THE OECD TAX-BENEFIT MODEL (TaxBEN)

PURPOSE, SCOPE AND USES



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http://oe.cd/TaxBEN

OECD
BETTER POLICIES FOR BETTER LIVES

The OECD tax-benefit model (TaxBEN)

What is it?

- Essentially a **calculator** of tax liabilities and benefit entitlements for a broad set of hypothetical families.
- Users are **free to change** many characteristics of the selected families
- The model incorporates detailed **tax and benefit rules** for more than 40 countries and 22 years.
- Uses a **unified and consistent methodological framework** to calculate taxes and benefits.
  - ✓ Unique tool for **cross-country comparisons** and policy evaluations
  - ✓ **'Official' results**: ministries provide information, validate and 'sign off'
  - ✓ Long history of use by IOs; **acceptance in policy community**
  - ✓ **Long time series**: back to at least 2001 for most countries
  - ✓ **Comparability**, **consistency** across countries and over time
  - ✓ **Versatile and flexible and "light"**; e.g., no need for survey/admin data
  - ✓ **Publicly available**: indicators, policy descriptions, web calculator
  - ✓ **Friendly support** ☺

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TaxBEN: A trusted source of evidence in the policy and research communities

OECD
Employment Outlook, Economic surveys, Policy briefs and reviews, Accession reviews.

European Commission European Semester and CSRs, EC tax-benefit database; EU Pillar of Social rights, flagship publications.

Other IOs: ILO, IMF, UN and WB → Working papers, reports and publications

Academic research
Journal articles and book chapters

National administrations and statistical institutes
Reports and databases

Media
Newspaper, magazines, interviews







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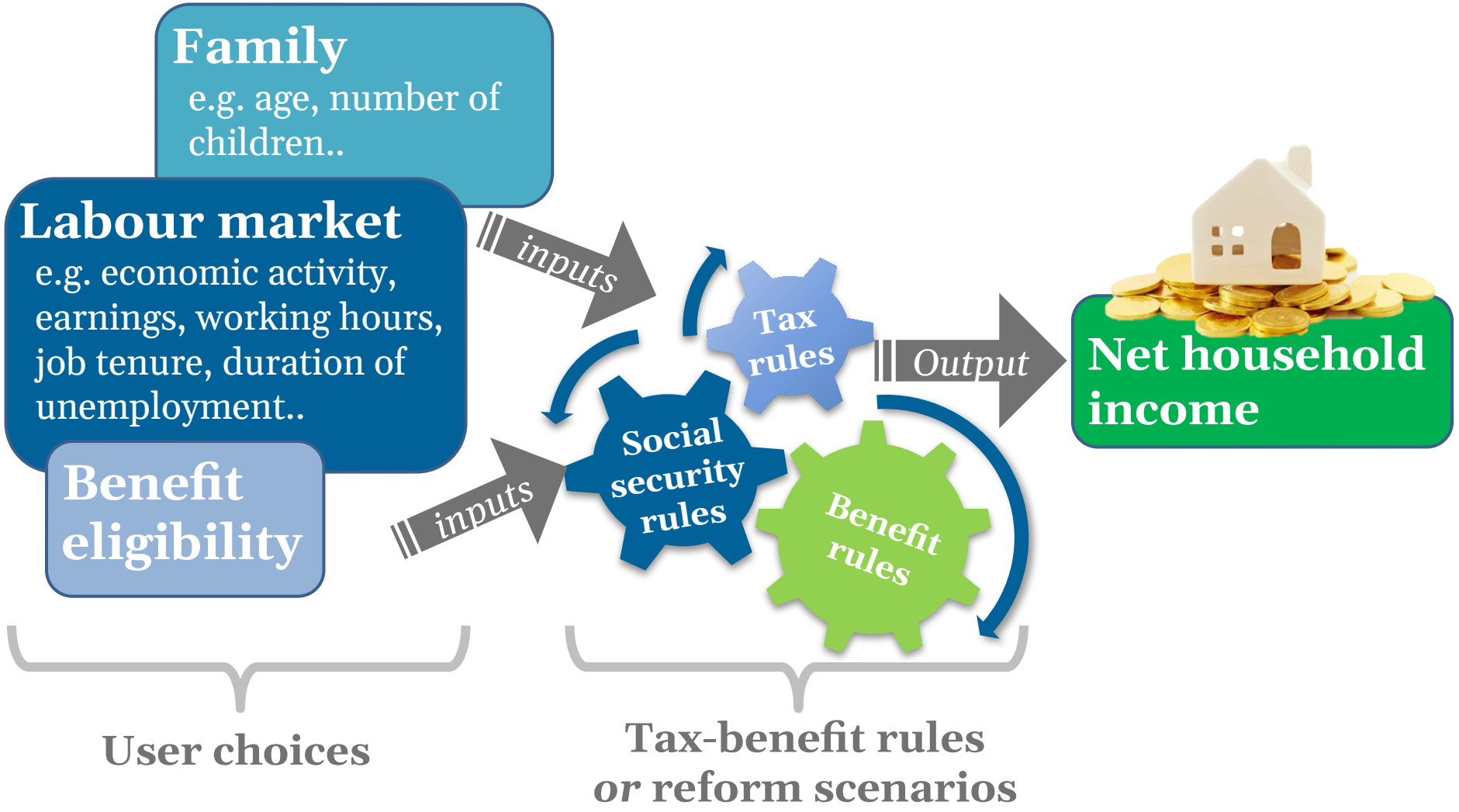
How does TaxBEN work?

TaxBEN calculates taxes and benefits for hypothetical families given a set of characteristics specified by the user



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TaxBEN: highly customised results

Users are **free to change** many characteristics of the selected families, including:

- **Age and number of adults and children** (default: adults are 40 years old while children are aged 4, 6, 8 and 10 - depending on their number)
- Social security **contribution record** (default: 22 years)
- **Housing costs** (default: 20% of the average wage, when applicable)
  - Housing costs include both the rent and any housing-related expenditure
- **Unemployment duration** (default: 2 months)
  - Unemployment duration is calculated at the end of any waiting period (when applicable)
- **Hours of work** (default: 40 hours/week)
- **Earnings levels** (default: Average Wage)
- **Benefit eligibility / take up**

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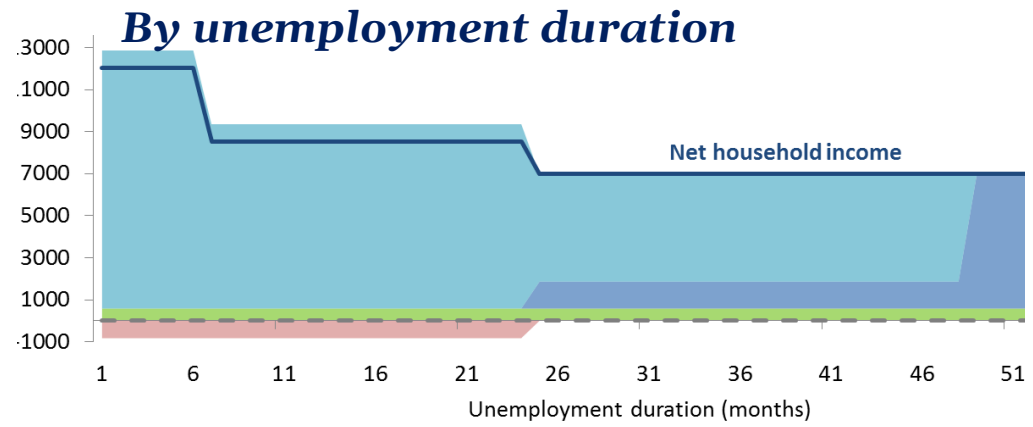
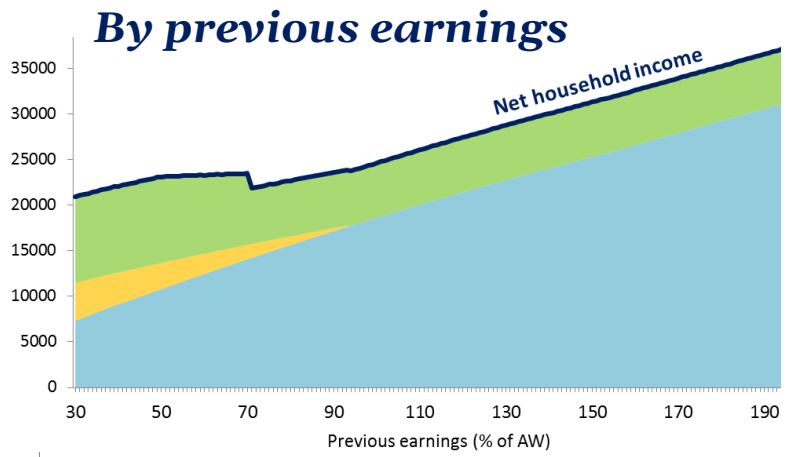
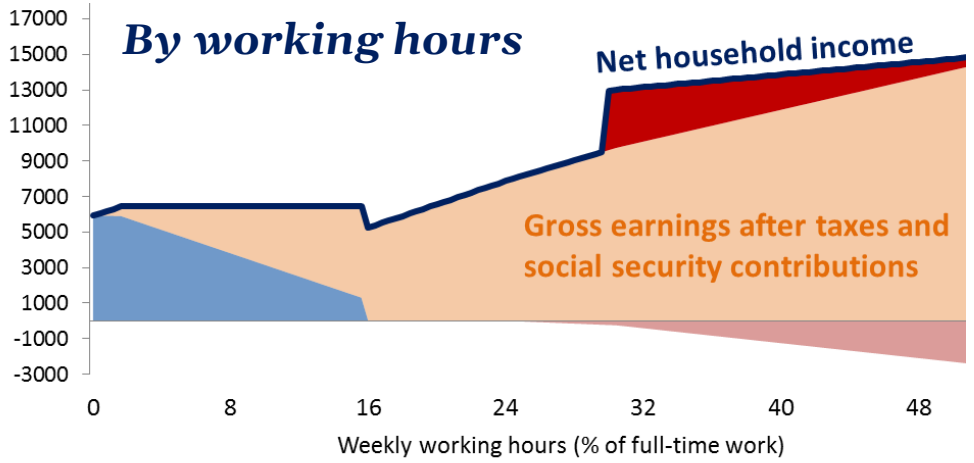
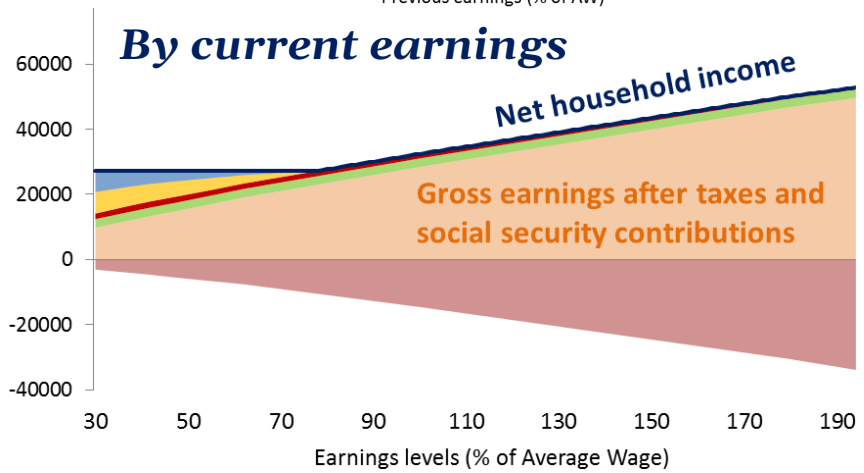
Typical TaxBEN output

→ Net household incomes by selected scenarios





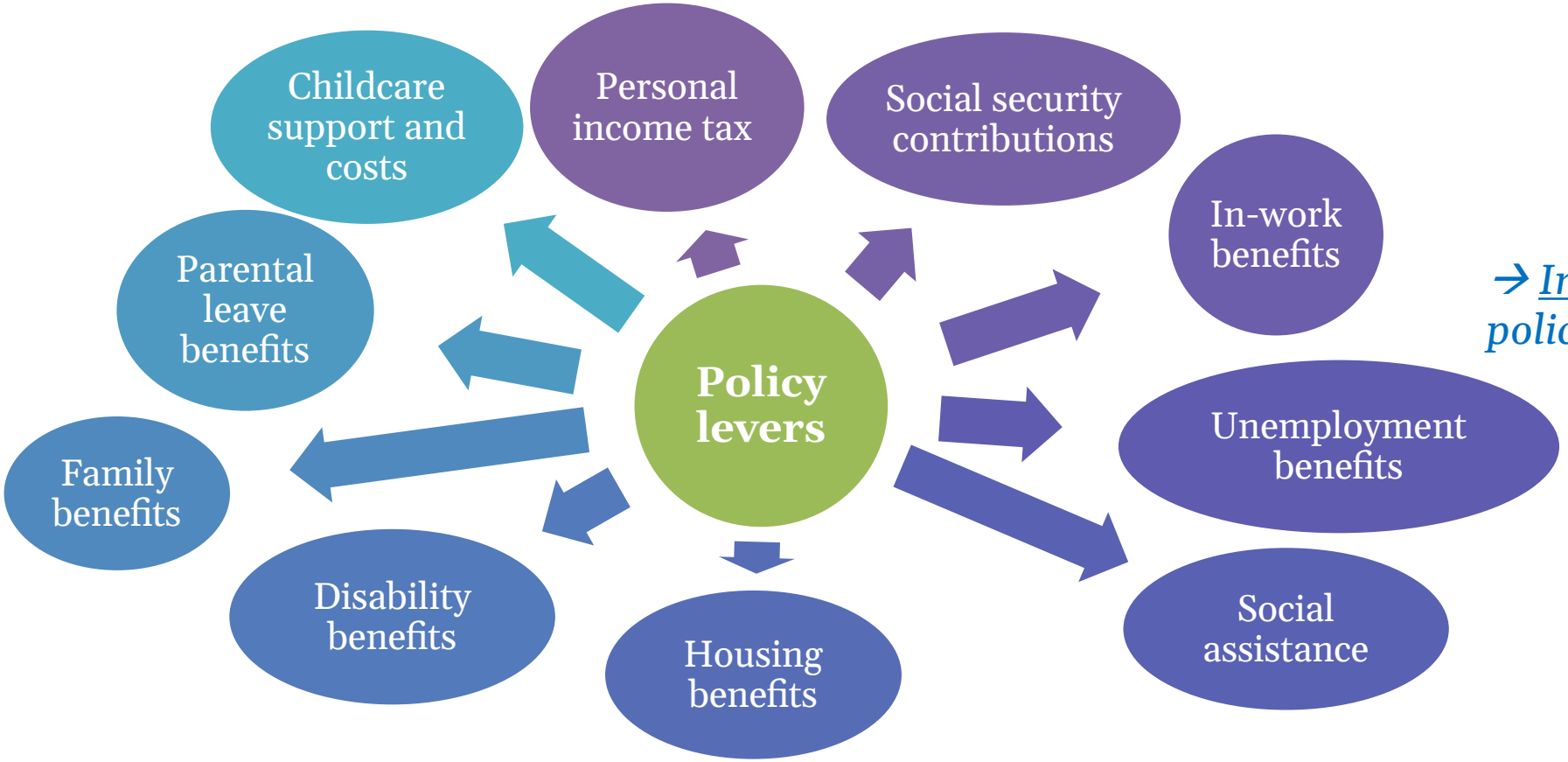




Gross earnings-IT-SSC
Family benefits (FB)
In-work benefits (IW)
Housing benefits (HB)
Social assistance (SA)
Unemployment benefits (UB)
Taxes
Net income
Gross earnings

TaxBEN: Policy scope

- **Broad set of social and fiscal policy levers**



→ *Interactions between policy levers*

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TaxBEN: Purpose

- **Results are useful to address questions like:**
  - Do cash transfers prevent income poverty?
  - Do childcare costs make employment financially unviable?
  - How generous are benefits for jobseekers?
  - What type of benefits do people receive when they are out of work? For how long?
  - What is the *net* income gain from an increase of the statutory minimum wage?
  - Do tax and benefit rules create incentives for the partners of a couple to share work more equally?
  - How has benefit generosity developed over the last years?



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Detailed descriptions of policy rules



- Information provided and validated by national governments and national statistical institutes
- Annual updates
- Clear and comprehensive description of policy rules and interactions
- Explicit links with the TaxBEN model, including selected calculations
- Available online for all available countries and years

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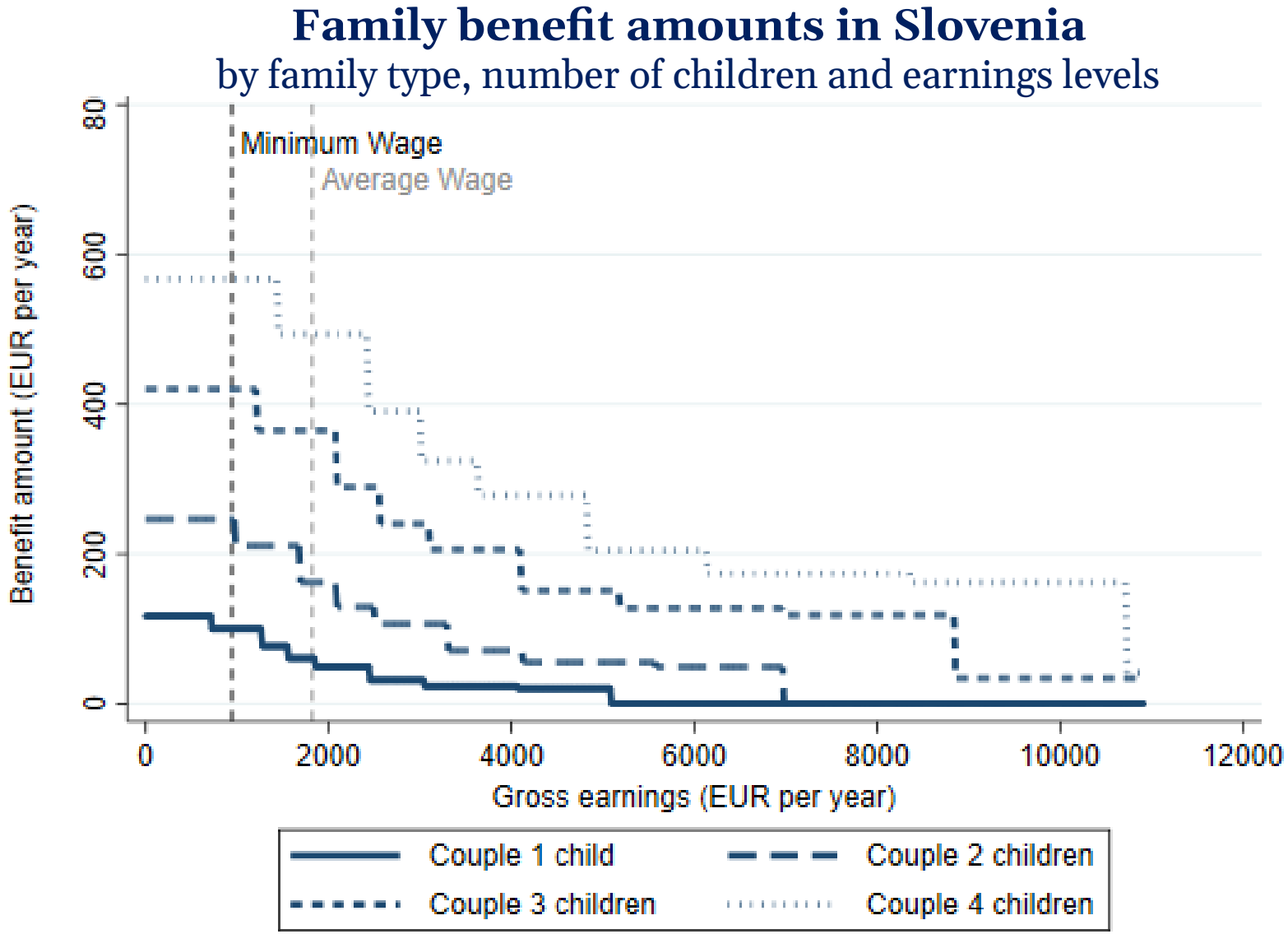
Using TaxBEN

→ Analysing specific policy mechanisms for a particular country

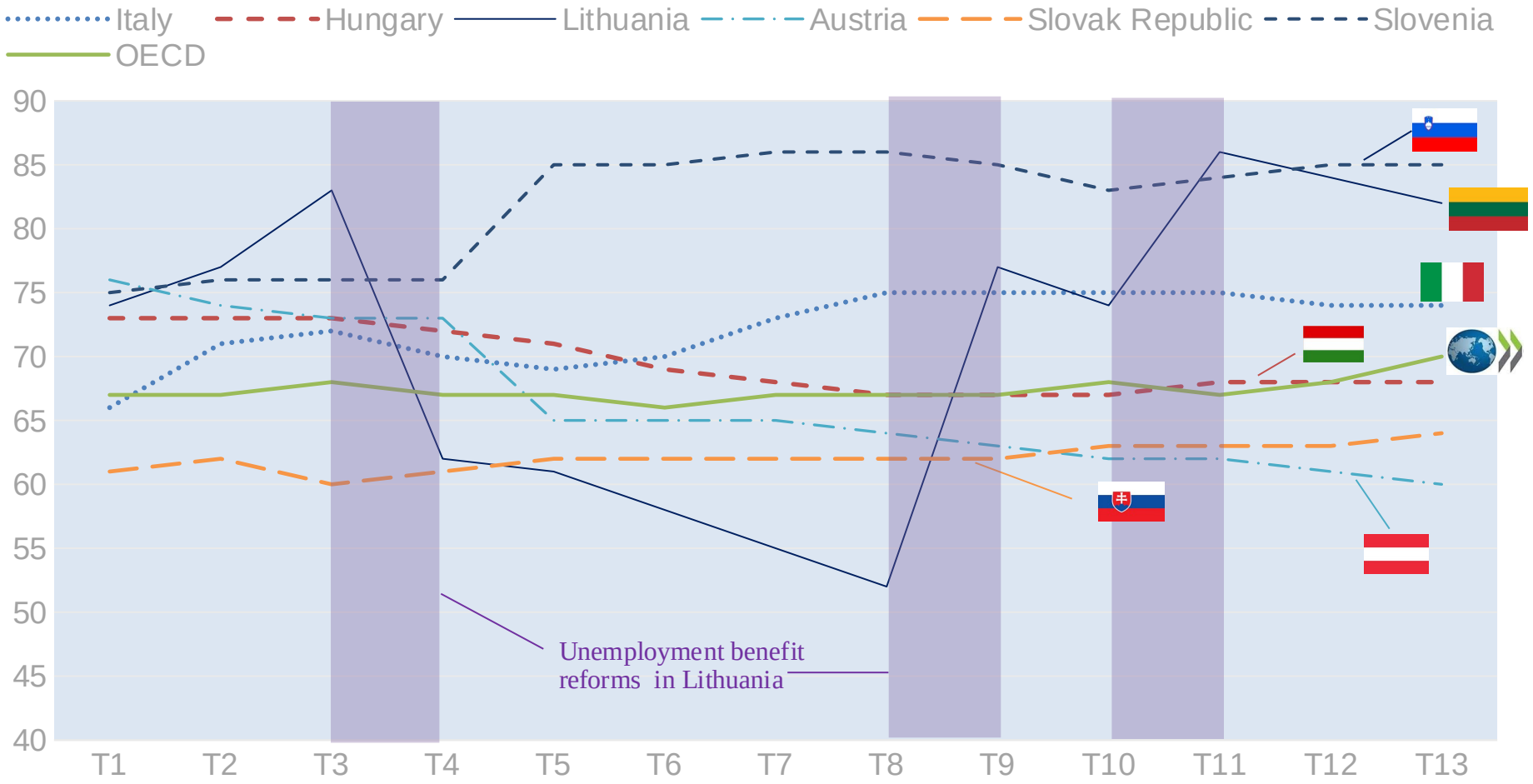


Using TaxBEN

→ Monitoring reforms and policy benchmarking

Net replacement rates in unemployment over time

Single person without children



Source: OECD Tax and Benefit Model - http://oe.cd/TaxBEN

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Using TaxBEN

→ Assessing tax and benefit reforms

- TaxBEN has been used extensively for **policy benchmarking** and **monitoring** purposes.
- TaxBEN is particularly useful also for **designing** and **assessing reforms** at the country level.
- Policy assessments can refer to **past, recent or *future* reforms** (i.e. proposals that are debated or announced but not yet implemented)



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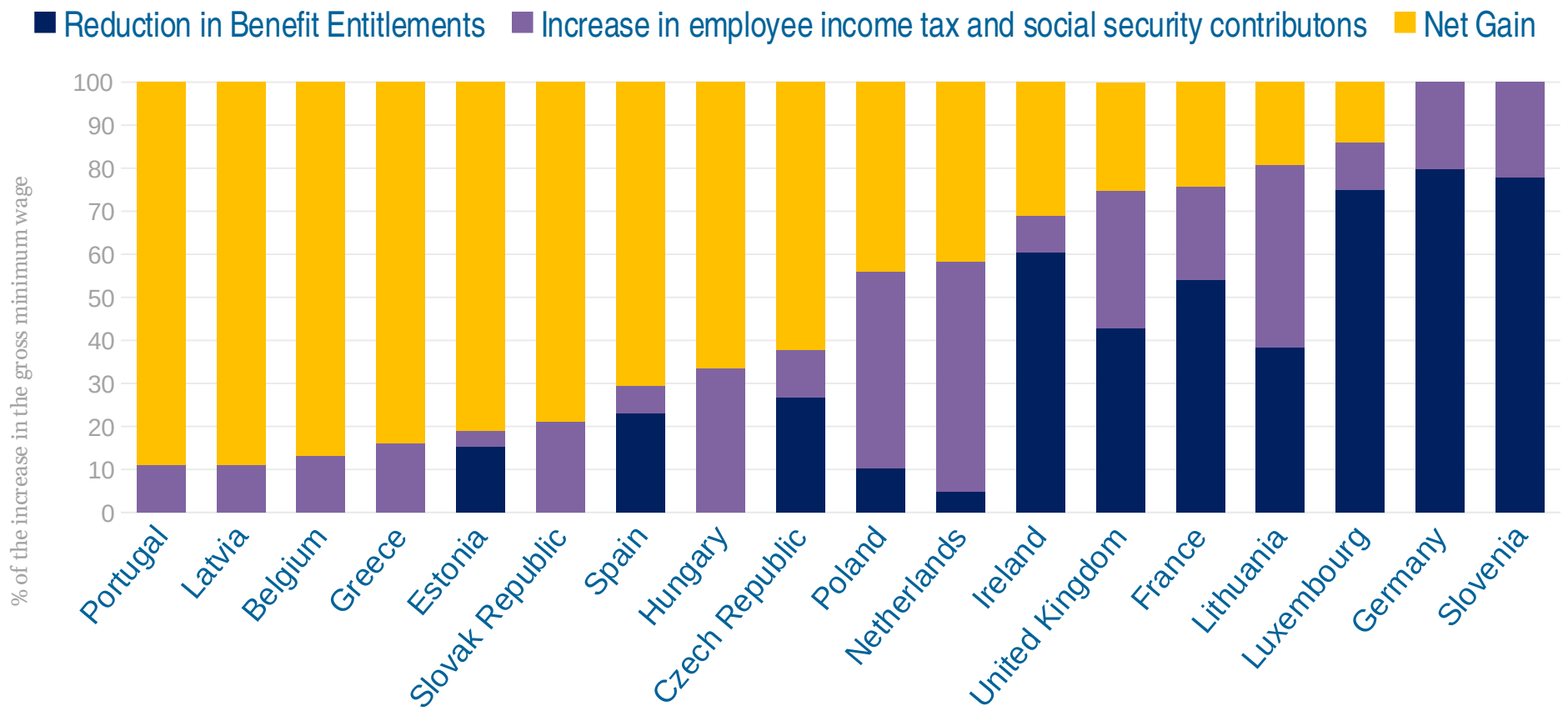
Assessing tax-benefit policies. Illustration #1/3

Increase of the statutory minimum wage

What is the net income gain from 10% increase of the statutory minimum wage?

One-earner couple with one child



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Assessing tax-benefit policies. Illustration #2/3

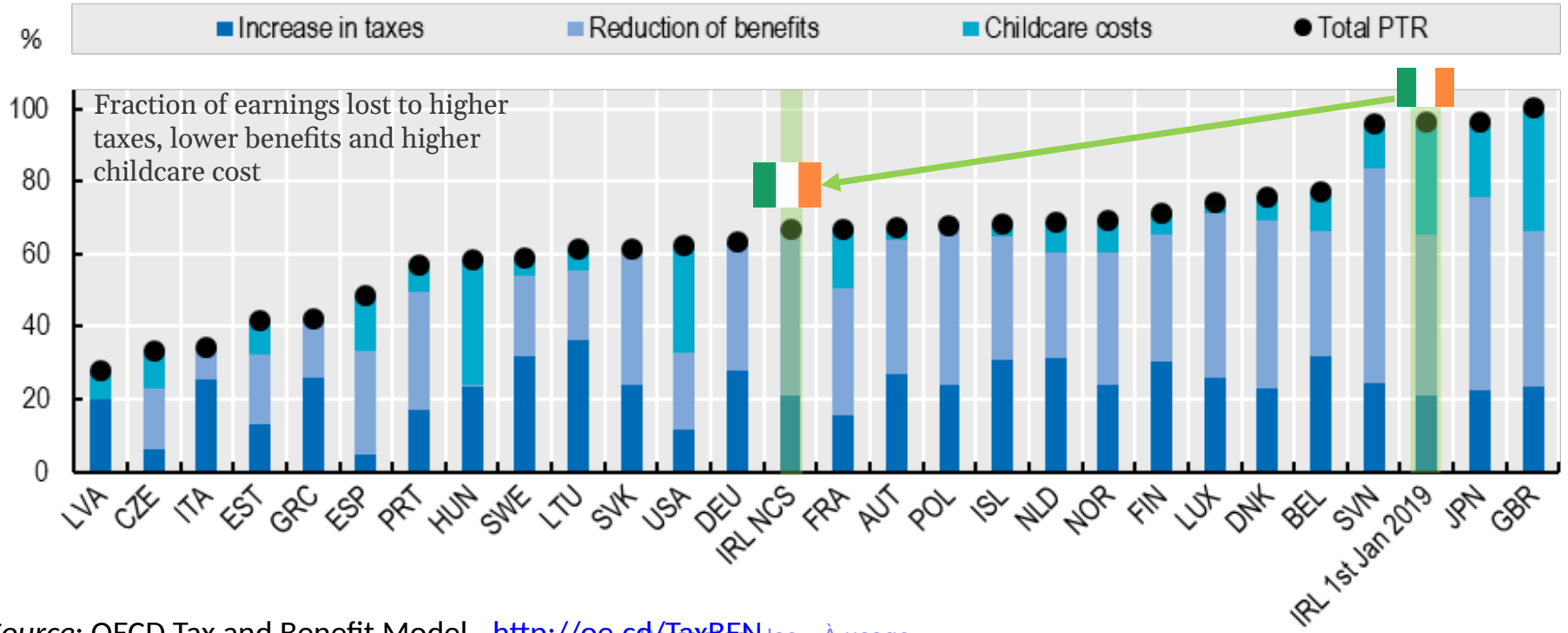
Childcare reform in Ireland

From the Community Childcare Subvention scheme (CCS) to the NCS

The NCS introduced considerable subsidies to childcare costs for low-income families

Effective tax rate to take up employment

Single parent taking up full-time work at the average wage, two children aged 2 and 3.



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Assessing tax-benefit policies. Illustration #3/3

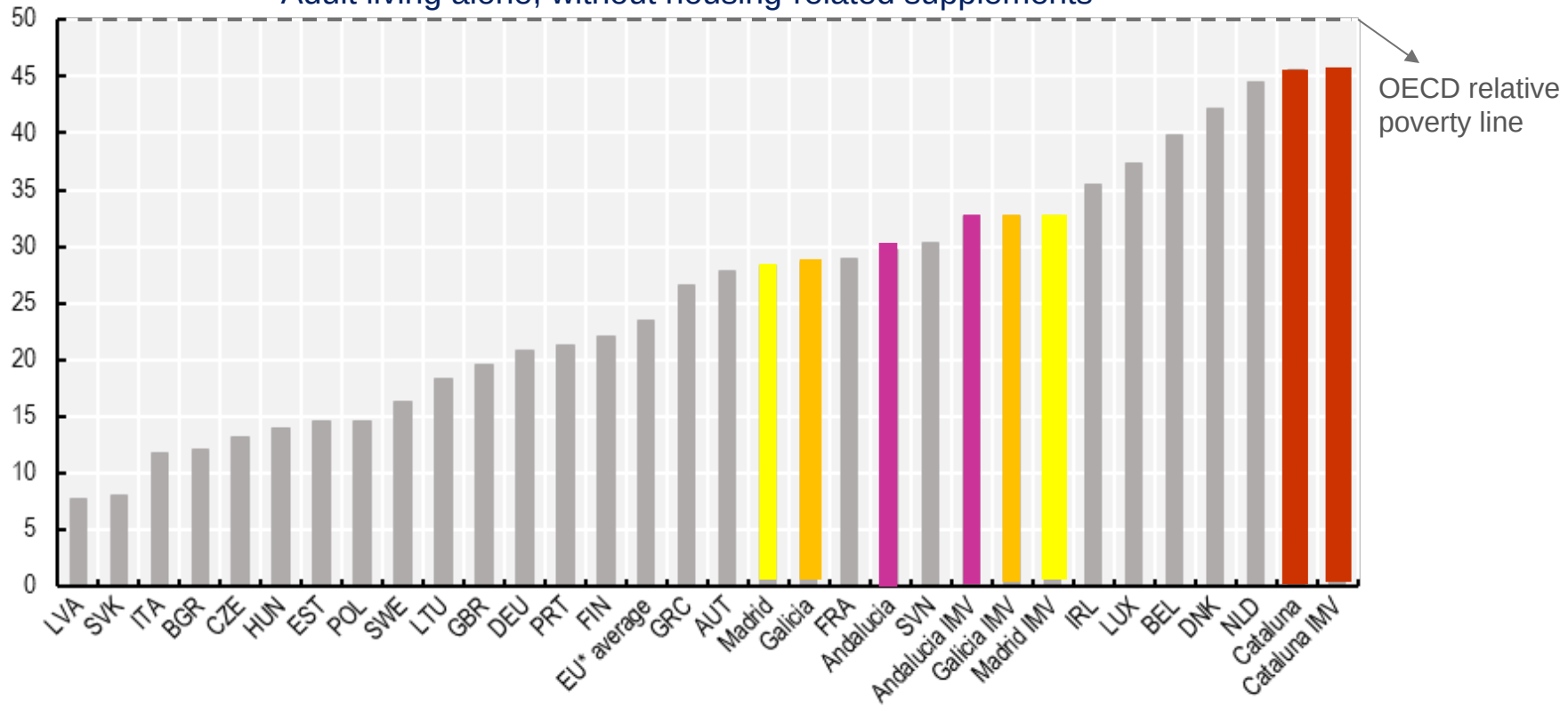
GMI reform in Spain (*Ingreso Mínimo Vital*)

New GMI scheme that complements the existing regional schemes

Entitlements increase from about 28 to 30% of the national minimum household income to 33%. For Catalonia entitlements were already 46% (EU best) before the reform.

Net income of GMI benefit recipients, in % of median household income

Adult living alone, without housing-related supplements



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Thank you!

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Web resources: oe.cd/TaxBEN

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