CARE RESEARCH PAPER

the taxation of **families** –

international comparisons 2013

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contents

preface

I am delighted to commend *The Taxation of Families* – International Comparisons 2013. This report examines how UK families fare in comparison with their OECD counterparts with regard to the tax burdens and Effective Marginal Tax Rates they face.

As with the reports on previous years, the 2013 edition does not make for easy reading.

It shows that in 2013 the tax burden on one-earner married couples in the UK was 35% greater than the OECD average.

It also shows that Effective Marginal Tax Rates faced by both one-earner couple and single parent families in the UK remain well out of line with the rates faced by such families across the developed world and by UK households without children. At 75% average wage, Effective Marginal Tax Rates in 2013 were 73%, the highest in the OECD! This means that rather than helping those on low to modest incomes to aspire to better things, our current arrangements trap these families in poverty. For every additional pound earned the families concerned only get to keep 27 pence. Far from making work pay, this is a disincentive to betterment which suffocates aspiration.

The policy response

Given this situation we are delighted that the 2014 Finance Act introduced the long awaited transferable allowance for one-earner married couples.

Transferable allowances provide a very relevant mechanism for engaging with the above difficulties on two bases:

- First, by alleviating the disproportionate tax burden placed on one-earner married couple families in the UK compared with the treatment of such families across the OECD on average
- Second, by beginning to reintroduce recognition of family responsibility in the tax system and thereby starting to lay the foundation for depending less on the benefits system which is the source of our very high Effective Marginal Tax Rates.

The difficulty is that the transferable allowance provided for by the 2014 Finance Act only allows the stay at home spouse to transfer 10% of their allowance. In other words they cannot transfer a full 90% of their tax allowance which remains unrecognised and of no benefit to them. The very limited nature of the allowance means that it cannot really get to grips with the tax burden or begin to engage with the Effective Marginal Tax Rate problems.

The great news, though, is that the provision of this very limited transferable allowance recognises the importance of the marriage commitment and provides an excellent foundation upon which to develop a significant transferable allowance that could then begin to address the challenges outlined above.

When David Cameron announced in April 2010 that the Conservative transferable allowance commitment would initially only be partial (at that point the proposal was just to transfer 11.4% of the allowance) he said in an interview with Sky News that he was sorry that it could not be more but then went on to say, 'Of course I want to go further and I'm sure over a Parliament we would be able to go further, but this is a good first step that says commitment is important, marriage is important.' In the event, of course, he was constrained by the fact that his coalition partners were opposed and the proportion that can be transferred currently is actually limited to just 10%.

Given, however, that he is no longer constrained by being in coalition, there is now the opportunity to provide a much more generous allowance in accordance with his initial commitment.

As if this early 2010 commitment was not enough, though, of crucial importance, the Prime Minister gave a very helpful pre-election interview to the Telegraph on 28 March 2015 in which he again said that he wanted to see the allowance expanded.

Quite apart from any other considerations, the findings in this report mean that 'making good' on this commitment must now be a priority.

Nola Leach
Chief Executive and Head of Public Affairs, CARE

June 2015

acknowledgements

Once again we record our gratitude to the OECD, who publish the data on which CARE's international comparisons are based.

I should like to thank Dan Boucher, Director of Parliamentary Affairs at CARE, and Donald Draper, Leonard Beighton and Virginia Newsom, fellow members of CARE's Fiscal Policy Group, for their comments and suggestions. Samuel Yung kindly helped with the compilation of data.

I stress that any errors or omissions are entirely my own responsibility, and that the views expressed are my own.

Alistair Pearson

June 2015

Executive Summary

1. This review of the taxation of families uses statistics published by the OECD in *Taxing Wages* to make comparisons between the UK and other developed countries. It examines tax burdens on households at various income points. Following established OECD practice, 'tax' is defined as income tax plus employee social security contributions less cash benefits.

2. International comparisons for 2013, the latest year for which there is OECD data, reveal that the tax burden on one-earner families on the average wage remains significantly greater than OECD and EU benchmarks.

3. At the OECD average wage for the UK of £35,448, the tax burden is 24% greater than the 2013 OECD average on single parents with two children, and 35% greater on one-earner married couples with two children. The unfavourable position of these one-earner families results mainly from the fact that income tax does not take account of marriage or family responsibilities.

4. UK tax credits compensate low income families for the heavy income tax burden, such that their overall tax rate is low by international standards. However, the withdrawal of UK tax credits is largely responsible for high effective marginal tax rates (EMTRs) across a wide income range. The EMTR of 73% on one-earner families with two children at the 50% and 75% income points is without parallel in the OECD. UK policy, rather than facilitating aspiration, is trapping families on modest incomes.

5. At all five income points, the UK tax burden on single people without family responsibilities is slightly less than the OECD average and significantly less than the EU averages.

6. It is possible to make international comparisons for two-earner couples at only two income points (133% and 167% of the OECD average wage). At these points the UK tax burden on couples without children and on couples with two children is less than the international averages.

7. Although the UK tax system is not more burdensome in general than the tax systems of other developed countries, its treatment of one-earner families on the average wage is clearly unfavourable by international standards.

8. Recognition of family responsibility in the UK tax system is our preferred response to anomalies in tax burdens and marginal rates compared with international benchmarks.

To this end, the recently introduced transferable allowance for married couples is very welcome, but its ability to make a significant practical difference has been undermined by the fact that only 10% of the personal allowance may be transferred.

9. Further increases in the personal allowance, which disproportionately benefit people in the top half of the income distribution, should not be a priority for the new Parliament. The proportion of the allowance which is transferable should be increased instead. The problem of high marginal rates will take many years to resolve fully, but a start should be made by identifying how to bring back support for families from benefits into the income tax system.

Chapter 1
Introduction

1. This is our eighth annual international review of the taxation of families. It compares both the tax burdens and effective marginal tax rates (EMTRs) of various household types in the UK with those of similar households in other developed countries in the calendar year 2013. We consider not only households with an 'average wage' but also those with incomes above and below this figure.

2. For the purposes of this report, 'tax' means income tax plus employee social security contributions (SSCs) less cash benefits.[1] The combined effect of these three elements determines how well off any particular family is. The term 'tax rate' or 'tax burden' is used when tax is expressed as a percentage of gross wage earnings. A negative percentage indicates that cash benefits exceed income tax and SSCs.

Structure of document

3. The remainder of this report is structured as follows:

   - Chapter 2 uses OECD data for 2013 to compare UK tax burdens on different household types at various income points with those in other countries
   - Chapter 3 uses OECD data for 2013 to compare EMTRs faced by UK households with those in other countries
   - Chapter 4 considers the way forward for UK tax policy in the light of our findings.

Data sources

4. For international comparisons, we use statistics published by the OECD in *Taxing Wages*. [2] These statistics take account of income taxes, social security contributions and cash benefits of eight different kinds of household in the 34 OECD member countries.[3] The 2013 edition of *Taxing Wages* shows estimates for 2013 and definitive results for 2012.

1 The report does not take account of VAT or any other indirect tax, or of housing benefit or any other income related benefits.

2 *Taxing Wages 2012-2013,* 2013 Edition, OECD, Paris, 2014

3 In 2013 there were 34 OECD member countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

5. The OECD average wage used for international comparisons is a mean, or arithmetic average, and takes account of the earnings of manual and non-manual workers including supervisory staff. The OECD estimate of the average wage in the UK in 2013 is £35,548[4], or £682 per week. This compares with UK median weekly earnings for all employees of £27,200 per annum (£522 per week).[5] We consider tax burdens near this lower earnings level by using an income point of 75% of the OECD average wage.

6. The OECD provides a link to unpublished data, enabling us to look at tax burdens and marginal rates for more income points than has previously been possible. We use footnotes throughout the document to indicate where we have taken figures from *Taxing Wages* and where figures have been derived from linked individual country data ('statlink' data).

[4] *Taxing Wages 2012-2013*, p.532

[5] Annual Survey of Hours and Earnings (ASHE), ONS, 19 November 2014. For the year ending 5 April 2014, median gross annual earnings for full-time employees (who had been in the same job for at least 12 months) were £27,200.

Chapter 2 Comparison of Tax Burdens

This chapter uses OECD data to compare tax burdens (i.e. average tax rates). We look at six different household types at various income points, comparing the UK with all OECD countries together and with the EU(15) and EU(21) groups. Then we compare the tax burden on families with the tax paid by single people.

7. We use new OECD data for 2013 (UK tax year 2013-14) to compare the UK tax burden with OECD and EU averages for four different one-earner household types:
   - singles without children
   - one-earner married couples without children
   - singles with two children
   - one-earner married couples with two children.[6]

8. We consider tax burdens on these one-earner household types at five income points ranging from 50% to 150% of the OECD average wage. The average wage is as defined by the OECD i.e. average gross annual earnings of both manual and non-manual workers including supervisory staff. The average wage in the UK in 2013 is stated by the OECD to be £35,548, compared with £35,883 in 2012. The 75% income point for the UK (£26,586) is close to 2013-14 median gross annual earnings of full-time employees (£27,200).

9. In addition, we look at tax burdens on two-earner married couples with and without children at two income points (133% and 167% of the OECD average wage).

10. References to the EU are to be understood as references to EU countries that are also OECD members. These EU countries are grouped in the EU(15) and the EU(21).[7] Historical data for eight household types, comprising UK and average OECD and EU tax rates for 2000 and

6 The OECD data available does not enable us to make equivalent international comparisons for cohabiting as opposed to married couples. It seems from the limited information provided by the OECD that the tax treatment of cohabiting couples is in many countries less generous than that of married couples. In the UK in 2013 there was no difference for income tax purposes between married and cohabiting couples.

7 In 2013 these EU countries were OECD members: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom. They constitute the EU(21). The EU(15) excludes Czech Republic, Estonia, Hungary, Poland, Slovak Republic and Slovenia.

2005-2013, are to be found in Appendix A. Data for 2013 for individual countries for the same eight household types are to be found in Appendix B.

Tax burden on one-earner households

Single person without children

11. Table 1 and Chart 1 show the tax burden on a single person without children at five income points. We compare the UK with all OECD countries together and with the EU(15) and EU(21) countries.

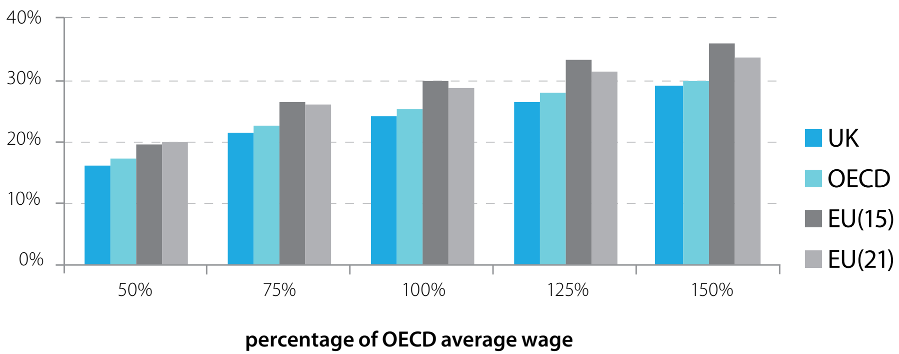
Table 1

Tax as percentage of gross wages 2013 – single person without children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	16.1%	21.4%	24.1%	26.3%	28.9%
OECD	17.4%	22.5%	25.4%	27.9%	29.8%
EU(15)	19.7%	26.4%	29.9%	33.2%	35.8%
EU(21)	20.1%	25.9%	28.8%	31.5%	33.6%

Chart 1

Tax as percentage of gross wages 2013
Single person without children



Source: OECD statlink tables pp.90-123

12. At all five income points, the tax burden in the UK is slightly less than the OECD average and significantly less than the EU averages.

One-earner married couple without children

13. Table 2 and Chart 2 compare the tax paid by a one-earner married couple without children as a percentage of income in the UK with the tax burden in OECD and EU countries.

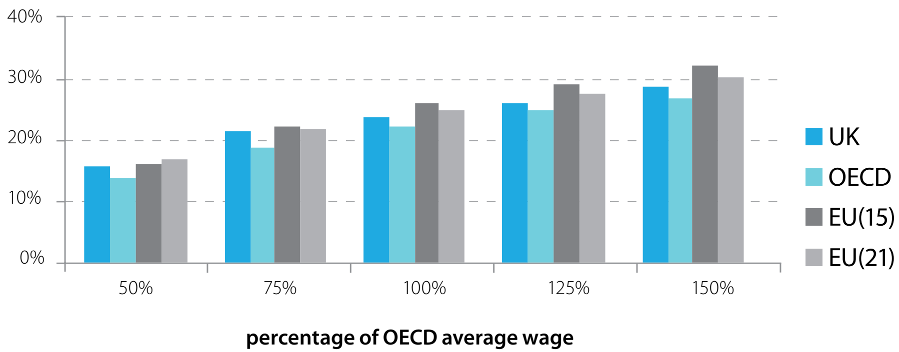
Table 2

Tax as percentage of gross wages 2013 – one-earner married couple without children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	16.0%	21.4%	24.1%	26.3%	28.9%
OECD	13.9%	19.0%	22.3%	24.9%	27.1%
EU(15)	16.2%	22.5%	26.2%	29.4%	32.2%
EU(21)	16.9%	21.9%	25.1%	27.9%	30.2%

Chart 2

Tax as percentage of gross wages 2013
One-earner married couple without children



Source: OECD statlink tables pp. 90-123

14. At all income levels, UK one-earner married couples without children bear a greater tax burden than the OECD average. However, the UK tax burden is less than the EU averages.

Single person with two children

15. Table 3 and Chart 3 compare the tax paid by a single person with two children as a percentage of income in the UK with the tax burden in OECD and EU countries.

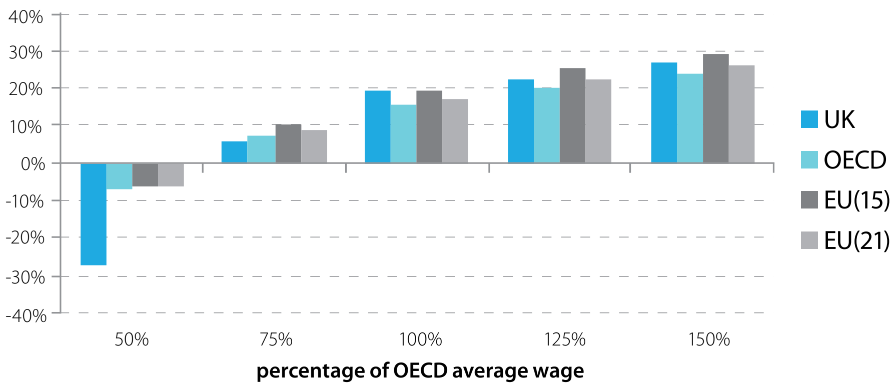
Table 3

Tax as percentage of gross wages 2013 – single person with two children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-27.6%	5.9%	19.1%	22.4%	26.7%
OECD	-6.8%	7.5%	15.4%	20.2%	23.8%
EU(15)	-6.3%	10.4%	19.3%	25.0%	29.2%
EU(21)	-6.4%	8.9%	17.3%	22.6%	26.3%

Chart 3

Tax as percentage of gross wages 2013
Single person with two children



Source: OECD statlink tables pp. 90-123

16. At 50% of average wage, a single parent with two children has a negative tax liability (i.e. cash transfers exceed income tax and SSCs.) The international averages are also negative, but much smaller. As incomes rise, the UK burden rises rapidly, whereas the increases in the OECD and EU averages are less pronounced. At and above average wage, the UK tax burden exceeds the OECD average, and is similar to the EU averages.

One-earner married couple with two children

17. Table 4 and Chart 4 compare the tax paid by a one-earner married couple as a percentage of income in the UK with the tax burden in OECD and EU countries.

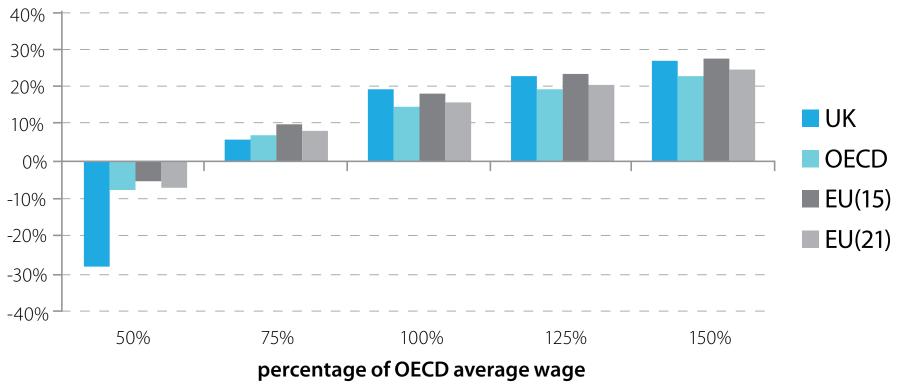
Table 4

Tax as percentage of gross wages 2013
One-earner married couple with two children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-27.6%	5.9%	19.1%	22.4%	26.7%
OECD	-7.5%	6.7%	14.2%	18.9%	22.4%
EU(15)	-5.3%	10.1%	18.2%	23.3%	27.3%
EU(21)	-6.9%	8.0%	15.5%	20.5%	24.3%

Chart 4

Tax as percentage of gross wages 2013
One-earner married couple with two children



Source: OECD statlink tables pp. 90-123

18. At 50% of average wage, one-earner married couples with two children fare well in the UK. However, the picture changes significantly as income rises: at 100% of average wage, UK one-earner married couples with two children pay 35% more tax than the OECD average, 5% more than the EU(15) average and 23% more than the EU(21) average. Above average wage, these UK families pay more than the OECD average and the EU(21) average, but slightly less than the EU(15) average.

Tax burden on two-earner households

Two-earner married couple without children

19. For two-earner married couples without children, comparative data is only available where the main earner is on average wage and the second earner earns one third of average wage. The OECD data shows that in 2013 the UK tax burden was 20.1%. This is less than the OECD average of 22.1% and the EU averages, which were 25.2% for the EU(15) and 25.0% for the EU(21).

Two-earner married couple with two children

20. Comparative data is available for two-earner married couples with two children on 100% and 33% of average wage and 100% and 67% of average wage. At a combined income of 133% of average wage, the 2013 UK tax rate was 16.4%, less than the OECD average of 16.7%, the EU(15) average of 19.6% and the EU(21) average of 18.3%. At a combined income of 167% of average wage, the 2013 UK tax rate was 19.5%, less than the OECD average of 19.9%, the EU(15) average of 23.4% and the EU(21) average of 21.9%.

Tax burden on one-earner families compared with singles' tax

21. Table 5 shows the UK tax burden on two family types (single person with two children and one-earner married couple with two children) as a percentage of that on a single person without children at five income points, with averages for the OECD, EU(15) and EU(21). Appendix C shows percentages for all OECD countries at single income points for these two family types, and also for a two-earner married couple with two children.

22. At low levels of income, the difference between the tax rate of one-earner families and that of single people without children is greater in the UK than in the OECD or EU as a whole. This results from the relative generosity of UK tax credits. However, the picture changes rapidly as income rises, such that the gap between one-earner families and single people becomes narrower in the UK than the OECD or EU as a whole.

Table 5

Tax on one-earner families as percentage of tax on single person without children 2013

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
	(a) single person, two children				
UK	-171%	28%	79%	85%	92%
OECD	-39%	33%	61%	73%	80%
EU(15)	-32%	39%	64%	75%	81%
EU(21)	-32%	34%	60%	72%	78%
	(b) one-earner married couple, two children				
UK	-171%	28%	79%	85%	92%
OECD	-43%	30%	56%	68%	75%
EU(15)	-27%	38%	61%	70%	76%
EU(21)	-34%	31%	54%	65%	72%

Note: A negative figure means that the tax liability of the (a)/(b) household is negative i.e. there is a net benefit. The negative percentage amount denotes the size of the net benefit (as a proportion of income) compared with the size of the liability of a single person without children.

Source: derived from Tables 1, 3 and 4

Single person with two children

23. At 50% of average wage, the difference between the tax rate of a single person with two children and that of a single person without children was -171% in the UK in 2013, compared with an OECD average of -39% and an EU(15) and EU(21) average of -32%. At average wage, the 2013 UK tax burden on a lsingle parent with two children was 79% of that of a single person without children, whereas the OECD average was 61%, the EU(15) average 64% and the EU(21) average 60%.

One-earner married couple with two children

24. At 50% of average wage, the difference between the tax rate of a one-earner married couple with two children and that of a single person without children was -171% in the UK in 2013, compared with an OECD average of -43%, an EU(15) average of -27% and an EU(21) average of -34%. At average wage, the 2013 UK tax burden on a one-earner married couple with two children was 79% of that paid by a single person without children, whereas the OECD average was 56%, the EU(15) average 61% and the EU(21) average 54%.

Two-earner married couple with two children

25. At 167% of average wage, the 2013 UK tax burden on a two-earner married couple with two children was 65% of that on a single person without dependants both in the UK and in the OECD as a whole: 19.5% compared with the single person's tax rate of 30.2% in the UK, 19.9% compared with the single person's tax rate of 30.8% in the OECD.

Historical perspective

26. Table 6 and Chart 5 show the tax burden on a one-earner married couple with two children on average wage as a percentage of that on a single person without children on the same income. There are percentages for the UK, OECD, EU(15) and EU(21) for the year 2000 and for the period 2005-2013. The UK figure, 79.5% in 2013, remains much greater than the international averages.

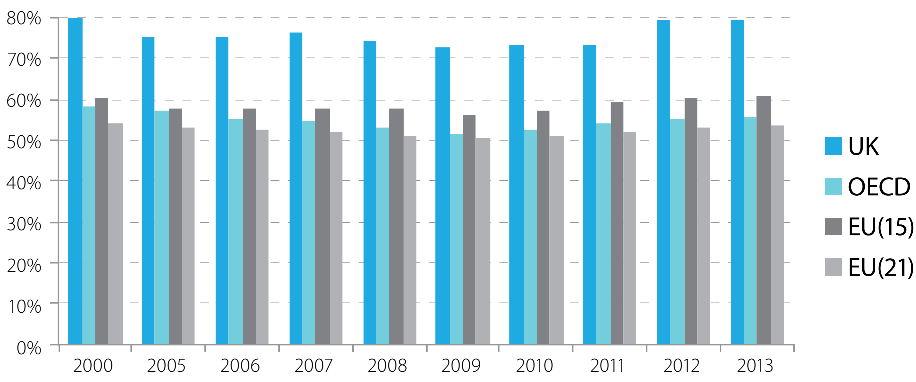
Table 6

Tax burden on one-earner married couple with two children as percentage of tax paid by single person without dependants 2000, 2005-2013

	at 100% OECD average wage			
Year	UK	OECD	EU(15)	EU(21)
2000	79.8%	58.1%	60.1%	54.4%
2005	75.1%	57.1%	57.7%	53.1%
2006	75.5%	55.3%	57.7%	52.7%
2007	76.3%	54.6%	57.7%	52.1%
2008	74.4%	53.0%	57.7%	51.2%
2009	73.0%	51.6%	56.1%	50.4%
2010	73.5%	52.4%	57.4%	51.1%
2011	73.0%	54.0%	59.2%	52.2%
2012	79.6%	55.0%	60.4%	53.2%
2013	79.5%	55.8%	60.9%	53.6%

Chart 5

Tax on one-earner two-child married couple as percentage of tax paid by single person without children at OECD average wage 2000, 2005-2013



Source: derived from columns 2 and 5 of Appendix A

Chapter 3
Comparison of Effective Marginal Tax Rates

This chapter uses OECD data to compare effective marginal tax rates. We look at four different one-earner households at various income points, comparing the UK with all OECD countries together and with the EU(15) and EU(21) groups.

27. It is not only the average tax rate that matters. The marginal tax rate, which shows how much of an extra unit of income is retained, is an important influence on whether people work, whether they increase working hours, and whether they look for a better-paid job. This EMTR takes account of income tax and employee SSCs payable, and cash benefits foregone.[8]

28. We use OECD data for 2013 (UK tax year 2013-14) to compare the UK with all OECD countries together and with the EU(15) and EU(21) countries for four different one-earner household types:

    - singles without children
    - one-earner married couples without children
    - singles with children
    - one-earner married couples with children.

    Our five income points for each household type range from 50% to 150% of the OECD average wage.

29. The EMTRs faced by one-earner families in individual OECD countries at three income points (50%, 75% and 100% of OECD average wage) are set out in Appendix D.

EMTRs for one-earner households

Single person without children

30. Table 7 and Chart 6 show the EMTR for a single person without children at five income points. At all income points the UK EMTR is similar to the OECD average, but lower than the EU averages.

8 EMTRs take no account of 'passported benefits', which are linked to entitlement to other benefits. In the UK one of the most important of these is free school meals, the loss of which is a significant disincentive to obtain a job which gives an entitlement to Working Tax Credit.

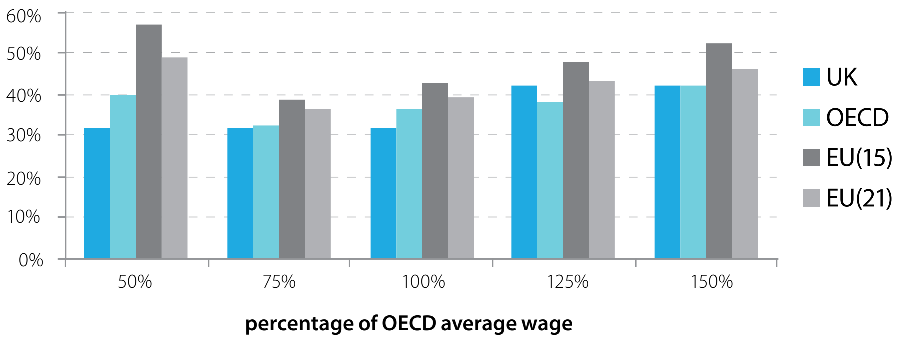
Table 7

EMTR 2013 – single person without children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	32.0%	32.0%	32.0%	42.0%	42.0%
OECD	39.6%	32.3%	36.6%	38.3%	42.1%
EU(15)	56.7%	38.9%	42.5%	47.8%	52.2%
EU(21)	49.0%	36.3%	39.3%	43.1%	46.2%

Chart 6

EMTR 2013
Single person without children



Source: OECD statlink tables pp. 90-123

One-earner married couple without children

31. Table 8 and Chart 7 show the EMTR for a one-earner married couple without children at five income points. There are only slight differences between the UK EMTR and the OECD and EU averages.

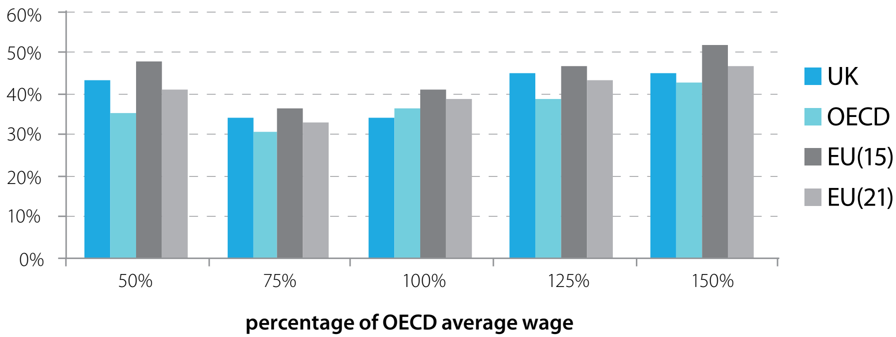
Table 8

EMTR 2013 – one-earner married couple without children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	40.8%	32.0%	32.0%	42.0%	42.0%
OECD	33.4%	29.1%	34.3%	36.2%	40.1%
EU(15)	44.9%	34.2%	38.4%	44.0%	48.9%
EU(21)	38.3%	31.2%	36.2%	40.4%	43.8%

Chart 7

EMTR 2013
One-earner married couple without children



Source: OECD statlink tables pp. 90-123

Single person with two children

32. Table 9 and Chart 8 show the EMTR for a single person with two children at five income points. At income points below 100%, the UK EMTR is significantly higher than the international averages. The UK EMTR is lower than the international averages at the 100% income point, similar to them at the 125% income point, and higher at the 150% income point.

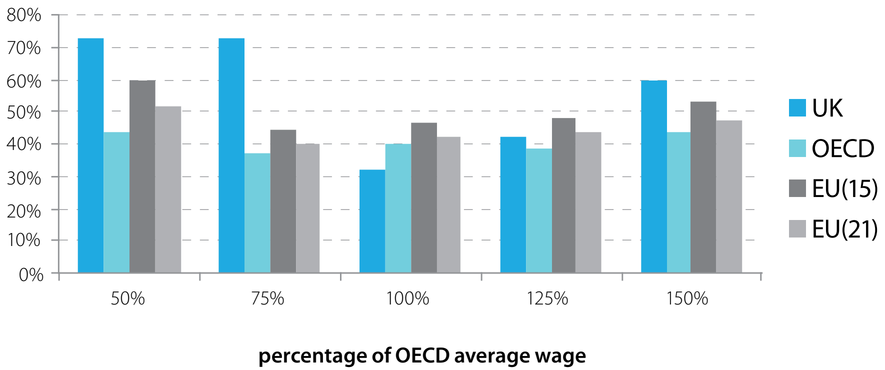
Table 9

EMTR 2013 – single person with two children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	42.0%	59.6%
OECD	43.6%	37.0%	40.0%	39.0%	43.6%
EU(15)	59.9%	44.4%	46.4%	47.9%	53.6%
EU(21)	52.1%	40.3%	42.1%	43.6%	47.7%

Chart 8

EMTR 2013
Single person with two children



Source: OECD statlink tables pp. 90-123

One-earner married couple with two children

33. Table 10 and Chart 9 show the EMTR for a one-earner married couple with two children at five income points. At income points below 100%, the UK EMTR far exceeds the OECD and EU averages. The UK EMTR is lower than the international averages at the 100% income point, similar to them at the 125% income point, and higher than them at the 150% income point.

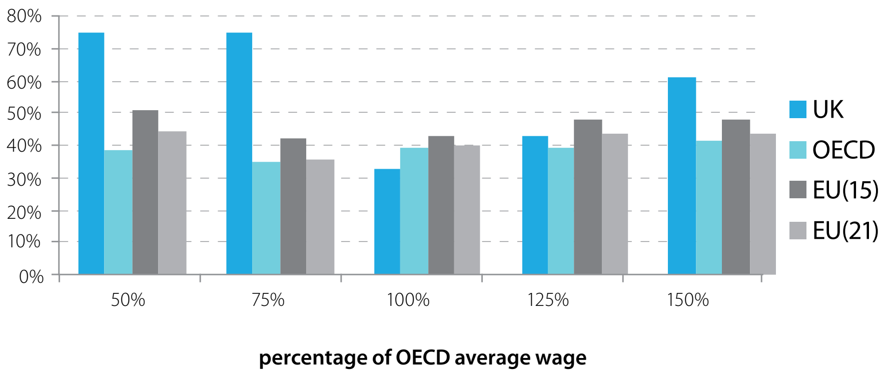
Table 10

EMTR 2013 – one-earner married couple with two children

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	42.0%	59.6%
OECD	37.7%	33.8%	38.2%	38.4%	40.4%
EU(15)	49.3%	41.0%	42.1%	46.9%	47.0%
EU(21)	43.4%	35.1%	39.0%	42.4%	42.9%

Chart 9

EMTR 2013
One-earner married couple with two children



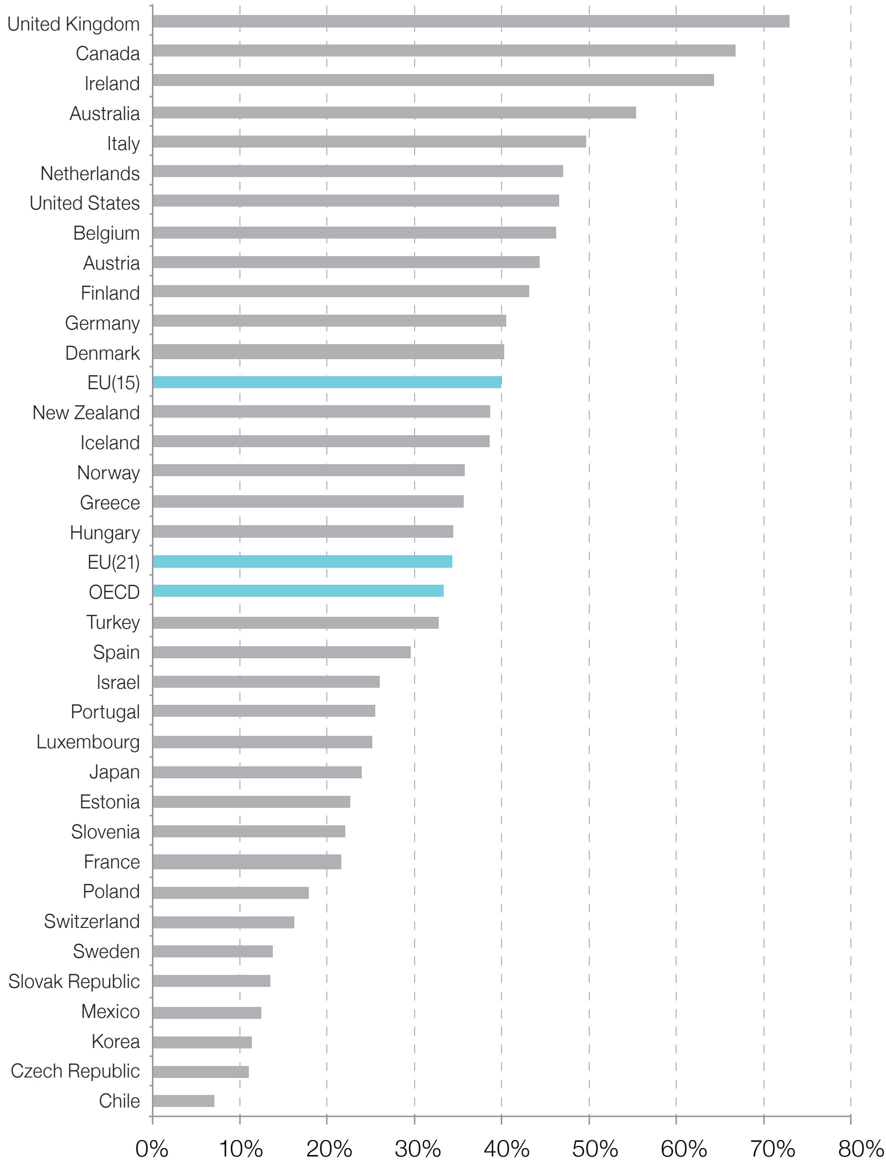
Source: OECD statlink tables pp. 90-123

34. The withdrawal of tax credits accounts for much of the high UK EMTR. Both Working Tax Credit and Child Tax Credit are income related. They are tapered jointly, with Working Tax Credit being withdrawn first. The 73% EMTR faced by one-earner families comprises income tax payable 20%, SSCs payable 12%, and tax credits withdrawn 41%.

35. Chart 10 shows EMTRs in OECD countries at 75% of average wage for a one-earner married couple with two children. The UK EMTR is the highest of all OECD countries, more than twice as high as the OECD and EU(21) averages, and nearly double the EU(15) average. This supports the argument that UK policy, rather than facilitating aspiration, is doing more to trap families on modest incomes than that of any other OECD country.

Chart 10

EMTR at 75% of average wage
One-earner married couple with two children 2013



Source: OECD statlink tables pp. 90-123

36. The reason why EMTRs for one-earner families on modest incomes are so much higher in the UK than in other OECD countries is that family responsibility is recognised not within the tax system, but rather by means of tax credits which are tapered sharply. When independent taxation was introduced in the UK (in 1990), recognition of family responsibility was retained within the tax system, and the EMTR for a one-earner family on 75% average wage was only 34%[9], very close to the OECD average in 2013.

37. In the UK, the tax credits a family receives are determined mainly by income, number of children and childcare costs. Single parents and two-earner couples can be entitled to tax credits in respect of childcare costs, whereas one-earner couples receive no additional credits for these. Table 11 shows for various household types the income points beyond which tax credits are no longer payable, and up to which high EMTRs apply.

Table 11

UK income levels and EMTRs 2013

Family type	Number of children	Childcare credits?	Income point (£) above which no tax credits payable	EMTR up to this income point	EMTR above this income point
Single parent / one-earner couple	1	no childcare credits	25,706	73%	32%
	2		32,329	73%	32%
	3		39,003	73%	32%
	4		45,625	83%	42%
Single parent / two-earner couple	1	maximum childcare credits	41,297	73%	32%
	2		59,026	73%/83%*	32%/42%*
	3		65,752	73%/83%*	32%/42%*
	4		76,962	73%/83%*	32%/42%*

*For a two-earner family entitled to tax credits in respect of childcare costs, the higher rate applied if the main earner paid income tax at the higher rate (payable on incomes above £41,450 in 2013).

9 Draper and Beighton, *Independent Taxation – 25 Years On,* CARE, London, 2013, paragraph 85

Chapter 4
What Next for the UK?

This chapter considers the impact on families of UK tax policy and sets out priorities for the new Parliament.

38. This report has highlighted two significant problems: the UK tax system places a greater burden than the OECD and EU benchmarks on one-earner families on the average wage, and confronts many in-work families with a crippling marginal tax rate, much higher than elsewhere. These problems reflect the fact that, for twenty-five years, successive governments have developed the tax system in ways that have been unhelpful for one-earner families.

39. In 1990 a system of independent taxation was introduced under which tax liabilities were based on individual income. The reformers had wanted to make the system fairer for married women, to allow married women to keep their tax affairs private, and to reduce discrimination against one-earner married couple families.

40. In a review of independent taxation[10], Draper and Beighton observed that although the tax burden on single people had fallen significantly since 1990, the income tax burden on some families had remained much the same. Families were now bearing a greater share of the tax burden than they were in 1990. Adjusted for inflation, the tax threshold was substantially higher than in 1990 for single people, but virtually unchanged for some families.

41. This disparity has not been redressed over the last five years. The gap between families and other households has actually widened, judging by a recent assessment by the Institute for Fiscal Studies of the effect of the Coalition's policies.[11] Table 12 shows the impact in cash terms of the Coalition's tax and benefit changes. One-earner couples with children have on average lost almost £2,000; two-earner couples with children have lost just over £1,000; and two-earner couples with no children have gained £135.[12] These figures take account of indirect taxes as well as direct taxes.

[10] Draper and Beighton, *Independent Taxation – 25 Years On,* CARE, London, 2013

[11] Browne and Elming, IFS Briefing Note BN159, *The effect of the coalition's tax and benefit changes on household incomes and work incentives,* Institute for Fiscal Studies, January 2015

[12] Figures supplied by IFS

Table 12

Impact of UK tax and benefit reforms May 2010 - May 2015 by household type

Household type	All changes	Direct taxes	Indirect taxes	Benefits	Direct taxes plus benefits
Single, no work	-£748	£70	-£125	-£693	-£623
Single, in work	-£69	£307	-£244	-£132	£175
Lone parent, no work	-£1,977	£8	-£147	-£1,837	-£1,830
Lone parent, in work	-£1,559	£213	-£232	-£1,540	-£1,328
Couple, no children, no work	-£607	£209	-£453	-£363	-£154
Couple with children, no work	-£1,892	£54	-£228	-£1,719	-£1,665
Couple, no children, one earner	-£197	£356	-£369	-£184	£173
Couple with children, one earner	-£1,949	£12	-£389	-£1,572	-£1,560
Couple, no children, two earners	£135	£629	-£449	-£45	£584
Couple with children, two earners	-£1,028	£419	-£446	-£1,000	-£582
Single pensioner	-£136	£18	-£175	£21	£39
Couple pensioner	-£23	£69	-£331	£239	£308
All	-£489	£321	-£333	-£477	-£155

Source: Institute for Fiscal Studies

42. The policy of increasing the personal tax allowance disproportionately benefits those who are in the top half of the income distribution.[13] This is partly because individuals who are jobless or have incomes below the tax threshold do not benefit, but also because there are many two-earner households in the top half. Since this distributional effect has not been made clear in public debate, it is unsurprising that the policy has been well received. The Institute for Fiscal Studies has put the annual cost at £10.7 billion[14], although the overall revenue effect of all changes to the personal allowance and the higher rate threshold is probably in the region of £8 billion.

43. Raising the tax threshold in future years will do less for households with children than for taxpayers without family responsibilities. Almost half of all families will be within Universal Credit: they will benefit by only £70 from an increase of £1,000 in the personal allowance.[15] Increasing the tax threshold for everyone is not a cost-effective way of helping hard-pressed families.

44. Raising the minimum wage and introducing a living wage, neither of which have any regard for household size and composition, are more beneficial to single people and couples without children than to families.

13 Adam et al., *Taxes and Benefits: The Parties plans,* 2010 election briefing note no.13, Institute for Fiscal Studies, 2010

14 Adam, Budget Measures, Institute for Fiscal Studies, 2013, slide 2, accessible at http://www.ifs.org.uk/budgets/budget2013/budget_measures.pdf#page=2

15 Whittaker, How to ensure a rise in the personal allowance delivers on its promise, Resolution Foundation, accessible at http://www.resolutionfoundation.org/media/blog/ensure-rise-personal-allowance-delivers- promise

45. Consideration should be given to the relative tax burdens of one- and two-earner families. Since the introduction of independent taxation in 1990, there has been a widening of the gap between the burden on one-earner couples and that on two-earner couples with the same income. This gap has widened further as a result of the above-inflation increases in the basic personal allowance and the introduction of the High Income Child Benefit Charge.

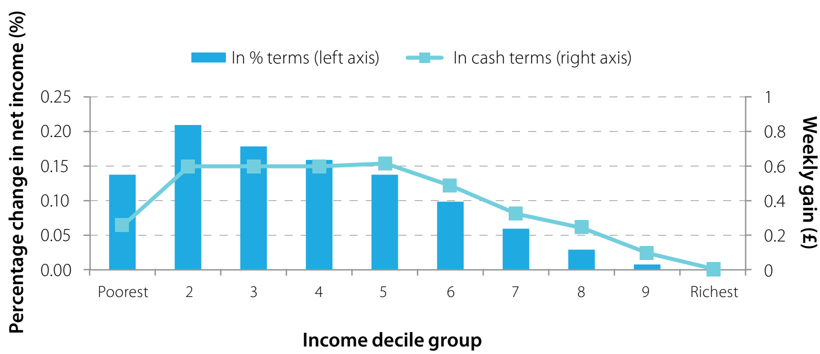
46. The previous Government introduced a transferable allowance for married couples. From April 2015 married couples and civil partners have been able to transfer £1,060 of their personal allowance to their spouse provided that neither is a higher rate taxpayer. This is a welcome return to the recognition of marriage in the income tax system after a fifteen year hiatus. However, a tax allowance worth £212 (£4.08 per week) makes very little difference to the tax burden. Moreover, many of these families will, as observed above, be within Universal Credit, and for them the net benefit will be only £1.42 per week.

47. The level at which the new transferable allowance has been set makes it little more than a shadow of what is needed to bring the tax burden on UK one-earner families into line with that in other OECD and EU countries. A fully transferable allowance is required.

48. The introduction of a fully transferable allowance, which might be no more costly than the current policy of increasing the basic personal allowance, would disproportionately benefit families in the bottom half of the income distribution.[16 17] This distributional effect is shown in Chart 11. It contrasts with the distributional impact of increasing the personal tax allowance, shown in Chart 12.

Chart 11

The distributional impact of the Conservatives' plans for a transferable personal allowance



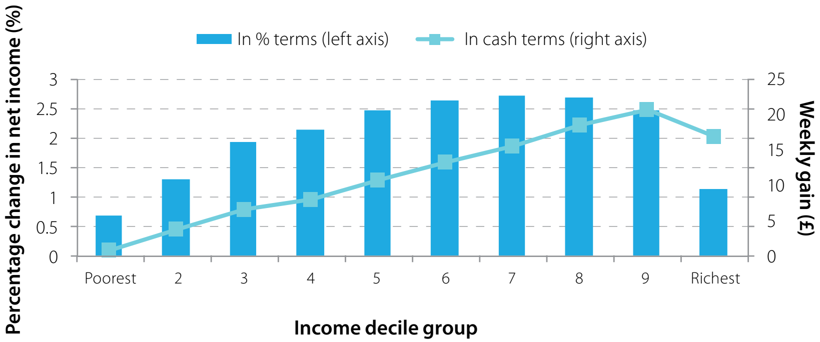
Source: Adam et al., *Taxes and benefits: the parties' plans*, Institute for Fiscal Studies, 2010

16 Browne, Autumn Statement policy measures, Institute for Fiscal Studies, 2013

17 A two-child couple family is in the bottom half of the income distribution if annual net income (net of income tax and national insurance contributions and including tax credits) does not exceed £33,443

Chart 12

The distributional impact of increasing the income tax personal allowance to £10,000



Source: Adam et al., *Taxes and benefits: the parties' plans,* Institute for Fiscal Studies, 2010

49. A fully transferable allowance would not solve all the problems we have identified, but it would be a very important step in the right direction. It would be less valuable for families within Universal Credit, and would still leave the UK with its excessive EMTRs. Nonetheless, this is the way forward if we are to achieve a fairer tax system and bring the taxation of UK families more closely into line with international benchmarks. We must ensure that single parents do not lose out. How this might best be done would need further consideration.

50. The difficulty of reducing marginal tax rates does not mean that the problem should be ignored. One theoretical approach would be to dispense with means testing altogether, but this may not be achievable in practice. This leaves us with an income tax solution. Other countries seem to use the income tax system to support families while keeping marginal rates relatively low.

Conclusion

51. The income tax system should take account of marriage and family responsibilities, as in most other OECD countries. The introduction of a £1,060 transferable allowance for married couples not liable for tax above the basic rate is very welcome, but represents only a small step in the right direction. The whole of the personal allowance needs to be transferable without restriction if the tax burden on one-earner couples is to bear any reasonable relationship to that on single taxpayers and two-earner couples.

52. A fully transferable allowance would help to reduce the number of families in poverty. The Joseph Rowntree Foundation has pointed out that there are more people in poverty in working families than in workless or retired families.[18] One reason for this is that poverty is measured by comparing income with the needs of the whole household, whereas income tax is assessed on an individual basis. Until the income tax system has regard for family responsibilities, a large number of in-work families will continue to be worse off than other households with a similar income.

53. As this report has shown, the UK income tax system is biased against one-earner families (single parents and couples with children). There is an urgent need to consider how to achieve fairness in the treatment of different household types, and to devise cost-effective measures focused on those who currently bear the greatest burdens. We are encouraged by the Prime Minister's March 2015 commitment to expand transferable allowances. Delivering on that commitment should be a priority for the new Parliament, complemented by efforts to drive down EMTRs.

[16] Macinnes et al., *Monitoring poverty and social exclusion,* Joseph Rowntree Foundation, 2013, p.26

Appendix A – Tax Burden 2000, 2005-2013

Household type	Single no child	Single no child	Single no child	Single two children	Married two children	Married two children	Married two children	Married no children
Wage as % of average wage	67	100	167	67	100	100,33	100,67	100,33
United Kingdom								
2000	22.7	25.8	28.8	7.4	20.6	18.8	21.4	22.7
2005	23.8	26.9	30.5	5.0	20.2	18.8	22.7	23.8
2006	23.8	26.9	30.6	5.8	20.3	18.9	22.0	23.8
2007	24.0	27.0	30.8	7.3	20.6	19.2	22.6	24.0
2008	22.9	25.6	30.3	2.7	19.0	18.0	21.3	22.9
2009	22.4	25.2	29.7	-0.6	18.4	17.2	20.7	22.4
2010	22.6	25.4	30.0	0.3	18.7	17.5	21.1	22.6
2011	21.6	25.1	30.4	-2.2	18.3	17.7	20.6	21.6
2012	21.1	24.7	30.3	-2.3	19.7	17.3	20.3	21.1
2013	20.1	24.1	30.2	-2.5	19.1	16.4	19.5	20.1
OECD								
2000	22.1	26.0	31.6	4.8	15.1	17.8	20.5	22.9
2005	21.3	25.5	31.2	4.3	14.5	17.1	19.8	22.2
2006	21.2	25.5	31.1	3.7	14.1	16.7	19.6	22.2
2007	21.2	25.6	31.0	3.8	14.0	16.4	19.4	22.2
2008	20.8	25.2	30.7	2.9	13.4	15.9	19.0	21.8
2009	20.3	24.7	30.3	2.1	12.7	15.4	18.6	21.3
2010	20.4	24.6	30.3	2.5	12.9	15.5	18.8	21.3
2011	20.9	25.1	30.6	3.0	13.6	16.1	19.3	21.8
2012	21.1	25.2	30.6	3.4	13.9	16.3	19.6	22.0
2013	21.2	25.4	30.8	3.8	14.2	16.7	19.9	22.1
EU(15)								
2000	25.8	30.7	37.2	9.2	18.4	21.0	24.1	26.7
2005	24.8	29.6	36.5	6.8	17.1	19.2	22.7	25.3
2006	24.6	29.8	36.6	6.1	17.2	19.3	22.8	25.3
2007	24.4	29.6	36.3	6.0	17.1	18.9	22.5	25.0
2008	24.2	29.3	36.2	5.7	16.9	18.7	22.4	24.9
2009	23.8	28.9	35.9	4.1	16.2	18.2	21.8	24.5
2010	23.9	29.0	35.8	4.4	16.6	18.5	22.0	24.6
2011	24.7	29.5	36.6	5.4	17.5	19.2	22.9	25.1
2012	24.7	29.6	36.6	5.6	17.9	19.4	23.0	25.1
2013	24.8	29.9	37.2	6.1	18.2	19.6	23.4	25.2
EU(21)								
2000	25.5	29.7	35.5	6.1	16.1	19.6	22.9	26.3
2005	24.2	28.9	34.9	5.1	15.3	18.4	21.8	25.0
2006	24.0	29.0	35.0	4.6	15.3	18.3	21.8	25.0
2007	24.0	28.9	34.8	4.8	15.1	17.7	21.3	24.8
2008	23.8	28.6	34.5	4.2	14.6	17.5	21.1	24.6
2009	23.4	28.2	34.1	3.3	14.2	17.1	20.7	24.1
2010	23.4	28.0	34.0	3.6	14.3	17.1	20.7	24.0
2011	24.2	28.6	34.5	4.1	15.0	17.8	21.4	24.7
2012	24.5	28.7	34.4	4.5	15.3	18.1	21.6	24.9
2013	24.5	28.8	34.6	4.8	15.5	18.3	21.9	25.0

Source: *Taxing Wages 2012-2013.* Tables II.1c, II.2c, II.3c, II.4c, II.5c, II.6c, II.7c, II.8c

Appendix B – Tax Burden by Household Type and Wage Level 2013

Household type	Single no child	Single no child	Single no child	Single two children	Married two children	Married two children	Married two children	Married no children
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,33**	**100,67**	**100,33**
Australia	17.2	23.1	29.2	-9.0	12.0	15.2	20.7	18.7
Austria	28.3	34.3	39.0	7.7	20.5	20.1	24.5	29.3
Belgium	36.1	42.6	49.4	18.6	23.4	27.1	33.7	35.0
Canada	17.5	22.8	26.8	-19.0	8.9	15.1	18.5	19.4
Chile	7.0	7.0	7.8	6.1	7.0	4.8	6.6	7.0
Czech Republic	18.6	22.8	26.1	-14.8	-6.5	5.8	11.5	19.8
Denmark	36.6	38.2	44.3	11.2	27.6	32.1	33.8	36.9
Estonia	17.9	19.5	20.7	1.4	9.3	12.6	14.6	17.9
Finland	23.3	30.2	37.3	9.9	24.0	21.0	23.7	25.6
France	26.4	28.4	34.0	15.1	18.1	19.1	22.8	26.4
Germany	34.6	39.6	43.7	17.7	21.0	26.7	31.0	34.6
Greece	19.6	25.5	35.3	21.8	29.3	26.1	26.7	24.3
Hungary	34.5	34.5	34.5	3.9	15.3	20.1	23.0	34.5
Iceland	23.2	28.3	33.0	10.1	12.9	20.9	25.2	23.5
Ireland	12.6	18.7	31.9	-38.3	-3.2	4.7	10.5	11.9
Israel	10.2	16.7	25.5	-2.8	13.3	10.0	10.3	13.4
Italy	27.0	31.0	38.2	5.5	18.3	21.0	24.6	27.0
Japan	20.0	21.6	25.4	12.7	15.2	17.0	18.0	20.6
Korea	9.9	13.4	16.0	9.0	10.7	10.6	10.7	12.2
Luxembourg	21.2	29.3	37.4	-7.4	3.8	8.8	15.0	19.5
Mexico	1.9	9.8	14.3	1.9	9.8	5.2	6.6	5.2
Netherlands	26.1	31.2	38.4	3.1	24.5	22.3	24.2	27.5
New Zealand	13.3	16.9	22.8	-17.1	2.4	10.1	15.8	15.7
Norway	25.5	29.2	35.6	11.7	22.2	22.8	25.1	26.2
Poland	23.8	24.7	25.5	17.8	18.0	19.8	21.1	23.8
Portugal	19.3	27.2	34.9	7.0	13.1	14.4	21.7	19.3
Slovak Republic	19.2	22.8	25.6	3.3	5.1	12.1	15.0	20.1
Slovenia	28.5	33.1	37.4	-1.0	10.7	19.3	23.8	30.3
Spain	18.4	22.9	28.5	9.5	15.3	17.4	18.9	18.8
Sweden	22.2	25.0	35.0	11.9	18.1	17.5	19.8	22.7
Switzerland	14.2	17.1	22.0	-1.7	3.8	7.1	10.4	14.8
Turkey	26.1	28.5	32.6	24.8	27.1	27.9	28.7	28.5
United Kingdom	20.1	24.1	30.2	-2.5	19.1	16.4	19.5	20.1
United States	21.5	24.6	30.5	1.4	12.4	16.7	19.2	22.1
Unweighted averages								
OECD	21.2	25.4	30.8	3.8	14.2	16.7	19.9	22.1
EU(15)	24.8	29.9	37.2	6.1	18.2	19.6	23.4	25.2
EU(21)	24.5	28.8	34.6	4.8	15.5	18.3	21.9	25.0

Source: *Taxing Wages 2012-2013* Table I.3

Appendix C – Tax Burden on Families Compared with Singles Without Children 2013

Household type	1 Single no child	2 Single no child	3 Single no child	4 Single two children	5 Married two children	6 Married two children	7 Col 4 as % of Col 1	8 Col 5 as % of Col 2	9 Col 6 as % of Col 3
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**			
Australia	17.2	23.1	29.2	-9.0	12.0	20.7	-52	52	71
Austria	28.3	34.3	39.0	7.7	20.5	24.5	27	60	63
Belgium	36.1	42.6	49.4	18.6	23.4	33.7	51	55	68
Canada	17.5	22.8	26.8	-19.0	8.9	18.5	-108	39	69
Chile	7.0	7.0	7.8	6.1	7.0	6.6	87	100	85
Czech Republic	18.6	22.8	26.1	-14.8	-6.5	11.5	-79	-29	44
Denmark	36.6	38.2	44.3	11.2	27.6	33.8	31	72	76
Estonia	17.9	19.5	20.7	1.4	9.3	14.6	8	48	71
Finland	23.3	30.2	37.3	9.9	24.0	23.7	43	79	64
France	26.4	28.4	34.0	15.1	18.1	22.8	57	64	67
Germany	34.6	39.6	43.7	17.7	21.0	31.0	51	53	71
Greece	19.6	25.5	35.3	21.8	29.3	26.7	111	115	76
Hungary	34.5	34.5	34.5	3.9	15.3	23.0	11	44	67
Iceland	23.2	28.3	33.0	10.1	12.9	25.2	44	45	76
Ireland	12.6	18.7	31.9	-38.3	-3.2	10.5	-305	-17	33
Israel	10.2	16.7	25.5	-2.8	13.3	10.3	-27	80	40
Italy	27.0	31.0	38.2	5.5	18.3	24.6	20	59	64
Japan	20.0	21.6	25.4	12.7	15.2	18.0	63	71	71
Korea	9.9	13.4	16.0	9.0	10.7	10.7	91	80	67
Luxembourg	21.2	29.3	37.4	-7.4	3.8	15.0	-35	13	40
Mexico	1.9	9.8	14.3	1.9	9.8	6.6	100	100	46
Netherlands	26.1	31.2	38.4	3.1	24.5	24.2	12	79	63
New Zealand	13.3	16.9	22.8	-17.1	2.4	15.8	-129	14	70
Norway	25.5	29.2	35.6	11.7	22.2	25.1	46	76	70
Poland	23.8	24.7	25.5	17.8	18.0	21.1	75	73	83
Portugal	19.3	27.2	34.9	7.0	13.1	21.7	37	48	62
Slovak Republic	19.2	22.8	25.6	3.3	5.1	15.0	17	22	58
Slovenia	28.5	33.1	37.4	-1.0	10.7	23.8	-4	32	64
Spain	18.4	22.9	28.5	9.5	15.3	18.9	52	67	66
Sweden	22.2	25.0	35.0	11.9	18.1	19.8	53	72	56
Switzerland	14.2	17.1	22.0	-1.7	3.8	10.4	-12	22	47
Turkey	26.1	28.5	32.6	24.8	27.1	28.7	95	95	88
United Kingdom	20.1	24.1	30.2	-2.5	19.1	19.5	-12	79	65
United States	21.5	24.6	30.5	1.4	12.4	19.2	7	51	63
Unweighted averages									
OECD	21.2	25.4	30.8	3.8	14.2	19.9	18	56	64
EU(15)	24.8	29.9	37.2	6.1	18.2	23.4	24	61	63
EU(21)	24.5	28.8	34.6	4.8	15.5	21.9	20	54	63

Source: *Taxing Wages 2012-2013* Table I.3 for columns 1-6; columns 7-9 derived as shown

Appendix D – Effective Marginal Tax Rates on Families 2013

Household type	Single person, two children			One-earner couple, two children		
Wage as % of average wage	**50**	**75**	**100**	**50**	**75**	**100**
Australia	67.9	55.5	54.0	98.9	55.5	54.0
Austria	78.3	44.4	49.1	78.3	44.4	49.1
Belgium	68.9	54.9	59.4	68.9	46.3	54.9
Canada	35.8	66.8	86.4	35.8	66.8	90.0
Chile	7.0	7.0	7.0	7.0	7.0	7.0
Czech Republic	31.1	40.7	40.7	11.0	11.0	38.4
Denmark	40.3	40.3	42.5	40.3	40.3	42.5
Estonia	22.6	22.6	22.6	22.6	22.6	22.6
Finland	36.9	43.1	48.0	36.9	43.1	48.0
France	37.3	21.7	26.4	37.3	21.7	26.4
Germany	42.3	46.1	51.2	35.2	40.5	43.2
Greece	26.8	35.7	35.7	34.9	35.7	36.5
Hungary	18.5	34.5	34.5	18.5	34.5	34.5
Iceland	46.3	46.3	43.4	0.0	38.6	46.3
Ireland	62.8	64.4	72.4	61.6	64.4	72.4
Israel	46.5	12.0	33.0	60.5	26.0	33.0
Italy	151.1	49.7	54.1	9.5	49.7	54.1
Japan	22.4	23.9	27.3	16.8	23.9	27.3
Korea	10.7	12.0	21.8	10.7	11.3	21.8
Luxembourg	12.4	47.9	71.6	12.4	25.2	32.7
Mexico	7.6	12.5	17.6	7.6	12.5	17.6
Netherlands	31.9	47.0	47.6	39.8	47.0	47.6
New Zealand	17.5	38.8	51.2	17.5	38.8	51.2
Norway	35.8	35.8	44.8	35.8	35.8	44.8
Poland	17.8	17.8	26.7	17.8	17.8	26.7
Portugal	159.4	39.5	39.5	134.7	25.5	25.5
Slovak Republic	82.5	29.9	29.9	78.4	13.4	29.9
Slovenia	22.1	34.6	34.6	22.1	22.1	34.6
Spain	47.9	29.5	34.4	47.9	29.5	34.4
Sweden	6.3	13.7	18.1	6.3	13.7	18.1
Switzerland	11.5	16.2	20.9	9.7	16.2	18.2
Turkey	32.8	32.8	38.7	32.8	32.8	38.7
United Kingdom	73.0	73.0	32.0	73.0	73.0	32.0
United States	46.6	51.6	29.3	36.6	46.6	29.3
Unweighted averages						
OECD	42.9	36.5	39.6	37.0	33.3	37.7
EU(15)	58.4	43.4	45.5	47.8	40.0	41.2
EU(21)	51.0	39.6	41.5	42.3	34.4	38.3

Source: OECD 'statlink' data pp. 90-123

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