THE IMPACT OF A PAYROLL TAX CREDIT ON EMPLOYMENT AND WAGES MAARTEN

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We use a panel of Belgian firm level data to analyze the incidence of payroll tax credits on employment and wages. To this end, we make use of a specific tax credit system implemented in Belgium between 1996 and 1999, targeted to manual workers and to specific type of firms. Using a difference-in-difference approach, we find that tax credits increased employment and pre-tax wages of workers that were targeted in the system, without any evidence of adverse effects on workers not enjoying tax credits. We find an average treatment effect of 5.7% for manual employment and of 1.7% for wages.

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