Taxes and redistribution

Paul Johnson

September 2016
Key facts

• Overall tax and benefit system is highly redistributive
• Over a quarter of income tax paid by 1% of taxpayers
• Only 56% of adults pay any income tax at all
Gross and net equivalised household income by decile

- **Gross income**
- **Net income**

Income (£ per year)

- £0
- £10,000
- £20,000
- £30,000
- £40,000
- £50,000
- £60,000
- £70,000
- £80,000
- £90,000
- £100,000

Poorest 2 3 4 5 6 7 8 9 Richest

Income decile
Share of tax revenue and benefit spending, by decile (2014-15)
Income tax liability by gross income

Income tax liability

Gross annual income

2015-16
Number of higher- and additional-rate taxpayers
However...

- Not so good at redistributing wealth
- Council tax is regressive
- Multiple unfairnesses
  - High marginal rates at £50k and £100k
  - Over generous NI treatment of pensions
- Between employed, self employed and incorporated
Where to look for more redistribution?

• Raising top rate
  – Would reduce inequality but might not raise any money

• Pension tax relief
  – The problem is with NI not income tax

• Council tax?

• CGT?