, excise taxes, and custom duties with the VAT, which was seen as an improvement due to its export neutrality and exemption of business-to-business transactions.[5] As countries throughout Europe[6] and the rest of the OECD adopted the VAT, reliance on its revenue steadily grew. By 2011, it accounted for 49.7 percent of total consumption tax revenue across the OECD. In contrast, tax revenue from excise taxes and customs duties declined to 27 percent of total consumption tax revenues.

Chart 4. Structure of Consumption Taxes, OECD, 1965–2014



Source: OECD.StatExtracts.

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

4 Kathryn James, *Exploring the Origins and Global Rise of VAT,* Tax Analysts (2011), http://www.taxanalysts.com/www/freefiles.nsf/Files/JAMES-2.pdf/$file/JAMES-2.pdf.

5 *Id.*

6 Adoption of a value added tax is a condition for accession to the European Union.

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 relies the most on social insurance taxes (44.1 percent of total revenue), followed by the Slovak Republic (42.7 percent) and Japan (41.4 percent). (See Table 1, below.)

Chile, where social security is largely privatized, raises the least at 6.3 percent. Australia and New Zealand are the only two 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, typically wage income. Many countries, such as the United States, also levy their individual income tax on investment income, such as capital gains and dividends, placing a double tax on corporate income. These taxes are typical levied in a progressive manner, meaning that an individual's average tax rate increases as their income increases. Denmark relies the most on individual income taxes and raises about 50 percent of all revenue from them. The country with the next highest reliance on individual income taxes is Australia (39.3 percent), followed by Iceland (37.6 percent). (See Table 1, below.)

The Slovak Republic (8.8 percent), Czech Republic (10.7 percent), and Hungary (13.2 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, which affects the amount of revenue these countries raise. Generally, the corporate income tax raises little revenue compared to other sources. Norway relies the most on their corporate income tax at 25.2 percent of total tax revenue. Australia (19.2 percent) and Korea (15.5 percent) also rely heavily on their corporate income tax compared to the OECD average of 9 percent. (See Table 1, below.)

Hungary (3.3 percent), Estonia (3.8 percent), and Slovenia (4.6 percent) rely 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, whether that property is tangible or intangible. In the United States, property taxes are most typically

levied on real estate, cars, and boats by state and local governments. Other types of property taxes include estate, gift, and inheritance taxes and net wealth taxes. The United States relies the most on property taxes (12.4 percent), followed by the United Kingdom (11.6 percent) and Korea (11.4 percent). (See Table 1, below.)

Estonia relies the least on property taxes, raising only 1 percent of its total revenue with them. Austria (1.2 percent of total revenue) and the Slovak Republic (1.4 percent of total revenue) also rely very little on property taxes.

Conclusion

In general, most OECD countries lean more on tax revenue from social insurance taxes and consumption taxes than other types of taxes. The United States, in contrast, relies more on individual income taxes while raising relatively little from consumption taxes. This policy difference matters when you consider that consumption taxes raise revenue with less economic damage than individual income taxes.

Table 1. Source of Tax Revenue by OECD Country, 2011

Country	Individual Income Taxes	Corporate Income Taxes	Social Insurance Taxes	Property Taxes	Consumption Taxes	Other
Australia	39.3%	19.7%	0.0%	8.6%	27.1%	5.2%
Austria	22.4%	5.2%	34.4%	1.2%	27.8%	9.0%
Belgium	28.3%	6.6%	32.2%	7.3%	24.7%	0.9%
Canada	35.7%	10.3%	15.3%	10.9%	24.5%	3.3%
Chile	40.1% (1)		6.3%	4.0%	49.3%	0.3%
Czech Republic	10.7%	9.7%	44.1%	1.5%	33.4%	0.6%
Denmark	50.7%	5.8%	2.1%	4.1%	32.0%	5.3%
Estonia	16.2%	3.8%	37.0%	1.0%	41.5%	0.5%
Finland	29.3%	6.3%	28.9%	2.6%	32.6%	0.4%
France	17.0%	5.7%	37.9%	8.5%	24.8%	6.1%
Germany	24.8%	4.7%	38.5%	2.4%	29.1%	0.5%
Greece	14.8%	6.5%	33.0%	5.5%	39.4%	0.8%
Hungary	13.2%	3.3%	34.9%	3.1%	42.9%	2.6%
Iceland	37.6%	5.0%	11.4%	6.7%	34.7%	4.5%
Ireland	32.1%	8.9%	16.6%	6.8%	34.3%	1.3%
Israel	18.1%	9.5%	17.2%	9.5%	39.6%	6.1%
Italy	26.8%	6.3%	31.2%	5.2%	26.1%	4.3%
Japan	18.4%	11.8%	41.4%	9.7%	18.4%	0.3%
Korea	14.8%	15.5%	23.5%	11.4%	31.4%	3.4%
Luxembourg	22.4%	13.6%	29.6%	7.1%	27.0%	0.2%
Mexico	27.3% (1)		14.5%	1.5%	54.1%	2.6%
Netherlands	21.4%	5.4%	38.4%	3.3%	30.0%	1.4%
New Zealand	36.9%	12.9%	0.0%	6.6%	39.8%	3.8%
Norway	23.2%	25.2%	22.3%	2.9%	26.5%	0.0%
Poland	13.8%	6.4%	35.4%	3.7%	39.2%	1.5%
Portugal	18.6%	9.8%	28.2%	3.2%	39.2%	1.0%
Slovak Republic	8.8%	8.4%	42.7%	1.4%	37.2%	1.5%
Slovenia	15.4%	4.6%	40.4%	1.6%	37.4%	0.7%
Spain	22.4%	5.7%	37.5%	6.0%	26.2%	2.3%
Sweden	27.7%	7.3%	22.9%	2.4%	29.3%	10.4%
Switzerland	31.3%	10.3%	24.5%	7.1%	22.3%	4.5%
Turkey	13.5%	7.5%	27.9%	4.1%	45.2%	1.8%
United Kingdom	28.2%	8.6%	18.7%	11.6%	32.3%	0.6%
United States	37.1%	9.4%	22.8%	12.4%	18.3%	0.0%

(1) OECD does not distinguish between subcategories.

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

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