

2020 TAX COMMISSION

TaxPayers' Alliance ♦ Institute of Directors

www.2020tax.org

Research Note 4
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True tax cost for everyday purchases

A critical part of the Government's work on cutting spending is to introduce greater transparency, so taxpayers can see how their money is spent. Tax transparency is just as important, so that people know how much they are paying.

George Osborne, citing Adam Smith, set out four "principles of good taxation" in a February 2008 speech. They were efficiency, certainty, fairness and – finally – transparency. There are longstanding concerns over the degree to which "stealth taxes" embedded in prices mean that the true burden of taxation is not apparent to people.

In order to bring greater clarity, and help illustrate the need for more transparent taxes, the TaxPayers' Alliance has produced a new online application so taxpayers can see the extent to which taxes increase the amount they need to earn to afford the items they purchase.

The research looks at indirect taxes that increase prices directly (**VAT, excise duties**); taxes taken from their income that mean they need to earn more before tax to afford a certain good (**Income Tax, Employees' NI**); and taxes that depress their earnings (**Employers' NI, Corporation Tax**).

That research illustrates the true tax cost with a number of everyday purchases:

- A kettle that cost £24.99 would have been £20.82 without indirect taxes. Paying the £24.99 required £43.66 in earnings before income and corporate taxes.
- A flight to New York that cost £217.00 would have been £157.00 without indirect taxes. Paying the £217.00 required £379.12 in earnings before income and corporate taxes.
- 20 cigarettes that cost £6.49 would have been £1.24 without indirect taxes. Paying the £6.49 required £11.35 in earnings before income and corporate taxes.

Other examples are given in the tables below.

Sources and Methodology

1. Calculations are based on marginal Income Tax rates. National Insurance Contributions calculations assume regular, equal payments of salaries weekly or monthly.
2. Calculations are based on earnings from employment by individuals aged over 16 and under the state pension age.
3. Product prices were for typical, low-cost items identified in August and September 2011. Some items were priced as part of special offers
4. The Budget 2011 forecast for 2011-12 Corporation Tax was £49 billion. This was attributed to labour at a rate of 57 per cent, using Desai et al.
<http://www.people.hbs.edu/mdesai/PDFs/Labor%20and%20Capital.pdf>
5. The proportion of Corporation Tax receipts attributable to labour was divided by an annualised total of private sector earnings for March 2011. This figure is then multiplied by salaries (including Income Tax and Employees' National Insurance but not including Employers' National Insurance) to produce a figure showing how much higher the earnings would have been in the absence of Corporation Tax.
6. Retail prices of the featured products were obtained from easyJet, TravelSupermarket.com, Argos, Tesco and Sainsbury's.
7. You can download the new TPA online application to your iPhone or access the web version on your computer, Blackberry or Android phone here: <http://tpataxbuster.co.uk/>

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Basic rate taxpayers

Type	Production and retail					Taxes on income						Totals		
	Price	Duty	VAT	Tax	Cost	Income tax	NI employee	NI employer	Tax	Pre-tax income required	Corporation tax (CT)	Total income required	Total taxes	Tax %
	A	B	C	D = B+C	E = A-D	F	G	H	I = F+G+H	J = A+I	K	L = J+K	M = D+I+K	N = M/L
1. Beer	18	9.8	3	12.8	5.2	5.29	3.18	3.65	12.12	30.12	1.32	31.44	26.24	83%
2. Wine	5.99	2.32	1	3.32	2.67	1.76	1.06	1.22	4.04	10.03	0.44	10.47	7.8	74%
3. Gin	13	9.57	2.17	11.74	1.26	3.82	2.29	2.64	8.75	21.75	0.96	22.71	21.45	94%
4. Fuel	60	26.14	10	36.14	23.86	17.65	10.59	12.18	40.42	100.42	4.42	104.84	80.98	77%
5. Cigarettes	6.49	4.17	1.08	5.25	1.24	1.91	1.15	1.32	4.38	10.87	0.48	11.35	10.11	89%
6. Kettle	24.99	0	4.17	4.17	20.82	7.35	4.41	5.07	16.83	41.82	1.84	43.66	22.84	52%
7. Television	479.99	0	80	80	399.99	141.17	84.7	97.41	323.28	803.27	35.33	838.6	438.61	52%
8. Bread	0.69	0	0	0	0.69	0.2	0.12	0.14	0.46	1.15	0.05	1.2	0.51	43%
9. Flight to the Caribbean	463	75	0	75	388	136.18	81.71	93.96	311.85	774.85	34.08	808.93	420.93	52%
10. Flight to New York	217	60	0	60	157	63.82	38.29	44.04	146.15	363.15	15.97	379.12	222.12	59%
11. Flight to Spain	37.99	12	0	12	25.99	11.17	6.7	7.71	25.58	63.57	2.8	66.37	40.38	61%

Higher rate taxpayers

Type	Production and retail					Taxes on income						Totals		
	Price	Duty	VAT	Tax	Cost	Income tax	NI employee	NI employer	Tax	Pre-tax income required	Corporation tax (CT)	Total income required	Total taxes	Tax %:
	A	B	C	D =B+C	E =A-D	F	G	H	I =F+G+H	J =A+I	K	L =J+K	M =D+I+K	N =M/L
1. Beer	18	9.8	3	12.8	5.2	12.41	0.62	4.28	17.31	35.31	1.55	36.86	31.66	86%
2. Wine	5.99	2.32	1	3.32	2.67	4.13	0.21	1.43	5.77	11.76	0.52	12.28	9.61	78%
3. Gin	13	9.57	2.17	11.74	1.26	8.97	0.45	3.09	12.51	25.51	1.12	26.63	25.37	95%
4. Fuel	60	26.14	10	36.14	23.86	41.38	2.07	14.28	57.73	117.73	5.18	122.91	99.05	81%
5. Cigarettes	6.49	4.17	1.08	5.25	1.24	4.48	0.22	1.54	6.24	12.73	0.56	13.29	12.05	91%
6. Kettle	24.99	0	4.17	4.17	20.82	17.23	0.86	5.95	24.04	49.03	2.16	51.19	30.37	59%
7. Television	479.99	0	80	80	399.99	331.03	16.55	114.2	461.78	941.77	41.42	983.19	583.2	59%
8. Bread	0.69	0	0	0	0.69	0.48	0.02	0.16	0.66	1.35	0.06	1.41	0.72	51%
9. Flight to the Caribbean	463	75	0	75	388	319.31	15.97	110.16	445.44	908.44	39.96	948.4	560.4	59%
10. Flight to New York	217	60	0	60	157	149.66	7.48	51.63	208.77	425.77	18.73	444.5	287.5	65%
11. Flight to Spain	37.99	12	0	12	25.99	26.2	1.31	9.04	36.55	74.54	3.28	77.82	51.83	67%