



Family and Tax

General Election 2017 Policy Paper

Background

Our faith tells us that marriage is an institution ordained by God and a high calling that should be respected and honoured.

Mindful of this, it is no surprise that the benefits of marriage to society are confirmed again and again through social science research which is far too extensive to cover here. For more detail on this point specifically, please check out [our dedicated General Election Policy Paper on Marriage](#).



Marriage and public policy?

Whilst some argue that marriage is a private decision made by two people, the truth is that marriage is much more than the sum of its parts in terms of its impact. There is of course a sense in which the decision to get married is deeply personal; however, the consequences of that decision significantly impact society as a whole – crucially, for the better.

In approaching the subject of public policy and marriage it is important to understand what the state can and cannot do. There is no magical public policy solution that can guarantee happy marriages; however, there are important things the state can do to support the institution of marriage that will bring real public benefit. This paper will address two of these which relate to the state's tax and benefits system. Others are addressed in [our general General Election Policy Paper on Marriage](#).

CARE believes that the state can and should ensure that its fiscal policy provides a framework that supports the institution of marriage in the tax system. We also argue that the state can and should work to ensure that its benefit system does not have the unintended consequence of creating a 'couple penalty' – a fiscal incentive for couples with children on low to modest income to live apart. This is actually an obstacle to both marriage and cohabitation.

Marriage and UK tax policy

In the United Kingdom we recognised marriage in our tax system up until the year 2000 when this recognition was removed.

In taking this step we broke away from international best practice. Britain became the only OECD (Organisation for Economic Co-operation and Development) economy of its size not to recognise marriage in its tax system.



Without recognition of marriage in the tax system it came as no surprise to CARE that since 2000 married couples in the UK have faced a harder time when compared to married couples across the OECD area as a whole on average. CARE research over many years has demonstrated that one-earner married couples with two children on an average wage in the UK have had to bear a significantly greater portion of the tax burden than is the case across the OECD on average. In 2015, for example, a one-earner married couple with two children on an average wage bore a tax burden that was 26% greater than the OECD average.ⁱ Furthermore, at an income range of 50-75% of average wage these same families face the highest Effective Marginal Tax Rate in the developed world at 73%.ⁱⁱ This means that for every additional pound increase in income, only 27 pence will be seen by the household with 73 pence being swallowed up by tax, national insurance and lost benefits.

In the failure to recognise marriage in the tax system we witnessed a radical individualism which made Britain's experience quite distinct. Across the OECD, the average tax burden experienced by a one-earner married couple with two children on average wage is slightly more than half of that placed on a single person on the same wage at 57.3%. However, in the UK, the figure rockets to 78.7%.ⁱⁱⁱ

This situation is a serious cause for concern on at least three fronts.

1. Family Breakdown: Given that one of the drivers for family breakdown – which is very costly to the Exchequer (to the tune of £48 billion in 2015^{iv}) – is financial pressure, the failure of British public policy to support marriage in the tax system clearly does not help.
2. Choice: Over many years polling has consistently revealed that far larger numbers of people want to marry than actually get married.^v This prompts important public policy questions about obstacles to marriage in which the failure to recognise marriage in our tax system – which means that it is harder to choose to marry in this country than across the OECD on average – must again be a cause for concern.
3. (Choice) and doing what is good for society: Quite apart from the argument that there is no merit in politicians making it harder for people to do what they want to do (so long as it isn't illegal), in this case we are also discussing a choice that would be very good for society as a whole.

Recognition of marriage in the tax system is not about incentivising love – to think in this way misses the point. Rather, it is helpful to think about what happens when two people do fall in love and consider whether they want to spend the rest of their lives together and live together: do they marry or simply cohabit. Recognising marriage in the tax system simply makes marriage a fiscally

attainable choice. By making this a reality – as is the case across the OECD on average – more people will choose to marry and both they and the country as a whole will benefit.

The public policy benefits of marriage make it difficult to justify why our fiscal arrangements should make it harder to marry in this country than is the case across the OECD on average.



However, the obstacles to marriage are not limited to the lack of recognition of marriage in the tax system but also extend to the presence of a couple penalty in the benefits system. This creates a significant financial incentive for couples to live apart. In fact, viewing the issue in the round it is perhaps more accurate to say that, rather than creating a fiscal incentive to marry, recognising marriage in the tax system takes away the incentive *not* to marry – it is about redressing the balance.^{vi}

The couple penalty and UK public policy

CARE's fiscal policy consultants have worked over many years to highlight the problem of the couple penalty.^{vii} The net couple penalty was calculated by the Institute of Fiscal Studies as being worth £34.3 billion in 2010-11.^{viii} The Marriage Foundation suggests that the couple penalty is worth up to £7,100 if you have one child and £9,985 if you have two children and £11,917 if you have three children.^{ix} It seems at the very least peculiar to use tax payers' money to create an incentive for couples with children to live apart.

Family and Tax in the 2010-2015 Parliament

In the run up to the 2010 General Election the Conservative Party talked in terms of recognising marriage in the tax system through a transferable allowance which would enable a non-working spouse to transfer their allowance to their working spouse. However, during the election campaign David Cameron explained that it would be limited initially to only allowing the non-working spouse to transfer 11.4% (£750 of the then £6,475 allowance) to their working spouse, but indicated his intention to build upon this over the course of the Parliament.^x



The Coalition Agreement between the Conservatives and Liberal Democrats featured the transferable allowance provision with scope for the Liberal Democrats to abstain.^{xi} Both parties agreed to tackle the couple penalty.^{xii}

Transferable allowance

Having failed to feature in the Budget from 2010-2013, the transferable allowance provision was contained in the draft 2014 Finance Bill published towards the end of 2013. It was debated, voted on and passed



in April 2014, drawing strong support from Conservative and many Northern Irish MPs but opposition from a vast majority of Labour parliamentarians.

Couple penalty

The Universal Credit, which was developed during this Parliament to replace the preceding benefits, including tax credits, includes measures which tackle the couple penalty. Unlike tax credits which they replaced, the Universal Credit recognises the presence of two parents where two parents are present whereas tax credits only recognised one parent. Although this development has helped reduce the couple penalty, it seems an imperfect solution.^{xiii}

Family and Tax in the 2015-2017 Parliament

Following the recognition of marriage in the tax system – albeit in a diminished form, with a non-earning spouse initially only able to transfer 10% of their tax free allowance to their working spouse – efforts have been made to challenge the Government to do more.

In September 2016, David Burrowes MP along with 15 colleagues tabled an amendment to the Finance Bill calling for a review of the transferable allowance.^{xiv} Specifically, the amendment called for a more generous transferable allowance – particularly for married couples with children under the age of 5. In presenting their case, the MPs also noted that the reported lower than expected uptake of the transferable allowance^{xv} may be due to a failure to make it more meaningful – i.e. to allow a non-earning spouse to transfer the entirety of their tax allowance.

In November 2016, CARE hosted a Parliamentary briefing for MPs and Peers ahead of the Autumn Statement presenting the case for considering whether increasing the personal allowance is the best way to help struggling families.^{xvi} Former Lord Chancellor, Lord Mackay of Clashfern, called on the Government to refocus on increasing the transferable allowance for married couples rather than the personal allowance, noting that the transferable allowance is far more progressive in that it disproportionately benefits those in the lower half of the income distribution.^{xvii} In the event, the Autumn Statement merely confirmed an increase to the transferable allowance in line with increases to the personal allowance, but the provision remains very low and nowhere near the originally conceived fully transferable allowance.

In January 2017, the Telegraph reported on polling commissioned by CARE which identified that 58% of people supported an increase in the marriage allowance. The polling also revealed that only 21% supported further increases to the personal allowance, with 65% opposed.^{xviii}

Family and Tax in the coming Parliament – pressures for change

The restriction of the transferable allowance to such a low sum means that it has little scope for making much of an impact on the tax burden problem.

CARE's objective remains to protect the existing transferable allowance provision and advocate for a fully transferable allowance.



We are also committed to further researching alternative means by which married families in particular can be supported through the tax and benefits system. There remains much work for the next Government to do.

Party policies on Family and Tax

The Conservative Party has maintained a commitment to upholding the transferable allowance in word if not necessarily deed (by increasing it). However, the Liberal Democrats have committed to reversing the policy in their manifesto^{xix}, the Labour Party has also been strongly opposed to the policy from its genesis,^{xx} and the policy has not been supported by the SNP.

Key questions for candidates

1. Do you support the reintroduction of the recognition of marriage in the tax system that took effect from 1 April 2015?
2. Bearing in mind the overwhelming evidence of the benefits of marriage for adults, children and society at large, will you commit to fight hard for the level of recognition of marriage to be raised from the current 10% transferable allowance to a fully transferable allowance?



i Pearson, A, 'The taxation of families – international comparisons 2015', CARE, Jan 2017, p.7
<https://www.care.org.uk/sites/default/files/21785%20CARE%20TAXATION%20OF%20FAMILIES%202015%20R2%20HiRes%20final.pdf>

ii Ibid, p.21

iii Ibid, p.7

iv 'Counting the cost of family failure, 2016 update', Relationships foundation, 2016, p.3

v Nearly 90% of young people aspire to get married: MORI Polls & Surveys, 1999, Family and Marriage Poll and 75% of those under 35 currently in cohabiting relationships want to get married; The Opinion Research Business, 2000, Young People's Lives in Britain Today. London: The Opinion & Research Business. Cited in Green Paper on the Family. 2010. The Centre for Social Justice.

vi Binder, D, Would the introduction of a Transferable Allowance Incentivise marriage?, CARE 2013.

vii [https://www.care.org.uk/our-causes/marriage-and-family/family-and-tax/resources#Couple Penalty](https://www.care.org.uk/our-causes/marriage-and-family/family-and-tax/resources#Couple%20Penalty)

viii Stuart Adam and Mike Brewer, *Couple Penalties and Premiums in the UK Tax and Benefits System*, IFS, 2010, p. 4
<http://www.ifs.org.uk/bns/bn102.pdf>

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- ix A marriage tax break must counter the crazy incentive for parents to “pretend to live apart” Harry Benson, The Marriage Foundation September, 2013
- x <http://news.sky.com/story/772393/tories-unveil-tax-breaks-for-married-couples>
- xi Coalition Agreement, p. 30.
- xii Coalition Agreement, p. 19.
- xiii Draper and Beighton, *Independent Taxation 25 Years on – Does it meet today’s Needs*, London, CARE, 2013, p. 52.
- xiv House of Commons debate, 9 September 2016 <https://hansard.parliament.uk/commons/2016-09-06/debates/16090632000002/FinanceBill>
- xv Miles Brignall, ‘Nearly 3m UK couples missing out on free tax break’, Guardian, 8 Jan 2017 <https://www.theguardian.com/money/2017/jan/08/uk-couples-miss-free-marriage-tax-break>
- xvi Buttenshaw. C, ‘Autumn Statement Preview: Tax cuts must focus on struggling families’, CARE, 10 Nov 2016 <https://www.care.org.uk/news/latest-news/autumn-statement-preview-tax-cuts-must-focus-struggling-families>
- xvii Mackay. J, ‘To help poorer people, the Chancellor should raise the marriage allowance, not the personal allowance’, ConservativeHome, 22 Nov 2016 <http://www.conservativehome.com/platform/2016/11/james-mackay-raising-the-marriage-allowance-helps-poorer-people-more-than-raising-the-personal-allowance-which-is-why-the-chancellor-should-announce-it-tomorrow.html>
- xviii Laura Hughes, ‘Philip Hammond under pressure to increase marriage tax allowance’, Telegraph, 16 Jan 2017 <http://www.telegraph.co.uk/news/2017/01/16/philip-hammond-pressure-increase-marriage-tax-allowance/>
- xix <http://engage17.org.uk/archives/1791>
- xx Laura Hughes, ‘Tax break for married couples is an ‘utter flop’ after latest figures reveal 8 per cent of those eligible have applied’, Telegraph, 15 Feb 2016 <http://www.telegraph.co.uk/finance/personalfinance/tax/12157520/Tax-break-for-married-couples-is-an-utter-flop-after-latest-figures-reveal-8-per-cent-of-those-eligible-have-applied.html>