

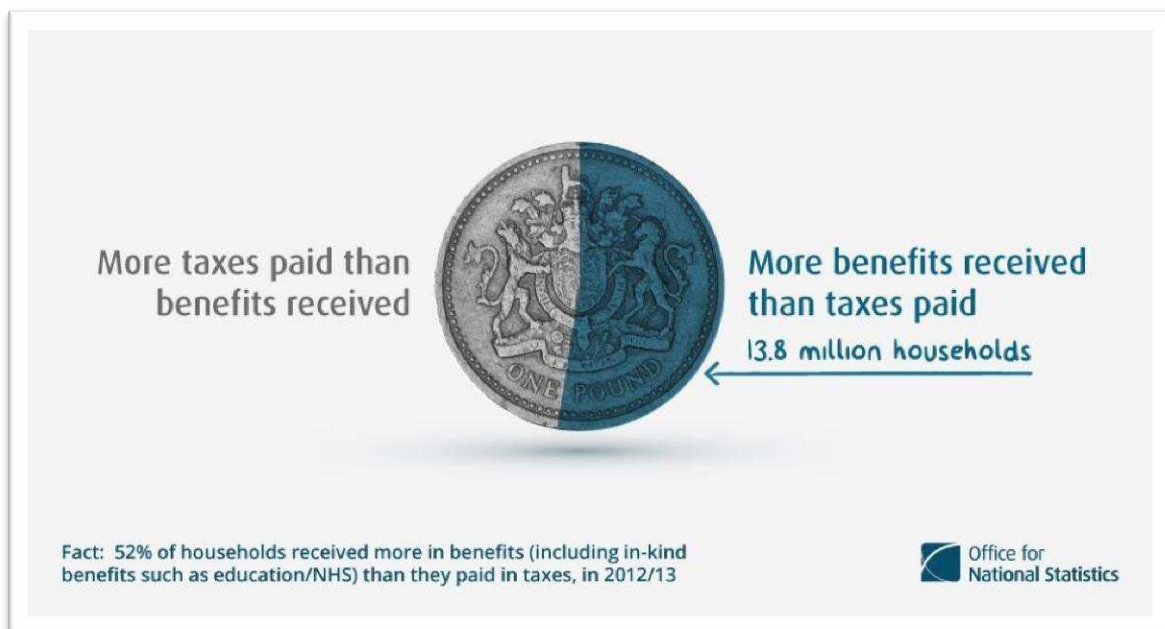


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Economic Bulletin

FALLING DEPENDENCY BUT STILL TOO HIGH



- 52% of households still receive more from the state than they pay in tax
- Middle income households have seen a 17% fall in net dependency on the state
- Income inequality remains stable and lower than under most of New Labour
- The income tax burden is falling as a percentage of income

1. NET DEPENDENCY

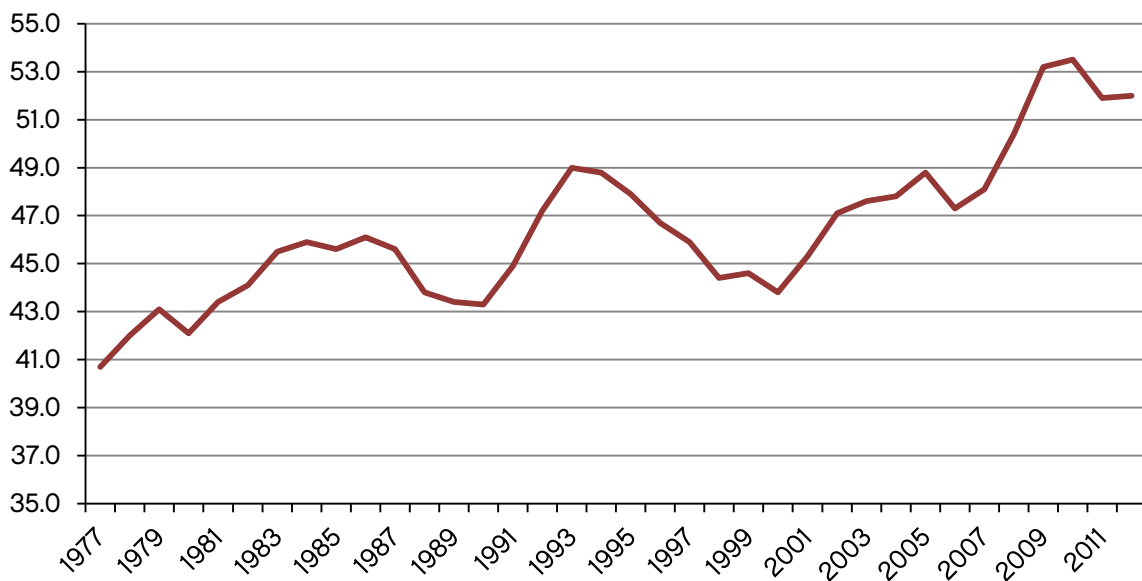
The latest ONS data release on the effects of taxes and benefits on household income show that 52% of households are receiving more in benefits than they pay in taxes. Whilst this means that there has been a welcome fall of 1.5 percentage points in net dependency on the state since 2011, it is still 8.2 percentage points higher than in 2000. Overall, this



means that approximately 13.8 million households are receiving more from the state in benefits than they are paying in taxes.

The latest figure of 52% over 2012/13 is also 7 percentage points higher than the long term average of 45% between 1977 and 2000. Since 2000 the proportion of households who receive more in benefits than they pay in tax rose rapidly from 43.8% in 2000 to a peak of 53.5% in 2011.

PERCENTAGE OF HOUSEHOLDS RECEIVING MORE IN BENEFITS THAN PAID IN TAXES



For non-retired households the percentage of those that are net dependent on the state has fallen by 1.8 percentage points from 39.7% in 2011 to 37.9% in 2013.

This small fall in net dependency on the state is of course welcome but the fact that over half of all households receive more in benefits than they pay in taxes is still shocking. There is still much more to do before we get back to the long term average of 45%.

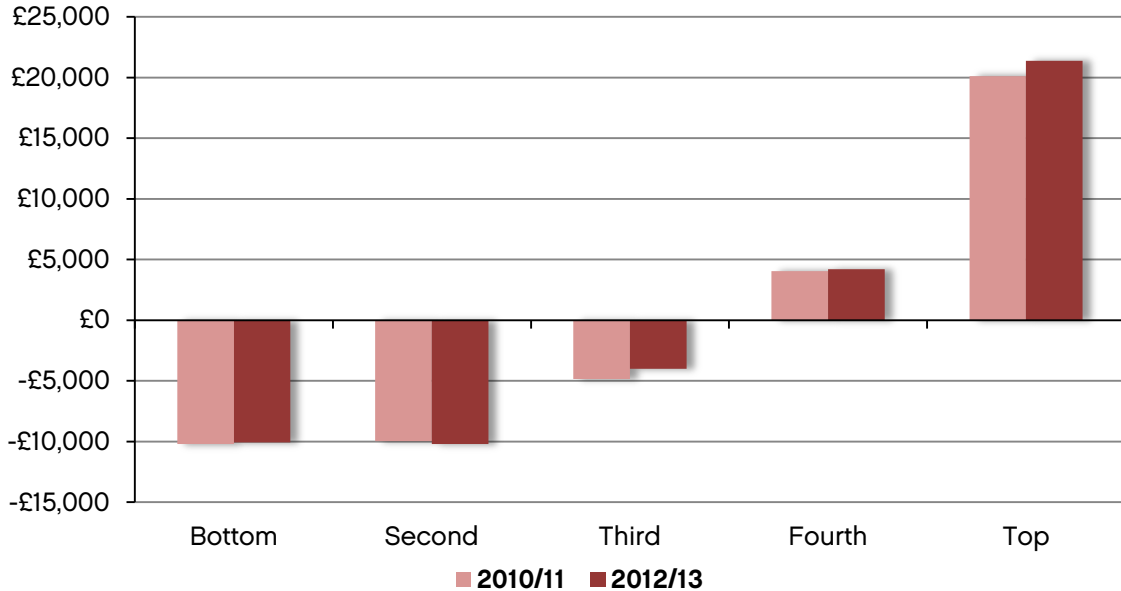
Breaking the households down into quintiles shows that each fifth apart from the second bottom quintile has seen a fall in their net dependency on the state. Net dependency is the balance of total cash benefits and benefits in kind received and the total direct and indirect taxes paid. In 2010/11, the poorest 20% received £10,200 more than they paid and in 2012/13 this had fallen to £10,056.

The middle quintile saw an average reduction in their net dependency of 17% over the same time period receiving £3,999 in 2012/13 compared to £4,820 in 2010/11. To a great extent, this fall in net dependency seems to have come from a fall in benefits in kind with quite substantial falls in the value of health and education expenditure. The middle households also paid an extra £100 in tax in 2012/13 compared to 2010/11.

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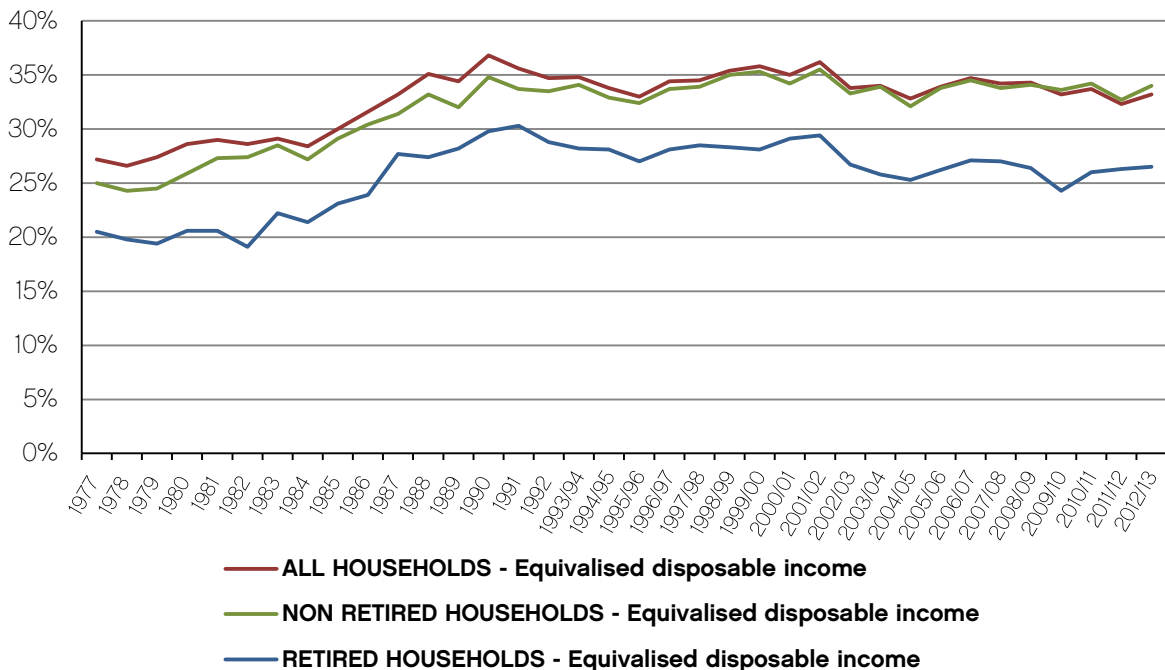
HOUSEHOLD NET DEPENDENCY



2. INEQUALITY

The main measure of income inequality used by the ONS is the Gini Coefficient. Given the tone of the public debate, it is perhaps quite surprising to see that inequality as measured by the Gini Coefficient has actually fallen under the current Government. In fact, despite a slight uptick from last year, the Gini Coefficient was never lower under the New Labour administrations than it is currently except for once in 2004/05.

GINI COEFFICIENTS 1977 TO 2013



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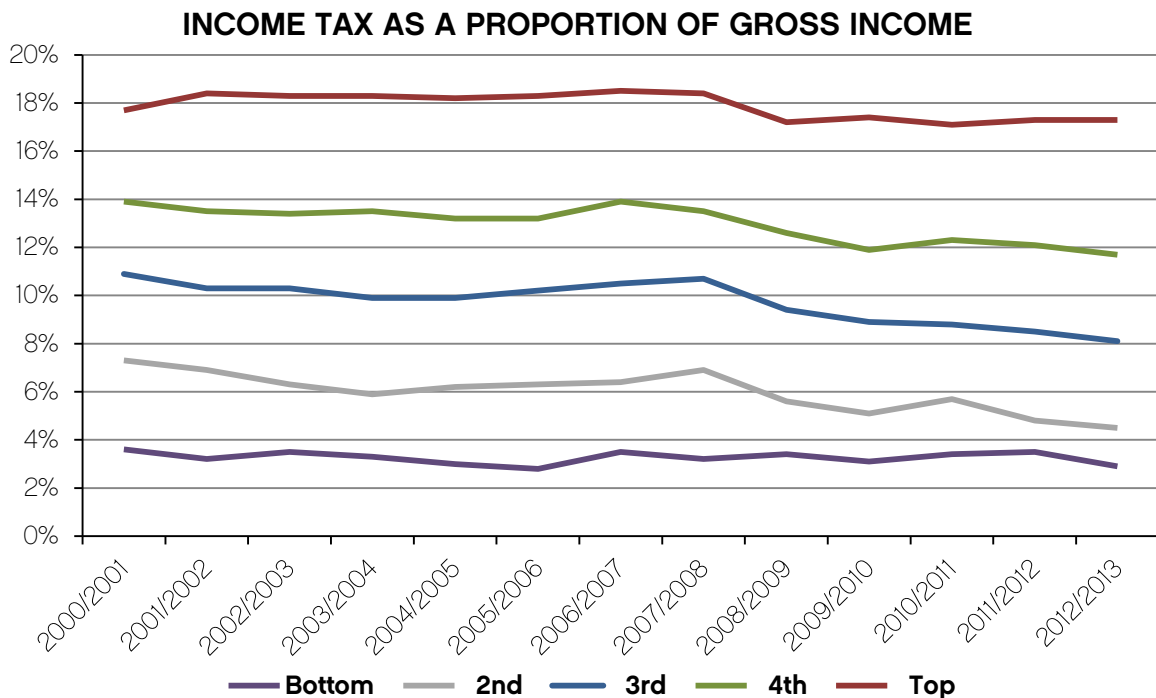


3. TAXES AND BENEFITS

Of particular interest is the impact of income tax changes. Income tax as a percentage of original income ie before taxes and benefits has fallen quite significantly in 2012/13 compared to 2010/11. For example, for the poorest 20%, income tax has fallen from 10.5% to 8.3% of original income. For the second bottom quintile, it has fallen from 11.7% to 9.9% and for the middle quintile it has fallen from 12.6% to 11.3%. The profound impact of the personal allowance rises, as originally recommended by the CPS as far back as 2002, can quite clearly be seen.

Since 2010/11 the proportion of gross income (i.e. including benefits) which has been retained after income tax has increased for the bottom four fifths of earners and fallen for the top fifth.

The middle three fifths of earners are now enjoying much lower levels of income tax as a proportion of gross income. The average proportion of gross income lost to income tax is now 2.9% for the bottom fifth, 4.5% for the 2nd, 8.1% for the 3rd, 11.7% for the 4th and 12.3% for the top.

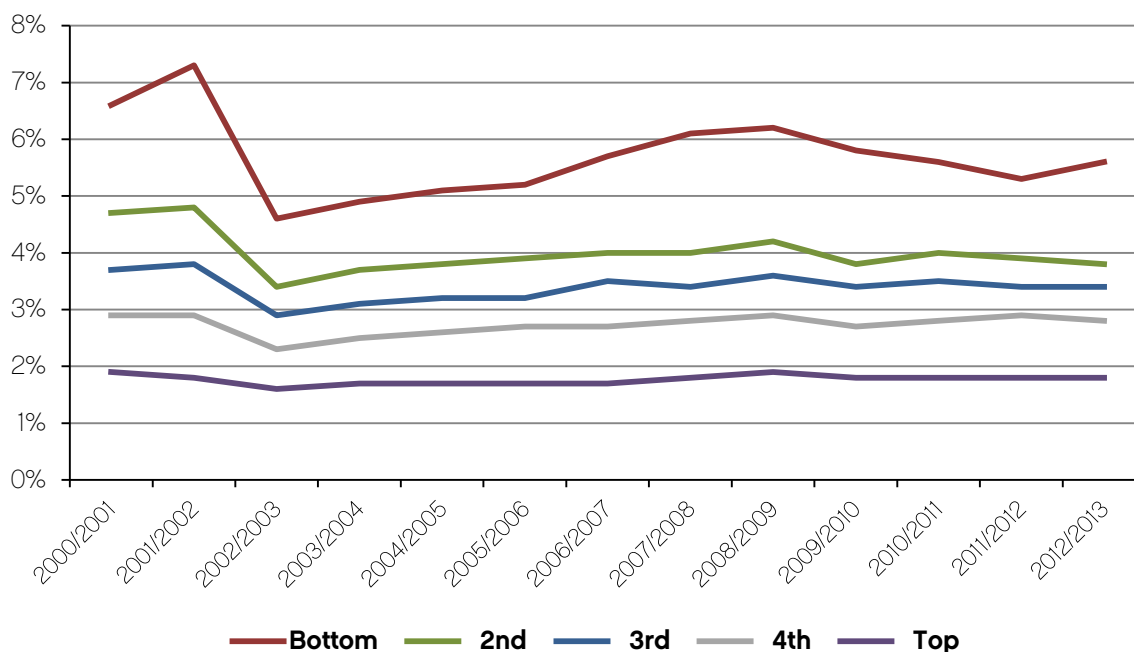


Council tax appears to be rather more regressive. Whereas the proportion of gross income lost to income tax rises as income rises, council tax is still disproportionately burdensome for the poor. While conditions have improved over the last five years, the proportion of gross income lost to council tax is still over three times higher for the bottom fifth of earners than for the top fifth. Freezing and cutting council tax is therefore highly progressive.

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COUNCIL TAX AS A PROPORTION OF GROSS INCOME



The ONS figures also show the highly redistributive nature of the tax and benefits system. Ignoring taxes and benefits, the richest 20% of households had income of £81,300 in 2012/13 which is approximately 15 times greater than the poorest 20% of households who had an average income of £5,500. However, when all the taxes and benefits are included the top 20% of households are earning on average £59,000 and the bottom 20% of households are earning £15,600. This means that post taxes and transfers, the richest are earning about four times as much as the poorest 20%.

Average disposable incomes have remained stable on average although they remain lower than at the peak of 2007/08. What is quite striking is that it is clear that the richest have lost proportionately more than the poorest since that time.

According to the ONS data, the richest quintile of households has seen a 5.2% fall in their incomes after including the effects of inflation and household composition. This compares to a growth of 3.5% in the average income of the poorest quintile over the same period.

A disturbingly high proportion of the gross income of the poorest quintile of households comes from cash benefits. At 56.4% of gross income and an average of £7,200 this compares poorly with 3.2% of the gross income of the richest quintile and an average of £2,700. This alarmingly high figure shows the urgent need for further substantial supply side reforms which encourage higher performance and higher productivity which should in turn be rewarded with higher pay. The richest quintile of households paid £29,500 overall in direct and indirect taxes compared with £4,700 for the poorest quintile. This just highlights that if the Government



The richest quintile of households paid £29,500 overall in direct and indirect taxes compared with £4,700 for the poorest quintile. This just highlights that if the Government wants to directly improve the living standards of the poorest households, there is still substantial scope to do so by cutting taxes.

4. MUST BE READ:

CPS: [The Progressivity of UK Taxes and Transfers](#)

Guardian: [Is wealth being distributed fairly?](#)

Telegraph: [More than half of homes take more than they contribute](#)

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