



## RESEARCH NOTE 1

# TOTAL LIFETIME TAX ESTIMATE

### Total tax paid over a lifetime

This note provides an estimate of the total amount of tax paid by average and poor households over their lifetimes. The figure includes both direct and indirect taxes and is calculated on the basis of a working lifetime of 40 years and 15 years of retirement. The result is quite shocking:

- Over a lifetime, an average household pays over **£600,000**, in today's prices, in direct and indirect taxes.
- A poor household pays almost **£250,000** in direct and indirect taxes.

### The most onerous taxes

The four most burdensome taxes over a lifetime are income tax, VAT, national insurance contributions and council tax.

Table 1: The most burdensome taxes over a lifetime

£ paid to the government over a lifetime	Income tax	VAT	National insurance contributions	Council tax
Lowest quintile	26,000	67,000	16,000	30,000
2 <sup>nd</sup>	90,000	89,000	47,000	41,000
3 <sup>rd</sup>	161,000	105,000	75,000	45,000
4 <sup>th</sup>	267,000	121,000	109,000	51,000
Highest quintile	621,000	165,000	146,000	62,000
<b>Average</b>	<b>233,000</b>	<b>109,000</b>	<b>78,000</b>	<b>46,000</b>

For average households, income tax and VAT are the most burdensome taxes. An average household pays £233,000 in income tax and £109,000 in VAT over a lifetime.

For poor households, VAT and council tax are the most onerous. A poor household pays £67,000 in VAT and £30,000 in council tax over a lifetime.

## Source and method of calculation

The calculation is based on Office for National Statistics data taken from Tables 6, 12, 16A and 18A in the recently published paper, *The Effect of Taxes and Benefits on Household Income 2004-05*, Economic Trends No.630.

Total taxes are assessed on the basis of a non-retired household's total direct and indirect taxes per year multiplied by 40 years, plus a retired household's total direct and indirect taxes per year multiplied by 15 years.

A poor household is taken to be a lowest quintile household, measured by equivalised disposable income. Households are assumed not to move up or down quintiles.

The calculation is based on the current level of direct and indirect taxes applying throughout the lifetime and current prices are used throughout. This does not take into account changes in taxation in the past or in the future, but has the advantage of providing an illustration of the sheer magnitude of the current level of taxation.

An excel spreadsheet with full details is available on request.

## Comment from the TaxPayers' Alliance

Corin Taylor, Head of Research at the TaxPayers' Alliance, said:

*"These figures are quite shocking. It's astonishing that the poorest families in our society pay a quarter of a million pounds in tax over their lifetime. The Government is taxing people until the pips squeak."*

*"Governments have long tried to conceal the true impact of taxation on ordinary people. But these figures will make people aware of how much tax they truly pay."*

For any enquiries, please contact the author:

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## APPENDIX FULL TABLES

Table A1: Total taxes paid over a lifetime

£ paid to the government	Working (40 years)				Retired (15 years)				Overall lifetime total
	Total direct taxes per year	Total indirect taxes per year	Total taxes per year	Total taxes over working lifetime	Total direct taxes per year	Total indirect taxes per year	Total taxes per year	Total taxes over retirement	Total direct and indirect taxes paid over lifetime
Lowest quintile	1,500	3,620	5,120	204,800	820	1,930	2,750	41,250	246,050
2nd	4,110	4,710	8,820	352,800	910	2,160	3,070	46,050	398,850
3rd	6,620	5,460	12,080	483,200	1,010	2,220	3,230	48,450	531,650
4th	9,990	6,120	16,110	644,400	1,760	2,620	4,380	65,700	710,100
Highest quintile	19,030	7,660	26,690	1,067,600	4,510	4,070	8,580	128,700	1,196,300
<b>Average</b>	<b>8,250</b>	<b>5,510</b>	<b>13,760</b>	<b>550,400</b>	<b>1,810</b>	<b>2,600</b>	<b>4,410</b>	<b>66,150</b>	<b>616,550</b>

Table A2: The four most burdensome individual taxes over a lifetime

	Working (40 years)		Retired (15 years)		Overall lifetime total
	Total per year	Total over working lifetime	Total per year	Total over retirement	Total
<b>£ paid to the government</b>					
<b>Income tax (less tax credits)</b>					
Lowest quintile	593	23,720	150	2,250	25,970
2nd	2,155	86,200	277	4,155	90,355
3rd	3,855	154,200	433	6,495	160,695
4th	6,283	251,320	1,022	15,330	266,650
Highest quintile	14,246	569,840	3,400	51,000	620,840
Average	5,426	217,040	1,057	15,855	232,895
<b>VAT</b>					
Lowest quintile	1,387	55,480	747	11,205	66,685
2nd	1,901	76,040	855	12,825	88,865
3rd	2,293	91,720	875	13,125	104,845
4th	2,593	103,720	1,119	16,785	120,505
Highest quintile	3,427	137,080	1,834	27,510	164,590
Average	2,320	92,800	1,086	16,290	109,090
<b>Employee national insurance contributions</b>					
Lowest quintile	398	15,920	7	105	16,025
2nd	1,175	47,000	10	150	47,150
3rd	1,859	74,360	16	240	74,600
4th	2,707	108,280	41	615	108,895
Highest quintile	3,616	144,640	61	915	145,555
Average	1,951	78,040	27	405	78,445
<b>Council tax (less council tax rebate)</b>					
Lowest quintile	511	20,440	657	9,855	30,295
2nd	785	31,400	620	9,300	40,700
3rd	905	36,200	565	8,475	44,675
4th	999	39,960	705	10,575	50,535
Highest quintile	1,168	46,720	1,050	15,750	62,470
Average	874	34,960	720	10,800	45,760