

# Recognising marriage in the tax system will not benefit women

A briefing from the UK Women's Budget Group, an independent, voluntary organization made up of individuals from academia, NGOs and trade unions. See [www.wbg.org.uk](http://www.wbg.org.uk)

- **Transferable tax allowances (TTAs) breach the principles of independent taxation, introduced in 1990 with all-party support**
- **They will increase the incentive to be a traditional one-earner family, but will not go to the partner at home, but to the higher earner – 85% of whom are men**
- **They will only go to 1 in 3 married couples, many of whom will not get the full amount**
- **They may be just a 'signal', as the government says, but they could be the thin end of a wedge, to be built on in future years**
- **The proposal to introduce TTAs should be withdrawn, and the £700 million they would cost spent in more targeted and socially useful ways**

The Prime Minister has announced that the Government will include proposals in the forthcoming Autumn Financial Statement to 'recognise marriage' in the income tax system from 2015-16. It plans to allow couples who are married or in civil partnerships<sup>1</sup> to transfer up to £1,000 of their annual personal allowance of tax-free income between themselves, as long as neither pays income tax at more than the basic rate.

This will mean the higher earner in eligible couples paying up to £200 less tax per year. **It will not directly benefit the lower earner/non-earner.** As the prime minister said: 'if...your partner doesn't use all of their personal tax allowance, you'll be able to have some of it'.<sup>2</sup>

---

<sup>1</sup> Below, 'married couples' includes civil partners.

<sup>2</sup> In *Daily Mail*, 'Marriage is good for Britain', 27.9.13; and see HMT press release (30.9.13).

<sup>3</sup> Institute for Fiscal Studies (IFS) 'The new tax break for some married couples':

<http://www.ifs.org.uk/publications/6869>

## **Many will not benefit at all:**

- couples in which neither earns above the income tax threshold – who are among the couples with the lowest joint incomes;
- those couples in which both partners earn above the income tax threshold – the majority of working age married couples;
- couples in which one partner earns above the higher rate tax threshold;
- couples who are not married, even if they have children or others to care for;
- parents bringing up children or caring for others on their own.

**Fewer than a third (31%) of married couples would gain.**<sup>3</sup> Those who would gain are those who, by choice or necessity, adopt 'traditional' gender roles, with a main breadwinner and a largely or wholly non-earning spouse. The measure will cost around £700 million per year.

**There are many better ways to spend this money, as we spell out later.**

---

## A bit of history.....

For most of the past 200 years, a married woman's income was treated as her husband's for tax purposes. In the 1980s, the then Conservative government consulted on allowing a transferable tax allowance between spouses. But it recognised serious criticisms made of this, and instead introduced independent taxation without transferable allowances in 1990.

An additional allowance was provided for married couples (with equivalent help for lone parents), so they did not lose compared with previous provision. However, the Conservative government in 1994 limited the married couple's allowance to the basic rate of tax, and the subsequent Labour government phased this out altogether (except for couples born before 1935). All the main parties seemed to agree that marriage *per se* was not something that should be subsidised through the tax system.

Before the last election in 2010, however, the Conservative party resurrected the idea of a transferable tax allowance (TTA) for married couples/civil partners. The coalition agreement said the Liberal Democrats could abstain on any vote.

## Social priorities in taxation

Proposals to change the income tax system should be assessed against appropriate principles. The fiscal system in any country affects people in two ways:

- directly, by redistributing resources between people in different situations and with different income levels; and
- indirectly, by affecting their behaviour.

It may also interact with the benefits system in ways that influence these functions.

We believe the tax and benefit system in the UK today should follow social priorities to **help to meet the following principles:**

- fairness and progressivity, by taking a higher percentage in tax of income from those with more resources;
- taking account of family circumstances and consequent costs, to ensure that those with similar incomes end up at a similar standard of living;

- fairness within households, in terms of a more equitable division of income between partners;
- autonomy for all, by enabling everyone to have an independent income and the chance to earn;
- independence, in ensuring that the tax someone pays is not influenced by the presence and/or actions of a partner; and
- avoidance of disproportionate administrative costs in fulfilling these goals.

Clearly, some of these principles are in tension with one another. But none of them provides a justification for subsidising marriage or civil partnership *per se*. We believe the tax system should be neutral about whether people get married or not. **Marriage/civil partnership creates no financial need in and of itself.** (And widening the groups to benefit from transferable tax allowances would not be justified under these principles either.)

## Does the tax system recognise families?

It is sometimes said that the tax system in the UK does not recognise 'families'. This is misleading, however, because family responsibilities are recognised through child benefit, which replaced the child tax allowance, as well as family allowances (an earlier benefit for children), in the late 1970s.

Child benefit is equivalent to a flat-rate tax allowance for all those with children, in recognition of their increased financial costs at any income level, and its amount depends purely on the number and ages of those children. It is preferable to the former child tax allowance because it is paid to those who do not earn enough to pay income tax and, because paid irrespective of income, does not affect employment incentives. It is paid to mothers and labelled as being for children, making it more likely it will be spent on children's needs.

The current freeze in child benefit, and the high income child benefit charge, which takes back in higher tax the value of child benefit from higher earning parents, compromise these functions.

**How do TTAs measure up?** The proposed TTAs for married couples/civil partners fail against the criteria set out above.

**Distributional issues:** Those who gain directly from TTAs are **more likely to be men than women**, since in couples women are more likely not to earn enough to use up their personal allowance. As the WBG has pointed out, measures raising the threshold for paying income tax benefit men more than women, because many women do not earn enough to pay tax. For example, 57% of those gaining from the most recent rise were men and only 43% were women.<sup>4</sup> Now the government is suggesting some of these allowances should be transferred to their higher earning

husbands. In only 15% of married couples will it be the woman who gains.<sup>5</sup>

**Neither partner in the poorest couples will gain**, because in these neither earns enough to make full use of their personal allowance. If the personal tax threshold is raised further - another government aim - even fewer in the poorest couples will benefit.<sup>6</sup> Most of those who will benefit are in couples in the third to sixth income decile groups.<sup>7</sup> Higher income couples will not on the whole benefit because they have two earners earning over the income tax threshold, or one (or both) paying higher rate tax.

---

<sup>4</sup> Women's Budget Group (2013) *The Impact on Women of Budget 2013: A Budget for inequality and recession*; [http://wbg.org.uk/pdfs/WBG\\_Budget-Analysis\\_2013.pdf](http://wbg.org.uk/pdfs/WBG_Budget-Analysis_2013.pdf)

---

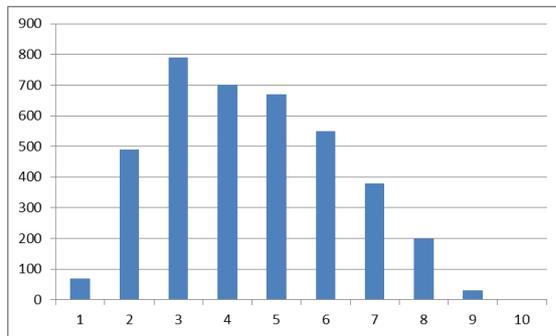
<sup>5</sup> IFS *op cit.*: additional results provided to WBG.

<sup>6</sup> Letter from Baroness Lister to *The Guardian*, 3 October 2013.

<sup>7</sup> IFS *op cit.*

Figure 1 shows the numbers who gain in each decile of the income distribution.

*Figure 1: Numbers (000s) projected to gain from TTAs by household income decile<sup>8</sup>*



Although the justification for traditional gender roles, or an unequal division of earnings, is based on the idea of one partner being needed at home, often to look after children, **only 18% of families with children will benefit**, as opposed to 31% of married couples,<sup>9</sup> 64% of whom do not have children. In only 14% of families with children will it be the woman who gains.<sup>10</sup>

When universal credit (UC) is fully phased in, in 2017, couples claiming it will find their UC reduced by 65p of each additional net pound of income - which will include whatever is gained through any TTA. This will affect those with children more, so most married couples without children, but only about a fifth of those with children, will receive the full amount. As a result, only 15% of recipients will both have

<sup>8</sup> IFS *op cit.*: additional results provided to WBG.

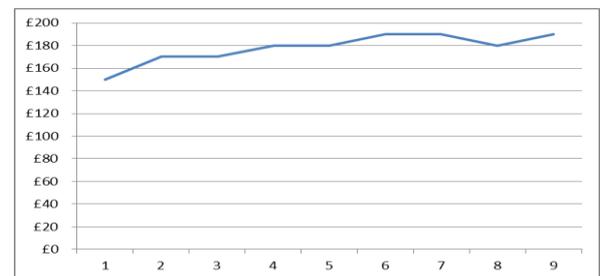
<sup>9</sup> 3.9 million of the 12.4 million couples in a marriage or civil partnership, including 1.4 million of the 7.8 million families with children. *Ibid.* (Government figures given in a Written Answer, 20.11.13 (cols. 943-4W), give similar figures: 4.1m couples stand to gain, including 1.3m with children.)

<sup>10</sup> IFS *op cit.*: additional results provided to WBG.

children and benefit by the full £3.85 per week.<sup>11</sup>

Figure 2 shows how the average amount received by couples gaining from a TTA falls for lower income deciles (Note there are no gainers in the 10<sup>th</sup> decile).

*Figure 2 Annual average gain among gainers from TTAs, by income decile<sup>12</sup>*



The government has been keen to stress that it is recognising rather than incentivising marriage by this measure: ‘this policy isn’t about the money but about the message’.<sup>13</sup> Indeed, it would be foolish for any couple to contemplate making the long-term commitment that marriage entails for a maximum gain of under £4 per week. However, if the aim is not to incentivise, it is not clear why the tax system is the appropriate tool for the government to use to recognise marriage.

<sup>11</sup> This will reduce the cost of TTAs by an estimated £140 million per year from 2017. Figures from blog by Donald Hirsch and Matthew Whittaker, 21 October 2013, ‘Who will benefit from the tax break for married couples?’: <http://www.resolutionfoundation.org/blog/2013/oct/21/who-will-benefit-tax-break-married-couples/>

<sup>12</sup> IFS *op cit.*: additional results provided to WBG.

<sup>13</sup> *Daily Mail*, 27 September 2013, *op cit.*

**Autonomy and independence:** A more worrying question is whether married couples then have an incentive to adopt unequal roles, which for most married couples is likely to be seen as a disincentive to the woman's employment. The ability to transfer part of a personal allowance would allow an employed spouse to gain from having their partner not in employment (or earning sufficiently below the personal allowance threshold). This may result in higher earning partners resisting their partner starting employment since their own tax-free income would then be reduced. It weakens the incentive for married couples to have two earners, in effect encouraging the unequal earnings involved in adopting traditional gender roles.

This is particularly unfortunate given the evidence that even with current incentives, many low to middle earning mothers are finding employment unaffordable if they have to pay for childcare.<sup>14</sup> Already, the receipt of means-tested benefits or tax credits reduces the net gain from earning for second earners and, as the WBG has noted, the introduction of UC will reduce the net gain yet further for many. Nevertheless, a second person's earnings are increasingly needed to keep families out of poverty.<sup>15</sup> So the short-term incentives of this policy, because it discourages dual earning, work against the longer-term interests of many of the families it is designed to help.

---

<sup>14</sup> A Hurrell (2012) *Counting the Costs of Childcare*, London: Resolution Foundation.

<sup>15</sup> Lawton, K. and Thompson, S. (2013) *Tackling In-work Poverty by Supporting Dual-earning Families*, York: Joseph Rowntree Foundation.

Further, given that it is largely women who will be discouraged from employment in this way, thus encouraging a traditional division of paid and unpaid labour, it puts obstacles in the way of both men and women expanding their capabilities in less traditional directions. This will have negative implications for women's future employment possibilities and for men's ability to care, and thus the extent to which both can live full and fulfilling lives in the future.

#### **Other issues:**

Transferable tax allowances:

- will further complicate the income tax system by requiring married couples' records to be linked together;
- will rely on couples applying to take them up, so take-up will be unlikely to be 100%;
- by being withdrawn when the higher rate tax threshold is reached, may produce a disincentive to higher earning partners increasing their earnings.

The proponents of TTAs like to cite various situations in which people earning little or nothing would be helped by a TTA. But in none of these is allowing their spouse to reduce their own tax bill the best way to do so:

- those caring for children require an independent income themselves, through better maternity/paternity and paid parental leave and rights to return to work that facilitate future earning (unlike TTAs)
- similar provisions would also be preferable for those caring for a disabled/elderly person
- TTAs are not a targeted way of supporting volunteering in the community.

These drawbacks were recognised when TTAs were rejected in the 1980s. There is no case now, either, for awarding additional money to an earner if none of these situations applies but someone else does their housework and they happen to be married or in a civil partnership. Instead of comparing the financial position of one and two earner couples at one point in time, the main issues to tackle are why one partner has no (or very limited) income, and how this affects their economic position over their life-course. The evidence shows that it is **women who are far more likely to be in this position.**

#### **What should be done instead?**

The government has decided to spend some £700 million per year on TTAs, despite its commitment to deficit reduction. But this sum could be **spent in many other ways with much greater social benefit.** For example:

- It could be used to recognise the real additional cost of children to *all families*. The same amount could be used to increase child benefit to make up for two of the four years for which its value has been frozen or raised by less than inflation;
- Alternatively, the money could be used to reinstate child benefit as a universal benefit for all children; the higher income charge was projected to take £690 million from *parents* in 2013/14, almost exactly the same amount as would be paid out to *married couples* through TTAs from 2015/16;
- It could instead be used to help with childcare costs; only £200 million, about one third of the amount being spent on TTAs, would be needed to extend the proposed additional childcare help in UC to

all, rather than restricting it to those earning above the tax threshold, as currently proposed;

- And/or it could help pay for more generous maternity/paternity/parental/ caring leave payments, so that those who were at home with caring responsibilities would be remunerated themselves, while retaining their rights to return to the labour market - rather than their partners gaining through their TTA so long as they did not earn.

More broadly, there are many cuts that were said to be essential to reduce the deficit that could be made good with the £700 million per year to be spent on TTAs.

The proposal to introduce TTAs should be withdrawn, and the money spent in one or more of the more targeted and useful ways suggested here.

#### **Women's Budget Group, November 2013.**

#### **Contacts**

For further information, please contact:

Fran Bennett 01865 556096/270325

Susan Himmelweit 0207 272 8485/07963  
957333

WBG coordinator [admin@wbg.org.uk](mailto:admin@wbg.org.uk)