



PERSPECTIVE

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57 Tufton Street • London SW1P 3QL • Tel: 020 7222 4488 • Fax 020 7222 4388
website: www.cps.org.uk email: mail@cps.org.uk

Robin Hood or Sheriff of Nottingham?

Winners and losers from tax and benefit reform over the last 10 years

CHARLIE ELPHICKE

INTRODUCTION

This paper compares the share of taxes (direct and indirect) paid by household income groups in 2004-05 with the share of taxes paid in 1996-97. It also compares the share of benefits received by each household income group over the same period. All data are from the Office of National Statistics (ONS).

The evidence is clear: the poorest households in Britain are now paying a higher share of tax and getting a lower share of benefits than before Labour came to power.

The figures show that if the poorest fifth of households paid the same share of total taxes and got the same share of total benefits as they did in 1996-97, they would have been £531 a year better off in 2004-05. The second poorest fifth of households would have been £427 a year better off. The richest fifth of households would have been £465 a year better off.

So who are the winners? Middle income households have gained £613 (if their share of taxes and benefits had remained the same as it was in 1996-97). And similarly the second richest households are £847 a year better off.

Almost five million households have an average pre-tax-and-benefit income of just £4,280. These households are now paying

over £1,000 a year in income and council taxes, the impact of the Government's policies resembles those of the Sheriff of Nottingham, not Robin Hood.

POOREST FIFTH OF HOUSEHOLDS

In 1996/97, the poorest fifth of households paid 6.8% of the total tax take. This rose to 6.9% in 2004-05. Meanwhile their share of benefits has fallen from 28.1% to 27.1%. The extra tax paid by the poorest fifth of households, compared to 1996/97 is equivalent to £56 per household in 2004-05, while the benefits lost was equivalent to £475.

The poorest households in Britain are now paying a higher share of tax and getting a lower share of benefits than before Labour came to power.

SECOND POOREST HOUSEHOLDS

In 1996-97, the second poorest fifth of households paid 10.1% of the total tax take. This was unchanged in 2004-05. Meanwhile their share of benefits fell from 26.2% to 25.3%. This fall in the share of benefits is the equivalent of £427 per household.

MIDDLE FIFTH OF HOUSEHOLDS

In 1996-97, the middle fifth of households paid 16.9% of the total tax take – which had fallen to 16.4% in 2004-05. Meanwhile their share of benefits rose from 20.8% to 21.5%. These gains mean that middle income households are paying the equivalent of £281 less in tax and are receiving £332 more in benefits – a total of £613 more per household.



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SECOND RICHEST HOUSEHOLDS

In 1996-97, the second richest fifth of households paid 24.9% of the total tax take. This fell in 2004-05 to 23.9%. Meanwhile their share of benefits rose from 14.7% to 15.3%. The second richest fifth of households are paying the equivalent of £562 less in tax while receiving £285 more in benefits. They are the equivalent of £847 a year better off.

THE RICHEST HOUSEHOLDS

In 1996-97, the richest fifth of households paid 41.3% of the total tax take – which rose to 42.8% in 2004-05. Meanwhile their share of benefits rose from 10.1% to 10.9%. The richest households are paying the equivalent of £844 more in taxes but receive £379 more in benefits. They were therefore net losers by £465.

SOURCE MATERIAL

The following tables set out the distribution of Taxes and Benefits by Household Income Group for the years 1996-97 and 2004-05 (the latest available). These figures are compiled by the ONS and published in *Economic Trends*.

The 2004-05 report comments that the methodology used has not greatly changed since 1987. The percentage calculations in the tables are rounded to the nearest 0.1%.

The ONS figures consider the effect of taxes and benefits on each household income group. It includes direct taxes (e.g. income tax), indirect taxes (e.g. VAT), cash benefits (such as retirement pensions, housing benefit and Jobseeker's Allowance) and benefits in kind (e.g. the imputed value of education and health services). Tax credits are treated as cash benefits for households paying little or no income tax – and negative taxation for households paying income tax.

DISTRIBUTION OF TAXES AND BENEFITS BY HOUSEHOLD INCOME GROUP, 2004-05

	Quintile groups of all households					
	Poorest	2nd	3rd	4th	Richest	Average
ORIGINAL INCOME	£4 280	£11 200	£21 580	£34 460	£66 330	£27 570
TAXES						
Direct taxes and NIC	£1 030	£2 270	£4 650	£7 910	£16 760	£6 520
Indirect taxes	£2 860	£3 410	£4 570	£5 510	£7 330	£4 730
Total taxes	£3 890	£5 680	£9 220	£13 420	£24 090	£11 250
% of total taxes	6.9%	10.1%	16.4%	23.9%	42.8%	100.0%
BENEFITS						
Cash benefits	£6 410	£6 210	£4 770	£2 800	£1 380	£4 310
Benefits in kind:	£6 460	£5 780	£5 420	£4 470	£3 780	£5 180
Total benefits	£12 870	£11 990	£10 190	£7 270	£5 160	£9 490
% of total benefits	27.1%	25.3%	21.5%	15.3%	10.9%	100.0%
FINAL INCOME	£13 250	£17 520	£22 550	£28 320	£47 410	£25 810

Source: ONS, *The effect of taxes and benefits on household income 2004/05*, Table 4, page 9.

DISTRIBUTION OF TAXES AND BENEFITS BY HOUSEHOLD INCOME GROUP, 1996-97

	Quintile groups of all households					
	Poorest	2nd	3rd	4th	Richest	Average
ORIGINAL INCOME	£2 310	£6 450	£14 710	£22 220	£44 780	£18 490
TAXES						
Direct taxes and NIC	£720	£1 450	£3 180	£5 400	£10 710	£4 290
Indirect taxes	£1 930	£2 470	£3 420	£4 280	£5 390	£3 500
Total taxes	£2 650	£3 920	£6 600	£9 680	£16 100	£7 790
% of total taxes	6.8%	10.1%	16.9%	24.9%	41.3%	100.0%
BENEFITS						
Cash benefits	£4 770	£4 800	£3 370	£1 960	£1 090	£3 200
Benefits in kind:	£3 880	£3 260	£3 020	£2 550	£2 030	£2 950
Total benefits	£8 650	£8 060	£6 390	£4 510	£3 120	£6 150
% of total benefits	28.1%	26.2%	20.8%	14.7%	10.1%	100.0%
FINAL INCOME	8 310	10 600	14 490	19 040	31 790	16 850

Source: ONS, Table B, "The effects of taxes and benefits on household income 1996/97", *Economic Trends*, 1998.



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THE AUTHOR

Charlie Elphicke is a tax partner at a leading global law firm and a Research Fellow of the CPS. He is a member of the Corporation Tax Sub Committee of the Law Society's Revenue Law Committee. He is the author of *Ending Pensioner Poverty* (CPS, 2003); *SAINTS can get Britain saving again* (CPS, 2005); with William Norton, *The Case for Reducing Business Taxes* (CPS, 2006); and *The tax double whammy: more tax costs more than you think* (CPS, 2006).

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For more details, please write or telephone to:

The Secretary
Centre for Policy Studies
57 Tufton Street, London SW1P 3QL
Tel: 020 7222 4488 Fax: 020 7222 4388
mail@cps.org.uk www.cps.org.uk

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