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Inland Revenue

Policy Division
Somerset House

FROM: A J G ISAAC

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CHANCELLOR OF THE EXCHEQUER

GREEN PAPER: WHO ARE THE 'LOSERS'?

1. You asked for some details on the types of married couples who "lose" from the move to transferable allowances.
2. Under the present proposal, of course, hardly any couples lose in cash terms from the move to transferable allowances itself, though some may lose small amounts from the abolition of the minor personal allowances. What this note is really looking at, therefore, is the "non-gainers".
3. The table below shows the numbers of taxpayers in different groups, the aggregate tax bill of the group under the present system, and the aggregate amount they stand to gain from transferable allowances, and from a 27 per cent increase in the current pattern of allowances, both costing £5.3 billion.

cc Financial Secretary
 Sir P Middleton
 Mr Cassell
 Mr Monger
 Mr Scholar

Mr Isaac
 Mr Blythe
 Mr Eason
 Mr Mace
 Mr Hudson
 Dr Keenay
 PS/IR

Demographic Group	Taxpaying Units (millions)	1985-86 Tax (£bn)			
		Current Tax Bill	Tax Saving		Switch of Tax Saving
			Under TAs	Present System +27%	
Non-Aged					
Single	7.8	10.3	1.4	1.4	-
Married Couples					
- 1 earner	4.4	9.4	2.7	1.2	+1.5
- wife earns less than £2,205	1.8	3.9	.5	.5	-
- wife earns more than £2,205	3.6	10.4	.1	1.6	-1.5
Aged					
Single	1.3	1.6	.1	.2	-.1
Married	1.3	2.5	.4	.4	-
Total	20.1	38.2	5.3	5.3	-

3.3 = 16%

due to the
 than what
 have to
 make
 from
 attracts
 how
 £20,000

15.3
 7.4
 7.9
 31.3

497
 306
 282

100

people

2000

10%

4. Thus, the key difference between the two options is that transferable allowances switch tax savings worth £1.5 billion from married couples where the wife earns more than £2,205 to married couples where she has no earnings. The 1.8 million couples where the wife earns less than £2,205 gain about £0.5 billion from both options.

5. There are 3.6 million couples where the wife earns more than £2,205. Of these, 0.3 million in fact stand to gain from transferable allowances - they are couples with joint income over £20,000 a year and who also gain from disaggregation of the two incomes; if they make a wife's earnings election at present, they will still gain from the increase in the single allowance. We are therefore left with 3.3 million "losers".

6.6m people = 21%

Income Levels

6. The table attached gives a breakdown of the income levels of these losers. The vast majority are basic rate taxpayers; nearly half have incomes in the range £10,000-£15,000.

Size of Loss

7. As paragraph 4 explains, this group would enjoy a tax saving of £1.5 billion from an equal cost increase in present allowances. Transferable allowances therefore mean that by comparison each couple forgoes a tax cut of about £8 per week.

Family Circumstances

8. The table attached shows the proportion with different numbers of children. The main points are:

- about half the couples have dependent children
- just under a quarter have only one child.

9. The Family Expenditure Survey suggests that in 1982, 23 per cent of two-earner couples had a child under five. However,

in many cases, the wife may have been working part-time, with fairly low earnings, so that the couple would in fact gain from transferable allowances.

Regional Variations

10. The table attached also shows a breakdown by region showing the proportion of households with married women working. There is not a great deal of variation across the country: as expected, the highest proportion comes in the south-east outside London.

Age Breakdown

11. The table shows a breakdown of two-earner couples by the age of the wife. As one would expect, the proportion of wives working is lower among younger women, because of child-rearing. For the same reason, a number of those younger wives who are working are likely to be working part-time; if they are earning less than £2,205, the couple stand to gain from transferable allowances.

The Life-Cycle

12. Finally, and perhaps most importantly, the analyses so far have been based on "snap-shot" data, showing the numbers of two-earner families, the age and number of children etc at any one point in time. But the vast majority of couples will at some stage of their lives be one-earners and at others two-earners. As paragraphs 2.24 and 2.29 of the draft Green Paper point out, the present tax system takes no account of this life cycle - allowances are at their lowest when the couple are under the greatest financial pressure. The redistribution of relief from two-earners to one-earners resulting from transferable allowances should not therefore be seen as benefiting one fixed group at the expense of another. Rather, it redistributes income from one stage of the life cycle to another for nearly all couples - making them better off during

the child rearing period when income tends to be lowest at the expense of their early, childless, married life and later life when children become less dependent. That said, of course, couples already partway through their married life at the time of the changeover may not find it easy to view the impact in this way.

C.F.C.I.

A J G ISAAC

MARRIED 2-EARNER COUPLES WITH WIFE EARNING OVER £2,205
 LOSING UNDER TA COMPARED
 WITH AN INCREASE IN ALLOWANCES
 OF 27%

Joint Income Range (p.a.)	Under £5,000	£5,000 - £10,000	£10,000 - £15,000	£15,000 - £20,000	£20,000 and over	Total
Numbers (millions)	-	0.5	1.6	0.9	0.3	3.3

ANALYSIS BY CHILDREN

	No children	with children	1 child	2 children	3 or more children	Total
Numbers (millions)	1.6	1.7	0.7	0.8	0.2	3.3
Percentages	48	52	21	24	7	100

AGE OF WORKING WIVES

	18-24	25-34	35-44	45-54	55-59	60-64	16-59
Percentage of Wives Working in each Age Group	49	50	65	65	50	22	47

Source: General Household Survey 1982

REGIONAL ANALYSIS OF WORKING WIVES

	Household with working wives	Number of Dependent children (Percentages)				
		0	1	2	3	4 or more
UK	34.3	16.6	7.2	7.9	2.1	0.5
North Yorkshire and Humberside	29.1 32.6	14.6 14.9	6.5 7.7	5.8 7.2	2.0 2.2	0.2 0.6
North-West	35.3	16.0	8.2	8.8	1.6	0.6
East Midlands	37.2	18.5	6.5	8.8	3.0	0.4
West Midlands	36.0	18.4	7.3	7.8	1.9	0.6
East Anglia	36.8	18.4	6.9	7.1	4.1	0.2
South East	36.2	18.3	7.4	8.0	1.9	0.6
(Greater London)	31.2	16.8	6.1	5.8	1.8	0.8
(Rest of S.E.)	39.3	19.3	8.3	9.2	2.0	0.5
South-West	32.7	15.7	6.6	8.8	1.5	0.1
Wales	32.8	15.4	6.1	9.2	1.2	0.8
Scotland	30.9	14.0	7.1	6.7	2.8	0.3
Northern Ireland	27.0	8.0	6.2	7.6	2.6	2.6

Source: Family Expenditure Survey
1982-83

Characteristics of one-earner and two-earner couples

3.1 This section examines the characteristics of the groups of non-elderly one-earner couples (who all gain from a revenue-neutral change to independent taxation with partially transferable allowances) and non-elderly two-earner couples (who mostly lose). The information comes from a variety of sources (General Household Survey 1981; Labour Force Survey 1981; and Women and Employment Survey 1980), and cannot be linked very closely to the data on which the effects of the taxation change are calculated. In particular, some women who are classified as working in these surveys may have part time earnings so low that they are not reported for tax purposes; a couple in this position would be classified as 'one-earner' in our tax calculations. An instance where this may have an effect on the overall picture is pointed out in paragraph 3.5

Age and children

3.2 Non-working wives (and presumably their husbands too) tend to be younger than two-earner couples:

Age of wife	Percentage of one-earner couples	Percentage of two-earner couples
16-34	47	31
35-59	53	69
	<hr/> 100	<hr/> 100

However, this is largely if not wholly accounted for by the presence of dependent children; younger women tend to be at home because they are more likely to be looking after children. The presence of dependent children is the single most important determinant of whether a wife is working, and in particular the age of the youngest child:

	Percentage of one-earner couples	Percentage of two-earner couples
Wife 16-34, dependent children	43	18
Wife 16-34, no dependent children	4	13
Wife 35-59, dependent children	28	35
Wife 35-59, no dependent children	25	34
	<u>100</u>	<u>100</u>
All wives without dependent children	29	47
All wives with dependent children	71	53
of which, youngest child age: 0-4	41	10
5-9	16	16
10 or more	14	27
All wives with dependent children	71	53
of which, number of children: 1	24	21
2	31	24
3	11	6
4 or more	5	2

3.3 The main conclusions to be drawn from this table are:

Of one-earner couples, who all gain from ITTA:

- around 70% have dependent children
- around 40% have at least one child under 5
- just under half have two or more children.

Of two-earner couples, who mostly lose:

- just over half have dependent children
- only 10% have a child under 5
- about a third have two or more children.

3.4 The data can also be analysed in another way to assess the probability of sensitive groups gaining or losing. The results can be summarised as follows:

- half of all families with dependent children have mothers who work, half are one-earner
- three-quarters of families with at least one child under 5 have non-earning wives, and must therefore gain from ITTA
- 60% of families with three or more children are one-earner couples.

3.5 A gloss on these results is that some 70% of working mothers with dependent children work only part-time (and the greater the number of children, and the younger their ages, the greater the incidence of part-time work). Some of these, with very low part-time earnings, will be amongst the minority of two-earner couples who gain from ITTA. Hence families, and particularly larger families with young children, are even more likely to be amongst those gaining.

3.6 There are also suggestions that, for a variety of possible reasons, there is a stronger than average likelihood that, if the husband is unemployed, the wife will also not be economically active. Couples in this position would be kept out of tax by ITTA, whilst under a scheme of independent taxation with child benefits, the husband would be liable to tax if he had only a small amount of income in addition to his unemployment benefit.

Regional variation

3.7 Unpublished figures from the 1981 Labour Force Survey, covering married women of all ages, show some, but by no means large, regional variation in the proportion in employment:

	Number of married females, all ages, ⁺ in the region (millions)	Percentage in employment
Great Britain	13.5	46.0%
Scotland	1.2	45.2
Wales	0.7	41.3
Northern	0.8	43.6
Yorkshire & Humberside	1.2	46.3
North West	1.6	48.4
West Midlands	1.3	46.1
East Midlands	1.0	47.4
South East	4.2	47.0
East Anglia	0.5	44.1
South West	1.1	43.2

It is difficult to assess the extent to which these variations are associated with regional differences in (eg) demographic characteristics; for instance, a lower than average proportion of the total population is of working age in East Anglia and the South West, and this may account for the lower than average percentage of two-earner couples in those two regions. Differential unemployment rates would clearly be another important factor. It has not been possible within the time and resources available to explore all the causes that could underlie these regional differences, even to the extent that the information to do so exists.

Changes in the position of couples over the life-cycle

- 3.8 The results discussed above are all based on cross-sectional data, which shows the proportion of women who are working or not working at any one point in time. A different perspective is afforded by the use of longitudinal data which has recently become available from a survey on Women and Employment carried out in 1980. (These results are preliminary, and the report will not be published until mid-1983).

⁺ ie some 12m of these are members of married couples who pay tax; 1½m are not.

3.9 The results of this survey confirm that the presence of children, and particularly the age of the youngest child are the most important determinants of whether a wife is working. Those two variables, together with age, have been combined into a complete life cycle variable, and the following table shows how the proportion of married women working varies at different life cycle stages.

Life stage	Proportion of wives in employment
	Per Cent
Under 30, childless	84
30 and over, childless	77
Youngest child aged 0-4	25
Youngest child aged 5-10	64
Youngest child aged 11-15	77
Children 16 + aged 30-49	78
No child under 16, aged 50-59	59
All married women aged 16-59 excluding students	60

3.10 As looking after children is the primary reason for not work it follows that most women are absent from the labour market only temporarily, and the longitudinal data confirms this. It is difficult to give concise information about this because the proportion of her potential working life a woman has spent at work will depend not only on the stage of the life cycle reached but also on her date of birth. The earlier the generation, the longer spent away from the labour market nevertheless, even the oldest women in the survey, those aged 55-59, had on average spent 60 per cent of their total possible working lives in work. An indication that this proportion is likely to rise for successive generations is that women aged 35-39 had already spent a similar proportion of their possible working life to date in work; as most of this group will be reaching the end of the child-rearing and caring stage and tending to return to work, this cohort will by the end of their working lives have spent substantially more than 60 per cent of their time in employment.

3.11 However, the survey also suggests that older, non-working women are more likely than their younger counterparts to be affected by ill-health, to be caring for elderly or disabled dependants or to face difficulties in returning to work after a long absence from the labour market. This effect is obviously connected with age rather than the cohort the women belong to, and so is likely to be a persistent factor in depressing the activity rate of older women. ITTA (in contrast to MIT) will preserve the position of couples where the wife is not working for reasons such as these:

3.12 The conclusion to be drawn from this is that the vast majority of couples will at some stage of their lives be one-earners, and at others two-earners. The redistribution from the latter to the former that would result from ITTA should therefore not be viewed as benefitting one fixed group of couples at the expense of another. Rather, it redistributes income from one stage of the life cycle to another for nearly all couples - making them better off during the child-rearing period (when the family income tends to be lowest) at the expense of their early, childless, married life and later life when children become less dependent. (However, it may be difficult for couples already part of the way through their married life at the time^{of} the changeover to view the impact in this way.)