

The story of inequality from 1999 to 2014

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The government [has published new data this morning](#) on the earnings and tax paid by each centile of the UK population. For these purposes a centile is the 1% of the UK population that falls into each of 100 income brackets of equal size by head of population as determined by the number of declared income earners.

The data is fascinating so I have charted it. First, this is the income distribution in 2013-14 before tax:

At the 50% midpoint income was £21,900 before tax to give some idea just how skewed this distribution is. Incomes of £50,000 a year are reached at the 90th centile and £100,000 at the 98th centile.

Then I looked at change over time. What I have compared is income before and after tax in 2013 - 14 by centile with that for 1999-00, which is the first for which data was published. First, pre-tax:

And then post tax:

What's the message? There are three.

First, we have massively unequal income distribution in the UK.

Second, that pre-tax we have done something about that for those, broadly speaking, in the lower half of the income distribution. I have little doubt at all that the minimum wage has been the biggest factor in this, which is why the increase is so marked at the lower end of the distribution. Then those who earn between about £22,000 and £47,000 have overall done worst on pre-tax income changes, by some way. And above that sum

the more you earn the more you gained: the maxim that to those who have more shall be given undoubtedly held true. In other words, income inequalities pre-tax over the period undoubtedly got worse.

So what about after tax? The situation is slightly different. The point at which middle ground flat lining began was lower: those earning between £19,000 and £42,000 pre tax were in near enough the same position with about 55% income growth. Those on less did better because their gross earnings rose more. Those earning from about £45,000 to £70,000 did progressively worse the more they earned and then, by and large things improved again: the best off did better from the tax system although by not as much as their improvement in gross income suggested they should have done.

Now a word of warning: this is not the whole story. Some benefits are not included and nor are some tax issues e.g. the highest income earners are also the only people likely to pay capital gains tax and this rate has gone down. They are also the most likely to shelter income in companies at lower rates of tax, giving them an advantage unseen here.

But the message is still clear. First, it is that pre-distribution almost certainly has the greatest impact for those on low incomes: no change in the tax system could have produced the changes shown for them because they just do not pay enough tax for that to happen. And the profiles are far too alike for those on the 40th centile and lower for tax to explain almost any of the change.

Second, we have not in any way solved the problem of income inequality.

Third, of course those in the highest decile pay by far the most tax: they earn by far the most.

Fourth, where you are in the highest decile has a big impact on outcomes: the salaried bottom end of this decile has fared much worse than the top.

Fifth, the data is skewed because the income and tax of the top 1% is almost certainly understated gross with the relative tax rate overstated.

In other words, we still need to pursue the goal of a progressive tax system much more vigorously whilst ensuring that a great many in this country have access to much more income pre-tax, which is something tax cannot achieve by itself. That is the challenge we face, and current government policy makes it very hard to see how it might happen.

NB: Post amended as to time period covered by charts 1t 13.40 when I realised I had repeated an error in the original HMRC table which referred to 1992 - 93