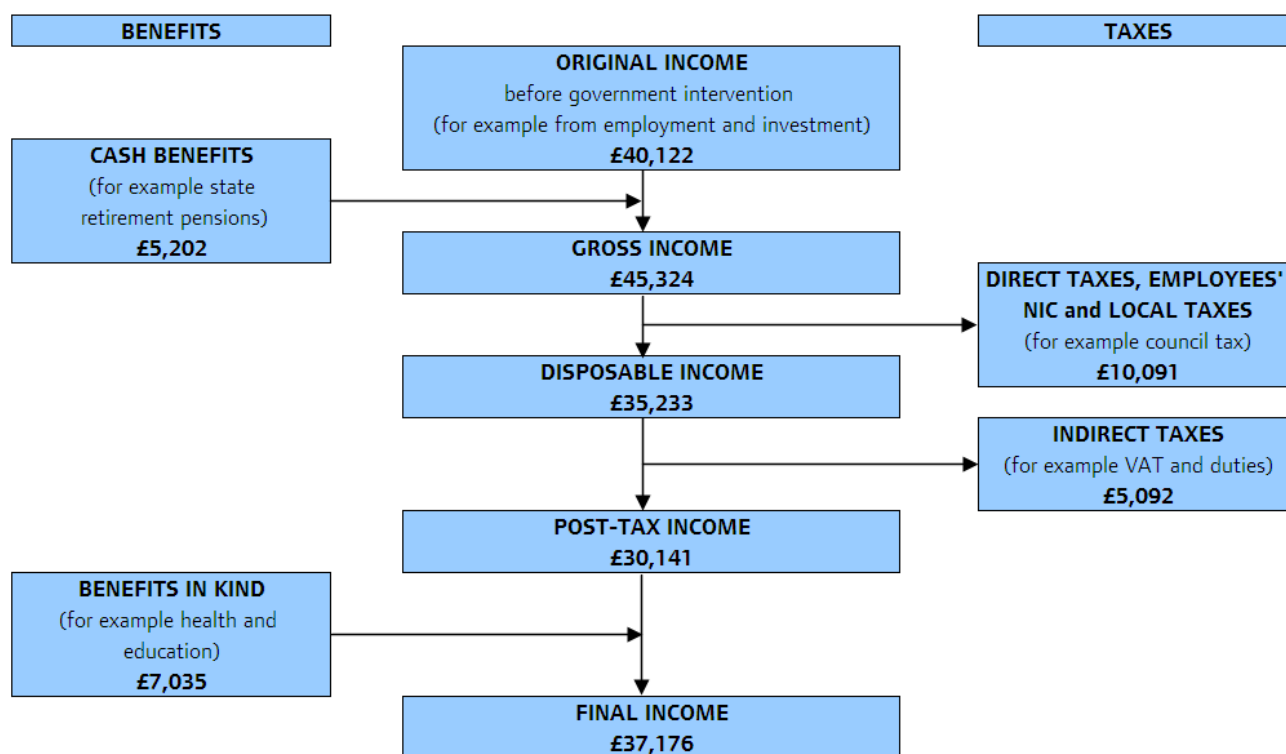


## The Effects of Taxes and Benefits on Household Income 2009/10 – A London Summary

This *Update* presents the key findings for London from the ONS Statistical Bulletin *Effect of Taxes and Benefits on Household Income 2009/10*. The release contains articles and data looking at how taxes and benefits affect the income of households in the UK. The analysis provides estimates of household incomes, including the average amount of taxes that households pay, and the value of benefits that they receive. At regional level all data are based on three-year averages in order to improve the reliability of the estimates.

Figure 1 shows how a final annual household income is arrived at, taking into account both taxes and benefits. An original income is calculated as the sum of all income obtained before government intervention. Cash benefits are then added to the original income to give a Gross Income estimate. Direct taxes, including income tax, employees National Insurance contributions and local taxes are then deducted to give an estimate of disposable income. Indirect taxes, such as VAT and duties on products are then deducted leaving a post-tax income. Any benefits in kind such as education or health are then added to the post-tax income to give an estimate of final income. This figure does not take housing costs into account. This *Update* looks at each component of the calculation and compares the average household in London with those in the other UK regions. For a full list of the component features of each type of tax/benefit, please see the 'Background' section at the end of this report. This *Update* also features a section on household composition which provides an important context to the data relating to income, benefits and taxes.

**Figure 1: Calculation of Household Income, Benefits and Taxes, London, 2007/08 – 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*, ONS

## Original Income

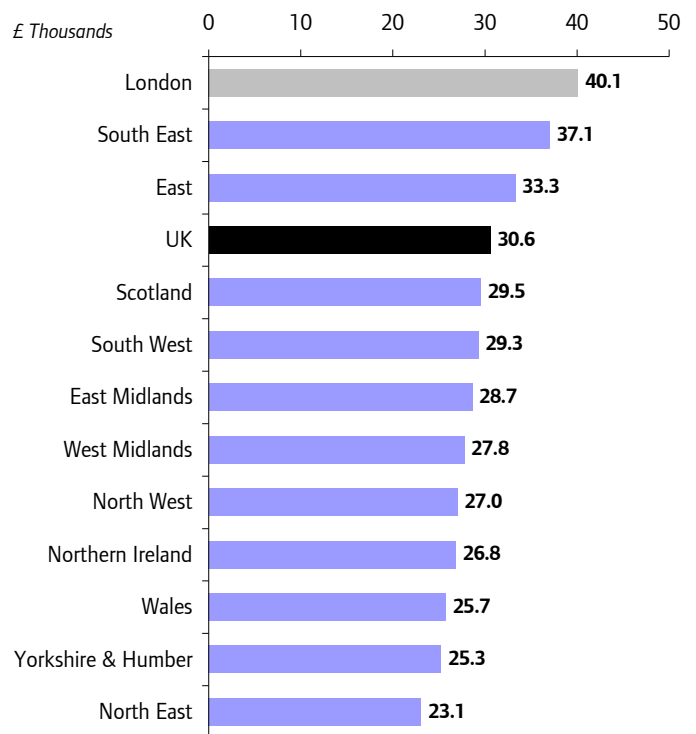
Original income refers to all income obtained before government intervention. This includes wages and salaries, income from self employment, income from occupational pensions and annuities, investment income and any other form of non-government derived income. The average household in London had an original income of just over £40k per year, equivalent to £10k more than the average household across the UK and £3k per year more than the next highest region – the South East. The North East had the lowest original annual income at £23k, £17k less than the average household in London (See Chart 1).

On average a London household derived 78 per cent of its original income from wages and salaries, among the highest proportions regionally. Self-employment accounted for a further 11 per cent of the average household's original income. This proportion is consistent with the UK average. The proportion drawn from occupational pensions or annuities in London was the lowest of all UK regions at six per cent. This reflects the younger age profile of the capital's population, meaning that a smaller proportion of the population are of pensionable age. Investment income and other sources of income accounted for the remaining four percent of average original household income in London (See Chart 2).

## Cash Benefits

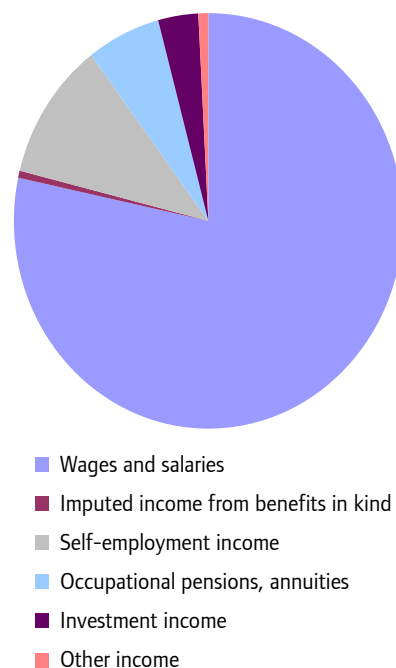
Total cash benefits are added to the original income figure to generate an estimate of gross income. Cash benefits can be split into two types of benefit; Those that are contributory (for example, retirement pension and contribution based job seekers allowance) and those that are non-contributory (for example income support and child benefit). A full list of the components of each is included in the background section at the end of this report.

**Chart 1: Average Annual Original Household Income, 2007/08 - 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

**Chart 2: Components of Average Annual Household Income, London, 2007/08 - 2009/10**

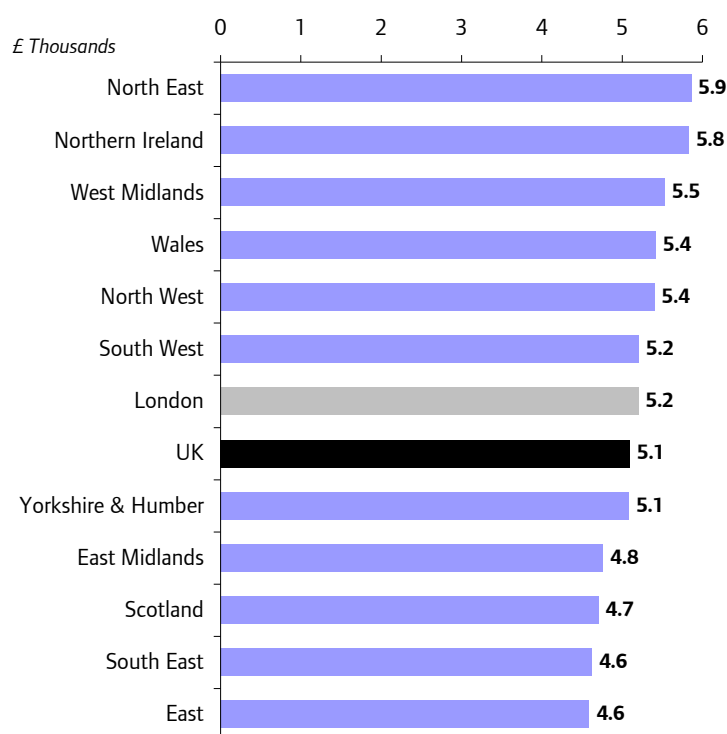


Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

Chart 3 shows the total cash benefit (both contributory and non-contributory) received by households regionally. The average household in London received £5200 per year, similar to the UK average of £5100. Households in the North East received the highest amounts at £5,900, compared with the lowest in the East of England region at £4600.

The components of total cash benefits differed in the capital compared with the wider UK. In London, contributory benefits accounted for 39 per cent of total cash benefit receipt compared with 50 per cent across the UK. The two main components of contributory benefits where London had significantly lower receipt than the UK as a whole were retirement pension and Incapacity Benefit. The average household in London derived £1816 and £161 from these sources respectively, compared with £2283 and £208 for the UK as a whole. In terms of non-contributory benefits, the higher average award for Housing Benefit in London accounted for more than 80 per cent of the overall difference between London and the UK. The average household in London receives £1063 per year in Housing Benefit, almost double that received across the UK as a whole (£538). A London household also received more in the form of tax credits (working and child tax credits) and income support and pension credit than UK households, but less from Disability Living Allowance and Carer's Allowance.

**Chart 3: Average Total Household Cash Benefit 2007/08 - 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

**Table 1: Average Annual Gross Household Income and Component Share, 2007/08 - 2009/10 (£)**

	Gross Income	Components (per cent)	
		Original Income	Cash Benefits
North East	28,941	80	20
North West	32,414	83	17
Yorkshire & Humber	30,349	83	17
East Midlands	33,423	86	14
West Midlands	33,281	83	17
East	37,874	88	12
London	45,324	89	11
South East	41,681	89	11
South West	34,490	85	15
Wales	31,151	83	17
Scotland	34,246	86	14
Northern Ireland	32,675	82	18
UK	35,695	86	14

Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

## Gross Income

The average household in London had a gross annual household income of £45,324 during the period 2007/08 – 2009/10, close to £10k per year more than the average household across the UK and almost £4k more than the next closest region – the South East. Almost 90 per cent of gross household income in London is derived from original, non-government sources, the joint highest proportion regional. The remaining 11 per cent is derived from cash benefits.

## Direct Taxes & Disposable Income

Table 2 shows the effect of direct taxes on gross household income. These include, income tax, employees' National Insurance contributions, council tax and Northern Ireland rates. Income tax is included after the deduction of tax credits. Council tax is also included after taking into account discounts, council tax benefit and rent rebates. Deducting direct taxes from gross income gives an estimate of disposable income. The average London household paid £10,091 in direct taxes – the highest of any region and almost £3k more than the UK average. The amount deducted in the form of direct taxes

as a share of gross income was also highest in London at 22 per cent, compared with 20 per cent in the UK and 18 per cent in Northern Ireland the North East. After direct taxes, the average London household had a disposable income of £35,233, again the highest regionally and £7k higher than the UK average. Households in London had over £11k per year more disposable income than those in the North East – the lowest regionally.

**Table 2: Average Annual Household Gross Income, Direct Taxes and Disposable Income, 2007/08 - 2009/10**

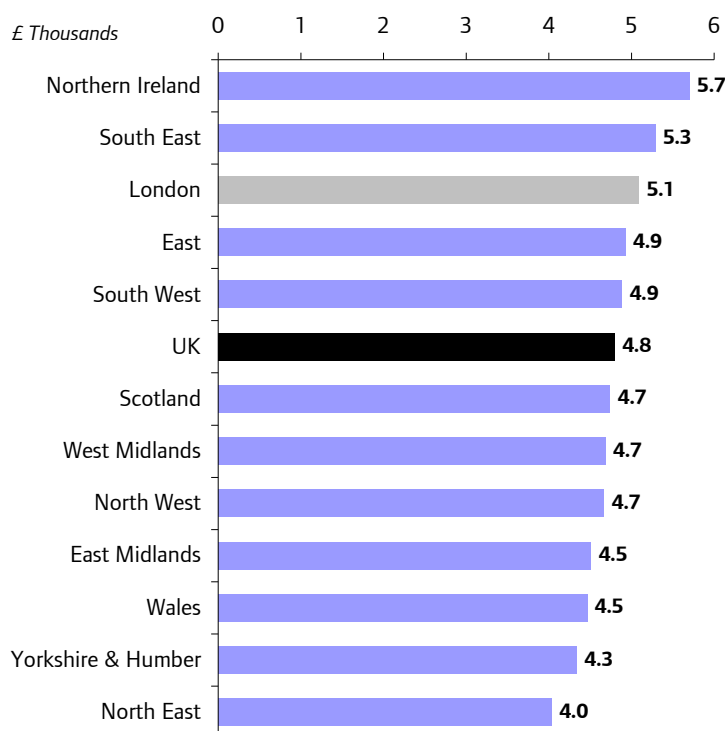
£ (percentage of gross income in italics)

	Gross Income	Total Direct Taxes	Disposable Income
North East	28,941	5,101 18	23,841 82
North West	32,414	6,316 19	26,098 81
Yorkshire & Humber	30,349	5,746 19	24,603 81
East Midlands	33,423	6,755 20	26,668 80
West Midlands	33,281	6,481 19	26,800 81
East	37,874	7,963 21	29,912 79
London	45,324	10,091 22	35,233 78
South East	41,681	9,153 22	32,528 78
South West	34,490	6,690 19	27,800 81
Wales	31,151	5,867 19	25,284 81
Scotland	34,246	7,038 21	27,209 79
Northern Ireland	32,675	5,723 18	26,953 82
UK	35,695	7,267 20	28,428 80

Source: Effect of Taxes and Benefits on Household Income 2009/10

Office for National Statistics

**Chart 4: Average Annual Household Indirect Taxes 2007/08 - 2009/10**



Source: Effect of Taxes and Benefits on Household Income 2009/10  
Office for National Statistics

## Indirect Taxes

Indirect taxes are predominantly comprised of VAT, duties on goods and services and employers National Insurance contributions. A full list of the components is included in the 'background' section at the end of this report. An average household in London paid £5,100 per year in indirect taxes, the third highest regional total, behind the South East (£5,300) and Northern Ireland (£5,700), (see Chart 4). A London household spent £2190 per year on VAT, £126 more than the UK equivalent. Households in the capital also faced higher average taxes than UK households in the form of stamp duty and employers' national insurance

contributions at £114 and £81 a year more respectively. In contrast a London household spends £77 per year less than the UK average on hydrocarbon oil duties. This appears to reflect the wider use of public transport and lower dependence on cars in London compared with the rest of the UK.

Despite paying high indirect taxes in absolute terms, the amount paid, as a share of disposable income in London was 14.5 per cent, the lowest regional share and 2.4 percentage points lower than the UK average. The average household in Northern Ireland paid 21.2 per cent of its disposable income in indirect taxes, the highest share of any region.

### Total Tax and Post-Tax Income

Total tax is the sum of direct and indirect taxes. An average London household paid £15,183 in tax per year, compared with

£12,061 across the UK and just £9,133 in the North East – the lowest regional total. Deducting total tax from gross income gives an estimate of post-tax income. A London household had a post-tax income of £30,141 per year, the highest regionally and almost £3k higher than the next closest region – the South East (£27,242). The London figure was almost £7k more than the UK average (£23,634) and £10k more than the lowest average in the North East (£19,808).

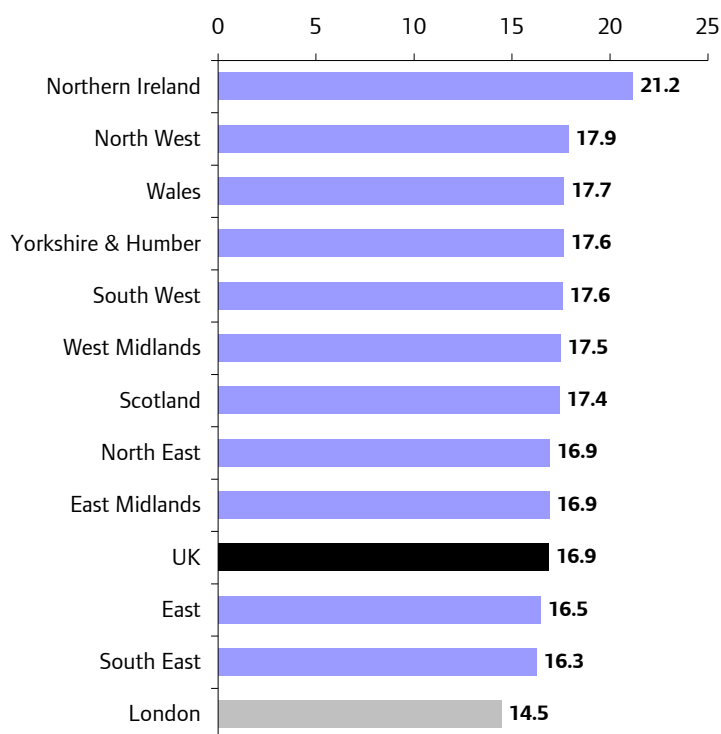
Post-tax income as a share of gross income in London was 67 per cent; that is a third of gross income was lost to taxes. There was little regional variation in this measure with households in the North East keeping the largest share at 68 per cent and those in the South East the smallest share at 65 per cent.

**Table 3: Average Annual Household Tax and Post-Tax Income (£) 2007/08 - 2009/10**

	Total Tax	Post-Tax Income	Post-Tax Income as % of Gross Income
North East	9,133	19,808	68
North West	10,984	21,430	66
Yorkshire & Humber	10,086	20,263	67
East Midlands	11,265	22,158	66
West Midlands	11,163	22,118	66
East	12,890	24,984	66
London	15,183	30,141	67
South East	14,439	27,242	65
South West	11,577	22,913	66
Wales	10,330	20,821	67
Scotland	11,781	22,465	66
Northern Ireland	11,426	21,249	65
UK	12,061	23,634	66

Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

**Chart 5: Indirect Taxes as a Proportion of Disposable Income 2007/08 - 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

### Benefits in Kind

Notional benefits in kind are added to post-tax income to give an estimate of final household income. These cover benefits provided to a household by the Government for which there is a reasonable premise for allocation and for which sufficient information is available. The benefits in kind included are, National Health Service (NHS),

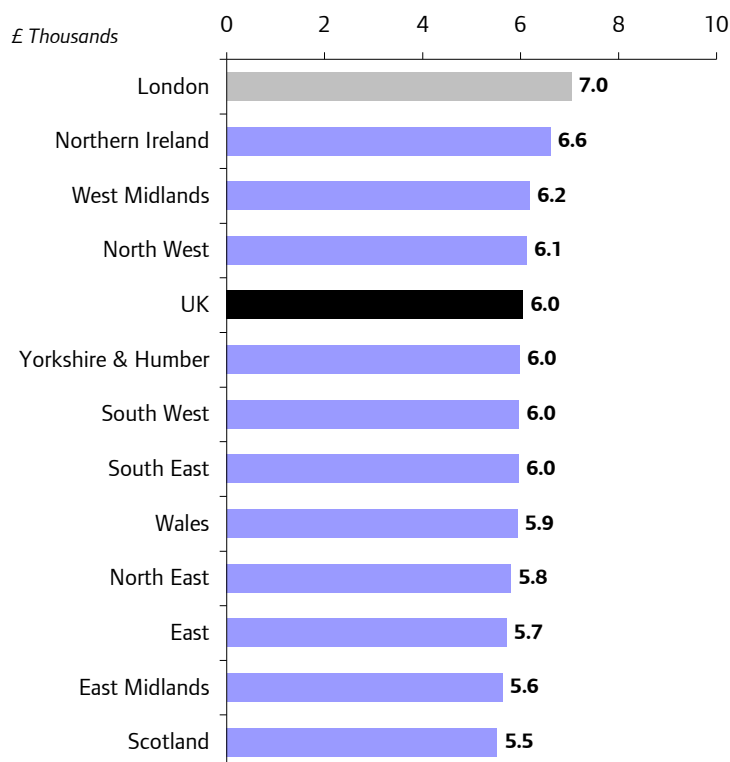
State education, school meals and healthy start vouchers, housing subsidy, railway travel subsidy and bus travel subsidy (including concessionary fare schemes). Some items of Government expenditure are not included, such as capital expenditure, spending on defence and spending to maintain law and order.

In total, the average London household was estimated to have received £7,035 per year from benefits in kind, a thousand pounds more than the UK average and the highest regional total (See Chart 6). Households in Scotland received the lowest amount at £5,520 per year. In London, the vast majority (95 per cent) of total benefits in kind are derived from the NHS and state education (47 and 48 per cent respectively). This compared with 98 per cent in the UK. A UK household receives a smaller proportion in the form of state education at 41 per cent, but a larger share from the NHS at 57 per cent of total benefits in kind.

## Final Income

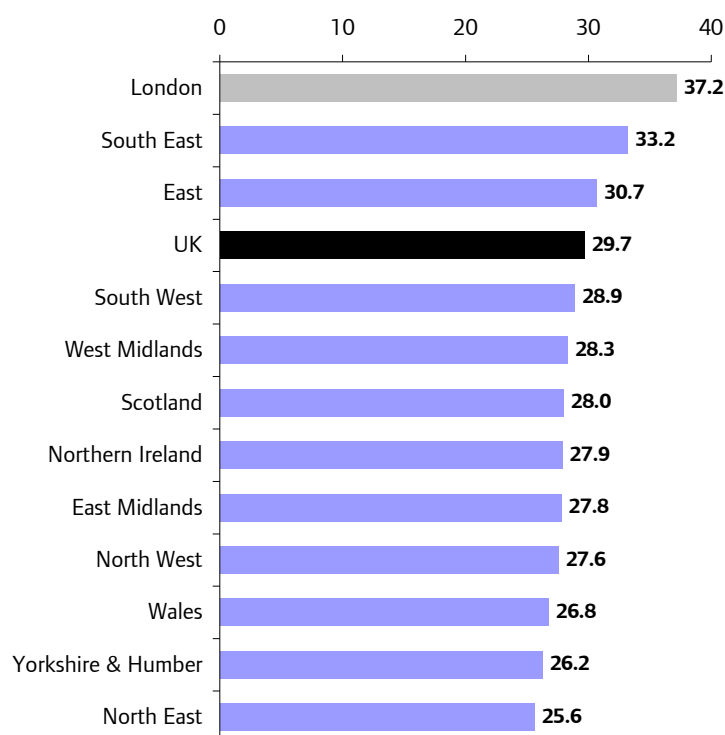
Final income is the sum total of post-tax income and benefits in kind. The average household in London has a final income of £37,176 per year, the highest regional total (See Chart 7). The London figure is £7.5k more than the UK average and £4k more than the next highest average – the South East. An average household in the North East had a final income of £25,613, £11.5k less than the London total and the lowest of any region. Benefits in kind accounted for 19 per cent of the final income of the average London household, the joint second lowest proportion regionally behind the South East. The London average was very close to the UK figure of 20 per cent. Households in London drew the largest share of their final income from benefits in kind at 24 per cent.

**Chart 6: Average Annual Household Total Benefits in Kind 2007/08 - 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

**Chart 7: Average Annual Household Total Final Income 2007/08 - 2009/10**



Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

Table 1 contains key contextual information concerning household size and composition. These figures help to understand some of the distributional patterns of income, benefits and taxes among different sub-groups within the population. The data show that the average household in London was slightly larger than that in the UK as a whole at 2.52 and 2.35 persons respectively. However, some caution should be applied when using survey estimates of household size. Alternative estimates of household size are available from the Department for Communities and Local Government (DCLG). Estimates taken from this series (2008 based projections) show London to have a similar average household size to that of the UK at 2.33 persons per household in 2008. These figures are based on 2001 census data, which is then adjusted using survey data. The use of the 2001 census as a starting point improves the reliability of these estimates. As such, the CLG projections are more frequently used when analysing household size.

In terms of tenure, London households were 13 percentage points more likely to rent than those across the UK as a whole. Almost a quarter of all households in London are “social rented”, compared to 18 per cent across the UK. A London household is less likely to be owner occupied than those across the UK at 56 per cent compared with 69 per cent respectively. Just over three in ten households across the UK own their property outright, compared with 22 per cent in London.

A ‘chief economic supporter’ is defined as the head of the first benefit unit within the household as defined by the Living Costs and Food Survey<sup>1</sup>. The age profile of chief economic supporters in London is younger than that of their counterparts across the UK. In London, 44 per cent of chief economic supporters were aged under 45 compared with 39 per cent of those across the UK as a whole. Conversely, 22 per cent of chief economic supporters in London were aged over 64, compared with 27 per cent of those across the UK. These figures are reflected in the employment status<sup>2</sup> of chief economic supporters. In London, only 20 per cent are retired households compared to 26 per cent of their counterparts in the UK as a whole. Across the remaining categories of employment status, chief economic supporters are distributed similarly regardless of area.

**Table 1: Key Household Characteristics, 2007/08-2009/10**

	London	UK
<b>Household size (average number of people)</b>	2.52	2.35
<b>Household tenure</b>		
Rented	44	31
Owner occupied	56	69
<b>Age of chief economic supporter</b>		
Under 25	3	4
Over 24 and under 35	18	15
Over 34 and under 45	23	20
Over 44 and under 55	19	19
Over 54 and under 65	16	17
Over 64 and under 75	10	13
Over 74	11	14
<b>Employment status of chief economic supporter</b>		
Self-employed	9	7
Full-time employee	46	45
Part-time employee	10	9
Unemployed	2	2
Unoccupied and under minimum NI pension age	12	11
Retired/unoccupied over minimum NI pension age	20	26
Other	0	0

Source: *Effect of Taxes and Benefits on Household Income 2009/10*  
Office for National Statistics

<sup>1</sup> [http://www.statistics.gov.uk/downloads/theme\\_social/familypending2010.pdf](http://www.statistics.gov.uk/downloads/theme_social/familypending2010.pdf)



## **Background**

### *Original Income Components:*

Wages and salaries; Imputed income from benefits in kind; Self-employment income; Occupational pensions; annuities; Investment income; Other income.

### *Cash Benefit Components:*

Contributory - Retirement pension; Job seeker's allowance (Contribution based); Incapacity benefit; Widows' benefits; Statutory Maternity Pay/Allowance.

Non-Contributory - Income support and pension credit; Child benefit; Job seeker's allowance (Income based); Housing benefit; Carer's allowance; Attendance allowance; Disability living allowance; War pensions/War widows' pensions; Severe disablement allowance; Industrial injury disablement benefit; Student support; Government training schemes; Tax credits; Other non-contributory benefits.

### *Direct Tax Components:*

Income Tax; Employee's National Insurance contributions; Council Tax and Northern Ireland rates.

### *Indirect Tax Components:*

VAT; Duty on tobacco; Duty on beer and cider; Duty on wines & spirits; Duty on hydrocarbon oils; Vehicle excise duty; Television licences; Stamp duty on house purchase; Customs duties; Betting taxes; Insurance premium tax; Air passenger duty; Camelot National Lottery Fund; Commercial and industrial rates; Employers' NI contributions; Duty on hydrocarbon oils; Vehicle excise duty; Other.

### *Benefit in Kind Components:*

Education; National health service; Housing subsidy; Rail travel subsidy; Bus travel subsidy; School meals and Healthy Start Vouchers.

For more information and access to the full dataset, please visit the link below:

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=10336>

For more information please contact Richard Walker, Intelligence Unit,  
Greater London Authority, City Hall, The Queen's Walk, London SE1 2AA  
Tel: 020 7983 4699 e-mail: [richard.walker@london.gov.uk](mailto:richard.walker@london.gov.uk)

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