

United Kingdom

(2011-12 income tax year)

This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

United Kingdom 2011

The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		22857	34286	57143	22857
2. Standard tax allowances					
Basic allowance		7475	7475	7475	7475
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	7475	7475	7475	7475
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		15382	26811	49668	15382
5. Central government income tax liability (exclusive of tax credits)		3076	5362	12867	3076
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	3587
Other					
	Total	0	0	0	3587
7. Central government income tax finally paid (5-6)		3076	5362	12867	-510
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		1876	3247	4523	1876
Taxable income					
	Total	1876	3247	4523	1876
10. Total payments to general government (7 + 8 + 9)		4952	8610	17391	1366
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	1757
	Total	0	0	0	1757
12. Take-home pay (1-10+11)		17905	25677	39753	23249
13. Employer's compulsory social security contributions		2178	3756	6910	2178
14. Average rates					
Income tax		13.5%	15.6%	22.5%	-2.2%
Employees' social security contributions		8.2%	9.5%	7.9%	8.2%
Total payments less cash transfers		21.7%	25.1%	30.4%	-1.7%
Total tax wedge including employer's social security contributions		28.5%	32.5%	37.9%	7.1%
15. Marginal rates					
Total payments less cash transfers: Principal earner		32.0%	32.0%	42.0%	73.0%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		40.2%	40.2%	49.0%	76.3%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

United Kingdom 2011
The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		34286	45715	57143	45715
2. Standard tax allowances					
Basic allowance		7475	14950	14950	14950
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	7475	14950	14950	14950
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		26811	30765	42193	30765
5. Central government income tax liability (exclusive of tax credits)		5362	6153	8439	6153
6. Tax credits					
Basic credit					
Married or head of family					
Children		548	0	0	0
Other					
	Total	548	0	0	0
7. Central government income tax finally paid (5-6)		4815	6153	8439	6153
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		3247	3752	5123	3752
Taxable income					
	Total	3247	3752	5123	3752
10. Total payments to general government (7 + 8 + 9)		8062	9905	13562	9905
11. Cash transfers from general government					
For head of family					
For two children		1757	1757	1757	0
	Total	1757	1757	1757	0
12. Take-home pay (1-10+11)		27981	37567	45339	35810
13. Employer's compulsory social security contributions		3756	4357	5934	4357
14. Average rates					
Income tax		14.0%	13.5%	14.8%	13.5%
Employees' social security contributions		9.5%	8.2%	9.0%	8.2%
Total payments less cash transfers		18.4%	17.8%	20.7%	21.7%
Total tax wedge including employer's social security contributions		26.4%	25.0%	28.1%	28.5%
15. Marginal rates					
Total payments less cash transfers: Principal earner		32.0%	32.0%	32.0%	32.0%
Total payments less cash transfers: Spouse		16.1%	32.0%	32.0%	32.0%
Total tax wedge: Principal earner		40.2%	40.2%	40.2%	40.2%
Total tax wedge: Spouse		20.3%	40.2%	40.2%	40.2%

The national currency is the Pound Sterling (GBP). In May 2011, GBP 0.62 was equal to USD 1. In 2011-12, the Average Worker is estimated to earn GBP 34 286 (Secretariat estimate).

1. Personal income tax system

1.1. Central government income taxes

1.1.1. Tax unit

The tax unit is the individual, but certain reliefs depend on family circumstances (see Section 1.1.2.1).

1.1.2. Tax allowances and tax credits

All figures shown are those applying at the start of the tax year in April.

1.1.2.1. Standard reliefs

- Basic reliefs: a personal allowance of GBP 7 475 is granted to each individual with income below GBP 100 000. The personal allowance is then tapered away by GBP 1 for every GBP 2 of income above GBP 100 000.
- Standard marital status reliefs: none.
- Working Tax Credit (WTC): a non-wastable tax credit available to low income families with or without children. It is available for families with children where one person works at least 16 hours a week. It is also available for people with a disability who work at least 16 hours a week and for families without children where one person works at least 30 hours a week. The amount depends upon the hours worked, the ages of children, eligible childcare costs, and gross income. A family with a child 16 or under where the claimant (or, where applicable, their partner, or both claimants jointly) works at least 30 hours a week, would get a maximum credit of GBP 4 660 per year before taking into account eligible childcare costs.* This credit is reduced by 41 pence for each GBP 1 of net income above a threshold of GBP 6 420 per year. Extra amounts are available where one or, where applicable, both claimants are disabled. WTC was introduced on 6 April 2003.
- Relief for social security contributions and other taxes: none.
- Child Tax Credit (CTC): a non-wastable tax credit available to low and middle income families with children. It provides support for children until 1st September following their 16th birthday, and beyond that date to the age of 19 for those who continue in full-time non-advanced education. The amount depends on gross income and the number and age of the children. A family with two children would get a maximum credit

* The amount of credit received is calculated by dividing separately each element of the credit by the number of days in the tax year and rounding up to the nearest penny to give a daily rate. These daily rates are then multiplied by the number of days in the relevant period (for the purposes of this Report, the tax year) and added together.

GBP 5 650 per year, which is reduced by 41 pence for each GBP 1 of gross income above a threshold of GBP 15 860 if the family is not working. A higher threshold applies if the family is working; their CTC is reduced at the same rate once their WTC has been tapered to zero. There is a minimum value to the award of GBP 545 for all families with children and gross income up to GBP 40 000. A taper of 41 per cent is applied for incomes exceeding GBP 40 000. Extra amounts are available for children less than one year old and for children with disabilities. CTC was introduced on 6 April 2003.

1.1.2.2. Main non-standard tax reliefs applicable to an AW

- Work-related expenses: flat rate expenses for tools and special clothing are allowed to certain occupational categories. Since this provision is not applicable to all manufacturing occupations, and hence average workers, and because the rates vary slightly across categories, this relief is considered here as non-standard.
- Contributions to approved superannuation schemes or personal pension schemes are deducted when calculating taxable income. Premiums on approved life assurance policies payable to life assurance companies attract 12.5 per cent tax relief for policies entered into force before 13 March 1984.

1.1.3. Tax schedule

In 2011-12 all taxpayers are liable on taxable income other than savings and dividend income at the basic rate of 20 per cent on the first GBP 35 000, 40 per cent over the basic rate limit of GBP 35 000 and 50 per cent over the higher rate limit of GBP 150 000. (Taxable Income is defined as gross income for income tax purposes less allowances and reliefs available at the marginal rate.) Dividend income is charged at 10 per cent up to the basic rate limit of GBP 35 000, 32.5 per cent above GBP 35 000 and 42.5 per cent above GBP 150 000. Savings income is charged at 10 per cent up to the starting rate limit on the first GBP 2 560, at 20 per cent up to GBP 35 000, 40 per cent above GBP 35 000 and 50 per cent above GBP 150 000.

Taxable income (GBP)	Rate %
0-35 000	20
35 000-150 000	40
Over 150 000	50

1.2. State and local income tax

There are no regional or local income taxes.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

National Insurance contributions are payable by employees earning more than GBP 139 in any week. These are 12 per cent of earnings between GBP 139 and GBP 817 and 2 per cent of earnings above GBP 817 for employees not contracted out of the state second pension scheme (additional state pension which supplements the basic retirement pension). For employees who are contracted out, there is a rebate of 1.6 per cent on earnings between GBP 102 and GBP 770. Depending on eligibility, members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment

benefits, etc. All employees earning under GBP 139 per week have no National Insurance contribution liability but a notional contribution will be deemed to have been paid in respect of earnings between GBP 102 and GBP 139 to protect benefit entitlement.

2.2. Employers' contributions

Employer's contributions are not payable for employees earning less than GBP 136 per week. The rate of employers' contributions for employees not contracted out of the additional (earnings related) scheme is 13.8 per cent of earnings above GBP 136 per week. For employees who are contracted out, there is a rebate of 3.7 per cent on earnings between GBP 102 and GBP 770 per week.

3. Universal cash transfers

3.1. Transfers related to marital status

None (widows' benefit is covered by the government pensions scheme noted above).

3.2. Transfers for dependent children

A child benefit of GBP 20.30 per week is paid in respect of the first child in the family up to the age of 19 (if the child aged 16-19 is in education or training) with GBP 13.40 per week paid for each subsequent child.

4. Memorandum items

4.1. Identification of AW and valuation of earnings

A new Annual Survey of Hours and Earnings (ASHE) has been developed to replace the New Earnings Survey (NES) (results of which are published in *Labour Market Trends*) and shows the average weekly earnings of full-time employees in April each year. It covers men and women at adult rates in the United Kingdom (excluding Northern Ireland). The annual figure used for the gross earnings of the AW in the United Kingdom is the annual equivalent of the arithmetic average of the weekly earnings figures for April at the beginning and end of the fiscal year, as published in *Labour Market Trends*.

The earnings figures exclude the earnings of those whose pay was affected by absence (due to sickness, etc.). They include overtime, payment by results and shift payments. But they do not include benefits in kind (which could in some circumstances be included in the employee's taxable income in the United Kingdom).

4.2. Employers' contributions to private pension, health etc. schemes

In 2008, there were 9.0 million active members of occupational pension schemes with two or more members in the UK, of whom 3.6 million were in the private sector and 5.4 million in the public sector.

2011 Parameter values

Average earnings/yr	Ave_earn	34 286	Secretariat Estimate	
Allowances	Basic_al	7 475		
	PA taper start	100 000		
	Married_al	0		
	Married_rate	0		
Income tax	Tax_sch	0.2	35 000	
		0.4	150 000	
		0.5		
Employees SSC				
Primary threshold	SSC_sch	0	7 225	PT
Upper earnings limit		0.12	42 475	UEL
		0.02		
Employers SSC	SSC_rate2	0.138		
	ST	7 072		
Child benefit (first)	CB_first	20.30		
Child benefit (others)	CB_others	13.40		
NEW TAX CREDITS				
WTC				
Basic element	WTC_Basic	1 920		
Couple/Lone parent	WTC_couple_or_lone			
	parent	1 950		
30 Hour element	WTC_30hr	790		
CTC				
Family element	CTC_family	545		
Child element	CTC_child	2 555		
Baby element	CTC_baby			
Threshold	NTC_1 st _thres	6 420		
	NTC_1 st _taper	0.41		
	NTC_2 nd _thres	40 000		
	NTC_2 nd _taper	0.41		
Days in tax year	Numdays	365		

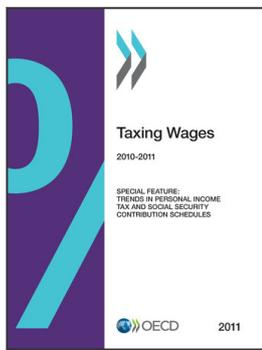
2011 Tax equations

The equations for the UK system are mostly on an individual basis. But Child and Working tax credits are calculated on a family basis and child benefit is calculated only once. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax, etc.) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	Earn		
2. Allowances:	tax_al	B	Tax_al =IF(earn<PA_taper,Basic_al,IF(earn>(PA_taper+(Basic_al*2)),0,MAX(0,(Basic_al-((earn-PA_taper)/2))))))
2. PA Start	PA_taper	B	IF(earn<PA_taper,Basic_al,IF(AA7>(PA_taper+(Basic_al*2)),0,MAX(0,(Basic_al-((AA7-PA_taper)/2))))))
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al)
5. CG tax before credits	CG_tax_excl	B	Tax(tax_inc, tax_sch)
6. Tax credits (nonwastable)	tax_cr	J	IF(Children>0, IF((earn_total)>NTC_2nd_thres, Taper(ROUNDUP(CTC_family/numdays, 2)*numdays, earn_total, NTC_2nd_thres, NTC_2nd_taper), MAX(Taper(ROUNDUP(CTC_family/numdays, 2)*numdays+Children*ROUNDUP(CTC_child/numdays, 2)*numdays+ROUNDUP(WTC_Basic/numdays, 2)*numdays+ROUNDUP(WTC_30hr/numdays, 2)*numdays+ROUNDUP(WTC_couple_or_lone/numdays, 2)*numdays, earn_total, NTC_1st_thres, NTC_1st_taper), ROUNDUP(CTC_family/numdays, 2)*numdays)), Taper(ROUNDUP(WTC_Basic/numdays, 2)*numdays+ROUNDUP(WTC_30hr/numdays, 2)*numdays+IF(Married=1, ROUNDUP(WTC_couple_or_lone/numdays, 2)*numdays, 0), earn_total, NTC_1st_thres, NTC_1st_taper))
7. CG tax	CG_tax	B	CG_tax_excl-tax_cr
8. State and local taxes	local_tax	B	0
9. Employees' soc security	SSC	B	Tax(earn, SSC_sch)
11. Cash transfers	cash_trans	J	Numdays/7*((CB_first*(Children>0)+ CB_others*Positive (Children-1))+ (Married=0)*(Children>0)*CB_onepar)
13. Employer's soc security	SSC_empr	B	(earn>ST)*(earn-ST)*SSC_rate2
Memorandum item: Non-wastable tax credit			
tax expenditure component	Taxexp	J	Tax_cr-transfer
cash transfer component	Transfer	J	IF(CG_tax_excl<0, -CG_tax_excl, 0)

Key to range of equation: B calculated separately for both principal earner and spouse; P calculated for principal only (value taken as 0 for spouse calculation); J calculated once only on a joint basis.



From:
Taxing Wages 2011

Access the complete publication at:
https://doi.org/10.1787/tax_wages-2011-en

Please cite this chapter as:

OECD (2012), "United Kingdom (2011-12 Income tax year)", in *Taxing Wages 2011*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/tax_wages-2011-40-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.