

## **The effects of taxes and benefits on household income, 2005-06**

### **NAVIGATION INSTRUCTIONS**

#### **Overview**

The effects of taxes and benefits on household income, 2005-06 is an Internet only release produced in pdf format. The spreadsheets behind the figures and tables are available for use in MS Excel by clicking on the figure/table number or the figure/table itself. Then click on File-> Save As if you want to process the data on your computer.

#### **Navigation**

The PDF file has a bookmarks panel down the left hand side, which allows you to jump from one section to another. The main chapters, further reading and the appendix have lower levels of bookmarks enabling you to jump to subheadings within a file and to the charts, tables and maps contained in each chapter. You can show and hide the bookmarks panel using the Show/Hide Navigation Pane toolbar to the right of the printer icon. Select Thumbnails if required by clicking on the appropriate tab when the pane is showing. In addition, the [table contents page](#) have been linked to the relevant place in the publication. In the contents pages, clicking on the chart or table number (or the title) will take you to the associated place in the file. Clicking on the number after the text will take the user directly to that page.

#### **Searching**

The first large binoculars button at the top of the screen will do a simple search on a word in the current document. To see if the word appears again in the publication click again on the binoculars button.

#### **Spreadsheets (click on any activated chart/table)**

Displaying a spreadsheet is slow the first time but is faster subsequently. In Acrobat Reader v.4 select File->Preferences>Retain View on Close to return to the same PDF page.

#### **Screen Resolution**

Adobe Acrobat works with any screen resolution. For this product 800x600 is acceptable, but 1024x768 works better if the monitor and graphics card are able to. To change the view type to one which best suits your screen, use the View menu.

#### **Other**

If the text looks blurry on screen, this may be improved by visiting File Menu, Preferences, General and switching Smooth Text and Monochrome images off.

# The effects of taxes and benefits on household income, 2005/06

Francis Jones  
Office for National Statistics

## Summary

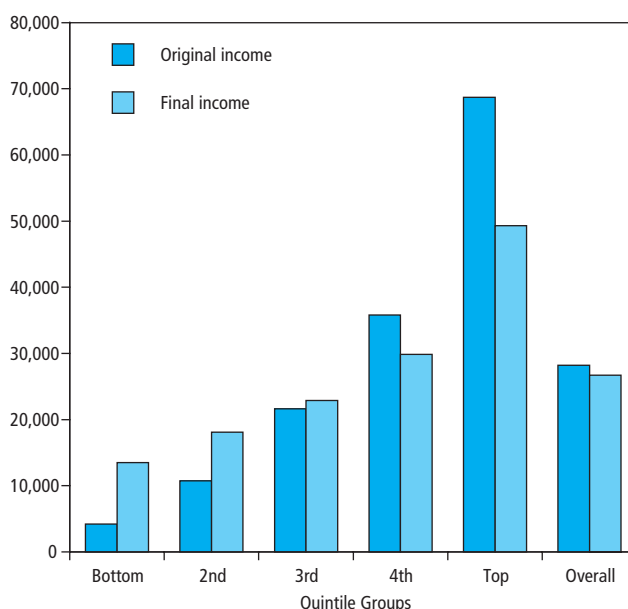
This analysis examines how taxes and benefits redistribute income between households in the United Kingdom. It shows where different types of households and individuals are in the income distribution and looks at the changing levels of income inequality over time. The analysis is published annually. Table 1 at the end of the summary section provides a full list of tables and figures.

## Redistribution through taxes and benefits

Government intervention, by means of taxes and benefits, alters the incomes of households. In general, households in the top half of the income distribution pay more in taxes than they receive in benefits while the reverse is true for those in the lower half. Taxes and benefits therefore tend to reduce the differences between households' incomes. In 2005/06, before government intervention, the top fifth of households had an average of £68,700 per year in original income, from sources such as earnings, occupational pensions and investments (Table 4). This is around 16 times as great as the figure of £4,200 for the bottom fifth. After taking account of taxes and benefits, the ratio for final income is greatly reduced to four to one. The difference between original income and final income for 2005/06, broken down by quintiles, is also shown graphically in Figure 1.

Figure 1  
**Original income and Final income by quintile groups for ALL households<sup>1</sup>: 2005/06**

Average income per household (£ per year)

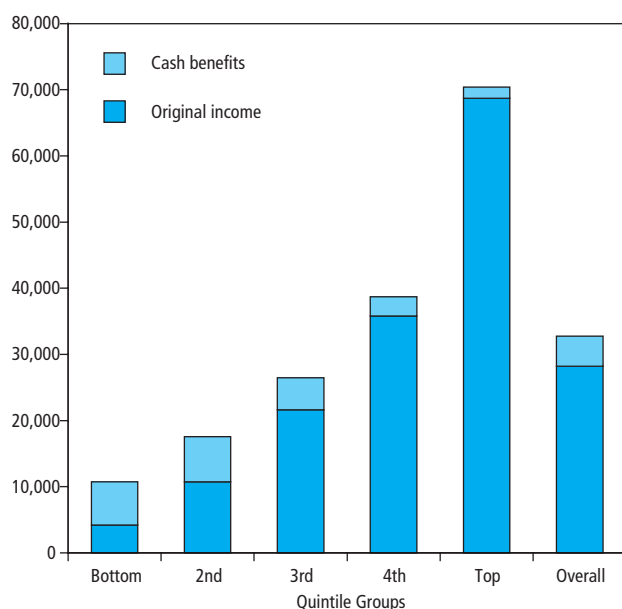


<sup>1</sup> Households are ranked throughout by their grossed equivalised disposable incomes.

Cash benefits play the largest part in reducing inequality. The majority of these go to households in the lower part of the distribution, with the poorest two fifths receiving 59 per cent of the total. As shown in Table 4, these households receive an average of £6,700 from cash benefits, representing around 61 per cent of gross income for the bottom quintile group and 39 per cent for the second quintile. These proportions are even higher for retired households in this part of the distribution (see Table 12). The majority of cash benefits for non-retired households come from non-contributory benefits and, for retired households, from contributory benefits, particularly the state pension. Figure 2 shows gross income broken down into original income and cash benefits by the quintile distribution for equivalised disposable income.

Figure 2  
Gross income by quintile groups for ALL households<sup>1</sup>, 2005/06

Average income per household (£ per year)



<sup>1</sup> Households are ranked throughout by their grossed equivalised disposable incomes.

Direct taxes, except for Council tax and Northern Ireland rates, are progressive – they take a larger proportion of income from those higher up the income distribution because tax is not paid on the first tranche of income and higher rates of tax are paid on higher incomes. Therefore, they also contribute to a reduction in inequality although not to the same extent as cash benefits. The proportion of gross income paid in direct tax (Table 3) by the top fifth of households is 25 per cent compared with 9 per cent for the bottom fifth. For Council tax in Great Britain and domestic rates in Northern Ireland, the top quintile group pays the largest absolute amount (Table 14A). On the other hand, when expressed as a proportion of gross income (Table 3), the impact of Council tax in Great Britain and domestic rates in Northern Ireland is higher in the lower half of the distribution.

Indirect taxes have the opposite effect to direct taxes taking a higher proportion of income from those with lower incomes, that is, they are regressive. On average, higher income households channel a relatively high proportion of their

income into savings and mortgage payments. These do not attract indirect taxes. In addition, the recorded expenditure of some lower income households is higher than their recorded current incomes. This implies that some expenditure is being funded through saving, borrowing, or other sources, and means that payments of indirect tax will be relatively larger as a proportion of gross income. However, the top fifth of households still pay more indirect tax in absolute terms than other households, see Table 14A.

Households also receive benefits in kind from services provided free or at subsidised prices by government, such as health and education. The amount received falls gradually as income increases indicating that these benefits also lead to a reduction in inequality.

### Characteristics across the income distribution

As described in more detail later, households are ranked by their equivalised disposable income, which the analysis uses as a proxy for standard of living. Equivalisation is a standard methodology that takes into account the size and composition of households and adjusts their incomes to recognise differing demands on resources. As a result, larger households will be lower down the income distribution than smaller households with the same absolute income.

Some household types are more likely to be in higher income groups, while others tend to appear in the lower groups (Tables 4, 15 and 15A). Single person households are slightly more likely to be in the higher income groups, while households consisting of two adults with no children, are very clearly concentrated in the higher groups.

Households containing two adults with children tend to be not as high up the equivalised income distribution as those with no children. Households which consist of only one adult with children are much more concentrated in the lower income groups. Retired households are also concentrated in the bottom half of the income distribution.

Adults and children are not spread evenly throughout the income distribution. For example, there are more children in households in the lower half of the distribution. Among adults, women appear fairly evenly spread across income groups but there are more men in households in the higher groups than in the lower groups.

### Trends in income inequality

All the estimates presented in this analysis are based on sample surveys, and as such are subject to sampling error. In particular this needs to be borne in mind when looking at year-to-year changes. However, by looking at data over several years it is possible to discern underlying trends.

As shown in Figure 5 and Table 27, inequality of disposable income increased rapidly in the second half of the 1980s, reaching a peak in 1990. After 1990 the trend was downwards, although inequality did not return to the levels seen before the increase of the late 1980s. After 1995/96 inequality began to rise again reaching a peak in 2001/02 – actually at a level very similar to that seen in 1990. From 2001/02, there was

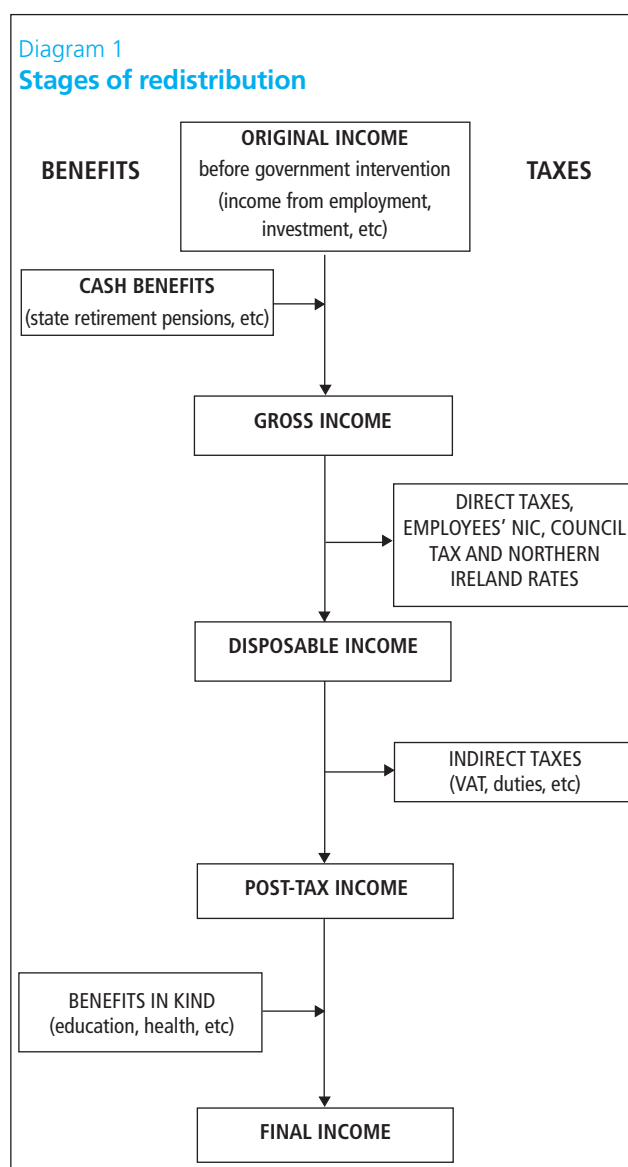
a small reduction in income inequality, although the latest figures for 2005/06 show an increase over the previous year, and the latest evidence suggests that income inequality may be increasing again.

## Concepts and Sources

### Redistribution through taxes and benefits

This analysis examines how taxes and benefits redistribute income. It adds the value of government benefits to the private income of households and subtracts the value of taxes to look at different measures of household income.

Diagram 1 shows the stages in the redistribution of income used in this analysis. Household members receive income from employment, occupational pensions, investments and from other non-government sources. This is referred to as original income. The diagram shows the various ways that government raises revenue from households through taxation and distributes benefits to them in cash, and in kind.



The analysis only allocates those taxes and benefits that can reasonably be attributed to households. Therefore, some government revenue and expenditure is not allocated such as revenue from corporation tax and expenditure on defence and public order. There are three main reasons for non-allocation. Some taxes and benefits fall on people who do not live in private households. In other cases, there is no clear conceptual basis for allocation to particular households. Finally, there may be a lack of data to enable allocation. In this study, some £321 billion of taxes and compulsory social contributions have been allocated to households. This is equivalent to 60 per cent of general government expenditure, which totalled £536 billion in 2005 (Table 13). Similarly, £288 billion of cash benefits and benefits in kind have been allocated to households, making up 54 per cent of general government expenditure (Table 13).

The estimated values of taxes and benefits reflect the methodology used in this study. They are based on assumptions about which taxes and benefits should be covered and to whom they should apply. Where it is practical, the methodology used is similar to that used in previous years. However, there have been some changes in the underlying surveys and improvements in the methodology. For example, changes from 1996/97 onwards include new questions for the self-employed and the use of data which are grossed up to the UK household population. From 2000/01 onwards the analysis used a slightly different definition of a household (see Appendix 2, paragraph 7). From 2002/03 water charges were no longer treated as a tax (see Appendix 2, paragraph 27). From 2003/04 there was a change to the treatment of tax credits (see Appendix 2, paragraph 22). The effects of these changes were fairly small, but not negligible.

For this reason, one should be cautious about making direct comparisons with earlier years. Comparisons with previous years are also affected by sampling error. This is especially true for estimates which are based on sub-samples such as the results for decile or quintile groups, or particular household types, which will be subject to relatively larger sampling errors.

Time series are presented for some of the more robust measures, and these include Gini coefficients and other measures of inequality in Tables 26 and 27. We do not think it is appropriate to equalise the final income measure because this contains notional income from benefits in kind (for example, state education): the equivalence scales used in the article are based on actual household spending and do not, therefore, apply to such items as notional income.

### Unit of analysis

The unit of analysis used in this study is the household. The households are ranked by their equivalised disposable income, which the analysis uses as a proxy for standard of living. Equivalisation is a standard methodology that takes into account the size and composition of households and adjusts their incomes to recognise differing demands on resources. For example, a couple would need a higher income than a single person to achieve the same standard of living. The equivalence scale used in this analysis is the

*McClements scale* (before housing costs are deducted). So a single person's income of £6,100 is treated as equivalent to an income of £10,000 for a couple (see Appendix 2, paragraph 48). Households with the same equivalised income do not necessarily have the same standard of living where other characteristics are different. For example, households which own their homes outright would be in a better position than identical households with the same income which had to pay rent or mortgage payments. Also, households which include disabled people may require additional resources to maintain the same standard of living as those without disabled people. Equivalisation does not adjust for these differences.

Equivalised income is used only to rank the households. Most monetary values shown in the analysis are not equivalised. Where equivalised amounts are given, they are shown in italics. Once the households have been ranked, the distribution is split into five (or ten) equally sized groups – that is quintile groups (or decile groups). The bottom quintile (or decile) group is that with the lowest equivalised disposable income, while the top quintile (or decile) is that with the highest.

### Data sources and quality

The main data source for this analysis is the Expenditure and Food Survey (EFS) which covers about 7,000 households in the United Kingdom each year. It only covers private households – people living in hotels, lodging houses and in institutions, such as old peoples' homes, are excluded. The EFS brought together and replaced the Family Expenditure Survey (FES) and the National Food Survey from 2001/02. However, the income questions were essentially unchanged.

The Family Resources Survey (FRS) also collects household income, and actually has a much larger sample than the EFS, although it does not collect expenditure data which is used here to estimate payment of indirect taxes. Nevertheless, some of the income measures appearing in this article could also be calculated using data from the FRS. Indeed, the Department for Work and Pensions publication *Households Below Average Income (HBAI) 2005/06*<sup>1</sup>, which is based largely on data from the FRS, contains an estimate of the Gini coefficient for disposable income. The estimates appearing in this article do differ slightly from those in the HBAI publication, although general trends have been very similar. The income distribution appearing in HBAI is also adjusted for households at the top of the income distribution, which tend to be under-represented in household surveys. This adjustment is made using the HM Revenue and Customs' (HMRC) Survey of Personal Incomes, which is based on administrative records.

There is known to be a degree of under-reporting in the EFS for some benefits. For example, when compared to administrative data from HMRC, the EFS estimate of total tax credit payments is only around 60 per cent of the HMRC figure.

Further details of the concepts and methodology used are given in Appendix 2.

The results of the analysis are reported in three sections. The first looks at the effects for all households. Non-retired and retired households have distinct income and expenditure patterns and so the tax and benefit systems affect the two groups in very different ways. Therefore, the second and third sections look separately at results for non-retired and retired households.

Table 1  
A list of table and figure numbers

Table or chart name	Description
Table 1	A list of table and figure numbers
Table 2	Percentage shares of household income and Gini coefficients, 2005/06
Table 3	Taxes as a percentage of gross income, disposable income and expenditure for all households by quintile groups, 2005/06
Table 4	Summary of the effects of taxes and benefits by quintile groups of all households, 2005/06
Table 5	Percentage shares of household income and Gini coefficients for non-retired households, 2005/06
Table 6	Summary of the effects of taxes and benefits on non-retired households by quintile groups, 2005/06
Table 7	Cash benefits for non-retired households by quintile groups, 2005/06
Table 8	Taxes as a percentage of gross income for non-retired households by quintile groups, 2005/06
Table 9	Indirect taxes as a percentage of (a) disposable income and (b) household expenditure for non-retired households by quintile groups, 2005/06
Table 10	Benefits in kind for non-retired households by quintile groups, 2005/06
Table 11	Percentage shares of household income and Gini coefficients for retired households, 2005/06
Table 12	Summary of the effects of taxes and benefits on retired households by quintile groups, 2005/06
Table 13	Taxes and benefits allocated to households as a percentage of general government expenditure, 2004
Table 14	Average incomes, taxes and benefits by decile groups of all households, 2005/06
Table 14A	Average incomes, taxes and benefits by quintile groups of all households, 2005/06
Table 15	Household characteristics of decile groups of all households, 2005/06
Table 15A	Household characteristics of quintile groups of all households, 2005/06
Table 16	Average incomes, taxes and benefits by decile groups of non-retired households, 2005/06
Table 16A	Average incomes, taxes and benefits by quintile groups of non-retired households, 2005/06
Table 17	Household characteristics of decile groups of non-retired households, 2005/06
Table 17A	Household characteristics of quintile groups of non-retired households, 2005/06
Table 18	Average incomes, taxes and benefits by decile groups of retired households, 2005/06
Table 18A	Average incomes, taxes and benefits by quintile groups of retired households, 2005/06
Table 19	Household characteristics of decile groups of retired households, 2005/06
Table 19A	Household characteristics of quintile groups of retired households, 2005/06
Table 20	Average incomes, taxes and benefits by decile groups of non-retired households without children, 2005/06
Table 21	Average incomes, taxes and benefits by decile groups of non-retired households with children, 2005/06
Table 22	Distribution of households by household type, 2005/06
Table 23	Summary of the effects of taxes and benefits, by household type, 2005/06
Table 24	Average incomes, taxes and benefits by decile groups of households (ranked by unadjusted disposable income), 2005/06
Table 25	Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2005/06
Table 26	Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for all households, 1983 to 2005/06
Table 27	Gini coefficients for the distribution of income at each stage of the tax-benefit system and P90/P10 and P75/P25 ratios for disposable income for all households, 1979 to 2005/06
Figure 1	Original income and final income by quintile groups of all households, 2005/06
Figure 2	Gross income (original income & cash benefits) by quintile groups of all households, 2005/06
Figure 3	Sources of gross income by quintile groups of equivalised disposable income, 2005/06
Figure 4	Summary of the effects of taxes and benefits on all households, 2005/06
Figure 5	Gini coefficients 1981 to 2005/06
Figure 6	Income stages by non-retired household types, 2005/06
Diagram 1	Stages of redistribution
Diagram 2	Lorenz curve for a typical income distribution
Diagram 3	Complete income inequality

#### Note

Symbols The following symbols have been used throughout the article

0 negligible (less than half the final digit shown)

- nil



## Results for all households

### Overall effect

Government intervention affects household income in various ways. Money is taken through taxes, both direct and indirect, and given back in the form of cash benefits and the provision of free or subsidised services. In general, households in the bottom half of the income distribution tend to be net gainers from the tax and benefit systems while those in the top half pay more in tax than they receive in benefits. Therefore, taken as a whole, government intervention leads to income being shared more equally between households. Table 2 summarises the overall effects.

**Table 2**  
Percentage shares of household income and Gini coefficients<sup>1</sup>, 2005/06

	Percentage shares of equivalised income for ALL households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
<b>Quintile group<sup>2</sup></b>				
Bottom	3	7	8	7
2nd	7	11	12	12
3rd	15	16	16	16
4th	24	23	22	22
Top	51	44	41	43
All households	100	100	100	100
<b>Decile group<sup>2</sup></b>				
Bottom	1	3	3	2
Top	33	28	26	28
<b>Gini coefficient (per cent)</b>	<i>52</i>	<i>37</i>	<i>34</i>	<i>37</i>

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

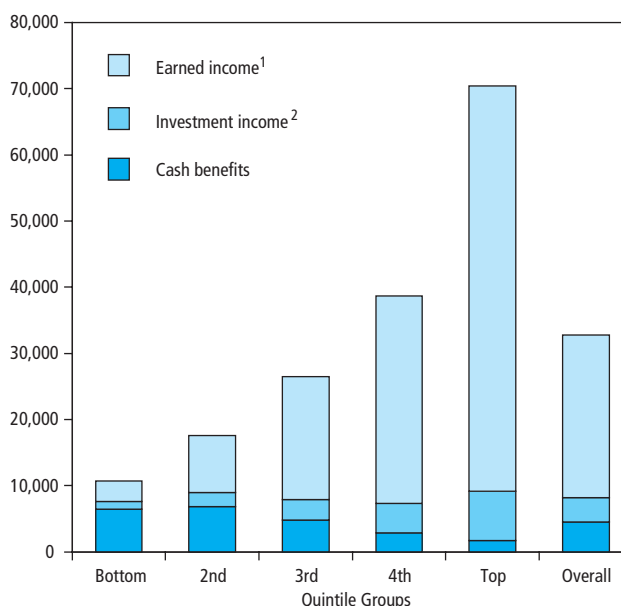
2 Households are ranked by equivalised disposable income.

In this analysis, income before taxes and benefits is termed original income and includes income from earnings, occupational pensions and investments. The extent of inequality in this measure of income can be seen by looking at the proportion of total original income received by groups of households in different parts of the income distribution. At this stage, the richest fifth of households (those in the top quintile group) receive 51 per cent of all original income (Table 2). This compares with only 3 per cent for households in the bottom fifth.

Adding cash benefits to original income produces gross income. In contrast to original income, the amount received from cash benefits is higher for households lower down the income distribution than for those at the top. This has an equalising effect on the distribution. It raises the share of income received by the bottom quintile group to 7 per cent of gross income while the share of the top fifth is reduced to 44 per cent. Figure 3 shows a breakdown of gross income by quintiles.

**Figure 3**  
Sources of gross income by quintile groups of equivalised disposable income, 2005/06

Average per household (£ per year)



1 Investment income includes occupational pensions and annuities.

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

The tax system has a smaller effect on income inequality. While direct taxes have a further equalising effect on the shares of income, this is reversed by the effect of indirect taxes. The result is that the percentage shares of post-tax income for each quintile group are very similar to the shares of gross income.

Tables 3, 14 and 14A show the effect of direct and indirect tax on each quintile and decile group in more detail. Households at the lower end of the income distribution pay smaller amounts of direct tax compared with households with higher incomes. Of the total income tax paid by all households, the bottom two quintile groups together pay about 6 per cent. This compares with 81 per cent of the total paid by the top two fifths combined.

In addition, low income households also pay a smaller proportion of their income in income tax. This is due to the progressive nature of the income tax system. As a proportion of their gross incomes, households in the bottom quintile group pay an average of 3 per cent in income tax compared with 18 per cent for those in the top quintile group.

For national insurance contributions, the amount paid as a proportion of gross income rises as income rises until the fourth quintile group. The proportion then falls for the top fifth. This is because in 2005/06 employee's national insurance contributions were levied at 11 per cent on weekly earnings from £94 to £630, and at only 1 per cent thereafter. So many people in the top quintile group will have a significant part of their earnings taxed at this lower rate.

Council tax in Great Britain and domestic rates in Northern Ireland are shown in Tables 3, 14 and 14A. Households in the lower part of the income distribution pay smaller absolute amounts. After taking into account council tax benefits and rates rebates, average net payments by the bottom quintile

Table 3

**Taxes as a percentage of gross income, disposable income and expenditure for ALL households by quintile groups<sup>1</sup>, 2005/06****(a) Direct and indirect taxes as a percentage of gross income****(b) Indirect taxes as a percentage of disposable income****(c) Indirect taxes as a percentage of expenditure<sup>2</sup>**

	Quintile groups of ALL households <sup>2</sup>					All households
	Bottom	2nd	3rd	4th	Top	
<b>(a) Percentages of gross income</b>						
Direct taxes						
Income tax <sup>3</sup>	2.8	6.3	10.2	13.2	18.3	13.5
Employees' NIC	1.5	2.9	4.6	5.4	4.7	4.4
Council tax & Northern Ireland rates <sup>4</sup>	5.2	3.9	3.2	2.7	1.7	2.7
<i>All direct taxes</i>	<i>9.5</i>	<i>13.1</i>	<i>18.0</i>	<i>21.2</i>	<i>24.7</i>	<i>20.6</i>
Indirect taxes						
VAT	10.5	7.8	6.9	6.3	5.0	6.3
Duty on alcohol	1.4	1.1	1.1	0.9	0.6	0.9
Duty on tobacco	2.9	1.8	1.3	0.8	0.3	0.9
Duty on hydrocarbon oils & Vehicle excise duty	2.9	2.1	2.1	2.0	1.3	1.8
Other indirect taxes	9.2	6.3	5.2	4.5	3.5	4.7
<i>All indirect taxes</i>	<i>26.9</i>	<i>19.1</i>	<i>16.6</i>	<i>14.4</i>	<i>10.8</i>	<i>14.5</i>
<i>All taxes</i>	<i>36.4</i>	<i>32.1</i>	<i>34.6</i>	<i>35.7</i>	<i>35.5</i>	<i>35.1</i>
<b>(b) Percentages of disposable income</b>						
VAT	11.6	8.9	8.4	8.0	6.7	7.9
Duty on alcohol	1.6	1.2	1.3	1.2	0.8	1.1
Duty on tobacco	3.2	2.1	1.6	1.0	0.4	1.1
Duty on hydrocarbon oils & Vehicle excise duty	3.2	2.4	2.6	2.5	1.7	2.3
Other indirect taxes	10.2	7.3	6.4	5.7	4.7	5.9
<i>All indirect taxes</i>	<i>29.7</i>	<i>22.0</i>	<i>20.2</i>	<i>18.3</i>	<i>14.3</i>	<i>18.3</i>
<b>(c) Percentages of expenditure<sup>2</sup></b>						
VAT	7.8	8.1	7.8	7.8	7.2	7.7
Duty on alcohol	1.1	1.1	1.2	1.1	0.9	1.1
Duty on tobacco	2.1	1.9	1.5	1.0	0.4	1.1
Duty on hydrocarbon oils & Vehicle excise duty	2.1	2.2	2.4	2.5	1.9	2.2
Other indirect taxes	6.9	6.6	6.0	5.6	5.1	5.8
<i>All indirect taxes</i>	<i>20.1</i>	<i>19.9</i>	<i>18.9</i>	<i>18.1</i>	<i>15.6</i>	<i>17.8</i>

1 Households are ranked by equivalised disposable income.

2 Calculated to be consistent with disposable income. See paragraph 35 of Appendix 2 for the definition of expenditure.

3 After deducting tax credits and tax relief at source on life assurance premiums.

4 After deducting discounts, council tax benefits and rates rebates.



group are less than half those of the top fifth. On the other hand, when expressed as a proportion of gross income, the burden decreases as income rises. Council tax in Great Britain and domestic rates in Northern Ireland represent over 5 per cent of gross income for those in the bottom fifth but less than 2 per cent for those in the top quintile group.

### Indirect taxes

The amount of indirect tax that each household pays is determined by their expenditure rather than their income. While the payment of indirect taxes can be expressed as a percentage of gross income in the same way as for direct taxes, it should be remembered that for some households, particularly towards the bottom of the income distribution, annual expenditure exceeds annual income. For these households, expenditure is not being funded entirely from income, and so to express the payment of indirect taxes as a percentage of gross income is potentially misleading.

There are a number of possible reasons why expenditure may exceed income. Some households with low incomes may draw on their savings or borrow in order to finance their expenditure. In addition, the bottom decile in particular includes some groups who have, or report, very little income (for example, self-employed people starting a business or someone who has just been made redundant). For some people this spell of very low income may only be temporary and during this period, they may continue with previous patterns of spending. Some types of receipts are not included as current income in the EFS, for example, inheritance and severance payments. In some cases, the information given on direct tax is not consistent with that on income received, possibly because of timing differences. The income and expenditure data are measured in different ways in the EFS, and either could be affected by measurement errors of different kinds (see Appendix 2, paragraph 6).

To give a more complete picture of the impact of indirect taxes, they are shown in Table 3 separately as a proportion of gross income, disposable income and expenditure. Direct taxes are also shown as a proportion of gross income so that the impact of direct and indirect taxes can be compared.

In cash terms, the top fifth of households pay over two and a half times as much indirect tax as the bottom fifth. This simply reflects higher expenditure by higher income households. The only indirect taxes where this is not the case are duties on tobacco, taxes on betting, and the tax element of the National Lottery.

However, when expressed as a percentage of expenditure, the proportion paid in indirect tax tends to be lower for households at the top of the distribution compared to those lower down (16 per cent for the top quintile compared to 20 per cent for the bottom quintile). The higher expenditure by low income groups on tobacco accounts for about half of this difference.

When expressed as a proportion of gross or disposable income, as shown in Table 3, the impact of indirect taxes declines sharply as income rises. This is because those in higher income groups tend to channel a larger proportion of

their income into savings and mortgage payments, which do not attract indirect taxes. In addition, for many households in the lower half of the distribution recorded expenditure is higher than recorded current incomes, and as a result indirect taxes appear more regressive than when expressed as a proportion of expenditure. However, the top fifth still pay a smaller proportion of their expenditure or income in indirect taxation whichever measure is used.

The effect of taxes and benefits on income inequality can be seen by their effect on the Gini coefficient. The Gini coefficient is a widely used summary measure of income inequality (see Appendix 2, paragraph 53). It can take values from 0 to 100 per cent where a value of zero would indicate that each household had an equal share of income, while higher values indicate greater inequality.

The Gini coefficients (as shown in Tables 2 and 27) produce a similar picture to the shares of income discussed earlier. For 2005/06, the figure of 52 per cent for original income is reduced to 37 per cent for gross income by the inclusion of cash benefits – a large reduction in inequality. The coefficient for disposable income shows the equalising effect of direct taxes with the figure falling further to 34 per cent. That indirect taxes reverse this effect is confirmed by the Gini coefficient rising to 37 per cent for post-tax income.

As discussed earlier there are many households in the lowest decile in particular, for which income is temporarily low or possibly under-reported. These households may well be wealthier and have higher expenditures than many households in higher deciles.

### Characteristics of households

Some household types are more likely to be located in one part of the income distribution rather than another. Information about the characteristics of households in the different income groups is shown in Table 4, with more detail in Tables 15 and 15A. Household size does not vary much across the income distribution, with an average of between 2.2 and 2.5 people per household in each decile group in 2005/06. There are differences in the split between adults and children. A child (that is, a dependent) is defined as either aged under 16, or aged 16, 17 or 18, not married and receiving full-time non-advanced further education. There are fewer children in the upper half of the income distribution, and particularly in the top quintile. The pattern for the numbers of men and women also varies across income groups. The number of women is fairly constant while households in the higher income groups tend to have more men than the lower groups. Higher income groups also contain more economically active people. The top fifth of households has about three times as many economically active people as the bottom fifth.

Non-retired households with one adult and one or more children are concentrated in the lower groups, as shown in Tables 4, 15A and 22. Around 70 per cent of these households are in the bottom two quintile groups. This group makes up the majority of lone parent families. However, some lone parents will be part of larger households and will be included in other household types. For two adult households with

Table 4

Summary of the effects of taxes and benefits by quintile groups on ALL households<sup>1</sup>, 2005/06

	Quintile groups of ALL households <sup>1</sup>						Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top	All households	
<b>Income, taxes and benefits per household (£ per year)<sup>2</sup></b>							
Original income	4 230	10 760	21 630	35 790	68 700	28 220	16
<i>plus</i> cash benefits	6 500	6 830	4 830	2 910	1 710	4 560	0
Gross income	10 740	17 590	26 460	38 700	70 420	32 780	7
<i>less</i> direct taxes <sup>3</sup> and employees' NIC	1 020	2 300	4 760	8 220	17 400	6 740	17
Disposable income	9 720	15 290	21 700	30 470	53 020	26 040	5
<i>less</i> indirect taxes	2 890	3 360	4 390	5 580	7 600	4 760	3
Post-tax income	6 830	11 930	17 310	24 900	45 420	21 280	7
<i>plus</i> benefits in kind	6 660	6 140	5 570	4 960	3 900	5 450	1
Final income	13 490	18 080	22 870	29 860	49 320	26 720	4
<b>Number of individuals per household</b>							
<i>Children</i> <sup>4</sup>	0.7	0.6	0.5	0.5	0.4	0.5	
<i>Adults</i>	1.7	1.7	1.9	2.0	1.9	1.8	
<i>Men</i>	0.8	0.8	0.9	1.0	1.0	0.9	
<i>Women</i>	0.9	1.0	1.0	1.0	0.9	1.0	
<i>People</i>	2.3	2.3	2.4	2.5	2.3	2.4	
People in full-time education	0.7	0.5	0.5	0.5	0.4	0.5	
Economically active people	0.5	0.8	1.2	1.6	1.7	1.2	
Retired people	0.6	0.7	0.5	0.3	0.2	0.4	
<b>Household type (percentages)</b>							
Retired	39	44	27	15	9	27	
Non-retired							
1 adult	14	10	15	15	19	15	
2 adults	11	12	18	29	38	21	
1 adult with children <sup>5</sup>	13	7	5	2	1	6	
2 adults with children	15	17	21	23	20	19	
3 or more adults <sup>6</sup>	8	10	15	16	12	12	
All household types	100	100	100	100	100	100	

1 Households are ranked by equivalised disposable income.

2 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).

3 These are income tax (which is after deducting tax credits and tax relief at source on life assurance premiums), council tax and Northern Ireland rates but after deducting discounts, council tax benefits and rates rebates.

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

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

6 With or without children.

children, the position in the income distribution tends to vary according to the number of children. Those with three or more children tend to be in lower groups than those with only one or two. Households with more children, unless there is a corresponding increase in income, will have lower equivalised incomes to reflect the additional demand on resources. In addition, households with three or more children are also less likely to have two economically active adults compared to those with fewer children, and this also makes it more likely that they will be in a lower part of the income distribution. Where there are no children in the household, non-retired two adult households tend to be found in the higher income groups.

Retired households are over-represented at the lower end of the distribution with 62 per cent falling into the bottom four decile groups (as shown in Table 22). Those consisting of one retired woman are more concentrated towards the bottom compared to those with one retired man.

### Stages of redistribution

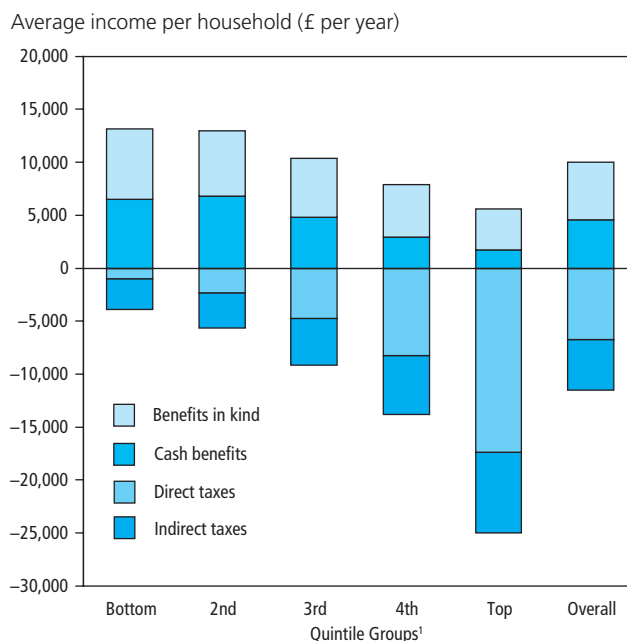
Details of the amounts which households in each quintile group receive from the various measures of income are shown in Table 4, with more detailed information for decile groups in Table 14 and quintile groups in Table 14A.

On average, households receive about £28,200 a year in original income but this varies widely between households. Those in the top quintile group have around £68,700 compared with about £4,200 for the bottom fifth. This pattern is partly explained by differences in the number of economically active people and the employment status of the chief economic supporter between the groups. For example, as shown in Tables 15 and 15A, 90 per cent of chief economic supporters of households in the top quintile group are economically active compared with just 24 per cent of those in the lowest. The chief economic supporters in the top fifth are predominantly full-time employees or self-employed. Those in the bottom fifth are much more likely to be economically inactive, to work part-time or be unemployed. Of course, those in the higher deciles also tend to have better paid jobs as well as being more likely to be economically active.

Wages and salaries and income from self-employment are typically the most important source of income, making up almost three-quarters of total gross income (as shown in Table 14A). Cash benefits are also a significant source, particularly for households in the lower half of the distribution. Of the total amount of cash benefits received, the bottom two quintile groups together receive 59 per cent. These households receive an average of £6,700 from cash benefits, representing around 61 per cent of gross income for the bottom quintile group and 39 per cent for the next group.

Higher income groups pay both higher amounts of direct tax and higher proportions of their income in direct tax (Tables 3, 4, 14 and 14A). The top quintile group pays about £17,400 per household in income tax, national insurance contributions and Council tax or Northern Ireland rates – 25 per cent of gross income. In contrast, the direct tax bill for households in the bottom fifth is around £1,000, representing 9 per cent of

Figure 4  
Summary of the effects of taxes and benefits on ALL households, 2005/06



1 Households are ranked throughout by their grossed equivalised disposable incomes.

their gross income. Looking at income tax on its own, around 81 per cent of the total is paid by the top two quintile groups.

In contrast to benefits and direct taxes, the indirect tax system has a different effect. Households with higher incomes still pay more in absolute terms but not as a proportion of their incomes. This means that indirect taxes tend to increase income inequality.

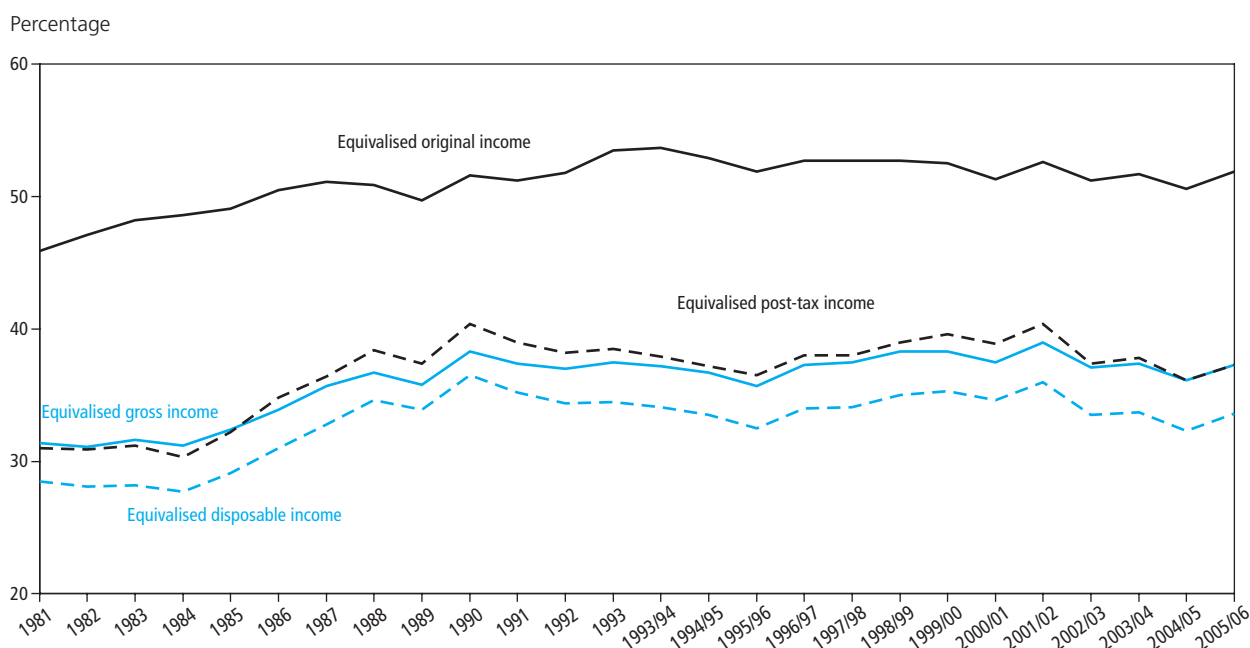
The final stage in the redistribution process is the addition of benefits in kind, such as those from state education and the health service. Households in the bottom quintile group receive the equivalent of around £6,700 from all benefits in kind, compared to £3,900 received by the top fifth (see Figure 4). These are described in more detail later in the analysis.

Taken as a whole, the tax and benefit systems redistribute income from high income households to those on low incomes. The average final income for the quintile groups ranges from £13,500 for the bottom quintile, compared to £49,300 for the top quintile, a ratio of one to four compared to a ratio of one to 16 for original income, that is, before government intervention, as shown in Table 4.

### Changes in inequality over time

There are many ways of measuring income inequality and Tables 26 and 27 (at the end of Appendix 1) show trends for several of these measures. Table 26 shows trends for the shares of income figures that have already been seen for 2005/06 earlier in this analysis. Table 27 contains time series for Gini coefficients and a simpler alternative: using the ratio of the incomes at two points in the distribution. Two such measures are calculated: the ratio of the disposable income at the 90th percentile compared to the 10th (P90/P10); and

Figure 5  
Gini coefficients, 1981 to 2005/06



the ratio of the 75th percentile to the 25th (P75/P25). (The 90th percentile is the income below which nine out of ten households lie and the 75th percentile is the income below which three quarters of households lie). The Gini coefficient is the only one of these measures which takes into account inequalities throughout the whole income distribution.

As noted above, these measures of inequality are subject to sampling error and some caution is needed particularly in the interpretation of year-to-year changes. There have also been some changes of methodology. However, by looking at data over several years it is possible to discern underlying trends.

Figure 5 shows how inequality has changed since 1981 for the various measures of income as measured by the Gini coefficient. It indicates several phases over the last 25 years and shows that the different measures of income do not always show the same trend in inequality. This is particularly true of the Gini coefficient for original income which measures inequality before the redistributive effects of taxes and benefits.

The 1980s were characterised by a large increase in inequality. The Gini coefficient for original income rose fairly steadily throughout this period and did not peak until 1993/94. It remained high throughout the 1990s and while there has been a slight fall in inequality since 2001/02, it still remains much higher than it was in the early 1980s.

The Institute for Fiscal Studies (IFS) has investigated some of the possible reasons for the higher level of inequality seen in the 1990s<sup>2</sup>. There has been an increase in wage inequality, and particularly an increase in the gap between wages for skilled and unskilled workers. Suggested reasons include skills-biased technological change, a decline in the role of trade unions, reductions in the top rates of income tax, and a growth in self-employment income.

There has also been a decrease in the rate of male participation in the labour market, often in households where there is no other earner. There has also been increased female participation among those with working partners. This has led to an increased polarisation between two-earner and zero-earner households. In the late 1990s, the proportion of people in workless households started to fall slowly<sup>3</sup>, probably contributing to the recent fall in inequality of original income.

The Gini coefficients for gross income, disposable income, and post-tax income have tended to move more closely together, and generally show a different pattern to that for original income. The difference between the Gini coefficients for original and post-tax income can be seen as a measure of the extent of redistribution through the tax and benefit system. To some extent this will be cyclical. While the Gini coefficient for original income was rising steadily throughout the 1980s, the Gini coefficient for post-tax income was stable for the first half of the 1980s but then rose sharply in the second half of the decade. This implies that through the early 1980s there was an increasing amount of redistribution, with a decreasing amount through the late eighties.

Through the recession of the early 1990s and the subsequent early recovery, inequality of original income increased but more slowly, and increasing redistribution saw inequality of post-tax income gradually fall until 1995/96. In the late 1990s, inequality of original income was largely unchanged while the amount of redistribution started to decline again and this resulted in a gradual increase in inequality of post-tax income until 2001/02.

From 2001/02 there was some fall in inequality of original income, with a slightly larger fall in inequality of post-tax income implying an increase in redistribution.

There were several reasons for this fall in inequality of income after 2001/02. There was a small decrease in inequality of original income. This is due to faster growth in original income, and income from earnings and self-employment in particular, at the bottom end of the income distribution. The impact of the minimum wage on the earnings distribution will have had some effect. The adult minimum wage increased 27.4 per cent between October 2002 and October 2006 compared to an increase of 16.7 per cent in average earnings<sup>4</sup>.

As well as a fall in inequality of original income, redistributive policies also had some effect. The tax credit system increased the incomes of non-retired households with children in particular (Table 21). The increase in national insurance contributions in 2003/04 which is discussed in the following section, would also have resulted in a small reduction in inequality of disposable and post-tax income due to its differential impact upon working and non-working households.

It should also be said that there was a methodological change introduced in 2002/03 which accounts for part of the fall in the Gini coefficients for disposable and post-tax income. Before 2002/03, water charges were treated as a local tax, rather than a service charge (see Appendix 2, paragraph 27). The effect of this change was to reduce the Gini coefficients for these two measures of income by approximately 0.4 per cent.

In 2005/06 the Gini coefficients increased compared to those for 2004/05. Some caution is appropriate in interpreting changes based on a single year's data. However, the Gini coefficient for disposable income published in the DWP's *Households Below Average Income 2005/06*, also increased by one per cent. This suggests that income inequality is no longer falling, and may indeed be starting to rise again. The increase observed in the last year appeared to be driven by an increase in inequality of original income from all sources, rather than changes to the tax and benefit system.

## Results for non-retired households

### Overall effect

As for all households, the tax and benefit systems lead to income being shared more equally between non-retired households. Before government intervention, original income is shared more equally between non-retired households, as shown in Table 5, than for all households, as shown in Table 2. However, after the process of redistribution, the shares of income and Gini coefficients for post-tax income are very similar to those for all households. The redistribution effect is therefore smaller for non-retired households than for all households. A summary of the effects of taxes and benefits on non-retired households is shown in Table 6, with more detail in Tables 16 and 16A.

### Characteristics of non-retired households

Unlike for all households, the average household size tends to decrease as income increases, as shown in Tables 17 and 17A. This fall is largely accounted for by the decrease in the average

number of children in each household from 1.1 in the bottom quintile group to 0.4 in the top.

So amongst two adult households, those without children tend to be concentrated towards the top of the income distribution with 62 per cent in the top four income deciles, while those with more children are further down. The households most likely to find themselves towards the bottom of the income distribution are one adult households with children, with 71 per cent of these households in the bottom four income deciles (Table 22).

For single person households, there are different patterns for men and women. Households containing only one man are over-represented in the top quintile of the distribution. One woman households are also over-represented in the top quintile of the distribution, although not to quite the same extent as men.

Although households with children, and particularly those with more than one child, tend to be concentrated lower down the income distribution, this tendency is not quite as pronounced as it used to be. In 1998/99, 59 per cent of two adult households with three or more children were in the bottom four deciles, which compares to 52 per cent in 2005/06. For one adult households with children the corresponding fall was from 75 per cent to 71 per cent. Tax credits which increase according to the number of dependent children are likely to have contributed to these changes.

Table 5  
Percentage shares of household income and Gini coefficients<sup>1</sup> for NON-RETIRED households, 2005/06

	Percentage shares of equivalised income for NON-RETIRED households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group <sup>2</sup>				
Bottom	3	6	7	6
2nd	10	12	12	12
3rd	17	17	17	16
4th	24	23	22	22
Top	46	43	41	44
All non-retired households	100	100	100	100
Decile group <sup>2</sup>				
Bottom	1	2	3	2
Top	30	28	26	28
Gini coefficient (per cent)	45	37	34	38

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

2 Households are ranked by equivalised disposable income.



Table 6  
**Summary of the effects of taxes and benefits on NON-RETIRED households by quintile groups<sup>1</sup>, 2005/06**

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households	Ratio Top/Bottom quintile
	Bottom	2nd	3rd	4th	Top		
<b>Income, taxes and benefits per household (£ per year)</b>							
Original income	6 700	19 450	31 070	43 040	77 260	35 510	12
<i>plus</i> cash benefits	6 140	4 500	2 500	1 490	1 170	3 160	0
Gross income	12 840	23 950	33 570	44 530	78 430	38 660	6
<i>less</i> direct taxes <sup>2</sup> and employees' NIC	1 290	4 050	6 950	10 120	19 880	8 460	15
Disposable income	11 550	19 900	26 620	34 410	58 550	30 200	5
<i>less</i> indirect taxes	3 400	4 420	5 380	5 970	8 030	5 440	2
Post-tax income	8 150	15 480	21 240	28 430	50 520	24 760	6
<i>plus</i> benefits in kind	7 470	6 410	5 370	4 600	3 760	5 520	1
Final income	15 620	21 890	26 610	33 030	54 280	30 280	3
<b>Number of individuals per household</b>							
<i>Children</i> <sup>3</sup>	1.1	0.9	0.7	0.5	0.4	0.7	
<i>Adults</i>	1.8	2.0	2.0	2.1	1.9	2.0	
<i>Men</i>	0.8	0.9	1.0	1.1	1.0	1.0	
<i>Women</i>	1.0	1.0	1.0	1.0	0.9	1.0	
People	2.9	2.8	2.7	2.6	2.3	2.7	
People in full-time education	1.1	0.9	0.7	0.5	0.4	0.7	
Economically active people	0.9	1.5	1.8	1.9	1.8	1.6	
Retired people	0.1	0.1	0.1	0.1	0.0	0.1	

1 Households are ranked by equivalised disposable income.

2 These are income tax (which is after deducting tax credits and tax relief at source on life assurance premiums), council tax and Northern Ireland rates but after deducting discounts, council tax benefit and rates rebates.

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

## Original income

The average original income for non-retired households is £35,500 (Table 6). As mentioned above, inequality of original income is lower for non-retired households than for all households. The ratio of the averages for the top and bottom quintiles is 12 to one (compared to 16 to one for all households).

The original income of households shows a relatively strong relationship to the number of economically active people it contains. On average, households in the top three quintile groups contain almost twice as many economically active people as those in the lowest group (Table 6).

## Cash benefits

Table 7 gives a summary of the benefits that each quintile group receives. There are two types of cash benefits: contributory benefits which are paid from the National Insurance Fund (to which individuals and their employers make contributions while working) and non-contributory benefits. For non-retired households, non-contributory benefits make up nearly three quarters of all cash benefits on average.

The average non-retired household receives £3,200 in cash benefits. The bottom fifth receive nearly double this amount while those in the top quintile group get an average of £1,200. However, the patterns for contributory and non-contributory benefits are different.

Most non-contributory benefits, particularly income support and housing benefit, are income related and so payments are concentrated in the two lowest quintile groups. The presence of some individuals with low incomes in high income households means that some payments are recorded further up the income distribution. Of the total amount of income support and housing benefit paid to non-retired households, 88 per cent goes to the bottom two-fifths, with the majority of this going to the bottom quintile.

In this analysis, tax credit payments are treated as either cash benefits or negative income tax depending on how much income tax the family pays – see paragraph 22, Appendix 2. Tax credits go predominantly to households in the lower part of the distribution, and mainly to households with children. Of the total amount, 75 per cent goes to the bottom two quintiles. Child benefit is based on the number of children in the household. Levels of child benefit received are also higher



Table 7  
Cash benefits for NON-RETIRED households by quintile groups<sup>1</sup>, 2005/06

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<b>Contributory</b>						
Retirement pension	230	630	580	400	400	450
Incapacity benefit	660	520	180	90	40	300
Job seeker's allowance <sup>2</sup>	60	30	10	0	0	20
Other	40	50	140	80	140	90
<b>Total contributory</b>	<b>1 000</b>	<b>1 230</b>	<b>900</b>	<b>580</b>	<b>580</b>	<b>860</b>
<b>Non-contributory</b>						
Income support <sup>3</sup>	1 280	520	140	100	10	410
Tax credits <sup>4</sup>	950	620	260	50	10	380
Child benefit	760	650	500	380	300	520
Housing benefit	1 290	580	170	40	20	420
Job seeker's allowance <sup>5</sup>	210	50	10	0	0	50
Sickness/disablement related	440	650	360	260	90	360
Other	220	200	150	90	160	160
<b>Total non-contributory</b>	<b>5 140</b>	<b>3 260</b>	<b>1 590</b>	<b>910</b>	<b>590</b>	<b>2 300</b>
<b>Total cash benefits</b>	<b>6 140</b>	<b>4 500</b>	<b>2 500</b>	<b>1 490</b>	<b>1 170</b>	<b>3 160</b>
Cash benefits as a percentage of gross income	48	19	7	3	1	8

1 Households are ranked by equivalised disposable income.

2 Contribution based.

3 Including pension credit.

4 Child tax credit and working tax credit.

5 Income based.

at the lower end of the distribution, as these households tend to have more children.

In contrast to non-contributory benefits, a criterion for receipt of contributory benefits is the amount of national insurance contributions that have been paid by, or on behalf of, the individual. The amounts received from these benefits are also higher in the lower half of the distribution, but to a lesser extent than for non-contributory benefits.

For all non-retired households, as shown in Table 7, cash benefits provide 8 per cent of gross income on average. For those in the bottom quintile group they form a much larger proportion – 48 per cent. Their payment results in a significant reduction in income inequality.

### Direct taxes

Direct taxes include income tax (after deduction of tax credits), employees' national insurance contributions, and Council tax or Northern Ireland rates (net of council tax

Table 8  
Taxes as a percentage of gross income for NON-RETIRED households by quintile groups<sup>1</sup>, 2005/06

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Percentages</b>						
<b>Direct taxes</b>						
Income tax <sup>2</sup>	3.7	8.8	12.1	14.3	19.0	14.4
Employees' NIC	2.5	4.7	5.9	6.1	4.7	5.1
Council tax & NI rates <sup>3</sup>	3.9	3.3	2.8	2.4	1.6	2.3
<b>All direct taxes</b>	<b>10.1</b>	<b>16.9</b>	<b>20.7</b>	<b>22.7</b>	<b>25.3</b>	<b>21.9</b>
<b>All indirect taxes</b>	<b>26.5</b>	<b>18.4</b>	<b>16.0</b>	<b>13.4</b>	<b>10.2</b>	<b>14.1</b>
<b>All taxes</b>	<b>36.5</b>	<b>35.4</b>	<b>36.7</b>	<b>36.2</b>	<b>35.6</b>	<b>36.0</b>

1 Households are ranked by equivalised disposable income.

2 After deducting tax credits and tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts, council tax benefit and rates rebates.

benefits and rates rebates). Amongst non-retired households, those at the lower end of the income distribution pay a smaller proportion of their income in direct tax, compared to households with higher incomes (Table 8). This is largely due to the progressive nature of the income tax system.

As noted for all households, national insurance contributions as a proportion of gross income increase from the first to the fourth quintile group, but are then lower for the top fifth of non-retired households. In 2005/06 national insurance contributions were levied at 11 per cent on weekly earnings from £94 to £630 and at 1 per cent above this. Both these contribution rates were introduced in 2003/04 – the previous rate had been 10 per cent with no contribution above the upper earnings limit. This increased average national insurance contributions as a proportion of gross income from 4.3 per cent in 2002/03 to around 5 per cent in the last three years.

### Indirect taxes

The amount of indirect tax that each household pays is estimated from its expenditure recorded in the EFS. However, as described earlier in this analysis, the income and expenditure data recorded in the EFS are not fully compatible because they are recorded in different ways (see Appendix 2, paragraph 6). Therefore, to give a more complete picture of the impact of indirect taxes, they are shown in Table 9 as a proportion of disposable income and, separately, as a proportion of expenditure. In addition, indirect taxes are also shown as a proportion of gross income in Table 8 so that the impact of direct and indirect taxes can be compared.

In cash terms, the top fifth of non-retired households pay about twice as much indirect tax as the bottom fifth (Table 16A). On the other hand, when expressed as a percentage of disposable income (Table 9), the proportion paid in indirect tax is lower for households at the top of the distribution

Table 9

**Indirect taxes as a percentage of (a) disposable income and (b) household expenditure<sup>1</sup> for NON-RETIRED households by quintile groups<sup>2</sup>, 2005/06**

	Quintile groups of NON-RETIRED households <sup>2</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>(a) Percentages of disposable income</b>						
VAT	11.4	8.9	8.5	7.4	6.4	7.7
Duty on alcohol	1.5	1.3	1.3	1.2	0.7	1.1
Duty on tobacco	3.5	2.1	1.5	0.9	0.3	1.1
Duty on hydrocarbon oils & Vehicle excise duty	3.1	2.7	2.7	2.4	1.7	2.3
Other indirect taxes	9.9	7.0	6.2	5.4	4.6	5.8
All indirect taxes	29.4	22.2	20.2	17.4	13.7	18.0
<b>(b) Percentages of expenditure<sup>1</sup></b>						
VAT	7.7	7.8	7.8	7.4	7.1	7.5
Duty on alcohol	1.0	1.2	1.2	1.2	0.8	1.0
Duty on tobacco	2.4	1.9	1.4	0.9	0.3	1.1
Duty on hydrocarbon oils & Vehicle excise duty	2.1	2.4	2.5	2.4	1.8	2.2
Other indirect taxes	6.7	6.2	5.7	5.4	5.0	5.6
All indirect taxes	19.9	19.4	18.5	17.3	15.1	17.4

<sup>1</sup> Calculated to be consistent with disposable income. See paragraph 35 of Appendix 2 for the definition of expenditure.

<sup>2</sup> Households are ranked by equalised disposable income.

compared to those lower down. As already noted, this is because those in higher income groups tend to channel a larger proportion of their income into savings and mortgage payments, and because for some households in the lower half of the distribution recorded expenditure is lower than recorded current incomes. Indirect taxes appear less regressive when expressed as a proportion of expenditure, although the top fifth still pay a smaller proportion of their expenditure in indirect taxation.

### Benefits in kind

The Government provides certain goods and services to households either free at the time of use or at subsidised prices. This study allocates these benefits in kind to individual households in order to arrive at final income. The largest two categories for which such imputations are made are health and education services. The imputed value of these benefits is based on the estimated cost of providing them. This expenditure on health and education, which is allocated to households, is equivalent to around 27 per cent of total general government expenditure, as shown in Table 13. Other items for which imputations are made are free school meals, welfare milk, housing subsidy and travel subsidies. These items are equivalent to a further 1 per cent of general government expenditure. Table 10 gives a summary of the value of these benefits for each quintile group for non-retired households.

The benefit in kind from education is allocated to a household according to its members' use of state education (Appendix 2, paragraph 38). Households in the lower quintiles receive the highest benefit from education, as shown in Table 10.

This is due to the concentration of children in this part of the distribution. In addition, children in households in the higher quintiles are more likely to be attending private schools and an allocation is not made in these cases. The impact of expenditure on free 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.

Table 10  
**Benefits in kind for NON-RETIRED households by quintile groups<sup>1</sup>, 2005/06**

	Quintile groups of NON-RETIRED households <sup>1</sup>					All non-retired households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
Education	4 370	3 340	2 410	1 960	1 210	2 660
National health service	2 840	2 930	2 860	2 530	2 410	2 710
Housing subsidy	60	20	20	0	0	20
Travel subsidies	80	80	80	100	150	100
School meals and welfare milk	120	40	10	10	0	30
All benefits in kind	7 470	6 410	5 370	4 600	3 760	5 520
Benefits in kind as a percentage of post-tax income	92	41	25	16	7	22

<sup>1</sup> Households are ranked by equalised disposable income.

The benefit from the health service is estimated according to the age and sex of the household members rather than their actual use of the service, as the EFS does not contain this information (Appendix 2, paragraph 40). The imputed benefit is relatively high for young children, low in later childhood and through the adult years until it begins to rise from late middle age onwards. This benefit is similar in the bottom two quintiles then falls gradually as income rises, as shown in Table 10. This pattern is a reflection of the demographic composition of households. Studies by Sefton<sup>5</sup> have attempted to allow for variations in use of the health service according to socio-economic characteristics.

The benefit imputed to households for the National Health Service has risen rapidly in recent years reflecting increased government spending on health. Throughout the 1990s, it was equivalent to around 9 per cent of average post-tax income for non-retired households. From 2001/02 onwards, the benefit increased and by 2005/06 was equivalent to 11 per cent of post-tax income, or an average of £2,700 per year.

The housing subsidy, which excludes housing benefit (Appendix 2, paragraph 41), is spread between public sector, housing association and Registered Social Landlord tenants. Since such households tend to be concentrated in the lower half of the income distribution, this is where the imputed benefit is highest, as shown in Table 10.

Travel subsidies cover the support payments made to bus and train operating companies. The use of public transport by non-retired households is partly related to the need to travel to work and therefore to the number of economically active people in a household. This results in estimates of these subsidies being higher for households in higher income quintiles. This pattern is also due to London and the South East having higher levels of commuting by public transport together with higher than average household incomes.

Taken together, the absolute value of these benefits in kind declines as household income increases. The ratio of benefits in kind to post-tax income decreases from 92 per cent for the lowest quintile group to 7 per cent for the highest, as shown in Table 10. This indicates that these benefits contribute to the reduction in inequality.

### The effects of taxes and benefits by household type

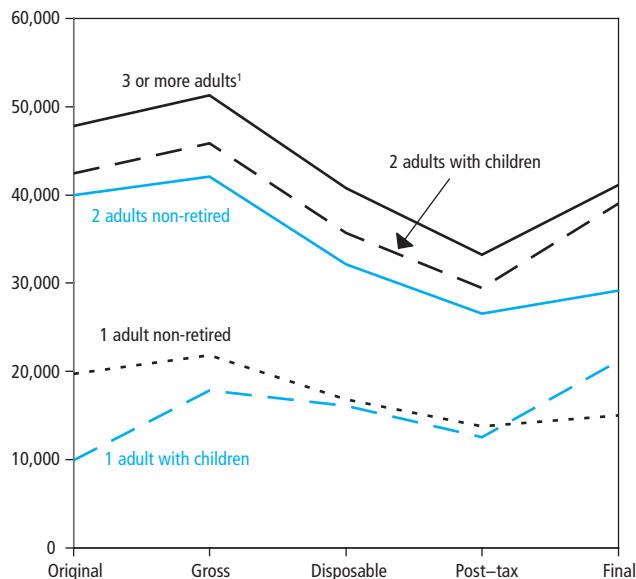
The tax and benefit systems affect different types of household in different ways reflecting, in part, the number and ages of people within each household type. Of the types of non-retired households shown in Figure 6, only those containing one adult and children make significant net gains, with average final incomes of £21,200 compared to original incomes of £9,930. Table 23 has a more detailed breakdown which also shows that households with two adults and three or more children, are also net beneficiaries, but to a smaller extent.

Original income is strongly related to the number of adults in the household. For two adult households, those with children have broadly similar levels of original income to those without, but they receive more cash benefits such as tax credits and child benefit than those without children. Final incomes are also higher for those with children due to the imputed benefit in kind from education.

For one adult households, original income is much lower for those with children as the adult is less likely to be

Figure 6  
Income stages by NON-RETIRED household types, 2005/06

Average income per household (£ per year)



1 With or without children.

economically active. Benefits, both in cash and in kind, are significantly higher for those with children.

### Results for retired households

In this analysis retired households are those where the income of retired household members accounts for more than half of the household gross income (see Appendix 2, paragraph 9 for the definition of a retired person). These households have quite distinct income and expenditure patterns. The tax and benefit systems affect them in different ways from non-retired households.

Retired households are much more likely to be towards the bottom of the income distribution. Of retired households with two or more adults, 59 per cent are in the bottom four decile groups. One adult male households are slightly less concentrated towards the bottom of the income distribution, with 56 per cent in the lowest four deciles. However, among one adult female households, which outnumber one adult male households by about two and half times, 67 per cent are in the bottom four deciles. These patterns have changed very little over the last ten years.

Amongst retired households, there is a high degree of inequality in original income. Tables 11, 18 and 18A show that, before government intervention, the richest fifth of retired households receive 58 per cent of total original income, while the Gini coefficient for this measure of income is 63 per cent. Both these measures are higher (showing more inequality) than equivalent figures for non-retired households. After the impact of taxes and benefits there is a large reduction in inequality. Cash benefits play by far the largest part in bringing about this reduction. Payment of direct taxes makes a further, though much smaller, contribution. Payments of indirect taxes result in an increase in inequality.

Table 11  
**Percentage shares of household income and Gini coefficients<sup>1</sup> for RETIRED households, 2005/06**

	Percentage shares of equivalised income for RETIRED households <sup>2</sup>			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group <sup>2</sup>				
Bottom	4	10	10	9
2nd	8	14	14	14
3rd	11	17	17	18
4th	19	21	22	22
Top	58	38	37	37
All households	100	100	100	100
Decile group <sup>2</sup>				
Bottom	2	4	4	3
Top	41	24	22	23
Gini coefficient (per cent)	63	28	26	29

1 This is a measure of the dispersion of each definition of income (see Appendix 2, paragraph 53).

2 Households are ranked by equivalised disposable income.

Overall, retired households receive an average of £8,500 in original income with most of this coming from occupational pensions and investments (Tables 12, 18 and 18A). Original income ranges from £1,770 for the bottom quintile group to £25,240 for the top. On the other hand, amounts received from cash benefits vary less across the distribution. On average, households in the bottom fifth receive around £6,500 from this source, while those in the second to fifth quintile groups receive between £8,300 and £9,400. These cash benefits make up large proportions of the gross incomes for the bottom four quintiles ranging from 79 per cent for the bottom quintile group to 54 per cent for the fourth quintile group. The top fifth are much less dependent on cash benefits – these account for only 25 per cent of their gross incomes.

Most retired people will have made contributions to the National Insurance Fund throughout their working lives. The bulk of the benefits which retired households receive will be paid out of this fund in the form of contributory benefits. The most significant of these is the state retirement pension, which on average accounts for three quarters of their cash benefits (Tables 18 and 18A).

Non-contributory benefits are lowest in the bottom quintile group. As shown in Table 18A, housing benefit and disability benefits can sometimes make up a significant proportion of the income of retired households, who as a result will appear higher up the income distribution. However, this does not necessarily mean that they have a higher standard of living. Households receiving housing benefit are likely to have higher housing costs than owner occupiers, and similarly the income from disability benefits may be offset by additional costs incurred by the individual due to their illness or disability.

Retired households derive significant benefits from health services and, to a lesser extent, housing and travel subsidies. Health benefit is spread fairly evenly between retired households and now worth an average of £5,000. This is close to twice the figure for non-retired households, and is an additional benefit, equivalent to 43 per cent of their existing post tax income. The benefit from the housing subsidy is higher for those in the middle quintiles, since public sector tenants are concentrated in these groups. The benefits received by retired households from travel subsidies are mainly for bus travel, particularly in the form of concessionary fares and passes for senior citizens and, since these are not usually means-tested, there is no particular relationship with income.

Table 23 gives some details of the effect of taxes and benefits on different types of retired household. On average, both one adult retired households and those with two or more adults are net gainers from the tax and benefit systems. For one adult retired households there are distinct differences in original income by gender. Men received an average of £5,800 compared to £4,000 for women. After the addition of benefits and the deduction of taxes, the differences are greatly reduced.

Table 12  
**Summary of the effects of taxes and benefits on RETIRED households by quintile groups<sup>1</sup>, 2005/06**

	Quintile groups of RETIRED households <sup>1</sup>					All retired households
	Bottom	2nd	3rd	4th	Top	
<b>Income, taxes and benefits per household (£ per year)</b>						
Original income						
Earnings	110	130	170	660	1 690	550
Occupational pensions	1 230	2 550	3 610	6 200	17 730	6 260
Investment income	420	420	470	980	5 410	1 540
Other income	10	60	70	130	410	140
Total original income	1 770	3 160	4 320	7 970	25 240	8 490
<i>plus</i> Contributory benefits	5 250	6 520	6 250	6 520	6 520	6 210
Non-contributory benefits	1 220	1 810	2 710	2 880	2 010	2 120
Total cash benefits	6 470	8 330	8 960	9 390	8 530	8 340
Gross income	8 240	11 490	13 280	17 360	33 770	16 830
<i>less</i> Income tax <sup>2</sup>	170	320	510	1 110	4 250	1 270
Employees' NIC	10	10	10	30	120	30
Council tax & Northern Ireland rates <sup>3</sup>	720	660	600	740	1 150	770
Disposable income	7 340	10 500	12 170	15 480	28 260	14 750
<i>less</i> Indirect taxes	2 100	2 440	2 310	2 690	5 050	2 920
Post-tax income	5 240	8 060	9 860	12 780	23 200	11 830
<i>plus</i> National health service	5 110	5 250	5 020	5 120	4 730	5 050
Housing subsidy	10	20	30	30	20	20
Other benefits in kind	200	180	120	180	200	180
Final income	10 560	13 510	15 030	18 110	28 160	17 070
Cash benefits as a percentage of gross income	79	73	67	54	25	50
Retirement pension as a percentage of cash benefits	78	77	68	68	75	73

<sup>1</sup> Households are ranked by equivalised disposable income.

<sup>2</sup> After deducting tax credits and tax relief at source on life assurance premiums.

<sup>3</sup> Council tax and Northern Ireland rates after deducting discounts, council tax benefit and rates rebates.

## Acknowledgements

The author gratefully acknowledges the considerable work done for this study by Edward Franklyn and Daniel Annan.

## References

1. Department for Work and Pensions (2006) *Households below average income 2005/06*, Corporate Document Services.
2. *Inequality and living standards in Great Britain: some facts*, Goodman A. and Shephard A. The Institute for Fiscal Studies Briefing Note 19. *Permanent Differences? Income and Expenditure Inequality in 1990s and 2000s*, Goodman A. and Oldfield Z. The Institute for Fiscal Studies.
3. Department for Work and Pensions (2006) *Opportunity for All, Eighth Annual Report 2006*, The Stationary Office.
4. Low Pay Commission (2006) *National Minimum Wage*, Low Pay Commission Report 2006.
5. Sefton T. (1997) *The changing distribution of the social wage*, London School of Economics and Political Science and Sefton T. (2002) *Recent changes in the distribution of the social wage*, London School of Economics and Political Science.

## APPENDIX 1

Table 13 (Appendix 1)

## Taxes and benefits allocated to households as a percentage of general government expenditure, 2005

Taxes and compulsory social contributions <sup>1</sup> allocated to households			Benefits allocated to households		
	£ million	Percentage of GGE <sup>2</sup>		£ million	Percentage of GGE <sup>2</sup>
Income tax (gross)	128 870	24.1	Cash benefits		
Tax reliefs	- 40	-0.0	Contributory (National Insurance, etc)		
Income tax (net)	128 830	24.1	Retirement	50 930	9.5
Employees' & self-employed NI contributions	37 800	7.1	Incapacity benefit	6 740	1.3
Council tax	20 980	3.9	Widows' and guardians' allowances	900	0.2
			Maternity/Statutory maternity pay	1 350	0.3
			Job seekers allowance	480	0.1
			Social fund	2 230	0.4
			Other	350	0.1
Taxes on final goods and services			Non-contributory		
VAT	55 480	10.4	Income support	15 980	3.0
Duty on hydrocarbon oils	11 780	2.2	Working and child tax credits	12 380	2.3
Duty on tobacco	7 780	1.5	Other family benefits	9 630	1.8
Vehicle excise duty	3 920	0.7	War pensions	1 040	0.2
Duty on wines, cider, perry and spirits	4 480	0.8	Other	23 160	4.3
Duty on beer	2 870	0.5			
Betting duties	790	0.1	Student support	860	0.2
Camelot: payments to NLDF	1 230	0.2			
Stamp duty on house purchase	2 690	0.5	Rent rebates and allowances	13 740	2.6
Other	2 270	0.4			
Taxes & NI contributions on Intermediate goods & services <sup>3</sup>			Benefits in kind		
Employers' NI contributions	16 440	3.1	Health services	83 580	15.6
Commercial & industrial rates	9 200	1.7	Education	61 120	11.4
Duty on hydrocarbon oils	5 920	1.1	Travel subsidies <sup>4</sup>	2 300	0.4
VAT	4 010	0.7	Housing subsidy	440	0.1
Vehicle excise duty	450	0.1	School meals and welfare milk	1 070	0.2
Other	4 190	0.8			
Total	321 110	59.9	Total	288 280	53.8
Total government expenditure	535 630				

1 Paid to UK central and local government and European Union institutions.

2 Expressed as a percentage of general government expenditure.

3 These are taxes paid by industry and commerce assumed to be passed on to households in the prices of goods and services they buy. For instance, duty on deriv used in the transportation of goods is an 'intermediate' tax whereas the duty on petrol bought by the private motorist is a tax on final goods and services.

4 Including concessionary fares expenditure.

Source: United Kingdom National Accounts, 2006 Edition.



Table 14 (Appendix 1)

## Average incomes, taxes and benefits by decile groups of ALL households, 2005/06

	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 (£ per year)</b>											
<i>Decile points (equivalised £)</i>	<i>10 085</i>	<i>12 835</i>	<i>14 910</i>	<i>17 231</i>	<i>19 808</i>	<i>23 204</i>	<i>26 985</i>	<i>32 335</i>	<i>42 827</i>		
Number of households in the population ('000s)	2 475	2 481	2 483	2 478	2 479	2 482	2 480	2 481	2 478	2 482	24 799
<b>Original income</b>											
Wages and salaries	1 906	3 539	5 943	9 397	14 016	20 286	25 891	31 019	40 711	62 010	21 472
Imputed income from benefits in kind	7	25	12	39	78	264	250	493	753	1 615	354
Self-employment income	406	412	993	739	1 058	1 372	2 235	2 828	4 253	13 045	2 734
Occupational pensions, annuities	431	940	1 664	1 798	2 212	2 529	2 563	3 677	3 252	4 586	2 365
Investment income	260	263	284	326	445	550	638	1 073	1 502	4 809	1 015
Other income	175	105	134	197	210	243	278	630	244	629	284
<b>Total</b>	<b>3 184</b>	<b>5 284</b>	<b>9 029</b>	<b>12 495</b>	<b>18 019</b>	<b>25 244</b>	<b>31 856</b>	<b>39 720</b>	<b>50 715</b>	<b>86 694</b>	<b>28 224</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	1 736	2 750	3 169	2 858	2 508	1 955	1 501	1 334	934	872	1 962
Job seeker's allowance (Contribution based)	72	31	19	27	10	8	7	1	-	0	18
Incapacity benefit	397	512	371	475	245	169	136	90	55	24	247
Widows' benefits	31	36	17	45	14	51	22	6	22	17	26
Statutory Maternity Pay/Allowance	8	10	1	22	17	67	94	75	48	156	50
<b>Non-contributory</b>											
Income support and pension credit	704	1 277	715	553	375	227	144	164	49	-	421
Child benefit	435	501	412	397	376	420	382	337	302	261	382
Housing benefit	616	1 126	844	841	484	324	168	97	69	-	457
Job seeker's allowance (Income based)	207	80	40	53	7	19	7	4	0	-	42
Carer's allowance	38	76	97	59	84	38	35	40	11	6	48
Attendance allowance	16	41	50	74	105	67	60	22	15	8	46
Disability living allowance	114	333	374	468	470	318	281	230	114	38	274
War pensions/War widows' pensions	-	-	22	22	34	31	12	14	23	19	18
Severe disablement allowance	4	43	32	57	54	55	18	41	3	-	31
Industrial injury disablement benefit	15	18	24	12	25	26	23	10	11	-	16
Student support	127	75	37	96	65	100	65	43	13	164	78
Government training schemes	8	9	14	8	1	3	4	11	1	0	6
Tax credits <sup>1</sup>	474	666	516	373	320	260	90	52	33	0	278
Other non-contributory benefits <sup>2</sup>	182	236	242	218	183	140	92	106	80	74	155
<b>Total cash benefits</b>	<b>5 182</b>	<b>7 821</b>	<b>6 996</b>	<b>6 657</b>	<b>5 377</b>	<b>4 278</b>	<b>3 141</b>	<b>2 676</b>	<b>1 783</b>	<b>1 641</b>	<b>4 555</b>
<b>Gross income</b>	<b>8 366</b>	<b>13 105</b>	<b>16 026</b>	<b>19 153</b>	<b>23 396</b>	<b>29 522</b>	<b>34 997</b>	<b>42 396</b>	<b>52 498</b>	<b>88 334</b>	<b>32 779</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	264	504	1 132	1 500	2 340	3 490	4 602	5 908	8 317	17 553	4 561
less: Tax credits <sup>3</sup>	43	120	222	211	213	208	171	106	66	22	138
Employees' NI contributions	101	220	388	618	970	1 446	1 906	2 248	3 012	3 541	1 445
Council tax and Northern Ireland rates <sup>4</sup>	842	899	907	921	922	976	1 011	1 104	1 114	1 365	1 006
less: Council tax benefit/Rates rebates	280	349	237	205	123	73	35	22	9	5	134
<b>Total</b>	<b>884</b>	<b>1 154</b>	<b>1 968</b>	<b>2 623</b>	<b>3 895</b>	<b>5 632</b>	<b>7 313</b>	<b>9 132</b>	<b>12 369</b>	<b>22 432</b>	<b>6 740</b>
<b>Disposable income</b>	<b>7 483</b>	<b>11 951</b>	<b>14 058</b>	<b>16 529</b>	<b>19 501</b>	<b>23 890</b>	<b>27 685</b>	<b>33 264</b>	<b>40 129</b>	<b>65 902</b>	<b>26 039</b>
<i>Equivalised disposable income</i>	<i>7 259</i>	<i>11 527</i>	<i>13 914</i>	<i>15 980</i>	<i>18 478</i>	<i>21 526</i>	<i>25 038</i>	<i>29 547</i>	<i>36 695</i>	<i>64 672</i>	<i>24 464</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 110	1 137	1 345	1 392	1 641	1 990	2 230	2 617	2 898	4 166	2 053
Duty on tobacco	264	351	292	340	328	349	310	303	275	138	295
Duty on beer and cider	60	70	73	90	106	144	149	176	185	142	119
Duty on wines & spirits	88	89	106	101	141	175	169	208	255	292	162
Duty on hydrocarbon oils	235	231	264	311	384	502	537	659	704	775	460
Vehicle excise duty	78	72	79	93	114	136	153	175	177	196	127
Television licences	93	93	90	95	97	101	112	112	116	118	103
Stamp duty on house purchase	63	51	59	60	94	123	152	186	229	500	152
Customs duties	19	19	21	22	24	28	30	34	38	52	29
Betting taxes	16	29	25	29	31	34	32	35	32	73	34
Insurance premium tax	21	23	28	29	35	44	50	61	64	87	44
Air passenger duty	8	7	15	14	20	22	26	40	46	55	25
Camelot National Lottery Fund	36	45	52	56	64	65	65	61	55	47	55
Other	8	10	17	11	12	7	14	41	31	43	19
<b>Intermediate taxes</b>											
Commercial and industrial rates	166	171	184	192	213	245	267	298	338	459	253
Employers' NI contributions	272	280	301	314	349	402	437	487	553	751	415
Duty on hydrocarbon oils	106	109	117	123	136	157	170	190	216	293	162
Vehicle excise duty	9	10	10	11	12	14	15	17	19	26	14
Other	158	162	175	182	202	233	254	283	321	436	240
<b>Total indirect taxes</b>	<b>2 811</b>	<b>2 960</b>	<b>3 254</b>	<b>3 464</b>	<b>4 006</b>	<b>4 772</b>	<b>5 172</b>	<b>5 983</b>	<b>6 550</b>	<b>8 647</b>	<b>4 762</b>
<b>Post-tax income</b>	<b>4 672</b>	<b>8 991</b>	<b>10 804</b>	<b>13 065</b>	<b>15 495</b>	<b>19 118</b>	<b>22 513</b>	<b>27 281</b>	<b>33 579</b>	<b>57 256</b>	<b>21 277</b>
<b>Benefits in kind</b>											
Education	3 044	2 466	1 999	2 140	1 953	2 040	1 859	1 739	1 439	949	1 963
National health service	3 475	3 931	4 044	3 804	3 491	3 419	3 148	2 978	2 592	2 549	3 343
Housing subsidy	42	41	32	22	31	17	14	3	2	0	20
Rail travel subsidy	14	8	18	15	25	22	32	38	64	99	33
Bus travel subsidy	68	73	78	71	58	57	49	49	59	53	62
School meals and welfare milk	59	95	38	25	14	7	8	8	1	0	25
<b>Total</b>	<b>6 702</b>	<b>6 613</b>	<b>6 208</b>	<b>6 078</b>	<b>5 573</b>	<b>5 563</b>	<b>5 110</b>	<b>4 814</b>	<b>4 155</b>	<b>3 652</b>	<b>5 447</b>
<b>Final income</b>	<b>11 374</b>	<b>15 604</b>	<b>17 012</b>	<b>19 143</b>	<b>21 068</b>	<b>24 681</b>	<b>27 622</b>	<b>32 095</b>	<b>37 734</b>	<b>60 908</b>	<b>26 724</b>

1 Child tax credit and working tax credit.

2 Includes age-related payments.

3 Including tax relief at source on life assurance premiums.

4 Council tax and Northern Ireland rates after deducting discounts

Table 14A (Appendix 1)

## Average incomes, taxes and benefits by quintile groups of ALL households, 2005/06

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Quintile points (equivalised £)</i>		12 835	17 231	23 204	32 335	
Number of households in the population ('000s)	4 956	4 961	4 961	4 961	4 960	24 799
<b>Original income</b>						
Wages and salaries	2 722	7 670	17 151	28 455	51 361	21 472
Imputed income from benefits in kind	16	26	171	372	1 184	354
Self-employment income	409	866	1 215	2 532	8 649	2 734
Occupational pensions, annuities	685	1 731	2 371	3 120	3 919	2 365
Investment income	262	305	497	856	3 155	1 015
Other income	140	165	226	454	436	284
<b>Total</b>	<b>4 234</b>	<b>10 762</b>	<b>21 631</b>	<b>35 788</b>	<b>68 704</b>	<b>28 224</b>
<b>Direct benefits in cash</b>						
<b>Contributory</b>						
Retirement pension	2 243	3 014	2 231	1 417	903	1 962
Job seeker's allowance (Contribution based)	52	23	9	4	0	18
Incapacity benefit	454	423	207	113	40	247
Widows' benefits	34	31	32	14	20	26
Statutory Maternity Pay/Allowance	9	12	42	84	102	50
<b>Non-contributory</b>						
Income support and pension credit	991	634	301	154	25	421
Child benefit	468	405	398	360	282	382
Housing benefit	871	842	404	132	34	457
Job seeker's allowance (Income based)	143	47	13	6	0	42
Carer's allowance	57	78	61	37	8	48
Attendance allowance	28	62	86	41	12	46
Disability living allowance	223	421	394	255	76	274
War pensions/War widows' pensions	-	22	32	13	21	18
Severe disablement allowance	23	45	55	30	1	31
Industrial injury disablement benefit	16	18	25	17	6	16
Student support	101	67	82	54	88	78
Government training schemes	8	11	2	8	0	6
Tax credits <sup>1</sup>	570	444	290	71	16	278
Other non-contributory benefits <sup>2</sup>	209	230	162	99	77	155
<b>Total cash benefits</b>	<b>6 501</b>	<b>6 827</b>	<b>4 827</b>	<b>2 909</b>	<b>1 712</b>	<b>4 555</b>
<b>Gross income</b>	<b>10 736</b>	<b>17 589</b>	<b>26 459</b>	<b>38 697</b>	<b>70 416</b>	<b>32 779</b>
<b>Direct taxes and Employees' NIC</b>						
Income tax	384	1 316	2 915	5 255	12 935	4 561
<i>less: Tax credits<sup>3</sup></i>	81	216	211	138	44	138
Employees' NI contributions	160	503	1 208	2 077	3 276	1 445
Council tax and Northern Ireland rates <sup>4</sup>	870	914	949	1 057	1 239	1 006
<i>less: Council tax benefit/Rates rebates</i>	314	221	98	28	7	134
<b>Total</b>	<b>1 019</b>	<b>2 296</b>	<b>4 763</b>	<b>8 223</b>	<b>17 400</b>	<b>6 740</b>
<b>Disposable income</b>	<b>9 717</b>	<b>15 294</b>	<b>21 695</b>	<b>30 474</b>	<b>53 016</b>	<b>26 039</b>
<i>Equivalised disposable income</i>	<i>9 393</i>	<i>14 947</i>	<i>20 002</i>	<i>27 292</i>	<i>50 684</i>	<i>24 464</i>
<b>Indirect taxes</b>						
<b>Taxes on final goods and services</b>						
VAT	1 123	1 368	1 815	2 424	3 532	2 053
Duty on tobacco	308	316	339	306	206	295
Duty on beer and cider	65	82	125	162	164	119
Duty on wines & spirits	89	103	158	189	273	162
Duty on hydrocarbon oils	233	288	443	598	739	460
Vehicle excise duty	75	86	125	164	186	127
Television licences	93	93	99	112	117	103
Stamp duty on house purchase	57	60	109	169	365	152
Customs duties	19	21	26	32	45	29
Betting taxes	23	27	33	33	53	34
Insurance premium tax	22	28	40	56	76	44
Air passenger duty	7	15	21	33	50	25
Camelot National Lottery Fund	40	54	65	63	51	55
Other	9	14	10	28	37	19
<b>Intermediate taxes</b>						
Commercial and industrial rates	169	188	229	283	399	253
Employers' NI contributions	276	308	375	462	652	415
Duty on hydrocarbon oils	108	120	146	180	254	162
Vehicle excise duty	9	11	13	16	22	14
Other	160	179	218	268	378	240
<b>Total indirect taxes</b>	<b>2 885</b>	<b>3 359</b>	<b>4 389</b>	<b>5 577</b>	<b>7 598</b>	<b>4 762</b>
<b>Post-tax income</b>	<b>6 831</b>	<b>11 934</b>	<b>17 307</b>	<b>24 897</b>	<b>45 417</b>	<b>21 277</b>
<b>Benefits in kind</b>						
Education	2 755	2 070	1 997	1 799	1 194	1 963
National health service	3 703	3 924	3 455	3 063	2 571	3 343
Housing subsidy	41	27	24	8	1	20
Rail travel subsidy	11	16	23	35	82	33
Bus travel subsidy	71	75	58	49	56	62
School meals and welfare milk	77	31	11	8	0	25
<b>Total</b>	<b>6 658</b>	<b>6 143</b>	<b>5 568</b>	<b>4 962</b>	<b>3 904</b>	<b>5 447</b>
<b>Final income</b>	<b>13 489</b>	<b>18 078</b>	<b>22 875</b>	<b>29 859</b>	<b>49 321</b>	<b>26 724</b>

1 Child tax credit and working tax credit.

2 Includes age-related payments.

3 Including tax relief at source on life assurance premiums.

4 Council tax and Northern Ireland rates after deducting discounts.

Table 15 (Appendix 1)  
Household characteristics of decile groups of ALL households, 2005/06

	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	2.3	2.4	2.2	2.3	2.3	2.5	2.5	2.5	2.4	2.2	2.4
<i>Adults</i>	1.7	1.7	1.7	1.7	1.8	1.9	2.0	2.0	2.0	1.9	1.8
<i>Men</i>	0.8	0.7	0.8	0.7	0.9	1.0	1.0	1.1	1.0	1.0	0.9
<i>Women</i>	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	0.9	1.0
<i>Children</i>	0.6	0.7	0.6	0.5	0.5	0.6	0.5	0.5	0.4	0.3	0.5
Economically active people	0.5	0.5	0.7	0.9	1.1	1.4	1.6	1.7	1.7	1.6	1.2
Retired people	0.5	0.6	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.1	0.4
People in full-time education	0.72	0.65	0.53	0.53	0.50	0.56	0.50	0.45	0.38	0.33	0.51
<i>In state primary schools</i>	0.26	0.35	0.26	0.25	0.26	0.27	0.25	0.22	0.19	0.14	0.24
<i>In state secondary schools</i>	0.21	0.21	0.16	0.17	0.16	0.18	0.14	0.14	0.12	0.07	0.15
<i>In further and higher education</i>	0.24	0.07	0.08	0.10	0.06	0.08	0.08	0.07	0.05	0.04	0.09
<i>In other educational establishments</i>	0.02	0.02	0.02	0.01	0.03	0.03	0.02	0.03	0.02	0.07	0.03
<b>Composition (percentages)</b>											
<b>Household type</b>											
<b>Retired</b>											
1 adult	20	20	25	25	18	12	8	6	5	3	14
<i>1 adult men</i>	4	6	7	5	5	4	3	2	2	1	4
<i>1 adult women</i>	16	14	18	20	12	8	6	4	3	2	10
2 or more adults	16	22	21	17	14	11	8	9	6	4	13
<b>Non-retired</b>											
1 adult	18	10	11	10	14	16	15	14	17	21	15
<i>1 adult men</i>	11	5	7	4	8	9	8	8	10	14	8
<i>1 adult women</i>	7	5	4	5	5	7	7	7	7	7	6
2 adults	11	10	11	12	17	18	27	30	34	42	21
3 or more adults	6	2	4	7	9	11	12	14	12	7	8
1 adult with children	11	15	8	7	6	4	2	2	1	1	6
2 adults with 1 child	6	5	5	5	7	8	9	9	10	11	7
2 adults with 2 children	5	7	6	9	9	11	13	10	9	7	8
2 adults with 3 or more children	4	4	6	4	3	4	3	3	2	2	3
3 or more adults with children	4	4	4	4	5	4	3	3	4	2	4
<b>Household tenure</b>											
<b>Rented</b>											
Local authority rented	18	23	19	18	13	9	4	4	1	-	11
Housing association or RSL	9	14	10	13	9	8	6	2	1	0	7
Other rented unfurnished	6	5	6	8	5	5	5	4	5	3	5
Rented furnished	9	4	5	4	5	6	4	6	7	3	5
Rent free	1	1	1	1	1	2	1	2	0	1	1
<b>Owner occupied</b>											
With mortgage	16	14	20	25	33	40	53	55	60	65	38
Rental purchase	-	0	-	0	0	0	1	0	0	-	0
Owned outright	40	38	38	31	34	31	27	27	25	27	32
<b>Age of chief economic supporter</b>											
Under 25	9	4	3	3	3	4	2	2	2	0	3
Over 24 and under 35	13	14	9	9	12	17	15	18	22	20	15
Over 34 and under 45	17	19	16	19	19	21	25	22	24	29	21
Over 44 and under 55	15	10	13	12	17	17	22	24	26	22	18
Over 54 and under 65	16	14	15	17	17	17	20	18	15	20	17
Over 64 and under 75	14	18	21	19	16	13	10	9	6	6	13
Over 74	16	21	23	20	16	12	7	6	4	2	13
<b>Employment status of chief economic supporter</b>											
Self-employed	5	4	6	4	5	6	7	9	10	15	7
Full-time employee	7	12	21	30	43	55	66	67	73	73	45
Part-time employee	10	10	11	10	11	8	7	6	5	4	8
Unemployed	9	3	2	2	1	1	1	1	0	0	2
Unoccupied and under minimum NI age	37	30	16	13	9	6	4	4	3	2	12
Retired/unoccupied over minimum NI age	32	40	45	41	32	23	15	14	9	6	26
Other	0	0	0	0	0	-	-	-	-	0	0

Table 15A (Appendix 1)

## Household characteristics of quintile groups of ALL households, 2005/06

	Quintile groups of all households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	2.3	2.3	2.4	2.5	2.3	2.4
<i>Adults</i>	1.7	1.7	1.9	2.0	1.9	1.8
<i>Men</i>	0.8	0.8	0.9	1.0	1.0	0.9
<i>Women</i>	0.9	1.0	1.0	1.0	0.9	1.0
<i>Children</i>	0.7	0.6	0.5	0.5	0.4	0.5
Economically active people	0.5	0.8	1.2	1.6	1.7	1.2
Retired people	0.6	0.7	0.5	0.3	0.2	0.4
People in full-time education	0.69	0.53	0.53	0.47	0.36	0.51
<i>In state primary schools</i>	0.30	0.26	0.26	0.23	0.17	0.24
<i>In state secondary schools</i>	0.21	0.16	0.17	0.14	0.09	0.15
<i>In further and higher education</i>	0.15	0.09	0.07	0.08	0.05	0.09
<i>In other educational establishments</i>	0.02	0.02	0.03	0.03	0.05	0.03
<b>Composition (percentages)</b>						
<b>Household type</b>						
Retired						
1 adult	20	25	15	7	4	14
1 adult men	5	6	5	2	1	4
1 adult women	15	19	10	5	2	10
2 or more adults	19	19	13	8	5	13
Non-retired						
1 adult	14	10	15	15	19	15
1 adult men	8	6	9	8	12	8
1 adult women	6	5	6	7	7	6
2 adults	11	12	18	29	38	21
3 or more adults	4	5	10	13	10	8
1 adult with children	13	7	5	2	1	6
2 adults with 1 child	6	5	7	9	11	7
2 adults with 2 children	6	7	10	11	8	8
2 adults with 3 or more children	4	5	4	3	2	3
3 or more adults with children	4	4	4	3	3	4
<b>Household tenure</b>						
Rented						
Local authority rented	21	19	11	4	1	11
Housing association or RSL	12	12	8	4	1	7
Other rented unfurnished	5	7	5	4	4	5
Rented furnished	7	4	5	5	5	5
Rent free	1	1	2	2	1	1
Owner occupied						
With mortgage	15	23	36	54	63	38
Rental purchase	0	0	0	1	0	0
Owned outright	39	34	32	27	26	32
<b>Age of chief economic supporter</b>						
Under 25	7	3	3	2	1	3
Over 24 and under 35	13	9	14	17	21	15
Over 34 and under 45	18	17	20	23	26	21
Over 44 and under 55	13	13	17	23	24	18
Over 54 and under 65	15	16	17	19	17	17
Over 64 and under 75	16	20	15	9	6	13
Over 74	19	22	14	7	3	13
<b>Employment status of chief economic supporter</b>						
Self-employed	5	5	5	8	13	7
Full-time employee	9	26	49	67	73	45
Part-time employee	10	11	9	6	4	8
Unemployed	6	2	1	1	0	2
Unoccupied and under minimum NI age	34	15	7	4	3	12
Retired/unoccupied over minimum NI age	36	43	28	14	7	26
Other	0	0	0	-	0	0

Table 16 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households, 2005/06**

	Decile groups of non-retired 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>		10 550	13 821	16 609	19 423	22 622	25 881	29 708	35 444	47 242	
Number of households in the population ('000s)	1 807	1 814	1 812	1 812	1 811	1 811	1 812	1 811	1 810	1 815	18 115
<b>Original income</b>											
Wages and salaries	3 139	7 445	14 083	19 837	24 363	29 821	34 310	39 371	50 173	69 532	29 207
Imputed income from benefits in kind	9	46	51	69	207	327	504	663	972	1 941	479
Self-employment income	592	1 059	1 626	1 353	1 897	2 385	3 033	3 776	5 680	15 918	3 732
Occupational pensions, annuities	92	304	498	507	845	980	996	1 466	1 151	2 438	928
Investment income	170	125	185	217	364	388	483	564	1 051	4 662	821
Other income	247	171	219	265	318	254	520	397	210	786	339
<b>Total</b>	<b>4 250</b>	<b>9 150</b>	<b>16 662</b>	<b>22 247</b>	<b>27 994</b>	<b>34 156</b>	<b>39 846</b>	<b>46 236</b>	<b>59 236</b>	<b>95 276</b>	<b>35 505</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	116	342	530	724	535	623	408	399	331	477	449
Job seeker's allowance (Contribution based)	96	32	37	25	8	9	1	2	-	0	21
Incapacity benefit	650	668	710	330	218	132	110	79	54	19	297
Widows' benefits	36	26	42	10	52	30	-	21	10	15	24
Statutory Maternity Pay/Allowance	15	11	32	24	70	131	42	100	90	169	68
<b>Non-contributory</b>											
Income support and pension credit	967	1 587	743	299	185	101	141	50	23	-	410
Child benefit	680	849	697	596	517	487	406	345	344	265	519
Housing benefit	1 018	1 565	750	405	217	123	40	40	48	-	421
Job seeker's allowance (Income based)	291	120	83	16	13	9	2	5	0	-	54
Carer's allowance	52	96	121	93	45	38	26	31	4	5	51
Attendance allowance	6	1	3	8	-	-	6	-	-	11	4
Disability living allowance	202	423	464	440	269	269	196	170	76	49	256
War pensions/War widows' pensions	-	15	14	-	-	-	25	-	17	10	8
Severe disablement allowance	20	35	63	53	46	23	22	12	-	-	27
Industrial injury disablement benefit	15	9	20	13	12	13	9	15	-	-	11
Student support	186	105	124	128	117	87	76	10	46	186	106
Government training schemes	11	14	26	4	4	6	15	-	1	0	8
Tax credits <sup>1</sup>	746	1 145	671	578	352	166	51	49	11	-	377
Other non-contributory benefits	60	73	52	63	49	37	48	25	64	22	49
<b>Total cash benefits</b>	<b>5 167</b>	<b>7 116</b>	<b>5 183</b>	<b>3 810</b>	<b>2 708</b>	<b>2 285</b>	<b>1 623</b>	<b>1 353</b>	<b>1 120</b>	<b>1 229</b>	<b>3 159</b>
<b>Gross income</b>	<b>9 417</b>	<b>16 266</b>	<b>21 846</b>	<b>26 057</b>	<b>30 702</b>	<b>36 441</b>	<b>41 470</b>	<b>47 589</b>	<b>60 356</b>	<b>96 504</b>	<b>38 665</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	347	959	2 102	2 849	3 707	4 862	5 848	7 154	10 215	19 689	5 773
<i>less: Tax credits<sup>2</sup></i>	66	296	372	343	265	200	143	130	33	24	187
Employees' NI contributions	170	477	924	1 352	1 741	2 189	2 495	2 917	3 653	3 738	1 965
Council tax and Northern Ireland rates <sup>3</sup>	800	877	927	917	954	996	1 055	1 074	1 152	1 371	1 012
<i>less: Council tax benefit/Rates rebates</i>	344	336	163	85	47	33	8	14	3	4	104
<b>Total</b>	<b>907</b>	<b>1 681</b>	<b>3 418</b>	<b>4 689</b>	<b>6 090</b>	<b>7 814</b>	<b>9 247</b>	<b>11 000</b>	<b>14 984</b>	<b>24 770</b>	<b>8 460</b>
<b>Disposable income</b>	<b>8 510</b>	<b>14 585</b>	<b>18 428</b>	<b>21 368</b>	<b>24 612</b>	<b>28 627</b>	<b>32 223</b>	<b>36 589</b>	<b>45 372</b>	<b>71 734</b>	<b>30 205</b>
<i>Equivalised disposable income</i>	<i>7 222</i>	<i>12 276</i>	<i>15 196</i>	<i>18 035</i>	<i>21 009</i>	<i>24 206</i>	<i>27 703</i>	<i>32 384</i>	<i>40 432</i>	<i>70 843</i>	<i>26 931</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 263	1 358	1 705	1 855	2 124	2 401	2 457	2 666	3 110	4 424	2 336
Duty on tobacco	340	476	432	416	421	395	268	349	222	142	346
Duty on beer and cider	72	85	122	133	150	194	158	221	191	141	147
Duty on wines & spirits	100	91	135	146	185	176	190	239	257	287	181
Duty on hydrocarbon oils	271	287	394	461	561	575	653	676	804	780	546
Vehicle excise duty	78	74	106	130	144	155	171	180	179	194	141
Television licences	111	119	119	115	115	119	120	119	121	121	118
Stamp duty on house purchase	56	54	74	107	134	157	174	179	298	530	177
Customs duties	22	23	26	27	29	32	33	35	41	54	32
Betting taxes	19	23	25	32	36	36	37	33	35	89	37
Insurance premium tax	22	25	34	39	46	50	57	57	67	88	48
Air passenger duty	9	8	12	23	22	24	51	39	34	63	29
Camelot National Lottery Fund	40	43	58	63	71	72	67	55	63	39	57
Other	9	13	23	19	9	10	40	33	35	51	24
<b>Intermediate taxes</b>											
Commercial and industrial rates	194	204	231	237	259	284	291	314	366	477	286
Employers' NI contributions	317	334	379	388	423	465	477	514	599	781	467
Duty on hydrocarbon oils	124	130	148	151	165	181	186	200	233	304	182
Vehicle excise duty	11	11	13	13	15	16	16	18	21	27	16
Other	184	194	220	225	245	270	276	298	347	453	271
<b>Total indirect taxes</b>	<b>3 242</b>	<b>3 552</b>	<b>4 256</b>	<b>4 580</b>	<b>5 156</b>	<b>5 613</b>	<b>5 721</b>	<b>6 226</b>	<b>7 024</b>	<b>9 046</b>	<b>5 442</b>
<b>Post-tax income</b>	<b>5 268</b>	<b>11 033</b>	<b>14 172</b>	<b>16 789</b>	<b>19 456</b>	<b>23 014</b>	<b>26 501</b>	<b>30 362</b>	<b>38 349</b>	<b>62 688</b>	<b>24 763</b>
<b>Benefits in kind</b>											
Education	4 596	4 142	3 564	3 114	2 566	2 250	2 236	1 686	1 507	903	2 657
National health service	2 655	3 031	3 039	2 819	2 727	2 992	2 528	2 537	2 452	2 368	2 715
Housing subsidy	59	55	23	26	23	7	3	2	1	0	20
Rail travel subsidy	19	20	22	27	30	27	44	51	80	110	43
Bus travel subsidy	65	58	58	46	52	45	38	59	61	42	52
School meals and welfare milk	99	132	55	23	10	11	10	3	1	0	34
<b>Total</b>	<b>7 495</b>	<b>7 438</b>	<b>6 761</b>	<b>6 054</b>	<b>5 410</b>	<b>5 332</b>	<b>4 861</b>	<b>4 338</b>	<b>4 102</b>	<b>3 424</b>	<b>5 521</b>
<b>Final income</b>	<b>12 763</b>	<b>18 471</b>	<b>20 933</b>	<b>22 843</b>	<b>24 866</b>	<b>28 346</b>	<b>31 362</b>	<b>34 700</b>	<b>42 451</b>	<b>66 112</b>	<b>30 285</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 16A (Appendix 1)

## Average incomes, taxes and benefits by quintile groups of NON-RETIRED households, 2005/06

	Quintile groups of non-retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Quintile points (equivalised £)</i>		13 821	19 423	25 881	35 444	
Number of households in the population ('000s)	3 621	3 624	3 622	3 623	3 625	18 115
<b>Original income</b>						
Wages and salaries	5 292	16 960	27 092	36 840	59 853	29 207
Imputed income from benefits in kind	28	60	267	584	1 456	479
Self-employment income	825	1 489	2 141	3 405	10 799	3 732
Occupational pensions, annuities	198	502	913	1 231	1 794	928
Investment income	148	201	376	523	2 856	821
Other income	209	242	286	459	498	339
Total	6 700	19 455	31 075	43 041	77 256	35 505
<b>Direct benefits in cash</b>						
<b>Contributory</b>						
Retirement pension	229	627	579	404	404	449
Job seeker's allowance (Contribution based)	64	31	8	1	0	21
Incapacity benefit	659	520	175	95	36	297
Widows' benefits	31	26	41	10	13	24
Statutory Maternity Pay/Allowance	13	28	101	71	130	68
<b>Non-contributory</b>						
Income support and pension credit	1 277	521	143	95	12	410
Child benefit	765	646	502	376	304	519
Housing benefit	1 292	578	170	40	24	421
Job seeker's allowance (Income based)	205	50	11	3	0	54
Carer's allowance	74	107	42	28	5	51
Attendance allowance	3	6	-	3	6	4
Disability living allowance	312	452	269	183	63	256
War pensions/War widows' pensions	8	7	-	12	13	8
Severe disablement allowance	27	58	34	17	-	27
Industrial injury disablement benefit	12	16	13	12	-	11
Student support	145	126	102	43	116	106
Government training schemes	13	15	5	8	1	8
Tax credits <sup>1</sup>	945	625	259	50	6	377
Other non-contributory benefits	67	58	43	36	43	49
Total cash benefits	6 141	4 497	2 497	1 488	1 174	3 159
Gross income	12 841	23 952	33 572	44 529	78 430	38 665
<b>Direct taxes and Employees' NIC</b>						
Income tax	653	2 475	4 285	6 501	14 952	5 773
<i>less: Tax credits<sup>2</sup></i>	181	358	233	137	29	187
Employees' NI contributions	323	1 138	1 965	2 706	3 696	1 965
Council tax and Northern Ireland rates <sup>3</sup>	838	922	975	1 065	1 261	1 012
<i>less: Council tax benefit/Rates rebates</i>	340	124	40	11	4	104
Total	1 294	4 054	6 952	10 124	19 877	8 460
Disposable income	11 547	19 898	26 619	34 406	58 553	30 205
<i>Equivalised disposable income</i>	9 749	16 615	22 607	30 043	55 638	26 931
<b>Indirect taxes</b>						
<b>Taxes on final goods and services</b>						
VAT	1 311	1 780	2 263	2 561	3 767	2 336
Duty on tobacco	408	424	408	308	182	346
Duty on beer and cider	78	127	172	190	166	147
Duty on wines & spirits	95	140	181	214	272	181
Duty on hydrocarbon oils	279	427	568	664	792	546
Vehicle excise duty	76	118	150	175	187	141
Television licences	115	117	117	120	121	118
Stamp duty on house purchase	55	91	146	177	414	177
Customs duties	22	26	31	34	48	32
Betting taxes	21	28	36	35	62	37
Insurance premium tax	23	36	48	57	78	48
Air passenger duty	9	18	23	45	48	29
Camelot National Lottery Fund	41	61	71	61	51	57
Other	11	21	9	37	43	24
<b>Intermediate taxes</b>						
Commercial and industrial rates	199	234	272	303	422	286
Employers' NI contributions	325	383	444	495	690	467
Duty on hydrocarbon oils	127	149	173	193	269	182
Vehicle excise duty	11	13	15	17	24	16
Other	189	222	258	287	400	271
Total indirect taxes	3 397	4 418	5 384	5 974	8 035	5 442
Post-tax income	8 151	15 480	21 235	28 432	50 518	24 763
<b>Benefits in kind</b>						
Education	4 369	3 339	2 408	1 961	1 205	2 657
National health service	2 843	2 929	2 860	2 532	2 410	2 715
Housing subsidy	57	24	15	3	0	20
Rail travel subsidy	20	24	29	48	95	43
Bus travel subsidy	62	52	48	48	52	52
School meals and welfare milk	115	39	11	7	1	34
Total	7 466	6 408	5 371	4 599	3 763	5 521
Final income	15 617	21 888	26 606	33 031	54 281	30 285

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.



Table 17 (Appendix 1)  
Household characteristics of decile groups of NON-RETIRED households, 2005/06

	Decile groups of non-retired 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	3.0	2.9	2.8	2.7	2.7	2.6	2.5	2.5	2.2	2.7
<i>Adults</i>	<i>1.8</i>	<i>1.8</i>	<i>1.9</i>	<i>2.0</i>	<i>2.0</i>	<i>2.1</i>	<i>2.1</i>	<i>2.0</i>	<i>2.0</i>	<i>1.9</i>	<i>2.0</i>
<i>Men</i>	<i>0.9</i>	<i>0.8</i>	<i>0.9</i>	<i>0.9</i>	<i>1.0</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>Women</i>	<i>0.9</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>0.9</i>	<i>1.0</i>
<i>Children</i>	<i>0.9</i>	<i>1.2</i>	<i>1.0</i>	<i>0.8</i>	<i>0.7</i>	<i>0.7</i>	<i>0.5</i>	<i>0.5</i>	<i>0.5</i>	<i>0.3</i>	<i>0.7</i>
Economically active people	0.8	1.0	1.4	1.6	1.7	1.9	1.9	1.9	2.0	1.7	1.6
Retired people	0.1	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	1.10	1.08	0.93	0.78	0.70	0.62	0.57	0.44	0.42	0.33	0.70
<i>In state primary schools</i>	<i>0.40</i>	<i>0.59</i>	<i>0.44</i>	<i>0.39</i>	<i>0.34</i>	<i>0.33</i>	<i>0.26</i>	<i>0.23</i>	<i>0.21</i>	<i>0.14</i>	<i>0.33</i>
<i>In state secondary schools</i>	<i>0.33</i>	<i>0.32</i>	<i>0.31</i>	<i>0.24</i>	<i>0.22</i>	<i>0.17</i>	<i>0.18</i>	<i>0.12</i>	<i>0.13</i>	<i>0.06</i>	<i>0.21</i>
<i>In further and higher education</i>	<i>0.33</i>	<i>0.15</i>	<i>0.15</i>	<i>0.11</i>	<i>0.10</i>	<i>0.09</i>	<i>0.09</i>	<i>0.07</i>	<i>0.05</i>	<i>0.04</i>	<i>0.12</i>
<i>In other educational establishments</i>	<i>0.03</i>	<i>0.03</i>	<i>0.03</i>	<i>0.04</i>	<i>0.04</i>	<i>0.03</i>	<i>0.03</i>	<i>0.02</i>	<i>0.04</i>	<i>0.08</i>	<i>0.04</i>
<b>Composition (percentages)</b>											
<b>Household type</b>											
Non-retired											
1 adult	27	19	19	17	22	17	18	18	20	24	20
1 adult men	16	11	10	10	13	9	9	10	10	17	12
1 adult women	11	8	9	8	9	7	9	8	10	7	8
2 adults	17	18	21	24	24	30	35	37	37	47	29
3 or more adults	9	5	10	13	13	16	15	15	13	6	11
1 adult with children	19	21	12	10	6	4	3	1	1	1	8
2 adults with 1 child	9	10	8	11	10	11	9	12	13	12	10
2 adults with 2 children	8	10	14	13	14	15	12	13	9	7	12
2 adults with 3 or more children	5	10	7	5	5	3	3	2	3	1	5
3 or more adults with children	7	7	9	6	6	5	5	2	5	2	5
<b>Household tenure</b>											
Rented	60	62	43	35	30	23	18	17	13	8	31
Local authority rented	26	26	18	10	7	5	4	3	1	-	10
Housing association or RSL	13	19	10	10	8	5	2	2	1	0	7
Other rented unfurnished	6	8	10	8	6	6	5	4	6	3	6
Rented furnished	13	9	6	6	8	5	5	7	5	4	7
Rent free	2	1	0	1	1	2	1	1	0	1	1
Owner occupied	40	38	57	65	70	77	82	83	87	92	69
With mortgage	23	23	38	46	48	58	63	67	68	69	50
Rental purchase	-	-	0	0	0	1	1	-	1	-	0
Owned outright	17	15	19	19	22	18	19	17	18	22	19
<b>Age of chief economic supporter</b>											
Under 25	12	6	6	4	5	4	2	4	1	0	4
Over 24 and under 35	20	24	13	19	20	21	17	26	25	20	20
Over 34 and under 45	27	31	32	28	28	27	28	25	29	31	29
Over 44 and under 55	24	18	24	24	20	26	29	27	28	24	24
Over 54 and under 65	16	18	19	19	20	18	21	13	15	21	18
Over 64 and under 75	1	2	4	4	4	4	3	3	2	3	3
Over 74	0	1	2	2	1	1	1	1	0	0	1
<b>Employment status of chief economic supporter</b>											
Self-employed	7	9	8	6	8	8	9	11	11	18	10
Full-time employee	11	26	48	60	69	78	80	80	84	76	61
Part-time employee	15	17	18	17	12	8	7	6	4	4	11
Unemployed	13	5	3	1	2	1	1	1	0	1	3
Unoccupied and under minimum NI age	53	40	21	9	7	4	2	2	1	0	14
Retired/unoccupied over minimum NI age	1	2	2	5	3	1	1	1	0	0	2
Other	0	1	0	1	-	-	-	-	-	0	0

Table 17A (Appendix 1)

## Household characteristics of quintile groups of NON-RETIRED households, 2005/06

	Quintile groups of non-retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	2.9	2.8	2.7	2.6	2.3	2.7
<i>Adults</i>	1.8	2.0	2.0	2.1	1.9	2.0
<i>Men</i>	0.8	0.9	1.0	1.1	1.0	1.0
<i>Women</i>	1.0	1.0	1.0	1.0	0.9	1.0
<i>Children</i>	1.1	0.9	0.7	0.5	0.4	0.7
Economically active people	0.9	1.5	1.8	1.9	1.8	1.6
Retired people	0.1	0.1	0.1	0.1	0.0	0.1
People in full-time education	1.09	0.86	0.66	0.50	0.38	0.70
<i>In state primary schools</i>	0.50	0.42	0.34	0.24	0.17	0.33
<i>In state secondary schools</i>	0.32	0.27	0.19	0.15	0.10	0.21
<i>In further and higher education</i>	0.24	0.13	0.09	0.08	0.04	0.12
<i>In other educational establishments</i>	0.03	0.04	0.04	0.03	0.06	0.04
<b>Composition (percentages)</b>						
<b>Household type</b>						
Non-retired						
1 adult	23	18	19	18	22	20
1 adult men	13	10	11	10	13	12
1 adult women	9	8	8	8	8	8
2 adults	18	23	27	36	42	29
3 or more adults	7	11	15	15	9	11
1 adult with children	20	11	5	2	1	8
2 adults with 1 child	9	9	10	10	12	10
2 adults with 2 children	9	14	15	13	8	12
2 adults with 3 or more children	8	6	4	3	2	5
3 or more adults with children	7	7	5	3	3	5
<b>Household tenure</b>						
Rented	61	39	26	17	11	31
<i>Local authority rented</i>	26	14	6	3	0	10
<i>Housing association or RSL</i>	16	10	7	2	1	7
<i>Other rented unfurnished</i>	7	9	6	5	5	6
<i>Rented furnished</i>	11	6	7	6	4	7
<i>Rent free</i>	1	1	1	1	1	1
Owner occupied	39	61	74	83	89	69
<i>With mortgage</i>	23	42	53	65	69	50
<i>Rental purchase</i>	-	0	0	0	0	0
<i>Owned outright</i>	16	19	20	18	20	19
<b>Age of chief economic supporter</b>						
Under 25	9	5	5	3	1	4
Over 24 and under 35	22	16	20	21	22	20
Over 34 and under 45	29	30	28	27	30	29
Over 44 and under 55	21	24	23	28	26	24
Over 54 and under 65	17	19	19	17	18	18
Over 64 and under 75	2	4	4	3	2	3
Over 74	0	2	1	1	0	1
<b>Employment status of chief economic supporter</b>						
Self-employed	8	7	8	10	14	10
Full-time employee	19	54	74	80	80	61
Part-time employee	16	18	10	7	4	11
Unemployed	9	2	1	1	0	3
Unoccupied and under minimum NI age	46	15	5	2	1	14
Retired/unoccupied over minimum NI age	1	3	2	1	0	2
Other	0	1	-	-	0	0

Table 18 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of RETIRED households, 2005/06**

	Decile groups of retired 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>	<i>9 388</i>	<i>11 494</i>	<i>12 941</i>	<i>14 154</i>	<i>15 302</i>	<i>16 863</i>	<i>19 136</i>	<i>22 188</i>	<i>28 587</i>		
Number of households in the population ('000s)	664	670	667	669	671	666	670	665	672	669	6 684
<b>Original income</b>											
Wages and salaries	71	130	207	32	203	87	432	660	1 157	2 090	507
Imputed income from benefits in kind	-	-	-	-	-	-	8	132	-	-	14
Self-employment income	5	8	-	19	37	6	27	61	82	57	30
Occupational pensions, annuities	884	1 569	2 278	2 816	3 286	3 927	4 841	7 554	11 461	23 998	6 261
Investment income	424	425	434	402	426	521	856	1 103	2 111	8 702	1 540
Other income	2	16	51	77	57	91	99	163	77	736	137
<b>Total</b>	<b>1 386</b>	<b>2 147</b>	<b>2 970</b>	<b>3 346</b>	<b>4 009</b>	<b>4 631</b>	<b>6 263</b>	<b>9 673</b>	<b>14 888</b>	<b>35 583</b>	<b>8 490</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	4 444	5 708	6 323	6 474	5 872	6 271	6 205	6 517	6 604	6 207	6 062
Job seeker's allowance (Contribution based)	10	22	21	21	-	-	-	12	-	-	9
Incapacity benefit	109	122	130	81	94	226	149	29	121	69	113
Widows' benefits	28	65	-	-	42	-	80	48	-	42	30
Statutory Maternity Pay/Allowance	-	-	-	-	-	-	-	-	-	-	-
<b>Non-contributory</b>											
Income support and pension credit	535	388	379	349	640	589	551	416	515	150	451
Child benefit	32	8	11	-	5	-	4	33	22	17	13
Housing benefit	83	80	405	555	974	1 070	813	782	553	229	554
Job seeker's allowance (Income based)	-	5	28	21	-	-	-	12	23	-	9
Carer's allowance	40	27	37	45	53	22	57	13	74	41	41
Attendance allowance	28	81	83	137	80	218	274	295	340	68	160
Disability living allowance	77	80	210	272	326	426	641	529	491	183	323
War pensions/War widows' pensions	-	-	4	22	-	56	88	106	70	89	44
Severe disablement allowance	-	14	34	37	7	33	21	82	81	89	40
Industrial injury disablement benefit	15	53	4	4	41	16	42	71	78	-	32
Student support	9	-	-	-	-	-	1	11	3	4	3
Government training schemes	-	-	-	-	-	-	-	-	-	-	-
Tax credits <sup>1</sup>	9	10	37	-	12	-	9	2	29	3	11
Other non-contributory benefits <sup>2</sup>	377	484	450	491	400	451	430	471	442	429	442
<b>Total cash benefits</b>	<b>5 795</b>	<b>7 146</b>	<b>8 156</b>	<b>8 509</b>	<b>8 546</b>	<b>9 377</b>	<b>9 364</b>	<b>9 425</b>	<b>9 448</b>	<b>7 619</b>	<b>8 339</b>
<b>Gross income</b>	<b>7 180</b>	<b>9 293</b>	<b>11 126</b>	<b>11 855</b>	<b>12 555</b>	<b>14 008</b>	<b>15 627</b>	<b>19 098</b>	<b>24 335</b>	<b>43 202</b>	<b>16 828</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	149	198	271	368	436	586	843	1 396	2 202	6 307	1 276
less: Tax credits <sup>3</sup>	2	2	4	2	3	3	2	15	9	3	5
Employees' NI contributions	3	14	7	14	6	4	22	38	76	158	34
Council tax and Northern Ireland rates <sup>4</sup>	984	899	947	901	891	902	906	1 012	1 095	1 351	989
less: Council tax benefit/Rates rebates	211	241	282	242	308	288	219	210	109	42	215
<b>Total</b>	<b>924</b>	<b>868</b>	<b>939</b>	<b>1 039</b>	<b>1 022</b>	<b>1 201</b>	<b>1 550</b>	<b>2 221</b>	<b>3 255</b>	<b>7 772</b>	<b>2 079</b>
<b>Disposable income</b>	<b>6 256</b>	<b>8 426</b>	<b>10 187</b>	<b>10 816</b>	<b>11 532</b>	<b>12 808</b>	<b>14 077</b>	<b>16 877</b>	<b>21 081</b>	<b>35 430</b>	<b>14 749</b>
<i>Equivalised disposable income</i>	<i>7 490</i>	<i>10 445</i>	<i>12 198</i>	<i>13 548</i>	<i>14 817</i>	<i>15 990</i>	<i>17 939</i>	<i>20 352</i>	<i>25 200</i>	<i>39 796</i>	<i>17 777</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	896	817	928	1 143	890	1 028	1 011	1 260	1 693	3 170	1 284
Duty on tobacco	157	123	183	221	140	148	155	205	63	165	156
Duty on beer and cider	42	49	55	37	44	39	41	42	51	59	46
Duty on wines & spirits	88	69	74	92	76	75	82	110	181	279	113
Duty on hydrocarbon oils	199	145	182	145	178	162	209	235	314	499	227
Vehicle excise duty	92	66	78	54	60	65	78	85	120	197	89
Television licences	64	55	58	56	63	58	63	54	65	81	62
Stamp duty on house purchase	77	53	60	41	44	38	58	69	120	287	85
Customs duties	14	13	15	16	15	17	16	19	24	38	19
Betting taxes	12	26	38	26	35	29	27	26	19	20	26
Insurance premium tax	22	21	26	22	22	23	25	32	47	93	33
Air passenger duty	2	4	10	20	11	23	11	13	30	37	16
Camelot National Lottery Fund	34	42	49	48	61	43	60	51	43	50	48
Other	4	0	7	4	13	1	5	3	1	20	6
<b>Intermediate taxes</b>											
Commercial and industrial rates	126	112	135	144	132	151	143	170	212	334	166
Employers' NI contributions	206	184	222	235	216	247	234	278	347	547	271
Duty on hydrocarbon oils	80	72	86	92	84	96	91	108	135	213	106
Vehicle excise duty	7	6	8	8	7	8	8	10	12	19	9
Other	120	107	129	136	126	143	136	161	201	317	157
<b>Total indirect taxes</b>	<b>2 243</b>	<b>1 966</b>	<b>2 343</b>	<b>2 540</b>	<b>2 219</b>	<b>2 396</b>	<b>2 453</b>	<b>2 932</b>	<b>3 680</b>	<b>6 423</b>	<b>2 919</b>
<b>Post-tax income</b>	<b>4 013</b>	<b>6 459</b>	<b>7 844</b>	<b>8 276</b>	<b>9 314</b>	<b>10 412</b>	<b>11 624</b>	<b>13 945</b>	<b>17 401</b>	<b>29 007</b>	<b>11 830</b>
<b>Benefits in kind</b>											
Education	196	37	142	24	16	-	18	172	130	96	83
National health service	4 886	5 327	5 121	5 382	4 829	5 213	4 783	5 452	5 016	4 450	5 046
Housing subsidy	4	21	10	23	40	24	41	14	33	3	21
Rail travel subsidy	5	1	2	7	7	7	4	9	13	16	7
Bus travel subsidy	82	82	86	96	106	98	85	81	72	79	87
School meals and welfare milk	5	-	3	-	-	-	1	-	1	-	1
<b>Total</b>	<b>5 178</b>	<b>5 467</b>	<b>5 363</b>	<b>5 531</b>	<b>4 998</b>	<b>5 342</b>	<b>4 931</b>	<b>5 728</b>	<b>5 264</b>	<b>4 644</b>	<b>5 245</b>
<b>Final income</b>	<b>9 190</b>	<b>11 926</b>	<b>13 207</b>	<b>13 808</b>	<b>14 312</b>	<b>15 754</b>	<b>16 556</b>	<b>19 673</b>	<b>22 665</b>	<b>33 651</b>	<b>17 074</b>

1 Child tax credit and working tax credit.

2 Includes age-related payments.

3 Including tax relief at source on life assurance premiums.

4 Council tax and Northern Ireland rates after deducting discounts.

Table 18A (Appendix 1)

## Average incomes, taxes and benefits by quintile groups of RETIRED households, 2005/06

	Quintile groups of retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (£ per year)</b>						
<i>Quintile points (equivalised £)</i>		11 494	14 154	16 863	22 188	
Number of households in the population ('000s)	1 334	1 336	1 337	1 335	1 341	6 684
Original income						
Wages and salaries	100	119	145	546	1 623	507
Imputed income from benefits in kind	-	-	-	70	-	14
Self-employment income	6	10	21	44	70	30
Occupational pensions, annuities	1 227	2 547	3 606	6 197	17 729	6 261
Investment income	424	418	473	980	5 406	1 540
Other income	9	64	74	131	407	137
Total	1 767	3 158	4 320	7 968	25 235	8 490
Direct benefits in cash						
Contributory						
Retirement pension	5 076	6 399	6 072	6 361	6 406	6 062
Job seeker's allowance (Contribution based)	16	21	-	6	-	9
Incapacity benefit	116	105	160	89	95	113
Widows' benefits	47	-	21	64	21	30
Statutory Maternity Pay/Allowance	-	-	-	-	-	-
Non-contributory						
Income support and pension credit	462	364	615	483	332	451
Child benefit	20	6	3	18	20	13
Housing benefit	82	480	1 022	797	391	554
Job seeker's allowance (Income based)	2	24	-	6	11	9
Carer's allowance	33	41	37	35	57	41
Attendance allowance	54	110	149	284	204	160
Disability living allowance	79	241	376	585	337	323
War pensions/War widows' pensions	-	13	28	97	79	44
Severe disablement allowance	7	35	20	51	85	40
Industrial injury disablement benefit	34	4	29	57	39	32
Student support	4	-	-	6	4	3
Government training schemes	-	-	-	-	-	-
Tax credits <sup>1</sup>	9	19	6	5	16	11
Other non-contributory benefits <sup>2</sup>	430	470	425	451	435	442
Total cash benefits	6 470	8 333	8 962	9 395	8 533	8 339
Gross income	8 237	11 491	13 282	17 363	33 768	16 828
Direct taxes and Employees' NIC						
Income tax	174	319	511	1 119	4 254	1 276
less: Tax credits <sup>3</sup>	2	3	3	8	6	5
Employees' NI contributions	9	11	5	30	117	34
Council tax and Northern Ireland rates <sup>4</sup>	942	924	897	959	1 223	989
less: Council tax benefit/Rates rebates	226	262	298	214	75	215
Total	896	989	1 112	1 886	5 513	2 079
Disposable income	7 341	10 502	12 170	15 477	28 255	14 749
<i>Equivalised disposable income</i>	<i>8 967</i>	<i>12 873</i>	<i>15 403</i>	<i>19 145</i>	<i>32 498</i>	<i>17 777</i>
Indirect taxes						
Taxes on final goods and services						
VAT	857	1 036	959	1 136	2 431	1 284
Duty on tobacco	140	202	144	180	114	156
Duty on beer and cider	45	46	42	42	55	46
Duty on wines & spirits	79	83	76	96	230	113
Duty on hydrocarbon oils	172	164	170	222	407	227
Vehicle excise duty	79	66	63	82	158	89
Television licences	60	57	61	59	73	62
Stamp duty on house purchase	65	51	41	64	204	85
Customs duties	13	16	16	18	31	19
Betting taxes	19	32	32	27	19	26
Insurance premium tax	21	24	23	28	70	33
Air passenger duty	3	15	17	12	33	16
Camelot National Lottery Fund	38	48	52	55	46	48
Other	2	5	7	4	11	6
Intermediate taxes						
Commercial and industrial rates	119	139	142	156	273	166
Employers' NI contributions	195	228	232	256	447	271
Duty on hydrocarbon oils	76	89	90	100	174	106
Vehicle excise duty	7	8	8	9	15	9
Other	113	132	134	148	259	157
Total indirect taxes	2 105	2 441	2 307	2 692	5 051	2 919
Post-tax income	5 236	8 060	9 863	12 785	23 204	11 830
Benefits in kind						
Education	116	83	8	95	113	83
National health service	5 107	5 251	5 021	5 117	4 733	5 046
Housing subsidy	13	16	32	28	18	21
Rail travel subsidy	3	4	7	7	15	7
Bus travel subsidy	82	91	102	83	75	87
School meals and welfare milk	2	1	-	0	0	1
Total	5 322	5 447	5 170	5 330	4 954	5 245
Final income	10 558	13 507	15 033	18 114	28 158	17 074

1 Child tax credit and working tax credit.

2 Includes age-related payments.

3 Including tax relief at source on life assurance premiums.

4 Council tax and Northern Ireland rates after deducting discounts.

Table 19 (Appendix 1)

**Household characteristics of decile groups of RETIRED households, 2005/06**

	Decile groups of retired 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	1.6	1.5	1.6	1.5	1.4	1.5	1.4	1.6	1.6	1.7	1.5
<i>Adults</i>	1.5	1.5	1.6	1.5	1.4	1.5	1.4	1.5	1.5	1.7	1.5
<i>Men</i>	0.6	0.6	0.7	0.6	0.5	0.6	0.6	0.6	0.7	0.8	0.6
<i>Women</i>	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.9	0.8	0.9	0.9
<i>Children</i>	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0	0.0
Economically active people	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Retired people	1.4	1.4	1.4	1.4	1.3	1.4	1.3	1.4	1.4	1.5	1.4
People in full-time education	0.05	0.01	0.02	0.00	0.01	-	0.00	0.04	0.03	0.04	0.02
<b>Composition (percentages)</b>											
<b>Household type</b>											
Retired											
<i>1 adult</i>	53	52	49	55	59	54	61	50	49	40	52
<i>1 adult men</i>	12	13	14	16	10	11	20	13	17	16	14
<i>1 adult women</i>	40	39	35	38	49	43	41	37	33	24	38
<i>2 or more adults</i>	47	48	51	45	41	46	39	50	51	60	48
<b>Household tenure</b>											
Rented											
<i>Local authority rented</i>	5	8	16	18	24	24	21	13	6	2	14
<i>Housing association or RSL</i>	4	4	8	8	13	15	8	14	10	3	9
<i>Other rented unfurnished</i>	5	4	2	2	3	4	3	2	0	-	3
<i>Rented furnished</i>	1	-	1	0	1	1	2	1	2	1	1
<i>Rent free</i>	-	0	1	2	2	2	3	4	1	3	2
Owner occupied											
<i>With mortgage</i>	4	7	5	7	5	5	5	6	4	5	5
<i>Rental purchase</i>	-	-	1	-	-	-	0	-	-	-	0
<i>Owned outright</i>	81	77	68	63	52	48	59	61	77	87	67
<b>Age of chief economic supporter</b>											
Under 25	0	-	-	-	-	-	-	-	-	-	0
Over 24 and under 35	1	-	-	-	-	-	-	-	-	-	0
Over 34 and under 45	-	-	-	0	-	-	-	-	0	-	0
Over 44 and under 55	1	1	-	-	0	0	1	2	1	0	1
Over 54 and under 65	20	9	10	7	15	12	11	11	14	28	14
Over 64 and under 75	35	40	41	43	39	41	46	36	43	42	41
Over 74	43	49	49	50	46	47	42	51	42	30	45
<b>Employment status of chief economic supporter</b>											
Self-employed	-	0	-	-	-	-	-	-	-	-	0
Full-time employee	-	-	-	-	0	-	-	-	-	-	0
Part-time employee	0	-	1	0	1	-	-	-	-	-	0
Unemployed	-	-	-	-	-	-	-	-	-	-	-
Unoccupied and under minimum NI age	12	7	5	4	9	5	8	8	10	20	9
Retired/unoccupied over minimum NI age	88	92	94	95	91	95	92	92	90	80	91

Table 19A (Appendix 1)

## Household characteristics of quintile groups of RETIRED households, 2005/06

	Quintile groups of retired households ranked by equivalised disposable income					All households
	Bottom	2nd	3rd	4th	Top	
<b>Average per household (number)</b>						
People	1.5	1.5	1.5	1.5	1.6	1.5
<i>Adults</i>	<i>1.5</i>	<i>1.5</i>	<i>1.5</i>	<i>1.5</i>	<i>1.6</i>	<i>1.5</i>
<i>Men</i>	<i>0.6</i>	<i>0.7</i>	<i>0.5</i>	<i>0.6</i>	<i>0.7</i>	<i>0.6</i>
<i>Women</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>	<i>0.9</i>
<i>Children</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Economically active people	0.0	0.0	0.0	0.1	0.1	0.1
Retired people	1.4	1.4	1.4	1.4	1.5	1.4
People in full-time education	0.03	0.01	0.00	0.02	0.03	0.02
<b>Composition (percentages)</b>						
<b>Household type</b>						
Retired						
1 adult	52	52	56	55	45	52
1 adult men	13	15	10	17	16	14
1 adult women	40	37	46	39	28	38
2 or more adults	48	48	44	45	55	48
<b>Household tenure</b>						
Rented						
Local authority rented	7	17	24	17	4	14
Housing association or RSL	4	8	14	11	6	9
Other rented unfurnished	4	2	4	3	0	3
Rented furnished	0	0	1	1	1	1
Rent free	0	1	2	3	2	2
Owner occupied						
With mortgage	6	6	5	5	5	5
Rental purchase	-	0	-	0	-	0
Owned outright	79	65	50	60	82	67
<b>Age of chief economic supporter</b>						
Under 25	0	-	-	-	-	0
Over 24 and under 35	0	-	-	-	-	0
Over 34 and under 45	-	0	-	-	0	0
Over 44 and under 55	1	-	0	1	1	1
Over 54 and under 65	15	8	14	11	21	14
Over 64 and under 75	38	42	40	41	42	41
Over 74	46	50	46	46	36	45
<b>Employment status of chief economic supporter</b>						
Self-employed	0	-	-	-	-	0
Full-time employee	-	-	0	-	-	0
Part-time employee	0	1	0	-	-	0
Unemployed	-	-	-	-	-	-
Unoccupied and under minimum NI age	10	5	7	8	15	9
Retired/unoccupied over minimum NI age	90	95	93	92	85	91



Table 20 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITHOUT CHILDREN, 2005/06**

	Decile groups of non-retired households without children 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>	<i>11 252 15 253 18 653 21 861 24 976 28 232 32 361 39 095 51 252</i>										
Number of households in the population ('000s)	1 097	1 097	1 100	1 096	1 101	1 098	1 097	1 100	1 096	1 102	10 983
Original income											
Wages and salaries	2 749	7 585	13 897	19 382	25 739	28 728	33 383	40 810	46 875	68 016	28 716
Imputed income from benefits in kind	8	8	45	22	94	183	288	405	755	1 863	367
Self-employment income	425	1 251	1 238	1 143	1 954	1 873	3 267	3 189	5 713	13 507	3 356
Occupational pensions, annuities	226	701	868	1 186	1 476	1 113	2 103	1 214	1 792	2 782	1 346
Investment income	242	188	314	365	366	472	684	564	1 093	5 869	1 016
Other income	264	84	103	100	63	179	304	22	163	359	164
Total	3 914	9 817	16 465	22 199	29 692	32 548	40 029	46 205	56 390	92 395	34 965
Direct benefits in cash											
Contributory											
Retirement pension	212	819	1 225	951	955	607	626	362	534	566	686
Job seeker's allowance (Contribution based)	107	28	23	14	9	1	3	-	-	-	18
Incapacity benefit	929	1 101	707	409	212	176	152	63	53	13	382
Widows' benefits	39	34	39	20	47	4	12	39	4	21	26
Statutory Maternity Pay/Allowance	-	-	-	1	-	-	-	-	-	-	0
Non-contributory											
Income support and pension credit	492	728	336	326	95	117	81	51	26	-	225
Child benefit	12	17	6	7	19	12	5	7	-	13	10
Housing benefit	819	998	450	268	60	88	37	42	79	-	284
Job seeker's allowance (Income based)	287	146	47	19	9	6	8	-	1	-	52
Carer's allowance	62	106	93	20	52	10	36	8	-	-	39
Attendance allowance	10	5	10	4	-	10	-	-	8	-	5
Disability living allowance	214	631	522	362	223	312	189	90	56	9	261
War pensions/War widows' pensions	-	43	6	-	-	22	-	-	28	16	11
Severe disablement allowance	42	50	110	70	38	36	20	-	-	-	37
Industrial injury disablement benefit	24	28	29	21	15	12	-	7	-	-	14
Student support	144	66	68	210	124	74	-	17	140	164	101
Government training schemes	8	9	11	0	-	10	10	0	2	1	5
Tax credits <sup>1</sup>	60	54	67	43	28	1	-	-	-	-	25
Other non-contributory benefits	77	105	102	67	52	66	28	46	23	25	59
Total cash benefits	3 536	4 967	3 850	2 812	1 937	1 565	1 208	730	954	828	2 239
Gross income	7 450	14 784	20 315	25 011	31 629	34 113	41 237	46 935	57 344	93 223	37 204
Direct taxes and Employees' NIC											
Income tax	300	1 236	1 868	2 877	4 094	4 678	5 728	7 017	9 511	19 075	5 638
<i>less: Tax credits<sup>2</sup></i>	22	25	32	11	48	6	11	6	5	11	18
Employers' NI contributions	130	461	883	1 364	1 887	2 108	2 532	3 186	3 530	3 684	1 976
Council tax and Northern Ireland rates <sup>3</sup>	755	849	887	869	940	971	1 035	1 024	1 109	1 360	980
<i>less: Council tax benefit/Rates rebates</i>	300	255	114	80	24	23	12	14	6	6	83
Total	863	2 266	3 492	5 019	6 850	7 728	9 273	11 208	14 139	24 102	8 494
Disposable income	6 587	12 518	16 823	19 992	24 779	26 385	31 964	35 727	43 205	69 122	28 710
<i>Equivalised disposable income</i>	<i>7 155</i>	<i>13 509</i>	<i>17 042</i>	<i>20 171</i>	<i>23 429</i>	<i>26 500</i>	<i>30 218</i>	<i>35 204</i>	<i>44 303</i>	<i>75 890</i>	<i>29 342</i>
Indirect taxes											
Taxes on final goods and services											
VAT	1 104	1 192	1 498	1 704	2 072	2 013	2 448	2 366	2 851	4 108	2 136
Duty on tobacco	347	331	519	445	494	290	403	341	175	132	348
Duty on beer and cider	89	111	129	174	202	183	230	197	193	149	166
Duty on wines & spirits	104	107	139	187	192	190	217	259	245	313	195
Duty on hydrocarbon oils	235	270	350	487	567	522	700	679	702	764	528
Vehicle excise duty	72	75	108	127	155	145	178	171	168	190	139
Television licences	106	112	112	110	118	119	118	121	116	122	115
Stamp duty on house purchase	55	54	51	87	100	107	142	163	239	528	153
Customs duties	20	19	23	24	29	27	32	33	38	48	29
Betting taxes	22	24	33	38	43	35	41	32	29	137	43
Insurance premium tax	20	23	33	37	48	48	53	56	59	86	46
Air passenger duty	12	14	24	14	20	27	23	29	29	40	23
Camelot National Lottery Fund	43	57	73	78	83	71	64	54	65	46	64
Other	5	19	5	17	11	44	24	17	55	65	26
Intermediate taxes											
Commercial and industrial rates	178	173	202	214	255	244	283	292	339	429	261
Employers' NI contributions	291	282	330	350	418	399	462	477	555	701	427
Duty on hydrocarbon oils	114	110	129	136	163	155	180	186	216	273	166
Vehicle excise duty	10	10	11	12	14	14	16	16	19	24	15
Other	169	164	192	203	242	231	268	277	322	407	247
Total indirect taxes	2 995	3 149	3 961	4 445	5 226	4 866	5 881	5 766	6 417	8 561	5 127
Post-tax income	3 592	9 369	12 862	15 547	19 553	21 520	26 083	29 961	36 787	60 561	23 583
Benefits in kind											
Education	2 179	738	557	487	450	395	370	209	237	146	577
National health service	1 749	2 105	2 363	2 096	2 266	2 002	2 112	1 886	1 951	1 806	2 034
Housing subsidy	35	26	28	20	11	5	3	2	1	-	13
Rail travel subsidy	14	30	27	25	31	36	40	65	78	104	45
Bus travel subsidy	48	52	50	51	49	41	47	65	62	34	50
School meals and welfare milk	-	-	-	-	-	-	-	-	-	-	-
Total	4 025	2 951	3 025	2 680	2 806	2 478	2 573	2 227	2 329	2 091	2 719
Final income	7 617	12 320	15 887	18 227	22 360	23 998	28 656	32 188	39 117	62 652	26 302

<sup>1</sup> Child tax credit and working tax credit.

<sup>2</sup> Including tax relief at source on life assurance premiums.

<sup>3</sup> Council tax and Northern Ireland rates after deducting discounts.

Table 21 (Appendix 1)

## Average incomes, taxes and benefits by decile groups of NON-RETIRED households WITH CHILDREN, 2005/06

	Decile groups of non-retired households with children 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>	9 990	12 254	14 528	16 712	19 032	22 133	25 555	30 372	39 311		
Number of households in the population ('000s)	711	715	713	713	711	715	710	716	713	714	7 132
<b>Original income</b>											
Wages and salaries	3 774	6 012	11 763	19 379	23 242	30 380	33 286	41 118	52 098	78 580	29 963
Imputed income from benefits in kind	10	85	21	112	123	407	580	1 117	1 540	2 513	651
Self-employment income	836	932	1 536	1 549	1 886	2 295	3 524	4 404	5 527	20 619	4 311
Occupational pensions, annuities	18	6	91	236	61	214	174	427	533	1 067	283
Investment income	130	67	80	140	119	205	348	487	672	2 966	521
Other income	229	190	297	415	417	550	687	968	857	1 465	608
<b>Total</b>	<b>4 998</b>	<b>7 293</b>	<b>13 789</b>	<b>21 831</b>	<b>25 849</b>	<b>34 051</b>	<b>38 599</b>	<b>48 521</b>	<b>61 228</b>	<b>107 211</b>	<b>36 337</b>
<b>Direct benefits in cash</b>											
<b>Contributory</b>											
Retirement pension	53	79	42	108	57	137	110	172	51	23	83
Job seeker's allowance (Contribution based)	90	41	29	53	16	11	9	0	-	1	25
Incapacity benefit	272	456	330	217	176	86	62	13	17	42	167
Widows' benefits	32	15	18	57	-	58	41	-	-	-	22
Statutory Maternity Pay/Allowance	29	36	-	81	18	175	318	215	236	626	173
<b>Non-contributory</b>											
Income support and pension credit	1 332	2 698	1 568	639	340	91	20	230	19	-	694
Child benefit	1 439	1 416	1 469	1 342	1 286	1 305	1 219	1 269	1 147	1 128	1 302
Housing benefit	1 132	2 179	1 418	614	500	203	205	60	-	-	631
Job seeker's allowance (Income based)	313	105	45	72	16	6	3	-	-	-	56
Carer's allowance	63	73	119	100	152	61	35	65	10	24	70
Attendance allowance	-	2	-	-	-	-	-	-	-	17	2
Disability living allowance	200	303	304	338	398	216	220	251	130	124	248
War pensions/War widows' pensions	-	-	-	-	-	-	-	29	-	-	3
Severe disablement allowance	12	22	17	28	10	26	17	-	0	-	13
Industrial injury disablement benefit	-	-	-	17	-	-	-	13	28	-	6
Student support	227	138	112	226	131	81	22	94	18	103	115
Government training schemes	25	11	22	39	2	10	12	10	-	0	13
Tax credits <sup>1</sup>	1 508	1 889	1 899	1 148	1 154	774	512	155	129	16	918
Other non-contributory benefits	56	21	33	28	33	9	32	27	3	103	34
<b>Total cash benefits</b>	<b>6 784</b>	<b>9 484</b>	<b>7 426</b>	<b>5 108</b>	<b>4 290</b>	<b>3 247</b>	<b>2 835</b>	<b>2 607</b>	<b>1 788</b>	<b>2 205</b>	<b>4 577</b>
<b>Gross income</b>	<b>11 782</b>	<b>16 777</b>	<b>21 215</b>	<b>26 940</b>	<b>30 138</b>	<b>37 297</b>	<b>41 434</b>	<b>51 128</b>	<b>63 016</b>	<b>109 416</b>	<b>40 914</b>
<b>Direct taxes and Employees' NIC</b>											
Income tax	441	644	1 664	2 705	3 476	4 728	5 359	7 409	10 813	22 569	5 981
<i>less: Tax credits<sup>2</sup></i>	121	248	769	677	717	604	512	445	314	77	448
Employees' NI contributions	222	386	797	1 308	1 619	2 192	2 431	2 909	3 490	4 131	1 949
Council tax and Northern Ireland rates <sup>3</sup>	855	887	929	974	997	1 044	1 037	1 178	1 221	1 497	1 062
<i>less: Council tax benefit/Rates rebates</i>	361	452	281	114	82	25	30	7	-	-	135
<b>Total</b>	<b>1 036</b>	<b>1 217</b>	<b>2 340</b>	<b>4 196</b>	<b>5 294</b>	<b>7 335</b>	<b>8 285</b>	<b>11 043</b>	<b>15 211</b>	<b>28 120</b>	<b>8 408</b>
<b>Disposable income</b>	<b>10 746</b>	<b>15 560</b>	<b>18 875</b>	<b>22 744</b>	<b>24 845</b>	<b>29 962</b>	<b>33 149</b>	<b>40 085</b>	<b>47 806</b>	<b>81 296</b>	<b>32 507</b>
<i>Equivalised disposable income</i>	<i>7 472</i>	<i>11 257</i>	<i>13 408</i>	<i>15 566</i>	<i>17 778</i>	<i>20 603</i>	<i>23 663</i>	<i>27 800</i>	<i>34 218</i>	<i>60 400</i>	<i>23 217</i>
<b>Indirect taxes</b>											
<b>Taxes on final goods and services</b>											
VAT	1 489	1 479	1 640	2 050	2 159	2 549	2 919	3 172	3 776	5 216	2 645
Duty on tobacco	386	478	503	461	342	348	240	224	319	142	344
Duty on beer and cider	45	67	82	128	112	138	154	133	174	140	117
Duty on wines & spirits	71	115	99	131	148	165	185	174	229	263	158
Duty on hydrocarbon oils	312	309	373	475	523	638	596	764	862	894	575
Vehicle excise duty	85	77	98	122	145	160	161	195	200	208	145
Television licences	118	122	124	124	122	122	120	122	124	124	122
Stamp duty on house purchase	75	40	67	92	173	197	212	295	283	699	213
Customs duties	24	26	27	30	32	34	38	41	46	68	37
Betting taxes	14	21	22	25	27	38	28	32	32	22	26
Insurance premium tax	25	22	31	41	43	53	55	67	70	105	51
Air passenger duty	6	3	9	16	16	25	33	87	75	101	37
Camelot National Lottery Fund	32	36	41	55	49	64	54	57	45	39	47
Other	17	3	6	53	35	2	8	65	7	18	21
<b>Intermediate taxes</b>											
Commercial and industrial rates	211	229	240	265	281	302	334	364	409	605	324
Employers' NI contributions	345	375	393	434	460	495	546	596	670	990	530
Duty on hydrocarbon oils	135	146	153	169	179	193	213	232	261	386	207
Vehicle excise duty	12	13	14	15	16	17	19	20	23	34	18
Other	200	217	228	251	267	287	316	345	389	574	308
<b>Total indirect taxes</b>	<b>3 601</b>	<b>3 778</b>	<b>4 152</b>	<b>4 937</b>	<b>5 130</b>	<b>5 826</b>	<b>6 231</b>	<b>6 987</b>	<b>7 995</b>	<b>10 628</b>	<b>5 926</b>
<b>Post-tax income</b>	<b>7 145</b>	<b>11 782</b>	<b>14 723</b>	<b>17 806</b>	<b>19 715</b>	<b>24 136</b>	<b>26 919</b>	<b>33 098</b>	<b>39 811</b>	<b>70 667</b>	<b>26 580</b>
<b>Benefits in kind</b>											
Education	7 035	6 752	6 381	6 635	6 049	6 008	5 132	5 822	5 136	3 647	5 860
National health service	3 746	3 721	3 803	3 747	3 209	3 853	4 084	3 806	3 695	3 972	3 764
Housing subsidy	90	77	54	20	13	45	5	2	1	0	31
Rail travel subsidy	25	14	14	16	36	31	20	59	68	119	40
Bus travel subsidy	80	80	57	57	40	34	58	43	46	64	56
School meals and welfare milk	196	291	158	85	53	27	23	36	5	1	88
<b>Total</b>	<b>11 172</b>	<b>10 936</b>	<b>10 467</b>	<b>10 561</b>	<b>9 401</b>	<b>10 000</b>	<b>9 322</b>	<b>9 769</b>	<b>8 951</b>	<b>7 803</b>	<b>9 838</b>
<b>Final income</b>	<b>18 317</b>	<b>22 718</b>	<b>25 190</b>	<b>28 368</b>	<b>29 116</b>	<b>34 136</b>	<b>36 240</b>	<b>42 868</b>	<b>48 761</b>	<b>78 471</b>	<b>36 418</b>

1 Child tax credit and working tax credit.

2 Including tax relief at source on life assurance premiums.

3 Council tax and Northern Ireland rates after deducting discounts.

Table 22 (Appendix 1)  
**Distribution of households<sup>1</sup> by household type, 2005/06**

	Retired households				Non-Retired households			
	1 adult Men	1 adult Women	All 1 adult	2 or more adults	1 adult Men	1 adult Women	All 1 adult	
<b>Decile groups of households ranked by equivalised disposable income</b>								
<b>Number of households ('000s)</b>								
Bottom	104	396	499	388	271	171	442	
2nd	146	354	500	548	129	121	250	
3rd	164	449	614	527	175	99	274	
4th	119	498	617	427	109	133	241	
5th	133	302	435	343	207	132	338	
6th	97	195	292	281	222	168	390	
7th	66	140	205	196	195	182	378	
8th	52	92	145	222	195	164	360	
9th	51	64	114	160	248	179	428	
Top	20	49	69	104	339	181	520	
All households in population ('000s)	951	2 538	3 489	3 195	2 090	1 530	3 621	
<b>Decile groups of households ranked by equivalised disposable income</b>								
<b>Number of households ('000s)</b>								
	Non-Retired households							All households
	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	
Bottom	274	141	276	154	113	87	102	2 475
2nd	260	60	367	126	167	101	102	2 481
3rd	275	94	192	124	137	140	106	2 483
4th	304	164	175	118	223	101	107	2 478
5th	423	219	138	175	215	82	112	2 479
6th	450	282	104	188	279	106	109	2 482
7th	665	295	58	218	312	65	86	2 480
8th	752	344	48	230	239	64	78	2 481
9th	839	290	37	244	232	46	88	2 478
Top	1 045	185	26	284	170	38	43	2 482
All households in population ('000s)	5 287	2 076	1 422	1 859	2 088	830	933	24 799

<sup>1</sup> See Appendix 2 for definitions of retired households, adults and children.

Table 23 (Appendix 1)

Summary of the effects of taxes and benefits, by household type<sup>1</sup>, 2005/06

	Retired households				Non-Retired households		
	1 adult Men	1 adult Women	All 1 adult	2 or more adults	1 adult Men	1 adult Women	All 1 adult
<b>Average per household (£ per year)</b>							
Original income	5 845	4 042	4 533	12 810	21 415	17 354	19 698
<i>plus</i> Cash benefits	6 706	7 330	7 160	9 625	1 977	2 281	2 106
Gross income	12 551	11 372	11 694	22 435	23 393	19 635	21 804
<i>less</i> Direct taxes and employees' NIC	1 553	1 101	1 224	3 012	5 405	4 398	4 979
Disposable income	10 998	10 271	10 469	19 422	17 988	15 237	16 825
<i>Equivalised disposable income</i>	<i>17 920</i>	<i>16 790</i>	<i>17 098</i>	<i>18 520</i>	<i>29 488</i>	<i>24 979</i>	<i>27 582</i>
<i>less</i> Indirect taxes	2 142	1 728	1 841	4 097	3 193	2 859	3 052
Post-tax income	8 856	8 543	8 629	15 325	14 794	12 378	13 773
<i>plus</i> Benefits in kind	3 606	4 585	4 318	6 257	1 225	1 188	1 210
Final income	12 461	13 128	12 946	21 582	16 019	13 567	14 983

	Non-Retired households							
	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	All house- holds
<b>Average per household (£ per year)</b>								
Original income	39 954	48 887	9 933	40 256	45 548	39 451	45 388	28 224
<i>plus</i> Cash benefits	2 131	2 744	7 931	3 033	2 995	5 496	5 267	4 555
Gross income	42 085	51 631	17 864	43 288	48 543	44 947	50 655	32 779
<i>less</i> Direct taxes and employees' NIC	9 914	11 008	1 791	9 537	11 015	9 449	9 479	6 740
Disposable income	32 172	40 624	16 073	33 751	37 528	35 497	41 176	26 039
<i>Equivalised disposable income</i>	<i>31 906</i>	<i>25 883</i>	<i>16 318</i>	<i>27 815</i>	<i>25 937</i>	<i>20 188</i>	<i>21 173</i>	<i>24 464</i>
<i>less</i> Indirect taxes	5 630	7 463	3 513	5 717	6 533	6 842	7 851	4 762
Post-tax income	26 541	33 161	12 559	28 035	30 996	28 655	33 325	21 277
<i>plus</i> Benefits in kind	2 589	5 679	8 649	6 515	9 974	15 446	12 983	5 447
Final income	29 131	38 840	21 208	34 549	40 969	44 101	46 308	26 724

<sup>1</sup> See Appendix 2 for definitions of retired households, adults and children.

Table 24 (Appendix 1)

**Average incomes, taxes and benefits by decile groups of ALL households (ranked by UNADJUSTED disposable income), 2005/06**

	Decile groups of all 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>	<i>8 158</i>	<i>10 742</i>	<i>13 499</i>	<i>16 581</i>	<i>20 600</i>	<i>25 040</i>	<i>30 379</i>	<i>37 375</i>	<i>49 646</i>		
Number of households in the population ('000s)	2 476	2 480	2 481	2 481	2 476	2 480	2 482	2 480	2 481	2 480	24 799
Original income											
Wages and salaries	554	1 599	4 324	6 842	11 817	17 794	25 029	32 506	43 966	70 290	21 472
Imputed income from benefits in kind	7	2	1	23	37	142	240	472	794	1 818	354
Self-employment income	193	299	410	666	900	1 585	2 161	3 200	4 261	13 667	2 734
Occupational pensions, annuities	566	1 351	1 796	2 478	2 692	2 805	2 760	2 563	2 569	4 071	2 365
Investment income	276	197	465	417	451	674	1 041	952	1 342	4 333	1 015
Other income	94	104	149	155	195	301	213	354	411	867	284
Total	1 689	3 553	7 145	10 580	16 093	23 301	31 443	40 047	53 344	95 045	28 224
Direct benefits in cash											
Contributory											
Retirement pension	2 443	3 211	3 057	3 148	2 484	1 667	1 198	1 082	720	607	1 962
Job seeker's allowance (Contribution based)	43	17	24	19	34	28	5	4	2	0	18
Incapacity benefit	381	347	309	357	303	319	207	92	75	83	247
Widows' benefits	28	32	41	40	33	18	24	23	3	18	26
Statutory Maternity Pay/Allowance	5	3	3	12	9	52	65	94	84	172	50
Non-contributory											
Income support and pension credit	462	888	760	774	542	297	209	155	99	21	421
Child benefit	95	156	250	273	400	501	486	555	593	515	382
Housing benefit	604	1 236	873	755	562	284	131	56	63	4	457
Job seeker's allowance (Income based)	109	73	60	49	31	30	13	30	17	4	42
Carer's allowance	10	27	39	82	78	68	55	67	34	23	48
Attendance allowance	24	25	130	104	90	36	19	8	14	8	46
Disability living allowance	83	200	341	478	428	355	295	265	213	81	274
War pensions/War widows' pensions	-	-	20	43	20	31	12	31	12	7	18
Severe disablement allowance	12	19	57	47	46	42	12	24	23	25	31
Industrial injury disablement benefit	12	19	5	33	36	24	12	15	8	-	16
Student support	29	44	37	69	92	150	70	44	69	180	78
Government training schemes	3	6	7	6	4	9	5	3	10	7	6
Tax credits <sup>1</sup>	98	187	415	420	567	521	208	202	150	15	278
Other non-contributory benefits <sup>2</sup>	229	269	261	220	182	121	98	60	47	67	155
Total cash benefits	4 673	6 758	6 689	6 932	5 939	4 554	3 125	2 810	2 235	1 838	4 555
Gross income	6 362	10 310	13 834	17 512	22 032	27 855	34 569	42 857	55 578	96 883	32 779
Direct taxes and Employees' NIC											
Income tax	144	360	838	1 396	2 085	3 211	4 397	6 020	8 600	18 559	4 561
Less: Tax credits <sup>3</sup>	3	11	32	79	197	340	240	243	186	50	138
Employees' NI contributions	25	93	299	467	823	1 288	1 816	2 430	3 149	4 059	1 445
Council tax and Northern Ireland rates <sup>4</sup>	787	795	872	915	940	990	1 061	1 088	1 183	1 429	1 006
Less: Council tax benefit/Rates rebates	282	340	251	196	123	71	35	21	14	3	134
Total	670	897	1 726	2 503	3 527	5 078	7 000	9 274	12 732	23 994	6 740
Disposable income	5 692	9 413	12 108	15 009	18 504	22 777	27 569	33 583	42 846	72 890	26 039
Indirect taxes											
Taxes on final goods and services											
VAT	756	815	1 099	1 347	1 621	1 996	2 313	2 689	3 127	4 763	2 053
Duty on tobacco	194	210	284	304	361	355	313	370	318	242	295
Duty on beer and cider	54	41	68	77	107	116	144	185	200	202	119
Duty on wines & spirits	64	63	90	116	137	162	194	215	250	332	162
Duty on hydrocarbon oils	153	145	218	291	370	491	561	657	729	987	460
Vehicle excise duty	54	53	71	88	111	139	156	171	198	231	127
Television licences	78	82	89	95	102	112	113	119	119	119	103
Stamp duty on house purchase	51	37	61	61	87	127	153	186	256	498	152
Customs duties	14	15	18	21	24	28	31	35	42	59	29
Betting taxes	14	17	23	28	34	31	34	38	81	37	34
Insurance premium tax	17	16	24	29	36	45	52	57	71	97	44
Air passenger duty	6	5	11	16	16	19	36	26	49	70	25
Camelot National Lottery Fund	28	36	44	53	60	63	70	68	60	63	55
Other	6	1	8	10	13	13	26	19	40	57	19
Intermediate taxes											
Commercial and industrial rates	121	133	160	184	211	245	274	314	368	526	253
Employers' NI contributions	197	217	262	301	345	400	448	513	602	860	415
Duty on hydrocarbon oils	77	85	102	118	134	156	175	200	235	335	162
Vehicle excise duty	7	7	9	10	12	14	15	18	21	30	14
Other	114	126	152	175	200	232	260	298	349	499	240
Total indirect taxes	2 003	2 105	2 793	3 325	3 979	4 744	5 367	6 179	7 115	10 007	4 762
Post-tax income	3 689	7 308	9 315	11 684	14 525	18 033	22 201	27 404	35 731	62 882	21 277
Benefits in kind											
Education	907	771	1 123	1 340	2 128	2 645	2 402	2 648	3 085	2 582	1 963
National health service	3 023	3 486	3 602	3 786	3 404	3 274	3 111	3 237	3 239	3 269	3 343
Housing subsidy	26	39	46	30	25	14	12	6	3	1	20
Rail travel subsidy	6	11	14	9	20	27	32	43	57	117	33
Bus travel subsidy	53	65	61	72	73	55	55	52	53	78	62
School meals and welfare milk	11	26	37	46	32	30	23	19	24	5	25
Total	4 027	4 398	4 883	5 282	5 682	6 045	5 635	6 005	6 462	6 050	5 447
Final income	7 716	11 706	14 197	16 966	20 207	24 077	27 837	33 409	42 193	68 932	26 724

1 Child tax credit and working tax credit.

2 Includes age-related payments.

3 Including tax relief at source on life assurance premiums.

4 Council tax and Northern Ireland rates after deducting discounts.

Table 25 (Appendix 1)

**Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 2005/06**

(i) Quintile groups	Quintile groups of <b>equivalised</b> disposable income					All households					
	Bottom	2nd	3rd	4th	Top						
<b>Number of households in the population ('000s)</b>											
Quintile groups of <b>unadjusted</b> disposable income											
Bottom	3 087	1 761	108	-	-	4 956					
2nd	1 377	1 566	1 416	603	-	4 963					
3rd	433	1 255	1 883	894	493	4 957					
4th	48	352	1 301	2 232	1 028	4 962					
Top	11	27	252	1 231	3 439	4 961					
All households	4 956	4 961	4 961	4 961	4 960	24 799					
<b>(ii) Decile groups</b>											
Decile groups of <b>equivalised</b> disposable income										All households	
Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top		
<b>Number of households in the population ('000s)</b>											
Decile groups of <b>unadjusted</b> disposable income											
Bottom	1 496	758	222	-	-	-	-	-	-	-	2 476
2nd	524	308	680	858	108	-	-	-	-	-	2 480
3rd	220	785	272	53	662	489	-	-	-	-	2 481
4th	141	232	692	548	62	202	583	20	-	-	2 481
5th	63	258	261	364	780	153	21	480	95	-	2 476
6th	23	89	244	385	257	692	383	10	397	-	2 480
7th	4	26	66	183	422	304	617	600	65	195	2 482
8th	5	13	41	62	128	447	482	534	595	172	2 480
9th	-	11	3	21	53	178	352	622	786	455	2 481
Top	-	-	-	3	6	16	42	215	539	1 660	2 480
All households	2 475	2 481	2 483	2 478	2 479	2 482	2 480	2 481	2 478	2 482	24 799

Table 26 (Appendix 1)

**Percentage shares of equivalised total original, gross, disposable and post-tax incomes by quintile groups for ALL households<sup>1</sup>, 1983 to 2005/06<sup>2</sup>**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1993/94
<b>Original income</b>												
Bottom	3	3	2	3	2	2	2	2	2	2	2	2
2nd	8	7	7	7	7	7	7	7	7	6	6	6
3rd	17	17	17	16	16	16	16	15	16	15	15	14
4th	26	26	27	26	25	26	26	25	26	26	25	25
Top	47	47	47	49	50	50	49	51	50	50	52	52
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Gross income</b>												
Bottom	9	9	8	8	7	7	7	7	7	7	7	7
2nd	12	12	12	11	11	11	11	10	10	11	11	11
3rd	17	17	17	16	16	16	16	16	16	16	16	16
4th	23	23	24	23	23	23	23	23	23	23	23	23
Top	39	39	40	41	43	43	42	44	44	43	44	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Disposable income</b>												
Bottom	9	10	9	9	8	8	8	7	7	7	8	8
2nd	13	13	13	12	12	11	12	11	11	11	12	12
3rd	17	17	17	17	16	16	17	16	16	16	16	16
4th	23	23	23	23	23	23	23	23	23	23	23	23
Top	38	37	38	40	41	42	41	43	42	42	42	42
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Post-tax income</b>												
Bottom	9	9	9	8	8	7	7	6	7	7	7	7
2nd	13	13	13	12	12	11	11	10	11	11	11	11
3rd	17	17	17	16	16	16	16	15	16	16	16	16
4th	22	22	23	22	22	22	23	23	23	23	22	22
Top	39	38	39	41	43	44	43	45	44	44	44	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>1994/95</b>												
<b>Original income</b>												
Bottom	2	3	2	2	3	2	2	3	3	3	3	3
2nd	6	7	7	7	7	7	7	7	7	7	8	7
3rd	15	15	15	15	15	15	15	14	15	15	15	15
4th	25	25	25	25	25	25	25	24	25	24	24	24
Top	51	50	51	51	52	52	50	52	50	51	50	51
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Gross income</b>												
Bottom	7	7	7	7	7	7	6	6	7	7	7	7
2nd	11	11	11	11	11	11	11	11	11	11	11	11
3rd	16	16	16	16	16	16	16	15	16	16	16	16
4th	23	23	23	23	23	23	23	22	23	22	23	23
Top	43	43	44	44	44	44	44	45	43	44	43	44
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Disposable income</b>												
Bottom	8	8	8	8	7	7	7	7	8	8	8	8
2nd	12	12	12	12	12	12	12	12	12	12	13	12
3rd	16	17	16	16	16	16	16	16	17	17	17	16
4th	23	23	23	23	23	23	23	22	23	22	22	22
Top	41	40	42	42	42	42	42	43	41	42	41	41
All households	100	100	100	100	100	100	100	100	100	100	100	100
<b>Post-tax income</b>												
Bottom	7	7	7	7	6	6	6	6	6	7	7	7
2nd	11	12	11	11	11	11	11	11	12	12	12	12
3rd	16	16	16	16	16	16	16	15	16	16	16	16
4th	22	23	22	22	22	22	22	22	23	22	22	22
Top	43	43	44	44	45	45	44	46	43	44	43	43
All households	100	100	100	100	100	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.

2 From 1990 this includes company car benefit and beneficial house purchase loans from employers. From 1996-97 values are based on estimates for the sample grossed up to population totals.



Table 27 (Appendix 1)

**Gini coefficients for the distribution of income at each stage of the tax-benefit system and P90/P10 and P75/P25<sup>1</sup> ratios for disposable income for all households, 1979 to 2005/06<sup>2</sup>**

	Gini coefficients (per cent)				Ratios for disposable income	
	Equivalised income				P90/P10	P75/P25
	Original	Gross	Disposable	Post-tax		
1979	44	30	27	29	3.3	2.0
1980	44	31	28	30	3.5	2.0
1981	46	31	28	31	3.4	2.0
1982	47	31	28	31	3.3	2.0
1983	48	32	28	31	3.3	1.9
1984	49	31	28	30	3.3	2.0
1985	49	32	29	32	3.5	2.1
1986	50	34	31	35	3.7	2.1
1987	51	36	33	36	4.1	2.2
1988	51	37	35	38	4.4	2.4
1989	50	36	34	37	4.5	2.4
1990	52	38	36	40	4.9	2.5
1991	51	37	35	39	4.8	2.5
1992	52	37	34	38	4.6	2.4
1993	53	38	35	38	4.5	2.3
1993/94	54	37	34	38	4.5	2.3
1994/95	53	37	33	37	4.5	2.3
1995/96	52	36	33	37	4.2	2.2
1996/97	53	37	34	38	4.4	2.3
1997/98	53	37	34	38	4.5	2.3
1998/99	53	38	35	39	4.5	2.3
1999/00	53	38	35	40	4.6	2.4
2000/01	51	38	35	39	4.5	2.3
2001/02	53	39	36	40	4.5	2.3
2002/03	51	37	33	37	4.3	2.2
2003/04	52	37	34	38	4.1	2.1
2004/05	51	36	32	36	4.1	2.1
2005/06	52	37	34	37	4.2	2.1

1 P90/P10 is the ratio of the income at the 90th percentile to the 10th; P75/P25 is the ratio of the income at the 75th percentile to the 25th.

2 From 1990 this includes company car benefit and beneficial house purchase loans from employers. From 1996-97 values are based on estimates for the sample grossed to population totals.

## APPENDIX 2

### 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 ONS *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 Expenditure and Food Survey (EFS). 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 have sufficient information to make an allocation.

#### Expenditure and Food Survey (EFS)

2. The estimates in this analysis are based mainly on data derived from the EFS, which replaced the Family Expenditure Survey (FES) from 2001/02. The EFS 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; children aged 7 to 15 keep a simplified diary. 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 EFS is to produce information on household expenditure patterns which is used to derive the weights for the retail prices index. The fieldwork is undertaken by ONS and by the Northern Ireland Statistics and Research Agency. *Family Spending 2005/06*, published on the National Statistics website in January 2007, shows detailed results on expenditure and income from the 2005/06 survey, and how they vary with household characteristics. The report also includes an outline of the survey design.

4. The number of households in Great Britain responding to the EFS in 2005/06 was 6,258 (about 1 in every 4,000 households). The response rate was 57 per cent. An additional

sample of 527 households covers Northern Ireland. 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. The available evidence suggests that households containing a couple with non-dependent children, 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 'A comparison of the Census characteristics of respondents and non-respondents to the 1991 Family Expenditure Survey' by Kate Foster, *Survey Methodology Bulletin*, ONS, No. 38, January 1996). In addition, response in Greater London is noticeably lower than in other areas.

5. The results in the analysis are based on the survey grossed up so that totals reflect the total population in private households in the United Kingdom (that is, excluding those in institutions such as residential homes for the elderly). Households were assigned different initial weights based on the non-response in the 1991 FES. These weights were derived from Census-linked data (see 'Weighting the FES in Great Britain to compensate for non-response: an investigation using Census-linked data' by Kate Foster). The final household weights were produced using specialised software developed by INSEE, the French national statistics institute. The control variables used in the grossing system were the number of individuals by age (in five-year bands) and sex; and the number of individuals by region. ONS is currently analysing EFS data along with data from the 2001 Census, with a view to updating these weights.

6. The EFS 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 to 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 (for example, investment income over the previous 12 months). EFS income does not include proceeds from the sale of assets (for example, 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, for many households in the bottom part of the income distribution, measured expenditure exceeds measured income. Moreover, the difference between income and expenditure is not necessarily a measure of savings or dis-savings.

#### Unit of analysis

7. The basic unit of analysis used is the household, and not the family, individual or benefit unit. A household is defined in terms of the harmonised definition as used in the Census

and nearly all other government household surveys since 1981. This is one person, or a group of persons, who have the accommodation as their only or main residence and (for a group) share the living accommodation, that is a living or sitting room, or share meals together or have common housekeeping. Up until 1999–2000, the definition was based on the pre-1981 Census definition and required members to share eating and budgeting arrangements as well as shared living accommodation. The definition of a household comprised people who lived at the same address and who shared common catering for at least one meal a day. The effect of the change was fairly small, but not negligible. 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.

8. In classifying the households into various types, a **child** (that is, a dependent) is defined as:

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

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.

9. 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’.

10. By no means all retired people are in retired households: about one in five households comprising three or more adults contains retired people, for example, and households comprising one retired and one non-retired adult are often classified as non-retired.

11. 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 where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (for example, 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.

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

- employees at work,
- employees temporarily away from work through illness, temporary lay-off, industrial action, etc,
- on government training schemes,

- self-employed,
- 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

13. Stage one:

Original income *plus* cash benefits = Gross income.

Stage two:

Gross income *minus* income tax, employees’ National Insurance contributions and Council tax and Northern Ireland rates (see paragraph 24 below) = Disposable income.

Stage three:

Disposable income *minus* indirect taxes = Post-tax income.

Stage four:

Post-tax income *plus* ‘benefits in kind’ = Final income.

14. The starting point of the analysis is **original income**. This is the annualised 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. The term ‘annualised’ rather than ‘annual’ is used advisedly. For instance, annualised income from a respondent’s ‘main job’ is not current wage or salary multiplied up to an annual value; nor is it the sum of income from this source in the twelve month period prior to interview. Rather it is an estimate of such income expressed at an annual rate based on the respondent’s assessment of his ‘normal’ wage or salary subject to his current employment status.

15. Furthermore, to avoid double counting and to make it consistent with the estimate of income from cash benefits (see paragraph 20), this annualised estimate has to be ‘abated’ for the number of weeks likely to be lost due to unemployment, sickness, etc. This figure is taken as the number of weeks so lost in the 12 months prior to interview. It should be noted that regardless of whether the respondent is currently working or unemployed the treatment is essentially the same, that is, normal gross wage or salary expressed at an annual rate abated as required.

16. In all of this, the crucial determining role of current employment status should also be noted. Thus, no employment income would be assigned to a respondent whose employment status had recently become retired or unoccupied even though he or she may have worked for most of the twelve months prior to interview.

17. 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.

18. In addition to salary, many employees receive as part of their income fringe benefits such as company cars, private medical insurance and beneficial loans. 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 around 60 per cent of total taxable benefits according to HM Revenue and Customs' (HMRC) statistics. The imputed income allocated to households is the taxable value of the benefit in accordance with HMRC rules. Although, for those earning below £8,500 per year the benefit is not taxable, here the benefit has been allocated to all those with a company car regardless of the level of earnings. Information collected about company cars in the EFS is used to impute the benefit.

19. 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 EFS and the interest payments that would have been payable at the ruling market rate of interest.

20. The next stage of the analysis is to add cash benefits and tax credits to original income to obtain **gross income**. This is slightly different from the 'gross normal weekly income' used in the EFS report. Cash benefits and tax credits include:

#### Contributory:

Retirement pension, part of job seeker's allowance, incapacity benefit, widows' benefits, and statutory maternity pay.

#### Non-contributory:

Income support, part of job seeker's allowance, child benefit, housing benefit (council tax benefit and rates rebates are treated as deductions from Council tax and Northern Ireland rates), carer's allowance, attendance allowance, disability living allowance, war pensions, severe disablement allowance, industrial injury disablement benefits, child tax credit and working tax credit, old persons pension, Christmas bonus for pensioners, government training scheme allowances, student support, winter fuel payments and age-related payments.

21. Statutory maternity pay is classified as a cash benefit even though it is paid through the employer. From 2005/06 student support included the new educational maintenance allowance as well as other education grants. In 2005/06, additional age-related payments were made alongside winter fuel payments. Both are included within the category 'other non-contributory benefits'.

22. Child tax credit (CTC) and working tax credit (WTC) are more complicated. They are classified as negative income tax, but only to the extent that income tax less tax credits, remains greater than or equal to zero for each family. So for households paying relatively little or no income tax, tax credit

payments are regarded either partially or wholly, as cash benefits.

23. 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.

24. Income tax, Council tax and Northern Ireland rates, 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 are not available from the EFS.

25. Income tax is shown after the deduction of those tax credit payments which are regarded as negative income tax.

26. The figures for Council tax and Northern Ireland rates include Council tax (for households in Great Britain), and domestic rates (for households in Northern Ireland). Council tax is shown after discounts to reduce or remove the personal element of the tax (for example, the discount of 25 per cent for single person households). All Council tax and Northern Ireland rates are shown after the deduction of council tax benefit and rate rebates. This is in line with National Accounts which treats such rebates as revenue foregone. Up to, and including, 1995/96 these rebates were included as part of housing benefits.

27. Up until 2001/02 the figures for local taxes included Council tax, Northern Ireland rates and charges made by water authorities for water, environmental and sewerage services. From 2002/03, charges made by water authorities were treated as charges for a service rather than a tax, so the figures for Council tax and Northern Ireland rates from 2002/03 onwards are not strictly comparable with those for local taxes up to 2001/02.

28. 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 credits and life assurance premium relief. Where households are eligible for either of these reliefs deductions are made from recorded income tax payments.

29. 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 licenses;
- Television licenses;
- Stamp duties;
- Fossil fuel levy;
- Camelot: payments to National Lottery Distribution Fund.

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

31. VAT affects the prices of second-hand 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 EFS 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 under-represented in the EFS.

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

33. 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;
- Independent Commission franchise payments;
- Landfill tax;
- Consumer Credit Act fees.

34. 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 analysis, 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, for example, 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.

35. For Tables 3 and 9 of the main analysis, we have constructed a measure of expenditure on goods and services from data from the EFS. Indirect taxes are shown as a proportion both of disposable income and of expenditure. One drawback of comparing the incidence of indirect taxes on households at different levels of income is that, by whatever measure used, on average, recorded expenditure exceeds income apparently available for it by significant amounts at the bottom of the distribution. Thus, it has been argued that for many households, where, for instance, income fluctuates widely or where it is difficult to measure accurately, a measure based on regular household outgoings would be a far better indicator of resources available to the household and therefore give a better picture of the incidence of indirect taxes.

36. This measure of expenditure has been customised to be analogous to the definition of disposable income used in the analysis in order to facilitate these comparisons. For instance, because the imputed benefit of company cars and beneficial loans will have boosted the figure for disposable income these items have had to be added to this expenditure measure. Expenditure on alcohol, tobacco and confectionery have been grossed up for under-recording in line with the treatment of the indirect taxes on these items. Payments deemed to be made out of income such as superannuation, regular savings, mortgage repayments, etc. have been included and adjusted where necessary but not items such as lump sum capital payments in line with the exclusion of capital gains and windfalls from income.

37. 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).

38. Education benefit is estimated from information provided by the Department for Education and Skills of 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 EFS as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

39. The value of school meals and other welfare foods is based on their costs to the public authorities.

40. 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 EFS 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.

41. In this analysis, public sector tenants are defined to include the tenants of local authorities, Scottish Homes, Northern Ireland Housing Executive (NIHE), housing associations and Registered Social Landlords. The total housing subsidy includes the contribution from central government to the housing revenue accounts of local authorities, and grants paid to Scottish Homes, the NIHE, housing associations and Registered Social Landlords. 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 Council Tax band of the dwelling. Housing subsidy does not include, rent rebates and allowances or local tax rebates.

42. The rail travel subsidies allocated are the support payments made to the train operating companies. The subsidy to London and South East services is allocated to households living in the area and subsidies to other services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the EFS. 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.

43. In this analysis, 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.

44. We must emphasise that the analysis provides only a 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.

45. 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 a life assurance premium, for example, accrues directly to the taxpayer rather than to some other party, for instance, the seller of the policy. 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.

46. 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.

47. 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

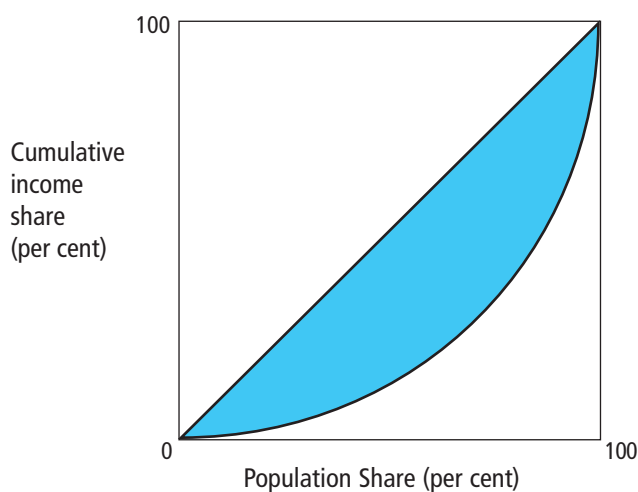
48. The equivalence scale used in this analysis is the *McClements scale* (before housing costs are deducted). The scales (separate ones for before and after housing costs) were developed by Dr L D McClements at the Department of Health and Social Security (DHSS) in the mid-seventies, based on expenditure data from the 1971 and 1972 FES. They were based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the EFS 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 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.

49. The equivalence values are given below:

Type of household member	Equivalence value
<b>Married head of household</b>	
(that is, a married or cohabiting couple)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
<b>Single head of household (adult)</b>	
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
<b>Child aged:</b>	
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



**Diagram 2**  
Lorenz curve for a typical income distribution



50. 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 two children (aged six and nine) 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 ( $=£20,000/1.86$ ).

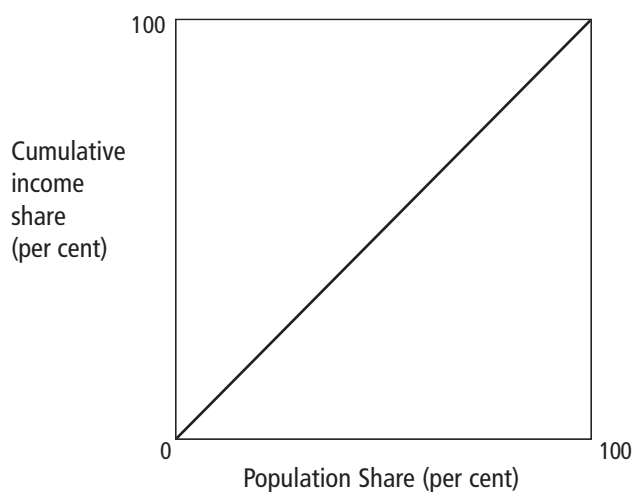
51. This quantity is used to produce the single ranking used in all the tables in this analysis (apart from the Gini coefficients which have to be ranked afresh for each different definition of income).

52. It is important to note that most monetary values shown in the analysis are ordinary (that is, un-equivalised) £ per year, not equivalised £ per year. Where equivalised values do appear (for example, the quintile points in Table 16A of Appendix 1), they are shown in *italics*.

### Gini coefficient

53. 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 2) that is, 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 3). 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).

**Diagram 3**  
Complete income equality



54. 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 analysis are based on distributions of equivalised income, for example, the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values.

55. 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 (for example, state education): the equivalence scales used in this analysis are based on actual household spending and do not, therefore, apply to such items as notional income.

### Impact of population weighting

56. The survey results have been re-weighted and grossed so that the population totals reflect the whole household population, a process described as population weighting. Different weights are applied to different types of households in order to correct for over and under-representation of these groups in the responding sample of the EFS. Population weighting raises the quality of the estimates by making the population more representative and by improving the allocation of national accounts aggregates to individual households. Estimates based on the population-weighted data set are different from estimates based on the sample. Indeed, if they were not, there would be little point in the weighting. The effect of weighting on some of the major variables used in the analysis was given in the 1997/98 analysis. More detail about the effect of weighting can be obtained from ONS on request.

## Sampling errors and reliability

57. As the EFS 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.

58. To give some idea of sampling variability, the percentage standard error for average gross household income for all households is approximately 1.1 per cent, which implies a 95 per cent confidence interval of  $\pm 2.2$  per cent.

59. There will be greater sampling variability associated with estimates for decile and quintile groups, and for particular household types mainly because the sample sizes are smaller. For decile and quintile groups of given household types, the sample sizes are of course smaller still, which will increase sampling variability further.

60. Aside from sampling error, recording household income through a survey is not easy, particularly where the complexities of the tax and benefit system are concerned. Consequently there will also be a significant amount of non-sampling error attached to some estimates.

## Previous analyses

61. This analysis is the latest in an annual series covering the years from 1957 onwards. From 1987 onwards, the analyses 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. Last year the analysis was published on the internet in May, and in the May 2006 edition of *Economic Trends*. A list of the previous articles was included in the article published in March 1997.

62. The results in all analyses are intended to be free standing: they were not designed for direct comparison with other years except where some limited comparisons were made in them. Such comparisons are difficult because of changes in definitions, however, some broader measures like the Gini coefficients are relatively robust and will stand comparison with other years: this year's analysis gives such a comparison for the years 1979 to 2005/06.