Thin end of the wedge

Putting the tax burden on middle earners in an international and historical context

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Taxes have risen a lot since the election with policy measures estimated to add around £70 billion to annual receipts by the end of the decade. So in this spotlight we dig into where this leaves the tax burden facing middle earners.

International data shows that the rise in employer National Insurance contributions (NICs) last year and frozen tax thresholds in the UK have led to the largest annual rise in taxes on average workers across 33 comparable OECD rich countries. Strikingly, however, this was from a very low base – lower than the US, for example. The UK remains in the bottom third of such countries for the level of tax on an average worker, and the effective tax rate on a typical earner is still lower than it was before the financial crisis. Indeed, no country raises more in total tax as a proportion of GDP without also asking more of single average earners.

This analysis strongly suggests that any politician promising a bigger state and lower taxes on middle earners is not being realistic. So if we want to increase defence spending, then there is a clear case for paying for this through broad-based tax rises that include typical earners paying more.

UK taxes have risen a lot since the election, with Rachel Reeves, announcing increases worth around £70 billion a year by 2029-30. So in this spotlight, we put recent changes in an international and historical context, setting out where this rise leaves the tax wedge for UK workers.

The tax wedge has increased in the past couple of years

The tax wedge – that is, taxes on earnings net of benefits – matters because it will shape incentives for people to work, or firms to hire. Reflecting decisions taken by Rachel Reeves in the Autumn Budget 2024 to increase the employer NICs rate and lower the secondary threshold, the UK experienced the biggest rise in the tax wedge across the OECD (a rise of 2.4 percentage points, as shown in Figure 1). As well as the increase in employers' social security contributions, the freezing of various thresholds and allowances in the system while earnings grew – so-called 'fiscal drag' – was a contributor.

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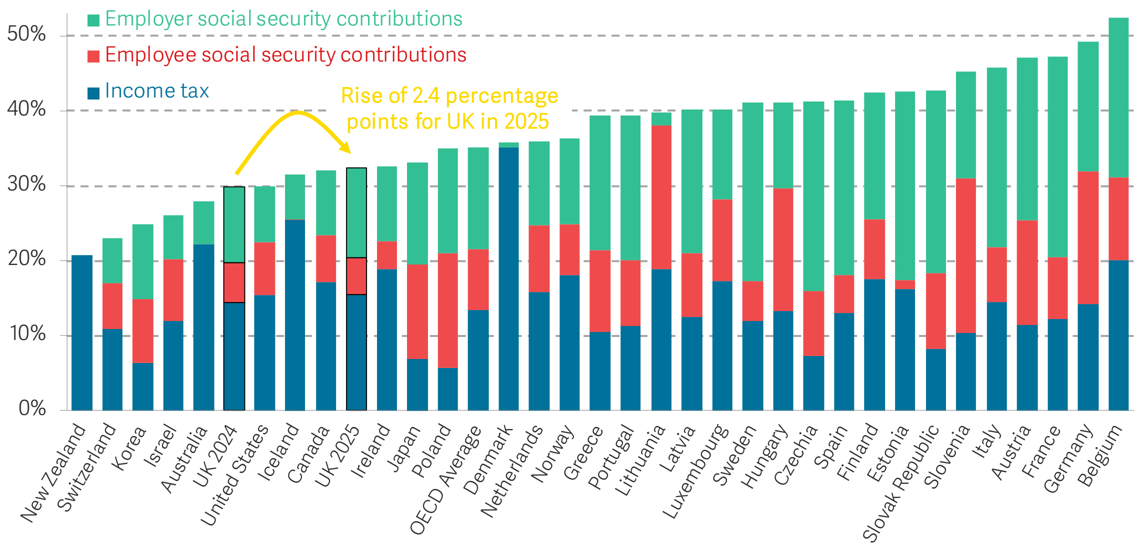
Figure 1 **In 2025, the UK saw the largest increase across the OECD in the tax wedge for an average worker**

Tax wedge for a single earner on that country's wage for an average worker: OECD, 2025



Notes: Share of total labour costs including employer social security contributions. OECD excluding Chile, Colombia, Costa Rica, Mexico and Türkiye, to focus on comparable rich OECD countries. The OECD average for all countries, which is shown on the chart, is above the rich OECD country average, mainly because of the very low rates for Chile and Colombia.
Source: OECD, Taxing Wages 2026.

While the increase was large, it was from a very low base, meaning the UK remains below both the OECD and G7 averages. Indeed, before this increase, we had the lowest tax wedge (for an average earner) in the G7. The latest rise means we overtake the US and Canada, and now sit just below countries like Ireland and Japan. For a single earner on the average wage the tax wedge is 32.4 per cent in 2025, 2.7 percentage points below the OECD average. The UK has the ninth lowest tax wedge across the 33 rich OECD countries shown.

The OECD's measure of average wages gives quite a high figure. The OECD's measure of two-thirds of the average, at £38k in 2025, is much closer to that of a typical UK full-time employee – median annual earnings for full-time employees were £39k in April 2025.[1] Despite this, for a single earner on two-thirds of the average wage the picture is similar: the UK sits 24th among rich OECD countries, with a tax wedge 3.3 percentage points below the OECD average.

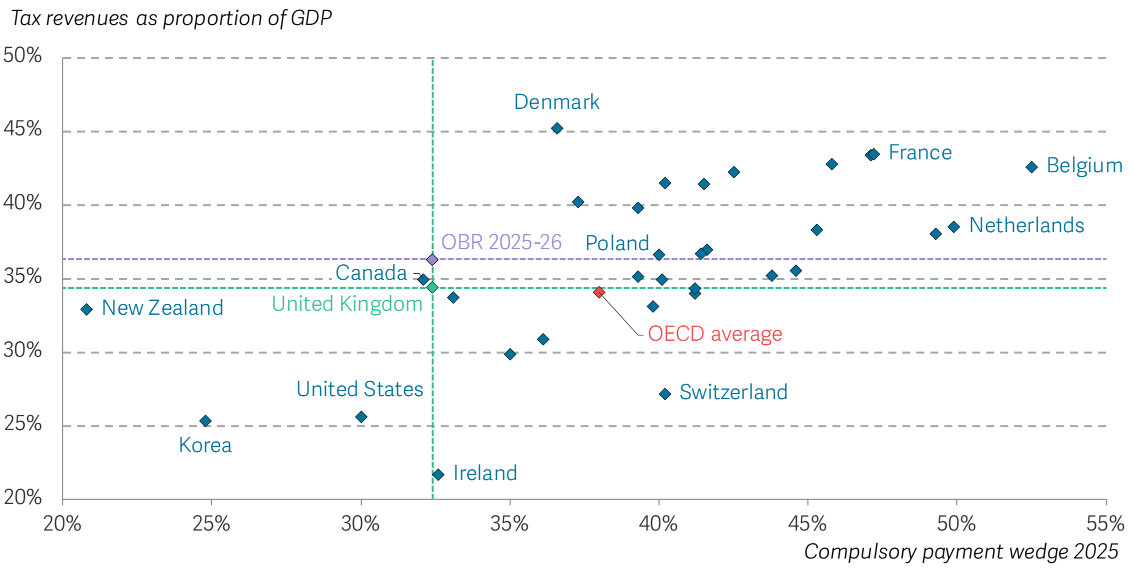
No country raises more in tax without also having a higher compulsory payment wedge for single average earners

So, the tax wedge in the UK on the average earner is low when compared to our international peers. But different countries raise very different amounts of tax in total and rankings will reflect those choices, as well as the structure of the wider tax system. How does the UK compare if we look at how much of the total tax burden (including non-tax compulsory payments) is placed on the average worker?[2]

Looking at the OECD data for 2024 – the latest year currently available – tax revenues as a proportion of GDP in the UK were 34.4 per cent, very close to the OECD average of 34.1 per cent. The UK sat 22nd in the ranking of rich OECD countries, with only 11 having a lower ratio of taxes to GDP. However, the OBR's March 2026 estimate for 2025-26 showed a substantial increase – to 36.3 per cent – mainly driven by increases in personal taxes. Given our focus here on the UK and its approach to the taxation of workers, we use this as our reference point. Based on this, Figure 2 shows that of *all* the 16 rich OECD countries that raise more tax revenues as a proportion of GDP than the UK (in the chart, these are the diamonds above the UK's 2025-26 figure), have higher taxes (including compulsory payments) on a single earner on average wages.[3] Looking across countries, the UK raises typical amounts of tax from the economy, but relatively less of it from single earners on average wages.

Figure 2 **Many countries in the OECD raise more tax as a proportion of GDP than the UK did in 2025-26, but none achieve this with a lower compulsory payment wedge**

Compulsory payment wedge for a single earner on that country's wage for an average worker (horizontal axis) and tax revenues as a proportion of GDP (vertical axis): OECD, 2024 and 2025



Notes: The compulsory payment wedge shows total taxes and non-tax compulsory payments as a proportion of total labour costs, including employer social security contributions. Tax revenue as a proportion of GDP is the 2024 value for all except the purple diamond, showing the 2025-26 value for the UK based on the OBR. OECD member countries excluding Chile, Colombia, Costa Rica, Mexico and Türkiye, to focus on comparable rich OECD countries. Selected countries labelled.
Source: OECD, Taxing Wages 2026; OECD, Revenue Statistics 2025; OBR, Economic and Fiscal Outlook March 2026.

This conclusion – that countries raising more in tax revenues than the UK also have higher taxes on middle earners – holds for each household type the OECD considers, except families with one earner and two children.[4] A number of countries raise more revenues while having lower taxes (including compulsory payments) for households with both a single earner on two-thirds of that country's average wage with two children and a one-earner married couple on the average wage with two children.

The compulsory payment wedge – and indeed the tax wedge – does not just consider taxes and payments to government, but also cash benefits paid to workers. Many countries provide benefits to households with children, whether that is through cash benefits or preferential tax treatment. For earners on average wages, the generosity of such treatment is very limited in the UK. A one-earner married couple with two children has a compulsory payment wedge of 28.8 per cent, only slightly lower than the 32.4 per cent for a single individual. Other countries treat such families relatively more favourably, which means the UK rises in the compulsory payment wedge rankings among rich OECD countries from 29th for a single individual to 21st for a one-earner married couple with kids.

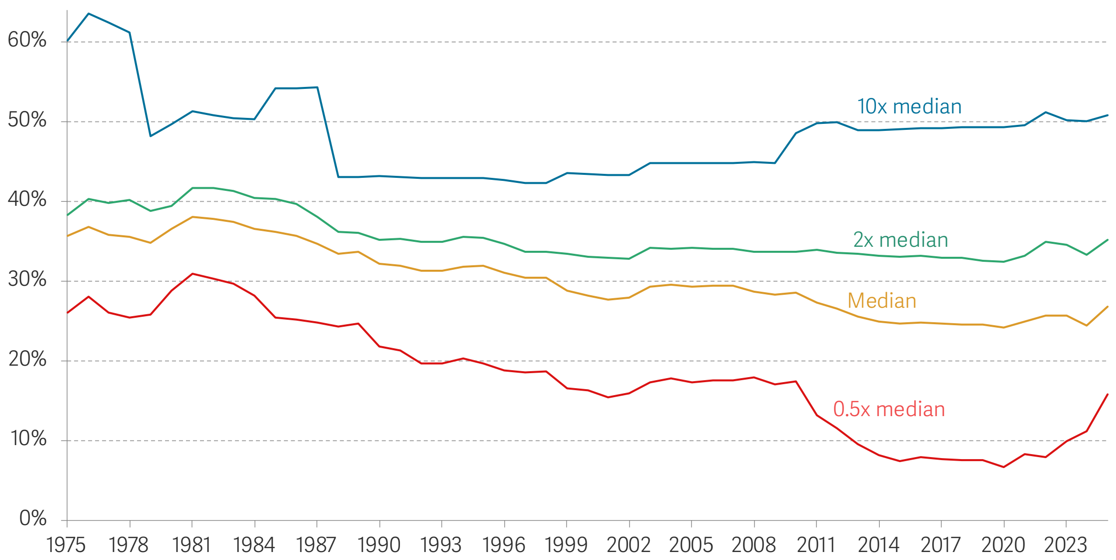
Taxes on middle earners remain low by historical standards

Looking over a longer time horizon, as previous RF analysis has shown, personal taxes remain low by historical standards. Figure 3 shows effective tax rates in the UK, at multiples of the median salary for all employees, which stood at £33k in April 2025.[5]

The overall effective tax rate for the median employee in 2025 was still lower than before the financial crisis, despite rising in recent years – including the impact of the increases in employer NICs. Those recent rises have been particularly rapid for lower-paid employees, as shown by those at half the median, where there has been the sharpest increase. Tax rates for higher earners, those at two or ten times the median, are somewhat higher than they were in the 2000s or 2010s, but still below levels seen historically.

Figure 3 **Effective tax rates remain below pre-financial-crisis levels for low and middle earners**

Effective tax rates from Income Tax, employee and employer National Insurance on multiples of the median salary: UK excluding Scotland



Notes: For consistency, tax rates are for unmarried employees under 65 with non-volatile earnings, and ignore mortgage interest and pension tax relief. Based on financial years, and the tax parameters that applied in October in years where rates varied.
Source: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS.

Continuing to avoid raising taxes middle earners in the face of building fiscal pressures looks increasingly unsustainable

Fiscal pressures are building. Most obviously, there is no sign that the doubling of debt interest costs since the pandemic will go into reverse any time soon, and reaching 3.5 per cent of GDP on defence would cost an additional £28 billion annually in today's terms by 2035 compared with current plans. And looking further ahead, an ageing and ailing population will continue to put upward pressure on health and welfare spending. A ten-year plan, as the Government has promised us, will only be realistic if it faces up to the question of how we pay for a growing state where some combination of lower spending and higher taxes will be needed to get us back to a sustainable position for the public finances.

It's still the case that income from work is taxed much more than income from other sources, with the gap, for example, between tax on self-employment and tax on employment reaching record highs. On that basis, taxes on working families are not obviously the first place the Government should look to balance the books.

But the analysis in this spotlight suggests that funding the big pressures on the size of the state by continuing to raise smaller tax heads is not realistic. Despite the increase in employer NICs pushing up the effective rate on middle earners last year, taxes here are still close to historical lows. More tellingly, no country has a bigger state and a lower burden on average workers. Any politician who promises both is relying on the UK becoming ever more of an outlier among our international peers. So if we need to increase defence spending in light of new geopolitical threats, then there is a strong case that the benefits will be broadly felt, so the tax rises should be too.

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[1] The OECD look at the tax wedge of a worker receiving average wages, rather than calculating the average tax wedge across workers. The average worker is defined as an adult full-time worker in the industry sectors covered whose wage earnings represent the average for workers. They look at those who are employed full-time during the entire year and calculate a mean average. To aid their cross-country comparison, the analysis is based on a broad range of industry sectors but excludes some sectors – such as those working in agriculture, health or education (among others). For the UK, the OECD measure of gross wage earnings for an average worker was around £56,000 in 2025. That figure is well above median annual earnings for full-time employees, which stood at £39,000 in April 2025 (as estimated by the ONS); indeed, median annual earnings for full-time employees is similar to the OECD's figure for 67 per cent of the wage of an average worker (of £38,000).

[2] The OECD defines taxes as "compulsory, unrequited payments to general government". In some countries, workers have to make compulsory payments which may not classify as taxes, but certainly feel a lot like them. In the Netherlands, for example, health insurance premiums must be paid to a privately managed insurance company, and in Iceland, some contributions made to private pension funds are compulsory. Such payments are known as "non-tax compulsory payments" (NTCPs). If the payments are not paid to general government, but instead to "privately-managed funds, welfare agencies or social insurance schemes outside general governments and to public enterprises", then they are categorised as NTCPs. Payments can fail the OECD's definition of a tax if they are 'requited' – that is, if the benefits government provides in return are proportionate to the payments made. This element of the definition means that NTCPs may, in general, have different behavioural impacts to taxes. In Poland, some pension contributions are classified as NTCPs, despite being paid to government. The close link between the payments made and benefits received means these are considered requited – they are paid into an account, subject to inheritance tax and indexed to average GDP growth.

The OECD deems the UK not to have any NTCPs. In particular, auto-enrolment pension contributions are not classified as NTCPs, because employees can opt out. Many workers in the UK choose to make private pension contributions on top of taxes and other compulsory payments – including through auto-enrolment – in ways they would not need to in countries where compulsory payments include substantial pension contributions. On the other hand, in some countries, workers would be paying for private, non-compulsory health insurance, in a way they do not in the UK. Our comparison considers all compulsory payments, both taxes and those the OECD deem NTCPs. Consistent with the approach of the OECD, we don't include auto-enrolment contributions as a compulsory payment.

[3] If we compare tax revenues as a proportion of GDP with the tax wedge, rather than the compulsory payment wedge, for a single earner (on that country's average wage) we find that Iceland raise more tax revenues while having a lower tax wedge (and it continues to be true for Canada compared to the OECD 2024 figure). For a two-earner married couple with two children, on the average wage and 67 per cent of that, Poland, Iceland and the Netherlands raise more tax revenues while having a lower tax wedge. These three countries all have significant compulsory payments.

[4] The OECD consider eight household 'types', they are: single earners on 67, 100 and 167 per cent of average wages, all with no children; a single earner on 67 per cent of average wages with two children; two-earner married couples, on 67 and 100 per cent of average wages, with no children and with two children, and on 67 and 100 per cent of average wages with two children; and a one-earner married couple on 100 per cent of average wages with two children.

[5] The OECD's calculation of average earnings is based on a mean average for a subset of full-time employees, whereas Figure 4 looks at the median salary of all employees. The definition and calculation of the former gives a figure well above that of the latter. The ONS estimate for median annual earnings for all employees stood at £33k in April 2025.