

## **The effects of taxes and benefits on household income, 2004-05**

### **NAVIGATION INSTRUCTIONS**

#### **Overview**

The effects of taxes and benefits on household income, 2004-05 is an Internet only release produced in pdf format. The spreadsheets behind the figures and tables are available for use in MS Excel by clicking on the figure/table number or the figure/table itself. Then click on File-> Save As if you want to process the data on your computer.

#### **Navigation**

The PDF file has a bookmarks panel down the left hand side, which allows you to jump from one section to another. The main chapters, further reading and the appendix have lower levels of bookmarks enabling you to jump to subheadings within a file and to the charts, tables and maps contained in each chapter. You can show and hide the bookmarks panel using the Show/Hide Navigation Pane toolbar to the right of the printer icon. Select Thumbnails if required by clicking on the appropriate tab when the pane is showing. In addition, the [table contents page](#) have been linked to the relevant place in the publication. In the contents pages, clicking on the chart or table number (or the title) will take you to the associated place in the file. Clicking on the number after the text will take the user directly to that page.

#### **Searching**

The first large binoculars button at the top of the screen will do a simple search on a word in the current document. To see if the word appears again in the publication click again on the binoculars button.

#### **Spreadsheets (click on any activated chart/table)**

Displaying a spreadsheet is slow the first time but is faster subsequently. In Acrobat Reader v.4 select File->Preferences>Retain View on Close to return to the same PDF page.

#### **Screen Resolution**

Adobe Acrobat works with any screen resolution. For this product 800x600 is acceptable, but 1024x768 works better if the monitor and graphics card are able to. To change the view type to one which best suits your screen, use the View menu.

#### **Other**

If the text looks blurry on screen, this may be improved by visiting File Menu, Preferences, General and switching Smooth Text and Monochrome images off.

# The effects of taxes and benefits on household income, 2004/05

**Francis Jones**  
Office for National Statistics

This analysis examines how taxes and benefits redistribute income between various groups of households in the United Kingdom. It shows where different types of households and individuals are in the income distribution and looks at the changing levels of income inequality over time. The analysis is published annually. Table 1 at the end of the summary section provides a full list of tables and figures.

## Redistribution through taxes and benefits

Government intervention, by means of taxes and benefits, alters the incomes of households. In general, households in the top half of the income distribution pay more in taxes than they receive in benefits while the reverse is true for those in the lower half. Taxes and benefits therefore tend to reduce the differences between households' incomes. As shown in Table 4 for 2004/05, before government intervention, the top fifth of households have an average of around £66,300 per year in original income (that is from sources such as earnings, occupational pensions and investments). This is around 16 times as great as the figure of around £4,300 for the bottom fifth. After taking account of taxes and benefits, the ratio for final income is greatly reduced to four to one. The effect of the difference between original income and final income for 2004/05, broken down by quintiles, is also shown graphically in Figure 1.

Cash benefits play the largest part in reducing inequality. The majority of these go to households in the lower part of the distribution, with the poorest two fifths receiving 59 per cent of the total. As shown in Table 4, these households typically receive an average £6,300 from cash benefits, representing around 60 per cent of gross income for the bottom quintile group and 36 per cent for the second quintile. These proportions are even higher for retired households in this part of the distribution (see Table 12). The majority of cash benefits for non-retired households come from non-contributory benefits and, for retired households, from contributory benefits, particularly the state pension. Figure 2 shows gross income broken down into original income and cash benefits by the quintile distribution for equivalised disposable income.

Figure 1  
**Original income and Final income by quintile groups for ALL households, 2004/05**

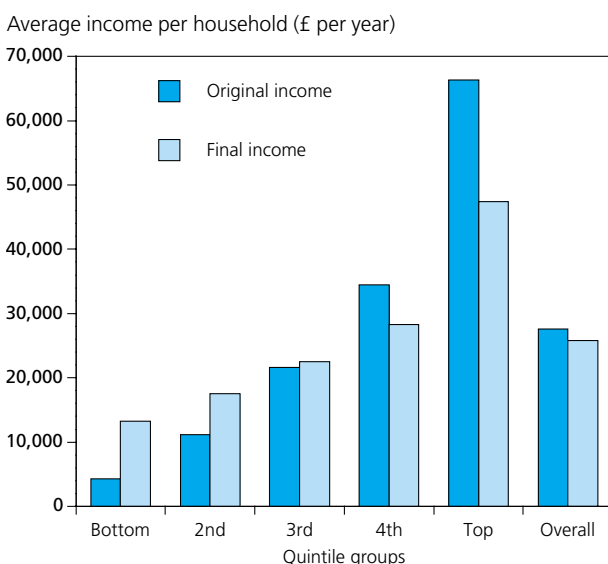
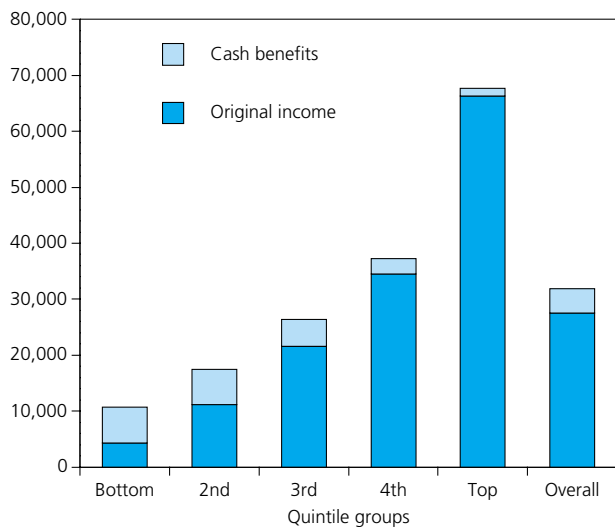


Figure 2  
Gross income by quintile groups for ALL households, 2004/05

Average income per household (£ per year)



Direct taxes, except for Council tax and Northern Ireland rates, are progressive – they take a larger proportion of income from those higher up the income distribution because tax is not paid on the first tranche of income and higher rates of tax are paid on higher incomes. Therefore, they also contribute to a reduction in inequality although not to the same extent as cash benefits. The proportion of gross income paid in direct tax (Table 3) by the top fifth of households is 25 per cent compared with 10 per cent for the bottom fifth. For Council tax in Great Britain and domestic rates in Northern Ireland, the top quintile group pays the largest absolute amount (Table 14A). On the other hand, when expressed as a proportion of gross income (Table 3), the impact of Council tax in Great Britain and domestic rates in Northern Ireland is higher in the lower half of the distribution.

Indirect taxes have the opposite effect to direct taxes taking a higher proportion of income from those with lower incomes, that is, they are regressive. On average, higher income households channel a relatively high proportion of their income into savings and mortgage payments. These do not attract indirect taxes. In addition, the recorded expenditure of some lower income households is higher than their recorded current incomes. This implies that some expenditure is being funded through saving, borrowing, or other sources, and means that payments of indirect tax will be relatively larger as a proportion of gross income. However, the top fifth of households still pay more indirect tax in absolute terms than other households, see Table 14A.

Households also receive benefits in kind from services provided free or at subsidised prices by government, such as health and education. The amount received falls gradually as income increases indicating that these benefits also lead to a reduction in inequality.

### Characteristics across the income distribution

As described in more detail later, households are ranked by their equivalised disposable income, which the analysis uses as a proxy for their standard of living. Equivalisation is a standard methodology that takes into account the size and composition of households and adjusts their incomes to recognise differing demands on resources. As a result, larger households will be lower down the income distribution than smaller households with the same absolute income.

Some household types are more likely to be in higher income groups, while others tend to appear in the lower groups (Tables 4, 15 and 15A). Single person households are slightly more likely to be in the higher income groups, while households consisting of two adults with no children, are very clearly concentrated in the higher groups.

Households containing two adults with children tend to be not quite as high up the equivalised income distribution as those with no children. Those with one child tend to have slightly higher incomes than those with two children, while those with three or more children are more likely to be in the bottom half of the distribution.

Households which consist of only one adult with children are much more concentrated in the lower income groups. Retired households are also concentrated in the bottom half of the income distribution.

Adults and children are not spread evenly throughout the income distribution. For example, there are more children in households in the lower half of the distribution. Among adults, women appear fairly evenly spread across income groups but there are more men in households in the higher groups than in the lower groups.

### Trends in income inequality

All the estimates presented in this analysis are based on sample surveys, and as such are subject to sampling error. In particular this needs to be borne in mind when looking at year-to-year changes. However, by looking at data over several years it is possible to discern underlying trends. Since 2001/02 the underlying trend in inequality of disposable income appears to have been a gradual reduction in the extent of inequality.

As shown in Figure 5 and Table 27, inequality of disposable income increased rapidly in the second half of the 1980s, reaching a peak in 1990. After 1990 the trend was downwards, although inequality did not return to the levels seen before the increase of the late 1980s. After 1995/96 inequality began to rise again reaching a peak in 2001/02 – actually at a level very similar to that seen in 1990. Since 2001/02 inequality has started to decline again.

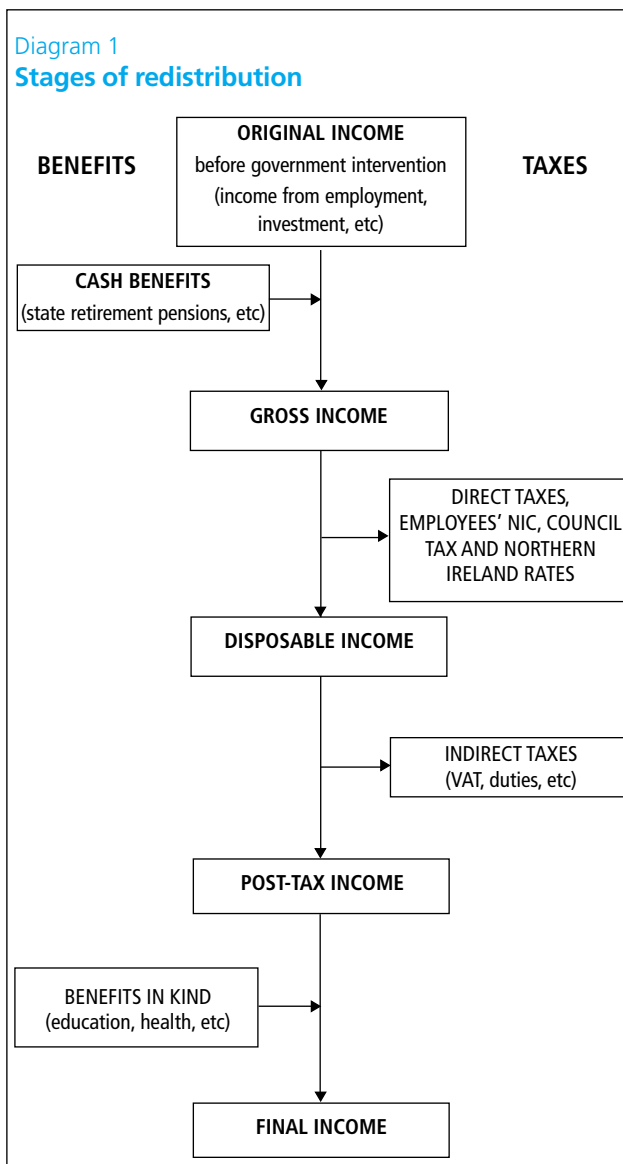
Changes in the income distribution over time have been the focus of much study. This article includes some discussion of work which has attempted to identify the factors behind these changes in the level of inequality.

## Concepts and sources

### Redistribution through taxes and benefits

This article examines how taxes and benefits redistribute income. It adds the value of government benefits to the private income of households and subtracts the value of taxes to look at different measures of household income.

Diagram 1 shows the stages in the redistribution of income used in this analysis. Household members receive income from employment, occupational pensions, investments and from other non-government sources. This is referred to as original income. The diagram shows the various ways that government raises revenue from households through taxation and distributes benefits to them in cash and in kind.



The analysis only allocates those taxes and benefits that can reasonably be attributed to households. Therefore, some government revenue and expenditure is not allocated such as revenue from corporation tax and expenditure on defence and public order. There are three main reasons for non-allocation. Some taxes and benefits fall on people who do

not live in private households. In other cases, there is no clear conceptual basis for allocation to particular households. Finally, there may be a lack of data to enable allocation. In this study, some £304 billion of taxes and compulsory social contributions have been allocated to households. This is equivalent to 62 per cent of general government expenditure, which totalled around £492 billion in 2004 (Table 13). Similarly, £270 billion of cash benefits and benefits in kind have been allocated to households, making up 55 per cent of general government expenditure (Table 13).

The estimated values of taxes and benefits reflect the methodology used in this study. They are based on assumptions about which taxes and benefits should be covered and to whom they should apply. Where it is practical, the methodology used is similar to that used in previous years. However, there have been some changes in the underlying surveys and improvements in the methodology. For example, changes from 1996/97 onwards include new questions for the self-employed and the use of data which are grossed up to the UK household population. From 2000/01 onwards the analysis used a slightly different definition of a household (see Appendix 2, paragraph 7). From 2002/03 water charges were no longer treated as a tax (see Appendix 2, paragraph 27). From 2003/04 there was a change to the treatment of tax credits (see Appendix 2, paragraph 22). The effects of these changes were fairly small, but not negligible.

For this reason, one should be cautious about making direct comparisons with earlier years. Comparisons with previous years are also affected by sampling error. This is especially true for estimates which are based on sub-samples such as the results for decile or quintile groups, or particular household types, which will be subject to relatively larger sampling errors.

Time series are presented for some of the more robust measures, and these include Gini coefficients and other measures of inequality in Tables 26 and 27. We do not think it is appropriate to equalise the final income measure because this contains notional income from benefits in kind (for example, state education): the equivalence scales used in the article are based on actual household spending and do not, therefore, apply to such items as notional income.

### Unit of analysis

The unit of analysis used in this study is the household. The households are ranked by their equivalised disposable income, which the analysis uses as a proxy for their standard of living. Equivalisation is a standard methodology that takes into account the size and composition of households and adjusts their incomes to recognise differing demands on resources. For example, a couple would need a higher income than a single person to achieve the same standard of living. The equivalence scale used in this analysis is the *McClements scale* (**before** housing costs are deducted). So a single person's income of £6,100 is treated as equivalent to an income of £10,000 for a couple (see Appendix 2, paragraph 48). Households with the same equivalised income do not necessarily have the same standard of living where other

characteristics are different. For example, households which own their homes outright would be in a better position than identical households with the same income which had to pay rent or mortgage payments. Also, households which include disabled people may require additional resources to maintain the same standard of living as those without disabled people. Equivalisation does not adjust for these differences.

Equivalised income is used only to rank the households. Most monetary values shown in the analysis are not equivalised. Where equivalised amounts are given, they are shown in *italics*. Once the households have been ranked, the distribution is split into five (or ten) equally sized groups – that is, quintile groups (or decile groups). The bottom and second quintile groups are those with the lowest equivalised disposable incomes while the fourth and top groups have the highest.

### Data source and quality

The main data source for this analysis is the Expenditure and Food Survey (EFS) which covers about 7,000 households in the United Kingdom each year. It only covers private households – people living in hotels, lodging houses and in institutions, such as old peoples' homes, are excluded. The EFS brought together and replaced the Family Expenditure Survey (FES) and the National Food Survey from 2001/02. However, the income questions were essentially unchanged.

The survey results are re-weighted and grossed so that the totals reflect the whole household population in terms of age, sex and region. Different initial weights are applied to different types of household in order to correct for over or under-representation of these groups in the responding sample of the EFS. Studies have indicated that the EFS suffers from under-representation of individuals at the very top of the income distribution. This under-representation is not directly corrected by the re-weighting and grossing methodology and may lead to some under-estimation of income. Those who are interested in the level of income for the top decile group of the income distribution should refer to the Department for Work and Pensions publication *Households Below Average Income 2004/05*.<sup>1</sup> This analysis uses data from the Family Resources Survey and contains an income adjustment for households at the top of the income distribution, which is made using the HM Revenue and Customs' (HMRC) Survey of Personal Incomes.

There is thought to be a degree of under-reporting in the EFS for some benefits. There is evidence that this may be particularly true for the estimates of tax credit receipts. The estimates presented here are similar to those based on the DWP's Family Resources Survey, although there is currently some divergence between the survey based estimates of total household receipts of tax credits, and HMRC's estimate of total payments. The EFS based estimate of household receipts is only around 61 per cent of the HMRC figure.

Further details of the concepts and methodology used are given in Appendix 2.

The results of the analysis are reported in three sections. The first looks at the effects for all households. Non-retired and retired households have distinct income and expenditure patterns and so the tax and benefit systems affect the two groups in very different ways. Therefore, the second and third sections look separately at results for non-retired and retired households.

Table 1  
A list of table and figure numbers

Table or chart name	Description	Old table or chart name (used prior to 2000/01)
Table 1	A list of table and figure numbers	
Table 2	Percentage shares of household income and Gini coefficients, 2004/05	A
Table 3	Taxes as a percentage of gross income, disposable income and expenditure for all households by quintile groups, 2004/05	B
Table 4	Summary of the effects of taxes and benefits by quintile groups of all households, 2004/05	C
Table 5	Percentage shares of household income and Gini coefficients for non-retired households, 2004/05	D
Table 6	Summary of the effects of taxes and benefits on non-retired households by quintile groups, 2004/05	E
Table 7	Cash benefits for non-retired households by quintile groups, 2004/05	F
Table 8	Taxes as a percentage of gross income for non-retired households by quintile groups, 2004/05	G
Table 9	Indirect taxes as a percentage of (a) disposable income and (b) household expenditure for non-retired households by quintile groups, 2004/05	H
Table 10	Benefits in kind for non-retired households by quintile groups, 2004/05	I
Table 11	Percentage shares of household income and Gini coefficients for retired households, 2004/05	J
Table 12	Summary of the effects of taxes and benefits on retired households by quintile groups, 2004/05	K
Table 13	Taxes and benefits allocated to households as a percentage of general government expenditure, 2004	1
Table 14	Average incomes, taxes and benefits by decile groups of all households, 2004/05	2A
Table 14A	Average incomes, taxes and benefits by quintile groups of all households, 2004/05	
Table 15	Household characteristics of decile groups of all households, 2004/05	2B
Table 15A	Household characteristics of quintile groups of all households, 2004/05	
Table 16	Average incomes, taxes and benefits by decile groups of non-retired households, 2004/05	3A
Table 16A	Average incomes, taxes and benefits by quintile groups of non-retired households, 2004/05	
Table 17	Household characteristics of decile groups of non-retired households, 2004/05	3B
Table 17A	Household characteristics of quintile groups of non-retired households, 2004/05	
Table 18	Average incomes, taxes and benefits by decile groups of retired households, 2004/05	4A
Table 18A	Average incomes, taxes and benefits by quintile groups of retired households, 2004/05	
Table 19	Household characteristics of decile groups of retired households, 2004/05	4B
Table 19A	Household characteristics of quintile groups of retired households, 2004/05	
Table 20	Average incomes, taxes and benefits by decile groups of non-retired households without children, 2004/05	5
Table 21	Average incomes, taxes and benefits by decile groups of non-retired households with children, 2004/05	6
Table 22	Distribution of households by household type, 2004/05	7
Table 23	Summary of the effects of taxes and benefits, by household type, 2004/05	8
Table 24	Average incomes, taxes and benefits by decile groups of households (ranked by unadjusted disposable income), 2004/05	9
Table 25	Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2004/05	10
Table 26	Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for all households, 1982 to 2004/05	1
Table 27	Gini coefficients for the distribution of income at each stage of the tax-benefit system and P90/P10 and P75/P25 ratios for disposable income for all households, 1980 to 2004/05	2 3
Figure 1	Original income and final income by quintile groups of all households, 2004/05	
Figure 2	Gross income (original income & cash benefits) by quintile groups of all households, 2004/05	
Figure 3	Sources of gross income by quintile groups of equivalised disposable income, 2004/05	Chart 2
Figure 4	Summary of the effects of taxes and benefits on all households, 2004/05	Chart 3
Figure 5	Gini coefficients, 1980 to 2004/05	Chart 4
Figure 6	Income stages by non-retired household types, 2004/05	Chart 5
Diagram 1	Stages of redistribution	Chart 1
Diagram 2	Lorenz curve for a typical income distribution	Diagram B
Diagram 3	Complete income inequality	Diagram A

Note:

Symbols The following symbols have been used throughout the article:

0 negligible (less than half the final digit shown)  
- nil

## Results for all households

### Overall effect

Government intervention affects household income in various ways. Money is taken through taxes, both direct and indirect, and given back in the form of cash benefits and the provision of free or subsidised services. In general, households in the bottom half of the income distribution tend to be net gainers from the tax and benefit systems while those in the top half pay more in tax than they receive in benefits. Therefore, taken as a whole, government intervention leads to income being shared more equally between households. Table 2 summarises the overall effects.

**Table 2**  
Percentage shares of household income and Gini coefficients<sup>1</sup>, 2004/05

	Percentage shares of equivalised income for ALL households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
<b>Quintile group<sup>2</sup></b>				
Bottom	3	7	8	7
2nd	8	11	13	12
3rd	15	16	17	16
4th	24	23	22	22
Top	50	43	41	43
<b>All households</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Decile group<sup>2</sup></b>				
Bottom	1	3	3	2
Top	32	27	26	27
<b>Gini coefficient (per cent)</b>	<b>51</b>	<b>36</b>	<b>32</b>	<b>36</b>

<sup>1</sup> This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

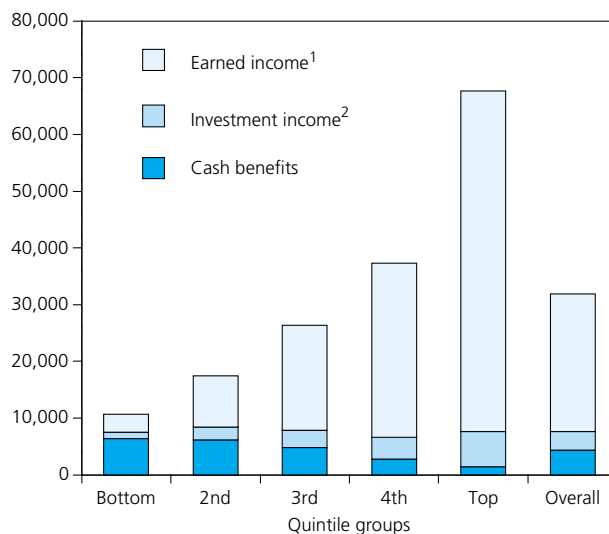
<sup>2</sup> Households are ranked by equivalised disposable income.

In this analysis, income before taxes and benefits is termed original income and includes income from earnings, occupational pensions and investments. The extent of inequality in this measure of income can be seen by looking at the proportion of total original income received by groups of households in different parts of the income distribution. At this stage, the richest fifth of households (those in the top quintile group) receive 50 per cent of all original income (Table 2). This compares with only 3 per cent for households in the bottom fifth.

Adding cash benefits to original income produces gross income. In contrast to original income, the amount received from cash benefits is higher for households lower down the income distribution than for those at the top. This has an equalising effect on the distribution. It raises the share of income received by the bottom quintile group to 7 per cent of gross income while the share of the top fifth is reduced to 43 per cent. Figure 3 shows a breakdown of gross income by quintiles.

**Figure 3**  
Sources of gross income by quintile groups of equivalised disposable income, 2004/05

Average per household (£ per year)



<sup>1</sup> Earned income includes wages and salaries, income from self-employment and income from 'fringe benefits'.

<sup>2</sup> Investment income includes occupational pensions and annuities.

The tax system has a smaller effect on income inequality. While direct taxes have a further equalising effect on the shares of income, this is reversed by the effect of indirect taxes. The result is that the percentage shares of post-tax income for each quintile group are very similar to the shares of gross income.

Tables 3, 14 and 14A show the effect of direct and indirect tax on each quintile and decile group in more detail. Households at the lower end of the income distribution pay smaller amounts of direct tax compared with households with higher incomes. Of the total income tax paid by all households, the bottom two quintile groups together pay about 7 per cent. This compares with 81 per cent of the total paid by the top two-fifths combined.

In addition, low income households also pay a smaller proportion of their income in income tax. This is due to the progressive nature of the income tax system. As a proportion of their gross incomes, households in the bottom quintile group pay an average of 3 per cent in income tax compared with 18 per cent for those in the top quintile group.

For national insurance contributions, the amount paid as a proportion of gross income rises as income rises until the fourth quintile group. The proportion then falls for the top fifth. This is because in 2004/05 employee's national insurance contributions were levied at 11 per cent on weekly earnings from £91 to £610, and at only 1 per cent thereafter. So, many people in the top quintile group will have a significant part of their earnings taxed at this lower rate.

Council tax in Great Britain and domestic rates in Northern Ireland are shown in Tables 3, 14 and 14A. Households in the lower part of the income distribution pay smaller absolute amounts. After taking into account council tax benefits and rates rebates, average net payments by the bottom quintile group are less than half those of the top fifth. On the other

Table 3

**Taxes as a percentage of gross income, disposable income and expenditure for ALL households by quintile groups<sup>1</sup>, 2004/05****(a) Direct and indirect taxes as a percentage of gross income****(b) Indirect taxes as a percentage of disposable income****(c) Indirect taxes as a percentage of expenditure<sup>2</sup>**

	Quintile groups of ALL households <sup>1</sup>					All households
	Bottom	2nd	3rd	4th	Top	
<b>(a) Percentages of gross income</b>						
Direct taxes						
Income tax <sup>3</sup>	3.0	6.2	9.9	13.2	18.2	13.3
Employees' NIC	1.5	3.1	4.5	5.4	4.8	4.5
Council tax & NI rates <sup>4</sup>	5.1	3.8	3.2	2.6	1.7	2.6
<i>All direct taxes</i>	<i>9.6</i>	<i>13.0</i>	<i>17.7</i>	<i>21.2</i>	<i>24.7</i>	<i>20.5</i>
Indirect taxes						
VAT	10.2	7.8	7.2	6.3	4.8	6.2
Duty on alcohol	1.5	1.1	1.0	0.9	0.7	0.9
Duty on tobacco	2.7	1.8	1.4	0.8	0.4	1.0
Duty on hydrocarbon oils & Vehicle excise duty	2.9	2.3	2.2	2.1	1.4	1.9
Other indirect taxes	9.3	6.6	5.5	4.7	3.6	4.9
<i>All indirect taxes</i>	<i>26.8</i>	<i>19.6</i>	<i>17.3</i>	<i>14.8</i>	<i>10.8</i>	<i>14.8</i>
<i>All taxes</i>	<i>36.4</i>	<i>32.6</i>	<i>35.0</i>	<i>36.0</i>	<i>35.6</i>	<i>35.3</i>
<b>(b) Percentages of disposable income</b>						
VAT	11.3	9.0	8.8	8.0	6.4	7.8
Duty on alcohol	1.7	1.2	1.3	1.2	0.9	1.1
Duty on tobacco	3.0	2.0	1.7	1.1	0.5	1.2
Duty on hydrocarbon oils & Vehicle excise duty	3.2	2.6	2.7	2.6	1.8	2.4
Other indirect taxes	10.3	7.6	6.6	5.9	4.8	6.1
<i>All indirect taxes</i>	<i>29.6</i>	<i>22.5</i>	<i>21.0</i>	<i>18.8</i>	<i>14.4</i>	<i>18.7</i>
<b>(c) Percentages of expenditure<sup>2</sup></b>						
VAT	7.8	8.0	8.0	7.6	7.0	7.5
Duty on alcohol	1.2	1.1	1.1	1.1	1.0	1.1
Duty on tobacco	2.1	1.8	1.5	1.0	0.6	1.2
Duty on hydrocarbon oils & Vehicle excise duty	2.2	2.3	2.4	2.5	2.0	2.3
Other indirect taxes	7.1	6.7	6.0	5.6	5.3	5.9
<i>All indirect taxes</i>	<i>20.5</i>	<i>20.0</i>	<i>19.1</i>	<i>17.8</i>	<i>15.9</i>	<i>17.9</i>

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> Calculated to be consistent with disposable income. See paragraph 35 of Appendix 2 for the definition of expenditure.

<sup>3</sup> After deducting tax credits and tax relief at source on life assurance premiums.

<sup>4</sup> After deducting discounts, council tax benefits and rates rebates.

hand, when expressed as a proportion of gross income, the burden decreases as income rises. Council tax in Great Britain and domestic rates in Northern Ireland represent 5 per cent of gross income for those in the bottom fifth but less than 2 per cent for those in the top quintile group.

### Indirect taxes

The amount of indirect tax that each household pays is estimated from its expenditure recorded in the EFS. However, the income and expenditure data recorded in the EFS are not fully compatible because they are recorded in different ways (see Appendix 2, paragraph 6). Indeed, measured expenditure exceeds measured income for households in the lower half of the distribution. There are a number of possible explanations for this. Some households with low incomes may draw on their savings or borrow in order to finance their expenditure. In addition, the bottom decile in particular includes some groups who have, or report, very little income (for example, self-employed people starting a business or someone who has just been made redundant). For some people this spell of very low income may only be temporary and during this period, they may continue with previous patterns of spending. In these cases, expenditure taxes are not being met from current income. Some types of receipts are not included as income in the EFS, for example, inheritance and severance payments. In some cases, the information given on direct tax is not consistent with that on income received, possibly because of timing differences. For a minority of households, the EFS may be measuring incomes inaccurately. Therefore, to give a more complete picture of the impact of indirect taxes, they are shown in Table 3 separately as a proportion of gross income, disposable income and expenditure. In addition, direct taxes are also shown as a proportion of gross income so that the impact of direct and indirect taxes can be compared.

In cash terms, the top fifth of households pay about two and a half times as much indirect tax as the bottom fifth. This simply reflects higher expenditure by higher income households. The only indirect taxes where this is not the case are duties on tobacco, taxes on betting, and the tax element of the National Lottery.

However, when expressed as a percentage of expenditure, the proportion paid in indirect tax tends to be lower for households at the top of the distribution compared to those lower down.

When expressed as a proportion of gross or disposable income, as shown in Table 3, the impact of indirect taxes declines sharply as income rises. This is because those in higher income groups tend to channel a larger proportion of their income into savings and mortgage payments, which do not attract indirect taxes. In addition, for many households in the lower half of the distribution recorded expenditure is higher than recorded current incomes, and as a result indirect taxes appear more regressive than when expressed as a proportion of expenditure. However, the top fifth still pay a smaller proportion of their expenditure or income in indirect taxation whichever measure is used.

Another way of looking at how taxes and benefits change inequality is to calculate Gini coefficients – a widely used summary measure of inequality (see Appendix 2, paragraph 53). It can take values from 0 to 100 per cent where a value of zero would indicate that each household had an equal share of income, while higher values indicate greater inequality.

The Gini coefficients (as shown in Tables 2 and 27) produce a similar picture to the shares of income discussed earlier. For 2004/05, the figure of 51 per cent for original income is reduced to 36 per cent for gross income by the inclusion of cash benefits – a large reduction in inequality. The coefficient for disposable income shows the equalising effect of direct taxes with the figure falling further to 32 per cent. That indirect taxes reverse this effect is confirmed by the Gini coefficient rising to 36 per cent for post-tax income.

As discussed earlier there are many households in the lowest decile in particular, for which income is temporarily low or possibly under-reported. These households may well be wealthier and have higher expenditures than many households in higher deciles.

### Characteristics of households

Different types of household are not spread evenly throughout the income distribution. Information about the characteristics of households in the different income groups is shown in Table 4, with more detail in Tables 15 and 15A. Household size does not vary much across the income distribution, with an average of between 2.2 and 2.5 people per household in each decile group in 2004/05. There are differences in the split between adults and children. A child (that is, a dependent) is defined as either aged under 16, or aged 16, 17 or 18, not married and receiving full-time non-advanced further education. There are fewer children in the upper half of the income distribution, and particularly in the top quintile. The pattern for the numbers of men and women also varies across income groups. The number of women is fairly constant while households in the higher income groups tend to have more men than the lower groups. Higher income groups also contain more economically active people. The top fifth of households has about three times as many economically active people as the bottom fifth.

Non-retired households with one adult and one or more children are concentrated in the lower groups, as shown in Tables 4, 15A and 22. Around 63 per cent of these households are in the bottom two quintile groups. This group makes up the majority of lone parent families. However, some lone parents will be part of larger households and will be included in other household types. For two adult households with children, the position in the income distribution tends to vary according to the number of children. Those with three or more children tend to be in lower groups than those with only one or two. Households with three or more children are less likely to have two economically active adults compared to those with fewer children, partly reflecting the fact that the youngest child or children may not yet be of school age. This increases the chance that households with three or

Table 4

Summary of the effects of taxes and benefits by quintile groups on ALL households<sup>1</sup>, 2004/05

	Quintile groups of ALL households <sup>1</sup>						Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top	All households	
<b>Income, taxes and benefits per household (£ per year)<sup>2</sup></b>							
Original income	4 280	11 200	21 580	34 460	66 330	27 570	16
<i>plus</i> cash benefits	6 410	6 210	4 770	2 800	1 380	4 310	0
Gross income	10 690	17 410	26 350	37 260	67 710	31 880	6
<i>less</i> direct taxes <sup>3</sup> and employees' NIC	1 030	2 270	4 650	7 910	16 760	6 520	16
Disposable income	9 660	15 140	21 690	29 360	50 960	25 360	5
<i>less</i> indirect taxes	2 860	3 410	4 570	5 510	7 330	4 730	3
Post-tax income	6 800	11 730	17 130	23 850	43 630	20 630	6
<i>plus</i> benefits in kind	6 460	5 780	5 420	4 470	3 780	5 180	1
Final income	13 250	17 520	22 550	28 320	47 410	25 810	4
<b>Number of individuals per household</b>							
<i>Children</i> <sup>4</sup>	0.6	0.6	0.6	0.5	0.4	0.5	
<i>Adults</i>	1.7	1.7	1.9	2.0	2.0	1.9	
<i>Men</i>	0.7	0.8	0.9	1.0	1.0	0.9	
<i>Women</i>	0.9	0.9	1.0	1.0	0.9	1.0	
People	2.3	2.3	2.5	2.5	2.3	2.4	
People in full-time education	0.7	0.5	0.6	0.5	0.4	0.5	
Economically active people	0.5	0.8	1.3	1.6	1.7	1.2	
Retired people	0.6	0.6	0.4	0.3	0.2	0.4	
<b>Household type (percentages)</b>							
Retired	44	42	26	15	7	27	
Non-retired							
1 adult	12	11	10	14	19	13	
2 adults	9	11	21	28	37	21	
1 adult with children <sup>5</sup>	10	7	6	3	1	5	
2 adults with children	17	18	23	21	21	20	
3 or more adults <sup>6</sup>	8	10	14	18	14	13	
All household types	100	100	100	100	100	100	

1 Households are ranked by equivalised disposable income.

2 All the tables in Part 1 of this article show unequivalised income. Equivalised income has only been used in the ranking process to produce the quintile groups (and to produce the percentage shares and Gini coefficients).

3 These are income tax (which is after deducting tax credits and tax relief at source on life assurance premiums), Council tax and Northern Ireland rates but after deducting discounts, council tax benefits and rates rebates.

4 Children are defined as people aged under 16, or aged between 16–18, unmarried and receiving non-advanced further education.

5 This group is smaller than the category of 'one parent families' because some of these families will be contained in the larger household types.

6 With or without children.

more children will be found in the lower part of the income distribution. Where there are no children in the household, non-retired two adult households tend to be found in the higher income groups.

Retired households are over-represented at the lower end of the distribution with 64 per cent falling into the bottom two quintile groups (as shown in Table 22). Those consisting of one retired woman are more concentrated towards the bottom compared to those with one retired man.

### Stages of redistribution

Details of the amounts which households in each quintile group receive from the various measures of income are shown in Table 4, with more detailed information for decile groups in Table 14 and quintile groups in Table 14A.

On average, households receive about £27,600 a year in original income but this varies widely between households. Those in the top quintile group have around £66,300 compared with about £4,300 for the bottom fifth. This pattern is partly explained by differences in the number of economically active people and the employment status of the chief economic supporter between the groups. For example, as shown in Tables 15 and 15A, nine in ten chief economic supporters of households in the top quintile group are economically active compared with less than three in ten of those in the lowest. The chief economic supporters in the top fifth are predominantly full-time employees or self-employed. Those in the bottom fifth are much more likely to be economically inactive, to work part-time or be unemployed. Of course, those in the higher deciles also tend to have better paid jobs as well as being more likely to be economically active.

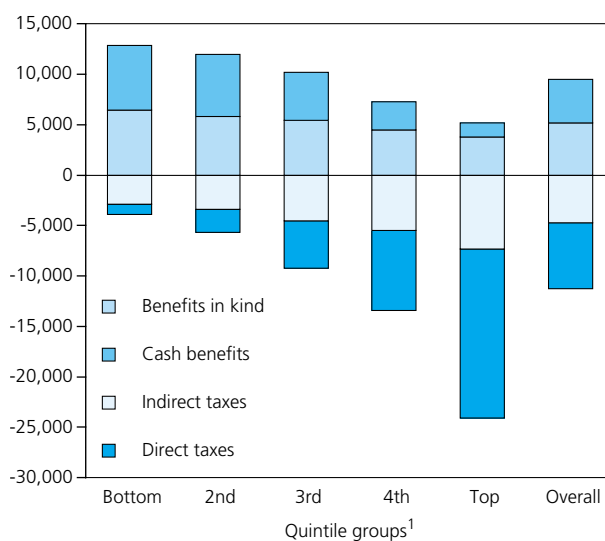
Wages and salaries and income from self-employment are typically the most important source of income, together making up three quarters of gross income on average (as shown in Table 14A). Cash benefits are also a significant source, particularly for households in the lower half of the distribution. Of the total amount of cash benefits received, the bottom two quintile groups together receive 59 per cent. These households receive an average of around £6,300 from cash benefits, representing around 60 per cent of gross income for the bottom quintile group and 36 per cent for the next group.

Higher income groups pay both higher amounts of direct tax and higher proportions of their income in direct tax (Tables 3, 4, 14 and 14A). The top quintile group pays about £16,800 per household in income tax, national insurance contributions and Council tax or Northern Ireland rates – 25 per cent of gross income. In contrast, the direct tax bill for households in the bottom fifth is around £1,000, representing 10 per cent of their gross income. Looking at income tax on its own, around 81 per cent of the total is paid by the top two quintile groups.

In contrast to benefits and direct taxes, the indirect tax system has a different effect. Households with higher incomes still pay more in absolute terms but not as a proportion of their incomes. This means that indirect taxes tend to increase income inequality.

Figure 4  
Summary of the effects of taxes and benefits on ALL households, 2004/05

Average income per household (£ per year)



1 Households are ranked throughout by their grossed equivalised disposable incomes.

The final stage in the redistribution process is the addition of benefits in kind, such as those from state education and the health service. Households in the bottom quintile group receive the equivalent of around £6,500 from all benefits in kind, compared to £3,800 received by the top fifth (see Figure 4). These are described in more detail later in the analysis.

Taken as a whole, the tax and benefit systems redistribute income from high income households to those on low incomes. The average final income for the quintile groups ranges from £13,300 to £47,400, a ratio of one to 4 compared to a ratio of one to 16 for original income, that is, before government intervention, as shown in Table 4.

### Changes in inequality over time

There are many ways of measuring income inequality and Tables 26 and 27 (at the end of Appendix 1) show trends for several of these measures. Table 26 shows trends for the shares of income figures that have already been seen for 2004/05 earlier in this analysis. Table 27 contains time series for Gini coefficients and a simpler alternative: using the ratio of the incomes at two points in the distribution. Two such measures are calculated: the ratio of the disposable income at the 90<sup>th</sup> percentile compared to the 10<sup>th</sup> (P90/P10); and the ratio of the 75<sup>th</sup> percentile to the 25<sup>th</sup> (P75/P25). (The 90<sup>th</sup> percentile is the income below which nine out of ten households lie and the 75<sup>th</sup> percentile is the income below which three quarters of households lie). The Gini coefficient is the only one of these measures which takes into account inequalities throughout the whole income distribution.

As noted above, these measures of inequality are subject to sampling error and some caution is needed particularly in the interpretation of year-to-year changes. As already noted, there have also been some changes of methodology. However, by looking at data over several years it is possible to discern underlying trends.

Figure 5  
Gini coefficients, 1980 to 2004/05

Percentage

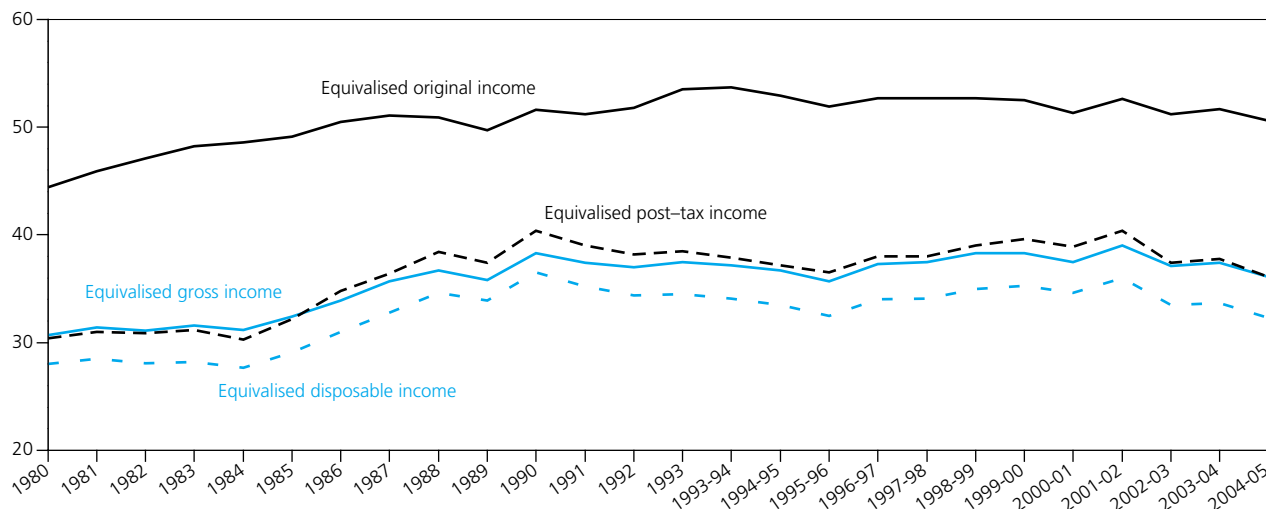


Figure 5 shows how inequality has changed since 1980 for the various measures of income as measured by the Gini coefficient. It indicates several phases over the last 25 years and shows that the different measures of income do not always show the same trend in inequality. This is particularly true of the Gini coefficient for original income which measures inequality before the redistributive effects of taxes and benefits.

The 1980s were characterised by a large increase in inequality. The Gini coefficient for original income rose fairly steadily throughout this period and did not peak until 1993/94. It remained high throughout the 1990s and while there has been a slight downwards trend since 2001/02, it still remains much higher than it was in the early 1980s.

The Institute for Fiscal Studies (IFS) has investigated some of the possible reasons for the higher level of inequality seen in the 1990s<sup>2</sup>. There has been an increase in wage inequality, and particularly an increase in the gap between wages for skilled and unskilled workers. Suggested reasons include skills-biased technological change, a decline in the role of trade unions, reductions in the top rates of income tax, and a growth in self-employment income.

There has also been a decrease in the rate of male participation in the labour market, often in households where there is no other earner. There has also been increased female participation among those with working partners. This has led to an increased polarisation between two-earner and zero-earner households. In the late 1990s, the proportion of people in workless households started to fall slowly<sup>3</sup>, probably contributing to the recent fall in inequality of original income.

The Gini coefficients for gross income, disposable income, and post-tax income have tended to move in more similar ways, and generally show a different pattern to that for original income. The difference between the Gini coefficients for original and post-tax income can be seen as a measure of the extent of redistribution through the tax and benefit system. To some extent this will be cyclical. While the Gini coefficient for original income was rising steadily throughout the 1980s, the Gini coefficient for post-tax income was stable

for the first half of the 1980s but then rose sharply in the second half of the decade. This implies that through the early 1980s there was an increasing amount of redistribution, with a decreasing amount through the late eighties.

Through the recession of the early 1990s and the subsequent early recovery, inequality of original income increased but more slowly, and increasing redistribution saw inequality of post-tax income gradually fall until 1995/96. In the late 1990s, inequality of original income was largely unchanged while the amount of redistribution started to decline again and this resulted in a gradual increase in inequality of post-tax income until 2001/02.

Since 2001/02 there has been some fall in inequality of original income, with perhaps a slightly larger fall in inequality of post-tax income – suggesting some increase in redistribution.

There are several reasons for the fall in inequality of income since 2001/02. There has been a small decrease in inequality of original income. This is due to faster growth in original income, and income from earnings and self-employment in particular, at the bottom end of the income distribution. The impact of the minimum wage on the earnings distribution will have had some effect. The adult minimum wage increased 15.5 per cent between October 2002 and October 2004 compared to an increase of just under 8 per cent in average earnings<sup>4</sup>.

As well as a fall in inequality of original income, redistributive policies have also had some effect. The tax credit system has benefited non-retired households with children in particular (Table 21). The increase in national insurance contributions in 2003/04 which is discussed in the following section, would also have resulted in a small reduction in inequality of disposable and post-tax income due to its differential impact upon working and non-working households.

It should also be said that there was a methodological change introduced in 2002/03 which accounts for part of the fall in the Gini coefficients for disposable and post-tax income. Before 2002/03, water charges were treated as a local tax,

**Table 5**  
**Percentage shares of household income and Gini coefficients<sup>1</sup> for NON-RETIRED households, 2004/05**

	Percentage shares of equivalised income for NON-RETIRED households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group <sup>2</sup>				
Bottom	4	7	8	7
2nd	11	12	13	12
3rd	16	17	17	16
4th	24	23	22	23
Top	45	42	40	42
All non-retired households	100	100	100	100
Decile group <sup>2</sup>				
Bottom	1	3	3	2
Top	29	26	25	27
Gini coefficient (per cent)	43	35	32	36

<sup>1</sup> This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

<sup>2</sup> Households are ranked by equivalised disposable income.

rather than a service charge (see Appendix 2, paragraph 27). The effect of this change was to reduce the Gini coefficients for these two measures of income by approximately 0.4 per cent.

## Results for non-retired households

### Overall effect

As for all households, the tax and benefit systems lead to income being shared more equally between non-retired households. Before government intervention, original income is shared more equally between non-retired households, as shown in Table 5, than for all households, as shown in Table 2. However, after the process of redistribution, the shares of income and Gini coefficients for post-tax income are the same as those for all households. The redistribution effect is therefore smaller for non-retired households than for all households. A summary of the effects of taxes and benefits on non-retired households is shown in Table 6, with more detail in Tables 16 and 16A.

### Characteristics of non-retired households

Unlike for all households, the average household size tends to decrease as income increases, as shown in Tables 17 and 17A. This fall is largely accounted for by the decrease in the average number of children in each household from 1.1 in the bottom quintile group to 0.4 in the top.

**Table 6**  
**Summary of the effects of taxes and benefits on NON-RETIRED households by quintile groups<sup>1</sup>, 2004/05**

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households	Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top		
<b>Income, taxes and benefits per household (£ per year)</b>							
Original income	7 860	20 250	30 000	42 460	74 190	34 950	9
<i>plus</i> cash benefits	5 890	4 040	2 760	1 390	940	3 000	0
Gross income	13 750	24 290	32 760	43 850	75 130	37 960	5
<i>less</i> direct taxes <sup>2</sup> and employees' NIC	1 500	4 110	6 620	9 990	19 030	8 250	13
Disposable income	12 250	20 180	26 140	33 860	56 100	29 710	5
<i>less</i> indirect taxes	3 620	4 710	5 460	6 120	7 660	5 510	2
Post-tax income	8 630	15 470	20 670	27 740	48 440	24 190	6
<i>plus</i> benefits in kind	7 460	6 110	5 030	4 220	3 700	5 300	0
Final income	16 090	21 580	25 700	31 950	52 140	29 490	3
<b>Number of individuals per household</b>							
<i>Children</i> <sup>3</sup>	1.1	0.9	0.7	0.5	0.4	0.7	
<i>Adults</i>	1.9	2.0	2.1	2.1	2.0	2.0	
<i>Men</i>	0.9	1.0	1.0	1.1	1.0	1.0	
<i>Women</i>	1.0	1.0	1.0	1.0	0.9	1.0	
People	3.0	2.9	2.7	2.6	2.4	2.7	
People in full-time education	1.1	0.9	0.6	0.5	0.4	0.7	
Economically active people	1.0	1.5	1.8	1.9	1.8	1.6	
Retired people	0.1	0.1	0.1	0.1	0.1	0.1	

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> These are income tax (which is after deducting tax credits and tax relief at source on life assurance premiums), Council tax and Northern Ireland rates but after deducting discounts, council tax benefit and rates rebates.

<sup>3</sup> Children are defined as people aged under 16 or aged between 16–18, unmarried and receiving non-advanced further education.

Other patterns are similar to those for all households. One adult households with children are concentrated at the bottom of the distribution with 35 per cent of these households in the bottom fifth and a further 27 per cent in the second quintile group (Table 22). However, this concentration at the bottom of the income distribution is not quite as pronounced as it used to be. In 1998/99 for example, 48 per cent of one adult households with children were in the bottom quintile with 27 per cent in the second quintile.

Two adult households with three or more children are also concentrated towards the bottom although not to the same extent as one adult households. Likewise they have moved up the income distribution in recent years. Two adult households without children are over-represented at the top.

For single person households, there are different patterns for men and women. Households containing only one man are over-represented in the top quintile of the distribution. One woman households are also over-represented in the top quintile of the distribution, although not to quite the same extent as men.

### Original income

The average original income for non-retired households is £34,950 (Table 6). As mentioned above, inequality of original income is lower for non-retired households than for all households. The ratio of the averages for the top and bottom quintiles is nine to one (compared to 16 to one for all households).

The original income of households shows a relatively strong relationship to the number of economically active people it contains. On average, households in the top three quintile groups contain almost twice as many economically active people as those in the lowest group (Table 6).

### Cash benefits

Table 7 gives a summary of the benefits that each quintile group receives. There are two types of cash benefits: contributory benefits which are paid from the National Insurance Fund (to which individuals and their employers make contributions while working) and non-contributory benefits. For non-retired households, non-contributory benefits make up nearly three quarters of all cash benefits on average.

The average non-retired household receives £3,000 in cash benefits. The bottom fifth receive nearly double this amount while those in the top quintile group get an average of £900. However, the patterns for contributory and non-contributory benefits are different.

Most non-contributory benefits, particularly income support and housing benefit, are income related and so payments are concentrated in the two lowest quintile groups. The presence of some individuals with low incomes in high income households means that some payments are recorded further up the income distribution. Of the total amount of income support and housing benefit paid to non-retired households, 86 per cent goes to the bottom two-fifths, with the majority of this going to the bottom quintile.

Table 7  
Cash benefits for NON-RETIRED households by quintile groups<sup>1</sup>, 2004/05

	Quintile groups of NON-RETIRED households <sup>1</sup>				All non-retired households	
	Bottom	2nd	3rd	4th	Top	holds
<b>Average per household (£ per year)</b>						
<b>Contributory</b>						
Retirement pension	210	580	570	440	370	440
Incapacity benefit	590	410	220	70	50	270
Job seeker's allowance <sup>2</sup>	70	10	10	0	0	20
Other	40	40	80	60	50	50
<b>Total contributory</b>	<b>910</b>	<b>1 050</b>	<b>880</b>	<b>570</b>	<b>480</b>	<b>780</b>
<b>Non-contributory</b>						
Income support <sup>3</sup>	1 440	530	220	20	0	440
Tax credits <sup>4</sup>	770	530	250	90	10	330
Child benefit	760	660	480	390	290	510
Housing benefit	1 180	410	260	70	10	380
Job seeker's allowance <sup>5</sup>	140	20	10	10	0	30
Sickness/disablement related	540	710	410	160	70	380
Other	160	140	240	80	70	140
<b>Total non-contributory</b>	<b>4 980</b>	<b>2 990</b>	<b>1 870</b>	<b>820</b>	<b>460</b>	<b>2 220</b>
<b>Total cash benefits</b>	<b>5 890</b>	<b>4 040</b>	<b>2 760</b>	<b>1 390</b>	<b>940</b>	<b>3 000</b>
<b>Cash benefits as a percentage of gross income</b>	<b>43</b>	<b>17</b>	<b>8</b>	<b>3</b>	<b>1</b>	<b>8</b>

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> Contribution based.

<sup>3</sup> Including pension credit.

<sup>4</sup> Child tax credit and working tax credit.

<sup>5</sup> Income based.

In this analysis, tax credit payments are treated as either cash benefits or negative income tax depending on how much income tax the family pays – see paragraph 22, Appendix 2. Tax credits go predominantly to households in the lower part of the distribution, and mainly to households with children. Of the total amount, 69 per cent goes to the bottom two quintiles. Child benefit is based on the number of children in the household. Levels of child benefit received are also higher at the lower end of the distribution, as these households tend to have more children.

In contrast to non-contributory benefits, a criterion for receipt of contributory benefits is the amount of national insurance contributions that have been paid by, or on behalf of, the individual. The amounts received from these benefits are also higher in the lower half of the distribution, but to a lesser extent than for non-contributory benefits.

For all non-retired households, as shown in Table 7, cash benefits provide 8 per cent of gross income on average. For those in the bottom quintile group they form a much larger proportion – 43 per cent. Their payment results in a significant reduction in income inequality.

## Direct taxes

Households at the lower end of the income distribution pay smaller amounts of direct tax compared with households with higher incomes (Tables 16 and 16A). Direct taxes include income tax (after deduction of tax credits), employees' national insurance contributions, and Council tax or Northern Ireland rates (net of council tax benefits and rates rebates). Of the total income tax paid by non-retired households, the bottom two quintile groups together pay about 10 per cent. This compares with about 76 per cent of the total paid by the top two fifths.

In addition, low income households also pay a smaller proportion of their income in income tax (Table 8). This is due to the progressive nature of the income tax system. As a proportion of their gross incomes, households in the bottom quintile group typically pay 4 per cent in income tax compared with 19 per cent for those in the top quintile group.

As noted for all households, national insurance contributions as a proportion of gross income increase from the first to the fourth quintile group, but are then lower for the top fifth of non-retired households. In 2004/05 national insurance contributions were levied at 11 per cent on weekly earnings from £91 to £610 and at 1 per cent above this. Both these contribution rates were introduced in 2003/04 – the previous rate had been 10 per cent with no contribution above the upper earnings limit. This increased average national insurance contributions as a proportion of gross income from 4.3 per cent in 2002/03 to around 5 per cent in the last two years.

Council tax in Great Britain and domestic rates in Northern Ireland are shown net of council tax benefits and rates rebates in Tables 8, 16 and 16A. Households in the lower part of the

Table 8

## Taxes as a percentage of gross income for NON-RETIRED households by quintile groups<sup>1</sup>, 2004/05

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Percentages</b>						
<b>Direct taxes</b>						
Income tax <sup>2</sup>	4.3	8.9	11.8	14.3	19.0	14.3
Employees' NIC	2.9	4.8	5.7	6.2	4.8	5.1
Council tax & NI rates <sup>3</sup>	3.7	3.2	2.8	2.3	1.6	2.3
<b>All direct taxes</b>	<b>10.9</b>	<b>16.9</b>	<b>20.2</b>	<b>22.8</b>	<b>25.3</b>	<b>21.7</b>
<b>All indirect taxes</b>	<b>26.3</b>	<b>19.4</b>	<b>16.7</b>	<b>14.0</b>	<b>10.2</b>	<b>14.5</b>
<b>All taxes</b>	<b>37.3</b>	<b>36.3</b>	<b>36.9</b>	<b>36.7</b>	<b>35.5</b>	<b>36.3</b>

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> After deducting tax credits and tax relief at source on life assurance premiums.

<sup>3</sup> Council tax and Northern Ireland rates after deducting discounts, council tax benefit and rates rebates.

income distribution pay smaller absolute amounts in local taxes. Net payments by the bottom quintile group are on average 44 per cent of those in the top fifth (Table 16A). When expressed as a proportion of gross income in Table 8, the impact decreases as income rises. Council tax and Northern Ireland rates represent 3.7 per cent of gross income for the bottom fifth but only 1.6 per cent for those in the top quintile group.

Table 9

## Indirect taxes as a percentage of (a) disposable income and (b) household expenditure<sup>1</sup> for NON-RETIRED households by quintile groups<sup>2</sup>, 2004/05

	Quintile groups of NON-RETIRED households <sup>2</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>(a) Percentages of disposable income</b>						
VAT	11.3	9.4	8.8	7.7	6.1	7.8
Duty on alcohol	1.6	1.4	1.3	1.1	0.8	1.1
Duty on tobacco	3.4	2.3	1.5	1.0	0.4	1.2
Duty on hydrocarbon oils & Vehicle excise duty	3.4	2.9	2.8	2.6	1.7	2.4
Other indirect taxes	9.8	7.3	6.5	5.6	4.6	6.0
<b>All indirect taxes</b>	<b>29.6</b>	<b>23.3</b>	<b>20.9</b>	<b>18.1</b>	<b>13.6</b>	<b>18.6</b>
<b>(b) Percentages of expenditure<sup>1</sup></b>						
VAT	7.9	7.9	7.8	7.3	6.9	7.4
Duty on alcohol	1.1	1.2	1.1	1.1	1.0	1.1
Duty on tobacco	2.4	1.9	1.3	1.0	0.5	1.2
Duty on hydrocarbon oils & Vehicle excise duty	2.4	2.4	2.5	2.5	1.9	2.3
Other indirect taxes	6.9	6.2	5.8	5.4	5.2	5.7
<b>All indirect taxes</b>	<b>20.7</b>	<b>19.6</b>	<b>18.5</b>	<b>17.3</b>	<b>15.5</b>	<b>17.7</b>

<sup>1</sup> Calculated to be consistent with disposable income. See paragraph 35 of Appendix 2 for the definition of expenditure.

<sup>2</sup> Households are ranked by equivalised disposable income.

## Indirect taxes

The amount of indirect tax that each household pays is estimated from its expenditure recorded in the EFS. However, as described earlier in this analysis, the income and expenditure data recorded in the EFS are not fully compatible because they are recorded in different ways (see Appendix 2, paragraph 6). Therefore, to give a more complete picture of the impact of indirect taxes, they are shown in Table 9 as a proportion of disposable income and, separately, as a proportion of expenditure. In addition, indirect taxes are also shown as a proportion of gross income in Table 8 so that the impact of direct and indirect taxes can be compared.

In cash terms, the top fifth of non-retired households pay over twice as much indirect tax as the bottom fifth (Table 16A). On the other hand, when expressed as a percentage of disposable income or expenditure (Table 9), the proportion paid in indirect tax tends to be lower for households at the top of the distribution compared to those lower down.

When expressed as a proportion of disposable income, the impact of indirect taxes declines sharply as income rises. As already noted, this is because those in higher income groups tend to channel a larger proportion of their income into savings and mortgage payments, and because for some households in the lower half of the distribution recorded expenditure is lower than recorded current incomes. Indirect taxes appear less regressive when expressed as a proportion of expenditure, with payments rising broadly in line with expenditure. However, the top fifth still pay a smaller proportion of their expenditure in indirect taxation.

## Benefits in kind

The Government provides certain goods and services to households either free at the time of use or at subsidised prices. This study allocates these benefits in kind to individual households in order to arrive at final income. The largest two categories for which such imputations are made are health and education services. The imputed value of these benefits is based on the estimated cost of providing them. This expenditure on health and education, which is allocated to households, is equivalent to around 28 per cent of total general government expenditure, as shown in Table 13. Other items for which imputations are made are free school meals, welfare milk, housing subsidy and travel subsidies. These items are equivalent to a further 1 per cent of general government expenditure. Table 10 gives a summary of the value of these benefits for each quintile group for non-retired households.

The benefit in kind from education is allocated to a household according to its members' use of state education (Appendix 2, paragraph 38). Households in the lower quintiles receive the highest benefit from education, as shown in Table 10. This is due to the concentration of children in this part of the distribution. In addition, children in households in the higher quintiles are more likely to be attending private schools and an allocation is not made in these cases. The impact of expenditure on free school meals and welfare milk is greatest in the lower income groups, where children are more likely to have school meals provided free of charge.

Table 10  
Benefits in kind for NON-RETIRED households by quintile groups<sup>1</sup>, 2004/05

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Education	4 370	3 210	2 360	1 720	1 220	2 580
National health service	2 780	2 730	2 550	2 400	2 350	2 560
Housing subsidy	130	70	30	20	10	50
Travel subsidies	70	60	70	80	120	80
School meals and welfare milk	110	30	10	10	0	30
All benefits in kind	7 460	6 110	5 030	4 220	3 700	5 300
<b>Benefits in kind as a percentage of post-tax income</b>						
	86	39	24	15	8	22

<sup>1</sup> Households are ranked by equivalised disposable income.

The benefit from the health service is estimated according to the age and sex of the household members rather than their actual use of the service, as the EFS does not contain this information (Appendix 2, paragraph 40). The imputed benefit is relatively high for young children, low in later childhood and through the adult years until it begins to rise from late middle age onwards. This benefit is similar in the bottom two quintiles then falls gradually as income rises, as shown in Table 10. This pattern is a reflection of the demographic composition of households. Studies by Sefton<sup>5</sup> have attempted to allow for variations in use of the health service according to socio-economic characteristics.

The housing subsidy, which excludes housing benefit (Appendix 2, paragraph 41), is spread between public sector, housing association and Registered Social Landlord tenants. Since such households tend to be concentrated in the lower half of the income distribution, this is where the imputed benefit is highest, as shown in Table 10.

Travel subsidies cover the support payments made to bus and train operating companies. The use of public transport by non-retired households is partly related to the need to travel to work and therefore to the number of economically active people in a household. This results in estimates of these subsidies being higher for households in higher income quintiles. This pattern is also due to London and the South East having higher levels of commuting by public transport together with higher than average household incomes.

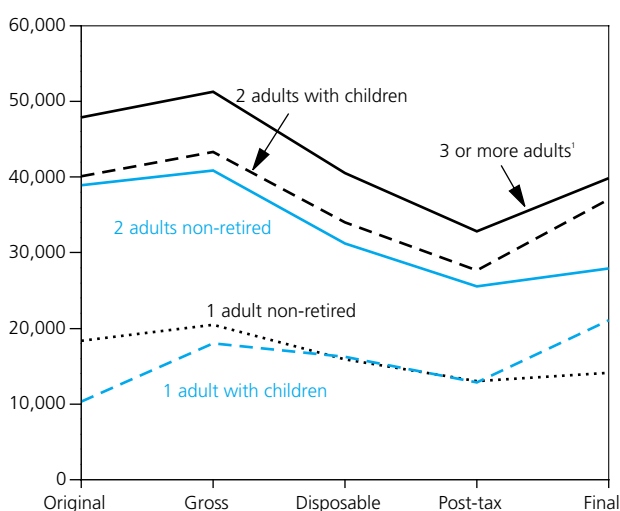
Taken together, the absolute value of these benefits in kind declines as household income increases. The ratio of benefits in kind to post-tax income decreases from 86 per cent for the lowest quintile group to 8 per cent for the highest, as shown in Table 10. This indicates that these benefits contribute to the reduction in inequality.

### The effects of taxes and benefits by household type

The tax and benefit systems affect different types of household in different ways reflecting, in part, the number and ages of people within each household type. Of the types of non-retired households shown in Figure 6, only those containing one adult and children are net gainers, with average final incomes of £21,100 compared to original incomes of £10,300 (Table 23). This table also has a more detailed breakdown that shows that households with two adults and three or more children are also net beneficiaries, but to a smaller extent.

Figure 6  
Income stages by NON-RETIRED household types, 2004/05

Average income (£ per year)



1 With or without children.

Original income is strongly related to the number of adults in the household. For two adult households, those with children have broadly similar levels of original income to those without, but they receive more cash benefits such as tax credits and child benefit than those without children. Final incomes are also higher for those with children due to the imputed benefit in kind from education.

For one adult households, original income is much lower for those with children as the adult is less likely to be economically active. Benefits, both in cash and in kind, are significantly higher for those with children.

### Results for retired households

In this analysis retired households are those where the income of retired household members accounts for more than half of the household gross income (see Appendix 2, paragraph 9 for the definition of a retired person). These households have quite distinct income and expenditure patterns. The tax and benefit systems affect them in different ways from non-retired households.

There is a high degree of inequality in original income between households. Tables 11, 18 and 18A show that, before government intervention, the richest fifth of retired households receive 55 per cent of total original income, while

the Gini coefficient for this measure of income is 62 per cent. Both these measures are higher (showing more inequality) than equivalent figures for non-retired households. After the impact of taxes and benefits there is a large reduction in inequality. Cash benefits play by far the largest part in bringing about this reduction. Payment of direct taxes makes a further, though much smaller, contribution. Payments of indirect taxes result in an increase in inequality.

Table 11  
Percentage shares of household income and Gini coefficients<sup>1</sup> for RETIRED households, 2004/05

	Percentage shares of equivalised income for RETIRED households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
<b>Quintile group<sup>2</sup></b>				
Bottom	4	10	10	9
2nd	8	14	15	14
3rd	12	17	18	18
4th	21	22	22	23
Top	55	37	35	36
<b>All households</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Decile group<sup>2</sup></b>				
Bottom	2	4	4	3
Top	38	23	21	22
<b>Gini coefficient (per cent)</b>	<b>62</b>	<b>27</b>	<b>25</b>	<b>29</b>

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

2 Households are ranked by equivalised disposable income.

Overall, retired households receive an average of £7,400 in original income with most of this coming from occupational pensions and investments (Tables 12, 18 and 18A). Original income ranges from £1,550 for the bottom quintile group to £20,500 for the top. On the other hand, amounts received from cash benefits vary less across the distribution. On average, households in the bottom fifth receive around £6,000 from this source, while those in the second to fifth quintile groups receive between £7,900 and £8,900. These cash benefits make up large proportions of the gross incomes for the bottom four quintiles ranging from 79 per cent for the bottom quintile group to 53 per cent for the fourth quintile group. The top fifth are much less dependent on cash benefits – these account for only 29 per cent of their gross incomes.

Most retired people will have made contributions to the National Insurance Fund throughout their working lives. The bulk of the benefits which retired households receive will be paid out of this fund in the form of contributory benefits. The most significant of these is the state retirement pension, which on average accounts for three quarters of their cash benefits (Tables 12, 18 and 18A).

Table 12

Summary of the effects of taxes and benefits on RETIRED households by quintile groups<sup>1</sup>, 2004/05

	Quintile groups of RETIRED households <sup>1</sup>					All retired households
	Bottom	2nd	3rd	4th	Top	
<b>Income, taxes and benefits per household (£ per year)</b>						
Original income						
Earnings	80	210	260	750	1 240	510
Occupational pensions	1 020	2 230	3 340	6 120	15 300	5 600
Investment income	430	380	390	850	3 630	1 130
Other income	20	70	170	70	370	140
Total original income	1 550	2 900	4 160	7 780	20 530	7 390
<i>plus</i> Contributory benefits	5 020	6 370	6 060	6 510	6 480	6 090
Non-contributory benefits	940	1 560	2 340	2 360	1 880	1 820
Total cash benefits	5 950	7 930	8 390	8 870	8 360	7 900
Gross income	7 500	10 830	12 550	16 660	28 890	15 290
<i>less</i> Income tax <sup>2</sup>	150	280	430	1 020	3 400	1 060
Employees' NIC	10	10	20	40	60	30
Council tax & Northern Ireland rates <sup>3</sup>	660	620	560	700	1 050	720
Disposable income	6 690	9 920	11 540	14 890	24 380	13 480
<i>less</i> Indirect taxes	1 930	2 160	2 220	2 620	4 070	2 600
Post-tax income	4 760	7 770	9 320	12 270	20 320	10 880
<i>plus</i> National health service	4 930	4 750	4 500	4 630	4 430	4 650
Housing subsidy	40	70	100	60	30	60
Other benefits in kind	210	110	160	110	150	150
Final income	9 940	12 700	14 080	17 070	24 920	15 740
Cash benefits as a percentage of gross income	79	73	67	53	29	52
Retirement pension as a percentage of cash benefits	82	78	71	71	76	75

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> After deducting tax credits and tax relief at source on life assurance premiums.

<sup>3</sup> Council tax and Northern Ireland rates after deducting discounts, council tax benefit and rates rebates.

Non-contributory benefits are lowest in the bottom quintile group. As shown in Table 18A, housing benefit and disability benefits can sometimes make up a significant proportion of the income of retired households, who as a result will appear higher up the income distribution. However, this does not necessarily mean that they have a higher standard of living. Households receiving housing benefit are likely to have higher housing costs than owner occupiers, and similarly the income from disability benefits may be offset by additional costs incurred by the individual due to their illness or disability.

Retired households derive significant benefits from health services and, to a lesser extent, housing and travel subsidies. Health benefit is spread fairly evenly between retired households whereas benefit from the housing subsidy is higher for those in the middle quintiles, since public sector tenants are concentrated in these groups. The benefits received by retired households from travel subsidies are mainly for bus travel, particularly in the form of concessionary fares and passes for senior citizens and, since these are not usually means-tested, there is no particular relationship with income.

Table 23 gives some details of the effect of taxes and benefits on different types of household. On average, both one adult retired households and those with two or more adults are net gainers from the tax and benefit systems. For one adult retired households there are distinct differences in original income by gender. Men received an average of £5,500 compared to £3,700 for women. After the addition of benefits and the deduction of taxes, the differences are greatly reduced, so that final income levels for men are only marginally higher than those for women.

## Acknowledgements

*The author gratefully acknowledges the considerable work done for this study by Peter Mayne, Paul Janvier, Daniel Annan, Edward Franklyn, and Usuf Islam.*

## References

1. Department for Work and Pensions (2005) *Households below average income 2004/05*, Corporate Document Services.
2. *Inequality and living standards in Great Britain: some facts*, Goodman A and Shephard A. The Institute for Fiscal Studies Briefing Note 19. *Permanent Differences? Income and Expenditure Inequality in 1990s and 2000s*, Goodman A and Oldfield Z. The Institute for Fiscal Studies.
3. Department for Work and Pensions (2005) *Opportunity for All, Seventh Annual Report 2005*, The Stationery Office: London.
4. Low Pay Commission (2005) *National Minimum Wage*, Low Pay Commission Report 2005.
5. Sefton T (1997) *The changing distribution of the social wage*, London School of Economics and Political Science and Sefton T (2002) *Recent changes in the distribution of the social wage*, London School of Economics and Political Science.

## APPENDIX 1

Table 13 (Appendix 1)

## Taxes and benefits allocated to households as a percentage of general government expenditure, 2004

Taxes and compulsory social contributions <sup>1</sup> allocated to households			Benefits allocated to households		
	£ million	Percentage of GGE <sup>2</sup>		£ million	Percentage of GGE <sup>2</sup>
Income tax (gross)	119 960	24.4	Cash benefits		
Tax reliefs	- 50	0.0	Contributory (National Insurance, etc)		
Income tax (net)	119 910	24.4	Retirement	48 400	9.8
Employees' & self-employed NI contributions	34 420	7.0	Incapacity benefit	6 780	1.4
Council tax	19 890	4.0	Widows' and guardians' allowances	940	0.2
			Maternity/Statutory maternity pay	1 440	0.3
			Job seekers allowance	450	0.1
			Social fund	2 300	0.5
			Other	270	0.1
Taxes on final goods and services			Non-contributory		
VAT	54 350	11.0	Income support	16 120	3.3
Duty on hydrocarbon oils	11 810	2.4	Working and child tax credits	11 280	2.3
Duty on tobacco	7 850	1.6	Other family benefits	9 480	1.9
Vehicle excise duty	3 960	0.8	War pensions	1 140	0.2
Duty on wines, cider, perry and spirits	4 440	0.9	Other	18 390	3.7
Duty on beer	2 900	0.6	Student support	830	0.2
Betting duties	800	0.2	Rent rebates and allowances	12 900	2.6
Camelot: payments to NLDF	1 230	0.2			
Stamp duty on house purchase	2 410	0.5			
Other	2 220	0.5			
Taxes & NI contributions on Intermediate goods & services <sup>3</sup>			Benefits in kind		
Employers' NI contributions	14 930	3.0	Health services	77 780	15.8
Commercial & industrial rates	8 750	1.8	Education	58 110	11.8
Duty on hydrocarbon oils	5 930	1.2	Travel subsidies <sup>4</sup>	1 940	0.4
VAT	3 930	0.8	Housing subsidy	480	0.1
Vehicle excise duty	420	0.1	School meals and welfare milk	1 020	0.2
Other	3 820	0.8			
Total	303 970	61.7	Total	270 050	54.8
Total government expenditure	492 410				

1 Paid to UK central and local government and European Union institutions.

2 Expressed as a percentage of general government expenditure.

3 These are taxes paid by industry and commerce assumed to be passed on to households in the prices of goods and services they buy. For instance, duty on derv used in the transportation of goods is an 'intermediate' tax whereas the duty on petrol bought by the private motorist is a tax on final goods and services.

4 Including concessionary fares expenditure.

Source: United Kingdom National Accounts, 2005 Edition

Table 14 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of ALL households, 2004/05**

	Decile groups of all households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>9 892</i>	<i>12 530</i>	<i>14 691</i>	<i>16 948</i>	<i>19 309</i>	<i>22 287</i>	<i>25 811</i>	<i>30 832</i>	<i>40 385</i>		
Number of households in the population ('000s)	2 440	2 446	2 440	2 445	2 443	2 444	2 443	2 440	2 447	2 444	24 431
Original income											
Wages and salaries	1 601	3 825	6 486	9 684	14 662	18 790	23 915	31 775	41 010	60 672	21 242
Imputed income from benefits in kind	4	5	27	19	100	208	238	495	695	1 583	337
Self-employment income	395	458	700	1 106	1 663	1 579	2 230	2 554	3 743	12 519	2 695
Occupational pensions, annuities	448	950	1 426	2 018	2 198	2 564	2 712	2 772	2 809	3 809	2 171
Investment income	251	230	269	297	378	540	678	983	1 079	3 878	858
Other income	244	143	177	183	227	240	240	334	279	588	266
Total	2 943	5 610	9 085	13 308	19 228	23 922	30 014	38 914	49 615	83 049	27 569
Direct benefits in cash											
Contributory											
Retirement pension	2 182	2 707	3 028	2 818	2 100	2 072	1 544	1 201	781	706	1 914
Job seeker's allowance (Contribution based)	58	47	7	5	11	6	3	2	4	2	15
Incapacity benefit	322	480	323	327	269	223	106	81	43	58	223
Widows' benefits	29	45	3	44	45	24	104	31	24	32	38
Statutory Maternity Pay/Allowance	-	3	-	14	1	19	4	9	20	37	11
Non-contributory											
Income support and pension credit	723	1 292	734	474	403	319	152	36	5	7	414
Child benefit	375	500	399	402	452	405	325	361	287	276	378
Housing benefit	684	1 003	813	612	353	363	224	124	16	10	420
Job seeker's allowance (Income based)	118	84	11	1	21	18	-	7	3	1	26
Invalid care allowance	70	59	71	85	62	49	25	19	7	4	45
Attendance allowance	8	53	105	66	96	66	53	46	10	3	51
Disability living allowance	182	320	406	444	520	405	260	175	83	54	285
War pensions/War widows' pensions	4	4	10	29	49	45	43	47	32	1	27
Severe disablement allowance	23	68	25	49	48	49	29	21	-	-	31
Industrial injury disablement benefit	8	26	13	28	49	26	11	23	8	-	19
Student support	47	22	53	37	39	86	30	16	21	30	38
Government training schemes	15	24	12	9	22	15	3	21	0	-	12
Tax credits <sup>1</sup>	430	498	350	324	340	247	119	75	44	6	243
Other non-contributory benefits	154	150	159	135	98	131	216	55	65	82	124
Total cash benefits	5 432	7 385	6 524	5 902	4 978	4 568	3 249	2 349	1 454	1 308	4 315
Gross income	8 376	12 995	15 608	19 210	24 206	28 491	33 262	41 263	51 070	84 357	31 884
Direct taxes and Employees' NIC											
Income tax	244	592	1 015	1 583	2 436	3 230	4 265	5 918	8 195	16 632	4 411
<i>less: Tax credits<sup>2</sup></i>	50	141	206	232	226	200	186	169	101	42	155
Employees' NI contributions	90	236	428	636	1 030	1 358	1 724	2 321	3 023	3 508	1 435
Council tax and Northern Ireland rates <sup>3</sup>	830	841	829	853	910	947	976	1 031	1 083	1 233	953
<i>less: Council tax benefit/Rates rebates</i>	288	294	211	158	104	74	40	25	6	10	121
Total	826	1 234	1 854	2 683	4 047	5 261	6 738	9 076	12 195	21 321	6 523
Disposable income	7 550	11 761	13 754	16 527	20 160	23 229	26 524	32 187	38 875	63 036	25 360
<i>Equivalised disposable income</i>	<i>7 354</i>	<i>11 179</i>	<i>13 613</i>	<i>15 804</i>	<i>18 095</i>	<i>20 760</i>	<i>23 912</i>	<i>28 136</i>	<i>35 103</i>	<i>59 546</i>	<i>23 350</i>
Indirect taxes											
Taxes on final goods and services											
VAT	1 050	1 137	1 256	1 477	1 830	1 989	2 219	2 453	2 800	3 687	1 990
Duty on tobacco	261	326	248	368	379	338	332	298	310	205	306
Duty on beer and cider	76	77	77	90	135	113	159	141	190	153	121
Duty on wines & spirits	86	87	93	118	148	150	199	200	235	315	163
Duty on hydrocarbon oils	222	255	273	328	430	466	549	651	738	733	464
Vehicle excise duty	72	79	93	104	125	143	162	177	198	193	135
Television licences	86	94	88	93	98	103	106	109	113	115	100
Stamp duty on house purchase	76	53	72	83	113	134	139	196	285	535	169
Customs duties	18	20	20	22	26	28	31	34	38	49	29
Betting taxes	19	23	37	47	34	37	44	31	32	35	34
Insurance premium tax	24	24	27	34	42	46	61	56	67	88	47
Air passenger duty	9	8	11	19	23	24	32	30	35	54	25
Camelot National Lottery Fund	37	47	48	63	59	61	71	60	48	43	54
Other	3	5	6	10	5	13	17	3	15	25	10
Intermediate taxes											
Commercial and industrial rates	160	170	173	195	226	239	268	291	332	427	248
Employers' NI contributions	277	294	300	338	392	413	465	504	575	739	430
Duty on hydrocarbon oils	107	114	116	131	152	160	180	195	223	286	167
Vehicle excise duty	8	9	9	10	12	13	14	15	18	23	13
Other	148	158	161	181	210	222	249	270	308	396	230
Total indirect taxes	2 738	2 979	3 106	3 713	4 439	4 692	5 297	5 715	6 560	8 099	4 734
Post-tax income	4 811	8 782	10 648	12 814	15 721	18 537	21 227	26 472	32 315	54 937	20 627
Benefits in kind											
Education	2 798	2 371	2 084	1 946	2 231	1 936	1 653	1 563	1 373	1 070	1 903
National health service	3 547	3 710	3 785	3 369	3 208	3 200	2 754	2 753	2 420	2 473	3 122
Housing subsidy	95	102	102	76	49	42	36	16	7	5	53
Rail travel subsidy	12	8	11	8	12	23	18	33	40	69	23
Bus travel subsidy	67	65	67	65	63	54	44	50	49	56	58
School meals and welfare milk	53	86	32	23	15	14	7	5	3	1	24
Total	6 573	6 342	6 081	5 488	5 578	5 269	4 512	4 420	3 893	3 674	5 183
Final income	11 384	15 125	16 729	18 302	21 298	23 807	25 739	30 891	36 208	58 612	25 810

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 14A (Appendix 1)

## Average incomes, taxes and benefits by quintile groups of ALL households, 2004/05

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Quintile points (equivalised £)</i>		12 530	16 948	22 287	30 832	
Number of households in the population ('000s)	4 886	4 885	4 887	4 884	4 890	24 431
<b>Original income</b>						
Wages and salaries	2 713	8 085	16 726	27 845	50 841	21 242
Imputed income from benefits in kind	4	23	154	366	1 139	337
Self-employment income	427	903	1 621	2 392	8 131	2 695
Occupational pensions, annuities	699	1 722	2 381	2 742	3 309	2 171
Investment income	240	283	459	831	2 479	858
Other income	194	180	233	287	434	266
<b>Total</b>	<b>4 277</b>	<b>11 196</b>	<b>21 575</b>	<b>34 464</b>	<b>66 332</b>	<b>27 569</b>
<b>Direct benefits in cash</b>						
<b>Contributory</b>						
Retirement pension	2 444	2 923	2 086	1 372	744	1 914
Job seeker's allowance (Contribution based)	53	6	8	3	3	15
Incapacity benefit	401	325	246	93	50	223
Widows' benefits	37	23	35	67	28	38
Statutory Maternity Pay/Allowance	1	7	10	6	29	11
<b>Non-contributory</b>						
Income support and pension credit	1 008	604	361	94	6	414
Child benefit	438	400	429	343	282	378
Housing benefit	844	712	358	174	13	420
Job seeker's allowance (Income based)	101	6	19	4	2	26
Invalid care allowance	65	78	56	22	6	45
Attendance allowance	31	86	81	50	6	51
Disability living allowance	251	425	462	218	69	285
War pensions/War widows' pensions	4	20	47	45	16	27
Severe disablement allowance	46	37	48	25	-	31
Industrial injury disablement benefit	17	21	38	17	4	19
Student support	35	45	62	23	25	38
Government training schemes	19	11	19	12	0	12
Tax credits <sup>1</sup>	464	337	294	97	25	243
Other non-contributory benefits	152	147	115	135	74	124
<b>Total cash benefits</b>	<b>6 409</b>	<b>6 213</b>	<b>4 773</b>	<b>2 799</b>	<b>1 381</b>	<b>4 315</b>
<b>Gross income</b>	<b>10 685</b>	<b>17 409</b>	<b>26 348</b>	<b>37 263</b>	<b>67 713</b>	<b>31 884</b>
<b>Direct taxes and Employees' NIC</b>						
Income tax	418	1 299	2 833	5 092	12 413	4 411
<i>less: Tax credits<sup>2</sup></i>	96	219	213	178	71	155
Employees' NI contributions	163	532	1 194	2 023	3 265	1 435
Council tax and Northern Ireland rates <sup>3</sup>	836	841	929	1 003	1 158	953
<i>less: Council tax benefit/Rates rebates</i>	291	185	89	33	8	121
<b>Total</b>	<b>1 030</b>	<b>2 268</b>	<b>4 654</b>	<b>7 907</b>	<b>16 758</b>	<b>6 523</b>
<b>Disposable income</b>	<b>9 655</b>	<b>15 141</b>	<b>21 694</b>	<b>29 356</b>	<b>50 956</b>	<b>25 360</b>
<i>Equivalised disposable income</i>	<i>9 267</i>	<i>14 708</i>	<i>19 428</i>	<i>26 024</i>	<i>47 324</i>	<i>23 350</i>
<b>Indirect taxes</b>						
<b>Taxes on final goods and services</b>						
VAT	1 093	1 366	1 909	2 336	3 243	1 990
Duty on tobacco	293	308	359	315	257	306
Duty on beer and cider	77	84	124	150	171	121
Duty on wines & spirits	86	105	149	200	275	163
Duty on hydrocarbon oils	238	301	448	600	736	464
Vehicle excise duty	75	99	134	169	195	135
Television licences	90	91	101	107	114	100
Stamp duty on house purchase	65	77	123	168	410	169
Customs duties	19	21	27	32	44	29
Betting taxes	21	42	35	37	33	34
Insurance premium tax	24	30	44	59	77	47
Air passenger duty	9	15	24	31	44	25
Camelot National Lottery Fund	42	56	60	66	46	54
Other	4	8	9	10	20	10
<b>Intermediate taxes</b>						
Commercial and industrial rates	165	184	233	280	379	248
Employers' NI contributions	285	319	403	484	657	430
Duty on hydrocarbon oils	111	124	156	188	255	167
Vehicle excise duty	9	10	12	15	20	13
Other	153	171	216	260	352	230
<b>Total indirect taxes</b>	<b>2 859</b>	<b>3 410</b>	<b>4 565</b>	<b>5 506</b>	<b>7 329</b>	<b>4 734</b>
<b>Post-tax income</b>	<b>6 797</b>	<b>11 731</b>	<b>17 129</b>	<b>23 850</b>	<b>43 626</b>	<b>20 627</b>
<b>Benefits in kind</b>						
Education	2 585	2 015	2 084	1 608	1 222	1 903
National health service	3 628	3 577	3 204	2 753	2 447	3 122
Housing subsidy	99	89	46	26	6	53
Rail travel subsidy	10	9	18	25	54	23
Bus travel subsidy	66	66	58	47	52	58
School meals and welfare milk	70	27	14	6	2	24
<b>Total</b>	<b>6 458</b>	<b>5 784</b>	<b>5 423</b>	<b>4 466</b>	<b>3 784</b>	<b>5 183</b>
<b>Final income</b>	<b>13 254</b>	<b>17 515</b>	<b>22 553</b>	<b>28 315</b>	<b>47 410</b>	<b>25 810</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 15 (Appendix 1)  
Household characteristics of decile groups of ALL households, 2004/05

	Decile groups of all households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	2.3	2.4	2.2	2.3	2.5	2.5	2.4	2.5	2.4	2.3	2.4
Adults	1.7	1.7	1.7	1.8	1.9	1.9	2.0	2.0	2.0	1.9	1.9
Men	0.8	0.7	0.7	0.8	0.9	0.9	1.0	1.0	1.1	1.0	0.9
Women	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	0.9	0.9	1.0
Children	0.6	0.7	0.6	0.6	0.6	0.6	0.4	0.5	0.4	0.4	0.5
Economically active people	0.5	0.6	0.7	1.0	1.2	1.3	1.5	1.7	1.8	1.7	1.2
Retired people	0.6	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.4
People in full-time education	0.68	0.63	0.53	0.53	0.60	0.53	0.46	0.46	0.38	0.34	0.51
In state primary schools	0.24	0.33	0.27	0.26	0.31	0.24	0.22	0.22	0.17	0.15	0.24
In state secondary schools	0.21	0.18	0.16	0.18	0.18	0.19	0.15	0.14	0.13	0.10	0.16
In further and higher education	0.20	0.10	0.08	0.07	0.07	0.08	0.07	0.06	0.07	0.04	0.09
In other educational establishments	0.03	0.03	0.02	0.02	0.03	0.02	0.01	0.04	0.02	0.05	0.03
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
1 adult	24	21	27	22	14	11	9	6	4	2	14
1 adult men	5	5	8	7	3	4	3	2	2	1	4
1 adult women	19	16	20	15	11	8	7	4	2	1	10
2 or more adults	21	22	19	16	14	12	9	6	4	3	13
Non-retired											
1 adult	14	11	10	12	9	11	16	12	18	20	13
1 adult men	9	6	6	6	5	7	9	8	12	13	8
1 adult women	4	5	5	5	4	5	7	4	6	8	5
2 adults	10	8	10	13	19	22	25	32	35	40	21
3 or more adults	5	4	5	5	10	12	13	15	13	10	9
1 adult with children	8	11	8	7	6	6	3	3	1	1	5
2 adults with 1 child	5	5	5	6	8	7	7	9	10	10	7
2 adults with 2 children	6	5	8	9	11	11	10	12	9	9	9
2 adults with 3 or more children	5	7	5	4	5	4	2	3	2	2	4
3 or more adults with children	3	4	3	6	3	4	5	3	4	2	4
<b>Household tenure</b>											
Rented											
Local authority rented	21	25	24	17	12	9	5	3	1	1	12
Housing association or RSL	9	14	12	11	8	6	5	2	2	1	7
Other rented unfurnished	4	7	5	7	6	6	6	5	3	4	5
Rented furnished	8	4	5	3	3	4	4	5	6	4	4
Rent free	1	1	3	2	2	2	1	2	1	1	2
Owner occupied											
With mortgage	16	15	22	29	38	43	50	58	67	67	40
Rental purchase	0	0	0	0	1	0	0	0	0	-	0
Owned outright	42	34	29	31	31	30	28	25	20	23	29
<b>Age of chief economic supporter</b>											
Under 25	6	4	4	2	2	4	4	2	2	1	3
Over 24 and under 35	12	14	11	13	15	15	15	20	24	20	16
Over 34 and under 45	17	17	15	16	20	23	22	21	23	28	20
Over 44 and under 55	13	13	12	14	17	17	22	26	26	25	18
Over 54 and under 65	16	12	13	17	18	17	19	18	17	20	17
Over 64 and under 75	15	20	22	23	15	14	11	8	4	5	14
Over 74	21	20	22	15	13	11	8	6	3	2	12
<b>Employment status of chief economic supporter</b>											
Self-employed	5	4	5	6	8	6	7	9	7	14	7
Full-time employee	6	15	26	34	44	55	62	70	80	74	46
Part-time employee	9	8	8	10	10	9	8	5	4	6	8
Unemployed	7	5	1	1	1	1	1	1	0	0	2
Unoccupied and under minimum NI age	32	27	15	10	9	6	4	3	2	2	11
Retired/unoccupied over minimum NI age	40	42	46	38	28	24	19	13	7	4	26
Other	0	-	-	-	0	-	-	-	-	-	0

Table 15A (Appendix 1)

## Household characteristics of quintile groups of ALL households, 2004/05

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	2.3	2.3	2.5	2.5	2.3	2.4
<i>Adults</i>	1.7	1.7	1.9	2.0	2.0	1.9
<i>Men</i>	0.7	0.8	0.9	1.0	1.0	0.9
<i>Women</i>	0.9	0.9	1.0	1.0	0.9	1.0
<i>Children</i>	0.6	0.6	0.6	0.5	0.4	0.5
Economically active people	0.5	0.8	1.3	1.6	1.7	1.2
Retired people	0.6	0.6	0.4	0.3	0.2	0.4
People in full-time education	0.66	0.53	0.56	0.46	0.36	0.51
<i>In state primary schools</i>	0.29	0.26	0.28	0.22	0.16	0.24
<i>In state secondary schools</i>	0.19	0.17	0.18	0.15	0.11	0.16
<i>In further and higher education</i>	0.15	0.08	0.08	0.07	0.06	0.09
<i>In other educational establishments</i>	0.03	0.02	0.02	0.02	0.03	0.03
<b>Composition (percentages)</b>						
<b>Household type</b>						
<b>Retired</b>						
1 adult	23	25	13	8	3	14
<i>1 adult men</i>	5	7	3	2	1	4
<i>1 adult women</i>	18	18	9	5	2	10
2 or more adults	21	18	13	7	4	13
<b>Non-retired</b>						
1 adult	12	11	10	14	19	13
<i>1 adult men</i>	8	6	6	9	12	8
<i>1 adult women</i>	5	5	4	5	7	5
2 adults	9	11	21	28	37	21
3 or more adults	5	5	11	14	12	9
1 adult with children	10	7	6	3	1	5
2 adults with 1 child	5	5	7	8	10	7
2 adults with 2 children	6	8	11	11	9	9
2 adults with 3 or more children	6	4	5	2	2	4
3 or more adults with children	4	5	4	4	3	4
<b>Household tenure</b>						
<b>Rented</b>						
Local authority rented	23	20	11	4	1	12
Housing association or RSL	11	11	7	4	1	7
Other rented unfurnished	5	6	6	6	4	5
Rented furnished	6	4	3	5	5	4
Rent free	1	3	2	2	1	2
<b>Owner occupied</b>						
With mortgage	16	26	40	54	67	40
Rental purchase	0	0	0	0	0	0
Owned outright	38	30	30	26	21	29
<b>Age of chief economic supporter</b>						
Under 25	5	3	3	3	2	3
Over 24 and under 35	13	12	15	17	22	16
Over 34 and under 45	17	16	21	22	26	20
Over 44 and under 55	13	13	17	24	25	18
Over 54 and under 65	14	15	17	18	19	17
Over 64 and under 75	18	22	15	9	4	14
Over 74	21	19	12	7	2	12
<b>Employment status of chief economic supporter</b>						
Self-employed	4	6	7	8	10	7
Full-time employee	10	30	49	66	77	46
Part-time employee	9	9	9	6	5	8
Unemployed	6	1	1	1	0	2
Unoccupied and under minimum NI age	29	13	8	3	2	11
Retired/unoccupied over minimum NI age	41	42	26	16	6	26
Other	0	-	0	-	-	0

Table 16 (Appendix 1)

## Average incomes, taxes and benefits by decile groups of NON-RETIRED households, 2004/05

	Decile groups of non-retired households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>10 692</i>	<i>13 915</i>	<i>16 667</i>	<i>19 104</i>	<i>21 941</i>	<i>24 850</i>	<i>28 716</i>	<i>34 214</i>	<i>43 857</i>		
Number of households in the population ('000s)	1 787	1 787	1 789	1 790	1 788	1 790	1 789	1 789	1 787	1 791	17 886
<b>Original income</b>											
Wages and salaries	3 332	9 425	14 267	20 067	23 168	28 540	33 892	39 623	47 614	68 542	28 847
Imputed income from benefits in kind	6	26	32	125	232	302	452	563	944	1 917	460
Self-employment income	707	998	1 761	2 040	2 195	2 640	2 800	3 420	4 861	15 203	3 663
Occupational pensions, annuities	120	292	603	720	799	699	987	1 309	1 296	2 324	915
Investment income	120	131	191	208	358	479	642	635	872	3 938	758
Other income	385	184	204	291	302	288	314	287	261	601	312
<b>Total</b>	<b>4 670</b>	<b>11 056</b>	<b>17 058</b>	<b>23 451</b>	<b>27 054</b>	<b>32 948</b>	<b>39 088</b>	<b>45 837</b>	<b>55 849</b>	<b>92 526</b>	<b>34 954</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	105	315	649	517	703	447	522	360	353	396	437
Job seeker's allowance (Contribution based)	111	35	7	13	11	4	2	6	1	3	19
Incapacity benefit	543	631	441	387	287	159	70	70	48	52	269
Widows' benefits	38	44	26	32	28	103	58	23	34	8	40
Statutory Maternity Pay/Allowance	2	2	8	12	26	-	9	21	17	49	15
<b>Non-contributory</b>											
Income support and pension credit	1 466	1 407	678	387	311	136	39	10	7	3	444
Child benefit	728	785	688	624	545	416	399	373	292	289	514
Housing benefit	1 222	1 129	552	263	344	169	69	72	8	5	383
Job seeker's allowance (Income based)	183	87	11	29	24	-	10	4	-	1	35
Invalid care allowance	101	95	113	68	54	9	14	4	6	5	47
Attendance allowance	-	15	28	16	12	-	13	6	10	2	10
Disability living allowance	282	470	506	503	377	212	103	120	54	50	268
War pensions/War widows' pensions	-	-	8	18	18	14	6	-	11	-	7
Severe disablement allowance	48	63	46	54	61	40	29	-	-	-	34
Industrial injury disablement benefit	-	14	9	43	15	15	13	20	5	-	13
Student support	73	57	75	64	60	92	24	25	9	37	52
Government training schemes	27	41	14	30	5	21	28	-	0	-	17
Tax credits <sup>1</sup>	816	724	614	445	354	145	108	69	23	5	330
Other non-contributory benefits	49	72	55	45	82	211	56	18	35	66	69
<b>Total cash benefits</b>	<b>5 795</b>	<b>5 987</b>	<b>4 528</b>	<b>3 549</b>	<b>3 317</b>	<b>2 193</b>	<b>1 574</b>	<b>1 202</b>	<b>913</b>	<b>969</b>	<b>3 003</b>
<b>Gross income</b>	<b>10 465</b>	<b>17 043</b>	<b>21 586</b>	<b>27 000</b>	<b>30 371</b>	<b>35 142</b>	<b>40 662</b>	<b>47 039</b>	<b>56 762</b>	<b>93 495</b>	<b>37 956</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	400	1 216	2 055	2 951	3 591	4 636	5 724	7 184	9 563	19 049	5 637
<i>less: Tax credits<sup>2</sup></i>	<i>95</i>	<i>336</i>	<i>372</i>	<i>325</i>	<i>273</i>	<i>244</i>	<i>176</i>	<i>165</i>	<i>90</i>	<i>31</i>	<i>211</i>
Employees' NI contributions	187	609	936	1 414	1 670	2 047	2 488	2 925	3 472	3 759	1 951
Council tax and Northern Ireland rates <sup>3</sup>	778	815	843	914	933	969	1 009	1 018	1 077	1 274	963
<i>less: Council tax benefit/Rates rebates</i>	<i>334</i>	<i>236</i>	<i>116</i>	<i>72</i>	<i>62</i>	<i>30</i>	<i>18</i>	<i>10</i>	<i>5</i>	<i>12</i>	<i>89</i>
<b>Total</b>	<b>935</b>	<b>2 069</b>	<b>3 346</b>	<b>4 881</b>	<b>5 860</b>	<b>7 379</b>	<b>9 027</b>	<b>10 952</b>	<b>14 019</b>	<b>24 040</b>	<b>8 251</b>
<b>Disposable income</b>	<b>9 530</b>	<b>14 974</b>	<b>18 240</b>	<b>22 118</b>	<b>24 511</b>	<b>27 762</b>	<b>31 635</b>	<b>36 087</b>	<b>42 743</b>	<b>69 455</b>	<b>29 706</b>
<i>Equivalised disposable income</i>	<i>7 741</i>	<i>12 333</i>	<i>15 299</i>	<i>17 911</i>	<i>20 457</i>	<i>23 295</i>	<i>26 751</i>	<i>31 258</i>	<i>38 423</i>	<i>65 228</i>	<i>25 870</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 305	1 469	1 763	2 039	2 139	2 446	2 604	2 583	2 915	3 939	2 320
Duty on tobacco	392	444	449	471	395	396	347	359	299	158	371
Duty on beer and cider	98	107	120	164	128	180	168	169	202	152	149
Duty on wines & spirits	87	110	117	153	149	220	224	208	264	334	186
Duty on hydrocarbon oils	289	361	400	514	519	630	655	746	745	755	561
Vehicle excise duty	80	99	123	138	151	173	185	191	198	189	153
Television licences	111	116	113	112	115	114	115	116	117	117	115
Stamp duty on house purchase	74	67	103	129	132	162	191	210	295	614	198
Customs duties	23	24	26	29	30	33	34	37	40	52	33
Betting taxes	20	28	56	32	37	50	32	33	31	41	36
Insurance premium tax	23	30	38	45	47	65	58	61	68	83	52
Air passenger duty	6	8	15	30	25	33	32	34	35	55	27
Camelot National Lottery Fund	40	48	61	64	64	77	66	62	44	45	57
Other	4	6	15	7	18	18	6	16	17	15	12
<b>Intermediate taxes</b>											
Commercial and industrial rates	198	208	222	253	260	284	298	319	349	447	284
Employers' NI contributions	342	359	385	439	450	492	517	553	604	775	491
Duty on hydrocarbon oils	133	139	149	170	174	191	200	214	234	300	191
Vehicle excise duty	10	11	12	13	14	15	16	17	18	24	15
Other	184	193	206	235	241	264	277	297	324	416	264
<b>Total indirect taxes</b>	<b>3 418</b>	<b>3 827</b>	<b>4 373</b>	<b>5 039</b>	<b>5 086</b>	<b>5 841</b>	<b>6 025</b>	<b>6 224</b>	<b>6 800</b>	<b>8 511</b>	<b>5 514</b>
<b>Post-tax income</b>	<b>6 112</b>	<b>11 147</b>	<b>13 867</b>	<b>17 079</b>	<b>19 425</b>	<b>21 921</b>	<b>25 610</b>	<b>29 863</b>	<b>35 944</b>	<b>60 944</b>	<b>24 191</b>
<b>Benefits in kind</b>											
Education	4 741	4 009	3 336	3 088	2 558	2 167	1 676	1 760	1 388	1 048	2 577
National health service	2 618	2 942	2 710	2 750	2 700	2 405	2 457	2 345	2 337	2 368	2 563
Housing subsidy	133	125	86	47	36	33	21	11	10	3	50
Rail travel subsidy	16	17	12	13	25	27	28	39	44	80	30
Bus travel subsidy	55	47	49	56	43	38	41	45	49	59	48
School meals and welfare milk	121	97	41	22	18	9	8	5	2	2	32
<b>Total</b>	<b>7 684</b>	<b>7 237</b>	<b>6 234</b>	<b>5 976</b>	<b>5 380</b>	<b>4 679</b>	<b>4 231</b>	<b>4 205</b>	<b>3 832</b>	<b>3 560</b>	<b>5 302</b>
<b>Final income</b>	<b>13 796</b>	<b>18 384</b>	<b>20 101</b>	<b>23 055</b>	<b>24 806</b>	<b>26 600</b>	<b>29 840</b>	<b>34 068</b>	<b>39 775</b>	<b>64 504</b>	<b>29 493</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 16A (Appendix 1)

## Average incomes, taxes and benefits by quintile groups of NON-RETIRED households, 2004/05

	Quintile groups of non-retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Quintile points (equivalised £)</i>		13 915	19 104	24 850	34 214	
Number of households in the population ('000s)	3 574	3 579	3 577	3 578	3 578	17 886
Original income						
Wages and salaries	6 378	17 167	25 854	36 758	58 078	28 847
Imputed income from benefits in kind	16	78	267	508	1 431	460
Self-employment income	853	1 900	2 418	3 110	10 032	3 663
Occupational pensions, annuities	206	662	749	1 148	1 810	915
Investment income	126	200	419	639	2 405	758
Other income	285	247	295	301	431	312
Total	7 863	20 255	30 001	42 462	74 187	34 954
Direct benefits in cash						
Contributory						
Retirement pension	210	583	575	441	375	437
Job seeker's allowance (Contribution based)	73	10	7	4	2	19
Incapacity benefit	587	414	223	70	50	269
Widows' benefits	41	29	66	41	21	40
Statutory Maternity Pay/Allowance	2	10	13	15	33	15
Non-contributory						
Income support and pension credit	1 437	533	223	25	5	444
Child benefit	757	656	480	386	291	514
Housing benefit	1 176	408	256	70	7	383
Job seeker's allowance (Income based)	135	20	12	7	1	35
Invalid care allowance	98	91	32	9	5	47
Attendance allowance	8	22	6	10	6	10
Disability living allowance	376	505	294	112	52	268
War pensions/War widows' pensions	-	13	16	3	5	7
Severe disablement allowance	55	50	51	14	-	34
Industrial injury disablement benefit	7	26	15	16	3	13
Student support	65	69	76	25	23	52
Government training schemes	34	22	13	14	0	17
Tax credits <sup>1</sup>	770	530	250	89	14	330
Other non-contributory benefits	61	50	147	37	51	69
Total cash benefits	5 891	4 038	2 755	1 388	941	3 003
Gross income	13 754	24 293	32 756	43 850	75 129	37 956
Direct taxes and Employees' NIC						
Income tax	808	2 503	4 113	6 454	14 306	5 637
less: Tax credits <sup>2</sup>	215	348	258	171	60	211
Employees' NI contributions	398	1 175	1 859	2 707	3 616	1 951
Council tax and Northern Ireland rates <sup>3</sup>	796	879	951	1 013	1 176	963
less: Council tax benefit/Rates rebates	285	94	46	14	8	89
Total	1 502	4 114	6 620	9 989	19 029	8 251
Disposable income	12 252	20 179	26 137	33 861	56 099	29 706
<i>Equivalised disposable income</i>	<i>10 037</i>	<i>16 605</i>	<i>21 876</i>	<i>29 004</i>	<i>51 825</i>	<i>25 870</i>
Indirect taxes						
Taxes on final goods and services						
VAT	1 387	1 901	2 293	2 593	3 427	2 320
Duty on tobacco	418	460	395	353	229	371
Duty on beer and cider	103	142	154	168	177	149
Duty on wines & spirits	98	135	185	216	299	186
Duty on hydrocarbon oils	325	457	575	700	750	561
Vehicle excise duty	89	130	162	188	194	153
Television licences	114	112	114	115	117	115
Stamp duty on house purchase	70	116	147	201	454	198
Customs duties	23	27	31	36	46	33
Betting taxes	24	44	44	33	36	36
Insurance premium tax	27	41	56	59	75	52
Air passenger duty	7	23	29	33	45	27
Camelot National Lottery Fund	44	63	70	64	45	57
Other	5	11	18	11	16	12
Intermediate taxes						
Commercial and industrial rates	203	238	272	309	398	284
Employers' NI contributions	351	412	471	535	690	491
Duty on hydrocarbon oils	136	160	183	207	267	191
Vehicle excise duty	11	13	14	16	21	15
Other	188	221	253	287	370	264
Total indirect taxes	3 622	4 706	5 464	6 125	7 655	5 514
Post-tax income	8 630	15 473	20 673	27 736	48 444	24 191
Benefits in kind						
Education	4 375	3 212	2 362	1 718	1 218	2 577
National health service	2 780	2 730	2 553	2 401	2 353	2 563
Housing subsidy	129	66	35	16	6	50
Rail travel subsidy	17	12	26	34	62	30
Bus travel subsidy	51	52	41	43	54	48
School meals and welfare milk	109	32	13	6	2	32
Total	7 460	6 105	5 030	4 218	3 696	5 302
Final income	16 090	21 578	25 703	31 954	52 140	29 493

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 17 (Appendix 1)  
Household characteristics of decile groups of NON-RETIRED households, 2004/05

	Decile groups of non-retired households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	2.9	3.0	2.8	2.9	2.8	2.7	2.6	2.6	2.4	2.3	2.7
<i>Adults</i>	1.9	1.9	1.9	2.1	2.0	2.1	2.1	2.0	2.0	1.9	2.0
<i>Men</i>	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.0	1.1	1.0	1.0
<i>Women</i>	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	1.0
<i>Children</i>	1.1	1.1	1.0	0.9	0.8	0.6	0.5	0.5	0.4	0.4	0.7
Economically active people	0.8	1.1	1.4	1.6	1.7	1.8	1.9	1.9	1.9	1.8	1.6
Retired people	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
People in full-time education	1.18	1.03	0.90	0.82	0.70	0.59	0.50	0.49	0.38	0.35	0.70
<i>In state primary schools</i>	0.47	0.53	0.46	0.43	0.33	0.27	0.26	0.21	0.17	0.16	0.33
<i>In state secondary schools</i>	0.35	0.31	0.29	0.25	0.24	0.20	0.15	0.18	0.12	0.09	0.22
<i>In further and higher education</i>	0.32	0.16	0.12	0.11	0.10	0.10	0.06	0.07	0.08	0.04	0.12
<i>In other educational establishments</i>	0.04	0.04	0.03	0.03	0.03	0.01	0.04	0.03	0.02	0.06	0.03
<b>Composition (percentages)</b>											
<b>Household type</b>											
<b>Non-retired</b>											
1 adult	24	19	21	13	15	18	15	19	22	20	18
<i>1 adult men</i>	16	10	11	7	9	11	10	12	14	13	11
<i>1 adult women</i>	7	9	9	6	6	7	5	7	7	7	7
2 adults	17	15	20	27	30	29	38	33	39	45	29
3 or more adults	9	10	7	14	14	17	16	17	13	10	13
1 adult with children	16	17	12	9	7	6	2	3	1	1	7
2 adults with 1 child	8	10	10	11	9	8	9	12	9	12	10
2 adults with 2 children	10	12	15	15	15	12	14	10	10	9	12
2 adults with 3 or more children	10	11	7	7	6	2	3	3	2	3	5
3 or more adults with children	6	6	9	5	5	7	3	4	4	1	5
<b>Household tenure</b>											
<b>Rented</b>											
Local authority rented	31	26	17	12	9	4	3	3	1	0	11
Housing association or RSL	15	13	11	6	4	4	3	1	2	0	6
Other rented unfurnished	5	10	9	7	7	8	6	4	4	4	6
Rented furnished	10	8	4	5	4	6	5	7	5	5	6
Rent free	1	1	2	2	2	1	2	1	1	0	1
<b>Owner occupied</b>											
With mortgage	24	30	41	49	55	58	62	69	73	70	53
Rental purchase	0	0	-	1	0	0	0	0	0	-	0
Owned outright	12	12	16	18	18	18	20	15	14	20	16
<b>Age of chief economic supporter</b>											
Under 25	11	7	4	4	4	5	4	2	1	1	4
Over 24 and under 35	22	22	21	22	18	19	21	24	24	22	22
Over 34 and under 45	30	30	27	27	30	26	25	25	27	29	28
Over 44 and under 55	22	24	22	21	23	26	29	30	28	25	25
Over 54 and under 65	14	15	19	21	19	20	18	17	18	20	18
Over 64 and under 75	0	1	6	4	3	3	3	2	2	2	3
Over 74	0	1	1	1	1	1	0	1	0	0	1
<b>Employment status of chief economic supporter</b>											
Self-employed	8	8	11	10	8	9	11	10	8	15	10
Full-time employee	12	36	53	61	69	74	80	83	86	78	63
Part-time employee	17	13	15	14	11	10	6	4	6	5	10
Unemployed	12	6	2	1	1	1	1	-	1	0	2
Unoccupied and under minimum NI age	49	35	15	10	8	4	2	2	0	1	13
Retired/unoccupied over minimum NI age	0	2	3	3	2	2	1	1	0	0	2
Other	1	-	-	0	-	-	-	-	-	-	0

Table 17A (Appendix 1)

**Household characteristics of quintile groups of NON-RETIRED households, 2004/05**

	Quintile groups of non-retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	3.0	2.9	2.7	2.6	2.4	2.7
<i>Adults</i>	<i>1.9</i>	<i>2.0</i>	<i>2.1</i>	<i>2.1</i>	<i>2.0</i>	<i>2.0</i>
<i>Men</i>	<i>0.9</i>	<i>1.0</i>	<i>1.0</i>	<i>1.1</i>	<i>1.0</i>	<i>1.0</i>
<i>Women</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>0.9</i>	<i>1.0</i>
<i>Children</i>	<i>1.1</i>	<i>0.9</i>	<i>0.7</i>	<i>0.5</i>	<i>0.4</i>	<i>0.7</i>
Economically active people	1.0	1.5	1.8	1.9	1.8	1.6
Retired people	0.1	0.1	0.1	0.1	0.1	0.1
People in full-time education	1.10	0.86	0.65	0.50	0.37	0.70
<i>In state primary schools</i>	<i>0.50</i>	<i>0.44</i>	<i>0.30</i>	<i>0.23</i>	<i>0.16</i>	<i>0.33</i>
<i>In state secondary schools</i>	<i>0.33</i>	<i>0.27</i>	<i>0.22</i>	<i>0.17</i>	<i>0.11</i>	<i>0.22</i>
<i>In further and higher education</i>	<i>0.24</i>	<i>0.12</i>	<i>0.10</i>	<i>0.06</i>	<i>0.06</i>	<i>0.12</i>
<i>In other educational establishments</i>	<i>0.04</i>	<i>0.03</i>	<i>0.02</i>	<i>0.03</i>	<i>0.04</i>	<i>0.03</i>
<b>Composition (percentages)</b>						
<b>Household type</b>						
Non-retired						
1 adult	21	17	17	17	21	18
1 adult men	13	9	10	11	13	11
1 adult women	8	8	7	6	7	7
2 adults	16	23	29	35	42	29
3 or more adults	10	11	16	16	12	13
1 adult with children	17	10	6	3	1	7
2 adults with 1 child	9	10	9	11	10	10
2 adults with 2 children	11	15	14	12	9	12
2 adults with 3 or more children	10	7	4	3	2	5
3 or more adults with children	6	7	6	3	3	5
<b>Household tenure</b>						
Rented	61	37	25	17	11	30
Local authority rented	28	14	7	3	1	11
Housing association or RSL	14	8	4	2	1	6
Other rented unfurnished	7	8	7	5	4	6
Rented furnished	9	4	5	6	5	6
Rent free	1	2	1	2	1	1
Owner occupied	39	63	75	83	89	70
With mortgage	27	45	57	65	72	53
Rental purchase	0	0	0	0	0	0
Owned outright	12	17	18	17	17	16
<b>Age of chief economic supporter</b>						
Under 25	9	4	4	3	1	4
Over 24 and under 35	22	22	19	22	23	22
Over 34 and under 45	30	27	28	25	28	28
Over 44 and under 55	23	21	25	29	27	25
Over 54 and under 65	14	20	20	17	19	18
Over 64 and under 75	1	5	3	3	2	3
Over 74	1	1	1	1	0	1
<b>Employment status of chief economic supporter</b>						
Self-employed	8	10	9	10	11	10
Full-time employee	24	57	72	81	82	63
Part-time employee	15	15	11	5	5	10
Unemployed	9	1	1	0	1	2
Unoccupied and under minimum NI age	42	12	6	2	1	13
Retired/unoccupied over minimum NI age	1	3	2	1	0	2
Other	0	0	-	-	-	0

Table 18 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of RETIRED households, 2004/05**

	Decile groups of retired households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>		8 747	10 408	11 989	13 483	14 690	16 142	18 011	20 841	25 632	
Number of households in the population ('000s)	651	655	657	651	656	654	653	656	655	657	6 544
<b>Original income</b>											
Wages and salaries	56	43	53	313	183	340	534	867	660	1 525	457
Imputed income from benefits in kind	-	-	-	23	-	-	1	-	-	-	2
Self-employment income	45	11	26	14	7	27	74	10	287	50	50
Occupational pensions, annuities	715	1 324	2 041	2 417	2 489	4 193	5 104	7 140	10 503	20 098	5 602
Investment income	426	429	391	371	301	475	777	913	1 310	5 944	1 134
Other income	30	20	89	58	216	116	99	33	127	606	139
<b>Total</b>	<b>1 272</b>	<b>1 828</b>	<b>2 600</b>	<b>3 196</b>	<b>3 194</b>	<b>5 124</b>	<b>6 542</b>	<b>9 027</b>	<b>12 610</b>	<b>28 460</b>	<b>7 385</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	4 411	5 389	6 170	6 171	5 849	6 081	6 026	6 655	6 565	6 197	5 951
Job seeker's allowance (Contribution based)	-	0	-	20	-	-	-	-	-	-	2
Incapacity benefit	91	88	161	214	87	68	127	49	61	37	98
Widows' benefits	-	53	-	-	10	19	101	64	33	61	34
Statutory Maternity Pay/Allowance	-	-	-	-	-	-	-	-	-	-	-
<b>Non-contributory</b>											
Income support and pension credit	239	350	285	387	484	377	299	515	318	68	332
Child benefit	26	5	6	9	17	-	4	-	4	4	7
Housing benefit	113	153	347	761	1 007	909	628	532	537	215	520
Job seeker's allowance (Income based)	21	-	6	-	-	-	-	-	-	-	3
Invalid care allowance	12	39	15	41	44	43	42	43	70	54	40
Attendance allowance	12	44	97	186	226	84	253	286	256	169	161
Disability living allowance	35	108	156	194	410	333	576	561	594	354	332
War pensions/War widows' pensions	17	-	14	23	18	27	126	118	192	252	79
Severe disablement allowance	14	51	-	30	12	34	64	7	26	-	24
Industrial injury disablement benefit	20	47	20	19	21	43	11	139	15	13	35
Student support	-	-	-	-	-	-	-	-	-	8	1
Government training schemes	-	-	-	-	-	-	-	-	-	-	-
Tax credits <sup>1</sup>	-	-	3	10	38	-	-	-	-	-	5
Other non-contributory benefits	272	293	229	290	274	273	233	284	250	363	276
<b>Total cash benefits</b>	<b>5 282</b>	<b>6 622</b>	<b>7 510</b>	<b>8 355</b>	<b>8 497</b>	<b>8 293</b>	<b>8 488</b>	<b>9 253</b>	<b>8 921</b>	<b>7 795</b>	<b>7 902</b>
<b>Gross income</b>	<b>6 554</b>	<b>8 449</b>	<b>10 110</b>	<b>11 551</b>	<b>11 692</b>	<b>13 416</b>	<b>15 030</b>	<b>18 281</b>	<b>21 531</b>	<b>36 255</b>	<b>15 287</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	141	163	249	312	323	553	792	1 259	1 963	4 851	1 061
less: Tax credits <sup>2</sup>	2	2	5	4	5	5	4	3	3	12	4
Employees' NI contributions	6	8	2	18	16	16	29	52	31	92	27
Council tax and Northern Ireland rates <sup>3</sup>	929	870	903	850	795	890	848	923	1 010	1 247	927
less: Council tax benefit/Rates rebates	173	314	246	269	303	253	193	169	106	49	207
<b>Total</b>	<b>901</b>	<b>726</b>	<b>903</b>	<b>908</b>	<b>825</b>	<b>1 202</b>	<b>1 473</b>	<b>2 062</b>	<b>2 894</b>	<b>6 128</b>	<b>1 802</b>
<b>Disposable income</b>	<b>5 653</b>	<b>7 723</b>	<b>9 206</b>	<b>10 643</b>	<b>10 866</b>	<b>12 214</b>	<b>13 557</b>	<b>16 219</b>	<b>18 637</b>	<b>30 126</b>	<b>13 485</b>
<i>Equivalised disposable income</i>	<i>6 909</i>	<i>9 596</i>	<i>11 243</i>	<i>12 758</i>	<i>14 106</i>	<i>15 421</i>	<i>16 990</i>	<i>19 380</i>	<i>23 022</i>	<i>35 223</i>	<i>16 465</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	740	754	831	879	732	1 018	1 102	1 136	1 503	2 166	1 086
Duty on tobacco	106	133	153	124	93	215	120	136	154	65	130
Duty on beer and cider	45	42	36	48	38	35	59	52	59	40	45
Duty on wines & spirits	77	73	75	73	72	112	106	111	128	160	99
Duty on hydrocarbon oils	139	153	172	159	140	173	188	204	253	413	199
Vehicle excise duty	69	65	72	72	58	75	74	97	104	164	85
Television licences	59	53	62	60	57	63	64	59	71	71	62
Stamp duty on house purchase	82	64	58	53	42	51	48	68	111	311	89
Customs duties	13	13	15	15	14	17	17	18	21	30	17
Betting taxes	23	14	25	22	56	25	39	29	29	15	28
Insurance premium tax	22	30	23	21	17	25	29	35	42	93	34
Air passenger duty	9	19	10	9	13	14	13	17	25	38	17
Camelot National Lottery Fund	37	35	52	45	45	62	52	46	40	32	44
Other	1	2	3	6	9	1	1	2	8	24	6
<b>Intermediate taxes</b>											
Commercial and industrial rates	111	115	132	128	124	144	146	156	186	262	150
Employers' NI contributions	192	200	229	222	214	249	253	270	321	453	260
Duty on hydrocarbon oils	75	78	89	86	83	97	98	105	125	176	101
Vehicle excise duty	6	6	7	7	7	8	8	8	10	14	8
Other	103	107	123	119	115	134	136	145	172	243	140
<b>Total indirect taxes</b>	<b>1 908</b>	<b>1 958</b>	<b>2 167</b>	<b>2 147</b>	<b>1 930</b>	<b>2 517</b>	<b>2 552</b>	<b>2 692</b>	<b>3 362</b>	<b>4 770</b>	<b>2 600</b>
<b>Post-tax income</b>	<b>3 745</b>	<b>5 765</b>	<b>7 040</b>	<b>8 496</b>	<b>8 936</b>	<b>9 697</b>	<b>11 005</b>	<b>13 526</b>	<b>15 275</b>	<b>25 356</b>	<b>10 884</b>
<b>Benefits in kind</b>											
Education	221	23	36	-	155	-	27	-	55	70	59
National health service	4 829	5 028	4 541	4 964	4 464	4 536	4 337	4 930	4 394	4 463	4 649
Housing subsidy	47	41	54	81	111	82	67	61	54	11	61
Rail travel subsidy	5	2	3	4	3	2	4	7	4	15	5
Bus travel subsidy	88	82	85	89	83	81	90	93	80	74	85
School meals and welfare milk	3	0	0	-	5	-	-	-	-	-	1
<b>Total</b>	<b>5 193</b>	<b>5 178</b>	<b>4 719</b>	<b>5 139</b>	<b>4 821</b>	<b>4 702</b>	<b>4 525</b>	<b>5 090</b>	<b>4 587</b>	<b>4 632</b>	<b>4 859</b>
<b>Final income</b>	<b>8 938</b>	<b>10 943</b>	<b>11 759</b>	<b>13 635</b>	<b>13 757</b>	<b>14 399</b>	<b>15 530</b>	<b>18 617</b>	<b>19 862</b>	<b>29 988</b>	<b>15 743</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 18A (Appendix 1)

**Average incomes, taxes and benefits by quintile groups of RETIRED households, 2004/05**

	Quintile groups of retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Decile points (equivalised £)</i>	<i>10 408</i>	<i>13 483</i>	<i>16 142</i>	<i>20 841</i>		
Number of households in the population ('000s)	1 306	1 308	1 310	1 309	1 312	6 544
Original income						
Wages and salaries	50	183	261	700	1 092	457
Imputed income from benefits in kind	-	12	-	1	-	2
Self-employment income	28	20	3	51	149	50
Occupational pensions, annuities	1 020	2 229	3 341	6 122	15 300	5 602
Investment income	428	381	388	845	3 627	1 134
Other income	25	73	166	66	366	139
Total	1 550	2 898	4 159	7 785	20 535	7 385
Direct benefits in cash						
Contributory						
Retirement pension	4 900	6 170	5 965	6 340	6 381	5 951
Job seeker's allowance (Contribution based)	0	10	-	-	-	2
Incapacity benefit	90	187	77	88	49	98
Widows' benefits	27	-	15	83	47	34
Statutory Maternity Pay/Allowance	-	-	-	-	-	-
Non-contributory						
Income support and pension credit	295	336	431	407	193	332
Child benefit	16	7	9	2	4	7
Housing benefit	133	554	958	580	376	520
Job seeker's allowance (Income based)	10	3	-	-	-	3
Invalid care allowance	25	28	44	43	62	40
Attendance allowance	28	142	155	269	212	161
Disability living allowance	72	175	371	568	474	332
War pensions/War widows' pensions	8	19	22	122	222	79
Severe disablement allowance	32	15	23	35	13	24
Industrial injury disablement benefit	34	20	32	75	14	35
Student support	-	-	-	-	4	1
Government training schemes	-	-	-	-	-	-
Tax credits <sup>1</sup>	-	6	19	-	-	5
Other non-contributory benefits	283	260	274	258	307	276
Total cash benefits	5 952	7 932	8 395	8 871	8 358	7 902
Gross income	7 502	10 830	12 554	16 655	28 893	15 287
Direct taxes and Employees' NIC						
Income tax	152	281	438	1 026	3 407	1 061
less: Tax credits <sup>2</sup>	2	4	5	4	7	4
Employees' NI contributions	7	10	16	41	61	27
Council tax and Northern Ireland rates <sup>3</sup>	900	877	843	886	1 128	927
less: Council tax benefit/Rates rebates	243	257	278	181	78	207
Total	814	906	1 014	1 768	4 511	1 802
Disposable income	6 688	9 925	11 540	14 888	24 382	13 485
<i>Equivalised disposable income</i>	<i>8 253</i>	<i>12 000</i>	<i>14 764</i>	<i>18 185</i>	<i>29 122</i>	<i>16 465</i>
Indirect taxes						
Taxes on final goods and services						
VAT	747	855	875	1 119	1 834	1 086
Duty on tobacco	119	138	154	128	109	130
Duty on beer and cider	43	42	37	55	49	45
Duty on wines & spirits	75	74	92	108	144	99
Duty on hydrocarbon oils	146	166	157	196	333	199
Vehicle excise duty	67	72	67	85	134	85
Television licences	56	61	60	62	71	62
Stamp duty on house purchase	73	56	47	58	211	89
Customs duties	13	15	15	17	26	17
Betting taxes	19	23	41	34	22	28
Insurance premium tax	26	22	21	32	68	34
Air passenger duty	14	9	13	15	32	17
Camelot National Lottery Fund	36	49	53	49	36	44
Other	2	4	5	1	16	6
Intermediate taxes						
Commercial and industrial rates	113	130	134	151	224	150
Employers' NI contributions	196	225	232	261	387	260
Duty on hydrocarbon oils	76	87	90	101	150	101
Vehicle excise duty	6	7	7	8	12	8
Other	105	121	124	140	208	140
Total indirect taxes	1 933	2 157	2 224	2 622	4 066	2 600
Post-tax income	4 755	7 768	9 317	12 266	20 315	10 884
Benefits in kind						
Education	122	18	78	14	62	59
National health service	4 929	4 753	4 500	4 633	4 428	4 649
Housing subsidy	44	68	97	64	32	61
Rail travel subsidy	3	4	2	6	9	5
Bus travel subsidy	85	87	82	92	77	85
School meals and welfare milk	2	0	2	-	-	1
Total	5 185	4 929	4 761	4 808	4 609	4 859
Final income	9 941	12 697	14 078	17 073	24 925	15 743

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 19 (Appendix 1)

## Household characteristics of decile groups of RETIRED households, 2004/05

	Decile groups of retired households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	1.5	1.5	1.5	1.6	1.4	1.5	1.5	1.6	1.5	1.6	1.5
<i>Adults</i>	<i>1.5</i>	<i>1.5</i>	<i>1.5</i>	<i>1.6</i>	<i>1.4</i>	<i>1.5</i>	<i>1.5</i>	<i>1.6</i>	<i>1.5</i>	<i>1.6</i>	<i>1.5</i>
<i>Men</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.6</i>
<i>Women</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.8</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>
<i>Children</i>	<i>0.1</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	-	<i>0.0</i>	-	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Economically active people	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Retired people	1.3	1.4	1.4	1.4	1.3	1.4	1.4	1.5	1.4	1.5	1.4
People in full-time education	0.06	0.02	0.01	-	0.03	-	0.01	-	0.01	0.02	0.02
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
1 adult	54	55	50	51	63	58	55	48	53	45	53
1 adult men	11	10	11	14	18	19	14	13	16	19	14
1 adult women	43	45	40	36	45	39	42	35	37	26	39
2 or more adults	46	45	50	49	37	42	45	52	47	55	47
<b>Household tenure</b>											
Rented											
Local authority rented	9	10	15	26	30	18	16	12	9	2	15
Housing association or RSL	3	5	7	13	14	16	12	11	8	2	9
Other rented unfurnished	4	2	4	1	3	3	2	3	3	1	3
Rented furnished	1	1	-	-	1	1	1	0	1	1	1
Rent free	-	0	3	4	5	4	3	1	3	2	2
Owner occupied											
With mortgage	5	5	8	4	4	4	8	5	7	10	6
Rental purchase	-	1	-	-	-	1	-	1	-	-	0
Owned outright	78	77	64	52	44	53	59	66	69	81	64
Age of chief economic supporter											
Under 25	-	-	-	-	-	-	-	-	-	-	-
Over 24 and under 35	-	-	-	-	-	-	-	-	-	-	-
Over 34 and under 45	0	-	-	-	-	-	-	-	-	-	0
Over 44 and under 55	1	1	-	1	1	1	1	1	-	0	1
Over 54 and under 65	20	14	9	9	8	13	13	9	11	23	13
Over 64 and under 75	33	36	46	47	45	50	45	44	53	41	44
Over 74	46	50	45	44	45	37	41	46	36	36	43
<b>Employment status of chief economic supporter</b>											
Self-employed	-	-	1	-	1	-	-	-	-	-	0
Full-time employee	-	-	-	-	1	-	-	-	-	-	0
Part-time employee	-	-	-	-	-	-	-	-	-	1	0
Unemployed	1	-	-	-	-	-	-	-	-	-	0
Unoccupied and under minimum NI age	11	7	4	5	4	6	9	5	5	13	7
Retired/unoccupied over minimum NI age	88	93	96	95	95	94	91	95	95	86	93

Table 19A (Appendix 1)

## Household characteristics of quintile groups of RETIRED households, 2004/05

	Quintile groups of retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	1.5	1.6	1.4	1.5	1.6	1.5
<i>Adults</i>	1.5	1.5	1.4	1.5	1.6	1.5
<i>Men</i>	0.6	0.6	0.6	0.6	0.7	0.6
<i>Women</i>	0.9	0.9	0.8	0.9	0.9	0.9
<i>Children</i>	0.0	0.0	0.0	0.0	0.0	0.0
Economically active people	0.0	0.1	0.0	0.1	0.1	0.1
Retired people	1.4	1.4	1.3	1.4	1.5	1.4
People in full-time education	0.04	0.00	0.02	0.00	0.01	0.02
<b>Composition (percentages)</b>						
<b>Household type</b>						
Retired						
1 adult	54	50	60	51	49	53
1 adult men	11	12	18	13	17	14
1 adult women	44	38	42	38	32	39
2 or more adults	46	50	40	49	51	47
<b>Household tenure</b>						
Rented						
Local authority rented	10	21	24	14	6	15
Housing association or RSL	4	10	15	12	5	9
Other rented unfurnished	3	2	3	3	2	3
Rented furnished	1	-	1	0	1	1
Rent free	0	3	4	2	2	2
Owner occupied						
With mortgage	5	6	4	6	9	6
Rental purchase	0	-	0	0	-	0
Owned outright	77	58	48	63	75	64
<b>Age of chief economic supporter</b>						
Under 25	-	-	-	-	-	-
Over 24 and under 35	-	-	-	-	-	-
Over 34 and under 45	0	-	-	-	-	0
Over 44 and under 55	1	0	1	1	0	1
Over 54 and under 65	17	9	11	11	17	13
Over 64 and under 75	34	46	48	45	47	44
Over 74	48	44	41	44	36	43
<b>Employment status of chief economic supporter</b>						
Self-employed	-	0	0	-	-	0
Full-time employee	-	-	0	-	-	0
Part-time employee	-	-	-	-	0	0
Unemployed	0	-	-	-	-	0
Unoccupied and under minimum NI age	9	4	5	7	9	7
Retired/unoccupied over minimum NI age	90	95	95	93	90	93

Table 20 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITHOUT CHILDREN, 2004/05**

	Decile groups of non-retired households without children ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>11 523</i>	<i>15 497</i>	<i>18 550</i>	<i>21 299</i>	<i>23 948</i>	<i>27 305</i>	<i>31 376</i>	<i>36 944</i>	<i>47 045</i>		
Number of households in the population ('000s)	1 076	1 079	1 081	1 076	1 079	1 079	1 080	1 076	1 081	1 080	10 787
<b>Original income</b>											
Wages and salaries	3 513	8 741	15 130	19 430	24 230	30 654	33 919	40 013	45 606	66 795	28 803
Imputed income from benefits in kind	9	44	66	106	208	161	307	588	915	2 130	453
Self-employment income	798	932	1 597	1 581	1 785	1 308	2 059	2 106	4 633	12 458	2 926
Occupational pensions, annuities	151	796	1 095	1 080	873	1 379	1 651	1 308	2 023	3 079	1 344
Investment income	128	244	222	369	636	549	821	586	876	4 773	920
Other income	443	62	82	95	119	188	303	93	180	534	210
<b>Total</b>	<b>5 043</b>	<b>10 820</b>	<b>18 192</b>	<b>22 662</b>	<b>27 850</b>	<b>34 239</b>	<b>39 060</b>	<b>44 696</b>	<b>54 234</b>	<b>89 768</b>	<b>34 656</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	171	903	1 112	1 040	730	656	678	442	377	593	670
Job seeker's allowance (Contribution based)	99	14	24	3	18	-	10	-	-	5	17
Incapacity benefit	735	849	589	412	247	93	93	57	50	45	317
Widows' benefits	66	12	34	32	139	74	39	-	-	-	40
Statutory Maternity Pay/Allowance	-	-	-	-	-	-	-	-	-	-	-
<b>Non-contributory</b>											
Income support and pension credit	523	753	457	319	284	76	7	5	9	-	243
Child benefit	15	3	16	4	19	6	-	-	3	9	8
Housing benefit	971	786	321	227	317	121	49	7	7	9	282
Job seeker's allowance (Income based)	155	51	19	7	11	12	10	-	-	2	27
Invalid care allowance	104	97	90	33	9	19	-	-	9	-	36
Attendance allowance	10	9	24	20	-	22	10	6	10	3	11
Disability living allowance	342	623	692	463	354	110	145	62	45	29	286
War pensions/War widows' pensions	-	-	24	30	5	-	-	14	3	-	8
Severe disablement allowance	96	108	84	88	81	55	9	-	-	-	52
Industrial injury disablement benefit	-	35	68	17	12	35	23	14	4	-	21
Student support	95	108	87	75	122	56	4	34	6	-	59
Government training schemes	24	36	28	8	0	8	36	1	-	-	14
Tax credits <sup>1</sup>	31	7	24	28	19	16	-	8	-	-	13
Other non-contributory benefits	47	75	73	65	96	51	40	23	53	30	55
<b>Total cash benefits</b>	<b>3 486</b>	<b>4 467</b>	<b>3 766</b>	<b>2 871</b>	<b>2 464</b>	<b>1 410</b>	<b>1 152</b>	<b>673</b>	<b>577</b>	<b>726</b>	<b>2 159</b>
<b>Gross income</b>	<b>8 528</b>	<b>15 288</b>	<b>21 958</b>	<b>25 533</b>	<b>30 314</b>	<b>35 648</b>	<b>40 212</b>	<b>45 368</b>	<b>54 810</b>	<b>90 494</b>	<b>36 815</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	436	1 199	2 191	2 946	3 711	4 809	5 868	6 912	9 117	17 867	5 506
<i>/less: Tax credits<sup>2</sup></i>	<i>22</i>	<i>18</i>	<i>16</i>	<i>31</i>	<i>37</i>	<i>7</i>	<i>10</i>	<i>13</i>	<i>10</i>	<i>10</i>	<i>17</i>
Employees' NI contributions	204	505	1 021	1 364	1 734	2 274	2 566	3 088	3 456	3 844	2 006
Council tax and Northern Ireland rates <sup>3</sup>	708	790	898	901	919	951	979	966	1 016	1 223	935
<i>/less: Council tax benefit/Rates rebates</i>	<i>270</i>	<i>184</i>	<i>108</i>	<i>65</i>	<i>41</i>	<i>19</i>	<i>12</i>	<i>4</i>	<i>3</i>	<i>17</i>	<i>72</i>
<b>Total</b>	<b>1 055</b>	<b>2 292</b>	<b>3 986</b>	<b>5 115</b>	<b>6 286</b>	<b>8 008</b>	<b>9 391</b>	<b>10 951</b>	<b>13 576</b>	<b>22 907</b>	<b>8 357</b>
<b>Disposable income</b>	<b>7 474</b>	<b>12 995</b>	<b>17 972</b>	<b>20 418</b>	<b>24 028</b>	<b>27 640</b>	<b>30 821</b>	<b>34 417</b>	<b>41 234</b>	<b>67 587</b>	<b>28 459</b>
<b>Equivalised disposable income</b>	<b>7 829</b>	<b>13 661</b>	<b>17 116</b>	<b>19 830</b>	<b>22 663</b>	<b>25 583</b>	<b>29 232</b>	<b>33 979</b>	<b>41 534</b>	<b>69 708</b>	<b>28 114</b>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 074	1 456	1 607	1 739	1 987	2 275	2 246	2 500	2 744	3 794	2 142
Duty on tobacco	379	462	398	376	441	381	366	340	408	177	373
Duty on beer and cider	126	128	181	148	188	190	146	217	202	162	169
Duty on wines & spirits	107	132	161	158	215	239	224	226	261	356	208
Duty on hydrocarbon oils	221	326	415	476	547	591	653	669	703	730	533
Vehicle excise duty	63	89	122	136	152	178	176	194	178	190	148
Television licences	105	109	110	110	111	114	113	114	117	116	111
Stamp duty on house purchase	70	58	117	105	139	135	151	197	221	520	172
Customs duties	20	21	24	25	28	32	32	34	37	49	30
Betting taxes	18	76	38	48	53	41	35	42	25	53	43
Insurance premium tax	20	27	38	40	47	73	51	60	64	79	50
Air passenger duty	5	10	25	26	23	37	31	37	36	62	29
Camelot National Lottery Fund	40	55	71	73	78	77	70	50	57	48	62
Other	13	2	8	4	19	5	3	6	7	6	7
<b>Intermediate taxes</b>											
Commercial and industrial rates	171	180	208	219	244	275	275	294	323	426	262
Employers' NI contributions	296	311	361	378	422	477	476	509	559	738	453
Duty on hydrocarbon oils	115	121	140	147	164	185	185	197	217	286	176
Vehicle excise duty	9	10	11	12	13	15	15	16	17	23	14
Other	159	167	194	203	226	256	255	273	300	396	243
<b>Total indirect taxes</b>	<b>3 010</b>	<b>3 740</b>	<b>4 229</b>	<b>4 421</b>	<b>5 097</b>	<b>5 577</b>	<b>5 502</b>	<b>5 974</b>	<b>6 474</b>	<b>8 211</b>	<b>5 223</b>
<b>Post-tax income</b>	<b>4 463</b>	<b>9 256</b>	<b>13 742</b>	<b>15 997</b>	<b>18 932</b>	<b>22 063</b>	<b>25 320</b>	<b>28 443</b>	<b>34 760</b>	<b>59 376</b>	<b>23 235</b>
<b>Benefits in kind</b>											
Education	2 126	624	508	297	585	300	270	164	323	151	535
National health service	1 604	2 063	2 173	2 092	2 011	2 040	2 046	1 756	1 712	1 866	1 936
Housing subsidy	103	97	59	39	33	28	17	12	10	3	40
Rail travel subsidy	21	19	16	24	29	23	41	42	46	78	34
Bus travel subsidy	47	61	62	42	41	41	47	36	53	67	50
School meals and welfare milk	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3 901</b>	<b>2 864</b>	<b>2 818</b>	<b>2 494</b>	<b>2 699</b>	<b>2 433</b>	<b>2 422</b>	<b>2 009</b>	<b>2 144</b>	<b>2 165</b>	<b>2 595</b>
<b>Final income</b>	<b>8 365</b>	<b>12 120</b>	<b>16 560</b>	<b>18 491</b>	<b>21 631</b>	<b>24 496</b>	<b>27 742</b>	<b>30 452</b>	<b>36 904</b>	<b>61 541</b>	<b>25 830</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 21 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITH CHILDREN, 2004/05**

	Decile groups of non-retired households with children ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>10 149 12 377 14 566 16 683 18 830 21 248 24 379 29 224 37 515</i>										
Number of households in the population ('000s)	709	709	711	710	710	708	710	712	710	710	7 099
<b>Original income</b>											
Wages and salaries	3 718	7 055	14 242	18 081	23 046	26 678	32 862	37 908	49 870	75 676	28 914
Imputed income from benefits in kind	-	16	17	18	158	449	450	1 000	986	1 603	470
Self-employment income	549	933	1 459	2 423	2 369	3 180	3 699	5 247	6 564	21 397	4 782
Occupational pensions, annuities	25	166	167	238	184	393	360	124	561	418	264
Investment income	94	74	199	77	96	313	254	512	543	2 939	510
Other income	225	289	315	302	529	488	694	439	579	806	467
<b>Total</b>	<b>4 611</b>	<b>8 532</b>	<b>16 400</b>	<b>21 139</b>	<b>26 382</b>	<b>31 501</b>	<b>38 320</b>	<b>45 230</b>	<b>59 103</b>	<b>102 840</b>	<b>35 406</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	26	66	61	297	24	77	153	-	71	42	82
Job seeker's allowance (Contribution based)	100	83	18	-	4	8	-	-	4	3	22
Incapacity benefit	423	444	249	282	207	185	52	14	35	65	195
Widows' benefits	39	48	-	66	-	23	51	29	60	76	39
Statutory Maternity Pay/Allowance	-	10	-	21	28	35	33	34	62	145	37
<b>Non-contributory</b>											
Income support and pension credit	1 858	3 008	1 151	834	342	208	61	23	7	11	750
Child benefit	1 386	1 496	1 354	1 279	1 339	1 306	1 184	1 226	1 147	1 121	1 284
Housing benefit	1 391	1 677	767	587	264	404	79	105	95	9	538
Job seeker's allowance (Income based)	225	132	35	0	45	33	-	2	-	-	47
Invalid care allowance	104	65	118	157	40	79	38	8	9	12	63
Attendance allowance	-	24	-	44	14	-	-	-	-	-	8
Disability living allowance	313	350	365	433	292	240	107	100	120	72	239
War pensions/War widows' pensions	-	-	-	19	-	9	28	16	-	-	7
Severe disablement allowance	32	18	-	-	-	-	15	-	-	-	7
Industrial injury disablement benefit	-	-	-	-	11	4	7	-	-	-	2
Student support	35	24	50	50	0	89	40	9	7	106	41
Government training schemes	21	56	5	19	47	-	52	5	-	-	21
Tax credits <sup>1</sup>	1 598	1 444	1 197	1 124	989	726	509	332	181	23	812
Other non-contributory benefits	27	99	40	44	23	49	175	327	2	109	90
<b>Total cash benefits</b>	<b>7 579</b>	<b>9 045</b>	<b>5 411</b>	<b>5 257</b>	<b>3 670</b>	<b>3 475</b>	<b>2 584</b>	<b>2 230</b>	<b>1 799</b>	<b>1 795</b>	<b>4 284</b>
<b>Gross income</b>	<b>12 190</b>	<b>17 577</b>	<b>21 811</b>	<b>26 396</b>	<b>30 052</b>	<b>34 976</b>	<b>40 904</b>	<b>47 460</b>	<b>60 902</b>	<b>104 635</b>	<b>39 690</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	429	946	1 911	2 569	3 396	4 267	5 468	6 938	10 075	22 368	5 836
less: Tax credits <sup>2</sup>	181	389	709	672	694	643	569	590	427	167	504
Employees' NI contributions	201	459	995	1 222	1 632	1 967	2 348	2 690	3 365	3 795	1 867
Council tax and Northern Ireland rates <sup>3</sup>	851	851	848	859	921	956	1 047	1 078	1 212	1 431	1 005
less: Council tax benefit/Rates rebates	390	349	137	102	59	55	23	28	5	8	116
<b>Total</b>	<b>910</b>	<b>1 517</b>	<b>2 908</b>	<b>3 876</b>	<b>5 197</b>	<b>6 492</b>	<b>8 271</b>	<b>10 088</b>	<b>14 220</b>	<b>27 420</b>	<b>8 090</b>
<b>Disposable income</b>	<b>11 280</b>	<b>16 059</b>	<b>18 903</b>	<b>22 520</b>	<b>24 855</b>	<b>28 484</b>	<b>32 634</b>	<b>37 372</b>	<b>46 681</b>	<b>77 215</b>	<b>31 600</b>
<b>Equivalised disposable income</b>	<b>7 772</b>	<b>11 218</b>	<b>13 503</b>	<b>15 626</b>	<b>17 708</b>	<b>19 875</b>	<b>22 763</b>	<b>26 795</b>	<b>32 721</b>	<b>56 618</b>	<b>22 460</b>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 549	1 537	1 784	2 045	2 357	2 551	3 053	3 122	3 322	4 586	2 591
Duty on tobacco	348	511	340	568	542	449	321	286	220	95	368
Duty on beer and cider	83	86	91	127	106	124	131	142	147	148	119
Duty on wines & spirits	71	88	99	120	107	148	177	178	246	307	154
Duty on hydrocarbon oils	362	366	431	450	570	625	744	707	935	852	604
Vehicle excise duty	100	91	133	140	155	163	195	195	209	218	160
Television licences	116	124	119	116	115	120	118	120	119	120	119
Stamp duty on house purchase	76	52	106	133	146	145	213	271	368	870	238
Customs duties	25	26	28	30	33	35	39	40	47	62	37
Betting taxes	24	23	20	34	28	28	33	25	21	22	26
Insurance premium tax	25	31	37	47	51	53	63	65	74	98	54
Air passenger duty	9	5	9	22	33	17	40	30	36	46	25
Camelot National Lottery Fund	40	44	50	61	52	62	61	56	44	30	50
Other	1	1	5	25	9	23	32	9	39	49	19
<b>Intermediate taxes</b>											
Commercial and industrial rates	217	228	243	264	289	303	341	344	411	537	318
Employers' NI contributions	376	395	420	458	500	524	591	596	712	930	550
Duty on hydrocarbon oils	146	153	163	177	194	203	229	231	276	361	213
Vehicle excise duty	11	12	13	14	15	16	18	18	22	28	17
Other	202	212	225	245	268	281	317	320	382	499	295
<b>Total indirect taxes</b>	<b>3 781</b>	<b>3 987</b>	<b>4 316</b>	<b>5 078</b>	<b>5 571</b>	<b>5 872</b>	<b>6 717</b>	<b>6 756</b>	<b>7 631</b>	<b>9 856</b>	<b>5 957</b>
<b>Post-tax income</b>	<b>7 499</b>	<b>12 072</b>	<b>14 586</b>	<b>17 442</b>	<b>19 284</b>	<b>22 612</b>	<b>25 917</b>	<b>30 616</b>	<b>39 050</b>	<b>67 359</b>	<b>25 644</b>
<b>Benefits in kind</b>											
Education	7 036	6 656	6 548	5 871	5 931	5 862	5 282	4 705	4 970	3 941	5 680
National health service	3 482	3 742	3 781	3 282	3 372	3 420	3 298	3 308	3 442	4 031	3 516
Housing subsidy	172	160	110	74	50	45	31	14	4	0	66
Rail travel subsidy	9	12	14	8	11	14	33	28	39	75	24
Bus travel subsidy	45	65	41	39	44	44	48	33	57	46	46
School meals and welfare milk	207	264	103	79	52	40	28	25	13	8	82
<b>Total</b>	<b>10 951</b>	<b>10 899</b>	<b>10 598</b>	<b>9 355</b>	<b>9 459</b>	<b>9 425</b>	<b>8 721</b>	<b>8 112</b>	<b>8 523</b>	<b>8 100</b>	<b>9 414</b>
<b>Final income</b>	<b>18 449</b>	<b>22 972</b>	<b>25 185</b>	<b>26 797</b>	<b>28 743</b>	<b>32 037</b>	<b>34 638</b>	<b>38 729</b>	<b>47 574</b>	<b>75 460</b>	<b>35 058</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 22 (Appendix 1)  
**Distribution of households<sup>1</sup> by household type, 2004/05**

	Retired households				Non-Retired households			
	1 adult Men	1 adult Women	All 1 adult	2 or more adults	1 adult Men	1 adult Women	All 1 adult	
<b>Decile groups of households ranked by equivalised disposable income</b>								
<b>Number of households ('000s)</b>								
Bottom	113	475	589	502	227	109	336	
2nd	121	403	524	529	153	118	271	
3rd	185	482	667	463	137	111	248	
4th	174	373	547	395	156	133	289	
5th	76	278	353	335	125	103	228	
6th	90	184	274	289	164	115	279	
7th	62	168	230	213	231	161	392	
8th	53	96	149	151	202	99	301	
9th	45	44	89	108	294	153	447	
Top	22	30	52	84	312	187	499	
All households in population ('000s)	942	2 533	3 476	3 069	2 001	1 289	3 291	
<b>Non-Retired households</b>								
	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	All households
<b>Decile groups of households ranked by equivalised disposable income</b>								
<b>Number of households ('000s)</b>								
Bottom	232	133	193	112	145	124	74	2 440
2nd	208	97	275	134	134	165	109	2 446
3rd	233	124	195	127	185	119	79	2 440
4th	327	131	159	137	219	94	145	2 445
5th	462	244	152	195	273	124	77	2 443
6th	545	289	138	170	257	106	96	2 444
7th	612	326	76	179	240	46	128	2 443
8th	777	356	68	211	292	67	69	2 440
9th	852	329	32	236	213	51	91	2 447
Top	974	245	34	250	209	55	43	2 444
All households in population ('000s)	5 221	2 275	1 322	1 751	2 168	949	910	24 431

<sup>1</sup> See Appendix 2 for definitions of retired households, adults and children.

Table 23 (Appendix 1)

Summary of the effects of taxes and benefits, by household type<sup>1</sup>, 2004/05

	Retired households				Non-Retired households		
	1 adult Men	1 adult Women	All 1 adult	2 or more adults	1 adult Men	1 adult Women	All 1 adult
<b>Average per household (£ per year)</b>							
Original income	5 504	3 718	4 203	10 990	19 180	17 066	18 352
<i>plus</i> Cash benefits	6 517	6 834	6 748	9 207	2 041	2 320	2 151
Gross income	12 022	10 553	10 951	20 197	21 222	19 386	20 502
<i>less</i> Direct taxes and employees' NIC	1 353	1 035	1 121	2 574	4 898	4 149	4 605
Disposable income	10 669	9 517	9 830	17 624	16 323	15 237	15 898
<i>Equivalised disposable income</i>	<i>17 419</i>	<i>15 567</i>	<i>16 070</i>	<i>16 912</i>	<i>26 760</i>	<i>24 978</i>	<i>26 062</i>
<i>less</i> Indirect taxes	1 907	1 553	1 649	3 678	2 974	2 830	2 917
Post-tax income	8 761	7 965	8 181	13 946	13 350	12 407	12 980
<i>plus</i> Benefits in kind	3 721	4 051	3 961	5 875	1 107	1 086	1 099
Final income	12 482	12 016	12 142	19 821	14 457	13 493	14 079

	Non-Retired households							All house- holds
	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	
<b>Average per household (£ per year)</b>								
Original income	38 903	48 494	10 274	39 878	41 576	37 379	46 549	27 569
<i>plus</i> Cash benefits	1 938	2 679	7 766	2 530	2 840	5 360	4 922	4 315
Gross income	40 841	51 173	18 040	42 407	44 416	42 739	51 471	31 884
<i>less</i> Direct taxes and employees' NIC	9 612	10 903	1 808	9 551	9 512	8 853	10 219	6 523
Disposable income	31 229	40 270	16 232	32 856	34 904	33 886	41 253	25 360
<i>Equivalised disposable income</i>	<i>30 429</i>	<i>25 769</i>	<i>16 593</i>	<i>27 147</i>	<i>23 961</i>	<i>19 291</i>	<i>21 695</i>	<i>23 350</i>
<i>less</i> Indirect taxes	5 649	7 583	3 344	5 798	6 501	6 637	8 050	4 734
Post-tax income	25 580	32 686	12 888	27 058	28 403	27 248	33 202	20 627
<i>plus</i> Benefits in kind	2 332	5 361	8 190	6 066	9 549	15 224	11 256	5 183
Final income	27 913	38 048	21 078	33 124	37 952	42 473	44 458	25 810

<sup>1</sup> See Appendix 2 for definitions of retired households, adults and children.

Table 24 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of all households (ranked by UNADJUSTED disposable income), 2004/05**

	Decile groups of all households ranked by unadjusted disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>8 036</i>	<i>10 491</i>	<i>13 599</i>	<i>16 885</i>	<i>20 398</i>	<i>24 410</i>	<i>29 405</i>	<i>36 249</i>	<i>47 664</i>		
Number of households in the population ('000s)	2 443	2 440	2 446	2 444	2 439	2 446	2 443	2 444	2 441	2 446	24 431
<b>Original income</b>											
Wages and salaries	530	1 766	3 769	6 889	12 282	18 290	24 461	33 100	41 580	69 753	21 242
Imputed income from benefits in kind	11	9	19	22	66	158	203	440	973	1 472	337
Self-employment income	221	208	327	976	1 090	1 363	2 020	2 555	4 517	13 671	2 695
Occupational pensions, annuities	566	1 281	1 849	2 695	2 765	2 623	2 683	1 965	2 497	2 781	2 171
Investment income	228	268	389	436	581	497	618	775	1 446	3 345	858
Other income	100	117	191	188	345	220	335	198	336	627	266
<b>Total</b>	<b>1 656</b>	<b>3 650</b>	<b>6 544</b>	<b>11 207</b>	<b>17 128</b>	<b>23 152</b>	<b>30 321</b>	<b>39 033</b>	<b>51 349</b>	<b>91 649</b>	<b>27 569</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	2 649	3 456	3 172	2 943	2 162	1 564	1 236	772	709	478	1 914
Job seeker's allowance (Contribution based)	41	27	9	31	1	14	13	2	3	4	15
Incapacity benefit	280	264	308	303	321	264	219	155	78	40	223
Widows' benefits	29	40	53	74	22	31	48	54	15	15	38
Statutory Maternity Pay/Allowance	-	-	8	1	7	17	5	8	21	41	11
<b>Non-contributory</b>											
Income support and pension credit	433	825	971	687	512	296	216	116	81	8	414
Child benefit	71	126	257	309	397	472	490	596	527	538	378
Housing benefit	666	1 079	896	687	341	229	140	110	49	4	420
Job seeker's allowance (Income based)	68	15	55	37	9	14	31	17	11	8	26
Invalid care allowance	17	25	62	69	60	75	68	45	22	9	45
Attendance allowance	37	58	108	121	74	31	44	14	13	6	51
Disability living allowance	125	211	454	493	450	357	322	190	149	97	285
War pensions/War widows' pensions	4	4	61	36	64	10	17	4	-	-	27
Severe disablement allowance	20	59	52	27	31	47	29	31	12	4	31
Industrial injury disablement benefit	6	21	20	17	65	23	15	18	7	-	19
Student support	13	9	31	39	42	78	46	52	19	53	38
Government training schemes	9	3	10	17	17	4	5	35	21	2	12
Tax credits <sup>1</sup>	52	88	342	423	470	500	252	189	82	34	243
Other non-contributory benefits	174	193	146	146	116	123	108	69	116	53	124
<b>Total cash benefits</b>	<b>4 694</b>	<b>6 503</b>	<b>7 014</b>	<b>6 458</b>	<b>5 161</b>	<b>4 201</b>	<b>3 295</b>	<b>2 490</b>	<b>1 941</b>	<b>1 393</b>	<b>4 315</b>
<b>Gross income</b>	<b>6 350</b>	<b>10 153</b>	<b>13 558</b>	<b>17 665</b>	<b>22 289</b>	<b>27 353</b>	<b>33 616</b>	<b>41 523</b>	<b>53 289</b>	<b>93 042</b>	<b>31 884</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	135	381	781	1 427	2 248	3 092	4 293	5 778	8 169	17 806	4 411
<i>less: Tax credits<sup>2</sup></i>	<i>2</i>	<i>14</i>	<i>49</i>	<i>101</i>	<i>227</i>	<i>301</i>	<i>281</i>	<i>317</i>	<i>176</i>	<i>85</i>	<i>155</i>
Employers' NI contributions	31	106	235	474	877	1 307	1 787	2 430	3 006	4 101	1 435
Council tax and Northern Ireland rates <sup>3</sup>	737	786	822	854	900	958	988	1 037	1 141	1 310	953
<i>less: Council tax benefit/Rates rebates</i>	<i>262</i>	<i>319</i>	<i>258</i>	<i>158</i>	<i>84</i>	<i>52</i>	<i>35</i>	<i>23</i>	<i>17</i>	<i>2</i>	<i>121</i>
<b>Total</b>	<b>639</b>	<b>940</b>	<b>1 531</b>	<b>2 496</b>	<b>3 714</b>	<b>5 004</b>	<b>6 752</b>	<b>8 905</b>	<b>12 123</b>	<b>23 131</b>	<b>6 523</b>
<b>Disposable income</b>	<b>5 711</b>	<b>9 213</b>	<b>12 027</b>	<b>15 169</b>	<b>18 575</b>	<b>22 349</b>	<b>26 864</b>	<b>32 619</b>	<b>41 167</b>	<b>69 911</b>	<b>25 360</b>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	704	786	1 078	1 356	1 651	1 909	2 312	2 586	3 147	4 366	1 990
Duty on tobacco	192	175	234	268	323	398	401	397	350	326	306
Duty on beer and cider	49	55	63	89	110	114	169	169	202	191	121
Duty on wines & spirits	61	70	89	103	146	160	187	189	257	369	163
Duty on hydrocarbon oils	123	155	256	296	386	485	571	651	786	935	464
Vehicle excise duty	45	58	83	99	117	146	170	188	209	230	135
Television licences	75	77	88	97	103	110	112	113	114	117	100
Stamp duty on house purchase	58	51	63	76	118	151	158	195	281	534	169
Customs duties	13	14	19	21	24	28	32	35	42	58	29
Betting taxes	20	45	25	30	31	39	34	33	49	33	34
Insurance premium tax	15	21	24	31	39	47	53	68	72	98	47
Air passenger duty	4	9	9	17	20	21	30	34	43	59	25
Camelot National Lottery Fund	26	37	45	54	56	66	66	64	69	54	54
Other	4	3	2	3	8	10	13	14	16	30	10
<b>Intermediate taxes</b>											
Commercial and industrial rates	111	125	161	182	211	239	281	306	361	503	248
Employers' NI contributions	193	217	279	315	366	413	487	530	625	871	430
Duty on hydrocarbon oils	75	84	108	122	142	160	189	206	242	338	167
Vehicle excise duty	6	7	9	10	11	13	15	16	19	27	13
Other	103	116	150	169	196	222	261	285	335	467	230
<b>Total indirect taxes</b>	<b>1 876</b>	<b>2 105</b>	<b>2 786</b>	<b>3 336</b>	<b>4 060</b>	<b>4 730</b>	<b>5 540</b>	<b>6 079</b>	<b>7 220</b>	<b>9 606</b>	<b>4 734</b>
<b>Post-tax income</b>	<b>3 835</b>	<b>7 108</b>	<b>9 241</b>	<b>11 833</b>	<b>14 515</b>	<b>17 619</b>	<b>21 324</b>	<b>26 540</b>	<b>33 946</b>	<b>60 305</b>	<b>20 627</b>
<b>Benefits in kind</b>											
Education	773	699	1 136	1 474	1 959	2 273	2 606	2 840	2 502	2 764	1 903
National health service	2 957	3 367	3 383	3 334	3 232	3 001	2 941	2 930	2 939	3 134	3 122
Housing subsidy	80	110	90	93	52	34	38	18	15	3	53
Rail travel subsidy	8	6	7	9	17	18	22	32	39	76	23
Bus travel subsidy	54	65	59	56	59	57	49	53	55	71	58
School meals and welfare milk	11	24	42	38	35	26	31	17	11	6	24
<b>Total</b>	<b>3 883</b>	<b>4 272</b>	<b>4 717</b>	<b>5 005</b>	<b>5 355</b>	<b>5 410</b>	<b>5 686</b>	<b>5 890</b>	<b>5 560</b>	<b>6 053</b>	<b>5 183</b>
<b>Final income</b>	<b>7 718</b>	<b>11 380</b>	<b>13 958</b>	<b>16 837</b>	<b>19 870</b>	<b>23 028</b>	<b>27 010</b>	<b>32 430</b>	<b>39 506</b>	<b>66 359</b>	<b>25 810</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 25 (Appendix 1)

**Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2004/05**

(i) Quintile groups	Quintile groups of <b>equivalised</b> disposable income					All households						
	Bottom	2nd	3rd	4th	Top							
<b>Number of households in the population ('000s)</b>												
Quintile groups of <b>unadjusted</b> disposable income												
Bottom	3 029	1 767	87	-	-	4 883						
2nd	1 397	1 578	1 138	776	-	4 889						
3rd	398	1 095	2 073	792	527	4 885						
4th	62	423	1 356	2 107	939	4 887						
Top	-	22	232	1 208	3 425	4 887						
All households	4 886	4 885	4 887	4 884	4 890	24 431						
(ii) Decile groups	Decile groups of <b>equivalised</b> disposable income										All households	
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top		
<b>Number of households in the population ('000s)</b>												
Decile groups of <b>unadjusted</b> disposable income												
Bottom	1 393	797	253	-	-	-	-	-	-	-	-	2 443
2nd	595	243	677	837	87	-	-	-	-	-	-	2 440
3rd	264	712	338	66	508	557	-	-	-	-	-	2 446
4th	107	314	546	629	46	26	620	156	-	-	-	2 444
5th	42	225	288	263	856	237	39	294	195	-	-	2 439
6th	35	96	230	315	275	705	423	36	332	-	-	2 446
7th	-	45	92	217	360	322	511	619	22	254	-	2 443
8th	3	15	8	105	239	436	477	500	529	133	-	2 444
9th	-	-	9	12	68	150	321	614	771	496	-	2 441
Top	-	-	-	-	3	11	52	222	598	1 560	-	2 446
All households	2 440	2 446	2 440	2 445	2 443	2 444	2 443	2 440	2 447	2 444	24 431	

Table 26 (Appendix 1)

Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for ALL households<sup>1</sup>, 1982 to 2004/05<sup>2</sup>

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>Original income</b>												
Bottom	3	3	3	2	3	2	2	2	2	2	2	2
2nd	8	8	7	7	7	7	7	7	7	7	6	6
3rd	17	17	17	17	16	16	16	16	15	16	15	15
4th	26	26	26	27	26	25	26	26	25	26	26	25
Top	46	47	47	47	49	50	50	49	51	50	50	52
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Gross income</b>												
Bottom	9	9	9	8	8	7	7	7	7	7	7	7
2nd	12	12	12	12	11	11	11	11	10	10	11	11
3rd	17	17	17	17	16	16	16	16	16	16	16	16
4th	23	23	23	24	23	23	23	23	23	23	23	23
Top	39	39	39	40	41	43	43	42	44	44	43	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Disposable income</b>												
Bottom	9	9	10	9	9	8	8	8	7	7	7	8
2nd	13	13	13	13	12	12	11	12	11	11	11	12
3rd	17	17	17	17	17	16	16	17	16	16	16	16
4th	23	23	23	23	23	23	23	23	23	23	23	23
Top	37	38	37	38	40	41	42	41	43	42	42	42
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Post-tax income</b>												
Bottom	9	9	9	9	8	8	7	7	6	7	7	7
2nd	13	13	13	13	12	12	11	11	10	11	11	11
3rd	17	17	17	17	16	16	16	16	15	16	16	16
4th	22	22	22	23	22	22	22	23	23	23	23	22
Top	39	39	38	39	41	43	44	43	45	44	44	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Original income</b>												
Bottom	2	2	3	2	2	3	2	2	3	3	3	3
2nd	6	6	7	7	7	7	7	7	7	7	7	8
3rd	14	15	15	15	15	15	15	15	14	15	15	15
4th	25	25	25	25	25	25	25	25	24	25	24	24
Top	52	51	50	51	51	52	52	50	52	50	51	50
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Gross income</b>												
Bottom	7	7	7	7	7	7	7	6	6	7	7	7
2nd	11	11	11	11	11	11	11	11	11	11	11	11
3rd	16	16	16	16	16	16	16	16	15	16	16	16
4th	23	23	23	23	23	23	23	23	22	23	22	23
Top	44	43	43	44	44	44	44	44	45	43	44	43
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Disposable income</b>												
Bottom	8	8	8	8	8	7	7	7	7	8	8	8
2nd	12	12	12	12	12	12	12	12	12	12	12	13
3rd	16	16	17	16	16	16	16	16	16	17	17	17
4th	23	23	23	23	23	23	23	23	22	23	22	22
Top	42	41	40	42	42	42	42	42	43	41	42	41
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Post-tax income</b>												
Bottom	7	7	7	7	7	6	6	6	6	6	7	7
2nd	11	11	12	11	11	11	11	11	11	12	12	12
3rd	16	16	16	16	16	16	16	16	15	16	16	16
4th	22	22	23	22	22	22	22	22	22	23	22	22
Top	44	43	43	44	44	45	45	44	46	43	44	43
All households	100	100	100	100	100	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.

2 From 1990 this includes company car benefit and beneficial house purchase loans from employers. From 1996-97 values are based on estimates for the sample grossed up to population totals.

Table 27 (Appendix 1)

**Gini coefficients for the distribution of income at each stage of the tax-benefit system and P90/P10 and P75/P25<sup>1</sup> ratios for disposable income for all households, 1980 to 2004/05<sup>2</sup>**

	Gini coefficients (per cent)				Ratios for disposable income	
	Equivalised income				P90/P10	P75/P25
	Original	Gross	Disposable	Post-tax		
1980	44	31	28	30	3.5	2.0
1981	46	31	28	31	3.4	2.0
1982	47	31	28	31	3.3	2.0
1983	48	32	28	31	3.3	1.9
1984	49	31	28	30	3.3	2.0
1985	49	32	29	32	3.5	2.1
1986	50	34	31	35	3.7	2.1
1987	51	36	33	36	4.1	2.2
1988	51	37	35	38	4.4	2.4
1989	50	36	34	37	4.5	2.4
1990	52	38	36	40	4.9	2.5
1991	51	37	35	39	4.8	2.5
1992	52	37	34	38	4.6	2.4
1993	53	38	35	38	4.5	2.3
1993-94	54	37	34	38	4.5	2.3
1994-95	53	37	33	37	4.5	2.3
1995-96	52	36	33	37	4.2	2.2
1996-97	53	37	34	38	4.4	2.3
1997-98	53	37	34	38	4.5	2.3
1998-99	53	38	35	39	4.5	2.3
1999-00	53	38	35	40	4.6	2.4
2000-01	51	38	35	39	4.5	2.3
2001-02	53	39	36	40	4.5	2.3
2002-03	51	37	33	37	4.3	2.2
2003-04	52	37	34	38	4.1	2.1
2004-05	51	36	32	36	4.1	2.1

1 P90/P10 is the ratio of the income at the 90th percentile to the 10th; P75/P25 is the ratio of the income at the 75th percentile to the 25th.

2 From 1990 this includes company car benefit and beneficial house purchase loans from employers. From 1996-97 values are based on estimates for the sample grossed to population totals.

## APPENDIX 2

### METHODOLOGY AND DEFINITIONS

#### The allocation of government expenditure and its financing

1. There are considerable difficulties in moving from the aggregates of government expenditure and financing published in the United Kingdom National Accounts – the ONS *Blue Book* – to apportioning taxes and benefits to individual households. We can obtain information about the types of household that receive cash benefits and pay direct taxes through surveys such as the Expenditure and Food Survey (EFS). From the replies respondents give to questions on their expenditure, we can impute their payments of indirect taxes, and from information they supply about such factors as their ages and number of children in the household, we can estimate the average costs of providing them with social services, such as health and education. But there are other kinds of financing, such as corporation tax and government receipts from public corporations: no attempt is made in this analysis to apportion them to households because it would be too difficult. Similarly, there are other items of government expenditure, such as capital expenditure and expenditure on defence and on the maintenance of law and order, for which there is no clear conceptual basis for allocation, or for which we do not have sufficient information to make an allocation.

#### Expenditure and Food Survey (EFS)

2. The estimates in this analysis are based mainly on data derived from the EFS, which replaced the Family Expenditure Survey (FES) from 2001/02. The EFS is an annual survey of the expenditure and income of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each person aged 16 and over keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments; children aged 7 to 15 keep a simplified diary. The respondents also give detailed information, where appropriate, about income (including cash benefits received from the state) and payments of income tax. Information on age, occupation, education received, family composition and housing tenure is also obtained. The survey covers the whole 12-month period.

3. One of the main purposes of the EFS is to produce information on household expenditure patterns which is used to derive the weights for the retail prices index. The fieldwork is undertaken by ONS and by the Northern Ireland Statistics and Research Agency. *Family Spending 2004/05*, published on the National Statistics website in November 2005, shows detailed results on expenditure and income from the 2004/05 survey, and how they vary with household characteristics. The report also includes an outline of the survey design.

4. The number of households in the United Kingdom responding to the EFS in 2004/05 was 6,265 (about one in every 3,900 households). The response rate was 57 per cent.

To count as a co-operating household, all members aged 16 and over must fill in the diaries for both weeks and give full details of income, etc. The available evidence suggests that households containing a couple with non-dependent children, those where the head is self-employed, and those where the head was born outside the United Kingdom, are less likely to co-operate than others (see *A comparison of the Census characteristics of respondents and non-respondents to the 1991 Family Expenditure Survey* by Kate Foster, *Survey Methodology Bulletin*, ONS, No 38, Jan 1996). In addition, response in Greater London is noticeably lower than in other areas.

5. The results in the analysis are based on the survey grossed up so that totals reflect the total population in private households in the United Kingdom (that is excluding those in institutions such as residential homes for the elderly). Households were assigned different initial weights based on the non-response in the 1991 FES. These weights were derived from Census-linked data (see *Weighting the FES in Great Britain to compensate for non-response: an investigation using Census-linked data* by Kate Foster). The final household weights were produced using specialised software developed by INSEE, the French national statistics institute. The control variables used in the grossing system were the number of individuals by age (in five-year bands) and sex; and the number of individuals by region. The weights have not yet been revised to take account of results from the 2001 Census.

6. The EFS is designed primarily as a survey of expenditure on goods and services by households. It has been developed to gather information about the income of household members, and is an important and detailed source of income data. However, no information is collected that would enable a balance sheet of income and expenditure to be drawn up for a household over any particular period. Much expenditure relates to the two-week period after the interview, whereas many income components refer to a much longer period (for example, investment income over the previous 12 months). EFS income does not include proceeds from the sale of assets (for example, a car) or windfalls such as legacies. But recorded expenditure might reflect these items, as well as the effects of living off savings, using capital or borrowing money. Hence, there is no reason why income and expenditure should balance either for an individual household or even averaged over a group of households. Indeed, measured expenditure substantially exceeds measured income for the bottom half of the income distribution. Moreover, the difference between income and expenditure is not necessarily a measure of savings or dis-savings.

#### Unit of analysis

7. The basic unit of analysis used is the household, and not the family, individual or benefit unit. A household is defined in terms of the harmonised definition as used in the Census and nearly all other government household surveys since 1981. This is one person, or a group of persons, who have

the accommodation as their only or main residence and (for a group) share the living accommodation, that is a living or sitting room, or share meals together or have common housekeeping. Up until 1999/2000, the definition was based on the pre-1981 Census definition and required members to share eating and budgeting arrangements as well as shared living accommodation. The definition of a household comprised people who lived at the same address and who shared common catering for at least one meal a day. The effect of the change was fairly small, but not negligible. Spending on many items, particularly on food, housing, fuel and light, is largely joint spending by the members of the household. Without further information or assumptions it is difficult to apportion indirect taxes between individuals or other sub-divisions of households.

8. In classifying the households into various types, a **child** (that is, a dependent) is defined as:

- either aged under 16
- or aged 16, 17 or 18 not married, and receiving full-time non-advanced further education

Most of the 'extra' adults in households with at least three adults are sons or daughters of the head of household rather than retired people.

9. 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 NI pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.

10. By no means all retired people are in retired households: about one in five households comprising three or more adults contains retired people, for example, and households comprising one retired and one non-retired adult are often classified as non-retired.

11. The sample households have been classified according to their compositions at the time of the interview. This classification is sensible for the vast majority of households, but it can be misleading for the very small number of cases where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (for example, on an oil rig), or living separately – but contributing financially to the household's upkeep. These contributions would be picked up as part of the household's original income. Also, it is likely that some households will have changed their composition during the year.

12. Economically active people comprise persons aged 16 or over who, at the time of interview, were:

- employees at work
- employees temporarily away from work through illness, temporary lay-off, industrial action, etc.
- on government training schemes
- self-employed

- not in employment but who had sought work within the last four weeks, or were waiting to start a job already obtained.

### Income: redistributive stages

13. Stage one:

Original income *plus* cash benefits = Gross income.

Stage two:

Gross income *minus* income tax, employees' National Insurance contributions and Council tax and Northern Ireland rates (see paragraph 24 below) = Disposable income.

Stage three:

Disposable income *minus* indirect taxes = Post-tax income.

Stage four:

Post-tax income *plus* 'benefits in kind' = Final income.

14. The starting point of the analysis is **original income**. This is the annualised income in cash of all members of the household before the deduction of taxes or the addition of any state benefits. It includes income from employment, self-employment, investment income, occupational pensions and annuities. The term 'annualised' rather than 'annual' is used advisedly. For instance, annualised income from a respondent's 'main job' is not current wage or salary multiplied up to an annual value; nor is it the sum of income from this source in the twelve month period prior to interview. Rather it is an estimate of such income expressed at an annual rate based on the respondent's assessment of his 'normal' wage or salary subject to his current employment status.

15. Furthermore, to avoid double counting and to make it consistent with the estimate of income from cash benefits (see paragraph 20), this annualised estimate has to be 'abated' for the number of weeks likely to be lost due to unemployment, sickness, etc. This figure is taken as the number of weeks so lost in the 12 months prior to interview. It should be noted that regardless of whether the respondent is currently working or unemployed the treatment is essentially the same, that is, normal gross wage or salary expressed at an annual rate abated as required.

16. In all of this, the crucial determining role of current employment status should also be noted. Thus, no employment income would be assigned to a respondent whose employment status had recently become retired or unoccupied even though he or she may have worked for most of the twelve months prior to interview.

17. About 98 per cent of original income comes from earnings, occupational pensions (including annuities) and investment income. The tiny bit remaining comes from a variety of sources: trade union benefits, income of children under 16, private scholarships, earnings as a mail order agent or baby-sitter, regular allowance from a non-spouse,

allowance from an absent spouse and the imputed value of rent-free accommodation. Households living in rent-free dwellings are each assigned an imputed income. This is counted as employment income if the tenancy depends on the job.

18. In addition to salary, many employees receive as part of their income fringe benefits such as company cars, private medical insurance and beneficial loans. The company car benefit, together with the benefit from fuel for personal use, has been included in the analysis since 1990. This is by far the most important fringe benefit accounting for over two thirds of all taxable fringe benefits according to HM Revenue and Customs' (HMRC) statistics. The benefit is taken to be the taxable income in accordance with HMRC charges. The HMRC website contains more detailed information on taxable fringe benefits and their impact on individuals. Although, for those earning below £8,500 per year the benefit is not taxable, benefit has been allocated to all those with a company car regardless of the level of earnings. The calculation of this benefit is based primarily on the car price as reported in the EFS. In any given year, the total amount of benefit will depend on the level of scale charges for tax purposes as well as the numbers and prices of vehicles in the EFS.

19. The benefit of subsidised loans from employers for house purchase has been allocated, since the 1992 analysis. The benefit is taken to be the difference between the interest payments on such loans as reported in the EFS and the interest payments that would have been payable at the ruling market rate of interest.

20. The next stage of the analysis is to add cash benefits and tax credits to original income to obtain **gross income**. This is slightly different from the 'gross normal weekly income' used in the EFS report. Cash benefits and tax credits include:

**Contributory:**

Retirement pension, part of job seeker's allowance, incapacity benefit, widows' benefits, and statutory maternity pay.

**Non-contributory:**

Income support, part of job seeker's allowance, child benefit, housing benefit (council tax benefit and rates rebates are treated as deductions from Council tax and Northern Ireland rates), invalid care allowance, attendance allowance, disability living allowance, war pensions, severe disablement allowance, industrial injury disablement benefits, child tax credit and working tax credit, old persons pension, Christmas bonus for pensioners, government training scheme allowances, educational support (largely student maintenance awards) and winter fuel payments.

21. Statutory maternity pay is classified as a cash benefit even though it is paid through the employer.

22. Child tax credit (CTC) and working tax credit (WTC) are more complicated. They are classified as negative income tax, but only to the extent that income tax *less* tax credits, remains greater than or equal to zero for each family. So for

households paying relatively little or no income tax, tax credit payments are regarded either partially or wholly, as cash benefits.

23. Income from short-term benefits is taken as the product of the last weekly payment and the number of weeks the benefit was received in the 12 months prior to interview. Income from long-term benefits, and from housing benefits, is based on current rates.

24. Income tax, Council tax and Northern Ireland rates, and employees' and self-employed contributions to National Insurance and National Health services are then deducted to give **disposable income**. Taxes on capital, such as capital gains tax and inheritance tax, are not included in these deductions because there is no clear conceptual basis for doing so, and the relevant data are not available from the EFS.

25. Income tax is shown after the deduction of those tax credit payments which are regarded as negative income tax.

26. The figures for Council tax and Northern Ireland rates include Council tax (for households in Great Britain), and domestic rates (for households in Northern Ireland). Council tax is shown after discounts to reduce or remove the personal element of the tax (for example, the discount of 25 per cent for single person households). All Council tax and Northern Ireland rates are shown after the deduction of council tax benefit and rate rebates. This is in line with National Accounts which treats such rebates as revenue foregone. Up to, and including, 1995/96 these rebates were included as part of housing benefits.

27. Up until 2001/02 the figures for local taxes included Council tax, Northern Ireland rates and charges made by water authorities for water, environmental and sewerage services. From 2002/03, charges made by water authorities were treated as charges for a service rather than a tax, so the figures for Council tax and Northern Ireland rates from 2002/03 onwards are not strictly comparable with those for local taxes up to 2001/02.

28. The tax estimates are based on the amount deducted from the last payments of employment income and pensions, and on the amount paid in the last 12 months in respect of income from self-employment, interest, dividends and rent. The income tax payments recorded will therefore take account of a household's tax allowances, with the exception of tax credits and life assurance premium relief. Where households are eligible for either of these reliefs deductions are made from recorded income tax payments.

29. The next step is to deduct indirect taxes to give **post-tax income**. Indirect tax on final consumer goods and services include:

- Duties on alcoholic drinks, tobacco, petrol, oil, betting, etc
- Value Added Tax (VAT)
- Customs (import) duties
- Motor vehicle duties
- Air passenger duty
- Insurance premium tax

- Driving licenses
- Television licenses
- Stamp duties
- Fossil fuel levy
- Camelot: payments to National Lottery Distribution Fund.

30. Taxes levied on final goods and services are assumed to be fully incident on the consumer, and can be imputed from a household's EFS expenditure record. For example, the amount of VAT that is paid by the household is calculated from the household's total expenditure on goods and services subject to VAT.

31. VAT affects the prices of second-hand cars and is therefore assumed to be incident on the purchasers of such cars as well as on the purchasers of new cars. In allocating taxes, expenditures recorded in the EFS on alcoholic drink, tobacco, ice cream, soft drinks and confectionery are grossed up to allow for the known under-recording of these items in the sample. The true expenditure in each case is assumed to be proportional to the recorded expenditure. This approach has its drawbacks because there is some evidence to suggest that heavy drinkers, for example, are under-represented in the EFS.

32. The incidence of stamp duty on house purchase on an owner-occupying household has been taken as the product of the hypothetical duty payable on buying their current dwelling (estimated from valuations given in the EFS) and the probability of a household of that type moving in a given year (estimated from the General Household Survey).

33. Indirect taxes on intermediate goods and services include:

- Rates on commercial and industrial property
- Motor vehicle duties
- Duties on hydrocarbon oils
- Employers' contributions to National Insurance, the National Health Service, the industrial injuries fund and the redundancy payments scheme
- Customs (import) duties
- Stamp duties
- VAT
- Independent Commission franchise payments
- Landfill tax
- Consumer Credit Act fees.

34. These are taxes that fall on goods and services purchased by industry. Only the elements attributable to the production of subsequent goods and services for final consumption by the UK personal sector are allocated in the analysis, being assumed to be fully shifted to the consumer. Their allocations between different categories of consumers' expenditure are based on the relation between intermediate production and final consumption using estimated input-output techniques. This process is not an exact science, and many assumptions

have to be made. Some analyses, for example, that by Dilnot, Kay and Keen *Allocating Taxes to Households: A Methodology*, suggest that the taxes could be progressive rather than regressive if one were to use different incidence assumptions.

35. For Tables 3 and 9 of the main analysis, we have constructed a measure of expenditure on goods and services from data from the EFS. Indirect taxes are shown as a proportion both of disposable income and of expenditure. One drawback of comparing the incidence of indirect taxes on households at different levels of income is that, by whatever measure used, on average, recorded expenditure exceeds income apparently available for it by significant amounts at the bottom of the distribution. Thus, it has been argued that for many households, where, for instance, income fluctuates widely or where it is difficult to measure accurately, a measure based on regular household outgoings would be a far better indicator of resources available to the household and therefore give a better picture of the incidence of indirect taxes.

36. This measure of expenditure has been customised to be analogous to the definition of disposable income used in the analysis in order to facilitate these comparisons. For instance, because the imputed benefit of company cars and beneficial loans will have boosted the figure for disposable income these items have had to be added to this expenditure measure. Expenditure on alcohol, tobacco and confectionery have been grossed up for under-recording in line with the treatment of the indirect taxes on these items. Payments deemed to be made out of income such as superannuation, regular savings, mortgage repayments, etc. have been included and adjusted where necessary but not items such as lump sum capital payments in line with the exclusion of capital gains and windfalls from income.

37. Finally, we add those notional benefits in kind provided to households by government for which there is a reasonable basis for allocation to households, to obtain **final income**. The benefits in kind allocated are:

- State education
- School meals and welfare milk
- National Health Service
- Housing subsidy
- Railway travel subsidy
- Bus travel subsidy (including concessionary fares schemes).

38. Education benefit is estimated from information provided by the Department for Education and Skills of the cost per pupil or student in special schools, primary and secondary schools, universities, and other further education establishments. The value of the benefits attributed to a household depends on the number of people in the household recorded in the EFS as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

39. The value of school meals and other welfare foods is based on their costs to the public authorities.

40. Data are available on the average cost to the Exchequer of providing the various types of health care - hospital inpatient/outpatient care, GP consultations, dental services, etc. Each individual in the EFS is allocated a benefit from the National Health Service according to the estimated average use made of these various types of health service by people of the same age and sex, and according to the total cost of providing those services. The benefit from maternity services is assigned separately to those households containing children under the age of 12 months. No allowance is made for the use of private health care services.

41. In this analysis, public sector tenants are defined to include the tenants of local authorities, Scottish Homes, Northern Ireland Housing Executive (NIHE), housing associations and Registered Social Landlords. The total housing subsidy includes the contribution from central government to the housing revenue accounts of local authorities, and grants paid to Scottish Homes, the NIHE, housing associations and Registered Social Landlords. Within Greater London, the rest of England, Wales, Scotland and Northern Ireland each public sector tenant has been allocated a share of the region's total relevant subsidy based on the Council Tax band of the dwelling. Housing subsidy does not include, rent rebates and allowances or local tax rebates.

42. The rail travel subsidies allocated are the support payments made to the train operating companies. The subsidy to London and South East services is allocated to households living in the area and subsidies to other services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the EFS. In making these allocations, allowances are made for the use of rail travel by the business sector, tourists and the institutional part of the personal sector.

43. In this analysis, bus travel subsidy covers both the cost of concessionary travel schemes for senior citizens and others, and subsidies to operators. Separate allocations are made for Greater London, the other metropolitan areas and the rest of the United Kingdom. The subsidy is divided between households according to recorded expenditure on bus travel and the types of concessionary passes held.

44. We must emphasise that the analysis provides only a rough guide to the kinds of household which benefit from government expenditure, and by how much, and to those which finance it. Apart from the fact that large parts of expenditure and receipts are not allocated, the criteria used both to allocate taxes and to value and apportion benefits to individual households could be regarded as too simplistic.

45. For example, the lack of data forces us to assume that the incidence of direct taxes falls on the individual from whose income the tax is deducted. This implies that the benefit of tax relief for a life assurance premium, for example, accrues directly to the taxpayer rather than to some other party, for instance, the seller of the policy. It also implies that the working population is not able to pass the cost of the direct tax back to employers through lower profits, or to consumers through higher prices.

46. In allocating indirect taxes we assume that the part of the tax falling on consumers' expenditure is borne by the households which buy the item or the service taxed, whereas in reality the incidence of the tax is spread by pricing policies and probably falls in varying proportions on the producers of a good or service, on their employees, on the buyer, and on the producers and consumers of other goods and services.

47. Another example is that we know only an estimate of the total financial cost of providing benefits such as education, and so we have to treat that cost as if it measured the benefit which accrues to recipients of the service. In fact, the value the recipients themselves place on the service may be very different to the cost of providing it. Moreover, there may be households in the community, other than the immediate beneficiaries, who receive a benefit indirectly from the general provision of the service.

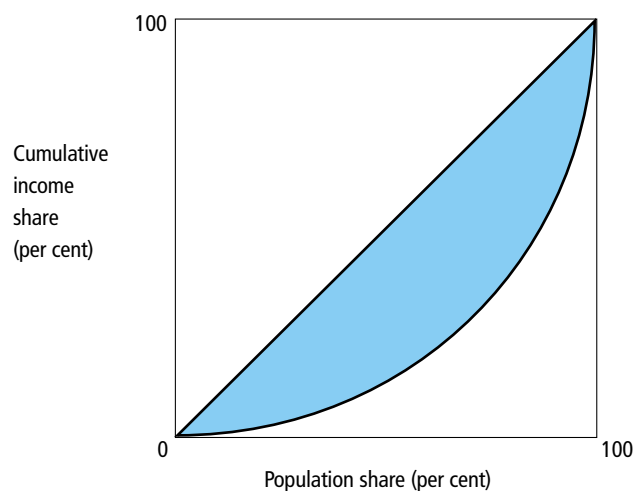
### Equivalence scale

48. The equivalence scale used in this analysis is the *McClements scale* (**before** housing costs are deducted). The scales (separate ones for before and after housing costs) were developed by Dr L D McClements at the Department of Health and Social Security (DHSS) in the mid-seventies, based on expenditure data from the 1971 and 1972 FES. They were based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the EFS without making any specific assumption about the criteria for equivalence. These scales are in regular use and an analysis by Banks and Johnson (*Children and Household Living Standards*, IFS, 1993) suggests that the scales are as valid as when they were developed. The scales are regarded as plausible and they are well within the range of equivalence scales developed at different times in a number of countries. Hence, their use is fully justified for broad statistical standardisation.

49. The equivalence values are given below:

Type of household member	Equivalence value
<b>Married head of household</b>	
(that is, a married or cohabiting couple)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
<b>Single head of household (adult)</b>	
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
<b>Child aged:</b>	
16-18	0.36
13-15	0.27
11-12	0.25
8-10	0.23
5-7	0.21
2-4	0.18
Under 2	0.09

Diagram 2

**Lorenz curve for a typical income distribution**

50. The values for each household member are added together to give the total equivalence number for that household. This number is then divided into the disposable income for that household to give **equivalised disposable income**. For example, a household has a married couple with two children (aged six and nine) plus one adult lodger. The household's equivalence number is  $1.0 + 0.21 + 0.23 + 0.42 = 1.86$ . The household's disposable income is £20,000, and so its equivalised disposable income is £10,753 ( $=£20,000/1.86$ ).

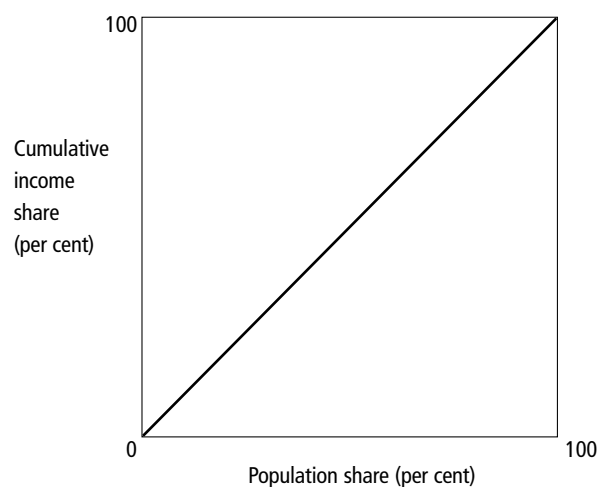
51. This quantity is used to produce the single ranking used in all the tables in this analysis (apart from the Gini coefficients which have to be ranked afresh for each different definition of income).

52. It is important to note that most monetary values shown in the analysis are ordinary (that is, un-equivalised) £ per year, not equivalised £ per year. Where equivalised values do appear (for example, the quintile points in Table 16A of Appendix 1), they are shown in *italics*.

**Gini coefficient**

53. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can more easily be understood by considering a Lorenz curve of the income distribution, (see Diagram 2) that is, a graph of the cumulative income share against the cumulative share of households. The curve representing complete equality of income is thus a diagonal line while complete inequality (with only one recipient of income) is represented by a curve comprising the horizontal axis and the right-hand vertical axis (see Diagram 3). The area between the Lorenz curve and the diagonal line of complete equality, as a proportion of the triangular area between the curves of complete equality and inequality, gives the value of the Gini coefficient. Thus, a distribution of perfectly equal incomes has a Gini coefficient of zero; as inequality increases (and the Lorenz curve bellies out), so does the Gini coefficient until, with complete inequality, it reaches its maximum value of 1 (or 100 per cent).

Diagram 3

**Complete income equality**

54. To calculate the Gini coefficient for an income distribution, the first step is to rank that distribution in ascending order. All the Gini coefficients shown in this analysis are based on distributions of equivalised income for example, the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values.

55. Strictly speaking, one could argue that the equivalence scales used here are only applicable to disposable income because this is the only income measure relating directly to spending power. Since the scales are often applied, in practice, to other income measures, we are content to use them to equivalise original, gross and post-tax income for the purpose of producing Gini coefficients (and in the tables giving percentage shares of total income). However, we do not think it is appropriate to equivalise the final income measure because this contains notional income from benefits in kind (for example, state education): the equivalence scales used in this analysis are based on actual household spending and do not, therefore, apply to such items as notional income.

**Impact of population weighting**

56. The survey results have been re-weighted and grossed so that the population totals reflect the whole household population, a process described as population weighting. Different weights are applied to different types of households in order to correct for over and under-representation of these groups in the responding sample of the EFS. Population weighting raises the quality of the estimates by making the population more representative and by improving the allocation of national accounts aggregates to individual households. Estimates based on the population-weighted data set are different from estimates based on the sample. Indeed, if they were not, there would be little point in the weighting. The effect of weighting on some of the major variables used in the analysis was given in the 1997/98 analysis. More detail about the effect of weighting can be obtained from the ONS on request.

## Sampling errors and reliability

57. As the EFS is a sample survey, data from it will differ in varying degrees from those of all households in the UK. The degree of difference will depend on how widely particular categories of income and expenditure vary between households. This 'sampling error' is smallest in relation to large groups of households and measures that do not vary greatly between households. Conversely, it is largest for small groups of households, and for measures that vary considerably between households. A broad numerical measure of the amount of variability is provided by the quantity known as the standard error.

58. To give some idea of sampling variability, the percentage standard error for average gross household income for all households is approximately 1.1 per cent, which implies a 95 per cent confidence interval of  $\pm 2.2$  per cent.

59. There will be greater sampling variability associated with estimates for decile and quintile groups, and for particular household types mainly because the sample sizes are smaller. For quintile groups of given household types, the sample sizes are of course smaller still, which will increase sampling variability further.

60. Aside from sampling error, recording household income through a survey is not easy, particularly where the complexities of the tax and benefit system are concerned. Consequently there will also be a significant amount of non-sampling error attached to some estimates.

## Previous analyses

61. This analysis is the latest in an annual series covering the years from 1957 onwards. From 1987 onwards, the analyses have used a very different methodology, in particular households are ranked by their equivalised disposable income. Hence, the results are completely incompatible with earlier years. Last year the analysis was published on the internet in July, and in the July 2005 edition of *Economic Trends*. A list of the previous articles was included in the article published in March 1997.

62. The results in all analyses are intended to be free standing: they were not designed for direct comparison with other years except where some limited comparisons were made in them. Such comparisons are difficult because of changes in definitions, however, some broader measures like the Gini coefficients are relatively robust and will stand comparison with other years: this year's analysis gives such a comparison for the years 1980 to 2004/05.