

Low-income UK residents pay higher tax rates than the wealthy

Robert Stevens
20 June 2014

Low-income UK residents pay a higher tax rate than the wealthy, according to a report published Monday by the Equality Trust think tank.

The report, entitled *Unfair and Unclear: The Effects and Perception of the UK Tax System*, explains that, “when all taxes are considered ... households in the lowest 10% income group are taxed proportionally more than those in the highest 10% income group.”

The Equality Trust found that many people perceive the UK’s tax system to be more progressive than it is. It also revealed that the great majority of the public (96 percent) supports a more progressive tax system than the one they perceive to be in place.

Explaining the reality of a tax system massively skewed in favour of the richest 10 percent in society, the report details, “A household in the lowest 10% income group pays 43% of its income in tax, while average households and those in the highest 10% income group both pay just 35%—8 percentage points less than those in the lowest 10%.”

The research was based on a survey among 1,036 British adults in April this year and also examined public awareness and perceptions about the tax regime in the UK.

Most of the unfair tax burden placed on the poor is in the form of indirect taxes, such as Value Added Tax (VAT), applied to most goods and services on sale in the UK. The standard rate of VAT rose from 17.5 percent to 20 percent in January 2011.

The report points out that many people are not aware of the scale of regressive taxation in the UK. It notes that “discussions on the tax distribution frequently concentrate on income tax only, despite this constituting only about 27% of the overall tax take.”

The report explains how over the last three decades there has been a reversal of the progressive tax regime

that existed in the UK in previous decades. It notes that in 1977-78 [under a Labour government] tax distribution was changed “from a very regressive system to a moderately progressive one. This was mainly due to the bottom 10% of households. The proportion of total income paid in all taxes by this group fell from 45% in 1977 to 36% in 1978.”

The report outlines how since 1986 [under the Conservative government of Margaret Thatcher], “the bottom 10% of households have paid a greater proportion of their income in tax than the middle and the top 10%.”

In the subsequent three decades this has remained the case, contributing enormously to today’s unprecedented levels of social inequality. This policy has been strictly adhered to by both Labour and Tory governments. The report notes, “The tax system was at its most regressive in 2001, [under the Labour government of Tony Blair] when the bottom 10% of households paid 55% of their total income in all taxes, while the middle paid 36% and the top 10% paid 34%.”

Overall it explains, “From 1977 to 2009, the top 10% of households paid a lower proportion of their income in tax than, not only the bottom 10%, but also the average household. The proportion paid by the middle and the top converged (34%) in 2009.”

The report lists a number of individual taxes, finding that they that disproportionately hit the poor. These include Council Tax, which is levied on domestic property and collected by local authorities. It highlights that “Council Tax is regressive, affecting the bottom 10% substantially more than the top 10%. This persists even after council tax benefit and account rate rebates have been taken into account. Households in the bottom 10% pay over twice as much of their income in council tax as the average household and more than four times

as much of their income as the top 10%.”

This situation is likely to worsen substantially as “the data analysed in this report is from 2011-12, when those in receipt of many means-tested state benefits were eligible for 100% rebates on Council Tax. It is likely that the recent reform of council tax benefit will have made Council Tax more regressive and increased the proportion of their income that the bottom 10% pay in tax.”

In relation to indirect taxes, the situation is even worse. “Households in the bottom 10% income group, the report states, “pay roughly 23% of their gross household income in indirect taxes on consumption.”

The report notes, “The largest tax that affects households in the bottom 10% is VAT. Income tax constitutes only a small portion of the tax that they pay. However, income tax plays a much larger role for the average household and an even greater role for households in the top 10%.”

It adds, “The bottom 10% of households pay 11.62% of their total income in VAT, almost double the proportion of the average household (6.11%) and close to three times the proportion paid by the top 10% of households (4.39%).”

The report explains, “Fuel duty is slightly less regressive than VAT; however, like council tax, it occupies a substantially larger proportion of the poorest 10%’s total income than either the average household or the top 10%.”

“Tobacco duty is very regressive”, it continues. The poorest 10% of households pay almost “twice the amount paid by the richest 10% of households in absolute terms, and sixteen times greater as a proportion of their household income.”

While the Equality Trust concentrates on the implications of indirect taxation, the amount of income tax paid by Britain’s wealthiest is also being constantly lowered. In 2012 the Treasury conceded that the payment of income tax for Britain’s super-rich is largely voluntary, with many multi-millionaires paying a lower tax rate than working people.

Though describing a regressive tax regime that has “little, if any public mandate”, the report concludes with several limited recommendations to “politicians and policy-makers” to establish a “tax system that is progressive”. One of its prescriptions is that government should “aim to reduce VAT,” but only

“when it has a budget surplus.”

It concludes, “By addressing the regressive nature of the tax system, politicians will be able to ensure that their policies have a public mandate. And, by creating a more progressive tax system, they will also be able to better tackle the UK’s extreme economic inequality, a move likely to be popular with the electorate.”

The very findings presented in the Equality Trust’s report are the clearest evidence that such appeals only fall on deaf ears. The stark reality is that the system of regressive taxation in the UK is the result of a deliberate and decades long offensive by successive governments, on behalf of a super-rich financial aristocracy, to reverse the social gains won by the working class over decades of struggle. No appeals to this profoundly anti-social layer will result in a change of course.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact