

Statistical bulletin

Effects of taxes and benefits on UK household income: financial year ending 2023

The redistribution effects on individuals and households of direct and indirect taxation and benefits received in cash or kind, analysed by household type.

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1 . Main points

In financial year ending (FYE) 2023:

- Median equivalised household income in the UK before taxes and benefits was £37,300, increasing to £39,700 after taxes and benefits.
- The richest fifth of people's mean equivalised household income before taxes and benefits (£114,300) was 11.6 times larger than the poorest fifth (£9,800); however, this gap reduced to 3.4 times larger (£82,200 and £24,500, respectively) after taxes and benefits.
- Original income inequality (before taxes and benefits) decreased by 2.9 percentage points to 47.2% since FYE 2022, while final income inequality (after taxes and benefits) decreased by only 2.1 percentage points to 27.7%, highlighting the redistributive effect of taxes and benefits decreased marginally between years.
- Cash benefits for the poorest fifth of households remained in line with FYE 2022 after accounting for inflation, largely attributed to the effect of cost of living payments.
- The proportion of people living in households receiving more in benefits than they paid in taxes decreased from 53.6% to 52.6%; this is the continuation of a downward trend following a sharp increase during the coronavirus (COVID-19) pandemic (FYE 2021).

2 . Effects of taxes and benefits on household income

This bulletin covers the effects of taxes (both direct and indirect) and benefits (both cash and in kind) on the [redistribution of household income](#). Indirect taxes refer to those on goods and services, such as Value Added Tax (VAT), duty on tobacco, alcohol and fuel, and Stamp Duty. Benefits in kind relate to non-cash benefits such as the National Health Service, education, free childcare and travel subsidies. We refer to household income after all taxes and benefits as final income.

Unless otherwise stated, both absolute and relative year-on-year changes presented in this bulletin are adjusted for inflation and are presented in real terms.

Taxes and benefits lead to income being shared more equally between households in FYE 2023

In financial year ending (FYE) 2023, which is April 2022 to March 2023, [median equivalised](#) household income in the UK before taxes and benefits was £37,300, increasing to £39,700 after taxes and benefits.

The richest fifth had a [mean](#) equivalised household income before taxes and benefits of £114,300, 11.6 times larger than the poorest fifth (£9,800). After cash benefits and direct taxes, this reduced to £82,900 for the richest fifth, 5.5 times larger than the poorest fifth (£15,000). After all taxes and benefits, the average equivalised final incomes for the richest fifth and poorest fifth were £82,200 and £24,500, respectively. This reduced the ratio between the richest and poorest fifth to 3.4.

Figure 1: Taxes and benefits lead to household income being shared more equally between households

Average equivalised household original, gross, disposable, post-tax and final income, equivalised, by quintile group, and richest fifth to poorest fifth of individuals ratio, UK, financial year ending 2023

Notes:

1. Incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.

Original income increased for the poorest fifth of UK households while it decreased for the richest fifth, contributing to lower income inequality

Average equivalised original income overall for UK households had a [nominal](#) increase of £1,140 (2.5%). After accounting for the effects of inflation this was a [real-terms](#) decrease of £2,980 (5.9%).

During this time the National Living Wage increased nominally by 6.6%, while the Real Living Wage increased nominally by 10.1%, with one in nine UK workers working for [living wage employers](#) as of July 2023.

The poorest fifth saw a real-terms increase in equivalised original income of 9.1% (nominal increase of 18.8%), largely contributed to by a 10.5% increase in wages and salaries (nominal increase of 20.4%). Comparatively the richest fifth saw a real-terms decrease in equivalised original income of 10.6% (nominal decrease of 2.6%), with a real-terms decrease of 11.5% (nominal decrease of 3.5%) in wages and salaries. This led to a drop in equivalised original income inequality, as measured by the [Gini coefficient](#), of 2.9 percentage points to 47.2 between FYE 2022 and FYE 2023, and contributed to a reduction in equivalised final income inequality to 27.7; both the lowest they have been over the last 10 years.

Figure 2: The redistributive effect of taxes and benefits lowers income inequality

The redistributive effect of the taxes and benefits system on the Gini coefficients at each stage of the taxes and benefits system, UK, financial year ending 2023

Notes:

1. pp – percentage points.

Cost of living payments helped to keep cash benefits for UK households in line with FYE 2022

Cash benefits showed a nominal increase of 8.9% between FYE 2022 and FYE 2023, however, after accounting for the effects of inflation, cash benefits remained equivalent between years.

Captured within cash benefits for FYE 2023 are several [cost of living support schemes](#); the remainder of these support schemes are captured within the "other income" component within original income. These schemes were introduced by the UK government to eligible households in response to the [increased cost of living](#). Some of these support schemes covered the majority of UK households and others were targeted at specific households. Without these payments the average UK household would have seen a real-terms reduction of 2.8% in cash benefits for FYE 2023.

Cash benefits for the poorest fifth decreased in real terms by 0.5% in FYE 2023, while the richest fifth saw a 7.2% increase in cash benefits contributed to by cost of living payments and an increase in disability related benefits. Disability benefits in the UK have been increasing since before the coronavirus (COVID-19) pandemic with an increased number of claimants. [Spending on disability related benefits is now more in line with other OECD countries](#), where previously the UK spend was lower.

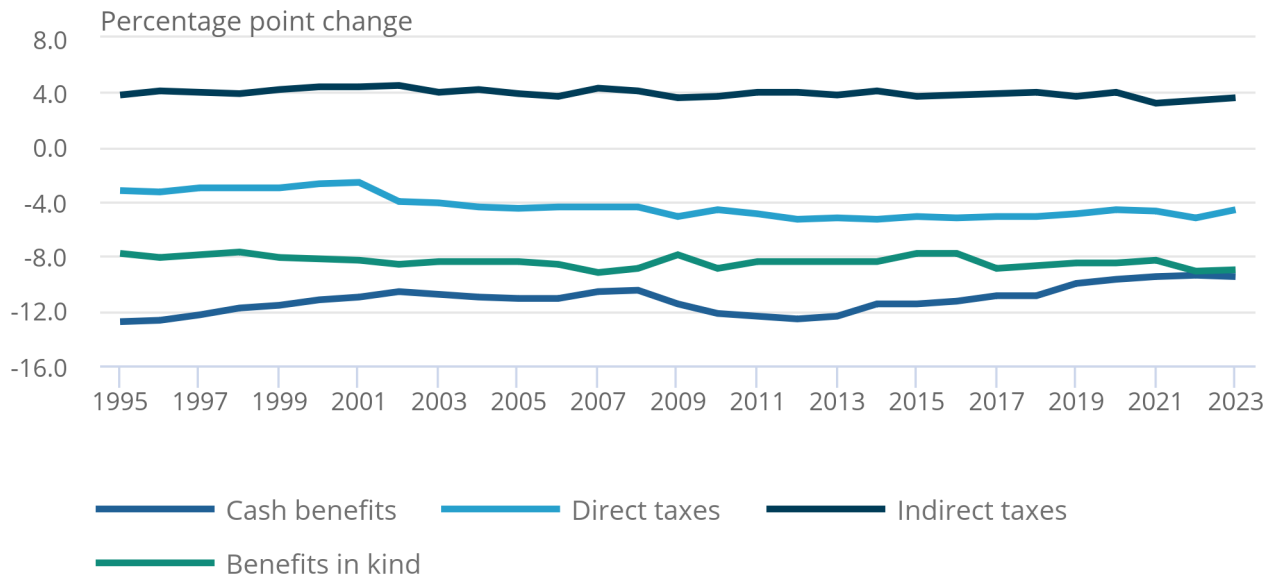
Cash benefits reduced income inequality, as measured by the Gini coefficient, by 9.5 percentage points: from 47.2% for equivalised original income to 37.7% for equivalised gross income in FYE 2023. In FYE 2022, the reduction was 9.4 percentage points; the role of cash benefits in reducing income inequality has lessened over recent years.

Figure 3: Cash benefits have become less effective at reducing income inequality over time

The impact of taxes and benefits on the Gini coefficient, UK, financial year ending (FYE) 1995 to FYE 2023

Figure 3: Cash benefits have become less effective at reducing income inequality over time

The impact of taxes and benefits on the Gini coefficient, UK, financial year ending (FYE) 1995 to FYE 2023



Source: Household Finances Survey from the Office for National Statistics

Notes:

1. The impact of taxes and benefits on income inequality is assessed as the difference in Gini coefficients between income components; the impact of cash benefits is gross income inequality less original income inequality, the impact of direct taxes is disposable income inequality less gross income inequality, the impact of indirect taxes is post-tax income inequality less disposable income inequality, the impact of benefits in kind is final income inequality less post-tax income inequality.
2. Estimates up to and including financial year ending (FYE) 2017 are sourced from the Living Costs and Food (LCF) Survey. Estimates from FYE 2018 onwards are based on the Household Finances Survey, which the LCF is part of.
3. Estimates of income from FYE 2002 onwards have been adjusted for undercoverage of top earners.

Changes in direct taxes across the income distribution reflect changes in wages and salaries

On average for UK households, direct taxes increased nominally by 1.2% between FYE 2022 and FYE 2023 following nominal increases in original income. During this time [Income Tax thresholds](#), including the personal allowance and the higher-rate threshold were frozen at 2022 levels.

The poorest fifth of households had a nominal increase of £830 (29.7%) in direct taxes, largely because of an increase in wages and salaries, while the richest fifth of households' direct taxes decreased nominally by £2,490 (5.6%), largely because of a corresponding fall in wages and salaries.

After accounting for the effects of inflation, direct taxes effectively decreased for the average UK household between FYE 2022 and FYE 2023 (real-terms decrease of 7.1%), following a real-terms reduction in original income. However, looking across the income distribution, the poorest fifth of households experienced a 19.0% increase in direct taxes, while the richest fifth saw a decrease of 13.4%.

On average for all UK households, direct taxes reduced the income inequality by 4.6 percentage points between equivalised gross and disposable income, compared with 5.2 percentage points for FYE 2022.

UK household final income decreased in FYE 2023

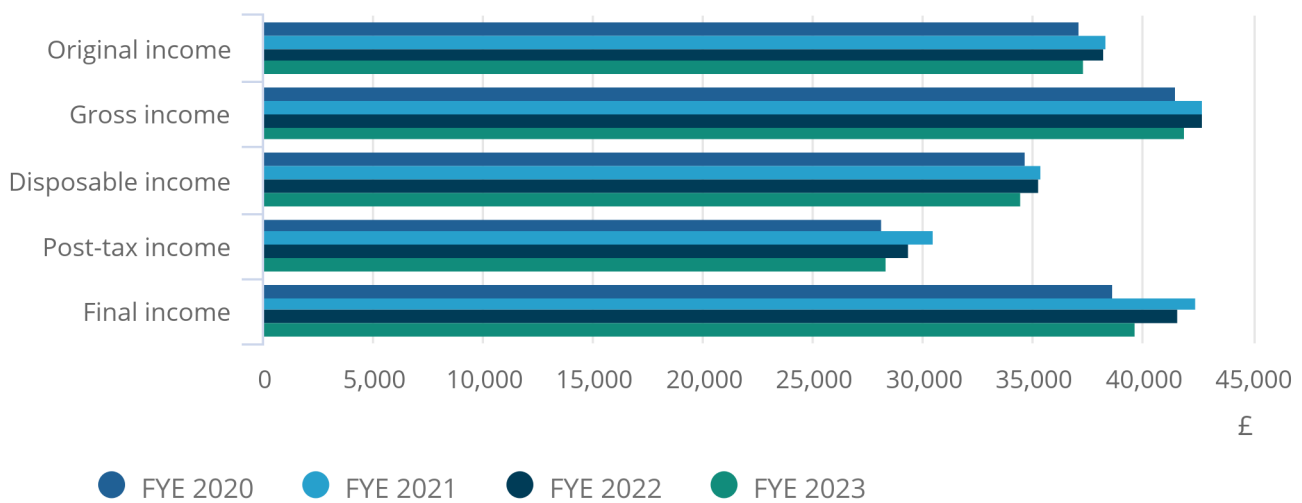
After all taxes and benefits, and accounting for inflation, there was a 4.7% decrease in median equivalised final income and a 5.3% decrease in mean equivalised final income, between FYE 2022 and FYE 2023. This decrease is a continuation of a downward trend seen over the last three financial years, following a large increase between FYE 2020 and FYE 2021.

Figure 4: Median equivalised household income after taxes and benefits decreased by 4.7% in FYE 2023

Median equivalised household original, gross, disposable, post-tax and final income, equivalised, UK, financial year ending (FYE) 2020 to FYE 2023

Figure 4: Median equivalised household income after taxes and benefits decreased by 4.7% in FYE 2023

Median equivalised household original, gross, disposable, post-tax and final income, equivalised, UK, financial year ending (FYE) 2020 to FYE 2023



Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Incomes are equivalised using the modified Organisation for Economic Co-operation and Development (OECD) equivalisation scale.
2. Incomes are adjusted for inflation using the Consumer Prices Index including owner-occupiers' housing costs (CPIH) excluding Council Tax.

Retired households are typically net recipients of taxes and benefits, while non-retired households are typically net contributors

In FYE 2023, 52.6% of all UK individuals were [net recipients](#) (living in households receiving more in benefits than they paid in taxes), a reduction of 1 percentage point since FYE 2022. This is a continuation of a downward trend seen since FYE 2021.

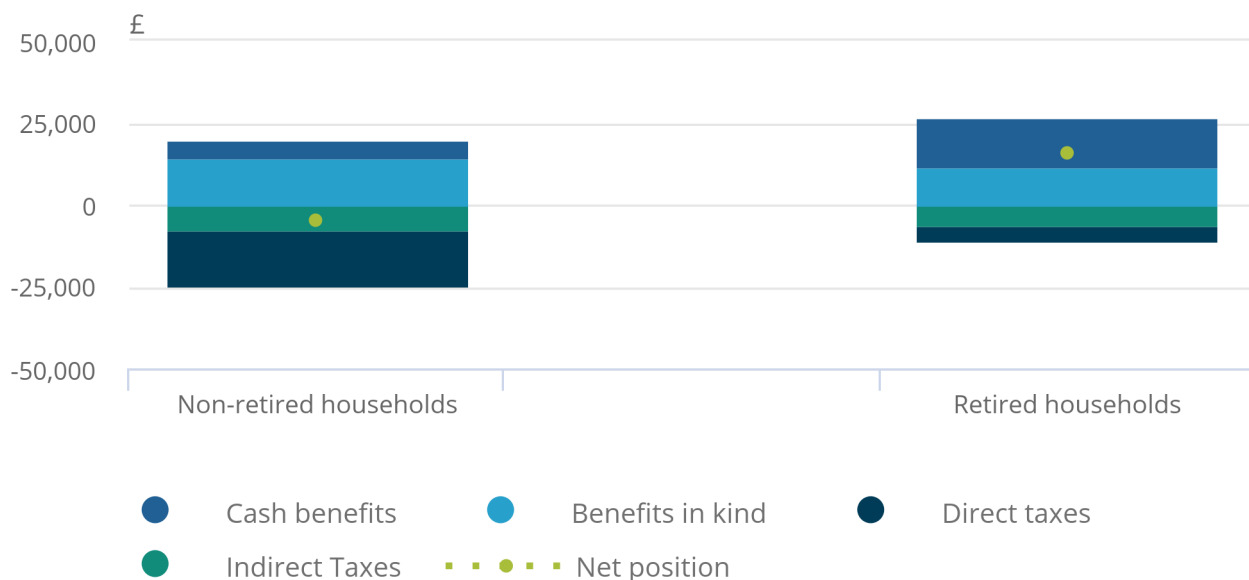
A much greater proportion of [retired](#) individuals were net recipients (85.3%); this is largely because of the classification of State Pension and Pension Credit as cash benefits. This was a 3.7% reduction from FYE 2022 bringing it back in line with pre-coronavirus values. In comparison, 45.3% of [non-retired](#) people were net recipients, contributed to by greater benefits in kind received for education and childcare.

Figure 5: Non-retired households are net contributors of taxes and benefits, while retired households are net recipients

Average household taxes and benefits, UK, financial year ending 2023

Figure 5: Non-retired households are net contributors of taxes and benefits, while retired households are net recipients

Average household taxes and benefits, UK, financial year ending 2023



Source: Household Finances Survey from the Office for National Statistics

Notes:

1. Net position is the difference between benefits received (both cash and in-kind) and taxes paid (both direct and indirect).
2. State Pension and Pension Credit are classified as cash benefits.

3 . Data on the effects of taxes and benefits on UK household income

[Average incomes, taxes and benefits of all individuals, retired and non-retired by decile group](#)

Dataset | Released 19 December 2024

Average annual incomes, taxes and benefits, and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Average incomes, taxes and benefits of all individuals, retired and non-retired by quintile group](#)

Dataset | Released 19 December 2024

Average annual incomes, taxes and benefits, and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Summary of the effects of taxes and benefits of individuals by household type](#)

Dataset | Released 19 December 2024

Average annual incomes, taxes and benefits, and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

[Effects of taxes and benefits on household income](#)

Dataset | Released 19 December 2024

Average annual incomes, taxes and benefits, and household characteristics of retired and non-retired households in the UK. Data for financial years, by quintile and decile groups, country and region, and tenure type.

4 . Glossary

Equivalisation

Comparisons across different types of individuals and households or over time are made after income has been equivalised. Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members.

Equivalisation considers the number of people living in the household and their ages, acknowledging that while a two-person household will need more money to sustain the same living standards as a single-person household, the two-person household is unlikely to need double the income.

This analysis uses the modified [Organisation for Economic Co-operation and Development \(OECD\) equivalisation scale \(PDF 204 KB\)](#).

Our analysis ranks individuals by their equivalised household disposable incomes, using the modified OECD scale.

Household reference person

The household reference person is the householder who either:

- owns the household accommodation
- is legally responsible for the rent of the accommodation
- has the household accommodation as an emolument or perquisite
- has the household accommodation by virtue of some relationship to the owner who is not a member of the household
- if there are joint householders, the household reference person will be the one with the higher income; if the income is the same, then the eldest householder is taken

Mean and median income

The mean measure of income divides the total income of individuals by the number of individuals. A limitation of using the mean is that it can be influenced by just a few individuals with very high incomes and therefore does not necessarily reflect the standard of living of the "typical" person. However, when considering changes in income and direct taxes by income decile or types of households, the mean allows for these changes to be analysed in an additive way.

Many researchers argue that growth in median household incomes provides a better measure of how people's well-being has changed over time. The median household income is the income of what would be the middle person, if all individuals in the UK were sorted from poorest to richest. Median income provides a good indication of the standard of living of the "typical" individual in terms of income.

Net recipients and net contributors

The term "net recipients" refers to people living in households receiving more in cash benefits and benefits in kind than is being paid in direct and indirect taxes, while "net contributors" refers to people living in households paying more in direct and indirect taxes than they receive in cash benefits and benefits in kind.

Nominal change

"Nominal" estimates reflect the cash value of money that households have at the time of receipt. Nominal change over time does not take into account the effects of inflation.

Real change

"Real" estimates of household income are adjusted for inflation using the Consumer Prices Index including owner occupiers' housing costs (CPIH). Real terms change takes into account the effects of inflation and therefore reflects the comparative value of estimates for different periods of time.

Retired and non-retired households

A retired household is one where more than 50% of its income is sourced from retired people. A retired person must satisfy one of the following criteria:

- their self-defined employment status is "Retired", and they are aged over 50 years
- their self-defined employment status is "Sick or Injured", they are not seeking work, and they are aged at or above the State Pension age

As such, analysis of the average income of people living in retired households can include much younger people and potentially exclude older people. However, the strength of this measure is that it highlights those individuals who are most likely to be affected by policy, societal or economic changes that disproportionately affect pension income.

Stages in the redistribution of income

The five stages in the redistribution of income are:

- original income: household members begin with income from employment, private pensions, investments and other non-government sources
- gross income: households then receive income from cash benefits; the sum of cash benefits and original income is referred to as "gross income", where cash benefits refer to state-funded benefits such as Jobseeker's Allowance, Universal Credit, Child Benefit, State Pension and Personal Independence Payment
- disposable income: households then pay direct taxes; direct taxes, when subtracted from gross income, are referred to as "disposable income", where direct taxes include deductions such as Income Tax, National Insurance contributions, student loan repayments and Council Tax (less Council Tax benefits or rebates)
- post-tax income: indirect taxes are then paid via expenditure; disposable income minus indirect taxes is referred to as "post-tax income", where indirect taxes refer to those on goods and services such as Value Added Tax (VAT), duty on tobacco, alcohol and fuel, and Stamp Duty
- final income: households finally receive a benefit from services (benefits in kind); benefits in kind plus post-tax income is referred to as "final income", where benefits in kind relate to non-cash benefits such as the National Health Service, education, free childcare and travel subsidies

Note that at no stage are deductions currently made for housing costs.

5 . Data sources and quality

For further details, see our [Effects of taxes and benefits on household income Quality and Methodology Information](#).

Data in this bulletin are calculated using the [Household Finances Survey](#) (HFS) data, a combination of the [Living Costs and Food Survey](#) (LCF) and [Survey on Living Conditions](#), with harmonised income collection from approximately 14,400 private households in the UK. Estimates up to disposable income are calculated from the full HFS sample and further estimates up to final income are calculated from the LCF component (approximately 4,400 households), which provides both income and expenditure data.

For financial year ending (FYE) 2023, HFS weights have been updated in line with Census 2021 population totals for private households and student accommodation, so they more accurately reflect the composition of the UK population.

This update improves the representativeness of our survey data, while reducing median UK household disposable income by less than 0.1%. However, the impact of the HFS weights update varies across income levels, with the poorest fifth of households showing a 0.8% increase, and the richest fifth of households showing a 0.6% decrease, in median household disposable income. This should be considered when making comparisons with previous years, particularly at the quintile level.

Unless otherwise stated, income is equivalised to account for changes in household composition. When growth rates are quoted, they adjust for the effects of inflation and compare the average for a group of households in one period with the average for a different group in the next period.

Our [income and earnings interactive tool](#) enables data comparisons across multiple sources, and can be filtered by topic area, data source and geographic coverage.

Cost of living support schemes

In response to the rising cost of living, the UK government introduced several [cost of living support schemes](#) to eligible UK households during FYE 2023. These payments, including the [Council Tax rebate schemes \(Great Britain\)](#), have been captured as a component of household disposable income estimates following our [Public sector classification guidance](#).

The support schemes were introduced and implemented at pace, which meant it was not feasible to capture these directly within the HFS annual survey design. Receipt of support payments were imputed by matching criteria of support schemes against respondents' personal or household demographics, receipt of cash benefits, or interview timings, where appropriate.

Strengths and limitations

Comparable estimates are available back to 1977, allowing analysis of long-term trends. Information on income and expenditure levels provide insight into indirect taxes paid by different household groups. This, combined with estimates of benefits in kind, provides the most complete assessment of the redistributive role of taxes and benefits in the UK.

Data remain subject to some limitations. The Household Finances Survey (HFS) is a sample of private households and does not include those living in institutionalised households, such as care homes and hostels, or people experiencing homelessness. Therefore, many of the poorest in society are likely not captured.

Household income surveys can suffer from underreporting at the top and bottom of the income distribution. While an [adjustment to address survey undercoverage](#) of the richest people has been introduced for statistics covering FYE 2002 onwards, measurement issues at the bottom remain.

The [Gini coefficient](#) is used to measure income inequality in this bulletin and is one of the most widely used measures of income inequality. The characteristics of this metric make it particularly useful for making comparisons over time, between countries and before or after taxes and benefits. The Office for National Statistics (ONS) publish a range of income inequality metrics to supplement the Gini coefficient, and in doing so, we aim to overcome limitations of using single summary indicators, such as changes to the shape and composition of the income distribution.

Accredited official statistics

These accredited official statistics were independently reviewed by the Office for Statistics Regulation in February 2011. They comply with the standards of trustworthiness, quality and value in [the Code of Practice for Statistics](#) and should be labelled "accredited official statistics".

6 . Related links

[Top income adjustment in effects of taxes and benefits data: methodology](#)

Compendium chapter | Released 25 February 2020

Analysis of a recently introduced approach to addressing survey under-coverage of the highest earners in effects of taxes and benefits data, using tax record information.

[Average household income, UK: financial year ending 2023](#)

Bulletin | Released 24 September 2024

Average UK household incomes taxes and benefits by household type, tenure status, household characteristics and long-term trends in income inequality.

[Household income inequality, UK: financial year ending 2022](#)

Bulletin | Released 25 January 2023

Estimates of income inequality in the UK for financial year ending 2022.

[The effects of taxes and benefits on household income, technical report: financial year ending 2020](#)

Methodology | 8 June 2021

This technical report provides an update on how the effects of taxes and benefits on household income (ETB) datasets for financial year ending (FYE) 2018 to FYE 2020 are produced. It contains information relating to questionnaire changes and new or changed methodology for these years.

[Income and earnings statistics guide](#)

Methodology | Last revised 22 May 2024

This guide outlines the different data sources and outputs that feed into the analysis of income and earnings within the UK.

[Family spending in the UK: April 2022 to March 2023](#)

Bulletin | Released 23 August 2024

Average weekly household expenditure on goods and services in the UK, by age, income, economic status, socio-economic class, household composition and region.

7 . Cite this statistical bulletin

Office for National Statistics (ONS), released 19 December 2024, ONS website, statistical bulletin, [Effects of taxes and benefits on UK household income: financial year ending 2023](#)