

## Income Tax Statistics and Distributions

### A Introductory Note

1. This section provides information on the income tax liabilities of United Kingdom (UK) individual taxpayers and the way in which income tax is collected by the HM Revenue & Customs.

### B Income Tax Liabilities

2. Individuals may receive many different types of income but not all kinds of income are taxable. The main kinds of income on which income tax may be payable are income from employment, self-employed profits from a business, occupational and personal pensions, interest from building societies and banks, dividends on shares, and income from property. Tax is payable on some social security benefits such as the state retirement pension, bereavement allowance, jobseeker's allowance and incapacity benefit - but not on others such as pension credit or child benefit. Tax is not payable on income received from certain National Savings products such as National Savings certificates, or from Individual Savings Accounts.
3. An individual's taxable income is calculated by adding together all their sources of income liable to tax and then subtracting any allowances and reliefs. Each individual is entitled to a personal allowance. Married couple's allowance is given as a tax adjustment rather than a deduction from income. Dividends and savings income (broadly, bank and building society interest) are treated as the 'top slices' of income, with dividends the highest. Non-savings income (e.g. employment, pensions, trading profits or income from property) is the first slice of income to be charged to income tax and from which the personal allowance would be deducted. Other allowances are available to blind people and people aged 65 and over. Table [TA.1](#) provides levels of personal allowances.
4. Working Tax Credit (WTC) and Child Tax Credit (CTC) were introduced in April 2003 and are designed to "top up" the earnings of families on low or moderate incomes. Eligibility depends on families' circumstances. Families with children below the age of 16 (or 18 if they are in full-time education) are eligible for CTC. Families with at least one adult working 30 hours per week (or 16 hours per week if they have children or are disabled) are eligible for WTC. The amount of WTC and CTC that a family receives will depend on their income.
5. The tax system allows for many different kinds of reliefs. Some tax reliefs are available for contributions to occupational or personal pension schemes. Table [1.5](#) and Table [B.1](#) show the estimated cost of many of the tax allowances and reliefs.
6. When all eligible reliefs and allowances have been deducted from income liable to tax, the tax is calculated by applying the appropriate rates of income tax. Table [TA.2](#) gives details of the income tax rates applicable in recent years.

From 1994-95 the married couple's allowance and related allowances and mortgage interest relief were no longer given as a deduction from income; instead, and where they are still available, they represent an amount of tax which is deducted from the individual's tax liability. The married couple's allowance goes to the husband in the first instance where a couple married before 5 December 2005. For those who married or formed a civil partnership after that date, it is available to the partner with the higher income. The married couple's allowance is made up of two parts; a minimum amount and a second, age dependent amount. The minimum amount will always be due, regardless of income. The second, age dependent amount reduces if the claimant's income exceeds an income limit.

The age dependent element of the married couple's allowances will reduce by £1 for every £2 of income the claimant has over this income limit.

Between 1990-91 and 1992-93 a husband could only transfer part or all of his married couple's allowance to his wife if he was unable to make full use of the allowance himself. Since 1993-94 the minimum amount of the allowance may be transferred to the wife if the couple agree beforehand. The wife has the right to claim half the minimum amount of the allowance. The wife or partner with the lower income is entitled to any amount of the allowance that the husband or partner with the higher income cannot use because the liability is below the full amount of married couple's allowance due. Since 6 April 2000, the married couple's allowance and related allowances were removed for couples where both partners were born on or after 6 April 1935.

From 5<sup>th</sup> December 2005 the rules regarding married couple's allowance also applied to civil partnerships.

### **How income tax is charged**

7. Until the Rewrite of the Taxes Acts, which is being dealt with in a series, income tax was charged under a series of schedules as follows:

Schedule A: Rent and other receipts from land and buildings

Schedule B: Income from the occupation or use of woodland managed on a commercial basis (largely obsolete since the 1988 Finance Act) Schedule C: Interest on certain British Government securities and securities of foreign governments and public authorities (abolished for income tax purposes with effect from 6 April 1996; tax charge transferred to Case III of Schedule D as from that date) Schedule D: This schedule is divided into six Cases:

Case I Profits of trade

Case II Profits of profession or vocation not dealt with under any other schedule

Case III Interest and annual payments

Case IV Income from overseas securities

Case V Other income, other than employment income, arising abroad

Case VI Any other income, in particular occasional profits not chargeable under Case I and II.

Schedule E: Income from offices, employment and pensions

Schedule F: Dividends and other company distributions

Income Tax (Earnings and Pensions) Act 2003 reclassified income that was within Schedule E as earnings and pension income. Income Tax (Trading and Other Income) Act 2005 reclassified income that was within Schedules A, D and F as trading and other income. Further reclassifications will be made over the next few years. The rules for determining liability of the income are not changed by the rewrites.

The main purpose of Income Tax Act 2007 is to rewrite the income tax legislation that had not yet been rewritten so as to make it clearer and easier to use. The Income Tax Act 2007, includes the basic provisions about the charge to income tax, income tax rates, the calculation of income tax liability, and personal reliefs; various specific reliefs including relief for losses, the enterprise investment scheme, venture capital trusts, community investment trusts, interest paid, gift aid and gifts of assets to charities; specific rules about trusts, deduction of income tax at source, manufactured payments and repos, tax avoidance and general income.

### **How income tax is collected**

8. The way in which an individual's income tax liabilities are met depends on the types of income they have and on their total tax liability. Tax may be collected either by a direct

payment from the taxpayer or by deduction at source by a third party such as an employer, or a bank or building society where an account is held.

9. For the vast majority of employees and pensioners who receive income from employment or from occupational pensions the tax due on that income is calculated by the employer and the appropriate amount deducted before the employee is paid. This system, known as Pay As You Earn (PAYE), ensures that the majority of these individuals do not usually need to complete an annual tax return or make any direct payment to the HM Revenue & Customs.
10. Contractors in the construction industry deduct a proportion of payments they make to their subcontractors who do not hold exemption certificates according to the subcontractors' tax status.
11. From 6 April 1996 interest paid to investors by building societies and banks is credited net of tax at the rate of 20 per cent unless the investor is a non-taxpayer and has registered to receive interest without deduction of tax. (From 6 April 1991 to 5 April 1996 tax was deducted at the basic rate). From 6 April 2008 tax is deducted at the 20 per cent basic rate. Net payments can also apply to interest on certain British Government securities, securities of foreign governments and public authorities, and for company distributions other than dividends. For all taxpayers apart from those paying higher rate tax, this ensures that the individual's tax liability on the income has been met in full and there is usually no need for the individual to make a return to the HM Revenue & Customs. Investors who have unused allowances or have savings income in the 10 per cent starting rate band (up to 5 April 2008) or starting rate for limit savings (from 6 April 2008) can claim repayment from the HM Revenue & Customs of any tax overpaid. Higher rate taxpayers have to pay the extra tax due either through self assessment or by an adjustment of their coding or other allowances.
12. Individuals may also receive investment income from UK companies in the form of dividends and will be liable to income tax on this income. Apart from those paying higher rate tax, the tax liability is met by a tax credit which accompanies the dividend. The tax credit on dividends paid on or after 6 April 1999 is not repayable to shareholders with no tax liability. The tax credit was reduced from 20 per cent to 10 per cent on the same date. From 1999-2000 dividends are taxed at 10 per cent up to the basic rate limit and 32.5 per cent above it for higher rate taxpayers. From 2010-11 dividends are taxed at 42.5 per cent above the higher rate limit for additional rate taxpayers.
13. Other tax is paid directly by the individual after, or at the same time as, details have been supplied in a tax return (from 1996-97 the self-assessment tax return). This covers tax on income from self-employment (other than covered by the subcontractor deduction scheme), from abroad and from letting accommodation; and additional tax payable by higher rate taxpayers on investment income and dividends.

### **Income tax receipts**

14. The amounts of income tax received by the HM Revenue & Customs in any financial year are not the same as the total amount of income tax liability for that year. As explained above some tax is paid when, or after, a tax return is completed, which is some time after the end of the financial year in which the liability to tax arose. Tables [2.1 to 2.7](#) provide information on total tax liabilities arising on incomes in a given period and do not take into account how the tax is collected or when it is paid. Table [2.8](#) however looks at actual receipts of tax by the HM Revenue & Customs in each year and takes no account of when the liability to that tax arose. Similarly, Table [2.9](#) gives a more detailed breakdown of income tax repayments actually made by HM Revenue & Customs in each year. Table [2.10](#) shows the percentage distribution of income tax, by industry for each tax year, that is deducted from pay (excluding pensions) by employers under the PAYE system.

### **C Sources of Data**

15. The main source of information on the tax liabilities of UK individuals is the annual Survey of Personal Incomes. The survey forms the basis of the tables given in the first part of the section and a detailed description is given in the 'Personal incomes' section.
16. Results from these surveys are not available until some time after the period to which the survey relates and so projections are made in Tables 2.1 to 2.7 to produce more up-to-date figures. These projections are inevitably subject to a margin of error but endeavour to take into account structural changes in the income tax population such as changes in the numbers employed or self-employed and growth in occupational pensioners. The projections also take account of changes in nominal income levels, for example earnings growth is modelled using information on expected average earnings growth and Annual Survey of Hours and Earnings (ASHE) data. The modelling assumptions are consistent with the most recent Office for Budget Responsibility (OBR) forecast for the economy and public finances.
17. Note that the outturns and projections in Tables 2.1 to 2.7 relate to income tax liabilities and not receipts, as described above. The projected totals for income tax liabilities therefore will not match the OBR's definitive published forecasts of income tax receipts. Rather, the main purpose and use of Tables 2.1 to 2.7 is to provide breakdowns of tax liabilities (e.g. by taxpayer's marginal rate, region or income band) that are not readily available via receipts data or forecasts.
18. Table 2.8 and Table 2.9 are mainly based on data derived from the Department's accounting systems for the collection and repayment of taxes.
19. Table 2.10 is based on data derived from the PAYE scheme. At the end of each income tax year, employers make returns to the HM Revenue & Customs giving details of the employees and pensioners paid by them during the year, the amounts paid and the tax and National Insurance Contributions deducted. Contribution details are noted on the individual's central contribution record on National Insurance Recording System (NIRS2). For each year information from the records of a 1 per cent sample of individuals has been extracted and held on a completely separate computer record with PAYE information about the same individuals. This record is used only for statistical analysis. It was established primarily to provide estimates of wages and salaries for the National Accounts. The record, however, also provides information on pay, tax and employees' national insurance contributions by industry, sex, area and age. Further analyses of the information held on the statistical database are available on request. This is very much an historical analysis and more up to date information on PAYE receipts is available from other sources.

#### **D Notes on the Tables**

20. All of the tables in this section exclude the Working Families' Tax Credit, the Disabled Person's Tax Credit, Child Tax Credit, Working Tax Credit and MIRAS, with the exception of Table 2.7.

#### **E. Enquiries and Further Information**

21. Enquiries about statistics on income tax should be addressed to Darren Keelaghan, Knowledge, Analysis & Intelligence, HM Revenue & Customs, Room 2E/04, 100 Parliament Street, Westminster, London, SW1A 2BQ. Tel. 0207 147 2988, email: [Darren.keelaghan@hmrc.gsi.gov.uk](mailto:Darren.keelaghan@hmrc.gsi.gov.uk)

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