

United Kingdom

(2021-2022 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 2021

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		29 465	43 978	73 443	29 465
2. Standard tax allowances					
Basic allowance		12 570	12 570	12 570	12 570
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	12 570	12 570	12 570	12 570
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		16 895	31 408	60 873	16 895
5. Central government income tax liability (exclusive of tax credits)		3 379	6 282	16 809	3 379
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)		3 379	6 282	16 809	3 379
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		2 388	4 129	5 348	2 388
Taxable income					
	Total	2 388	4 129	5 348	2 388
10. Total payments to general government (7 + 8 + 9)		5 767	10 411	22 157	5 767
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	1 833
	Total	0	0	0	1 833
12. Take-home pay (1-10+11)		23 698	33 567	51 286	25 531
13. Employer's compulsory social security contributions		2 846	4 849	8 915	2 846
14. Average rates					
Income tax		11.5%	14.3%	22.9%	11.5%
Employees' social security contributions		8.1%	9.4%	7.3%	8.1%
Total payments less cash transfers		19.6%	23.7%	30.2%	13.4%
Total tax wedge including employer's social security contributions		26.7%	31.3%	37.7%	21.0%
15. Marginal rates					
Total payments less cash transfers: Principal earner		32.0%	32.0%	42.0%	32.0%
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%	40.2%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

United Kingdom 2021

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		43 978	73 443	87 955	73 443
2. Standard tax allowances					
Basic allowance		13 830	25 140	25 140	25 140
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
Total		13 830	25 140	25 140	25 140
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		30 148	48 303	62 815	48 303
5. Central government income tax liability (exclusive of tax credits)		6 030	9 661	12 563	9 661
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)		6 030	9 661	12 563	9 661
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		4 129	6 517	8 258	6 517
Taxable income					
Total		4 129	6 517	8 258	6 517
10. Total payments to general government (7 + 8 + 9)		10 159	16 177	20 821	16 177
11. Cash transfers from general government					
For head of family					
For two children		1 833	1 833	1 833	0
Total		1 833	1 833	1 833	0
12. Take-home pay (1-10+11)		35 652	59 098	68 967	57 265
13. Employer's compulsory social security contributions		4 849	7 695	9 698	7 695
14. Average rates					
Income tax		13.7%	13.2%	14.3%	13.2%
Employees' social security contributions		9.4%	8.9%	9.4%	8.9%
Total payments less cash transfers		18.9%	19.5%	21.6%	22.0%
Total tax wedge including employer's social security contributions		27.0%	27.2%	29.4%	29.4%
15. Marginal rates					
Total payments less cash transfers: Principal earner		32.0%	32.0%	32.0%	32.0%
Total payments less cash transfers: Spouse		20.4%	32.0%	32.0%	32.0%
Total tax wedge: Principal earner		40.2%	40.2%	40.2%	40.2%
Total tax wedge: Spouse		27.4%	40.2%	40.2%	40.2%

The national currency is the Pound Sterling (GBP). In 2021, GBP 0.73 was equal to USD 1. In 2021-2022, the Average Worker is estimated to earn GBP 43 978 (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 12 570 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.
- Universal Credit (UC): a payment (treated as a non-wastable tax credit for this analysis) available to low income families with or without children which is gradually replacing a number of benefits and tax credits (including Working and Child Tax Credit). The maximum amount depends on the age of the claimant(s), whether they are single or in a couple, the number of children, whether claimant(s) have a disability or health condition that limits their capability for work, if claimant(s) have disabled children, whether the claimant(s) are carers, and childcare and housing costs. A couple where one is aged over 25 with a child born prior to 6 April 2017 would receive a maximum monthly amount of GBP 792.41 or GBP 9 508.92 per year, assuming no other elements are payable. UC is reduced by 63 pence for each GBP of earnings (net of income tax and employee social security contributions) above a threshold (or "work allowance") of GBP 515 per month/GBP 6 180 per year; a different threshold of GBP 293 per month is applied if the claimant has housing costs. Claimant(s) receive a work allowance if they have limited capability for work or have children. UC may also be reduced by other income the claimant may have. There are further rules around the amount of savings held by claimants, and for some claimants the total amount payable is subject to a cap. As a continued response to the COVID-19 pandemic, for the first six months of the tax year (April to September 2021) the standard allowance for UC is temporarily increased by GBP 86.67 per month.
- Relief for social security contributions and other taxes: None.

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 2021-22 all taxpayers are liable on taxable income other than savings and dividend income at the basic rate of 20% on the first GBP 37 700, 40% over the basic rate limit of GBP 37 700 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 37 700, 32.5% above GBP 37 500 and 38.1% above GBP 150 000. The Dividend Allowance is GBP 2 000 in 2021-22, 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 37 700, 40% above GBP 37 700 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 %
0–37 700	20
37 700–150 000	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 2021-22, the starter rate band applied from GBP 12 500 to GBP 14 667. The basic rate band for non-savings non-dividend income is set from GBP 14 667 to GBP 25 296. The Scottish Government has an intermediate rate band for non-savings non-dividend income of Scottish taxpayers from GBP 25 296 to GBP 43 662. The higher rate band for non-savings non-dividend income of Scottish taxpayers in 2021-22 is from GBP 43 662 to GBP 150 000. In 2021-22 all Scottish taxpayers are liable on taxable income other than savings and dividend income at the starter rate of 19% on the first GBP 2 097, 20% over the starter rate limit of GBP 2 097, 21% over the basic rate limit of GBP 12 726, 41% over the intermediate rate limit of GBP 31 092 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 184 in any week. These are 12% of earnings between GBP 184 and GBP 967 and 2% of earnings above GBP 967. Depending on eligibility, members of the National Insurance scheme qualify for pensions, sickness, industrial injury, unemployment benefits, etc. All employees earning under GBP 184 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 120 and GBP 184 to protect benefit entitlement.

2.2. Employers' contributions

Employer's contributions are not payable for employees earning less than GBP 170 per week. The rate of employers' contributions for employees is 13.8% of earnings above GBP 170 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 21.15 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 14.00 per week paid for each subsequent child.

Since January 2013, a tax charge has applied for any taxpayer who has income over GBP 50 000 and either they or their partner are in receipt of Child Benefit. For those with adjusted net income (ANI, pre-tax income less certain allowances) 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. Child Benefit recipients can opt out of receiving payments as an alternative to paying the charge. Where both adults are over the threshold, the liability falls on the adult with the highest ANI.

4. Recent changes in the tax/benefit system

4.1. Changes to labour taxation due to the COVID pandemic in 2020 and 2021

As a continued response to the COVID-19 pandemic, for the first six months of the tax year (April to September 2021) the standard allowance for UC is temporarily increased by GBP 86.67 per month.

Coronavirus Job Retention Scheme: The Coronavirus Job Retention Scheme enables employers to claim a taxable grant covering up to 80% of the wages for furloughed employees (capped at GBP 2 500 a month per employee). The initial scheme applied from March to July 2020 and was open to all employers. The Coronavirus Job Retention Scheme has since been extended four times, with the latest extension until 30 September 2021.

Self-Employment Income Support Scheme - initial two grants: The Self-Employment Income Support Scheme provided taxable grants to self-employed people, or members of a partnership, who have lost income. It was open to around 3.4 million people. On 17 August 2020, the scheme reopened for a second round of grant applications (open until 19 October 2020).

Self-Employment Income Support Scheme-third grant: The Self-Employed Income Support Scheme grant extension provided a grant to self-employed individuals who were eligible for the Self-Employed Income Support Scheme and were actively continuing to trade but facing reduced demand due to COVID-19.

Self-Employment Income Support Scheme-fourth and fifth grants: The Self-Employment Income Support Scheme grant extension provides a grant to self-employed individuals who are currently eligible for the Self-Employment Income Support Scheme and are actively continuing to trade but are facing reduced demand due to COVID-19. The fourth grant will cover the period February to April 2021, and can be claimed from late April. The fifth grant will cover the period May to September 2021 and can be claimed from July 2021.

Income Tax Self-Assessment- Deferral: Self-Assessment taxpayers who cannot pay tax bills on time because of COVID-19 were given the option of deferring payment of their July 2020 Payment on Account until 31 January 2021. Taxpayers who deferred payments were expected to make payment at the start of 2021.

Employment-related securities- Enterprise Management Incentive: Those participating in an Enterprise Management Incentive scheme are required to meet the 'working time requirement'. This means that the employee's time committed to the company must be equal to or exceed the statutory threshold of 25 hours per week or if less, 75% of their working time. This measure introduces a time-limited exception to the disqualifying event rules, whereby, if an employee would otherwise have met the scheme requirements but did not do so for reasons connected to the COVID-19 pandemic, the time that they would have spent on the business of the company will count towards their working time.

Increase in the basic element of Working Tax Credit by GBP 20 per week: A temporary GBP 20-a-week increase in the basic element of working tax credits for 2020-21.

Time to Pay - Income Tax Self-Assessment: Enhanced Time to Pay: Time to Pay is an existing service that supports businesses and individuals in financial difficulty to pay back outstanding tax liabilities using payment plans. HM Revenue & Customs announced a helpline to promote and improve access to the scheme for businesses affected by COVID-19. On 25 September 2020, the government announced the eligibility criteria for self-serve Time to Pay arrangements would be extended to allow taxpayers with outstanding Self-Assessment tax bills of up to GBP 30 000 (previously GBP 10 000) to arrange a Time to Pay of up to 12 months online. This built on the Self-Assessment deferral policy, allowing taxpayers who deferred their liabilities until January 2021 the option to pay back outstanding tax bills in instalments.

Payments to working households: A one-off tax-free payment of GBP 500 if a customer was receiving Working Tax Credit or Child Tax Credit, but did not get a payment because their income was too high to get Working Tax Credit payments on 2 March 2021. The lump sums were paid direct to customers' bank accounts by 23 April 2021, rather than through the Online Tax Credits service. Customers did not need to apply, HM Revenue & Customs made contact with eligible customers.

Income tax exemptions for COVID-19 tests: The government will legislate in the Finance Bill 2021 to introduce a retrospective income tax exemption for payments that an employer makes to an employee to reimburse for the cost of a relevant coronavirus antigen test for the tax year 2020-21.

Self-assessment- Penalty easement: Self-assessment customers were not issued a late-filing penalty for the 31 January 2021 deadline for 2019-20 returns, provided they did file by the 28 February 2021. From the 1 March 2021, late filing penalties will be administered for those who are still yet to submit their return.

5. Memorandum Items

5.1. 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).

5.2. 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.

2021 Parameter values

Average earnings/yr	Ave_earn	43 978	Secretariat's estimate
Allowances	Basic_al	12570	
	PA taper start	100000	
	Married_al	1260	
	Married_rate	0	
Income tax	Tax_sch	0.2	37700
		0.4	150000
		0.45	
Employees SSC			
Primary threshold	SSC_sch	0	9568
Upper earnings limit		0.12	50270
		0.02	
Employers SSC	SSC_rate2	0.138	
	ST	8840	
Child benefit (first)	CB_first	21.15	
Child benefit (others)	CB_others	14	
	CB_1st_thres	50000	
	CB_2nd_thres	60000	
	CB_taper1	0.01	
	CB_taper2	100	
UNIVERSAL CREDIT			
Monthly rates			
Standard allowance (single over 25)	UC_standard_single	324.84	
Standard allowance (couple over 25)	UC_standard_couple	509.91	
Temporary standard allowance uplift (6 months)	UC_standard_temp	86.67	
Child element (first child born<6 Apr 2017)	UC_child_1	282.5	
Child element	UC_child	237.08	
Work allowance (no housing costs)	UC_WA	515	
Taper rate	UC_taper	0.63	
Number of days in year	numdays	365	

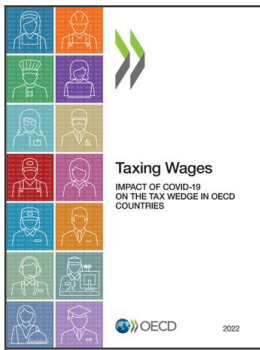
2021 Tax equations

The equations for the UK system are mostly on an individual basis. But Universal Credit is 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.	6. Universal Credit (nonwastable)	tax_cr	J	(IF(Children>0,IF(Married=0,Taper(SUM(UC_child_1,(Children-1)*UC_child,UC_standard_single,UC_standard_temp/2),(monthly_net_earnings),UC_WA,UC_taper),Taper(SUM(UC_child_1,(Children-1)*UC_child,UC_standard_couple,UC_standard_temp/2),(monthly_net_earnings),UC_WA,UC_taper)),IF(Married=0,Taper(sum(UC_standard_single,UC_standard_couple,UC_standard_temp/2),(monthly_net_earnings),0,UC_taper),Taper(sum(UC_standard_couple,UC_standard_temp/2),(monthly_net_earnings),0,UC_taper)))))*12
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.



From:

Taxing Wages 2022

Impact of COVID-19 on the Tax Wedge in OECD Countries

Access the complete publication at:

<https://doi.org/10.1787/f7f1e68a-en>

Please cite this chapter as:

OECD (2022), "United Kingdom (2021-2022 Income tax year)", in *Taxing Wages 2022: Impact of COVID-19 on the Tax Wedge in OECD Countries*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/4249b995-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, as well as any data and 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. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.