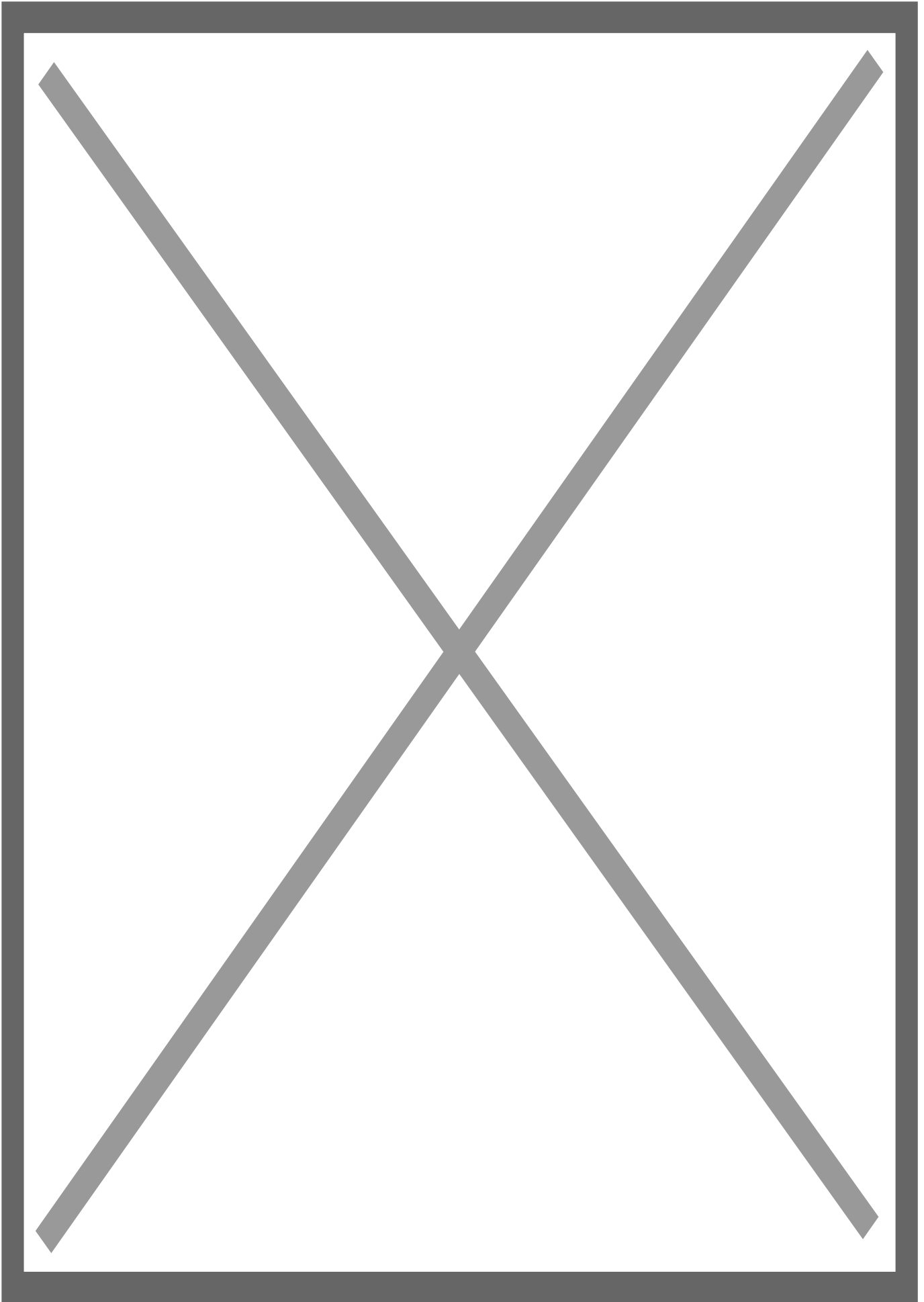


Tax by numbers!

General Features



01 January 2020

Bill Dodwell considers what the statistics can show us about our tax policy

One of the more important factors when looking at tax policy is to understand how many people could be affected by any possible change. HMRC now publish many more statistics than of old.

There are about 66 million people (and 52.4 million adults) in the UK, according to the Office for National Statistics (ONS). HMRC estimates that 48.2 million people use part or all of the personal allowance, with 31 million having a residual income tax liability. 35.5 million benefit from all or part of the equivalent for NICs (known as the lower earnings limit). The difference – some 12 million – roughly represents the pensioner population, including those who continue to work but are not liable for paying NICs. ONS figures suggest that there are about 1.2 million working pensioners.

Taxpayer numbers

In recent years, about 41% to 44% of adults don't pay income tax. This proportion has varied a little but is higher than it was before 2010 – when the personal allowance started to climb substantially above inflation. HMRC produces some data on the percentage of income paid in income tax by specimen families. In 2019/20, the average family has gross household income of £37,000 and pays 13.3% of that in income tax. It's a misleading statistic, since up to a further 9% is likely to go on NICs – meaning that a single earner family actually has an effective 22% tax rate on income and would have £29,000 left after income tax and NIC. The average household income for the 90th percentile is just over £61,000, with an effective income tax/NICs rate of 29.5%. It's not meaningful to calculate this for the top tenth, due to the wide range of incomes.

Some 5 million employees – more than one in six of income tax payers – claim income tax relief for work-related expenses borne personally, including flat rate allowances for certain occupations. The main categories are flat-rate expense1,400s, business travel, including mileage costs, and professional fees. HMRC have recently introduced the facility to claim flat-rate amounts and professional fees via the personal tax account, which makes lots of sense given the huge numbers of potential claims.

Business and capital taxes

HMRC note that there are about 2.2 million VAT registered traders. The total number of private sector employers is some 1.4 million. The total number of businesses registered for either or both PAYE and VAT is 2.67 million, which is 45% of all UK businesses. These businesses, most of which are companies, collect and pay over to HMRC over £140 billion in VAT and PAYE of over £300 billion. We can thus appreciate the importance to the exchequer of the UK's centralised tax collection system, where a relatively small number of businesses and public sector bodies collect so much tax every day.

Something like 1.5 million companies pay over £50 billion in corporation tax. What most of us probably won't realise is that there are about 1,400 traders registered for insurance premium tax (which brings in £6.2 billion) and a staggering 730 airlines registered for air passenger duty (which contributes £3.7 billion). 785 businesses are registered for aggregates levy.

After these major numbers, it's worth noting that the UK's two capital taxes affect very few people. HMRC's latest numbers suggest that about 22,000 estates and 5,000 individuals (taxable lifetime gifts) part with over £5 billion in inheritance tax. 260,000 individuals and 22,000 trusts pay a total of £8.8 billion in capital gains tax.

It's thought that about 70% of those individuals get a capital gains tax (CGT) bill just once in 10 years or more, highlighting how uncommon it is for most of us to pay CGT.

Final thoughts...

What we can take from all this is the importance to all of us, and HMRC, of the systems which collect income tax, NICs and VAT. Investment in the PAYE system clearly justifies itself. It's much harder, for example, to make a strong case for investing in a digital system for inheritance tax. The vaunted £1.3 billion invested in the personal tax account and support systems also makes sense; its only £40 per income tax taxpayer.

All this data – and there is much more published by the ONS and by HMRC's Knowledge Intelligence and Analysis unit – makes it much easier for anyone involved in tax policy to get a better grasp of what matters in taxation. Of course, some small taxes remain important; CGT is argued to be necessary to ensure that individuals are not overly incentivised to turn taxable income into capital. Other taxes make different cases, such as the £22 billion collected in tobacco and alcohol duties, or the £12 billion collected in environmental levies.

Finally, the income tax tables do give a glimpse of a bit of history. Independent taxation was introduced some 30 years ago and there have been a number of events celebrating this anniversary. The last numbers for 1989/90 show 21.5 million taxpayers (men and single women) and 25 million people with taxable income.