Statistical bulletin

Effects of taxes and benefits on UK household income: financial year ending 2022

The redistribution effects of individuals and households of direct and indirect taxation and benefits received in cash or kind, analysed by household type.

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1 . Main points

- Median household income in the UK before taxes and benefits was £35,000 in the financial year ending (FYE) 2022, increasing to £38,100 after taxes and benefits.

- The richest fifth of people's average household income before taxes and benefits (£117,500) was 14 times larger than the poorest fifth (£8,200); however, this gap reduced to 4 times larger (£83,900 and £22,300, respectively) after taxes and benefits.

- Original income inequality (before taxes and benefits) increased by 1.6 percentage points to 50.2% between FYE 2021 and FYE 2022, while final income inequality (after taxes and benefits) increased by only 0.6 percentage points to 29.9%, highlighting the redistributive effect of taxes and benefits.

- Indirect taxes increased income inequality by 3.5 percentage points; the poorest fifth of people paid a greater proportion of equivalised disposable income on indirect taxes at 28.3%, compared with 9.0% for the richest fifth of people in FYE 2022.

- The proportion of people living in households receiving more in benefits than they paid in taxes decreased from 55.0% to 53.8% in FYE 2022.

2 . Effects of taxes and benefits on household income

This release covers the effects of taxes (both direct and indirect) and benefits (both cash and in-kind) on the redistribution of household income. Indirect taxes refer to those on goods and services, such as Value Added Tax (VAT), duty on tobacco, alcohol and fuel, and stamp duty. Benefits-in-kind relate to non-cash benefits such as the National Health Service, education, free childcare and travel subsidies. We refer to household income after all taxes and benefits as final income.

Taxes and benefits lead to income being shared more equally in financial year ending 2022

In the financial year ending (FYE) 2022, median household income in the UK before taxes and benefits was £35,000, increasing to £38,100 after taxes and benefits. The richest fifth had a mean household income before taxes and benefits of £117,500, over 14 times larger than the poorest fifth (£8,200). After cash benefits and direct taxes, this reduced to £83,700 for the richest fifth, 6.3 times larger than the poorest fifth (£13,200). After all taxes and benefits, this ratio reduced to 3.8 times larger, with average final incomes of £83,900 and £22,300 for richest and poorest people, respectively.

Figure 1: Taxes and benefits lead to household income being shared more equally between people

Mean household original, gross, disposable, post-tax and final income, equivalised, by quintile group, and richest fifth to poorest fifth of individuals ratio, all individuals, financial year ending 2022, UK

Notes:

1. Incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.

Download the data

.xlsx

Cash benefits and benefits-in-kind lowered income inequality in financial year ending 2022

After accounting for the effects of inflation, mean cash benefits remained broadly constant across all households (absolute decrease of £15) between FYE 2021 and FYE 2022. Benefits-in-kind increased by 1.4%, where increases in education benefits-in-kind across all but the richest fifth of households were a main contributor.

Cash benefits reduced income inequality, as measured by the Gini coefficient, by 9.3 percentage points: from 50.2% for original income to 40.9% for gross income in FYE 2022. In FYE 2021 the reduction was 9.5 percentage points, suggesting the role of cash benefits in reducing income inequality remained similar between years.

Benefits-in-kind lowered the Gini coefficient by a further 9.3 percentage points in FYE 2022, from 39.2% for post-tax income to 29.9% for final income. This was in comparison with an 8.3 percentage point reduction in FYE 2021, suggesting that benefits-in-kind have become slightly more effective at lowering income inequality.

Figure 2: The redistributive effect of taxes and benefits lowers income inequality

Financial year ending 2022, UK

Notes:

1. pp - percentage points.

Download the data

.xlsx

Indirect taxes increased income inequality in financial year ending 2022

Indirect tax is largely determined by household expenditure, and increased by 9.1% between FYE 2021 and 2022, in comparison with an increase of 4.8% in direct taxes. Main contributors to increased indirect taxes were Value Added Tax (VAT) and duties on hydrocarbon oils, consistent with annual increases in household expenditure as coronavirus (COVID-19) pandemic restrictions eased. For more information, see our Family spending in the UK bulletin.

The richest fifth of people paid 1.9 times more in indirect taxes (£9,000) than the poorest fifth (£4,800) in FYE 2022. However, richer households pay a smaller proportion of their disposable income on indirect taxes (9.0%) than the poorest fifth (28.3%). As such, indirect taxes increased income inequality by 3.5 percentage points as measured by the Gini coefficient.

Figure 3: Poorer households paid a greater proportion of disposable income on indirect taxes than richer households in FYE 2022

Mean indirect taxes as a percentage of disposable income for all households by quintile groups, financial year ending 2022, UK

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Mean indirect taxes as a percentage of disposable income for all households by quintile groups, financial year ending 2022, UK
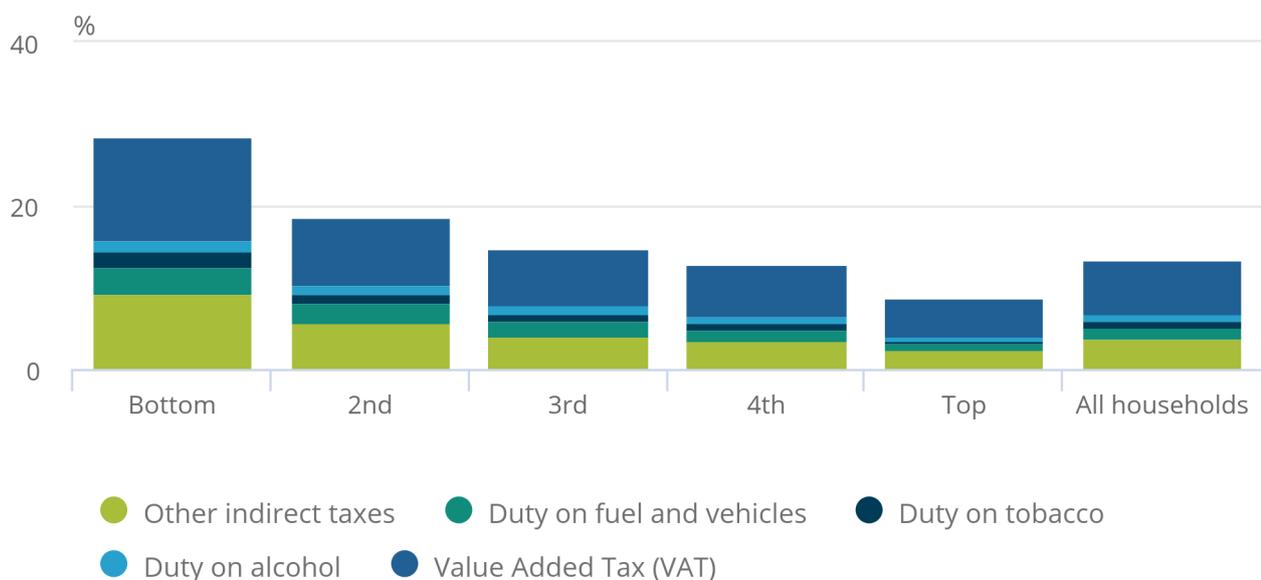
Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Individuals are ranked by their equivalised household disposable incomes, using the modified Organisation for Economic Co-operation and Development (OECD) scale.

2. Duty on fuel and vehicles includes both duty on hydrocarbon oils and vehicle excise duty.

Household final income decreased in FYE 2022

After all taxes and benefits, there was a 2.1% decrease in median final income between FYE 2021 and FYE 2022, while mean final income remained relatively stable (0.2% decrease). This follows large increases in both mean (6.4%) and median (9.6%) household final income between FYE 2020 and FYE 2021.

Figure 4: Median household income after taxes and benefits decreased by 2.1% in FYE 2022

Mean and median household original, gross, disposable, post-tax and final income, financial years ending 2021 and 2022, UK

Figure 4: Median household income after taxes and benefits decreased by 2.1% in FYE 2022

Mean and median household original, gross, disposable, post-tax and final income, financial years ending 2021 and 2022, UK

Mean FYE 2021 ● Mean FYE 2022 ● Median FYE 2021 ● Median FYE 2022
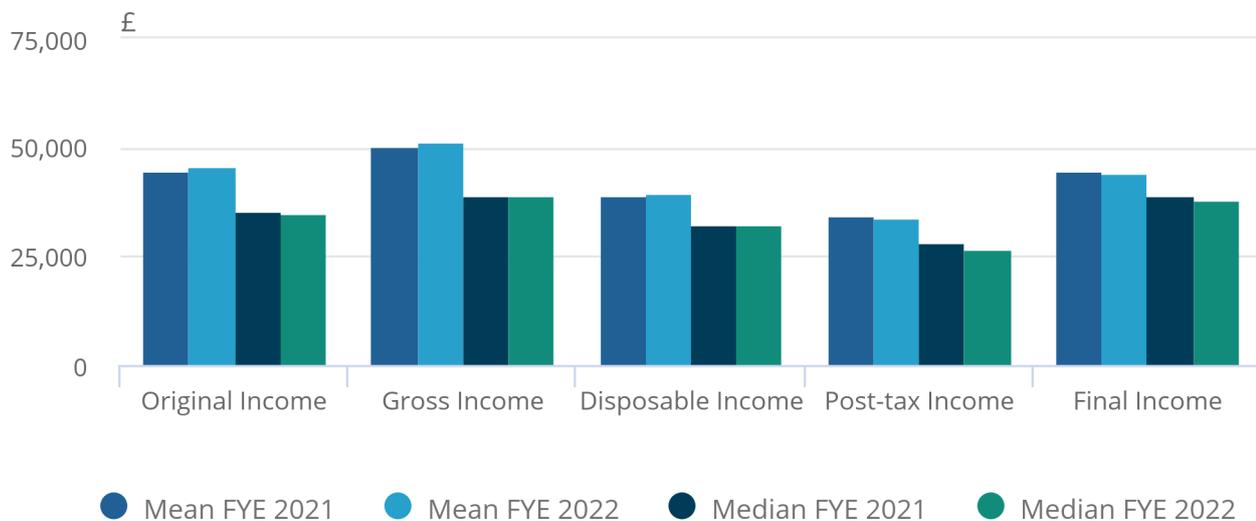
Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.

2. Incomes are adjusted for inflation using the Consumer Prices Index including owner-occupiers' housing costs (CPIH) excluding Council Tax.

3. FYE 2022 represents the financial year ending 2022, April to March, and similarly for all other years expressed in this format.

The richest fifth of households saw an annual increase in mean final income of 2.1% in FYE 2022, while the poorest fifth saw little change (0.3% increase). However, over the 10-year period leading up to FYE 2022 (FYE 2013 to FYE 2022), mean household final income increased at a similar rate for both the poorest fifth (2.1% per year) and richest fifth of people (2.2% per year).

Retired households are typically net recipients of taxes and benefits, while non-retired households are typically net contributors

Figure 5 summarises the net positions of households across the income distribution. The poorest fifth of people live in households that received relatively large amounts of both cash benefits and benefits-in-kind and were net recipients. In contrast, richer households paid more in taxes and received less in benefits, meaning that these households were net contributors.

Figure 5: Summary of the effects of taxes and benefits on all households

Mean household taxes and benefits, financial year ending 2022, UK

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Mean household taxes and benefits, financial year ending 2022, UK
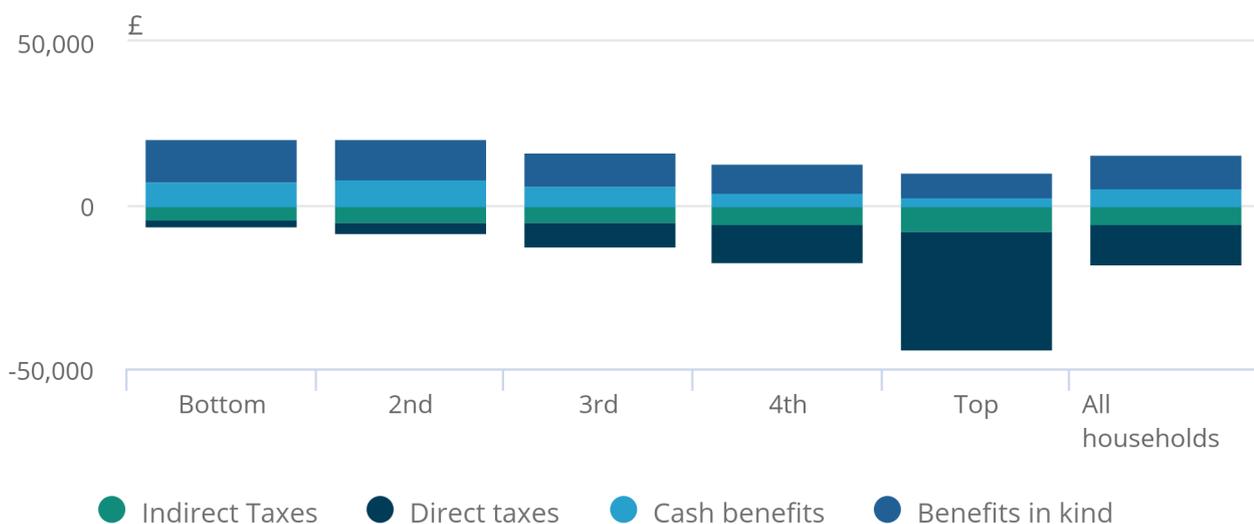
Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.

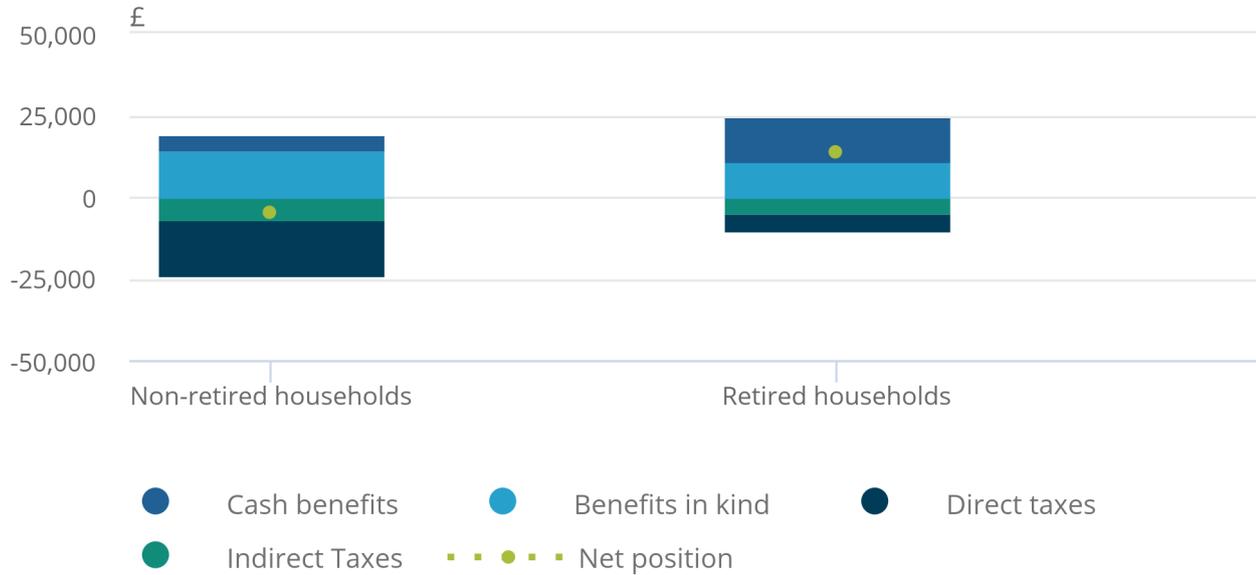2. State pension and pension credit are classified as cash benefits.

In FYE 2022, 53.8% of all UK individuals were net recipients (living in households receiving more in benefits than they paid in taxes), a reduction of 1.2 percentage points since FYE 2021. A much greater proportion of retired individuals were net recipients (89.2 %) in comparison with non-retired people (46.0%), largely because of the classification of State Pension and Pension Credit as cash benefits.

Figure 6: Non-retired households are net contributors of taxes and benefits, while retired households are net recipients

Mean household taxes and benefits, financial year ending 2022, UK

Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Net position is the difference between benefits received (both cash and in-kind) and taxes paid (both direct and indirect).

2. State pension and pension credit are classified as cash benefits.

3 . Effects of taxes and benefits on UK household income data

[Average incomes, taxes and benefits of all individuals, retired and non-retired by decile group](#)
Dataset | Released 18 July 2023
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Average incomes, taxes and benefits of all individuals, retired and non-retired by quintile group](#)
Dataset | Released 18 July 2023
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Summary of the effects of taxes and benefits of individuals by household type](#)
Dataset | Released 18 July 2023
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Effects of taxes and benefits on household income](#)
Dataset | Released 18 July 2023
Average annual incomes, taxes and benefits and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

4 . Glossary

Stages in the redistribution of income

The five stages in the redistribution of income are:

- original income: household members begin with income from employment, private pensions, investments and other non-government sources

- gross income: households then receive income from cash benefits; the sum of cash benefits and original income is referred to as "gross income", where cash benefits refer to state-funded benefits such as Job Seekers Allowance, Universal Credit, Child Benefit, State Pension and Personal Independence Payment

- disposable income: households then pay direct taxes; direct taxes, when subtracted from gross income, are referred to as "disposable income", where direct taxes include deductions such as Income Tax, National Insurance contributions, student loan repayments and council tax (less council tax benefits or rebates)

- post-tax income: indirect taxes are then paid via expenditure; disposable income minus indirect taxes is referred to as "post-tax income", where indirect taxes refer to those on goods and services such as Value Added Tax (VAT), duty on tobacco, alcohol and fuel, and stamp duty

- final income: households finally receive a benefit from services (benefits-in-kind); benefits-in-kind plus post-tax income is referred to as "final income", where benefits-in-kind relate to non-cash benefits such as the National Health Service, education, free childcare and travel subsidies

Note that at no stage are deductions currently made for housing costs.

Equivalisation

Comparisons across different types of individuals and households or over time are made after income has been equivalised. Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members. Equivalisation considers the number of people living in the household and their ages, acknowledging that while a two-person household will need more money to sustain the same living standards as a single-person household, the two-person household is unlikely to need double the income.

This analysis uses the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale (PDF 204 KB).

Our analysis ranks individuals by their equivalised household disposable incomes, using the modified OECD scale.

Mean and median income

The mean measure of income divides the total income of individuals by the number of individuals. A limitation of using the mean is that it can be influenced by just a few individuals with very high incomes and therefore does not necessarily reflect the standard of living of the "typical" person. However, when considering changes in income and direct taxes by income decile or types of households, the mean allows for these changes to be analysed in an additive way.

Many researchers argue that growth in median household incomes provides a better measure of how people's well-being has changed over time. The median household income is the income of what would be the middle person, if all individuals in the UK were sorted from poorest to richest. Median income provides a good indication of the standard of living of the "typical" individual in terms of income.

Net recipients and net contributors

The term "net recipients" refers to people living in households receiving more in cash benefits and benefits-in-kind than is being paid in direct and indirect taxes. "net contributors" refers to people living in households paying more in direct and indirect taxes than they receive in cash benefits and benefits-in-kind.

Household reference person

The household reference person is the householder who either:

- owns the household accommodation

- is legally responsible for the rent of the accommodation

- has the household accommodation as an emolument or perquisite

- has the household accommodation by virtue of some relationship to the owner who is not a member of the household.

- If there are joint householders, the household reference person will be the one with the higher income. If the income is the same, then the eldest householder is taken.

Retired and non-retired households

A retired household is one where more than 50% of its income is sourced from retired people. A retired person must satisfy one of the following criteria:

- their self-defined employment status is "Retired", and they are aged over 50 years

- their self-defined employment status is "Sick or Injured," they are not seeking work, and they are aged at or above the State Pension age

As such, analysis of the average income of people living in retired households can include much younger people and potentially exclude older people. However, the strength of this measure is that it highlights those individuals who are most likely to be affected by policy, societal or economic changes that disproportionately affect pension income.

5 . Measuring the data

Data in this release are calculated using the Household Finances Survey (HFS) data, a combination of the Living Costs and Food Survey (LCF) and Survey on Living Conditions, with harmonised income collection from approximately 17,000 private households in the UK. Estimates up to disposable income are calculated from the full HFS sample, and further estimates up to final income are calculated from the LCF component (approximately 5,000 households), which provides both income and expenditure data.

Unless otherwise stated, income is equivalised to account for changes in household composition. When growth rates are quoted, they adjust for the effects of inflation and compare the average for a group of households in one period with the average for a different group in the next period. These statistics are fully compliant with the Code of Practice for Statistics and are designated as National Statistics. For further detail on quality and methodology, see our Effects of taxes and benefits on household income QMI.

Our income and earnings interactive tool enables data comparisons across multiple sources, and can be filtered by topic area, data source, and geographic coverage.

Coronavirus (COVID-19)

Financial support measures and policy changes were put in place during the coronavirus (COVID-19) pandemic to alleviate financial pressures. Notably, the Coronavirus Job Support Scheme (CJRS), the Self-Employment Income Support Scheme (SEISS) and the uplift to the Universal Credit standard allowance basic element were available between spring 2020 and autumn 2021. As such, income estimates for financial year ending (FYE) 2022 remain affected by such schemes.

6 . Strengths and limitations

Comparable estimates are available back to 1977, allowing analysis of long-term trends. Information on income and expenditure levels provide insight into indirect taxes paid by different household groups. This, combined with estimates of benefits-in-kind, provides the most complete assessment of the redistributive role of taxes and benefits in the UK.

Data remain subject to some limitations. The Household Finances Survey (HFS) is a sample of private households and does not include those living in institutionalised households, such as care homes and hostels, or people experiencing homelessness. Therefore, many of the poorest in society are likely not captured.

Household income surveys can suffer from underreporting at the top and bottom of the income distribution. While an adjustment to address survey undercoverage of the richest people has been introduced for statistics covering financial year ending (FYE) 2002 onwards, measurement issues at the bottom remain. For further details, see our Effects of taxes and benefits on household income QMI.

The Gini coefficient is used to measure income inequality in this publication and is one of the most widely used measures of income inequality. The characteristics of this metric make it particularly useful for making comparisons over time, between countries and before or after taxes and benefits. The Office for National Statistics (ONS) publish a range of income inequality metrics to supplement the Gini coefficient, and in doing so, we aim to overcome limitations of using single summary indicators, such as changes to the shape and composition of the income distribution.

7 . Related links

Top income adjustment in effects of taxes and benefits data: methodology
Chapter | Released 25 February 2020
Analysis of a recently introduced approach to addressing survey under-coverage of the highest earners in effects of taxes and benefits data, using tax record information.

Average household income, UK: financial year ending 2022
Bulletin | Released 25 January 2023
Average UK household incomes taxes and benefits by household type, tenure status, household characteristics and long-term trends in income inequality.

Household income inequality, UK: financial year ending 2022
Bulletin | Released 25 January 2023
Estimates of income inequality in the UK for the financial year ending 2022.

The effects of taxes and benefits on household income, technical report: financial year ending 2020
Methodology | 8 June 2021
This technical report provides an update on how the effects of taxes and benefits on household income (ETB) datasets for financial year ending (FYE) 2018 to FYE 2020 are produced. It contains information relating to questionnaire changes and new or changed methodology for these years.

Income and earnings statistics guide
Methodology | Last revised 5 June 2023
This guide outlines the different data sources and outputs that feed into the analysis of income and earnings within the UK.

8 . Cite this statistical bulletin

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