Office for National Statistics

Statistical bulletin

Effects of taxes and benefits on UK household income: financial year ending 2020

The redistribution effects on individuals and households of direct and indirect taxation and benefits received in cash or kind analysed by household type.

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To be announced

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1 . Main points

- In the period leading up to the coronavirus (COVID-19) pandemic, the richest (£107,800) one-fifth of people's average household incomes before taxes and benefits was over 12 times larger than the poorest fifth (£8,500); however, this gap reduced to four times (£75,600 and £18,600 respectively) when taxes and benefits were taken into account.

- Despite the redistributive power of taxes and benefits, income inequality as measured by the Gini coefficient for household income after taxes and benefits income has increased over the last 10 years, rising by an average of 0.2 percentage points per year.

- The rise in inequality of household income after taxes and benefits in the last decade is largely down to the diminishing effectiveness of cash benefits to redistribute income from the richest to the poorest, coinciding with the freezing of many cash benefits at their financial year ending (FYE) 2016 values.

- Over the 10-year period leading up to FYE 2020, the richest one-fifth of people's average household income after taxes, benefits and price inflation increased by an average of 0.9% per year compared with the poorest fifth, which decreased by an average of 0.3% per year.

- Indirect taxes made the largest contribution (4.3 percentage points) to income inequality over the last 10 years; as a proportion of disposable income, the poorest fifth of people paid 32.9% on indirect taxes compared with 11.4% for the richest fifth of people in FYE 2020.

- The amount of indirect taxes paid as a proportion of spending was similar, although the poorest fifth of people still paid a higher proportion (18.7%) than the richest fifth (15.8%) in FYE 2020.

2 . Effects of taxes and benefits on UK household income data

Average incomes, taxes and benefits of all individuals, retired and non-retired by decile group
Dataset | Released 28 May 2021
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

Average incomes, taxes and benefits of all individuals, retired and non-retired by quintile group
Dataset | Released 28 May 2021
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

Summary of the effects of taxes and benefits of individuals by household type
Dataset | Released 28 May 2021
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

Effects of taxes and benefits on household income
Dataset | Released 28 May 2021
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

3 . Measuring the data

This release provides estimates of the redistributive role of taxes and benefits on household income and inequality. These data are derived from a combination of the [Living Costs and Food Survey](#) (LCF) and the Survey on Living Conditions giving us a voluntary sample survey of around 17,000 private households in the UK. More information about the impact of this change in data source can be found in [Improving the measurement of household income](#).

These statistics are assessed as fully compliant with the [Code of Practice for Statistics](#) and are therefore designated as [National Statistics](#).

More quality and methodology information on strengths, limitations, appropriate uses, and how the data were created is available in the [Effects of taxes and benefits on household income QMI](#).

Coronavirus (COVID-19)

The coronavirus (COVID-19) has introduced a number of challenges to the future production of household income statistics, both from a practical and a conceptual perspective. In respect of the former, the coronavirus has necessitated a move from face-to-face to telephone interviewing for most of the ONS's household surveys, as described in more detail in [Ensuring the best possible information during COVID-19 through safe data collection](#). The impact of this modal change will be assessed and understood as best as possible during the production of statistics covering the financial year ending (FYE) 2021.

As highlighted in [Coronavirus and the effects on UK GDP](#), the coronavirus is likely to impact on UK households' finances through several different transmissions. For instance, some households' finances will likely be supported to some extent by both the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS). Notwithstanding the measurement challenges mentioned earlier, these statistics should be well placed to measure and report on these changes while recognising those important methodological decisions (such as how to classify these schemes) will need to be made. The ONS intends to consult with users and follow international best practice to help guide these decisions and to ensure that analysis and statistics remain helpful and informative.

4 . Related links

Top income adjustment in effects of taxes and benefits data: methodology
Chapter | Released 25 February 2020
Analysis of a recently introduced approach to addressing survey under-coverage of the highest earners in effects of taxes and benefits data, using tax record information.

Income estimates for small areas, England and Wales: financial year ending 2018
Bulletin | Released 5 March 2020
Small area model-based income estimates covering local areas called Middle-layer Super Output Areas (MSOAs) in England and Wales.

Average household income, UK: financial year ending 2020
Bulletin | Released 21 January 2021
Estimates of median and mean disposable income for people in the UK for the financial year ending (FYE) 2020.

Household income and inequality, UK: financial year ending 2020
Bulletin | Released 21 January 2021
Estimates of income inequality in the UK for the financial year ending 2020.

A guide to sources of data on income and earnings
Article | Released 6 April 2020
This guide outlines the different data sources and outputs that feed into the analysis of income and earnings within the UK.

Households below average income: between 1994 to 1995 and 2018 to 2019
Report | Released 26 March 2020
Statistics on the number and percentage of people living in low-income households for financial years between 1994 to 1995 and 2018 to 2019.

The effects of taxes and benefits on household income, technical report: financial year ending 2020
Methodology | 8 June 2021
This technical report provides an update on how the effects of taxes and benefits on household income (ETB) datasets for financial year ending (FYE) 2018 to FYE 2020 are produced. It contains information relating to questionnaire changes and new or changed methodology for these years.