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RESEARCH NOTE 13

TAX BURDEN HIGHEST FOR THE POOREST HOUSEHOLDS

- POOREST FIFTH PAY HIGHEST BURDEN OF TAX
- GAP BETWEEN TAX BURDEN ON THE RICH AND POOR HAS WIDENED UNDER GORDON BROWN
- NEW GREEN TAXES LIKELY TO MAKE PROBLEM WORSE

Poorest fifth pay the highest burden of tax

New figures released today by the [Office for National Statistics](http://www.ons.gov.uk) (ONS) reveal that the poorest fifth of households are suffering under a higher tax burden than richer households. The figures, which measure direct and indirect taxes as a percentage of gross income (and account for tax credits), reveal:

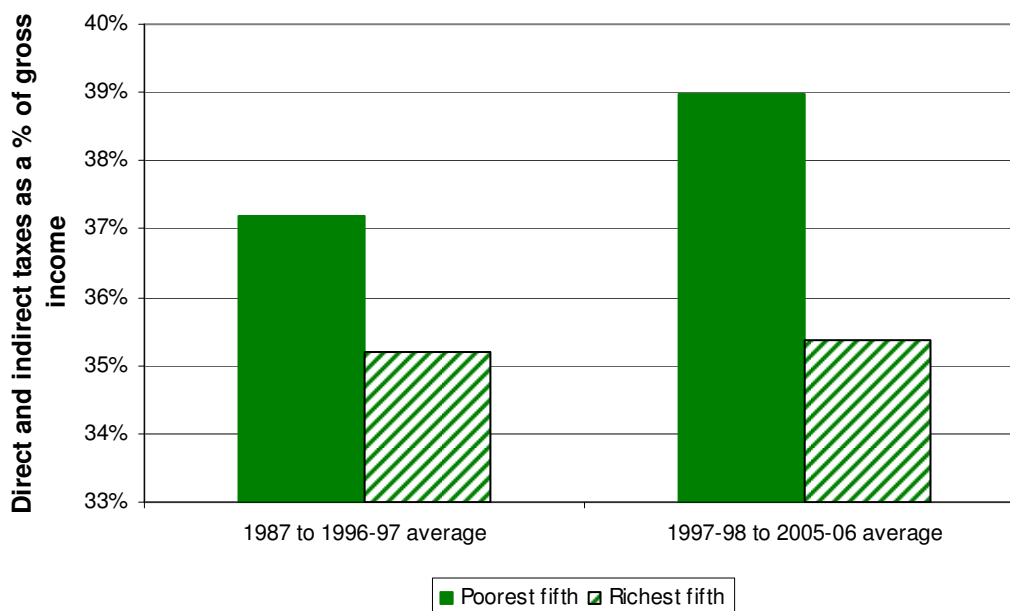
- The **poorest fifth** of households pay **36.4 per cent** of their income in direct and indirect taxes. This is the highest for any group of households.
- The **richest fifth** of households pay **35.5 per cent** of their income in direct and indirect taxes.
- The **average** household pays **35.1 per cent** of its income in taxes.

Gap between tax burden paid by the richest fifth and the poorest fifth has widened under Gordon Brown

The ONS began collecting data on how taxes affect households along the income distribution in 1987. Reviewing the data shows that, while the poor have all too often paid the highest tax, under Gordon Brown the gap between the tax burdens paid by the poorest fifth and the richest fifth of households has widened considerably:

- Between **1987 and 1996-97**, the **poorest fifth** paid an average tax burden of **37.2 per cent**, compared with a burden for the **richest fifth** of **35.2 per cent** – a gap of **2 per cent**.
- Between **1997-98 and 2005-06**, the **poorest fifth** paid an average tax burden of **39 per cent**, compared with a burden for the **richest fifth** of **35.4 per cent** – a gap of **3.6 per cent**.

Chart 1: Average tax burden paid by the poorest fifth and the richest fifth of households



Green taxes likely to make the problem worse

The poorest fifth of households pay less than 10 per cent of their income in direct taxes, the lowest of any quintile group. But the poorest are harder hit by indirect taxes, which account for the majority of their tax bill.

New green taxes are often presented as a move from taxing “goods” to taking “bads”, and therefore as a benign alternative to income tax. Instead, as indirect taxes, they may represent an additional burden on the incomes of the poorest in society, falling hardest on those least able to pay.

Comment from the TaxPayers’ Alliance

Corin Taylor, Research Director at the TaxPayers’ Alliance, said:

"Gordon Brown's tax rises have fallen hardest on those least able to pay. It is not socially just that the poor are paying a higher tax burden than the rich, with money then recycled to them in benefits. The best way to reduce economic dependency and the drain of the welfare state is to reduce the burden of tax on the poorest in our society."



Sources and methodology

All data has been taken from the annual "The effects of taxes and benefits on household income" article published by the Office for National Statistics. The relevant table in each article, covering all households grouped into income quintiles, was used. From 1987 to 1995-96, this was Table A; from 1996-97, this was Table B; in 1999-00, this was Table C; from 2000-01 to the present, this has been Table 4.

The ONS methodology, which has been repeated here, is to calculate direct and indirect taxes as a percentage of gross income, which includes earned and other income and cash benefits.

An excel spreadsheet with full details is available on request.

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