
Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE

Will Moy
Director, Full Fact
4 Dyer's Buildings
LONDON
EC1N 2JT

24 November 2014

Dear Will

ANNUAL TAX SUMMARIES – PUBLIC EXPENDITURE STATISTICS

Thank you for your letter of 5 November about the new annual tax summaries prepared by HM Revenue and Customs which break down individuals' income tax payments and National Insurance contributions by categories of public expenditure.

As you know I welcome the use of graphics and summaries that bring statistics to life, especially in areas such as government expenditure on public services where the numbers – an estimated £686 billion in 2013-14 – can be too large to be readily understandable in absolute terms.¹ Expressing such numbers in per capita or per taxpayer terms is, generally speaking, helpful.

However, in making such statistics accessible to an audience which may not be expert in government accounting conventions, we believe that it is important to be transparent to help those who wish to understand the statistics better, and to reduce the risk that people misinterpret the statistics. In publishing any kind of numerical information, including official statistics, it is good practice to:

- clearly identify the source of the statistics, and provide precise links to each data item;
- clearly define the category labels or descriptors used and, where they differ from international standards (such as the United Nations' *Classification of Functions of Government*²), provide an explanation as to *why* they differ;
- publish supporting analytical information to explain the statistical breakdowns presented; and
- include contextual information (such as about other sources of tax revenue, and the services provided to recipients of public expenditure).

HM Treasury officials have provided us with a table – see annex A – which shows, for each item in the tax summary statement, the corresponding element of Table 5.2 of the latest *Public Expenditure Statistical Analysis*³ (PESA). This shows that the Government has

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/339324/Public_Spending_Statistics_July_2014_consolidated_revised.pdf

²<http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/339324/Public_Spending_Statistics_July_2014_consolidated_revised.pdf

applied some discretion in the translation of the PESA data into the tax summary statements – renaming some of the categories and creating new categories of expenditure in other cases.

In particular, the PESA table shows £83,111 million public expenditure on State Pensions, which forms part of ‘Social Protection’ in PESA⁴ but which is separately identified in the tax summary. HM Treasury officials have confirmed to us that the ‘welfare’ component of the tax summary statement includes elements 10.1 to 10.9 of PESA Table 5.2, this includes the main public sector pensions (for example, armed forces, civil service, Royal Mail, and teachers) and other old age payments such as pension credits, winter fuel payments, and war pensions benefits. As a result, the ‘Welfare’ component of the tax summary statement includes public sector pensions and a range of old age payments, but excludes the State Pension. Annex B to this letter breaks down the ‘Social Protection’ category further.

There are, of course, several ways of labelling and summarising the detailed breakdown of public sector expenditure presented in table 5.2 of PESA, each with different merits and limitations, and each of which might have differing degrees of accessibility to the general public. For example, I can see an argument that the PESA term “Public order and safety” is more precise than the term “Criminal justice” used in the tax statements, given that both include some £3 billion of spending on fire-protection services. And some might argue that spending on teachers’ pensions, for example, should be regarded as part of education spending; others that all public sector pensions should be a separate, identifiable category.

We also note that the aggregation of public sector expenditure categories presented in the tax summaries differs from that presented alongside the 2012 Budget, when the concept of tax summaries was introduced. In the example versions produced at the time, the category “welfare” included ‘old age’, for example, and was broken down to show the contribution of ‘sickness and disability’, ‘family and children’, ‘housing’ and ‘unemployment’, while “public order and safety” included the criminal justice system and the fire service. Examples from then and now are provided below.

I am copying this letter to the Financial Secretary to the Treasury, David Gauke MP, to the Chief Executive of HM Revenue and Customs, Lin Homer, to the Permanent Secretary to HM Treasury, Sir Nicholas Macpherson, to John Pullinger, the National Statistician, and to Ed Humpherson, the Authority’s Director General of Regulation.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Dilnot'.

Sir Andrew Dilnot CBE

⁴Table 5.2, element 10.2: Old Age – pensions (see annex B).

Annex A

Reconciliation between expenditure categories in Tax statements and in Table 5.2 of *Public Expenditure Statistical Analysis*

Tax Statement Heading	Table 5.2 functional category	Tab 5.2 items
Welfare	10. Social Protection	<i>Items 10.1 to 10.9 excluding underlying data for "State pensions"</i>
Health	7. Health	<i>Medical services, Medical research, Central and other health services</i>
Education	9. Education	<i>Items 9.1 to 9.8</i>
State Pensions	10. Social Protection	<i>Underlying data for "State pensions" within item 10.2</i>
National debt interest	1. General public services	<i>Item 1.7</i>
Defence	2. Defence	<i>2.1 to 2.5</i>
Criminal justice	3. Public order and safety	<i>3.1 to 3.6</i>
Transport	4. Economic affairs	<i>Item 4.5</i>
Business and industry	4. Economic affairs	<i>Items 4.1 to 4.4 and 4.6 to 4.9</i>
Government administration	1. General public services	<i>Items 1.1 and 1.3 to 1.6</i>
Culture, eg sports, libraries, museums	8. Recreation, culture and religion	<i>Items 8.1 to 8.6</i>
Environment	5. Environment protection	<i>Items 5.1 to 5.6</i>
Housing and utilities eg street lights	6. Housing and community amenities	<i>Items 6.1 to 6.6</i>
Overseas aid	1. General public services	<i>Item 1.2</i>
UK contribution to the EU budget	EU transactions	<i>Total EU transactions</i>

2013-14 table 5.2 data / £m	
168,161	24.5%
129,451	18.9%
90,218	13.2%
83,111	12.1%
48,033	7.0%
36,428	5.3%
30,164	4.4%
20,219	2.9%
18,811	2.7%
14,076	2.1%
11,562	1.7%
11,372	1.7%
11,258	1.6%
7,891	1.2%
5,174	0.8%
685,929	100.0%

Annex B

Extract from Table 5.2 of *PESA* - Public sector expenditure on services by sub-function, 2009-10 to 2013-14

	National Statistics				
	2009-10	2010-11	2011-12	2012-13	2013-14
	outturn	outturn	outturn	outturn	outturn
10. Social protection					
of which: personal social services	27,923	27,866	28,191	28,555	28,505
10.1 Sickness and disability	39,199	40,889	43,737	46,262	46,960
of which: personal social services	8,573	8,517	9,821	9,847	9,423
of which: incapacity, disability and injury benefits	30,626	32,372	33,916	36,416	37,537
10.2 Old age	94,816	98,287	103,756	111,052	114,818
of which: personal social services	11,288	10,981	10,057	10,114	10,376
of which: pensions	83,527	87,306	93,699	100,939	104,442
10.3 Survivors	1,057	1,097	1,070	1,076	1,131
10.4 Family and children	29,553	29,058	28,115	26,580	24,362
of which: personal social services	7,610	7,776	7,807	8,095	8,228
of which: family benefits, income support and tax credits	21,943	21,282	20,308	18,484	16,134
10.5 Unemployment	5,533	5,231	5,633	5,939	4,945
of which: personal social services	-	-	-	-	-
of which: other unemployment benefits	5,533	5,231	5,633	5,939	4,945
10.6 Housing	22,812	24,399	25,366	26,360	26,386
10.7 Social exclusion n.e.c (4)	24,406	26,079	27,828	29,607	29,277
of which: personal social services	453	591	505	499	477
of which: family benefits, income support and tax credits	23,953	25,488	27,323	29,108	28,800
10.8 R&D social protection	-	-	-	-	-
10.9 Social protection n.e.c. (5)	5,626	5,357	4,492	3,597	3,393
Total social protection	223,001	230,398	239,996	250,474	251,272

(4) Social exclusion n.e.c. includes Child and Working Tax Credits

(5) Work and Pensions in a continuation of their review of spending allocations have moved items from 10.9 Social protection n.e.c. to 4.1 General economic, commercial and labour affairs.



Mrs A N Smith
1 Anystreet
Anytown
WX1 2YZ

Dear Mrs Smith

For the first time we are sending you an Annual Tax Summary. This is to show you how your Income Tax and National Insurance contributions (NICs) are calculated and how your money is spent by the government.

This is for your information. You do not need to contact us as this is not a demand for payment.

This is how we worked out your tax for 2013-14

Your taxable income

Total income from employment	£15000.00
Your income before tax	£15000.00
Less your 2013-14 tax free amount	£9440.00
You pay tax on	£5560.00

Your tax was calculated as

Income Tax		
Basic rate Income Tax	£5560.00 at 20%	£1112.00
Total Income Tax		£1112.00
National Insurance contributions (NICs)		£869.76
Total Income Tax and NICs		£1981.76
Your income after tax and NICs		£13018.24

Your employer pays

National Insurance contributions (NICs)	£1008.40
--	-----------------

For more information

go to www.gov.uk/annual-tax-summary

Go to our website to find out more about your Tax Summary, and for a list of indirect taxes such as VAT.

Your taxable income

£15000.00

We know this from information supplied to us by you, your employer(s) or your pension provider(s).

Tax free amount

£9440.00

After your allowances, deductions and expenses **your total tax free amount for 2013-14 is £9440.00**. This is the amount you received in the 2013-14 tax year without paying tax.

Your tax and NICs

£1981.76

This is 13% of your taxable income. For every £1 of income, you paid 13p in Income Tax and NICs.

Your income after tax and NICs

£13018.42

This is your income after Income Tax and NICs.

The table on the other side of this page shows how the government has spent your taxes.

How your tax was spent in 2013-14

The information on this page shows you how your Income Tax and National Insurance contributions were spent in 2013-14. This does not include indirect taxes such as VAT and other duties.

For more information about your tax and public spending, go to www.gov.uk/annual-tax-summary

How your tax contributed to public spending

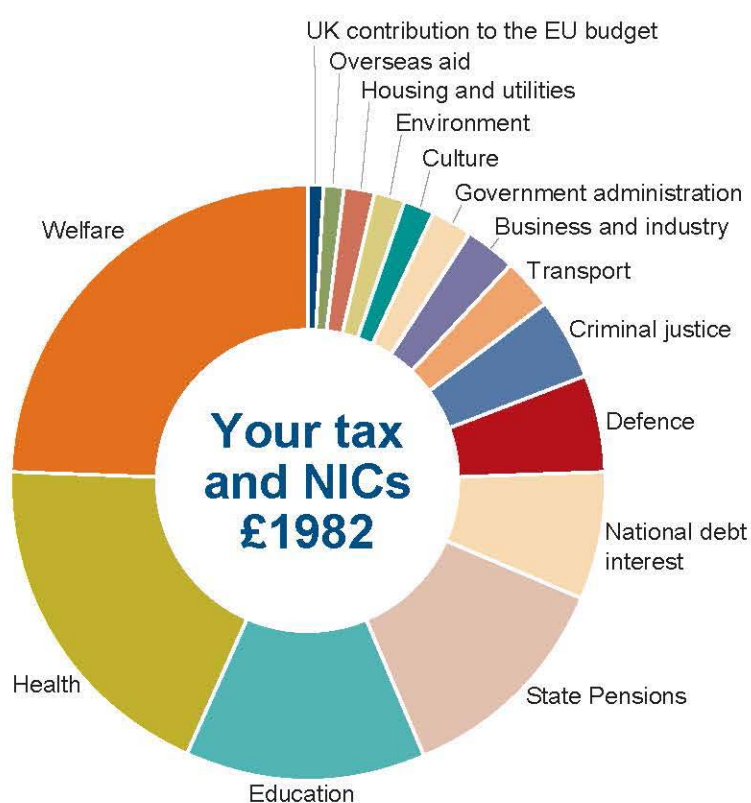
	Your contribution
Welfare	£486
Health	£374
Education	£261
State Pensions	£240
National debt interest	£139
Defence	£105
Criminal justice	£87
Transport	£58
Business and industry	£54
Government administration	£41
Culture eg sports, libraries, museums	£33
Environment	£33
Housing and utilities eg street lights	£33
Overseas aid	£23
UK contribution to the EU budget	£15
Total	£1982

All figures are rounded to the nearest pound.

The figures in the table above are intended as a guide to how taxes are spent and not as a direct link between your Income Tax, National Insurance contributions and any specific expenditure.

If you would like to opt out of receiving future tax summaries please register at www.gov.uk/annual-tax-summary

Spending information is published by HM Treasury.



Mr J A Smith
Flat 2
10 Sample Street
MYTOWN
TESTSHIRE
AB1 2CD

Tax Reference 1234567890

Date 6 May 2012

Issued by
HM Revenue & Customs
100 Local Road
London
N2 3PQ

Phone 0845 123 4567

Dear Mr Smith

This is your annual tax and National Insurance statement for 2011-12. It shows you how much Income Tax and National Insurance you have paid for the tax year. You can find how we have calculated your tax code for the next year on your P2 Notice of Coding.

This is how we worked out your tax for 2011-12

Your gross pay was	£25,200.00
Other income	£0.00
Your 2011-12 personal allowance was	£7,475.00
Other deductible allowances	£0.00
You paid tax on	£17,725.00

Your tax was calculated as

Employment		
Basic rate earnings	£17,725 at 20%	£3,545.00
Higher rate earnings	40%	£0.00
Additional rate earnings	50%	£0.00
National Insurance contributions		£2,157.12
Total deductions		£5,702.12
Your take home pay was		£19,497.88

You earned £25,200.00

We know this from information supplied to us by your employer(s) and your last Self Assessment return (if applicable).

You took home £19,497.88

This is the amount of money you took home after Income Tax and National Insurance were deducted. For a list of indirect taxes that you pay, such as VAT and vehicle excise duty, please go to hmrc.gov.uk

Your tax £5,702.12

This is 22.63% of your earnings. Your tax bill is made up of your Income Tax and National Insurance. This statement covers the Income Tax and National Insurance you pay on your income only.

Tax calculator

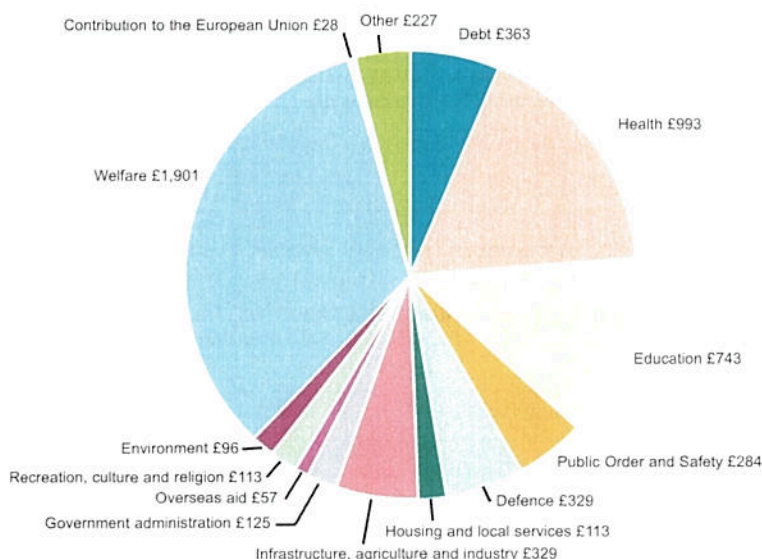
This is your annual tax statement. You can also use HMRC's Tax Calculator at any time to work out how much Income Tax and National Insurance you can expect to pay. The calculator is available as a phone app and at hmrc.gov.uk/taxcalculator

The table on the other side of this page indicates how your tax has been spent on public services.



HM TREASURY

This is how the Government spent your taxes





HM TREASURY

How your tax was spent in 2011-12

The table below indicates how the taxes you paid were spent in 2011-12. The calculations are based on how the Government allocated total tax revenues between different public spending priorities. The figures are intended as a guide to how taxes are spent and as an indication of your contribution to funding public services, not as a direct correlation between your Income Tax, National Insurance and any specific expenditure.

How your tax contributed to public spending priorities

	Your contribution
National debt interest	£363.12
Welfare	£1,900.71
Of which: Old age	£800.00
Of which: Sickness and disability	£346.10
Of which: Family and children	£238.30
Of which: Housing	£198.58
Of which: Unemployment	£56.74
Health	£992.91
Education	£743.26
Of which: Schools	£573.05
Of which: Universities	£107.80
Infrastructure, agriculture and industry	£329.08
Of which: Transport	£187.23
Defence	£329.08
Public order and safety	£283.69
Of which: Police	£153.19
Of which: Courts	£51.06
Of which: Prisons	£39.72
Of which: Fire service	£28.37
Government administration	£124.82
Housing and local services	£113.48
Recreation, culture and religion	£113.48
Environment	£96.45
Overseas aid	£56.74
Contribution to EU	£28.37
Other	£226.95
Total	£5,702.12

The proportions of spend above come from Chapter 5 of the PESA 2011 paper published by HM Treasury. More information is available at http://www.hm-treasury.gov.uk/pespub_pesa11.htm including definitions of the above public spending categories.