Top Individual Income Tax Rates: How Does the U.S. Compare?

By James Nunns

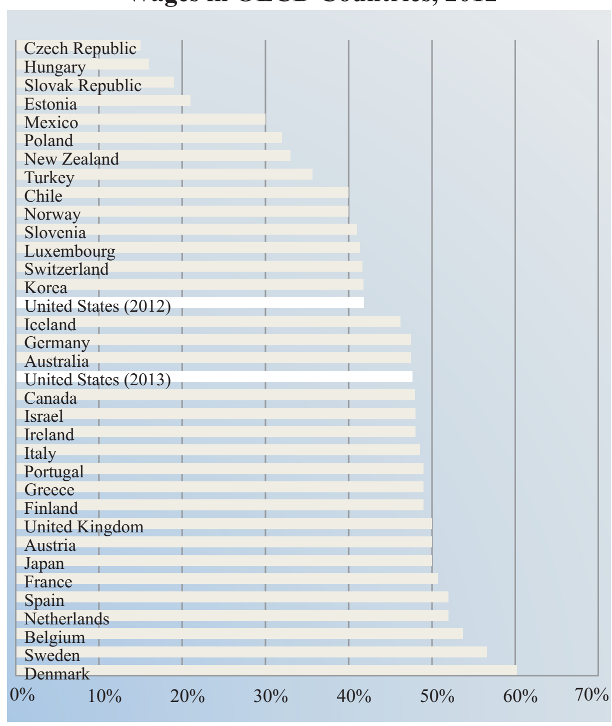
Discussions of the effect of taxes on international competitiveness usually focus on corporate income tax rates, but individual income tax rates may also affect a country's (or state's) ability to compete for workers.[1] That competition has been featured in recent media reports of French actor Gerard Depardieu moving to Russia to avoid increased French income tax rates and of golfer Phil Mickelson planning to flee higher California rates. The new 39.6 percent top federal individual income tax rate combined with California's new 13.3 percent top state rate have pushed the top combined U.S. rate on wages to 47.6 percent for 2013, higher than at any time since the top federal rate dropped below 50 percent in the mid-1980s.[2]

Recent rate increases will likely move the United States higher than its 20th place rank among the 34 OECD countries in 2012 (see graph). This year's 47.6 percent rate would have ranked 17th. Note, however, that this year's U.S. rate is only 0.1 percentage points higher than the 2012 rates of the two countries (Australia and Germany) that rank just above it. Further, countries besides the United States may have higher (or lower) rates in 2013 than in 2012, so the U.S. rank may not end up at 17th for 2013.

The United States has previously ranked higher than 17th — it was 15th in 2002 and 16th in both 2008 and 2009. It fell to 20th in 2010 only because several countries (Greece, Iceland, Ireland, and the United Kingdom) raised their top rates.

Even with its recent rate increases, the United States compares favorably among major OECD countries, particularly for the majority of Americans who live in states with top income tax rates lower than California's or with no state income tax at all. And would winters in Moscow be worth any amount of tax savings?

Top Individual Income Tax Rates on Wages in OECD Countries, 2012



Source: OECD Table I.7 and author's calculations.

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[1] *See* Eric Toder, "International Competitiveness: Who Competes Against Whom, and for What?" 65 *Tax L. Rev.* 505-534 (2012).

[2] The top combined rate reflects the deductibility of state income taxes for federal income tax purposes, which makes the combined rate lower than the sum of the federal and state rates. Top earners also bear a Medicare payroll tax (2.9 percent in 2012, 3.8 percent in 2013); lacking comparable payroll tax data for other nations, that's omitted here.

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