



Taxes paid by the richest and poorest households

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Coverage: UK **Theme:** The Economy

Impact of taxation on the richest and poorest households is set out in an Office for National Statistics report published today, which also looks at the impact of benefits on household incomes.

The effects of taxes and benefits on household income is an annual ONS publication and the new analysis for the 2009/10 financial year reveals that:

- Before taxes and benefits, the richest fifth of households received income that was 16 times greater than the poorest fifth, compared with 17 times greater in 2008/09
- After taxes and benefits, including benefits in kind, the gap between the richest and poorest fifth of households was to four-to-one, and income inequality was lower for retired than for non-retired households
- On average households paid £7,200 in direct taxes, 20 per cent of their gross income
- The richest fifth of households paid on average £19,500 per year in direct taxes, corresponding to 24 per cent of their gross income.

The richest fifth of households had disposable incomes that were six times that of the poorest fifth (£60,400 per year and £10,500, respectively).

Although households in lower income groups pay less tax than those in the top income bracket, indirect taxes such as Value Added Tax (VAT) take a higher proportion of the lower group's income.

The amount of indirect tax, such as VAT and duties on alcohol and fuel each household pays, is determined by how much they spend. On average the richest fifth paid two-and-a-half times as much indirect tax as the poorest fifth – £7,400 compared with the poorest fifth's £3,000 per year. This reflects higher spending by higher income households; the bottom fifth paid 25 per cent of their gross income in indirect taxes compared with 9 per cent for the richest fifth. The proportions

were almost unchanged on a year previous when they were respectively 25 per cent and 10 per cent.

A video explaining this story is available on the ONS You Tube channel at www.youtube.com/user/onsstats

Background Notes

1. Today's analysis, along with a technical paper can be found on the Office for National Statistics website at: <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=10336>
 2. This analysis uses several different measures of household income. Original income (before taxes and benefits) includes income from wages and salaries, self-employment, occupational pensions and investments. Gross income includes all original income plus cash benefits provided by the state. Disposable income is that which is available for consumption, and is equal to gross income less direct taxes. Post-tax income is calculated by estimating the payment of indirect taxes, and deducting these from disposable income. Final income is calculated as post-tax income plus benefits in kind received from the state.
 3. A retired household is defined as one where the combined income of retired members amounts to at least half the total gross income of the household, where a retired person is defined as anyone who describes themselves as 'retired' or anyone over minimum National Insurance pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.
 4. Income quintile groups are based on a ranking of households by equivalised disposable income. Equivalised incomes are standardized to account for the fact that households of differing size or composition will require different incomes to achieve the same standard of living. In this analysis the modified-OECD equalisation scale was used. This is the first year for which all analysis has used the modified scale – previously the McClements Scale was utilised. Please note that comparisons with previous year's data also used the modified-OECD equalisation scale. For more information please see: <http://www.statistics.gov.uk/cci/article.asp?ID=2349>
 5. The standard rate of VAT was temporarily reduced to 15 per cent on 1 December 2008 and returned to 17.5 per cent on 1 January 2010. Therefore, for three quarters of the analysis the rate of VAT was 15 per cent and for one quarter it was 17.5 per cent. On 4 January 2011 the standard rate increased to 20 per cent and will feature in the 2010/11 results scheduled for release in 2012.
 6. Details of the policy governing the release of new data are available from the media office.
 7. National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.
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