

The effects of taxes and benefits on household income, 2000–01

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SUMMARY

This article 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 tables and charts have been renumbered since the last annual publication. New tables and charts have been added. In particular, there are more tables showing distributions for households analysed by quintile group as well as by decile group. Table 1 showing links between old and new tables and charts is included at the end of the summary section.

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 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, before government intervention, the top fifth of households have an average of around £55,700 per year in original income (that is from sources such as earnings, occupational pensions and investments). This is around 18 times as great as the figure of around £3,100 for the bottom fifth. After taxes and benefits, the ratio is greatly reduced to four to one. In 1999–2000 the ratio was 19 to 1 for original income but it was also reduced to four to one for final income. Figure 1 also shows the effect on the transition between original income and final income for 2000–01 broken down by quintiles.

Figure 1

Original income and Final income by quintile groups for ALL households, 2000–01

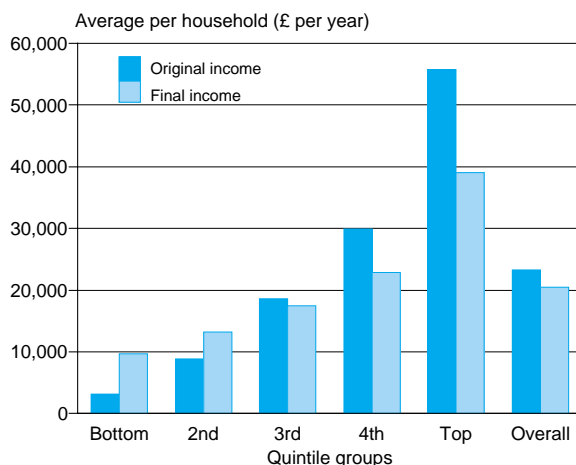
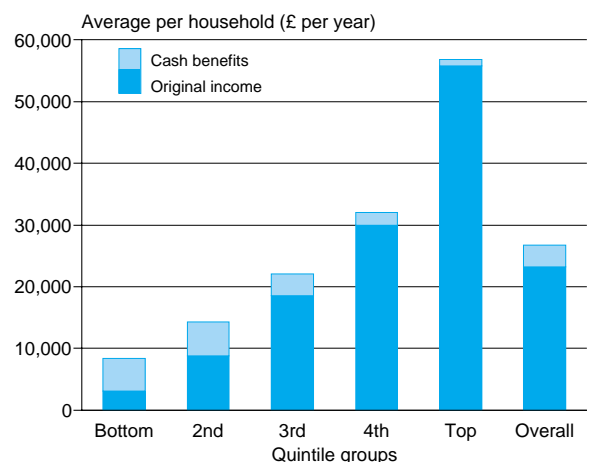


Figure 2

Gross income by quintile groups for ALL households, 2000–01



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 60 per cent of the total. These households typically receive around £5,400 from cash benefits, as shown in Table 4, representing around two thirds of gross income for the bottom quintile group and two fifths for the next group. These proportions are even higher for retired households in this part of the distribution (see Table 12). The majority of cash benefits for these households come 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.

Direct taxes, except for local taxes, are progressive – they take a larger proportion of income from those higher up the income distribution – 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 double that paid by the bottom fifth: 23 per cent compared with 12 per cent. For local taxes, 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 local taxes 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, i.e. are regressive. This is partly due to the recorded expenditure of some low income households being higher than their recorded current incomes. This results in relatively large payments of indirect tax. In addition, some high income households channel a relatively high proportion of their income into savings and mortgage payments. These do not attract indirect taxes. Despite this, the top fifth of households still pay more indirect tax in absolute terms than other households, see Table 4.

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 lead to a reduction in inequality.

Characteristics across the income distribution

Adults and children are not spread evenly throughout the income distribution (Tables 15 and 15A). For example, there are more children in households in the lower half of the distribution. Among adults, women appear fairly evenly across income groups. There are more men in households in the higher groups than in the lower groups. There are also distinct patterns by household type. Households containing one adult and at least one child are concentrated in the bottom fifth. Retired households, particularly those containing only one woman, are over-represented in the bottom two quintile groups.

The higher income groups are characterised by households with more economically active people than those lower down the income distribution. Two adult households with no children are also over-represented towards the top of the distribution.

Trends in income inequality

As shown in Figure 5 and Table 27, inequality of disposable income was fairly stable in the first half of the 1980s. This was followed by a period where it increased rapidly, reaching a peak around 1990. Inequality then fell slightly in the first half of the 1990s although the fall only reversed a small part of the rise seen in the previous decade. The latest figures suggest that inequality of disposable income rose again in the second half of the 1990s but has flattened off by the end of the period.

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

CONCEPTS AND SOURCES

This study 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.

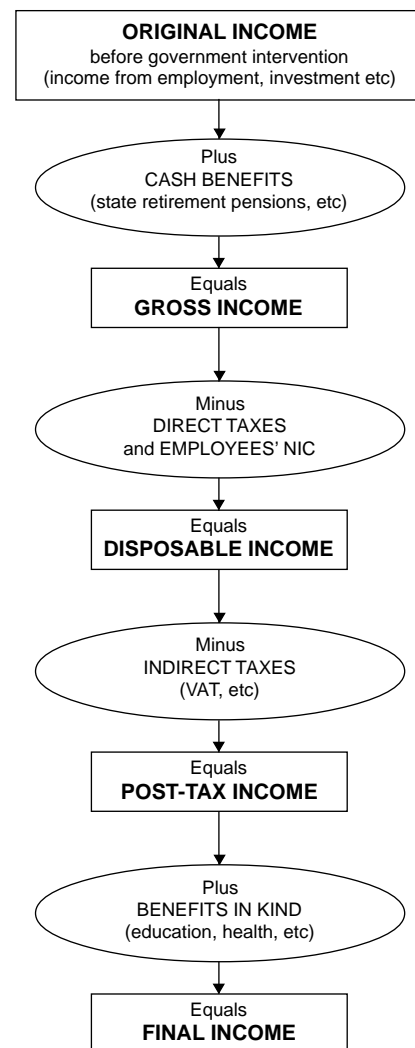
Diagram 1 shows the stages in the redistribution of income used in this analysis. Household members receive income from employment, occupational pensions, investments and other non-government sources. This is referred to as original income. The diagram shows the various ways that government raises revenue 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 are 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 £257 billion of taxes and £201 billion of benefits have been allocated to households. This is equivalent to 72 per cent and 56 per cent respectively of general government expenditure, which totalled around £358 billion in 2000 (Table 13).

The estimated values of taxes and benefits reflect the study methodology. 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 survey (the Family Expenditure Survey, to be replaced by the new Expenditure and Food Survey from 2001–02) 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. Time series are presented for some measures that are relatively robust to these changes. These include Gini coefficients and other measures of inequality in Tables 26 and 27. Beyond these measures, one should be cautious about making direct comparisons with earlier studies.

The unit of analysis used in this study is the household. The households are ranked by their equivalised disposable income, which is used as a proxy for their level of welfare. 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. 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 46). 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

Diagram 1
Stages of redistribution



A National Statistics strategic quality review of income statistics and a quality review of the redistribution of income analyses are being carried out currently.

For further information, please contact the author.

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 article 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.

The main data source for this analysis is the Family Expenditure Survey (FES) which covers from 6,500 to 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 people's homes, are excluded.

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 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 FES. Studies have indicated that the FES suffers from under-representation 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 2000–01*.¹ 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 Inland Revenue's Survey of Personal Incomes.

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. Retired and non-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: Comparison between old and new table and chart numbers, and additional tables and charts

Old table or chart	New Name	Description
Chart 1	Diagram 1	Stages of redistribution
New Chart	Figure 1	Original income and final income by quintile groups of all households, 2000–01
New Chart	Figure 2	Gross income (original income & cash benefits) by quintile groups of all households, 2000–01
Chart 2	Figure 3	Sources of gross income by quintile groups of equivalised disposable income, 2000–01
Chart 3	Figure 4	Summary of the effects of taxes and benefits on all households, 2000–01
Chart 4	Figure 5	Gini coefficients 1978 to 2000–01
Chart 5	Figure 6	Income stages by non-retired household types, 2000–01
Look up table	Table 1	Comparison between old tables and new table numbers and additional tables
A	Table 2	Percentage shares of household income and Gini coefficients, 2000–01
B	Table 3	Taxes as a percentage of gross income, disposable income and expenditure for all households by quintile groups, 2000–01
	Tables 3A–3D	Table 3 for earlier years, linked in web version
C	Table 4	Summary of the effects of taxes and benefits by quintile groups of all households, 2000–01
D	Table 5	Percentage shares of household income and Gini coefficients for non-retired households, 2000–01
E	Table 6	Summary of the effects of taxes and benefits on non-retired households by quintile groups, 2000–01
F	Table 7	Cash benefits for non-retired households by quintile groups, 2000–01
G	Table 8	Taxes as a percentage of gross income for non-retired households by quintile groups, 2000–01
H	Table 9	Indirect taxes as a percentage of (a) disposable income and (b) household expenditure for non-retired households by quintile groups, 2000–01
I	Table 10	Benefits in kind for non-retired households by quintile groups, 2000–01
J	Table 11	Percentage shares of household income and Gini coefficients for retired households, 2000–01
K	Table 12	Summary of the effects of taxes and benefits on retired households by quintile groups, 2000–01
Appendix 1	Appendix 1	
1	Table 13	Taxes and benefits allocated to households as a percentage of general government expenditure, 2000
2A	Table 14	Average incomes, taxes and benefits by decile groups of all households, 2000–01
New quintiles	Table 14A	Average incomes, taxes and benefits by quintile groups of all households, 2000–01
2B	Table 15	Household characteristics of decile groups of all households, 2000–01
New quintiles	Table 15A	Household characteristics of quintile groups of all households, 2000–01
3A	Table 16	Average incomes, taxes and benefits by decile groups of non-retired households, 2000–01
New quintiles	Table 16A	Average incomes, taxes and benefits by quintile groups of non-retired households, 2000–01
3B	Table 17	Household characteristics of decile groups of non-retired households, 2000–01
New quintiles	Table 17A	Household characteristics of quintile groups of non-retired households, 2000–01
4A	Table 18	Average incomes, taxes and benefits by decile groups of retired households, 2000–01
New quintiles	Table 18A	Average incomes, taxes and benefits by quintile groups of retired households, 2000–01
4B	Table 19	Household characteristics of decile groups of retired households, 2000–01
New quintiles	Table 19A	Household characteristics of quintile groups of retired households, 2000–01
5	Table 20	Average incomes, taxes and benefits by decile groups of non-retired households without children, 2000–01
6	Table 21	Average incomes, taxes and benefits by decile groups of non-retired households with children, 2000–01
7	Table 22	Distribution of households by household type, 2000–01
8	Table 23	Summary of the effects of taxes and benefits, by household type, 2000–01
9	Table 24	Average incomes, taxes and benefits by decile groups of households (ranked by unadjusted disposable income), 2000–01
10	Table 25	Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2000–01
Appendix 2	Appendix 1	Long run time series
1	Table 26	Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for all households, 1978 to 2000–01
2	Table 27	Gini coefficients for the distribution of income at each stage of the tax-benefit system
3	Table 27	and P90/P10 and P75/P25 ratios for disposable income for all households, 1978 to 2000–01
Appendix 3	Appendix 2	Methodology and definitions
Diagram A	Diagram 3	Complete income inequality
Diagram B	Diagram 2	Lorenz curve for a typical income distribution

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.

In this article, 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 2 per cent for households in the bottom fifth. Chart 3 shows a breakdown of gross income by quintiles.

Adding cash benefits to original income produces gross income. In contrast to original income, the amount received from cash benefits

TABLE 2: Percentage shares of household income and Gini coefficients¹, 2000–01

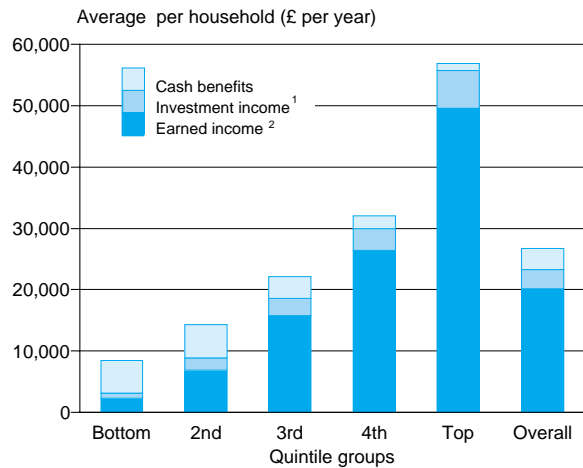
	Percentage shares of equivalised income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group ²				
Bottom	2	7	7	6
2nd	7	11	12	11
3rd	15	16	16	16
4th	25	23	23	22
Top	50	44	42	44
All households	100	100	100	100
Decile group ²				
Bottom	1	3	3	2
Top	32	28	27	29
Gini coefficient (per cent)	51	38	35	39

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 51).

2 Households are ranked by equivalised disposable income.

Figure 3

Sources of gross income by quintile groups of equivalised disposable income, 2000–01



1 Investment income includes occupational pensions and annuities.

2 Earned income includes wages and salaries, income from self-employment and income from "fringe 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 44 per cent.

The tax system has a much smaller effect on income inequality. The shares of income for disposable income (that is after direct taxes) and post-tax income (after indirect taxes) for each quintile group are similar to those for gross income. The direct tax system has a small equalising effect while the indirect system reverses this.

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 pay about 7 per cent. This compares with 79 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. 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 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 national

TABLE 3: Taxes as a percentage of gross income, disposable income and expenditure for ALL households by quintile group¹, 2000–01
(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 expenditure²

	Quintile groups of ALL households ²					All households
	Bottom	2nd	3rd	4th	Top	
(a) Percentages of gross income						
Direct taxes						
Income tax	3.6	7.3	10.9	13.9	17.7	13.7
Employees' NIC	1.4	2.6	4.2	4.9	3.8	3.8
Local taxes	6.6	4.7	3.7	2.9	1.9	3.0
<i>All direct taxes</i>	<i>11.6</i>	<i>14.6</i>	<i>18.7</i>	<i>21.7</i>	<i>23.4</i>	<i>20.5</i>
Indirect taxes						
VAT	11.3	8.6	7.7	6.9	5.3	6.8
Duty on alcohol	1.4	1.0	1.0	0.9	0.7	0.9
Duty on tobacco	3.3	2.0	1.4	0.9	0.4	1.1
Duty on hydrocarbon oils & Vehicle excise duty	3.3	2.6	2.6	2.3	1.5	2.1
Other indirect taxes	10.2	7.5	6.4	5.5	4.1	5.6
<i>All indirect taxes</i>	<i>29.5</i>	<i>21.8</i>	<i>19.1</i>	<i>16.5</i>	<i>12.1</i>	<i>16.4</i>
<i>All taxes</i>	<i>41.2</i>	<i>36.4</i>	<i>37.8</i>	<i>38.2</i>	<i>35.5</i>	<i>37.0</i>
(b) Percentages of disposable income						
VAT	12.8	10.1	9.5	8.8	6.9	8.6
Duty on alcohol	1.6	1.2	1.3	1.2	0.9	1.1
Duty on tobacco	3.7	2.4	1.8	1.1	0.6	1.3
Duty on hydrocarbon oils and Vehicle excise duty	3.7	3.1	3.2	3.0	2.0	2.7
Other indirect taxes	11.6	8.8	7.8	7.0	5.3	7.0
<i>All indirect taxes</i>	<i>33.4</i>	<i>25.5</i>	<i>23.6</i>	<i>21.1</i>	<i>15.7</i>	<i>20.7</i>
(c) Percentages of expenditure²						
VAT	8.3	8.4	8.2	8.0	7.3	7.9
Duty on alcohol	1.0	1.0	1.1	1.1	0.9	1.0
Duty on tobacco	2.4	2.0	1.5	1.0	0.6	1.2
Duty on hydrocarbon oils and Vehicle excise duty	2.4	2.5	2.7	2.7	2.1	2.5
Other indirect taxes	7.5	7.3	6.7	6.4	5.7	6.4
<i>All indirect taxes</i>	<i>21.6</i>	<i>21.2</i>	<i>20.3</i>	<i>19.1</i>	<i>16.6</i>	<i>18.9</i>

1 Households are ranked by equivalised disposable income.

2 Calculated to be consistent with disposable income. See paragraph 34 of Appendix 2 for the definition of expenditure.

insurance contributions are only levied on the first £535 of weekly earnings in 2000–01, so part of the earnings of many of those in the top quintile group will not be subject to this deduction.

Local taxes mainly consist of council tax in Great Britain and domestic rates in Northern Ireland and are shown net of council tax benefits and rates rebates in Table 3. Households in the lower part of the income distribution pay smaller absolute amounts in local taxes. Net payments by the bottom quintile group are typically around half of those in the top fifth. On the other hand, when expressed as a proportion of gross income, the burden decreases as income rises. Local taxes represent 7 per cent of gross income for the bottom fifth but 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 FES. However, the income and expenditure data recorded in the FES are not fully compatible because they are recorded in different ways (see Appendix 2, paragraph 6). Indeed, measured expenditure exceeds measured income 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 these cases, expenditure taxes are not being met from current income. Some types of receipts are not included as income in the FES, e.g. inheritance, severance payments and receipts from building society demutualisations. For a minority of households, the FES may be measuring incomes inaccurately. Therefore, to give a more complete picture of the impact of indirect taxes, they are shown in Table 3 as a proportion of gross and disposable income and, separately, as a proportion of 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 around two and three quarters as much indirect tax as the bottom fifth. However, when expressed as a percentage of disposable income or 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 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. 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 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 51). 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 2000–01, the figure of 51 per cent for original income is reduced to 38 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 35 per cent. The picture of indirect taxes reversing this effect is confirmed by the Gini coefficient rising to 39 per cent for post-tax income. The Gini coefficients for original income and post-tax income show a marginal fall in 2000–01 compared to that in 1999–2000 while those for gross income and disposable income are broadly unchanged. All comparisons are subject to the earlier reference to the potential effect of the discrepancy between income and expenditure in the lower half of the income distribution. Estimates of sampling variability for the estimates shown in Figure 5 suggest that the trend of small rises in the late 1990s in the coefficients for gross, disposable and post-tax income is flattening out.

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. There are differences in the split between adults and children. In particular there are more children in the lower half of the income distribution. The bottom decile group has more than twice as many children as the top group. 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 three times as many economically active people compared to the bottom fifth.

TABLE 4: Summary of the effects of taxes and benefits by quintile groups on ALL households¹, 2000–01

	Quintile groups of ALL households ¹						Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top	All households	
Income, taxes and benefits per household (£ per year)²							
Original income	3 090	8 820	18 570	29 950	55 740	23 230	18
<i>plus</i> cash benefits	5 330	5 470	3 520	2 050	1 110	3 490	0
Gross income	8 420	14 290	22 080	32 000	56 850	26 730	7
<i>less</i> direct taxes ³ and employees' NIC	980	2 090	4 130	6 930	13 300	5 490	14
Disposable income	7 440	12 200	17 960	25 060	43 550	21 240	6
<i>less</i> indirect taxes	2 470	3 100	4 220	5 290	6 850	4 390	3
Post-tax income	4 970	9 100	13 730	19 770	36 690	16 850	7
<i>plus</i> benefits in kind	4 700	4 080	3 730	3 090	2 390	3 600	1
Final income	9 670	13 190	17 460	22 870	39 080	20 460	4
Number of individuals per household							
<i>Children</i> ⁴	0.7	0.6	0.6	0.5	0.3	0.5	
<i>Adults</i>	1.6	1.8	1.9	2.0	1.9	1.8	
<i>Men</i>	0.7	0.8	0.9	1.0	1.0	0.9	
<i>Women</i>	0.9	1.0	1.0	1.0	0.9	0.9	
People	2.3	2.3	2.5	2.4	2.2	2.4	
People in full-time education	0.7	0.5	0.6	0.4	0.3	0.5	
Economically active people	0.5	0.8	1.3	1.6	1.6	1.2	
Retired people	0.6	0.6	0.4	0.3	0.2	0.4	
Household type (percentages)							
Retired	42	40	25	13	8	26	
Non-retired							
1 adult	14	12	14	18	23	16	
2 adults	9	13	18	27	37	21	
1 adult with children ⁵	11	7	5	2	1	5	
2 adults with children	16	18	24	22	18	20	
3 or more adults ⁶	9	11	14	17	12	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 tax relief at source on life assurance premiums) and council tax, domestic rates and water charges but after deducting discounts, council tax benefits and rate rebates.

4 Children are defined as people aged under 16 or aged between 16 and 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.

Non-retired households with one adult and one or more children are concentrated in the lower groups. Around 70 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. This reflects the fact that households with three or more children are less likely to have two economically active adults compared to those with fewer children. In addition, as shown in Table 15A, households with higher numbers of children will tend to have higher needs than smaller households. As the ranking of households is based on income adjusted for the needs of the household (i.e. equivalised income, adjusted for household size and composition) this increases the chance that households with three or 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. Nearly two thirds are in the bottom two fifths. This over-representation is higher for one adult retired households than those with two or more adults. In addition, those with 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 £23,200 a year in original income but this varies widely between households. Those in the top quintile group have around £55,700 compared with £3,100 for the bottom fifth. This pattern is driven by differences in the numbers 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, almost nine in ten adults in the top quintile group are economically active compared with only one in three 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 more likely to work part time or be unemployed or economically inactive. Those in the higher deciles tend to have better paid jobs as well as being more likely to be economically active.

Earnings from employment or self-employment are typically the most

important source of income, making up three quarters of gross income on average. The proportion accounted for by earnings from self-employment has tended to increase in recent years and such earnings are more volatile. Cash benefits are also a significant source, particularly for households in the lower half of the distribution. Of the total amount of cash benefits paid, the bottom two quintile groups receive more than 60 per cent. These households typically receive around £5,400 from cash benefits, representing approximately two thirds of gross income for the bottom quintile group and two fifths for the next group (Figure 3).

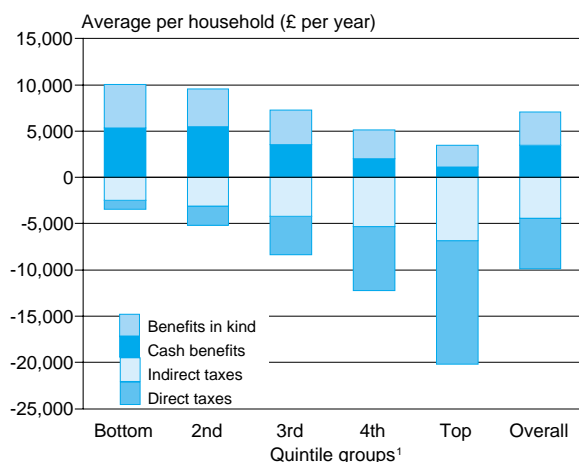
Higher income groups pay both higher amounts of direct tax and higher proportions of their income in direct tax (Tables 4, 14 and 14A). The top quintile group pays about £13,300 per household in income tax, national insurance contributions and local tax – 23 per cent of gross income. In contrast the direct tax bill for households in the bottom fifth is around £1,000, representing 12 per cent of their gross income. Looking at income tax on its own, the top two quintile groups pay around 80 per cent of the total.

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.

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 £4,700 from these benefits, which is twice the amount received by the top fifth (see Figure 4).

Figure 4

Summary of the effects of taxes and benefits on ALL households, 2000–01



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

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 £9,700 to £39,100, a ratio of one to four compared to a ratio of one to 18 before government intervention.

Changes in inequality over time

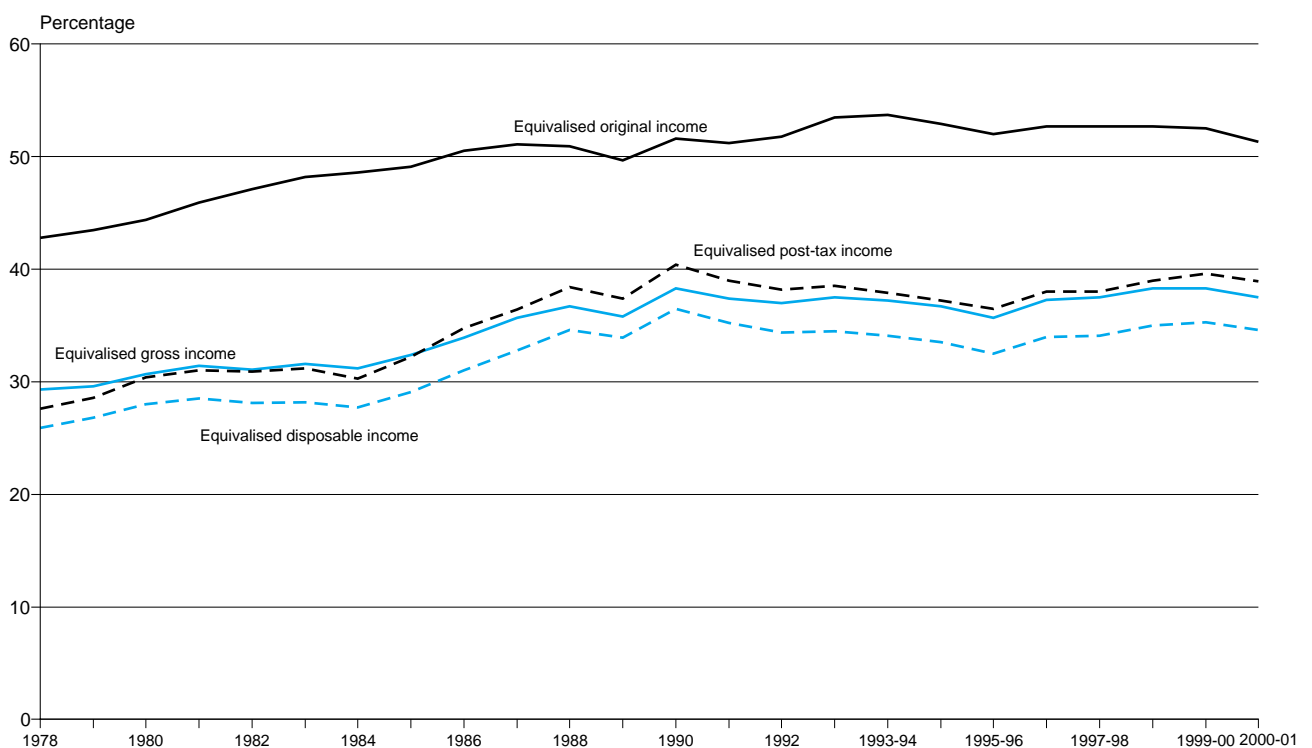
There are many ways of measuring income inequality. Different measures may show different trends depending on whether they are particularly sensitive to changes in one part of the distribution. Calculation of several measures of inequality allows us to see whether a particular trend is peculiar to one particular measure or backed up by others. Tables 26 and 27 (at the end of Appendix 1) show trends for three measures of inequality. Table 26 shows trends for the shares of income figures that have already been seen for 2000–01 earlier in this article. Table 27 contains time series for Gini coefficients and another concept: 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 90th percentile compared to the 10th (P90/P10); and the ratio of the 75th percentile to the 25th (P75/P25). (The 90th percentile is the income below which nine out of ten households lie.) An advantage of this measure is that it is not affected by extreme values at either end of the distribution, which may be inaccurately measured.

Figure 5 shows how inequality has been changing over time since 1978 for the various measures of income as measured by the Gini coefficient. It indicates several distinct phases over the last two decades and shows that the different measures of income do not always show the same trend in inequality.

The 1980s were characterised by a large increase in inequality. The Gini coefficient for original income rose steadily throughout this period. However, the pattern for the coefficient for disposable income is slightly different: for the first half of the decade inequality of disposable income was stable; this was then followed by six years which saw a rapid rise in inequality.

The figures for the 1990s show a different story. Inequality of original income was relatively stable for the first two years, and then showed a small rise up to 1993–94. Since then the coefficient has again remained fairly stable. In contrast, inequality of disposable income reduced slowly until the mid 1990s, although the fall only reversed a small part of the rise seen in the previous decade. Data for the latest years show that, in the late 1990s, inequality of disposable income has risen slightly once again but it was flattening off by the end of the period. Inequality of post-tax income has tended to follow a similar pattern.

Figure 5
Gini coefficients 1978 to 2000–01



As with all measures derived from sample surveys, the Gini coefficients are subject to sampling errors. To give an indication as to whether the estimated changes in inequality are real changes or simply the result of sampling variation, we have calculated confidence intervals for the coefficients in Chart 5 using software developed at the London School of Economics.² These show that, in most cases, the year-on-year changes are within the bounds of sampling variation. An exception to this is the period from 1986 to 1988 when the increases are large enough to say that inequality of disposable income rose in each successive year. However, when we look at changes over periods of more than one year there are many more periods which cannot be explained by variation introduced by the sampling process. The confidence intervals confirm that the trends described in the paragraphs above are, in fact, longer term changes in inequality.

Figures produced by the alternative measures of inequality shown in Tables 26 and 27 tell the same story as the Gini coefficient: one of increasing inequality of disposable income in the 1980s, particularly in the second half of the decade; a small decline in the early 1990s; then a small rise but flattening off by the end of the period.

Changes in income distribution over time have been the focus of much study. The OECD³ has commissioned a number of studies into this, and has identified a number of reasons for possible shifts, in particular the widening of the income distribution during the 1980s.

TABLE 5: Percentage shares of household income and Gini coefficients¹ for NON-RETIRED households, 2000–01

	Percentage shares of equivalised income for NON-RETIRED households			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group ²				
Bottom	3	6	7	6
2nd	10	11	12	11
3rd	17	17	17	16
4th	24	23	23	23
Top	46	42	41	44
All non-retired households	100	100	100	100
Decile group ²				
Bottom	1	2	3	2
Top	29	27	26	28
Gini coefficient (per cent)	44	36	34	39

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 51).

2 Households are ranked by equivalised disposable income.

The most prominent reasons given are globalisation of trade pushing down some wages, recent technological changes having a bias against unskilled workers, and other developments concerning the deregulation of labour and product markets.

Other explanations for trends in recent years offered by, for example, the Institute for Fiscal Studies⁴ (IFS) include the effect of wage growth in some areas, the change in the importance of self-employment income and change in the level of unemployment and the type of people affected. There has been a movement from full time male employment to unemployment or inactivity particularly for older men in less skilled occupations. On the other hand, female employment, particularly part time, has increased. Like previous work, the IFS study looked at a limited set of factors, particularly concentrating on the role of the labour market. Self-employment income was found to be much more unequally distributed among the self-employed than earnings are among employees. For this reason, we might expect any growth in the importance of this source to increase total inequality. Indeed, the IFS found that the trend in self-employment income as a proportion of total income does mirror the trend in inequality: this source made up 6 per cent of income in 1979, rose to a peak of 12 per cent in 1990, fell to 8 per cent in 1994–95 and recovered to 11 per cent by the end of the period.

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 than for all households. After the process of redistribution, the shares of income and Gini coefficients for post-tax income are the same as those for all households (Table 5). 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 households

Unlike all households, the average household size tends to decrease as income increases, as shown in Table 17. This fall is more than 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.

Other patterns are similar to those for all households. One adult households with children are concentrated at the bottom of the distribution with 43 per cent of these households in the bottom fifth

TABLE 6: Summary of the effects of taxes and benefits on NON-RETIRED households by quintile groups¹, 2000–01

	Quintile groups of NON-RETIRED households ¹					All non-retired households	Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top		
Income, taxes and benefits per household (£ per year)²							
Original income	5 350	15 850	25 490	35 630	61 750	28 810	12
<i>plus</i> cash benefits	5 200	3 930	1 630	1 190	740	2 540	0
Gross income	10 550	19 780	27 130	36 810	62 480	31 350	6
<i>less</i> direct taxes ² and employees' NIC	1 320	3 530	5 730	8 390	14 780	6 750	11
Disposable income	9 230	16 250	21 390	28 420	47 710	24 600	5
<i>less</i> indirect taxes	3 140	4 220	4 990	5 830	7 190	5 070	2
Post-tax income	6 090	12 030	16 410	22 590	40 510	19 530	7
<i>plus</i> benefits in kind	5 300	4 390	3 390	2 950	2 290	3 660	0
Final income	11 390	16 430	19 800	25 540	42 800	23 190	4
Number of individuals per household							
<i>Children</i> ³	1.1	0.9	0.7	0.5	0.4	0.7	
<i>Adults</i>	1.8	2.0	2.0	2.0	1.9	1.9	
<i>Men</i>	0.9	1.0	1.0	1.1	1.0	1.0	
<i>Women</i>	0.9	1.0	1.0	1.0	0.9	1.0	
People	2.9	2.9	2.7	2.5	2.3	2.6	
People in full-time education	1.1	0.8	0.6	0.5	0.3	0.7	
Economically active people	0.9	1.5	1.8	1.9	1.7	1.6	
Retired people	0.1	0.1	0.1	0.1	0.0	0.1	

1 Households are ranked by equivalised disposable income.

2 These are income tax (which is after tax relief at source on life assurance premiums) and council tax, domestic rates and water charges but after deducting discounts, council tax benefit and rate rebates.

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

and a further 26 per cent in the second quintile group (Table 22). Two adult households with three or more children are also concentrated towards the bottom although not to the same extent. 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 more evenly spread throughout the income groups.

Original income

The average original income for non-retired households is nearly £29,000 (Table 6). As mentioned above, inequality of original income is lower for non-retired households than for all households. The ratio of the average for the bottom quintile group to the top is one to 12 (compared to one to 18 for all households).

The original income of households shows a relatively strong relationship to the number of economically active people it contains. Households in the top three quintile groups typically contain nearly twice as many economically active people as those in the lowest group.

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 (including Working Families Tax Credit) make up almost three quarters of all cash benefits.

The average non-retired household receives £2,500 in cash benefits. The bottom fifth receive double this amount while those in the top quintile group typically get £700. 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. Nearly two thirds of income support and housing benefit paid to non-retired households goes to households in the bottom fifth of the distribution. Child benefit payments and Working Families Tax Credits (WFTC) are based on the number of children in the household. Payments of child benefit are higher at the lower end of the distribution, as these households tend to have more children. Payments of WFTC are high partly for that reason but, to a greater extent, because the amount paid is higher the lower the income of the household.

TABLE 7: Cash benefits for NON-RETIRED households by quintile group¹, 2000–01

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Contributory						
Retirement pension	200	480	260	300	250	300
Incapacity benefit	560	600	180	120	30	300
Job seeker's allowance ²	100	40	20	10	10	30
Other	70	110	120	60	100	90
Total contributory	920	1 230	580	480	380	720
Non-contributory						
Income support	1 370	560	80	50	10	410
Working Families Tax Credit	320	260	100	20	0	140
Child benefit	720	580	460	350	240	470
Housing benefit	1 050	480	90	30	0	330
Job seeker's allowance ³	280	60	20	0	0	70
Sickness/disablement related	390	650	240	130	40	290
Other	160	110	60	120	50	100
Total non-contributory	4 280	2 700	1 050	700	350	1 820
Total cash benefits	5 200	3 930	1 630	1 190	740	2 540
Cash benefits as a percentage of gross income						
	49	20	6	3	1	8

1 Households are ranked by equivalised disposable income.

2 Contribution based.

3 Income based.

In contrast, one criterion for receipt of contributory benefits is the amount of national insurance contributions that has been paid by, or on behalf of, the individual. The amounts received from these benefits are highest in the second quintile group.

For all non-retired households, cash benefits provide 8 per cent of gross income on average. For those in the bottom quintile group they form a much larger proportion – 49 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). Of the total income tax paid by non-retired households, the bottom two quintile groups pay about 11 per cent. This compares with 74 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 5 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 national

TABLE 8: Taxes as a percentage of gross income for NON-RETIRED households by quintile group¹, 2000–01

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Percentages						
Direct taxes						
Income tax ²	5.1	9.9	12.7	14.9	18.1	14.5
Employees' NIC	2.5	4.2	5.3	5.4	3.8	4.4
Local taxes ³	4.9	3.8	3.2	2.5	1.7	2.6
All direct taxes	12.5	17.8	21.1	22.8	23.7	21.5
All indirect taxes	29.8	21.3	18.4	15.8	11.5	16.2
All taxes	42.3	39.1	39.5	38.6	35.2	37.7

1 Households are ranked by equivalised disposable income.

2 After tax relief at source on life assurance premiums.

3 Council tax, domestic rates and water charges after deducting discounts, council tax benefit and rate

insurance contributions are only levied on the first £535 of weekly earnings in 2000–01, so part of the earnings of many of those in the top quintile group will not be subject to this deduction.

Local taxes mainly consist of council tax in Great Britain and domestic rates in Northern Ireland and are shown net of council tax benefits and rates rebates in Table 8. Households in the lower part of the income distribution pay smaller absolute amounts in local taxes. Net payments by the bottom quintile group are typically less than half of those in the top fifth (Table 16A). When expressed as a proportion of gross income, the impact decreases as income rises. Local taxes represent 5 per cent of gross income for 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 FES. However, the income and expenditure data recorded in the FES are not fully compatible because they are recorded in different ways (see Appendix 2, paragraph 6). Indeed, measured expenditure exceeds measured income 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 these cases, expenditure taxes are not being met

from current income. Some types of receipts are not included as income in the FES, e.g. inheritance, severance payments, receipts from building society demutualisations. For a minority of households, the FES may be measuring incomes inaccurately. Therefore, to give a more complete picture of the impact of indirect taxes, they are shown in Table 9 as a proportion of total 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 nearly two and a half times 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. This is because those in higher income groups tend to channel a larger proportion of their income into savings and mortgage payments. These do not attract indirect taxes. 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. In

TABLE 9: Indirect taxes as a percentage of (a) disposable income and (b) household expenditure² for NON-RETIRED households by quintile group¹, 2000–01

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
(a) Percentages of disposable income						
VAT	13.2	10.2	9.5	8.6	6.7	8.6
Duty on alcohol	1.7	1.3	1.3	1.2	0.8	1.1
Duty on tobacco	4.1	2.5	1.5	1.1	0.5	1.4
Duty on hydrocarbon oils and Vehicle excise duty	3.8	3.4	3.4	2.9	1.9	2.7
Other indirect taxes	11.2	8.5	7.7	6.7	5.1	6.9
All indirect taxes	34.1	25.9	23.3	20.5	15.1	20.6
(b) Percentages of expenditure²						
VAT	8.5	8.3	8.0	7.9	7.2	7.8
Duty on alcohol	1.1	1.0	1.1	1.1	0.9	1.0
Duty on tobacco	2.6	2.0	1.3	1.0	0.6	1.2
Duty on hydrocarbon oils and Vehicle excise duty	2.4	2.7	2.8	2.7	2.1	2.5
Other indirect taxes	7.2	6.9	6.5	6.2	5.5	6.2
All indirect taxes	21.8	21.0	19.7	18.9	16.2	18.8

1 Households are ranked by equivalised disposable income.

2 Calculated to be consistent with disposable income. See paragraph 34 of Appendix 2 for the definition of expenditure.

particular, the burden of tobacco duty is much heavier on households in the lower half of the distribution.

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 imputed value of these benefits is based on the estimated cost of providing them. The largest two items for which such imputations are made are health and education services. The year 2000 expenditure on these that is allocated in this analysis is equivalent to around 26 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.

The benefit in kind from education is allocated to a household according to its members' use of state education (Appendix 2, paragraph 36). Households in the bottom quintile receive the highest benefit from education. This is due to the concentration of children in this part of the distribution. The impact of expenditure on free school meals and welfare foods is greatest in the lower income groups, where children are more likely to have school meals provided free of charge.

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 FES does not contain this information (Appendix 2, paragraph 38). 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 increases marginally from the bottom quintile to the second quintile then falls gradually as income rises. This pattern is a reflection of the demographic composition of households. A study by Sefton⁵ attempted to allow for variations in use of the health service according to socio-economic characteristics and incomes. His results showed a picture that is broadly similar to that presented here.

The housing subsidy, which excludes housing benefit (see Appendix 2, paragraph 39), is spread between public sector tenants. Since such households tend to be concentrated in the lower half of the income distribution, this is where the imputed benefit is highest.

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

TABLE 10: Benefits in kind for NON-RETIRED households by quintile group¹, 2000-01

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Education	3 140	2 260	1 580	1 280	730	1 800
National health service	1 900	2 000	1 720	1 600	1 480	1 740
Housing subsidy	100	50	30	10	10	40
Travel subsidies	40	40	50	50	70	50
School meals and welfare milk	130	30	10	0	0	30
All benefits in kind	5 300	4 390	3 390	2 950	2 290	3 660
Benefits in kind as a percentage of post-tax income						
	87	37	21	13	6	19

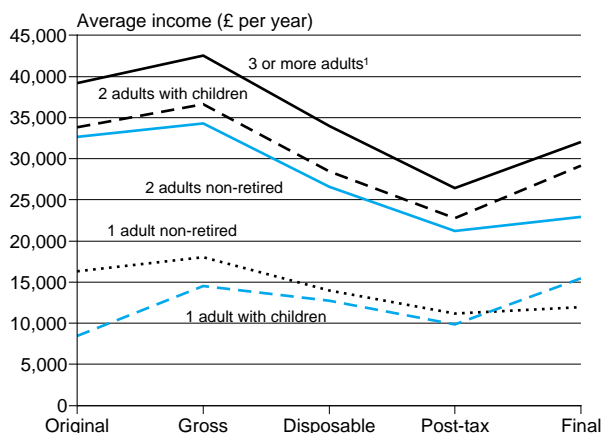
¹ Households are ranked by equivalised disposable income.

to the number of economically active people in a household. This results in these subsidies increasing as income increases. This pattern is also due to London and the South East having high 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 87 per cent for the lowest quintile group to 6 per cent for the highest, as shown in Table 10. This indicates that these benefits contribute to the reduction in inequality.

Figure 6

Income stages by NON-RETIRED household types, 2000-01



¹ With or without children.

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 £15,400 compared to original incomes of £8,500. Table 23 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.

Original income is strongly related to the number of adults in the household. For two adult households, those with children have similar levels of original income to those without, but receive more cash benefits than those without. This is a change from the previous year, when the effect of cash benefits was broadly similar for both groups. It could reflect in part the full year effect of the introduction of Working Families Tax Credit. The effect of taxes is broadly similar for both groups. Final incomes are 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.

TABLE 11: Percentage shares of household income and Gini coefficients¹ for RETIRED households, 2000–01

	Percentage shares of equivalised income for RETIRED households ²			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group ²				
Bottom	3	9	9	8
2nd	6	13	14	13
3rd	11	16	17	17
4th	20	21	22	22
Top	60	40	39	40
All retired households	100	100	100	100
Decile group ²				
Bottom	1	4	4	3
Top	43	26	24	25
Gini coefficient (per cent)	65	31	29	33

¹ This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 51).

² Households are ranked by equivalised disposable income.

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 three fifths of total original income, while the Gini coefficient for this measure of income is 65 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. Income tax payments make a further, though much smaller, contribution. Payments of indirect taxes result in an increase in inequality.

Overall, retired households receive an average of £7,000 in original income with most of this coming from occupational pensions and investments (Tables 12, 18 and 18A). Original income ranges from £1,000 for the bottom quintile group to £21,000 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 £4,900 from this source, while those in the second to top quintile groups receive between £6,300 and £7,000. These cash benefits make up large proportions of the gross incomes for the bottom four quintiles ranging from 83 per cent for the bottom quintile group to 50 per cent for the fourth quintile group. The top fifth are much less dependent on cash benefits – these account for only 23 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 retirement pension, which accounts for almost three quarters of their cash benefits (Tables 12, 18 and 18A).

Non-contributory benefits are lowest in the bottom quintile group, where three quarters of households own their homes outright and so receive little in the way of housing benefit. In addition, disability benefits sometimes make up a significant proportion of the income of a retired household and their receipt may push a household up the income distribution. This does not necessarily mean that households receiving disability benefits have a higher standard of

TABLE 12: Summary of the effects of taxes and benefits on RETIRED households by quintile group¹, 2000–01

	Quintile groups of RETIRED households ¹					All retired households
	Bottom	2nd	3rd	4th	Top	
Income, taxes and benefits per household (£ per year) ²						
Original income						
Earnings	20	70	220	390	670	270
Occupational pensions	700	1 560	3 080	5 500	13 700	4 910
Investment income	280	340	520	1 140	6 380	1 730
Other income	20	40	110	70	210	90
Total original income	1 020	2 010	3 940	7 100	20 950	7 010
<i>plus</i> Contributory benefits	4 310	4 990	4 890	5 030	4 990	4 840
Non-contributory benefits	620	1 320	1 900	1 980	1 340	1 430
Total cash benefits	4 930	6 310	6 790	7 020	6 340	6 280
Gross income	5 960	8 320	10 730	14 120	27 290	13 280
<i>less</i> Income tax ²	80	160	430	930	3 680	1 060
Employees' NIC	0	0	10	20	30	10
Local taxes ³	650	610	680	740	1 010	740
Disposable income	5 230	7 540	9 610	12 430	22 560	11 470
<i>less</i> Indirect taxes	1 530	1 800	2 090	2 520	4 000	2 390
Post-tax income	3 700	5 750	7 520	9 910	18 560	9 090
<i>plus</i> National health service	3 500	3 190	3 260	3 220	3 060	3 250
Housing subsidy	40	60	70	50	20	50
Other benefits in kind	190	130	90	90	100	120
Final income	7 430	9 120	10 940	13 270	21 740	12 500
Cash benefits as a percentage of gross income	83	76	63	50	23	47
Retirement pension as a percentage of cash benefits	86	76	71	70	77	75

¹ Households are ranked by equivalised disposable income.

² After tax relief at source on life assurance premiums.

³ Council tax, local rates and water charges after deducting discounts, council tax benefit and rates rebates.

living than those lower down the income distribution. The income from these benefits may be offset by the additional costs that may be incurred by the individual due to the illness or disability in question.

Retired households derive significant benefits from health services and, to a lesser extent, the housing subsidy and travel subsidies. Health benefit is spread fairly evenly between retired households whereas benefit from the housing subsidy is significantly higher for the second and third 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 retired 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 twice the level of original income than that of women on average: £6,300 for men compared with £3,200 for women. This is a much higher proportion than in the previous year and may be volatile as a result of the small numbers of retired households in the sample containing only one man. After the addition of benefits and the deduction of taxes the differences are greatly reduced, so that final income levels for these men and women are similar.

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APPENDIX 1

TABLE 13 (Appendix 1): Taxes and benefits allocated to households as a percentage of general government expenditure, 2000

Taxes and compulsory social contributions ¹ allocated to households			Benefits allocated to households		
	£ million	% of GGE ²		£ million	% of GGE ²
Income tax (gross)	105 700	29.5	Cash benefits		
Tax reliefs	- 530	-0.1	Contributory (National Insurance, etc)		
Income tax (net)	105 170	29.4	Retirement	39 130	10.9
Employees' & self-employed NI contributions	25 950	7.2	Incapacity benefit	6 710	1.9
Council tax	13 720	3.8	Widows and guardians	980	0.3
			Maternity/Statutory maternity pay	680	0.2
			Unemployment/Job seekers allowance	440	0.1
			Social fund	1 860	0.5
			Other	190	0.1
Taxes on final goods and services			Non-contributory		
VAT	43 150	12.1	Income support	12 830	3.6
Duty on hydrocarbon oils	11 620	3.2	Working Families Tax Credit	3 970	1.1
Duty on tobacco	7 610	2.1	Other family benefits	8 630	2.4
Vehicle excise duty	3 100	0.9	War pensions	1 210	0.3
Duty on wines, cider, perry and spirits	3 560	1.0	Other	16 000	4.5
Duty on beer	2 690	0.8	Student support	470	0.1
Betting duties	1 480	0.4	Rent rebates and allowances	11 230	3.1
Camelot: payments to NLDF	1 550	0.4			
Stamp duty on house purchase	2 270	0.6	Benefits in kind		
Other	3 310	0.9	Health services	53 840	15.0
Taxes & NI contributions on			Education	39 120	10.9
Intermediate goods & services ³			Travel subsidies ⁴	1 310	0.4
Employers' NI contributions	11 590	3.2	Housing subsidy	1 060	0.3
Commercial & industrial rates	7 570	2.1	School meals and welfare milk	860	0.2
Duty on hydrocarbon oils	5 830	1.6			
VAT	3 510	1.0			
Vehicle excise duty	830	0.2			
Other	2 480	0.7			
Total	256 990	71.8	Total	200 520	56.0

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, 2001 Edition.

TABLE 14 (Appendix 1): Average incomes, taxes and benefits by decile groups of ALL households, 2000–01

	Decile groups of all households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>	7 775	9 790	11 600	13 808	16 173	19 029	22 367	27 109	35 249		
Number of households in the population ('000s)	2 501	2 503	2 502	2 504	2 501	2 502	2 506	2 503	2 500	2 506	25 030
Original income											
Wages and salaries	1 171	2 670	4 692	7 500	12 592	16 526	21 984	26 109	31 949	47 842	17 304
Imputed income from benefits in kind	11	12	26	32	120	153	286	470	700	1 734	354
Self-employment income	326	417	751	872	1 027	1 164	1 761	2 160	3 068	13 765	2 531
Occupational pensions, annuities	249	689	1 064	1 742	1 885	2 071	2 151	2 455	2 807	3 092	1 820
Investment income	193	203	301	377	471	688	877	1 143	2 003	4 133	1 039
Other income	127	123	144	130	161	272	307	198	136	257	186
Total	2 076	4 113	6 979	10 653	16 256	20 874	27 367	32 534	40 663	70 823	23 234
Direct benefits in cash											
Contributory											
Retirement pension	1 678	2 231	2 319	2 115	1 554	1 390	922	870	710	524	1 431
Job seeker's allowance (Contribution based)	80	49	41	45	12	23	8	2	10	5	28
Incapacity benefit	301	361	407	510	363	124	148	131	66	7	242
Widows' benefits	40	49	60	61	83	36	40	41	36	33	48
Statutory Maternity Pay/Allowance	3	3	2	8	35	42	49	29	50	50	27
Non-contributory											
Income support	853	1 062	683	444	307	199	134	68	13	0	376
Child benefit	437	426	382	367	409	384	346	307	238	221	352
Housing benefit	569	945	837	574	280	200	115	46	5	-	357
Job seeker's allowance (Income based)	249	144	44	39	34	18	18	5	2	3	56
Invalid care allowance	31	42	77	62	54	20	29	4	4	-	32
Attendance allowance	9	104	125	174	166	124	64	52	9	7	83
Disability living allowance	106	202	280	480	340	239	129	55	28	-	195
War pensions/War widows' pensions	0	16	15	36	15	47	30	72	23	6	26
Severe disablement allowance	17	40	71	75	47	41	30	13	4	-	34
Industrial injury disablement benefit	10	32	30	24	31	28	10	8	-	-	17
Student support	94	27	47	23	58	21	40	127	36	38	51
Government training schemes	39	9	21	17	20	16	8	7	10	7	15
Working Families Tax Credit	128	204	205	194	139	90	49	20	5	-	103
Other non-contributory benefits	29	41	24	24	42	8	13	9	2	3	20
Total cash benefits	4 673	5 987	5 669	5 271	3 989	3 048	2 183	1 908	1 279	932	3 494
Gross income	6 749	10 100	12 648	15 924	20 245	23 922	29 549	34 442	41 942	71 754	26 727
Direct taxes and Employees' NIC											
Income tax	219	397	785	1 297	2 026	2 781	3 960	4 963	6 710	13 459	3 660
less: Tax relief at source ¹	2	3	4	4	3	5	4	6	7	9	5
Employees' NI contributions	82	158	295	459	783	1 054	1 434	1 683	2 006	2 302	1 026
Local taxes ²	784	785	786	834	842	886	942	954	1 022	1 161	900
less: Council tax benefit/Rates rebates	238	221	158	117	62	45	41	24	22	17	94
Total	845	1 116	1 704	2 470	3 586	4 671	6 291	7 571	9 709	16 896	5 486
Disposable income	5 903	8 984	10 944	13 454	16 659	19 251	23 258	26 871	32 233	54 858	21 242
<i>Equivalised disposable income</i>	<i>5 761</i>	<i>8 807</i>	<i>10 657</i>	<i>12 654</i>	<i>14 955</i>	<i>17 620</i>	<i>20 643</i>	<i>24 584</i>	<i>30 595</i>	<i>53 047</i>	<i>19 932</i>
Indirect taxes											
Taxes on final goods and services											
VAT	910	1 000	1 106	1 351	1 610	1 802	2 061	2 371	2 626	3 419	1 826
Duty on tobacco	244	306	270	306	341	291	282	268	291	219	282
Duty on beer and cider	49	61	64	85	114	117	126	149	153	156	107
Duty on wines & spirits	70	59	73	75	116	110	144	164	192	253	126
Duty on hydrocarbon oils	192	232	244	325	398	478	552	602	632	749	440
Vehicle excise duty	65	68	79	100	122	145	169	180	180	185	129
Television licences	88	80	82	86	92	99	103	99	99	102	93
Stamp duty on house purchase	29	19	23	29	41	52	65	83	111	195	65
Customs duties	20	21	24	28	33	37	43	47	52	69	37
Betting taxes	41	41	51	59	60	55	67	81	54	66	57
Insurance premium tax	15	15	19	24	30	36	42	45	50	72	35
Air passenger duty	6	3	12	10	12	15	22	19	32	65	20
Camelot National Lottery Fund	37	49	56	64	66	62	75	73	62	55	60
Other	4	5	15	11	16	16	8	17	23	16	13
Intermediate taxes											
Commercial and industrial rates	141	146	165	194	232	258	296	325	359	475	259
Employers' NI contributions	226	233	264	311	371	414	474	521	575	761	415
Duty on hydrocarbon oils	105	109	124	145	174	193	221	243	269	356	194
Vehicle excise duty	13	14	16	18	22	24	28	31	34	45	24
Other	111	115	130	153	183	204	233	256	283	375	204
Total indirect taxes	2 366	2 576	2 818	3 375	4 032	4 410	5 009	5 573	6 076	7 632	4 387
Post-tax income	3 537	6 408	8 125	10 079	12 627	14 841	18 250	21 299	26 156	47 226	16 855
Benefits in kind											
Education	2 346	1 602	1 506	1 317	1 643	1 323	1 275	1 091	767	644	1 351
National health service	2 458	2 568	2 626	2 421	2 214	2 076	1 951	1 734	1 716	1 513	2 128
Housing subsidy	68	91	68	67	44	43	20	10	12	6	43
Rail travel subsidy	12	8	7	14	20	23	31	31	37	63	24
Bus travel subsidy	40	39	42	40	34	26	24	20	15	12	29
School meals and welfare milk	90	77	39	19	6	6	1	2	2	0	24
Total	5 014	4 386	4 288	3 878	3 961	3 498	3 302	2 888	2 549	2 238	3 600
Final income	8 551	10 793	12 413	13 957	16 589	18 339	21 552	24 186	28 705	49 464	20 455

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 14A (Appendix 1): Average incomes, taxes and benefits by quintile groups of ALL households, 2000–01

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
<i>Quintile points (equivalised £)</i>	9 790	13 808	19 029	27 109		
Number of households in the population ('000s)	5 005	5 007	5 003	5 009	5 007	25 030
Original income						
Wages and salaries	1 920	6 096	14 559	24 047	39 896	17 304
Imputed income from benefits in kind	11	29	137	378	1 217	354
Self-employment income	371	812	1 095	1 961	8 417	2 531
Occupational pensions, annuities	469	1 403	1 978	2 303	2 949	1 820
Investment income	198	339	579	1 010	3 068	1 039
Other income	125	137	217	253	196	186
Total	3 094	8 816	18 565	29 950	55 743	23 234
Direct benefits in cash						
Contributory						
Retirement pension	1 954	2 217	1 472	896	617	1 431
Job seeker's allowance (Contribution based)	65	43	18	5	8	28
Incapacity benefit	331	459	243	140	37	242
Widows' benefits	44	61	59	41	35	48
Statutory Maternity Pay/Allowance	3	5	38	39	50	27
Non-contributory						
Income support	957	564	253	101	7	376
Child benefit	431	375	397	326	229	352
Housing benefit	757	705	240	81	2	357
Job seeker's allowance (Income based)	196	41	26	11	3	56
Invalid care allowance	36	69	37	17	2	32
Attendance allowance	56	149	145	58	8	83
Disability living allowance	154	380	289	113	41	195
War pensions/War widows' pensions	8	26	31	51	15	26
Severe disablement allowance	29	73	44	21	2	34
Industrial injury disablement benefit	21	27	29	9	-	17
Student support	60	35	39	83	37	51
Government training schemes	24	19	18	8	8	15
Working Families Tax Credit	166	199	115	34	3	103
Other non-contributory benefits	35	24	25	11	3	20
Total cash benefits	5 330	5 470	3 519	2 045	1 105	3 494
Gross income	8 424	14 286	22 084	31 995	56 848	26 727
Direct taxes and Employees' NIC						
Income tax	308	1 041	2 404	4 461	10 084	3 660
<i>less: Tax relief at source¹</i>	3	4	4	5	8	5
Employers' NI contributions	120	377	919	1 558	2 154	1 026
Local taxes ²	785	810	864	948	1 091	900
<i>less: Council tax benefit/Rates rebates</i>	229	138	54	32	19	94
Total	981	2 087	4 129	6 931	13 302	5 486
Disposable income	7 443	12 199	17 955	25 065	43 545	21 242
<i>Equivalised disposable income</i>	7 284	11 655	16 287	22 614	41 821	19 932
Indirect taxes						
Taxes on final goods and services						
VAT	955	1 229	1 706	2 216	3 022	1 826
Duty on tobacco	275	288	316	275	255	282
Duty on beer and cider	55	74	116	138	154	107
Duty on wines & spirits	65	74	113	154	223	126
Duty on hydrocarbon oils	212	284	438	577	691	440
Vehicle excise duty	66	89	134	175	183	129
Television licences	84	84	95	101	100	93
Stamp duty on house purchase	24	26	46	74	153	65
Customs duties	21	26	35	45	60	37
Betting taxes	41	55	57	74	60	57
Insurance premium tax	15	22	33	43	61	35
Air passenger duty	4	11	14	20	49	20
Camelot National Lottery Fund	43	60	64	74	58	60
Other	4	13	16	12	20	13
Intermediate taxes						
Commercial and industrial rates	143	180	245	310	417	259
Employers' NI contributions	229	288	393	497	668	415
Duty on hydrocarbon oils	107	134	183	232	312	194
Vehicle excise duty	14	17	23	29	39	24
Other	113	142	193	245	329	204
Total indirect taxes	2 471	3 097	4 221	5 291	6 854	4 387
Post-tax income	4 973	9 102	13 734	19 774	36 691	16 855
Benefits in kind						
Education	1 974	1 411	1 483	1 183	706	1 351
National health service	2 513	2 524	2 145	1 842	1 614	2 128
Housing subsidy	79	68	43	15	9	43
Rail travel subsidy	10	10	22	31	50	24
Bus travel subsidy	40	41	30	22	14	29
School meals and welfare milk	83	29	6	2	1	24
Total	4 700	4 083	3 730	3 095	2 394	3 600
Final income	9 672	13 185	17 464	22 869	39 085	20 455

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 15 (Appendix 1): Household characteristics of decile groups of ALL households, 2000–01

	Decile groups of all households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	2.3	2.3	2.3	2.4	2.5	2.5	2.5	2.4	2.3	2.2	2.4
<i>Adults</i>	1.6	1.7	1.7	1.8	1.9	1.9	2.0	1.9	1.9	1.8	1.8
<i>Men</i>	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	0.9
<i>Women</i>	0.9	0.9	0.9	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.9
<i>Children</i>	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.4	0.4	0.3	0.5
Economically active people	0.5	0.5	0.7	0.9	1.2	1.4	1.6	1.6	1.6	1.6	1.2
Retired people	0.6	0.7	0.7	0.6	0.4	0.4	0.3	0.2	0.2	0.1	0.4
People in full-time education	0.76	0.58	0.53	0.49	0.60	0.51	0.45	0.41	0.32	0.31	0.49
<i>In state primary schools</i>	0.32	0.29	0.26	0.26	0.27	0.24	0.18	0.16	0.13	0.10	0.22
<i>In state secondary schools</i>	0.24	0.18	0.18	0.16	0.19	0.16	0.15	0.14	0.09	0.06	0.15
<i>In further and higher education</i>	0.19	0.09	0.08	0.05	0.12	0.07	0.10	0.08	0.06	0.06	0.09
<i>In other educational establishments</i>	0.02	0.02	0.01	0.02	0.02	0.03	0.02	0.03	0.04	0.09	0.03
Composition (percentages)											
Household type											
Retired											
1 adult	26	23	24	19	15	11	6	5	4	3	14
1 adult men	5	6	5	5	5	2	2	2	2	1	4
1 adult women	21	17	19	13	10	8	4	3	2	2	10
2 or more adults	14	20	20	17	12	13	7	7	6	3	12
Non-retired											
1 adult	16	12	12	11	14	15	17	20	23	24	16
1 adult men	10	8	6	6	6	9	10	12	15	18	10
1 adult women	5	4	6	6	8	6	6	7	8	6	6
2 adults	7	10	10	15	15	20	26	28	34	39	21
3 or more adults	4	4	6	7	10	8	14	12	11	9	8
1 adult with children	9	13	7	6	5	4	2	2	1	1	5
2 adults with 1 child	5	4	4	5	9	9	10	10	8	8	7
2 adults with 2 children	9	4	7	10	11	11	9	9	8	9	9
2 adults with 3 or more children	6	5	5	4	4	4	4	2	2	1	4
3 or more adults with children	4	6	5	5	4	5	5	3	3	1	4
Household tenure											
Rented											
Local authority rented	27	36	26	22	16	13	7	2	3	1	15
Housing association or RSL	7	10	13	8	6	4	4	2	1	1	6
Other rented unfurnished	4	6	7	6	4	4	5	4	3	4	5
Rented furnished	7	5	4	5	4	3	3	4	6	6	5
Rent free	1	1	2	2	2	1	1	3	1	1	2
Owner occupied											
With mortgage	14	12	19	25	37	48	57	62	64	68	41
Rental purchase	–	0	0	0	0	0	0	–	1	–	0
Owned outright	40	29	29	33	31	25	24	22	21	20	27
Age of chief economic supporter											
Under 25	8	6	5	3	5	4	3	3	2	2	4
Over 24 and under 35	12	14	13	12	16	20	18	24	23	25	18
Over 34 and under 45	17	14	16	17	21	23	23	24	23	26	21
Over 44 and under 55	13	13	12	15	18	18	23	22	27	26	19
Over 54 and under 65	13	12	13	18	15	13	19	15	15	14	15
Over 64 and under 75	14	20	19	20	13	13	8	7	6	5	13
Over 74	22	20	22	15	12	10	5	5	4	2	12
Employment status of chief economic supporter											
Self-employed	4	4	5	5	5	5	7	7	9	17	7
Full-time employee	7	14	21	30	48	60	66	73	73	72	46
Part-time employee	10	7	8	9	8	7	8	4	5	4	7
Unemployed	11	7	3	2	1	1	1	1	1	0	3
Unoccupied and under minimum NI age	30	26	20	17	11	5	5	4	3	2	12
Retired/unoccupied over minimum NI age	37	41	43	37	26	21	13	11	9	5	24
Other	1	0	1	0	0	0	0	0	0	0	0

TABLE 15A (Appendix 1): Household characteristics of quintile groups of ALL households, 2000–01

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
Average per household (number)						
People	2.3	2.2	2.5	2.4	2.2	2.3
Adults	1.6	1.6	1.9	2.0	1.9	1.8
Men	0.7	0.7	0.9	1.0	1.0	0.9
Women	0.9	0.9	0.9	0.9	0.9	0.9
Children	0.7	0.6	0.6	0.4	0.4	0.5
Economically active people	0.5	0.7	1.3	1.6	1.6	1.1
Retired people	0.5	0.6	0.4	0.3	0.2	0.4
People in full-time education	0.71	0.49	0.52	0.40	0.32	0.49
In state primary schools	0.33	0.25	0.24	0.16	0.11	0.22
In state secondary schools	0.20	0.15	0.18	0.14	0.08	0.15
In further and higher education	0.16	0.06	0.08	0.08	0.06	0.09
In other educational establishments	0.03	0.02	0.02	0.03	0.07	0.03
Composition (percentages)						
Household type						
Retired						
1 adult	21	27	14	7	3	14
1 adult men	5	7	3	3	1	4
1 adult women	16	20	11	4	2	10
2 or more adults	16	17	12	8	5	11
Non-retired						
1 adult	17	12	15	18	24	17
1 adult men	10	7	10	11	16	11
1 adult women	7	5	5	7	8	6
2 adults	9	12	17	27	36	20
3 or more adults	5	4	9	13	9	8
1 adult with children	15	8	3	2	1	6
2 adults with 1 child	4	5	7	9	10	7
2 adults with 2 children	6	7	11	9	8	8
2 adults with 3 or more children	5	5	4	2	1	4
3 or more adults with children	3	3	6	4	3	4
Household tenure						
Rented						
Local authority rented	32	30	16	6	2	17
Housing association or RSL	8	10	5	3	0	5
Other rented unfurnished	4	5	4	3	3	4
Rented furnished	7	4	4	6	5	5
Rent free	2	2	1	1	1	1
Owner occupied						
With mortgage	14	21	42	58	69	41
Rental purchase	0	0	0	0	0	0
Owned outright	32	28	27	23	20	26
Age of chief economic supporter						
Under 25	8	4	4	3	2	4
Over 24 and under 35	16	13	16	21	26	18
Over 34 and under 45	18	15	21	21	25	20
Over 44 and under 55	10	12	18	23	27	18
Over 54 and under 65	13	14	14	17	12	14
Over 64 and under 75	15	22	15	8	6	13
Over 74	19	20	12	6	3	12
Employment status of chief economic supporter						
Self-employed	4	4	6	8	12	7
Full-time employee	9	24	49	65	72	44
Part-time employee	9	8	5	5	4	6
Unemployed	10	5	3	3	2	5
Unoccupied and under minimum NI age	33	16	9	5	2	13
Retired/unoccupied over minimum NI age	35	43	27	14	7	25
Other	1	0	0	0	0	0

TABLE 16 (Appendix 1): Average incomes, taxes and benefits by decile groups of NON-RETIRED households, 2000-01

	Decile groups of non-retired households ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>		8 285	10 865	13 188	15 794	18 534	21 282	24 774	29 598	38 364	
Number of households in the population ('000s)	1 861	1 862	1 863	1 863	1 862	1 861	1 864	1 864	1 863	1 863	18 626
Original income											
Wages and salaries	2 127	6 210	10 385	16 287	20 437	23 804	28 363	32 967	37 834	53 243	23 166
Imputed income from benefits in kind	21	29	51	139	189	302	495	588	949	1 971	473
Self-employment income	529	894	1 476	1 380	1 474	2 047	2 391	2 500	4 423	16 860	3 398
Occupational pensions, annuities	68	174	620	501	486	791	1 044	918	1 294	1 693	759
Investment income	131	120	232	286	366	517	552	983	1 388	3 426	800
Other income	206	183	172	176	297	279	310	140	232	185	218
Total	3 082	7 610	12 935	18 769	23 248	27 741	33 155	38 096	46 119	77 378	28 813
Direct benefits in cash											
Contributory											
Retirement pension	138	257	557	397	315	206	385	212	243	261	297
Job seeker's allowance (Contribution based)	123	68	68	18	26	16	3	10	6	7	34
Incapacity benefit	517	603	662	534	184	177	156	78	48	9	297
Widows' benefits	48	83	54	117	80	51	30	32	23	45	56
Statutory Maternity Pay/Allowance	5	4	10	45	48	67	28	34	77	46	36
Non-contributory											
Income support	1 343	1 395	748	363	113	53	85	8	13	0	412
Child benefit	708	727	601	568	522	388	391	311	269	220	471
Housing benefit	981	1 126	676	278	122	56	37	16	5	-	330
Job seeker's allowance (Income based)	401	156	74	47	24	24	5	2	2	4	74
Invalid care allowance	43	87	89	69	23	22	11	2	6	-	35
Attendance allowance	10	3	37	39	14	11	32	3	-	-	15
Disability living allowance	164	328	428	433	189	110	119	46	42	33	189
War pensions/War widows' pensions	3	5	1	4	1	11	3	33	4	-	6
Severe disablement allowance	28	57	91	70	50	15	4	-	5	-	32
Industrial injury disablement benefit	10	32	22	25	28	12	14	-	-	-	14
Student support	134	57	66	74	24	44	30	179	48	29	68
Government training schemes	57	21	22	29	18	7	13	6	10	9	19
Working Families Tax Credit	204	434	260	252	114	76	42	1	6	-	139
Other non-contributory benefits	18	25	11	18	4	15	6	3	1	3	10
Total cash benefits	4 935	5 470	4 475	3 380	1 898	1 363	1 394	978	808	666	2 537
Gross income	8 017	13 080	17 410	22 148	25 146	29 104	34 549	39 074	46 927	78 043	31 350
Direct taxes and Employees' NIC											
Income tax	320	768	1 645	2 267	3 083	3 829	4 914	6 053	7 866	14 781	4 553
less: Tax relief at source ¹	2	2	4	4	3	4	5	5	7	10	5
Employees' NI contributions	144	378	644	1 011	1 301	1 551	1 875	2 090	2 302	2 444	1 374
Local taxes ²	749	784	837	843	860	909	946	958	1 038	1 176	910
less: Council tax benefit/Rates rebates	276	228	125	58	28	32	22	20	15	17	82
Total	936	1 700	2 997	4 060	5 213	6 254	7 708	9 076	11 184	18 373	6 750
Disposable income	7 081	11 380	14 412	18 088	19 933	22 850	26 841	29 998	35 743	59 670	24 600
<i>Equivalised disposable income</i>	<i>5 949</i>	<i>9 538</i>	<i>12 034</i>	<i>14 532</i>	<i>17 132</i>	<i>19 855</i>	<i>22 939</i>	<i>27 038</i>	<i>33 351</i>	<i>57 179</i>	<i>21 955</i>
Indirect taxes											
Taxes on final goods and services											
VAT	1 098	1 344	1 543	1 784	1 886	2 171	2 372	2 509	2 805	3 566	2 108
Duty on tobacco	333	431	378	425	326	322	310	303	286	220	333
Duty on beer and cider	72	92	102	136	132	147	153	176	158	162	133
Duty on wines & spirits	81	73	77	105	116	149	160	195	175	274	141
Duty on hydrocarbon oils	239	310	406	458	527	585	632	645	711	753	527
Vehicle excise duty	68	82	114	126	156	166	186	184	184	182	145
Television licences	101	105	105	106	109	109	102	105	101	105	105
Stamp duty on house purchase	33	24	34	45	59	63	74	98	118	217	76
Customs duties	24	27	32	37	40	44	48	50	56	71	43
Betting taxes	43	41	66	64	56	72	93	62	72	50	62
Insurance premium tax	14	18	26	31	37	41	46	44	54	73	38
Air passenger duty	6	6	15	13	14	18	24	20	41	67	22
Camelot National Lottery Fund	40	56	67	72	65	79	75	77	57	56	64
Other	4	20	13	18	22	10	5	19	16	16	14
Intermediate taxes											
Commercial and industrial rates	166	188	221	259	275	304	333	348	390	495	298
Employers' NI contributions	266	302	355	415	440	487	534	558	624	792	477
Duty on hydrocarbon oils	124	141	166	194	206	228	250	261	292	370	223
Vehicle excise duty	16	18	21	24	26	29	31	33	37	47	28
Other	131	149	175	205	217	240	263	275	307	390	235
Total indirect taxes	2 861	3 427	3 915	4 518	4 708	5 264	5 693	5 962	6 483	7 907	5 074
Post-tax income	4 220	7 953	10 497	13 570	15 225	17 585	21 148	24 036	29 260	51 763	19 526
Benefits in kind											
Education	3 524	2 762	2 260	2 262	1 831	1 336	1 401	1 155	819	637	1 799
National health service	1 834	1 966	2 056	1 953	1 739	1 706	1 715	1 491	1 583	1 386	1 743
Housing subsidy	99	98	68	42	41	28	9	14	11	4	41
Rail travel subsidy	16	12	16	22	28	32	35	38	50	62	31
Bus travel subsidy	23	21	25	25	19	19	15	16	9	10	18
School meals and welfare milk	148	104	43	12	8	2	2	3	1	1	32
Total	5 644	4 962	4 468	4 317	3 667	3 123	3 177	2 715	2 472	2 099	3 664
Final income	9 864	12 916	14 965	17 887	18 892	20 708	24 325	26 751	31 732	53 862	23 190

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

Table 16A (Appendix 1): Average incomes, taxes and benefits by quintile groups of NON-RETIRED households, 2000–01

	Quintile groups of non-retired households ranked by equivalised disposable income					All such households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
<i>Quintile points (equivalised £)</i>		10 865	15 794	21 282	29 598	
Number of households in the population ('000s)	3 723	3 726	3 724	3 727	3 726	18 626
Original income						
Wages and salaries	4 169	13 336	22 121	30 665	45 539	23 166
Imputed income from benefits in kind	25	95	245	542	1 460	473
Self-employment income	712	1 428	1 761	2 446	10 641	3 398
Occupational pensions, annuities	121	560	638	981	1 494	759
Investment income	126	259	441	767	2 407	800
Other income	194	174	288	225	208	218
Total	5 346	15 852	25 494	35 626	61 748	28 813
Direct benefits in cash						
Contributory						
Retirement pension	198	477	261	298	252	297
Job seeker's allowance (Contribution based)	95	43	21	7	6	34
Incapacity benefit	560	598	181	117	29	297
Widows' benefits	65	86	65	31	34	56
Statutory Maternity Pay/Allowance	5	28	57	31	62	36
Non-contributory						
Income support	1 369	555	83	47	7	412
Child benefit	717	584	455	351	245	471
Housing benefit	1 054	477	89	27	3	330
Job seeker's allowance (Income based)	278	61	24	4	3	74
Invalid care allowance	65	79	22	6	3	35
Attendance allowance	6	38	13	18	–	15
Disability living allowance	246	430	150	82	38	189
War pensions/War widows' pensions	4	3	6	18	2	6
Severe disablement allowance	43	80	33	2	2	32
Industrial injury disablement benefit	21	23	20	7	–	14
Student support	95	70	34	105	38	68
Government training schemes	39	25	13	10	9	19
Working Families Tax Credit	319	256	95	22	3	139
Other non-contributory benefits	22	14	9	5	2	10
Total cash benefits	5 202	3 927	1 631	1 186	737	2 537
Gross income	10 548	19 779	27 125	36 812	62 485	31 350
Direct taxes and Employees' NIC						
Income tax	544	1 956	3 456	5 484	11 323	4 553
less: Tax relief at source ¹	2	4	3	5	8	5
Employers' NI contributions	261	828	1 426	1 983	2 373	1 374
Local taxes ²	767	840	885	952	1 107	910
less: Council tax benefit/Rates rebates	252	91	30	21	16	82
Total	1 318	3 529	5 734	8 392	14 779	6 750
Disposable income	9 231	16 250	21 391	28 420	47 706	24 600
<i>Equivalised disposable income</i>	<i>7 744</i>	<i>13 283</i>	<i>18 494</i>	<i>24 988</i>	<i>45 265</i>	<i>21 955</i>
Indirect taxes						
Taxes on final goods and services						
VAT	1 221	1 664	2 029	2 440	3 185	2 108
Duty on tobacco	382	402	324	307	253	333
Duty on beer and cider	82	119	140	165	160	133
Duty on wines & spirits	77	91	132	177	225	141
Duty on hydrocarbon oils	274	432	556	638	732	527
Vehicle excise duty	75	120	161	185	183	145
Television licences	103	105	109	103	103	105
Stamp duty on house purchase	28	39	61	86	167	76
Customs duties	26	35	42	49	64	43
Betting taxes	42	65	64	77	61	62
Insurance premium tax	16	28	39	45	63	38
Air passenger duty	6	14	16	22	54	22
Camelot National Lottery Fund	48	70	72	76	56	64
Other	12	15	16	12	16	14
Intermediate taxes						
Commercial and industrial rates	177	240	289	341	442	298
Employers' NI contributions	284	385	464	546	708	477
Duty on hydrocarbon oils	133	180	217	255	331	223
Vehicle excise duty	17	23	27	32	42	28
Other	140	190	228	269	349	235
Total indirect taxes	3 144	4 217	4 986	5 828	7 195	5 074
Post-tax income	6 087	12 034	16 405	22 592	40 512	19 526
Benefits in kind						
Education	3 143	2 261	1 584	1 278	728	1 799
National health service	1 900	2 005	1 722	1 603	1 484	1 743
Housing subsidy	99	55	35	11	7	41
Rail travel subsidy	14	19	30	37	56	31
Bus travel subsidy	22	25	19	15	9	18
School meals and welfare milk	126	27	5	2	1	32
Total	5 303	4 392	3 395	2 946	2 285	3 664
Final income	11 390	16 426	19 800	25 538	42 797	23 190

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 17 (Appendix 1): Household characteristics of decile groups of NON-RETIRED households, 2000–01

	Decile groups of non-retired households ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	2.9	2.9	2.9	2.9	2.7	2.6	2.6	2.4	2.3	2.2	2.6
<i>Adults</i>	1.8	1.8	1.9	2.1	1.9	2.0	2.1	2.0	1.9	1.9	1.9
<i>Men</i>	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.0	1.0	1.0	1.0
<i>Women</i>	0.9	0.9	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.8	1.0
<i>Children</i>	1.1	1.1	0.9	0.8	0.8	0.6	0.6	0.5	0.4	0.3	0.7
Economically active people	0.8	1.0	1.3	1.6	1.7	1.8	1.9	1.9	1.8	1.7	1.6
Retired people	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.1
People in full-time education	1.18	0.99	0.81	0.81	0.70	0.48	0.51	0.44	0.34	0.32	0.66
<i>In state primary schools</i>	0.52	0.49	0.41	0.37	0.35	0.19	0.24	0.14	0.12	0.12	0.30
<i>In state secondary schools</i>	0.36	0.32	0.28	0.26	0.22	0.18	0.15	0.17	0.09	0.05	0.21
<i>In further and higher education</i>	0.27	0.15	0.08	0.16	0.10	0.09	0.11	0.08	0.08	0.05	0.12
<i>In other educational establishments</i>	0.03	0.02	0.04	0.03	0.03	0.02	0.02	0.04	0.06	0.10	0.04
Composition (percentages)											
Household type											
Non-retired											
1 adult	26	21	18	19	20	20	20	23	24	27	22
1 adult men	17	13	9	9	11	13	13	15	15	21	13
1 adult women	9	9	9	10	9	7	7	9	9	7	9
2 adults	14	16	24	20	24	31	30	36	38	43	28
3 or more adults	7	9	9	15	10	15	16	12	12	9	11
1 adult with children	17	19	10	7	6	3	3	1	2	1	7
2 adults with 1 child	8	7	9	10	13	11	11	10	11	8	10
2 adults with 2 children	13	10	14	16	15	11	10	12	9	9	12
2 adults with 3 or more children	10	9	8	6	5	4	4	3	1	2	5
3 or more adults with children	6	9	9	7	5	6	6	4	2	1	5
Household tenure											
Rented											
Local authority rented	38	32	21	16	12	9	2	2	3	1	14
Housing association or RSL	11	13	10	7	4	4	2	1	2	1	5
Other rented unfurnished	5	10	7	5	5	4	5	5	3	4	5
Rented furnished	11	9	6	5	4	4	5	7	5	6	6
Rent free	1	2	1	1	2	1	3	1	1	1	1
Owner occupied											
With mortgage	21	21	35	48	61	61	68	69	70	73	53
Rental purchase	–	0	1	1	0	0	–	1	0	–	0
Owned outright	14	14	19	17	13	16	15	13	16	15	15
Age of chief economic supporter											
Under 25	12	9	6	8	4	4	3	3	3	2	5
Over 24 and under 35	22	24	21	19	25	23	26	27	25	26	24
Over 34 and under 45	28	27	25	30	32	25	28	29	25	29	28
Over 44 and under 55	22	22	23	24	22	28	24	25	31	28	25
Over 54 and under 65	14	15	19	16	13	18	16	15	14	14	15
Over 64 and under 75	2	2	4	2	3	1	3	1	2	2	2
Over 74	–	0	2	2	0	1	1	0	1	0	1
Employment status of chief economic supporter											
Self-employed	7	8	9	7	7	8	8	7	11	19	9
Full-time employee	12	30	45	63	76	78	79	85	81	76	62
Part-time employee	15	14	14	10	11	8	7	5	5	5	9
Unemployed	17	7	4	2	2	1	1	1	0	–	4
Unoccupied and under minimum NI age	46	38	24	14	4	4	3	1	2	0	14
Retired/unoccupied over minimum NI age	1	1	4	4	1	1	2	–	1	–	1
Other	2	1	1	–	–	–	–	–	–	–	0

TABLE 17A (Appendix 1): Household characteristics of quintile groups of NON-RETIRED households, 2000–01

	Quintile groups of non-retired households ranked by equivalised disposable income					All such households
	Bottom	2nd	3rd	4th	Top	
Average per household (number)						
People	2.9	2.9	2.7	2.5	2.3	2.6
Adults	1.8	2.0	2.0	2.0	1.9	1.9
Men	0.9	1.0	1.0	1.1	1.0	1.0
Women	0.9	1.0	1.0	1.0	0.9	1.0
Children	1.1	0.9	0.7	0.5	0.4	0.7
Economically active people	0.9	1.5	1.8	1.9	1.7	1.6
Retired people	0.1	0.1	0.1	0.1	0.0	0.1
People in full-time education	1.08	0.81	0.59	0.48	0.33	0.66
In state primary schools	0.50	0.39	0.27	0.19	0.12	0.30
In state secondary schools	0.34	0.27	0.20	0.16	0.07	0.21
In further and higher education	0.21	0.12	0.09	0.10	0.06	0.12
In other educational establishments	0.02	0.03	0.03	0.03	0.08	0.04
Composition (percentages)						
Household type						
Non-retired						
1 adult	24	18	20	22	26	22
1 adult men	15	9	12	14	18	13
1 adult women	9	9	8	8	8	9
2 adults	15	22	28	33	40	28
3 or more adults	8	12	12	14	11	11
1 adult with children	18	8	5	2	1	7
2 adults with 1 child	7	9	12	10	9	10
2 adults with 2 children	12	15	13	11	9	12
2 adults with 3 or more children	9	7	5	3	2	5
3 or more adults with children	7	8	5	5	2	5
Household tenure						
Rented	65	40	24	17	13	32
Local authority rented	35	19	10	2	2	14
Housing association or RSL	12	8	4	2	1	5
Other rented unfurnished	7	6	4	5	4	5
Rented furnished	10	5	4	6	6	6
Rent free	1	1	1	2	1	1
Owner occupied	35	60	76	83	87	68
With mortgage	21	42	61	69	72	53
Rental purchase	0	1	0	0	0	0
Owned outright	14	18	15	14	15	15
Age of chief economic supporter						
Under 25	11	7	4	3	2	5
Over 24 and under 35	23	20	24	26	25	24
Over 34 and under 45	28	27	28	28	27	28
Over 44 and under 55	22	24	25	24	29	25
Over 54 and under 65	15	17	15	15	14	15
Over 64 and under 75	2	3	2	2	2	2
Over 74	0	2	1	0	1	1
Employment status of chief economic supporter						
Self-employed	7	8	7	8	15	9
Full-time employee	21	54	77	82	78	62
Part-time employee	15	12	9	6	5	9
Unemployed	12	3	1	1	0	4
Unoccupied and under minimum NI age	42	19	4	2	1	14
Retired/unoccupied over minimum NI age	1	4	1	1	0	1
Other	1	0	–	–	–	0

TABLE 18 (Appendix 1): Average incomes, taxes and benefits by decile groups of RETIRED households, 2000–01

	Decile groups of retired households ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>	6 768	8 394	9 546	10 564	11 662	13 172	15 164	17 906	23 123		
Number of households in the population ('000s)	639	641	640	639	641	642	637	643	641	641	6 404
Original income											
Wages and salaries	10	19	61	64	245	183	168	542	608	630	253
Imputed income from benefits in kind	–	–	–	11	–	–	–	–	1	77	9
Self-employment income	–	6	–	–	7	–	38	41	–	16	11
Occupational pensions, annuities	403	994	1 425	1 700	2 248	3 921	4 586	6 410	9 162	18 229	4 908
Investment income	279	285	320	362	445	600	1 012	1 266	2 795	9 970	1 733
Other income	1	47	38	41	119	106	73	74	113	301	91
Total	693	1 352	1 843	2 177	3 063	4 812	5 876	8 332	12 679	29 223	7 005
Direct benefits in cash											
Contributory											
Retirement pension	3 656	4 844	4 664	4 982	4 750	4 828	4 685	5 123	4 909	4 860	4 730
Job seeker's allowance (Contribution based)	–	–	41	23	–	–	17	–	–	–	8
Incapacity benefit	43	34	137	72	56	106	171	71	38	92	82
Widows' benefits	46	–	40	19	46	–	–	–	25	64	24
Statutory Maternity Pay/Allowance	–	–	–	–	–	–	–	–	–	–	–
Non-contributory											
Income support	209	363	234	120	345	229	193	486	452	89	272
Child benefit	4	17	12	2	7	4	4	–	–	7	6
Housing benefit	35	185	608	682	838	584	455	460	481	40	437
Job seeker's allowance (Income based)	–	–	–	–	17	–	2	–	–	–	2
Invalid care allowance	17	13	–	14	41	47	63	5	41	–	24
Attendance allowance	18	155	160	246	312	275	584	547	387	141	282
Disability living allowance	75	32	105	114	189	482	322	434	247	132	213
War pensions/War widows' pensions	2	6	32	15	41	102	86	46	349	149	83
Severe disablement allowance	–	–	67	55	56	11	30	48	114	10	39
Industrial injury disablement benefit	–	11	23	58	45	34	26	40	15	–	25
Student support	–	–	–	–	–	–	–	–	–	–	–
Government training schemes	–	–	–	0	–	42	–	–	–	–	4
Working Families Tax Credit	–	–	–	–	–	–	–	–	–	–	–
Other non-contributory benefits	37	66	48	41	49	51	82	58	16	16	46
Total cash benefits	4 143	5 726	6 171	6 444	6 790	6 794	6 719	7 318	7 075	5 600	6 278
Gross income	4 836	7 078	8 015	8 622	9 854	11 606	12 595	15 649	19 754	34 823	13 283
Direct taxes and Employees' NIC											
Income tax	65	98	143	178	292	585	720	1 154	1 997	5 386	1 062
<i>less: Tax relief at source¹</i>	3	3	5	3	6	3	2	10	3	11	5
Employees' NI contributions	4	0	8	1	11	4	1	29	28	41	13
Local taxes ²	848	812	776	765	764	866	815	880	1 004	1 167	870
<i>less: Council tax benefit/Rates rebates</i>	181	184	174	139	150	125	106	102	108	37	131
Total	734	723	748	802	911	1 327	1 429	1 951	2 917	6 546	1 809
Disposable income	4 102	6 354	7 267	7 820	8 943	10 278	11 167	13 698	16 836	28 277	11 474
<i>Equivalised disposable income</i>	<i>5 592</i>	<i>7 690</i>	<i>8 983</i>	<i>9 993</i>	<i>11 048</i>	<i>12 395</i>	<i>14 011</i>	<i>16 555</i>	<i>20 109</i>	<i>34 118</i>	<i>14 049</i>
Indirect taxes											
Taxes on final goods and services											
VAT	573	603	712	698	740	930	974	1 131	1 318	2 366	1 005
Duty on tobacco	63	130	234	109	105	192	165	158	68	93	132
Duty on beer and cider	13	24	32	31	21	35	40	50	33	44	32
Duty on wines & spirits	37	59	60	45	61	83	92	101	112	167	82
Duty on hydrocarbon oils	114	109	138	115	160	190	170	232	282	384	189
Vehicle excise duty	61	50	54	57	70	72	83	94	135	167	85
Television licences	84	49	50	49	45	64	51	70	56	77	59
Stamp duty on house purchase	24	19	11	14	16	19	28	24	42	111	31
Customs duties	13	15	16	15	17	20	19	23	28	43	21
Betting taxes	18	51	60	45	61	41	40	57	31	40	44
Insurance premium tax	16	14	16	14	18	20	21	27	35	67	25
Air passenger duty	2	6	3	3	9	8	7	17	14	46	11
Camelot National Lottery Fund	29	46	42	47	50	51	55	57	44	41	46
Other	2	6	3	1	2	5	2	3	16	54	9
Intermediate taxes											
Commercial and industrial rates	93	103	111	107	117	136	135	162	192	301	146
Employers' NI contributions	149	165	178	171	187	219	216	260	307	482	233
Duty on hydrocarbon oils	69	77	83	80	87	102	101	121	143	225	109
Vehicle excise duty	9	10	11	10	11	13	13	15	18	28	14
Other	73	81	88	84	92	108	106	128	151	237	115
Total indirect taxes	1 443	1 619	1 902	1 694	1 869	2 308	2 317	2 730	3 025	4 973	2 388
Post-tax income	2 659	4 736	5 365	6 125	7 073	7 970	8 849	10 968	13 811	23 304	9 086
Benefits in kind											
Education	111	125	111	9	2	37	18	34	30	32	51
National health service	3 304	3 703	3 085	3 295	3 453	3 064	3 299	3 144	3 115	3 014	3 248
Housing subsidy	25	45	62	50	74	69	57	42	40	5	47
Rail travel subsidy	3	2	4	1	0	8	1	10	4	15	5
Bus travel subsidy	58	75	67	62	63	72	55	62	57	54	62
School meals and welfare milk	1	4	3	1	0	–	–	–	–	–	1
Total	3 503	3 955	3 331	3 418	3 592	3 249	3 430	3 292	3 245	3 119	3 414
Final income	6 162	8 690	8 697	9 543	10 666	11 220	12 280	14 260	17 057	26 424	12 500

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 18A (Appendix 1): Average incomes, taxes and benefits by quintile groups of RETIRED households, 2000–01

	Quintile groups of retired households ranked by equivalised disposable income					All such households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
<i>Quintile points (equivalised £)</i>	<i>8 394</i>	<i>10 564</i>	<i>13 172</i>	<i>17 906</i>		
Number of households in the population ('000s)	1 280	1 279	1 283	1 280	1 282	6 404
Original income						
Wages and salaries	15	62	214	355	619	253
Imputed income from benefits in kind	–	5	–	–	39	9
Self-employment income	3	–	4	39	8	11
Occupational pensions, annuities	698	1 562	3 084	5 498	13 696	4 908
Investment income	282	341	522	1 139	6 382	1 733
Other income	24	39	112	74	207	91
Total	1 022	2 010	3 938	7 104	20 951	7 005
Direct benefits in cash						
Contributory						
Retirement pension	4 250	4 823	4 789	4 904	4 885	4 730
Job seeker's allowance (Contribution based)	–	32	–	9	–	8
Incapacity benefit	38	104	81	121	65	82
Widows' benefits	23	29	23	–	45	24
Statutory Maternity Pay/Allowance	–	–	–	–	–	–
Non-contributory						
Income support	286	177	287	339	270	272
Child benefit	11	7	5	2	4	6
Housing benefit	110	645	711	457	260	437
Job seeker's allowance (Income based)	–	–	8	1	–	2
Invalid care allowance	15	7	44	34	21	24
Attendance allowance	86	203	293	566	264	282
Disability living allowance	53	110	336	378	189	213
War pensions/War widows' pensions	4	24	72	66	249	83
Severe disablement allowance	–	61	33	39	62	39
Industrial injury disablement benefit	6	41	39	33	8	25
Student support	–	–	–	–	–	–
Government training schemes	–	0	21	–	–	4
Working Families Tax Credit	–	–	–	–	–	–
Other non-contributory benefits	51	45	50	70	16	46
Total cash benefits	4 934	6 308	6 792	7 018	6 337	6 278
Gross income	5 957	8 318	10 730	14 122	27 288	13 283
Direct taxes and Employees' NIC						
Income tax	82	161	439	937	3 692	1 062
less: Tax relief at source ¹	3	4	4	6	7	5
Employers' NI contributions	2	4	7	15	35	13
Local taxes ²	830	770	815	847	1 085	870
less: Council tax benefit/Rates rebates	183	156	138	104	73	131
Total	729	775	1 119	1 690	4 732	1 809
Disposable income	5 228	7 543	9 610	12 432	22 557	11 474
<i>Equivalised disposable income</i>	<i>6 641</i>	<i>9 488</i>	<i>11 721</i>	<i>15 283</i>	<i>27 113</i>	<i>14 049</i>
Indirect taxes						
Taxes on final goods and services						
VAT	588	705	835	1 052	1 842	1 005
Duty on tobacco	96	171	149	162	81	132
Duty on beer and cider	18	31	28	45	39	32
Duty on wines & spirits	48	53	72	97	139	82
Duty on hydrocarbon oils	112	126	175	201	333	189
Vehicle excise duty	56	56	71	89	151	85
Television licences	66	49	55	60	66	59
Stamp duty on house purchase	21	13	17	26	77	31
Customs duties	14	16	18	21	36	21
Betting taxes	35	52	51	48	36	44
Insurance premium tax	15	15	19	24	51	25
Air passenger duty	4	3	8	12	30	11
Camelot National Lottery Fund	38	45	50	56	42	46
Other	4	2	3	2	35	9
Intermediate taxes						
Commercial and industrial rates	98	109	127	149	246	146
Employers' NI contributions	157	174	203	238	394	233
Duty on hydrocarbon oils	73	82	95	111	184	109
Vehicle excise duty	9	10	12	14	23	14
Other	77	86	100	117	194	115
Total indirect taxes	1 531	1 798	2 089	2 524	3 999	2 388
Post-tax income	3 697	5 745	7 522	9 909	18 558	9 086
Benefits in kind						
Education	118	60	20	26	31	51
National health service	3 503	3 190	3 258	3 222	3 065	3 248
Housing subsidy	35	56	71	49	22	47
Rail travel subsidy	3	2	4	5	9	5
Bus travel subsidy	67	64	67	59	55	62
School meals and welfare milk	3	2	0	0	–	1
Total	3 729	3 375	3 421	3 361	3 182	3 414
Final income	7 426	9 120	10 943	13 270	21 740	12 500

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 19 (Appendix 1): Household characteristics of decile groups of RETIRED households, 2000–01

	Decile groups of retired households ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	1.3	1.6	1.5	1.4	1.5	1.6	1.5	1.5	1.6	1.6	1.5
<i>Adults</i>	1.3	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.5
<i>Men</i>	0.5	0.6	0.6	0.5	0.6	0.7	0.6	0.7	0.7	0.8	0.6
<i>Women</i>	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.8	0.9
<i>Children</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0	0.0
Economically active people	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Retired people	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.4
People in full-time education	0.02	0.04	0.03	0.00	0.00	0.01	0.01	0.01	0.01	0.02	0.01
Composition (percentages)											
Household type											
Retired											
1 adult	71	51	55	57	54	48	57	50	47	44	53
1 adult men	14	12	14	10	13	13	17	17	11	20	14
1 adult women	57	39	42	47	41	35	40	33	35	24	39
2 or more adults	29	49	45	43	46	52	43	50	53	56	47
Household tenure											
Rented											
Local authority rented	11	23	34	27	30	22	19	19	13	2	20
Housing association or RSL	3	3	7	11	13	7	7	5	6	2	6
Other rented unfurnished	2	2	4	3	3	4	2	2	2	-	3
Rented furnished	1	1	1	2	1	2	1	-	1	-	1
Rent free	-	1	2	3	3	4	2	1	1	2	2
Owner occupied											
With mortgage	2	4	3	3	4	7	4	4	5	11	5
Rental purchase	-	-	-	-	-	-	-	-	-	-	-
Owned outright	81	66	48	52	46	53	65	69	70	83	63
Age of chief economic supporter											
Under 25	-	-	-	-	-	-	-	-	-	-	-
Over 24 and under 35	-	-	-	-	-	-	-	-	-	-	-
Over 34 and under 45	-	-	-	-	-	-	-	-	-	-	-
Over 44 and under 55	0	1	1	0	1	1	2	1	1	2	1
Over 54 and under 65	14	8	10	7	10	16	13	12	14	16	12
Over 64 and under 75	28	38	47	43	41	47	43	47	44	48	43
Over 74	58	53	42	49	49	36	43	41	40	34	44
Employment status of chief economic supporter											
Self-employed	-	-	-	-	-	-	1	-	-	-	0
Full-time employee	-	-	-	-	-	-	0	-	-	-	0
Part-time employee	-	0	-	-	1	1	-	-	-	-	0
Unemployed	1	-	-	-	-	-	-	-	-	-	0
Unoccupied and under minimum NI age	8	6	6	3	7	8	10	8	12	15	8
Retired/unoccupied over minimum NI age	91	94	94	97	93	91	90	92	88	85	90

TABLE 19A (Appendix 1): Household characteristics of quintile groups of RETIRED households, 2000–01

	Quintile groups of retired households ranked by equivalised disposable income					All such households
	Bottom	2nd	3rd	4th	Top	
Average per household (number)						
People	1.4	1.5	1.5	1.5	1.6	1.5
<i>Adults</i>	1.4	1.5	1.5	1.5	1.6	1.5
<i>Men</i>	0.5	0.6	0.6	0.7	0.7	0.6
<i>Women</i>	0.9	0.9	0.9	0.8	0.9	0.9
<i>Children</i>	0.0	0.0	0.0	0.0	0.0	0.0
Economically active people	0.0	0.0	0.0	0.1	0.1	0.0
Retired people	1.3	1.4	1.4	1.4	1.5	1.4
People in full-time education	0.03	0.01	0.01	0.01	0.01	0.01
Composition (percentages)						
Household type						
Retired						
1 adult	61	56	51	54	45	53
1 adult men	13	12	13	17	16	14
1 adult women	48	44	38	37	29	39
2 or more adults	39	44	49	46	55	47
Household tenure						
Rented						
Local authority rented	17	31	26	19	8	20
Housing association or RSL	3	9	10	6	4	6
Other rented unfurnished	2	4	4	2	1	3
Rented furnished	1	1	1	1	1	1
Rent free	0	2	4	2	8	2
Owner occupied						
With mortgage	3	3	6	4	8	5
Rental purchase	–	–	–	–	–	–
Owned outright	74	50	50	67	77	63
Age of chief economic supporter						
Under 25	–	–	–	–	–	–
Over 24 and under 35	–	–	–	–	–	–
Over 34 and under 45	–	–	–	–	–	–
Over 44 and under 55	1	1	1	1	1	1
Over 54 and under 65	11	9	13	12	15	12
Over 64 and under 75	33	45	44	45	46	43
Over 74	55	45	42	42	37	44
Employment status of chief economic supporter						
Self-employed	–	–	–	0	–	0
Full-time employee	–	–	–	0	–	0
Part-time employee	0	–	1	–	–	0
Unemployed	1	–	–	–	–	0
Unoccupied and under minimum NI age	7	4	7	9	13	8
Retired/unoccupied over minimum NI age	93	96	92	91	87	92

TABLE 20 (Appendix 1): Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITHOUT CHILDREN, 2000–01

	Decile groups of non-retired households without children ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>	9 111	12 267	15 071	18 114	20 694	23 739	27 418	32 597	41 714		
Number of households in the population ('000s)	1 132	1 136	1 136	1 133	1 138	1 135	1 133	1 140	1 134	1 136	11 352
Original income											
Wages and salaries	2 132	5 042	10 664	16 413	21 048	24 084	26 990	30 883	38 581	53 784	22 962
Imputed income from benefits in kind	24	28	45	69	84	223	388	462	887	2 024	423
Self-employment income	213	923	842	809	1 611	2 019	1 850	2 827	3 984	13 054	2 813
Occupational pensions, annuities	155	676	850	814	661	1 677	1 089	1 340	1 709	2 074	1 104
Investment income	126	257	270	500	413	596	636	1 081	1 402	3 319	860
Other income	259	87	77	71	126	336	83	67	216	86	141
Total	2 909	7 013	12 748	18 677	23 945	28 935	31 037	36 660	46 778	74 341	28 304
Direct benefits in cash											
Contributory											
Retirement pension	222	780	924	494	295	665	242	272	290	324	451
Job seeker's allowance (Contribution based)	121	99	60	41	15	12	2	18	4	5	38
Incapacity benefit	748	1 051	939	333	157	267	108	91	31	11	374
Widows' benefits	100	85	137	115	43	23	70	35	7	67	68
Statutory Maternity Pay/Allowance	–	–	1	–	1	–	4	–	10	4	2
Non-contributory											
Income support	596	790	505	165	56	106	27	9	7	–	226
Child benefit	6	–	6	8	18	16	16	–	11	–	8
Housing benefit	843	858	453	148	87	57	46	8	–	–	250
Job seeker's allowance (Income based)	346	132	96	49	36	3	1	1	3	1	67
Invalid care allowance	37	81	54	37	22	15	3	10	–	–	26
Attendance allowance	16	19	65	27	19	38	11	–	–	–	19
Disability living allowance	119	563	574	262	131	177	66	46	33	45	202
War pensions/War widows' pensions	5	1	1	1	9	–	10	18	–	–	5
Severe disablement allowance	33	131	83	84	4	14	–	–	–	–	35
Industrial injury disablement benefit	32	44	49	27	4	19	4	–	–	–	18
Student support	170	71	39	32	8	64	198	15	82	25	70
Government training schemes	32	14	5	60	13	3	14	19	2	14	18
Working Families Tax Credit	–	–	–	21	6	–	–	–	–	–	3
Other non-contributory benefits	34	18	13	23	1	4	5	1	1	4	10
Total cash benefits	3 461	4 739	4 005	1 927	927	1 482	826	544	481	501	1 889
Gross income	6 369	11 752	16 753	20 604	24 872	30 417	31 863	37 204	47 260	74 841	30 194
Direct taxes and Employees' NIC											
Income tax	214	736	1 519	2 253	3 250	3 975	4 535	5 757	7 755	14 210	4 420
less: Tax relief at source ¹	3	5	5	4	4	5	6	5	10	11	6
Employees' NI contributions	131	302	652	1 022	1 368	1 594	1 767	2 086	2 418	2 423	1 376
Local taxes ²	671	782	782	800	842	886	881	908	997	1 137	869
less: Council tax benefit/Rates rebates	236	188	103	38	30	23	23	25	12	16	69
Total	776	1 627	2 845	4 034	5 425	6 427	7 154	8 721	11 149	17 743	6 590
Disposable income	5 593	10 125	13 908	16 570	19 446	23 991	24 709	28 483	36 111	57 098	23 603
Equivalised disposable income	6 189	10 720	13 642	16 532	19 450	22 137	25 492	29 896	36 548	60 867	24 147
Indirect taxes											
Taxes on final goods and services											
VAT	1 064	1 154	1 472	1 603	1 898	2 143	2 141	2 331	2 814	3 192	1 981
Duty on tobacco	287	301	419	374	339	374	318	336	332	198	328
Duty on beer and cider	101	96	132	154	159	160	170	193	163	169	150
Duty on wines & spirits	105	80	90	117	153	171	179	189	198	274	156
Duty on hydrocarbon oils	207	297	337	441	488	582	600	600	733	696	498
Vehicle excise duty	61	76	102	131	146	183	171	174	181	173	140
Television licences	98	92	94	107	102	105	103	101	96	107	101
Stamp duty on house purchase	24	22	30	46	46	59	84	86	111	192	70
Customs duties	21	24	29	33	38	43	42	46	55	65	40
Betting taxes	52	47	90	57	76	110	60	64	84	51	69
Insurance premium tax	13	18	25	28	36	43	40	42	57	72	38
Air passenger duty	5	7	7	13	16	19	15	27	49	66	22
Camelot National Lottery Fund	45	55	78	66	78	85	73	77	57	52	67
Other	3	21	12	10	13	5	8	22	19	24	14
Intermediate taxes											
Commercial and industrial rates	149	167	204	227	263	300	293	319	379	454	275
Employers' NI contributions	239	267	326	363	422	480	470	511	607	727	441
Duty on hydrocarbon oils	112	125	152	170	197	224	219	239	284	340	206
Vehicle excise duty	14	16	19	21	25	28	28	30	36	43	26
Other	118	132	161	179	208	236	231	252	299	358	217
Total indirect taxes	2 717	2 998	3 780	4 141	4 703	5 350	5 247	5 639	6 553	7 251	4 838
Post-tax income	2 876	7 127	10 127	12 429	14 743	18 641	19 462	22 844	29 558	49 847	18 765
Benefits in kind											
Education	1 837	597	237	418	307	536	273	86	305	179	477
National health service	1 088	1 478	1 557	1 286	1 279	1 471	1 126	1 160	1 216	1 122	1 278
Housing subsidy	91	75	54	52	30	9	12	19	12	3	36
Rail travel subsidy	16	16	17	23	36	36	27	37	33	68	31
Bus travel subsidy	20	26	25	22	19	18	16	10	6	10	17
School meals and welfare milk	–	–	–	–	–	–	–	–	–	–	–
Total	3 051	2 192	1 890	1 801	1 670	2 070	1 454	1 312	1 572	1 382	1 839
Final income	5 927	9 319	12 017	14 230	16 413	20 711	20 916	24 157	31 130	51 229	20 605

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 21 (Appendix 1): Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITH CHILDREN, 2000–01

	Decile groups of non-retired households with children ranked by equivalised disposable income										All such households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>	7 568	9 350	11 292	13 230	15 486	17 609	20 556	24 321	31 354		
Number of households in the population ('000s)	724	729	727	728	728	725	726	731	726	729	7 274
Original income											
Wages and salaries	2 364	4 940	10 204	14 548	19 277	23 971	27 835	34 238	42 362	55 095	23 483
Imputed income from benefits in kind	–	26	58	82	100	473	529	902	1 107	2 233	551
Self-employment income	865	647	1 651	1 752	2 289	2 064	2 215	2 987	4 303	24 319	4 309
Occupational pensions, annuities	13	44	20	146	387	177	206	353	418	429	219
Investment income	128	121	41	172	293	254	280	615	1 462	3 698	706
Other income	91	187	302	295	247	419	728	327	316	470	338
Total	3 461	5 965	12 276	16 994	22 592	27 359	31 792	39 422	49 968	86 245	29 607
Direct benefits in cash											
Contributory											
Retirement pension	48	115	8	48	129	9	33	47	53	83	57
Job seeker's allowance (Contribution based)	147	55	10	44	7	10	7	–	5	6	29
Incapacity benefit	371	296	277	284	322	31	133	38	21	–	177
Widows' benefits	33	–	82	36	57	76	44	8	18	22	38
Statutory Maternity Pay/Allowance	11	3	14	22	103	124	121	121	147	236	90
Non-contributory											
Income support	1 759	2 522	1 426	748	308	159	30	50	16	7	703
Child benefit	1 327	1 328	1 353	1 220	1 223	1 163	1 106	1 109	1 031	1 061	1 192
Housing benefit	1 066	1 496	1 036	599	190	119	38	–	–	–	454
Job seeker's allowance (Income based)	521	210	44	40	3	2	9	10	3	9	85
Invalid care allowance	48	65	135	128	45	40	19	16	–	–	50
Attendance allowance	–	–	–	19	40	5	–	–	15	–	8
Disability living allowance	220	261	263	344	287	132	79	67	29	21	170
War pensions/War widows' pensions	–	7	6	–	10	–	7	6	57	–	9
Severe disablement allowance	15	24	75	65	33	27	12	10	12	–	27
Industrial injury disablement benefit	13	–	–	15	–	37	10	14	–	–	9
Student support	101	43	47	88	87	31	75	23	132	27	65
Government training schemes	97	12	42	30	18	3	–	13	–	–	21
Working Families Tax Credit	375	655	698	581	532	336	155	117	50	14	351
Other non-contributory benefits	12	28	7	4	3	0	35	0	10	0	10
Total cash benefits	6 164	7 121	5 522	4 315	3 395	2 303	1 914	1 650	1 598	1 488	3 547
Gross income	9 625	13 086	17 798	21 309	25 988	29 662	33 706	41 073	51 566	87 733	33 154
Direct taxes and Employees' NIC											
Income tax	498	637	1 505	2 094	2 832	3 723	4 481	6 190	8 911	16 714	4 759
less: Tax relief at source ¹	1	2	1	3	4	2	3	4	5	5	3
Employees' NI contributions	167	304	644	910	1 189	1 549	1 809	2 231	2 475	2 431	1 371
Local taxes ²	836	820	833	850	919	927	996	1 066	1 153	1 346	975
less: Council tax benefit/Rates rebates	329	274	173	109	32	20	25	27	10	16	101
Total	1 172	1 486	2 808	3 743	4 904	6 176	7 259	9 457	12 525	20 470	7 000
Disposable income	8 452	11 600	14 990	17 566	21 084	23 486	26 447	31 615	39 041	67 263	26 155
<i>Equivalised disposable income</i>	<i>5 777</i>	<i>8 536</i>	<i>10 347</i>	<i>12 260</i>	<i>14 390</i>	<i>16 459</i>	<i>18 958</i>	<i>22 388</i>	<i>27 323</i>	<i>48 889</i>	<i>18 533</i>
Indirect taxes											
Taxes on final goods and services											
VAT	1 244	1 276	1 573	1 854	2 004	2 301	2 382	2 768	3 412	4 239	2 305
Duty on tobacco	418	471	487	409	405	333	259	269	174	196	342
Duty on beer and cider	52	66	83	106	106	138	106	137	148	131	107
Duty on wines & spirits	55	56	72	70	113	122	106	153	175	250	117
Duty on hydrocarbon oils	305	306	398	467	546	653	666	734	739	900	571
Vehicle excise duty	82	81	104	130	152	178	180	200	208	210	152
Television licences	98	107	132	117	102	116	119	105	109	105	111
Stamp duty on house purchase	45	24	29	42	56	74	79	98	127	287	86
Customs duties	28	27	33	38	43	49	51	57	68	87	48
Betting taxes	34	30	46	58	50	59	54	81	50	47	51
Insurance premium tax	18	16	23	30	36	45	44	52	55	76	40
Air passenger duty	7	3	26	10	20	16	15	35	28	64	22
Camelot National Lottery Fund	42	47	58	73	67	72	65	76	59	51	61
Other	7	9	19	11	22	32	28	5	15	8	16
Intermediate taxes											
Commercial and industrial rates	191	185	232	266	301	339	350	396	469	605	333
Employers' NI contributions	306	296	372	426	482	543	561	634	752	969	534
Duty on hydrocarbon oils	143	138	174	199	225	254	262	296	351	453	250
Vehicle excise duty	18	17	22	25	28	32	33	37	44	57	31
Other	151	146	183	210	237	267	276	312	370	477	263
Total indirect taxes	3 245	3 300	4 066	4 542	4 997	5 622	5 636	6 444	7 353	9 214	5 442
Post-tax income	5 207	8 300	10 925	13 024	16 087	17 864	20 811	25 171	31 688	58 050	20 713
Benefits in kind											
Education	5 123	4 231	4 519	4 227	4 336	3 963	3 282	3 335	3 141	2 447	3 860
National health service	2 544	2 418	2 624	2 533	2 495	2 386	2 387	2 396	2 411	2 482	2 467
Housing subsidy	112	129	101	44	45	27	27	9	4	6	50
Rail travel subsidy	16	13	9	17	30	24	36	32	51	90	32
Bus travel subsidy	29	15	20	24	26	21	17	19	11	14	19
School meals and welfare milk	276	263	147	73	24	20	4	9	7	4	83
Total	8 099	7 069	7 420	6 917	6 956	6 441	5 753	5 800	5 625	5 044	6 512
Final income	13 306	15 369	18 344	19 941	23 043	24 305	26 564	30 971	37 314	63 094	27 225

1 On life assurance premiums.

2 Council tax, domestic rates and water charges after deducting discounts.

TABLE 22 (Appendix 1): Distribution of households¹ by household type, 2000–01

	Retired households				Non-Retired households			All households
	1 adult Men	1 adult Women	All 1 adult	2 or more adults	1 adult Men	1 adult Women	All 1 adult	
Decile groups of households ranked by equivalised disposable income								
Number of households ('000s)								
Bottom	126	525	651	350	260	137		398
2nd	140	435	575	502	192	107		299
3rd	127	481	608	494	147	147		294
4th	136	335	471	434	139	144		282
5th	128	242	371	307	155	195		350
6th	62	208	270	317	216	159		375
7th	42	112	154	184	260	155		416
8th	42	81	123	186	305	184		489
9th	61	47	108	140	369	194		563
Top	37	49	86	75	451	161		612
All households in population ('000s)	900	2 516	3 416	2 988	2 494	1 583		4 077
Non-Retired households								
	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
Decile groups of households ranked by equivalised disposable income								
Number of households ('000s)								
Bottom	186	110	230	116	221	151	90	2 501
2nd	241	100	322	97	106	124	139	2 503
3rd	250	140	185	108	179	128	117	2 502
4th	384	178	149	132	245	98	132	2 504
5th	380	256	120	225	282	108	102	2 501
6th	499	199	106	236	279	92	130	2 502
7th	656	347	60	242	237	95	116	2 506
8th	711	304	59	256	234	59	82	2 503
9th	859	271	33	201	212	41	72	2 500
Top	986	220	25	206	232	32	33	2 506
All households in population ('000s)	5 151	2 124	1 288	1 819	2 227	927	1 013	25 030

¹ 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 type¹, 2000-01

	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
Average per household (£ per year)							
Original income	6 346	3 221	4 045	10 389	17 840	13 839	16 286
<i>plus</i> Cash benefits	4 792	5 564	5 361	7 326	1 514	1 997	1 702
Gross income	11 139	8 785	9 405	17 716	19 354	15 836	17 988
<i>less</i> Direct taxes and employees' NIC	1 741	1 021	1 211	2 493	4 387	3 498	4 042
Disposable income	9 398	7 764	8 195	15 223	14 967	12 337	13 946
<i>Equivalised disposable income</i>	<i>15 407</i>	<i>12 721</i>	<i>13 429</i>	<i>14 759</i>	<i>24 536</i>	<i>20 225</i>	<i>22 862</i>
<i>less</i> Indirect taxes	1 903	1 273	1 439	3 473	2 893	2 618	2 786
Post-tax income	7 495	6 491	6 756	11 750	12 074	9 719	11 160
<i>plus</i> Benefits in kind	2 454	3 015	2 867	4 038	791	837	809
Final income	9 949	9 507	9 623	15 788	12 865	10 556	11 968

	Non-Retired households							
	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 house- holds
Average per household (£ per year)								
Original income	32 643	40 854	8 456	32 734	36 241	30 222	35 745	23 234
<i>plus</i> Cash benefits	1 649	2 832	6 059	2 022	2 629	4 486	4 249	3 494
Gross income	34 292	43 687	14 515	34 756	38 870	34 708	39 993	26 727
<i>less</i> Direct taxes and employees' NIC	7 708	8 771	1 817	7 852	8 690	7 327	8 046	5 486
Disposable income	26 584	34 916	12 698	26 904	30 181	27 381	31 947	21 242
<i>Equivalised disposable income</i>	<i>25 950</i>	<i>22 243</i>	<i>12 996</i>	<i>21 958</i>	<i>20 906</i>	<i>15 796</i>	<i>16 712</i>	<i>19 932</i>
<i>less</i> Indirect taxes	5 350	7 534	2 831	5 507	5 870	5 563	7 593	4 387
Post-tax income	21 233	27 382	9 868	21 397	24 310	21 818	24 354	16 855
<i>plus</i> Benefits in kind	1 680	4 205	5 581	4 079	6 459	10 485	8 546	3 600
Final income	22 913	31 587	15 449	25 476	30 770	32 302	32 900	20 455

¹ 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), 2000–01

	Decile groups of all households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
<i>Decile points (equivalised £)</i>	6 125	8 467	10 874	13 611	16 884	20 232	24 688	30 389	40 202		
Number of households in the population ('000s)	2 498	2 505	2 503	2 503	2 503	2 505	2 503	2 501	2 503	2 506	25 030
Original income											
Wages and salaries	445	1 069	3 081	5 919	10 573	15 068	19 835	26 736	35 525	54 786	17 304
Imputed income from benefits in kind	19	4	11	16	91	114	242	394	758	1 893	354
Self-employment income	109	178	346	702	808	1 201	1 930	2 313	3 026	14 698	2 531
Occupational pensions, annuities	409	947	1 448	1 930	2 072	2 193	2 431	2 345	1 999	2 428	1 820
Investment income	212	256	366	470	616	992	816	1 159	1 702	3 799	1 039
Other income	66	101	132	149	255	170	302	134	378	168	186
Total	1 260	2 555	5 384	9 186	14 415	19 739	25 556	33 081	43 389	77 773	23 234
Direct benefits in cash											
Contributory											
Retirement pension	2 115	2 539	2 439	1 974	1 575	1 179	955	635	517	384	1 431
Job seeker's allowance (Contribution based)	42	37	28	45	42	46	10	6	8	13	28
Incapacity benefit	278	396	298	365	308	330	169	184	63	28	242
Widows' benefits	58	46	93	49	39	33	47	69	20	26	48
Statutory Maternity Pay/Allowance	0	2	4	4	15	32	62	36	55	61	27
Non-contributory											
Income support	396	825	830	671	412	296	201	88	32	11	376
Child benefit	74	208	250	289	340	451	484	457	484	480	352
Housing benefit	532	1 030	797	628	295	175	79	35	1	–	357
Job seeker's allowance (Income based)	110	50	115	106	54	50	26	25	8	12	56
Invalid care allowance	12	19	17	45	70	83	37	17	21	2	32
Attendance allowance	56	130	216	164	92	57	58	25	31	4	83
Disability living allowance	60	150	254	359	365	317	180	137	80	52	195
War pensions/War widows' pensions	6	1	13	91	77	6	26	8	17	15	26
Severe disablement allowance	14	20	53	40	80	33	54	33	10	3	34
Industrial injury disablement benefit	4	20	33	27	28	32	11	9	3	3	17
Student support	23	18	56	30	28	42	38	33	144	97	51
Government training schemes	10	6	19	26	26	12	6	17	11	21	15
Working Families Tax Credit	8	34	101	236	238	177	120	71	40	9	103
Other non-contributory benefits	17	32	31	30	40	9	5	6	21	3	20
Total cash benefits	3 817	5 561	5 645	5 178	4 125	3 362	2 568	1 889	1 566	1 226	3 494
Gross income	5 078	8 116	11 028	14 364	18 540	23 101	28 125	34 970	44 955	78 999	26 727
Direct taxes and Employees' NIC											
Income tax	131	242	604	1 164	1 881	2 689	3 572	4 900	7 078	14 335	3 660
<i>less: Tax relief at source¹</i>	2	2	4	4	2	4	5	5	7	11	5
Employees' NI contributions	38	55	199	366	681	980	1 284	1 711	2 218	2 725	1 026
Local taxes ²	703	716	763	819	819	887	953	1 010	1 056	1 271	900
<i>less: Council tax benefit/Rates rebates</i>	199	215	162	134	78	58	36	25	18	19	94
Total	670	796	1 400	2 211	3 301	4 494	5 767	7 590	10 328	18 302	5 486
Disposable income	4 407	7 320	9 628	12 153	15 239	18 607	22 357	27 380	34 627	60 697	21 242
Indirect taxes											
Taxes on final goods and services											
VAT	617	693	929	1 252	1 495	1 810	2 085	2 402	2 899	4 073	1 826
Duty on tobacco	145	211	274	242	337	323	325	321	305	336	282
Duty on beer and cider	33	35	57	72	107	118	123	143	164	222	107
Duty on wines & spirits	52	48	64	87	102	126	126	159	194	298	126
Duty on hydrocarbon oils	104	122	204	306	358	472	557	646	729	906	440
Vehicle excise duty	42	49	75	95	114	135	168	191	202	224	129
Television licences	71	71	85	94	94	104	102	100	103	106	93
Stamp duty on house purchase	21	17	27	32	42	49	75	83	106	196	65
Customs duties	14	16	20	26	31	37	43	49	58	80	37
Betting taxes	30	30	51	52	59	67	76	61	65	84	57
Insurance premium tax	11	12	18	22	27	35	42	48	55	78	35
Air passenger duty	4	5	4	9	11	18	18	30	36	62	20
Camelot National Lottery Fund	26	37	49	59	64	72	70	78	71	72	60
Other	2	4	12	7	7	19	15	23	12	31	13
Intermediate taxes											
Commercial and industrial rates	100	108	140	180	216	255	295	340	404	553	259
Employers' NI contributions	161	173	224	288	347	408	472	545	647	886	415
Duty on hydrocarbon oils	75	81	105	135	162	191	221	255	302	414	194
Vehicle excise duty	9	10	13	17	20	24	28	32	38	52	24
Other	79	85	110	142	171	201	232	268	319	436	204
Total indirect taxes	1 596	1 808	2 459	3 117	3 765	4 463	5 071	5 773	6 706	9 109	4 387
Post-tax income	2 812	5 512	7 169	9 036	11 474	14 144	17 287	21 606	27 921	51 588	16 855
Benefits in kind											
Education	650	698	893	1 072	1 423	1 661	1 769	1 641	1 861	1 846	1 351
National health service	2 088	2 284	2 332	2 302	2 055	2 124	2 101	1 933	2 060	1 997	2 128
Housing subsidy	58	93	77	64	45	36	18	13	15	9	43
Rail travel subsidy	7	6	10	10	19	15	25	28	53	71	24
Bus travel subsidy	34	42	43	37	31	26	24	23	18	17	29
School meals and welfare milk	10	43	54	41	35	29	17	4	4	4	24
Total	2 846	3 167	3 409	3 528	3 608	3 892	3 955	3 643	4 011	3 943	3 600
Final income	5 658	8 679	10 578	12 564	15 082	18 035	21 242	25 249	31 932	55 531	20 455

¹ On life assurance premiums.

² Council tax, domestic rates and water charges after deducting discounts.

TABLE 25 (Appendix 1): Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2000–01

(i) Quintile groups	Quintile groups of equivalised disposable income					All households					
	Bottom	2nd	3rd	4th	Top						
Number of households in the population ('000s)											
Quintile groups of unadjusted disposable income											
Bottom	3 252	1 720	31	–	–	5 003					
2nd	1 387	1 662	1 387	570	–	5 006					
3rd	336	1 256	1 955	922	538	5 008					
4th	29	344	1 388	2 241	1 001	5 004					
Top	–	24	242	1 276	3 467	5 009					
All households	5 005	5 007	5 003	5 009	5 007	25 030					
(ii) Decile groups	Decile groups of equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Number of households in the population ('000s)											
Decile groups of unadjusted disposable income											
Bottom	1 458	879	161	–	–	–	–	–	–	–	2 498
2nd	578	338	803	756	31	–	–	–	–	–	2 505
3rd	222	711	447	61	693	369	–	–	–	–	2 503
4th	187	267	455	699	46	279	570	–	–	–	2 503
5th	42	184	349	335	688	216	4	612	73	–	2 503
6th	13	96	161	412	322	728	294	13	466	–	2 505
7th	–	27	101	161	424	348	728	397	135	182	2 503
8th	–	2	19	63	235	381	434	682	437	247	2 501
9th	–	–	6	17	53	164	412	571	821	458	2 503
Top	–	–	–	–	8	17	65	228	568	1 620	2 506
All households	2 501	2 503	2 502	2 504	2 501	2 502	2 506	2 503	2 500	2 506	25 030

TABLE 26 (Appendix 1): Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for ALL households¹, 1978 to 2000-01²

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Original income												
Bottom	3	2	2	3	3	3	3	2	3	2	2	2
2nd	10	10	9	9	8	8	7	7	7	7	7	7
3rd	18	18	18	17	17	17	17	17	16	16	16	16
4th	26	27	26	26	26	26	26	27	26	25	26	26
Top	43	43	44	46	46	47	47	47	49	50	50	49
All households	100	100	100	100	100	100	100	100	100	100	100	100
Gross income												
Bottom	9	9	8	8	9	9	9	8	8	7	7	7
2nd	13	13	12	12	12	12	12	12	11	11	11	11
3rd	18	18	18	17	17	17	17	17	16	16	16	16
4th	23	24	23	23	23	23	23	24	23	23	23	23
Top	37	37	38	39	39	39	39	40	41	43	43	42
All households	100	100	100	100	100	100	100	100	100	100	100	100
Disposable income												
Bottom	10	9	9	9	9	9	10	9	9	8	8	8
2nd	14	13	13	13	13	13	13	13	12	12	11	12
3rd	18	18	18	17	17	17	17	17	17	16	16	17
4th	23	23	23	23	23	23	23	23	23	23	23	23
Top	35	36	37	38	37	38	37	38	40	41	42	41
All households	100	100	100	100	100	100	100	100	100	100	100	100
Post-tax income												
Bottom	10	10	9	9	9	9	9	9	8	8	7	7
2nd	14	13	13	13	13	13	13	13	12	12	11	11
3rd	18	18	17	17	17	17	17	17	16	16	16	16
4th	23	23	23	22	22	22	22	23	22	22	22	23
Top	36	37	38	39	39	39	38	39	41	43	44	43
All households	100	100	100	100	100	100	100	100	100	100	100	100
	1990	1991	1992	1993	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Original income												
Bottom	2	2	2	2	2	2	3	2	2	3	2	2
2nd	7	7	6	6	6	6	7	7	7	7	7	7
3rd	15	16	15	15	14	15	15	15	15	15	15	15
4th	25	26	26	25	25	25	25	25	25	25	25	25
Top	51	50	50	52	52	51	50	51	51	52	52	50
All households	100	100	100	100	100	100	100	100	100	100	100	100
Gross income												
Bottom	7	7	7	7	7	7	7	7	7	7	7	6
2nd	10	10	11	11	11	11	11	11	11	11	11	11
3rd	16	16	16	16	16	16	16	16	16	16	16	16
4th	23	23	23	23	23	23	23	23	23	23	23	23
Top	44	44	43	44	44	43	43	44	44	44	44	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
Disposable income												
Bottom	7	7	7	8	8	8	8	8	8	7	7	7
2nd	11	11	11	12	12	12	12	12	12	12	12	12
3rd	16	16	16	16	16	16	17	16	16	16	16	16
4th	23	23	23	23	23	23	23	23	23	23	23	23
Top	43	42	42	42	42	41	40	42	42	42	42	42
All households	100	100	100	100	100	100	100	100	100	100	100	100
Post-tax income												
Bottom	6	7	7	7	7	7	7	7	7	6	6	6
2nd	10	11	11	11	11	11	12	11	11	11	11	11
3rd	15	16	16	16	16	16	16	16	16	16	16	16
4th	23	23	23	22	22	22	23	22	22	22	22	22
Top	45	44	44	44	44	43	43	44	44	45	45	44
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/P25¹ ratios for disposable income for ALL households, 1978 to 2000–01²

	Gini coefficients (per cent)				Ratios for disposable income	
	Equivalised income				P90/P10	P75/P25
	Original	Gross	Disposable	Post-tax		
1978	43	29	26	28	3.2	1.9
1979	44	30	27	29	3.3	2.0
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

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 Family Expenditure Survey (FES). 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.

Family Expenditure Survey (FES)

2. The estimates in this article are based mainly on data derived from the FES. The FES 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. The Family Expenditure Survey has been replaced by the new Expenditure and Food Survey from 2001–02 but the analysis in this article uses the 2000–01 FES.

3. One of the main purposes of the FES 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 the Social Survey Division of ONS and by the Northern Ireland Statistics and Research Agency. *Family Spending 2000–2001*, published by The Stationery Office in January 2002, shows detailed results on expenditure and income from the 2000–2001 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 FES in 2000–01 was 6,600 (about 1 in every 3,800 households). The response rate was 58 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 article 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.

6. The FES 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 (e.g. investment income over the previous 12 months). FES income does not include proceeds from the sale of assets (e.g. 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 in the article is the household, and not the family, individual or benefit unit. A household is defined in the FES from 2000–01 onwards 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 till 1999–2000 the FES 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 was comprising people who live at the same address and who share common catering for at least one meal a day. The effect of the change is 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** (i.e. 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 (4 in 2000–01) where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (e.g. 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 local taxes (see paragraph 25 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, i.e. 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 Inland Revenue statistics. The benefit is taken to be the taxable income in accordance with Inland Revenue scale charges. *Inland Revenue Statistics 2001* 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 FES. 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 FES.

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 FES 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 FES 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 local taxes), invalid care allowance, attendance allowance, disability living allowance, disabled persons tax credit, war pensions, severe disablement allowance, industrial injury disablement benefits, working families tax credit, old persons pension, Christmas bonus for pensioners, government training scheme allowances, educational support (largely student maintenance awards).

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

22. 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.

23. Income tax, local taxes 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 FES.

24. The figures for local taxes include:

- Council tax (for households in Great Britain);
- domestic rates (for households in Northern Ireland);
- and charges made by water authorities for water, environmental and sewerage services.

25. Council tax is shown after deduction of transitional relief and discounts to reduce or remove the personal element of the tax (e.g. the discount of 25 per cent for single person households). All local taxes are shown after the deduction of council tax benefit and rates rebates. This brings the treatment in line with that of National Accounts which treats such rebates as revenue foregone. Up to and including 1995–96 these rebates were included as part of housing benefits.

26. 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 relief obtained 'at source'. In 2000–01 there was only one type of tax relief obtained in this way: life assurance premium relief. Where households are eligible for these reliefs, imputations are made and deducted from recorded income tax payments.

27. 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

28. Taxes levied on final goods and services are assumed to be fully incident on the consumer, and can be imputed from a household's FES 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.

29. 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 FES 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 FES.

30. 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 FES) and the probability of a household of that type moving in a given year (estimated from the General Household Survey).

31. 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

32. 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 article, 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, e.g. 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.

33. For Tables 2 and 9 of the main article, we have constructed a measure of expenditure on goods and services from data from the FES. 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.

34. 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.

35. 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)

36. 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 FES as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

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

38. 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 FES 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.

39. In this article 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.

40. 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 provincial services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the FES. 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.

41. In this article, 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.

42. We must emphasise that the analysis in this article 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.

43. 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.

44. 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.

45. 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

46. 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 are based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the FES 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 now 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.

47. The equivalence values are given below:

<u>Type of household member</u>	<u>Equivalence value</u>
<u>Married head of household</u>	
(i.e. a married or cohabiting couple)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
<u>Single head of household</u>	
(adult)	0.61
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
<u>Child aged:</u>	
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

48. 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 ($=£20,000/1.86$).

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

50. It is important to note that most monetary values shown in the article are ordinary (i.e. un-equivalised) £ per year, not equivalised £ per year. Where equivalised values do appear (e.g. the quintile points in Table 16 of Appendix 1), they are shown in *italics*.

Diagram 2
Lorenz curve for a typical income distribution

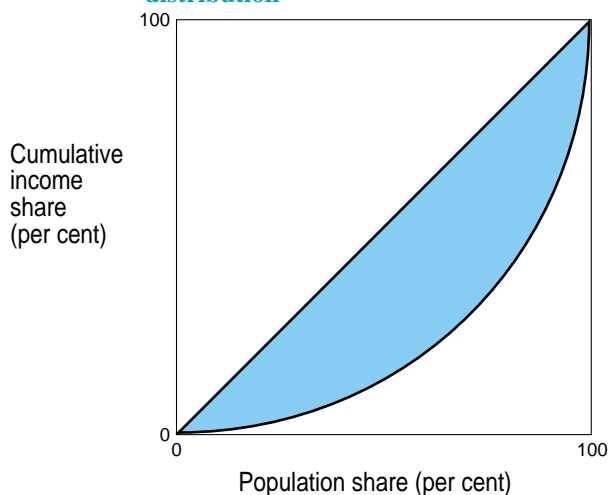
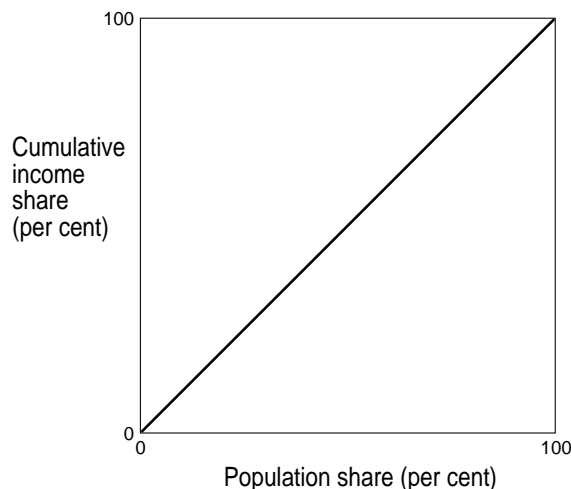


Diagram 3
Complete income equality



Gini coefficient

51. 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), i.e. 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).

52. 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 article are based on distributions of equivalised income, e.g. the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values.

53. 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 equalise the final income measure because this contains notional income from benefits in kind (e.g. state education): the equivalence scales used in this article are based on actual household spending and do not, therefore, apply to such items as notional income.

Impact of population weighting

54. 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 FES. 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 article. More detail about the effect of weighting can be obtained from the ONS on request.

Sampling errors and reliability

55. As the FES 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.

56. It is difficult to calculate these standard errors exactly because of the multi-stage design of the FES sample and the population weighting, but we have made a good approximation by combining the simple random formula with the appropriate design factor from the FES analysis. [The design factor is the ratio of the standard error using the detailed formula that takes account of the full complexity of the sample design and the population weighting to the standard error using the simple random sample formula.] The most appropriate design factor from the FES work is for 'gross normal weekly household income'. The standard error of the mean for N households is given by:

$$(\text{design factor}) * S/\sqrt{N}$$

where the design factor is 0.9 for 2000–01, and S^2 is the estimate of the population variance.

The method of population weighting used for the FES tends to reduce sampling error and this is the reason for the design factor of less than 1.0

57. The standard error for normal weekly disposable income of all households is slightly more than one per cent of the mean but, for the less frequent household types, e.g. 1 adult with children and 3 or more adults with children, it is likely to be higher.

58. The standard errors can be used to give an idea of the reliability of a mean by quoting a confidence interval of the form:

$$\text{estimate of mean} + \text{ or } - (1.96 * \text{standard error})$$

where the factor 1.96 corresponds to the 95 per cent confidence interval.

59. The standard errors for the household types are larger than for the whole sample, mainly because the sample sizes concerned are smaller. For quintile groups of given household types, the sample sizes are of course smaller still, which would tend to increase sampling variability. On the other hand, the income values are by definition in a narrower range which would tend to reduce the sampling error.

60. The 'complex' standard errors for quintile and decile groups are quite a bit larger than the simple random sample estimates.

Previous articles

61. This article is the latest in an annual series covering the years from 1957 onwards. From 1987 onwards, the articles 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 article was published in the April 2001 edition of *Economic Trends*. A list of the previous articles was included in the article published in March 1997.

62. The results in all articles are intended to be free standing: they were not designed for direct comparison with other years except where some limited comparisons were made in the articles. 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 article gives such a comparison for the years 1978 to 2000–01.