Taxing Wages - Australia

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.

\[
\text{TAX WEDGE ON LABOUR INCOME} = \frac{(\text{Personal income tax} + \text{employee and employer social security contributions (SSCs)}) - \text{Family Benefits}}{(\text{Total labour costs (gross wages} + \text{employer SSCs)})}
\]

Single worker

The tax wedge for the average single worker in Australia increased by 2.2 percentage points from 27.0% in 2022 to 29.2% in 2023.

In Australia, income tax and employer payroll taxes (which are included as employer social security contributions) combine to account for the entire tax wedge, compared with 77% of the OECD average tax wedge. In Australia, employees are not required to pay social security contributions.

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.

Australia had the 24th lowest tax wedge in the OECD for an average married worker with two children at 22.7% in 2023, which compares with the OECD average of 25.7%. The country occupied the 28th lowest position in 2022.

Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Australia in 2023, this reduction (6.5 percentage points) was less than the OECD average (9.1 percentage points).
Tax wedge trends between 2000 and 2023

In Australia, the tax wedge for the average single worker decreased by 1.8 percentage points from 31.0% to 29.2% between 2000 and 2023. During the same period, the average tax wedge across the OECD decreased by 1.4 percentage points from 36.2% to 34.8%.

Between 2009 and 2023, the tax wedge for the average single worker increased by 2.5 percentage points in Australia. 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 34.8% in 2023.

Average tax wedge over time for a single worker

Employee tax on labour income

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This means that an average married worker with two children in Australia had a take-home pay, after tax and family benefits, of 82.0% of their gross wage, compared to 85.8% for the OECD average.

Employee net average tax rate

In Australia, the Employee net average tax rate for an average single worker was 24.9% in 2023, compared with the OECD average of 24.9%.

In other words, in Australia the take-home pay of an average single worker, after tax and benefits, was 75.1% of their gross wage, compared with the OECD average of 75.1%.

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