Template for standard indicator

Technical documentation sheet

<table>
<tr><th>Indicator</th><th>Income inequality reducing effect of taxes and transfers</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 social transfers and personal income taxes reduce 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, and the same measure, calculated for the same population, but based on a net disposable income definition
The below table summarizes the income concepts to be included in the calculation of the market and disposable income distributions respectively.
<table>
<tr><th>Components of Market income</th><th>Components of total disposable 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
+ unemployment benefits
+ sickness benefits
+ disability benefits
+ education-related allowances
+ family/children related allowances
+ social exclusion not elsewhere classified
+ housing allowances</td></tr>
</table>
</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, given the different bases for calculation.</td></tr>
<tr><td>Data source(s)</td><td>EU-SILC</td></tr>
</table>

Data periodicity	Annual
Data availability (countries * time, incl. EU aggregates)	2004 – present: EU-25 and averages 2007 – present: EU-27 and averages, EA averages 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 right- and left tails of the distribution due to underreporting and sampling error. Sample size is robust for all EU Member States.

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.	Yes, though further breakdowns by taxes / transfers may not be possible in all MS
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	