

# MANDATORY COSTS OF EMPLOYMENT AROUND THE WORLD

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INTERNATIONAL STUDY ANALYSING THE MANDATORY COSTS TO BUSINESSES OF EMPLOYING WORKERS – INCLUDING SOCIAL SECURITY AND PENSIONS – IN 23 COUNTRIES

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# INTRODUCTION

## THE COSTS OF EMPLOYMENT

This study examines the charges levied on businesses by governments in relation to the workers they employ, such as social security costs and mandatory pension contributions. It covers 23 economies around the world, analysing two representative levels of income – an ‘average’ salary of \$30,000 and a ‘high earner’ salary of \$300,000. The study was conducted using the 2022 tax year.

Across the 23 countries included in our study, businesses are charged an average of \$5,468 per year in these costs for employing a worker earning \$30,000 (18.2% of salary). For a worker earning \$300,000 per year, this rises to an average of \$39,508 (13.2% of salary).

As more countries deal with spiralling inflation, some may choose to reduce these costs to ease the burden on businesses and preserve jobs.

In a time of economic disruption across many economies, preventing a wave of redundancies will be a major consideration for governments worldwide. One key lever available to these governments is the costs they levy on businesses for employing workers. Reducing these costs could act to reduce the number of employees businesses are forced to lay off should a downturn become a recession.

In this study we assess where each country ranks within the 23-country league table (see pages 17 and 18) and why, including where relevant insight into the burden of mandatory employment costs placed on businesses in comparison with individuals.

We highlight a number of the key findings of the study below.



# 1 – KEY FINDINGS

## KEY FINDINGS AND ANALYSIS FROM OUR RESEARCH INCLUDE:

- The global average for a business's government-levied employment costs – such as social security and pension contributions – for a worker paid \$30,000 is 18.2% (\$5,468). This falls to 13.2% (\$39,508) for a worker paid \$300,000
- For an income of \$30,000, the highest employment costs (e.g. social security and pension) in our study of 23 countries are paid by businesses in Spain, at 36.3% (\$10,875). The lowest costs are paid by businesses in Israel at just 1.8% (\$546)
- For our 'high earner' income level of \$300,000, the highest mandatory costs in our study are borne by employers in France at 40.3% (\$121,014). The lowest costs are again found in Israel, at \$9,893 (3.3%)
- BRIC countries have on average the highest mandatory costs of employment for businesses, paying 23.6% of an employee's salary of \$30,000 in costs like social security and pension. This is higher than the global average (18.2%) or the European average (20.7%). This falls to 18% for a salary of \$300,000 but is still markedly higher than European economies (14.7%) or the global average (13.2%)
- Also of note is the balance between employment costs, such as social security and pension, paid by the employer and those paid by the employee. While this report focuses only on the costs to businesses, it is informative to see which countries place the burden of social security costs more heavily on the business than the individual – Italy and Portugal are among this group



## 2 – EUROPE

European economies charge an average of 20.7% of salary in mandatory costs (such as social security and pensions) to businesses for employing workers on a salary of \$30,000, which falls to 14.7% for workers on a salary of \$300,000.

Europe's governments have created a wide variety of systems to raise money from employment. Some broad themes quickly emerge from our study, however.

The countries can broadly be split into those that primarily levy charges on the employee – the UK and Germany, for example – and those that primarily levy charges on the employer, such as Italy and Portugal.

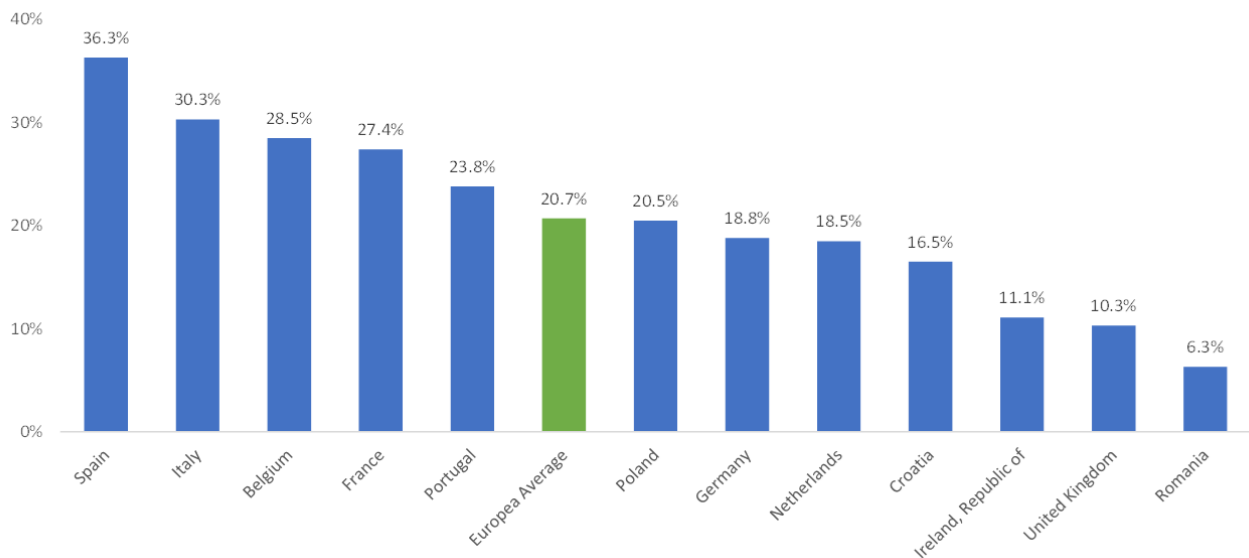


Figure 1 – percentage cost of employing a worker earning \$30,000 per year – European economies

### The UK – among the lowest costs of employment of the major economies

Businesses in the UK have benefitted from low employment costs in recent years, contributing to the country's unemployment rate of just 3.8%<sup>1</sup>. An employer must pay just 10.3% of an employee's wages in costs if they earn \$30,000 per year, ranking the UK 19th of 23 countries in our study (see table 1). This figure rises to 13.8% for employees earning \$300,000 per year – the 8<sup>th</sup>-highest figure in the study (see table 2).

The only costs of employment borne by UK employers are National Insurance Contributions and since 2017, mandatory employer's pension contributions for all employees. The latter has gradually been increased since its introduction and now stands at a minimum of 3% of an employee's pay.

<sup>1</sup> ONS Labour Market Overview, August 2022

National Insurance Contributions have seen many changes made in recent years, with rates and thresholds being amended with remarkable regularity. Governments often use National Insurance as a tool to raise extra revenue without having to increase the rate of Income Tax. So while British businesses enjoy relatively low costs of employment, they do have to remain alert to changes in the system in order to remain compliant.

### **Spain – The highest costs for \$30,000 earners**

Spain's rate of 36.3% in employment costs makes it the highest in our study for employees earning \$30,000. Social security contribution rates in Spain are markedly higher than the European average, encompassing costs including the country's unemployment wage guarantee fund and a levy for professional training.

For \$300,000 earners, Spain is much closer to the bottom of our table of 23 countries (see pages 17 and 18), ranking 17<sup>th</sup>. Employment costs in Spain were capped at just over \$18,000 for the 2022 tax year, making the rate for higher earners appear much more generous.

### **France – the highest costs in our study for higher earners**

In contrast to Spain, neighbouring France's employment costs for \$30,000 are in the mid-table – 6<sup>th</sup> of 23 countries at 27.4% of wages. However, France's employment cost rate of 40.3% of wages for \$300,000 earners places it at the very top of our table.

Unlike Spain, there is no cap on employment costs for higher earners, meaning a \$300,000 earner benefits from over \$40,000 in mandatory employer's pension contributions. Social security costs also scale to more than \$75,000 annually.

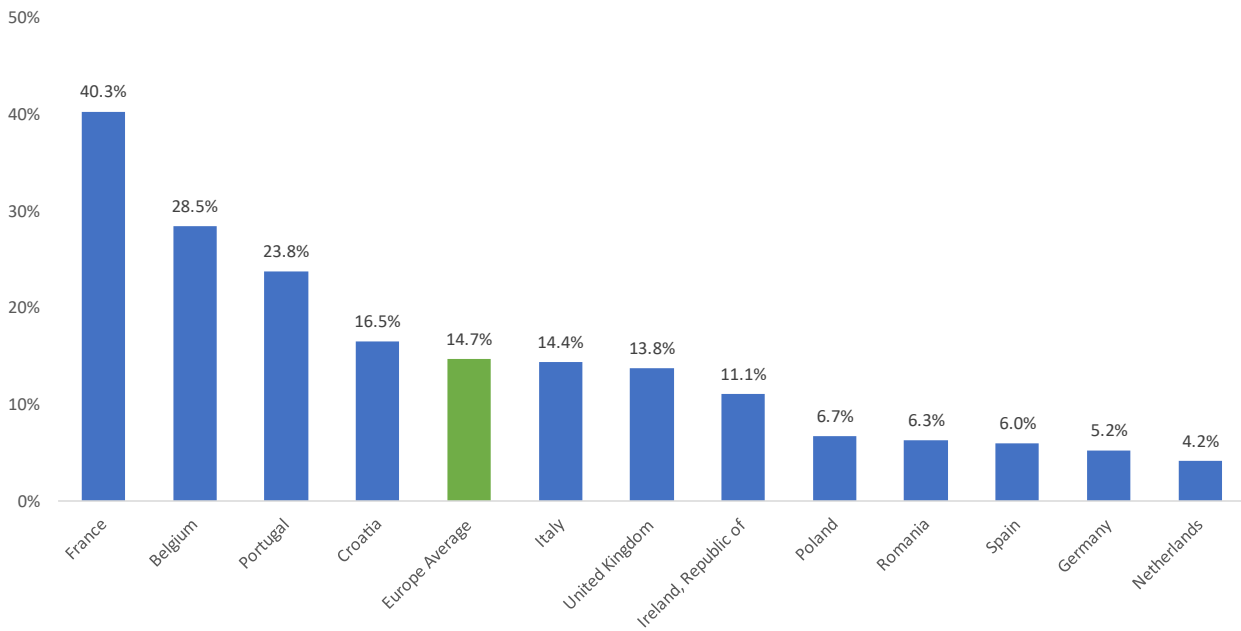
France has long been regarded as an economy based on higher taxes and higher public spending, with greater taxation on those with larger incomes acting as a key part of that approach. While the last five years have seen something of a pivot away from this tradition, employers must still carry a relatively heavy burden of costs when employing an individual on a high salary.



### **Belgium – in the top six of the table for both high and low earners**

Belgium is another jurisdiction that has traditionally been seen as 'higher tax' in comparison to many other countries. This is borne out by its position as the fifth-highest country for costs for a business employing a \$30,000 earner, and the third-highest for a business employing a \$300,000 earner.

Employers' social security contributions in Belgium are uncapped, meaning a business employing someone on that salary must pay more than \$97,000 per year in contributions. This covers a range of benefits, including unemployment, sickness allowances, industrial accident allowances and pension contributions.



**Figure 2 – percentage cost of employing a worker earning \$300,000 per year – European economies**

### **Germany – now a low-tax jurisdiction for higher earners**

Germany levies employment costs at an almost exactly 50/50 split between employees and employers, meaning that the burden on businesses is somewhat lower than in some other European countries. For a \$30,000 earner, Germany ranks 10<sup>th</sup> of 23 countries in our table. For a \$300,000 earner, it ranks 19<sup>th</sup>.

The difference between the two income levels is primarily driven by caps on the cost of some elements of social security. No employer can pay more than \$1,000 per year for long term care insurance, while employers' pensions contributions are capped at \$4,442. This approach is shared with some other European economies including Spain and the Netherlands.

### **Italy – burden on employers rather than employees**

Italy's approach to mandatory employment costs (such as social security and pension) places much more of the burden on employers than on employees. Businesses pay approximately three quarters of the cost of social security, with employees making up the remaining quarter. This differs sharply from some other European economies such as Germany where the burden is shared more equally.

Italy ranks third overall in our table for the costs of employing someone earning \$30,000 and seventh for an employee earning \$300,000.

The country has created several tax incentives to reduce the effect of these costs on unemployment levels. Businesses are given relief when they employ an individual under the age of 36, while the youngest workers on apprenticeships are also exempted from some employment costs.

### Portugal – an even heavier burden for employers

Similarly to Italy, Portugal also places a higher burden on employers than employees when it comes to the cost of social security. The burden for employers in Portugal is higher – 76% of the total cost of social security compared to 24% for employees.

That burden places Portugal eighth of 23 countries in our study for the costs of employment for a \$30,000 earner and fifth for employees earning \$300,000.

Again there are some exemptions that prevent rates of unemployment being impacted unduly by relatively high costs of employment. Employers were exempted from paying 50% of their contributions during the Covid pandemic, while reliefs also exist for employing staff aged under 30.

### Poland – mid-table for costs but businesses hit by increased regulatory burden

Poland's mid-table position in our study for employment costs of both \$30,000 earners and \$300,000 earners, combined with its falling unemployment rate, suggests that the country's policies on costs of employment are functioning well. Poland ranks ninth for costs of employing workers at the lower salary level and 15<sup>th</sup> at the higher salary level.

However the country's package of regulatory changes to employment that came into force in January 2022 have increased the compliance burden on businesses, causing confusion for some.

### Netherlands – caps make country low-cost for hiring high earners

The Netherlands, like its neighbour Germany, places a cap on the costs of social security for employers, meaning that regardless of the employee's salary, social security can never cost the employer more than approximately \$12,560 per annum.

This leads the country to rank 11<sup>th</sup> for the costs of employing a worker on \$30,000 per year, but much lower (21<sup>st</sup>) if the worker earns \$300,000 per year.

While unemployment remains near record lows in the Netherlands, the government has still kept in place tax reliefs that incentivise businesses to hire workers from disadvantaged groups, such as those over 55, under 21, or with disabilities. These programmes – such as *Wajong* and *LKV* - give employers tax rebates for employing members of these groups.





### Croatia – health insurance a relatively high cost

Employers in Croatia must pay only the costs of health insurance for their employees, rather than any other social security costs, pension or additional taxes. However, the relatively high cost of this (16.5% of the employee's salary) places Croatia 12<sup>th</sup> for the costs of hiring a worker earning \$30,000 and 6<sup>th</sup> for a worker earning \$300,000.

The lack of any cap on these health insurance costs means Croatia rises up the league table for costs of employing a higher earner.

### Republic of Ireland – below the European average

Employers in the Republic of Ireland enjoy costs of employment lower than the European average for workers earning both our sample income levels of \$30,000 and \$300,000. A figure of 11.1% ranks Ireland 17<sup>th</sup> of 23 countries for the lower income level and 12<sup>th</sup> for the higher income.

These costs place Ireland at a mid-point between mainland European economies like France and Belgium, and its near neighbour the UK.

Employers paying their workers less than the threshold payment of \$465 benefit from a reduced rate of Pay Related Social Insurance (PRSI) of 8.8%, compared to the standard rate of 11.1%.



### Romania – lowest costs in Europe for employing a \$30,000 earner

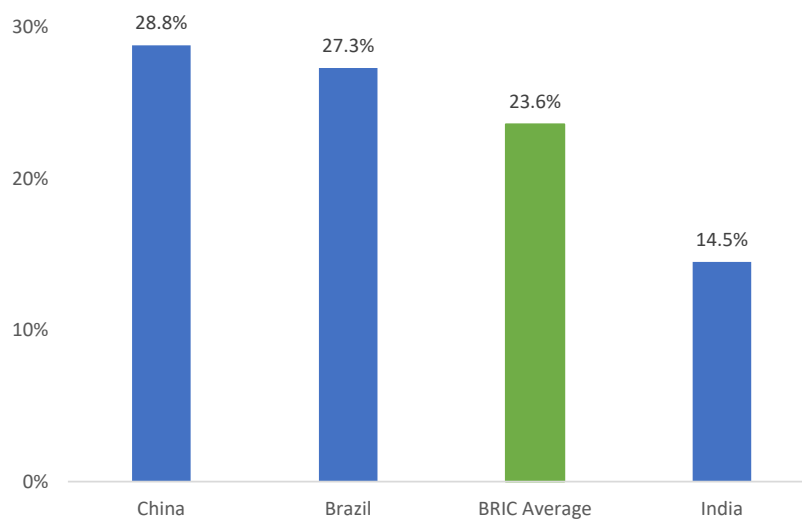
At just 6.25%, employment costs in Romania – made up of unemployment insurance and pension contributions – are the lowest-ranked in Europe in our study. Romania is placed 21<sup>st</sup> out of 23 countries at the \$30,000 income level and 16<sup>th</sup> at the \$300,000 level.

Despite these already-low levels of taxation on employment, Romania also has incentives for businesses to hire young people. Companies hiring new graduates can receive rebates of up to \$180 per month for the first year of employment.

## 3 – BRIC ECONOMIES

The BRIC economies (Brazil, Russia, India, China) on average charge more than the global average in mandatory employment costs to businesses. The average charge for a business employing a worker on \$30,000 in a BRIC economy is 23.6%, which drops to 18% for a worker earning \$300,000. Both of these are above the global averages of 18.2% and 13.2% respectively.

A more granular look at the data tells a more nuanced story. China is in the top five countries of the 23 in our study for employment costs – such as social security and pension contributions – at both income levels, while Brazil is also in the upper part of the table. However India is in the bottom five for the higher income level and the mid-table for lower earners.



**Figure 3 – percentage cost of employing a worker earning \$30,000 per year – BRIC economies**

### Brazil – a high-cost country for higher earners

Employment taxes in Brazil sit at 27.3% (\$8,198) for employees being paid \$30,000. This puts Brazil slightly below the BRIC average (29.6%) for earners at this salary level.

For employees earning \$300,000, employers pay 27.5% of their salary (\$82,448) in taxes, above the BRIC average of 24%.

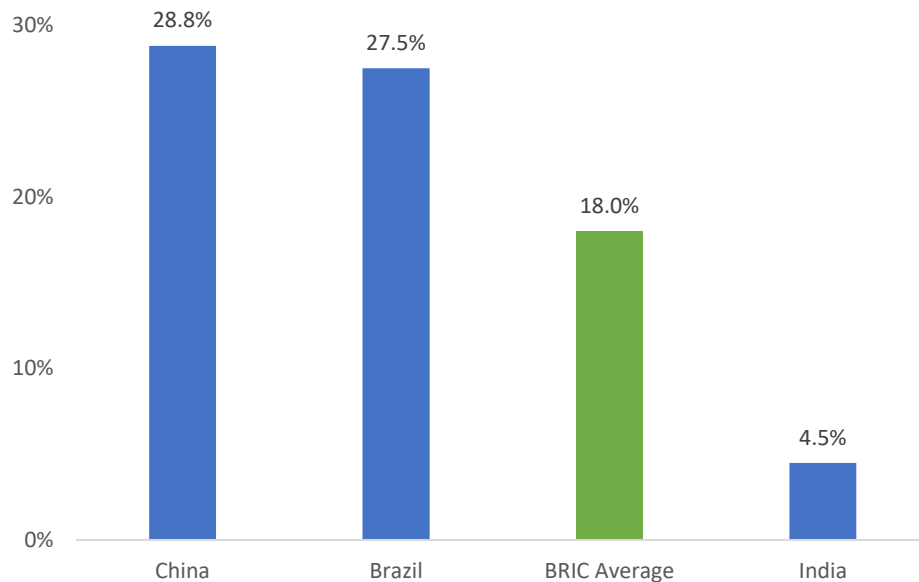
In both of these categories, Brazil falls towards the top of our 23-country table. Brazilian employment taxes are the seventh-highest for those earning \$30,000 and the fourth-highest for employees paid \$300,000.

### China – caps keep employer costs under control

China's employment taxes for employees on \$30,000 is the fourth highest in our study, while those for employees on \$300,000 are the second highest.

For each employee on payroll, employers are taxed at 28.8% of salary, or \$8,628 for employees on \$30,000 and \$86,280 for employees on \$300,000.

Contributions are capped at 300% of the average local salary for the previous year – known as the City Average Salary.



**Figure 4 – percentage cost of employing a worker earning \$300,000 per year – BRIC economies**

### India – low taxes on high earners

Indian social security contributions fall mainly under the Employees’ Provident Fund Scheme and the Employees’ Pension Scheme. Businesses with 20 or more employees must make contributions for each employee under these schemes.

Employers’ contributions amount to 14.5% of salary for employees paid \$30,000, amounting to \$4,335. This ranks it 13<sup>th</sup> of 23 countries in our study.

For employees paid \$300,000, employment taxes cost employers 4.5% of each salary, or \$13,546, ranking it 20<sup>th</sup>.

## 4 – REST OF THE WORLD - DEVELOPED ECONOMIES

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The non-European developed economies in our study have some of the more unique systems of raising money from employers. At one extreme, Israel barely taxes businesses on the employment of their workers, levying a charge of just 1.8% on the employment of a worker earning \$30,000 and 3.3% on a worker earning \$300,000. Both of these figures are at the bottom of our table of 23 countries.

At the other extreme, only France charges a business more than Japan for employing a worker earning \$30,000, charging 30.5% in costs . Japan’s complex system of four separate types of worker’s insurance is also likely to be complex for some businesses to administer.

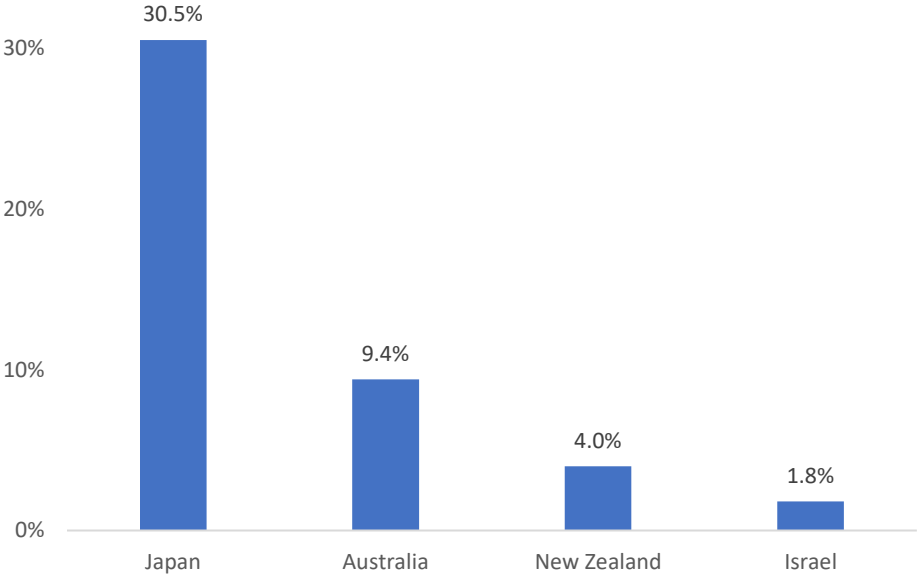


Figure 5 – percentage cost of employing a worker earning \$30,000 per year – four developed economies

**Japan – second highest costs for \$30,000 earners**

Japan’s rate of 30.5% in employment costs for those earning \$30,000 per year, makes it the highest in Asia and second out of the 23 countries in our study.

For Japanese workers earning \$300,000, employment costs are considerably lower, at 10.1% or \$30,225. This is well below the global average of \$41,588, ranking it 13<sup>th</sup> of 23 countries.

Employers in Japan are obliged to contribute to four types of insurance systems: Workers’ accident compensation (borne entirely by the employer); employment insurance; health insurance/nursing care insurance and employees’ pension insurance. There are two tiers of health insurance contributions, with employers forced to pay a higher rate for older employees who are more likely to need healthcare.

**Israel – the lowest costs of employment in our study**

With employment costs of just 1.8% of the wages of an employee earning \$30,000, Israel is by some margin the country in our study with the lowest employment costs.

Israel also comes in 23<sup>rd</sup> place of 23 for those earning \$300,000, with costs of just 3.3%, a fraction of the global average of 13.2%.

Other than national insurance contributions, there are no payroll taxes for employers. National insurance for Israeli-resident employees is set at 3.55% for those earning a basic rate. Contributions for higher-earners rises to 7.6%. Contributions for non-resident employees are 0.59% and 2.65%.

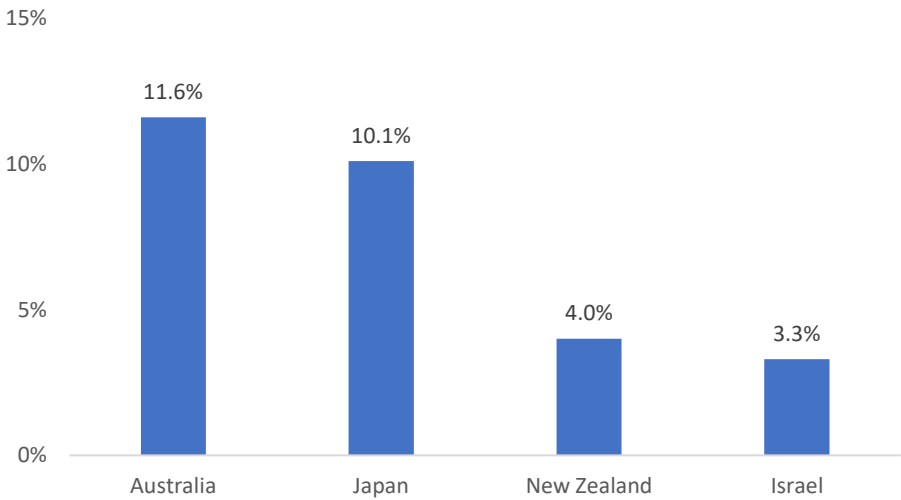
**New Zealand – among the lowest employment costs in the world**

New Zealand’s employment tax rates fall among the lowest in our study.

For both \$30,000 and \$300,000 earners, New Zealand’s employment taxes are the second lowest in our table of 23 countries.

In each case, employment taxes amount to 4% of salary, amounting to \$1,209 and \$12,090 for employees earning \$30,000 and \$300,000 respectively.

The Employer superannuation contribution tax (ESCT) is payable for employees contributing to the Kiwisaver or other approved employee savings schemes.



**Figure 6 – percentage cost of employing a worker earning \$300,000 per year – four developed economies**

**Australia – below the global average**

Australia’s employment costs are below the global average for both \$30,000 and \$300,000 earners.

For the \$30,000 income bracket, employment taxes are levied at an effective rate of 9.4% (\$2,403) – coming in at 20<sup>th</sup> out of 23 countries. The global average at this income level is 18.2%.

For those earning \$300,000 the effective rate is higher at 11.6%, or \$34,887, compared to a global average of 12.9%. This ranks Australia 11<sup>th</sup> of 23 countries.

Employers in Australia must contribute to a complying superannuation fund on behalf of their employees, a set minimum percentage of the employee's earnings base (subject to limited exceptions) or be liable to a superannuation guarantee charge.

## 5 – REST OF THE WORLD - DEVELOPING ECONOMIES

The developing economies in our study are all below the global average in costs of employment for businesses at both the \$30,000 and \$300,000 income levels. This may be driven by their desire to increase economic growth by cutting the cost burden on businesses.

While the pure cost burdens are relatively low, there are often quirks to the levying of these charges in developing economies. Some systems are complex, with multiple different charges for employers in countries like the Philippines and Uruguay. Mexico, meanwhile, has the unique cost of a mandatory share of profits to all employees.

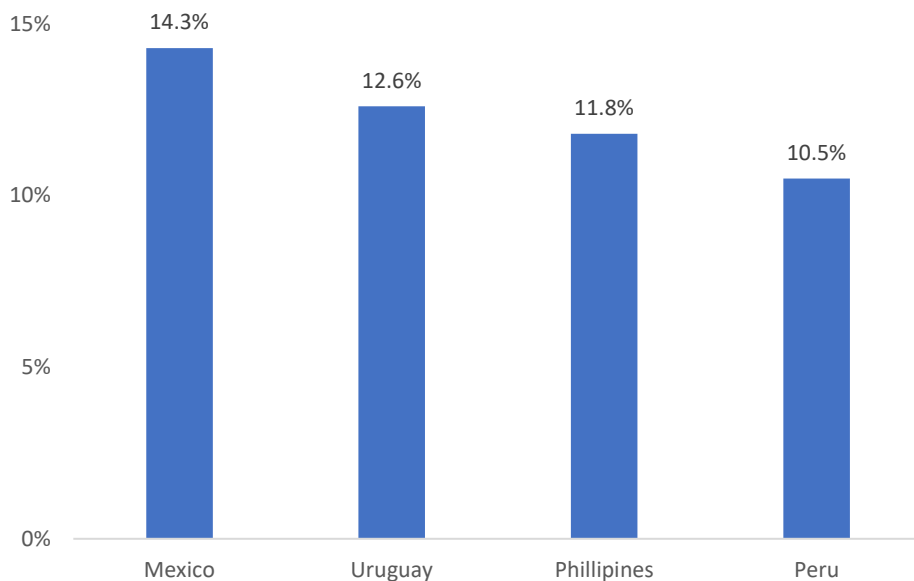


Figure 7 – percentage cost of employing a worker earning \$30,000 per year – four developing economies

### Mexico – lower costs for higher earners

With employment costs of 14.3% for \$30,000 earners, Mexico comes mid-table, ranking 14<sup>th</sup> out of the 23 countries in our study.

For those earning \$300,000, costs for Mexican employers are significantly lower, at just 5.4%, putting the country in 18<sup>th</sup> place.

In addition to payroll taxes and social security contributions, employers in Mexico are obliged to distribute a portion of annual profits amongst all employees (apart from general directors and managers).

**Peru – near the bottom of the global table**

The cost of employment taxes in Peru are considerably below the global average in our study. Employers are obligated to make monthly health and pensions contributions to Government-approved programmes.

For employees earning \$30,000, employment taxes add up to 10.5% of salary, or \$3,150. This ranks Peru 18<sup>th</sup> of 23 countries in our study.

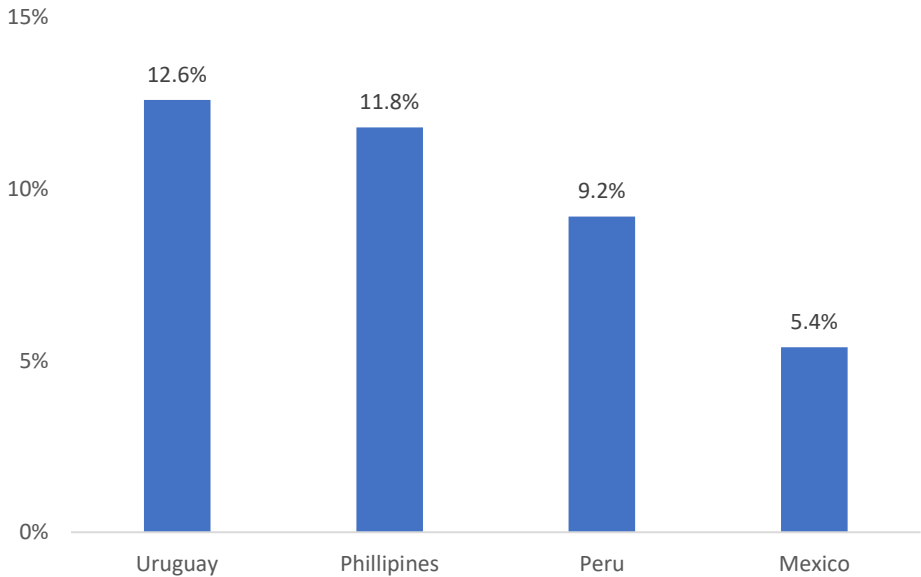
Costs are slightly less as a proportion of salary for employees paid \$300,000, working out at 9.2% (\$27,450). This ranks the country 14<sup>th</sup>.

**Philippines – more generous for lower earners**

Employment tax costs in the Philippines are below the global average. The country levies four separate charges on businesses for employing workers, including the standard /social security and health insurance that are levied in most countries. However it also charges for the Home Development Mutual Fund, which finances affordable housing.

Employment taxes in the Philippines cost employers 11.8% of the salary of their employees at both the \$30,000 and \$300,000 income levels.

This places the Philippines in 16<sup>th</sup> place in our study for workers earning \$30,000, while for employees earning \$300,000 employment tax costs are the 10<sup>th</sup> highest in the table.



**Figure 8 – percentage cost of employing a worker earning \$300,000 per year – four developing economies**

**Uruguay – cost percentages the same for all employees**

The Uruguayan social security system covers pensions, health insurance, sick pay and unemployment insurance. Charges are more heavily weighted towards employees than employers, with workers themselves carrying up to 64% of the cost burden in some cases.

The employer's contribution to employees' social security is 12.6% at all income levels.

The 12.6% rate gives Uruguay the 15<sup>th</sup>-highest level of employment taxes for employees paid \$30,000 but the country sits at 9<sup>th</sup> place in employment tax costs for staff paid \$300,000.

## 6 – CONCLUSION

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In recent years, many economies around the world have enjoyed very low levels of unemployment, even through the Covid-19 pandemic. This has seen the need for governments to manage the cost burden for businesses become less pressing. Times, however, are now changing.

2022 has seen interest rates spiral. At the time of writing, the UK, Spain, the Netherlands and Brazil all had rates of inflation above 10%, with Mexico, Italy and Germany not far behind.

Central Banks around the world have entered a period of increasing interest rates. The European Central Bank recently increased interest rates for the first time in 11 years, while the Bank of England has gradually been raising its rates since November of 2021. The effects of these increases on businesses' costs of borrowing will quickly start to add up over the coming months.

The impact of these factors on costs for businesses has already been serious in some countries. Governments are now under more pressure to help by reducing costs where possible. In particular, should more countries enter a recession, reducing the costs businesses face when employing workers will become even more important.

Worldwide, the mandatory costs (e.g. social security and pension contributions) per year of employing a workforce of 100 individuals on salaries of \$30,000 averages \$544,000 per year. This represents a simple lever available to governments to relieve pressure on financially-stressed businesses through a difficult period. Our study shows that there is significant scope for governments worldwide to do this.





# DATA ANNEX

**TABLE 1**

Salary of \$30,000 per year			
#	Country	Mandatory employment costs (USD)	Mandatory employment costs (percentage of salary)
1	Spain	\$10,875	36.3%
2	Japan	\$9,154	30.5%
3	Italy	\$9,102	30.3%
4	China	\$8,628	28.8%
5	Belgium	\$8,557	28.5%
6	France	\$8,216	27.4%
7	Brazil	\$8,198	27.3%
8	Portugal	\$7,125	23.8%
	<b>BRIC Average</b>	<b>\$7,082</b>	<b>23.6%</b>
	<b>Europe Average</b>	<b>\$6,202</b>	<b>20.7%</b>
9	Poland	\$6,144	20.5%
10	Germany	\$5,632	18.8%
11	Netherlands	\$5,556	18.5%
	<b>Global Average</b>	<b>\$5,468</b>	<b>18.2%</b>
12	Croatia	\$4,950	16.5%
13	India	\$4,335	14.5%
14	Mexico	\$4,294	14.3%
15	Uruguay	\$3,788	12.6%
16	Philippines	\$3,533	11.8%
17	Ireland, Republic of	\$3,315	11.1%
18	Peru	\$3,150	10.5%
19	United Kingdom	\$3,079	10.3%
20	Australia	\$2,810	9.4%
21	Romania	\$1,875	6.3%
22	New Zealand	\$1,209	4.0%
23	Israel	\$546	1.8%

TABLE 2

Salary of \$300,000 per year			
#	Country	Mandatory employment costs (USD)	Mandatory employment costs (percentage of salary)
1	France	\$121,014	40.3%
2	China	\$86,280	28.8%
3	Belgium	\$85,565	28.5%
4	Brazil	\$82,448	27.5%
5	Portugal	\$71,250	23.8%
	<b>BRIC Average</b>	<b>\$54,111</b>	<b>18.0%</b>
6	Croatia	\$49,500	16.5%
	<b>Europe Average</b>	<b>\$44,159</b>	<b>14.7%</b>
7	Italy	\$43,110	14.4%
8	United Kingdom	\$41,489	13.8%
	<b>Global Average</b>	<b>\$39,508</b>	<b>13.2%</b>
9	Uruguay	\$37,875	12.6%
10	Philippines	\$35,258	11.8%
11	Australia	\$34,877	11.6%
12	Ireland, Republic of	\$33,154	11.1%
13	Japan	\$30,225	10.1%
14	Peru	\$27,450	9.2%
15	Poland	\$19,982	6.7%
16	Romania	\$18,750	6.3%
17	Spain	\$18,006	6.0%
18	Mexico	\$16,169	5.4%
19	Germany	\$15,521	5.2%
20	India	\$13,546	4.5%
21	Netherlands	\$12,563	4.2%
22	New Zealand	\$12,090	4.0%
23	Israel	\$9,893	3.3%



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