

United Kingdom

(2019-20 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 2019

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		27 338	40 803	68 141	27 338
2. Standard tax allowances					
Basic allowance		12 500	12 500	12 500	12 500
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	12 500	12 500	12 500	12 500
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		14 838	28 303	55 641	14 838
5. Central government income tax liability (exclusive of tax credits)		2 968	5 661	14 756	2 968
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	2 320
Other					
	Total	0	0	0	2 320
7. Central government income tax finally paid (5-6)		2 968	5 661	14 756	648
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		2 245	3 860	5 327	2 245
Taxable income					
	Total	2 245	3 860	5 327	2 245
10. Total payments to general government (7 + 8 + 9)		5 212	9 521	20 083	2 893
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	1 799
	Total	0	0	0	1 799
12. Take-home pay (1-10+11)		22 126	31 282	48 057	26 244
13. Employer's compulsory social security contributions		2 581	4 440	8 212	2 581
14. Average rates					
Income tax		10.9%	13.9%	21.7%	2.4%
Employees' social security contributions		8.2%	9.5%	7.8%	8.2%
Total payments less cash transfers		19.1%	23.3%	29.5%	4.0%
Total tax wedge including employer's social security contributions		26.0%	30.9%	37.1%	12.3%
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 2019

The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-67	100-100	100-67
	Number of children	2	2	2	none
1. Gross wage earnings		40 803	68 141	81 605	68 141
2. Standard tax allowances					
Basic allowance		13 750	25 000	25 000	25 000
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	13 750	25 000	25 000	25 000
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		27 053	43 141	56 605	43 141
5. Central government income tax liability (exclusive of tax credits)		5 411	8 628	11 321	8 628
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	0
Other					
	Total	0	0	0	0
7. Central government income tax finally paid (5-6)		5 411	8 628	11 321	8 628
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		3 860	6 105	7 721	6 105
Taxable income					
	Total	3 860	6 105	7 721	6 105
10. Total payments to general government (7 + 8 + 9)		9 271	14 733	19 042	14 733
11. Cash transfers from general government					
For head of family					
For two children		1 799	1 799	1 799	0
	Total	1 799	1 799	1 799	0
12. Take-home pay (1-10+11)		33 330	55 206	64 362	53 407
13. Employer's compulsory social security contributions		4 440	7 021	8 879	7 021
14. Average rates					
Income tax		13.3%	12.7%	13.9%	12.7%
Employees' social security contributions		9.5%	9.0%	9.5%	9.0%
Total payments less cash transfers		18.3%	19.0%	21.1%	21.6%
Total tax wedge including employer's social security contributions		26.3%	26.6%	28.9%	28.9%
15. Marginal rates					
Total payments less cash transfers: Principal earner		32.0%	32.0%	32.0%	32.0%
Total payments less cash transfers: Spouse		20.0%	32.0%	32.0%	32.0%
Total tax wedge: Principal earner		40.2%	40.2%	40.2%	40.2%
Total tax wedge: Spouse		26.9%	40.2%	40.2%	40.2%

The national currency is the Pound Sterling (GBP). In 2019, GBP 0.78 was equal to USD 1. In 2019-2020, the Average Worker is estimated to earn GBP 40 803 (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 12 500 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:** Marriage Allowance – Allows the transfer of 10% of an individual's personal allowance to their husband, wife or civil partner. The allowance is restricted to couples where the higher earner is a basic rate taxpayer and is only beneficial if the lower earner owes below the personal allowance. The allowance has to be claimed and is given only to those who meet the eligibility criteria.
- **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 (though hours must be at least 24 overall for a couple). 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 4 780 per year (assuming neither the adult(s) nor the child were disabled) before taking into account eligible childcare costs¹. This credit is reduced by 41 pence for each GBP 1 of net income above a threshold of GBP 6 420 per year. WTC was introduced on 6th April 2003. Most people can no longer make a new claim for WTC as it has been replaced by the Universal Credit, a means-tested benefit paid to those out of work or in-work on a low income².
- **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, the number and age of the children and whether a family is making a new claim for CTC or already claiming CTC. A family with two eligible children would get a maximum credit GBP 6 105 per year, which is reduced by 41 pence for each GBP 1 of gross income above a threshold of GBP 16 105 if the family is not working. A lower threshold applies if the family is working; their CTC is reduced at the same rate once their WTC has been tapered to zero. CTC was introduced on 6th April 2003. Most people can no longer make a new claim for CTC as it has been replaced by the Universal Credit, a means-tested benefit paid to those out of work or in-work on a low income³.

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% tax relief for policies entered into force before 13 March 1984.

1.1.3. Tax schedule

In 2019-20 all taxpayers are liable on taxable income other than savings and dividend income at the basic rate of 20% on the first GBP 37 500, 40% over the basic rate limit of GBP 37 500 and 45% 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 7.5% up to the basic rate limit of GBP 37 500, 32.5% above GBP 37 500 and 38.1% above GBP 150 000. The Dividend Allowance is GBP 2 000 in 2019-20, meaning that dividend taxpayers will not have to pay tax on the first GBP 2 000 of their dividend income, no matter what non-dividend income they have. Savings income is charged at 0% up to the starting rate limit on the first GBP 5 000, at 20% up to GBP 37 500, 40% above GBP 37 500 and 45% above GBP 150 000. From 2016-17, a new Personal Savings Allowance was introduced giving GBP 1 000 of savings income tax free for taxpayers with total income below the basic rate limit or GBP 500 for those with total income below the higher rate limit.

Taxable income (GBP)	Rate %
0–37 500	20
37 500–150 000	40
Over 150 000	45

1.2. State and local income tax

From 2018-19 the Scottish Government has introduced a starter rate band for non-savings non-dividend income of Scottish taxpayers. In 2019-20, the starter rate band applied from GBP 12 500 to GBP 14 549. The basic rate band for non-savings non-dividend income is set from GBP 14 549 to GBP 24 944. The Scottish Government has an intermediate rate band for non-savings non-dividend income of Scottish taxpayers from GBP 24 944 to GBP 43 430. The higher rate band for non-savings non-dividend income of Scottish taxpayers in 2019-20 is from GBP 43 430 to GBP 150 000. In 2019-20 all Scottish taxpayers are liable on taxable income other than savings and dividend income at the starter rate of 19% on the first GBP 2 049, 20% over the starter rate limit of GBP 2 049, 21% over the basic rate limit of GBP 12 444, 41% over the intermediate rate limit of GBP 30 930 and 46% 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.)

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 166 in any week. These are 12% of earnings between GBP 166 and GBP 962 and 2% of earnings above GBP 962. Depending on eligibility, members of the National Insurance scheme qualify for pensions, sickness,

industrial injury, unemployment benefits, etc. All employees earning under GBP 166 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 118 and GBP 166 to protect benefit entitlement.

2.2. Employers' contributions

Employer's contributions are not payable for employees earning less than GBP 166 per week. The rate of employers' contributions for employees is 13.8% of earnings above GBP 166 per week.

The apprenticeship levy was introduced in April 2017. The apprenticeship levy is charged at a rate of 0.5% on the gross pay bill of employers. Employers will receive an allowance of GBP 15 000 per year to offset against the levy meaning that only employers with a gross pay bill of over GBP 3m will end up paying the levy. Due to the fact that the apprenticeship levy does not apply to all employers, it is not included in the Taxing Wages calculations

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 20.70 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 13.70 per week paid for each subsequent child.

From January 2013, a new tax charge has been introduced for a taxpayer who has income over GBP 50 000 and either they or their partner are in receipt of Child Benefit. For those with income between GBP 50 000 and GBP 60 000, the amount of the charge will be 1% of the Child Benefit for every GBP 100 of income over GBP 50 000. For those with income over GBP 60 000, the amount of the charge will equal the amount of Child Benefit. Where both adults are over the threshold, the liability falls on the adult with the highest adjusted net income (ANI).

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.

2019 Parameter values

Average earnings/yr	Ave_earn	40 803	Secretariat Estimate	
Allowances	Basic_al	12 500		
	PA taper start	100 000		
	Married_al	1 250		
	Married_rate	0		
Income tax	Tax_sch	0.2	37 500	
		0.4	150 000	
		0.45		
Employees SSC				
Primary threshold	SSC_sch	0	8 632	PT
Upper earnings limit		0.12	50 000	UEL
		0.02		
Employers SSC	SSC_rate2	0.138		
	ST	8 632		
Child benefit (first)	CB_first	20.70		
Child benefit (others)	CB_others	13.70		
	CB_1st_thres	50 000.00		
	CB_2nd_thres	60 000.00		
	CB_taper1	0.01		
	CB_taper2	100.00		
<u>TAX CREDITS</u>				
WTC				
Basic element	WTC_Basic	1 960		
Couple/Lone parent	WTC_couple_or_lone	2 010		
30 Hour element	WTC_30hr	810		
CTC				
Family element	CTC_family	545		
Child element	CTC_child	2 780		
Baby element	CTC_baby			
Threshold	NTC_1st_thres	6 420		
	NTC_1st_taper	0.41		
Days in tax year	Numdays	366		

2019 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	Eam		
2.	Allowances:	tax_al	B	Tax_al IF(earn<PA_taper,IF(AND(earn<(BRL+Basic_al),earn_spouse<Basic_al,Married='1'),IF(earn>earn_spouse,Basic_al+Married_al,Basic_al-Married_al),Basic_al),IF(earn>(PA_taper+(Basic_al*2)),0,MAX(0,(Basic_al-(earn-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, (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), 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	=IF(princ_earn>CB_1st_thres,IF(princ_earn>CB_2nd_thres,0,((1-(AA7-CB_1st_thres)/(CB_taper2/CB_taper1)))*(numdays/7*((Children>0)*CB_first+CB_others*Positive(Children-1))), (numdays/7*((Children>0)*CB_first+CB_others*Positive(Children-1))))
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)

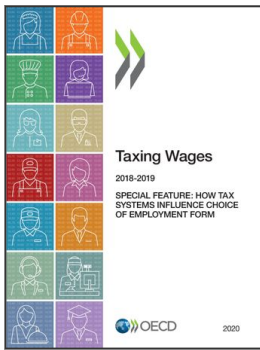
Key to range of equation B calculated separately for both principal earner and spouse P calculated for principal only (value taken as 0 for spouse calculation) J calculated once only on a joint basis

Notes

¹ 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.

² At April 2019, there were 670 000 individuals in employment receiving Universal Credit. In contrast, there were 2.6 million individuals in employment receiving tax credits. Therefore in 2020, WTC is more representative of the tax/benefit situation faced by the majority of people in the UK. The position will be reviewed for future editions of *Taxing Wages* as the use of tax credits continues to decline and use of Universal Credit increases.

³ See previous note.



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