



Redistribution from a lifetime perspective: current tax and benefit system

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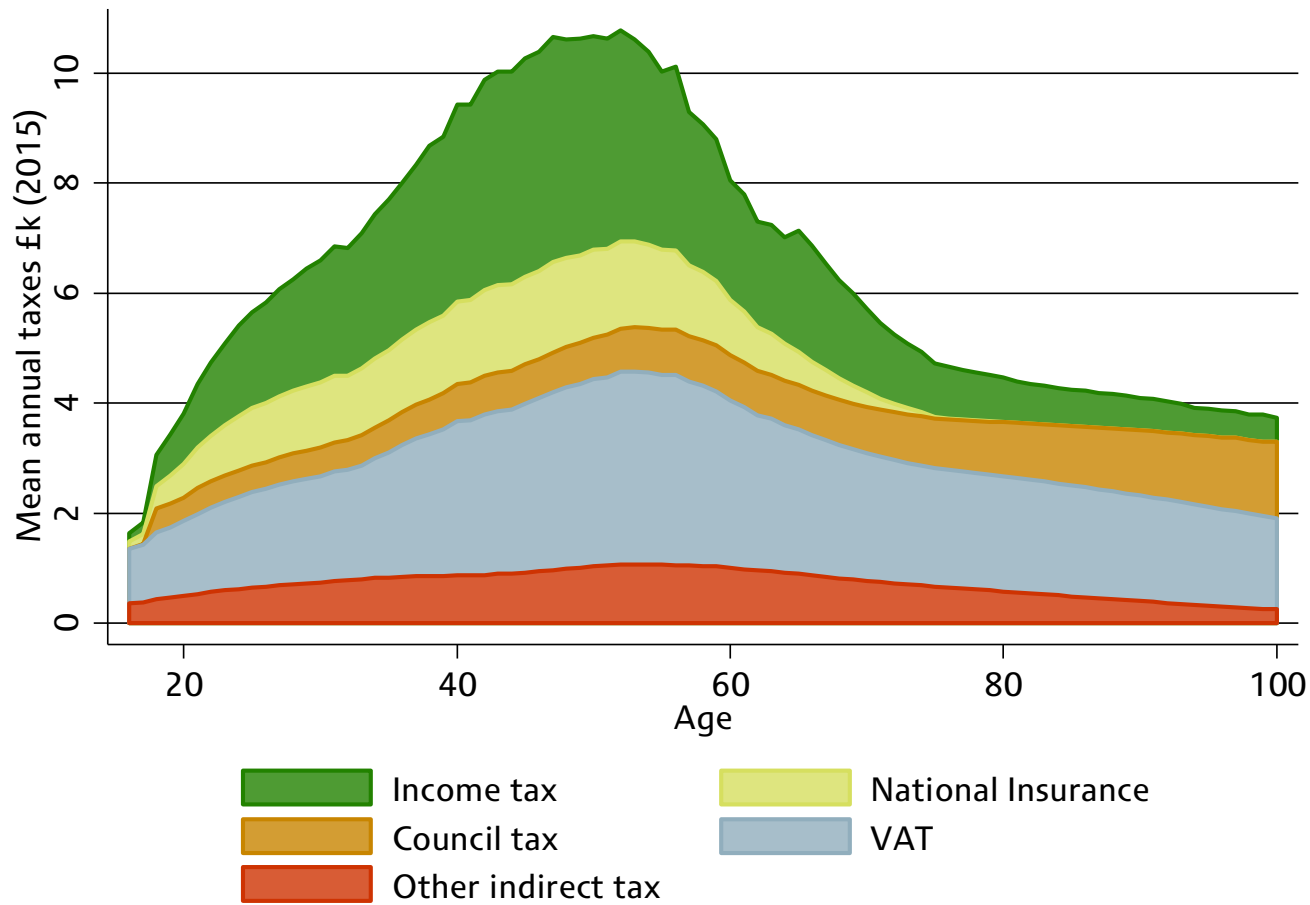
Introduction (1)

- Our lifetime analysis allows us to answer several important questions that cannot be answered with a cross-sectional analysis
 1. How do lifetime net contributions vary across individuals?
 2. How much redistribution is across life rather than across individuals?
 3. How effective is the tax and benefit system at reducing inequality?
 4. Which taxes and benefits are most effective at reducing inequality?

Introduction (2)

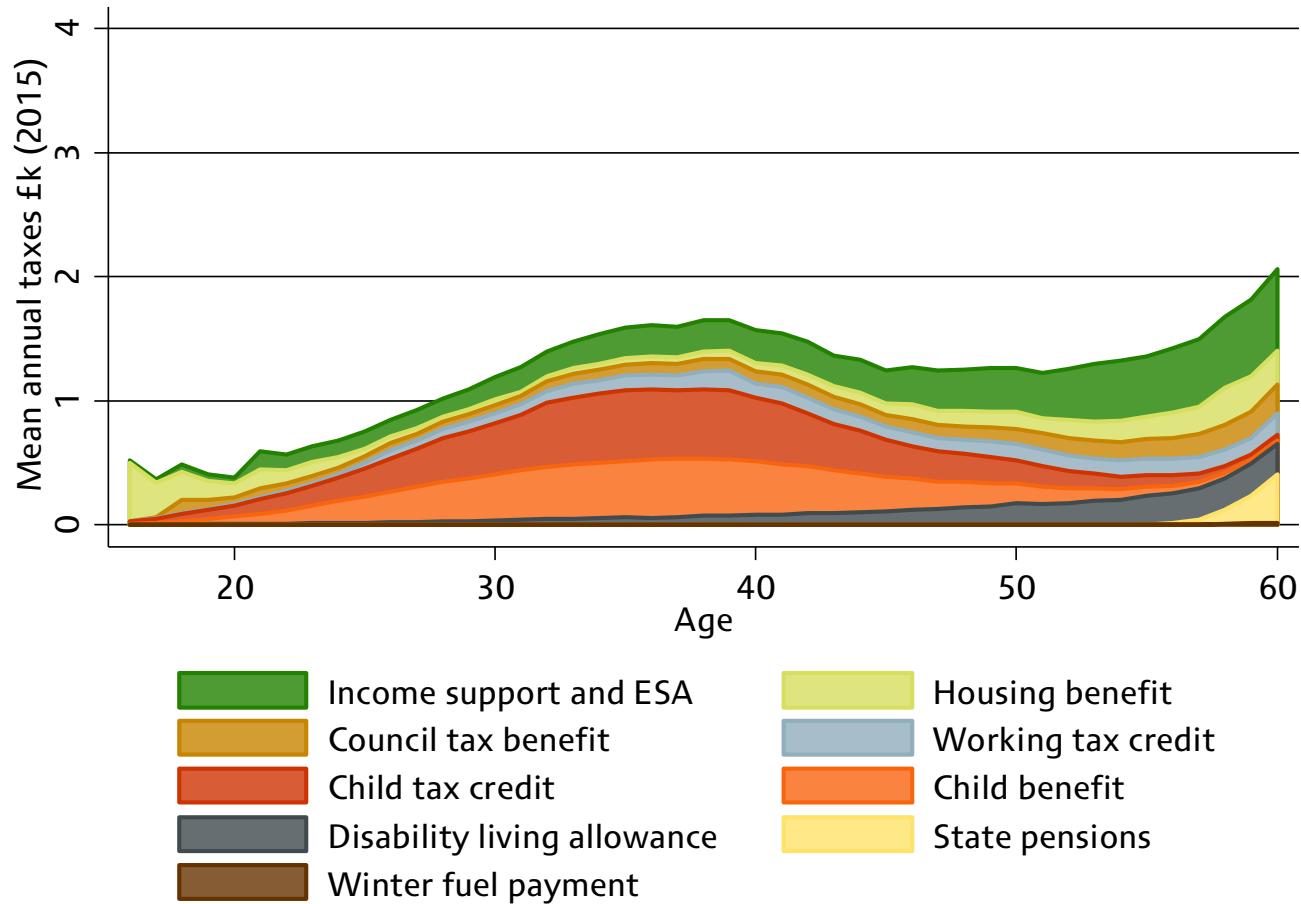
- Our aim here is to understand lifetime impact of a given tax and benefit system (2015/16)
 - Individuals face the same tax and benefit system throughout the whole of their lives
- Downrate/uprate tax thresholds and benefit rates in line with earnings to calculate payments in earlier/later years
- Some assumptions
 - Hold behaviour fixed under different tax and benefit systems
 - Assume equal sharing of resources within couples

Taxes by age



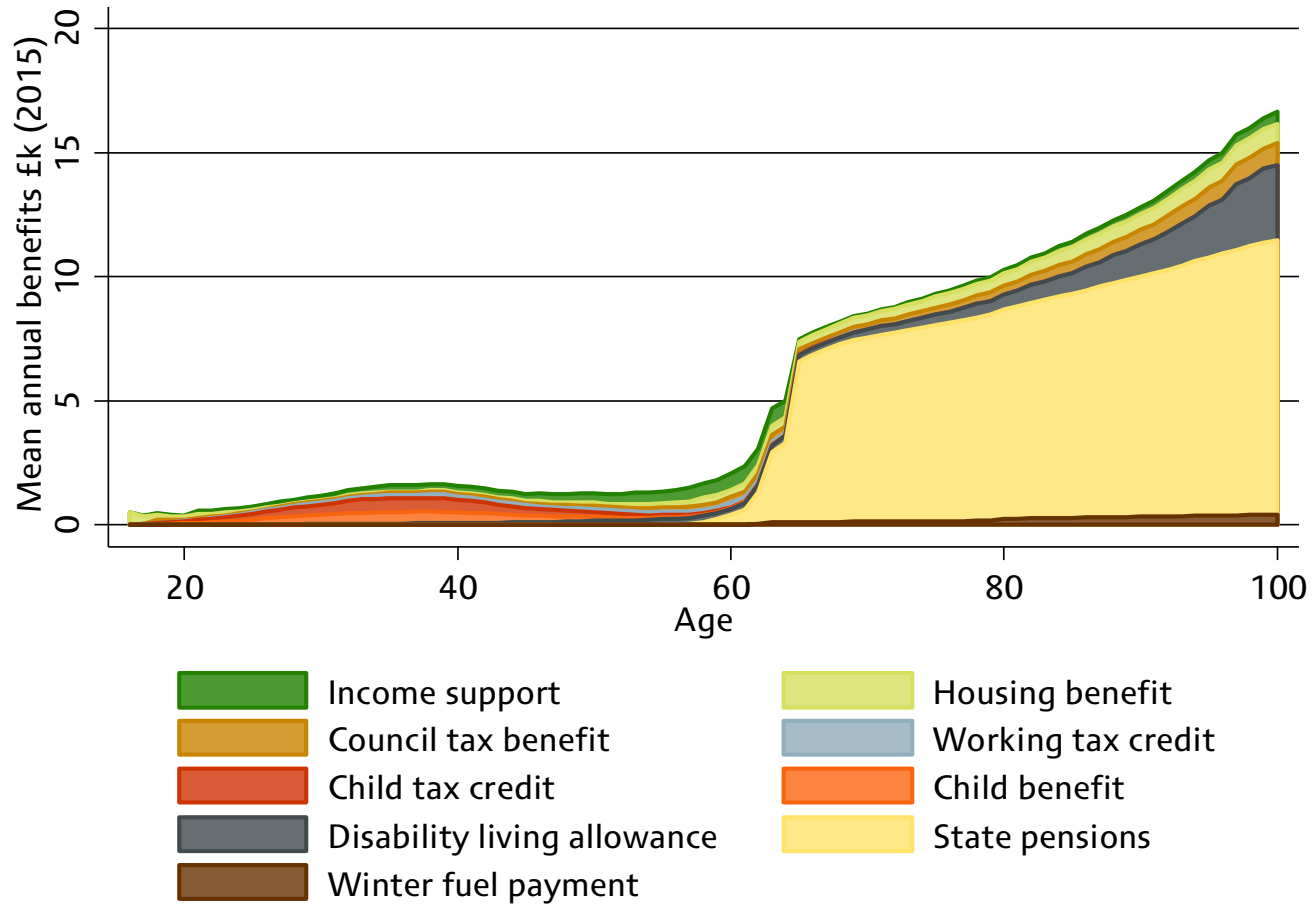
Notes: see Figure 3.1 in 'Redistribution from a Lifetime Perspective'

Benefits by age, under 60



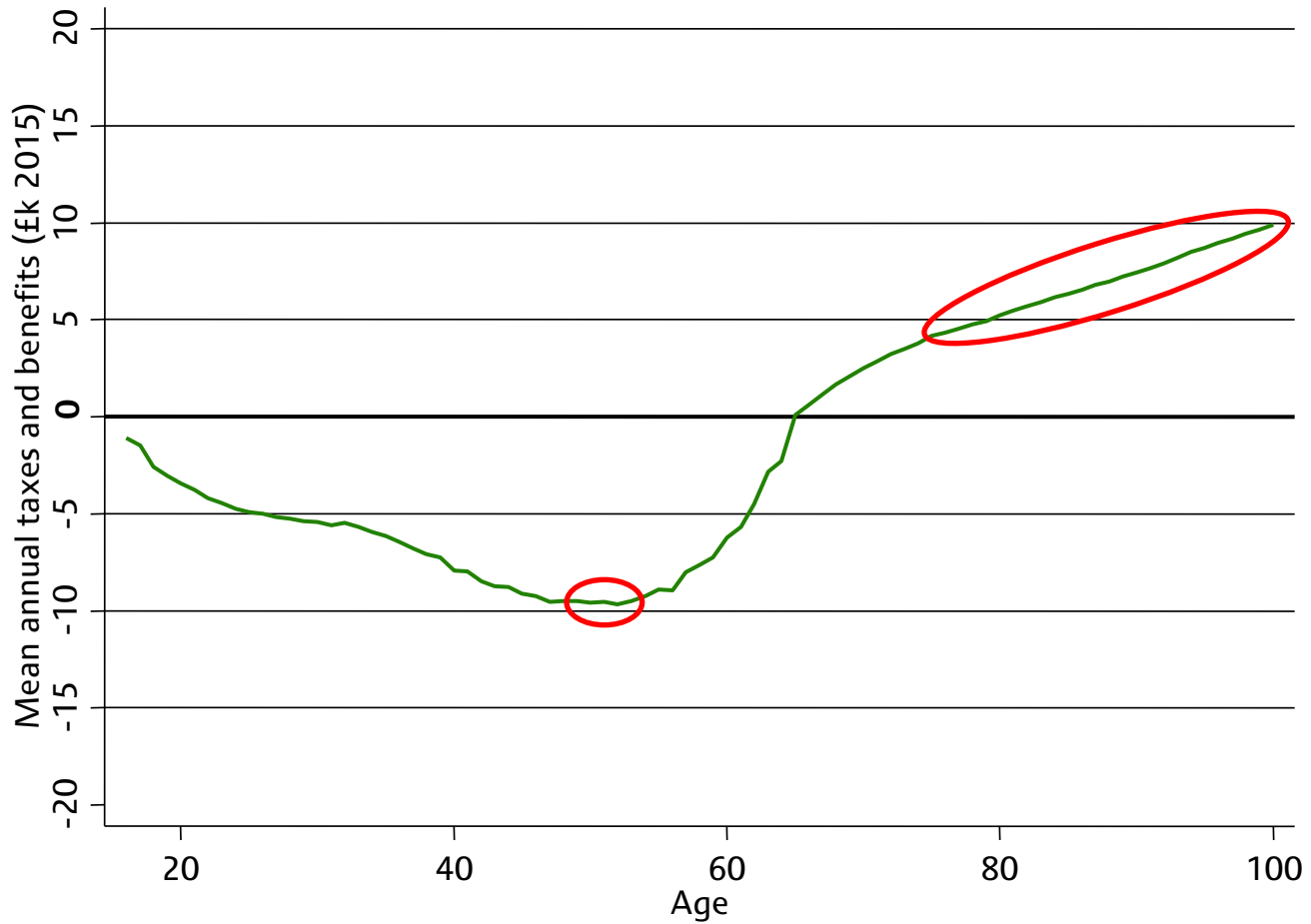
Notes: see Figure 3.2 in 'Redistribution from a Lifetime Perspective'

Benefits by age



Notes: see Figure 3.2 in 'Redistribution from a Lifetime Perspective'

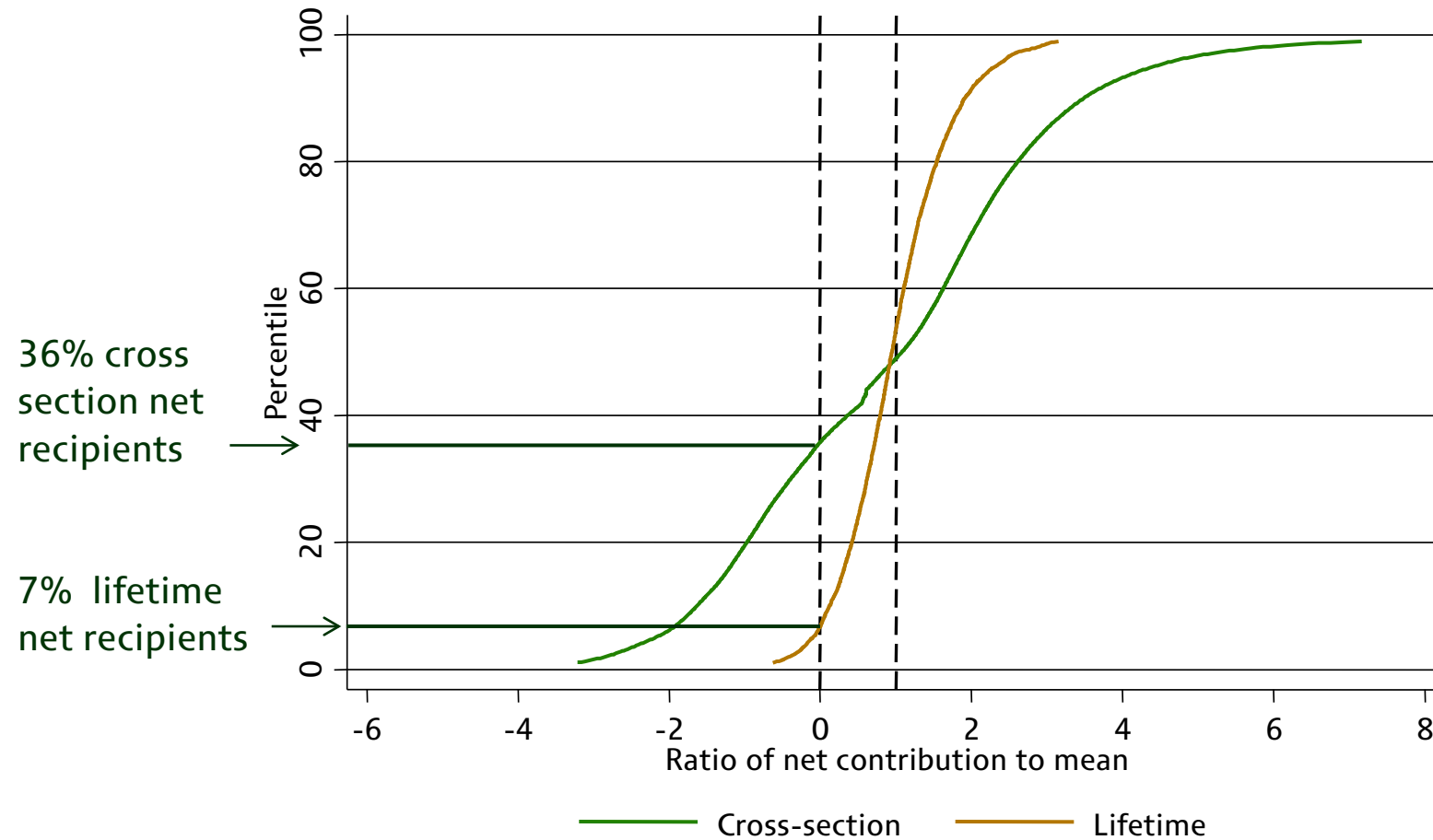
Net benefits by age



Notes: see Figure 3.3 in 'Redistribution from a Lifetime Perspective'

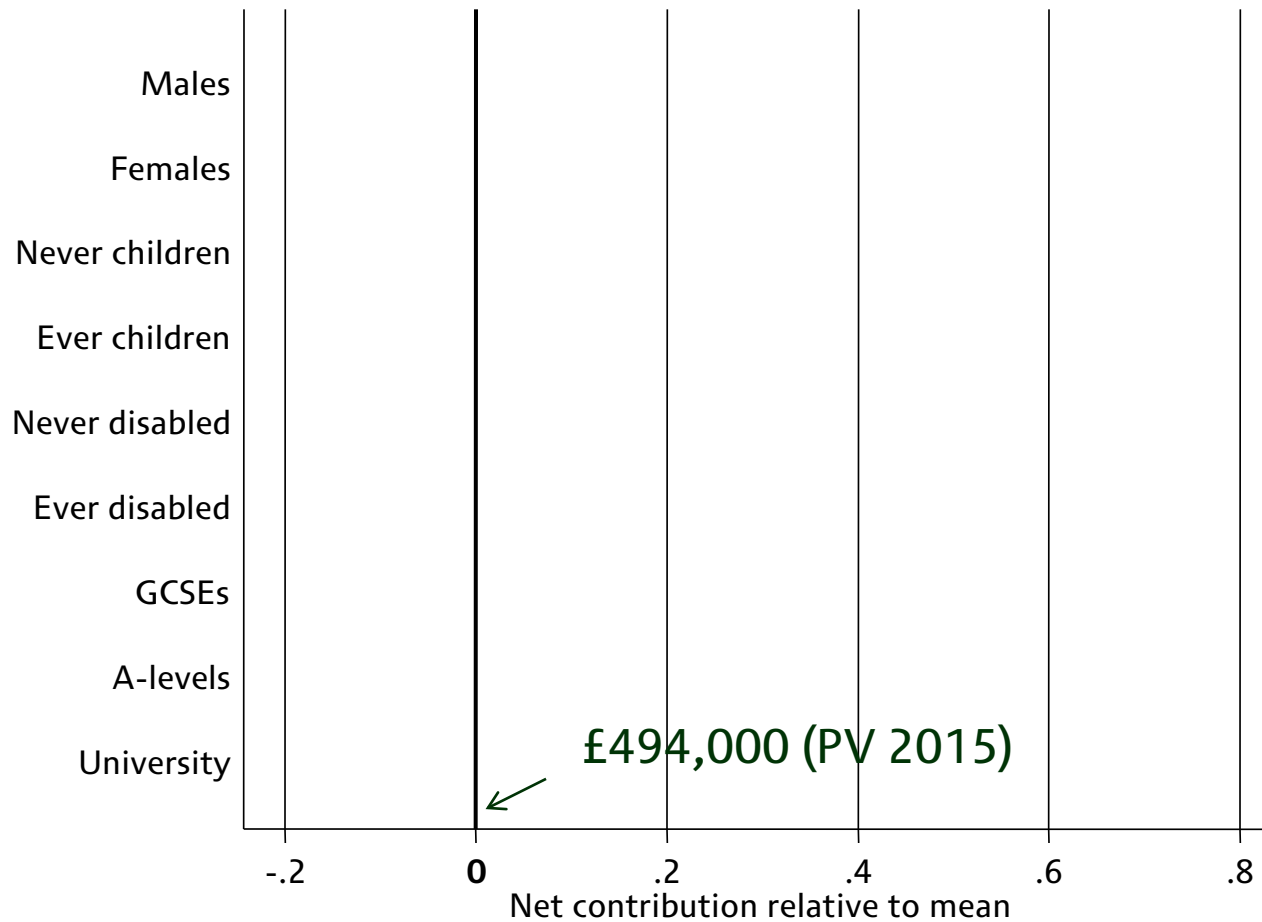
How do net contributions vary
across individuals?

Distribution of net contributions



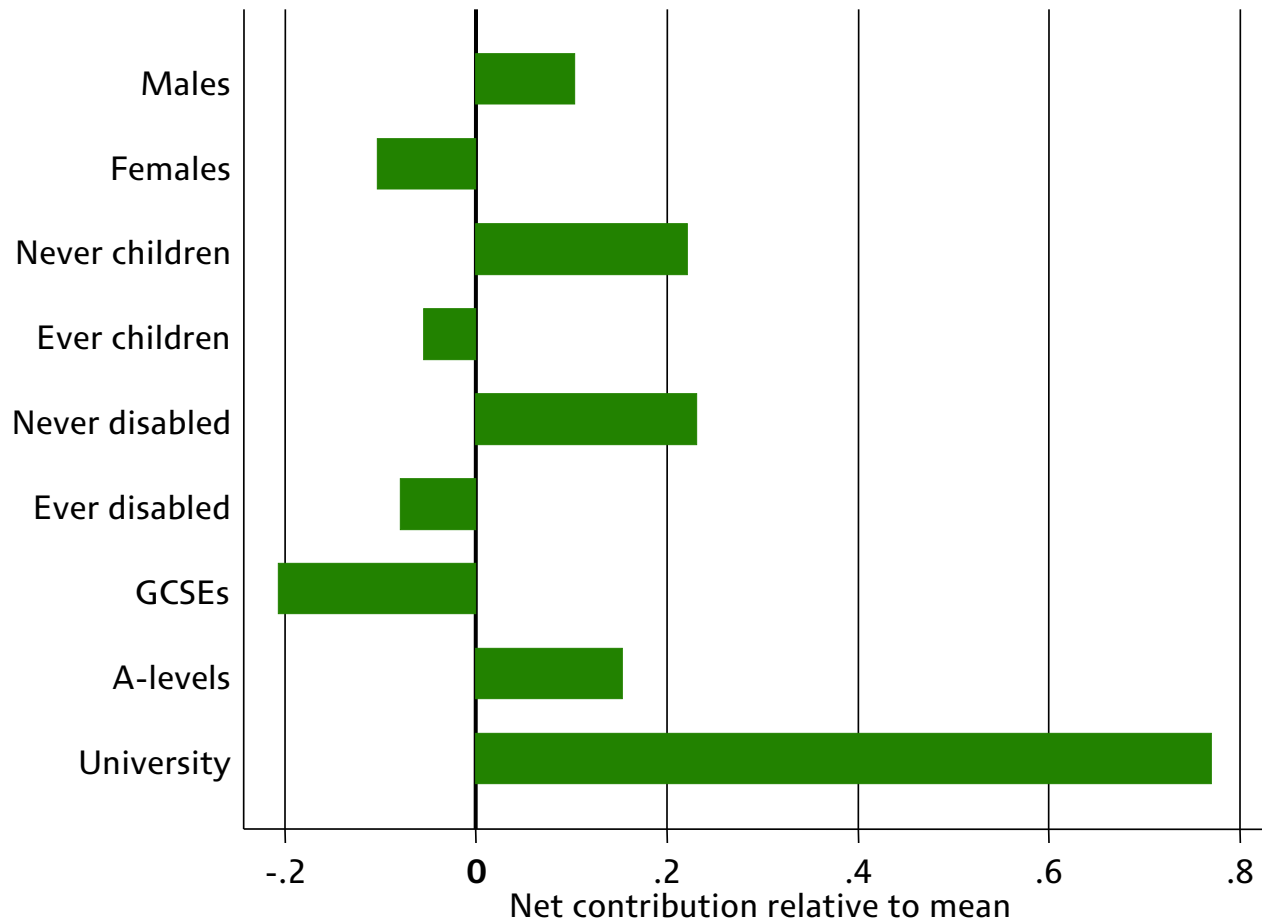
Notes: see Figure 3.4 in 'Redistribution from a Lifetime Perspective'

Net contributions by characteristics



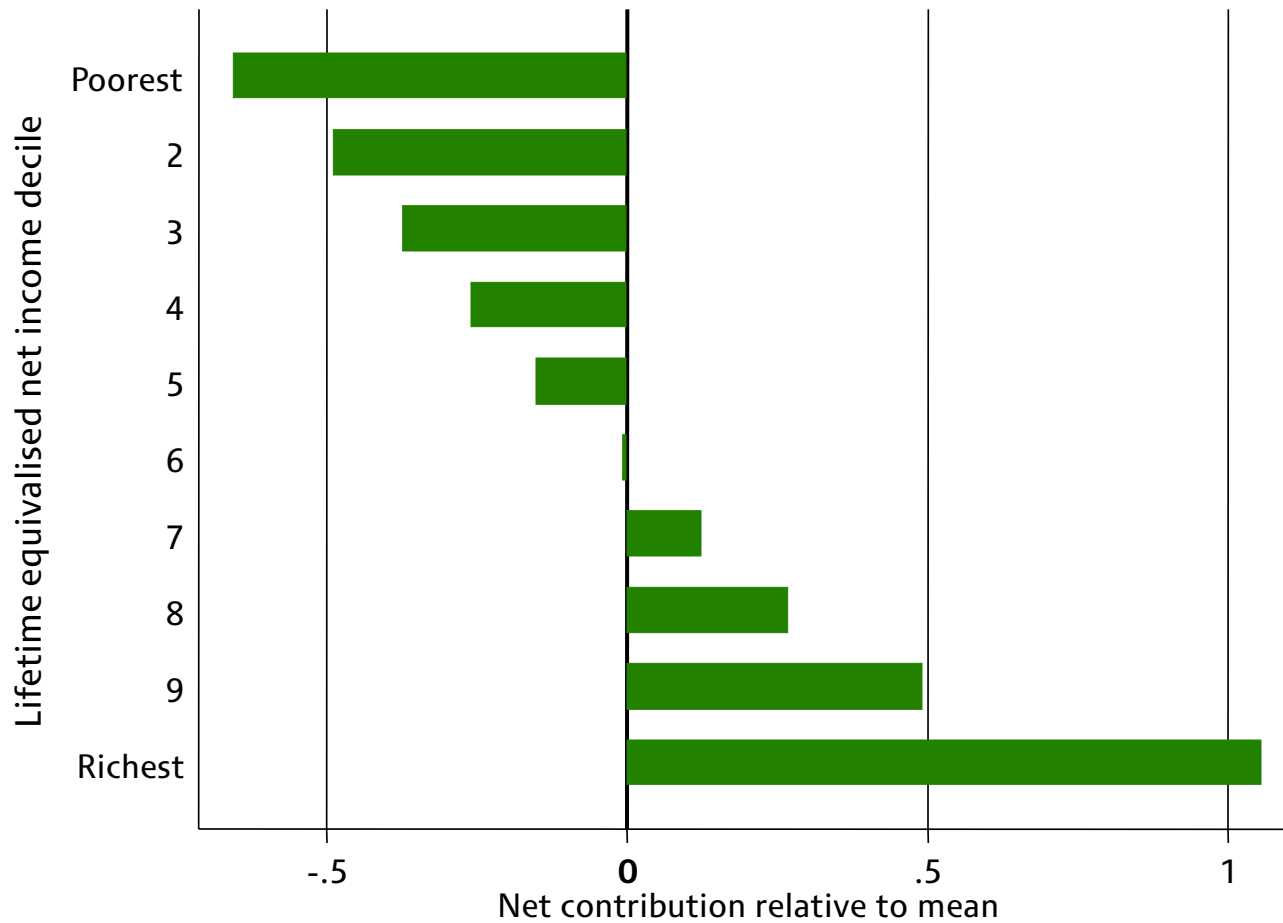
Notes: see Figure 3.4 in 'Redistribution from a Lifetime Perspective'

Net contributions by characteristics



Notes: see Figure 3.5 in 'Redistribution from a Lifetime Perspective'

Net contributions by income decile



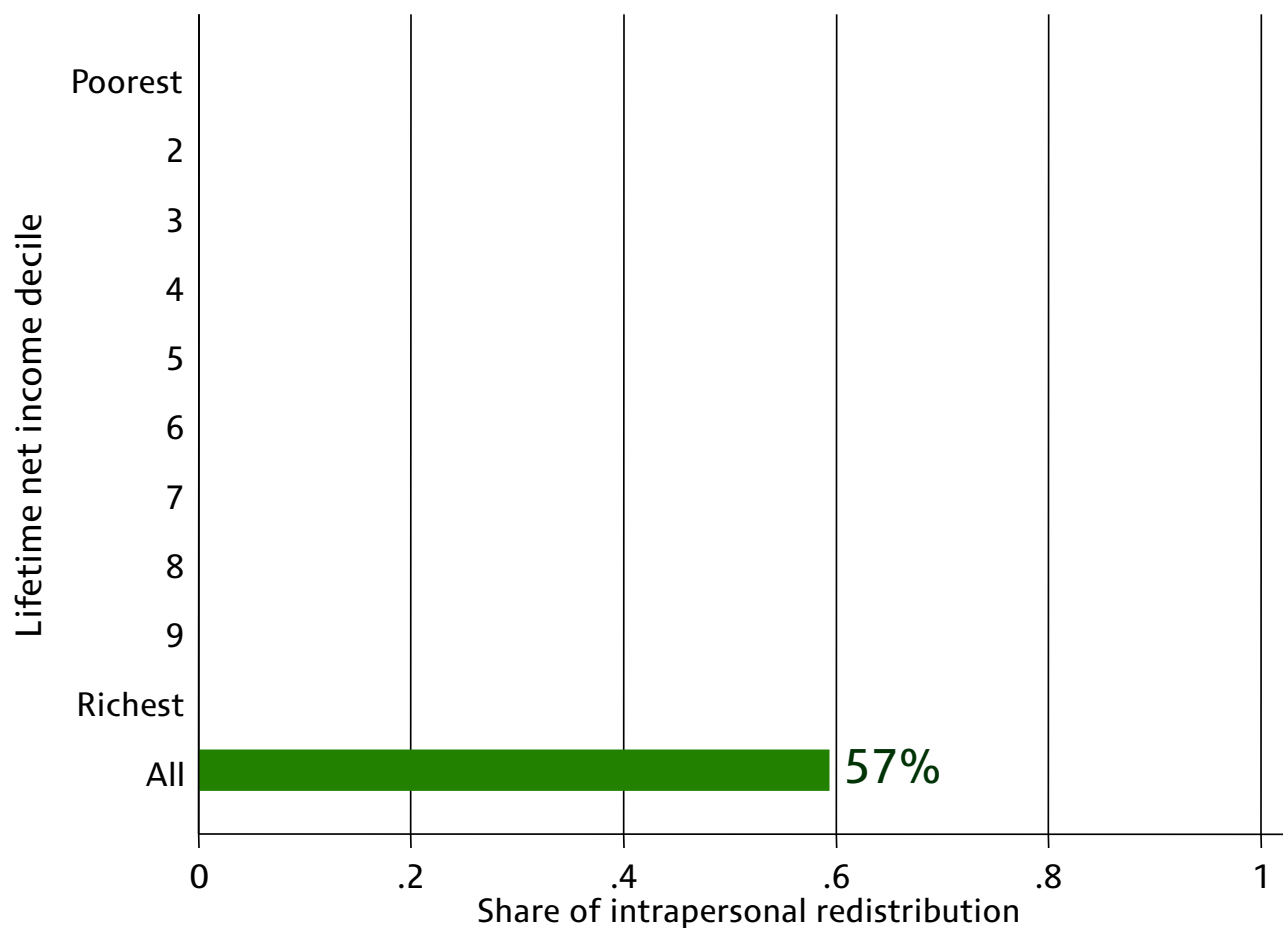
Notes: see Figure 3.6 in 'Redistribution from a Lifetime Perspective'

How much redistribution is across life rather than across individuals?

Intra vs interpersonal redistribution

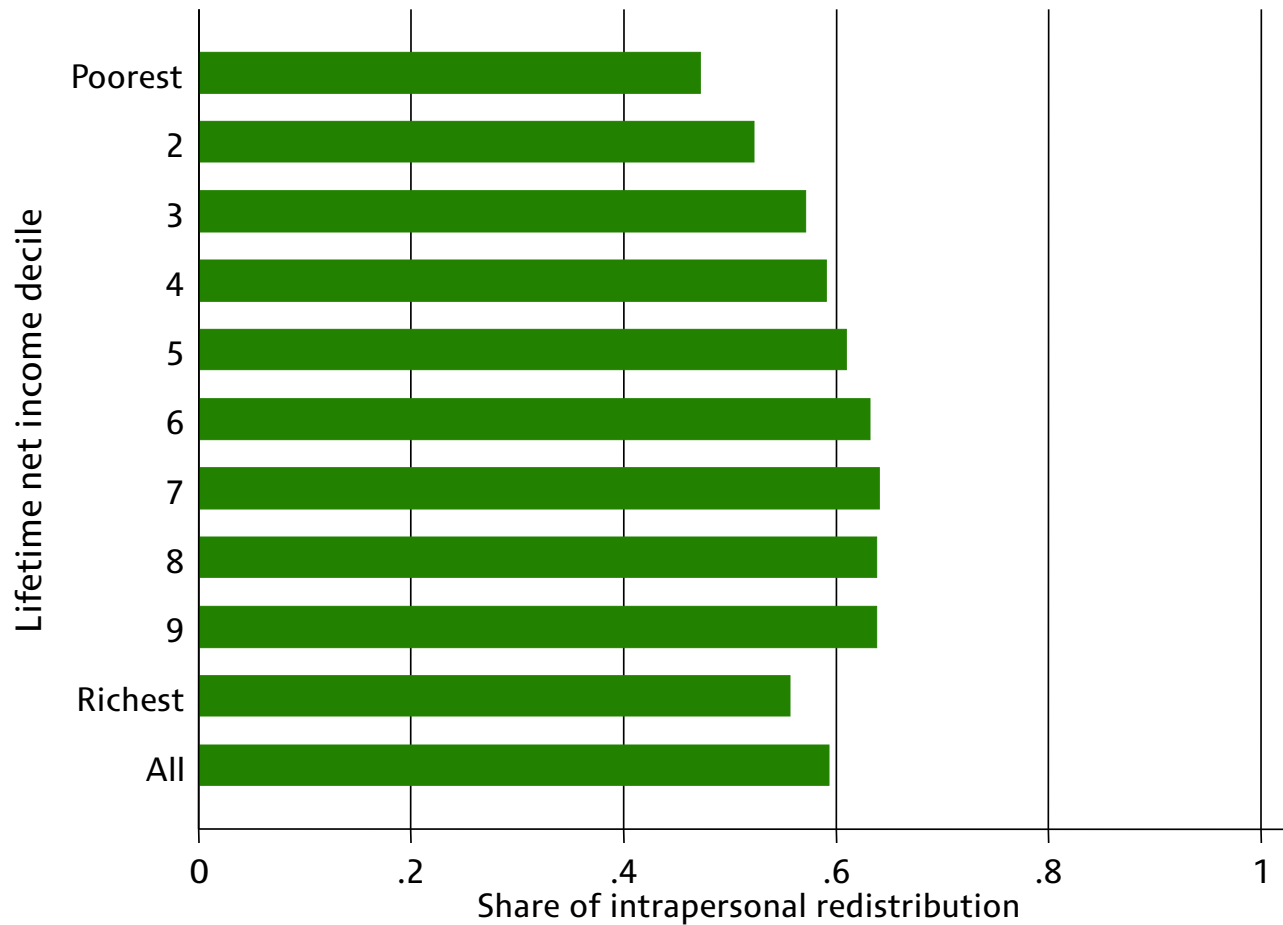
- From a lifetime perspective the tax system redistributes in two ways
- Individuals will pay relatively more in at some times than at others
 - This effectively represents redistribution across periods of life for the same individual (*intrapersonal*)
- Some individuals pay in more relative to what they receive over the whole of their lives
 - This represents redistribution across individuals (*interpersonal*)
- How important are these relative to each other?
- We need a “no-redistribution” baseline to determine when redistribution is taking place
 - Turns out not to matter much which baseline is chosen

Share of redistribution that is intrapersonal by income decile



Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'

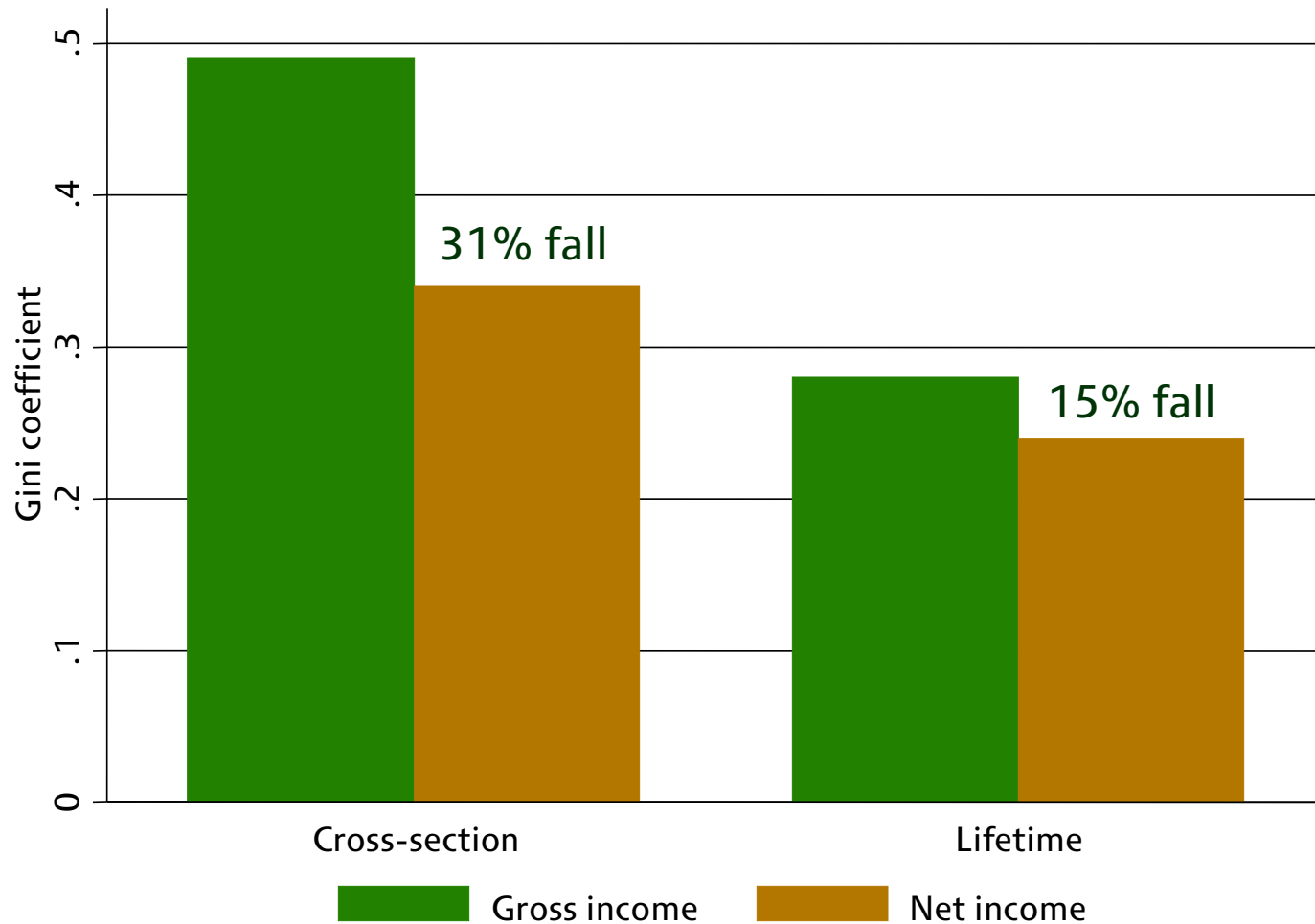
Share of redistribution that is intrapersonal by income



Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'

How effective is the tax and benefit system at reducing inequality?

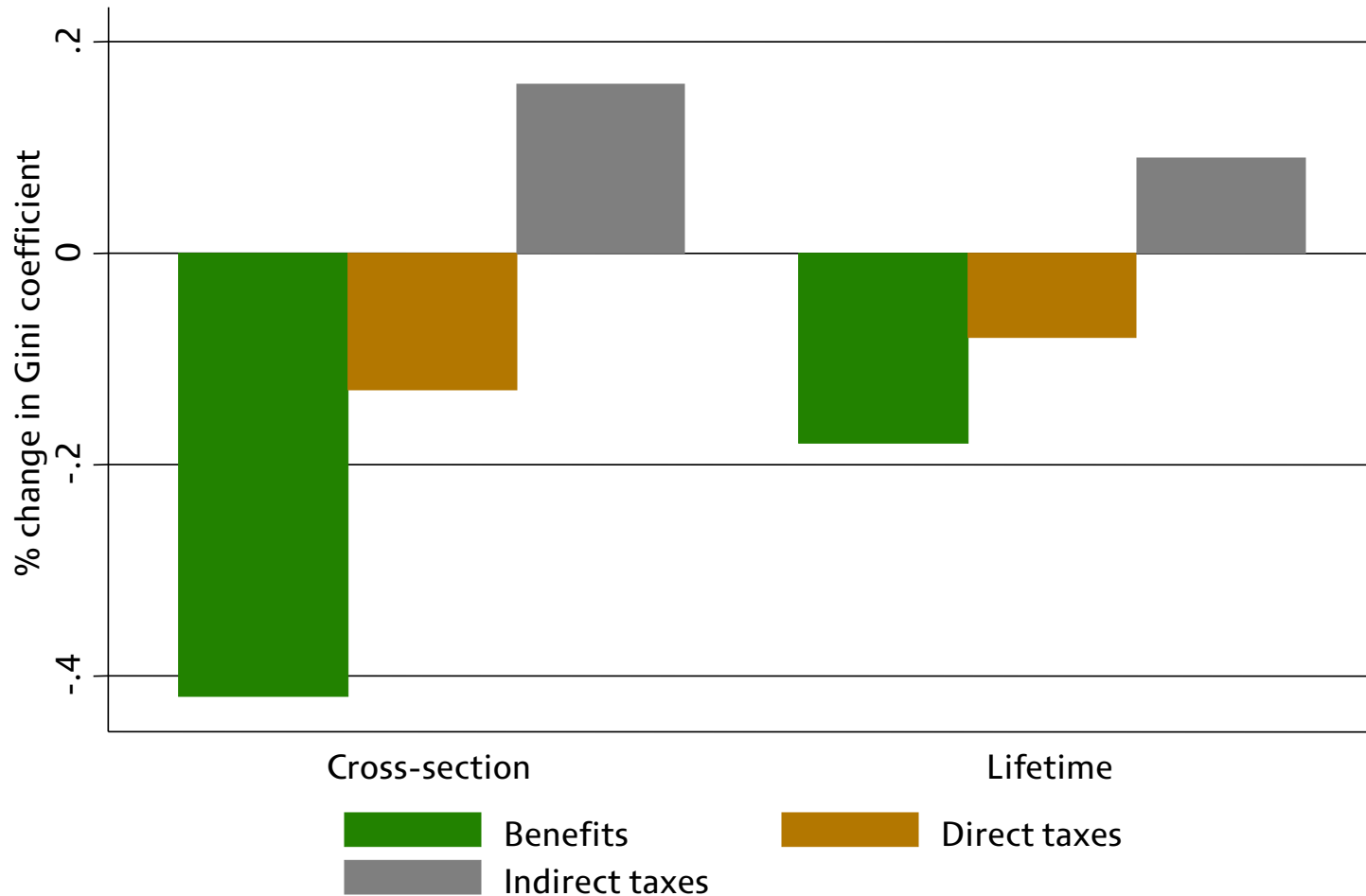
Inequality of gross and net incomes



Notes: see Table 3.1 in 'Redistribution from a Lifetime Perspective'

Which taxes and benefits are most effective at reducing inequality?

Effect on Gini of 1% increase in different taxes and benefits



Notes: see Table 3.2 in 'Redistribution from a Lifetime Perspective'

Summary (1)

1. How do net lifetime contributions vary across individuals?
 - Only 7% of individuals are net recipients over the lifetime
 - Men contribute more than women
 - Those with children contribute more than those without
 - Lifetime richest individuals contribute 6 times as much as poorest
2. How much redistribution is across life rather than across individuals?
 - Over half of all redistribution is intrapersonal
 - Interpersonal redistribution is more important for those with high or low lifetime incomes

Summary (2)

3. How effective is the tax and benefit system at reducing inequality?
 - Less effective over the lifetime than within a cross-section
 - Reflects the fact that taxes and benefits depend largely on current circumstances
4. Which taxes and benefits are most effective at reducing inequality?
 - Benefits and direct taxes are less effective over the lifetime than in the cross-section
 - Indirect taxes are less regressive over the lifetime than they are in the cross-section