Changes in the UK tax system: the power of statistics

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21 April 2023

We need the power of statistics to fully illustrate the changes in the UK tax system.

One of the spin-off benefits of the Budget is that it gives us the opportunity to have a broader look at the UK tax system, armed with up-to-date reporting and forecasting. The Office of Budget Responsibility, ONS and HMRC publish a wealth of useful data.

The place to start is with the total tax raised. The OBR expects that HMRC will collect about £922 billion for 2022/23 and about £950 billion in 2023/24. The big jumps came from 2021/22, when total taxes were £828 billion (which was £82 billion above pre-pandemic year 2019/20) and 2022/23 (some £94 billion above the previous year). These amount to 11% increases in both years.

Income tax: The growing contribution comes from income tax, which is expected to be 28% of total taxes in the current year, at £268 billion. It was just under 26% in

2019/20. Self assessment income tax (mainly self-employment and property income) is about 16.5% of the total.

ONS estimates that there are about 30 million employees in March 2023 (see bit.ly/40jf4uV), using HMRC's RTI data. The numbers have continued to grow, after the major dip during the pandemic. 1.65 million individuals are aged 65 or over.

Income tax paid on payments from registered private pensions is reported to be £18.3 billion in 2020/21 (see bit.ly/43L8O1V), paid by 7.8 million individuals (see bit.ly/41FRbyA). Between 400,000 and 500,000 individuals received flexible access pension payments every quarter, illustrating the use of the 2015 pension freedoms. 12.6 million people received the state pension, with about 7.3 million having an income tax liability.

The big change to the income tax population comes from freezing allowances and thresholds. The OBR published a table in its March 2023 Economic and Fiscal Outlook (see bit.ly/3Ae4ASN).

In the current year, the OBR expects that an additional 2.2 million individuals will pay income tax – taking the total to 35.8 million – and an extra 1.3 million will pay higher rate tax. For most people, PAYE will simply manage the collection of tax but there will be hundreds of thousands who may need to fill in tax returns due to the cuts in the dividend allowance and the capital gains tax annual exempt amount. HMRC estimated for the Office of Tax Simplification's Capital Gains Tax report (see bit.ly/3KUj0MH page 12) that an allowance of £3,000 would mean over 200,000 additional self assessment returns annually; the cut in the dividend allowance may bring in over 1 million (although some will be able to pay extra tax through tax code adjustments). HMRC is no doubt planning for the additional administration for so many new taxpayers.

National insurance: National insurance contributes £172.3 billion (18%). About 62% of national insurance is borne by employers (a proportion which has risen over the years); 36% by employees and just 2% by self-employed individuals (see bit.ly/3USVaFU). Economists naturally point out that employers take into account the total cost of employment, which includes national insurance and apprenticeship levy, as well as salaries and pension contributions. However, at least in the short and medium term, increases in employer national insurance fall rather more directly on the business owners.

VAT: VAT brings in 17% of total taxes – some £162.2 billion. In 2021/22, there were about 2.5 million VAT-registered businesses, of which 47% had sales below the VAT threshold (see bit.ly/43Ziaau). In 2021/22, 27,860 businesses had turnover between £80,001 and £84,999, which no doubt highlights the complexity of managing to remain below the registration threshold. There have been about 300,000 new registrations annually in recent years, highlighting the pressure on HMRC's registration process. There are about 250,000 deregistrations.

Interestingly, 69% of traders were in a net payment position and 31% of traders were in a net repayment position (a proportion which has increased over the years – and which includes some of the biggest traders). DIY housebuilders remain a small population, with about 6,00 to 7,000 claims for new-builds and conversions annually, worth £80 million to £90 million.

Corporation tax: Corporation tax is the final major tax, estimated to bring in 8.5% of total taxes, at £80 billion. The yield is forecast to grow by about 10%, reflecting both the new 25% rate; full expensing for three years; and the permanent level of £1 million for the annual investment allowance.

It takes time for statistics to become available, as returns are submitted only after the end of accounting periods. In 2020/21, over 1.5 million companies paid a total of over £50 billion. Finance and life assurance accounted for about a fifth of that total. There were about 1.5 million SMEs, which paid about 45% of the total – emphasising the value of the 18,000 large companies who contributed 55%.

We should all thank the statisticians and analysts who help us understand more about the UK tax system!

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