

Option A: How do Governments try to redistribute income?

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The redistribution of income within the UK is maintained by one of the worlds largest welfare states. The government currently tries to redistribute income through taxation and a number of social benefits.

Taxation in the UK is progressive and therefore taxes more heavily those who earn more. The taxes which contribute the most money to the welfare state are:

1. Income Tax.

The aim of income tax is to acquire money from those who have an income from employment and redistribute it to those in need within the state. It is a progressive tax and is implicated according to an individuals earnings.

Income per annum (before tax) 2005-6	% tax to be deducted for Income Tax
Up to £4895	0 %
£4896-£6985	10%
£6986-£37,295	22% (basic rate)
£37,295+	40% (higher rate)

2. National Insurance

The aim of National Insurance is to literally 'insure' the members of the UK. In theory citizens pay into the scheme whilst they are working and receive a benefit from it when they are not, for example if made unemployed or when retired. It is progressive and paid at the following rates according to income:

Income per week (before tax) 2005-6	% to be deducted for National Insurance
£0-£94	0%
£94-£630	11%
£631+	12%

3. Capital Gains Tax and Inheritance Tax

The aim of both if these taxes is gain money from those who are earning substantial profit from capital gains (e.g. investments), and those who have inherited an estate through bereavement. Capital Gains Tax is progressive, however, Inheritance Tax is implemented at a flat rate of 40% of any estate worth over £275,00.

Profit made from through capital gains	% to be deducted for Capital Gains Tax
Up to £2,090	10%

£2,091-£32,400	20%
£32,401+	40%

4. Stamp Duty and Stamp Duty Reserve Tax

The aim of this tax is to acquire money from those buying property or land because it assumes that those who have the financial means to purchase property above the stamp duty threshold have a considerable income and thus are taxed on that purchase. It is progressive and therefore the more expensive the property, the more Stamp Duty is paid.

Property price	% to be paid in Stamp Duty
Property Purchase Price	
Up to £120,000	0%
£120,000-£250,000	1%
£250,001-£500,000	3%
£500,001 +	4%

5. VAT

VAT is a tax on goods which aren't seen as necessity. It works at a flat rate of 17.5%. Its aim is to tax those who can afford to purchase non-essential goods. Exempt from VAT are items such as: food, books, newspapers, children's clothes, disabled equipment, prescription drugs and charitable goods and services.

6. Council Tax

This tax is directly used to fund services within the local community, for example, policing and refuse collection. It is paid according to the area in which a person lives and how their home is categorised according to its value when council tax was reformed in 1991.

These are the main ways in which governments in the UK acquire money which is then redistributed to the 'vulnerable' section of society. This includes Pensioners, children, the sick and disabled, those on a low income and the unemployed. It is redistributed in the following ways:

1. Job Seekers Allowance.

This is paid to those who are unemployed and are actively seeking work. It is funded mainly by National Insurance contributions and works on the premise that the person receiving the benefit has contributed to the scheme through National Insurance contributions when they were employed. However, this can still be received if no N.I contributions have been received in the past, although at a lower rate. It redistributes money to the benefit of society because it requires those receiving it to be actively seeking work.

2. Income Support.

This is a benefit works by redistributing money mainly from Income Tax and redistributes wealth to the vulnerable sections of society and those who can't provide sufficiently for themselves through no fault of their own. For example:

*Single Parents with dependant children

*registered sick and disabled people

* carers

*women on maternity leave and fathers on paternity leave

To further redistribute taxes this section of society is offered free school meals for children, dental care, prescriptions and can also receive housing benefits such as help with rent and a reduction in council tax rates. Those who pay Income Tax are seen as able to afford these provisions so their contribution to through taxation is redistributed to those who cannot. A benefit called 'Working Tax Credits' can also help redistribute income by giving parents help with child care so that the parents can re-enter the workplace.

According to the Labour Force Survey, the number of lone parents re-entering the workplace in the last five years has risen 5.2% and the number of workless lone parents has fallen by 4.4%. These statistics are generally attributed to the reform of Income Support and the provision of childcare by the government. Also noted from the Labour Force Survey is that using the Decile Ratio, we can see that before government intervention:

The top 20% households in the UK's average income is:

£63,200 per annum

The bottom 20% of households in the UK's average income is:

£3,700 per annum

The bottom 20% also receive 59% of the total benefits distributed, receiving typically around £6,000 per annum, representing 61% of the gross income for this quintile (20%). This shows a £59,500 difference per year in top and bottom average incomes before benefits or taxation are taken into account. However, after government intervention through taxation the result is:

Top quintile income after tax:

£63,200 - income tax @ 40% (£25280.00) = £37920 and National Insurance @ 12% (£7584) = £30,336.

Bottom quintile after tax:

£3,700 - income tax @ 0% = (£3,700) and National Insurance @ 0% = £3,700 + average benefits for this group at £6,000 p.a = £9,700

This reduces the gap to £20,636. These figures do not consider other benefits and this factor should also be taken into account when considering the expenditure the top quintile must commit to that the bottom quintile can access through the benefits system such as help with rent through housing benefit, childcare and council tax benefits.

3. Statutory Sick Pay

This is mainly paid for by National Insurance and ensures that everyone, irrespective of income can claim money when they are ill and therefore unable to work.

4.Pensions

This is mainly paid for by National Insurance. In order to receive a state pension, an individual must have contributed to the N.I scheme for : 90% of their working life to receive the full pension and 25% of their working life to receive anything. This ensures pensions redistributes what people have been contributing all their lives. A further scheme called 'Pension Credits' ensures that all women over the age of 65 and men over the age of 60 receive at least £109.45 per person, per week.

5.The NHS

As well as cash benefits, the UK also provides free healthcare to everyone, regardless of income and 'at the point of need'. It is paid for through taxation and works on the premise that those receiving treatment are or have been contributing to the system via the National Insurance and Income Tax they have paid. However, those who the government see as able to pay for certain aspects of healthcare are expected to contribute. For example they may pay part of a prescription charge, optical care or dental care.

(1244 Words)

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