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RESEARCH NOTE 34 **TOTAL LIFETIME TAX 2008**

With the credit crunch tightening its grip on household budgets, the impact of taxes on ordinary families' finances has come sharply to the fore. The Government has acknowledged that households are facing a tough time. But the reality for families around the country is that they face a vast tax bill.

This research note provides an estimate of the total amount of tax paid by households over their lifetimes. The figure includes both direct and indirect taxes and is calculated on the basis of the current level of taxes applying over a working lifetime of 40 years and 15 years of retirement. The result underlines that taxes are an enormous lifetime burden on families:

- Over a lifetime, an average household pays **£668,000**, in today's prices, in direct and indirect taxes. This is a huge jump from the £631,000 lifetime tax bill we reported last year – an increase of almost **6 per cent**.
- A poor household pays **£264,000** in direct and indirect taxes, up from £233,000 last year – an increase of **13 per cent**.
- Last week, it was reported that government borrowing could reach £90 billion next year. This will only mean higher lifetime tax bills in future.

The most onerous taxes

The four most burdensome individual taxes over a lifetime are income tax, VAT, employee national insurance contributions and council tax.

Table 1: The most burdensome taxes over a lifetime

£ paid to the government over a lifetime	Income tax	VAT	National insurance contributions	Council tax
Lowest quintile	28,000	73,000	15,000	36,000
2 nd	94,000	89,000	49,000	46,000
3 rd	182,000	107,000	82,000	51,000
4 th	308,000	131,000	118,000	59,000
Highest quintile	697,000	176,000	150,000	71,000
Average	262,000	115,000	83,000	53,000



For average households, income tax and VAT are the most burdensome taxes. An average household pays £262,000 in income tax and £115,000 in VAT over a lifetime.

For poor households, VAT and council tax are the most onerous. A poor household pays £73,000 in VAT and £36,000 in council tax over a lifetime.

Source and method of calculation

The calculation is based on Office for National Statistics data taken from Tables 6, 12, 16A and 18A in the ONS's latest annual paper, *The Effects of Taxes and Benefits on Household Income 2006-07*.

Total taxes are assessed on the basis of a non-retired household's total direct and indirect taxes per year multiplied by 40 years, plus a retired household's total direct and indirect taxes per year multiplied by 15 years.

A poor household is taken to be a lowest quintile household, measured by equivalised disposable income. Households are assumed not to move up or down quintiles.

The calculation is based on the current level of direct and indirect taxes applying throughout the lifetime and current prices are used throughout. This does not take into account changes in taxation in the past or in the future, but has the advantage of providing an illustration of the sheer magnitude of the current level of taxation.

An excel spreadsheet with full details is available on request.

Comment from the TaxPayers' Alliance

Corin Taylor, Research Director at the TaxPayers' Alliance, said:

"Everyone is tightening their belts at the moment, but much of the savings they make are being wiped out by high taxes. The Government say they sympathise with the plight of ordinary people, but they don't seem to care about the massive tax burden that people have to pay throughout their lives. People are struggling to make ends meet, and if the Government genuinely wants to help them they must cut taxes."

To arrange broadcast interviews, please contact:

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APPENDIX FULL TABLES

Table A1: Total taxes paid over a lifetime

£ paid to the government	Working (40 years)				Retired (15 years)				Overall lifetime total
	Total direct taxes per year	Total indirect taxes per year	Total taxes per year	Total taxes over working life	Total direct taxes per year	Total indirect taxes per year	Total taxes per year	Total taxes over retirement	Total direct and indirect taxes paid over lifetime
Lowest quintile	1,590	3,810	5,400	216,000	1,050	2,120	3,170	47,550	263,550
2 nd	4,320	4,680	9,000	360,000	1,100	2,400	3,500	52,500	412,500
3 rd	7,380	5,410	12,790	511,600	1,290	2,710	4,000	60,000	571,600
4 th	11,270	6,460	17,730	709,200	2,280	3,030	5,310	79,650	788,850
Highest quintile	20,710	7,760	28,470	1,138,800	5,990	5,040	11,030	165,450	1,304,250
Average	9,050	5,620	14,670	586,800	2,330	3,060	5,390	80,850	667,650

Table A2: The four most burdensome individual taxes over a lifetime

	Working (40 years)		Retired (15 years)		Overall lifetime total
	Total per year	Total over working life	Total per year	Total over retirement	Total
£ paid to the government					
Income tax (less tax credits)					
Lowest quintile	614	24,560	239	3,585	28,145
2 nd	2,218	88,720	370	5,550	94,270
3 rd	4,309	172,360	617	9,255	181,615
4 th	7,182	287,280	1,360	20,400	307,680
Highest quintile	15,693	627,720	4,634	69,510	697,230
Average	6,003	240,120	1,444	21,660	261,780
VAT					
Lowest quintile	1,485	59,400	890	13,350	72,750
2 nd	1,871	74,840	967	14,505	89,345
3 rd	2,266	90,640	1,073	16,095	106,735
4 th	2,786	111,440	1,307	19,605	131,045
Highest quintile	3,521	140,840	2,333	34,995	175,835
Average	2,386	95,440	1,314	19,710	115,150
Employee national insurance contributions					
Lowest quintile	377	15,080	6	90	15,170
2 nd	1,233	49,320	11	165	49,485
3 rd	2,041	81,640	6	90	81,730
4 th	2,935	117,400	27	405	117,805
Highest quintile	3,718	148,720	114	1,710	150,430
Average	2,061	82,440	33	495	82,935
Council tax (less council tax rebate)					
Lowest quintile	598	23,920	800	12,000	35,920
2 nd	873	34,920	719	10,785	45,705
3 rd	1,029	41,160	658	9,870	51,030
4 th	1,150	46,000	890	13,350	59,350
Highest quintile	1,301	52,040	1,246	18,690	70,730
Average	991	39,640	862	12,930	52,570