

# How high are our taxes, and where does the money come from?

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## Executive summary

Taxation is set to be a central policy battleground in this election, as in so many others. This Briefing Note provides some essential factual background to the parties' claims and policies, placing the UK's current tax burden in historical and international context and discussing where – and who – the revenue comes from.

### Key findings

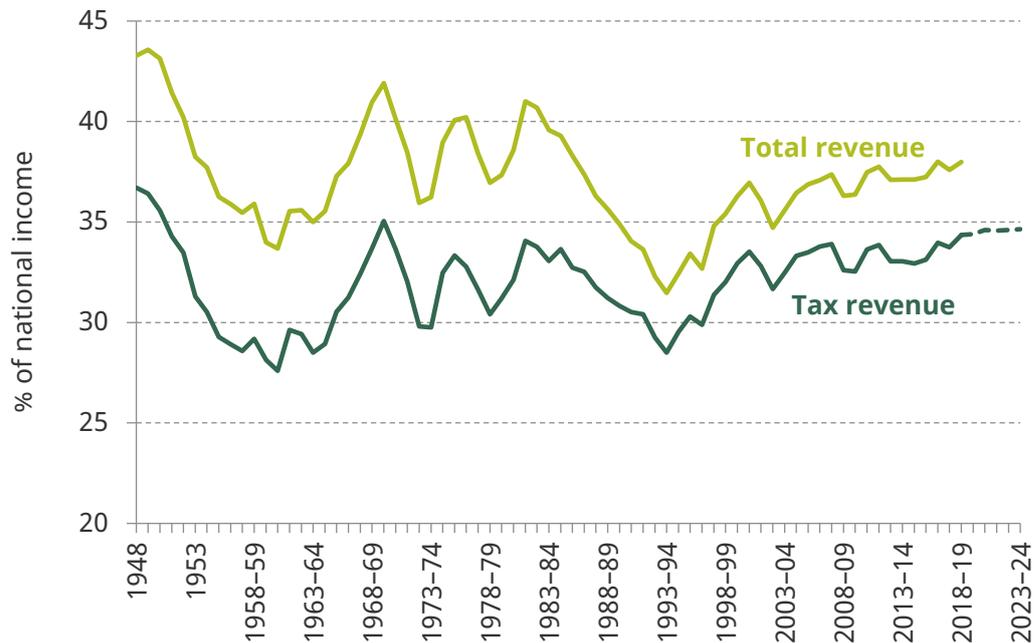
- **Taxes in the UK are high by historical standards.** At 34.4% of national income, the tax take is at its highest sustained level since the 1940s. Policy reforms since 2010 have increased tax revenue by about £20 billion overall – despite large giveaways increasing the income tax personal allowance, cutting the headline rate of corporation tax and freezing fuel duties. Tax-raising measures, including rises in VAT and National Insurance contribution (NIC) rates, exceed these giveaways overall in revenue terms.
- **But UK taxes are not high by international standards.** The UK tax take is near the average for developed countries, and lower than in most of Western Europe.
- **Income tax, National Insurance contributions (NICs) and VAT provide almost two-thirds of tax revenue.** Other countries typically raise more from social security contributions and less from property taxes. It is average earnings, rather than top earnings, that would be taxed markedly more if the UK adopted the tax system of a typical higher-tax country.
- **The tax and benefit system is progressive overall.** Before taxes and benefits, the highest-income fifth of individuals have an average household income that is 12 times as high as the poorest fifth. Adding all cash benefits and deducting the main direct personal taxes (income tax, employee and employer NICs and council tax) brings this figure down to 5. Benefits account for around 80% of this reduction, while direct taxes account for 20%. Indirect taxes (VAT and excise duties) take up a roughly constant fraction of household budgets across the income distribution, on average.
- **The top 1% of the adult population now pays well over a third of all income tax.** Only 58% of adults are liable for income tax at all. And the top 1% even of those who do pay income tax have seen their share of total income tax payments rise from 25% to 30% since 2010 as policy reforms, particularly under the coalition, increased income tax for the best off while reducing it for those on more typical incomes.

## Taxes in the UK are high by historical standards

Tax revenue is forecast to be £757 billion in 2019–20, equivalent to £14,000 per adult. At 34.4% of national income – and forecast to stay at 34.6% from 2020–21 to at least 2023–24 – that is its highest sustained share since the 1940s (see Figure 1).

As well as taxes, the government receives revenue from other sources, such as profits of public sector bodies and interest on student loans. Total government revenue, at 36.9% of national income (£811 billion, or £15,000 per adult), is at its highest level since the mid-1980s.

**Figure 1. UK government revenue over time**



Source: OBR, *Public Finances Databank* (accessed November 2019), <https://obr.uk/data/>.

Of the rise in tax revenue from 32.5% of national income 2009–10 to 34.4% today, about half is due to policy measures and half would have happened in the absence of any discretionary reforms (Table 1). Overall, tax policy announcements since the 2010 election are estimated to increase revenue by £20 billion in 2019–20, but this is the net result of much bigger tax rises and tax cuts, especially under the 2010–2015 coalition government.

Three big tax-cutting policies that have been repeated by successive governments since 2010:

- increasing the income tax personal allowance, at an annual cost of around £30 billion;
- reducing the headline rate of corporation tax from 28% (or 21% for companies with low profits) to 19% at an annual cost of around £13 billion, with a further £6 billion cut from 19% to 17% due next April; and
- freezing fuel duties, at an annual cost of around £11 billion relative to the plans that the coalition government inherited from its Labour predecessor in 2010 (which involved

uprating it with RPI inflation plus additional increases until 2014 – the cost is £6 billion when measured relative to simply uprating it with the superior CPI measure of inflation).

In revenue terms these giveaways have been more than offset by tax-raising measures, such as increases in the main rate of VAT, rates of National Insurance contributions (NICs), reductions in the limits on tax-privileged pension saving, and a swathe of measures intended to reduce what is deemed to be tax avoidance and evasion.

**Table 1. Change in tax revenues since 2009–10**

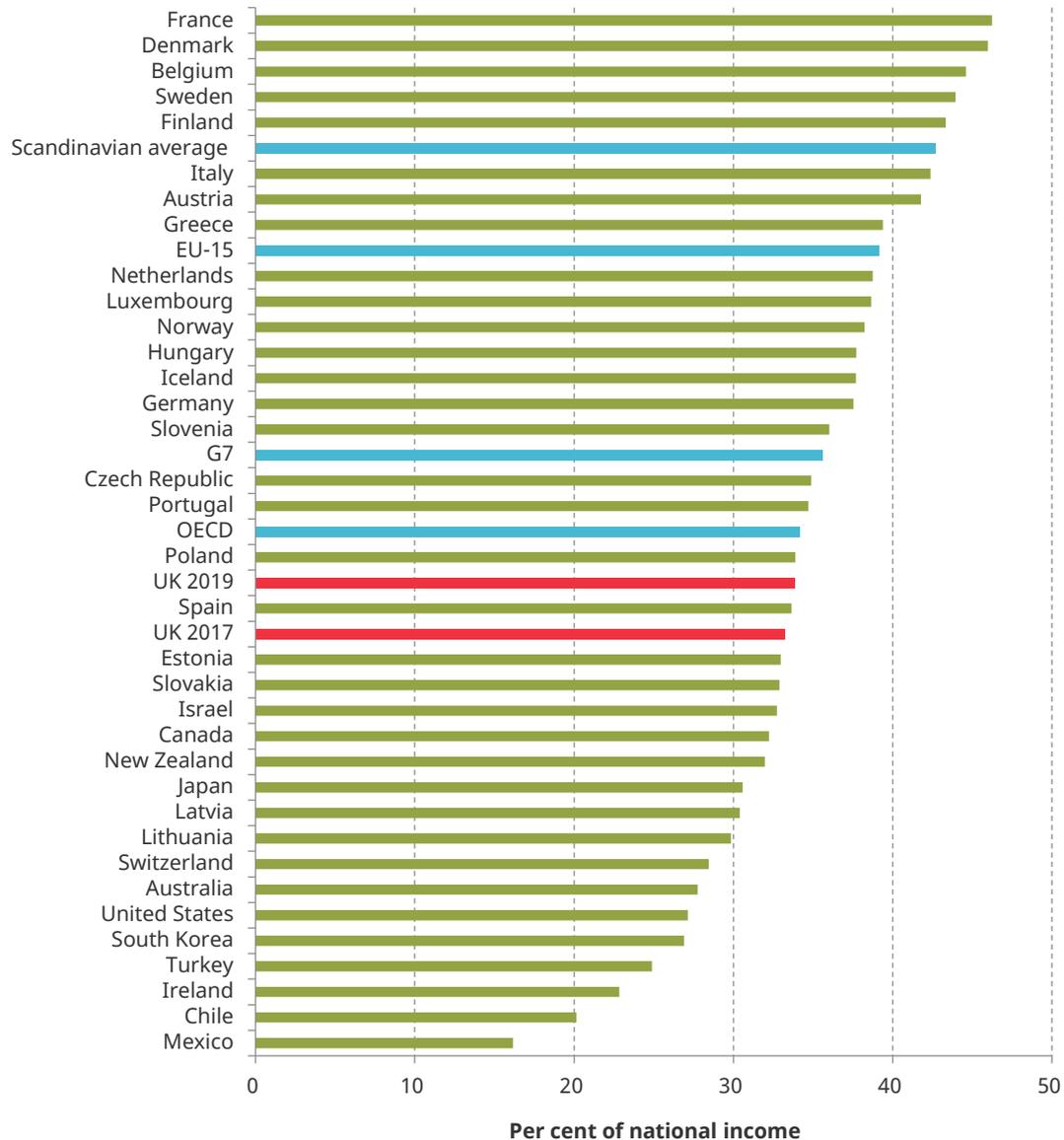
	2019–20	2023–24
<b>% of GDP</b>		
Increase in tax revenues	+1.9	+2.1
<i>Of which:</i>		
Underlying increase in revenues	+0.9	+1.1
Discretionary measures announced since May 2010	+0.9	+1.0
<b>£ billion (2019–20 terms)</b>		
Increase in tax revenues	+40.8	+46.2
<i>Of which:</i>		
Underlying increase in revenues	+20.4	+23.7
Discretionary measures announced since May 2010	+20.4	+22.5
<i>Of which:</i>		
Tax rises from 2010–15 parliament	+64.1	+63.3
Tax cuts from 2010–15 parliament	-54.6	-53.5
Total net tax rise from 2010–15 parliament	+9.5	+9.8
Tax rises from 2015–17 parliament	+34.9	+34.3
Tax cuts from 2015–17 parliament	-18.8	-21.5
Total net tax rise from 2015–17 parliament	+16.1	+12.8
Tax rises from 2017–19 parliament	+6.2	+10.9
Tax cuts from 2017–19 parliament	-11.3	-11.0
Total net tax rise from 2017–19 parliament	-5.2	-0.1

Source: IFS calculations using OBR *Public Finances Databank* (accessed November 2019) and OBR policy measures database (accessed November 2019), <https://obr.uk/data/>. Thanks to Ben Zaranko for this table.

## But UK taxes are not high by international standards

Taxes in the UK are near the average for developed economies: higher than in other English-speaking countries, but lower than in most other Western European countries (Figure 2). The increase in the tax burden in the UK between 2017 and 2019 would, if other countries remain unchanged, see the UK move above Spain in the table. But the tax burden would still be below the (unweighted) average across OECD, G7 or EU-15 countries.

**Figure 2. Tax revenue as a share of national income, OECD countries, 2017**



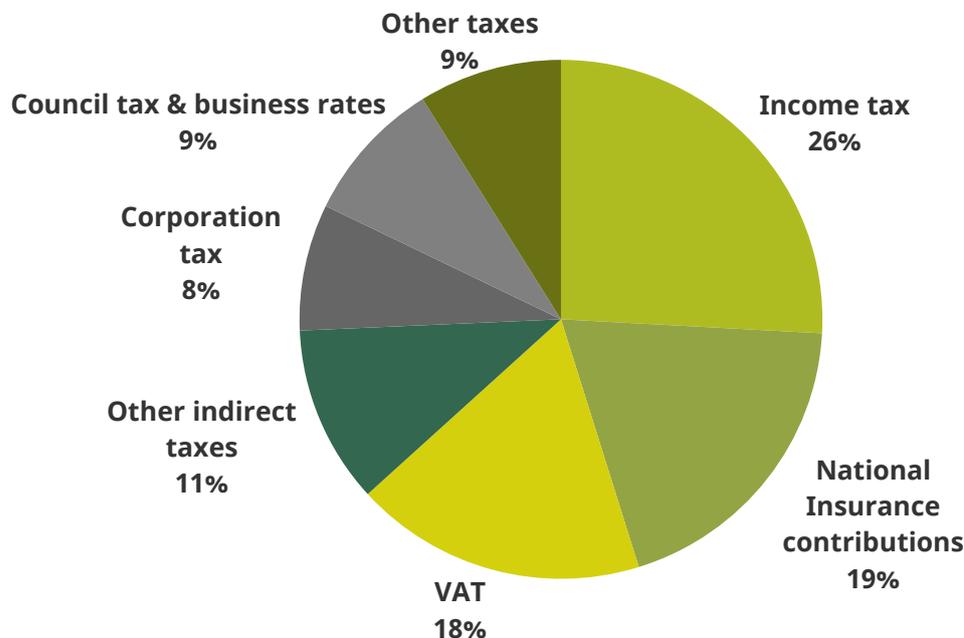
Note: Averages are unweighted. Scandinavia includes Denmark, Sweden and Norway. Data for Australia and Japan are for 2016, as 2017 values were unavailable at the time of download.

Source: OECD, Global Revenue Statistics Database, <https://stats.oecd.org/>, extracted 11 November 2019. UK 2019 figure is author's calculation.

### Income tax, NICs and VAT provide almost two-thirds of tax revenue

The largest sources of government revenue are income tax, NICs and VAT. These three taxes alone account for 63% of all tax receipts in 2019–20 (Figure 3).

**Figure 3. The composition of UK tax revenue, 2019–20**



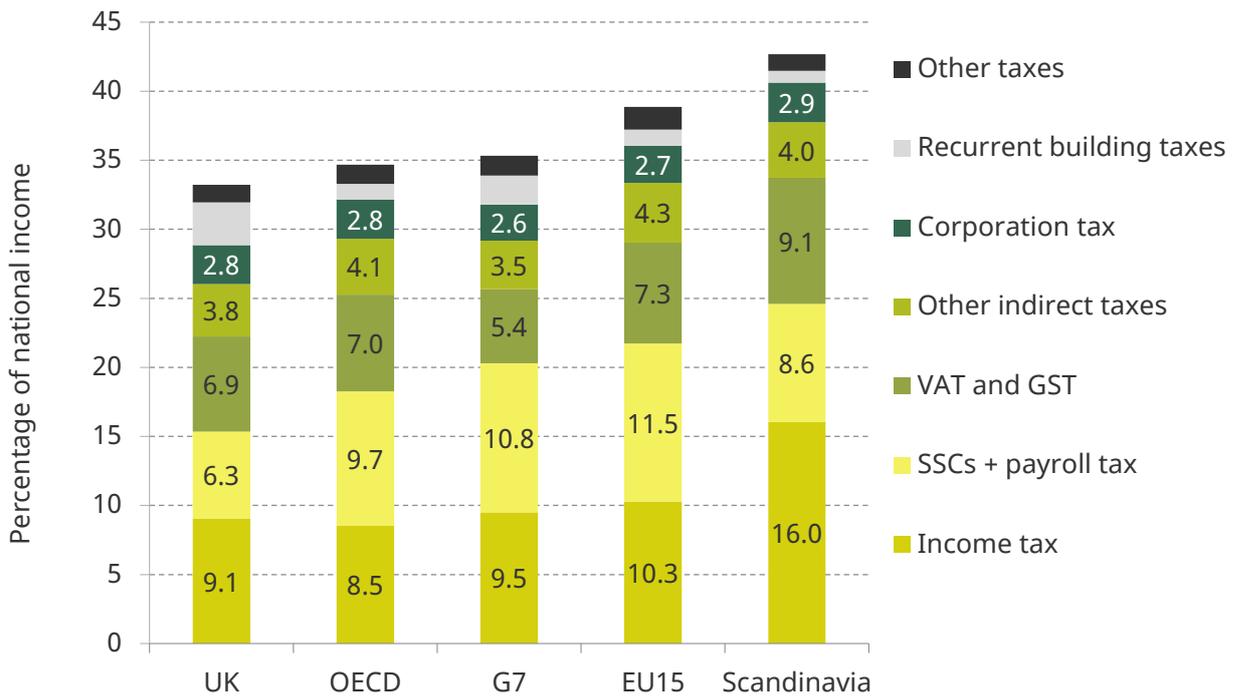
Source: Author’s calculations based on OBR, *Economic and Fiscal Outlook: March 2019*, <https://obr.uk/efo/economic-fiscal-outlook-march-2019/>.

### Other countries raise more from social security contributions...

The composition of revenue in the UK is broadly in line with other developed countries. The amounts raised from income tax, VAT, other indirect taxes and corporation tax are all around the average for comparable countries. The UK raises more than most from property taxes, especially business rates. But it raises less than average from social security contributions (SSCs – National Insurance contributions in the UK), and in particular from employers’ SSCs.

This fact needs interpreting with care, however. Many other European countries have a much stronger link between social security contributions and social security benefits than the UK does. This changes the distributional and incentive effects of the social security system and how it is perceived – it has more of the characteristics of a compulsory savings/insurance scheme, not just a tax – and we should be wary of analysing one half of the equation in isolation, looking at increasing NICs to European levels without also considering how state pensions and other benefits are provided.

**Figure 4. Tax revenues in different groups of countries, 2016**

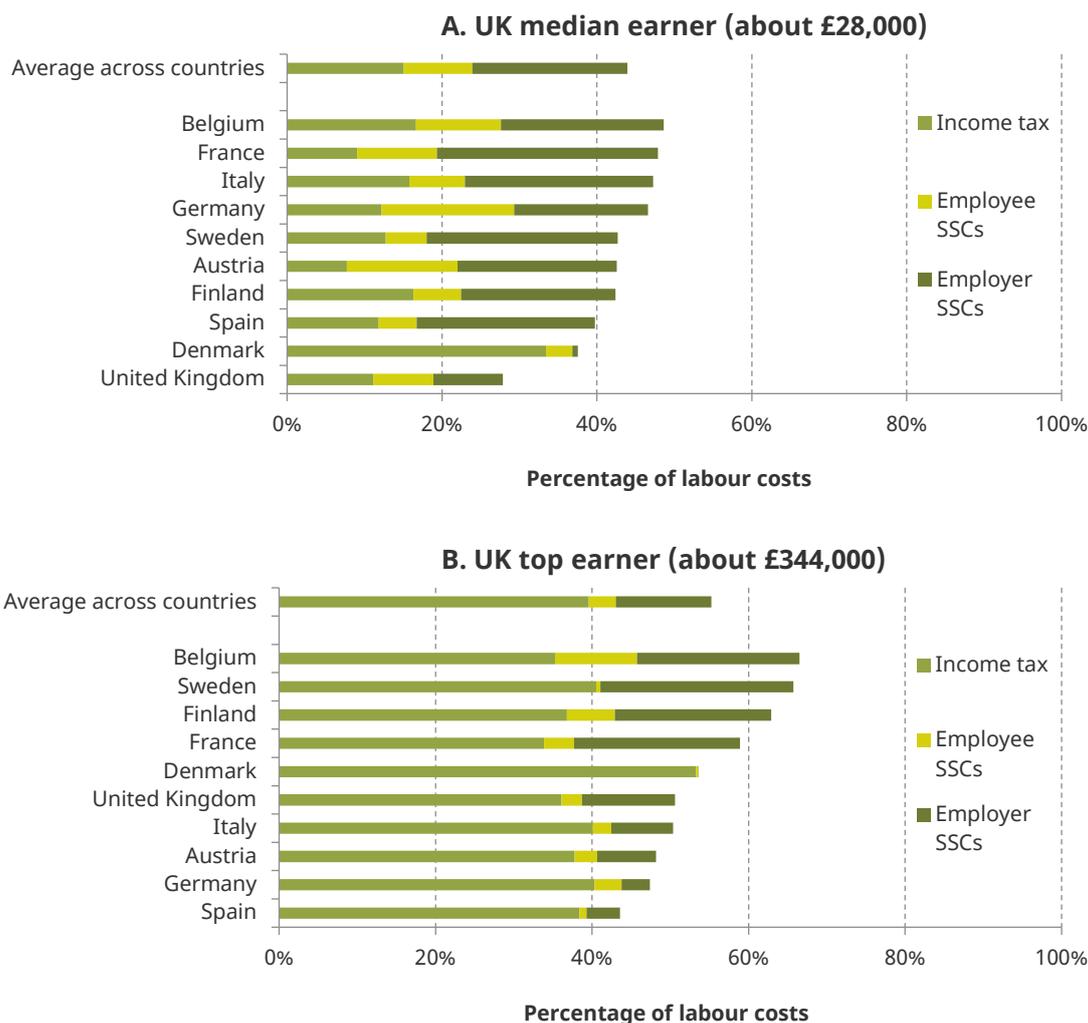


Notes and source: SSCs is social security contributions. VAT is value added tax. GST is general sales tax. See Figure 3 of Conte, Miller & Pope (2019), 'How do other countries raise more in tax than the UK?', <https://www.ifs.org.uk/publications/14256>.

### ...particularly for average earners

If the UK were to adopt the income tax and SSC rates of one of our higher-tax European neighbours, it might raise slightly more from the highest earners. But the big difference would be in the tax levied on the earnings of average workers. The average tax rate on median full-time earnings in the UK was 28% in 2016–17. This is much lower than it would be under the tax systems of the other countries shown in Figure 5, for which the average is 44%. Since 2016–17 (the year for which this analysis was undertaken), the income tax personal allowance has been increased more quickly than inflation, which will have further reduced income tax payments at the median in the UK.

**Figure 5. Average income tax and SSCs rates, 2016**



Note: Earnings levels are converted into local currency using purchasing power parity (PPP) exchange rates. Average tax rates are calculated as the sum of income tax, employer SSCs and employee SSCs paid as a share of labour costs (earnings and employer SSCs paid). The average excludes the UK.

Source: Figure 9 of Conte, Miller & Pope (2019), 'How do other countries raise more in tax than the UK?', <https://www.ifs.org.uk/publications/14256>. See that publication for more details.

### The tax and benefit system is progressive overall

The tax and benefit system overall redistributes from higher-income to lower-income households. Before taxes and benefits, the highest-income fifth of individuals have an average household income that is 12 times as high as the poorest fifth. Adding all cash benefits and deducting the main direct personal taxes (income tax, employee and employer NICs and council tax) brings this figure down to 5. Benefits account for around 80% of this reduction, while direct taxes account for 20%.

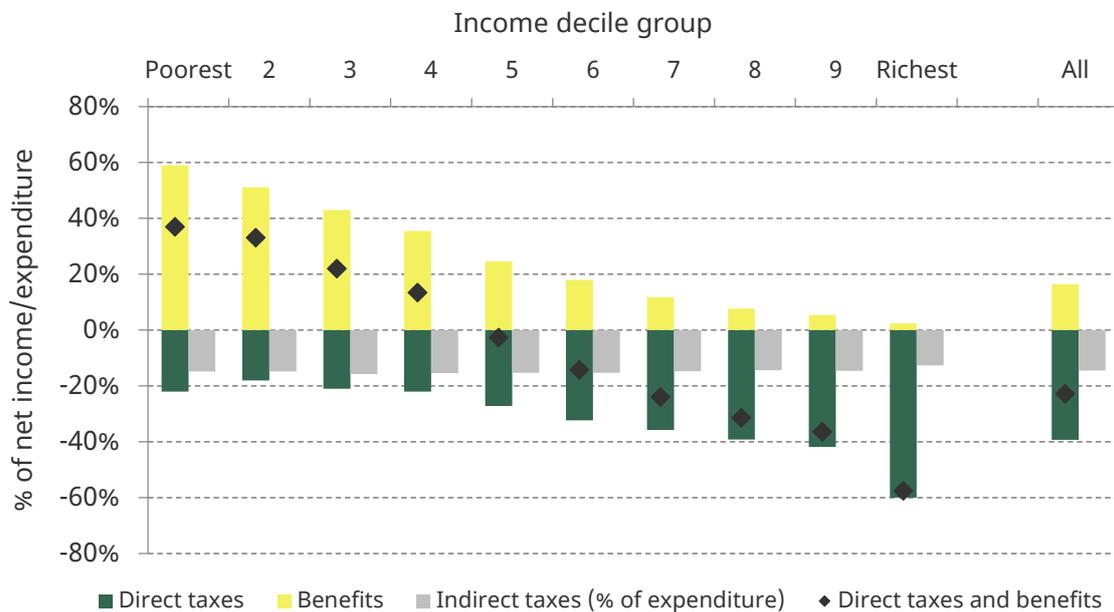
But while benefits are responsible for most of the reduction in income inequality, taxes are progressive as well. Figure 6 shows that the highest-income tenth of the population would have 60% more net income if they did not have to pay income tax, NICs and council

tax, and the next-richest fifth would have 40% more; this compares with just 20% more for the lowest-income 40% of the population.

Contrary to the widespread perception that they are regressive, indirect taxes (VAT and excise duties) are in fact roughly constant across the population on average when measured as a percentage of expenditure (as is appropriate for an expenditure tax) rather than income.

This analysis excludes the impact of public service provision, which is also likely to be more valuable (as a share of income) to lower-income households than to higher-income households.

**Figure 6. Effects of taxes and benefits by income decile, 2016–17**

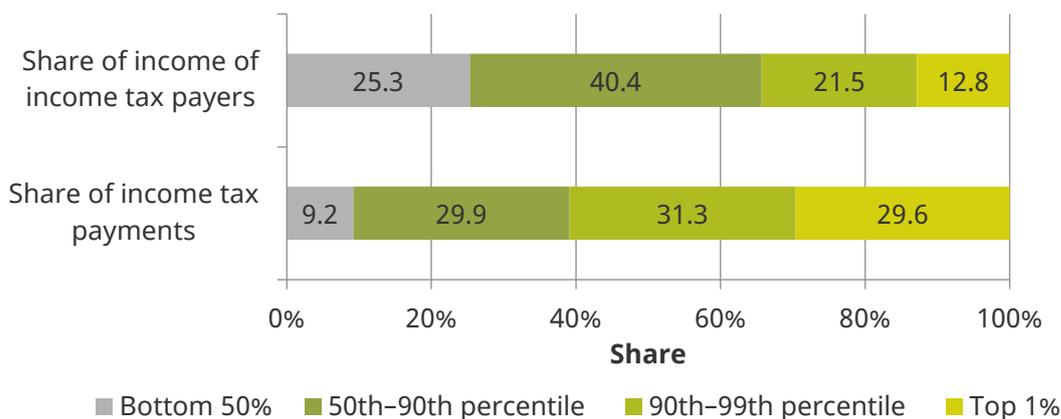


Notes & source: See Figure 4 of P. Bourquin and T. Waters (2019), 'The effect of taxes and benefits on UK inequality', <https://www.ifs.org.uk/publications/14127>.

### A large and rising share of income tax is paid by a small number of high-income individuals

In 2019–20, the top 1% of income tax payers (those with gross incomes above £188,000) received 13% of the pre-tax income of income tax payers and contributed 30% of income tax receipts (Figure 7). The top 10% of income tax payers (those with incomes over about £59,000) received one-third of the pre-tax income of taxpayers and paid 61% of income tax, while the bottom half of income tax payers received one-quarter of the pre-tax income and accounted for less than 10% of income tax receipts.

**Figure 7. Concentration of income tax payments**



Note: Both bars show shares for the population of income tax payers.

Source: HMRC table 2.4, <https://www.gov.uk/government/statistics/shares-of-total-income-before-and-after-tax-and-income-tax-for-percentile-groups>.

The concentration of income tax payments looks even more extreme when we consider that only 58% of the adult population (those aged 16 or over) receive enough income to pay income tax – a figure that has fallen over the past decade as increases in the personal allowance have taken more and more people out of income tax altogether. So while the top 1% of income tax payers contributes 30% of income tax revenue, the top 1% of *adults* – a much bigger group – contributes well over a third.

This concentration of income tax payments among a small number of people is partly a reflection of how tax rates rise with income and partly a reflection of how unequally distributed private income is.

The share of income tax provided by the top 1% of taxpayers has increased from 24% in 2007-08, just before the financial crisis, to 30% now. Unlike the increases in previous decades, this has not been driven by a rising income share at the top. Rather, it reflects policy reforms: there have been income tax rises for high-income individuals (the additional rate of income tax above £150,000, the withdrawal of the personal allowance above £100,000, substantial cuts in income tax relief for pension contributions, and a net real reduction in the higher-rate threshold) even while increases in the personal allowance have reduced or eliminated income tax for those with lower incomes.

Some other taxes, such as capital gains tax and inheritance tax, are even more targeted at those with high income or wealth. But the two other big workhorse taxes, NICs and VAT, are not as progressive as income tax.