

Redistribution of income

(in UK)

The government can redistribute income from the rich to the poor by progressive taxes or by regressive benefits.

Taxes can be progressive, regressive or proportional. They can be either direct (as income taxes) or indirect (as VAT).

Benefits are regressive if people with lower incomes get more benefits (in proportion to their income) than those with higher incomes. They can be in cash (as pensions) or in kind (as education services).

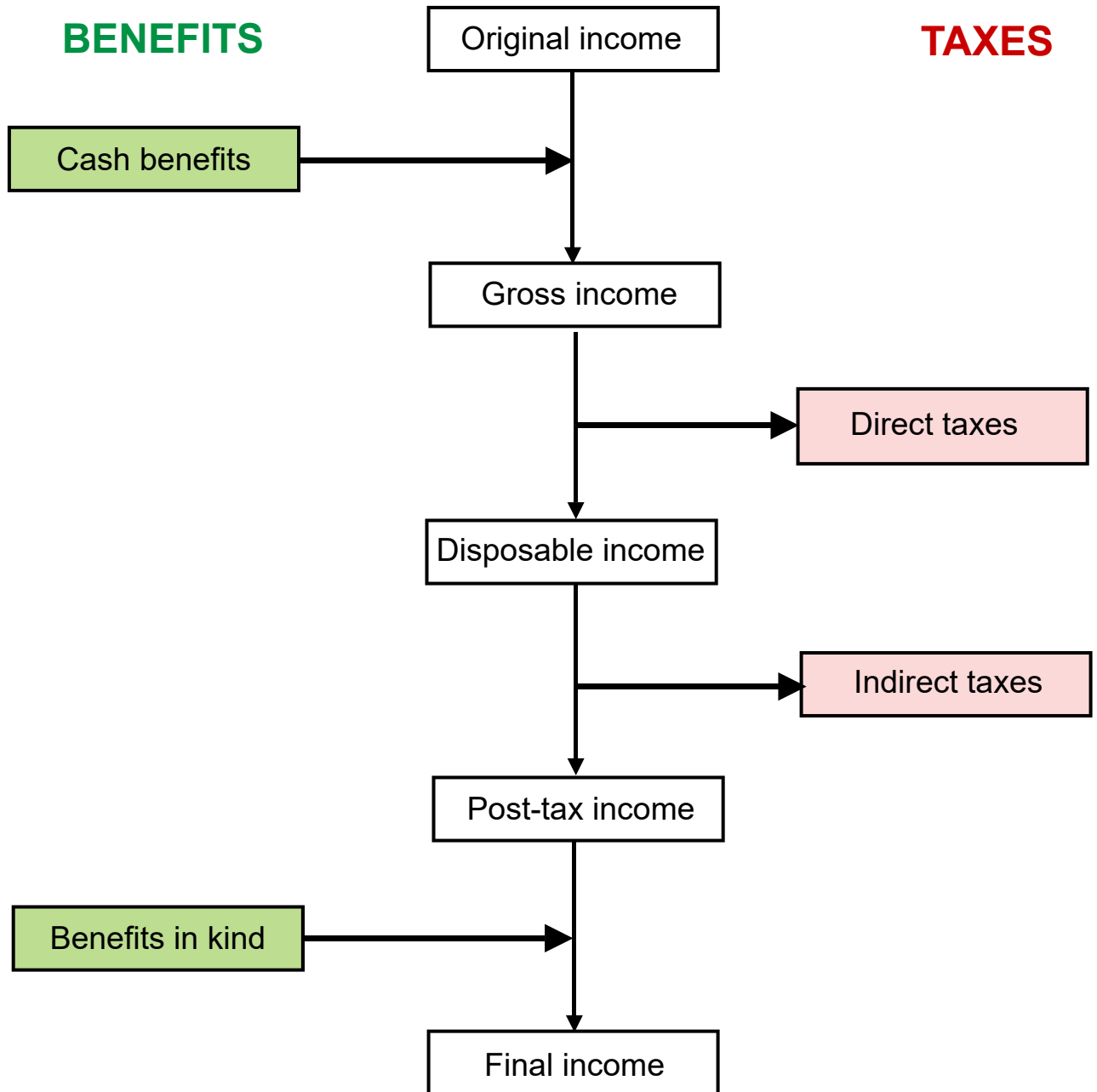
The Office for National Statistics is using the following scheme¹:

$$\begin{aligned} & \text{Original income} \\ + & \text{ Cash benefits } \\ = & \text{ Gross income} \\ - & \text{ Direct taxes } \\ = & \text{ Disposable income} \\ - & \text{ Indirect taxes } \\ = & \text{ Post-tax income} \\ + & \text{ Benefits in kind } \\ = & \text{ Final income} \end{aligned}$$

¹ Office for National Statistics: Effects of taxes and benefits on household income: financial year ending 2017, pp. 5 and 6

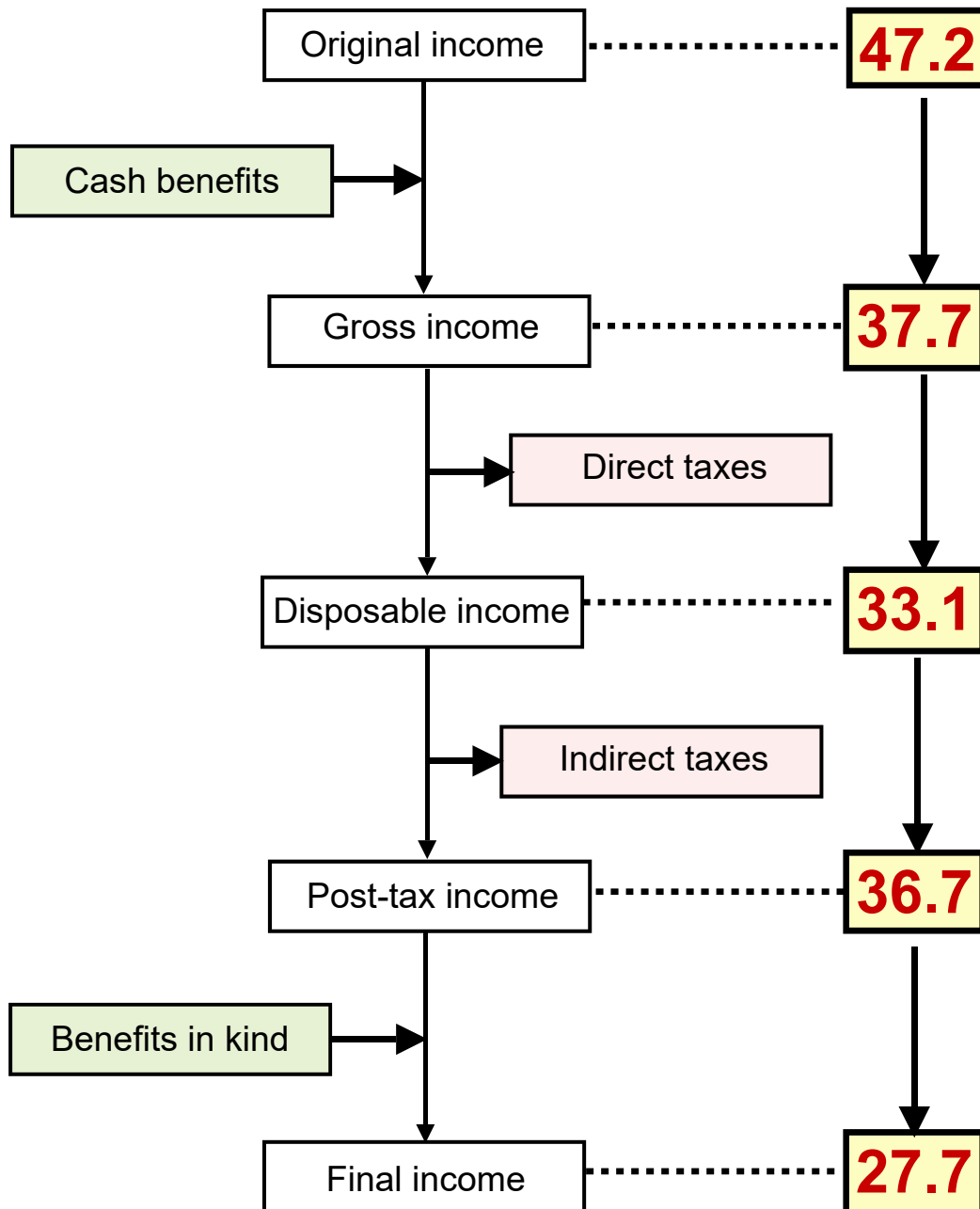
or the same scheme graphically:

Stages of redistribution



What about the GINI Coefficients?

GINI coefficients 2022/2023



Source (GINI coefficients):
Office for National Statistics: The Effects of Taxes and Benefits on Household Income,
2022/2023 (Table 5a)

Does redistribution happen?

1

Redistribution by cash benefits (from original income to gross income)?

Cash benefits are **regressive** because the GINI coefficient falls from 47.2 to 37.7.

2

Redistribution by direct taxes (from gross income to disposable income)?

Direct taxes are **progressive** because the GINI coefficient falls from 37.7 to 33.1.

3

Redistribution by indirect taxes (from disposable income to post-tax income)?

Indirect taxes are **regressive** because the GINI coefficient rises from 33.1 to 36.7.

4

Redistribution by benefits in kind (from post-tax income to final income)?

Benefits in kind are **regressive** because the GINI coefficient falls vom 36.7 to 27.7

5

Taxes are either **progressive** (direct taxes) or **regressive** (indirect taxes). The overall effect is that taxes are **nearly proportional** (GINI coefficient falls from 37.7 to 36.7).

Benefits (cash benefits and benefits in kind) are **regressive** because the poor profit more from benefits.

It can be concluded that redistribution of income in Great Britain occurs because of the benefits, and not because of the taxes.