



# An analysis of the effects of taxes and benefits on household income

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## About the authors

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## 1. Overview

- This paper presents the most recent Office for National Statistics (ONS) data for the impact of tax and benefits on household income in the UK, both over time and between income groups.
- It includes ONS data on ‘benefits in kind’ – the imputed value of non-cash benefits such as the National Health Service and education.
- Unless otherwise stated, this paper uses actual incomes for the tables, instead of equivalised incomes: using equivalised incomes reduces the ability to present the actual impact of taxes and benefits on incomes. Consequently, actual incomes are preferable if looking at the effects of taxes and benefits, and for net dependency.
- The ONS presents data for all households; for non-retired households; and retired households. These are separated into quintiles (fifths of the population, with around 13.3 million individuals in each) and deciles (tenths of the population).
- The statistics given for quintiles and deciles represent the average for that group.
- The ONS also publishes the Gini Coefficient, which is the main measure of income inequality.
- The ONS reports data for the financial years (that is, from April to the following March). As the initial government response to the Covid-19 pandemic started at the end of March 2020, this report uses the data for 2020/21 to measure the impact of government measures.
- Note, however, that the ONS data do not include the impact of furlough payments on household incomes for individuals in employment. That is because furlough payments were paid to employers who then passed them on to their employees. The ONS therefore treats these as salary payments or part of original income.
- For the financial year 2018-2019 onwards, the ONS changed their methodology for estimating incomes – and consequently income taxes – of top earners. This resulted in an upward revision of their incomes and income taxes from 2018-19 onwards.<sup>1</sup>
- Definitions of the terms used in this report can be found on page 5.

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<sup>1</sup> ONS, 2019, [Using tax data to better capture top earners in household income inequality statistics - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

## 2. Main findings

### Record dependency after Covid-19

- In 2020/21, the most recent year for which the data are available, **54.2 per cent of individuals** live in households which received more in benefits (including the imputed value of health and education) than they paid in taxes. This is equivalent to **36.0 million individuals**.
- This proportion – the ‘net dependency ratio’ – is the highest on record.
- In the short-term, the net dependency ratio had been falling steadily since 2011, when it was 52.5 per cent. In 2019/20 it had been 47.5 per cent, whereas in 2000 it had been 40.3 per cent.
- However, the long-term trend in the net dependency ratio is clearly upwards: the 2020/21 figure of 54.2 per cent is significantly above the 1977-2000 average of 41.2 per cent.
- For the first time ever, the middle group of non-retired individuals on average now receive more from the state in cash benefits and benefits in kind than they pay in taxes.
- The sharp growth in the net dependency ratio in 2020/21 can be attributed to measures taken in response to the Covid-19 pandemic, in particular the impact of indirect taxes and benefits in kind.
- Note that the impact would have been significantly greater, and the net dependency ratio would have been significantly higher, had furlough payments been counted as cash benefit payments rather than original income.
- In addition, the data presented here do not fully include the impact of the substantial number of people who have left the labour force since the pandemic. These are likely to aggravate the net dependency ratio.

### The redistributive nature of the tax and benefit system

- As one would expect, the tax and benefit system is redistributive. Better off households pay more in taxes than they receive in benefits, whereas the less well-off receive more in benefits than they pay in taxes:
  - In 2020/21, the top quintile (5<sup>th</sup>) of households (as measured by equivalised household income) paid an average of £35,399 more in taxes than they received in benefits.

- Conversely, in the same year, each of the bottom three quintiles (39.8 million individuals) received, on average, more in benefits than they paid in taxes (of £17,648, £13,469 and £4,983, respectively). This meant an overall average transfer of £12,033.
- Individuals in the second highest quintile paid an average of £3,825 more in taxes than they received in benefits.
- The redistributive nature of the tax and benefit system is more pronounced for non-retired households:
  - In 2020/21, individuals in the top quintile (5<sup>th</sup>) of **non-retired** households (as measured by equivalised household income) paid an average of £41,087 more in taxes than they received in benefits.
  - Conversely, in the same year, individuals in each of the bottom three **non-retired** quintiles received, on average, more in benefits than they paid in taxes (of £18,559, £10,433 and £516, respectively). An overall average transfer of £9,836.
  - Individuals in the second highest **non-retired** quintile paid an average of £7,559 more in taxes than they received in benefits.
- On the other hand, individuals in retired households receive more from the tax and benefit system than they pay in taxes:
  - In 2020/21, individuals in the top quintile of **retired** households (as measured by equivalised household income) received, on average, £5,578 more in benefits than they paid in taxes.
  - Individuals in each of the bottom three **retired** quintiles also received, on average, more in benefits than they paid in taxes (of £12,382, £17,948 and £16,703, respectively) for an average of £15,678.
  - Individuals in the second highest **retired** quintile also received, on average, £17,413 more in benefits than they paid in taxes

### **Falling income inequality**

- Income inequality, as measured by the Gini Coefficient, has gradually **fallen** from a peak of 33.8 per cent in 2007/08 to 29.9 per cent in 2020/21. It was lower in 2020/21 than it had been for 14 of the previous 20 years since 2000.

## The differential impact of taxes

- **Income tax** is highly redistributive. In 2020/21 the top quintile paid 66.6 per cent of all income tax, and the top decile 53.1 per cent. The share of income tax paid by the other quintiles is (from bottom quintile to second from top) 2.4 per cent, 4.7 per cent, 9.6 per cent and 16.7 per cent.
- Overall, the top quintile paid 23.2 per cent of their gross income on income tax – a share nearly double that of the second quintile and five times that of the bottom quintile.
- Not all taxes are redistributive. Less well-off households pay a higher proportion of their income in VAT and Council Tax than higher-earning households:
  - In 2020/21 the bottom quintile paid 5.9 per cent of their gross income – or a tenth of their original income – on **Council Tax**, while the top quintile paid only 1.4 per cent of their gross income.
  - In 2020/21 the bottom quintile paid 8.7 per cent of their gross income on **VAT**, while the top quintile paid only 4.5 per cent of their gross income.

## Future updates

- It is intended to update in this paper shortly after the next ONS data release.



## Some Definitions

The following definitions are all based on those used by the ONS.

**Original income** is the income from wages and salaries, self-employment, private pensions and investments.

**Cash benefits** include the state pension, universal credit, employment allowance and the jobseeker's allowance.

**Benefits in kind** include the imputed value of NHS, state education, adult social care, school meals and Healthy Start vouchers (including nursery milk and school milk, universal infant free school meals in England, free school meals for children in primary 1 to 3 in Scotland and the provision of free breakfast to all pupils in maintained primary schools in Wales), and housing and travel subsidies.

**Benefits** include both cash benefits and benefits in kind.

**Gross income** is original income plus all cash benefits.

**Direct taxes** include income tax, national insurance contributions (NICs) and council tax (it also includes student loan repayments).

**Indirect taxes** are VAT plus duties paid on goods and services such as tobacco and alcohol.

**Disposable income** is gross income minus direct taxes.

**Post-tax income** is gross income minus all taxes.

**Final income**, or income after considering *all* taxes and benefits, is post-tax income plus benefits in kind.

**Quintile groups** are used throughout this report. These are most straightforwardly understood as fifths (with the 5<sup>th</sup> quintile being the top fifth of households by equivalised income). Each quintile for all households represents 13.3 million people. The ONS analysis ranks individuals by their equivalised household disposable incomes. This means that low earners in high-earner households are placed according to the income of the household they are in.

**Equivalisation** is the process of adjusting income figures to account for the fact that households with many members are likely to need a higher overall income, but a lower per capita income, to achieve the same standard of living as households with fewer members.

Equivalisation considers the number of people living in the household and their ages. The ONS analysis uses the modified OECD scale.<sup>2</sup>

**Net dependency**, refers to individuals whose households 'receive more in benefits [including benefits in kind] than they pay in taxes'.<sup>3</sup> The net dependency rate is the percentage of individuals for whom this is true.

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<sup>2</sup> [Organisation for Economic Co-operation and Development \(OECD\) equivalisation scale](#)

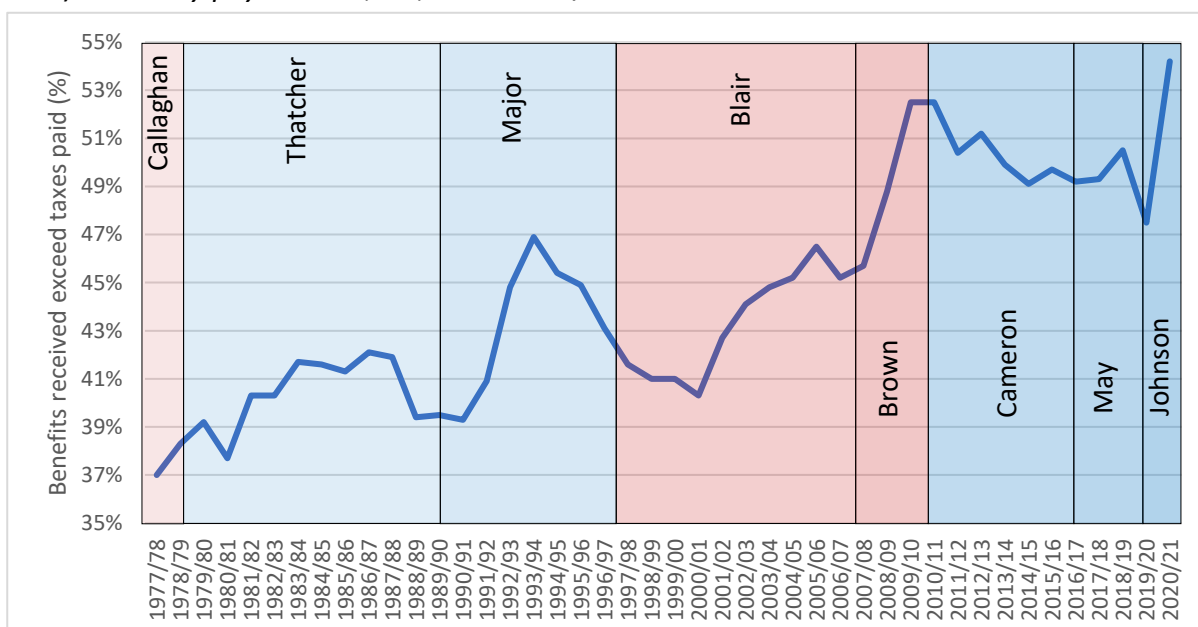
<sup>3</sup> [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](#).

### 3. Net dependency

The latest ONS data (for 2020/21) on the effects of taxes and benefits on household income show that 54.2 per cent of individuals are in households which receive more in benefits than they pay in taxes. This breaks the 2011-2020 trend where net dependency fell from 52.5 per cent to 47.5 per cent. Overall, approximately 36.0 million individuals now live in households receiving more from the state in benefits than they are paying in taxes.

The long-term trend in the net dependency ratio is clearly upwards: the 2020/21 figure of 54.2 per cent is significantly above the 1977-2000 average of 41.2 per cent. Even the 2019/20 level of 47.5 per cent, which was the lowest for 12 years, was much higher than the proportion in 2000 (40.3 per cent).

Figure 3.1. Percentage of all individuals (per cent) receiving more in benefits (including in-kind) than they pay in taxes, UK, 1977-2020/21



Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/taxesandbenefits/benefitsandtaxes/effects-of-taxes-and-benefits-on-household-income)

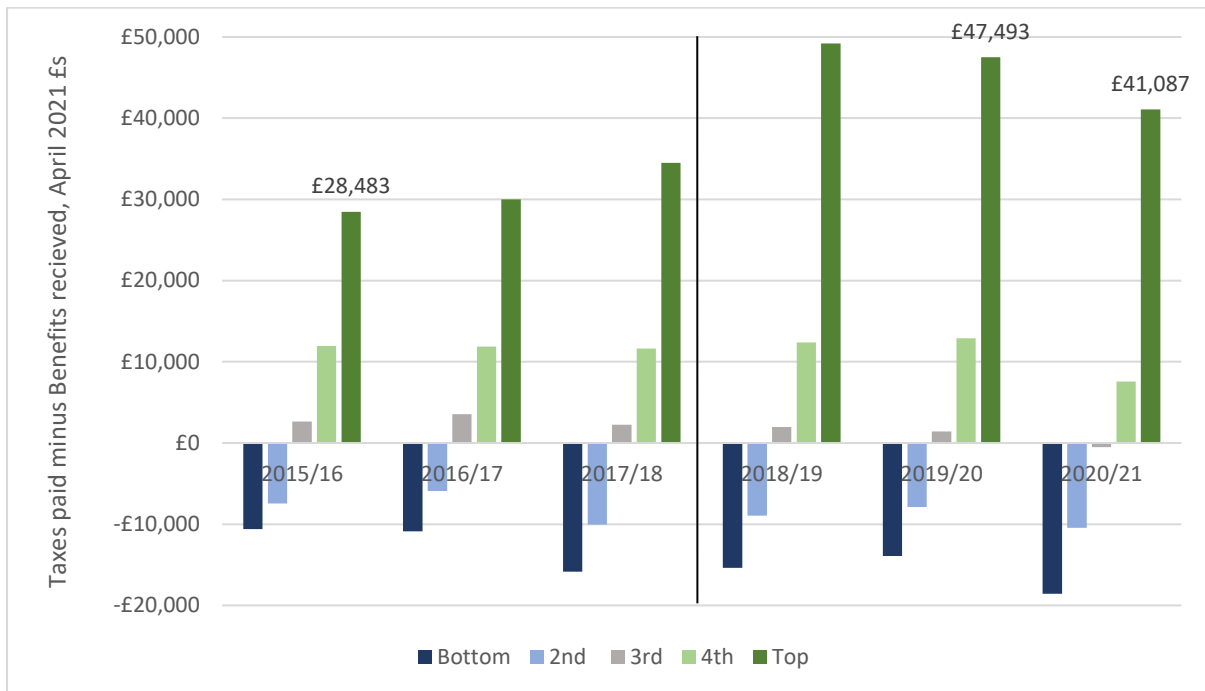
Figure 3.2 shows that the net dependency of each of the bottom four quintiles has increased since 2015, so much so that the bottom quintile now receives £17,600 more in benefits than they pay in tax. The equivalent figure for the non-retired bottom quintile is even higher: £18,500.

And **for the first time ever**, in 2020/21 the middle quintile receives more in benefits now than they paid in tax. In contrast, in 2016/17 they paid over £3,500 more in tax than they received.

As a result, the top quintile has become a **larger** net provider. The average net contribution for non-retired individuals in the top quintile has grown from £28,500 in 2015/16 to £41,000

in 2020/21, or £47,000 before the Covid-19 response. This is partly due to the ONS recalibrating its methodology.<sup>4</sup>

Figure 3.2. Taxes paid minus benefits received of non-retired individuals by equivalised household disposable income quintile group, UK, 2015/16 – 2020/21



Source: ONS, Effects of taxes and benefits on household incomes, 2015-2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](#); ONS, Consumer Price Index, UK, November 2022 [Consumer price inflation, UK - Office for National Statistics](#)<sup>5</sup>

<sup>4</sup> ONS, 2019, [Using tax data to better capture top earners in household income inequality statistics - Office for National Statistics \(ons.gov.uk\)](#)

<sup>5</sup> The inflation adjustment takes the value of the currency as at the beginning of the next financial year. They are then transformed into April 2021 pounds sterling. For example, the 2016/17 figure takes the value of the figures for that year to be measured at April 2017 prices and transforms that to April 2021 prices.

Table 3.1. Average household income, taxes and benefits of all Individuals by equivalised household disposable income quintile group, UK, 2020/21 (2a, 2b for top decile)<sup>6</sup>

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
Number of individuals	13,280,000	13,281,000	13,279,000	13,285,000	13,281,000	6,641,000
Total Original Income	£10,958	£24,887	£42,466	£62,051	£131,670	£179,753
Total Gross Income	£19,458	£33,491	£48,588	£66,233	£134,415	£182,169
Total Disposable Income	£16,635	£28,625	£39,943	£52,593	£94,568	£122,363
Total Cash Benefits	£8,500	£8,604	£6,122	£4,182	£2,745	£2,416
Total Benefits in kind	£15,764	£14,191	£13,010	£11,744	£10,246	£10,110
Total Benefits	£24,264	£22,795	£19,132	£15,926	£12,991	£12,526
Total direct taxes	£2,823	£4,865	£8,645	£13,641	£39,847	£59,806
Total indirect taxes	£3,793	£4,461	£5,544	£6,110	£8,543	£10,197
Total taxes	£6,616	£9,326	£14,189	£19,751	£48,390	£70,003
Final Income	£28,606	£38,355	£47,409	£58,227	£96,271	£122,276
<b>Total Taxes – Benefits</b>	<b>-£17,648</b>	<b>-£13,469</b>	<b>-£4,943</b>	<b>£3,825</b>	<b>£35,399</b>	<b>£57,477</b>

Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](#)

<sup>6</sup> These denote which table to find the information on within the ONS report.

## 4. Effect of the Covid-19 response

Net dependency for 2020/21 has been affected by the Covid-19 response. This was primarily from falls in indirect taxes and increases in benefits in kind. The average tax paid by all non-retired households fell from £24,084 to £21,925 – and most (84 per cent) of this fall was from falls in indirect taxes paid, which make up just over a quarter of overall taxes.

This resulted in taxes being more progressive in 2020/21. Indirect taxes form a larger share of the disposable income of the bottom quintiles (57 per cent for the bottom and 43 for the second, in 2020/21) than they are for the top quintiles (30 per cent for the fourth and 17 per cent for the top, in 2020/21).

Benefits in kind from education and from the NHS both increased significantly in 2019/20. There were some other smaller effects of the Covid-19 response on these results – cash benefits increased and self-employment income fell – but these results do not have a large effect on any of the reported outcomes.

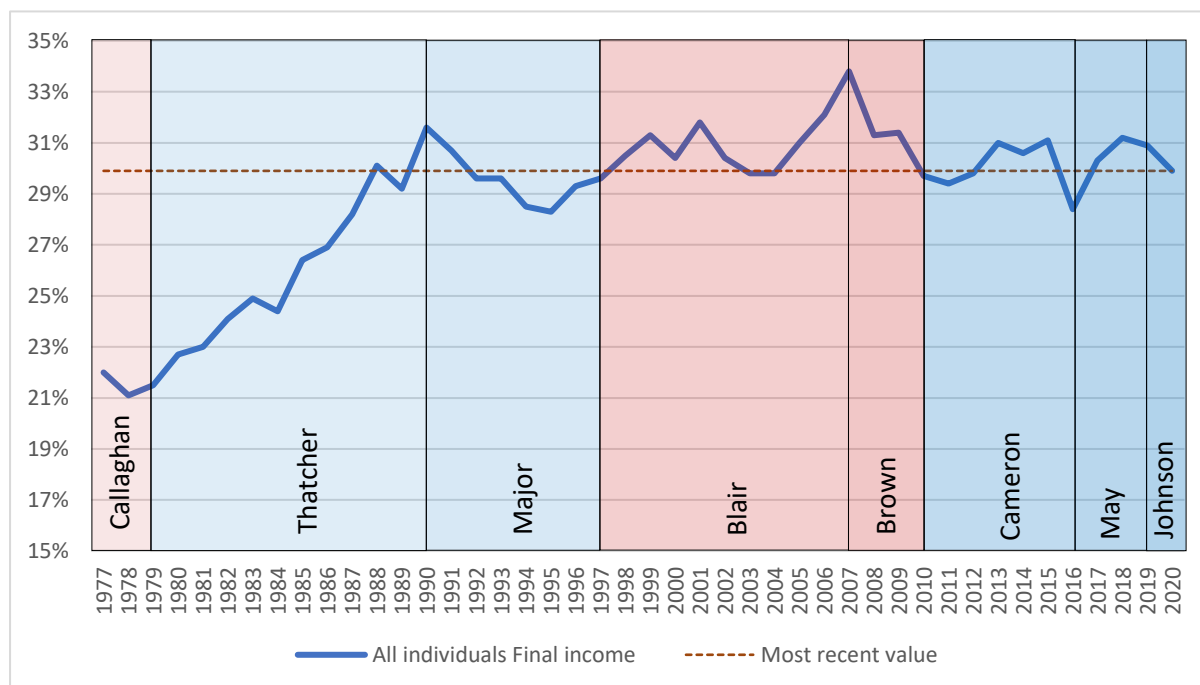
In a separate report,<sup>7</sup> the ONS estimates that an additional 500,000 people have left the labour force recently because of long-term sickness. This fall in the number of people in employment can only worsen the net dependency ratio.

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<sup>7</sup> ONS, [Half a million more people are out of the labour force because of long-term sickness](#), November 2022.

## 5. Income inequality

Figure 5.1. All individuals, final income Gini Coefficient, UK, 1977-2020/21, graphics illustrate different Prime Ministers



Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/incomeandwealth/briefings/effects-of-taxes-and-benefits-on-household-income)

The main measure of income inequality used by the ONS is the Gini Coefficient, a measure for aggregating the overall differences in income shares across a population. A Gini Coefficient of 100 per cent means one person earns all of the income, and a Gini Coefficient of 0 per cent means that everyone has exactly the same income.

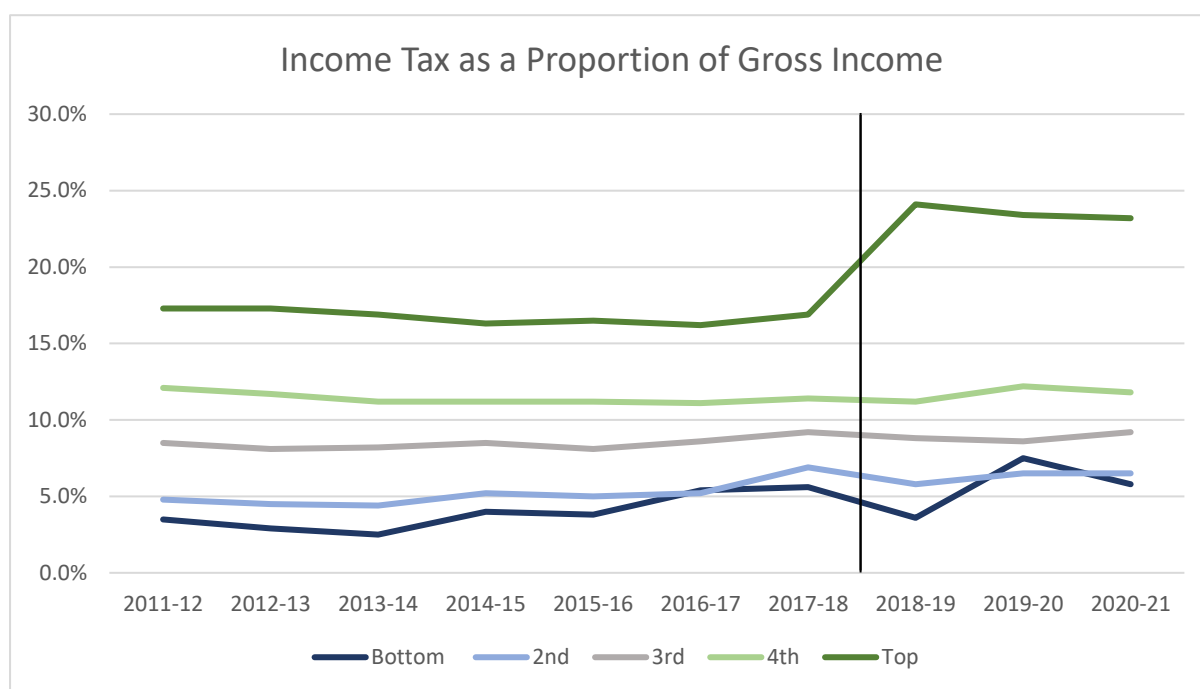
In the UK, the Gini Coefficient has been relatively stable since the late 1980s. It has fallen from a peak of 33.8 per cent in 2007/08 to 29.9 per cent in 2020/21 and is now lower than it has been for 14 of the previous 20 years since 2000.

By Prime Minister, the Gini Coefficient rose under Thatcher, Blair and May and fell under Major, Brown, Cameron and Johnson.

## 6. Income and taxes

The effect of taxes on income is different for direct and indirect taxes. Indirect taxes tend to be regressive, whereas direct taxes tend to be progressive. Income tax as a proportion of gross income is highest for the top quintile, particularly from 2018-19 onwards, since the ONS methodological adjustment.<sup>8</sup> For the bottom two quintiles, the progressive nature of income taxes weakens.

Figure 6.1. Average income tax as a percentage of gross household income for all individuals by household equivalised income quintile group, UK, 2020/21



Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employment-and-labour-markets/earnings-and-incomes/briefings/effectsof-taxes-and-benefits-on-household-income)

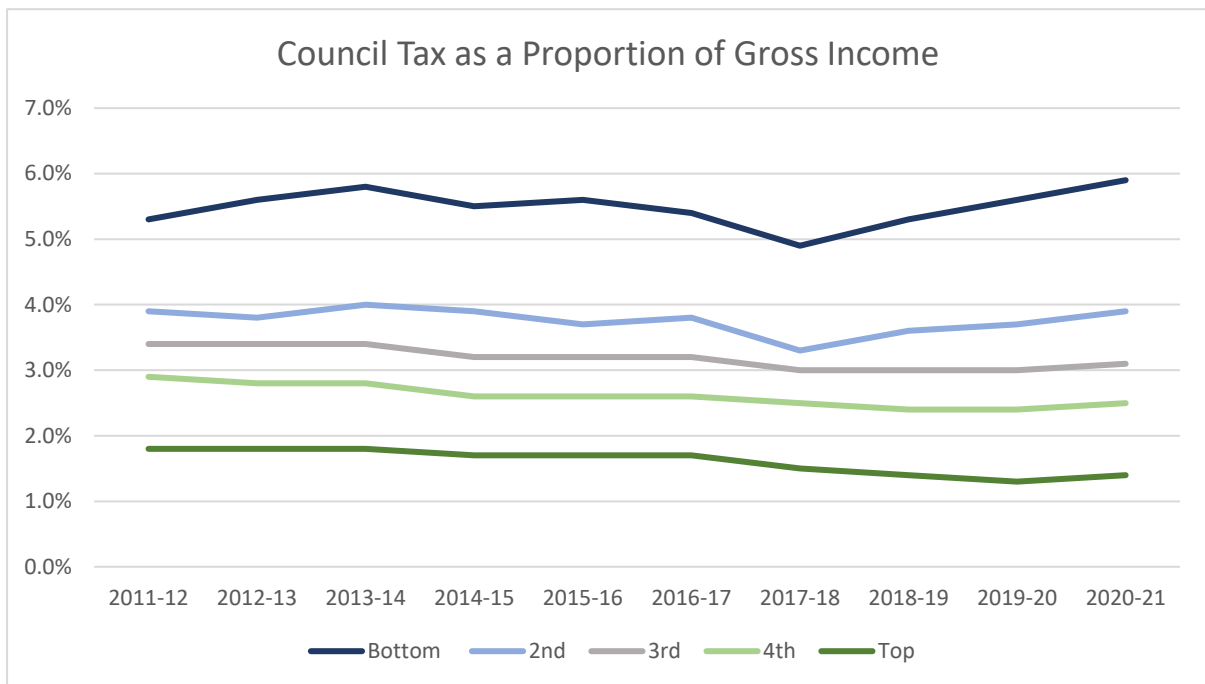
The top quintile pays 23 per cent of their gross income on income taxes – a share over three and a half times that of the second quintile. This results in the top quintile paying two-thirds of all income tax, over 14 times the second quintile and four times the fourth quintile.

For council tax, however, another direct tax, we see that the tax is regressive, with the bottom quintile paying over three times as much of their gross income on council tax than the top quintile. This figure includes council tax rebates.

<sup>8</sup> Noted in 'Introduction', from ONS, 2019, [Using tax data to better capture top earners in household income inequality statistics - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employment-and-labour-markets/earnings-and-incomes/briefings/using-tax-data-to-better-capture-top-earners-in-household-income-inequality-statistics)



Figure 6.2. Council tax as a percentage of gross household income for all individuals by household equivalised income quintile group, UK, 2020/21



Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/taxesandbenefits/briefings/effectsof taxesandbenefitsonhouseholdincome)

Table 6.1 Average household taxes as a percentage of gross income for all individuals by equivalised household disposable income quintile group, UK, 2020/21 (8)

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
<b>Income Tax</b>	5.8%	6.5%	9.2%	11.8%	23.2%	27.3%
<b>NICs</b>	2.7%	4.0%	5.3%	6.0%	4.8%	4.3%
<b>Council tax (and Northern Ireland rates)</b>	5.9%	3.9%	3.1%	2.5%	1.4%	1.1%
<b>Direct Taxes Total</b>	14.5%	14.5%	17.8%	20.6%	29.6%	32.8%
<b>VAT</b>	8.7%	5.8%	5.2%	4.5%	2.9%	2.5%
<b>Indirect Taxes Total</b>	19.3%	13.2%	11.3%	9.1%	6.3%	5.6%
<b>All Taxes</b>	<b>33.8%</b>	<b>27.7%</b>	<b>29.1%</b>	<b>29.7%</b>	<b>35.9%</b>	<b>38.4%</b>

Table 6.2 Average household indirect taxes as a percentage of disposable income for all individuals by equivalised household disposable income quintile group, UK, 2020/21 (8)

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
<b>VAT</b>	10.2%	6.8%	6.4%	5.7%	4.2%	3.8%
<b>Indirect Taxes Total</b>	<b>22.6%</b>	<b>15.4%</b>	<b>13.8%</b>	<b>11.5%</b>	<b>9%</b>	<b>8.3%</b>

Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/peoplepopulationandcommunity/inequalityandpoverty/articles/effects-of-taxes-and-benefits-on-household-income)

## 7. Variation in the tax burden

The top quintile pays almost half of all tax (49.2 per cent).

The top decile pay over three times as much income tax as the bottom three quintiles combined – a group six times bigger. Income tax is mostly funded by the top earners – even the fourth quintile, the second highest earning fifth of households, only pay 16.7 per cent of all income tax.

The picture is different for council tax: the bottom quintile pays 15.1 per cent of council tax – a share over seven times that of their income tax contribution. The second quintile similarly contribute a 3.8 times larger share to council tax than income tax.

*Table 7.1 Average household share of taxes paid of all individuals by equivalised household disposable income quintile group, UK, 2020/21 (2a) (2b for top decile)*

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
<b>Income Tax</b>	2.4%	4.7%	9.6%	16.7%	66.6%	<b>53.1%</b>
<b>NICs</b>	3.5%	8.9%	17.3%	26.6%	43.7%	<b>26.3%</b>
<b>Council tax (and Northern Ireland rates)</b>	15.1%	17.3%	19.9%	22.1%	25.5%	<b>13.5%</b>
<b>Direct Taxes Total</b>	£2,823	£4,865	£8,645	£13,641	£39,847	<b>£59,806</b>
<b>Direct Taxes Total (%)</b>	4.0%	7.0%	12.4%	19.5%	57.1%	<b>42.8%</b>
<b>VAT</b>	12.9%	14.8%	19.5%	22.8%	30.1%	<b>17.4%</b>
<b>Indirect Taxes Total</b>	13.3%	15.7%	19.5%	21.5%	30.0%	<b>17.9%</b>
<b>All Taxes</b>	£6,616	£9,326	£14,189	£19,751	£48,390	<b>£70,003</b>
<b>All Taxes (%)</b>	<b>6.7%</b>	<b>9.5%</b>	<b>14.4%</b>	<b>20.1%</b>	<b>49.2%</b>	<b>35.6%</b>

Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](#)

## Appendix A: Non-retired and Retired Individuals by equivalised Household Income Quintile group and Net Dependency, UK, 2020/21

Retired individuals generally receive much less original income than non-retired individuals, as private pensions tend to be lower than wages and salaries. They tend to receive more cash benefits, however, mostly due to the state pension.

*Table 8.1. Average household income, taxes and benefits of all non-retired Individuals by equivalised household disposable income quintile group, UK, 2020/21 (3a) (3b for top decile)*

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
Number of individuals	10,973,000	10,972,000	10,975,000	10,971,000	10,981,000	5,490,000
Total Original Income	£14,051	£32,374	£50,314	£69,846	£142,656	£195,137
Total Cash Benefits	£7,995	£6,385	£3,884	£2,424	£1,862	£1,669
Total Benefits in kind	£17,965	£15,044	£12,482	£11,992	£10,459	£10,115
Total Benefits	£25,960	£21,429	£16,366	£14,416	£12,321	£11,784
Total direct taxes	£3,188	£6,221	£10,235	£15,475	£44,163	£66,496
Total indirect taxes	£4,213	£4,765	£5,615	£6,500	£9,245	£11,034
Total taxes	£7,401	£10,986	£15,850	£21,975	£53,408	£77,530
Final Income	£32,611	£42,816	£50,829	£62,287	£101,570	£129,390
<b>Total Taxes – Benefits</b>	<b>-£18,559</b>	<b>-£10,443</b>	<b>-£516</b>	<b>£7,559</b>	<b>£41,087</b>	<b>£65,746</b>

Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](#)

We can also observe the non-retired table for 2019/20 in order to examine the effect of the Covid-19 situation throughout the 2020/21 tax year on incomes, taxes and benefits.

Table 8.2. Average household income, taxes and benefits of all non-retired Individuals by equivalised household disposable income quintile group, UK, 2019/20 (3a) (3b for top decile)

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
Number of individuals	11,000,000	11,003,000	11,003,000	11,000,000	11,005,000	5,512,000
Total Original Income	£15,520	£32,293	£48,456	£70,046	£148,623	£204,597
Total Cash Benefits	£7,546	£6,455	£4,415	£2,428	£1,886	£1,901
Total Benefits in kind	£14,872	£13,818	£11,542	£9,810	£8,250	£7,302
Total Benefits	£22,418	£20,273	£15,957	£12,238	£10,136	£9,203
Total direct taxes	£3,754	£6,200	£9,701	£15,591	£45,799	£69,319
Total indirect taxes	£4,958	£6,313	£7,643	£9,334	£11,128	£11,394
Total taxes	£8,712	£12,513	£17,344	£24,925	£56,927	£80,713
Final Income	£29,226	£40,053	£47,068	£57,358	£101,832	£133,087
<b>Total Taxes – Benefits</b>	<b>-£13,706</b>	<b>-£7,760</b>	<b>£1,387</b>	<b>£12,687</b>	<b>£46,791</b>	<b>£71,510</b>

Source: ONS, Effects of taxes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employment-and-labour-markets/earnings-and-payments/articles/effects-of-taxes-and-benefits-on-household-income-2022)

Retired individuals tend not only to pay far less in direct tax, but also much less indirect tax: as they spend less, and they pay around half as much VAT as non-retired individuals.

Benefits in kind are also generally lower for retired individuals, as very few individuals in such households receive state education. This effect is dampened by receiving more in-kind NHS benefits.

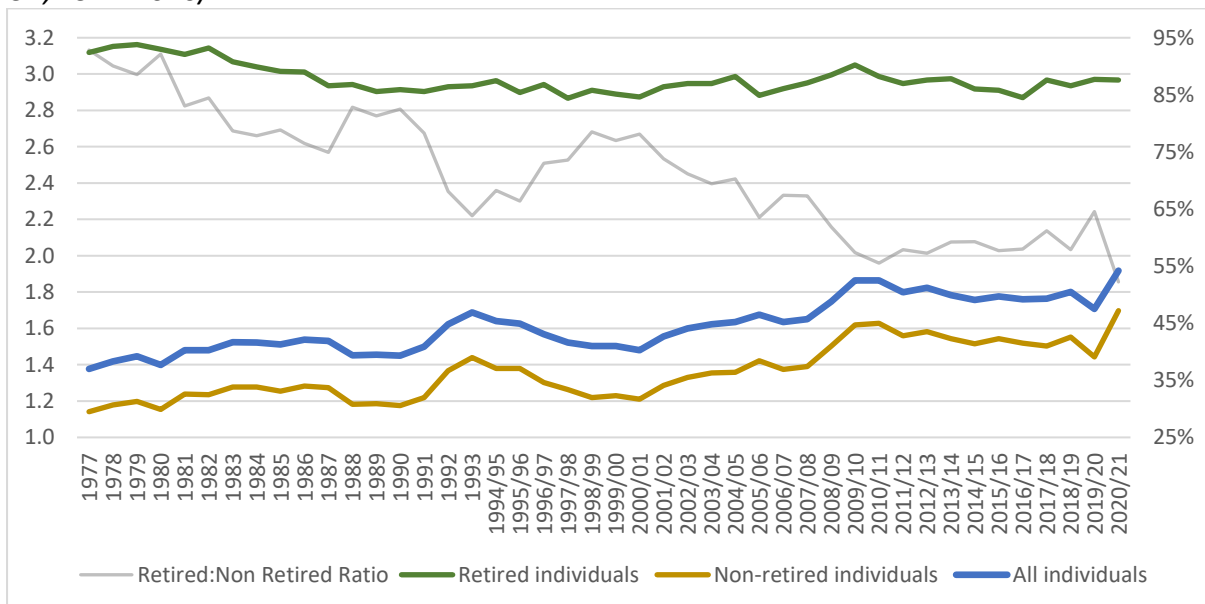
Overall, the percentage of retired individuals receiving more in benefits than they pay in tax is high: 87.6 per cent. This up from 84.5 per cent in 2018/19 but down from 90.2 per cent in 2010/11. The long run trend is a gentle fall.

Table 8.3. Average household income, taxes and benefits of all retired Individuals by equivalised household disposable income quintile group, UK, 2020/21 (4a) (4b for top decile)

Quintiles	Bottom	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	Top Quintile	Top Decile
Number of individuals	2,307,000	2,306,000	2,302,000	2,309,000	2,309,000	1,154,000
Total Original Income	£3,453	£6,291	£10,560	£20,203	£54,490	£76,061
Total Cash Benefits	£9,254	£13,305	£11,553	£15,311	£13,939	£12,858
Total Benefits in kind	£7,617	£10,179	£11,516	£11,307	£10,657	£10,587
Total Benefits	£16,871	£23,484	£23,069	£26,618	£24,596	£23,445
Total direct taxes	£2,245	£2,021	£2,455	£4,616	£13,469	£19,632
Total indirect taxes	£2,244	£3,515	£3,911	£4,589	£5,549	£5,926
Total taxes	£4,489	£5,536	£6,366	£9,205	£19,018	£25,558
Final Income	£15,834	£24,238	£30,232	£40,252	£62,507	£73,948
<b>Total Taxes – Benefits</b>	<b>-£12,382</b>	<b>-£17,948</b>	<b>-£16,703</b>	<b>-£17,413</b>	<b>-£5,578</b>	<b>£2,113</b>

Source: ONS, Effects of takes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/peoplepopulationandwork/inequalityandpoverty/articlesandreports/effects-of-taxes-and-benefits-on-household-income)

Figure 8.1. Percentage of all individuals, non-retired and retired individuals receiving more in benefits (including in-kind) than they pay in taxes and ratio between retired and non-retired, UK, 1977-2020/21.



Source: ONS, Effects of takes and benefits on household incomes, 2022 [Effects of taxes and benefits on household income - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/peoplepopulationandwork/inequalityandpoverty/articlesandreports/effects-of-taxes-and-benefits-on-household-income)

This analysis of Office for National Statistics (ONS) data for the impact of tax and benefits on household income shows that a record 54.2 per cent of individuals now live in households which receive more in benefits – including ‘benefits in kind such as health and education spending – than they paid in taxes. This is equivalent to 36.0 million individuals.

Tim Knox and Daniel Lilley have examined official data to reveal that this ‘net dependency ratio’ is the highest on record. This dependency ratio had been falling steadily since 2011, from 52.5 per cent to 47.5 per cent in 2019/20, but the long-term trend is clearly upwards: the 2020/21 figure of 54.2 per cent is significantly above the 1977-2000 average of 41.2 per cent.

This new analysis also reveals 83 per cent of all Income Tax is paid by just 40 per cent of British adults. More than half (53 per cent) was paid by the top 10 per cent of earners according to this analysis, three times as much income tax as the bottom 60 per cent – despite this group being six times bigger.

The top 20 per cent of individuals pay two thirds (66 per cent) of all Income Tax receipts, handing over, on average, £35,000 more in taxes than they receive in public spending. The top fifth of individuals pay almost half (49 per cent) of all taxes.

At the bottom end of the income scale, the bottom 40 per cent, or 27 million people, receive an average of £23,000 a year in cash benefits and ‘benefits in kind’.

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