

WOMEN'S INCENTIVE TO WORK

CONFIDENTIAL



INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

FROM: A P HUDSON  
DATE: 11 OCTOBER 1985

*See also a short  
note by C Sinclair  
below  
Re. 11/11  
note below*

*Interim  
Company as  
checked as an  
update to*

1. MR ISAAC
2. CHANCELLOR OF THE EXCHEQUER

GREEN PAPER ON PERSONAL TAXATION: EFFECT ON MARRIED WOMEN'S INCENTIVE TO WORK

1. One of the questions raised by the Prime Minister concerned the likely effect of transferable allowances on the incentive for married women to work.
2. The draft Green Paper at present deals with this point as follows (paragraph 3.26, copy attached):
  - the special incentive for married women to work, introduced in wartime, is being withdrawn
  - but a married woman will be able to earn up to the same amount as any other taxpayer before she has to pay tax
  - so the only effect is on the husband, who loses the benefit of any allowance she had transferred to him before she started earning.

*Note that highly paid married professional women who are under heavy tax have wife's earnings abatement should be given retrospectively from the increase in the single person's allowance.*

cc Financial Secretary  
Mr Cassell  
Mr Monger

Mr Isaac  
Mr Blythe  
Mr Mace  
Mr Hudson  
Mr Walker  
PS/IR

3. You could reinforce this with the point that, in countries with systems similar to transferable allowances, such evidence as there is suggests that tax is not acting as a <sup>(significant)</sup> disincentive for married women to work.

4. The attached note gives some details on Denmark, Sweden, and Canada, which all have such systems. The points to highlight are:

- the proportion of married women working in Denmark and Sweden is among the highest for OECD countries; Canada is also above the average;
- in Denmark, the proportion of married women working has continued to increase since "transferable allowances" were introduced, and has increased faster than the comparable figure for all women;
- in Canada, the proportion of married women working has increased from 40.9 per cent in 1975 to 50.5 per cent in 1983, again faster than the figure for all women. This is a faster proportionate increase than occurred in the UK, where the proportion of married women working rose from 42.3 per cent in 1971 (we do not currently have data for 1975), to 49.4 per cent in 1983. (These figures are not on the same basis as those in the Green Paper, which give the number of married women working as a proportion of the number of married women of working age. Figures on the latter basis are not available for Canada.)

5. These figures should not be taken as positive proof of anything: tax is, of course, only one factor among many affecting a married woman's decision whether or not to work. But at the very least they show that transferable allowances are not necessarily a disincentive. We are looking into the subject further to see what more can be said.

*In the course of editing and shortening the Green Paper, in the final stages, we don't do international comparisons on this aspect. if you (like me) think they are useful, we can easily write them back in.*

*CHC 11.10*

explains, they also recognise the way in which many families share assets in common: for example, they may have joint bank or building society accounts, share the income from those accounts, and share responsibility for mortgage payments on the family home. Though husband and wife must be treated equally, the Government reject the view that the tax system should pay no regard to the special relationship and responsibilities within marriage. The aim is to recognise these in a way that is straightforward, flexible, and does not seek to make invidious distinctions between couples in different circumstances.

3.23 There would no longer be discrimination against couples where, for whatever reason, the wife was not in paid employment. And since transferability would operate both ways between a husband and wife, the system would give equal recognition to circumstances where the husband did not have income but his wife did.

3.24 All married couples with the same combined income would pay the same amount of tax, regardless of the division of income between them (unless the couple's incomes were sufficiently high for one or both of them to pay higher rate tax). Nor would it matter whether the income came from earnings or savings.

3.25 The extra allowances for one-earner couples would mean that a higher proportion of the total amount of tax relief would go to couples in this position. Chart 3.4 brings this out by comparing the position under the present system (shown also in Chart 2.2) with that under the new system. Since the majority of the couples where the wife is not in paid work have dependent children, this measure would direct more tax relief towards families.

3.26 It may be objected that transferable allowances could introduce a disincentive for married women to

go out to work. It is of course an intrinsic feature of the proposed reform that the tax system would no longer include the present special incentive for two-earner couples, introduced in the wartime conditions of 1942. When a wife takes up employment this would, under the new system, mean that her husband would lose the benefit of any allowances that she had previously transferred to him. But the married woman herself could continue - precisely as she does now - to earn up to £2,830 per annum (in 1985-86 terms) without attracting any liability to tax. In short, the new system would treat married men and married women alike.

3.27 By taxing a husband and wife separately and giving a married woman her own allowance and tax rate bands in the same way as any other taxpayer, the proposed system would remove the tax penalty which arises for married couples where the wife has more than a moderate amount of savings income.

#### CONCLUSION

3.28 The Government believe that the system which best meets the objectives they have set for personal tax is one of independent taxation with transferable allowances.

3.29 This would increase tax allowances for one-earner couples, where it is most needed, and would do so in a way that does most to alleviate the poverty and unemployment traps. It would be based on treating husband and wife as equal partners in marriage. But it would recognise that, within the family, there is a sharing of assets, income, and responsibilities.

## BACKGROUND NOTE

### Denmark

1. Basic system: Fully transferable allowances for earned income; aggregation of investment income with the income of the spouse with the highest earned income.

2. Trends:

	Married women's participation rate*(%)	All women's participation rate**(%)
1965	31.8	49.3
1970	49.0	58.0
1975	56.4	63.5
1979	60.9	69.9
1983	66.6	74.2

### Sweden

1. Basic system: A married person whose spouse has little or no income is entitled to a tax credit which reduces as the spouse's income increases.

2. Trends:

	Married women's participation rate*(%)	All women's participation rate**(%)
1965	42.8	54.1
1970	50.5	59.4
1975	57.6	67.6
1979	63.1	72.8
1983	66.9	76.6

### Canada

1. Basic system: A married person supporting a spouse is entitled to a further allowance over and above that available to single taxpayers. This further allowance is reduced \$ for \$ if the spouse's income exceeds a set level.

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\* Married women in the labour force as a percentage of all married women.

\*\* All women in the labour force as a percentage of all women of working age. (Exact comparisons not available.)

2. Trends:

	Married women's participation rate*(%)	All women's participation rate**(%)
1966	not available	39.7
1970	not available	43.2
1975	40.9	50.0
1979	45.7	55.5
1983	50.5	60.1

United Kingdom comparison

Trends:

	Married women's participation rate*(%)	All women's participation rate**(%)
1966	38.1	52.9
1971	42.3	54.8
1981	47.2	60.7
1983	49.4	63.3

FROM: MISS C E C SINCLAIR  
DATE: 11 OCTOBER 1985

~~PS/CHANCELLOR~~

cc Sir P Middleton  
Mr Cassell  
Mr Scholar  
Mr Haigh

GREEN PAPER: EFFECT ON WORKING WIVES OF FTAs

As foreshadowed in Mr Scholar's note of today's date, I attach a note on the effect of FTAs on working wives.



CAROLYN SINCLAIR

**EFFECT ON WORKING WIVES OF FTAs**

There are two groups:

A - Those earning over £7,500 pa with husbands earning over £18,000 pa. These groups currently benefit from the Wife's Earnings Election, under which husband and wife are taxed as single people on their earnings. Both the wife and the husband will benefit from the increase in the single allowance following FTAs. In addition, they will benefit from the separate taxation of investment income if the husband is a higher rate taxpayer than the wife.

Working wives in category A will suffer no disincentive from FTAs - rather the reverse.

B - Those with earnings above the tax threshold (£2205), but below £7,500. Wives in this group will themselves get an increased allowance as a result of FTAs, but this will be balanced by a decrease in their husband's allowance. Overall the total allowances for the couple will remain the same as before FTAs. But because two allowances will be available whether or not the wife goes out to work, there could be some disincentive effect on working wives in this group. Wives in category B will benefit in the same way as those in category A from the separate taxation of investment income.