Template for standard indicator

Technical documentation sheet

<table>
<tr><th>Indicator</th><th>Income inequality reducing effect of taxes</th></tr>
<tr><td>JAF dimension</td><td>Inequality</td></tr>
<tr><td>Policy relevance</td><td>Relevant to combatting poverty and social exclusion</td></tr>
<tr><td>Agreed definition</td><td>This measures the extent to which personal income taxes on their own contribute to reducing market income inequality in the distribution of income in the EU Member States.</td></tr>
<tr><td>Calculation method (incl. practical implementation, e.g. question in surveys)</td><td>This indicator is calculated on the basis of the microdata collected in the EU-SILC survey. Household income is summed from all sources (employment, social transfers), the OECD equivalisation scale is applied and income is attributed to each household member to create a distribution. Shares are calculated on the basis of this distribution.

It is calculated as the difference between the income inequality measured using the S80/S20 calculated on the basis of a market income distribution whereby income is understood to be gross of any tax, and the same measure, calculated for the same population, but based on an income definition net of taxes. In both cases, income from social transfers are omitted.

The below table summarizes the income concepts to be included in the calculation of the gross and net market income distributions respectively.

<table>
<tr><th>Components of Gross Market income</th><th>Components of Net Market income</th></tr>
<tr><td>+ gross employee cash or near cash income
+ company car
+ gross cash benefits or losses from self-employment
+ income from rental of a property or land
+ regular inter-household cash transfers received
+ interests, dividends, profit from capital investments
+ income received by people aged under 16
+ pensions received from individual private plans
+ old-age benefits
+ survivor' benefits</td><td>+ gross employee cash or near cash income
+ company car
+ gross cash benefits or losses from self-employment
+ income from rental of a property or land
+ regular inter-household cash transfers received
+ interests, dividends, profit from capital investments
+ income received by people aged under 16
+ pensions received from individual private plans
+ old-age benefits
+ survivor' benefits
- regular taxes on wealth
- regular inter-household cash transfer paid
- tax on income and social insurance contributions</td></tr>
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</td></tr>
<tr><td>Major breakdowns</td><td>This indicator can be broken down to isolate the effect of social transfers solely on reducing income inequality; likewise it can be broken down to isolate the effect of taxes solely on reducing income inequality. However, it should be noted that the two breakdowns will not sum as the calculation method does not respect the mathematical property of additivity.</td></tr>
<tr><td>Data source(s)</td><td>EU-SILC</td></tr>
<tr><td>Data periodicity</td><td>Annual</td></tr>
<tr><td>Data availability (countries * time, incl. EU aggregates)</td><td>2004 – present: EU-25 and averages

2007 – present: EU-27 and averages, EA averages</td></tr>
</table>

	2010 – present: EU-28 and averages
Time Changes	
Sustainability of the data collection	EU-SILC is a recurrent survey governed by regulation and implemented by the NSIs of the EU Member States
Methodological issues (including comparability across countries and over time)	Some weaknesses have been identified in the left- and right-tail of the distribution due to underreporting and sampling error. Sample size is robust for all EU Member States. The extent to which social transfers are considered part of an individual's taxable liability differs across EU Member States. For countries which include social transfers in the taxable liability of the benefit recipient, this may skew the reading of this indicator.

Conformity with the SPC-ISG guiding principles for the selection of indicators and statistics

SCP-ISG Methodological criteria	
The indicator captures the essence of the problem (policy relevance) and has a clear and accepted normative interpretation	Yes
The indicator is robust and statistically validated.	Yes
The indicator provides sufficient level of cross countries comparability.	Breakdowns for some Member States may be complicated by the reporting of net income variables
The indicator is built on available underlying data. It is timely and susceptible to revision.	Yes
The indicator is responsive to policy interventions but not subject to manipulation.	Yes
EU/NAT classification	
Comments	