

PRIME MINISTER

Taxation: International Comparisons

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You will recall that I showed you some figures on the comparative rates of taxation in the major industrial countries which indicated that the United Kingdom had had the lowest threshold (apart from Sweden) and the highest initial rate (again apart from Sweden). I attach a table which sets out fairly clearly the total tax burden in each major country and the break-down in those countries as between personal taxation, corporate taxation, expenditure taxation and social security contributions. The main points are as follows:-

Personal Taxation

In 1982 in the United Kingdom taxes on personal income were 11.2% of GDP. This was at the higher end of the spectrum (although surprisingly, below the United States). Countries with a personal tax burden substantially less than the UK were Italy (7.7%), Japan (6.9%) and France (5.6%).

Corporate Taxation

Japan surprisingly had the highest burden of corporate taxation in 1982 at 5.4%. The UK was second at 3.8% and Sweden perhaps again surprisingly is lowest at 1.7%. I imagine that the UK figure will be coming down over the next two or three years as the progressive reform of company taxation announced in the Budget takes effect.

Expenditure Taxation

In 1982 France was highest at 13%, offsetting their low burden of personal taxation. The UK was in a group of countries between 10% and 12%. Italy (6.6%), the USA (5.3%) and Japan (4.2%) were all significantly below the UK.

Taxes on Capital

In this category the UK was highest by a very clear margin at 5% of GDP. Of the other countries in the sample only the United States at 3.1% was above half of the UK figure. Germany and Italy at 1.2% were less than a quarter of the UK figure.

Payroll Taxes on Social Security Contributions

It is difficult to draw conclusions from these figures since they put together straight taxation and contributions. The United Kingdom figure at 8% of GDP (with 4.9% coming from employers' contributions) was the lowest in the sample but similar to the Japanese and American figure. Other countries in the Community were very much higher (over double in the case of France, Italy and the Netherlands).

Total Burden of Tax and Social Security Contributions

There were two countries (Japan and the United States) with tax and contribution burdens substantially below one-third. Both were about 10% below the UK figure of 39.6% of the other countries in the sample. Most were at or slightly above the UK figure.

It is difficult to draw clear conclusions from this other than that the countries with the most successful records of creating jobs are the two countries with a very low burden of tax, Japan and the United States. The Netherlands which has a much higher unemployment rate than the United Kingdom is also one of the countries with the highest tax burden. In comparing the European experience of job creation with that of Japan and the United States the fact that the European countries are broadly similar in the total burden of tax which they impose (whatever its distribution between direct and indirect) and 10% higher at least than Japan and the United States is clearly relevant.

Taxes as a percentage of GDP: breakdown by type of tax

	Taxes on personal incomes	Taxes on corporate income*	Total	Taxes on <u>Expenditure</u> (of which VAT)	Taxes on capital+	<u>Payroll taxes and social Security contributions</u> Total (of which employer's)	Other	Total Taxes and social security contributions	
1982									
France	5.6	2.2	13.0	(9.3)	1.6	19.9	(13.6)	1.4	43.7
Germany	10.8	1.9	9.9	(6.1)	1.2	13.5	(7.2)	-	37.3
Italy	9.7	3.2	6.6	(5.6)	1.2	18.8	(14.8)	0.4	39.9
Japan	6.9	5.4	4.2	(-)	2.4	8.3	(4.2)	-	27.2
Netherlands	10.9	3.1	10.8	(6.8)	1.6	18.9	(8.0)	0.2	45.5
Sweden	20.5	1.7	12.2	(6.6)	0.5	15.3	(14.8)	0.1	50.3
United Kingdom	11.2	3.8	11.5	(5.3)	5.0	8.0	(4.9)	0.1	39.6
United States	11.5	2.1	5.3	(-)	3.1	8.4	(4.9)	0.1	30.5
1983 ^a									
France	6.1	1.9	12.8	(9.1)	1.6	20.3	(13.8)	1.4	44.1
Germany	10.5	2.0	10.2	(6.4)	1.3	13.3	(7.1)	0.0	37.2
Italy	-	-	-	(-)	-	-	(-)	-	-
Japan	-	-	-	(-)	-	-	(-)	-	-
Netherlands	10.2	2.8	11.1	(7.0)	1.6	21.2	(9.0)	0.1	47.0
Sweden	19.7	1.7	12.5	(6.9)	0.7	16.1	(15.5)	0.5	50.7
United Kingdom	10.5	4.1	11.2	(5.2)	5.0	7.5	(4.0)	-	38.3
United States	-	-	-	(-)	-	-	(-)	-	-

* includes North Sea taxes in the case of the UK

+ includes rates

^a provisional estimates. Data for Italy, Japan and USA not available.

Source: OECD Revenue Statistics 1984. Figures are for tax receipts.