

Tax injustice in the UK

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The Office for National Statistics has issued a new report entitled "[The effects of taxes and benefits on household income, 2007/08](#)". Not the most gripping title you might say, but the data is fascinating so I'm reproducing a whole series of tables from the report here, but would add there is a lot more still within the original.

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#160 Table 1

Summary of the effects of taxes and benefits by quintile groups on ALL households, 2007-08

	Quintile groups of ALL households ¹					All households	Ratio top/bottom quintile
	Bottom	2nd	3rd	4th	Top		
Income, taxes and benefits per household (£ per year)²							
Original income	4 651	12 574	23 640	38 505	72 581	30 390	16
plus cash benefits	6 453	7 131	5 309	3 311	1 666	4 774	0.3
Gross income	11 105	19 705	28 949	41 816	74 247	35 164	7
less direct taxes ³ and employees' NIC	1 202	2 770	5 393	9 096	18 517	7 396	15
Disposable income	9 903	16 936	23 556	32 720	55 729	27 769	6
less indirect taxes	3 100	3 672	4 615	5 723	7 408	4 904	2
Post-tax income	6 803	13 264	18 941	26 997	48 321	22 865	7
plus benefits in kind	7 494	6 602	6 206	5 591	4 050	5 989	0.5
Final income	14 297	19 866	25 147	32 588	52 371	28 854	4

Source: Office for National Statistics

A quintile is 20% of households. Look at the massive disparities in well being this basic data reveals. Note too that whilst income tax is progressive that the impact of indirect taxes are very, very different in scale. It's a theme to which I return, below.

Expressed as percentages the message is stark:

#160; Table 2

Percentage shares of household income and Gini coefficients,¹ 2007-08

	Percentage shares of equivalised income for ALL households ²			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group ²				
Bottom	3	7	7	6
2nd	8	11	12	12
3rd	14	16	16	16
4th	24	22	22	22
Top	51	44	42	44
All households	100	100	100	100
Decile group ²				
Bottom	1	3	3	2
Top	33	28	26	28
Gini coefficient (per cent)	52	38	34	38

Source: Office for National Statistics

20% enjoy 44% of post tax income: 20% just 6%. That is more than a sevenfold difference, and using quintile data mutes the extremes. The decile data disparity is 14 fold. The Gini coefficient is a measure of inequality: 0 is total equality, 1 is all income goes to one person inequality. Again, I return to this below.

Looking at how tax breaks down is important:

Table 3

Taxes as a percentage of gross income, disposable income and expenditure for ALL households by quintile groups,¹ 2007/08

	Quintile groups of ALL households ²					All households
	Bottom	2nd	3rd	4th	Top	
(a) Direct and indirect taxes as a percentage of gross income						
Direct taxes						
Income tax ³	3.2	6.9	10.7	13.5	18.4	13.7
Employees' NIC	1.5	3.1	4.6	5.5	4.7	4.5
Council tax & Northern Ireland rates ⁴	6.1	4.0	3.4	2.8	1.8	2.8
<i>All direct taxes</i>	<i>10.8</i>	<i>14.1</i>	<i>18.6</i>	<i>21.8</i>	<i>24.9</i>	<i>21.0</i>
Indirect taxes						
VAT	10.8	7.2	6.5	5.8	4.5	5.8
Duty on alcohol	1.5	1.0	0.9	0.8	0.6	0.8
Duty on tobacco	2.6	1.8	1.2	0.7	0.3	0.8
Duty on hydrocarbon oils & vehicle excise duty	3.2	2.3	2.2	1.9	1.2	1.8
Other indirect taxes	9.9	6.3	5.3	4.4	3.5	4.7
<i>All indirect taxes</i>	<i>27.9</i>	<i>18.6</i>	<i>15.9</i>	<i>13.7</i>	<i>10.0</i>	<i>13.9</i>
<i>All taxes</i>	<i>38.7</i>	<i>32.7</i>	<i>34.6</i>	<i>35.4</i>	<i>34.9</i>	<i>35.0</i>
(b) Indirect taxes as a percentage of disposable income						
VAT	12.1	8.4	8.0	7.4	5.9	7.4
Duty on alcohol	1.6	1.2	1.1	1.1	0.8	1.0
Duty on tobacco	2.9	2.1	1.4	0.9	0.4	1.1
Duty on hydrocarbon oils & vehicle excise duty	3.6	2.7	2.7	2.4	1.5	2.2
Other indirect taxes	11.1	7.4	6.5	5.7	4.6	6.0
<i>All indirect taxes</i>	<i>31.3</i>	<i>21.7</i>	<i>19.6</i>	<i>17.5</i>	<i>13.3</i>	<i>17.7</i>
(c) Indirect taxes as a percentage of expenditure²						
VAT	7.9	7.9	7.8	7.7	7.1	7.5
Duty on alcohol	1.1	1.1	1.1	1.1	1.0	1.0
Duty on tobacco	1.9	2.0	1.4	1.1	0.4	1.1
Duty on hydrocarbon oils & vehicle excise duty	2.3	2.5	2.6	2.5	1.8	2.3
Other indirect taxes	7.2	7.0	6.3	5.9	5.5	6.1
<i>All indirect taxes</i>	<i>20.3</i>	<i>20.5</i>	<i>19.2</i>	<i>18.1</i>	<i>15.8</i>	<i>18.1</i>

Council tax is blatantly regressive. So is VAT, as overall are indirect taxes as a whole. Is it any surprise that the Big 4 firms, the Institute for Fiscal Studies and other big business lobbying groups are so keen on them? They shift the burden of tax from the wealthiest in society to the poorest. Note that the effect is near enough the same on expenditure too: the richest spend less on consumption as a proportion because they, unlike the poorest, can save. The effect is that their saving gets a tax subsidy the rest do not enjoy. And so the wealth divide increases.

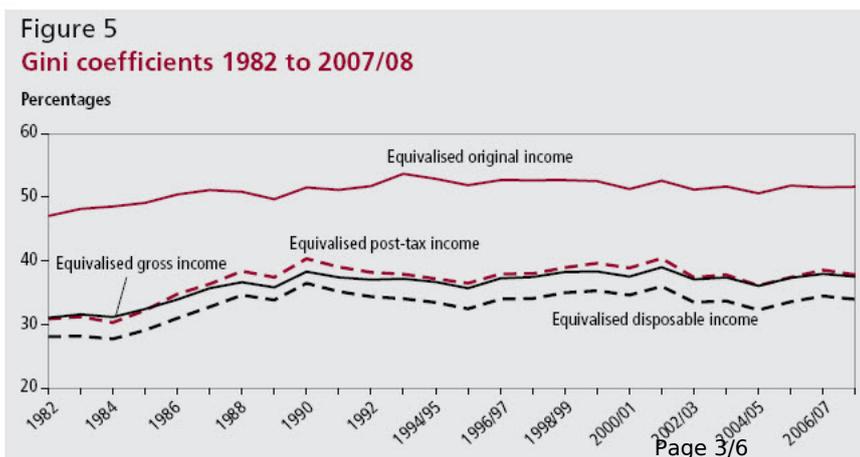
Looking at household characteristics is also telling:

Table 4
Summary of household characteristics of quintile groups of ALL households,¹ 2007-08

	Quintile groups of ALL households ¹					All households
	Bottom	2nd	3rd	4th	Top	
Number of individuals per household						
Children ²	0.6	0.6	0.6	0.5	0.4	0.5
Adults	1.7	1.8	1.9	2.0	1.8	1.8
Men	0.8	0.8	0.9	1.0	1.0	0.9
Women	0.9	1.0	1.0	1.0	0.9	1.0
People	2.3	2.3	2.4	2.5	2.2	2.4
People in full-time education	0.7	0.5	0.5	0.5	0.3	0.5
Economically active people	0.6	0.8	1.3	1.6	1.6	1.2
Retired people	0.6	0.6	0.5	0.3	0.2	0.4
Household type (percentages)						
Retired	39	40	29	16	7	26

The wealthiest have the lowest number of children per household. It's an issue I will return to later. Note too how the trend of those in full time education falls as one rises through the quintiles: this partly explains the move in the opposite direction of those who are economically active. Pensioners explain a lot of the rest. The combined figure for both in the lowest quintile is 1.3, in the highest it is 0.5. The difference in economically active is 1.0, but its clear when looked at this way lack of availability of work is not the major issue.

As noted above, the Gini coefficient measures inequality in a society. This is how it has moved:



Tax and redistribution massively enhances equality in the UK, but not by nearly as much now as it did 25 years ago, and Labour has not done enough to reverse the travesty of the Thatcher years.

I was pleased to note that the ONS did exclude pensioners from some parts of the survey: they will always be worse off than those in employment. That's a reality which is not going to be challenged for a very long time. This table refers to non-retired households.

Table 6
Summary of the effects of taxes and benefits by quintile groups on NON-RETIRED households,¹ 2007/08

	Quintile groups of NON-RETIRED households ¹					All non-retired households	Ratio top/bottom quintile
	Bottom	2nd	3rd	4th	Top		
Income, taxes and benefits per household (£ per year)							
Original income	7 502	21 814	33 864	47 081	80 185	38 089	11
<i>plus</i> cash benefits	5 984	4 816	2 759	1 768	1 113	3 288	0.2
Gross income	13 485	26 629	36 624	48 849	81 298	41 377	6
<i>less</i> direct taxes ² and employees' NIC	1 561	4 711	7 744	11 387	20 510	9 183	13
Disposable income	11 924	21 918	28 879	37 462	60 789	32 194	5
<i>less</i> indirect taxes	3 661	4 716	5 633	6 239	7 776	5 605	2
Post-tax income	8 263	17 202	23 247	31 223	53 012	26 590	6
<i>plus</i> benefits in kind	8 347	7 388	5 950	5 224	3 843	6 151	0.5
Final income	16 611	24 591	29 196	36 448	56 855	32 740	3
Number of individuals per household							
Children ³	1.0	0.9	0.6	0.5	0.4	0.7	
Adults	1.8	2.0	2.1	2.1	1.8	2.0	
Men	0.8	1.0	1.1	1.1	1.0	1.0	
Women	1.0	1.0	1.0	1.0	0.9	1.0	
People	2.8	2.9	2.7	2.6	2.2	2.7	
People in full-time education	1.0	0.8	0.6	0.5	0.3	0.6	
Economically active people	0.9	1.5	1.8	1.9	1.7	1.6	
Retired people	0.1	0.1	0.1	0.1	0.1	0.1	

Source: Office for National Statistics

The disparity in children per household is now even more marked: 2.5:1 over the bottom to top quintile range. Disposable incomes are though, of course, on average higher. The regressive nature of indirect taxes remains just as marked though, as this table makes clear:

Table 8
Taxes as a percentage of gross income for NON-RETIRED households by quintile groups,¹ 2007/08

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Percentages						
Direct taxes						
Income tax ²	4.4	9.3	12.3	14.7	18.8	14.5
Employees' NIC	2.6	4.9	5.9	6.2	4.7	5.2
Council tax & NI rates ³	4.5	3.5	2.9	2.5	1.7	2.5
All direct taxes	11.6	17.7	21.1	23.3	25.2	22.2
All indirect taxes	27.1	17.7	15.4	12.8	9.6	13.5
All taxes	38.7	35.4	36.5	36.1	34.8	35.7

Here we have the real picture of UK taxes: overall a regressive system where middle and poorest pay most and the best off least. The argument for a more progressive tax system is extraordinarily compelling, if only to counter act these horrible imbalances in indirect taxes:

Table 9

Indirect taxes as a percentage of (a) disposable income and (b) household expenditure¹ for NON-RETIRED households by quintile groups,² 2007/08

	Quintile groups of NON-RETIRED households ²					All non-retired households
	Bottom	2nd	3rd	4th	Top	
(a) Percentages of disposable income						
VAT	11.6	8.4	7.9	7.2	5.7	7.3
Duty on alcohol	1.5	1.2	1.2	1.0	0.8	1.0
Duty on tobacco	3.2	2.0	1.4	0.8	0.3	1.1
Duty on hydrocarbon oils & vehicle excise duty	3.6	2.9	2.8	2.4	1.4	2.3
Other indirect taxes	10.7	7.0	6.2	5.3	4.5	5.8
All indirect taxes	30.7	21.5	19.5	16.7	12.8	17.4
(b) Percentages of expenditure¹						
VAT	7.7	7.6	7.7	7.5	6.9	7.4
Duty on alcohol	1.0	1.1	1.2	1.0	1.0	1.0
Duty on tobacco	2.1	1.8	1.3	0.8	0.4	1.1
Duty on hydrocarbon oils & vehicle excise duty	2.4	2.6	2.7	2.5	1.7	2.3
Other indirect taxes	7.1	6.4	6.0	5.6	5.4	5.9
All indirect taxes	20.4	19.5	18.9	17.5	15.4	17.7

Source: Office for National Statistics

It's also worth noting just what "benefits in kind" mean, because they form part of income noted, and therefore contribute to income redistribution. This is what they mean for non-retired households:

Table 10

Benefits in kind for NON-RETIRED households by quintile groups,¹ 2007/08

	Quintile groups of NON-RETIRED households ¹					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Education	5 260	4 096	3 100	2 287	1 223	3 193
National health service	2 870	3 137	2 738	2 809	2 406	2 792
Housing subsidy	46	26	14	6	3	19
Travel subsidies	64	90	86	118	211	114
School meals and welfare milk	106	40	13	4	1	33
All benefits in kind	8 347	7 388	5 950	5 224	3 843	6 151
Benefits in kind as a percentage of post-tax income	101	43	26	17	7	23

Source: Office for National Statistics

But before anyone shouts that the highest earning households take less education because they pay private fees, think again. It's also because they only have 40% of comparable children per household compared to the poorest quintile. that is by far the biggest factor. As does population per household explain the NHS disparity where the subsidy per head in the poorest households is £1,025 whereas in the highest quintile it

is £1,093. It's a fact that the wealthiest know how to use the system to their advantage. As a result this subsidy goes most to the best off.

Conclusions

This data is powerful and gives a lie to much of what the Right say.

Tax in this country is regressive.

The best off have the best tax deal.

They also willingly use the system.

Inequality has risen in the UK. The tax system has encouraged that as it has shifted to indirect taxes.

UK indirect taxes are horribly regressive.

Those firms and lobby groups who argue for more indirect taxes and fewer direct ones are asking to increase poverty in the UK to benefit the wealthiest in our society.

The reality is that now is the time for progressive taxation reform — to make sure that the richest in the UK pay a fair share for the society we live in, because they do not right now. And that has to change.