

# US vs European Taxes – Outlining the Differences

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## Overview

Tax structures in the US, UK and Europe differ significantly in rates, frameworks, and principles. The US uses a progressive federal income tax system with additional state and local taxes, and federal corporate taxes for businesses. In contrast, Europe and the UK impose higher income taxes and value-added taxes (VATs) to fund extensive social welfare programs like healthcare. These policies reflect differing societal priorities, shaping economic behaviors and government revenue. This analysis examines tax systems in Europe's five largest economies: Germany, the United Kingdom, France, Italy, and Spain.

## Sales Tax

Sales taxes in the US differ significantly from the UK and Europe's Value Added Tax (VAT) system, not only in the tax rate but also in the way they're applied. In the US, state-collected sales taxes are applied to consumers at the point of sale and vary widely by state and municipality, with Louisiana having the highest rate at 9.56%.<sup>1</sup> Five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—have no sales tax. In contrast, European VATs, range from 17%-27% and are applied at each stage of the supply chain, while the UK has a standard VAT of 20% on most goods and services.<sup>1</sup> While the VAT system leads to higher overall costs for consumers, the tax is baked into the cost of the item or service, rather than charged to the consumer at the point of sale.

## Personal Income Tax

The US, UK and Europe all use progressive income tax systems, and the exact amount of income tax you pay depends on amount of income you earn each year, but the tax rates for high earners in Europe are among the highest, exceeding 55% in countries like France. The UK is next, with its highest tax band (the equivalent of the U.S. tax bracket) coming in at 45% and finally the US topping at 37%.<sup>2</sup> However, state taxes in the US can increase overall rates. While not all states in the US levy an income tax, California imposes the highest income tax rate among those that do. California's top personal income tax bracket reaches 13.3%. When combined with federal income tax, this results in a total effective rate of 50.3%, comparable to some of the highest rates observed across European countries.<sup>3</sup>

## Corporate Tax

The US corporate tax rate was set at 21% by the Tax Cuts and Jobs Act of 2017, with proposals to raise it to 28% facing challenges.<sup>4</sup> Additionally, 44 states and Washington D.C. impose their own corporate taxes, ranging from 2.5% in North Carolina to 11.5%<sup>5</sup> in New Jersey. In Europe, corporate tax rates in major economies are generally between 24% and 25%, with Germany's trade tax supplementing its lower base rate.<sup>6</sup> The UK has a tiered system: a 25% rate for profits over £250,000, and a 19% rate for profits between £50,000 and £250,000.<sup>7</sup>

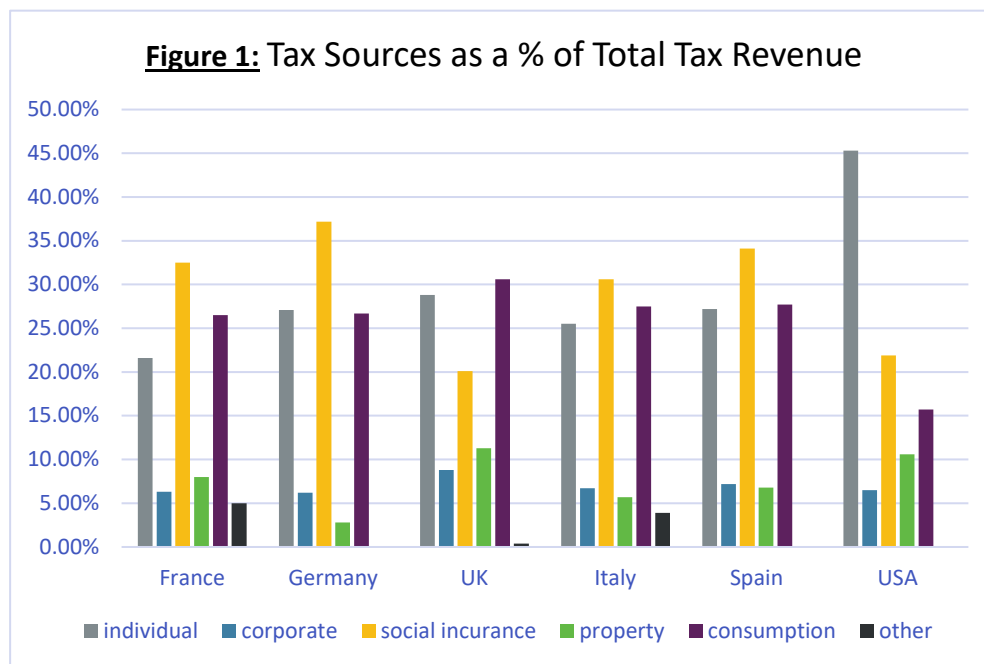
## Capital Gains Tax

Capital gains taxes differ significantly between the US and Europe. In the US, short-term gains are taxed at personal income tax rates, while long-term gains are taxed between 0% and 20%. European countries, however, impose higher fixed rates of 26% to 34% on capital gains for top earners. In the UK, capital gains are added to personal income to determine the tax rate paid. If your entire gain + income keeps you in the basic income tax band (the lowest band) the capital gains tax rate for individuals is 10%. If you're in a higher tax band, or your gains push you into a higher tax band, the capital gains tax rate for individuals is 20%. For gains on residential property, the rate jumps to 18%, after allowances, for those who fall in the basic income tax band and 28% for those in higher tax bands.<sup>8</sup>

## Socioeconomic Impact of Tax

Figure 1 below illustrates the composition of tax sources as a share of total tax revenue in the United States and the top 5 largest European countries by GDP.<sup>9</sup> This visual comparison highlights how different tax structures contribute to the overall fiscal frameworks in both regions.

The most significant impact of these differing structures is seen in tax-funded programs, particularly universal healthcare. European nations fund universal healthcare through comprehensive tax allocations. In contrast, the US provides healthcare mainly through programs like Medicaid and Medicare, with many individuals relying on private, often employer-sponsored, insurance.



## Conclusion

The tax structures in the US, UK and Europe highlight different societal priorities, affecting economic behavior and government revenue. The US system favors disposable income and like the UK, encourages personal investment, while Europe's higher taxes fund extensive social programs like universal healthcare. Understanding these differences is essential for navigating the economic landscapes of these regions.

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## *Economic Definitions*

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**Personal Income:** Consumer or Household Income (often referred to as personal income) tracks all income received by households including such things as wages and salaries, investment income, rental income, transfer payments, etc. This concept is not adjusted for inflation.

**Personal Spending:** Consumer or Household Spending (also referred to as consumption) tracks consumer expenditures on goods and services. This concept is not adjusted for inflation.

## *Disclosures*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> [2024 Sales Tax Rates: State & Local Sales Tax by State \(taxfoundation.org\)](https://www.taxfoundation.org/2024-sales-tax-rates-state-local-sales-tax-by-state/)

<sup>2</sup> [Income Tax rates and Personal Allowances : Current rates and allowances - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/collections/income-tax-rates-and-personal-allowances-current-rates-and-allowances)

<sup>3</sup> [Germany - Individual - Taxes on personal income \(pwc.com\)](https://www.pwc.com/gov/individual-taxes-on-personal-income)

<sup>4</sup> [President Biden's FY 2024 budget renews call for 28% corporate rate increase: PwC](https://www.pwc.com/us/en/issues/tax/president-biden-fy-2024-budget-renews-call-for-28%-corporate-rate-increase)

<sup>5</sup> [Combined State and Federal Corporate Tax Rates in 2022 \(taxfoundation.org\)](https://www.taxfoundation.org/combined-state-and-federal-corporate-tax-rates-in-2022/)

<sup>6</sup> [Germany - Corporate - Taxes on corporate income \(pwc.com\)](https://www.pwc.com/gov/corporate-taxes-on-corporate-income)

<sup>7</sup> [United Kingdom - Corporate - Taxes on corporate income \(pwc.com\)](https://www.pwc.com/gov/uk/corporate-taxes-on-corporate-income)

<sup>8</sup> [Simplified Guide to Capital Gains Tax on a House | Mercian Accountants](https://www.mercianaccountants.co.uk/simplified-guide-to-capital-gains-tax-on-a-house)

<sup>9</sup> [OECD Tax Revenue by Country: Sources of Government Revenue \(taxfoundation.org\)](https://www.taxfoundation.org/oecd-tax-revenue-by-country-sources-of-government-revenue/)