

# Income and earnings: glossary of terms

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# 1 . Introduction

What is the difference between “earnings” and “income”? What is an “ethnicity pay gap”? What are the different types of minimum wage?

This glossary is for anyone who uses, or is interested in, statistics about earnings and income. Some of the terms are commonly used (for example, “inflation”) and others are more technical or specific, like “contemporary median income”.

The Government Statistical Service (GSS) publishes a wide range of statistics about this topic, using the terms defined within this glossary. This includes work by the [Department for Work and Pensions](#), [HM Revenue and Customs](#), the [Office for National Statistics](#), and [EuroStat](#). Most of the publications describe the technical terms used in more detail or explain how they are used for that particular output. For further guidance and help comparing, please see [the guide to sources of data on earnings and income](#).

We are always interested in hearing from users so we can develop our work. A cross-government team is developing a bank of “user questions” with [answers to common queries](#) – if you have any questions that you would like to see featured please let us know. If you use or produce statistics about income and earnings, or are interested in comparing them, get in touch: [gsshhelp@statistics.gov.uk](mailto:gsshhelp@statistics.gov.uk) or [earnings@ons.gov.uk](mailto:earnings@ons.gov.uk).

## 2 . A to C

### **Administrative data (admin data)**

Information collected for administrative reasons, for example, registrations, transactions, or record-keeping. It is used for operational purposes and statistical use is secondary.

### **Allowance**

A payment intended to cover a specific expense incurred by an employee but not related to work. It is often detailed in workplace agreements and paid at the time it is incurred.

### **Basic pay**

The amount paid to an employee before extras are added or deducted. Examples of extras include overtime payments or salary sacrifice (an agreement to reduce an employee’s entitlement to cash pay, usually in return for a non-cash benefit such as childcare vouchers).

### **Benefits**

Financial support from the government. Examples include Universal Credit and Housing Benefit. The State Pension is included in benefit income.

### **Benefit unit (or family or family unit)**

A single adult or a married or cohabiting couple plus any dependent children. The entire population can be split into benefit units but not all are in receipt of benefits.

## Benefits in kind

Employer provided benefits-in-kind are benefits that employees or directors receive from their employment but which are not included in their salary cheque or wages. They are sometimes called “perks” or “fringe benefits”. They include things like company cars, private medical insurance paid for by the employer and cheap or free loans.

State provided benefits-in-kind are goods and services provided by the government to households that are either free at the time of use or at subsidised prices, such as education and health services.

Some benefits in kind will [not be taxed](#).

## Bonus

A form of reward or recognition from an employer. When an employee receives a bonus payment, there is no expectation or assumption that the bonus will be used to cover any specific expense. The value and timing of a bonus payment can be at the employer's discretion or detailed in workplace agreements.

## Compensation of employees

Total remuneration payable to employees. It includes the value of social contributions payable by the employer and payments in cash or in kind.

## Contemporary median income

This term applies to the [Households below average income](#) (HBAI) publication. The average (median) income for the period covered by a survey. Unless stated otherwise, this is disposable income.

## 3 . D to F

### Disposable income

This is also referred to as net income.

Equal to gross income minus:

- Income Tax payments
- National Insurance contributions
- domestic rates or Council Tax
- contributions to occupational pension schemes (including all additional voluntary contributions (AVCs) to occupational pension schemes, and any contributions to stakeholder and personal pensions)
- all maintenance and child support payments, which are deducted from the income of the person making the payment
- parental contributions to students living away from home
- student loan repayments

## **Distribution**

The “spread” of earnings or income across the population.

## **DWP**

Department for Work and Pensions.

## **Earnings**

A measure of the money people receive in return for work done, before tax (gross). It includes salaries and, unless otherwise stated, bonuses but not unearned income, benefits in kind or arrears of pay. Most analyses consider gross earnings plus additions such as bonuses, overtime pay and shift-premium pay.

## **Employee**

A person aged 16 years and over in employment doing paid work for an individual or organisation.

## **Entry and exit rates [to low income status]**

This term applies to the Income Dynamics publication.

The rates at which individuals enter and exit low income status.

For an entry or exit to count, household incomes must cross the 60% of median income threshold (before housing costs) and:

- or an entry into low income, the individual must be in a household whose income is at least 10% below the low-income threshold, while in the previous wave they were in a household whose income was above the relative low-income threshold
- for an exit from low income, the individual must be in a household whose income is at least 10% above the low-income threshold in a wave, while in the previous wave they were in a household whose income was below the relative low-income threshold

Similar methods are used to measure persistent poverty in Office for National Statistics publications, using longitudinal data from the European Union Statistics on Income and Living Conditions (EU-SILC). This classifies poverty as income below 60% of national median equivalised disposable income; however, unlike the Income Dynamics publication, entry and exit is defined as crossing the 60% threshold only.

## Equivalisation

An adjustment to income to take account of variation in the size and composition of households. This reflects the fact that a family of several people needs a higher income than a single individual to have a comparable standard of living.

## Ethnicity pay gap

Calculated as the difference between the average hourly earnings of White British and other ethnic groups as a proportion of average hourly earnings of White British employees. For example, a positive 5.0% ethnicity pay gap between White British and Indian ethnic groups would denote that the median hourly earnings for employees of an Indian ethnicity are 5.0% less than median hourly earnings of White British employees. Conversely, a negative 5.0% pay gap would denote that employees of Indian ethnicity earn 5.0% more, on average, than White British employees. This ethnicity pay gap headline measure published by the Office for National Statistics uses Annual Population Survey data.

## Family type

A classification according to the status of the benefit unit in which a person lives. All individuals in a benefit unit (adults and children) are given the same classification. Individuals are allocated to the first applicable category. These categories are:

- pensioner couple – a couple where one or more of the adults are State Pension age or over
- single male pensioner – single male adult of State Pension age or over
- single female pensioner – single female adult of State Pension age or over
- couple with children – a non-pensioner couple with dependent children
- single with children – a non-pensioner single adult with dependent children
- couple without children – a non-pensioner couple with no dependent children
- single male without children – a non-pensioner single adult male with no dependent children
- single female without children – a non-pensioner single adult female with no dependent children
- a working-age partner with a pension-age partner would be included as part of a pensioner couple, as would any dependent children in the family

## Final income

Disposable income minus indirect taxes such as Value Added Tax and alcohol duties, plus benefits-in-kind paid by the state, such as health and education.

## Full-time and part-time

The number of hours a person works per week. A part-time worker is someone who works fewer hours than a full-time worker. There is no specific number of hours that makes someone full- or part-time, but a full-time worker will usually work 35 hours or more a week. The number of hours defined as full- or part-time is different across sources and, in some surveys, is identified through self-classification.

## 4 . G to I

### Gender pay gap

Calculated as the difference between average hourly earnings (excluding overtime) of men and women as a proportion of average hourly earnings (excluding overtime) of men's earnings. For example, a 14% gender pay gap denotes that women earn 14% less, on average, than men. A negative 14% gender pay gap denotes that women earn 14% more, on average, than men. The gender pay gap headline measure published by the Office for National Statistics uses data from the Annual Survey of Hours and Earnings.

### Gross earnings

Earnings before tax deductions are made (including National Insurance contributions (NICs)) or benefits added.

### Gross income

Original income comprising gross earnings from employment and self-employment including benefits in kind, state support including Tax Credits and Child Benefit, income from pensions, investment income (including interest from savings) and transfers such as child maintenance payments and education grants.

### Head of household

See Household reference person.

### Household reference person

Also known as the head of household.

For publications that use data from Understanding Society (for example, [Income Dynamics](#)), head of household is defined as the owner or renter of the accommodation in which the household lives. If there are multiple owners or renters, the default is that the eldest of them is the head of household.

For publications that use data from the Family Resources Survey, the household reference person (HRP) is the highest income householder. If there are two or more householders, the HRP is the householder with the highest personal income, taking all sources of income into account. If there are two or more householders who have the same income, the HRP is the elder.

## **HMRC**

Her Majesty's Revenue and Customs.

## **Household**

One person living alone or a group of people (not necessarily related) who either share living accommodation or share one meal a day and who have the same address as their only or main residence. A household consists of one or more benefit units.

## **Housing costs**

Housing costs are made up of:

- rent (gross of housing benefit)
- water rates, community water charges and council water charges
- mortgage interest payments (net of tax relief)
- structural insurance premiums (for owner occupiers)
- ground rent and service charges

Some statistics, such as the Family Resources Survey, report housing costs as the cost of either mortgage payments, private rent or social rent. They do not consider any additional costs associated with housing.

Other statistics, such as Households below average income, define housing costs as the total amount spent on rent, mortgage interest, water and sewerage rates, structural insurance and service charges.

## **Incentive pay**

The amount paid to an employee for meeting a performance or productivity objective, including profit sharing, bonus, piecework and commission payments.

## **Income**

Generally speaking, income is any money that a person receives. Earnings are one component of income.

There are different measures of income after different stages of deductions and additions. Original income is employee earnings plus those of the self-employed, along with private pensions and other sources such as income from investments.

Sub-categories of income include gross income, final income, post-tax income and disposable income. These are defined in this glossary.

## **Income Tax**

A tax on income. It applies not only to earnings, but also wider sources of income like some state benefits and investment incomes.

## **Inflation**

The change in prices for goods and services over time.

## **Inter-Departmental Business Register (IDBR)**

The UK register for business surveys. [The Inter-Departmental Business Register \(IDBR\) is a comprehensive list of UK businesses used by government for statistical purposes](#). It is used to select businesses to be included in the surveys, to enable estimates to be made for businesses that do not respond or who were not asked to participate in any particular survey, and to produce analyses. The IDBR covers 2.6 million businesses in all sectors of the UK economy, other than very small businesses (those without employees and with turnover below the tax threshold) and some non-profit making organisations.

## **5 . J to N**

### **Job**

An activity undertaken for an employer or customer by a worker in exchange for payment, usually in cash, or in kind, or both. A contract states what an employer or customer demands and what is to be supplied by the worker.

### **Labour costs**

Gross earnings paid by a business (wage costs), plus non-wage related costs such as employer National Insurance contributions, pension contributions and benefits in kind paid by the employer.

### **Living Wage**

Also known as the real Living Wage or the voluntary Living Wage.

The [Living Wage](#) is an hourly rate paid voluntarily by employers and is higher than the government's National Living Wage. The Living Wage is calculated independently by the Resolution Foundation and overseen by the Living Wage Commission. It is calculated based on the cost of living using a basket of household goods and services. There is a separate rate for London and the rest of the UK.

The Living Wage is not to be confused with the government's "National Living Wage", which was introduced in 2016 for employees aged 25 years and over. See National Minimum Wage and National Living Wage.

## Loss of pay

A reduction in an employee's earnings because of absence, for example, because of sickness.

## Low income

Income that falls below a certain percentage of the average (median) income for the whole population. The threshold used may vary.

For example, in the Households below average income (HBAI) statistics, a household is said to be in relative low income if their equivalised income is below 60% of median income for the current year. The same statistics also report absolute low income, which compares with the median of the 2010 to 2011 year and allows comparison over time.

## Mean

A measure of the average. The mean is calculated by dividing the sum of the observations by the number of observations. Very high or very low observations can have a lot of influence on the result, so the median is considered a better indicator of typical average earnings than the mean.

## Mean equivalised household income

This is calculated by adding up equivalised household incomes for each individual in a population and dividing the result by the number of people.

## Median

A measure of the average. The median is calculated by identifying the exact middle point in a set of observations. When the observations are ranked from lowest to highest, the median is the value in the exact middle of the observed values. It is the Office for National Statistics's preferred measure of average earnings as it is less affected by a relatively small number of very high earners than the mean.

## National Minimum Wage and National Living Wage

The [National Minimum Wage](#) is a statutory hourly minimum wage for those aged under 25 years. It is UK-wide and is negotiated based on recommendations from businesses and trade unions. There are different minimum wage rates depending on the age of the employee and whether they are an apprentice.

The [National Living Wage](#) was introduced by the government in 2016 and is a statutory minimum wage for those aged 25 years old or older. It is UK-wide and calculated based on a target to reach 60% of median earnings by 2020.

## Net income

See Disposable income.

## 6 . O to R

## ONS

The Office for National Statistics.

### Original income

Gross earnings plus other income, for example, from investments, self-employment or private pensions.

### Other pay

This term applies to the Annual Survey of Hours and Earnings (ASHE).

The amount of pay received by an employee for the work they carry out that is included in gross pay but not included in any of the other ASHE components (basic pay, overtime pay, incentive pay or shift-premium pay). Examples of “other pay” are a company car or on-call allowances.

### Overtime pay

The amount paid to an employee as a result of working more hours than their usual requirement. Employment contracts usually provide detail of overtime.

### Part-time

See Full-time and part-time.

### Pay As You Earn (PAYE)

[PAYE](#) is the system used by HM Revenue and Customs (HMRC) to collect and account for Income Tax on earnings from employment and pensions.

### Pensioner

An adult above State Pension age (SPa).

The [Pensioners' Incomes statistics](#) use a specific definition. In these, pensioners consist of single pensioners and pensioner couples. A pensioner couple means at least one person in the couple is over SPa. Estimates do not reflect income from others in a household, but do include income from working-age partners who are part of a pensioner couple. Therefore, if a pensioner lives with their adult children, the children's income is not included in this analysis.

### Persistent low income

This term applies to the [Income Dynamics](#) statistics.

An individual has persistent low income if they are in a household that has been in relative low income for at least three of the last four consecutive annual interviews.

## **Post-tax income**

Net income after deductions of indirect taxes (where the tax is typically levied on one entity but paid by another) such as Value Added Tax and duties on alcohol or tobacco.

## **7 . S to Z**

### **Savings**

The total value of all liquid assets, including fixed-term investments. Liquid assets are either cash or other assets that can be converted into cash in a short time with little or no loss in value.

### **Seasonal adjustment**

A calculation to remove variation associated with the time of year. For example, a large number of people leave full-time education and enter the labour market in the summer. Changes because of seasonal influences are removed from the series to make it easier to identify other trends and movements.

### **Self-employed**

A person reporting regular working activities, which over time are responsible only to themselves (and not an employer). Various groups are classified as self-employed, including farmers, doctors in private practice and some builders, as well as anyone whose job is habitually done on a freelance basis (for example, journalists or musicians). The self-employed include anyone doing work for their own business, but which is currently unpaid. [More information on the self-employed](#) can be found on the GOV.UK website.

### **Shift-premium pay**

The extra amount paid to an employee as a result of working a non-regular shift, such as a weekend or night shift.

### **State Pension age (SPa)**

[The age someone is eligible to receive the State Pension.](#)

Since 6 April 2010, the State Pension age for women has been gradually increasing. Under the Pensions Act 2011, women's State Pension age increased to 65 years between April 2016 and November 2018. From December 2018, the State Pension age for both men and women started increasing, reaching 66 years by October 2020.

### **State support**

Money that the government pays individuals to support them financially under various circumstances. State support comprises benefits and Tax Credits.

## Take-home pay

Gross earnings minus deductions, such as Income Tax and employee National Insurance contributions.

## Taxes

Compulsory payments to the state, either added to the cost of goods and services or taken from income or profits. Direct taxes are paid straight to the collecting authority, for example, Council Tax or Income Tax. Indirect taxes are paid to the authorities by the suppliers of goods and services, for example, Value Added Tax.

## Universal Credit

[Universal Credit](#) supports those on low incomes with their housing and living costs, as well as child and childcare support where appropriate. It also provides financial assistance to those incapable of work because of a health condition or disability (the Limited Capability for Work-Related Activity group). It is paid to those of working age and those living with someone of working age.

Universal Credit was introduced in 2013 and replaces all of the following income-related state-support:

- income-based Jobseeker's Allowance
- income-related Employment and Support Allowance
- Income Support
- Working Tax Credit
- Child Tax Credit
- Housing Benefit

It is a single, usually monthly payment, administered by the Department for Work and Pensions.