

# THE EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME, 1994/95

This article examines how the distribution of income amongst households in the UK is modified by government expenditure and taxation. The main findings are:

- The income share of the bottom fifth of households is increased from 2.3% of original income to 6.9% of post-tax income by taxes and benefits.
- The average original income of the top fifth of households is 20 times the average of the bottom fifth, the average final income of the top fifth of households is less than 4 times the average of the bottom fifth.
- Cash benefits make up 70% of the gross income of the bottom fifth of households.
- The top fifth of non-retired households pay 19.6% of their gross income in income tax compared with 11.0% for the rest of non-retired households.
- The state pension accounts for 72% of the cash benefits received by retired households.
- The distribution of original income is more equal among non-retired households than retired. But the distribution of post-tax income is more equal among the retired than the non-retired.

This article is the first of the series to be produced for a financial year, previous articles having been for calendar years. This is a consequence of the survey reference period for the Family Expenditure Survey changing to a financial year. A limited number of tables for 1993/94 are published in Appendix 3. Further tables for 1993/94 are available on request.

## Part 1

### Introduction

During 1994/95, the government raised and spent £287 billion. Directly or indirectly most of this revenue was raised from households and the expenditure benefited households. This article examines the impact of government taxation and expenditure on the distribution of income by allocating the revenue to those households which paid the taxes and the expenditure to those households which benefited from it, wherever this is possible. Some outlays and revenue of government cannot readily be allocated to households, for example there is no clear conceptual basis for determining the benefit to each household of expenditure on defence. However, about 59 per cent of government revenue and 56 per cent of government spending can be allocated to households (see Table 1, Appendix 1). One of the consequences of this redistribution is to reduce the differences in income amongst households.

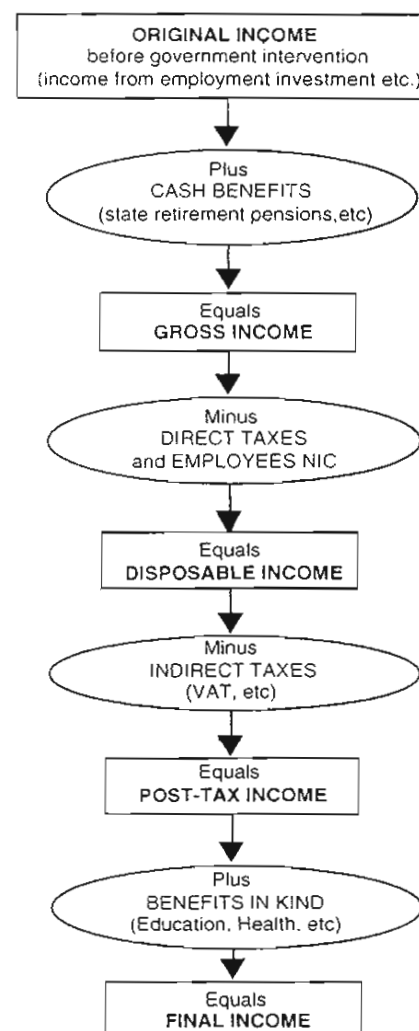
The stages of redistribution of incomes used in this analysis are shown in Chart 1. Household members receive income from their employment: from occupational pensions: from their investments and from other non-government sources. Total income from these sources constitutes original income. The flow chart shows the various ways in which government then raises revenue through taxation on households and distributes benefits to them both in cash and in kind.

The main data source for this analysis is the Family Expenditure Survey (FES) which covers about 7,000 households per year. People living in hotels, lodging houses and in institutions such as old peoples' homes are excluded. The unit of analysis is the household rather than the individual. Being a sample survey its results are subject to differential non-response and the usual sampling errors - these errors are larger for the household groups with smaller sample numbers (see Appendix 4).

The article aims to present the most meaningful figures for 1994/95. The figures cannot be easily compared with earlier articles in this series because the tax-benefit system and the FES change over time.

CHART 1

### Stages of redistribution



## Summary of the effects of taxes and benefits by quintile groups of unadjusted disposable income, 1994-95

TABLE A

	Quintile groups of households ranked by UNADJUSTED disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)<sup>1</sup></b>						
Original income	1 270	4 620	12 060	21 950	43 720	16 720
plus cash benefits	3 980	4 810	3 280	1 900	1 430	3 080
Gross income	5 250	9 430	15 350	23 850	45 150	19 800
less direct taxes <sup>2</sup> and employees' NIC	680	1 220	2 660	4 950	10 750	4 050
Disposable income	4 570	8 210	12 680	18 890	34 400	15 750
less indirect taxes	1 170	1 980	2 980	3 930	5 600	3 130
Post-tax income	3 410	6 230	9 700	14 970	28 800	12 620
plus benefits in kind	2 110	2 860	3 070	3 230	3 490	2 950
Final income	5 520	9 090	12 770	18 190	32 290	15 570
<b>Average per household (number)</b>						
Children <sup>3</sup>	0.2	0.5	0.7	0.8	0.8	0.6
Adults	1.2	1.6	1.9	2.1	2.4	1.8
Persons	1.4	2.1	2.5	2.9	3.2	2.4
People in full-time education	0.2	0.4	0.6	0.7	0.8	0.5
Economically active people	0.3	0.6	1.1	1.7	2.1	1.2
Retired people	0.7	0.7	0.4	0.2	0.1	0.4
<b>Composition (Percentages)</b>						
<b>Household type</b>						
Retired	59	40	20	9	4	27
Non-retired						
1 adult	23	17	15	9	4	14
2 adults	6	14	25	28	27	20
1 adult with children <sup>4</sup>	9	14	5	1	1	6
2 adults with children	4	13	25	37	36	23
3 or more adults <sup>5</sup>	0	2	9	15	28	11
Total	100	100	100	100	100	100

1 The monetary values in the tables in the main body of the article are rounded to the nearest £10

2 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and gross Council tax /Domestic rates and Water charges but after deducting discounts and Council tax transitional relief.

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

4 This group is smaller than the category of "one parent families" because some of these families will be contained in the larger household types.

5 With or without children.

## RESULTS FOR ALL HOUSEHOLDS

### Results for households ranked by unadjusted disposable income

When households are ranked by unadjusted disposable income as in Table A, there is a strong relationship between a household's position in the income distribution and its size: the average number of persons per household is 3.2 for the highest quintile group and 1.4 for the lowest quintile group (the lowest quintile group contains the 20 per cent of households with the lowest disposable income). The bottom quintile group has a high proportion of retired households - defined as households where at least half the total gross income comes from retired people. In contrast, households with 3 or more adults are over-represented in the top quintile group. Further details of the distribution ranked by unadjusted disposable income are shown in Table 8, Appendix 1.

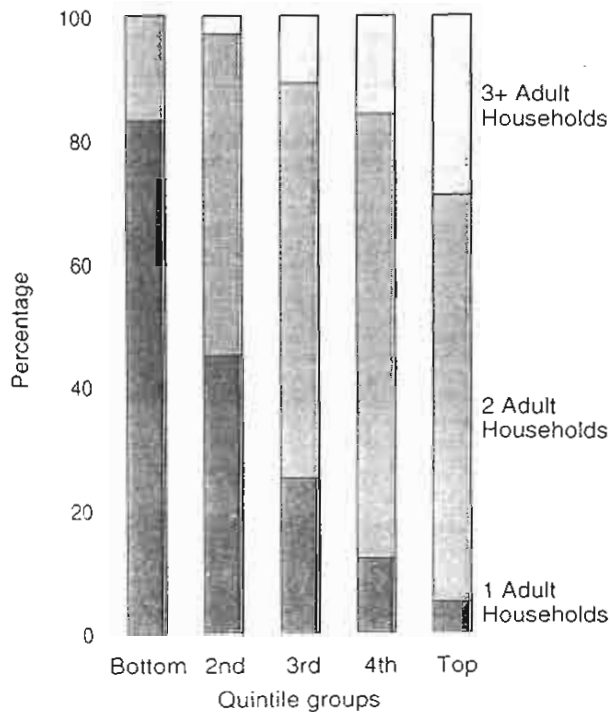
### Adjustment for household composition

Using income per household to compare the welfare among households does not allow for differences in their composition and thus the differing demands on resources. One way to take such differences into account is to use income per capita but such a measure does not allow for the differing needs of children relative to adults or for economies of scale within households. This analysis therefore uses equivalence scales designed to take into account household size, family composition and age of children. The remainder of this article refers to households ranked by equivalised disposable income (disposable income divided by the equivalence value of the household). Chart 2 shows how the use of the equivalence scale results in larger households moving down the income distribution and smaller ones moving up. Fuller details of the derivation of the equivalence scale are given in Appendix 4.

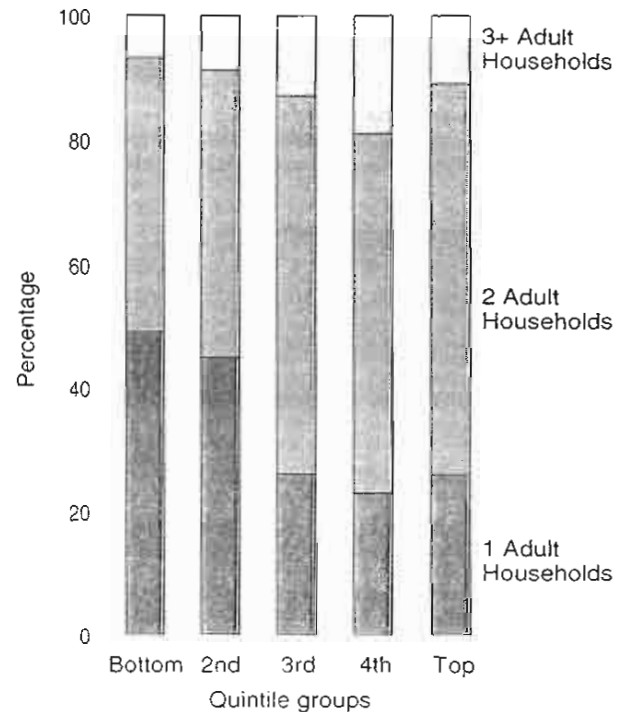
CHART 2

**The effect of EQUIVALISATION**

Composition of households by quintile groups of UNADJUSTED disposable income.



Composition of households by quintile groups of EQUIVALISED disposable income.



Equivalised income is used only to rank the households. Most monetary values shown in the article are unequivalised. Where equivalised amounts are given, they are shown in *italics*.

**Results for households ranked by equivalised disposable income**

The level of original income varies widely between households. Table B shows this and other income measures for quintile groups ranked by equivalised disposable income. In the lowest quintile group the average number of economically active people is 0.5 and the chief economic supporter is a full-time employee or self-employed in 12 per cent of the households (Appendix 1, Table 2b). Hence the average original income is low (£2,040 per annum). In the highest quintile group, there are an average of 1.6 economically active people and the chief economic supporter is in full-time employment or self-employed in 83 per cent of the households. The average original income is £40,330 for this group. The majority of retired households are in the lower ranges of the distribution of original income: about 43 per cent of the households in the bottom two quintile groups are retired (Table B).

Chart 3 illustrates the declining importance of cash benefits in gross income as income rises.

Chart 4 shows the average taxes paid and the average benefits received by households in each quintile group. This redistribution of income through the tax-benefit system reduces the dispersion of incomes, so that the average final income for each quintile group

ranges from £7,720 to £28,640, a ratio of about 1:4 compared with the ratio for original incomes of about 1:20.

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 (when ranked by equivalised disposable income) receive 51 per cent of all original income. After taking into account cash benefits, this same group's share falls to 43 per cent. At the other end of the scale, the share of the lowest quintile group rises from 2.3 per cent to 7.2 per cent. A further, but comparatively smaller, compression of the income distribution occurs at the stage of disposable income, but this is reversed after indirect taxes are taken into account.

The Gini coefficient is the most widely used summary measure of the inequality of the distribution of income (see Appendix 4, paragraph 41). It takes values between 0 and 100 per cent - the higher values indicating greater inequality. The fall from 53 per cent to 37 per cent shown in Table C shows that cash benefits contribute the most to the reduction in income inequality.

The income pattern of the retired is very different from that of households whose heads of working age: for example they receive a higher proportion of their income from contributory benefits, particularly the retirement pension. Their expenditure pattern (which is reflected in their indirect tax payments) is also different. 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.

**Summary of the effects of taxes and benefits by quintile groups of equivalised disposable income, 1994-95**

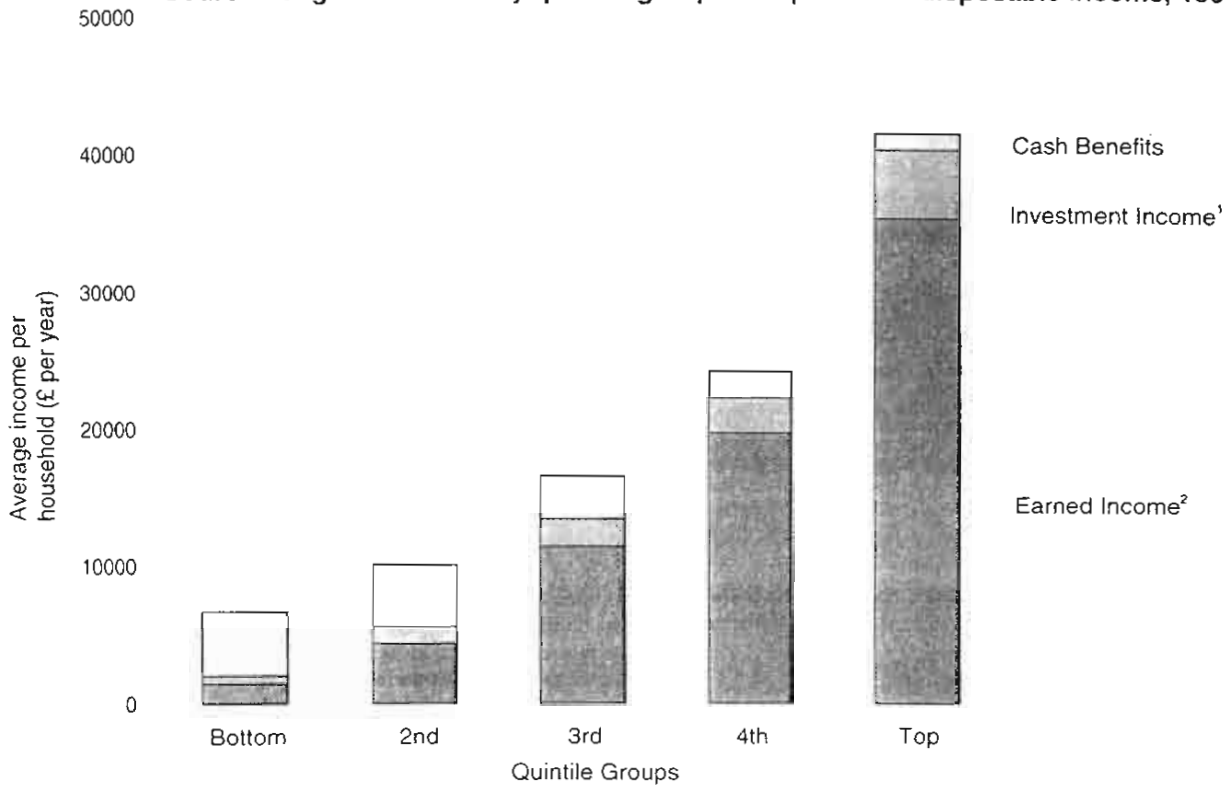
TABLE B

	Quintile groups of households ranked by EQUIVALISED disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)<sup>1</sup></b>						
Original income	2 040	5 600	13 380	22 250	40 330	16 720
plus cash benefits	4 650	4 480	3 160	1 940	1 170	3 080
Gross income	6 700	10 080	16 540	24 200	41 510	19 800
less direct taxes <sup>2</sup> and employees' NIC	840	1 310	2 930	5 040	10 130	4 050
Disposable income	5 860	8 760	13 610	19 150	31 370	15 750
less indirect taxes	1 740	2 070	3 090	3 960	4 810	3 130
Post-tax income	4 120	6 700	10 520	15 190	26 570	12 620
plus benefits in kind	3 610	3 140	3 170	2 770	2 080	2 950
Final income	7 720	9 840	13 690	17 970	28 640	15 570
<i>Equivalised disposable income</i>	<i>5 742</i>	<i>8 713</i>	<i>11 962</i>	<i>16 673</i>	<i>30 260</i>	<i>14 670</i>
<b>Average per household (number)</b>						
Children <sup>3</sup>	0.8	0.6	0.7	0.6	0.4	0.6
Adults	1.6	1.7	1.9	2.0	1.9	1.8
Persons	2.4	2.2	2.6	2.6	2.3	2.4
People in full-time education	0.7	0.5	0.6	0.5	0.3	0.5
Economically active people	0.5	0.7	1.3	1.6	1.6	1.2
Retired people	0.6	0.7	0.4	0.2	0.2	0.4
<b>Composition (Percentages)</b>						
Household type						
Retired	41	45	24	14	10	27
Non-retired						
1 adult	12	10	11	14	21	14
2 adults	9	11	19	25	36	20
1 adult with children <sup>4</sup>	14	8	4	2	1	6
2 adults with children	18	18	29	27	22	23
3 or more adults <sup>5</sup>	6	8	13	18	10	11
Total	100	100	100	100	100	100

- 1 All the tables in Part 1 of this article show unequivalised income: equivalised income has only been used in the ranking process to produce the quintile groups (and to produce the percentage shares and Gini coefficients).
- 2 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and Gross Council tax /domestic rates and Water charges but after deducting discounts and Council tax transitional relief.
- 3 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.
- 4 This group is smaller than the category of "one parent families" because some of these families will be contained in the larger household types.
- 5 With or without children.

CHART 3

Sources of gross income by quintile groups of equivalised disposable income, 1994-95

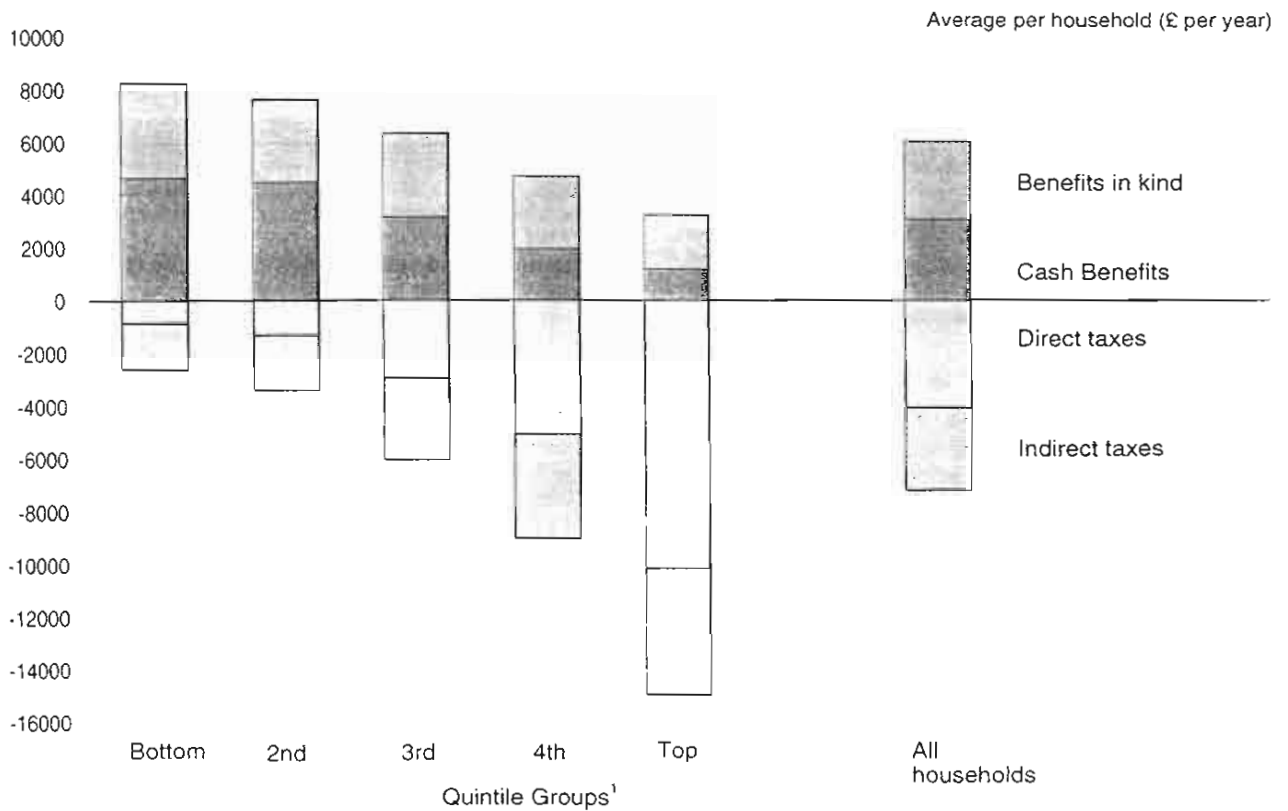


1. Investment income includes occupational pensions and annuities.

2. Earned income includes wages and salaries, income from self-employment and income from "fringe benefits".

CHART 4

Summary of the effects of taxes and benefits on ALL households, 1994-95



1. Households are ranked by their equivalised disposable income.

## Percentage shares of total household income and Gini coefficients<sup>1</sup>, 1994-95

TABLE C

	Percentage shares of total equivalised income for households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
<b>Quintile group</b>				
Bottom	2.3	7.2	7.8	6.9
2nd	6	11	12	11
3rd	15	16	16	16
4th	25	23	23	22
Top	51	43	41	43
All households	100	100	100	100
<b>Decile group</b>				
Bottom	0.9	3.1	3.2	2.6
Top	33	28	26	28
<b>Gini coefficient (percent)</b>				
	53	37	33	37

1 This is a measure of the dispersion of each definition of income. Unlike the percentage share analysis where household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

## RESULTS FOR NON-RETIRED HOUSEHOLDS

### Original income

The distribution of original income amongst non-retired households is more equal than among all households, ranging from an average of £3,440 per annum in the lowest quintile group to £44,900 in the highest (Table D), a ratio of 1:13 compared to the ratio of 1:20 for the distribution over all households. There is a relatively strong relationship between the original income of a household and the number of economically active people it contains. On average, 66 per cent of the members of households in the top two quintile groups are economically active, compared with 27 per cent of the members of households in the bottom quintile group.

Chart 5 summarises the effects of the tax-benefit system on non-retired households in different quintile groups.

### 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. Child benefit payments are higher at the lower end of the income distribution, in proportion to the number of children per household (Table D). The other non-contributory benefits, in particular Income Support and housing benefits, are mainly income related, 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. Contributory benefits, for which the individual's contribution record rather than income is the criterion for payment, are highest for the second quintile group. Cash benefits formed 58 per cent of the gross income of households in the bottom quintile group on average and 10 per cent of the gross income for all non-retired households: their payment resulted in a significant reduction in income inequality.

## Summary of the effects of taxes and benefits on NON-RETIRED households, 1994-95

TABLE D

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Original income	3 440	11 220	19 380	26 320	44 900	21 050
plus cash benefits	4 700	3 130	1 840	1 190	780	2 330
Gross income	8 130	14 350	21 220	27 520	45 690	23 380
less direct taxes <sup>1</sup> & employees' NIC	1 060	2 350	4 290	6 050	11 630	5 080
Disposable income	7 070	12 000	16 940	21 460	34 060	18 310
less indirect taxes	2 160	2 990	3 760	4 310	5 040	3 650
Post-tax income	4 910	9 010	13 170	17 150	29 010	14 650
plus benefits in kind	4 330	3 660	3 270	2 530	2 010	3 160
Final income	9 240	12 680	16 440	19 680	31 020	17 810
<i>Equivalised disposable income</i>	<i>5 962</i>	<i>9 937</i>	<i>13 713</i>	<i>18 396</i>	<i>32 589</i>	<i>16 119</i>
<b>Average per household (number)</b>						
Children <sup>2</sup>	1.3	1.0	0.9	0.6	0.4	0.8
Adults	1.7	1.9	2.1	2.1	1.9	1.9
Persons	3.0	2.9	2.9	2.6	2.3	2.8
People in full-time education	1.1	0.8	0.8	0.5	0.4	0.7
Economically active people	0.9	1.5	1.7	1.9	1.7	1.5
Retired people	0.1	0.1	0.1	0.1	0.0	0.1

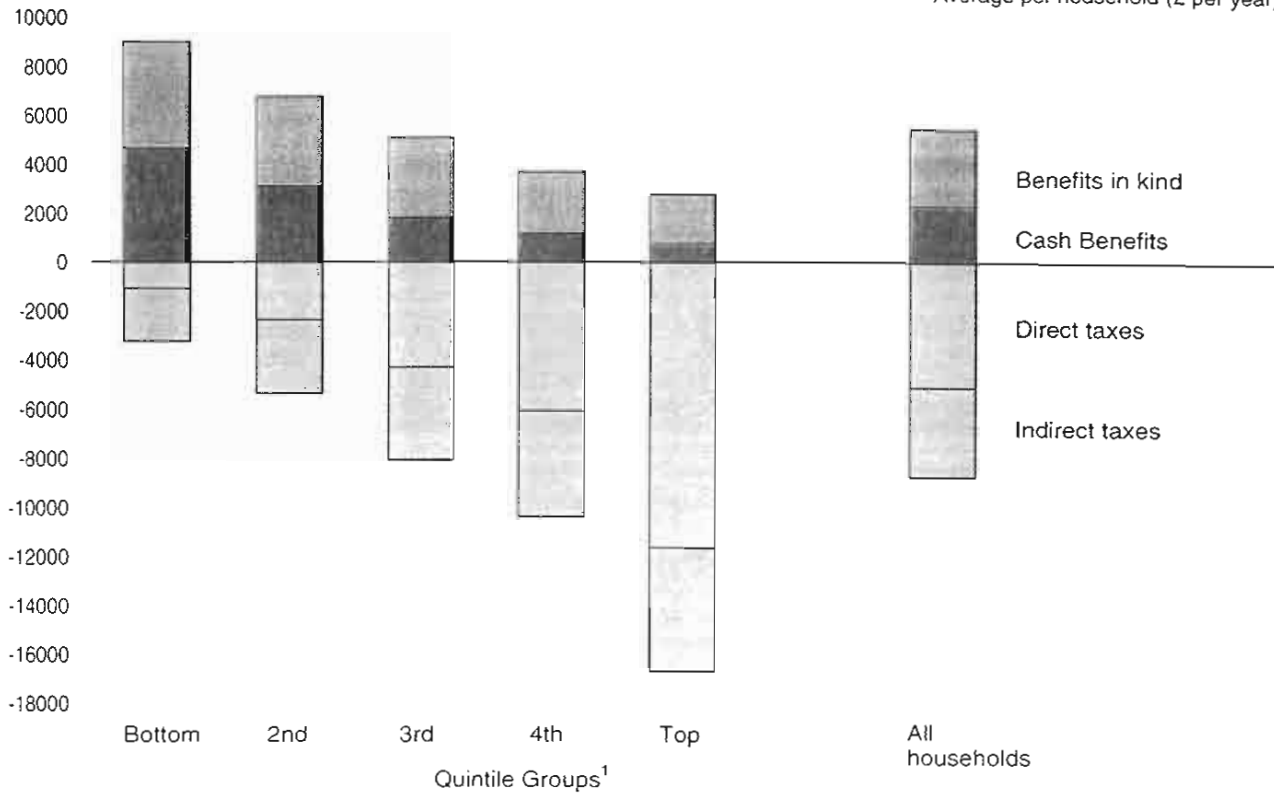
1 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and Gross Council tax/domestic rates and Water charges but after deducting discounts and Council tax transitional relief.

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

CHART 5

Summary of the effects of taxes and benefits on NON-RETIRED households, 1994-95

Average per household (£ per year)



1. Households are ranked throughout by their equivalised disposable income.

Average value of cash benefits for each quintile group of NON-RETIRED households, 1994-95

TABLE E

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<b>Contributory</b>						
Retirement pension	110	340	240	220	190	220
Sickness/injury related	410	430	290	140	40	260
Unemployment benefit	70	50	60	50	10	50
Other	40	90	70	70	100	70
<b>Total contributory</b>	<b>630</b>	<b>910</b>	<b>650</b>	<b>480</b>	<b>340</b>	<b>600</b>
<b>Non-contributory</b>						
Income support	1 790	620	210	110	60	560
Child benefit	630	490	430	280	210	410
Housing benefits	1 100	480	140	60	40	370
Sickness/disability related	150	310	240	150	80	180
Other	390	320	170	100	50	210
<b>Total non-contributory</b>	<b>4 070</b>	<b>2 220</b>	<b>1 190</b>	<b>710</b>	<b>440</b>	<b>1 720</b>
<b>Total cash benefits</b>	<b>4 700</b>	<b>3 130</b>	<b>1 840</b>	<b>1 190</b>	<b>780</b>	<b>2 330</b>
<b>Cash benefits as a percentage of gross income</b>						
	58	22	9	4	2	10

Income tax, employees' NIC and Local taxes<sup>2</sup> as percentages of gross income for each quintile group of NON-RETIRED households, 1994-95

TABLE F

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Percentages</b>						
Income tax <sup>1</sup>	4.0	7.9	11.9	14.0	19.6	14.4
Employees' NIC	2.2	4.3	5.2	5.5	4.1	4.5
Local taxes <sup>2</sup>	6.9	4.2	3.1	2.5	1.7	2.8
<b>Total</b>	<b>13.1</b>	<b>16.4</b>	<b>20.2</b>	<b>22.0</b>	<b>25.5</b>	<b>21.7</b>

1 After tax relief at source on mortgage interest and life assurance premiums.  
 2 Gross Council tax, Domestic rates and Water charges but after deducting discounts and Council tax transitional relief.

Income tax, NI contributions and local taxes

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 levied on the first £430 of weekly earnings during 1994/95, households in the top quintile group pay rather less in contributions as a percentage of gross income than the 3rd and 4th quintile groups of households (Table F).

**Indirect taxes as a percentage of (a) disposable income and (b) expenditure on goods and services for each quintile group of NON-RETIRED households, 1994-95**

TABLE G

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>(a) Percentages of disposable income</b>						
VAT	11.1	9.6	9.0	8.4	6.7	8.2
Duty on beer and cider	1.0	0.9	0.8	0.8	0.4	0.7
Duty on wines and spirits	0.7	0.7	0.7	0.7	0.5	0.6
Duty on tobacco	5.5	3.1	2.0	1.4	0.6	1.8
Duty on hydrocarbon oils	2.7	2.6	2.5	2.2	1.5	2.1
Vehicle excise duty	0.8	0.8	0.7	0.7	0.4	0.6
Other taxes on final goods and services	2.4	1.9	1.5	1.4	1.0	1.4
Intermediate taxes	6.5	5.4	4.9	4.5	3.7	4.5
Total indirect taxes	30.6	24.9	22.2	20.1	14.8	20.0
<b>(b) Percentages of expenditure on goods and services<sup>1</sup></b>						
VAT	8.4	8.5	8.7	8.8	8.4	8.6
Duty on beer and cider	0.7	0.8	0.8	0.8	0.5	0.7
Duty on wines and spirits	0.5	0.6	0.7	0.7	0.7	0.7
Duty on tobacco	4.2	2.8	1.9	1.5	0.8	1.8
Duty on hydrocarbon oils	2.0	2.3	2.4	2.3	1.9	2.2
Vehicle excise duty	0.6	0.7	0.7	0.7	0.5	0.6
Other taxes on final goods and services	1.8	1.7	1.5	1.5	1.3	1.5
Intermediate taxes	4.9	4.8	4.8	4.7	4.6	4.7
Total indirect taxes	23.2	22.1	21.5	21.1	18.7	20.8

<sup>1</sup> See paragraph 30 of Appendix 4 for the definition of expenditure.

**Average value of benefits in kind for each quintile group of NON-RETIRED households, 1994-95**

TABLE H

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Education	2 610	2 070	1 740	1 130	690	1 650
National health service	1 440	1 440	1 420	1 290	1 180	1 350
Housing subsidy <sup>1</sup>	100	60	30	20	0	40
Travel subsidies	50	60	70	90	140	80
School meals and welfare milk	130	30	10	0	0	30
Total	4 330	3 660	3 270	2 530	2 010	3 160
<b>Benefits in kind as a percentage of post-tax income</b>						
	88	41	25	15	7	22

<sup>1</sup> Does not include tax relief at source on mortgage payments. These are taken into account in the income tax payments shown in Table F.

Income tax was, on average, 4.0 per cent of gross income in the lowest quintile, rising steadily to 19.6 per cent in the top quintile. As the quintile groups are based on equivalised disposable income, ie after direct tax, even the lowest quintile contains individuals who are liable for income tax.

Council tax in Great Britain and domestic rates in Northern Ireland are included here with income tax and NICs in line with the treatment of council tax in the National Accounts. Rebates on these local taxes are included as part of housing benefits in Table E. Table F overstates the regressive impact of local taxation at the lower end of the income distribution, since low income households are likely to be receiving these rebates.

**Indirect taxes**

Households' payments of indirect taxes are estimated from their expenditure recorded in the FES. Because the data on expenditure and incomes in the FES are compiled in different ways, they are not fully compatible (see Appendix 4, paragraph 5). Indeed, measured expenditure substantially exceeds measured income in the bottom decile group of households.

In total, indirect taxes expressed as a proportion of disposable income fall as disposable income rises (upper part of Table G), though the highest quintile pay most in indirect taxes in cash terms. The impact of indirect taxes declines for the top quintile groups partly because higher income households channel an increased proportion of their disposable income into savings, investments and mortgage payments.



**Percentage shares of total household income and Gini coefficients<sup>1</sup> for NON-RETIRED households, 1994-95**

TABLE J

	Percentage shares of total equivalised income for NON-RETIRED households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom	2.8	6.7	7.4	6.4
2nd	10	11	12	12
3rd	17	17	17	16
4th	24	23	23	23
Top	46	42	40	43
All non-retired households	100	100	100	100
Decile group				
Bottom	0.9	2.7	2.9	2.2
Top	29	27	25	27
Gini coefficient (percent)	45	36	33	37

<sup>1</sup> This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

Because of the imbalance between measured income and expenditure already mentioned, Table G also shows estimates of indirect tax payments expressed as a percentage of *expenditure* on goods and services (in the lower part of the table). When assessed in this way, indirect taxes, with the exception of tobacco duty, rise broadly in line with expenditure.

**Benefits in kind**

The Government provides certain goods and services to households either free at the time of use or at subsidised prices. These benefits in kind are allocated to individual households in order to arrive at final income. The imputed value of these benefits is based on estimated costs of providing them. The largest two items for which such imputations are made are the health and education services, which together accounted for 24.5 per cent of total general government expenditure in 1994. Other items for which imputations are made are school meals and welfare milk, the housing subsidy and travel subsidies, together accounting for a further 1.2 per cent of general government expenditure.

Education benefit is attributed to households according to the members' usage of state education (see Appendix 4, paragraph 31). The bottom quintile group contains the highest number of children in full time education: it contains over four times as many children in state schools as the highest quintile group ( see Table 3b, Appendix 1). This is the main reason for this quintile group being allocated the highest average imputed benefit (Table H). In addition, the majority of student-only households, for whom the costs of education are greatest, are in this quintile group. Similarly the impact of expenditure on school meals and welfare milk is greatest in the lower income groups where children are more likely to have school meals provided free of charge.

**Summary of the effects of taxes and benefits on RETIRED households, 1994-95**

TABLE K

	Quintile groups of RETIRED households ranked by equivalised disposable income					All retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Original income						
Earnings	30	60	120	220	1 060	300
Occupational pensions	390	930	1 390	3 340	9 640	3 140
Investment income	300	330	410	1 010	4 310	1 270
Other income	10	80	60	80	120	70
Total original income	740	1 390	1 980	4 650	15 120	4 780
plus Contributory benefits	3 680	4 060	4 120	4 190	4 080	4 030
Non-contributory benefits	590	1 000	1 440	1 460	1 180	1 130
Gross income	5 000	6 450	7 550	10 300	20 380	9 940
less Income tax <sup>1</sup>	60	90	170	490	2 270	620
Employees' NIC	0	0	10	10	50	10
Local taxes <sup>2</sup>	580	540	510	610	750	600
Disposable income	4 360	5 820	6 860	9 190	17 310	8 710
less Indirect taxes	1 170	1 250	1 350	1 850	2 850	1 690
Post-tax income	3 190	4 570	5 510	7 340	14 460	7 010
plus National health service	2 350	2 120	2 140	2 240	2 140	2 200
Housing subsidy <sup>3</sup>	30	70	100	70	20	60
Other benefits in kind	150	110	90	110	160	120
Final income	5 720	6 860	7 830	9 770	16 780	9 390
<i>Equivalised disposable income</i>	<i>5 549</i>	<i>7 329</i>	<i>8 761</i>	<i>11 043</i>	<i>20 676</i>	<i>10 673</i>

<sup>1</sup> After tax relief at source on mortgage interest and life assurance premiums.

<sup>2</sup> Gross Council tax, Local rates and Water charges but after deducting discounts and Council tax transitional relief.

<sup>3</sup> Does not include tax relief at source on mortgage payments, which is included in the income tax payments shown above.

The benefit from the health service is estimated according to the age and sex of the household members (see Appendix 4, paragraph 33). Table H indicates that this benefit is distributed fairly equally across the lower three quintile groups and then falls slightly as income goes up.

The housing subsidy (see Appendix 4, paragraph 34) 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 imputed benefit is highest.

Travel subsidies cover the passenger element of the grants made to various public 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.

Table H shows that taken together the absolute values of these benefits in kind clearly decline as household income increases. The ratio of benefits in kind to post-tax income decrease from 88 per cent in the lowest quintile group to 7 per cent in the highest quintile group, indicating that this expenditure contributes to the reduction in income inequality.

### Summary

The overall effect of the various stages of the tax-benefits system on non-retired households is summarised in Table J. Households in the highest quintile group receive 46 per cent of all (equivalised) original income, compared with 2.8 per cent received by the lowest quintile group. However, after direct taxes and benefits are taken into account, the share of the lowest quintile group rises to 7.4 per cent and that of the highest falls to 40 per cent. Cash benefits are the major factor underlying these changes, causing the Gini coefficient to fall from 45 per cent based on original income to 36 per cent based on gross income. Income tax, employees' National Insurance contributions and local taxes produced a further reduction in inequality, but payment of indirect taxes increases inequality.

## RESULTS FOR RETIRED HOUSEHOLDS

Retired households (see Appendix 4, paragraph 8 for definition) have quite distinct income and expenditure patterns and so the tax-benefit system affects them in a different way from non-retired households (Table K). For retired households in the lowest three quintile groups, original income makes up slightly more than 20 per cent of gross income on average. Households in the top quintile group receive nearly 75 per cent of their gross income from original sources, mainly from occupational pensions and investment income.

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 (78 per cent) are paid from the National Insurance Fund into which the recipients will have made contributions throughout their working lives. Non-contributory benefits are lowest for the bottom quintile group where three-quarters of the households own their house outright (Table 4b, Appendix 1) and consequently receive much less in housing benefits.

Households in the top quintile group pay over 70 per cent of all the income tax paid by retired households. The top quintile group also pays nearly twice as much indirect tax as the average for all retired households.

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, but housing subsidy is substantially higher for the middle three quintile groups since they have the highest concentration of 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.

Table L 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 result in an increase in inequality.

A comparison of Table L 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 post-tax income is more equal amongst the retired than amongst the non-retired.

Chart 6 illustrates the different impact which the tax-benefit system has on retired households in different quintile groups.

## Percentage shares of total household income and Gini coefficients<sup>1</sup> for RETIRED households, 1994-95

TABLE L

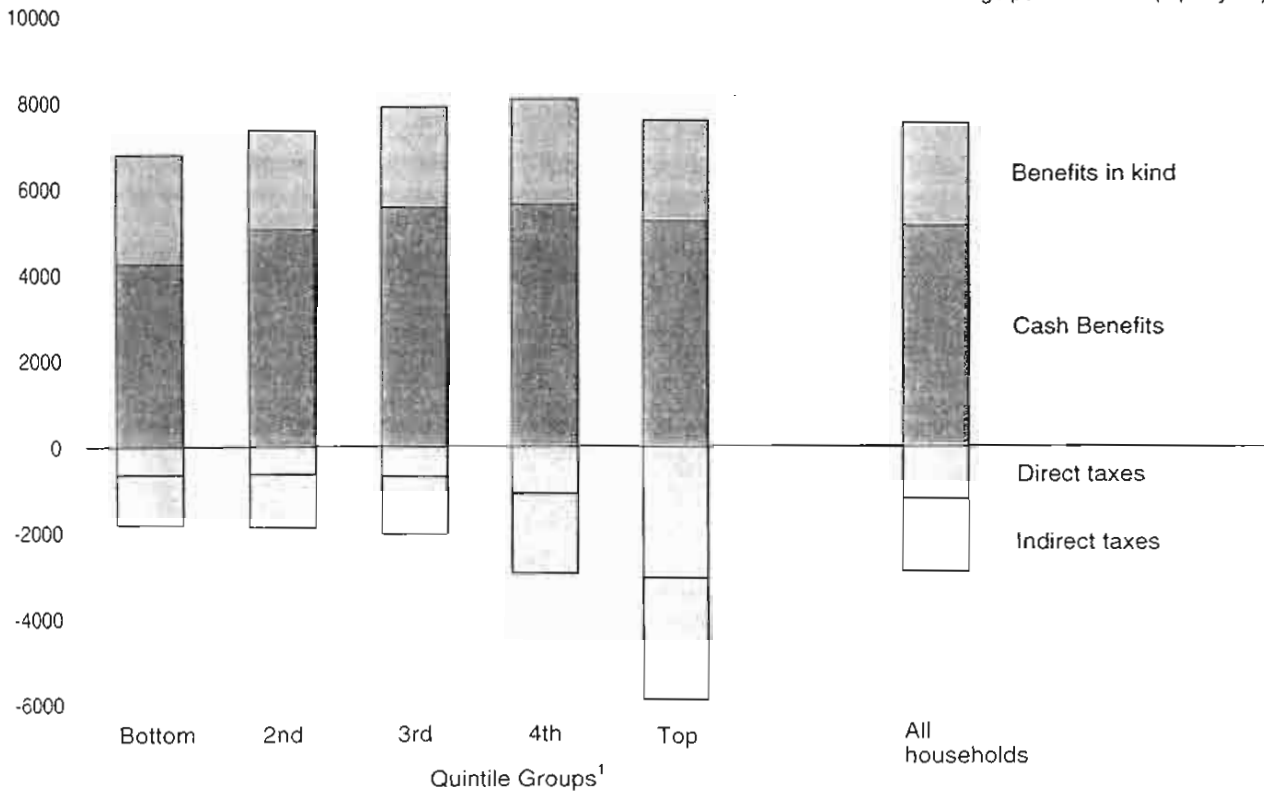
	Percentage shares of total equivalised income for RETIRED households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom	3.3	10.6	10.4	9.5
2nd	6	13	14	13
3rd	9	16	16	16
4th	19	20	21	20
Top	63	40	39	40
All retired households	100	100	100	100
Decile group				
Bottom	1.2	4.8	4.6	4.0
Top	45	25	25	26
Gini coefficient (percent)	66	28	28	32

<sup>1</sup> This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

CHART 6

Summary of the effects of taxes and benefits on RETIRED households, 1994-95

Average per household (£ per year)



1. Households are ranked throughout by their equivalised disposable income.

## Detailed tables for 1994/95

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### CONTENTS

	Table
General government revenue and expenditure in 1994	1
Average incomes, taxes and benefits, 1994/95	
By decile groups of all households	2
By decile groups of non-retired households	3
By decile groups of retired households	4
By decile groups of non-retired households without children	5
By decile groups of non-retired households with children	6
Distribution of households co-operating in the Family Expenditure Survey and summary of the effects of taxes and benefits by household type, 1994/95	7
Average income, taxes and benefits, ranked by unadjusted disposable income, 1994/95, by decile groups of households	8
Cross tabulation of households ranked by disposable income, unadjusted and equalised, 1994/95	9

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A table showing the average incomes, taxes and benefits for 1994/95 by quintile groups within household type is available from the CSO on request.

## Guide to the allocation of general government expenditure and financing to households in 1994

TABLE 1 (Appendix 1)

Expenditure		£	% of	Financing		£	% of
		million	total			million	total
		_____	_____			_____	_____
<b>Allocated expenditure<sup>1</sup></b>				<b>Allocated financing<sup>1</sup></b>			
Allocated cash benefits				Income tax <sup>4</sup>		62 390	21.8
Contributory(National Insurance,etc)				Employees'& self-employed NI contributions		18 600	6.5
Retirement	28 910	10.1		Council tax		8 460	3.0
Widows and guardians	1 040	0.4		Taxes on final goods and services			
Unemployment	1 360	0.5		VAT		32 000	11.2
Sickness/Statutory sick pay	580	0.2		Duty on beer		2 440	0.9
Invalidity	7 800	2.7		Duty on wines,cider,perry		940	0.3
Maternity/Statutory maternity pay	470	0.2		Duty on spirits		1 960	0.7
Other	370	0.1		Customs duties		1 100	0.4
Non-contributory				Betting duties		1 080	0.4
Family benefits	8 160	2.9		Duty on tobacco		6 570	2.3
Income support	17 100	6.0		Duty on hydrocarbon oils		6 490	2.3
War pensions	1 020	0.4		Vehicle excise duty		2 600	0.9
Other	7 410	2.6		Other		2 210	0.8
Student maintenance grants <sup>2</sup>	1 300	0.5		Taxes & NI contributions on intermediate goods & services			
Rent rebates and allowances	10 060	3.5		Employers' NI contributions		7 680	2.7
Allocated benefits in kind				Commercial & industrial rates		5 370	1.9
Health services	38 040	13.3		Duty on hydrocarbon oils		3 760	1.3
Education	32 110	11.2		VAT		2 510	0.9
School meals and welfare milk	660	0.2		Vehicle excise duty		700	0.2
Housing subsidy	1 130	0.4		Other		980	0.3
Travel subsidies <sup>3</sup>	1 720	0.6				167 840	58.7
	159 240	55.7		<b>Unallocated financing</b>			
<b>Unallocated expenditure</b>				Employers' NI contributions		15 710	5.5
Other current expenditure	86 290	30.2		Taxes on expenditure		26 240	9.2
Capital expenditure	14 690	5.1		Other taxes			
Debt interest	22 170	7.8		Corporation tax		17 340	6.1
Non-trading capital consumption	3 350	1.2		Petroleum revenue tax		820	0.3
				Taxes on capital		2 610	0.9
<b>Total expenditure</b>	<b>285 740</b>	<b>100.0</b>		Other receipts <sup>5</sup>		12 480	4.4
				Non-trading capital consumption		3 350	1.2
				General government borrowing requirement		39 350	13.8
				<b>Total financing</b>		<b>285 740</b>	<b>100.0</b>

1 Including benefits to and taxes paid by, people not living in private households. It is not possible (for the reasons given in Appendix 4, paragraph 1) to allocate all Government expenditure and revenue to households.

2 Estimated.

3 Including concessionary fares expenditure.

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

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

Source: United Kingdom National Accounts, 1995 Edition, Tables 9.4 & 9.1.

# Average incomes, taxes and benefits by decile groups of ALL households, 1994-95

TABLE 2A (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	6 021	7 407	8 696	10 135	11 872	14 043	16 554	19 879	25 838		
Number of households in the sample	685	686	685	685	686	685	685	685	686	685	6 853
<b>Original income</b>											
Wages and salaries	776	1 586	2 691	4 966	8 326	12 135	16 041	19 597	23 251	33 262	12 263
Imputed income from benefits in kind	3	7	15	24	49	155	299	316	543	1 357	277
Self-employment income	285	244	363	651	779	1 330	1 474	1 625	2 685	9 635	1 907
Occupational pensions, annuities	138	430	605	957	1 293	1 309	1 343	1 697	2 382	2 053	1 221
Investment income	164	170	205	320	437	571	745	858	1 237	3 597	830
Other income	140	140	175	231	237	150	284	223	190	491	226
Total	1 507	2 578	4 055	7 148	11 122	15 651	20 186	24 316	30 287	50 394	16 723
<b>Direct benefits in cash</b>											
Contributory											
Retirement pension	1 216	1 854	1 960	1 729	1 347	902	710	708	600	416	1 144
Unemployment benefit	56	43	38	28	24	51	54	52	20	8	37
Invalidity pension and allowance	175	384	325	375	398	360	254	134	85	64	255
Sickness, industrial injury benefit	27	13	6	12	5	12	6	5	6	3	9
Widows' benefits	21	45	32	50	54	30	60	33	39	13	38
Statutory Maternity Pay/ Allowance	4	5	5	9	26	12	40	37	39	69	25
Christmas bonus for pensioners	5	7	8	7	6	4	3	3	2	1	5
Non-contributory											
Income support	1 302	1 091	688	480	383	258	205	106	44	62	462
Child benefit	431	341	265	326	336	356	338	238	216	181	303
Housing benefits	684	901	897	642	372	206	156	66	8	62	400
Invalid care allowance	9	21	41	32	54	27	18	8	15	5	23
Attendance allowance	2	26	59	113	113	78	57	34	34	7	52
Disability living allowance	15	54	126	115	196	168	124	60	37	62	96
War pensions	-	5	12	31	29	59	29	15	29	13	22
Severe disablement allowance	10	26	21	25	37	51	18	19	19	18	25
Industrial injury disablement benefit	1	14	23	18	20	11	46	8	6	8	15
Student maintenance awards	117	84	116	80	81	64	83	80	72	13	79
Government training schemes	46	48	21	18	38	22	21	11	1	6	23
Family credit	99	72	65	119	31	35	17	4	2	1	44
Other non-contributory benefits	37	13	25	9	5	57	27	2	41	18	23
Total cash benefits	4 258	5 048	4 733	4 218	3 555	2 763	2 265	1 625	1 314	1 032	3 081
Gross income	5 765	7 626	8 787	11 366	14 676	18 414	22 451	25 940	31 601	51 427	19 805
<b>Direct taxes and Employees' NIC</b>											
Income tax	226	224	390	766	1 319	2 222	2 977	3 819	5 279	10 704	2 792
<i>less: Tax relief at source<sup>1</sup></i>	44	36	42	88	128	188	212	262	288	336	162
Employees' NI contributions	63	106	168	329	556	822	1 077	1 323	1 525	1 813	778
Local taxes <sup>2</sup>	573	561	538	568	615	645	679	689	749	829	644
Total	818	855	1 053	1 574	2 362	3 502	4 520	5 569	7 265	13 009	4 053
Disposable income	4 947	6 771	7 734	9 792	12 314	14 912	17 930	20 372	24 337	38 417	15 752
<i>Equivalised disposable income</i>	4 751	6 732	8 036	9 390	10 981	12 944	15 258	18 088	22 445	38 087	14 671
<b>Indirect taxes</b>											
Taxes on final goods and services											
VAT	640	631	665	904	1 121	1 344	1 537	1 779	1 900	2 377	1 290
Duty on tobacco	289	255	246	289	313	276	322	256	246	179	267
Duty on beer and cider	41	53	54	70	102	119	128	153	150	132	100
Duty on wines	9	9	11	15	20	28	37	46	58	93	32
Duty on spirits	36	38	46	49	73	86	95	107	101	114	75
Duty on hydrocarbon oils	139	144	161	212	294	360	407	442	478	482	312
Vehicle excise duty	48	49	54	75	99	110	127	148	152	141	100
Television licences	70	72	70	73	79	78	80	80	81	81	76
Stamp duty on house purchase	7	3	4	7	9	12	19	22	34	60	18
Customs duties	23	22	23	31	38	46	51	58	61	74	43
Betting taxes	23	26	33	38	51	51	72	59	61	71	49
Fossil fuel levy	20	21	19	20	21	23	22	24	24	26	22
Camelot National Lottery Fund	7	8	7	10	13	13	17	17	14	16	12
Other	10	11	12	15	16	18	19	23	30	36	19
Intermediate taxes											
Commercial and industrial rates	96	96	100	128	160	185	211	233	257	330	180
Employers' NI contributions	138	137	142	183	228	264	301	335	367	480	257
Duty on hydrocarbon oils	75	73	74	94	114	133	148	166	176	239	129
Vehicle excise duty	13	12	13	16	20	23	26	29	31	43	23
Other	69	69	71	93	114	133	150	169	183	235	129
Total indirect taxes	1 752	1 731	1 806	2 324	2 884	3 302	3 768	4 147	4 404	5 209	3 133
Post-tax income	3 195	5 040	5 928	7 468	9 430	11 610	14 162	16 225	19 933	33 208	12 619
<b>Benefits in kind</b>											
Education	1 932	1 276	1 189	1 312	1 357	1 423	1 454	941	832	511	1 223
National health service	1 729	1 846	1 729	1 719	1 728	1 589	1 527	1 390	1 343	1 195	1 579
Housing subsidy	69	85	80	84	55	33	27	14	8	3	46
Rail travel subsidy	21	19	22	28	38	35	69	71	69	157	53
Bus travel subsidy	29	38	37	37	29	24	19	20	17	13	26
School meals and welfare milk	98	69	31	13	18	9	9	4	3	2	26
Total	3 879	3 332	3 088	3 193	3 224	3 114	3 106	2 439	2 272	1 880	2 953
Final income	7 074	8 372	9 015	10 660	12 654	14 723	17 268	18 664	22 205	35 087	15 572

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief.

# Household characteristics of decile groups of ALL households, 1994-95

TABLE 2B (Appendix 1)

	Decile groups of ALL households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	2.5	2.3	2.1	2.3	2.6	2.7	2.7	2.5	2.4	2.2	2.4
<i>Adults</i>	1.6	1.6	1.6	1.7	1.9	1.9	2.0	2.0	1.9	1.8	1.8
<i>Children</i>	0.9	0.7	0.5	0.6	0.7	0.7	0.7	0.5	0.4	0.4	0.6
Economically active people	0.5	0.5	0.6	0.9	1.2	1.4	1.6	1.7	1.6	1.6	1.2
Retired people	0.5	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.4
People in full-time education	0.80	0.55	0.47	0.55	0.56	0.63	0.61	0.40	0.36	0.30	0.52
<i>In state primary schools</i>	0.43	0.31	0.26	0.29	0.29	0.31	0.29	0.18	0.16	0.10	0.26
<i>In state secondary schools</i>	0.25	0.15	0.12	0.17	0.16	0.23	0.19	0.13	0.10	0.05	0.16
<i>In further and higher education</i>	0.10	0.07	0.07	0.07	0.09	0.08	0.09	0.06	0.06	0.04	0.07
<i>In other educational establishments</i>	0.02	0.01	0.02	0.01	0.02	0.01	0.04	0.03	0.04	0.10	0.03
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
1 adult	24	23	32	22	13	9	8	5	4	4	14
2 or more adults	12	22	18	18	16	10	7	7	8	3	12
Non-retired											
1 adult	14	10	10	10	9	12	12	16	17	25	14
2 adults	11	8	10	13	16	21	22	28	33	38	20
3 or more adults	2	3	4	4	8	8	12	13	10	7	7
1 adult with children	13	15	9	7	6	3	3	2	1	1	6
2 adults with 1 child	5	6	4	5	8	9	9	10	12	10	8
2 adults with 2 children	6	6	6	11	14	17	14	12	10	10	11
2 adults with 3 or more children	9	5	4	6	5	6	5	3	3	2	5
3 or more adults with children	3	3	3	4	5	5	7	4	3	1	4
<b>Household tenure</b>											
Rented											
Local authority rented	31	41	43	33	21	13	11	5	3	1	20
Housing association	5	8	7	6	4	2	2	1	1	0	4
Other rented unfurnished	2	6	6	4	4	4	3	3	4	3	4
Rented furnished	5	4	4	4	3	5	3	4	3	5	4
Rent free	1	1	3	2	1	1	1	2	1	1	1
Owner occupied											
With mortgage	17	14	15	27	39	52	58	66	66	74	43
Rental purchase	0	0	-	-	0	0	0	1	0	1	0
Owned outright	39	26	23	25	27	24	22	20	22	16	24
<b>Age of chief economic supporter</b>											
Under 25	10	6	6	5	5	5	5	6	3	2	5
Over 24 and under 35	19	17	13	15	18	18	21	27	26	25	20
Over 34 and under 45	17	15	12	17	17	22	24	19	22	27	19
Over 44 and under 55	10	9	9	11	16	19	22	24	23	27	17
Over 54 and under 65	12	11	14	14	15	16	14	12	15	11	13
Over 64 and under 75	14	26	27	23	18	11	8	9	8	5	15
Over 74	18	17	20	15	11	8	6	4	3	3	10
<b>Employment status of chief economic supporter</b>											
Self-employed	5	3	4	7	7	9	7	7	10	18	8
Full-time employee at work	5	10	15	27	39	53	64	70	70	67	42
Part-time employee at work	7	7	7	9	8	7	5	5	4	4	6
Unemployed	18	11	6	4	5	3	3	4	3	3	6
Unoccupied and under minimum NI age	31	25	17	14	12	8	7	3	4	2	12
Retired/unoccupied over minimum NI age	34	44	50	39	30	19	15	12	10	6	26
Other	1	1	0	-	0	0	-	-	0	-	0





## Household characteristics of decile groups of NON-RETIRED households, 1994-95

TABLE 3B (Appendix 1)

	Decile groups of NON-RETIRED households ranked by equivalised disposable income										All non-retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	3.1	2.9	2.9	2.9	2.9	3.0	2.8	2.5	2.4	2.2	2.8
<i>Adults</i>	1.7	1.7	1.9	2.0	2.0	2.1	2.1	2.0	1.9	1.8	1.9
<i>Children</i>	1.4	1.2	1.0	0.9	0.9	0.8	0.7	0.5	0.5	0.4	0.8
Economically active people	0.8	1.0	1.4	1.6	1.7	1.8	1.9	1.9	1.8	1.7	1.5
Retired people	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1
People in full-time education	1.23	0.97	0.89	0.80	0.77	0.74	0.53	0.42	0.38	0.32	0.71
<i>In state primary schools</i>	0.67	0.56	0.49	0.42	0.39	0.35	0.24	0.19	0.18	0.10	0.36
<i>In state secondary schools</i>	0.38	0.25	0.25	0.24	0.27	0.26	0.15	0.14	0.09	0.06	0.21
<i>In further and higher education</i>	0.15	0.12	0.13	0.13	0.09	0.09	0.10	0.07	0.06	0.05	0.10
<i>In other educational establishments</i>	0.03	0.03	0.02	0.02	0.01	0.04	0.04	0.03	0.05	0.12	0.04
<b>Composition (percentages)</b>											
<b>Household type</b>											
Non-retired											
1 adult	22	18	17	14	14	14	18	19	23	26	19
2 adults	17	16	22	23	26	27	26	39	37	42	27
3 or more adults	3	5	9	10	10	13	16	13	9	8	10
1 adult with children	22	25	13	9	4	2	3	2	1	1	8
2 adults with 1 child	9	10	8	11	12	11	13	10	14	10	11
2 adults with 2 children	9	11	16	19	21	19	14	12	12	11	14
2 adults with 3 or more children	14	9	9	7	7	7	4	3	2	2	6
3 or more adults with children	5	7	6	7	6	8	7	4	2	1	5
<b>Household tenure</b>											
Rented											
Local authority rented	45	45	29	20	13	8	5	5	2	1	17
Housing association	7	10	5	4	2	2	1	1	1	0	3
Other rented unfurnished	3	7	7	5	3	3	4	4	4	3	4
Rented furnished	8	6	6	5	5	4	4	4	4	5	5
Rent free	1	1	2	1	1	1	2	1	1	1	1
Owner occupied											
With mortgage	23	22	38	48	62	66	71	72	76	79	56
Rental purchase	0	0	-	1	0	0	1	1	1	0	0
Owned outright	13	10	13	16	14	16	13	12	11	11	13
<b>Age of chief economic supporter</b>											
Under 25	15	10	9	6	8	6	7	6	3	2	7
Over 24 and under 35	30	30	25	26	22	24	27	31	30	26	27
Over 34 and under 45	27	25	27	23	27	28	25	21	28	29	26
Over 44 and under 55	16	17	17	23	23	26	27	25	25	30	23
Over 54 and under 65	12	16	17	18	16	13	11	15	10	12	14
Over 64 and under 75	0	1	4	3	2	2	2	2	2	2	2
Over 74	0	1	2	1	1	1	1	0	0	1	1
<b>Employment status of chief economic supporter</b>											
Self-employed	7	6	11	9	12	9	7	9	14	20	10
Full-time employee at work	8	23	40	53	65	74	78	79	79	71	57
Part-time employee at work	10	13	15	13	9	5	5	6	3	4	8
Unemployed	26	16	9	7	4	3	5	4	3	3	8
Unoccupied and under minimum NI age	47	39	21	15	6	7	4	2	1	1	14
Retired/unoccupied over minimum NI age	1	1	4	4	3	1	2	0	0	0	2
Other	1	1	-	0	0	-	-	-	0	-	0

## Average incomes, taxes and benefits by decile groups of RETIRED households, 1994-95

TABLE 4A (Appendix 1)

	Decile groups of RETIRED households ranked by equivalised disposable income										All retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	5 688    6 577    7 368    8 004    8 724    9 585    10 908    13 047    17 470										
Number of households in the sample	182	183	182	182	183	182	182	182	183	182	1 823
Original income											
Wages and salaries	18	21	39	51	101	136	166	249	441	1 412	263
Imputed income from benefits in kind	-	5	-	-	-	2	-	1	18	10	4
Self-employment income	19	-	-	30	-	-	8	6	94	149	31
Occupational pensions, annuities	177	592	824	1 031	1 085	1 691	2 672	4 007	6 040	13 253	3 136
Investment income	275	333	277	378	318	497	714	1 316	2 326	6 296	1 273
Other income	17	13	63	88	67	62	50	104	60	178	70
Total	506	965	1 203	1 577	1 571	2 388	3 610	5 683	8 980	21 297	4 777
Direct benefits in cash											
Contributory											
Retirement pension	3 159	3 792	3 938	3 675	3 720	3 856	3 691	3 833	3 680	3 614	3 696
Unemployment benefit	21	1	-	8	2	9	5	4	4	5	6
Invalidity pension and allowance	113	203	172	204	205	383	439	338	410	275	274
Sickness, industrial injury benefit	-	-	5	6	-	-	-	14	5	-	3
Widows' benefits	44	-	43	42	-	48	16	15	122	-	33
Statutory maternity pay/ Allowance	-	-	-	-	-	-	-	-	-	14	1
Christmas bonus for pensioners	11	13	14	13	13	13	13	13	13	12	13
Non-contributory											
Income support	236	200	161	204	192	223	213	178	335	28	197
Child benefit	13	18	-	10	10	23	-	8	20	12	12
Housing benefits	200	279	533	776	889	831	672	314	382	20	490
Invalid care allowance	-	10	9	10	10	23	47	30	10	10	16
Attendance allowance	9	26	65	87	121	239	312	391	290	177	172
Disability living allowance	3	9	15	37	88	45	155	199	136	99	79
War pensions	-	6	6	29	22	83	68	65	272	127	68
Severe disablement allowance	-	10	-	-	-	-	51	33	13	54	16
Industrial injury disablement benefit	-	20	18	12	22	36	21	16	53	8	21
Student maintenance awards	14	22	10	-	-	-	-	8	10	-	6
Government training schemes	11	2	-	-	-	-	-	-	-	-	1
Family credit	-	-	-	-	-	-	-	-	-	-	-
Other non-contributory benefits	49	34	10	10	20	9	-	138	108	197	57
Total cash benefits	3 883	4 644	4 999	5 123	5 313	5 822	5 704	5 597	5 861	4 651	5 160
Gross income	4 390	5 610	6 202	6 700	6 884	8 210	9 314	11 279	14 841	25 948	9 936
Direct taxes and Employees' NIC											
Income tax	55	80	69	134	121	235	362	671	1 488	3 121	634
less: Tax relief at source <sup>1</sup>	6	10	8	9	11	12	19	24	27	39	17
Employees' NI contributions	7	2	1	4	3	7	8	7	22	86	15
Local taxes <sup>2</sup>	589	572	555	519	507	521	587	628	684	811	597
Total	645	643	617	647	620	751	938	1 282	2 167	3 979	1 229
Disposable income	3 744	4 966	5 585	6 053	6 264	7 459	8 375	9 997	12 674	21 970	8 708
<i>Equivalised disposable income</i>	<i>4 945</i>	<i>6 151</i>	<i>6 967</i>	<i>7 691</i>	<i>8 346</i>	<i>9 179</i>	<i>10 225</i>	<i>11 860</i>	<i>15 045</i>	<i>26 337</i>	<i>10 673</i>
Indirect taxes											
Taxes on final goods and services											
VAT	451	434	457	477	444	543	723	810	1 121	1 495	696
Duty on tobacco	76	88	98	161	163	183	104	118	99	83	117
Duty on beer and cider	17	30	23	30	25	34	32	38	28	57	31
Duty on wines	8	8	7	8	8	9	17	17	50	62	19
Duty on spirits	34	47	48	37	38	42	50	85	97	121	60
Duty on hydrocarbon oils	71	98	80	87	78	101	131	164	178	242	123
Vehicle excise duty	36	49	36	42	34	47	66	83	97	147	64
Television licences	77	76	75	70	72	71	77	78	76	82	75
Stamp duty on house purchase	5	3	2	2	3	3	8	10	13	29	8
Customs duties	17	15	17	18	16	19	29	27	40	45	24
Betting taxes	21	27	23	26	37	36	33	36	44	31	31
Fossil fuel levy	18	19	17	15	18	16	17	20	21	25	19
Camelot National lottery fund	5	6	4	6	6	8	7	11	10	10	7
Other	7	8	17	5	6	7	9	15	13	25	11
Intermediate taxes											
Commercial and industrial rates	70	76	77	76	73	84	103	118	148	201	102
Employers' NI contributions	101	109	110	108	105	121	149	168	212	289	147
Duty on hydrocarbon oils	53	55	57	58	56	63	72	85	100	139	74
Vehicle excise duty	9	9	10	10	9	11	12	14	17	24	12
Other	51	54	56	54	53	61	75	83	105	136	73
Total indirect taxes	1 127	1 209	1 216	1 289	1 245	1 459	1 714	1 980	2 467	3 243	1 695
Post-tax income	2 618	3 757	4 369	4 764	5 019	6 000	6 661	8 017	10 207	18 727	7 013
Benefits in kind											
Education	112	59	18	59	-	26	-	79	97	38	49
National health service	2 295	2 413	2 186	2 054	2 059	2 213	2 094	2 389	2 208	2 076	2 199
Housing subsidy	26	33	73	68	99	97	91	58	35	4	58
Rail travel subsidy	10	1	10	8	20	14	4	19	24	58	17
Bus travel subsidy	51	58	61	57	63	60	65	57	51	51	57
School meals and welfare milk	4	-	-	1	-	2	-	1	-	1	1
Total	2 498	2 564	2 348	2 247	2 242	2 411	2 254	2 603	2 415	2 229	2 381
Final income	5 116	6 321	6 717	7 011	7 261	8 411	8 915	10 620	12 622	20 955	9 394

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief.

## Household characteristics of decile groups of RETIRED households, 1994-95

TABLE 4B (Appendix 1)

	Decile groups of RETIRED households ranked by equivalised disposable income										All retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	1.4	1.5	1.5	1.5	1.4	1.5	1.5	1.6	1.6	1.6	1.5
<i>Adults</i>	1.34	1.49	1.48	1.43	1.36	1.50	1.52	1.57	1.56	1.61	1.49
<i>Children</i>	0.03	-	-	0.02	-	0.01	-	0.02	0.03	0.02	0.01
Economically active people	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Retired people	1.2	1.4	1.4	1.3	1.3	1.4	1.4	1.5	1.5	1.4	1.4
People in full-time education	0.04	0.01	0.01	0.02	-	0.01	-	0.02	0.04	0.02	0.02
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
1 adult	67	55	54	59	65	54	51	46	48	43	54
2 or more adults	34	45	46	41	35	46	49	54	53	57	46
<b>Household tenure</b>											
Rented											
<i>Local authority rented</i>	7	16	40	48	50	42	31	23	18	3	28
<i>Housing association</i>	2	5	5	5	7	9	4	5	4	-	5
<i>Other rented unfurnished</i>	2	5	6	2	4	1	4	2	2	-	3
<i>Rented furnished</i>	-	1	1	1	1	1	-	-	-	-	0
<i>Rent free</i>	-	1	2	4	2	3	2	2	1	-	2
Owner occupied											
<i>With mortgage</i>	4	7	4	5	4	4	7	10	8	13	7
<i>Owned outright</i>	85	65	44	35	33	40	51	59	67	84	56
<b>Age of chief economic supporter</b>											
Under 25	-	-	-	-	-	-	-	-	-	-	-
Over 24 and under 35	-	-	-	-	-	-	-	-	-	1	0
Over 34 and under 45	1	-	-	-	-	-	1	-	1	-	0
Over 44 and under 55	1	1	1	-	-	2	1	1	2	1	1
Over 54 and under 65	12	8	6	11	9	9	12	12	17	21	12
Over 64 and under 75	37	44	60	52	56	50	57	46	49	52	50
Over 74	50	47	34	37	35	38	29	41	31	25	37
<b>Employment status of chief economic supporter</b>											
Self-employed	1	-	-	-	-	-	-	-	1	1	0
Full-time employee at work	-	-	-	-	-	-	1	-	1	-	0
Part-time employee at work	1	1	-	-	-	1	-	-	1	-	0
Unemployed	1	1	1	-	-	-	-	-	1	-	0
Unoccupied and under minimum NI age	7	4	3	4	1	6	8	9	10	15	7
Retired/unoccupied over minimum NI age	92	95	97	96	99	93	92	91	87	84	93

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households without CHILDREN, 1994-95**

TABLE 5 (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	7 020	9 249	11 387	13 536	15 579	17 928	20 534	24 277	31 321		
Number of households in the sample	279	280	279	280	279	279	280	279	280	279	2 794
Original income											
Wages and salaries	1 210	3 646	7 099	9 953	14 193	18 371	20 378	23 268	27 269	36 583	16 196
Imputed income from benefits in kind	8	11	27	75	72	240	200	397	698	1 523	325
Self-employment income	344	588	955	1 345	1 550	1 413	1 592	2 274	3 345	11 385	2 478
Occupational pensions, annuities	178	319	848	966	806	736	854	1 227	904	1 446	828
Investment income	123	119	312	398	390	448	477	682	1 054	3 500	750
Other income	209	210	296	126	193	270	163	111	255	227	206
Total	2 072	4 892	9 536	12 863	17 204	21 477	23 663	27 959	33 525	54 663	20 782
Direct benefits in cash											
Contributory											
Retirement pension	89	507	671	565	348	302	289	344	199	248	356
Unemployment benefit	102	96	52	63	86	91	69	20	9	8	60
Incapacity pension and allowance	387	805	680	596	368	202	185	62	63	27	338
Sickness, industrial injury benefit	65	18	23	18	12	7	2	13	3	4	17
Widows' benefits	92	114	54	70	67	31	29	44	32	-	53
Statutory Maternity Pay/ Allowance	1	-	3	-	7	5	-	-	-	-	2
Christmas bonus for pensioners	2	4	4	3	2	2	2	1	1	1	2
Non-contributory											
Income support	1 115	846	460	351	151	128	112	43	65	101	337
Child benefit	6	5	8	9	2	4	7	8	4	4	6
Housing benefits	790	826	389	228	101	85	71	9	11	142	265
Invalid care allowance	-	38	26	6	19	26	13	12	-	13	15
Attendance allowance	6	-	26	39	20	20	25	6	-	-	14
Disability living allowance	60	211	256	222	143	87	71	2	23	70	115
War pensions	-	-	-	4	11	4	13	9	-	-	4
Severe disablement allowance	49	58	47	65	53	39	15	-	-	45	37
Industrial injury disablement benefit	3	26	9	38	53	17	12	9	3	17	19
Student maintenance awards	254	357	126	81	157	75	123	91	-	2	127
Government training schemes	36	57	59	45	26	18	8	2	10	5	27
Family credit	11	12	5	9	1	-	1	-	1	-	4
Other non-contributory benefits	22	6	14	14	8	4	-	9	0	1	8
Total cash benefits	3 089	3 986	2 910	2 428	1 635	1 147	1 047	684	425	687	1 804
Gross income	5 161	8 878	12 445	15 291	18 839	22 624	24 709	28 643	33 950	55 350	22 586
Direct taxes and Employees' NIC											
Income tax	353	397	1 040	1 599	2 345	3 127	3 649	4 779	5 744	12 858	3 588
Less: Tax relief at source <sup>1</sup>	45	37	91	117	187	217	268	283	320	348	191
Employees' NI contributions	99	215	453	667	967	1 273	1 430	1 602	1 832	1 934	1 047
Local taxes <sup>2</sup>	556	553	589	609	618	653	636	670	719	830	643
Total	963	1 128	1 991	2 758	3 743	4 836	5 446	6 768	7 975	15 274	5 087
Disposable income	4 198	7 750	10 455	12 533	15 096	17 788	19 263	21 876	25 975	40 075	17 499
<i>Equivalised disposable income</i>	4 861	8 169	10 310	12 448	14 551	16 797	19 125	22 239	27 471	43 967	17 992
Indirect taxes											
Taxes on final goods and services											
VAT	605	810	1 112	1 199	1 394	1 695	1 611	1 793	1 872	2 587	1 468
Duty on tobacco	324	374	385	347	328	327	297	312	245	153	309
Duty on beer and cider	68	104	116	135	165	183	183	159	166	127	141
Duty on wines	10	17	20	23	28	41	46	53	67	112	42
Duty on spirits	41	59	86	76	116	91	122	100	123	115	93
Duty on hydrocarbon oils	139	219	288	311	392	474	434	486	496	502	374
Vehicle excise duty	51	63	92	101	124	149	133	149	141	138	114
Television licences	61	67	73	78	78	79	78	80	79	80	75
Stamp duty on house purchase	8	4	7	9	12	16	12	23	29	71	19
Customs duties	19	24	31	39	42	52	47	56	55	77	44
Betting taxes	25	41	63	54	65	99	67	75	49	112	65
Fossil fuel levy	17	20	21	21	21	22	21	21	23	26	21
Carnot National lottery fund	7	9	13	14	14	17	16	15	16	16	14
Other	9	8	15	18	18	20	22	20	23	40	19
Intermediate taxes											
Commercial and industrial rates	88	111	154	162	184	216	211	233	250	345	195
Employers' NI contributions	125	157	220	234	260	308	302	333	357	501	279
Duty on hydrocarbon oils	69	82	114	121	128	151	151	161	173	248	140
Vehicle excise duty	12	14	20	22	23	27	27	28	31	45	25
Other	64	81	109	116	130	155	149	167	179	242	139
Total indirect taxes	1 740	2 265	2 940	3 077	3 521	4 120	3 928	4 263	4 374	5 536	3 576
Post-tax income	2 458	5 485	7 515	9 456	11 575	13 668	15 335	17 612	21 601	34 539	13 923
Benefits in kind											
Education	1 016	1 051	615	310	393	405	252	323	167	78	461
National health service	721	1 024	1 098	1 116	990	982	938	895	822	815	940
Housing subsidy	68	76	64	49	29	19	17	16	5	1	34
Rail travel subsidy	35	37	56	42	70	66	102	71	124	147	75
Bus travel subsidy	14	22	22	21	14	16	15	13	11	9	16
School meals and welfare milk	2	0	0	0	-	0	-	-	-	-	0
Total	1 855	2 210	1 855	1 539	1 495	1 488	1 324	1 318	1 129	1 050	1 526
Final income	4 312	7 695	9 370	10 995	13 070	15 156	16 659	18 931	22 730	35 589	15 449

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief.

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households with CHILDREN, 1994-95**

TABLE 6 (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	5 789 7 162 8 722 10 166 11 720 13 471 15 417 17 880 23 092										
Number of households in the sample	224	223	224	223	224	224	223	224	223	224	2 236
<b>Original income</b>											
Wages and salaries	1 271	2 780	6 848	10 644	14 309	18 190	21 823	24 762	28 823	41 839	17 131
Imputed income from benefits in kind	10	7	32	45	113	246	548	547	935	1 913	440
Self-employment income	418	485	957	1 260	1 087	1 952	1 799	1 969	4 376	12 915	2 723
Occupational pensions, annuities	58	20	31	118	120	104	325	332	312	76	149
Investment income	71	30	47	129	82	191	471	736	545	3 391	570
Other income	247	238	286	396	317	254	242	491	382	932	379
Total	2 075	3 560	8 202	12 592	16 028	20 936	25 209	28 837	35 373	61 065	21 392
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	19	22	54	122	62	19	45	103	42	-	49
Unemployment benefit	53	62	55	35	5	39	48	23	18	15	35
Incapacity pension and allowance	245	277	169	202	133	130	115	53	26	25	137
Sickness, industrial injury benefit	24	9	2	8	-	8	0	6	1	0	6
Widows' benefits	15	-	-	16	79	-	25	14	54	20	22
Statutory Maternity Pay/ Allowance	11	10	21	24	62	44	53	104	128	265	72
Christmas bonus for pensioners	1	1	1	1	1	0	1	1	0	0	1
<b>Non-contributory</b>											
Income support	2 550	2 420	1 479	605	664	194	189	165	55	14	834
Child benefit	1 149	1 000	1 001	975	894	875	897	792	763	774	912
Housing benefits	1 106	1 511	1 049	480	405	229	38	104	16	0	494
Invalid care allowance	29	22	98	72	75	16	36	24	16	-	39
Attendance allowance	-	-	11	11	-	-	-	7	-	-	3
Disability living allowance	30	20	132	145	114	64	133	126	39	54	86
War pensions	-	-	-	5	23	-	14	5	4	23	7
Severe disablement allowance	13	18	11	33	10	28	22	10	13	-	16
Industrial injury disablement benefit	-	11	15	13	6	-	17	-	9	-	7
Student maintenance awards	68	73	117	110	76	86	66	63	91	40	79
Government training schemes	118	91	40	13	49	14	33	14	-	0	37
Family credit	239	224	237	360	76	91	67	3	17	-	131
Other non-contributory benefits	44	6	45	2	1	41	2	-	0	8	15
Total cash benefits	5 714	5 777	4 535	3 232	2 734	1 880	1 801	1 616	1 294	1 239	2 982
Gross income	7 789	9 337	12 737	15 824	18 762	22 816	27 010	30 453	36 667	62 304	24 374
<b>Direct taxes and Employees' NIC</b>											
Income tax	265	311	892	1 417	2 073	3 025	3 755	4 548	5 912	13 370	3 558
Less: Tax relief at source <sup>1</sup>	81	57	119	202	222	321	305	344	383	419	245
Employees' NI contributions	92	190	459	715	978	1 232	1 459	1 629	1 886	2 007	1 065
Local taxes <sup>2</sup>	580	547	577	620	624	682	723	736	814	941	684
Total	856	991	1 809	2 549	3 453	4 618	5 632	6 569	8 229	15 899	5 062
Disposable income	6 933	8 346	10 928	13 275	15 308	18 198	21 378	23 884	28 438	46 406	19 312
<i>Equivalised disposable income</i>	4 723	6 514	7 908	9 425	10 898	12 529	14 418	16 593	20 254	34 508	13 779
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	874	784	1 014	1 241	1 326	1 627	1 881	1 920	2 188	2 668	1 552
Duty on tobacco	486	375	335	392	384	334	362	300	221	180	337
Duty on beer and cider	56	62	71	87	115	135	138	127	148	126	106
Duty on wines	10	9	11	18	22	30	35	40	55	87	32
Duty on spirits	32	25	44	43	61	62	108	83	104	76	64
Duty on hydrocarbon oils	200	190	266	320	383	485	476	524	529	505	388
Vehicle excise duty	52	55	80	101	112	126	133	145	166	153	112
Television licences	71	72	75	78	80	81	82	82	83	83	79
Stamp duty on house purchase	7	3	6	13	11	13	27	34	48	83	25
Customs duties	33	30	35	46	50	58	68	65	79	93	56
Betting taxes	24	24	31	35	50	50	62	57	48	42	42
Fossil fuel levy	25	25	25	23	24	26	25	28	27	30	26
Camelot National lottery fund	9	12	9	13	14	13	18	21	17	18	14
Other	12	8	26	28	14	18	27	33	41	41	25
<b>Intermediate taxes</b>											
Commercial and industrial rates	128	115	146	177	192	224	261	273	309	404	223
Employers' NI contributions	184	163	207	253	273	318	373	389	445	589	320
Duty on hydrocarbon oils	103	88	107	131	135	157	186	193	220	292	161
Vehicle excise duty	18	15	18	23	23	27	33	34	39	53	28
Other	93	82	104	130	138	164	189	197	223	293	161
Total indirect taxes	2 416	2 136	2 611	3 149	3 407	3 949	4 485	4 546	4 990	5 818	3 751
Post-tax income	4 517	6 210	8 318	10 126	11 902	14 249	16 893	19 338	23 448	40 588	15 561
<b>Benefits in kind</b>											
Education	4 423	3 047	3 462	3 522	3 064	3 306	3 272	2 757	2 587	1 877	3 132
National health service	1 936	1 831	1 757	1 750	1 882	1 781	1 883	1 967	1 863	2 082	1 873
Housing subsidy	107	129	82	64	49	20	24	14	8	1	50
Rail travel subsidy	19	22	39	25	46	31	71	51	83	160	55
Bus travel subsidy	19	17	12	16	14	11	12	14	11	10	14
School meals and welfare milk	273	203	127	40	50	21	26	13	13	10	78
Total	6 776	5 248	5 479	5 417	5 106	5 170	5 289	4 817	4 566	4 140	5 201
<b>Final income</b>	11 293	11 458	13 797	15 543	17 007	19 419	22 182	24 154	28 013	44 727	20 762

<sup>1</sup> On mortgage interest and life assurance premiums.

<sup>2</sup> Gross Council tax, Rates and Water charges but after reducing discounts and transitional relief.

**Distribution of households<sup>1</sup> co-operating in the Family Expenditure Survey and Summary of the effects of taxes and benefits, by household type, 1994-95**

TABLE 7 (Appendix 1)

	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 with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	
<b>Decile groups of households ranked by equivalised disposable income</b>											
<b>Number of households</b>											
Bottom	166	81	98	75	13	89	37	43	61	22	685
2nd	159	154	65	55	19	100	39	38	34	23	686
3rd	217	126	69	66	27	64	26	44	28	18	685
4th	149	123	70	90	30	50	34	72	39	28	685
5th	92	109	62	112	56	39	55	93	34	34	686
6th	59	70	84	146	53	20	62	118	41	32	685
7th	56	48	85	152	81	17	63	97	37	49	685
8th	37	46	111	191	91	11	69	81	18	30	685
9th	29	57	119	227	65	9	80	65	17	18	686
Top	24	21	169	263	50	4	66	68	12	8	685
All households	988	835	932	1 377	485	403	531	719	321	262	6 853
<b>Summary of the effects of taxes and benefits, by household type</b>											
<b>Average per household (£ per year)</b>											
Original income	2 807	7 107	12 161	23 472	29 714	4 415	24 228	26 690	21 416	27 188	16 723
plus Cash benefits	4 305	6 172	1 695	1 528	2 795	5 363	1 971	1 958	3 433	3 626	3 081
Gross income	7 112	13 279	13 856	25 000	32 509	9 778	26 199	28 648	24 849	30 814	19 805
less Direct taxes&employees'NIC	809	1 725	3 143	5 812	6 766	983	5 933	6 332	5 086	6 055	4 053
Disposable income	6 302	11 554	10 713	19 189	25 743	8 794	20 266	22 317	19 763	24 759	15 752
<i>Equivalised disposable income</i>	<i>10 322</i>	<i>11 088</i>	<i>17 563</i>	<i>18 774</i>	<i>16 598</i>	<i>8 981</i>	<i>16 793</i>	<i>15 529</i>	<i>11 550</i>	<i>12 978</i>	<i>14 671</i>
less Indirect taxes	1 038	2 472	2 140	3 801	5 697	1 781	3 744	3 978	4 034	5 821	3 133
Post-tax income	5 265	9 081	8 573	15 387	20 046	7 013	16 521	18 338	15 728	18 939	12 619
plus Benefits in kind	1 942	2 900	821	1 327	3 447	4 705	3 204	5 112	8 128	6 669	2 953
Final income	7 207	11 981	9 394	16 715	23 493	11 718	19 725	23 450	23 856	25 607	15 572

<sup>1</sup> See Appendix 4 for definitions of retired households, adults and children.

# Average incomes, taxes and benefits by decile groups of households (ranked by UNADJUSTED disposable income), 1994-95

TABLE 8 (Appendix 1)

	Decile groups of households ranked by UNADJUSTED disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (£)</i>	4 801	6 326	8 147	10 180	12 634	15 422	18 758	22 855	29 856		
Number of households in the sample	685	686	685	685	686	685	685	685	686	685	6 853
Original income											
Wages and salaries	246	655	1 615	3 781	6 524	10 658	15 395	19 560	25 462	38 735	12 263
Imputed income from benefits in kind	2	4	12	30	36	99	180	297	615	1 494	277
Self-employment income	93	84	216	523	701	1 130	1 492	1 811	2 862	10 160	1 907
Occupational pensions, annuities	257	575	835	1 163	1 708	1 526	1 402	1 675	1 431	1 636	1 221
Investment income	191	207	322	414	575	715	694	903	958	3 326	830
Other income	102	119	180	140	274	182	226	266	272	498	226
Total	892	1 644	3 181	6 052	9 818	14 309	19 389	24 512	31 600	55 848	16 723
Direct benefits in cash											
Contributory											
Retirement pension	1 830	2 019	1 916	1 639	1 331	908	648	457	337	359	1 144
Unemployment benefit	24	31	44	32	36	51	50	45	38	23	37
Invalidity pension and allowance	97	228	384	435	415	388	226	200	136	45	255
Sickness, industrial injury benefit	15	14	12	11	4	14	8	8	6	2	9
Widows' benefits	51	54	70	63	9	33	22	32	26	18	38
Statutory maternity pay/ Allowance	2	3	5	8	11	27	34	34	44	77	25
Christmas bonus for pensioners	6	7	8	7	6	4	3	2	2	1	5
Non-contributory											
Income support	534	774	952	834	587	305	211	171	127	123	462
Child benefit	62	153	271	295	308	345	410	374	406	405	303
Housing benefits	613	1 071	896	639	370	177	87	52	29	61	400
Invalid care allowance	-	-	10	24	61	40	24	18	40	13	23
Attendance allowance	20	49	103	150	63	46	23	31	21	18	52
Disability living allowance	11	26	109	159	181	137	125	74	68	67	96
War pensions	2	5	5	41	49	69	11	14	14	10	22
Severe disablement allowance	11	10	17	27	55	27	29	13	28	28	25
Industrial injury disablement benefit	1	19	13	25	13	28	20	10	20	4	15
Student maintenance awards	76	41	48	56	102	121	60	107	108	72	79
Government training schemes	7	7	15	24	39	37	36	32	23	13	23
Family credit	3	32	87	120	77	48	37	16	16	8	44
Other non-contributory benefits	18	36	49	24	20	25	24	11	20	8	23
Total cash benefits	3 384	4 580	5 014	4 612	3 735	2 831	2 087	1 704	1 508	1 355	3 081
Gross income	4 275	6 224	8 195	10 664	13 553	17 140	21 476	26 216	33 108	57 203	19 805
Direct taxes and Employees' NIC											
Income tax	149	166	330	732	1 250	1 946	2 935	3 732	5 054	11 631	2 792
less: Tax relief at source <sup>1</sup>	22	26	35	72	128	176	250	269	292	353	162
Employees' NI contributions	25	42	98	255	447	727	1 059	1 335	1 674	2 120	778
Local taxes <sup>2</sup>	524	502	555	576	615	644	660	706	756	907	644
Total	676	683	949	1 491	2 184	3 141	4 403	5 505	7 192	14 306	4 053
Disposable income	3 600	5 541	7 246	9 173	11 369	14 000	17 073	20 711	25 916	42 897	15 752
Indirect taxes											
Taxes on final goods and services											
VAT	392	443	629	864	1 077	1 266	1 580	1 678	2 045	2 924	1 290
Duty on tobacco	142	197	256	267	298	321	289	313	308	281	267
Duty on beer and cider	26	32	47	70	84	113	128	149	169	185	100
Duty on wines	6	8	9	17	22	25	39	43	59	96	32
Duty on spirits	32	27	40	55	71	93	84	92	119	134	75
Duty on hydrocarbon oils	69	78	140	206	276	337	415	468	525	604	312
Vehicle excise duty	29	35	51	72	94	110	134	146	153	176	100
Television licences	66	66	74	74	78	80	81	81	82	83	76
Stamp duty on house purchase	5	2	4	8	10	13	15	21	34	67	18
Customs duties	13	16	23	30	35	41	53	53	68	95	43
Betting taxes	15	20	32	42	48	52	60	65	84	69	49
Fossil fuel levy	16	18	19	21	21	22	23	24	26	30	22
Camelot National lottery fund	4	6	7	9	11	14	15	19	19	18	12
Other	10	7	10	14	16	19	17	28	26	45	19
Intermediate taxes											
Commercial and industrial rates	65	71	96	123	154	176	209	231	277	395	180
Employers' NI contributions	93	102	138	175	220	251	297	329	398	570	257
Duty on hydrocarbon oils	50	55	72	90	112	127	145	162	199	282	129
Vehicle excise duty	9	9	12	16	19	22	25	28	35	51	23
Other	47	51	69	89	110	126	152	164	199	280	129
Total indirect taxes	1 087	1 243	1 729	2 241	2 757	3 208	3 761	4 093	4 825	6 385	3 133
Post-tax income	2 513	4 299	5 518	6 933	8 612	10 792	13 312	16 618	21 091	36 512	12 619
Benefits in kind											
Education	394	471	854	1 108	1 347	1 382	1 550	1 652	1 839	1 632	1 223
National health service	1 448	1 601	1 704	1 664	1 543	1 594	1 505	1 526	1 562	1 646	1 579
Housing subsidy	57	98	91	72	48	37	21	21	11	2	46
Rail travel subsidy	16	18	14	28	40	44	51	73	103	142	53
Bus travel subsidy	30	36	37	36	30	22	18	20	16	15	26
School meals and welfare milk	13	35	60	57	36	19	14	9	7	5	26
Total	1 959	2 259	2 761	2 966	3 043	3 099	3 159	3 300	3 538	3 442	2 953
Final income	4 471	6 558	8 278	9 899	11 655	13 890	16 471	19 919	24 630	39 955	15 572

1 On mortgage interest and life assurance premiums.

2 Gross Council tax (net of transitional relief), Rates and net Water charges.

## Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 1994-95

TABLE 9 (Appendix 1)

### (i) Quintile groups

	Quintile groups of equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
Number of households						
Quintile groups of unadjusted disposable income						
Bottom	830	515	26	-	-	1 371
2nd	438	482	299	151	-	1 370
3rd	97	297	590	251	136	1 371
4th	5	72	397	590	306	1 370
Top	1	4	59	378	929	1 371
All households	1 371	1 370	1 371	1 370	1 371	6 853

### (ii) Decile groups

	Decile groups of equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Number of households											
Decile groups of unadjusted disposable income											
Bottom	361	227	97	-	-	-	-	-	-	-	685
2nd	169	73	198	220	26	-	-	-	-	-	686
3rd	74	228	129	23	132	99	-	-	-	-	685
4th	53	83	128	202	17	51	142	9	-	-	685
5th	18	56	79	75	234	60	2	139	23	-	686
6th	8	15	37	106	109	187	104	6	113	-	685
7th	2	3	13	41	120	131	142	133	14	86	685
8th	-	-	2	16	38	108	149	166	156	50	685
9th	-	1	2	2	9	46	119	169	220	118	686
Top	-	-	-	-	1	3	27	63	160	431	685
All households	685	686	685	685	686	685	685	685	686	685	6 853



## Trends in income distribution, 1977-1994/95

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### CONTENTS

	Table
Percentage shares of original, gross, disposable and post-tax income by quintile group of households, 1977-1994/95	1
Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1977-1994/95	2

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This section gives Gini coefficients and shares of income for 1977 to 1994/95. As was noted in the Introduction, it is not possible to produce a fully consistent time series because of changes in methodology and definition. Many of these changes, like the inclusion of the income from company cars since 1990, improve the quality of the results but previous data cannot be reproduced on the same consistent basis. However, Gini coefficients and shares of income are relatively robust and can be used to shed light on broad trends in income distribution. The Department of Social Security publication, *Households Below Average Income 1979 - 1992/93* (HMSO), contains more detailed data for comparison of incomes over time on a consistent basis.

**Percentage shares of total original, gross, disposable and post-tax incomes by quintile groups of households<sup>1</sup>, 1977 to 1991, 1993-94, 1994-95**

TABLE 1 (Appendix 2)

	1977	1979	1981	1983	1985	1987	1989	1991 <sup>2</sup>	1993-94 <sup>3</sup>	1994-95 <sup>3</sup>
<b>Equivalised original income</b>										
Quintile group										
Bottom	3.6	2.4	2.9	3.0	2.5	2.1	2.0	2.0	2.3	2.3
2nd	10	10	9	8	7	7	7	7	6	6
3rd	18	18	17	17	17	16	16	16	14	15
4th	26	27	26	26	27	25	26	26	25	25
Top	43	43	46	47	47	50	49	50	52	51
All households	100	100	100	100	100	100	100	100	100	100
<b>Equivalised gross income</b>										
Quintile group										
Bottom	8.9	8.5	8.4	8.5	8.3	7.5	7.1	6.7	7.1	7.2
2nd	13	13	12	12	12	11	11	10	11	11
3rd	18	18	17	17	17	16	16	16	16	16
4th	24	24	23	23	24	23	23	23	23	23
Top	37	37	39	39	40	43	42	44	44	43
All households	100	100	100	100	100	100	100	100	100	100
<b>Equivalised disposable income</b>										
Quintile group										
Bottom	9.7	9.4	9.3	9.5	9.2	8.2	7.6	7.2	7.7	7.8
2nd	14	13	13	13	13	12	12	11	12	12
3rd	18	18	17	17	17	16	17	16	16	16
4th	23	23	23	23	23	23	23	23	23	23
Top	36	36	38	38	38	41	41	42	42	41
All households	100	100	100	100	100	100	100	100	100	100
<b>Equivalised post-tax income</b>										
Quintile group										
Bottom	9.4	9.5	9.0	8.9	8.6	7.6	6.9	6.5	6.8	6.9
2nd	14	13	13	13	13	12	11	11	11	11
3rd	17	18	17	17	17	16	16	16	16	16
4th	23	23	22	22	23	22	23	23	22	22
Top	37	37	39	39	39	43	43	44	44	43
All households	100	100	100	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.

2 Includes Company car benefit.

3 Includes Company car benefit and beneficial house purchase loans from employers.

**Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1977 to 1991, 1993-94 and 1994-95**

TABLE 2 (Appendix 2)

	1977	1979	1981	1983	1985	1987	1989	1991 <sup>1</sup>	1993-94 <sup>2</sup>	1994-95 <sup>2</sup>
<b>Gini coefficients (per cent)</b>										
Equivalised original income	43	44	46	48	49	51	50	51	54	53
Equivalised gross income	29	30	31	32	32	36	36	37	37	37
Equivalised disposable income	27	27	28	28	29	33	34	35	34	33
Equivalised post-tax income	29	29	31	31	32	36	37	39	38	37

1 Includes Company car benefit.

2 Includes Company car benefit and beneficial house purchase loans from employers.

## Detailed tables for 1993/94

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### CONTENTS

	Table
Average incomes, taxes and benefits, 1993/94	
By decile groups of all households	1
By decile groups of non-retired households	2
By decile groups of retired households	3

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Tables for 1993/94 corresponding to Tables 5 - 9 in Appendix 1 and a table showing the average incomes, taxes and benefits for 1993/94 by quintile groups within household type are available from the CSO on request.

**Average incomes, taxes and benefits by decile groups of ALL households, 1993-94**

TABLE 1A (Appendix 3)

	Decile groups of households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	5 650	6 940	8 152	9 642	11 352	13 401	15 764	18 970	24 880		
Number of households in the sample	691	690	691	690	691	691	690	691	690	691	6 906
<b>Original income</b>											
Wages and salaries	654	1 256	2 355	4 067	8 170	10 539	14 478	17 974	23 363	34 090	11 695
Imputed income from benefits in kind	6	19	16	9	57	98	230	360	532	1 280	261
Self-employment income	409	411	395	894	970	1 299	1 428	1 845	1 602	6 075	1 533
Occupational pensions, annuities	172	275	533	896	982	1 314	1 495	1 539	1 861	2 457	1 152
Investment income	184	203	246	399	434	617	650	948	1 558	3 941	918
Other income	112	151	156	183	198	213	200	232	420	610	248
Total	1 536	2 315	3 701	6 448	10 811	14 081	18 480	22 897	29 337	48 452	15 807
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	1 086	1 714	1 837	1 792	1 262	1 132	819	621	580	431	1 127
Unemployment benefit	76	68	62	52	56	58	41	50	32	24	52
Invalidity pension and allowance	165	288	386	272	337	359	233	197	157	49	244
Statutory sick pay	2	4	7	12	19	14	22	23	16	10	13
Sickness, industrial injury benefit	33	12	33	18	12	13	12	8	2	16	16
Widows' benefits	51	49	55	88	55	69	58	38	18	18	50
Statutory Maternity Pay/ Allowance	1	5	4	8	15	21	20	35	37	68	21
Christmas bonus for pensioners	5	7	8	7	6	5	4	3	2	2	5
<b>Non-contributory</b>											
Income support	1 443	1 133	664	545	471	268	197	113	59	16	491
Child benefit	485	375	275	302	358	311	301	264	222	194	309
Housing benefits	553	861	828	629	395	217	141	72	26	12	373
Invalid care allowance	9	10	23	26	36	12	18	4	8	3	15
Attendance allowance	5	31	47	98	97	90	58	24	19	5	47
Disability living allowance	25	18	103	132	153	180	125	60	29	23	85
War pensions	1	12	9	21	17	65	31	5	14	28	20
Severe disablement allowance	10	16	31	39	59	53	47	8	9	3	28
Industrial injury disablement benefit	9	19	22	22	36	32	35	22	8	-	21
Student maintenance awards	107	87	91	65	73	64	49	46	32	23	64
Government training schemes	39	23	22	39	33	28	19	9	20	8	24
Family credit	101	83	79	76	52	17	10	1	3	1	42
Other non-contributory benefits	14	22	10	12	12	39	15	25	20	5	18
Total cash benefits	4 221	4 837	4 595	4 256	3 555	3 047	2 253	1 627	1 313	940	3 064
<b>Gross income</b>	5 757	7 152	8 296	10 704	14 366	17 128	20 733	24 525	30 650	49 391	18 871
<b>Direct taxes and Employees' NIC</b>											
Income tax	190	206	354	688	1 281	1 842	2 637	3 541	5 051	9 625	2 542
less: Tax relief at source <sup>1</sup>	64	53	56	94	163	193	272	310	368	412	198
Employees' NI contributions	63	85	148	260	509	659	912	1 097	1 388	1 674	680
Local taxes <sup>2</sup>	574	530	518	566	580	609	643	653	715	780	617
Total	763	768	964	1 420	2 207	2 917	3 921	4 982	6 786	11 668	3 640
<b>Disposable income</b>	4 995	6 384	7 332	9 283	12 160	14 212	16 812	19 543	23 864	37 724	15 232
<i>Equivalised disposable income</i>	4 498	6 348	7 534	8 855	10 455	12 351	14 529	17 239	21 638	37 031	14 049
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	665	584	636	879	1 148	1 313	1 537	1 651	1 972	2 593	1 298
Duty on tobacco	271	256	218	264	360	294	294	229	230	131	255
Duty on beer and cider	46	53	49	65	109	122	134	142	151	138	101
Duty on wines	13	8	11	17	19	24	30	37	55	108	32
Duty on spirits	41	30	34	60	77	77	81	91	106	139	74
Duty on hydrocarbon oils	141	125	118	184	268	291	356	360	402	395	264
Vehicle excise duty	56	45	46	66	87	101	117	128	145	136	93
Television licences	69	67	67	71	75	77	77	78	79	78	74
Stamp duty on house purchase	10	7	6	11	13	18	21	28	42	67	22
Customs duties	28	24	27	34	42	44	53	54	63	80	45
Betting taxes	18	18	22	34	50	86	53	46	53	78	46
Fossil fuel levy	22	19	19	22	21	22	23	22	23	25	22
Other	8	7	8	9	12	11	15	14	15	12	11
<b>Intermediate taxes</b>											
Commercial and industrial rates	116	105	111	146	181	203	239	254	296	389	204
Employers' NI contributions	153	137	147	194	236	267	315	337	393	520	270
Duty on hydrocarbon oils	74	67	71	93	107	120	141	153	172	227	122
Vehicle excise duty	13	12	12	17	19	22	25	28	32	42	22
Other	70	63	68	87	108	121	142	151	175	230	121
Total indirect taxes	1 814	1 628	1 669	2 253	2 934	3 213	3 652	3 803	4 403	5 387	3 076
<b>Post-tax income</b>	3 180	4 757	5 663	7 030	9 226	10 999	13 160	15 740	19 461	32 336	12 156
<b>Benefits in kind</b>											
Education	1 956	1 283	1 016	1 146	1 286	1 304	1 097	990	889	602	1 157
National health service	1 728	1 751	1 751	1 755	1 667	1 573	1 440	1 374	1 275	1 143	1 546
Housing subsidy	70	89	111	79	52	35	27	17	7	1	49
Rail travel subsidy	13	14	12	17	19	21	35	37	55	88	31
Bus travel subsidy	29	38	40	38	31	24	21	18	17	12	27
School meals and welfare milk	109	74	28	19	12	9	9	5	4	4	27
Total	3 904	3 249	2 957	3 054	3 067	2 966	2 629	2 442	2 247	1 850	2 836
<b>Final income</b>	7 084	8 006	8 620	10 085	12 293	13 965	15 789	18 182	21 708	34 186	14 992

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief.

# Household characteristics of decile groups of ALL households, 1993-94

TABLE 1B (Appendix 3)

	Decile groups of ALL households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	2.7	2.3	2.2	2.3	2.7	2.6	2.6	2.6	2.4	2.2	2.5
<i>Adults</i>	1.7	1.6	1.6	1.7	2.0	2.0	2.0	2.0	2.0	1.8	1.8
<i>Children</i>	1.0	0.7	0.6	0.6	0.7	0.7	0.6	0.6	0.5	0.4	0.6
Economically active people	0.6	0.5	0.6	0.8	1.2	1.3	1.5	1.6	1.6	1.6	1.1
Retired people	0.5	0.7	0.7	0.7	0.5	0.4	0.3	0.2	0.2	0.1	0.4
People in full-time education	0.90	0.58	0.44	0.52	0.59	0.57	0.51	0.44	0.39	0.32	0.53
<i>In state primary schools</i>	0.50	0.34	0.23	0.27	0.31	0.29	0.24	0.20	0.15	0.09	0.26
<i>In state secondary schools</i>	0.27	0.16	0.14	0.19	0.20	0.20	0.17	0.15	0.12	0.10	0.17
<i>In further and higher education</i>	0.09	0.06	0.05	0.05	0.07	0.07	0.06	0.07	0.08	0.04	0.06
<i>In other educational establishments</i>	0.04	0.02	0.01	0.02	0.01	0.02	0.04	0.03	0.05	0.08	0.03
<b>Composition (percentages)</b>											
<b>Household type</b>											
<b>Retired</b>											
1 adult	20	21	34	23	11	11	7	6	2	4	14
2 or more adults	14	22	19	19	15	13	9	7	8	4	13
<b>Non-retired</b>											
1 adult	10	11	9	9	10	11	13	14	18	24	13
2 adults	10	7	7	12	19	19	23	29	32	39	20
3 or more adults	4	3	4	5	9	10	13	11	13	7	8
1 adult with children	13	16	9	7	6	2	2	2	1	1	6
2 adults with 1 child	4	6	3	5	6	9	11	11	10	8	7
2 adults with 2 children	10	6	6	11	12	16	14	12	10	9	11
2 adults with 3 or more children	10	6	5	5	6	5	4	4	4	2	5
3 or more adults with children	4	2	4	5	8	5	6	5	3	2	4
<b>Household tenure</b>											
<b>Rented</b>											
Local authority rented	30	45	49	34	21	16	12	7	2	0	22
Housing association	4	7	4	6	4	3	3	1	1	0	3
Other rented unfurnished	4	4	5	5	5	3	3	3	2	2	4
Rented furnished	3	3	4	4	4	5	3	4	3	4	4
Rent free	1	2	3	2	2	1	1	1	1	1	1
<b>Owner occupied</b>											
With mortgage	19	15	15	24	38	43	56	65	70	75	42
Rental purchase	-	-	-	0	0	1	1	0	1	-	0
Owned outright	39	25	21	27	26	28	22	20	21	18	25
<b>Age of chief economic supporter</b>											
Under 25	7	9	7	6	8	6	7	6	4	2	6
Over 24 and under 35	21	17	14	15	19	21	21	25	30	27	21
Over 34 and under 45	19	15	12	14	20	21	23	23	21	26	19
Over 44 and under 55	11	9	8	12	15	16	21	20	20	27	16
Over 54 and under 65	13	9	11	14	15	16	15	15	14	11	13
Over 64 and under 75	15	22	30	22	16	12	9	7	7	6	15
Over 74	15	18	18	18	8	9	5	3	4	3	10
<b>Employment status of chief economic supporter</b>											
Self-employed	9	6	3	8	7	8	8	7	6	12	7
Full-time employee at work	4	8	16	26	47	52	66	71	74	72	44
Part-time employee at work	6	8	5	8	7	5	5	3	5	4	6
Unemployed	22	13	8	6	5	6	3	5	4	3	7
Unoccupied and under minimum NI age	28	23	17	12	10	8	6	4	2	2	11
Retired/unoccupied over minimum NI age	31	42	50	40	23	21	13	11	10	7	25
Other	1	1	0	0	-	-	0	-	-	-	0

## Average incomes, taxes and benefits by decile groups of NON-RETIRED households, 1993-94

TABLE 2A (Appendix 3)

	Decile groups of NON-RETIRED households ranked by equivalised disposable income										All non-retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	5 849	7 500	9 443	11 102	13 054	15 062	17 404	20 831	27 003		
Number of households in the sample	506	505	506	506	506	505	506	506	505	506	5 057
Original income											
Wages and salaries	1 041	2 926	6 376	10 279	13 329	16 602	19 036	22 911	27 818	38 618	15 894
Imputed income from benefits in kind	8	31	19	85	132	195	392	435	761	1 495	355
Self-employment income	657	620	1 337	1 366	1 648	1 759	1 961	1 834	1 866	7 790	2 084
Occupational pensions, annuities	107	93	224	282	443	486	583	702	612	1 383	492
Investment income	140	91	174	226	361	357	518	669	1 073	3 381	699
Other income	184	215	278	236	272	230	190	369	590	617	318
Total	2 136	3 975	8 408	12 475	16 184	19 629	22 679	26 920	32 720	53 284	19 842
Direct benefits in cash											
Contributory											
Retirement pension	59	112	328	382	389	312	269	238	127	178	239
Unemployment benefit	99	101	92	84	58	71	47	39	38	29	66
Invalidity pension and allowance	208	347	439	346	321	219	140	147	125	31	232
Statutory sick pay	4	8	20	25	17	29	25	21	19	9	18
Sickness, industrial injury benefit	52	42	34	5	16	18	7	4	4	15	20
Widows' benefits	46	88	86	44	86	41	46	25	18	13	49
Statutory maternity pay / Allowance	1	8	12	23	14	36	35	40	54	68	29
Christmas bonus for pensioners	2	2	3	3	2	2	2	1	1	1	2
Non-contributory											
Income support	2 030	1 706	845	598	266	205	112	90	34	5	589
Child benefit	736	627	530	466	435	360	308	297	228	200	419
Housing benefits	805	1 112	636	384	201	116	81	38	16	10	340
Invalid care allowance	12	17	38	28	25	12	7	16	-	3	16
Attendance allowance	6	9	8	31	14	12	9	17	-	3	11
Disability living allowance	34	60	165	139	183	166	65	57	21	16	91
War pensions	-	-	3	11	12	29	-	10	24	13	10
Severe disablement allowance	14	27	54	55	64	51	12	12	-	4	29
Industrial injury disablement benefit	15	16	13	26	4	42	12	17	7	-	15
Student maintenance awards	164	176	128	84	98	43	47	48	42	26	86
Government training schemes	52	42	56	47	34	24	23	15	20	4	32
Family credit	159	158	135	71	31	3	11	4	1	2	57
Other non-contributory benefits	13	14	4	5	23	0	4	9	4	-	8
Total cash benefits	4 512	4 673	3 628	2 856	2 292	1 790	1 262	1 146	783	631	2 357
Gross income	6 648	8 647	12 036	15 330	18 477	21 419	23 942	28 066	33 503	53 915	22 199
Direct taxes and Employees' NIC											
Income tax	276	378	897	1 463	2 124	2 772	3 432	4 300	5 653	10 739	3 203
less: Tax relief at source <sup>1</sup>	90	89	133	205	250	298	342	381	414	443	264
Employees' NI contributions	99	192	407	639	843	1 033	1 184	1 381	1 627	1 840	925
Local taxes <sup>2</sup>	569	529	570	579	608	628	642	676	721	783	631
Total	854	1 011	1 742	2 476	3 326	4 134	4 917	5 976	7 586	12 918	4 494
Disposable income	5 794	7 637	10 295	12 854	15 151	17 285	19 025	22 089	25 917	40 997	17 705
<i>Equivalised disposable income</i>	4 505	6 672	8 462	10 243	12 064	14 034	16 201	18 963	23 634	39 928	15 471
Indirect taxes											
Taxes on final goods and services											
VAT	757	736	1 027	1 271	1 408	1 614	1 606	1 935	2 092	2 710	1 516
Duty on tobacco	397	331	342	404	350	349	265	267	191	131	303
Duty on beer and cider	59	70	87	123	138	155	159	155	166	138	125
Duty on wines	15	11	18	19	28	27	33	43	61	120	37
Duty on spirits	46	32	48	76	73	74	80	93	103	138	76
Duty on hydrocarbon oils	172	155	234	313	322	381	387	401	424	395	318
Vehicle excise duty	59	49	75	98	105	122	126	134	146	132	105
Television licences	64	62	71	75	76	77	78	78	79	78	74
Stamp duty on house purchase	11	9	12	15	20	20	25	35	49	72	27
Customs duties	33	31	38	47	48	54	54	63	68	82	52
Betting taxes	20	15	40	51	97	64	50	50	49	95	53
Fossil fuel levy	24	21	23	22	23	23	23	21	24	25	23
Other	10	9	13	15	12	15	15	18	10	13	13
Intermediate taxes											
Commercial and industrial rates	131	126	168	198	219	249	251	290	318	411	236
Employers' NI contributions	171	164	222	260	288	327	332	387	420	548	312
Duty on hydrocarbon oils	84	81	108	119	129	148	149	176	184	238	141
Vehicle excise duty	15	14	20	21	23	27	28	33	34	44	26
Other	80	76	100	118	131	148	149	173	187	242	141
Total indirect taxes	2 147	1 991	2 645	3 246	3 491	3 873	3 810	4 353	4 607	5 613	3 578
Post-tax income	3 647	5 646	7 649	9 608	11 660	13 412	15 215	17 737	21 310	35 384	14 127
Benefits in kind											
Education	2 918	2 195	1 961	1 669	1 840	1 213	1 214	1 108	908	569	1 559
National health service	1 500	1 420	1 413	1 499	1 347	1 360	1 299	1 282	1 087	1 066	1 327
Housing subsidy	92	114	89	41	34	33	12	18	1	2	44
Rail travel subsidy	14	17	20	26	26	35	46	50	63	97	39
Bus travel subsidy	17	15	18	21	17	17	14	15	10	10	15
School meals and welfare milk	163	111	36	17	12	9	7	7	4	4	37
Total	4 704	3 872	3 537	3 272	3 275	2 667	2 592	2 480	2 074	1 748	3 022
Final income	8 350	9 518	11 186	12 881	14 936	16 079	17 807	20 217	23 384	37 132	17 149

1 On mortgage interest and life assurance premiums

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief.

## Household characteristics of decile groups of NON-RETIRED households, 1993-94

TABLE 2B (Appendix 3)

	Decile groups of NON-RETIRED households ranked by equivalised disposable income										All non-retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	3.4	2.9	3.0	3.0	3.0	2.9	2.7	2.7	2.4	2.2	2.8
Adults	1.8	1.7	1.9	2.1	2.1	2.1	2.1	2.1	2.0	1.8	2.0
Children	1.6	1.2	1.1	0.9	0.9	0.7	0.6	0.6	0.5	0.4	0.9
Economically active people	0.9	0.9	1.4	1.6	1.7	1.8	1.8	1.8	1.8	1.7	1.5
Retired people	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.1
People in full-time education	1.35	0.96	0.89	0.78	0.80	0.58	0.52	0.50	0.42	0.31	0.71
In state primary schools	0.76	0.54	0.47	0.41	0.37	0.29	0.23	0.23	0.16	0.08	0.35
In state secondary schools	0.40	0.28	0.30	0.26	0.29	0.20	0.18	0.16	0.11	0.11	0.23
In further and higher education	0.13	0.10	0.09	0.09	0.10	0.05	0.08	0.07	0.09	0.03	0.08
In other educational establishments	0.06	0.04	0.03	0.02	0.03	0.05	0.03	0.04	0.06	0.09	0.04
<b>Composition (percentages)</b>											
<b>Household type</b>											
Non-retired											
1 adult	15	22	15	13	14	15	17	17	22	26	18
2 adults	15	12	18	26	27	25	31	34	37	44	27
3 or more adults	5	5	10	13	12	17	13	13	13	7	11
1 adult with children	20	27	15	8	3	2	2	1	1	1	8
2 adults with 1 child	6	9	8	8	9	13	14	11	11	9	10
2 adults with 2 children	16	10	17	15	21	17	13	14	11	9	14
2 adults with 3 or more children	16	10	9	8	7	4	4	5	3	2	7
3 or more adults with children	6	5	9	9	7	7	7	4	2	2	6
<b>Household tenure</b>											
Rented	58	68	52	34	28	24	16	12	10	7	31
Local authority rented	42	50	36	18	17	13	7	5	1	1	19
Housing association	6	7	4	3	3	4	1	1	1	-	3
Other rented unfurnished	5	4	6	5	3	4	3	2	3	2	4
Rented furnished	5	6	6	7	5	3	5	3	5	4	5
Rent free	1	2	1	2	1	0	1	0	1	1	1
Owner occupied	42	32	48	66	72	77	84	88	90	93	69
With mortgage	26	23	35	47	54	62	72	75	76	80	55
Rental purchase	-	-	0	0	1	1	0	0	1	-	0
Owned outright	16	9	13	19	17	14	11	13	13	13	14
<b>Age of chief economic supporter</b>											
Under 25	11	15	13	10	8	8	8	5	4	2	8
Over 24 and under 35	32	29	27	25	26	24	29	31	32	29	28
Over 34 and under 45	29	27	22	28	27	28	26	25	27	27	27
Over 44 and under 55	15	17	19	18	22	23	24	22	24	30	21
Over 54 and under 65	12	11	16	17	15	15	12	16	12	11	14
Over 64 and under 75	1	1	3	2	3	2	1	1	1	2	2
Over 74	0	0	0	0	-	0	-	0	0	0	0
<b>Employment status of chief economic supporter</b>											
Self-employed	13	8	11	10	11	9	9	7	6	14	10
Full-time employee at work	7	19	43	60	68	75	81	82	83	77	60
Part-time employee at work	8	14	13	11	7	5	5	3	6	5	8
Unemployed	32	22	11	8	7	5	4	5	4	3	10
Unoccupied and under minimum NI age	38	36	21	11	7	5	2	3	1	1	13
Retired/unoccupied over minimum NI age	0	0	-	0	0	0	-	0	-	-	0
Other	2	1	1	-	-	0	-	-	-	-	0

## Average incomes, taxes and benefits by decile groups of RETIRED households, 1993-94

TABLE 3A (Appendix 3)

	Decile groups of RETIRED households ranked by equivalised disposable income										All non-retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (£ per year)</b>											
<i>Decile points (equivalised £)</i>	5 362	6 361	7 032	7 624	8 255	9 193	10 612	12 715	16 534		
Number of households in the sample	185	185	185	185	185	184	185	185	185	185	1 849
Original income											
Wages and salaries	17	48	23	55	45	33	363	278	322	933	212
Imputed income from benefits in kind	-	-	-	-	-	-	-	-	-	-	20
Self-employment income	-	9	19	-	-	78	50	-	48	57	26
Occupational pensions, annuities	290	484	501	779	1 114	1 549	2 584	3 606	6 197	12 483	2 959
Investment income	289	364	254	281	432	740	717	1 377	2 247	8 468	1 517
Other income	9	24	79	51	60	87	70	53	73	48	55
Total	606	929	876	1 166	1 652	2 487	3 783	5 314	8 886	22 008	4 772
Direct benefits in cash											
Contributory											
Retirement pension	2 838	3 797	3 758	3 416	3 439	3 624	3 936	3 604	3 512	3 637	3 556
Unemployment benefit	26	10	19	25	9	22	3	12	-	6	13
Invalidity pension and allowance	137	26	348	313	238	168	310	471	425	333	277
Statutory sick pay	-	-	-	1	-	-	-	-	1	0	0
Sickness, industrial injury benefit	6	-	-	1	-	-	13	6	15	14	5
Widows' benefits	47	52	41	16	34	96	23	81	72	52	51
Statutory maternity pay/ Allowance	-	-	-	-	-	-	-	-	-	-	-
Christmas bonus for pensioners	11	14	13	13	13	13	14	13	13	13	13
Non-contributory											
Income support	287	149	198	260	186	209	251	282	278	128	223
Child benefit	15	15	8	-	-	15	13	3	12	5	8
Housing benefits	146	327	571	795	854	763	563	308	222	103	465
Invalid care allowance	-	9	9	3	-	29	34	21	16	-	12
Attendance allowance	-	21	76	63	111	180	344	290	283	95	146
Disability living allowance	10	-	43	17	25	83	233	119	117	37	68
War pensions	4	5	40	5	50	16	49	230	42	40	48
Severe disablement allowance	-	-	11	48	18	2	42	32	66	11	23
Industrial injury disablement benefit	-	5	33	41	13	35	56	79	94	-	36
Student maintenance awards	-	-	-	-	-	-	31	9	-	-	4
Government training schemes	3	-	-	5	1	-	9	0	-	8	3
Family credit	-	-	7	-	-	-	-	-	-	-	1
Other non-contributory benefits	19	39	19	2	37	10	30	67	83	142	45
Total cash benefits	3 550	4 470	5 193	5 024	5 026	5 265	5 953	5 627	5 249	4 624	4 998
Gross income	4 156	5 399	6 069	6 190	6 678	7 752	9 736	10 940	14 135	26 632	9 770
Direct taxes and Employees' NIC											
Income tax	71	92	47	58	101	242	400	625	1 254	4 425	732
less: Tax relief at source <sup>1</sup>	15	14	12	8	10	10	19	22	28	44	18
Employees' NI contributions	2	-	-	3	1	4	16	9	16	48	10
Local taxes <sup>2</sup>	575	534	522	499	512	549	553	604	658	785	579
Total	633	611	555	552	603	786	950	1 216	1 901	5 214	1 302
Disposable income	3 523	4 788	5 513	5 638	6 075	6 966	8 786	9 725	12 234	21 418	8 467
<i>Equivalised disposable income</i>	4 556	5 888	6 691	7 334	7 921	8 669	9 830	11 614	14 342	24 733	10 159
Indirect taxes											
Taxes on final goods and services											
VAT	497	413	440	389	450	535	795	827	1 087	1 588	702
Duty on tobacco	78	83	161	102	106	172	185	121	131	100	124
Duty on beer and cider	18	30	32	19	29	23	51	50	34	55	34
Duty on wines	9	7	5	6	12	13	13	16	33	65	18
Duty on spirits	33	28	29	16	49	69	84	85	94	173	66
Duty on hydrocarbon oils	71	83	82	57	77	90	138	125	179	247	115
Vehicle excise duty	46	45	38	27	37	44	56	73	96	139	60
Television licences	75	72	73	66	65	70	73	73	79	79	73
Stamp duty on house purchase	9	6	4	3	4	6	6	10	16	30	10
Customs duties	19	17	19	18	19	21	31	31	39	50	27
Betting taxes	19	13	27	15	27	19	42	31	35	31	26
Fossil fuel levy	19	16	16	17	18	17	20	18	20	24	19
Other	5	4	4	4	4	9	5	6	6	11	6
Intermediate taxes											
Commercial and industrial rates	88	84	83	77	84	98	129	132	164	231	117
Employers' NI contributions	116	110	110	103	110	131	170	174	220	307	155
Duty on hydrocarbon oils	53	52	53	51	50	63	79	77	98	130	71
Vehicle excise duty	9	9	9	9	9	11	14	14	17	23	12
Other	52	50	50	47	50	58	76	78	96	135	69
Total indirect taxes	1 217	1 121	1 238	1 026	1 200	1 451	1 967	1 943	2 446	3 421	1 703
Post-tax income	2 306	3 666	4 275	4 612	4 875	5 514	6 819	7 782	9 789	17 997	6 764
Benefits in kind											
Education	92	62	36	-	-	69	107	91	72	27	56
National health service	2 066	2 281	2 269	1 995	1 979	2 210	2 336	2 173	2 092	2 031	2 143
Housing subsidy	33	44	75	105	106	92	96	39	32	10	63
Rail travel subsidy	7	22	8	3	2	9	5	7	11	10	8
Bus travel subsidy	47	63	69	59	65	62	67	51	48	45	58
School meals and welfare milk	0	4	-	-	-	2	-	0	-	-	1
Total	2 244	2 477	2 458	2 163	2 151	2 445	2 611	2 362	2 254	2 123	2 329
Final income	4 550	6 143	6 733	6 775	7 025	7 960	9 430	10 144	12 043	20 120	9 093

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Rates and Water charges but after deducting discounts and transitional relief



## Household characteristics of decile groups of RETIRED households, 1993-94

TABLE 3B (Appendix 3)

	Decile groups of RETIRED households ranked by equivalised disposable income										All retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
<b>Average per household (number)</b>											
People	1.4	1.5	1.5	1.4	1.4	1.5	1.7	1.6	1.6	1.7	1.5
Adults	1.40	1.49	1.53	1.40	1.40	1.47	1.68	1.57	1.60	1.66	1.52
Children	0.04	0.03	0.02	-	-	0.03	0.03	0.01	0.02	0.02	0.02
Economically active people	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Retired people	1.3	1.4	1.5	1.3	1.4	1.4	1.5	1.4	1.5	1.5	1.4
People in full-time education	0.04	0.03	0.02	-	-	0.03	0.03	0.02	0.03	0.02	0.02
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
1 adult	61	54	49	63	63	58	42	47	46	38	52
2 or more adults	39	47	51	37	37	42	58	54	54	62	48
<b>Household tenure</b>											
Rented	14	30	60	69	63	56	42	31	23	6	39
Local authority rented	9	27	42	55	52	40	30	18	15	2	29
Housing association	1	2	7	7	4	6	9	5	1	1	4
Other rented unfurnished	3	2	5	4	4	5	2	5	3	2	3
Rented furnished	-	-	1	1	1	1	1	1	1	-	1
Rent free	1	1	5	3	2	4	1	2	3	1	2
Owner occupied	87	70	40	31	37	45	58	69	77	94	61
With mortgage	4	7	5	2	4	4	7	9	7	11	6
Owned outright	82	63	35	29	34	40	51	61	70	83	55
<b>Age of chief economic supporter</b>											
Under 25	-	-	-	-	-	-	1	-	-	-	0
Over 24 and under 35	-	-	-	-	-	-	-	1	1	-	0
Over 34 and under 45	-	-	-	-	-	1	-	-	1	-	0
Over 44 and under 55	1	-	1	1	1	-	1	-	1	1	0
Over 54 and under 65	15	9	8	8	10	10	10	16	20	16	12
Over 64 and under 75	44	48	50	55	55	45	51	48	48	54	50
Over 74	40	44	41	36	34	45	37	35	30	30	37
<b>Employment status of chief economic supporter</b>											
Self-employed	-	1	1	-	-	1	1	-	-	-	0
Full-time employee at work	-	-	-	1	-	-	1	1	1	-	0
Part-time employee at work	-	-	-	-	-	-	-	-	-	-	-
Unoccupied and under minimum NI age	12	2	4	3	4	4	7	10	16	12	8
Retired/unoccupied over minimum NI age	88	97	95	97	96	95	92	89	83	88	92

## 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 number of children in the household we can estimate the average costs of providing them with social services, such as health and education. But there are other kinds of financing, such as corporation tax and government receipts from public corporations: no attempt is made in this analysis to apportion them to households because it would be too difficult. Similarly, there are other items of government expenditure, such as capital expenditure and expenditure on defence and on the maintenance of law and order, for which there is no clear conceptual basis for allocation, or for which we do not in any event have sufficient information to make an allocation. In all, 59 per cent of government financing (including the Borrowing Requirement) and 56 per cent of expenditure are allocated to households in this analysis.

### Family Expenditure Survey (FES)

2. The estimates in this article are based mainly on data derived from the FES. The FES is an annual survey of the expenditure and income of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each person aged 16 and over keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments. The respondents also give detailed information, where appropriate, about income (including cash benefits received from the state) and payments of income tax. Information on age, occupation, education received, family composition and housing tenure is also obtained. The survey covers the whole 12 month period.

3. One of the main purposes of the FES is to produce information on household expenditure patterns which is used to derive the weights for the index of retail prices. The survey is conducted by the Office of Population Censuses and Surveys on behalf of the Central Statistical Office who analyse and report on it (prior to July 1989, the FES was the responsibility of the Department of Employment). The Family Expenditure Survey Report for 1994/95, containing detailed data on household characteristics, income, and expenditure, was published in October 1995. Details of the survey method are set out in 'The Family Expenditure Survey Handbook' by W F F Kemsley, R L 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 1994/95 was 6,853 (about 1 in every 3,000 households). The response rate in Great Britain was 66 per cent: the FES in Northern Ireland is done as a separate exercise to the rest of UK, with a larger sampling fraction, and only a proportion of these cases go

into the UK analysis. To count as a co-operating household, all members aged 16 and over must fill in the diaries for both weeks and give full details of income etc. The available evidence suggests that households containing three or more adults, those where the head is self-employed, and those where the head was born outside the United Kingdom, are less likely to co-operate than others (see '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 from the Inland Revenue.

5. The FES is designed primarily as a survey of expenditure on goods and services by households. It has been developed to gather information about the income of household members, and is an important and detailed source of income data. However, no information is collected that would enable a balance sheet of income and expenditure be drawn up for a household over any particular period. Much expenditure relates to the two-week period after the interview, whereas many income components refer to a much longer period (eg investment income over the previous 12 months). FES income does not include proceeds from the sale of assets (eg a car) or windfalls such as legacies. But recorded expenditure might reflect these items, as well as the effects of living off savings, using capital or borrowing money. Hence, there is no reason why income and expenditure should balance either for an individual household or even averaged over a group of households. Indeed, measured expenditure substantially exceeds measured income for the bottom decile groups of households. Moreover, the difference between income and expenditure is not necessarily a measure of savings or dis-savings.

### Unit of analysis

6. The basic unit of analysis in the article is the household, and not the family, individual or benefit unit. A household is defined in the FES 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.

7. In classifying the households into various types, a **child** (ie a dependant) is defined as:

either aged under 16

or aged 16, 17 or 18 not married, and receiving full-time non-advanced further education.

[The definition used in the pre-1987 articles was a person aged under 16].

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.

8. 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'.

9. By no means all retired people are in retired households: about one in five 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.

10. The sample households have been classified according to their compositions at the time of the interview. This classification is sensible for the vast majority of households, but it can be misleading for the very small number of cases (39 in 1994/95) where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (eg on an oil rig), or living separately - but contributing financially to the household's upkeep. These contributions would be picked up as part of the household's original income. Also, it is likely that some households will have changed their composition during the year.

11. Economically active people comprise persons aged 16 or over who, at the time of interview, were:

- (a) employees at work,
- (b) employees temporarily away from work through illness, temporary lay-off, industrial action etc.
- (c) on government training schemes.
- (d) self-employed.
- (e) not in employment but who had sought work within the last four weeks, or were waiting to start a job already obtained.

### Income: redistributive stages

12. Stage one:  
Original income plus cash benefits = Gross income.

Stage two:  
Gross income minus income tax, employees' National Insurance contributions and local taxes (see paragraph 21 below) = Disposable income.

Stage three:  
Disposable income minus indirect taxes = Post-tax income.

Stage four:  
Post-tax income plus 'benefits in kind' = Final income.

13. The starting point of the analysis is **original income**. This is the annual income in cash of all members of the household before the deduction of taxes or the addition of any state benefits. It includes income from employment, self-employment, investment income, occupational pensions and annuities. 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.

14. About 98 per cent of original income comes from earnings, occupational pensions (including annuities) and investment income. The tiny bit remaining comes from a variety of sources: trade union benefits, income of children under 16, private scholarships, earnings

as a mail order agent or baby-sitter, regular allowance from a non-spouse, allowance from an absent spouse and the imputed value of rent-free accommodation. Households living in rent-free dwellings are each assigned an imputed income. This is counted as employment income if the tenancy depends on the job.

15. In addition to salary, many employees receive as part of their income fringe benefits such as company cars, private medical insurance and beneficial loans. Until recently, these benefits were not allocated to individual households as the information was not available in the FES. However, the company car benefit, together with the benefit from fuel for personal use, has been included in the analysis since 1990. This is by far the most important fringe benefit accounting for over two thirds of all taxable fringe benefits according to Inland Revenue statistics. The benefit is taken to be the taxable income in accordance with Inland Revenue scale charges. Inland Revenue Statistics 1995 (HMSO) contains more detailed information on taxable fringe benefits and their impact on individuals. Although for those earning below £8,500 per year the benefit is not taxable, benefit has been allocated to all those with a company car regardless of the level of earnings. The calculation of this benefit is based primarily on the car price as reported in the FES. In any given year the total amount of benefit will depend on the level of scale charges for tax purposes as well as the numbers and types of vehicles in the FES.

16. The benefit of subsidised loans from employers for house purchase has been allocated, since the 1992 analysis. The benefit is taken to be the difference between the interest payments on such loans as reported in the FES and the interest payments that would have been payable at the ruling market rate of interest.

17. The next stage of the analysis is to add cash benefits to original income to obtain **gross income**.

This is slightly different from the 'gross normal weekly income' used in the FES Report. Cash benefits include:

#### Contributory:

Retirement pension and Christmas bonus, unemployment benefits, invalidity pension and allowance, sickness benefits, widows' benefits, and statutory maternity pay.

#### Non-contributory:

Income support, child benefit, housing benefits, invalid care allowance, attendance allowance, disability living allowance, disability working allowance, war pensions, severe disablement allowance, industrial injury disablement benefits, family credit, old persons pension, government training scheme allowances (YTS etc), student maintenance awards.

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

19. Income from short-term benefits is taken as the product of the last weekly payment and the number of weeks the benefit was received in the 12 months prior to interview. Income from long-term benefits, and from housing benefits, is based on current rates.

20. Income tax, local taxes and employees' and self-employed contributions to National Insurance and National Health services are then deducted to give **disposable income**. Taxes on capital, such as capital gains tax and inheritance tax, are not included in these deductions because there is no clear conceptual basis for doing so, and the relevant data is not available from the FES.

21. The figures for local taxes include:

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

Council tax is shown after deduction of transitional relief and discounts to reduce or remove the personal element of the tax (eg the discount of 25% for single person households). All local taxes are shown gross of rebates. These rebates are included as part of housing benefits.

[In pre-1987 articles, domestic rates were included in the 'indirect' tax category. Since then, they have been deducted in the derivation of disposable income in anticipation of their replacement by the community charge. The National Accounts system, which strongly influences this article, shows the community charge/council tax as a deduction before disposable income is produced.]

22. 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 in this way 'at source'. In this analysis two types of tax relief obtained in this way, mortgage interest relief and life assurance premium relief, are allocated. 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. Two other tax reliefs at source, relief for premiums paid for private medical insurance for those aged over 60 and vocational training relief, are not allocated as the relevant data are not available from the FES.

23. The next step is to deduct indirect taxes to give **post-tax income**. Indirect tax on final consumer goods and services include:

Duties on alcoholic drinks, tobacco, petrol, oil, betting, etc  
Value Added Tax (VAT)  
Customs (import) duties  
Motor vehicle duties  
Air passenger duty  
Insurance premium tax  
Driving licences  
Television licences  
Stamp duties  
Gas levy  
Fossil fuel levy  
Camelot : payments to National Lottery Distribution Fund

24. Taxes levied on final goods and services are assumed to be fully incident on the consumer, and can be imputed from a household's FES expenditure record. For example, the amount of VAT which is paid by the household is calculated from the household's total expenditure on goods and services subject to VAT.

25. VAT affects the prices of secondhand cars and is therefore assumed to be incident on the purchasers of such cars as well as on the purchasers of new cars. In allocating taxes, expenditures recorded in the FES on alcoholic drink, tobacco, ice cream, soft drinks and confectionery are grossed up to allow for the known under-recording of these items in the sample. The true expenditure in each case is assumed to be proportional to the recorded expenditure. This approach has its drawbacks because there is some evidence to suggest that heavy drinkers, for example, are not picked up by the FES.

26. The incidence of stamp duty on house purchase on an owner-occupying household has been taken as the product of the hypothetical duty payable on buying their current dwelling (estimated from valuations given in the FES) and the probability of a household of that type moving in a given year (estimated from the General Household Survey).

27. Indirect taxes on intermediate goods and services include:

Rates on commercial and industrial property  
Motor vehicle duties  
Duties on hydrocarbon oils  
Employers' contributions to National Insurance, the National Health Service, the industrial injuries fund and the redundancy payments scheme  
Customs (import) duties  
Stamp duties  
VAT

28. These are taxes that fall on goods and services purchased by industry. Only the elements attributable to the production of subsequent goods and services for final consumption by the UK personal sector are allocated in the article, being assumed to be fully shifted to the consumer. Their allocations between different categories of consumers' expenditure are based on the relation between intermediate production and final consumption using estimated input-output techniques. This process is not an exact science, and many assumptions have to be made. Some analyses, eg that by Dilnot, Kay and Keen 'Allocating Taxes to Households: A Methodology', suggest that the taxes could be progressive rather than regressive if one were to use different incidence assumptions.

29. For Table G of the main article, we have constructed a measure of expenditure on goods and services which is similar to that used in the Consumers' Expenditure part of the National Accounts except that mortgage interest payments are included as a proxy for imputed rent "payments" for owner-occupiers. Savings, investments, superannuation contributions and capital repayments on mortgages are excluded as well as payments of local taxes. The expenditures on alcohol, tobacco and confectionery have been grossed up to correspond to the grossed-up indirect tax amounts described in paragraph 25 above.

30. Finally, we add those notional benefits in kind provided to households by government for which there is a reasonable basis for allocation to households, to obtain **final income**. The benefits in kind allocated are:

State education  
School meals and welfare milk  
National Health service  
Housing subsidy  
Railway travel subsidy  
Bus travel subsidy (including concessionary fares schemes)

31. 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 benefits attributed to a household depends on the number of people in the household recorded in the FES as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

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

33. Data are available on the average cost to the Exchequer of providing the various types of health care - hospital inpatient/outpatient care, GP consultations, dental services, etc. Each individual in the FES is allocated a benefit from the National Health Service according to the estimated average use made of these various types of health service by people of the same age and sex, and according to the total cost of providing those services. The benefit from maternity services is assigned separately to those households containing children under the age of 12 months. No allowance is made for the use of private health care services.

34. 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 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 size of the dwelling. Housing subsidy does not include mortgage interest tax relief, rent rebates and allowances or local tax rebates included in housing benefits.

35. The rail travel subsidies allocated are those to British Rail passenger operations and the London Underground. Figures for rail travel subsidy for 1994/95 may not be strictly comparable with those for previous years as the arrangements for the payment of government grants to British Rail were changed fundamentally as from April 1994. For 1994/95 the subsidy allocated in this analysis is based on the payment of the Office of Passenger Rail Franchising support grant. The subsidy to London and South East services is allocated to households living in the area and subsidies to provincial services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the FES. In making these allocations allowances are made for the use of rail travel by the business sector, tourists and the institutional part of the personal sector.

36. In this article, bus travel subsidy covers both the cost of concessionary travel schemes for senior citizens and others, and subsidies to operators. Separate allocations are made for Greater London, the other metropolitan areas and the rest of the United Kingdom. The subsidy is divided between households according to recorded expenditure on bus travel and the types of concessionary passes held.

37. We must emphasise 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.

### Equivalence scale

38. The equivalence scale used in this analysis is the *McClements scale* (before housing costs are deducted). The scales (separate ones for before and after housing costs) were developed by Dr L D McClements at the Department of Health and Social Security (DHSS) in the mid-seventies, based on expenditure data from the 1971 and 1972 FES. They are based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the FES without making any specific assumption about the criteria for equivalence. These scales are in regular use and an analysis by Banks and Johnson ('Children and Household Living Standards', IFS, 1993) suggests that the scales are as valid now as when they were developed. The scales are regarded as plausible and they are well within the range of equivalence scales developed at different times in a number of countries. Hence their use is fully justified for broad statistical standardisation.

39. The equivalence values are given below:

<u>Type of household member</u>	<u>Equivalence value</u>
a. <u>married head of household</u> (ie a married couple of 2 adults)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
b. <u>single head of household</u> (ie 1 adult)	0.61
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
c. <u>Child aged:</u>	
16-18	0.36
13-15	0.27
11-12	0.25
8-10	0.23
5-7	0.21
2-4	0.18
Under 2	0.09

The values for each household member are added together to give the total equivalence number for that household. This number is then divided into the disposable income for that household to give **equivalised disposable income**. For example, a household has a married couple with 2 children (aged 6 and 9) plus one adult lodger. The household's equivalence number is  $1.0 + 0.21 + 0.23 + 0.42 = 1.86$ . The household's disposable income is £20,000, and so its equivalised disposable income is £10,753 ( $=£20,000/1.86$ ).

Diagram A

**Complete income equality**

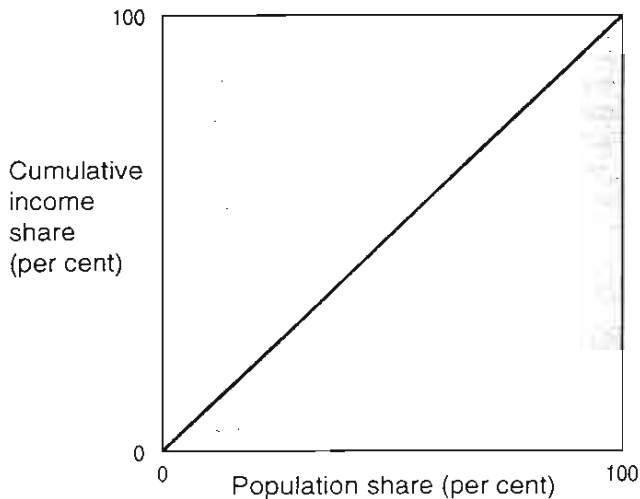
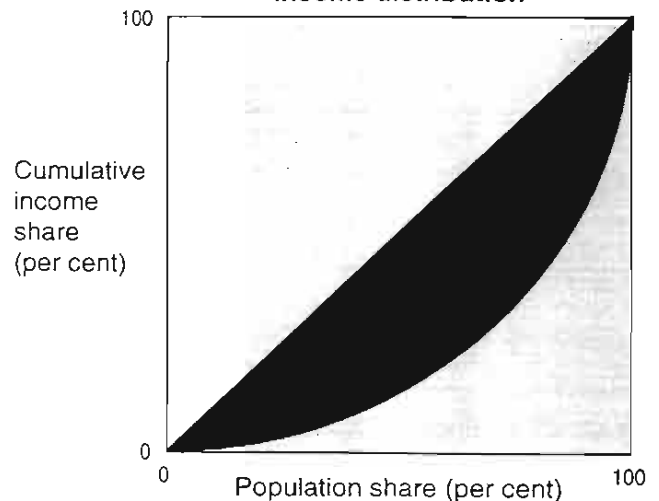


Diagram B

**Lorenz curve for a typical income distribution**



40. This quantity is used to produce the single ranking used in all the tables in this article (apart from the Gini coefficients which have to be ranked afresh for each different definition of income). [In pre-1987 articles, three types of ranking were used; the main one was using original income but gross income and disposable income were also used. In addition, the tables showing income shares were re-ranked for each separate income measure]. It is important to note that most monetary values shown in the article are ordinary (ie un-equivalised) £ a year, not equivalised £ a year. Where equivalised £ a year do appear (eg the decile points in Table 2 of Appendix 1), they are shown in *italics*.

**Gini coefficient**

41. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can more easily be understood by considering a Lorenz curve of the income distribution. (see Diagram B) 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 (see Diagram A). 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).

42. To calculate the Gini coefficient for an income distribution, the first step is to rank that distribution in ascending order. All the Gini coefficients shown in this article are based on distributions of equivalised income eg the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values. [In pre-1987 articles, no such equivalisation was used.]

43. Strictly speaking, one could argue that the equivalence scales

used here are only applicable to disposable income because this is the only income measure relating directly to spending power. Since the scales are often applied, in practice, to other income measures, we are content to use them to equalise original, gross and post-tax income for the purpose of producing Gini coefficients (and in the tables giving percentage shares of total income). However, we do not think it is appropriate to equalise the final income measure because this contains notional income from benefits in kind (eg state education): the equivalence scales used in this article are based on actual household spending and do not, therefore, apply to such items as notional income.

**Sampling errors and reliability**

44. As the FES is a sample survey, data from it will differ in varying degrees from those of all households in the UK. The degree of difference will depend on how widely particular categories of income and expenditure vary between households. This 'sampling error' is smallest in relation to large groups of households and measures that do not vary greatly between households. Conversely, it is largest for small groups of households, and for measures that vary considerably between households). A broad numerical measure of the amount of variability is provided by the quantity known as the standard error.

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

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

where the design factor is 1.21 for 1994/95, and S<sup>2</sup> is the estimate of the population variance.

The standard error for disposable income of all households is less than 2 per cent of the mean but, for the less frequent household types, eg 1 adult with children and 3 or more adults with children, it is about 5 per cent of the mean.

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

$$\text{estimate of mean} \pm (1.96 * \text{standard error})$$

where the factor 1.96 corresponds to the 95% confidence interval.

47. The standard errors for the household types are larger than for the whole sample, mainly because the sample sizes concerned are smaller. For quantile groups of given household types, the sample sizes are of course smaller still, which would tend to increase sampling variability. On the other hand, the income values are by definition in a narrower range which would tend to reduce the sampling error. Precise estimates of standard errors for averages for quantile groups are complicated to produce. As well as the variability of the observations between the quantile points, we should also take account of the randomness which exists because the sample quantile points are themselves subject to random variation. We have used a formula for the asymptotic variance of a 'randomly trimmed' mean. This formula gives a good approximation where the total sample size is around 1,000 (when the variance is under-estimated by about 2 per cent on average), and a reasonable approximation for samples of 100-500 (when the variance is under-estimated by about 5 per cent on average). The formula for the variance of a mean ( $\bar{x}$ ) calculated between two sample percentiles,  $Q_1$  and  $Q_2$ , corresponding to proportions  $p_1$  and  $p_2$  is:

$$\frac{S^2 + p_1(x - Q_1)^2 + (1 - p_1)(Q_2 - x)^2 + \frac{p_1(1 - p_2)}{(p_2 - p_1)}(Q_2 - Q_1)^2}{n(p_2 - p_1)}$$

where  $S^2$  = variance calculated from observations between  $Q_1$  and  $Q_2$ , and  $n$  = total sample size.

The square root of this quantity is then multiplied by the design factor (as described in paragraph 45) to give the standard errors.

48. The 'complex' standard errors for quintile and decile groups are quite a bit larger than the simple random sample estimates. For the 'all households' group, the standard errors for disposable income for the middle decile groups are about 10 per cent of the mean for the group.

49. Detailed tables containing the standard errors for all of the income measures for the different household types and quantile groups are available on request.

## Previous articles

50. This article is the latest in an annual series. Earlier articles covering the years 1957 to 1986 (using the old methodology) 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, July 1987 and December 1988.

51. From 1987 onwards, the articles have used a very different methodology, in particular households are ranked by their equivalised disposable income. Hence the results are completely incompatible with earlier years. These articles were published in the following issues of Economic Trends:

Reference year	Issue
1987	May 1991
1988	March 1991
1989	January 1992
1990	January 1993
1991	May 1993
1992	January 1994
1993	December 1994

52. The results in all articles are intended to be free standing: they were not designed for direct comparison with other years except where some limited comparisons were made in the articles. Such comparisons are fraught with difficulty because of changes in definitions eg housing benefit in 1983. However, some broader measures like the Gini coefficients are relatively robust and will stand comparison with other years: this year's article gives such a comparison for the years 1977- 1994/95. Enquiries should be addressed to Dave Westcott, Social and Regional Statistics and Household Expenditure Division, Central Statistical Office, Room 1823, Millbank Tower, Millbank, London SW1P 4QQ.