

Treasury Select Committee Inquiry: Tax after Coronavirus Mothers at Home Matter (MAHM) submission September 2020

This report will address the first part of the following question: Which areas of the tax system are most in need of reform, and which are best left alone?

Who we are

Mothers at Home Matter (MAHM) campaigns for choice. One freedom the average mother no longer has is to choose to be at home to care for her children. Successive government policies have stacked the economic system against staying at home whilst a political and social elite have devalued the role of care in the home. Yet the reasons for making this choice – care of our children, our community, our elderly have not gone away. There is an increasing need for ‘care’ as we see rises in loneliness, depression, and mental illness.

MAHM’s contribution to the inquiry presents evidence to address ‘which areas of the tax system are most in need of reform, and which are best left alone?’. Specifically MAHM focuses on taxation of income which accounts for a quarter of all tax in the UK. It highlights the pressing need for a fairer family taxation system. Our system of independent taxation is not fit for purpose for taxing families and causes unfairness, injustice, and harm to families.

Executive summary:

Tax system is unfair

- Single income families (SIFs) on lower household income pay more tax than households on higher incomes.
- A SIF pays twice as much tax as dual income families (DIFs) on £30K household income.
- Families which command (in a free market) incomes in the top 15% are brought into the bottom half of the income distribution owing to government and taxation policies.
- Some families caught in the Child Benefit Tax Charge are in the poorer 50% of the population whilst some of the richest families continue to receive it.

UK system is almost alone in taking no account of families

- The UK is the only OECD country apart from Mexico that applies tax based on individual income with almost no allowances for spouses or transferrable allowances.

Traps families in poverty/ discentivises hard work

- Very high marginal effective tax rate traps half of all families with many primary earners only bringing home 25p to every £1 earned. This process destroys the reward of work, undermines the incentive to ‘get on’, and denies the main breadwinner the ability to support the family.
- Higher rate tax charge has a similar effect on families on higher incomes.

Separates mother from child/ husband from wife

- Mothers are needed to plug the income gap, separating mother and child before either is ready. But her high METR will mean she will also work long hours for little extra disposable income.
- Some families are better off apart.

Tax system is unfair

The tax system does not recognise the dependent nature of a family or household. Over 50 years tax policy has radically shifted from treating the family as a household unit with allowances for a dependent spouse and children, to individual taxation disregarding familial responsibilities.

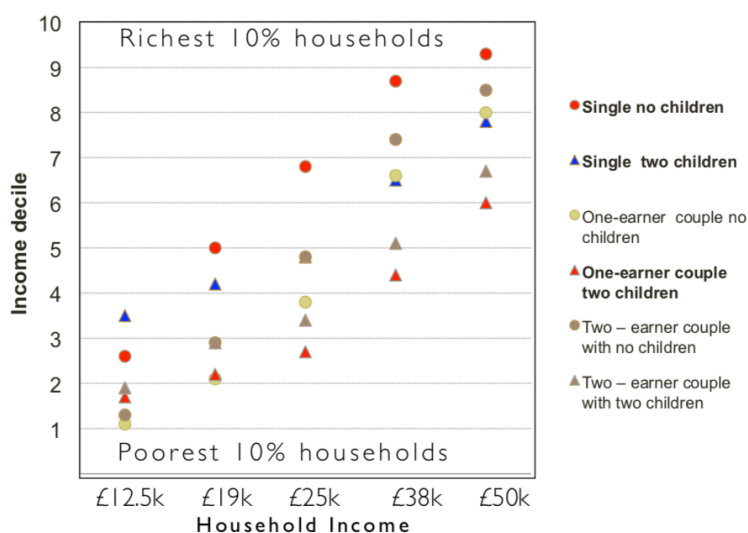
- Individual income is not a good measure of how well off a family is. Net household income is a fairer measure. Many SIFs are in the bottom half of the income distribution.
- As a consequence two incomes are better than one, even where that one income is more than the two combined (gross). Two incomes benefit from two £12.5k personal tax allowances, they can earn twice as much before facing the 40% tax rate, and can earn double the amount of a SIF (up to £100k rather than £50k) before losing their child benefit.
- Graph below shows difference in tax paid by SIF & DIF on the same household income.

Chart showing extra tax paid annually (& mthly) by Single Income Families

Total household gross income	Annual tax and NI paid by Single Income Family (SIF)	Annual tax & NI paid by Double Income Family - 2 equal earners	Higher rate child benefit tax charge (2 children)	Extra tax paid by SIF annually & mthly
£	£	£	£	£
20,000	2,862	328		2,534 211 pm
30,000	6,062	2,524		3,538 295 pm
40,000	9,262	5,724		3,538 295 pm
50,000	12,462	8,924		3,538 295 pm
60,000	16,660	12,124	1,788	6,324 527 pm
70,000	20,860	15,324	1,788	7,324 610 pm

- Additionally, some families caught in the Child Benefit Tax Charge are in the poorer 50% of the population while some of the richest families continue to receive it. Mothers with little or no income may lose their benefit while high earning mothers may keep it.

Likely position of households in the income distribution 2013/14



To put incomes on a comparable basis, net income (pre-tax income minus income tax and NICs and council tax plus any child benefit or tax credits) is adjusted for the number of people in the household and in the cases of children their ages. This process is called equivalisation. Source: CARE Independent Taxation - 25yrs on p19

- As the graph above (and table on p4) indicate, after taxation, tax credits and benefits, the SIF on £60k will not be in the highest 15% despite high gross earnings.

UK system is almost alone in taking no account of families

The UK is the only OECD country apart from Mexico that applies tax based on individual income with almost no allowances for spouses or transferrable allowances. No other large European or Commonwealth country discriminates against the family in this way. Many actively support mothers to be at home.

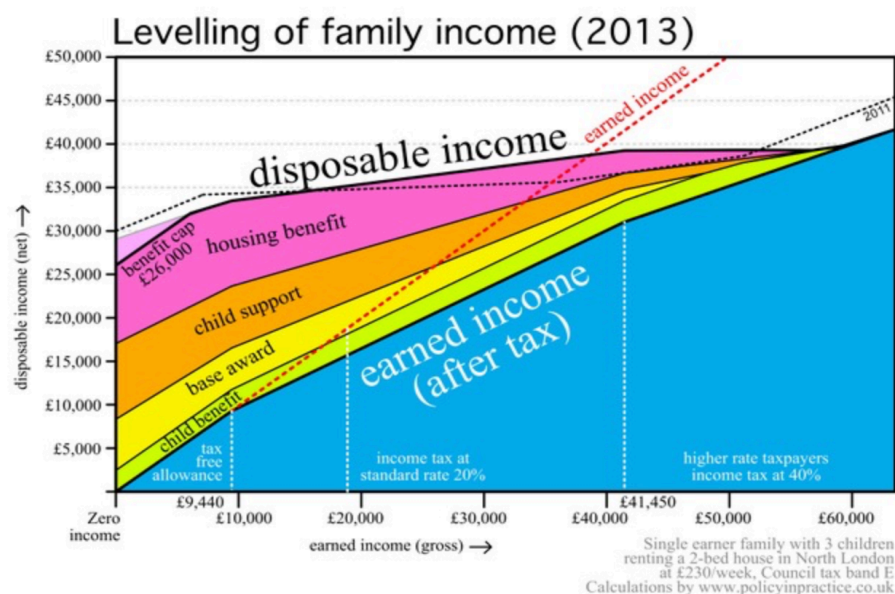
- At the OECD average wage, the UK income tax burden is 27% greater than the OECD for a one-earner married couple with two children, and 23% greater for a single person with two children.
- The UK one-earner married couple with two children pays 39% more than the French family, more than three times as much as the US family, and more than ten times as much as the German family.
- By contrast, the UK income tax burden on a single person without children is 12% less than the OECD average, and 18% less than the average for the EU countries that are OECD members, at the OECD average wage¹

Individual taxation – no allowances	Population (m)	Individual taxation – with transferable allowances/credits	Population (m)	Joint family taxation of couples	Population (m)
Greece	11	Australia	21	Belgium	10.7
Mexico	107	Canada	33	France	62.3
Turkey	74.8	Czech Republic	10	Germany	82.1
UK	61.4	Italy	59	Poland	38.1
		Japan	128	Portugal	10.6
		Korea	49	USA	304
		Netherlands	16		
		Spain	46		

Source: CARE
Taxing Families p22
taken from Taxing
Wages 2008-9

Traps families in poverty and discentivises hard work

Nearly half of families caught in a tax trap. The root of the problem lies in the combination of our taxation & Universal Credit system. It is a complex system variable by location. When Tax Credits were introduced in 1999 it was to prevent families falling into poverty, because taxation took no account of family responsibilities. Tax Credits and Benefits subsidise income but an unintended consequence of this is that it has become very difficult across a wide range of incomes for the main breadwinner to increase his disposable income.



¹ Taxation of Families: International Comparisons 2018 p10, CARE & Tax & The Family

- The graph above shows a family with 3 children on a range of incomes. As the primary gross income increases so tax contributions increase while Universal credit tapers off. Earning more makes little difference to the money the family can bring home.
- Over half of all families with children, are caught in this trap. There is very little they can do about their finances. If they earn an additional £100 their income tax charge increases by £20 and their NI contributions by £12, leaving them with £68, but their Universal Credit then reduces by £44 leaving them with £24. **Effectively their tax rate is 76%.** No other country in the world has so high a tax rate! Even if a man could double or treble his gross income it would not significantly improve the family's net income. ²

Tax trap for Higher Earners: myth of the richest 15%

The Government's justification for the High Income Child Benefit charge (HIBC) is based on incorrect assumptions. *"We have always been clear that those with the broadest shoulders should carry the greatest burden. ...Some people - the richest 15 per cent of households with children - will lose out from January next year but ... it is very difficult to justify continuing to pay for the Child Benefit of the wealthiest 15 per cent of families in society."*³

- Removing Child Benefit would be fair if these statements were true, but they are not. How well off a family is cannot be calculated by the gross income of an individual. It is the family income that matters. Many single income families are in the bottom half of the income distribution.
- This charge creates a new trap for Higher Earners. At £50k a primary earner in a SIF will only retain 35p for every £1 earned (he loses 65p in tax, NI and HIBC). If his wife went to work instead she could retain 100p for every £1 earned and keep Child Benefit. Same effect applies to High Earning single families.
- As the table below indicates, after taxation, tax credits and benefits, the single income family on £60k will not be in the highest 15% despite high gross earnings.
- **Is it fair that families who are able to command (in a free market) incomes in the top15% are brought into the bottom half of the income distribution because of government policies? This means the taxes they pay will make their households poorer than some of those their taxation contributions are supporting.**

2020 Family with 3 children	Single income family on 12k East Midlands	Single income family on 12k Greater London	Single income family 60k London	Double income family on 45k (25k/20k) London	Double income family on 45k (25k/20k) SE England	Double income family on 45k (25k/20k) East Midlands
Gross Earnings per month	£1,000	£1,000	£5,000	£3,750	£3,750	£3,750
Tax, NI per month	£25	£25	£1,380	£593	£593	£593
Net Earnings per month	£975	£975	£3,620	£3,157	£3,157	£3,157
Universal Credit	£1,591	£2,517	850	£1,142	£517	£217
Child benefit	£212	£212		£212	£212	£212
Council tax support	£14					
Total Disposable Income per month	£2,792	£3,704	£4,470	£4,511	£3,886	£3,586
Universal Credit figures do not include childcare allowances						

Source: Calculations taken from Policy in Practice Universal Credit Calculator based on a family with 3 children in private rented accommodation

² Who Cares about the Family? MAHM <https://www.mothersathomematter.com/economic-justice>

³ Conservative Party Press Release 29th October 2012 (Politics Home)

Separates mother from child/ husband from wife

The high Marginal Effective Tax Rate across a large income range encourages family separation.

- 88% mothers with very young children said that the main reason for them returning to work was financial pressure (*Centre for Social Justice 2011*)
- **65 per cent** of mothers with children age 0-4 would rather work fewer hours so they could spend more time looking after their children.⁴
- Couples are better off apart. In 2010, The Institute of Fiscal Studies said that 95% of all single people would incur a couple penalty if they married or started to live together as a couple. Half of these families would face a penalty of at least £101 per week. 89% of existing couples with children are incurring a couple penalty averaging £109 per week.⁵
- Parents with 2 children can benefit from up to £10k, whilst parents with 3 children can increase their income by £12 by living apart.⁶

Tax Trap Case Study: A family on Median Income:

Take a family with two children on the median wage, about £26k. The father is an electrician and the mother is at home looking after their two young children. The family need a car and they work out that he needs to bring in an extra £3k a year (£58 week) to meet the purchase, running and maintenance costs. The father is able to do this by taking on extra hours. However if they are able to make the calculation they will discover that to earn £3k more 'gross' will make very little improvement to the family's disposable income. He would have to earn an extra £12,500 a year more to make £3k net! This is because for every extra pound he earns the Treasury takes back 76p - income tax accounts for 21p, national insurance 11p and reduction in tax credits 44p. This in economic terms is referred to as the Marginal Effective Tax Rate, and it is 76%.

What choice does this family have? It is impossible for him to earn an extra £12.5k, no employer would contemplate such a salary rise. The only alternative is for the mother to give up being at home with their children and consider bringing in a second income. But it will not be sufficient for her to earn only £3k gross. Her marginal tax rate will be 65% so she will have to earn at least £8.5k to bring home the £3k net.

A new tax trap for higher earners: Case Study

Take a family with three children, living in London. The father is a Head of Department at a secondary school earning £50k salary. The mother cares for their children at home. He has been offered promotion as Deputy Head at another school a bit further away. He will have extra responsibility, his will hours be longer, and he will have to travel further but he will be rewarded with an increase to his wage of an extra £10k. In practice however he will find that he brings home only £3,300 of that increase. For every extra £1 earned he loses 65p in tax, NI and loss of child benefit. He keeps only a third of the extra value he is adding for the school. Should his wife return to work instead she can earn the full £10k without paying tax, and they keep their child benefit. They will be significantly better off.

Greater cost to the economy

There is insufficient evidence to show the Treasury is better off by the contribution made by those balancing work and care responsibilities as a result of receiving childcare support and tax credits.

- We spend billions on childcare as a nation. The Institute of Fiscal Studies issued an unambiguous warning: "We still lack a proper rationale and evidence base for the more than £7billion per year of public money that is now spent on childcare..."⁷
- Growth is measured by a change in GDP. Therefore, working mothers, paid nursery workers, and commuting expenses, increase GDP. However, transferring care from the unpaid (care

⁴ <https://www.gov.uk/government/statistics/childcare-and-early-years-survey-of-parents-2019>

⁵ *Independent Taxation - 25 years on Don Draper & Leonard Beighton* p33

⁶ *Harry Benson: Marriage Foundation: Quarter of a million couples pretend to live apart*

⁷ IFS Budget Briefing 2014

in the family for love) to paid (care by an agency for money) is not an increase in output, nor a measurement of 'real growth'. GDP cannot account for the quality and continuity of care, nor the emotional well-being, and the strength of the family unit.

- What is the cost in mental health illness, anxiety, and obesity of not allowing parents time to care?
- The Government could save by enabling parents the choice of caring for their own children, through providing an allowance to either care themselves or to spend on third party childcare.

Negative impact of long hours of childcare

There is limited debate on the harmful impact of long childcare hours on the wellbeing of babies, and children, and their future health and social outcomes.

- A new report by UNICEF Sep 2020 ranked the UK 27th out of 41 nations, just behind Slovakia, Romania, and Iceland in levels of children's wellbeing. The main area the UK scores poorly on is well-being — 36% of 15-year-olds reported having "poor mental health." Meanwhile only 64% of children surveyed in the UK said they had "high life satisfaction" — with only children in Japan (62%) and Turkey (53%) reporting lower levels of life satisfaction.
- Consistent and 'sensitive caregiving in the first 3 years of life predicts an individual's social competence and academic achievement'. Not only during childhood and adolescence, but into adulthood.⁸

Taxation Principles:

The principles that underpin income taxation require modification. Individual earnings are not a good indicator of the prosperity of families, and so policies directed at individuals, are responsible for unsatisfactory familial outcomes.

- The fundamental unit for economic consideration should be the family or household.
- Taxation and benefits should not separate a mother from her children, or a husband from his wife. If a family would have been viable on a single income before tax, tax should not render it unviable.
- Taxes should not distort people's economic choices away from what they believe is their best interest.
- The system should promote increases in income, aspiration, and social mobility.

Recommendations:

Short term:

- Increase the marriage allowance *or alternatively*
- Bring in a full transferable allowance for families with children under 5yrs.
- Provide all families with childcare tax allowances, not just those sending their children to state funded childcare. Allow families choice as to how they care for their children.
- Increase the threshold for the Higher Income Child Benefit Tax Charge to £99,000 for single income families, as it is for dual income families.

Long term:

- Give families the option of being taxed as a household like the US, where individuals can file their tax returns as either a single person, a married couple jointly, as a married couple separately, or as a Head of Household.

For further information about *Mothers at Home Matter* and our work please visit:

www.mothersathomematter.com

<https://www.mothersathomematter.com/economic-justice>

⁸ <http://www.whataboutthechildren.org.uk>