

Poorest Households Spending More on VATable Items than in 1986

Coverage: **UK**

Date: **31 October 2011**

Geographical Area: **UK**

Theme: **Economy**

Theme: **People and Places**

Foreword

Estimates for the top and bottom income quintile groups only. Estimates for all quintile groups are available as data reference tables and were included after the original date of release.

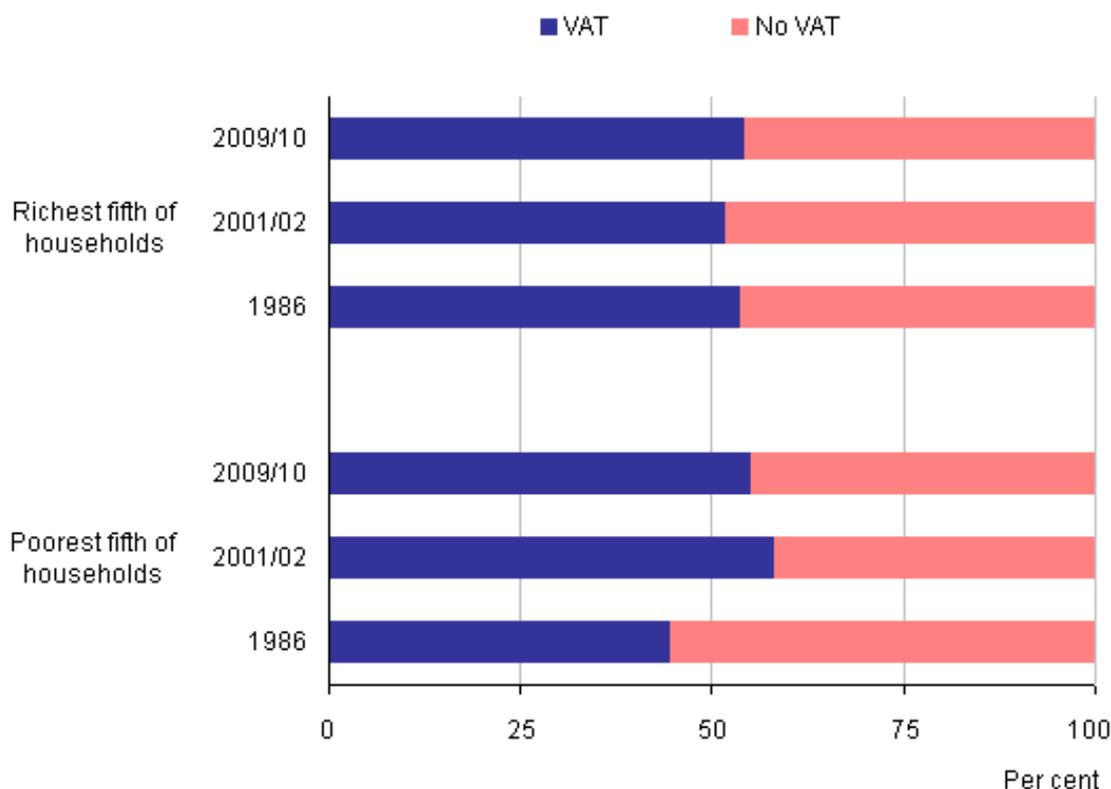
Poorest households spending more on VATable items than in 1986

The poorest fifth of households in the UK spent a higher proportion of their expenditure on goods and services that attracted Value Added Tax (VAT) in 2009/10 than in 1986. Poorer households in 1986 spent a smaller proportion of their expenditure, than poorer households in 2009/10, on discretionary items which attracted VAT. Finally, the data shows the poorest fifth of households in the UK pay more in VAT as a percentage of their disposable income than the richest fifth.

Expenditure on VATable and non-VATable items

The poorest fifth of households in the UK, as measured by equivalised household disposable income, spent a higher proportion of their expenditure on goods and services that attracted Value Added Tax (VAT) in 2009/10 than in 1986.

Figure 1. Proportion of weekly household expenditure on VATable and non-VATable items: by equivalised household disposable income groups



Source: Living Costs and Food Survey - Office for National Statistics

Download chart

[XLS](#) [XLS format](#)
(26.5 Kb)

In 1986 the poorest fifth of households, spent 55 per cent of their weekly expenditure on non-VATable items, compared with 45 per cent on VATable items. However, in 2001/02, this pattern had reversed. The poorest fifth of households spent, on average, 42 per cent on items which did not have any VAT levy compared with 58 per cent on items which did. In 2009/10 this reversal was still evident, although to a lesser extent, as the poorest households spent, on average, 45 per cent of their total weekly expenditure on items which did not attract payment of VAT, compared with 55 per cent on those which did.

For the richest fifth of households there was no marked change in the proportion of their expenditure on VATable compared with non-VATable items over the period.

Changes in the types of items households buy

The significant change over the period was the introduction of VAT on domestic fuel in April 1994. Since it has been levied at a reduced rate of 5.0 per cent since September 1997 (and 8.0 per cent between April 1994 and August 1997) it accounted for less than 3 per cent of average household

VAT in 2009/10. In addition it is unlikely that the other policy changes (such as the introduction of the reduced rate on some personal health related products and on some items to increase home energy efficiency) would have had a significant impact on the average amount of household VAT paid, with the exception of changes to standard rates in 1991 and 2008.

The increase between 1986 and 2009/10, in the proportion of average household expenditure on VATable items, suggests that there were changes in the composition of household spending over the period. In particular, poorer households in 1986 spent a smaller proportion of their expenditure, than poorer households in 2009/10, on discretionary items which attracted VAT. For example, after taking into account changes in prices, the poorest fifth of households spent, on average, around 250 per cent more on new cars, holidays abroad, meals out, audio/visual goods (including TVs) and photographic equipment combined, in 2009/10 than in 1986. This is compared with an increase of 20 per cent for the richest households.

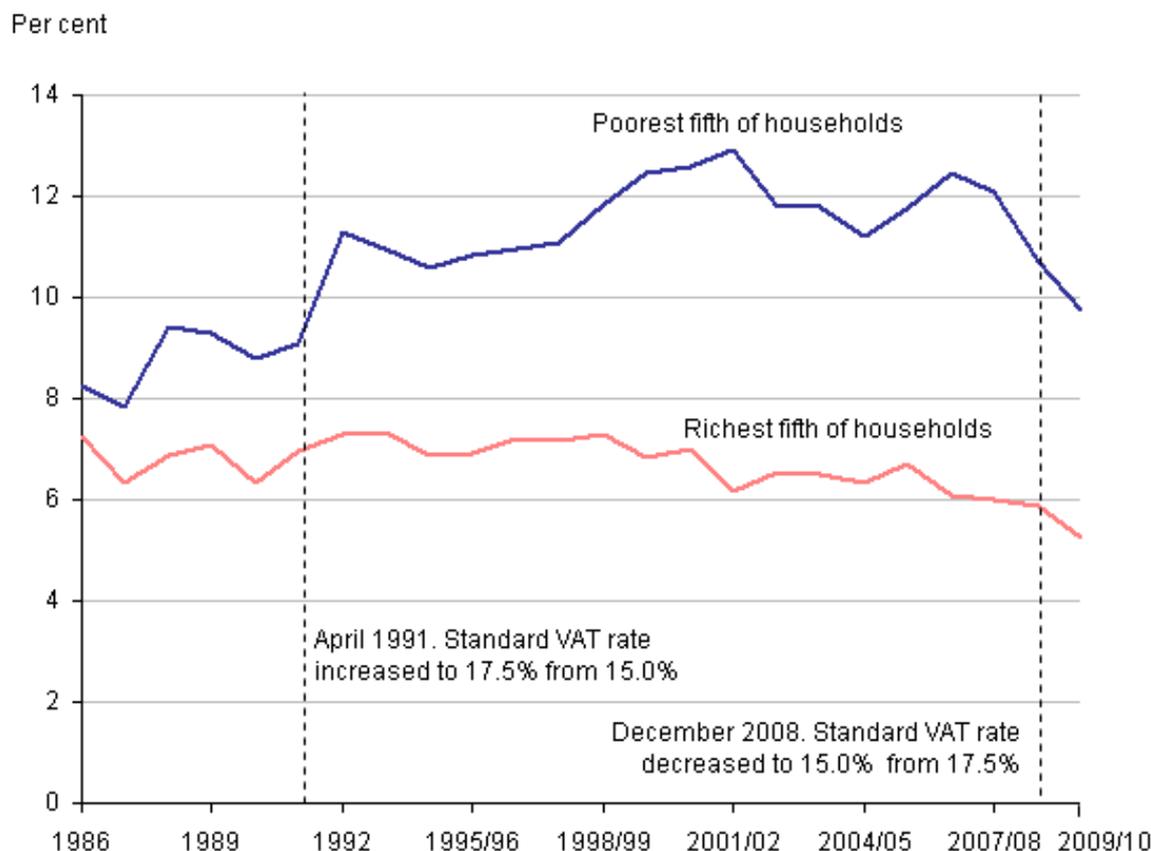
Notes

1. See Table 4 of [HMRC Value Added Tax Statistical Bulletin](#)
2. All five categories of goods have VAT levied on them (although some expenditure for meals out do not require VAT, for example where cold food is eaten off premises).

VAT as a proportion of disposable income

Looking at VAT overall, the poorest fifth of households in the UK pay more in VAT as a percentage of their disposable income than the richest fifth. The difference between poor and rich households, in the percentage paid in VAT, increased in the period 1986 to 2001/02, whereas after 2001/02 the gap was relatively stable.

Figure 2. Average household VAT as a proportion of household disposable income: by household disposable income groups



Source: Living Costs and Food Survey - Office for National Statistics

Download chart

[XLS](#) [XLS format](#)

(14.5 Kb)

In 1986 the gap between income poor and rich households was 1 percentage point. In this year, the poorest fifth paid 8 per cent of their household disposable income in VAT on average, compared with 7 per cent for the richest fifth. This gap increased to almost 7 percentage points in 2001/02, the widest in the period, when the poorest households paid 13 per cent of their household disposable income in VAT compared with 6 per cent for the richest households.

Between 2001/02 and 2009/10, the latest period for which estimates are available, the gap between the poorest and richest households in the proportion of income which was paid in VAT, remained at between 5 and 6 percentage points. However, the fall in the standard rate of VAT in December 2008, from 17.5 per cent to 15.0 per cent, benefited the poorest households more than the richest households. Noting that only the last four months of the 2008/09 financial year were under the lower rate, the proportion of household disposable income paid in VAT fell more sharply between 2007/08 and 2009/10 for poor households (2 percentage points), than for rich households (1 percentage point). It should also be noted that the standard rate of VAT returned to 17.5 per cent in January 2010 so the last three months of the 2009/10 financial year were at this higher rate.

The poorest fifth of households paid 10 per cent of their disposable income in VAT in 2009/10, the lowest since 1991. The richest fifth of households paid 5 per cent of their disposable income in VAT in 2009/10 – the lowest proportion during the period 1986 to 2009/10.

Disposable income, expenditure and VAT

For the poorest fifth of households, expenditure grew faster than income between 1986 and 2001/02, after which income grew faster than expenditure in the period 2001/02 to 2009/10. However, across the whole period 1986 to 2009/10, income and expenditure increased by approximately the same amount (almost 50 per cent). Therefore, changes in the composition of expenditure as outlined above, drove the general increase in the proportion of disposable income paid in VAT by the poorest households, rather than expenditure growth outstripping income growth.

Table 1. Average annual household disposable income and expenditure and VAT in 2009/10 prices

	Average per household (£ per year)					
	1986	2001/02	2009/10	Growth rates (%)		
				1986 to 2001/02	2001/02 to 2009/10	1986 to 2009/10
Poorest fifth of households						
Disposable income	7,101	8,729	10,535	23	21	48
Expenditure	9,567	13,234	14,252	38	8	49
VAT						
All items	586	1,129	1,029	93	-9	76
Discretionary items ²	28	118	102	321	-14	264
Richest fifth of households						
Disposable income	37,495	58,187	60,388	55	4	61
Expenditure	32,384	42,182	39,396	30	-7	22
VAT						
All items	2,726	3,591	3,173	32	-12	16
Discretionary items ²	462	771	570	67	-26	23

Table source: Office for National Statistics

Table notes:

1. Adjusted to real terms using the implied expenditure deflator for the household sector.
2. Example discretionary items as outlined in this analysis.

Download table

XLS [XLS format](#)
(24.5 Kb)

Furthermore, payment of VAT also increased by a higher proportion than expenditure between 1986 and 2009/10 for the poorest households. Therefore, the poorest households spent more money on VATable items in 2009/10 than in 1986.

Over the same period, disposable income for the richest fifth of households rose by 61 per cent, while expenditure increased by 22 per cent. This suggests the small fall in VAT as a proportion of disposable income for these households was driven by an increase in their disposable income relative to their expenditure.

Background notes

1. Rich and poor households

Households have been ranked according to their equivalised disposable income and then divided into five groups of equal size. In this analysis only the top and bottom groups are presented, with the poorest households being those in the bottom quintile group and the richest households those in the top quintile group.

Previous analysis has shown there are different patterns and effects of indirect taxes when households are analysed using household expenditure. For example households may be income poor but able to draw on savings to fund expenditure. Finally, no allowance has been made for differences in the assets held by households even though some households may have little income but significant assets to draw on.

2. VAT rates

- April 1991 standard rate VAT increased to 17.5 per cent from 15.0 per cent,
- April 1994 a reduced rate VAT of 8.0 per cent was put on domestic fuel. This increased to 8.5 per cent in October 1994 and has been 5.0 per cent since September 1997,
- December 2008 standard rate reduced to 15.0 per cent (two-thirds of 2008/09 LCF data at the higher rate, one-third at the lower),
- January 2010 standard rate increased to 17.5 per cent (three-quarters of 2009/10 at lower rate, one-quarter at higher rate),

- January 2011 standard rate increased to 20.0 per cent (not included in this analysis but will contribute, in part, to the 2010/11 dataset published in 2012).

3. Sources

Data are from the [Living Costs and Food Survey](#) (LCF), formally known as the Expenditure and Food Survey (EFS).

4. Copyright and reproduction

© Crown copyright 2011

Under the terms of the [Open Government Licence](#) and UK Government Licensing Framework, anyone wishing to use or re-use ONS material, whether commercially or privately, may do so freely without a specific application for a licence, subject to the conditions of the OGL and the Framework.

For further information, contact the Office of Public Sector Information, Crown Copyright Licensing and Public Sector Information, Kew, Richmond, Surrey, TW9 4DU.

Tel: +44 (0)20 8876 3444

Email psi@nationalarchives.gsi.gov.uk

5. Follow ONS on [Twitter](#) or [Facebook](#) or view our podcasts on [YouTube](#).
6. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

Copyright

© Crown copyright 2011

You may use or re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document is also available on our website at www.ons.gov.uk.

Supporting Information

Further information

[Regressive and Progressive taxes 2001/02 - 2008/09](#)

An analysis of how UK household indirect taxes can be both regressive and progressive depending on whether the distribution of households were ranked according to their disposable income, or their expenditure.

Glossary

Equivalisation

Equivalisation is used in producing the household distribution used in this analysis as it adjusts incomes according to differences in household size and composition. The equivalence scale used is the modified-OECD scale. Data in the Table have been adjusted to 2009/10 prices using the implied expenditure deflator for the household sector. Data for 1986 are not weighted to the population and are weighted for 2001/02 and 2009/10.

Appendices

Contact

Richard Tonkin

Household Income and Expenditure Analysis

hie@ons.gsi.gov.uk

Telephone: +44 (0)1633 456082