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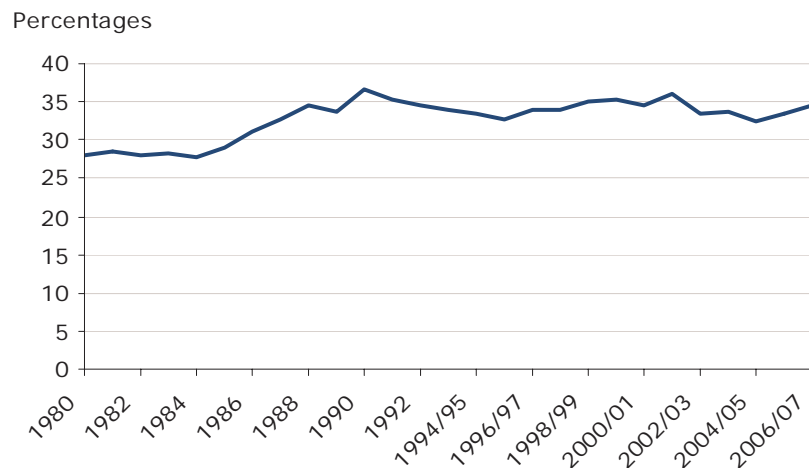


Increase in income inequality

The effects of taxes and benefits on household income 2006/07

Inequality of disposable income increased over the period 2004/05 to 2006/07. This followed a fall between 2001/02 and 2004/05. Income inequality remains high by historical standards - the large increase which took place in the second half of the 1980s has not been reversed.

Gini coefficient for equivalised disposable household income



Income inequality is commonly measured by the Gini coefficient for equivalised disposable household income. The latest increase in inequality was partly a result of increased inequality of original income, primarily wages and salaries, as well as slower growth in income from cash benefits compared with original income.

These results are published today on the Office for National Statistics (ONS) website in an analysis entitled 'The effects of taxes and benefits on household income, 2006/07', which uses data from the Expenditure and Food Survey. It is available free online at:

www.statistics.gov.uk/taxesbenefits

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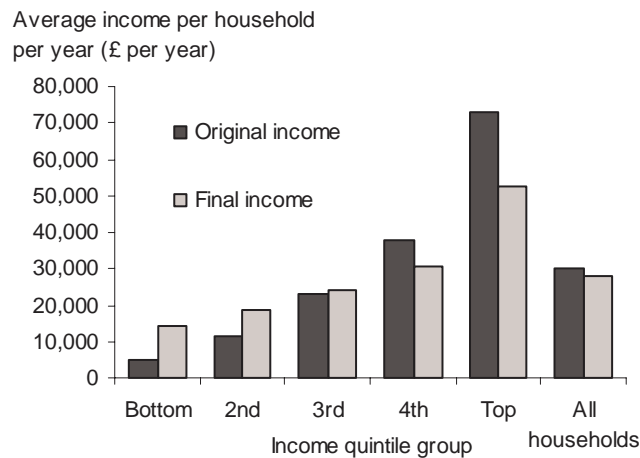
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To be announced

This analysis examines how taxes and benefits redistribute income between households in the United Kingdom. In 2006/07, original income (before taxes and benefits) of the top fifth of households in the UK was fifteen times greater than that for the bottom fifth (£72,900 per household per year compared with £4,900). After redistribution through taxes and benefits, the ratio between the top and bottom fifths was reduced to four-to-one (average final income of £52,400 compared with £14,400).

Original income and final income by income quintile group, 2006/07



Some types of household gain more than others from this redistribution. Retired households pay less in tax than they receive in benefits and so gain overall. Among non-retired households, single adult households with children also gain. Most other non-retired households pay more in tax than they receive in benefits. However, households with children do relatively better than households without children due to the cash benefits and benefits in kind (which include health and education services) which are received by these households.

Cash benefits

Cash benefits such as Income Support, Pension Credit, Child Benefit, Incapacity Benefit, and the State Retirement Pension play the largest part in reducing income inequality. Cash benefits make up 57 per cent of gross income for the poorest fifth of households, 38 per cent for the second quintile, falling to 2 per cent for the top fifth of households.

Direct taxes

With the exception of Council tax and Northern Ireland rates, direct taxation is progressive; that is it takes a larger proportion of income from those households that have higher gross incomes. In 2006/07, the top fifth of households paid 25 per cent of their gross income in direct tax while the bottom fifth paid 11 per cent.

BACKGROUND NOTES

1. Today's analysis can be found on the Office for National Statistics website at: <http://www.statistics.gov.uk/taxesbenefits>
2. The most widely used summary measure of inequality in the distribution of household income is the Gini coefficient. The lower the value of the Gini coefficient, the more equally household income is distributed. More details on how the Gini coefficient is calculated are available at: http://www.statistics.gov.uk/about/methodology_by_theme/gini/default.asp
3. This analysis uses several different measures of household income. Original income (before taxes and benefits) includes income from wages and salaries, self-employment income, income from occupational pensions and investment income. Gross income includes all original income plus cash benefits provided by the state. Disposable income is that which is available for consumption, and is equal to gross income less direct taxes. Post-tax income is calculated by estimating the payment of indirect taxes, and deducting these from disposable income. Final income is calculated as post-tax income plus benefits in kind received from the state.
4. Income quintile groups are based on a ranking of households by equivalised disposable income. Equivalised incomes are standardized to account for the fact that households of differing size or composition will require different incomes to achieve the same standard of living.
5. Details of the National Statistics policy governing the release of new data are available from the Media Office.
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