

Tax Wedge: What's New in 2025



What is the Tax Wedge?

The tax wedge represents the difference between the total labor cost (gross salary) and the actual amount received by the worker (net salary).

Evolution: From Contribution Wedge to Tax Wedge (2025)

Until 2024, the contribution wedge reduced employee social security contributions (e.g., -7% for incomes up to €25,000 and -6% for incomes up to €35,000).

From 2025, it becomes a tax-based benefit and applies only to employees with a total income of up to €40,000, excluding retired people.

New Rules for 2025

Total income up to €20,000 → Tax-free allowance on employment income:

- 7.1% up to €8,500
- 5.3% between €8,500 and €15,000
- 4.8% between €15,000 and €20,000

Income between €20,000 and €40,000 → Fixed allowance of €1,000, reduced beyond €32,000.

Income over €40,000 → No benefit.

Effects

Increased complexity: Employers must be aware of both the employee's salary and total income.

Updated tax declarations: Employees must provide more detailed data for correct application.

Possible adjustments: Any discrepancies will be corrected through the tax return.

Compared to the previous system, the new tax wedge is more complex but aims to provide greater benefits for low- and middle-income workers. However, for incomes between €8,500 and €9,000, the new system is less favorable due to the loss of the previous integration benefit.