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THE TAXATION OF UK FAMILIES

INCLUDING INTERNATIONAL COMPARISONS FOR 2019

BY LEONARD BEIGHTON, DON DRAPER AND ALISTAIR PEARSON
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FOREWORD

The COVID-19 pandemic has brought the UK's tax system to a tipping point. Thanks to tremendous scientific efforts we can see the end of the medical burden, but the reality we now face is of a long-term financial burden. This has led to the Chancellor already signalling that taxes will need to increase. This decision may be inevitable but the way we go about it is not. In any case, low-income families are already facing increased financial pressures and burdens with significant job losses and economic pressure across the board. These families need support.

In this context I am pleased to introduce CARE's latest 'Taxation of Families' report. This timely analysis highlights the burden faced by single earner families and puts into stark relief the need to reform and reframe the way income tax operates in the UK.

The evidence has shown every year, since our first report in 2008, that one-earner families bear a heavier share of the tax burden in the UK than in other countries. This is true both for single parents and for one-earner couples.

At the average wage as estimated by the OECD, the UK tax burden on single parents with two children is 26% greater than the OECD average, and 25% greater on one-earner married couples with two children.

The UK system of independent taxation linked with means tested benefits does not meet the needs of families in the 21st century. The result of decisions made in the 1980s and 90s is that families in the poorer half of the population, including those whose household income is below the widely accepted poverty line, now pay significant amounts of income tax.

The benefit system does rightly take account of household income and family circumstances. The fact that this support comes from the benefit system, however, means that families face punishing effective marginal tax rates (EMTRs), trapping them in poverty.

The priority for the Government in this moment should be to ensure that amidst significant economic pressure and looming tax increases that may well be required after COVID-19, the burden does not disproportionately fall on families in the ways that the income tax currently does.

The Government should find ways of rebalancing the distribution of income tax, ensuring that the income tax burden on low-income households with children is reduced, and in particular their marginal rates. It makes no sense to be levying income tax on these families which is then handed back to them through means tested benefits, especially when these involve steep tapers.

In 1990 a one-earner family in the UK on 75% average wage faced an EMTR of 34%. The same family in 2019 was facing an EMTR of 73%, trapping them in poverty.

The Government needs to rethink the way in which the income tax system works for families and the overlap with the benefit system. Marginal rates of 70% or 80% don't just weaken incentives, they all but destroy them. Families facing these rates cannot lift themselves out of poverty or prevent themselves sliding into poverty.

Some might argue that aiming for a simple tax system should be our goal and that recognising family responsibility would make things more complicated. In principle making our tax system simple is certainly highly desirable. To the extent, however, that the cost of doing so is a failure to properly recognise family responsibility in the tax system, this comes at too high a price.

It would be much better to have a tax system that is fair, and which does not trap people in poverty even if this came at the cost of more complexity. Given what is actually at stake, it would be a small price to pay.

CARE considers that this unprecedented time of change presents an opportunity to ensure that the tax and benefits system work together, not against each other. We are calling for the income tax system to be reviewed and reformed so that it takes account of the make-up of a family rather than just looking at the individual being taxed.

Taking the family into account will ensure that as UK society begins to pay off the debts created in this time of national crisis, this is done fairly and equitably and in a way that does not trap low-income families in poverty.

NOLA LEACH
Chief Executive and Head of Public Affairs, CARE
January 2021

ACKNOWLEDGEMENTS

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

We thank Dan Boucher, Director of Parliamentary Affairs at CARE, and Jonathan Williams, Family Policy Officer at CARE, for their comments and suggestions. We also thank Samuel Yung, who helped with the compilation of OECD data, and William Spencer, who undertook extensive analysis of the income of UK households.

LEONARD BEIGHTON, DON DRAPER AND ALISTAIR PEARSON
January 2021

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The authors are independent consultants. Leonard Beighton spent 37 years in the Inland Revenue, ending in 1994 as Deputy Chairman of the Board. In 2011 he was made an Honorary Fellow of the Chartered Institute of Taxation. Don Draper worked on tax policy in the Inland Revenue for over 20 years before moving to PricewaterhouseCoopers. In retirement he has taken a special interest in the taxation of the family. Alistair Pearson is a management consultant with an interest in the effectiveness of public policy. Leonard and Don are trustees of Tax and the Family Charitable Trust.

EXECUTIVE SUMMARY

1. This report addresses issues relating to the taxation of UK families:
    - how heavily they are taxed compared with their counterparts in other developed countries
    - how they are taxed compared with households without children
    - changes to the UK tax and benefits system that would ensure fairer outcomes.

2. Tax policy should be informed by knowledge of how well off different types of household are. It is important to know who the 'better off' are if they are to bear a heavier tax burden than those who are 'worse off'. A household's position in the income distribution depends not only on its disposable income, but also on its size and composition. Gross income is a poor guide to how well off any particular taxpayer is.

3. The UK tax system treats families unfairly. The amount of tax they pay bears little relationship to how well off they are. Some families pay more tax than other households that are considerably better off. Some in the bottom half of the income distribution even pay higher rate tax and are liable to the High Income Child Benefit Charge. This happens because, unlike benefits, income tax is based on the individual and takes little account of family responsibilities. This problem does not occur in most other developed countries.

4. Using statistics published by the OECD in *Taxing Wages,* this report compares the treatment of families in the UK with that in other developed countries. It is the thirteenth annual review undertaken by the authors. Like its predecessors, it examines direct tax burdens on households at various income points. 'Tax' is defined as income tax plus employee social security contributions less cash benefits. The UK tax rates take account of tax credits and child benefit but not housing benefit or Council Tax Support.

5. International comparisons for 2019, the latest year for which there is OECD data, reveal that in the UK the tax burden on one-earner families on the average wage remains significantly greater than the average for the OECD as a whole.

6. At the average wage as estimated by the OECD (£40,803 for the UK), the UK tax burden on single parents with two children is 26% greater than the OECD average, and 25% greater on one-earner married couples with two children. The unfavourable position of these one-earner families results mainly from the fact that UK income tax does not take account of family responsibilities. At the average wage, the UK one-earner married couple with two children pays 39% more income tax than the equivalent French family, three times as much as the US family, and nearly nine times as much as the German family.

7. By contrast with the position of one-earner families, the UK tax burden on single people without family responsibilities is less than for the OECD as a whole. At the

OECD average wage, it is 10% less than the OECD average.

8. *Taxing Wages* includes international comparisons of the tax burden on two-earner couples at two income points (100+67% and 100+100% of the OECD average wage). At these income points the UK tax burden on two-earner couples with or without children is less than the OECD average.

9. 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.

10. In the UK, Universal Credit and 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 as incomes rise is largely responsible for high effective marginal tax rates across a wide income range. This is changing a little, but not much, as Universal Credit is rolled out across the country.

11. What is needed is for the household to be recognised as the basic unit of taxation. This would be in line with the Family Test introduced by David Cameron in August 2014 in a speech to the Relationships Alliance Summit. Quite how this structural change might best be done should be the subject of consultation and would take time to be put into effect. However, the case for a change of direction is compelling.

12. Meanwhile short and medium term changes should be made:
    - the threshold for the HICBC increased substantially;
    - the marriage allowance increased and widened;
    - the reintroduction of child tax allowances should be explored;
    - the temporary increase in Universal Credit extended but focussed on those with dependants;
    - and Child Benefit increased to restore its value in real terms.

13. These changes would be costly, but the cost could be offset by not increasing the personal allowance each year in line with inflation. They would enable the Government to provide a secure tax base on which to 'Build Back Better'.

14. The issues addressed in this document cannot be resolved overnight. But the Government should make a start. Too many people are trapped in debt and poverty by the current tax and benefits system. Action is needed now.

CHAPTER 1: INTRODUCTION

1. This is our thirteenth annual international review of the taxation of families. It compares the overall tax burdens, income tax rates 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 2019. We consider households with an 'average wage' and also those with incomes at other points 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. 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.

3. Overall tax rates do not take account of VAT or any other indirect tax, or of housing benefit or any other income related benefits. However, we have considered the effect of housing benefit and Council Tax Support on EMTRs for UK households.

4. For international comparisons, we use statistics published by the OECD in *Taxing Wages 2020*.[1] These statistics take account of income taxes, social security contributions and cash benefits of eight different kinds of household in the 36 OECD member countries.[2] The 2020 edition of *Taxing Wages* shows estimates for 2019 and definitive results for 2018.

5. For most OECD countries, the tax year is equivalent to the calendar year, the exceptions being Australia, New Zealand and the UK. Since the UK tax year starts in April, the calculations for the UK are 'forward-looking': the tax rates reported for 2019 are those for the tax year 2019-20.

6. In Chapter 2 we compare UK tax burdens on different household types at various income points with those in other countries; in Chapter 3 we compare UK income tax liabilities[3] with those in other countries; and in Chapter 4 we compare EMTRs faced by UK households with those in other countries. In Chapter 5 we focus on the tax burdens of selected UK households, and their position in the income distribution. In Chapter 6 we consider how the UK Government should address the issues raised in this report.

7. 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

1 Taxing Wages 2020, OECD, Paris
2 In 2019 there were 36 OECD member countries: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.
3 Figures for the UK do not take account of the income tax rates that apply in Scotland.

workers including supervisory staff. The OECD estimate of the average wage in the UK in 2019 is £40,803.[4] This is slightly higher than the estimate of mean gross earnings of full-time employees in the UK derived from the Annual Survey for Hours and Earnings (ASHE), which is £38,600 for the tax year 2019-20.[5]

8. The OECD average wage differs from country to country. It is important to remember this when comparing the UK tax burden with tax rates in other countries. Making comparisons at income points based on the average wage does not mean that we are comparing like with like.

9. An alternative measure of the average wage is the median wage. Unlike the mean, which puts disproportionately greater weight on high earning individuals, the median wage is not influenced by differentials in the upper part of the wage distribution. The ASHE estimate of median gross earnings of full-time employees in the UK is £31,461 for the tax year 2019-20.[6]

10. *Taxing Wages* includes links to unpublished data for individual countries (in 'statlink' tables), enabling us to look at tax rates for a wide range of income points.

4 Taxing Wages 2020, p 590
5 Annual Survey of Hours and Earnings (ASHE), ONS, 3 November 2020, Table 1.7a
6 Annual Survey of Hours and Earnings, op. cit., Table 1.7a

CHAPTER 2: COMPARISON OF TAX BURDENS

This chapter uses OECD data to compare average tax rates (income tax plus employee SSCs less cash benefits). We look at six different household types at various income points, comparing the UK with all OECD countries together. Then we compare the tax burden on families with the tax paid by single people.

11. We use new OECD data for 2019 (UK tax year 2019-20) to compare the UK tax burden with OECD 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.[7]

12. We consider tax burdens on these one-earner household types at five income points ranging from 50% to 150% of the OECD average wage.

13. In addition, we look at tax burdens on two-earner married couples at two income points (100%+67% and 100%+100% of the OECD average wage).

14. Historical data for eight household types, comprising UK and average OECD tax rates for 2000, 2009 and 2012-2019, are to be found in Appendix A. Data for 2019 for individual countries for the same eight household types are to be found in Appendix B, which is equivalent to *Taxing Wages* Table 3.3.

7 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.

TAX BURDEN ON ONE-EARNER HOUSEHOLDS

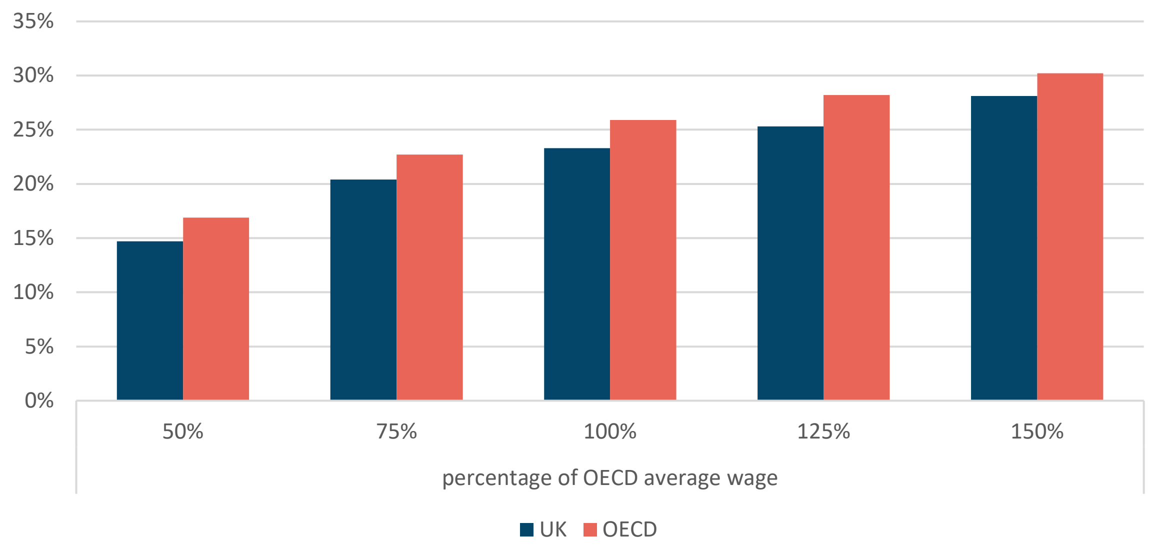
SINGLE PERSON WITHOUT CHILDREN

15. 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. At all five income points, the tax burden in the UK is less than the OECD average. At the 100% income point, it is 10% less than the OECD average.

TABLE 1
TAX AS PERCENTAGE OF GROSS WAGES 2019 – SINGLE PERSON WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	14.7%	20.4%	23.3%	25.3%	28.1%
OECD	16.9%	22.7%	25.9%	28.2%	30.2%

CHART 1



Source: OECD statlink tables pp 82-117

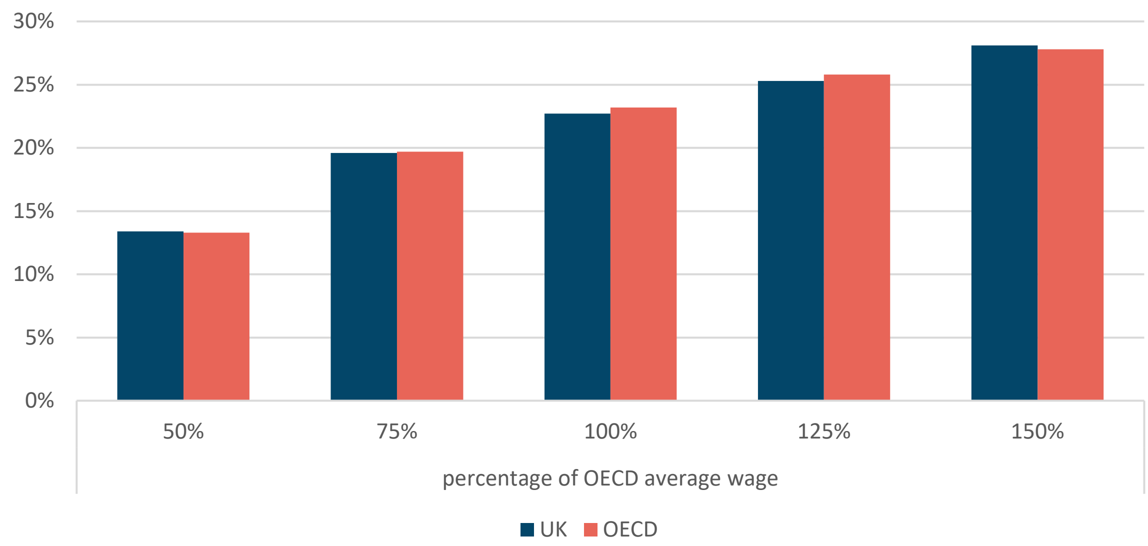
ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

16. 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 countries. At all income points, UK one-earner married couples without children bear a tax burden similar to the OECD average.

TABLE 2
TAX AS PERCENTAGE OF GROSS WAGES 2019 – ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	13.4%	19.6%	22.7%	25.3%	28.1%
OECD	13.3%	19.7%	23.2%	25.8%	27.8%

CHART 2



Source: OECD statlink tables pp 82-117

SINGLE PERSON WITH TWO CHILDREN

17. 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 countries. At 50% of average wage, a single person with two children has a negative tax liability (i.e. cash transfers exceed income tax and SSCs). The OECD average is also negative, but much smaller. At and above 75% of average wage, the UK tax burden exceeds the OECD average. At the 100% income point, it is 26% more than the OECD average.

TABLE 3
TAX AS PERCENTAGE OF GROSS WAGES 2019 – SINGLE PERSON WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-19.5%	11.4%	18.9%	22.1%	28.1%
OECD	-9.3%	7.2%	15.1%	19.9%	23.4%

CHART 3

Source: OECD statlink tables pp 82-117

ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

18. 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 countries.[8] At 50% of average wage, one-earner married couples with two children fare comparatively well in the UK. This is due to tax credits. However, the picture changes significantly as income rises. At and above 75% of average wage, the UK tax burden exceeds the OECD average. At the 100% income point, UK one-earner married couples with two children pay 25% more tax than the OECD average.

TABLE 4
TAX AS PERCENTAGE OF GROSS WAGES 2019 – ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-20.7%	10.5%	18.3%	22.1%	28.1%
OECD	-7.4%	6.5%	14.6%	19.5%	22.9%

CHART 4

Source: OECD statlink tables pp 82-117

8 UK figures assume that the Marriage Allowance is claimed where appropriate.

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 the average wage and the second earner earns 67% of the average wage. The OECD data shows that in 2019 the UK tax burden was 21.6%, less than the OECD average of 24.1%.

TWO-EARNER MARRIED COUPLE WITH TWO CHILDREN

20. Comparative data is available for two-earner married couples with two children on 100%+67% of average wage and 100%+100% of average wage. At a combined income of 167% of average wage, the 2019 UK tax rate was 19.0%, less than the OECD average of 19.5%. At a combined income of 200% of average wage, the 2019 UK tax rate was 21.1%, less than the OECD average of 22.3%.

TAX BURDEN ON FAMILIES COMPARED WITH SINGLES' TAX

21. Table 5 shows the UK tax burden on two household 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, and averages for the OECD. Appendix C shows percentages for all OECD countries at single income points for these two household types, and also for a two-earner married couple with two children.

TABLE 5
TAX ON ONE-EARNER FAMILIES AS PERCENTAGE OF TAX ON SINGLE PERSON WITHOUT CHILDREN 2019

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
	(a) single person, two children				
UK	n/a	56%	81%	87%	100%
OECD	n/a	32%	58%	70%	78%
	(b) one-earner married couple, two children				
UK	n/a	52%	78%	87%	100%
OECD	n/a	29%	56%	69%	76%

Note: At the 50% income point, the tax liability of one-earner families is negative. Cash transfers exceed income tax and SSCs.

Source: derived from Tables 1, 3 and 4

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

23. At average wage, the 2019 UK tax burden on a single parent with two children was 81% of that on a single person without children, whereas the OECD average was 58%. At the same income point, the 2019 UK tax burden on a one-earner married couple with two children was 78% of that on a single person without children, whereas the OECD average was 56%.

24. By contrast, the gap between the tax burdens on two-earner families and single people at 167% of average wage is similar in the UK to that in the OECD as a whole. At this income point, the 2019 UK tax burden on a two-earner married couple with two children was 64% of that on a single person without dependants (a tax rate of 19.0% compared with the single person's tax rate of 29.5%). The OECD average was 63% (19.5% compared with 31.2%).

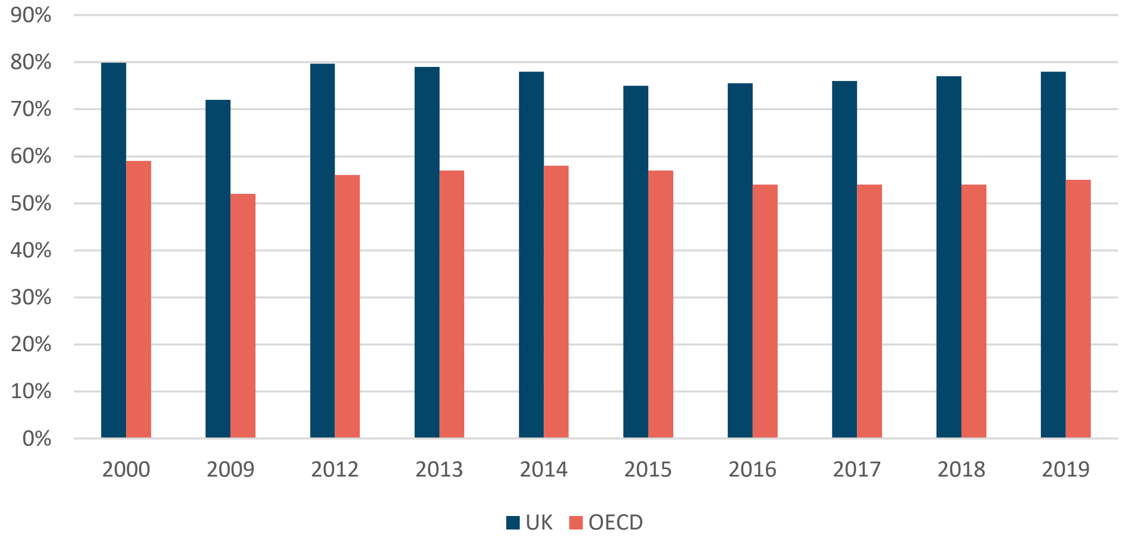
HISTORICAL PERSPECTIVE

25. 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 and the OECD for the years 2000 and 2009 and the period 2012-2019. The UK figure, 78.5% in 2019, remains much greater than the OECD average.

TABLE 6
TAX ON ONE-EARNER TWO-CHILD MARRIED COUPLE AS PERCENTAGE OF TAX PAID BY SINGLE PERSON WITHOUT CHILDREN 2000, 2009, 2012-2019

at 100% OECD average wage		
Year	UK	OECD
2000	79.8%	59.2%
2009	73.0%	53.1%
2012	79.6%	57.0%
2013	79.1%	57.8%
2014	78.6%	58.4%
2015	76.1%	57.3%
2016	76.9%	54.9%
2017	77.6%	55.4%
2018	78.1%	55.3%
2019	78.5%	56.4%

CHART 5
TAX ON ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN AS PERCENTAGE OF TAX PAID BY SINGLE PERSON WITHOUT CHILDREN AT OECD AVERAGE WAGE
2000, 2009, 2012-2019



Source: derived from columns 2 and 5 of Appendix A

CHAPTER 3: COMPARISON OF INCOME TAX RATES

This chapter uses OECD data and supplementary data for the UK to compare income tax rates. We look at four different one-earner households at various income points, comparing the UK with France, Germany and the US, and with the OECD as a whole.

26. We use new OECD data for 2019 (UK tax year 2019-20) and supplementary data for the UK to compare UK income tax rates with those of France, Germany and the US, and with OECD 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.

27. We consider income tax burdens on these one-earner household types at five income points ranging from 50% to 150% of the OECD average wage. We have derived income tax rates from statlink data,[9] and made our own calculations for the UK using Tax Benefit Model Tables.

28. One difficulty when comparing income tax burdens is to decide what to include as income tax. The OECD treats tax credits as part of the UK income tax system.[10] It is sensible to treat tax credits as part of the income tax system where they are integrated into it. In Germany, for example, the taxpayer obtains the tax allowance instead of the tax credit if the value of the credit is less than the relief from the allowance.[11] In the UK, however, tax credits are not part of the income tax system, even if they complement it, and it is appropriate to look at income tax net of tax credits when comparing the UK with other countries.

29. Table 7 shows the income tax rates faced by four different one-earner household types. The UK rates exclude tax credits. Summaries of the income tax systems of France, Germany and the US are attached as Appendix D.

9 ITR = (LIT+CIT)*(100/(100-SSC)), where
ITR = income tax as percentage of gross wage earnings
LIT = average local income tax as percentage of total labour costs
CIT = average central income tax as percentage of total labour costs
SSC = employer SSC as percentage of total labour costs
total labour costs = gross wage earnings + employer SSC

10 Taxing Wages 2020, p 592

11 Taxing Wages 2020, p 300

TABLE 7
INCOME TAX AS PERCENTAGE OF GROSS WAGES 2019

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
	single person without children				
UK	7.7%	11.8%	13.9%	15.5%	19.6%
France	9.5%	13.8%	16.0%	18.9%	21.0%
Germany	10.6%	15.7%	19.2%	22.9%	25.9%
US	12.2%	14.3%	16.4%	18.8%	20.5%
OECD	8.1%	13.1%	16.2%	18.6%	20.7%
	one-earner married couple without children				
UK	6.5%	11.0%	13.2%	15.5%	19.6%
France	9.5%	9.5%	9.5%	11.9%	14.3%
Germany	1.2%	7.1%	11.2%	14.4%	17.0%
US	6.8%	10.1%	12.2%	13.5%	14.3%
OECD	5.1%	10.1%	13.4%	16.0%	18.2%
	single person with two children				
UK	7.7%	11.8%	13.9%	15.5%	19.6%
France	9.5%	9.5%	9.5%	11.5%	13.5%
Germany	-10.3%	1.0%	7.9%	12.4%	16.3%
US	-19.3%	0.2%	6.3%	8.8%	12.1%
OECD	4.6%	8.4%	12.3%	15.2%	17.6%
	one-earner married couple with two children				
UK	6.5%	11.0%	13.2%	15.5%	19.6%
France	9.5%	9.5%	9.5%	9.5%	10.3%
Germany	-17.1%	-5.4%	1.5%	6.8%	10.7%
US	-24.5%	-5.2%	4.5%	7.3%	9.2%
OECD	3.9%	7.3%	10.9%	13.8%	16.3%

Source: UK rates for each household type calculated by authors using TBMT;[12] all other rates derived from OECD statlink tables pp 82-117*30.*

12 UK rates derived from OECD statlink tables are as follows:

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
Single person without children	7.7%	11.8%	13.9%	15.5%	19.6%
One-earner married couple without children	6.5%	11.0%	13.3%	15.5%	19.6%
Single person with two children	0.0%	8.6%	13.9%	15.5%	19.6%
One-earner married couple with two children	0.0%	7.8%	13.3%	15.5%	19.6%

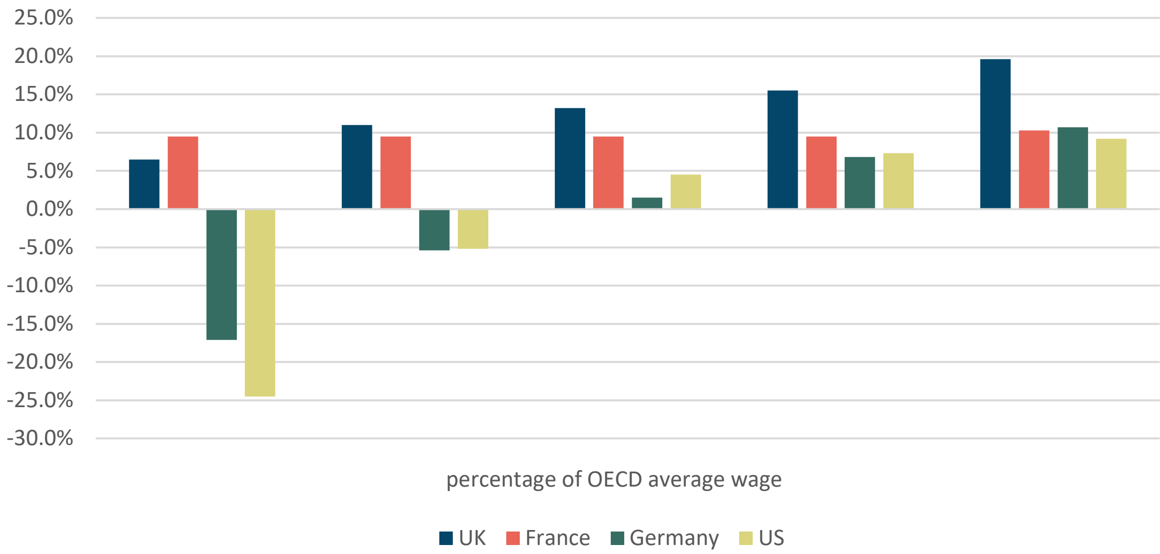
30. As shown in Chapter 2, the UK tax burden on one-earner families with two children is 26% greater than the OECD average at 100% of the OECD average wage. By contrast, the UK tax burden on single people without family responsibilities is 10% less than the OECD average at the 100% income point.

31. Looking at income tax on its own, there is a similar disparity between the burden on families and that on single people. At 100% of average wage, the UK income tax burden is 13% greater than the OECD average on a single person with two children, and 22% greater on a one-earner married couple with two children. By contrast, the UK income tax burden on a single person without children is 14% less than the OECD average at the 100% income point.

32. The UK income tax burden on one-earner families is greater than the OECD average at all five income points. At 50% of the OECD average wage, the UK income tax rate for a single person with two children is 7.7%, compared with the OECD average of 4.6%; the rate for a one-earner married couple with two children is 6.5%, compared with the OECD average of 3.9%.

33. Chart 6 compares the income tax paid by a UK one-earner married couple with two children as a percentage of income with the income tax burden in France, Germany and the US. At the OECD average wage, the UK family pays 39% more than the French family, three times as much as the US family, and nearly nine times as much as the German family. The US family pays no Federal income tax at all.

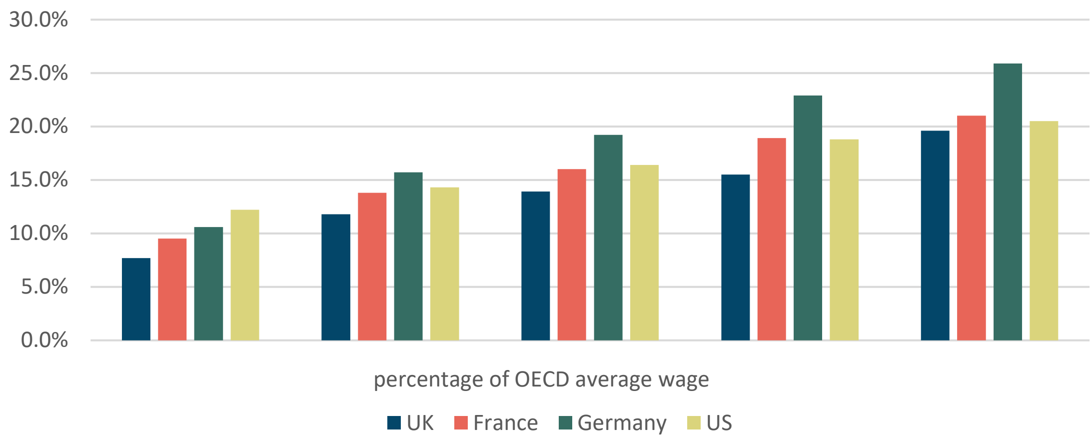
CHART 6



Source: Table 7

34. Chart 7 compares the income tax paid by a UK single person without children as a percentage of income with the income tax burden in France, Germany and the US. At each of the five income points, the income tax burden on single people without children is least in the UK.

CHART 7



Source: Table 7

35. We acknowledge that there are OECD members (such as the Scandinavian and Australasian countries) with greater income tax burdens than those of the UK. Compared with the UK, Australia and Sweden have higher income tax rates but similar overall tax burdens.

INCOME TAX BURDEN ON TWO-EARNER FAMILIES

36. It is unfortunate that OECD data on two-earner families is limited, because most households with children now have two incomes. At the two income points for which there is published data, the overall UK tax burden on two-earner couples with two children is less than the OECD average. Considering income tax on its own,[13] the UK tax burden is greater than the OECD average (12.7% compared with 12.3%) at a combined income of 167% of average wage, but less than the OECD average (13.9% compared with 14.4%) at a combined income of 200%.

37. Comparing the UK with individual countries, the UK income tax burden of 12.7% is greater than the figures for France, Germany and the US (11.7%, 11.3% and 10.2% respectively) at a combined income of 167%. At a combined income of 200%, the UK income tax burden of 13.9% is greater than the US figure of 10.5%, but less than the figures for France and Germany (14.1% and 14.0% respectively).

38. Using our own data for the UK, we have calculated income tax rates for two-earner couples with two children (incomes split 80:20 and 60:40) at five income points. Table 8 and Chart 8 compare these rates with those for one-earner couples with two children in France, Germany and the US, on the assumption that the income

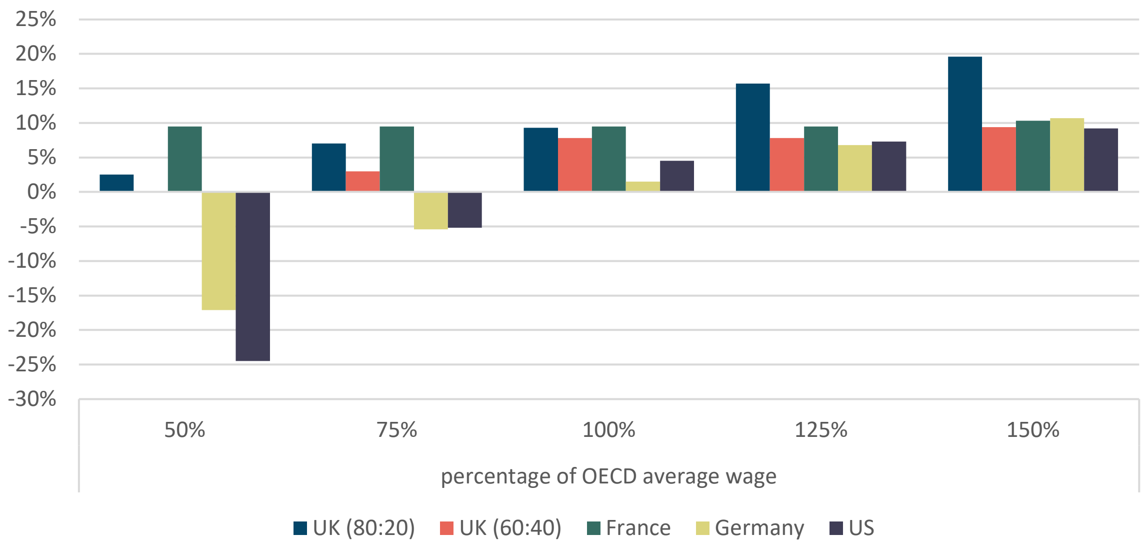
13 Taxing Wages 2020, Table 3.4, p 65

tax liabilities in these three countries will be approximately the same for two-earner families under a system of joint assessment. We acknowledge that the precise amounts payable will depend on how income is split, given that some tax reliefs vary with earnings.

TABLE 8
INCOME TAX AS PERCENTAGE OF GROSS WAGES 2019 – TWO-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK (80:20)	2.50%	7.00%	9.30%	15.70%	19.60%
UK (60:40)	0.00%	3.00%	7.80%	7.80%	9.40%
France	9.50%	9.50%	9.50%	9.50%	10.30%
Germany	-17.10%	-5.40%	1.50%	6.80%	10.70%
US	-24.50%	-5.20%	4.50%	7.30%	9.20%

CHART 8



Source: UK rates calculated by authors using Tax Benefit Model Tables updated for 2019-20; other rates taken from Table 7

39. At the lower income points, income tax rates on two-earner families are lower in the UK than in France, but much higher than in Germany and the US, where the income tax liability is negative at 50% and 75% of the OECD average wage. The high rates faced by French families at the lower income points are due to flat rate 'contributions' which are treated as income tax in the *Taxing Wages* statistics. At 125% and 150% of the OECD average wage, UK income tax rates for two-earner families with an 80:20 income split are much higher than those in the other three

countries.

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.

40. 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. For the UK it takes account of the loss of tax credits but not of other means tested benefits such as housing benefit and Council Tax Support.

41. These 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.

42. The UK EMTR does not take account of Universal Credit, received by only a small proportion of households in 2019.[14] It is not known how the OECD proposes to deal with Universal Credit in future editions of *Taxing Wages.*

43. We use OECD data for 2019 (UK tax year 2019-20) to compare the UK with the OECD as a whole for four different one-earner household types:
    - singles without children;
    - one-earner married couples without children;
    - singles with children; and
    - one-earner married couples with children.

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

44. OECD data for 2019 for all individual countries for eight household types are to be found in Appendix E, which is equivalent to *Taxing Wages* Table 3.7.

14 Robert Joyce, Institute for Fiscal Studies, 28 November 2019. Currently 2.5 million households are in Universal Credit. The number is set to rise to 6 million by 2023-24.

EMTRS FOR ONE-EARNER HOUSEHOLDS

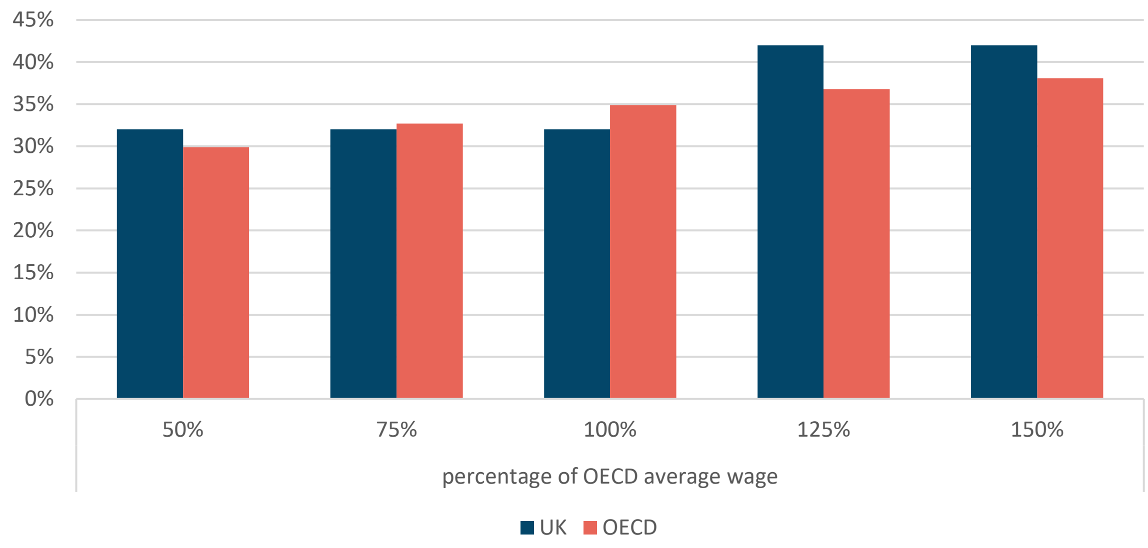
SINGLE PERSON WITHOUT CHILDREN

45. Table 9 and Chart 9 compare EMTRs for a single person without children at five income points. The UK EMTR is slightly lower than the OECD average at 100% of OECD average wage, and higher at the 125% and 150% income points.

TABLE 9
EMTR 2019 – 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	29.9%	32.7%	34.9%	36.8%	38.1%

CHART 9



Source: OECD statlink tables pp 82-117

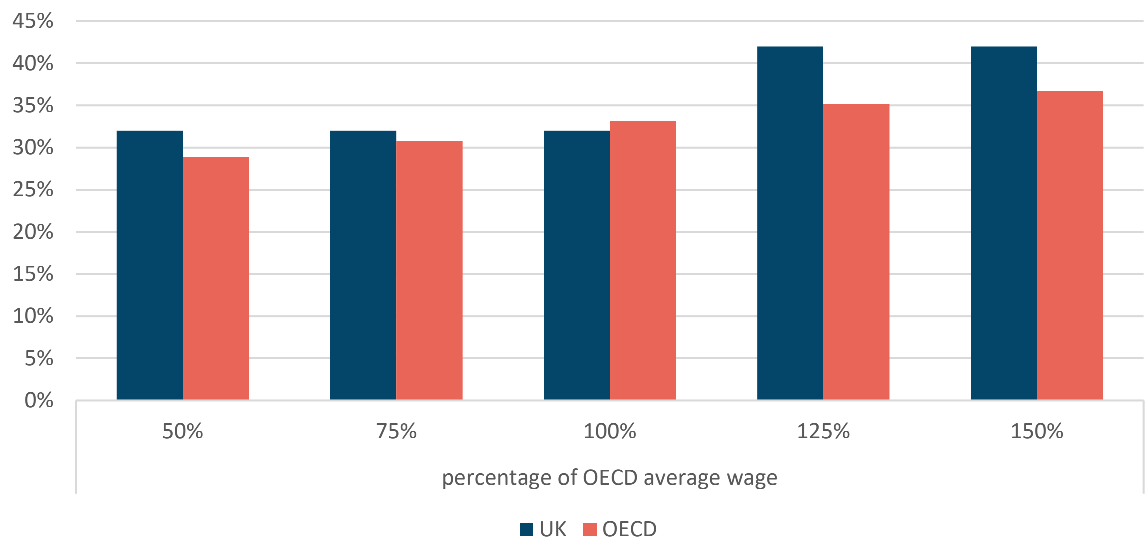
ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

46. Table 10 and Chart 10 compare EMTRs for a one-earner married couple without children at five income points. The UK EMTR is higher than the OECD average at 125% and 150% of OECD average wage.

TABLE 10
EMTR 2019 – ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	32.0%	32.0%	32.0%	42.0%	42.0%
OECD	28.9%	30.8%	33.2%	35.2%	36.7%

CHART 10



Source: OECD statlink tables pp 82-117

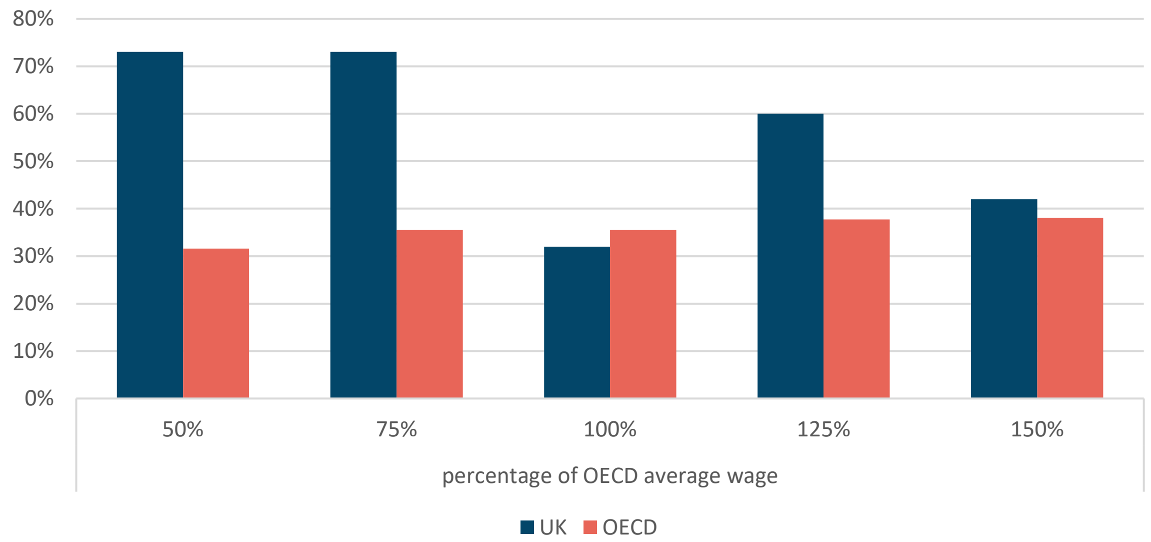
SINGLE PERSON WITH TWO CHILDREN

47. Table 11 and Chart 11 compare EMTRs for a single person with two children at five income points. The UK EMTR far exceeds the OECD average at the 50%, 75% and 125% income points.

TABLE 11
EMTR 2019 – SINGLE PERSON WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	60.0%	42.0%
OECD	31.6%	35.5%	35.5%	37.7%	38.1%

CHART 11



Source: OECD statlink tables pp 82-117

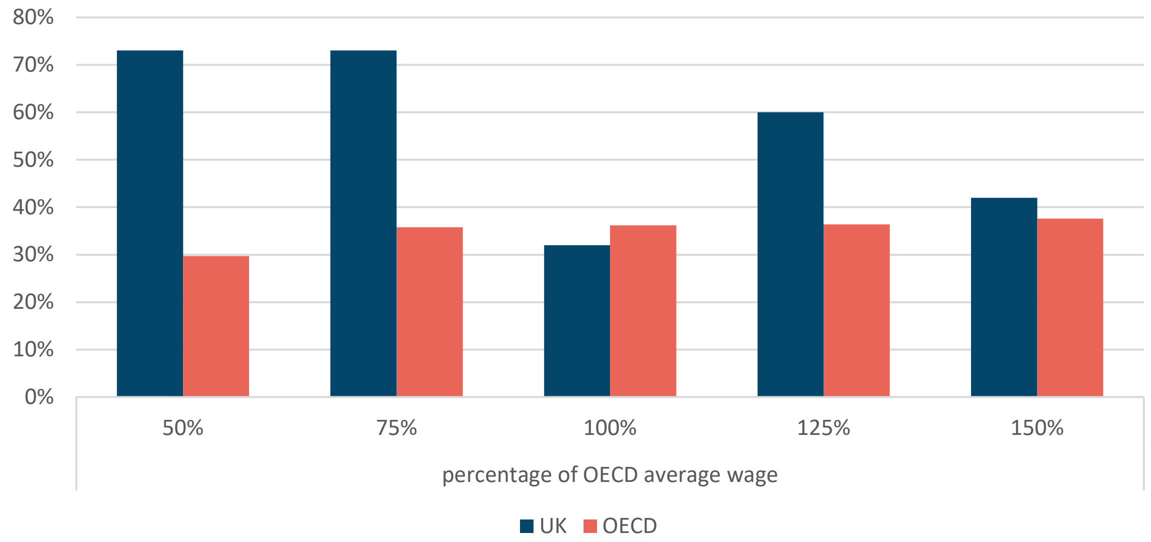
ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

48. Table 12 and Chart 12 compare EMTRs for a one-earner married couple with two children at five income points. The UK EMTR far exceeds the OECD average at the 50%, 75% and 125% income points.

TABLE 12
EMTR 2019 – ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	60.0%	42.0%
OECD	29.7%	35.8%	36.2%	36.4%	37.6%

CHART 12



Source: OECD statlink tables pp 82-117

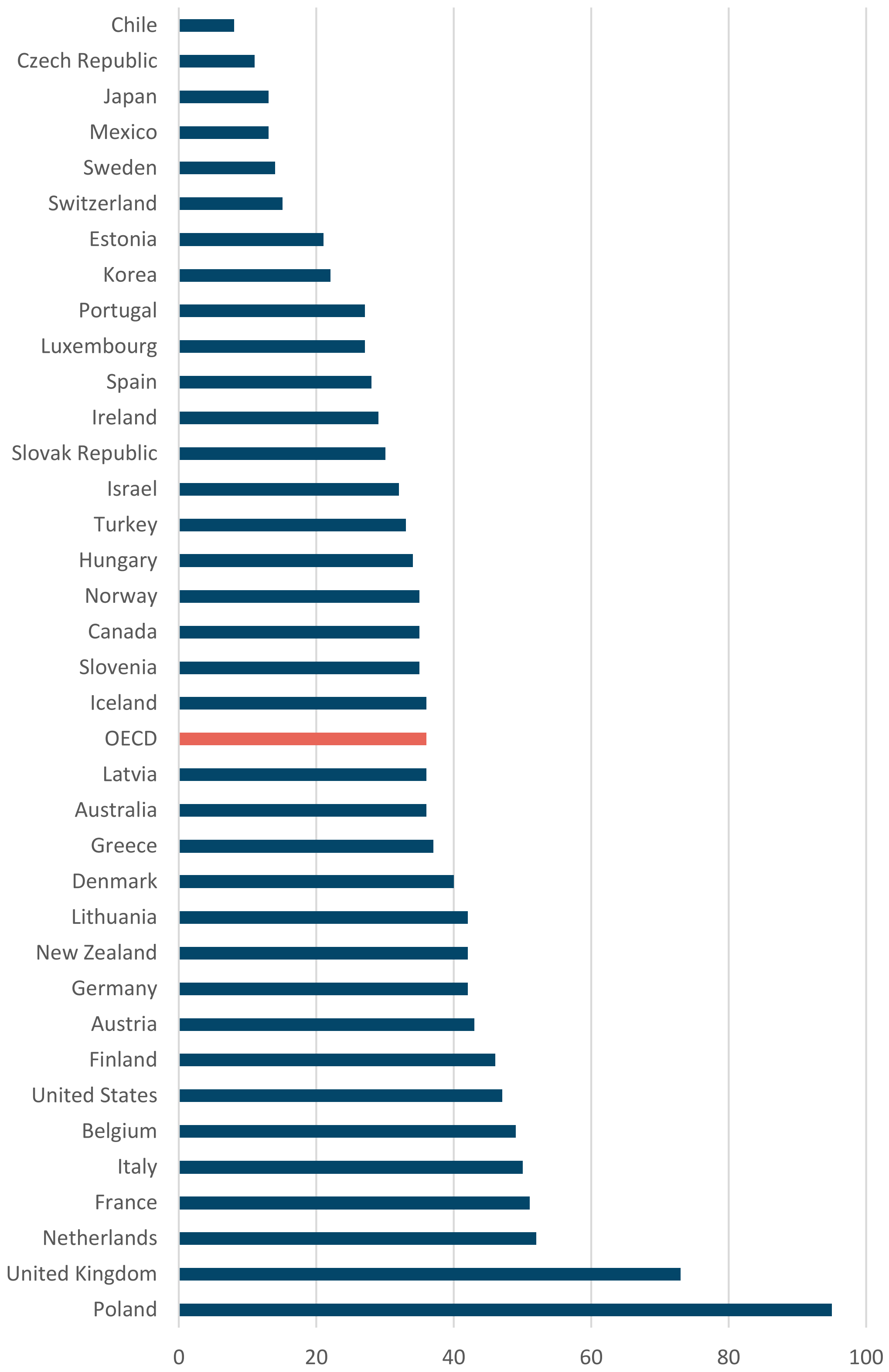
HIGH EMTRs FOR UK ONE-EARNER FAMILIES

49. The withdrawal of tax credits accounts for much of the high UK EMTR at low income points. 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%.

50. Chart 13 shows EMTRs in OECD countries at 75% of average wage for a one-earner married couple with two children. The UK EMTR is the second highest of all OECD countries, more than twice as high as the OECD average. Although the UK's EMTR is exceeded by Poland's at this specific income point in 2019, the UK is the only OECD country with such high EMTRs across a wide range of modest incomes.

51. The reason why EMTRs for one-earner families on modest incomes are much higher in the UK than in other OECD countries is that family responsibility is recognised not within the income tax system, but by means of tax credits that are tapered sharply. When independent taxation was introduced in the UK (in 1990), recognition of family responsibility was retained within the income tax system through provision of the Married Couples Allowance and the Additional Persons Allowance, and the EMTR for a one-earner family on 75% average wage was only 34%, close to the OECD average in 2019. These provisions were removed subsequently, and tax credits introduced. It is the withdrawal of benefits as incomes rise that has caused the UK EMTR to rise to 73% in 2019, and higher if account is taken of the withdrawal of housing benefit and Council Tax Support.

CHART 13
EMTR AT 75% OF AVERAGE WAGE
ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN 2019



Source: OECD statlink tables pp 82-117

CHAPTER 5 – UK TAX BURDENS AND HOUSEHOLD INCOMES

This chapter summarises the current situation, highlighting the disparity of tax burdens between household types.

52. As shown in previous chapters, the UK income tax system is different from that of other countries in that it takes almost no account of household income or family circumstances. There are two exceptions: the small marriage allowance and the High Income Charge Benefit Charge (HICBC).

53. As a result, many UK families pay far more income tax than comparable families in other countries. At the OECD average wage, a one-earner couple with two children in the UK pays 39% more than the equivalent French family and nearly nine times as much as the equivalent German family. The equivalent US family pays no Federal income tax, and only a third of the income tax of the UK family with state and local taxes included.

54. UK families also have to earn more (and consequently have higher income tax liabilities) than taxpayers without family responsibilities with the same standard of living. This is not well understood. The result is that increases in the personal allowance intended to help people with modest incomes largely benefit households in the top half of the income distribution, and measures such as the HICBC that are targeted at taxpayers with high earnings affect some families in the bottom half. Because household incomes have to be supplemented by in-work benefits, many families on modest incomes face high marginal rates.

55. There are official figures showing how much disposable income – income after tax and national insurance contributions and including benefits – a household needs to be in various deciles of the population. They take account of the number of people in the household and the ages of children. Figures are published for income before housing costs (BHC) and after housing costs (AHC). The latest available finalised figures are for 2018/19.[15] These figures assume that a couple with two children needs almost two and a half times the disposable income of a single adult to have the same standard of living, and 40% more disposable income than a childless couple.[16]

56. At first sight, UK income tax is paid mainly by the better off. The top 1% of earners (those earning over £160,000) pay a quarter of all income tax; the top 10% of earners (those earning over £50,000) pay 60%; 40% of adults pay no income tax.[17] But to what extent is the income tax burden borne by the better off?

57. The answer depends on how income is measured. If on a household basis, as

15 Households below average income (HBAI) 1994/95 to 2018/19, Department of Work and Pensions, March 2020
16 A single parent with two children needs 70% more than a single adult without children and almost as much as a couple without children. A couple with four children needs 80% more disposable income than a couple without children. See HBAI Appendix 2
17 'Who is paying income tax?' Helen Miller video clip https://www.ifs.org.uk/publications/10226

when the Government measures inequality, the answer is different from when only individual income is taken into account. When income is measured on a household basis, a household with gross earnings of £50,000 could well be in the worse off half of the population. It is unlikely to be in the top 10%. It may not even be in the 3rd decile (meaning that at least 70% of households are better off) if there are four children and housing costs are taken into account when income is measured. In the current tax year higher rate tax applies on an income of £50,000. A family in which one parent earns more than £50,000 family will be subject to the HICBC.

58. High earnings do not necessarily equate to a high standard of living, nor do low earnings necessarily mean a low standard. Living standards depend on household income and how many people that income has to support.

59. Housing costs have a major impact on living standards. AHC figures are therefore better than BHC for assessing how well off households are.[18] Table 13 shows disposable income (AHC) for the current tax year for households at median income and at 60% and 70% of the median,[19] based on the 2018/19 income distribution. All the households are assumed to be in rented accommodation.[20]

TABLE 13
DISPOSABLE INCOME IN 2020/21 (AFTER HOUSING COSTS) FOR HOUSEHOLDS AT THREE DIFFERENT POINTS OF THE 2018/19 INCOME DISTRIBUTION

	single person	single person two children	couple no children	couple two children	couple four children
60% median	£8,100	£13,700	£14,000	£19,600	£25,200
70% median	£9,500	£16,000	£16,300	£22,900	£29,400
median	£13,500	£22,800	£23,300	£32,600	£41,900

Note: For the household with four children, it is assumed that two were born after 6 April 2017. Universal Credit is not available for these two children. This assumption also applies to Tables 14, 15 and 19.

60. The official figures do not tell us the gross incomes required for these net incomes. Tax and the Family have recently published these figures for AHC incomes.[21] Tables 14 and 15 show Tax and the Family's estimates of the gross incomes and income tax liabilities for the current tax year for one-earner households.[22] Numbers are rounded to the nearest £100.61.

18 BHC figures treat housing benefit as income. An increase in benefit produces an increase in BHC income where there is no increase in disposable income.
19 HBAI shows figures at both 60% and 70% of the median. At 60% most households with children do not pay income tax.
20 All the households are assumed to be in rented accommodation in Leeds, paying rent equivalent to the appropriate local housing allowance, which in the case of a couple with two children is £161 per week. Estimates are based on latest available figures. Figures for the 10th, 50th and 90th percentile are taken from HBAI 2020. Figures for the 70th percentile are calculated by the authors from HBAI data. Numbers are rounded to the nearest £100.
21 'Is Income Tax Burden Fairly Shared?' https://www.taxandthefamily.org/reports-1/2020/10/28/is-income-tax-burden-fairly-shared
22 Figures for two income families can be found in 'Is Income Tax Burden Fairly Shared?', op. cit.

TABLE 14
GROSS INCOMES IN 2020/21 OF ONE-EARNER HOUSEHOLDS IN RENTED ACCOMMODATION AT THREE DIFFERENT POINTS OF THE 2018/19 INCOME DISTRIBUTION

	single person	single person two children	couple no children	couple two children	couple four children
60% median	£12,400	£1,300	£28,200	£8,800	£32,600
70% median	£17,500	£3,500	£31,600	£24,700	£42,600
Median	£26,500	£36,200	£41,900	£58,200	£79,000

TABLE 15
INCOME TAX LIABILITIES IN 2020/21 OF ONE-EARNER HOUSEHOLDS IN RENTED ACCOMMODATION AT THREE DIFFERENT POINTS OF THE 2018/19 INCOME DISTRIBUTION

	single person	single person two children	couple no children	couple two children	couple four children
60% median	£0	£0	£2,800	£0	£2,500
70% median	£1,000	£0	£3,500	£2,200	£5,800
Median	£2,600	£3,900	£5,500	£10,800	£19,100

61. After allowing for benefits and housing costs, households with children need to earn significantly more than those without to have the same standard of living, and as a result pay significantly more tax than comparable households without children. Larger families need to earn more and therefore pay more tax than smaller families. To take an extreme example, a family with four children needs to earn almost £80,000 to have a median income, whereas a single adult needs to earn only £26,500. The four-child family has a tax liability of £19,000, whereas the single adult only pays £2,600. To have a median income, a single parent with two children needs to earn almost 40% more and pays 50% more tax than a single adult without children, and a one-earner couple with two children needs to earn double the amount and pay twice as much tax. Even a couple with two equal incomes may need to earn almost double.[23]

62. At 60% of median household income, the commonly regarded relative poverty line, single parents and couples paying rent of £161 per week do not pay income tax. However, a one-earner couple with four children, two of them born after 5 April 2017, pays over £2,000 tax. This is because they need more income to have 60% of the median, and Universal Credit is not available for the third and fourth children.

63. At 70% of median household income, one of the income points used by the DWP

23 'Is Income Tax Burden Fairly Shared?', op. cit., para 15

in its analysis of households below average income, a couple with one income and two children needs to earn 40% more than a single individual, and with four children almost two and a half times as much. The couple with two children pays over £2,200 in income tax, and with four children almost £6,000.

64. At 70% of median household income, single parents are better placed, not because the tax and benefit system is more generous to them, but because the amount of disposable income that Government statisticians assume they need for a given standard of living is less, and consequently they pay less tax.

65. Very few commentators have drawn attention to the wide variation in tax liabilities faced by households with the same income. A one-earner couple with four children with a median income needs to earn more than three times as much as a single adult, and as a result pays a surprising seven times as much income tax.

TAX THRESHOLDS

66. It is also important to know which households are affected by tax thresholds. Apart from in Scotland, where a lower threshold applies, the higher rate of income tax starts to be paid on income over £50,000. £50,000 is the starting point for the HICBC. The Households Below Average Income (HBAI) team have given Tax and the Family the equivalised household income decile points for AHC income, from which Tax and the Family have worked out where various households with pre-tax income of £50,000 fit in the distribution of incomes. Table 16 shows the deciles in which the eight households lie in the current tax year on the basis of the latest information. The actual figures for 2020/21 will not be available for two years, by which time the incomes required may be higher.

TABLE 16
HOUSEHOLDS WITH PRE-TAX INCOME OF £50,000 IN RENTED ACCOMMODATION – POSITION BY DECILE IN THE 2018/19 INCOME DISTRIBUTION

	decile	annual income after housing costs	annual income tax
Single person no children	10th	29,873	7,502
Single person two children under 11	7th	29,403	7,502
One-earner couple no children	7th	28,830	7,502
Couple – two equal earners no children	8th	32,436	5,011
One-earner couple two children under 11	5th	29,403	7,502
Couple – two equal earners two children under 11	6th	33,293	5,011
One-earner couple four children under 14, all born before 2017	5th	36,796	7,502
One-earner couple four children under 14, two born before 2017	4th	31,121	7,502

67. This table is another way of showing the unfairness brought about by using the gross income of an individual as a basis of tax liability. At the threshold to higher rate tax and, where relevant, the HICBC, how well off people are can vary widely. A single person without children will be in the 9th decile and a one earner couple with 4 children in the 3rd decile, with other families falling in between depending on the number in the household. The one earner households all pay the same amount of tax £7,502, however well off they are, and the two earner households both pay £5,011.

MARGINAL RATES

68. It is not just the total amount of tax that matters. The marginal rate – the tax paid on the next pound of income – is also important. Marginal rates affect incentives and may also prevent families escaping poverty, repaying a debt or rebuilding their family finances. If the State takes back 75% of any additional income, it is very difficult for families to improve their finances.

69. Table 17 shows the marginal rates of income tax. It is only on some incomes above £100,000 that the rate is as high as 60%. For most taxpayers the rate will only be 20%, 32% when national insurance is taken into account.

TABLE 17
MARGINAL RATES OF INCOME TAX ON EMPLOYMENT INCOME IN 2020/21

income range	Scotland	UK excluding Scotland
£0 - £12,500	0%	0%
£12,501 - £14,585	19%	20%
£14,586 - £25,158	20%	20%
£25,159 - £43,430	21%	20%
£43,431 - £50,000	41%	20%
£50,001 - £100,000	41%	40%
£100,001 - £143,700	62%	60%
£143,701 - £150,000	41%	40%
£150,001-	46%	45%

Note: Taxpayers repaying a student loan pay an additional 9%. Where the HICBC applies, there will be an addition to the marginal rate of 52.95% for the first child and a further 7.25% for every additional child.

70. Taxpayers receiving Universal Credit have a much higher effective marginal tax rate (EMTR). This is because additional earnings result in not only additional income tax and national insurance payments but also a cut in Universal Credit. EMTRs may also be affected by the withdrawal of Council Tax Support. For many families on modest incomes the EMTR will be 75%. The income range to which this rate applies will vary according to the number of children in the family and their qualifying housing costs. It will be narrower for owner occupiers. Since an increase in income this month will affect the Universal Credit for next month, the high marginal rates will be very visible.

71. Table 18 shows the EMTRs on employment income in England, Wales and Northern Ireland in 2020/21 where Universal Credit applies. It does takes account of the withdrawal of Council Tax Support.[24] It is assumed that the household consists of a one-earner couple with two children paying rent of £161 per week,[25] which entitles the family to Universal Credit.

TABLE 18
EMTRS ON EMPLOYMENT INCOME OF ONE-EARNER COUPLE WITH TWO CHILDREN IN RENTED ACCOMMODATION IN THE UK EXCLUDING SCOTLAND IN 2020/21

income range	income tax	NICs	Universal Credit	Council Tax Support	personal allowance	EMTR
£0-£3,513	0%	0%	0%	0%	0%	0%
£3,514-£9,474	0%	0%	63%	20%	0%	83%
£9,475-£12,500	0%	12%	55%	18%	0%	85%
£12,501- £50,000	20%	12%	43%	0%	0%	75%
£50,001-£100,000	40%	2%	0%	0%	0%	42%
£100,001-£123,000	40%	2%	0%	0%	20%	62%
£123,001-£150,000	40%	2%	0%	0%	0%	42%
£150,001-	45%	2%	0%	0%	0%	47%

Note: The note to Table 17 applies.

72. The Universal Credit withdrawal rate is 63%. The income point at which this starts to apply varies according to the claimant's circumstances. A claimant can earn a certain amount without losing Universal Credit if they or their partner are responsible for a child or young person or have a disability or heath condition that affects their ability to work. The monthly work allowance is £292 if Universal Credit includes housing support, and £512 if it does not. Universal Credit is based on household income net of income tax and national insurance contributions. With income above the income tax threshold and below the higher rate threshold, the claimant loses 43p of Universal Credit for every extra pound earned – 63x(100-20-12)% – and the EMTR is 75%. If the amount earned is above the national insurance threshold but below the income tax threshold, just over 55p of Universal Credit is lost for every extra pound earned and the EMTR is 67%.

24 Council Tax Support (Council Tax Reduction) has replaced Council Tax Benefit and, as with the benefit, the amount is dependent on income. The scheme is run by local authorities and increases the EMTR. One scheme we have seen involves a taper rate of 26%; another uses a rate of 16%. Yet another scheme uses income bands so that small that changes in income do not affect the support received. In this document we have assumed a 20% taper rate.

25 This is the local housing allowance in Leeds for a family entitled to a small three bedroom house.

73. Because adults without children do not have a work allowance, they lose 63p of every pound as soon as they start earning. The EMTR is 63% below the national insurance threshold and 67% above it up to £9,959, the income point at which, given the assumptions, Universal Credit runs out. However, most adults in full-time work without children are likely to have an EMTR of 32%, in contrast to the 75% faced by taxpayers with children.

74. Table 19 shows the EMTRs of the five households in Tables 13-15. It takes account of the withdrawal of Council Tax Support.

TABLE 19
EMTRS IN 2020/21 OF ONE-EARNER HOUSEHOLDS IN RENTED ACCOMMODATION AT THREE DIFFERENT POINTS OF THE 2018/19 INCOME DISTRIBUTION

	single person	single person two children	couple no children	couple two children	couple four children
60% median	67%	83%	32%	83%	75%
70% median	75%	83%	32%	75%	75%
Median	32%	75%	32%	60%	42%

HOW BIG A PROBLEM?

75. The latest HBAI data[26] shows that in 2018/19 there were 14 million children, of which 87% lived in households where at least one adult was in paid work. These households bear a heavier income tax burden than other households with the same standard of living.

76. 5.4 million children (almost 40%) lived in households with an AHC income of less than 70% of median. At this level of income, it is likely that all one-earner households will be receiving Universal Credit or comparable benefits under the legacy system.[27] One-earner families on 70% of median therefore are likely to have a 75% marginal rate, as will some low two-earner families. Those entitled to Council Tax Support may have an 85% rate.

77. Over 2 million children live in couple households that have only one earner and an income of less than 70% of median, and in addition there are 2 million children in working single parent households This means almost 4 million children (almost 30%) are living in one-earner households with incomes of less than 70% of median.

78. Bearing in mind that some two-earner households will also have income below 70% of median, it might be reasonable to conclude that perhaps 5 million of the 11 million children in in-work households live in households with a very high EMTR.

26 HBAI 2018/19, op. cit., Table 4.3db
27 One-earner couple households with two children and single parent households with two children have a 75% marginal rate on median income AHC. Couples with two equal incomes have a 32% marginal rate.

79. Under the legacy system, 2 million families were receiving tax credits, and some families not receiving tax credits have been getting housing benefit. The COVID-19 pandemic has resulted in an increase in the number of households claiming Universal Credit: 4.6 million households in August 2020, of which just 1.7 million were households with children (1.1 million singles with dependent children and 600,000 couples with dependent children).[28]

CONCLUSION

80. The UK tax system does not treat families fairly. The amount of tax that they pay bears little relationship to how well off they are. Some families pay more tax than other households that are considerably better off. Some in the bottom half of the income distribution even pay higher rate tax and are liable for the HICBC. This problem, which has been ignored by successive Chancellors, is a serious one, and needs to be tackled. Tax liabilities should be brought closer into line with household incomes, and the number facing a high marginal rate needs to be reduced. Other countries do not seem to have this problem.

81. The problem arises because UK income tax is based on individuals and, unlike in other developed countries, takes little account of family responsibilities. By contrast, benefits, including tax credits and the Universal Credit, are based on households, reflecting how people live.

28 Universal Credit statistics https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-12-november-2020

CHAPTER 6 – WHAT NEXT FOR THE UK?

This chapter considers how the Government should respond to the issues raised in this report.

82. The issues raised in this report begin with a discussion which might almost be regarded as cultural. Most of those of us who have taken part in writing this report or who read it will have been brought up with the understanding that how well off someone is turns on how much income he or she has, in particular what they earn. We are pleased to draw child benefit or the national insurance retirement pension to which everyone is entitled. But unless at any time we have had to rely on means tested benefits, we are unlikely fully to appreciate the need to look across to the household in eking out a pretty basic standard of living. And this underlying approach may unconsciously affect the views of Ministers, officials and commentators concerned with the income tax system. What the head may think is one thing, which it would be if the Family Test announced by David Cameron in August 2014[29] were to be applied to tax policies, but it won't be fully taken on board unless the heart is there also.

83. It is against this background that, both in CARE and in Tax and the Family, we have not found it easy to get our case established publicly – not necessarily accepted, but at least worth discussing. And yet the arguments set out in this report are powerful, and we believe demonstrate very clearly that there can be a fair income tax system which bases tax liabilities on the ability to pay only when the household is seen as the basic unit. For so long as it is generally accepted that a single person without dependents on an income of say £30,000 has the same taxable capacity as a one earner couple with children on the same income, we shall make little progress towards introducing a fairer system.

84. In the hope that the issues may be becoming a little better understood, in this Chapter we look at what needs to be done if the problems brought out in this report are to be addressed. However the current circumstances in which our lives have been profoundly affected by the COVID-19 pandemic, and with it the economy, are not at all helpful. The borrowing which the Government has had to do has meant that the Exchequer has run up an eye watering level of debt. And much more is yet required if employment is to be restored and our production returned to its pre-pandemic level if not more. Nevertheless, we shall be 'Building Back Better' only if one of the ways in which we do so is to have a tax system which is fair and brings tax liabilities more into line with the ability to pay.

85. The task which the Chancellor of the Exchequer faces is formidable. He has both to stimulate the economy by measures which will include among other things reducing, or at least not increasing, taxation, and also to start to reduce the mountain of debt which has to be repaid and this requires among other things

29 Speech to the Relationships Alliance Summit, 18 August 2014

increasing taxation. There may be some limited scope for increasing some areas of taxation without damaging the economy, but it is nowhere near sufficient to make more than a pretty small contribution.

86. The answer may depend to some extent on timing. This year and next priority will have to be given to restoring the economy and doing as little as possible to weaken growth by way of increasing taxation. However all being well by 2023 the economy may be strong enough to give some room for increasing taxation. But by then political considerations will begin to kick in. Under the Fixed Term Parliament Act the likely date for the next General Election is December 2024, and it will not be until 2025 that both the economic and political considerations may combine to make increasing taxation and making major tax changes, which inevitably have losers as well as winners, less difficult to implement.

87. The recommendations which we make in this chapter, based on the findings in this report, take these timetable factors into account. They also recognise that major tax changes cannot take place overnight. Those of any significance need to be the subject of consultation, and in all likelihood on the basis of a Green Paper. In addition if, as is likely, new IT programs or major changes to existing programs are required, they may take a year or two to be worked up, tested and embedded if they are not to give rise to serious problems for taxpayers and HMRC alike, especially if a large number of taxpayers are likely to interrogate them at the same time.

88. With these timetable factors in mind, our most substantial recommendation is that as soon as reasonably possible the Chancellor of the Exchequer should announce a study into putting income tax on a household basis and how it might be done. This would include looking at the tax systems in other countries, in particular perhaps the United States, France and Germany, and consulting the professional bodies, the think tanks, other interested parties and of course the general public. It might well be the subject of an inquiry by the Treasury Select Committee. Only when that has been done, can a decision be taken and the necessary legislation introduced. In the meantime, all the administrative and IT system changes would need to be planned and implemented.

89. The income of the members of a couple would have to be combined, just as with means tested benefits. It would doubtless be argued that this would break one of the purposes of introducing independent taxation in that it would be necessary for the members of the couple to disclose their income to each other. It might be possible for HMRC or an agent to make the assessment, but even then a reasonable estimate of the partner's income could probably be made. But why should couples be different in this regard in relation to taxation than they are in relation to means tested benefits? Why should only those in households with enough income not to need benefits have the right to non-disclosure? We shall not get a fair system of taxation unless this issue is faced up to.

90. All this will take several years, but, assuming that the decision is soon taken to go ahead, it will take us well into the mid 2020s and by then the timing will be

better. Unless, which is unlikely, there is an opportunity for a very considerable tax stimulus, there will inevitably be losers, and they will be much more vocal than the winners. Single people without dependants and to a lesser extent those with only one dependant will be losers and some two income couples may also have to pay more.

91. In the meantime, before this major structural change can come into effect, there is much that could be done to ease the impact of the current tax regime. But before we come to that we should express regret that the Chancellor has recently made a change which does not help. In the last decade the increases in the personal allowance, at tax foregone totalling some £30bn, have very largely benefitted those in the top half of the income distribution rather than those in the bottom half, especially those with children. Nevertheless, in his 2020 Spending Review the Chancellor announced that the personal allowance for 2021/22 would be increased by 0.5% in line with the CPI, we understand to £12,570. Clearly this will not help anyone earning less than £12,500, while for anyone earning more than that and receiving Universal Credit the taper in their credit is 63% so that they will receive only 37% of the increase. On past experience, almost 75% of the benefit ends up with households in the better off half of the population.

92. There are a number of measures which the Chancellor might be taking very shortly. First it will take time to restructure the High Income Child Benefit Charge so that it does what it set out to do and apply only to the top 15% of families. It may be possible to do this fully only as part of bringing taxation onto a household basis, but meanwhile there could be different starting and cut-off points for the Charge, based on equivalisation factors, which would depend on whether there were one or two adults and the number of children in the household.

93. Failing a restructuring of this nature, it would be essential to raise substantially the starting point of the Charge from its current level of £50,000 if it is not to continue to affect, as we have shown in this report, those in the bottom half of the income distribution. When the Charge was introduced, both the Prime Minister. David Cameron,[30] and the Chancellor, George Osborne,[31] said that it was to affect the top 15% of families. According to the Office for National Statistics,[32] in 2019 the richest fifth of people had an average household income before taxes and benefits of £105,000 and after taxes and benefits of £75,300. This would suggest that the very least at which the threshold should now be set is £100,000 and probably more.

94. The point at which the Charge runs out also needs to be raised substantially, but a better way of tackling that issue might be to have a standard withdrawal rate of say 10% however many children there may be in the family. At present child benefit rates, the marginal withdrawal rate is 10.95% for the first child and 7.25% for each additional child, so for example it is 25.45% for a three child family. These withdrawal rates are in addition to higher rate tax of 40% and NIC of 2% so that the

30 Hansard, 6 March 2012, Col 708
31 Hansard, 7 March 2012, Col 841
32 Effects of taxes and benefits on UK household income: financial year ending 2019, ONS, 23 June 2020 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/theeffectsoftaxesandbenefitsonhouseholdincome/financialyearending2019

overall marginal rate is 52.95% for a one child family and 67.45% for a three child family. In the, admittedly pretty unusual, case of an eight child family it is 103.7%. In so far as it is likely that larger families are more usually found in some ethnic and faith minorities, the present basis of the withdrawal rate is discriminatory on racial and religious grounds.

95. Another area which might be enhanced in the meantime is the marriage allowance: this is hardly surprising in that its roots are in the transferable allowance which the then Chancellor, Nigel Lawson, proposed in the Green Paper 'The Reform of Personal Taxation' in 1986.[33] Had effect been given to that proposal when independent taxation was brought in, at least some of the issues we face today would not have arisen or would at least be less significant.

96. Although the introduction of the marriage allowance in 2014 was to be welcomed, it was the minimum which could have been done to satisfy the commitment in the 2009 Conservative Party manifesto. The allowance is quite puny and has considerable limitations. It is given at only 10% of the personal allowance and this percentage might be increased considerably, if possible to the full allowance. In addition, the cliff edge denial of the allowance if the transferee spouse is a higher rate payer suggests that the cut-off point might be lifted and a marginal provision introduced.

97. There is also a question of whether to extend the allowance to all couples or to reserve it for married couples only. Both options are possible. If viewed from the perspective of treating everyone with family responsibilities in the same way, regardless of the level of formal commitment made in their relationship, then clearly one would extend the allowance to all couples.[34] In this regard it is interesting to note that, while marriage was previously recognised in a much more meaningful way under the old Married Couples Allowance than it is under the current marriage allowance, a broadly similar level of support was afforded to unmarried couples and single parents through a separate provision called the Additional Personal Allowance. If however viewed from the perspective of wanting to recognise the public policy benefits of the marriage commitment in terms of both adult and child wellbeing, then the allowance would be reserved for married couple families. An alternative would be to address the basic underlying unfairness facing both families, but to provide an additional fiscal premium for those in committed married relationships to help provide some additional support for marriage. It is not the purpose of this publication to explore these options fully, but simply to recognise that they exist and need to be considered. It is also arguable, particularly if cost is a factor, that priority in the first instance should be given to families with children or where the non-earning spouse is physically or mentally disabled and unable to go out to work.

98. Another beneficial change worth consideration, in addition to or as an alternative to an increase in the marriage allowance, would be to introduce an allowance

33 Green Paper on Reform of Personal Taxation (Cmnd 9756), Treasury, 1986

34 This, and increasing the allowance to the full amount of the personal allowance, was recommended in 'The Policies of Belonging', new research published by Onward on 12 January 2021. https://www.ukonward.com/policiesofbelonging/

for people with children. It would however suffer from the same disadvantage as noted earlier that anyone also entitled to Universal Credit would find that much of the reduction in liability to tax would be lost in a reduction in the credit. It would also be rather a blunt instrument, and a better targeted and more flexible measure would be to reintroduce child tax allowances. An allowance could be given for each child; the amount of the allowance could be varied with the age of the child and an increased allowance could be given if a child were disabled. Here again there would be likely to be quite a time lag as the IT systems were devised and put in place.

99. Finally, there are two issues which, although not directly related to tax, are relevant.

100. First, at the beginning of the pandemic an additional £20 a week was added to all awards of Universal Credit. This was a temporary measure and is due to expire in April 2021. It was expected that the Chancellor would spell its future out when he disclosed his expenditure plans last November. In the event however he said nothing about it: a statement said that the Government would look at the economic and health context in the new year. While we certainly hope that the help will be maintained, its nature should be reviewed. As an emergency matter it is being paid at a flat rate, but for the reasons spelled out in this report in order properly to reflect the needs of families the addition should be proportionate to the size of the claim so as to take into account the number of dependents, disabilities and suchlike.

101. Second, there is a good case for raising the level of child benefit so as to provide greater support for all children except for those in the truly wealthiest families (see paragraph 92 above). It is the case that the level was raised by rather under 2% for 2020/21, but this was after a period in which it was frozen in many years so that the total increase between 2011/12 and 2019/20 was also less than 2%. During this time we have seen retail prices rise by some 30%, so that the value of child benefit in real terms has fallen by over a quarter. Increasing child benefit would not result in a reduction in Universal Credit.

CONCLUSION

102. What is needed is a culture change so that the household is recognised as the basic unit of taxation just as it is for other purposes. This will enable the unfairness and disadvantages for families with children considered earlier in this report to be tackled and the UK system brought more closely into line with those in most other developed countries.

103. The structural change needed should start with a consultation paper which would look at how best the household basis might be introduced. However the conclusions would take time to put into effect. Meanwhile short and medium term changes would be needed. Effect could be given to the original purpose of the High Income Tax Benefit Charge so that it no longer impacts on families in the second and third quartiles of the income distribution: the marriage allowance

might be increased and widened in scope: the temporary changes to Universal Credit should be retained but might be focussed on those with dependants: and child benefit could be restored to its previous value in real terms.

104. These changes would be costly, but the cost could be reduced by not increasing the personal allowance each year in line with inflation. They would enable the Government to provide a secure tax base on which to 'Build Back Better'.

APPENDIX A – TAX BURDEN 2000, 2009, 2012-2019

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**	**100,67**	**100,100**	**100,67**
United Kingdom								
2000	22.8	25.8	28.8	7.7	20.6	21.5	23.2	24.6
2009	22.4	25.2	29.7	-0.2	18.4	20.7	22.6	24.1
2012	21.2	24.7	30.4	-2	19.7	20.3	22.2	23.3
2013	20	24	30.1	-3.1	19	19.4	21.5	22.4
2014	19.4	23.6	29.8	-4.1	18.5	18.9	21.1	21.9
2015	19.2	23.4	29.8	-3.4	17.8	18.7	20.9	21.7
2016	19.3	23.5	29.9	-1.4	18	18.9	21	21.8
2017	19.3	23.5	29.9	0.9	18.2	19	21.2	21.8
2018	19.2	23.4	29.9	2.4	18.3	19	21.2	21.8
2019	19.1	23.3	29.5	4	18.3	19	21.1	21.6
OECD								
2000	22.5	26.3	31.7	5.8	15.6	20.8	23.4	24.8
2009	20.6	24.8	30.2	3.3	13.2	18.7	21.4	23
2012	21.4	25.4	30.5	4.9	14.5	19.8	22.2	23.7
2013	21.6	25.7	30.8	5.3	14.9	20.1	22.5	24
2014	21.4	25.7	31.1	5	15	20.1	22.5	24
2015	21.4	25.7	30.8	4.4	14.7	19.8	22.3	23.9
2016	21.2	25.6	30.7	2	14.1	19.4	22	23.8
2017	21.2	25.6	30.7	2.5	14.2	19.5	22.1	23.8
2018	21	25.5	30.7	2.2	14.1	19.3	21.9	23.7
2019	21.4	25.9	31.2	2.7	14.6	19.5	22.3	24.1

Source: *Taxing Wages* Tables 6.17-6.24

APPENDIX B – TAX BURDEN BY HOUSEHOLD TYPE AND WAGE LEVEL 2019

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**	**100,67**	**100,100**	**100,67**
Australia	18.1	23.6	30.5	-4.7	16	21.4	23.6	21.4
Austria	27.7	33.2	38.1	0.4	15	20.9	24.8	31
Belgium	31.2	39.3	47.4	13.4	19.2	29.7	33.8	36.1
Canada	17.5	23.2	26.4	-27.3	2.4	16	19.5	21.6
Chile	7	7	8.3	6.2	7	6.7	7	7
Czech Republic	22	25	27.4	-3.5	1.8	13.6	19.1	23.8
Denmark	32.6	35.4	41.1	4.1	25.2	30.7	32.4	34.3
Estonia	10.8	16	21.3	-9	2.9	7.6	10.7	13.9
Finland	22.4	30	37.7	10.3	24.7	23.8	27.4	27
France	22.5	27.3	33.2	-8.1	13.8	20.4	23.2	26.6
Germany	34.4	39.3	43.4	18	21.3	31.1	33.8	37.1
Greece	21.1	26.1	33.2	13.4	22.3	23	26.6	25.2
Hungary	33.5	33.5	33.5	5.5	15.5	22.7	24.5	33.5
Iceland	25.4	28.7	33.9	14.7	16.4	27.4	28.7	27.4
Ireland	16.3	25.9	35.5	-5.1	8.9	17.3	22.4	21.4
Israel	11.7	18.3	27.9	-1.6	15.7	11.9	15	15.2
Italy	22.4	31.6	39.5	2.7	20	23.5	28.4	27.9
Japan	20.6	22.4	26.1	13.8	16.4	18.9	20.1	21.7
Korea	11.9	15.3	19.3	8.1	12.4	12.5	14.1	14
Latvia	25.2	28.7	29	6.5	16.1	19.8	22.4	27.3
Lithuania	33	36.1	38.7	15.5	27.7	29.8	31.9	34.8
Luxembourg	21.1	29.9	38.1	-4.5	5.9	16.6	22.1	24.1
Mexico	5	10.8	15.4	5	10.8	8.5	10.8	8.5
Netherlands	21.5	29.7	37.9	-4.8	24.2	20.8	25	26.4
New Zealand	13.9	18.8	24.3	-19.4	3.5	17.3	18.8	16.8
Norway	23.8	27.3	33.9	12	23.2	23.5	25.3	25.9
Poland	24.3	25	25.6	-20.4	4.2	12.8	15	24.7
Portugal	21.7	26.9	33.6	4.3	12.6	20.6	23.7	24.5
Slovak Republic	21.4	24.2	26.5	8.8	10.1	18	20	23.1
Slovenia	30.7	34.5	38.6	1.5	16.9	25.5	29.3	33
Spain	16.8	21.4	27.2	2.5	14.5	17.5	19.7	19.6
Sweden	21.8	24.7	35.6	11.6	17.8	19.4	21.2	23.5
Switzerland	14.5	17.4	22.4	-1.1	4.3	10.9	13.6	17.2
Turkey	24.6	28.5	32.6	22.8	26.5	26.2	27.9	26.9
United Kingdom	19.1	23.3	29.5	4	18.3	19	21.1	21.6
United States	21.5	24	28.9	2.9	12.2	17.8	20.2	22.4
Unweighted averages for OECD as a whole	21.4	25.9	31.2	2.7	14.6	19.5	22.3	24.1

Source: *Taxing Wages* Table 3.3

APPENDIX C – TAX BURDEN ON FAMILIES COMPARED WITH SINGLES WITHOUT CHILDREN 2019

	1	2	3	4	5	6	7	8	9
Household type	**Single no child**	**Single no child**	**Single no child**	**Single two children**	**Married two children**	**Married two children**	Col 4 as % of Col 1	Col 5 as % of Col 2	Col 6 as % of Col 3
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**			
Australia	18.1	23.6	30.5	-4.7	16	21.4	-26	68	70
Austria	27.7	33.2	38.1	0.4	15	20.9	2	45	55
Belgium	31.2	39.3	47.4	13.4	19.2	29.7	43	49	63
Canada	17.5	23.2	26.4	-27.3	2.4	16	-156	10	61
Chile	7	7	8.3	6.2	7	6.7	88	99	80
Czech Republic	22	25	27.4	-3.5	1.8	13.6	-16	7	49
Denmark	32.6	35.4	41.1	4.1	25.2	30.7	13	71	75
Estonia	10.8	16	21.3	-9	2.9	7.6	-83	18	36
Finland	22.4	30	37.7	10.3	24.7	23.8	46	82	63
France	22.5	27.3	33.2	-8.1	13.8	20.4	-36	51	62
Germany	34.4	39.3	43.4	18	21.3	31.1	52	54	72
Greece	21.1	26.1	33.2	13.4	22.3	23	63	85	69
Hungary	33.5	33.5	33.5	5.5	15.5	22.7	16	46	68
Iceland	25.4	28.7	33.9	14.7	16.4	27.4	58	57	81
Ireland	16.3	25.9	35.5	-5.1	8.9	17.3	-31	34	49
Israel	11.7	18.3	27.9	-1.6	15.7	11.9	-13	86	43
Italy	22.4	31.6	39.5	2.7	20	23.5	12	63	59
Japan	20.6	22.4	26.1	13.8	16.4	18.9	67	73	73
Korea	11.9	15.3	19.3	8.1	12.4	12.5	68	81	65
Latvia	25.2	28.7	29	6.5	16.1	19.8	26	56	68
Lithuania	33	36.1	38.7	15.5	27.7	29.8	47	77	77
Luxembourg	21.1	29.9	38.1	-4.5	5.9	16.6	-21	20	44
Mexico	5	10.8	15.4	5	10.8	8.5	100	100	55
Netherlands	21.5	29.7	37.9	-4.8	24.2	20.8	-22	81	55
New Zealand	13.9	18.8	24.3	-19.4	3.5	17.3	-140	18	71
Norway	23.8	27.3	33.9	12	23.2	23.5	50	85	69
Poland	24.3	25	25.6	-20.4	4.2	12.8	-84	17	50
Portugal	21.7	26.9	33.6	4.3	12.6	20.6	20	47	61
Slovak Republic	21.4	24.2	26.5	8.8	10.1	18	41	42	68
Slovenia	30.7	34.5	38.6	1.5	16.9	25.5	5	49	66
Spain	16.8	21.4	27.2	2.5	14.5	17.5	15	68	64
Sweden	21.8	24.7	35.6	11.6	17.8	19.4	53	72	55
Switzerland	14.5	17.4	22.4	-1.1	4.3	10.9	-8	25	49
Turkey	24.6	28.5	32.6	22.8	26.5	26.2	93	93	80
United Kingdom	19.1	23.3	29.5	4	18.3	19	21	78	64
United States	21.5	24	28.9	2.9	12.2	17.8	14	51	62
Unweighted averages for OECD as a whole	21.4	25.9	31.2	2.7	14.6	19.5	13	56	63

Source: Taxing Wages Table 3.3 for columns 1-6; columns 7-9 derived as shown

APPENDIX D – INCOME TAX SYSTEMS OF SELECTED COUNTRIES

The authors wish to acknowledge the extent to which they have drawn on the very helpful summaries of national tax systems in Taxing Wages and on various websites (in particular the PwC Worldwide Tax Summaries and French-Property.com). It is difficult for a non-national to grasp every detail of another country's tax system. Any reader wanting to really understand the tax systems in France, Germany and the USA should consult these sources.

FRANCE

The tax unit is aggregate family income, but children over 18 are included only if their parents claim them as dependants. Other persons may be fiscally attached on certain conditions: unlike spouses, who are always taxed jointly, children over 18 and other members of the household may opt to be taxed separately. The law provides for joint taxation of partners in a French civil union (pacte civil de solidarité, or PACS), as soon as the PACS is signed. Reporting obligations for "PACSed" partners are similar to those of married couples.

Tax reliefs include work-related expenses, corresponding to actual amounts or a standard allowance of 10% of net pay (with a minimum of EUR 441 and a ceiling of EUR 12,627 per earner).

The "quotient familial" system takes a taxpayer's marital status and family responsibilities into account. It involves dividing net taxable income into a certain number of shares (two shares for a married or PACSed couple, one share for a single person, one half-share for each dependent child, an additional half-share for the third and each subsequent dependent child, an additional half-share for single parent, and so on): the total tax due is equal to the amount of tax corresponding to one share multiplied by the total number of shares. The tax benefit for a half-share is limited to EUR 1,567 per half-share in excess of two shares for a couple or one share for a single person, except for the first two half-shares granted for the first child of a single parent, in which case the maximum benefit is EUR 3,697.

Tax rates on one share of taxable income are

up to EUR 10.064	0%
EUR 10,064-27,794	14%
EUR 27,794-74,597	30%
EUR 74,597-157,8084	1%
above EUR 157,808	45%

There is a special reduction for taxpayers with low tax liability if the household income is less than EUR 1,611 (double for couples). The rebate is equal to 75% of the difference between this ceiling and the amount of tax before the rebate.

For 2019 there is also a reduction rate of 20% of the tax if the household income is less than EUR 19,175 (double for couples) plus EUR 3,835 for each dependent person – for a couple with two children the reduction applies if the household income is less than EUR 45,382.

There are surcharges on high incomes: 3% for singles on incomes above EUR 250,000 and for married couples on incomes above EUR 500,000; and 4% on incomes above EUR 500,000 and EUR 1,000,000 respectively.

In addition to income tax, there is a "contribution sociale" (CSG) of 9.2% on 98.25% of taxable income, which is deductible against taxable income but at a lower rate of 6.8%; and a "contribution au reimbursement de la dette sociale" of 0.5%, which is non-deductible.

Example – one-earner married couple, two children

Gross earnings	EUR 36,547
Deductions – SSC and work related	9,572
Taxable income	26,975
Income tax	3,483 (i.e. 9.5% of gross income)
Contributions	4,133 (i.e. 11.3% of gross income)

GERMANY

Spouses may choose between two options: joint assessment or individual assessment. In the case of joint assessment, specific allowances are doubled. The vast majority of couples benefits financially from the joint assessment by minimizing the tax burden of the household. The income of dependent children is not assessable with that of the parents.

The income tax liability for spouses who are assessed jointly is computed as follows: (1) all incomes of the spouses are summed up and the sum is divided by two; (2) the tax rate is applied to this tax base; (3) the amount calculated in the second step is doubled. Given the progressive income taxation, the resulting tax liability for the household is lower than the sum of individual taxation. The household as a unit benefits from this solution otherwise both parts of the couple would opt out. Principal and second earners have the same average and marginal income tax rates. The splitting effect decreases as the incomes of principal earner and the spouse converge.

Individual income tax rates are

up to EUR 9,168	0%	
EUR 9,169-14,254	14%	(rising progressively to 24%)
EUR 14,255-55,960	24%	(rising progressively to 42%)

EUR 55,961-265,327	42%
over EUR 265,327	45%

As at 1 January 2019, there are tax credits of EUR 2,388 for the first and the second child, EUR 2,460 for the third child and EUR 2,760 for the fourth and subsequent children. There is a tax allowance of EUR 2,490 for the subsistence of a child and an additional EUR 1,320 for minding and education or training needs. The amount of this allowance is doubled in case of jointly assessed parents. If the value of the tax credit is less than the relief calculated applying the tax allowances, the taxpayer obtains the tax allowance instead of the tax credit. It is also doubled for lone parents in cases where the other parent does not pay alimony.

A single parent with one child gets an extra allowance of EUR 1,908, increased by EUR 240 for each additional child.

Social security contributions and life insurance contributions are deductible up to a ceiling. There is also a EUR 1,000 work expenses allowance.

There is in addition a "solidarity surcharge". This is 5.5% of the income tax liability net of the child tax credit, subject to an exemption limit of EUR 972 for singles and EUR 1,944 for couples. If the income tax liability exceeds the exemption limit there is marginal relief. Couples with incomes below the average wage in 2018 would seem to be exempt.
Employees who are members of a church have to pay a church tax. In most cases the church tax rate is 9% of the wage.

Example – one-earner married couple, two children

Gross	EUR 52,165
Deductions – SSC and work related	9,439
Taxable income	42,746
Tax	5,562
Tax credits children	4,476
Tax paid	786 (1.5% of gross income)
Employee social security contributions	10,346(19.8% of gross income)

USA

Families are generally taxed in one of three ways:

- as married couples filing jointly on the combined income of both spouses;
- as married individuals filing separately and reporting actual income of each spouse;
- as heads of households (only unmarried or separated individuals with dependents).

All others, including dependent children with sufficient income, file as single individuals.

In 2019 a married couple filing a joint tax return is entitled to a standard deduction of USD 24,400. The standard deduction is USD 18,350 for heads of households and USD

12,200 for single individuals. This relief is indexed for inflation.

Married couples generally benefit from a more favourable schedule of tax rates for joint returns.

Low income workers with dependents are allowed a refundable (non-wastable) earned income credit. For taxpayers with one child, the credit in 2019 is 34% up to USD 10,370 of earned income (USD 24,350 for married taxpayers). For taxpayers with two children, the credit is 40% of earned income up to USD 14,570. For taxpayers with three or more children, the credit is 45% of earned income up to USD 14,570. The credit is phased out as income rises.

Since 1998, taxpayers have been permitted a tax credit for each qualifying child under the age of 17. In 2019 the maximum credit is USD 2,000. The maximum credit is reduced for taxpayers with income in excess of certain thresholds.

Low income workers without children are eligible for the earned income credit. In 2019 low income workers without children are permitted a non-wastable earned income credit of 7.65% of up to USD 6,920 of earned income. The credit phases down when income exceeds USD 8,650 (USD 14,450 for married taxpayers) and phases out when income reaches USD 15,570 (USD 21,370 for married taxpayers). This credit is available for taxpayers at least 25 and under 65 years old.

The District of Columbia and 41 of the 50 states impose some form of individual income tax. In addition, some local governments (cities and counties) impose an individual income tax, although this is not generally the case. State individual income tax structures are usually related to the federal tax structure by the use of similar definitions of taxable income, with some appropriate adjustments.

Example – one-earner married couple, two children

Gross income (average wage)	USD 57,055
Standard deduction	24,400
Taxable income	32,655
Tax credits	4,000
Federal income tax	469
State and local income taxes (Detroit, Michigan)	3,048
Total income taxes	2,579 (4.5% of gross income)
Employee social security contributions	4,365 (7.7% of gross income)

APPENDIX E – EFFECTIVE MARGINAL TAX RATES BY HOUSEHOLD TYPE AND WAGE LEVEL 2019

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**	**100,67**	**100,100**	**100,67**
Australia	36	34.5	39	56	34.5	34.5	34.5	34.5
Austria	43.3	48.2	36.9	43.3	48.2	48.2	48.2	48.2
Belgium	55.6	55.6	59.1	55.6	55.6	54.5	54.5	54.5
Canada	41.4	33.7	33.9	52.2	73.1	39.4	39.4	33.7
Chile	7	10.2	10.2	7	7	7	7	10.2
Czech Republic	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Denmark	39	41.9	55.6	37.2	41.9	41.9	41.9	41.9
Estonia	21.3	32.4	21.3	21.3	32.4	32.4	32.4	32.4
Finland	44.2	45.9	49.5	44.2	45.9	45.9	45.9	45.9
France	66	31.2	42.2	51.6	51.6	35.3	31.2	31.2
Germany	46.6	52.1	44.3	44.3	42.5	46.3	49.1	49.3
Greece	36.2	36.2	53.3	36.2	36.2	36.2	36.2	36.2
Hungary	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Iceland	35.5	35.5	44.4	46.5	45.1	35.5	35.5	35.5
Ireland	28.5	48.5	52	71.4	48.5	48.5	48.5	48.5
Israel	26	32	47	29.4	32	32	32	32
Italy	40.4	49.5	51.2	42	51.1	50.3	50.3	49.5
Japan	22.8	27.7	31.1	22.8	27.7	27.7	27.7	27.7
Korea	22.1	22.9	28.1	14.3	22.9	22.9	22.9	22.9
Latvia	35.8	35.8	31.8	35.8	35.8	35.8	35.8	35.8
Lithuania	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5
Luxembourg	40.6	51.1	49.6	46.4	33	46.3	51.1	46.3
Mexico	12.1	19.5	22.9	12.1	19.5	19.5	19.5	19.5
Netherlands	46.4	46.4	54.4	52.8	52.8	46.4	46.4	46.4
New Zealand	17.5	30	33	17.5	55	30	30	30
Norway	34.4	34.4	46.4	34.4	34.4	34.4	34.4	34.4
Poland	26.5	26.5	26.5	96.3	26.5	26.5	26.5	26.5
Portugal	34	39.5	48	34	34	39.5	39.5	39.5
Slovak Republic	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9
Slovenia	34.6	43.1	48.6	34.6	34.6	34.6	34.6	43.1
Spain	28.1	32.9	40.4	28.1	32.9	32.9	32.9	32.9
Sweden	28.1	32.2	60.2	28.1	32.2	32.2	32.2	32.2
Switzerland	21.7	27.5	32.2	13.7	19.6	24.9	29.2	25.8
Turkey	32.8	38.7	38.7	32.8	38.7	38.7	38.7	38.7
United Kingdom	32	32	42	73	32	32	32	32
United States	26.3	36.3	36.3	48.6	26.3	26.3	36.3	26.3
Unweighted averages for OECD as a whole	33.3	36.1	40.2	38.9	37.2	35.4	35.9	35.6

Source: Taxing Wages Table 3.7

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