

## Taxing Wages - Denmark

### Tax on labour income

The **tax wedge** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

#### TAX WEDGE ON LABOUR INCOME

$$\frac{((\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits})}{(\text{Total labour costs (gross wages} + \text{employer SSCs)})}$$

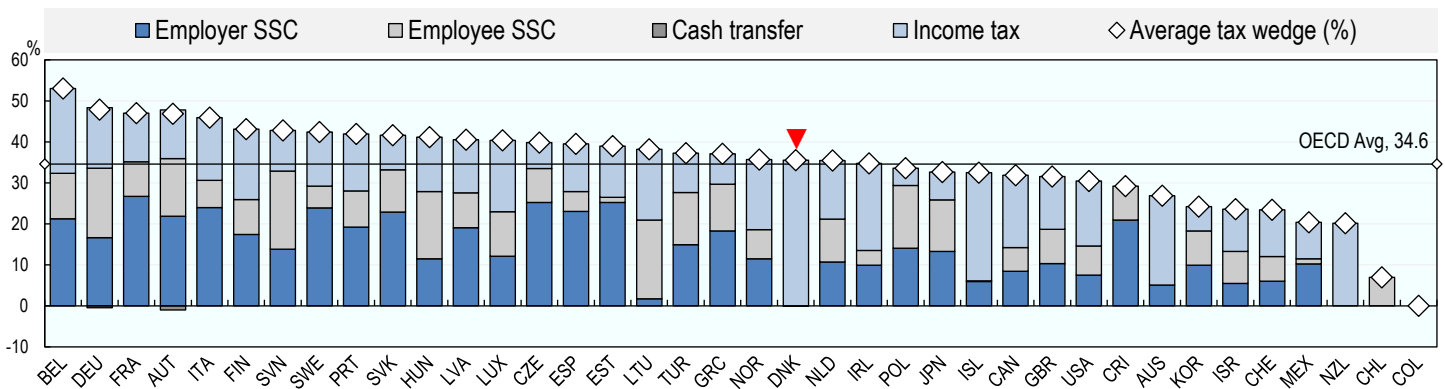
### Single worker

The tax wedge for the average single worker in Denmark increased by 0.1 percentage points from 35.4% in 2021 to 35.5% in 2022.

- » The OECD average tax wedge in 2022 was 34.6% (2021, 34.6%). In 2022, Denmark had the 21st highest tax wedge among the 38 OECD member countries, occupying the same position in 2021.

- » In Denmark, income tax accounts for 100% of the total tax wedge, compared with 38% of the OECD average tax wedge. In Denmark employees do not pay social security contributions, but they do contribute to a Labour Market Supplementary Pension scheme.

#### Average tax wedge: average single worker, no children

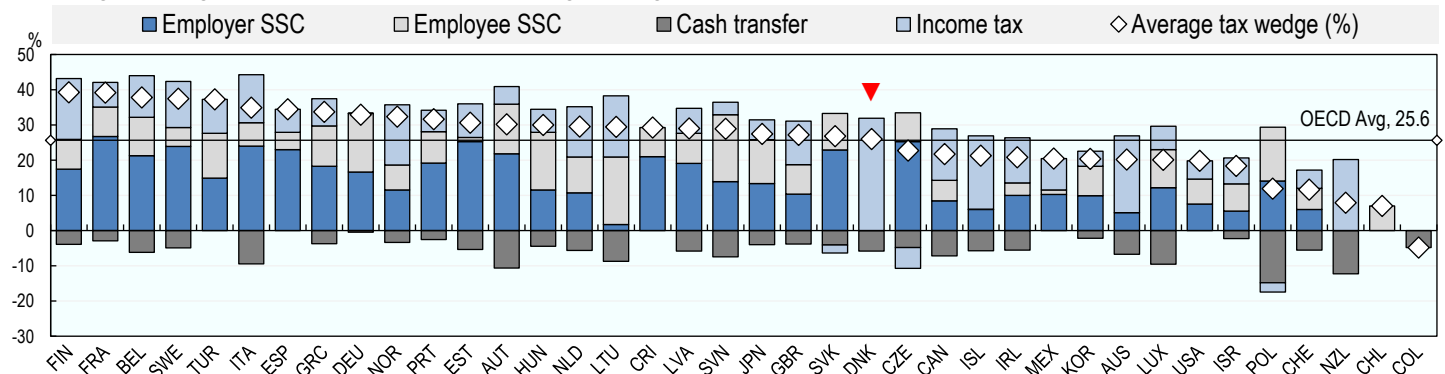


### One-earner married couple with two children

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since most OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

- » Denmark had the 23rd highest tax wedge in the OECD for an average married worker with two children at 26.0% in 2022, which compares with the OECD average of 25.6%. The country occupied the 22nd highest position in 2021.
- » Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Denmark in 2022, this reduction (9.5 percentage points) was greater than the OECD average (8.9 percentage points).

#### Average tax wedge: One-earner married couple at average earnings, 2 children

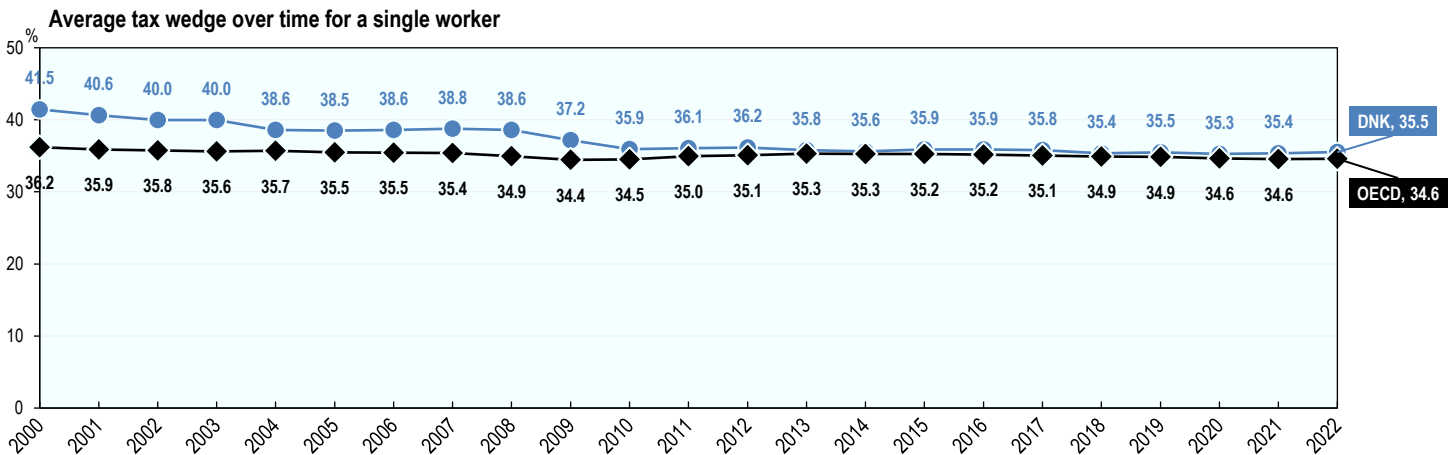




## Tax wedge trends between 2000 and 2022

» In Denmark, the tax wedge for the average single worker decreased by 6 percentage points from 41.5% to 35.5% between 2000 and 2022. During the same period, the average tax wedge across the OECD decreased by 1.6 percentage points from 36.2% to 34.6%.

» Between 2009 and 2022, the tax wedge for the average single worker decreased by 1.7 percentage points in Denmark. During this same period, the tax wedge for the average single worker across the OECD increased slowly to 35.3% in 2013 and 2014 before decreasing back to 34.6% in 2022.



## Employee tax on labour income

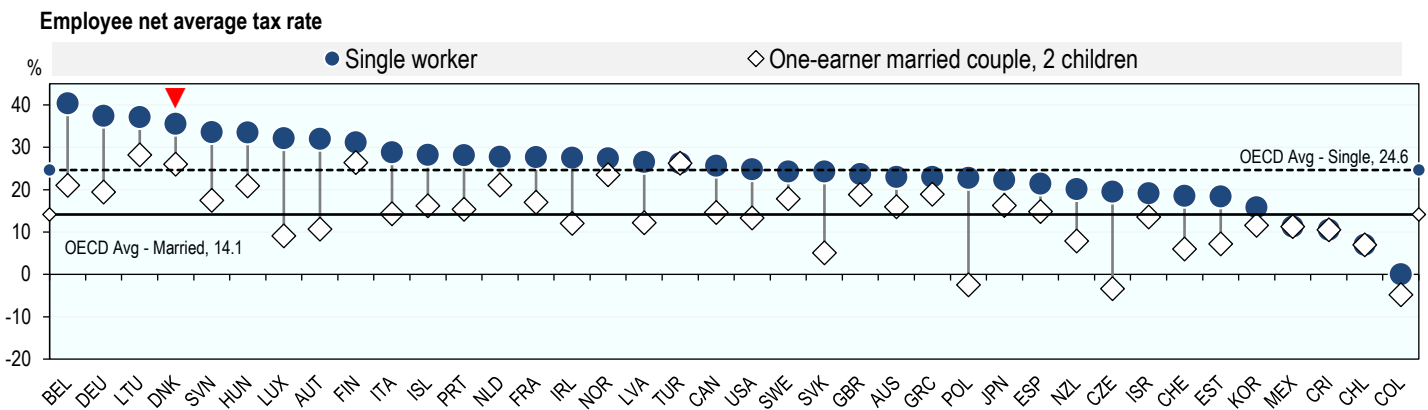
The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

### EMPLOYEE NET AVERAGE TAX RATE

$$\frac{(\text{Employee personal income tax and employee social security contributions}) - \text{Family Benefits}}{\text{Gross wages}}$$

» In Denmark, the average single worker faced a net average tax rate of 35.5% in 2022, compared with the OECD average of 24.6%. In other words, in Denmark the take-home pay of an average single worker, after tax and benefits, was 64.5% of their gross wage, compared with the OECD average of 75.4%.

» Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Denmark was 26.0% in 2022, which is the 4th highest in the OECD, and compares with 14.1% for the OECD average. This means that an average married worker with two children in Denmark had a take-home pay, after tax and family benefits, of 74.0% of their gross wage, compared to 85.9% for the OECD average.



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