



METHODOLOGICAL EXPLANATION

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WORK INCENTIVE INDICATORS

This methodological explanation relates to the data releases:

- *Work incentive indicators, Slovenia, annually (First Release)*



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1 PURPOSE

The purpose of data publication is to show tax burden on the labour market in Slovenia from different perspectives and make possible to observe changes in this field because of social or tax reform. The methodology for calculating work incentive indicators was set up by the OECD, so in most cases they are comparable with indicators calculated by the OECD for some countries on the basis of tax-benefit system data of these countries. The main statistics are the tax wedge indicator (showing tax burden on labour costs), the unemployment trap indicator (showing changes in net income when moving from unemployment to employment) and the low wage trap indicator (showing changes in net income when moving to a higher paid job).

2 LEGAL BASIS

- [Annual Programme of Statistical Surveys \(LPSR\) \(only in Slovene\)](#)
- [National Statistics Act \(OJ RS, No. 45/95 and 9/01\)](#)

3 UNIT DESCRIBED BY THE PUBLISHED DATA

The published data describe two units, namely two family types: a single person without children and a married couple with two children where only one of the spouses is employed.

4 SELECTION OF OBSERVATION UNIT

The observation unit is the average worker from whom different family types are derived.

In Slovenia the tax wedge indicator and the unemployment trap indicator are calculated only for the family type of a single person without children who earns 67% of average worker's gross earnings, while for the low wage trap indicator the family type of a married couple with two children is added, where one of the spouses earns 33% or 67% of average worker's gross earnings.

5 SOURCES AND METHODS OF DATA COLLECTION

Data are collected annually.

Only existing sources are used for calculating the work incentive indicators. The source of data on earnings is the statistical survey Earnings of Persons in Paid Employment by Legal Persons. The sources for tax-benefit data are data from

the Ministry of Labour, Family, Social Affairs and Equal Opportunities, the Ministry of Education, Science and Sport, the Ministry of Finance, the Ministry of the Environment and Spatial Planning and the Employment Service of Slovenia.

The tax–benefit situation as of 1 January of the reference year is taken into consideration (until 2017 the tax–benefit situation as of 1 July of the reference year was taken into consideration).

6 DEFINITIONS

Average worker is defined as an employee working in industry and services (activities B-N of NACE Rev. 2).

Gross earnings are average worker's gross earnings in industry and services (activities B-N of NACE Rev. 2) from the Earnings of Persons in Paid Employment by Legal Persons.

In **labour costs** only gross earnings, employer's social contributions and the payroll tax (eliminated on 1 January 2009) are included not all labour costs.

The tax wedge indicator measures the tax burden on labour costs or the share of labour costs which are taxed away because of social contributions and taxes. The indicator represents combined effects of taxes, social security contributions and social benefits.

The unemployment trap indicator measures the percentage of gross earnings which is taxed away through higher tax and social security contributions and the withdrawal of unemployment and social benefits when an unemployed person returns to employment. The unemployed person receives the unemployment benefit in the amount of 80% of employee's gross earnings who receives 67% of average worker's gross earnings.

The low wage trap indicator measures the percentage of gross earnings which is taxed away through the combined effects of income taxes, social security contributions and any withdrawal of social benefits when gross earnings increase from 33% to 67% of average worker's gross earnings.

7 EXPLANATIONS

7.1 CLASSIFICATIONS

No classifications are used (except while calculating wages for group of activities B-N), there is no statistical data editing and no seasonal adjustment.

Mining and quarrying, Manufacturing, Electricity, gas steam and air conditioning supply, Water supply, sewerage, waste management and remediation activities, Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles, Transportation and storage, Accommodation and food services

activities, Information and communications, Financial and insurance activities, Real estate activities, Professional, scientific and technical activities and Administrative and support service activities are included in **activities B to N** of [NACE Rev. 2](#).

7.2 DATA PROCESSING

DATA EDITING

Data editing was not performed.

WEIGHTING

Weighting was not performed.

SEASONAL ADJUSTMENT

Seasonal adjustment was not performed.

DATA PROCESSING OTHER

Work incentive indicators are calculated in the following way:

Tax Wedge (%) =

$$\left(\frac{\text{income tax} + \text{employer's soc.sec. contr.} + \text{employee's soc.sec. contr.} + \text{payroll tax}}{\text{gross earnings} + \text{employer's social security contributions} + \text{payroll tax}} \right) * 100$$

!image!72

Unemployment Trap (%) =

$$\left(1 - \frac{((\text{net income in work}) - (\text{net income out of work}))}{\text{gross earnings}} \right) * 100$$

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where

net income in work =

gross earnings + housing benefit + social assistance + in work benefits + family / child benefits - income tax - social security contributions

net income out of work =

unemployment benefit + housing benefit + social assistance + family / child benefits - income tax - social security contributions

Low Wage Trap (%) =

$$\left(1 - \frac{\text{change in net income (from 33 \% to 67 \%)} }{\text{change in gross earnings (from 33 \% to 67 \%)} } \right) * 100$$

where

net income =

gross earnings + housing benefit + social assistance + in work benefits + family / child benefits - income tax - social security contributions

7.3 INDICES

Indices are not published.

7.4 PRECISION

The survey is not conducted on the basis of a random sample.

7.5 OTHER EXPLANATIONS

8 PUBLISHING

- SiStat Database: [Earnings and labour costs](#) – Labour costs – [Work Incentive Indicators](#); shares in percentages by different family types.
- First Release (Social Protection - Social Security on the Labour Market): »Work Incentive Indicators«.
- Eurostat - [net earnings and tax rates](#)
- Organisation for Economic Co-operation and Development (OECD)
 - [Tax Wedge](#)
 - [Unemployment Trap](#)
 - [Low Wage Trap](#)

9 REVISION OF THE DATA

9.1 PUBLISHING OF PRELIMINARY AND FINAL DATA

Provisional data are not disseminated. Only final data are published.

9.2 FACTORS INFLUENCING COMPARABILITY OVER TIME

There are no breaks in time series, so all points in time are comparable.

Methodological explanation on revision of statistical data is available on

<http://www.stat.si/dokument/5299/RevisionOfStatisticalDataMEgeneral.pdf>.

10 OTHER METHODOLOGICAL MATERIALS

Methodological materials on SURS's website are available at <https://www.stat.si/statweb/en/Methods/QuestionnairesMethodologicalExplanationsQualityReports>.