House of Commons Library

By Matthew Keep

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Tax statistics: an overview

Contents

Summary

In 2023/24, UK government raised around £1,095 billion (£1.1 trillion) in receipts – income from taxes and other sources. This is equivalent to around 40% of the size of the UK economy, as measured by GDP, which is the highest level since the early 1980s. Most receipts come from three main sources: income tax, National Insurance contributions (NICs) and value added tax (VAT). Together they raised around £626 billion in 2023/24.

Recent trends

Between 2007/08 and 2009/10 receipts fell by around 1% of GDP, following the financial crisis and recession of 2008 and 2009. Receipts have since increased and have exceeded 36.7% of GDP in each year from 2010/11. Receipts were last consistently above this level in the mid-1980s. They are forecast to rise further in the coming years.

Receipts from income tax, NICs, VAT and corporation tax are larger now, relative to the size of the economy than they were in 1999/00.

Since the late 1990s receipts from stamp duty on property transactions, capital gains tax and council tax have all grown noticeably faster than the economy. Fuel duties and tobacco duties have declined.

Coronavirus: impact on receipts

Receipts were particularly affected by the coronavirus pandemic in 2020/21. In aggregate, receipts fell as there was less economic activity and because the government gave tax breaks to support the economy. However, the economy shrank to a greater extent than receipts, so receipts became larger relative to the size of the economy in 2020/21.

The financial support that the government provided to protect household incomes – such as the furlough scheme – and support businesses – such as grants – also supported some tax revenues.

While individual taxes were affected in different ways by the pandemic in 2021/22, total receipts increased and were larger than forecast pre-pandemic.

Individual taxpayers: income tax paid, by income

Income tax payments are concentrated amongst those with the largest incomes. The 10% of income taxpayers with the largest incomes contribute over 60% of income tax receipts.

Households: taxes paid, by income

The Institute for Fiscal Studies (IFS) – an economic think tank – has analysed how much households pay in tax. Their analysis – which covers around three quarters of tax revenues (including income tax, NICs, VAT, excise duties and council tax) – found that, in 2017/18, the 50% of households with the largest incomes contributed around 78% of taxes.

Impact of taxes across the income distribution

Overall, direct taxes (which include income tax, NICs and council tax) lower income inequality. Higher income individuals pay a greater share of their gross household income in direct taxes compared with poorer individuals. Council tax limits the extent to which direct taxes reduce income inequality.

A greater share of the income of lower income households goes on indirect taxes (VAT, duties and so forth). However, some economists argue that indirect taxes should be considered relative to households' spending, rather than their income, not least because indirect taxes are generally levied on spending. When looked at relative to households' spending, indirect taxes are broadly similar across the income distribution.

1 Recent trends and forecasts

1.1 The latest year: 2023/24

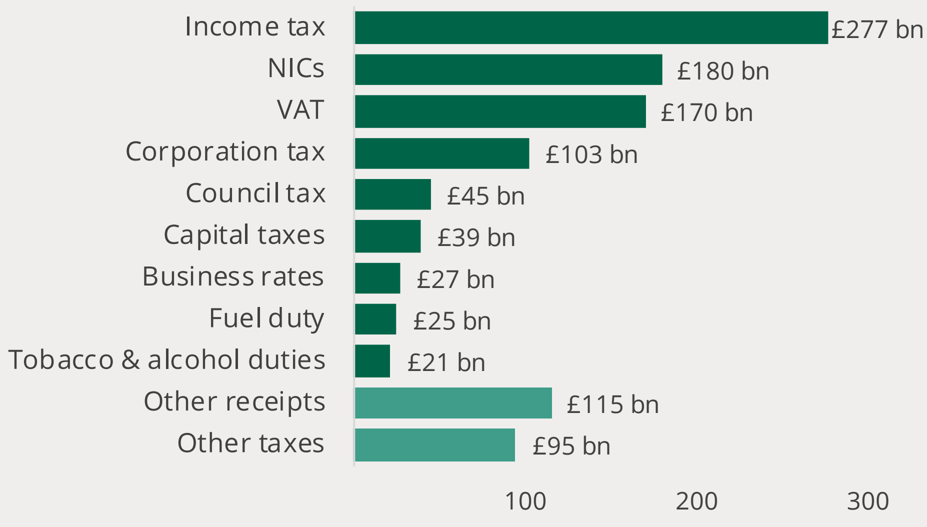
In 2023/24, UK government revenues – or public sector current receipts – were £1,095 billion (£1.1 trillion), equivalent to 40% of GDP.[1]

Income tax, National Insurance contributions (NICs) and Value Added Tax (VAT) contribute around three-fifths of all revenues. In 2023/24, £277 billion was raised from income tax, £180 billion from NICs and £170 billion from VAT.

Corporation tax was the fourth largest tax, raising £103 billion, including £3 billion through the Energy Profits Levy. Council tax raised around £45 billion, both fuel duty and business rates raised around £25 billion.

All other individual taxes each raised less than £20 billion in 2023/24. Aside from taxes and duties, the government also receives other receipts, largely from income generated by public corporations – such as through social housing– and from interest payments on its assets, such as student loans.

Public sector current receipts 2023/24: £1,095 billion



Notes: Capital taxes include stamp duties, capital gains tax and inheritance tax. Corporation tax here includes £4 billion from the energy profits levy (EPL). We exclude the EPL elsewhere in this briefing.
Source: ONS. Public sector current receipts: Appendix D (accessed on 1 May 2024)

[1] Data for 2022/23 are sourced from ONS's Public sector finances, UK: February 2024 (published 21 March 2024). Figures may be revised in subsequent publications.

Box 1: Tax receipts and public sector current receipts

Most government revenues come from taxes or social contributions. National insurance contributions are the UK's social contributions. In 2023/24, £980 billion was raised from taxes and social contributions, equivalent to 36% of GDP.

When 'other receipts' such as interest payments on government assets, and income generated by public corporations are added in we reach the wider measure of public sector current receipts. In 2023/24, £1,095 billion was raised from public sector receipts, equivalent to 40% of GDP.

1.2 2020/21 and 2021/22: the pandemic

Tax revenues were affected by the Covid-19 pandemic in 2020/21 and, to a lesser extent, 2021/22.

2020/21

The pandemic was particularly disruptive to tax revenues in 2020/21. In 2020/21, UK government revenues – or public sector current receipts – were £793 billion, 4.3% lower than in 2019/20.

Government revenues usually fall during a recession and usually fall slightly faster than the size of the economy.[2] However, during 2020/ 21, revenues fell slower than the economy which meant that revenues became larger relative to the size of the economy in 2020/21, compared with 2019/20.[3] This was despite the government making tax cuts that reduced receipts, such as business rates holidays and cuts to stamp duty and VAT for the hospitality sector (see Box 2). The cash size of the UK economy was 7.1% smaller in 2020/21, compared with 2019/20.[4]

It's likely that, overall, revenues held up relatively well because of the financial support that government provided to protect household incomes and support businesses. For example, the furlough scheme supported taxable wages and salaries. Corporation tax receipts benefited from the grants and

2 The Office for Budget Responsibility (OBR) put this down to" the effects of fiscal drag going into reverse and sharper falls in taxes linked to asset prices, which themselves vary more than one-for-one with GDP". OBR. Fiscal Risks Report. July 2021, para 2.23

3 Receipts were equivalent to 38.1% of GDP in 2020/21 and 36.8% of GDP in 2019/20. They were forecast (in March 2020) to be equivalent to 37.9% of GDP in 2020/21.

4 ONS, Series BKTL

business rates relief provided to businesses in 2020/21, which supported their taxable profits.[5]

In cash terms, the hardest hit tax in 2020/21 was VAT, where receipts were over £17 billion lower, compared with 2019/20. Consumers were less able to go out and spend during the pandemic, and government policies, such as cutting VAT from 20% to 5% for the 'hospitality, accommodation and attractions' sector, also affected VAT receipts (see Box 2). VAT revenues were equivalent to 6.0% of GDP in 2019/20 and 5.6% in 2020/21.

Business rates, air passenger duty, stamp duty on property and fuel duty all decreased relative to the size of the economy. Air passenger duty receipts fell by 91% as the number of people taking flights fell substantially. Travel restrictions during lockdowns also reduced motor vehicle traffic which caused fuel duties to fall.

Business rates revenues decreased primarily because of the business rates holidays for the retail, hospitality, and leisure sectors in England, and similar schemes in Scotland and Wales. Revenues from stamp duty on property transactions fell due to a mix of the stamp duty holiday introduced by the government and fewer transactions.

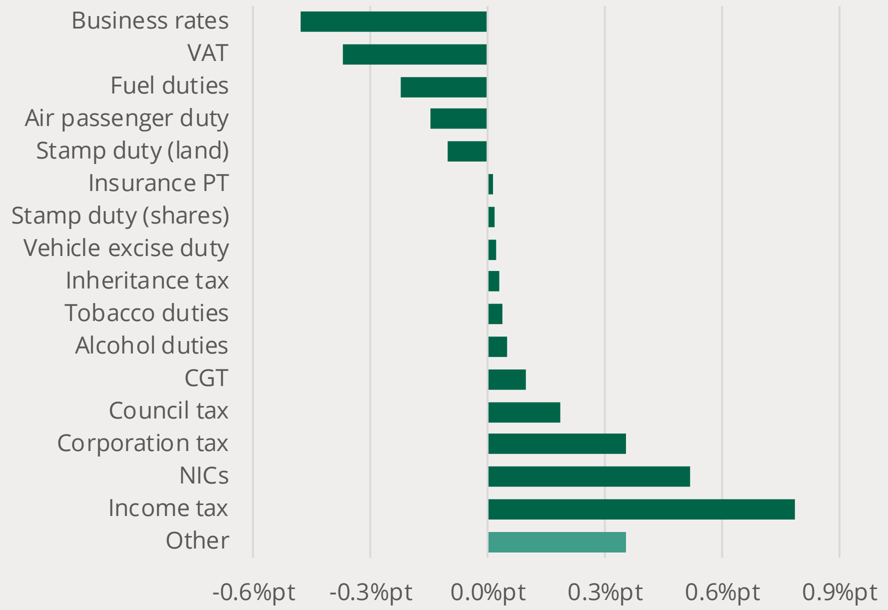
Some tax revenues grew in 2020/21, both in cash terms and relative to the size of the economy. Capital gains tax, corporation tax, council tax and inheritance tax all increased by 3% or more, compared with 2019/20. Alcohol duties increased by 1% as higher sales in shops made up for the lost receipts from the closure of pubs and restaurants.

The UK's two largest sources of revenue – income tax and NICs – grew relative to the size of the economy and in cash terms in 2020/21. Despite the economic contraction, earnings and employment held up remarkably well in 2020/21, supported by the furlough scheme for employees and the grants going to the self-employed.

5 OBR, Fiscal risks report – July 2021, para 2.24

Change in receipts 2019/20-2020/21, % of GDP

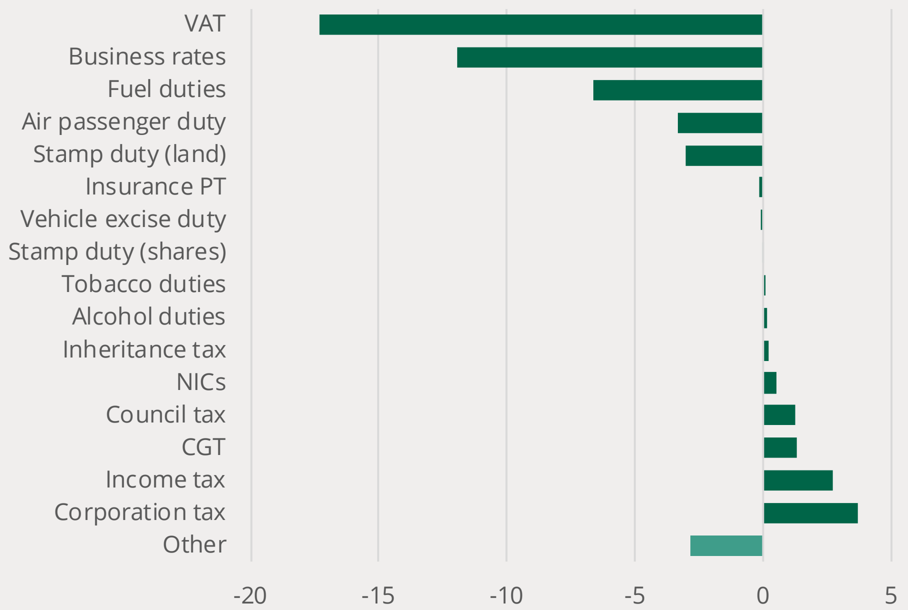
% point change in receipts as % of GDP



Source: ONS. Public sector current receipts: Appendix D; ONS series BKTL (accessed on 22 March 2024)

Change in receipts 2019/20-2020/21, £ billion

£ billion change in receipts



Source: ONS. Public sector current receipts: Appendix D (accessed on 22 March 2024)

2021/22

Tax revenues grew strongly in 2021/22, increasing by 16% compared with 2020/21, which had been more disrupted by the pandemic. Revenues were a little higher than the Office for Budget Responsibility forecast before the pandemic.[6]

However, the story differed across taxes. Some tax bases were subdued (such as for air passenger duty) and government policy reduced some taxes (such as business rates). But, in general, receipts were buoyed by the composition of economic activity being more tax rich. Put another way, economic activity generated more tax than expected. For instance, wages and salaries – which are relatively tax rich components of economic activity – made up a larger composition of the economy than was previously expected.[7]

Box 2: Government pandemic-related tax policy

During the Covid-19 pandemic the UK government committed huge sums to tackle the virus and support households and businesses. Some of the support offered to households and businesses came through the tax system, including:

1. Businesses in the retail, hospitality, leisure and nurseries sector in England received a business rates holiday, so that they didn't pay business rates in 2020/21. The business rates holiday continued to 30 June 2021 and was replaced with 66% relief from 1 July 2021 to 31 March 2022. Similar schemes operated in Scotland, Wales and Northern Ireland.

2. VAT for hospitality, accommodation and attractions was reduced to 5% from 20% between 15 July 2020 and 30 September 2021. A 12.5% rate applied from 1 October 2021 until 31 March 2022, when the rate reverted to 20%.

3. The threshold up to which residential stamp duty isn't paid (the nil-rate band) for transactions in England and Northern Ireland was increased from £125,000 to £500,000 until 30 June 2021. The threshold then reduced to £250,000 until 30 September 2021. It returned to £125,000 on 1 October 2021.

4. Payments for taxes including VAT and self-assessment income tax could be deferred until 2021.

Further information is available in the Commons Library briefings Coronavirus: Economic impact and Coronavirus: Support for businesses.[8]

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6 In March 2020, the OBR forecast £911 billion of public sector current receipts in 2021/22, equivalent to 38% of GDP. Revenues were actually £921 billion, equivalent to 39% of GDP.

7 There is further discussion in Box 3.1 and Box 3.2 of the OBR's March 2022 economic and fiscal outlook

8 Commons Library briefing CBP-8866, Coronavirus: Economic impact, updated December 2021; Commons Library briefing CBP-8847 Coronavirus: Support for businesses, updated July 2022

1.3 Trends

Comparable data on public sector receipts are available from 1999/00. In 1999/00, public sector receipts were equivalent to 35.8% of GDP. Receipts have fluctuated since, but the general trend has been towards receipts growing relative to the size of the economy. In 2019/20, ahead of the pandemic, public sector receipts were equivalent to 36.9% of GDP. They are equivalent to 40.3% of GDP in 2023/24. Receipts have exceeded 36.7% of GDP in each year since 2010/11.

Both VAT and NICs receipts are larger in 2023/24 than they were in 1999/00, relative to the size of the economy. Income tax receipts are also relatively larger now than they were in 1999/00. They had been smaller, relative to the size of the economy, going into the pandemic. Corporation tax receipts, relative to the size of the economy, are a little higher in 2023/24 compared with 1999/00.[9]

Since 1999/00, relative decreases have been seen in fuel duty receipts – a result of improved fuel efficiency and freezes in fuel duty rates – and in tobacco duties. The freezes in fuel duty rates began in 2011.[10]

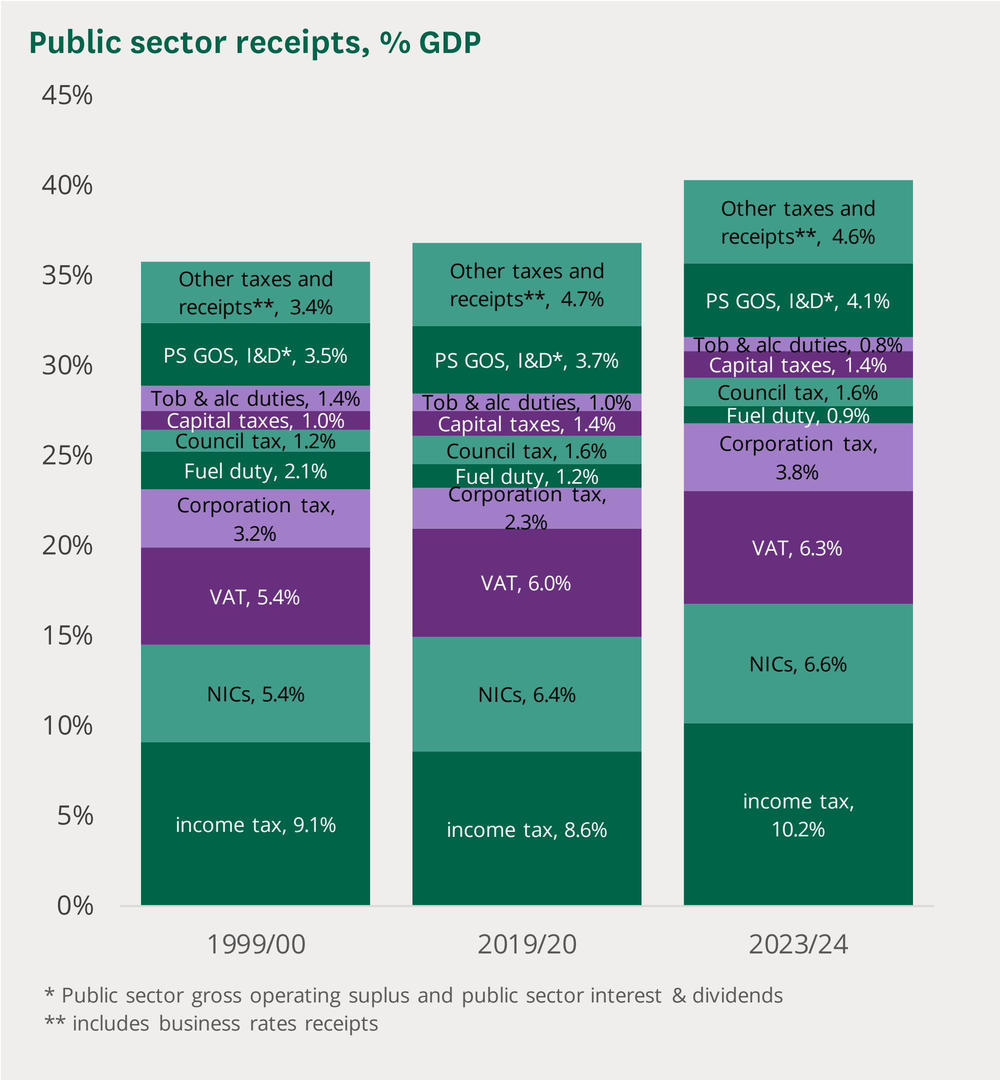
Council tax has grown in significance since 1999/00. Receipts grew particularly quickly in the years leading up to 2009/10 but have since slowed.

The taxes grouped as ‘capital taxes’ in the chart below grew from 1.0% of GDP in 1999/00 to 1.4% in 2019/20 and 2023/24. Receipts for stamp duty on property purchases and capital gains tax grew faster than the economy over the period.

The growth seen in the taxes grouped as ‘other taxes’ has largely come from the introduction of environmental levies and growth in receipts from insurance premium tax. Other new taxes introduced since 1999/00 include: the bank levy, the bank surcharge, the apprenticeship levy and the diverted profits tax.

[9] The energy profits levy (EPL) is part of the corporation tax regime. Revenues from the EPL were equivalent to 0.1% of GDP in 2023/24

[10] OBR. Fuel duties [accessed on 12 January 2024]

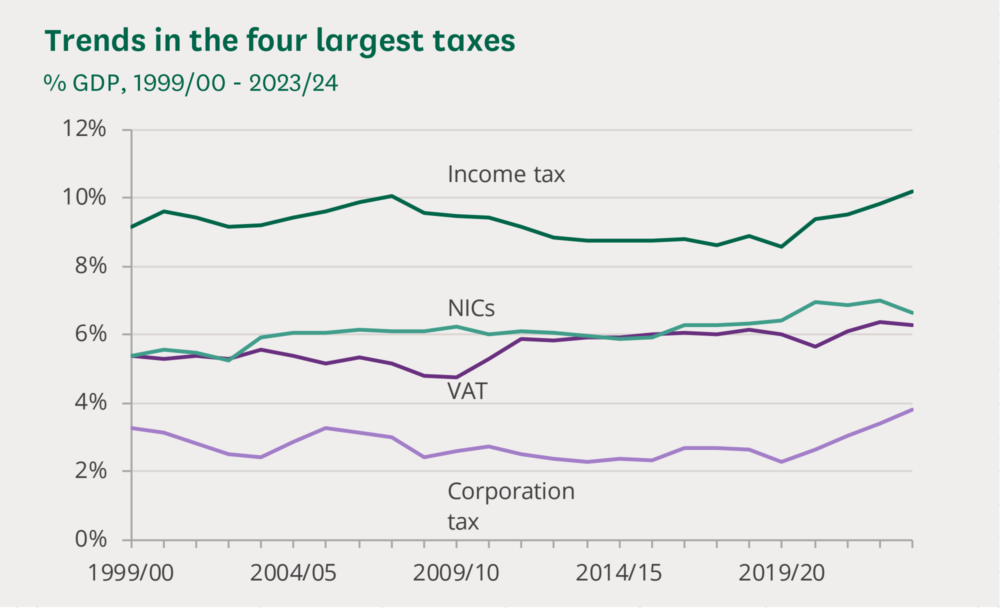


Notes: Corporation tax shown above includes the energy profits levy
source: ONS. Public sector current receipts: Appendix D (accessed on 22 March 2024)

1.4 The four largest taxes

Taken together, income tax, National Insurance contributions (NICs), VAT and corporation tax contributed around two-thirds of public sector receipts in 2023/24, a slightly higher proportion than in 1999/00.

Receipts from the four were equivalent to 23.1% of GDP in 1999/00 and equivalent to 26.5% of GDP in 2023/24, which is the highest they've been over the period.



notes: Corporation tax excludes the energy profits levy

source: ONS. Public sector current receipts: Appendix D (accessed on 10 May 2024)

Income tax

Income tax is charged on different forms of personal income including earnings, income from investment and pension income.

Prior to the financial crisis and recession of 2008 and 2009, income tax receipts had risen to 10.2% of GDP, from 9.1% of GDP in 1999/00. After the financial crisis, until the pandemic, income tax revenues generally fell, relative to the size of the economy. In 2019/20, income tax receipts were equivalent to 8.6% of GDP. Receipts increased to 10.2% of GDP in 2023/24.

The relative fall in income tax receipts between the financial crisis and the start of the pandemic can be broadly attributed to weak earnings growth and government increasing the tax-free personal allowance. Increases in the personal allowance meant that fewer people are paying income tax, and, for most income taxpayers, income tax is charged on less of their income.

During the pandemic, the furlough scheme supported taxable wages and salaries. Similar support for the self-employed supported their taxable profits. Income tax receipts were, therefore, supported by the schemes.

Recent strength in income tax receipts is due to wages and salaries growing faster than the economy and more income being dragged into higher rates of tax.[11] The latter reason, often described as 'fiscal drag', occurs when tax thresholds and allowances do not keep up with inflation or wage growth, resulting in more of a taxpayers' income being taxable. Fiscal drag was particularly strong in 2022/23 and 2023/24, as the government froze the point

[11] OBR, Why have receipts recovered so strongly in the wake of the pandemic?, Economic and fiscal outlook - March 2022 | Box: 3.1

at which people start paying income tax (the personal allowance) and the point where the higher rate of 40% starts being paid (the higher rate threshold). The Library briefing Fiscal drag: An explainer looks at fiscal drag in the context of taxation in the UK, focusing on income tax and National Insurance Contributions thresholds being frozen.

Recent and upcoming changes

Both the level of income at which people start paying income tax (the personal allowance) and the level of income at which individuals start paying the 40% rate of income tax (the higher rate threshold) are frozen from April 2022 until April 2028. The freezes are forecast to raise the Treasury around £32 billion a year by 2027/28.[12]

The point at which individuals start paying the 45% rate of income tax (the additional rate threshold) was reduced to £125,140 from £150,000 in April 2023. The policy is forecast to raise the Treasury around £0.8 billion-£0.9 billion a year.[13]

The dividend allowance fell from £2,000 to £1,000 in April 2023 and will fall to £500 from April 2024. Individuals only pay tax on any dividend income above the dividend allowance.[14]

Dividend income tax rates rose by 1.25%-points in 2022/23.

National Insurance contributions (NICs)

NICs are levied on the wages and salaries of employees and earnings of the self-employed. NICs receipts increased from 5.4% of GDP in 1999/00 to 6.4% in 2019/20. NICs receipts rose, relative to the size of the economy, during the pandemic. NICs receipts were equivalent to 6.6% of GDP in 2023/24, which is lower than in any year since 2019/20. As we discuss below, the main rate of employee NICs was reduced from 12% to 10% in January 2024.

NICs receipts increased in 2003/04 when various employee, self-employed and employer rates were raised by 1% point. At the same time thresholds at which earnings start being charged NICs were frozen. The measures were introduced to raise revenues for additional NHS spending.[15] NICs receipts increased from 5.3% of GDP in 2002/03 to 5.9% in 2003/04.

In 2011/12 the main rates paid by employees, employers and the self-employed were increased by 1% point. At the same time NICs free thresholds for employees and employers were increased. The ‘employment allowance’

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12 OBR. Economic and fiscal outlook – March 2024, Table 3.8 (PDF), 6 March 2024

13 OBR. Economic and fiscal outlook – March 2024, Table 3.8 (PDF), 6 March 2024

14 HM Treasury, Autumn Statement 2022, Table 5.1

15 For further information see the Library briefing The National Insurance Contributions Bill, 8 May 2002

was introduced from April 2014, giving each employer a £2,000 tax-free threshold to offset against their NICs liability.[16]

Since 2016/17, NICs receipts have consistently been at or over 6.2% of GDP. Receipts were boosted in 2016/17 by the removal of a rebate related to the State Pension.[17] In April 2016 the new State Pension removed the ability of certain taxpayers due to reach State Pension age to 'contract out' of the additional earnings-related element of the previous two-tier state pension and thus pay lower NICs via a rebate.

Recent and upcoming changes

In January 2024, the main rate of Class 1 NICs paid by employees was reduced from 12% to 10%. It was reduced further to 8% in April 2024. The main rate of Class 4 NICs, paid by the self-employed, was cut from 9% to 6% from 6 April 2024. The cuts cost around £20 billion a year.[18]

The requirement for self-employed people with profits of at least £12,750 to pay Class 2 NICs was also removed from April 2024.[19]

NICs rates for employees, employers and self-employed were temporarily increased by 1.25%-points, between April 2022 and November 2022. The increase was originally announced as part of a package to fund health and social care spending, but the 1.25%-point increases were reversed by Liz Truss's Government.[20]

In July 2022, the level of earnings at which people start paying National Insurance contributions increased from the equivalent of £9,880 to £12,570 a year. The rise aligns the NICs thresholds (the primary threshold and lower profits limit) with the point at which people begin paying income tax on their income (the income tax personal allowance). The policy cost the Treasury around £6.4 billion in 2022/23.[21] The thresholds will remain frozen while the personal allowance is frozen, which lowers the cost of the policy.[22]

The employer NICs threshold is frozen from 2023/24 to 2027/28, rather than rising by inflation. Employers will begin to pay NICs once an employee's earnings exceeds £175 per week. The policy raises around £3 billion in 2023/24 rising to around £8 billion by 2028/29.[23]

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[16] OBR, Working Paper No. 15. The evolution of public sector receipts over the past decade, April 2020, para 2.8

[17] OBR, Working Paper No. 15. The evolution of public sector receipts over the past decade, April 2020, para 2.8

[18] OBR. Economic and fiscal outlook – March 2024, Table 3.8 (PDF), 6 March 2024

[19] HM Treasury. Autumn Statement 2023, Table 5.1, 22 November 2023

[20] Further details are in the Library's Health and Social Care Levy (Repeal) Bill 2022-23 briefing; HM Government. Build back better: Our plan for health and social care, September 2021

[21] OBR, Economic and fiscal outlook – November 2023, Table A

[22] OBR, Economic and fiscal outlook – November 2023, Table A

[23] OBR. Fiscal implications of personal tax threshold freezes and reductions, November 2023

The employment allowance increased to £5,000 in April 2022.[24]

VAT

VAT is charged on the purchase of many goods and services.

In the years leading up to the financial crisis, VAT receipts had fluctuated between 5.2% and 5.5% of GDP. During, and immediately after, the recession they fell below 5% of GDP. The standard rate of VAT was reduced from 17.5% to 15% for a 13-month period between 1 December 2008 and 31 December 2009.

The standard rate of VAT was increased from 17.5% to 20% from January 2011 and until the pandemic VAT receipts had been equivalent to between 5.8% and 6.1% of GDP. [25]

VAT receipts fell from 6.0% of GDP in 2019/20 to 5.6% of GDP in 2020/21. As we discussed in Box 2, the VAT rate for hospitality, accommodation and attractions was reduced from 15 July 2020. The rate returned to 20% on 1 April 2022. Consumers were also less able to go out and spend on items that attract VAT during the pandemic.

In 2023/24, VAT receipts were equivalent to 6.3% of GDP, which is broadly similar to in 2022/23. At no point since 1999/00 have they been higher.

Some of the increase in VAT receipts is due to the tax gap closing. The tax gap measures the difference between the tax collected and the amount theoretically due if individuals and businesses paid all the tax due. The VAT gap fell from 0.8% of GDP in 2005/06 to 0.3% in 2021/22. Much of the fall came after 2013/14. HMRC introduced measures to close the VAT gap and the reduction in the use of cash, particularly since the Covid-19 pandemic, is also likely to have contributed.[26]

Corporation tax

The majority of corporation tax (onshore corporation tax) revenue is raised from the taxable profits of limited companies and other organisations, after taking into account various deductions and allowances. Some corporation tax (offshore corporation tax) is raised from UK oil and gas revenues.

Corporation tax receipts fell from 3.2% of GDP in 1999/00 to 2.3% in 2019/20. They have increased since.

Since 1999/00 corporation tax receipts have only exceeded 3.2% of GDP in 2005/06, 2022/23 and 2023/24. In 1999/00, corporation tax receipts were relatively large due to the strength in onshore corporation tax receipts which

[24] HMRC, Policy Paper. Employment Allowance increases for National Insurance from April 2022, 23 March 2022

[25] For further information see the Library briefing VAT : the new 20% standard rate, 3 September 2013

[26] OBR. The fiscal implications of tax gaps, March 2024 (accessed on 25 March 2024)

themselves were equivalent to 3.1% of GDP. In 2005/06, offshore receipts – largely from North Sea oil – were at the highest level over the period (0.6% of GDP) while onshore receipts were also above the average for the period.

The financial crisis saw corporation tax fall from 3.0% to 2.4% of GDP between 2007/08 and 2008/09. Despite cuts to the main rate of corporation tax since 2010/11, onshore receipts were similar in 2018/19 and the early 2010s, relative to the size of the economy. Receipts held up, relative to the size of the economy, due to increases in company profits, growth in the number of firms paying the tax and wider changes to the complex corporation tax system.[27]

Corporation tax receipts fell to 2.3% of GDP in 2019/20, largely because of the Covid-19 pandemic. The pandemic reduced receipts in 2019/20 as firms revised down their profit expectations and increased their actual or anticipated use of loss reliefs.[28]

Since the pandemic, corporation tax receipts have grown relative to the size of the economy. Onshore corporation tax receipts have increased due to strong profits growth in higher-tax paying sectors. In April 2023, the main corporation tax rate increased, as discussed below.

The energy profits levy (EPL), which is an additional levy on UK oil and gas profits, was introduced in May 2022. The EPL is part of the corporation tax regime and receipts from it were equivalent to 0.2% of GDP in 2022/23 and 0.1% in 2023/24.

Recent and upcoming changes

From April 2023, the main corporation tax rate increased from 19% to 25% on profits over £250,000. The rate for small profits (profits under £50,000) remains at 19%. Businesses with profits under £250,000 receive some relief. The policy was forecast to increase corporation tax revenues by over £17 billion from 2025/26.[29]

The Annual Investment Allowance (AIA) was permanently set at £1 million from April 2023. The AIA is a capital tax allowance for certain investments in plant and machinery. The AIA was set to return to £250,000 in April 2023, having been temporarily increased to £1 million. The policy was announced in Kwasi Kwarteng's September 2022 mini budget, and not reversed by Chancellor Jeremy Hunt.[30]

A temporary change to capital allowances ('full expensing'), which was introduced in April 2023, has been made permanent. This provision allows companies to claim the full cost of their expenditure on IT equipment, plant or

[27] OBR, Working Paper No. 15. The evolution of public sector receipts over the past decade, April 2020, paras 2.11-2.14

[28] OBR, Forecast evaluation report – January 2021, Table 3.1 and para 3.8

[29] HM Treasury, Autumn Statement 2022, Table 5.2

[30] HM Treasury, Autumn Statement 2022, Table 5.2

machinery against tax when this business investment is made. A 50% first-year allowance applies to investment in special rate assets.[31]

The energy profits levy was introduced on 26 May 2022, in response to record high oil and gas prices.[32] The levy was at first charged on oil and gas profits at a rate of 25%. The rate increased to 35% from 1 January 2023. The levy is scheduled to end on 31 March 2029. The levy is charged on top of the existing corporation tax paid by the oil and gas sector, which consists of 30% Ring Fence Corporation Tax and 10% Supplementary Charge.[33]

1.5 Broad groups of taxes

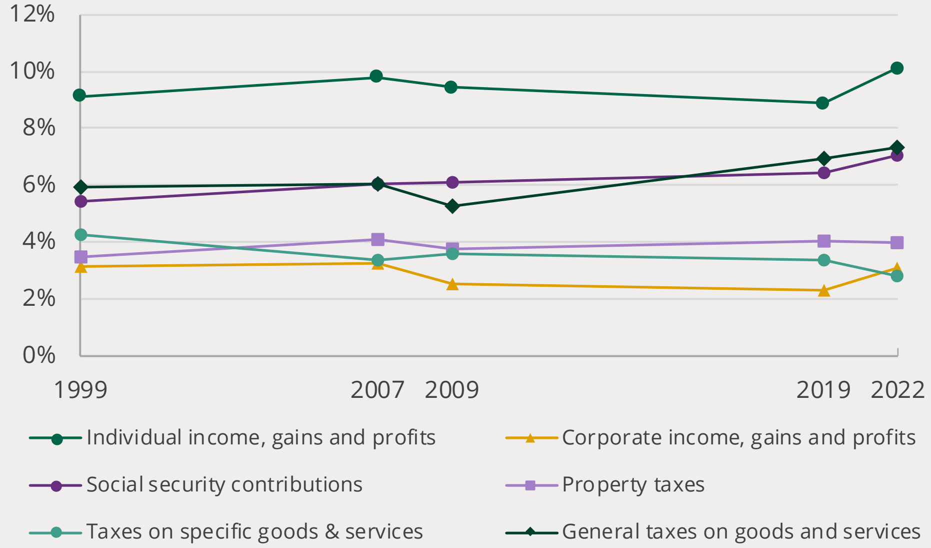
The chart below shows that in 2007 (immediately prior to the financial crisis), receipts from taxes on individuals' incomes,[34] social security contributions,[35] property and (to a lesser extent) corporate income were higher than in 1999, relative to the size of the UK economy. [36] [37] Taxes on specific goods and services, which are largely excises and duties, were lower in 2007 than in 1999.

General taxes on goods and services were noticeably higher in 2022, compared with 2009. VAT contributes nearly all UK taxes in this group. Taxes on individuals' incomes were higher in 2022, relative to the size of the economy, than in 2009.

31 Special rate assets include integral parts of a building, items with a long life, solar panels, thermal insulation added to a building, cars with CO2 emissions over a certain threshold.
32 HM Treasury. Energy Profits Levy Factsheet - 26 May 2022, 15 June 2022
33 Further information is available in the Library briefing Taxation of North Sea oil and gas, 2 May 2024
34 The vast majority of which is income tax
35 NICs
36 Largely made of council tax, business rates and stamp duties
37 Largely corporation tax

Composition of taxes in selected years

% GDP, 1999, 2007, 2009, 2019 and 2022



Source: OECD. [Revenue Statistics](). OBR. [Public finances databank]()

2 Public sector receipts since the 1940s

2.1 Trends in total receipts

Public sector current receipts include taxes and social contributions (largely national insurance) and 'other receipts' such as interest payments on government assets, and income generated by public corporations.

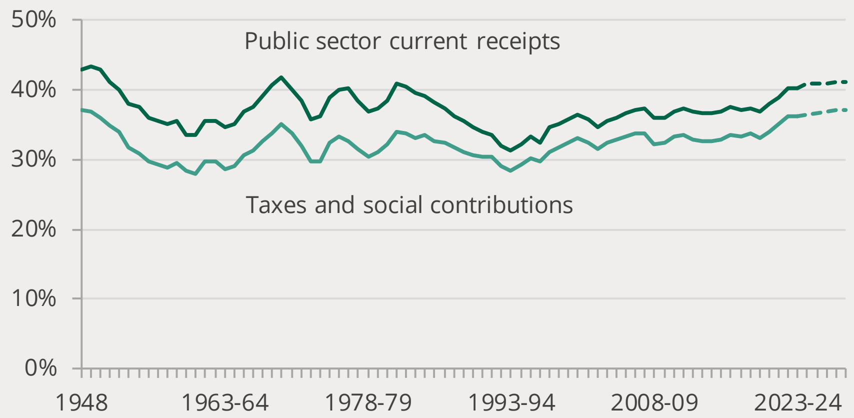
Since the late 1940s public sector current receipts have fluctuated between 31% and 43% of GDP, with peaks in the early 1950s, late 1960s, mid-late 1970s and early 1980s. Receipts were smallest relative to the size of the economy in 1993/94. In 2023/24, receipts were at their highest level since the early 1980s.

Taxes and social contributions have fluctuated between 28% and 37% of GDP and have largely tracked the wider measure of public sector receipts (see Box 1 for definitions of the two measures). In 2023/24, taxes and social contributions were similar to in 2022/23, which is the highest level since the late 1940s.

Between 2007/08 and 2009/10 both measures fell by around 1% of GDP, following the 2007-2008 financial crisis and recession. Both are now larger, relative to the size of the economy, than they were prior to the crisis. Public sector current receipts were last consistently at a higher level in the early-1980s when the public sector included more nationalised industries. Taxes and social contributions were last higher in the late 1940s.

Public sector receipts and national account taxes

% GDP, outturns 1948 - 2023/24, forecasts 2024/25 - 2028/29



Notes: Taxes and social contributions data here are the OBR's measure of National Account taxes – they are broadly similar

Source: OBR. Public finances databank (accessed 10 May 2024); ONS. Public sector current receipts: Appendix D (accessed on 10 May 2024); ONS series BKTL

The gap between public sector receipts and national accounts taxes closed between the early 1980s and the early 1990s from around 7% of GDP to around 3% of GDP. This is largely a result of industries previously under public ownership being privatised. The difference now is around 4% of GDP.

When industries are in public ownership some of their operation generates receipts that add to public sector receipts. For instance, any surplus created by public sector industries adds to public sector receipts. During the late 1970s public corporations' gross operating surplus was over 4% of GDP – by the early 1990s it was less than 1% of GDP.

Forecast

The Office for Budget Responsibility forecast that taxes and social contributions will rise from 36.3% of GDP in 2023/24 to 37.1% of GDP in 2028/29, which would be the highest level since 1948. Public sector current receipts are forecast to rise to over 41% of GDP for the first time since 1969/70 in 2027/28.[38]

The rise in receipts is a result of stronger and more tax-rich forecast growth, coupled with tax rises announced in two budgets during 2021.

As discussed in section 1.4, the income tax personal allowance and higher rate threshold have been frozen until April 2028, as have NICs thresholds now that they are aligned with income tax thresholds. The threshold at which people start paying the 45% rate of income tax was lowered in April 2023. The main rate of corporation tax increased in April 2023. Onshore corporation tax receipts are forecast to reach 3.7% of GDP in 2024/25, their highest level since corporation tax was introduced in 1965.[39]

Box 3: What is 'Gross operating surplus'?

Public sector gross operating surplus consists of general government depreciation and the gross operating surplus of public corporations. The gross operating surplus of corporations is akin to the profit of a public sector body. It is the income from operating that exists once operating costs – such as production costs, staff costs and taxes – have been taken away.

2.2 Broad groups of taxes

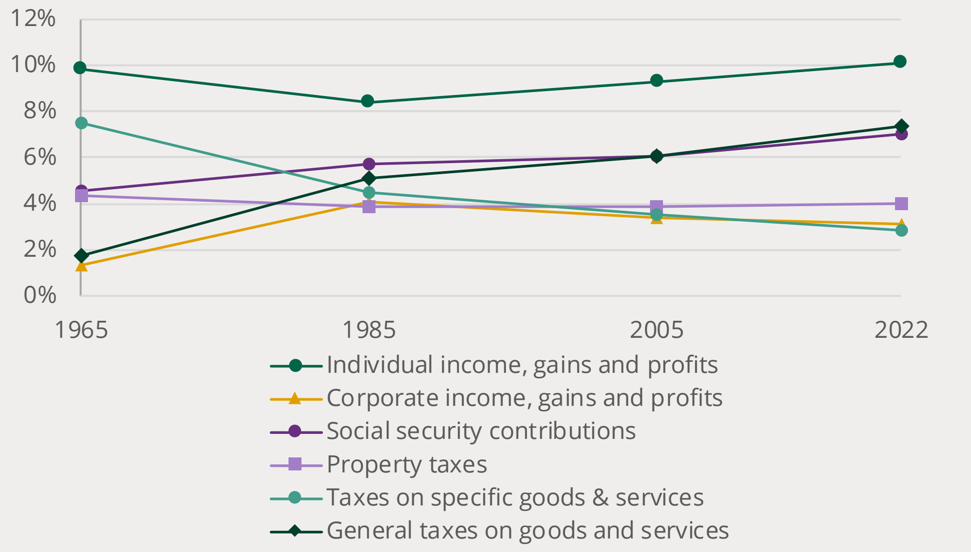
The chart below shows trends since 1965 across broad groups of taxes. Taxes on individual incomes have raised the most receipts in the selected years

[38] OBR, Public finances databank (accessed on 10 May 2024)
[39] OBR, Economic and fiscal outlook – March 2024, 25 March 2024, para 4.24

shown and they raise a little more now than they did in 1965, relative to the size of the economy.

Composition of taxes in selected years

% GDP, 1965, 1985, 2005 and 2022



Source: OECD. Revenue Statistics and OBR. Public finances databank

Comparing 1965 and 2022, the most noticeable difference in tax receipts is amongst those levied on goods and services. General taxes on goods and services (largely VAT) have increased from around 2% to close to over 7% of GDP while taxes on specific goods and services, such as excise duties, have fallen from over 7.5% to 2.8% of GDP. VAT was introduced in 1973 when the UK joined the European Economic Community and the main rate has risen from 8% to today's standard rate of 20%.[40]

Social security contributions have increased from being equivalent to a little over 4.5% of GDP in 1965 to around 7% in 2022. Taxes on corporate income are also more significant now than they were in 1965.

The Institute for Government discuss trends in these groups of taxes in more detail in Taxing Times: The need to reform the UK tax system.[41]

Historical view

The Library briefing The public finances: a historical overview includes data on government revenues from the late 1600s. It discusses how the composition of government revenues changed during the 18th, 19th and 20th centuries.

[40] As explained on Gov.uk a reduced or zero rate is applied to some goods and services

[41] IfG, Taxing times The need to reform the UK tax system, 12 July 2019

The Office for Budget Responsibility's article 300 years of UK public finance data provides a useful discussion of receipts.

3 Distributional analysis

Here we look at how the tax paid varies across individuals or households with different incomes and how taxes affect incomes.

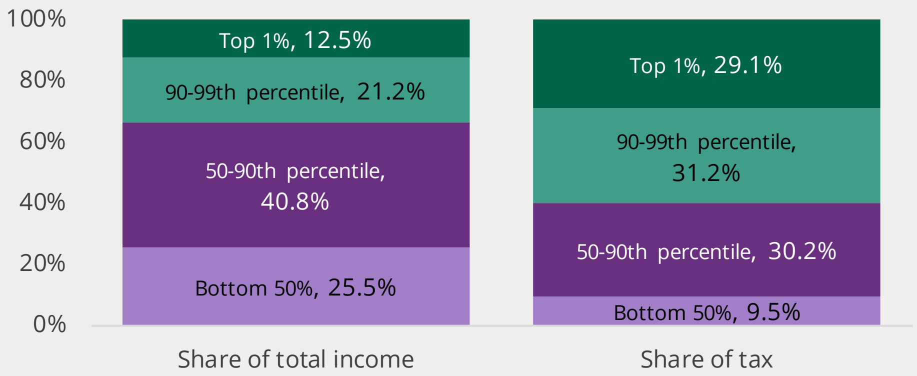
3.1 Income taxpayers

Estimates for 2020/21 suggest that the top 1% of income taxpayers (those with the largest incomes) received around 13% of all income and contributed 29% of income tax receipts. The top 1% are estimated to have pre-tax incomes of over £183,000.[42]

The top 10% of income taxpayers (including the top 1%) are expected to contribute around 60% of income tax receipts. The bottom 50% of income taxpayers (with incomes under £26,300) are expected to contribute around 10% of income tax receipts. These figures only include those paying income tax. They exclude those who don't pay income tax as their income is too low.

Income tax receipts are concentrated amongst taxpayers with the largest incomes in 2020/21

% share of total income and income tax for percentile groups*



* groups are ranged on total income before tax

Source: HMRC. Table 2.4 Shares of total Income Tax Liability

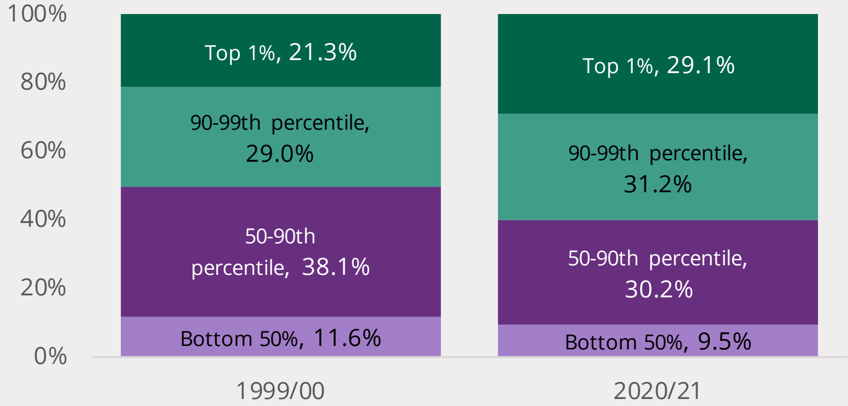
In 1999/00 income tax receipts weren't concentrated to quite the same extent as they are now. The top 1% contributed 21% of income tax receipts in 1999/00, with the top 10% contributing 50%.

[42] HMRC, Table 2.4 Shares of total Income Tax liability

Some of the increased concentration in income tax receipts towards the top of the distribution is because of an increase in the share of total income going to those at the top of income distribution. Policy changes made since the 2007-2008 financial crisis and recession have also had an effect. For example, the tax-free personal allowance has been withdrawn for those with incomes over £100,000,[43] the threshold at which the higher income tax rate is paid has been lowered,[44] the income tax relief individuals can claim on pension contributions has been reduced and the tax rate on income over £150,000 has increased.

Income tax receipts are now more concentrated amongst higher earners than they were in 1999/00

% share of income tax for percenticle groups*



* groups are ranged on total income before tax

Source: HMRC. Table 2.4 Shares of total Income Tax Liability

3.2 Households

Households' share of tax receipts

The Institute for Fiscal Studies (IFS) – an economic think tank – has looked at how a broader set of taxes are distributed across households, according to household incomes, in 2017/18.[45]

The IFS include around three quarters of tax revenues (including income tax, NICs, VAT, excise duties and council tax) in their analysis. They find that the 50% of households with the largest incomes contribute around 78% of these taxes. This means that overall tax payments are concentrated, but not to the same extent as income tax receipts.

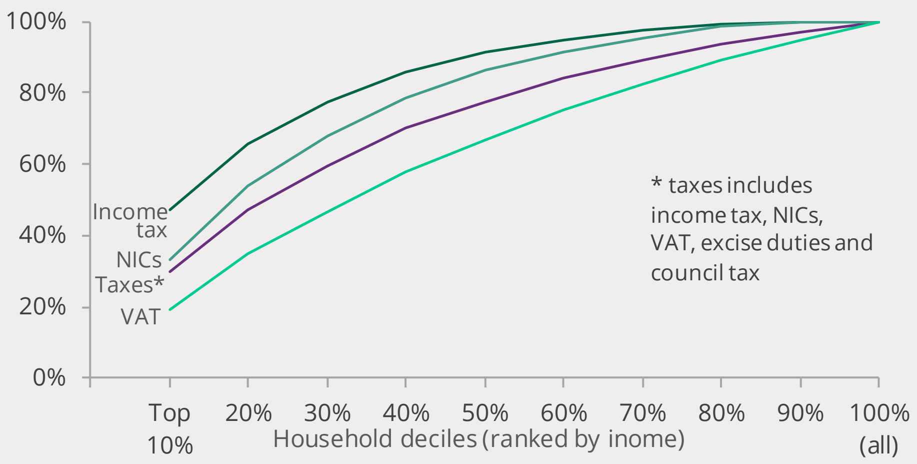
[43] The allowance is reduced by £1 for every £2 income is over £100,000.

[44] In real terms, ie after adjusting for inflation

[45] IFS, Tax revenues: where does the money come from and what are the next government's challenges?, 2017

The top 50% of households pay nearly 80% of receipts

Cumulative % of tax paid by households ranked by income, 2017/18



Source: IFS. Tax revenues: where does the money come from and what are the next government's challenges?, 2017

For NICs and VAT, the IFS find that, in 2017/18:

- NICs are concentrated amongst the better-off households, but not to the same extent as income tax
- VAT receipts are more broadly distributed across households.

There are limitations to the IFS' analysis, which point to taxes being concentrated amongst the higher income households to a greater extent than their estimates suggest:

- the data are based on survey responses, which underreport the incomes of the highest earners and the analysis is therefore likely to underestimate their tax contribution
- some of the tax receipts not included – such as capital gains tax and inheritance tax – are likely to be concentrated amongst the better-off households

Impact of taxes on household income

The Office for National Statistics (ONS) reports on the effects of taxes and benefits on UK household income. Their analysis considers the impact of direct and indirect taxes.[46]

[46] ONS, Effects of taxes and benefits on UK household income: financial year ending 2021

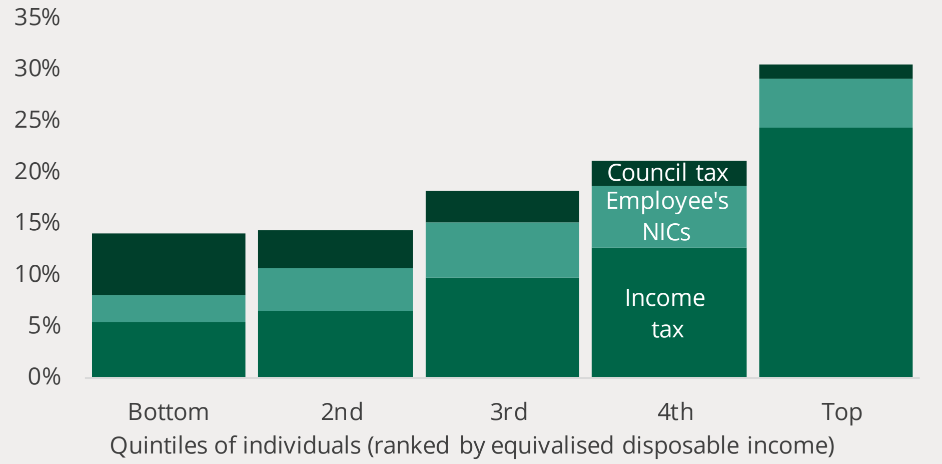
Direct taxes

In 2021/22, the average household paid £15,200 in direct taxes, equivalent to 24% of gross income. Gross income includes all original income – for example, from earnings and investments – plus cash benefits provided by government – for example from the state pension.

In aggregate, direct taxes (which includes, income tax, employee NICs and council tax) reduce income inequality: household incomes are more evenly distributed across the income distribution after direct taxes have been paid. The richest fifth paid on average £44,300 in direct taxes in 2021/22, which is equivalent to 31% of gross household income.[47] The poorest fifth paid £2,800 in direct taxes, which is equivalent to 14% of gross household income.

Council tax limits the extent to which direct taxes reduce income inequality. Even after including council tax support claimed, the poorest fifth pay a greater proportion of their gross income on council tax than the richest fifth.[48] Research from the IFS suggests that this is partly due to low take-up of council tax support entitlements.[49]

Direct taxes as % of gross household income, 2021/22



Notes: Data include direct tax payments deferred from previous years. For example, some self-employed individuals can legally defer paying income tax in a previous financial year. The inclusion of lump sum payments deferred from a previous financial year can lead to high estimates of direct taxes paid for the lowest deciles or quintiles. People with high gross incomes can end up towards the lower end of the income distribution by virtue of large deferred direct tax payments which are not reflective of their direct tax liabilities for a typical financial year.

Source: ONS. Effects of taxes and benefits on UK household income: financial year ending 2022

[47] Individuals are grouped into quintiles (or fifths) based on their equivalised household disposable income. The richest quintile is the 20% of individuals with the highest equivalised household disposable income. The poorest quintile is the 20% of individuals with the lowest equivalised disposable income. 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.

[48] This is council tax and Northern Ireland rates after benefits/rebates

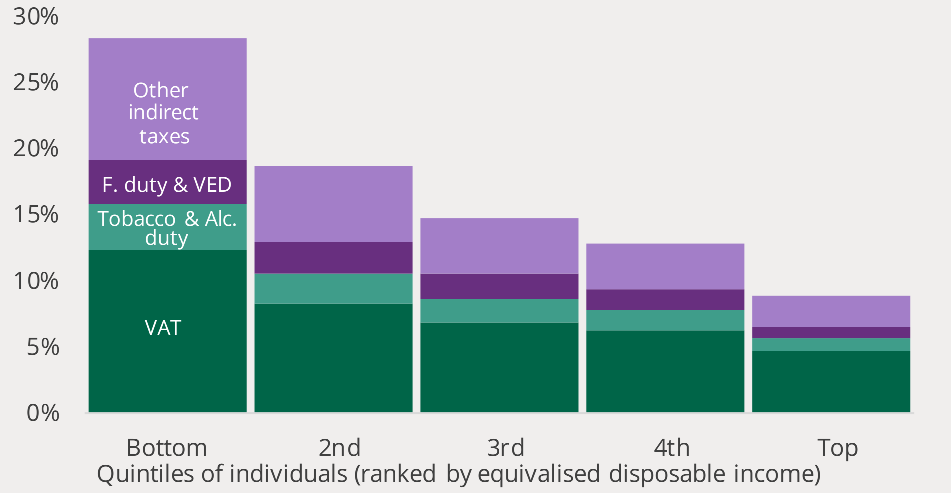
[49] IFS, The effect of taxes and benefits on UK inequality, May 2019, page 10

Indirect taxes

When measured relative to household incomes, indirect taxes (around 48% of which are VAT) can be judged to be regressive: that is, those with lower incomes pay more relative to their income. [50] However, when measured relative to household expenditure, indirect taxes are more evenly distributed across individuals.

The richest one-fifth paid £9,000 in indirect taxes in 2021/22; the poorest fifth paid £4,800. For the poorest fifth this is equivalent to 28% of disposable household income, but for the richest fifth it is equivalent to 9% of disposable household income.

Indirect taxes as % of disposable household income, 2021/22



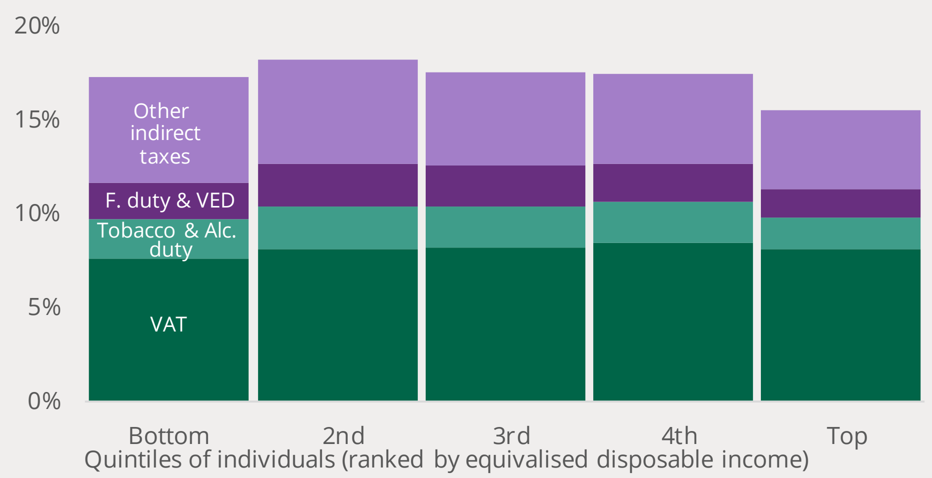
Source: ONS. Effects of taxes and benefits on UK household income: financial year ending 2022

Indirect taxes can also be considered relative to households' spending, not least because they are generally levied on spending. Doing so results in less variation across the income distribution. The IFS have argued – largely in respect of VAT – that there is a good argument for measuring impact as a share of household spending, rather than income. This is because incomes are volatile, and spending can be smoothed through borrowing and saving. The IFS's opinion is that this 'consumption smoothing', makes spending a better measure of living standard (and households' perception of the level of spending they can sustain).[51]

[50] Including intermediate taxes. These are taxes paid by industry and commerce assumed to be passed on to households in the prices of goods and services they buy.

[51] IFS, Green Budget 2009, Chapter 10, pp197-199

Indirect taxes as % of household spending, 2021/22



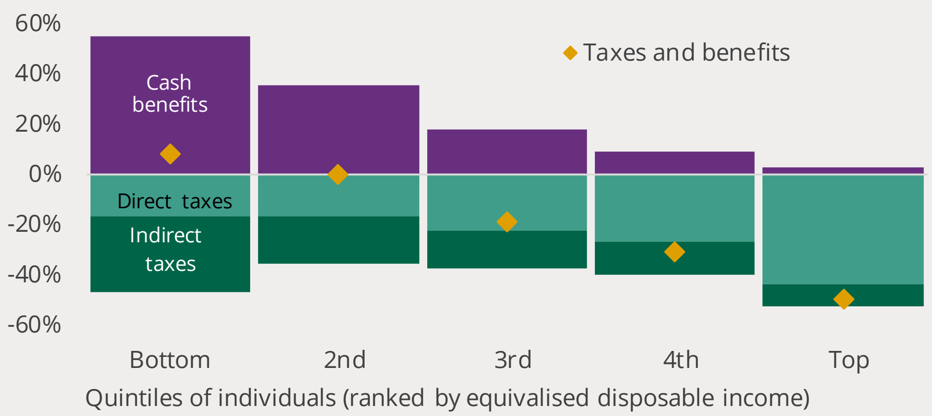
Source: ONS. [Effects of taxes and benefits on UK household income: financial year ending 2022]

Overall tax and benefit system

The overall tax and benefit system is redistributive.

Household incomes described above include cash benefits from government. For the poorest households these benefits make up a significant part of their income. The poorest two-fifths receive more cash benefits than they pay in direct and indirect taxes.

Taxes and benefits as % of disposable income, 2021/22



Notes: See chart "Direct taxes as a % of gross disposable household income, 2020/21"
Source: ONS. [Effects of taxes and benefits on UK household income: financial year ending 2022]

Further analysis is available in the IFS' [The effect of taxes and benefits on UK inequality.][52]

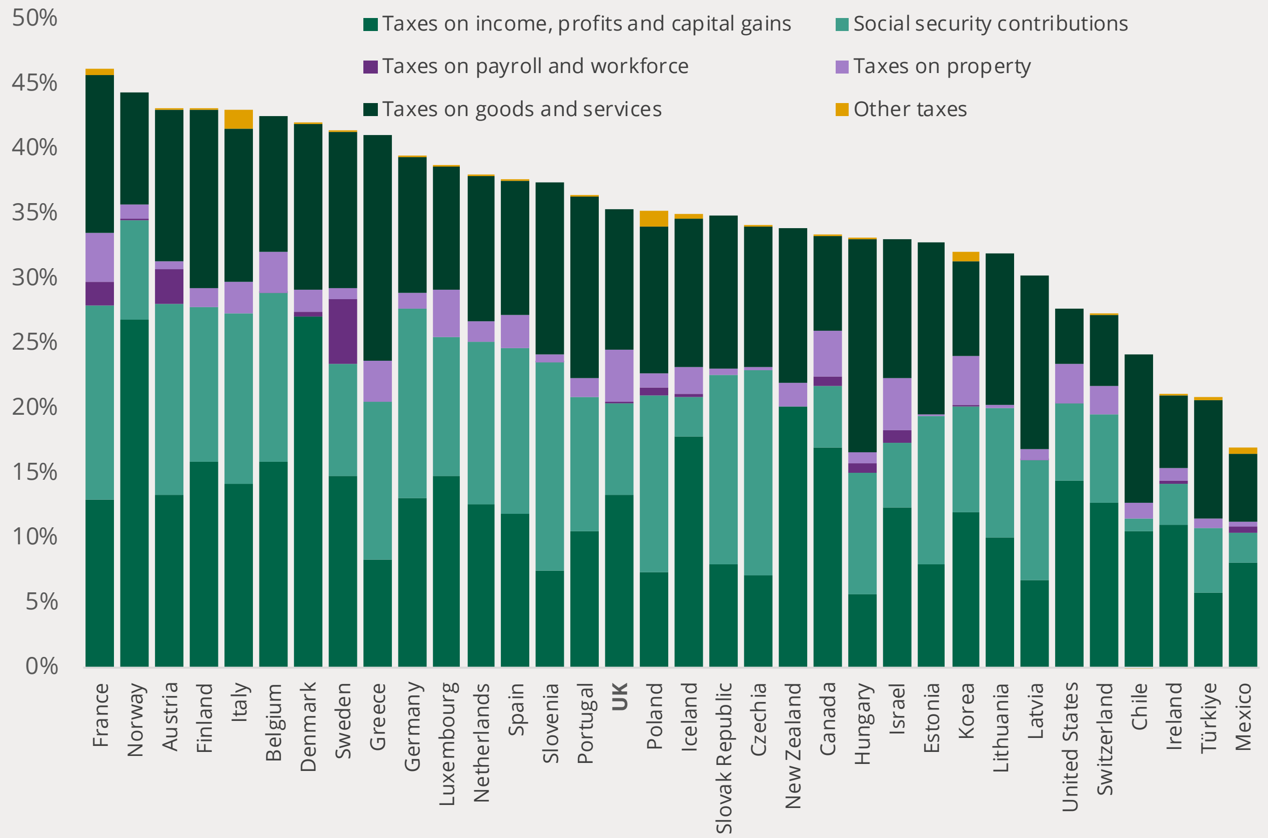
[52] IFS, [The effect of taxes and benefits on UK inequality], 2019

4 International comparisons

The UK is somewhere around the middle of Organisation for Economic Co-operation and Development (OECD) countries when it comes to tax revenues. In 2022, of the 34 OECD countries for which complete data are available, 15 had higher tax revenues and 18 had lower tax revenues, than the UK, as a share of GDP.

International comparisons of tax revenues

% GDP, OECD countries, 2022



Source: OECD. Revenue statistics - OECD countries: Comparative tables

In 2022, only Israel among the OECD countries raised more than the UK from taxes on property, as a share of GDP. 12 countries raised more from taxes on income, profits and capital gains than the UK, while 21 raised less.[53]

[53] Complete data are available for 34 OECD countries in 2022

5 Effects of illustrative tax changes

HMRC publishes estimates of the effect of illustrative tax changes on tax receipts, in what is often described as its 'ready reckoner'.[54]

Clearly a range of options are available for increasing revenues from existing taxes. HMRC's ready reckoner includes illustrative changes to taxes such as: income tax; corporation tax; capital gains tax; inheritance tax; NICs; duties; VAT; insurance premium tax; and, stamp duty land tax.

HMRC's estimates only consider the direct impact of a measure on the tax base to which it is being applied, or to closely related tax bases. Effects on wider economic factors are generally excluded as are potential impacts on government welfare spending.

For purely illustrative purposes, the chart below lays out the potential revenues raised from some possible tax changes.

Larger revenues can be raised from making changes to the biggest taxes

Potential revenue raised in 2024/25 from illustrative changes in April 2024, £ billion

Source: HMRC. Direct effects of illustrative tax changes (accessed on 25 March 2024)

54 HMRC, Direct effects of illustrative tax changes

6 Tax reliefs

There are more than 1,000 tax reliefs in the UK system. In many cases they are an essential part of defining the scope and structure of a tax. Broadly speaking HMRC splits tax reliefs into 'tax expenditures' and 'structural reliefs':

- the effect of **tax expenditures** is to help or encourage particular types of individuals, activities or products for economic or social objectives;
- **structural reliefs** can be reasonably regarded as an integral part of the tax structure.

Some reliefs combine both expenditure and structural elements.

HMRC publish estimates of the cost of structural and non-structural tax reliefs (tax expenditures). HMRC's figures are broad estimates as the loss of revenue from a tax relief cannot be directly observed and so the estimates are often based on simplified assumptions. They are not reliable estimates of the additional tax that would be raised if a tax relief were removed. As the Office for Budget Responsibility (OBR) explain:

> The estimates HMRC produces are what is known as 'static' estimates. That is, they answer the question 'Given the activity that took place in the economy in a particular year, if this relief did not exist and the same activity took place how much additional tax would have been raised?'. This is a very different question to 'How much additional tax would be raised if this relief did not exist?' – to answer that you would need to consider how activity might change as taxpayers responded to the different tax incentives now in place. And it is an even more different question to 'How would the public finances be affected if this relief did not exist?' – which would require you to think about knock-on implications to other elements of the public finances, for example the welfare spending implications of changing the income tax personal allowance when the universal credit means test is measured after tax or, where the figures involved are large, how would economic growth more generally be affected.[55]

HMRC estimates that the most significant tax expenditures are for exempting the sale of main residences from capital gains tax (£32 billion in 2023/24); income tax relief for registered pension schemes (£28 billion in 2023/24); NICs relief for employer contributions to registered pension schemes (£25 billion in 2023/24); and, 0% VAT on some food (£24 billion in 2023/24).[56]

[55] OBR, Fiscal risks report – July 2019, para 4.64

[56] HMRC, Estimated cost of non-structural tax reliefs (December 2023)

HMRC estimates that the most significant structural reliefs are for the income tax personal allowance (£124 billion in 2023/24); the NICs employee threshold (£40 billion in 2023/24); and, the NICs employer threshold (£35 billion in 2023/24).[57]

The OBR discusses tax reliefs in its 2019 fiscal risks report. The OBR looks at the different types of relief, what role they perform, the cost of reliefs and international comparisons. It also looks at six specific reliefs: pensions tax relief; R&D tax credit; entrepreneurs' relief; business and agricultural property reliefs for inheritance tax; creative sector reliefs; and, the patent box.

[57] HMRC, Estimated cost of structural reliefs (December 2023)

7 Key sources

Recent years and forecasts

- OBR, Public finances databank

The 'receipts' tab of the databank provides a time series for most receipts from 1999/00. The OBR's most recent forecasts are also included.

- OBR, Working paper No.15: The evolution of public sector receipts over the past decade

This paper studies the evolution of tax revenues and other sources of government income between 2007-08 and 2018-19.

- OBR, Economic and fiscal outlook – March 2024

For more of a discussion of the latest data and forecasts see the public sector receipts section of the OBR's latest economic and fiscal outlook (paras 4.5-4.43). Table A.5 shows data for the latest year and all forecast years.

- ONS, Public sector finances, Public sector current receipts: Appendix D

This data-only release includes monthly receipts for most receipts. It also includes a summary table showing comparisons for the latest month's data and aggregates for recent financial years.

- The Institute for Fiscal Studies' Taxlab has impartial explainers, answers, data and more on the UK tax system.

Regional comparisons

- ONS, Country and regional public sector finances

Experimental data from the ONS, which estimate public sector receipts (and spending) by UK region. The data includes estimates for individual taxes. The Library briefing country and regional public sector finances summarises the data for 2019/20.

International comparisons

- European Commission, Taxation trends in the European Union

This report contains a detailed statistical and economic analysis of the tax systems of the 27 Member States of the European Union, plus Iceland, Norway and the United Kingdom.

- OECD, Tax Database

The Organisation for Economic Co-operation and Development (OECD) tax database provides comparative information on a range of tax statistics – tax revenues, personal income taxes, non-tax compulsory payments, corporate and capital income taxes and taxes on consumption – that are levied in the OECD member countries.

Taxpayers

- HMRC, Numbers of taxpayers and registered traders

HMRC statistics related to numbers of taxpayers and registered traders.

Households: Effects of taxes on households

- ONS, Effects of taxes and benefits on UK household income

This ONS release looks at how taxes (and benefits) affect the distribution of incomes in the UK. It includes estimates of the taxes paid by retired, non-retired and all households, by level of income.

Income tax: breakdowns and further analysis

- HMRC, Income Tax statistics and distributions

HMRC's tables provide breakdowns of income taxpayers and Income Tax liabilities by age and gender, marginal tax rate, income source and tax band, and by country and region. Includes estimates for recent years.

- HMRC, personal income by tax year

HMRC's tables provide detailed information on individuals liable to UK Income Tax and their incomes. The statistics include gender, age, income and tax distribution, income source, country and geographical area.

The statistics in this HMRC release are less timely than those discussed above, but they provide a greater level of detail, and include data for parliamentary constituencies.

- OBR, Income tax

The OBR's in-depth analysis of income tax discusses recent trends, forecasts, policy changes, and other information.

Other individual taxes

- Statistics at HMRC

This landing page provides links to statistics covering HMRC's main work from collecting tax to paying tax credits and child benefit.

- OBR, in-depth: tax by tax

In these pages the OBR gather together their published information on key taxes including income tax; National Insurance Contributions; VAT; Onshore corporation tax; Oil and gas revenues; Fuel duties; Capital gains tax; Inheritance tax; Tobacco duties; Alcohol duties; Council tax; Air passenger duty; Bank Levy; Betting and gaming duties; Vehicle excise duty; and, Landfill tax. For each the OBR describes what the tax represents in the real world, how the amount of money raised has changed in recent years and sets out the most recent forecast and how it is performing against the latest data. It also provides background information about how each forecast is produced, how they have evolved over time and other issues.

Tax reliefs

- OBR, Fiscal Risks Report – July 2019, paras 4.63 – 4.115

This section of the OBR's biennial reports into fiscal risks covers tax reliefs. It summarises what they are, what they do and why they may pose a risk to the public finances. It includes case studies for pensions tax relief, R&D tax credit, Entrepreneur's relief, Inheritance tax and creative sector reliefs.

Commentary/discussion

- House of Commons Library, Key documents: taxation

This briefing lists some of the most useful sources on tax law, tax policy and tax statistics, as well as guidance for taxpayers. It also provides a checklist of official documents and briefing material on Budgets since 2010, and gives a short selection of other reading on the parliamentary scrutiny of government taxation and spending.

The Library publishes many briefings on taxation.

- Resolution Foundation, The shifting shape of UK tax, 13 November 2019

This paper looks at the size of taxes, trends in taxes, distribution of taxes, future challenges and party policies.

- Institute for Government, Taxing times: the need to reform the UK tax system, 12 July 2019

This briefing note includes a discussion of trends in UK tax receipts, along with potential future challenges.

- IFS, Tax revenues: where does the money come from and what are the next government's challenges?, 2017

This briefing note provided background material for the 2017 general election. It provides trends in tax revenues, changes in the distribution of taxes and challenges for tax receipts and policy.

- IFS, The changing composition of UK tax revenues, 2016

An in-depth look at trends in tax revenues.

- IFS, The coalition government's record on tax, 2015

This paper discusses policy changes between 2010 and 2015.

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