

THE EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME, 1986

The main results are:

- (i) The effect of government expenditure and taxation is to reduce the differences in income among households. In 1986 taxes and benefits (including NI pensions) increased the share of total income of the bottom fifth of households from 0.3 per cent of original income to 6.3 per cent of final income. Cash benefits play the largest part in reducing income differences.
- (ii) The joint impact of taxes and benefits is greatest for retired households and for those non-retired households containing no economically active people.
- (iii) Between 1975 and 1986, the distribution of income before taxes and benefits has become more unequal; though growth in cash benefits helped to offset this trend.
- (iv) Some 90 per cent of original income (ie before taxes and benefits come into play) comes from earnings; investment income accounts for five per cent as does income from occupational pensions and annuities.

Introduction

The aim of this analysis is to examine how the distribution of income amongst households in the UK is modified as a result of Government expenditure and taxation. During 1986 the Government raised and spent £162 billion; most of this revenue was raised, directly or indirectly, from UK households who also benefited, directly or indirectly, from the associated Government expenditure. Although greater equality of incomes is not necessarily a primary aim of this process, it is nevertheless one of its consequences. The article is the latest in an annual series published in *Economic Trends* since the early 1960's. Each year the article covers the same main ground but also has a special topic. New material this year looks at the components of original income ie income received by households before Government intervention of any sort.

The contents are as follows:

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|------------|---|
| Part I | Detailed description of results for 1986 for all households, and for retired and non-retired households separately. |
| Part II | Detailed breakdown of original income. |
| Appendix 1 | Detailed tables with results for different types of household, and fine breakdown of income components. |
| Appendix 2 | Methodology and Definitions. |

The 1986 results are presented in one article, unlike the two previous years which were published in two parts at different times of the year. This article is somewhat later than originally planned because the main data source, the 1986 Family Expenditure Survey (FES), was revised. The unit of analysis is the household, rather than the individual or the tax unit. The figures in the tables in the main body of the article are rounded to the nearest £10. This analysis gives a snapshot of households at various stages in their

lifecycles: nearly everyone has less income when elderly than at their peak earning age.

The figures in this article are essentially free standing. Because of changes in definitions each year (eg in the income components), great caution is needed when comparing results for different years: the smaller the group of households, the larger the risk involved. However, some summary items like the Gini coefficients in this article are relatively robust and will stand up to comparisons with earlier years.

Summary of methodology and sources

Chart 1 illustrates the stages of redistribution which form the structure of this analysis. Initially, households receive income from various non-governmental sources: from their employment (wages and salaries; self-employment income); from occupational pensions; from their investments; from other households (eg gifts and alimony payments) and from private non-profit-making institutions such as charities. Total income from these sources constitutes original income. The flow chart shows the various ways in which Government then raises revenue from households and distributes benefits to them both in cash and in kind.

It is not possible to allocate the whole of government revenue and expenditure to households (Chart 2). For some items, such as the Government Borrowing Requirement, such an allocation would be inappropriate; for others, the data required to do so are not available, for example expenditure on personal social services. In all, 63 per cent of government financing (including the Borrowing Requirement) and 52 per cent of expenditure are allocated to households in this analysis. Since the total amount of revenue allocated exceeds the total amount of benefits, less significance should be attached to the exact figures of cash 'gains' and 'losses' than to the broad patterns of redistribution, particularly in the middle income ranges.

The main source of data for this analysis is the Family Expenditure Survey (FES) 1986. This is a continuous household survey which collects information on the income, expenditure and direct tax payments of each household member aged 16 years and over, and on household composition and other characteristics such as tenure. In 1986 some 7,200 households participated in the UK - about 1 in every 3000 households. Studies have indicated that the FES suffers from some non-response bias, for example through under-representation of the very top of the income distribution, the elderly and the self-employed. However, in general, comparisons of survey results over successive years justify confidence in their general reliability, and examination of the characteristics and expenditure and income patterns of various groups of households shows a high degree of internal consistency. The data presented in this article have not been reweighted to take account of non-response bias.

The whole analysis is done within the framework of the National Accounts. Various consumers' expenditure aggregates are used as a guide when calculating indirect taxes. Many items (eg earnings from employment, child benefit) are lifted directly from the FES, and National Accounts totals are used to check their validity. Tables 1 and 2 in Appendix 1 give government expenditure and its financing from 1986, derived from the National Accounts.

CHART 1
Stages of redistribution

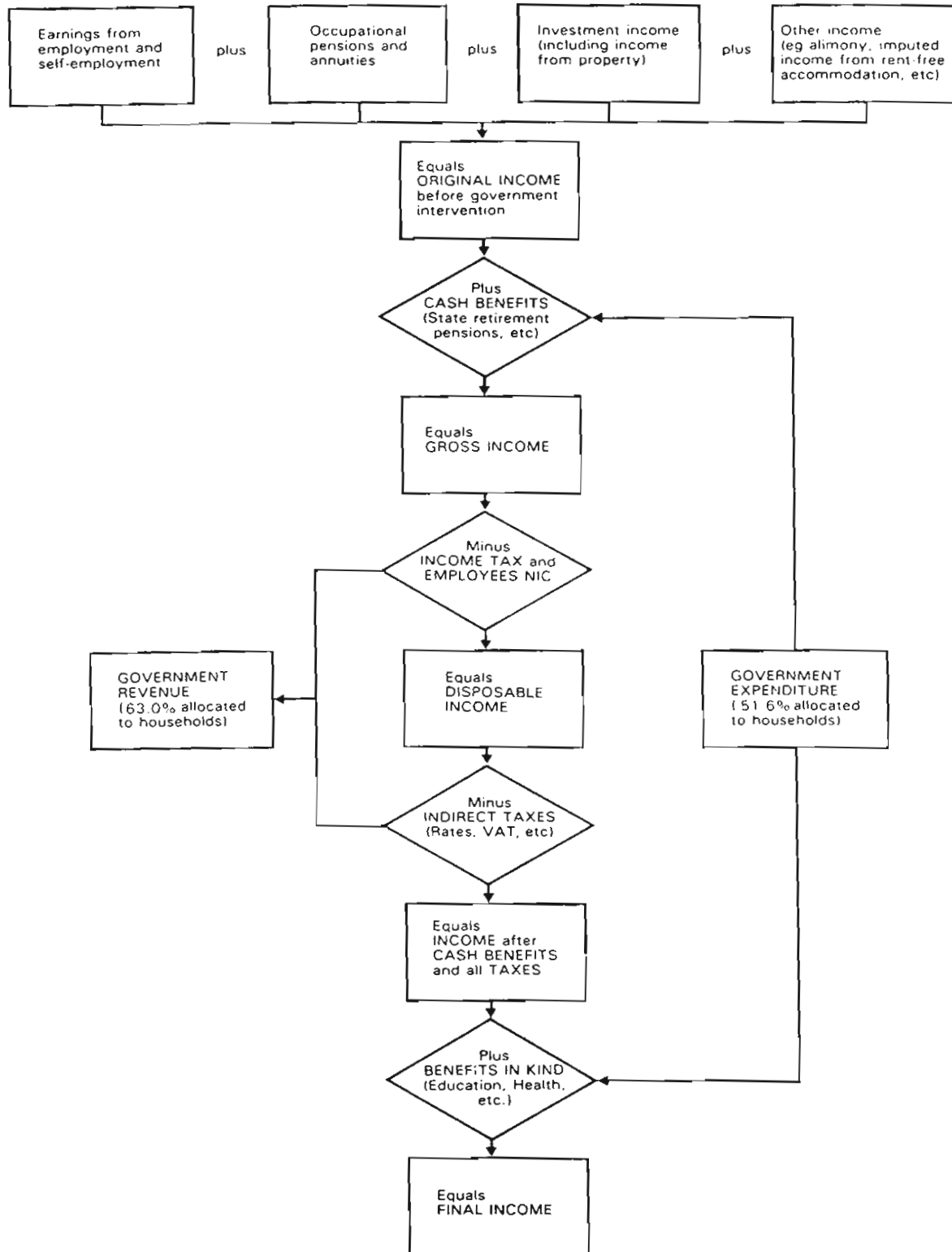
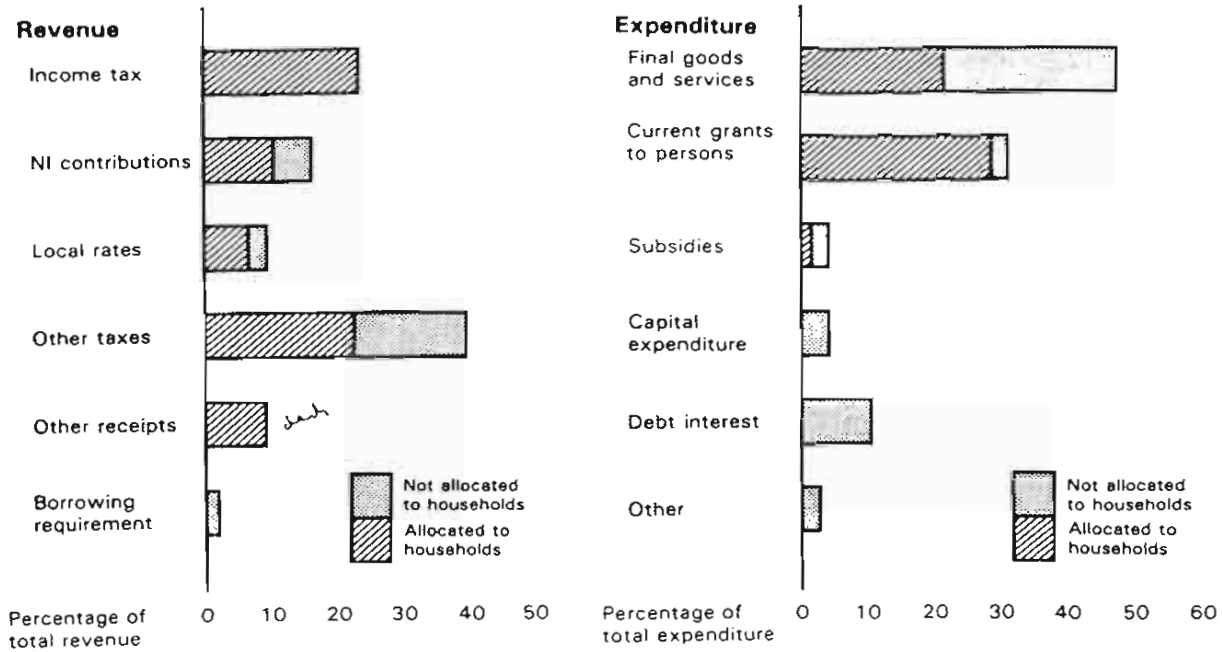


CHART 2

Allocated and unallocated items of government revenue and expenditure, 1986



PART I

RESULTS FOR ALL HOUSEHOLDS

The level of original income varies widely between households. Table A shows this and other income measures for quintile groups ranked by original income (the lowest quintile group contains the 20 per cent of households with the lowest original incomes). Only one in thirty of households in the lowest quintile group has one or more economically active people and hence the average original income is almost zero (£130 per annum). In the highest quintile

group, there are an average of 2.2 economically active people and average original income is £24,790. In the lowest quintile group, nearly two thirds of households are retired (Table B) - defined as households where at least half the total gross income comes from retired people - and the majority of these have virtually no original income since the state retirement pension (including any graduated or additional pension) is a cash benefit.

Summary of the effects of taxes and benefits, 1986

TABLE A

	Quintile groups of households ranked by original income					Average over all households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Original income	130	2 800	8 030	13 180	24 790	9 790
plus cash benefits	3 370	2 730	1 250	870	680	1 780
Gross income	3 500	5 520	9 280	14 060	25 470	11 570
less income tax ¹ and employees' NIC	-10 ²	330	1 490	2 710	5 650	2 030
Disposable income	3 510	5 200	7 790	11 350	19 820	9 530
less indirect taxes	880	1 540	2 280	2 900	4 250	2 370
Income after cash benefits and all taxes	2 620	3 650	5 520	8 450	15 560	7 160
plus benefits in kind	1 510	1 500	1 500	1 670	1 700	1 570
Final income	4 130	5 150	7 020	10 120	17 260	8 740
Percent that are public sector tenants	59	37	22	12	5	27
Average per household (number)						
Children (i.e. aged under 16)	0.4	0.4	0.7	0.8	0.7	0.6
Adults	1.4	1.7	1.9	2.2	2.6	2.0
People in full-time education	0.3	0.3	0.5	0.7	0.7	0.5
Economically active people	-	0.6	1.2	1.8	2.2	1.2
Retired people	0.8	0.8	0.3	0.1	0.1	0.4

¹ After tax relief at source on mortgage interest and life assurance premiums
² Negative average tax payment results largely from imputed tax relief on life assurance premiums paid by those with nil or negligible tax liabilities.

The composition of each quintile group of households ranked by original income, 1986

TABLE B

	Quintile group					Total
	Bottom	2nd	3rd	4th	Top	
Percentages						
Household type						
Retired	64	46	11	3	2	25
Non-retired						
1 adult	11	14	17	8	3	11
2 adults	6	14	26	31	29	21
1 adult with children	9	6	2	1	-	4
2 adults with children	10	12	31	35	25	23
3 or more adults ¹	2	6	12	23	40	17
Total	100	100	100	100	100	100

¹ With or without children.

Chart 3 illustrates the declining importance of cash benefits in gross income from the virtual dependence of the lowest quintile group to a minor income source for the top quintile group.

Chart 4 shows how the dispersion of incomes is reduced at each stage of the tax-benefit system, so that the average final income for each quintile group ranges from £4,130 to £17,260, a ratio of about 1:4 compared with the ratio for original incomes of about 1:190.

An alternative way to illustrate the extent of income redistribution is to examine how income shares are modified by the tax-benefit system (Table C). For example, households in the highest quintile

group receive 51 per cent of all original income. After taking into account cash benefits, this group's share falls to 44 per cent. At the other end of the scale, the share of the lowest quintile group rises from 0.3 per cent to 5.3 per cent. Further, but comparatively smaller, compressions of the income distribution occur at the stages of disposable and final income.

The Gini coefficient (though not without its drawbacks) is the most widely used summary measure of the inequality of the distribution of income (see paragraph 36 of Appendix 2). It takes values between 0 and 100 per cent - the higher values indicating greater inequality. While it is dangerous to draw detailed conclusions from isolated changes in the Gini coefficient, the reduction from 52 per cent to 40 per cent shown in Table C shows that cash benefits produce the largest reduction in income inequality.

Two tables in Appendix 1 show income shares and Gini coefficients for a span of years, 1975 to 1986. The top quintile group of households increased its share of total original income gradually from 44 per cent in 1975 to 51 per cent in 1986. However, in final income terms the increase is smaller - from 38 to 42 per cent. (Table 10). The Gini coefficient for final income increased steadily from 31 per cent in 1975 to 36 per cent in 1986 (Table 11).

Attention has already been drawn to the preponderance of retired households in the lower ranges of the distribution of original income; nearly two-thirds of the households in the lowest quintile group and almost half of those in the second quintile group are retired (Table B). The income pattern of the retired is very different from that of households whose head is of working age, as is their expenditure pattern (which is reflected in their indirect tax payments). For this reason in the detailed examination of each stage of the tax-benefit system which follows, retired and non-retired households are analysed separately.

CHART 3

Sources of gross income, by quintile group of original income, 1986

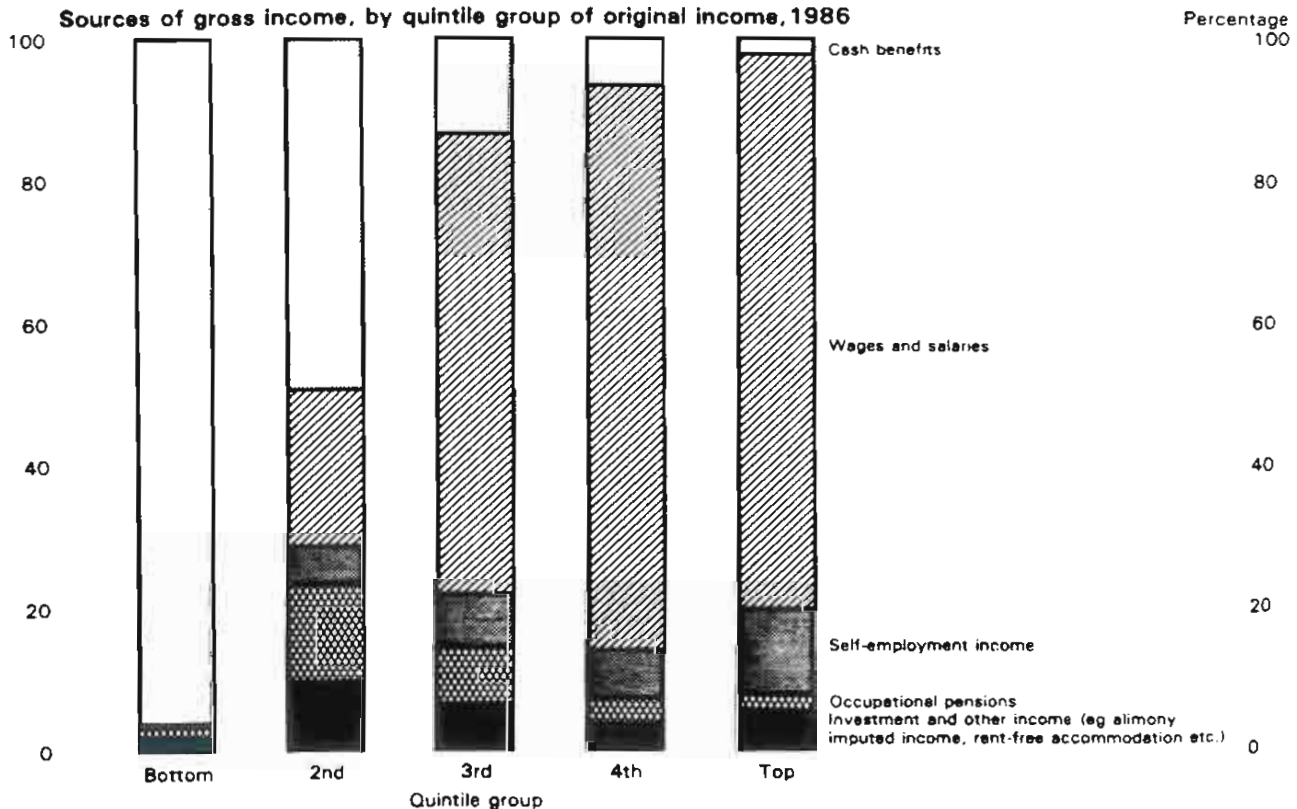
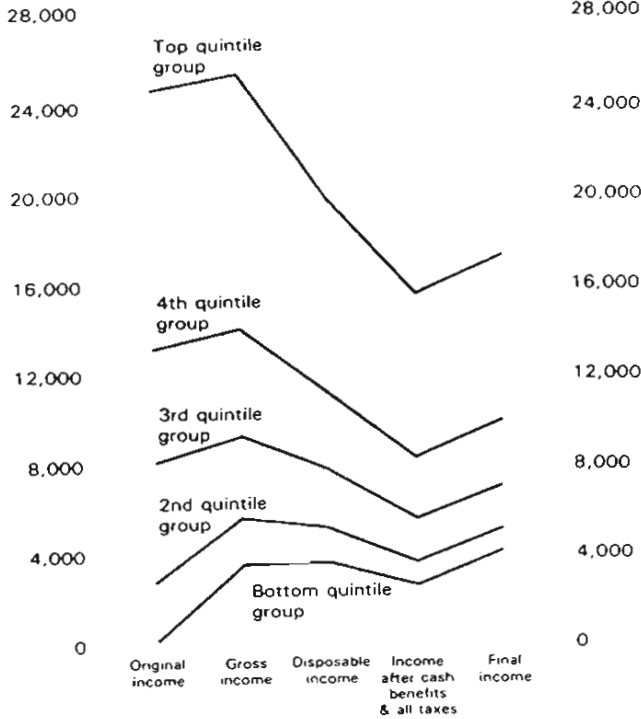


CHART 4

The effects of taxes and benefits on quintile groups¹ of households 1986



¹ Households are ranked throughout by their original incomes

Percentage shares of total household income, 1986

TABLE C

Quintile group	Percentage in each quintile group of households re-ranked at each stage				
	Original income	Gross income	Disposable income	Post-tax ¹ income	Final income
Bottom	0.3	5.3	6.2	5.1	6.3
2nd	6	10	11	10	11
3rd	16	16	17	16	17
4th	27	24	24	24	24
Top	51	44	42	45	42
Total	100	100	100	100	100
Decile group					
Bottom		2.1	2.6	1.6	2.2
Top	32	28	26	28	26
Gini coefficient (percent)					
	52	40	36	40	36

¹ Income after cash benefits and all taxes but before benefits in kind.

RESULTS FOR NON-RETIRED HOUSEHOLDS

Original income

The distribution of original income amongst non-retired households is more equal than amongst all households, ranging from an average of £1,400 per annum in the lowest quintile group to £27,140 in the highest (Table D), a ratio of 1:19 compared to the ratio of 1:191

for the distribution over all households. The relationship between the original income of a household and the number of economically active people it contains is again very strong, and this point is discussed in more detail at the end of this section.

Summary of the effects of taxes and benefits on non-retired households, 1986

TABLE D

	Quintile groups of non-retired households ranked by original income					Average over all households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Original income	1 400	6 820	10 930	15 290	27 140	12 320
plus cash benefits	3 210	1 270	890	720	640	1 340
Gross income	4 610	8 090	11 820	16 020	27 770	13 660
less income tax ¹ and employees' NIC	90	1 110	2 160	3 210	6 220	2 560
Disposable income	4 520	6 980	9 660	12 800	21 550	11 100
less indirect taxes	1 330	2 100	2 630	3 180	4 550	2 760
Income after cash benefits and all taxes	3 190	4 880	7 040	9 620	17 000	8 340
plus benefits in kind	1 900	1 540	1 680	1 640	1 730	1 700
Final income	5 080	6 410	8 710	11 270	18 730	10 040
Percent that are public sector tenants	58	27	18	9	4	23
Average per household (number)						
Children (i.e. under 16)	0.9	0.7	0.9	0.8	0.7	0.8
Adults	1.6	1.9	2.1	2.3	2.6	2.1
People in full-time education	0.7	0.6	0.7	0.7	0.7	0.7
Economically active people	0.5	1.3	1.7	2.0	2.3	1.5
Retired people	0.1	0.2	0.1	0.1	0.1	0.1

¹ After tax relief at source on mortgage interest and life assurance premiums

Cash benefits

Cash benefits are of two types: contributory, paid from the National Insurance Fund to which individuals and their employers make contributions while working, and non-contributory (Table E). For non-retired households, non-contributory benefits form the most important source of cash benefit income. The major item, child benefit, is spread fairly evenly over the income distribution, in proportion to the number of children per household (Table D). The other non-contributory benefits are mainly means-tested, in particular Supplementary Benefit, and so payments are concentrated in the lowest quintile group, although the presence of some individuals with low incomes in high income households means that some payments are recorded further up the income distribution. Even the contributory benefits, for which contribution records rather than income are the criteria for payment, are highest for the bottom quintile group because payment generally results from curtailment of employment income for one reason or another. On average, cash benefits formed 10 per cent of the gross income of non-retired households: their payment resulted in a significant reduction in income inequality.

Average value of cash benefits for each quintile group of non-retired households ranked by original income, 1986

TABLE E

	Quintile group					
	Bottom	2nd	3rd	4th	Top	Total
£ per household						
Contributory						
Retirement pension	270	250	160	110	100	180
Sickness/ injury related	360	170	100	70	60	150
Unemployment benefit	140	110	60	50	40	80
Other	150	80	50	30	30	70
Total contributory	920	620	370	260	220	480
Non-contributory						
Supplementary benefit	1150	140	60	60	50	290
Child benefit	380	280	340	310	280	320
Rent rebates/ allowances	490	70	10		10	120
Sickness/ disablement related	150	80	50	30	40	70
Other	130	80	60	60	40	70
Total non-contributory	2290	650	520	470	420	870
Total cash benefits	3210	1270	890	720	640	1340
Cash benefits as a percentage of gross income	70	16	8	5	2	10

Although the Housing Benefit scheme, which came into operation between November 1982 and April 1983, combined the former systems of rent rebates/allowances and rate rebates, these two forms of housing assistance continue to be treated differently in the national accounts and thus in this article too. Rent rebates and allowances appear as cash benefits whereas rate rebates are treated as reductions in indirect taxation since domestic rates payments are conventionally treated as indirect taxation.

Income tax and National Insurance contribution.

Both income tax payments and employees' National Insurance contributions are closely related to the size of original income. The payments by households of employees' National Insurance contributions in particular vary with the number of persons in

employment and with their earnings. However, since National Insurance contributions are only calculated on the first £285 of weekly earnings (the ceiling in operation during most of 1986), households in the top quintile group pay rather less in contributions as a percentage of gross income than the middle 60 per cent of households (Table F).

The personal tax allowances are large enough to prevent households in the lowest quintile group from paying much tax, and in fact their tax payments are exceeded by their National Insurance contributions - because whereas tax is not levied on the first slice of income below the tax threshold, NI contributions are calculated on all income (up to the maximum already mentioned) including income below the NI threshold. Due to the progressive nature of the income tax system, the proportion of gross income paid in income tax rises from 0.8 per cent for the lowest quintile group to 17.3 per cent for the highest.

Income tax and employees' NIC as percentages of gross income for each quintile group of non-retired households ranked by original income, 1986

TABLE F

	Quintile group					
	Bottom	2nd	3rd	4th	Top	Total
Income tax ¹	0.8	8.4	12.2	13.9	17.3	13.4
Employees' NIC	1.1	5.3	6.1	6.2	5.1	5.3
Total	1.9	13.7	18.2	20.1	22.4	18.7

¹ After tax relief at source on mortgage interest and life assurance premiums

Indirect taxes

In total, indirect taxes expressed as a proportion of disposable income fall as original income rises (Table G), ranging from 30 per cent in the bottom two quintile groups to 21 per cent in the highest, though the highest quintile pay most in indirect taxes in absolute terms. However, individual taxes have divergent effects.

Domestic rates, tobacco duty, beer duty and intermediate taxes (see box below) all fall as a percentage of disposable income as income rises, even though domestic rates payments are reduced considerably by rebates particularly for the bottom quintile group. The fall in tobacco duty payments as a percentage of income is particularly marked. This is because low income households spend broadly as much in duty payments on tobacco as high income households. Car ownership however increases with income and therefore so does the related expenditure as a proportion of total expenditure, in the form of car tax, vehicle excise duty and duty on hydrocarbon oils.

INTERMEDIATE TAXES

Some indirect taxes, such as VAT and excise duties on petrol, alcohol, tobacco, etc. have a direct effect on the final price of goods and services. However, the producers of these goods and services also incur costs such as employers' National Insurance contributions, non-domestic rates, and duty on hydrocarbon oils, part of which they may pass on to households in the price of their products. These are called intermediate taxes.

Indirect taxes as a percentage of disposable income for each quintile group of non-retired households ranked by original income, 1986

TABLE G

	Quintile group					Total
	Bottom	2nd	3rd	4th	Top	
Domestic rates ¹	4.0	5.2	4.3	3.8	2.9	3.7
VAT	7.7	8.4	7.8	7.8	7.3	7.7
Duty on beer	1.0	1.2	1.1	1.0	0.8	1.0
Duty on wines and spirits	0.8	0.9	0.9	0.9	1.0	0.9
Duty on tobacco	5.5	3.4	2.6	1.8	1.1	2.7
Duty on hydrocarbon oils	1.4	1.9	1.8	1.8	1.5	1.7
Car tax and vehicle excise duty	0.7	1.1	1.1	1.1	0.9	1.0
Other taxes on final goods and services	2.0	1.7	2.0	1.4	1.0	1.4
Intermediate taxes	6.3	6.3	5.5	5.2	4.7	5.3
Total	29.5	30.1	27.2	24.8	21.1	24.9

¹ Net of rate rebates and the rates element of housing benefit supplement, but including water, etc. charges.

Although some indirect taxes are broadly progressive, Table G shows that the impact of virtually all the indirect taxes declines for the top quintile group compared with the fourth quintile group. This is so partly because it is likely that higher income households spend a smaller proportion of their income than households with smaller incomes. If the incidence of indirect taxes were to be expressed in terms of expenditure rather than income, they can be shown to be rather more progressive.

Benefits in kind

Government current expenditure in providing certain goods and services to households either free at the time of use or at subsidised prices is converted by imputation into the equivalent of an income flow to individual households in order to arrive at final income. The largest two items for which such imputations are made are the health and education services, which together accounted for 22.3 per cent of total general government expenditure in 1986. Other items for which imputations are made are school meals and milk, the housing subsidy and travel subsidies, together accounting for a further 2.1 per cent of general government expenditure.

Average value of benefits in kind for each quintile group of non-retired households ranked by original income, 1986

TABLE H

	Quintile group					Total
	Bottom	2nd	3rd	4th	Top	
£ per household						
Education	930	710	840	850	870	840
National health service	680	680	730	680	730	700
Housing subsidy	140	60	40	30	10	60
Travel subsidies ¹	30	50	40	60	110	60
School meals and milk	110	30	30	20	20	40
Total	1900	1540	1680	1640	1730	1700
Benefits in kind as a percentage of post-tax ¹ income	60	32	24	17	10	20

¹ Income after cash benefits and all taxes.

Education benefit to individual households is imputed by reference to the number of pupils and students in the households (students living away from home are not included as part of their parents' household), and to the type of education they are receiving, though no allowance is made for differing costs between local authorities. The bottom quintile group contains the largest number of student households for whom the costs of education are greatest. The result is that the lowest quintile group is allocated the highest average imputed benefit (Table H). The impact of expenditure on school meals and milk is greatest in the lower income groups since children from these households are more likely to take school meals and to have them provided free of charge.

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 - and it is possible to estimate the use made of each service on average by individuals of different age and sex. Using this information, an imputed benefit from the health service can be allocated to each individual in the FES sample. These benefits are then aggregated for members of the household to yield figures on a household basis, so that not only the sex and age composition but also the size of the household determines the attribution of health service benefits.

Age and sex are by no means the only possible determinants on which to base the allocation, but age is certainly a very important factor. Data availability also limits the choice of determinants - the FES collects little information on health or use of health services. Table H indicates that these benefits show little variation with income, on the assumption that the use made of the national health service depends on age and sex regardless of the level of income.

Housing subsidy is the sum of Exchequer Subsidy and local authority determined rate fund contributions to the housing revenue account. Thus housing subsidy as defined here has been spread between public sector tenants, and since such households tend to be concentrated in the lower half of the income distribution this is where the subsidy is highest. In these articles, tax relief on mortgage interest is treated as an adjustment to income tax, not as part of the housing subsidy analysed in Table H.

Travel subsidies cover the passenger element of the grants made to various public transport operations covering both buses and railways. The use of public transport by non-retired households is partly related to the need to travel to work and thus to the number of economically active people in a household and so the combined effect of these travel subsidies increases over the income distribution. The heavy use of railways by households in the top quintile group, particularly commuters, means that their imputed benefit is nearly twice the average of all households.

Table H shows that taken together the absolute values of these benefits in kind show no clear relationship with household income, given the assumptions made in making the imputations. However as a proportion of post-tax income, benefits decrease from 60 per cent in the lowest quintile group to 10 per cent in the highest quintile group, indicating that this expenditure contributes to the reduction in income inequality.

Percentage shares of total household income for non-retired households, 1986

TABLE J

	Percentage in each quintile group of non-retired households re-ranked at each stage				
	Original income	Gross income	Disposable income	Post-tax ¹ income	Final income
Quintile group					
Bottom	2.3	6.3	7.2	5.7	6.7
2nd	11	12	13	12	13
3rd	18	17	18	17	18
4th	25	24	23	23	23
Top	44	41	39	42	39
Total	100	100	100	100	100
Decile group					
Bottom	0.1	2.3	2.7	1.7	2.2
Top	28	25	24	26	24
Gini coefficient (percent)	42	35	32	36	33

¹ Income after cash benefits and all taxes but before benefits in kind

The overall effect of the various stages of the tax-benefit system on non-retired households is summarised in Table J. Households in the highest quintile group receive 44 per cent of all original income, compared with 2 per cent received by the lowest quintile group. However after taxes and benefits are taken into account, the share of the lowest quintile group rises to 7 per cent and that of the highest falls to 39 per cent. Cash benefits are the major factor underlying these changes, causing the Gini coefficient to fall from 42 per cent based on original income to 35 per cent based on gross income. Income tax and employees' National Insurance contributions produced a further reduction in inequality, but payment of indirect taxes increases inequality. Benefits in kind reduce income dispersion.

As already mentioned, the size of original income is largely determined by the number of economically active people in the household - even though someone may be defined as economically active if they have been out of work for up to a year as long as they are seeking work. This relationship between income and economic activity amongst non-retired households is explored further in Table K, in which households are classified according to the number of economically active people they contain.

Original income ranges from an average of £1,200 per annum in households where there are no economically active people to an average of £21,120 in households where there are three or more. Cash benefits are concentrated in households where no-one is economically active and here they form 75 per cent of gross income; but they remain substantial, at 13 per cent of gross income, for those where one household member is economically active. This latter group will contain a number of households where no-one is currently in work.

Not only does average original income differ widely between these four household groups but they also differ considerably in the degree of variation of income within the groups. As measured by the Gini coefficient, variability in original income is very high amongst households where no-one is economically active but where two or more persons are economically active the variability is considerably less. Equally, the tax-benefit system has the effect

Average incomes, taxes and benefits by the number of economically active people per non-retired household, 1986

TABLE K

	Number of economically active people ¹ per household			
	None	One	Two	Three or more
<i>Number of households in the sample</i>	639	1 989	2 123	615
Average per household (£ per year)				
Original income	1 200	9 470	15 780	21 120
<i>plus cash benefits</i>	3 530	1 370	790	920
Gross income	4 730	10 840	16 560	22 040
<i>less income tax and employees' NIC</i>	80	2 000	3 260	4 490
Disposable income	4 650	8 840	13 300	17 560
<i>less indirect taxes</i>	1 270	2 290	3 120	4 560
Income after cash benefits and all taxes	3 380	6 540	10 180	13 000
<i>plus benefits in kind</i>	2 000	1 550	1 620	2 140
Final income	5 370	8 090	11 800	15 140
Gini coefficients (per cent)				
Original income	87	39	28	24
Gross income	30	32	26	22
Final income	35	33	26	22

¹ Economically active people comprise employees, the self employed and others not in employment but who are seeking or intending, when able, to seek work.

of substantially reducing inequality between the different types of households within the economically inactive group. This results largely from the diverse nature of the economically inactive group, which ranges from single parents with young children, single full-time students, the disabled, and households where no member has been able to find work during the 12 months prior to interview, to a small number of households where income from other sources such as investments means that they have no need to work.

RESULTS FOR RETIRED HOUSEHOLDS

Retired households have quite distinct income and expenditure patterns and so the tax-benefit system affects them in a different way to non-retired households (Table L). Few retired households have substantial original income; those who do are concentrated in the top quintile group and are receiving occupational pensions. The majority of retired households are dependent on cash benefits, in the form of state retirement pensions and, particularly in the bottom quintile group, income-related benefits such as rent rebates and allowances and Supplementary Pension.

Thus cash benefits form a very high proportion of gross income for all but the better-off retired households. However, unlike non-retired households, the bulk of these cash benefits are paid from the National Insurance Fund into which the recipients will have made contributions throughout their working lives.

People over pensionable age do not pay National Insurance contributions so the small payments recorded are made by non-retired people living in households defined as retired (see Appendix 2 paragraph 7 for details of definition). All households except those in the highest quintile group of retired households pay very little income tax, because their income is unlikely to exceed their tax allowances unless they have significant income from investments or occupational pensions in addition to their state retirement pension. The largest indirect tax payment made by retired households is VAT; their payments of domestic rates are reduced by rebates particularly in the lower half of the income distribution.

Retired households derive significant benefits from health services and, to a lesser extent, the housing subsidy and travel subsidies, though of course virtually none from the education service. Health benefit is spread fairly evenly within the group of retired households, as a result primarily of the attribution method used, but housing subsidy is substantially higher for low income households since they are more likely to be public sector tenants. The benefits received by retired households from travel subsidies are mainly for bus travel, particularly in the form of concessionary fares, passes, etc, for senior citizens, and since these are not usually means-tested but depend instead on what sort of scheme is being operated by their local authority, there is no particular relationship with income.

Effects of taxes and benefits on retired households, 1986

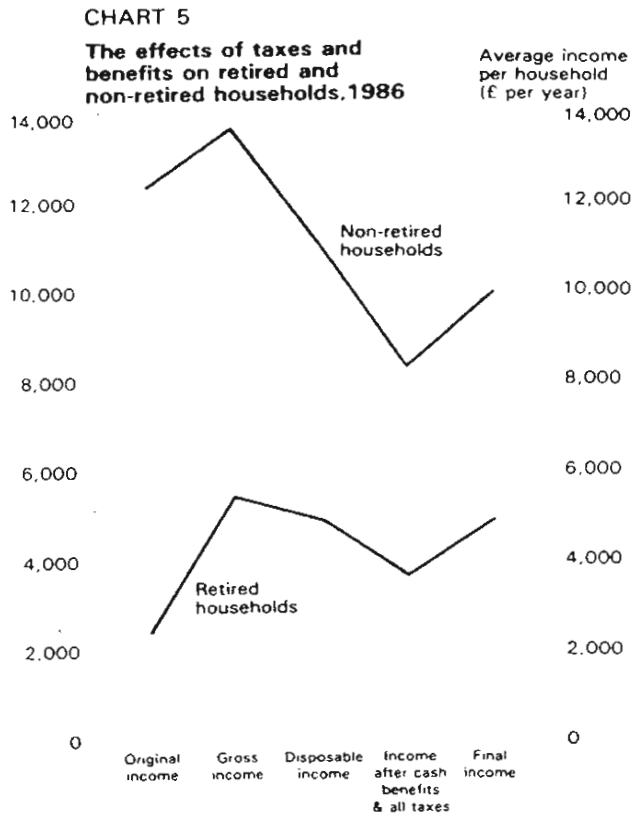
TABLE L

	Quintile groups of retired households ranked by original income					Average over all households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Original income	-	150	680	2 030	8 600	2 290
<i>plus cash benefits</i>						
Contributory						
Retirement pensions	2 230	2 380	2 450	2 630	2 500	2 440
Sickness/ injury related	80	30	70	130	120	80
Unemployment benefit	-	-	10	10	20	10
Other	10	40	50	40	40	40
Non-contributory						
Supplementary benefit	180	140	60	20	10	80
Child benefit	10	-	-	-	10	-
Rent rebates/ allowances	530	400	210	60	-	240
Sickness/ disablement related	130	80	100	120	100	100
Other	80	60	70	80	80	80
Gross income	3 260	3 270	3 700	5 110	11 480	5 360
<i>less income tax</i> ¹	-10	10	50	310	2 030	480
<i>less employees' NIC</i>	-	-	-	-	20	10
Disposable income	3 270	3 270	3 650	4 800	9 420	4 880
<i>less indirect taxes</i>						
Domestic rates	140	160	250	370	540	290
VAT	160	180	200	310	650	300
Tobacco duty	80	60	100	110	90	90
Other taxes on final goods and services	130	170	200	280	540	260
Intermediate taxes	170	190	210	280	530	280
Income after cash benefits and all taxes	2 590	2 500	2 680	3 460	7 060	3 660
<i>plus benefits in kind</i>						
Education	20	-	-	10	60	20
National health service	1 000	1 070	1 010	1 070	1 060	1 050
Housing subsidy	140	100	80	70	20	80
Travel subsidies	60	70	60	80	70	70
Final income	3 810	3 730	3 840	4 700	8 280	4 870

¹ After tax relief at source on mortgage interest and life assurance premiums

Table M shows the extent to which income inequality amongst retired households is reduced by the tax-benefit system. Cash benefits play by far the largest part in bringing about this reduction and income tax payments make a further, though much smaller, contribution. Payments of indirect taxes and receipts of benefits in kind produce only a marginal reduction in dispersion and so the distribution of final income is little changed from the distribution of disposable income.

A comparison of Table M with Table J shows that although the distribution of original income amongst retired households is much more unequal than that within the non-retired household group, the distribution of final income is more equal amongst the retired than amongst the non-retired. Chart 5 illustrates the different impact which the tax-benefit system has on retired and non-retired households.



Percentage shares of total household income for retired households, 1986

TABLE M

Quintile group	Percentage in each quintile group of retired households re-ranked at each stage				
	Original income	Gross income	Disposable income	Post-tax ¹ income	Final income
Bottom	1	9.1	9.9	7.8	9.3
2nd	1	12	13	13	14
3rd	6	15	16	16	17
4th	18	20	21	21	22
Top	75	44	40	42	37
Total	100	100	100	100	100
Decile group					
Bottom		4.1	4.5	2.6	3.5
Top	54	29	25	27	23
Gini coefficient (percent)	73	34	30	33	28

¹ Income after cash benefits and all taxes but before benefits in kind.

PART II

DETAILED BREAKDOWN OF ORIGINAL INCOME

Table N shows that almost 90 per cent of original income comes from earnings, with 5 per cent each from occupational pensions/annuities and investment income. The pattern for retired households is very different with 60 per cent of the total from occupational pensions/annuities and 35 per cent from investments. Among the quintile groups, investment income as a proportion of total original income is highest for the bottom group (40 per cent) then falls to 14 per cent for the second group and 5 per cent for the top group.

A more detailed look at income from earnings and investments is given in Tables O and P. For all households; some 85 per cent of earnings income comes from the main job with 12 per cent coming from self-employment. There is little variation in these proportions between quintile groups (Table O). Half of investment income comes from building society interest, with stocks and shares the next largest category, forming 27 per cent of the total (Table P). There is a big difference between retired and non-retired

Components of original income, 1986

TABLE N

	Quintile groups of households ranked by original income					Retired	Non-Retired	Average over all households
	Bottom	2nd	3rd	4th	Top			
Average per household (£ per year)								
Earnings								
of highest earner	10	1 420	5 980	9 400	16 050	110	8 760	6 570
of others	-	80	710	2 760	6 720	10	2 750	2 050
Total earnings	10	1 500	6 700	12 160	22 770	110	11 500	8 630
Occupational pensions, annuities	50	770	720	480	620	1 360	250	530
Investment income	50	400	480	430	1 180	780	410	510
Other income ¹	10	130	130	110	220	20	150	120
Total original income	130	2 800	8 030	13 180	24 790	2 290	12 320	9 790
Number of households in the sample	1 435	1 436	1 436	1 435	1 436	1 812	5 366	7 178

¹ Trade union benefits, income of children under 16, imputed value of rent free accommodation (when tenure not dependant on job), private scholarships, earnings as a mail order agent or baby sitter, regular allowance from non-spouse, allowance from absent spouse

households with the former having almost twice as much investment income as the latter. The proportions of building society interest and stocks and shares vary between quintile groups: the middle three groups have some 60 per cent of their investment income from building society interest whereas the top quintile group has 37 per cent, and 50 per cent for the bottom group. Stocks and shares form 37 per cent of the total for the top quintile group and the proportion declines to 4 per cent for the bottom quintile group.

Table Q gives a breakdown of original income by household type. For all the non-retired groups, earnings make up at least 90 per cent of the total - except the 1 adult with children group where the figure is 64 per cent. This group also has a large amount of 'other income', (forming some 30 per cent of the total) - this is mainly a regular allowance from a non-spouse ie alimony. Income from investments and occupational pensions/annuities contribute little to original income for the non-retired groups, but both these sources are important for retired households.

Components of earnings, 1986

TABLE O

	Quintile groups of households ranked by original income					Retired	Non-Retired	Average over all households
	Bottom	2nd	3rd	4th	Top			
Average per household (£ per year)								
Gross earnings from main job	10	1 170	5 870	10 990	18 970	90	9 870	7 400
Gross earnings from subsidiary jobs	-	10	40	60	130	-	70	50
Occasional payments	-	10	40	100	540	-	180	140
Income in kind	-	20	30	50	70	10	40	40
Self-employment income	-	290	710	960	3 050	10	1 340	1 000
Income from odd jobs	-	-	10	-	10	-	-	-
Total earnings	10	1 500	6 700	12 160	22 770	110	11 500	8 630

Components of investment income, 1986

TABLE P

	Quintile groups of households ranked by original income					Retired	Non-Retired	Average over all households
	Bottom	2nd	3rd	4th	Top			
Average per household (£ per year)								
Building Society interest (gross)	30	240	290	260	440	390	200	250
Dividends on stocks and shares (gross)	-	50	100	80	440	230	100	140
Other interest ¹	20	80	60	40	140	130	50	70
Income from property	-	10	30	30	90	30	40	30
Other unearned income	-	10	-	10	70	20	20	20
Total investment income	50	400	480	430	1 180	800	410	510

¹ National Savings Bank Investment and Ordinary Savings accounts, TSB deposits, British Savings Bonds and War Loan, other savings bank accounts and deposits.

Components of original income by household type¹, 1986

TABLE Q

	Retired households		Non-retired households							Average over all households	
	1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults 1 child	2 adults 2 children	2 adults 3 or more children		3 or more adults with children
£ per household											
Earnings											
of highest earner	20	210	6 020	8 840	9 740	1 600	9 580	10 720	9 110	11 230	6 570
of others	-	10	-	3 220	6 710	-	2 090	1 630	930	4 780	2 050
Total earnings	20	230	6 020	12 060	16 450	1 600	11 660	12 340	10 040	16 020	8 630
Occupational pensions, annuities	730	2 110	170	450	460	80	100	30	10	160	530
Investment income	490	1 160	490	540	610	80	170	330	130	340	510
Other income ²	20	30	70	80	110	730	290	90	150	200	120
Total original income	1 260	3 520	6 740	13 130	17 620	2 490	12 230	12 800	10 330	16 710	9 790
Number of households in the sample	986	826	758	1 530	746	266	550	742	325	449	7 178

¹ See appendix 2 for definitions of adults, children and retired households.

² Trade union benefits, income of children under 16, imputed value of rent free accommodation (when tenure not dependant on job), private scholarships, earnings as a mail order agent or baby sitter, regular allowance from non-spouse, allowance from absent spouse.

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¹ Footnote to Table 4. Some of the household types in this table are based on relatively small sample sizes, and these results are subject to a greater degree of uncertainty. Large fluctuations can occur from year to year and these could mislead anyone attempting to analyse time series. For example, the one adult with children group has 266 households in the 1986 sample. Two households in this group recorded exceptionally large payments on 'structural additions' which together with associated legal expenses, averaged £4,200 per week in the diary record (covering a fortnight). Large values like these greatly affect the averages for this small group (there were no such large values in 1985). If these two items were excluded for these two households, taxes on final goods and services would fall from £1,791 to £1,250 in the top quintile group and from £892 to £784 over all quintile groups (see Table 4 (vi) in this appendix). Intermediate taxes would fall from £680 to £525 in the top quintile group and from £345 to £314 over all quintile groups, with consequential increases in 'income after cash benefits and all taxes' and 'final income'. These large values occur from time to time because of the way expenditure is recorded in the FES. Whilst income is assessed in terms of a household's estimated 'usual' weekly income over a 12-month period, the assessment of all expenditure items over such a period in the FES is not practical and therefore many items have to be recorded over a two-week period, and are then converted to an annual basis. This can sometimes lead to an apparent imbalance between income and expenditure.

General government expenditure in 1986

TABLE 1

	£ million	Percentage of total expenditure
Allocated expenditure¹		
Allocated cash benefits		
Social security benefits		
National Insurance (contributory)		
Retirement	17 700	10.9
Widows and guardians	870	0.5
Unemployment	1 790	1.1
Sickness/ Statutory sick pay	920	0.6
Invalidity	2 720	1.7
Maternity	180	0.1
Disablement	460	0.3
Other	90	0.1
Non-contributory		
Child benefit	5 000	3.1
Supplementary benefit	8 230	5.1
War pension	570	0.4
Other	1 690	1.0
Student maintenance grants ²	750	0.5
Rent rebates and rent allowances	3 250	2.0
Allocated benefits in kind		
Health services	18 240	11.2
Education	17 880	11.0
School meals and milk	670	0.4
Housing subsidy	1 430	0.9
Travel subsidies ³	1 330	0.8
	83 760	51.6
Unallocated expenditure		
Other current expenditure	52 370	32.3
Capital expenditure	6 500	4.0
Debt interest	17 020	10.5
Non-trading capital consumption	2 540	1.6
Total expenditure	162 190	100.0

¹ Including benefits to people not living in private households

² Estimated.

³ Including concessionary fares expenditure

Source: United Kingdom National Accounts, 1987 edition, Table 9.4

Financing of general government expenditure in 1986

TABLE 2

	£ million	Percentage of total financing
Allocated financing ¹		
Income tax ²	37 620	23.2
Employees' and self-employed NI contributions	12 810	7.9
Indirect taxes		
Domestic rates (net of rebates)	7 020	4.3
Taxes on final goods and services		
VAT	16 020	9.9
Duty on beer and cider	1 920	1.2
Duty on wines and spirits	1 960	1.2
Duty on tobacco	4 470	2.8
Duty on hydrocarbon oils	3 430	2.1
Car tax and vehicle excise duty	2 180	1.3
Other	2 400	1.5
Taxes and NI contributions on intermediate goods and services		
Employers' NI contributions	4 330	2.7
Commercial and industrial rates	3 750	2.3
Duty on hydrocarbon oils	1 970	1.2
VAT	1 030	0.6
Vehicle excise duty	520	0.3
Other	690	0.4
	102 120	63.0
Unallocated financing		
Employers' NI contributions not allocated	8 930	5.5
Indirect taxes		
Commercial and industrial rates not allocated	4 470	2.8
Other taxes on expenditure not allocated		
VAT	5 670	3.5
Duty on hydrocarbon oils	1 900	1.2
Other	2 870	1.8
Other taxes		
Corporation tax	12 050	7.4
Petroleum revenue tax	2 700	1.7
Taxes on capital	2 590	1.6
Other receipts ³	15 620	9.6
Government borrowing requirement	3 270	2.0
Total financing	162 190	100.0

¹Including taxes paid by people not living in private households.

²Net of tax relief at source on mortgage interest and life assurance premiums.

³Receipts of rent, royalties and licence fees on oil and gas production, interest, dividends, trading income and miscellaneous transactions (net).

Source: *United Kingdom National Accounts, 1987 edition*, Table 9.1

Average incomes, taxes and benefits, 1986

By decile groups of households ranked by original and disposable incomes

TABLE 3

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
(i) Ranked by original income											
All households											
Decile points (£)	13 663 2 598 5 460 8 044 10 517 13 097 16 153 21 163										
Number of households in the sample	718	717	718	718	718	718	718	717	718	718	7178
Original income	1	257	1 507	4 086	6 784	9 274	11 792	14 572	18 382	31 194	9 785
Direct benefits in cash											
Contributory											
Retirement pension	1 111	1 883	1 835	1 038	612	322	260	158	133	142	749
Sickness/ injury related	195	96	269	242	131	123	90	75	60	70	135
Unemployment benefit	37	44	61	117	104	62	59	46	37	41	61
Other contributory benefits	72	68	93	107	67	62	42	33	28	21	59
Non-contributory											
Supplementary benefit	1 083	373	304	253	86	67	66	62	59	50	240
Child benefit	236	86	115	213	230	305	324	312	303	253	238
Rent rebates/ allowances	609	398	222	133	53	21	9	4	3	9	146
Sickness/ disablement related	160	115	117	97	73	63	47	44	33	29	78
Other non-contributory benefits	83	95	85	150	89	34	68	52	52	40	75
Gross income	3 587	3 413	4 608	6 437	8 230	10 333	12 756	15 358	19 089	31 848	11 566
Income tax ¹ and Employees' NIC	-21	11	133	518	1 185	1 787	2 356	3 058	3 994	7 312	2 034
Disposable income	3 608	3 403	4 475	5 918	7 044	8 545	10 401	12 299	15 095	24 535	9 533
Domestic rates ²	124	176	285	337	387	413	435	486	522	664	383
Taxes on final goods and services	539	512	756	1 052	1 231	1 576	1 670	2 006	2 355	3 095	1 479
Intermediate taxes	201	212	273	386	436	509	550	654	792	1 081	509
Income after cash benefits and all taxes	2 743	2 502	3 161	4 144	4 990	6 047	7 746	9 154	11 427	19 695	7 161
Benefits in kind											
Education	490	252	331	573	614	683	863	839	860	831	634
National health service	867	947	917	818	723	742	728	696	715	731	789
Housing subsidy	162	100	92	69	53	46	37	26	19	12	62
Travel subsidies	45	56	63	50	53	45	46	50	78	117	60
School meals and milk	66	29	34	51	29	21	25	22	19	14	31
Final income	4 373	3 886	4 598	5 704	6 462	7 583	9 445	10 788	13 118	21 399	8 736
(ii) Ranked by disposable income											
All households											
Decile points (£)	3 001 4 065 5 124 6 589 7 961 9 566 11 347 13 617 17 348										
Number of households in the sample	718	718	717	718	718	718	718	717	718	718	7 178
Original income	349	953	2 039	4 118	6 664	8 822	11 616	14 314	18 227	30 748	9 785
Direct benefits in cash											
Contributory											
Retirement pension	1 342	1 519	1 385	988	609	604	336	276	245	191	749
Sickness/ injury related	47	71	162	213	217	173	138	147	96	85	135
Unemployment benefit	30	20	51	94	113	70	70	64	48	48	61
Other contributory benefits	57	78	60	113	65	51	51	37	45	34	59
Non-contributory											
Supplementary benefit	289	390	536	376	279	165	111	102	67	87	240
Child benefit	45	81	178	242	284	301	321	311	321	294	238
Rent rebates/ allowances	310	414	328	182	109	55	33	15	5	9	146
Sickness/ disablement related	14	38	61	149	102	127	98	65	54	68	78
Other non-contributory benefits	36	54	98	99	76	74	84	78	80	68	75
Gross income	2 521	3 619	4 898	6 576	8 520	10 441	12 857	15 409	19 188	31 631	11 566
Income tax ¹ and Employees' NIC	68	123	319	721	1 255	1 696	2 386	3 001	3 957	6 809	2 034
Disposable income	2 453	3 495	4 579	5 855	7 265	8 746	10 472	12 408	15 231	24 822	9 533
Domestic rates ²	174	205	248	320	370	404	437	474	538	659	383
Taxes on final goods and services	434	509	784	1 042	1 257	1 578	1 672	2 035	2 342	3 141	1 479
Intermediate taxes	188	203	284	383	421	508	546	669	799	1 092	509
Income after cash benefits and all taxes	1 657	2 578	3 262	4 110	5 218	6 257	7 816	9 229	11 553	19 930	7 161
Benefits in kind											
Education	144	186	339	595	696	707	905	873	911	978	634
National health service	745	794	883	822	771	833	739	734	772	792	789
Housing subsidy	90	113	113	88	67	49	39	30	16	12	62
Travel subsidies	47	47	60	53	45	42	46	65	81	116	60
School meals and milk	10	24	42	59	50	34	30	22	23	16	31
Final income	2 693	3 742	4 699	5 727	6 848	7 922	9 575	10 953	13 357	21 844	8 736

¹ Net of tax relief at source on mortgage interest and life assurance premiums. See Appendix 1

² Net of the rate element of housing benefit, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of original income within household type

TABLE 4

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
(i) 1 adult retired						
Quintile points (£)		130	575	1 597		
Number of households in the sample	394 ¹	198	197	197	986	
Original income	23	342	969	4 940	1 258	
Direct benefits in cash						
Contributory						
Retirement pension	1 968	1 984	1 985	1 868	1 955	
Sickness/ injury related	9	14	11	34	15	
Unemployment benefit	-	-	6	8	3	
Other	16	77	56	96	52	
Total contributory	1 993	2 076	2 057	2 006	2 025	
Non-contributory						
Supplementary benefit	127	33	3	-	58	
Child benefit	-	-	-	-	-	
Rent rebates/ allowances	539	310	160	20	314	
Sickness/ disablement related	55	56	17	24	41	
Other	69	34	67	48	58	
Total non-contributory	790	433	247	93	470	
Gross income	2 806	2 850	3 273	7 039	3 754	
Income tax ² and Employees' NIC	-1	34	111	1 226	274	
Disposable income	2 806	2 816	3 163	5 813	3 480	
Domestic rates ³	130	183	262	446	230	
Taxes on final goods and services	273	310	385	628	374	
Intermediate taxes	146	165	184	292	187	
Income after cash benefits and all taxes	2 257	2 158	2 332	4 447	2 690	
Benefits in kind						
Education	-	-	7	-	1	
National health service	889	874	826	757	847	
Housing subsidy	128	91	87	40	95	
Travel subsidies	51	50	50	62	53	
School meals and milk	-	-	-	-	-	
Final income	3 325	3 173	3 301	5 306	3 686	
(ii) 2 or more adults retired						
Quintile points (£)	152	890	2 376	5 672		
Number of households in the sample	165	165	166	165	165	826
Original income	30	502	1 527	3 856	11 704	3 521
Direct benefits in cash						
Contributory						
Retirement pension	3 044	3 174	3 120	3 022	2 724	3 017
Sickness/ injury related	186	109	221	193	120	166
Unemployment benefit	-	10	16	28	22	15
Other	17	23	18	18	15	18
Total contributory	3 247	3 315	3 376	3 261	2 882	3 217
Non-contributory						
Supplementary benefit	312	148	68	38	1	113
Child benefit	19	-	-	9	9	7
Rent rebates/ allowances	411	220	89	15	-	147
Sickness/ disablement related	246	164	166	202	114	178
Other	104	56	77	204	52	98
Total non-contributory	1 092	588	400	468	176	545
Gross income	4 370	4 405	5 302	7 585	14 763	7 282
Income tax ² and Employees' NIC	-15	29	146	623	2 880	732
Disposable income	4 385	4 376	5 156	6 962	11 883	6 551
Domestic rates ³	190	246	353	450	602	368
Taxes on final goods and services	644	728	831	1 151	1 558	982
Intermediate taxes	251	290	290	489	612	386
Income after cash benefits and all taxes	3 299	3 112	3 683	4 872	9 111	4 814
Benefits in kind						
Education	54	-	16	35	105	42
National health service	1 381	1 314	1 259	1 323	1 138	1 283
Housing subsidy	119	66	64	60	4	63
Travel subsidies	83	84	101	85	68	84
School meals and milk	1	-	-	-2	3	-
Final income	4 937	4 576	5 123	6 373	10 428	6 286

¹ More than a fifth of these households had no original income, so the bottom group is undefined

² After tax relief at source on mortgage interest and life assurance premiums

³ Net of the rate rebate element of housing benefit but including water, etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of original income within household type

TABLE 4 (continued)

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
(iii) 1 adult non-retired						
Quintile points (£)						
Number of households in the sample	694	4 362	7 074	10 583		
Original income	152	151	152	151	152	758
Direct benefits in cash	64	2 661	5 839	8 748	16 390	6 743
Contributory						
Retirement pension	-	464	39	73	16	118
Sickness/ injury related	318	126	68	32	10	111
Unemployment benefit	76	85	21	6	9	39
Other	171	244	133	103	59	142
Total contributory	565	920	261	215	94	410
Non-contributory						
Supplementary benefit	1 004	158	33	11	-	242
Child benefit	-	2	-	-	-	-
Rent rebates/ allowances	559	243	21	6	-	166
Sickness/ disablement related	197	30	-	7	33	54
Other	121	57	-	1	13	39
Total non-contributory	1 881	489	54	25	47	500
Gross income	2 510	4 070	6 152	8 988	16 531	7 653
Income tax ¹ and Employees' NIC	-20	310	1 207	2 057	3 690	1 449
Disposable income	2 530	3 760	4 946	6 931	12 841	6 204
Domestic rates ²	114	268	302	397	432	303
Taxes on final goods and services	516	642	884	1 197	1 526	953
Intermediate taxes	159	222	306	391	520	320
Income after cash benefits and all taxes	1 740	2 627	3 454	4 946	10 362	4 628
Benefits in kind						
Education	246	157	61	-	-	93
National health service	262	297	211	213	199	236
Housing subsidy	135	87	43	38	12	63
Travel subsidies	21	35	40	38	71	41
School meals and milk	2	-	-	-	-	-
Final income	2 406	3 204	3 807	5 235	10 644	5 062
(iv) 2 adults non-retired						
Quintile points (£)						
Number of households in the sample	5 750	9 806	13 636	18 167		
Original income	306	306	306	306	306	1 530
Original income	2 741	7 922	11 732	15 702	27 532	13 126
Direct benefits in cash						
Contributory						
Retirement pension	798	407	205	107	114	326
Sickness/ injury related	586	193	98	57	54	198
Unemployment benefit	123	87	41	24	25	60
Other	103	63	38	7	23	47
Total contributory	1 611	750	382	196	215	631
Non-contributory						
Supplementary benefit	603	60	29	18	11	144
Child benefit	10	11	4	4	1	6
Rent rebates/ allowances	254	62	15	6	2	68
Sickness/ disablement related	253	88	32	23	18	83
Other	139	39	39	26	3	49
Total non-contributory	1 258	260	118	77	35	350
Gross income	5 610	8 932	12 232	15 975	27 782	14 106
Income tax ¹ and Employees' NIC	297	1 437	2 420	3 448	6 486	2 817
Disposable income	5 314	7 496	9 812	12 527	21 297	11 289
Domestic rates ²	273	390	410	466	593	426
Taxes on final goods and services	1 016	1 401	1 720	1 898	2 503	1 708
Intermediate taxes	337	474	507	617	878	563
Income after cash benefits and all taxes	3 687	5 230	7 175	9 547	17 322	8 592
Benefits in kind						
Education	273	91	87	37	-	98
National health service	661	595	498	435	442	526
Housing subsidy	102	49	36	24	3	43
Travel subsidies	60	66	38	52	96	62
School meals and milk	2	-	-	-	-	-
Final income	4 785	6 031	7 835	10 095	17 862	9 322

¹ After tax relief at source on mortgage interest and life assurance premiums.

² Net of the rate rebate element of housing benefit, but including water etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of original income within household type

TABLE 4 (continued)

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
(v) 3 or more adults, with no children						
Quintile points (£)		9 750	14 124	18 511	23 877	
Number of households in the sample	149	149	150	149	149	746
Original income	5 653	12 066	16 254	21 175	32 978	17 623
Direct benefits in cash						
Contributory						
Retirement pension	730	550	300	189	111	376
Sickness/ injury related	538	310	130	145	92	243
Unemployment benefit	218	159	70	63	67	115
Other	97	37	24	37	12	41
Total contributory	1 582	1 056	524	435	281	775
Non-contributory						
Supplementary benefit	734	248	126	93	75	255
Child benefit	63	53	64	61	49	58
Rent rebates/ allowances	188	23	3	21	4	48
Sickness/ disablement related	351	87	54	71	27	118
Other	401	158	162	99	103	184
Total non-contributory	1 737	569	408	345	258	663
Gross income	8 971	13 691	17 187	21 956	33 517	19 062
Income tax ¹ and Employees' NIC	822	2 210	3 441	4 716	8 052	3 848
Disposable income	8 149	11 481	13 746	17 240	25 465	15 214
Domestic rates ²	319	434	471	512	645	476
Taxes on final goods and services	1 765	2 155	2 618	3 175	3 990	2 740
Intermediate taxes	545	650	769	911	1 258	827
Income after cash benefits and all taxes	5 520	8 241	9 888	12 641	19 572	11 171
Benefits in kind						
Education	1 058	603	563	382	895	700
National health service	898	812	774	816	807	821
Housing subsidy	71	73	44	28	16	47
Travel subsidies	57	73	92	107	174	101
School meals and milk	10	2	2	2	1	3
Final income	7 614	9 804	11 362	13 975	21 465	12 842
(vi) 1 adult with children						
Quintile points (£)			100	1 724	4 900	
Number of households in the sample		106 ³	54	53	53	266
Original income		8	849	3 166	8 470	2 494
Direct benefits in cash						
Contributory						
Retirement pension						
Sickness/ injury related		89	74	14	10	55
Unemployment benefit			29	18	7	11
Other		153	91	182	118	139
Total contributory		242	194	213	135	205
Non-contributory						
Supplementary benefit		1 882	1 254	313	99	1 086
Child benefit		732	672	810	800	749
Rent rebates/ allowances		773	718	466	90	565
Sickness/ disablement related		25		20	20	18
Other		51	158	218	10	98
Total non-contributory		3 463	2 801	1 827	1 018	2 516
Gross income		3 714	3 844	5 207	9 623	5 215
Income tax ¹ and Employees' NIC		-34	-45	111	944	187
Disposable income		3 748	3 889	5 095	8 679	5 027
Domestic rates ²		110	153	212	464	209
Taxes on final goods and services		564	726	818	1 791*	892*
Intermediate taxes		229	271	316	680*	345*
Income after cash benefits and all taxes		2 845	2 739	3 750	5 745*	3 582*
Benefits in kind						
Education		1 003	1 475	1 739	1 608	1 366
National health service		697	500	549	495	587
Housing subsidy		189	148	133	71	146
Travel subsidies		12	16	39	43	25
School meals and milk		201	216	173	58	170
Final income		4 947	5 095	6 383	8 018*	5 875*

¹ After tax relief at source on mortgage interest and life assurance premiums

² Net of the rate rebate element of housing benefit, but including water, etc. charges

³ More than a fifth of these households had no original income, so the bottom group is undefined

* See footnote 1 on page 100.

Average incomes, taxes and benefits, 1986

By quintile groups of original income within household type

TABLE 4 (continued)

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
(vii) 2 adults, 1 child						
Quintile points (£)		5 625	9 177	12 208	16 116	
Number of households in the sample	110	110	110	110	110	550
Original income	2 329	7 783	10 671	14 067	26 315	12 233
Direct benefits in cash						
Contributory						
Retirement pension	83	18	-	-	20	24
Sickness/ injury related	257	78	53	53	14	91
Unemployment benefit	228	231	155	52	43	142
Other	189	111	74	105	66	109
Total contributory	757	438	281	210	142	366
Non-contributory						
Supplementary benefit	1 224	47	28	31	50	276
Child benefit	378	380	366	379	366	374
Rent rebates/ allowances	404	17	3	11	20	91
Sickness/ disablement related	60	19	72	10	-	32
Other	103	26	8	4	5	29
Total non-contributory	2 169	489	476	435	441	802
Gross income	5 255	8 710	11 429	14 712	26 899	13 401
Income tax ¹ and Employees' NIC	143	1 155	1 880	2 937	6 109	2 445
Disposable income	5 113	7 555	9 549	11 775	20 790	10 956
Domestic rates ²	208	373	401	477	602	412
Taxes on final goods and services	910	1 319	1 473	1 771	2 364	1 568
Intermediate taxes	311	460	486	578	858	539
Income after cash benefits and all taxes	3 683	5 403	7 189	8 949	16 965	8 438
Benefits in kind						
Education	783	505	620	630	546	617
National health service	841	918	770	820	803	830
Housing subsidy	108	49	56	33	9	51
Travel subsidies	30	30	20	50	67	39
School meals and milk	68	28	26	23	14	32
Final income	5 513	6 933	8 680	10 506	18 404	10 007
(viii) 2 adults, 2 children						
Quintile points (£)		6 724	10 025	13 343	18 094	
Number of households in the sample	148	149	148	149	148	742
Original income	3 002	8 645	11 702	15 481	25 178	12 800
Direct benefits in cash						
Contributory						
Retirement pension	-	-	-	-	-	-
Sickness/ injury related	313	61	30	38	18	92
Unemployment benefit	236	49	58	39	5	77
Other	64	31	22	21	4	28
Total contributory	613	141	110	98	27	197
Non-contributory						
Supplementary benefit	1 149	48	11	6	2	242
Child benefit	731	733	725	730	722	728
Rent rebates/ allowances	377	14	-	5	-	79
Sickness/ disablement related	70	7	45	7	25	31
Other	114	21	10	11	3	32
Total non-contributory	2 441	823	791	759	751	1 112
Gross income	6 055	9 609	12 603	16 338	25 956	14 109
Income tax ¹ and Employees' NIC	274	1 382	2 251	3 222	5 864	2 598
Disposable income	5 782	8 227	10 352	13 115	20 092	11 511
Domestic rates ²	215	389	478	535	685	460
Taxes on final goods and services	1 208	1 571	1 591	1 935	2 317	1 725
Intermediate taxes	389	517	542	698	958	621
Income after cash benefits and all taxes	3 971	5 750	7 740	9 947	16 132	8 706
Benefits in kind						
Education	1 407	1 342	1 526	1 539	1 526	1 468
National health service	1 032	983	848	792	871	905
Housing subsidy	132	48	22	13	2	43
Travel subsidies	40	18	16	40	66	36
School meals and milk	158	52	71	49	49	76
Final income	6 739	8 193	10 223	12 380	18 645	11 233

¹ After tax relief at source on mortgage interest and life assurance premiums.

² Net of the rate rebate element of housing benefit supplement, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of original income within household type

TABLE 4 (continued)

	£ per year					Average over all quintile groups		
	Quintile group							
	1st	2nd	3rd	4th	5th			
(ix) 2 adults, 3 or more children								
Quintile points (£)	2 670		8 065		11 680		15 441	
Number of households in the sample	65	65	65	65	65	325		
Original income	502	5 532	9 990	13 260	22 365	10 330		
Direct benefits in cash								
Contributory								
Retirement pension								
Sickness/ injury related	325	54	54	27	17	95		
Unemployment benefit	272	249	25	93	25	133		
Other	51	-	6	-	7	13		
Total contributory	648	303	84	120	49	241		
Non-contributory								
Supplementary benefit	2 471	227	76	25	10	562		
Child benefit	1 305	1 245	1 142	1 151	1 127	1 194		
Rent rebates/ allowances	766	239	-	-	-	201		
Sickness/ disablement related	170	111	89	16	41	85		
Other	36	227	89	5	20	75		
Total non-contributory	4 747	2 048	1 395	1 197	1 198	2 117		
Gross income	5 897	7 883	11 469	14 577	23 612	12 688		
Income tax ¹ and Employees' NIC	29	631	1 899	2 751	4 654	1 993		
Disposable income	5 868	7 251	9 570	11 826	18 959	10 695		
Domestic rates ²	132	283	410	508	690	404		
Taxes on final goods and services	1 216	1 361	1 641	1 873	2 781	1 774		
Intermediate taxes	351	419	544	719	1 176	642		
Income after cash benefits and all taxes	4 169	5 188	6 976	8 726	14 311	7 874		
Benefits in kind								
Education	2 614	2 840	2 318	2 586	2 411	2 554		
National health service	1 453	1 322	1 265	1 239	1 005	1 257		
Housing subsidy	182	116	56	34	13	80		
Travel subsidies	10	16	20	54	53	31		
School meals and milk	438	352	85	74	75	205		
Final income	8 866	9 834	10 721	12 713	17 868	12 001		
(x) 3 or more adults, with children								
Quintile points (£)	8 668		13 154		16 935		23 622	
Number of households in the sample	90	90	89	90	90	449		
Original income	4 457	11 279	15 100	19 569	33 144	16 713		
Direct benefits in cash								
Contributory								
Retirement pension	270	229	116	189	60	173		
Sickness/ injury related	634	147	69	73	31	191		
Unemployment benefit	187	46	33	42	42	70		
Other	132	29	48	82	7	60		
Total contributory	1 223	451	266	386	140	494		
Non-contributory								
Supplementary benefit	1 211	248	215	192	96	393		
Child benefit	803	736	677	660	622	700		
Rent rebates/ allowances	304	15	-	1	-	64		
Sickness/ disablement related	197	105	62	61	36	92		
Other	235	203	164	77	59	148		
Total non-contributory	2 750	1 307	1 117	992	813	1 397		
Gross income	8 430	13 037	16 483	20 947	34 097	18 604		
Income tax ¹ and Employees' NIC	467	2 005	2 819	4 019	7 093	3 282		
Disposable income	7 963	11 032	13 664	16 928	27 005	15 322		
Domestic rates ²	311	433	475	563	728	502		
Taxes on final goods and services	1 671	1 974	2 323	2 767	3 549	2 457		
Intermediate taxes	554	692	747	968	1 219	836		
Income after cash benefits and all taxes	5 427	7 934	10 119	12 630	21 508	11 527		
Benefits in kind								
Education	2 907	2 604	2 531	2 462	2 282	2 557		
National health service	1 249	1 024	1 036	1 038	949	1 059		
Housing subsidy	143	52	26	18	31	54		
Travel subsidies	88	71	95	106	130	98		
School meals and milk	188	49	54	36	43	74		
Final income	10 003	11 732	13 862	16 289	24 944	15 369		

¹ After tax relief at source on mortgage interest and life assurance premiums

² Net of the rate rebate element of housing benefit, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By decile groups of households ranked by original income

TABLE 5

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
Decile points (£)	13	663	2 598	5 460	8 044	10 517	13 097	16 153	21 163		
Number of households in the sample	718	717	718	718	718	718	718	717	718	718	7 178
Original income											
Earnings of main earner	-	22	468	2 380	4 869	7 099	8 542	10 265	12 320	19 780	6 575
Other earnings	-	-	7	145	395	1 034	2 188	3 325	4 979	8 469	2 054
Occupational pensions, annuities	-	109	637	895	807	624	533	429	385	853	527
Investment income	1	104	298	500	530	436	438	418	536	1 826	509
Other income	-	22	96	166	184	81	91	136	163	267	121
Total	1	257	1 507	4 086	6 784	9 274	11 792	14 572	18 382	31 194	9 785
Direct benefits in cash											
Contributory											
Retirement pension	1 111	1 883	1 835	1 038	612	322	260	158	133	142	749
Unemployment benefit	37	44	61	117	104	62	59	46	37	41	61
Invalidity pension and allowance	166	80	215	196	82	74	40	31	15	24	92
Statutory sick pay	-	1	4	23	22	36	33	35	37	36	23
Industrial injury disablement benefit	20	12	33	4	16	4	9	1	3	1	10
Sickness, industrial injury benefit	9	3	16	19	11	9	7	7	5	8	10
Widows' benefit	61	53	79	95	52	45	29	22	19	15	47
Maternity allowance	4	3	3	5	10	13	11	10	8	5	7
Christmas bonus for pensioners, etc	7	10	11	6	4	2	2	1	1	1	4
Non-contributory											
Supplementary benefit	1 083	373	304	253	86	67	66	62	59	50	240
Child benefit	236	86	115	213	230	305	324	312	303	253	238
Rent rebates and allowances	609	398	222	133	53	21	9	4	3	9	146
Attendance allowance	57	43	42	27	20	19	15	9	14	10	25
Mobility allowance	35	20	29	34	18	20	15	11	11	2	19
War pensions	24	15	16	11	9	3	6	7	4	5	10
Severe disablement allowance	43	37	30	25	26	22	11	17	4	12	23
Student maintenance awards	34	38	7	19	37	15	34	6	27	17	23
TOPS/YTS, etc, awards	10	1	12	14	14	14	29	34	24	19	17
Family income supplement	1	4	12	46	7	3	1	-	-	-	7
Other non-contributory benefits	38	51	54	70	32	2	4	12	1	4	27
Total	3 586	3 156	3 101	2 351	1 446	1 059	964	785	707	654	1 781
Gross income	3 587	3 413	4 608	6 437	8 230	10 333	12 756	15 358	19 089	31 848	11 566
Income tax and Employees' NIC											
Income tax	-	22	141	453	960	1 447	1 906	2 494	3 307	6 345	1 708
Employees' national insurance contributions	1	2	17	147	373	560	743	941	1 128	1 508	542
Less: Tax relief at source ¹	22	13	25	81	148	219	294	377	442	541	216
Total	-21	11	133	518	1 185	1 787	2 356	3 058	3 994	7 312	2 034
Disposable income	3 608	3 403	4 475	5 918	7 044	8 545	10 401	12 299	15 095	24 535	9 533
Indirect taxes											
Domestic rates ²	124	176	285	337	387	413	435	486	522	664	383
Taxes on final goods and services											
VAT	213	216	312	474	556	716	765	995	1 207	1 670	712
Duty on tobacco	176	98	172	186	206	233	247	233	237	230	202
Duty on beer and cider	26	23	37	55	79	88	118	124	138	178	86
Duty on wines	4	6	8	16	18	22	26	38	46	94	28
Duty on spirits	20	29	33	52	51	57	70	86	97	148	64
Duty on hydrocarbon oils	20	35	59	98	123	163	178	218	276	336	151
Car tax	1	2	5	11	18	26	25	33	54	74	25
Vehicle excise duty	9	21	34	52	59	76	85	97	113	139	68
Television licences	33	41	45	46	48	52	52	54	54	55	48
Stamp duty on house purchase	1	2	3	5	8	12	16	23	28	39	14
Customs' duties	12	11	15	21	24	29	33	39	46	61	29
Betting taxes	13	17	21	20	25	85	37	44	34	39	34
Other	11	11	11	15	16	19	19	23	26	32	18
Intermediate taxes											
Commercial and industrial rates	64	67	86	118	135	159	173	206	247	340	155
Employers' NI contributions	68	73	94	133	151	178	193	230	279	384	178
Duty on hydrocarbon oils	34	34	43	65	70	80	85	99	123	164	80
Vehicle excise duty	8	8	10	17	18	20	22	25	32	43	20
Other	27	30	39	53	62	72	78	94	112	150	72
Total indirect taxes	864	900	1 314	1 775	2 055	2 499	2 655	3 145	3 669	4 840	2 372
Income after cash benefits and all taxes	2 743	2 502	3 161	4 144	4 990	6 047	7 746	9 154	11 427	19 695	7 161
Benefits in kind											
Education	490	252	331	573	614	683	863	839	860	831	634
National health service	867	947	917	818	723	742	728	696	715	731	789
Housing subsidy	162	100	92	69	53	46	37	26	19	12	62
Rail travel subsidy	11	7	11	16	26	25	27	34	59	94	31
Bus travel subsidy	34	49	52	34	27	20	19	16	19	23	29
School meals and milk	66	29	34	51	29	21	25	22	19	14	31
Total	1 630	1 384	1 437	1 561	1 472	1 537	1 699	1 634	1 691	1 704	1 575
Final income	4 373	3 886	4 598	5 704	6 462	7 583	9 445	10 788	13 118	21 399	8 736

¹ On mortgage interest and life assurance premiums

² Net of the rate rebate element of housing benefit, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By decile groups of households ranked by gross income

TABLE 6

	£ per year										Average over all decile groups
	Decile group										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	
Decile points (£)	3 048 4 184 5 547 7 455 9 418 11 553 14 054 17 034 21 931										
Number of households in the sample	718	718	717	718	718	718	718	717	718	718	7 178
Original income	245	752	1 688	4 017	6 575	9 008	11 721	14 431	18 299	31 115	9 785
Direct benefits in cash											
Contributory											
Retirement pension	1 357	1 564	1 454	920	671	542	321	279	193	194	749
Unemployment benefit	26	32	59	109	100	73	71	52	41	46	61
Sickness/ injury related	51	109	186	224	238	143	125	112	87	76	135
Other contributory benefits	56	78	78	89	78	56	51	36	40	31	59
Total contributory benefits	1 491	1 783	1 777	1 341	1 087	815	568	478	360	346	1 004
Non-contributory											
Supplementary benefit	311	444	584	420	227	127	57	92	69	73	240
Child benefit	42	104	211	244	271	298	311	309	320	268	238
Rent rebates/ allowances	341	415	349	182	84	43	23	9	4	9	146
Sickness/ disablement related	15	37	102	161	129	102	69	52	59	52	78
Other non-contributory benefits	39	56	115	116	72	83	75	64	72	56	75
Total non-contributory benefits	748	1 057	1 360	1 122	783	653	534	527	523	458	776
Total cash benefits	2 238	2 839	3 137	2 463	1 869	1 468	1 102	1 006	883	804	1 781
Gross income	2 483	3 591	4 825	6 480	8 444	10 477	12 823	15 437	19 182	31 919	11 566
Income tax and Employees' NIC											
Income tax	20	81	171	462	905	1 410	1 907	2 494	3 316	6 310	1 708
National insurance contributions	7	16	53	190	370	529	736	906	1 122	1 491	542
Less: Tax relief at source ¹	20	14	45	90	163	208	292	357	437	535	216
Total	7	83	179	562	1 112	1 731	2 351	3 043	4 001	7 266	2 034
Disposable income	2 477	3 509	4 646	5 917	7 333	8 746	10 472	12 394	15 181	24 652	9 533
Indirect taxes											
Domestic rates ²	162	205	242	319	379	409	443	483	521	665	383
Taxes on final goods and services											
VAT	174	222	326	456	588	690	792	983	1 199	1 694	712
Duty on tobacco	80	123	177	218	238	230	252	221	242	237	202
Duty on beer	19	23	39	60	80	90	110	127	139	178	86
Duty on wines	5	7	8	13	18	20	29	37	48	93	28
Duty on spirits	21	27	30	45	66	52	64	90	96	152	64
Duty on hydrocarbon oils	22	33	61	89	129	163	177	219	275	338	151
Car tax	2	2	5	13	17	22	28	32	53	75	25
Vehicle excise duty	13	20	36	46	61	75	84	98	114	139	68
Television licences	35	38	44	46	49	51	52	54	54	55	48
Stamp duty on house purchase	2	2	3	5	8	11	17	22	27	38	14
Customs' duties	9	12	16	21	25	28	34	38	46	61	29
Betting taxes	11	16	20	22	26	83	37	45	36	38	34
Other	9	11	12	14	18	18	20	23	25	33	18
Intermediate taxes											
Commercial and industrial rates	57	67	89	115	136	157	175	206	247	344	159
Employers' NI contributions	61	72	98	131	153	175	196	230	280	388	178
Duty on hydrocarbon oils	29	34	45	65	71	78	85	100	124	166	80
Vehicle excise duty	7	8	11	17	18	20	22	25	32	43	20
Other	25	30	40	52	62	71	79	94	112	151	72
Total indirect taxes	741	952	1 303	1 747	2 144	2 445	2 695	3 130	3 671	4 887	2 372
Income after cash benefits and all taxes	1 736	2 557	3 343	4 170	5 189	6 301	7 777	9 264	11 510	19 765	7 161
Benefits in kind											
Education	136	213	451	669	610	745	825	893	910	886	634
National health service	759	828	921	797	797	815	718	731	745	774	789
Housing subsidy	96	116	114	81	61	52	37	29	17	14	62
Rail travel subsidy	11	5	15	16	21	22	32	36	58	94	31
Bus travel subsidy	36	42	45	34	28	23	22	19	19	25	29
School meals and milk	10	27	57	60	45	28	25	22	20	15	31
Total	1 049	1 231	1 602	1 656	1 561	1 684	1 659	1 730	1 769	1 807	1 575
Final income	2 785	3 788	4 945	5 826	6 750	7 985	9 436	10 994	13 279	21 572	8 736

¹ On mortgage interest and life assurance premiums

² Net of the rate rebate element of housing benefit, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of households ranked by original income

TABLE 7

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
Quintile points (£)		663	5 460	10 517	16 153	
Number of households in the sample	1 435	1 436	1 436	1 435	1 436	7 178
Original income						
Earnings of main earner	11	1 424	5 984	9 403	16 050	6 575
Other earnings	-	76	714	2 756	6 724	2 054
Occupational pensions, annuities	54	766	716	481	619	527
Investment income	52	399	483	428	1 181	509
Other income	11	131	132	113	215	121
Total	129	2 797	8 029	13 181	24 788	9 785
Direct benefits in cash						
Contributory						
Retirement pension	1 497	1 437	467	209	138	749
Unemployment benefit	40	89	83	52	39	61
Incapacity pension and allowance	123	205	78	36	19	92
Statutory sick pay	-	14	29	34	36	23
Industrial injury disablement benefit	16	18	10	5	2	10
Sickness, industrial injury benefit	6	18	10	7	7	10
Widows' benefit	57	87	49	26	17	47
Maternity allowance	4	4	12	11	6	7
Christmas bonus for pensioners, etc	8	9	3	1	1	4
Non-contributory						
Supplementary benefit	728	279	76	64	54	240
Child benefit	161	164	267	318	278	238
Rent rebates and allowances	504	177	37	6	6	146
Attendance allowance	50	34	19	12	12	25
Mobility allowance	28	31	19	13	6	19
War pensions	19	14	6	7	5	10
Severe disablement allowance	40	28	24	14	8	23
Student maintenance awards	36	13	26	20	22	23
TOPS/YTS, etc, awards	6	13	14	31	21	17
Family income supplement	3	29	5	1	-	7
Other non-contributory benefits	45	62	17	8	2	27
Total	3 371	2 726	1 253	875	680	1 781
Gross income	3 500	5 523	9 281	14 056	25 468	11 566
Income tax and Employees' NIC						
Income tax	11	297	1 204	2 200	4 826	1 708
Employees' national insurance contributions	1	82	466	842	1 318	542
less: Tax relief at source ¹	17	53	184	335	491	216
Total	-5	326	1 486	2 707	5 653	2 034
Disposable income	3 505	5 197	7 795	11 349	19 815	9 533
Indirect taxes						
Domestic rates ²	150	311	400	460	593	383
Taxes on final goods and services						
VAT	214	393	636	880	1 438	712
Duty on tobacco	137	179	220	240	234	202
Duty on beer and cider	24	46	83	121	158	86
Duty on wines	5	12	20	32	70	28
Duty on spirits	25	43	54	78	123	64
Duty on hydrocarbon oils	27	78	143	198	306	151
Car tax	1	8	22	29	64	25
Vehicle excise duty	15	43	67	91	126	68
Television licences	37	45	50	53	54	48
Stamp duty on house purchase	1	4	10	19	33	14
Customs' duties	12	18	27	36	53	29
Betting taxes	15	21	55	41	37	34
Other	11	13	17	21	29	18
Intermediate taxes						
Commercial and industrial rates	65	102	147	189	294	159
Employers' NI contributions	70	114	165	211	331	178
Duty on hydrocarbon oils	34	54	75	92	144	80
Vehicle excise duty	8	14	19	23	37	20
Other	28	46	67	86	131	72
Total indirect taxes	882	1 544	2 277	2 900	4 254	2 372
Income after cash benefits and all taxes	2 623	3 653	5 518	8 449	15 561	7 161
Benefits in kind						
Education	371	452	648	851	845	634
National health service	907	867	733	712	723	789
Housing subsidy	131	81	49	31	16	62
Rail travel subsidy	9	13	26	30	77	31
Bus travel subsidy	41	43	23	18	21	29
School meals and milk	47	42	25	24	16	31
Total	1 507	1 499	1 505	1 667	1 697	1 575
Final income	4 130	5 151	7 023	10 116	17 259	8 736

¹ On mortgage interest and life assurance premiums

² Net of the rate rebate element of housing benefit, but including water, etc. charges

Average incomes, taxes and benefits, 1986

By quintile groups of households ranked by gross income

TABLE 8

	£ per year					Average over all quintile groups
	Quintile group					
	1st	2nd	3rd	4th	5th	
Quintile points (£)		4 184	7 455	11 553	17 034	
Number of households in the sample	1 436	1 435	1 436	1 435	1 436	7 178
Original income	498	2 853	7 791	13 075	24 707	9 785
Direct benefits in cash						
Contributory						
Retirement pension	1 461	1 187	607	300	193	749
Unemployment benefit	29	84	86	61	43	61
Sickness/ injury related	80	205	191	119	81	135
Other contributory benefits	67	83	67	43	35	59
Total contributory benefits	1 637	1 559	951	523	353	1 004
Non-contributory						
Supplementary benefit	377	502	177	74	71	240
Child benefit	73	227	284	310	294	238
Rent rebates/ allowances	378	265	64	16	6	146
Sickness/ disablement related	26	131	115	61	55	78
Other non-contributory benefits	48	115	78	70	64	75
Total non-contributory benefits	902	1 241	718	531	491	776
Total cash benefits	2 539	2 800	1 669	1 054	843	1 781
Gross income	3 037	5 653	9 460	14 129	25 550	11 566
Income tax and Employees' NIC						
Income tax	51	317	1 157	2 200	4 813	1 708
National insurance contributions	11	122	449	821	1 306	542
less: Tax relief at source ¹	17	68	185	324	486	216
Total	45	371	1 421	2 697	5 633	2 034
Disposable income	2 993	5 282	8 039	11 432	19 917	9 533
Indirect taxes						
Domestic rates ²	184	281	394	463	593	383
Taxes on final goods and services						
VAT	198	391	639	888	1 446	712
Duty on tobacco	102	198	234	236	240	202
Duty on beer	21	49	85	118	158	86
Duty on wines	6	11	19	33	70	28
Duty on spirits	24	38	59	77	124	64
Duty on hydrocarbon oils	28	75	146	198	306	151
Car tax	2	9	19	30	64	25
Vehicle excise duty	16	41	68	91	127	68
Television licences	37	45	50	53	55	48
Stamp duty on house purchase	2	4	10	20	33	14
Customs' duties	10	18	27	36	54	29
Betting taxes	13	21	55	41	37	34
Other	10	13	18	22	29	18
Intermediate taxes						
Commercial and industrial rates	62	102	147	191	296	159
Employers' NI contributions	67	114	164	213	334	178
Duty on hydrocarbon oils	32	55	75	93	145	80
Vehicle excise duty	7	14	19	23	38	20
Other	27	46	67	86	132	72
Total indirect taxes	846	1 525	2 294	2 913	4 279	2 372
Income after cash benefits and all taxes	2 146	3 757	5 745	8 520	15 638	7 161
Benefits in kind						
Education	174	560	677	859	898	634
National health service	793	859	806	725	759	789
Housing subsidy	106	97	56	33	15	62
Rail travel subsidy	8	15	21	34	76	31
Bus travel subsidy	39	40	25	20	22	29
School meals and milk	19	58	37	24	17	31
Total	1 140	1 629	1 623	1 695	1 788	1 575
Final income	3 286	5 386	7 368	10 214	17 426	8 736

¹ On mortgage interest and life assurance premiums.

² Net of the rate rebate element of housing benefit, but including water, etc. charges

Distribution of households¹ co-operating in the Family Expenditure Survey, 1986

By decile groups of households ranked by original, gross, disposable, post-tax² and final incomes

TABLE 9

	Retired households		Non-retired households								All households
	1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults 1 child	2 adults 2 children	2 adults 3 or more children	3 or more adults with children	
Decile groups of original income											
Bottom	258	96	106	46	8	91	30	37	36	10	718
2nd	374	185	45	33	3	37	11	13	13	3	717
3rd	217	236	72	62	15	49	20	20	15	12	718
4th	78	135	132	145	38	44	42	45	32	27	718
5th	30	75	145	183	56	26	71	73	32	27	718
6th	18	34	101	197	51	8	96	134	43	36	718
7th	6	22	73	210	87	4	90	110	56	60	718
8th	1	17	36	234	115	4	82	114	44	70	717
9th	2	10	27	228	148	3	54	117	33	96	718
Top	2	16	21	192	225	-	54	79	21	108	718
Total	986	826	758	1 530	746	266	550	742	325	449	7 178
Decile groups of gross income											
Bottom	488	10	147	21	1	33	8	7	3	-	718
2nd	308	156	83	49	1	86	25	6	3	1	718
3rd	82	262	101	79	6	74	32	51	26	4	717
4th	49	136	120	165	34	37	49	51	48	29	718
5th	26	98	104	192	43	16	77	87	44	31	718
6th	17	64	79	191	67	8	87	128	40	37	718
7th	8	40	51	226	83	6	90	108	51	55	718
8th	5	25	32	216	133	3	74	106	50	73	717
9th	-	18	21	216	149	3	55	118	37	101	718
Top	3	17	20	175	229	-	53	80	23	118	718
Total	986	826	758	1 530	746	266	550	742	325	449	7 178
Decile groups of disposable income											
Bottom	480	11	151	24	1	33	7	6	5	-	718
2nd	332	128	112	41	2	76	20	6	1	-	718
3rd	76	256	126	85	5	72	37	43	12	5	717
4th	47	152	117	161	26	38	51	59	46	21	718
5th	26	86	89	213	35	24	78	88	46	33	718
6th	14	83	64	200	69	7	77	119	53	32	718
7th	4	41	37	236	80	7	92	112	50	59	718
8th	4	33	25	209	143	5	80	103	51	64	717
9th	1	20	22	194	162	3	56	118	35	107	718
Top	2	16	15	167	223	1	52	88	26	128	718
Total	986	826	758	1 530	746	266	550	742	325	449	7 178
Decile groups of post-tax income²											
Bottom	328	55	168	54	8	50	18	20	12	5	718
2nd	389	82	111	50	9	45	15	12	2	3	718
3rd	146	214	99	85	10	62	36	40	19	6	717
4th	60	174	111	134	29	47	51	60	33	19	718
5th	28	93	92	203	43	31	70	77	48	33	718
6th	17	78	68	202	62	16	68	114	55	38	718
7th	9	52	36	218	95	8	107	95	46	52	718
8th	3	39	28	194	137	4	69	111	48	84	717
9th	3	16	22	209	157	-	62	119	36	94	718
Top	3	23	23	181	196	3	54	94	26	115	718
Total	986	826	758	1 530	746	266	550	742	325	449	7 178
Decile groups of final income											
Bottom	324	40	236	65	8	21	11	9	3	1	718
2nd	369	75	117	72	12	45	16	7	4	1	718
3rd	190	189	122	106	12	45	32	16	2	3	717
4th	51	197	99	193	25	51	56	40	2	4	718
5th	29	126	71	228	47	32	74	78	18	15	718
6th	12	85	37	222	72	37	91	98	40	24	718
7th	3	44	29	182	119	17	93	128	54	49	718
8th	5	33	18	193	126	9	68	126	79	60	717
9th	-	17	16	139	150	6	59	128	79	124	718
Top	3	20	13	130	175	3	50	112	44	168	718
Total	986	826	758	1 530	746	266	550	742	325	449	7 178

¹ See appendix 2 for definitions of retired households, adults and children.

² Income after cash benefits and all taxes but before benefits in kind.

Percentage distribution of original, disposable, post-tax, and final income, households re-ranked at each stage, 1975-86

TABLE 10

	1975	1977	1979	1981	1983	1985	1986
Original income							
Quintile group							
Bottom	0.8	0.6	0.5	0.6	0.3	0.3	0.3
2nd	10	10	9	8	7	6	6
3rd	19	19	19	18	18	17	16
4th	26	27	27	27	27	27	27
Top	44	44	45	46	48	49	51
All households	100	100	100	100	100	100	100
Disposable income							
Quintile group							
Bottom	6.6	6.9	6.5	6.7	6.8	6.5	6.2
2nd	13	13	12	12	12	11	11
3rd	18	18	18	18	18	17	17
4th	24	24	25	24	24	24	24
Top	38	38	39	39	40	41	42
All households	100	100	100	100	100	100	100
Income after cash benefits and all taxes							
Quintile group							
Bottom	6.2	6.4	6.1	6.0	6.0	5.6	5.1
2nd	12	12	11	11	11	11	10
3rd	18	18	18	17	17	17	16
4th	24	24	25	24	24	24	24
Top	39	39	40	41	42	43	45
All households	100	100	100	100	100	100	100
Final income							
Quintile group							
Bottom	7.1	7.3	7.1	7.2	6.9	6.7	6.3
2nd	13	13	12	12	12	12	11
3rd	18	18	18	18	18	17	17
4th	24	24	24	24	24	24	24
Top	38	38	38	39	39	40	42
All households	100	100	100	100	100	100	100

Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1975-86

TABLE 11

	1975	1977	1979	1981	1983	1985	1986
Gini coefficients (per cent)							
Original income	43	44	45	47	49	51	52
Gross income	35	34	35	36	36	38	40
Disposable income	32	31	33	33	33	35	36
Income after cash benefits and all taxes	33	33	35	36	36	38	40
Final income	31	31	32	32	33	34	36

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 CSO 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 the 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, which most people would probably not think of as leading to a reduction in their personal incomes, and therefore no attempt is made in this analysis to apportion them to households. 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 in any event have sufficient information to make an allocation.

Family Expenditure Survey

2. The estimates in this article are based mainly on data derived from the FES. The FES is a continuous survey of the expenditure of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each adult keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments. 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.

3. One of the main purposes of the FES is to yield information on household expenditure patterns to produce the weights used in compiling the index of retail prices. The survey is conducted by the Office of Population Censuses and Surveys on behalf of the Department of Employment who analyse and report on it. The revised Family Expenditure Survey Report for 1986, containing detailed data on household characteristics, income, and expenditure, was published in July 1988. Details of the survey method are set out in *Family Expenditure Survey Handbook* by W F F Kemsley, R U Redpath and M Holmes. Both are published by Her Majesty's Stationery Office.

4. The number of households in the United Kingdom responding to the FES in 1986 was 7,178. The response rate in Great Britain was 69 per cent. The available evidence suggests that older households, households where the head is self-employed, those without children and higher income households, are less likely to co-operate than others (see 'Family Expenditure Survey: a second study of differential response, comparing Census characteristics of FES respondents and non-respondents' by Bob

Redpath, *Statistical News No 72*, February 1986, (HMSO)). In addition response in Greater London is noticeably lower than in other areas. However at present the results in this article are based on the responses of those households which actually co-operated in the survey and they are not reweighted. This means that some of the figures differ from those produced by other surveys such as the Survey of Personal Incomes.

Unit of analysis

5. The basic unit of analysis in the article is the household, and not the family, individual or tax unit. A household is defined in the FES as comprising people who live at the same address and who share common catering for at least one meal a day. 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.

6. In classifying the households, adults have been taken as all people aged 16 and over. 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.

7. 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'.

8. By no means all retired people are in retired households; about one in six households comprising three or more adults contain retired people, for example, and households comprising one retired and one non-retired adult are often classified as non-retired.

9. The sample households have been classified according to their compositions at the time of the interview and it is particularly important to bear this in mind for households comprising one adult with children - it is likely that many of these households changed their composition at some time during the year.

10. Economically active people comprise employees, the self-employed and others not in employment but who are seeking or intending, when able, to seek work. In 1982 there were changes in the FES in the definition relating to economic activity. The effect of these changes is to exclude all those out of employment for more than a year rather than five years. This exclusion applies regardless of the fact that they may still describe themselves as seeking work. Also excluded are those who have not been in paid employment since leaving full-time education unless they have worked within the previous year; certain of the part-time self-employed with very small incomes; and those whose only economic activity is working as mail-order agents or baby-sitters.

Income: redistributive stages

11. Stage one

Original income plus cash benefits = Gross income.

Stage two

Gross income minus income tax and employees' National Insurance contributions = Disposable income.

Stage three

Disposable income minus indirect taxes = Income after cash benefits and all taxes.

Stage four

Disposable income minus indirect taxes plus 'benefits in kind' = Income after all taxes and benefits (final income).

12. The starting point of the analysis is original income. This is the annual income in cash and kind 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 and occupational pensions. Employment income is based on the last payment received before the interview or, where different, the amount usually received. Allowance is made for any periods of absence from work through sickness and unemployment in the preceding 12 months, and for bonuses. Income from self-employment is recorded in the FES for a past period. This is brought up to current levels using the average earnings index. Income from interest, dividends and rent is taken as the amount received in the 12 months before the interview. Income from occupational pensions is based on the last payment received.

13. Households living in rent-free dwellings are each assigned an imputed income based upon the rateable value of the dwelling. This is counted as employment income if the tenancy depends on the job.

14. The next stage of the analysis is to add cash benefits to original income to obtain gross income. This is slightly different to the 'gross normal weekly income' used in the FES Report, mainly because it excludes the imputed rent of owner-occupiers. Cash benefits are:

Contributory:

Retirement pension and Christmas bonus, unemployment benefit, sickness and industrial injury benefit, statutory sick pay, invalidity pension and allowance, industrial injury disablement benefits, widows' benefits, maternity allowance.

Non-contributory:

Supplementary benefit, child benefit, rent rebates and allowances, attendance allowance, mobility allowance, war pensions, severe disablement allowance, family income supplement, old persons pension, government training scheme allowance (YTS etc.), student maintenance grant, maternity grant.

15. Statutory Sick Pay is classified as a cash benefit even though it is paid through the employer.

16. 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 rent rebates and allowances, is based on current rates.

17. Income Tax 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 of the lack of data from the FES on their payment.

18. 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 1986 there were two types of tax relief obtained in this way: mortgage interest relief and life assurance premium relief. Where households are eligible for these reliefs imputations are made and deducted from recorded income tax payments. In the case of mortgage interest relief obtained through the MIRAS scheme, which was introduced in April 1983, these imputations are based on the interest component of the latest mortgage repayment.

19. As original income includes some elements not actually received in cash, disposable income as defined here does not correspond exactly to money available for the household to spend. It does however give an indication of the resources which are available to the household, and which influence spending decisions.

20. The order in which the remaining allocated items are presented is to some extent arbitrary.

21. Indirect tax on final consumer goods and services include:

- Local authority rates on dwellings (after rebates)
- Duties on beer, wines, spirits, tobacco, oil, betting, etc
- Value Added Tax (VAT)
- Customs (import) duties
- Car tax
- Motor vehicle duties
- Driving licences
- Stamp duties
- Gas levy

22. These taxes are either levied directly on the consumer (for example domestic rates) or are assumed to be fully incident on the consumer. For example, the amount of VAT which is paid by the household is calculated from the household's total expenditure on goods and services subject to VAT.

23. The figures for domestic rates include, as well as local authority rates, charges made by water authorities for water, environmental and sewerage services, although these charges to households in England and Wales are no longer counted as general government receipts in the National Accounts. (In Scotland these payments go to the local authorities and are so counted.) Local authority rates are shown net of all rebates received through the Housing Benefit scheme, including those received by Supplementary Benefit recipients. (The rent rebate element of Housing Benefit is shown as an income-related cash benefit.)

24. VAT and car tax affect the prices of secondhand cars and are 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.

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

26. Indirect taxes on intermediate goods and services are:

- Local authority 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

27. 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 input-output techniques.

28. Finally, we add those benefits in kind provided to households by government for which there is a reasonable basis for allocation to households, to obtain final income. Benefits in kind are:

- State education
- School meals and milk
- National Health service
- Housing subsidy
- Railway travel subsidy
- Bus travel subsidy

29. Education benefit is estimated by the Department of Education and Science as the cost per pupil or student in special schools, primary and secondary schools, universities, and other further education establishments. The value of the benefit attributed to a household depends on the number of people in the household recorded in the FES as receiving each kind of education (students away from home are excluded).

30. The value of school meals and other welfare foods is based on their cost to the public authorities. Any payment by the individual household is subtracted to arrive at a net contribution.

31. Each individual in the FES is allocated a benefit from the National Health Service according to the estimated average use made of the 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 receiving maternity grant.

32. In this article public sector tenants are defined to include the tenants of local authorities, New Town Corporations, the Scottish Special Housing Association (SSHA), Northern Ireland Housing Executive (NIHE) and housing associations. The total housing subsidy includes the contribution from rate funds and from central government to the housing revenue accounts of local authorities; and grants paid to the New Town Corporations, the SSHA, the NIHE and housing associations. 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 gross rateable value of his dwelling. Housing subsidy does not include mortgage interest tax relief, rent rebates and allowances or rate rebates (see paragraphs 18, 14 and 23 respectively).

33. The rail travel subsidies allocated are those to British Rail passenger operations and the London Underground. 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. A single allocation of the subsidy to inter-city services was made by dividing that subsidy between all households in proportion to their recorded expenditure on rail fares. In making both these allocations allowances are made for the use of rail travel by the business sector, tourists and the institutional part of the personal sector.

34. In this article, bus travel subsidy covers both the cost of concessionary travel schemes for senior citizens and others, and subsidies to operators. The method used to allocate the cost of concessionary fares is to derive valuations for the various types of passes from a comparison of recorded expenditure in the FES on bus travel by holders of 'free' and 'half-fare' passes. Separate allocations are then made for Greater London, the other metropolitan areas and the rest of the United Kingdom. Using aggregates of fares, subsidies to operators and the cost of concessionary fares and after making allowances for the use of road passenger transport by tourists, the business sector and institutional part of the personal sector, the total cost of providing bus travel to households in these three areas is estimated and this is then divided between households according to their usage of buses. This usage figure is derived from FES expenditure data and the value of concessionary passes estimated as described above. The amount of bus travel subsidy allocated to each household is then the cost of the bus travel provided less any payments made.

35. It must be emphasised that the analysis in this article provides only a very 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. 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 mortgage interest, for example, accrues directly to the taxpayer rather than to some other party, for instance, the vendor of the land. 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. And, 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. 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.

Gini coefficient

36. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can most easily be understood by considering a Lorenz curve of the income distribution, ie 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. 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).

Previous articles

37. This article is the latest in an annual series. Earlier articles covering the years 1957 to 1985 were published in the following issues of *Economic Trends*: November 1962, February 1964, August 1966, February 1968, 1969, 1970, 1971, 1972, November 1972 and 1973, December 1974, February 1976, December 1976, February 1978, January 1979, 1980, 1981 and 1982, December 1982, November 1983, December 1984, December 1985, July 1986, November 1986 and July 1987.

38. The results in this article for 1986 are designed to be freestanding: they are *not* designed for direct comparison with previous years except where some limited comparisons are made in the article. Such comparisons are fraught with difficulty because of changes in definitions eg housing benefit in 1983. However, some broader measures like the Gini coefficients quoted in this article are relatively robust and will stand comparison with earlier years. Enquiries should be addressed to Dave Westcott, Branch 8, Central Statistical Office, Great George Street, London SW1P 3AQ.