

Taxing families

30 years after the introduction of independent taxation have we got it right?

Chair:

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Panellists:

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Taxing couples

Stuart Adam

***“A woman’s income chargeable to tax shall ...
be deemed to be her husband’s income and
not her income”***

Some history

1990

- Move from (mostly) joint to (mostly) independent income taxation

1990s

- Married couple's allowance (mostly) phased out; tax credits for children introduced

2013

- High income child benefit charge introduced

2015

- Marriage allowance introduced

Individual vs joint assessment

Family arrangements

- Only individual assessment means that marriage does not affect payments
- Only joint assessment means that arrangements within marriage do not affect payments
- → Progressive tax and benefit system can't achieve both

Fairness

- Does your ability to pay depend on your spouse's income?

Work incentives

- Individual assessment gives weaker incentives for 1st earner, but stronger for 2nd earner
- 2nd earners generally more responsive to incentives → individual assessment more efficient
- But maybe we care more about ensuring there's at least one earner in the family?
- Under some assumptions, theory suggests individual tax & joint benefits might be right

The UK: a mixed system

Independent tax system, joint benefit system

- Not quite...

Marriage allowance, high income child benefit charge and (residual) married couple's allowance

Independent taxation of labour income; closer to optional joint taxation of capital

- Married couples can transfer assets (and so their returns) to the lower-income spouse
- No income tax or capital gains tax consequence of the transfer
- No inheritance tax on gifts/bequests to a spouse
- Spouse inherits any unused IHT nil-rate band: in effect couples have a double-sized joint allowance

This raises particularly interesting issues where there is scope to convert labour to capital income

- Lots of scope for tax planning by small businesses

The return of the family

Income tax has started to depend on family circumstances again

2013: High income child benefit charge

- Child benefit withdrawn from families with a high-income individual

2015: Marriage allowance

- 10% of personal allowance transferable to a basic-rate spouse / civil partner

Both complicate the system

Both withdrawn in strange ways

➔ No clear principle for how tax should depend on individual/joint income

The high income child benefit charge

Child benefit withdrawn from families with a high-income individual

- Withdrawn over £50,000 to £60,000 income bracket

We estimated around 1.1m families stood to lose average of £1,300

- Potentially saving the Exchequer £1.5bn

In 2016-17, 840,000 families actually lost

- 550,000 opted out of receiving child benefit
- 291,000 paid the charge through income tax self-assessment
- ➔ Around 300,000 unaccounted for?

Now two benefits for children means-tested in different ways

The marriage allowance

10% of personal allowance transferable from non-taxpayers to a basic-rate spouse

Worth £237 a year for most eligible couples

4.2m out of 12.4m couples in a marriage or civil partnership eligible

- Disproportionately those without children (notably pensioners)
- Typically in the lower-middle of the income distribution

Initially, very few took it up; now increased to 2.6m (60%)

- Government still 'anticipates full take-up'

Would cost £600m with full take-up, so around £400m now

There is still a residual married couple's allowance for those born before April 1935

- Costs £200m a year

Marriage and incentives: summary of evidence

Financial incentives do affect marriage rates (and fertility rates)

- But effect is very small

Bigger effect on reported status?

- Government estimates it overpays more than £0.5bn annually in benefits & tax credits as a result of people falsely claiming to be living without a partner

Little evidence that marriage *per se* benefits children

- Better outcomes for children of married parents largely explained by the characteristics of people who marry, not the effects of marriage

No evidence that tax-induced marriage benefits children

- Though difficult to test

Conclusions

Delicate trade-offs and value judgements

- Tension between sensible-sounding principles

UK has a hybrid system

- Broadly independent taxation of earnings
- Optional joint assessment of capital
- Joint benefit assessment

Recent reforms → no clear principle discernible