



PRIME MINISTER

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

To see. There is
a summary of the issues
for discussion in
Chapter 11 (flag A)

15 October 1980

MS

17/10

N. Sanders, Esq.,
No.10, Downing Street

Dear Mich,

GREEN PAPER ON THE TAXATION OF HUSBAND AND WIFE

You wrote to John Wiggins on 11 August to say that the Prime Minister was content with the Chancellor's proposals (in his 8 August minute to the Prime Minister) for publishing a Green Paper on this subject in October or November and for settling the text by correspondence.

.... The Ministers on E Committee, and the Social Services Secretary, who commented on the draft, were content with the substance and general presentation. There were a number of comments on detail and minor points of presentation (for which the Chancellor was grateful) which are reflected in the attached re-draft (for convenience, the changes from the previous version are sidelined).

The Chancellor intends to publish the Green Paper in this form, subject to any final comments that the Prime Minister or other Ministers may wish to make. He hopes the publication date will be before the end of November, and would therefore be grateful if any comments on the draft could reach me by Friday, 24 October.

I am sending copies of this letter to the Private Secretaries of E Committee, Don Brereton (DHSS), David Wright (Cabinet Office), Richard Prescott (Paymaster General's Office) and Gerry Spence (CPRS).

Yours ever,

Richard Tolkien

R.I. TOLKIEN

16 OCT 1980



CONFIDENTIAL





VHS
Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

27 October 1980

R I Tolkien Esq
Private Secretary to the Chancellor of
the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Dear Richard,

GREEN PAPER ON TAXATION OF HUSBAND AND WIFE

Thank you for sending me a copy of your letter of 16 October to Nick Sanders together with the draft Green Paper.

In his letter of 18 August the Lord President agreed in principle with your proposal to publish a Green Paper. The revised draft now brings out more clearly the relative manpower costs of the various options, so that the public will be able to make a more informed judgment of the possibilities for change. In these circumstances the Lord President is content for you to go ahead with publication.

He has asked me to stress again, however, that decisions on this issue will have to face the problem of where staff are to be found to implement any change. The more expensive options, even if they are not adopted for several years, will still pose a considerable problem in staff terms, given the Government's commitment to a downward trend in the size of the Civil Service. This point will need to be kept in mind in evaluating the response to the Green Paper.

I am sending copies of this letter to Nick Sanders, to the Private Secretaries to members of E Committee, to Don Brereton (DHSS), David Wright (Cabinet Office), Richard Prescott (Paymaster General's Office) and Gerry Spence (CPRS).

Yours ever,

E G M Chaplin

E G M CHAPLIN
Private Secretary

28 Oct 1989



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Elon P.D.

20 October, 1980.

The Prime Minister has seen and noted your letter to me of 16 October and the attached draft Green Paper on the taxation of husband and wife. She has not made any comments on the draft.

I am sending a copy of this letter to David Wright (Cabinet Office) only.

N. J. SANDERS

R.I. Tolkien, Esq.,
HM Treasury.

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From: THE PRIVATE SECRETARY

VMS



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

24 October 1980

Dear Richard,

GREEN PAPER ON THE TAXATION OF
HUSBAND AND WIFE

You sent me a copy of your letter of 16th October to Nick Sanders seeking any final comments on this draft Green Paper.

This is to record that, subject to the views of his colleagues, the Home Secretary is content with the version of the Green Paper which you circulated. Although some of the options which the draft discusses could well prove controversial the Home Secretary considers that the paper should make a valuable contribution to public debate on a complex issue.

Yours,
SWS

S. W. BOYS SMITH

R. I. Tolkien, Esq.

27 OCT 1980



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FOREWORD TO GREEN PAPER ON THE TAXATION OF HUSBAND AND WIFE

This Green Paper raises far reaching issues which could affect every taxpayer in the land - married or single, man or woman. I hope that it will be carefully studied and widely discussed, and that it will be possible to draw some definite conclusions from the debate.

2. Over the last hundred years there has been a tremendous change in the economic status of women, and of married women in particular. As recently as 1921, less than one in ten married women were working or looking for work. Today about half of all married women are in paid employment. Nowadays a woman can be earning as much as or more than her husband, and a woman may well enter married life with savings of her own.

3. It is not surprising that there has been growing criticism of a tax code which proceeds on the basis (originally enacted in 1806) that "A woman's income chargeable to tax shall... be deemed for income tax purposes to be his income and not to be her income"*. The surprise, to most who study the matter, lies in discovering how difficult it is to find a better system than that which we have today. A number of recent measures, of course, have removed some of the more offensive features of the old code: but the central dilemma remains.

4. Many people feel that we should break away from present arrangements, which basically treat the income of husband and wife as one for income tax purposes. In most cases, where husband and wife each have an income, the best answer probably lies in some form of separate taxation. But having said that, one runs into the difficulty that for a significant part of her life, a married woman may not have any earned income of her own, and she may well have no investment income either. In those circumstances the personal tax allowance, which would

*Section 37, Income and Corporation Taxes Act 1970.

be hers by right under a system of separate taxation, would have no value to her. Maybe, it will be said, the "unused" part of the wife's personal allowance should be transferred to her husband - and then, when she begins work again, it should be transferred back. And so on. But the complexity is already mounting. How, for example, to cope with frequent changes in the husband's tax code in the case of a wife who intersperses spells at work with spells at home?

5. The truth is that, in the real world, any tax change that is beneficial to one group of people must, almost by definition, work to the detriment of another group of people. Of course, a tax change may be right even if it does leave some taxpayers worse off. That is for politicians to decide, knowing that if they get it wrong they will suffer for their misjudgement. But it is a course to be taken only when one is very sure of the facts.

6. Change in the present system of family taxation could well leave the working couple relatively worse off and the couple where one spouse (usually the wife) stays at home looking after the family correspondingly better off. Various alternative solutions suggest themselves; each has its strengths and weaknesses. Each meets, in varying degrees, the desire for financial independence often expressed by married women. Each, it should be added, would involve more civil servants and cost money to implement.

7. Although I have pondered this problem often over the years, I have not myself reached a final view. That is why I have asked for this consultative paper to be written and published. It is not easy reading, because the subject - when it comes down to the nuts and bolts - is inevitably complicated. I hope, however, that those who have already written and spoken - often with understandable passion - about the taxation of husband and wife, as well as representatives of the much larger number who have not, will be ready to continue the debate now that they are invited to comment on the issues raised in this Green Paper.

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CHAPTER I - INTRODUCTION

1.1 This Green Paper is about the tax treatment of the income of husbands and wives and is intended to open up discussion on the present system and on possible alternatives.

1.2 The subject is topical and important, because there has been growing dissatisfaction with the present system, particularly over the last few years. Admittedly, the present system broadly reflects what is probably still the normal arrangement under which the husband is the principal breadwinner. But many would not accept this as the foundation upon which the tax laws should be built; and even those who do not press for changes recognise that certain features of the system have been difficult to defend. The time is therefore ripe for a review; and, because most people have a direct interest in the outcome and because there is no prospect of a perfect solution to the complex of problems and conflicting interests involved, the Government have thought it right to open the review as widely as possible by publishing this consultative document.

1.3 Chapter 2 of the Green Paper describes the present system; Chapter 3 summarises the main criticisms; Chapter 4 looks at possible modifications of the existing system and the extent to which they would meet these criticisms; and Chapters 5-8 consider the possibility of a more fundamental change, which would involve making the individual taxpayer, whether single or married, the basic unit for tax purposes. But, before embarking on these chapters, it may be helpful to summarise the main issues at stake, and to do so by reference to the main criteria against which any system for taxing married couples should be judged - fairness, simplicity, sex equality and privacy.

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Fairness. No tax system will command general support if it is seen to be unfair. Here, fairness is best measured by the fairness of the relativities between the various groups in question - between married and single people, between one-earner and two-earner couples, and between men and women. The latter is best considered separately, under the criterion of sex equality (below). For the rest, questions arise from several different directions. Thus:

a. The gap between the tax allowances for single and married people. How big should it be? Is the present differential of between 50 and 60 per cent about right? The answer may depend on the circumstances of the couple under consideration. Thus, it may vary according to whether one partner of the marriage is financially dependent on the other, and, if so, whether the dependent partner is looking after the home or is looking after children or elderly parents as well.

b. Is aggregation⁽¹⁾ fair? In other words, does the adding together for tax purposes of the income of husband and wife produce a defensible result? It can be said that the United Kingdom system is not unfair for earned income, because it is open to the couple to claim disaggregation, and have their earnings taxed separately, where this is to their advantage. For investment income, it is arguably unfair: the tax bill on the combined incomes may be greater if the couple are married than if they are two single people, each with part of the total income. Critics could fairly point out that, in this

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admittedly limited area, there is a fiscal disincentive to marriage. Clearly disaggregation would provide an incentive for transfers of capital between husband and wife to minimise their tax liability. Some people would argue that this would be a powerful force leading to more equal sharing of property by husband and wife and that this was, on social grounds, a good thing. Other people may well regard it as a form of tax planning which called for counter measures, for example in the rules governing capital transfer tax under which transfers between spouses are exempted.

c. The tax treatment of the working wife.

Under the United Kingdom system, is the tax advantage where the wife works too great in comparison with the treatment where the husband only is working? The wife's earnings allowance gives a working wife the equivalent of the single allowance. The fact that the husband is in these circumstances still entitled to the married allowance, although his wife is not financially dependent on him (so that the working couple receive in total the equivalent of the married and single allowances, ie about two and a half times the single allowance), is regarded in several quarters as anomalous. Should there be a fiscal incentive for the wife to work; or would it be fairer if the tax system were neutral in this respect?

Simplicity. Like fairness, this is a general requirement of a tax system. Many of the dilemmas in tax administration arise from the difficulty of combining fairness with simplicity. The present system of taxing husband and wife is relatively

simple, although it is undoubtedly complicated by the options for disaggregation (the wife's earnings election⁽¹⁾) and for separate assessment of husband and wife⁽¹⁾. Against this relative simplicity must be weighed the complications which would arise if the options within the present system were to be extended in the way considered in Chapter 4 or - more particularly - if an "individual" basis with special provision for the spouse at home were adopted (Chapter 6).

Sex equality. A good deal of the recent criticism of the present system has been governed by this criterion. It has been directed initially at the aggregation rule in Section 37 of the Income and Corporation Taxes Act (ICTA) 1970, under which a wife's income is deemed to be her husband's for tax purposes. Although the effects of this have in practice been substantially alleviated over recent years, its continued existence in the statute book is seen by its critics as a serious offence against the principle of sex equality. If this were all, it might be relatively easy to amend the law so as to satisfy this criterion. But objection is also taken, under this head, to the married allowance - a higher tax allowance which, except where the wife is the sole breadwinner⁽¹⁾, is given only to married men. If, in the interests of sex equality, the married man's allowance were to be withdrawn, then, as these critics see it, the only change which would really meet this criterion would be a change under which each spouse would be treated as a taxpayer in his or her own right; and this would mean a fundamental change in the system.

Privacy. This is closely related to sex equality. Wives should be able to keep particulars of their

income and tax affairs confidential from their husbands (and husbands from their wives). Some would attach more importance to this than others as a necessary feature of a system; and there are those who argue that it would be more desirable to have a system of joint taxation under which there is no privacy between husband and wife, but both are jointly responsible for declaring the combined incomes and paying the total tax.

1.4 Such are the main criteria by reference to which the present system and possible alternatives can be judged; and between them they raise the main issues which form the subject of this Green Paper. No system can satisfy all criteria: for example, it is inevitably difficult to reconcile 'sex equality' with those definitions of 'fairness' which focus on families rather than individuals. This is another way of saying that it is difficult to reconcile in a single system the preferences of those who advocate independent treatment for all married women and those who believe that the desirability of married women staying at home to look after their families should be fully recognised in the tax system. The present United Kingdom system is a compromise, which largely meets the criterion of simplicity, but has only gone some way to meeting the other criteria. Any significant change must alter the relative share of the total tax burden borne by the different groups under consideration. In examining alternatives to the present system, the Green Paper brings out these shifts in people's relative tax bills and in doing so enables the virtues as well as the inadequacies of the present system to be more clearly seen.

1.5 Costs. It is necessary to take account of the costs that could be involved in considering the merits, and disadvantages, of alternatives to the present system. There are two points to be considered here.

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The first is the cost to the Exchequer of financing changes in the tax treatment of husband and wife. The more substantial the change, the greater the cost of ensuring that those who are made worse off in relative terms are protected, wholly or in part, from an increase in their tax bills. The second aspect is the administrative cost, which includes the number of additional civil servants needed to operate a change in the system. Here, also, the more far-reaching the change, the greater the number of extra civil servants likely to be needed. It has to be recognised that these costs are a measure of the resources that could otherwise have been used in other areas, including, for example, reductions in tax rates or improvements in the social services. It has to be recognised, therefore, that solutions which may seem attractive in terms of the criteria set out in this chapter may nevertheless have to be ruled out, at least for some years, because the revenue or staff costs prove to be unacceptable in the prevailing economic circumstances.

1.6 The changes examined in this Green Paper are mainly changes to the tax system, although there is also some discussion of possible changes in Social Security benefits (in relation to wives who are financially dependent on their husbands and lone parents - Chapters 6 and 9). The Green Paper does not touch on the possibility of some form of tax credit scheme which would effectively bring together the tax and social security systems. A Green Paper on Proposals for a Tax Credit System was published in October 1972, and the Government have stated that they wish to move towards the fulfilment of the original tax credit objectives as and when the resources become available. While it is not thought appropriate to examine in this Green Paper the implications for the taxation of husband and wife of a tax credit scheme (which would go far beyond the scope of this Green Paper), none of the changes considered here would

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be incompatible with a tax credit scheme if it were to be introduced at some time in the future.

(1) The various technical terms used throughout this Green Paper are explained in the Glossary (pps).

Aggregation

2.1.1 The present income tax treatment of the married couple turns on Section 37 ICTA. This provision, which dates back to the very beginnings of income tax in 1799 (see Appendix 2 listing the main historical landmarks in the development of the system), states that:

"A woman's income chargeable to tax shall during (any year) in which she is a married woman living with her husband be deemed for tax purposes to be his income and not to be her income."

2.1.2 From this two important consequences flow. First a married couple is taxed basically as a single unit: the incomes of husband and wife are added together, tax is charged, subject to any allowances, on the total as if it were the income of one person, and only one set of rate bands is available against the joint income. Second, it is the husband who is in law the person responsible for the couple's tax affairs, and hence the person with whom the tax authorities deal. It is the husband who must complete the tax return when required, claim the allowances due for the couple, and take ultimate responsibility for the tax due on both his and his wife's income (although the Revenue have discretion under Section 40 ICTA to collect tax from the wife in respect of her own income, if her husband does not pay it).

Allowances

2.2.1 The personal allowances reduce the amount of income which is subject to tax. Their purpose is to recognise that, because of varying circumstances and family responsibilities, people whose incomes are the

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same may not be equally able to pay tax on them. They are not intended to reflect actual expenditure, as that can vary widely between households of the same size, but serve to graduate the personal tax burden broadly according to family circumstances. Appendix 3 sets out the current values of the main personal allowances.

2.2.2 Since 1918 a married man has received an allowance higher than that given to a single person, in recognition of the special legal and moral obligations he has to support his wife. Thus the married man's allowance is essentially an allowance for two people, but it has always been less than twice the single allowance, since the expenses of two married people sharing one household are considered less than those of two single people maintaining separate households. But the precise gap between the married and single allowances has varied over the years. Up to the early sixties the married allowance ranged from 1.5 times to 1.8 times the single allowance. In the subsequent ten years the gap narrowed quite markedly: in the early seventies the married allowance was only 30 per cent higher than the single allowance. Since then the differential has widened again and today the married allowance is 1.56 times the single allowance. The current relationship of 1:1.56 is more or less in line with the 1:1.6 relationship established for social security purposes.

2.2.3 In addition to the married man's allowance, the husband whose wife goes out to work also gets the wife's earned income allowance. This allowance, which is set against the wife's earned income but not against her investment income, is equal to the single person's allowance or the amount of her earnings if less. It was first introduced in 1920 when it equalled the difference between the married allowance and two single allowances. During the last war it was increased to the same level as the single allowance, specifically to

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encourage married women to remain in employment in the public interest. It has remained at that level ever since, partly because it has not been felt appropriate to remove the incentive for married women to work, and partly because it is administratively convenient for the wife's earned income allowance and the single allowance to be the same amount. This means that the married couple where the wife goes out to work get more allowances in total than two single people (2.56: 2), and considerably more than the couple where she stays at home (2.56: 1.56).

2.2.4 In addition to the main personal allowances - the single person's allowance, the married man's allowance and the wife's earned income allowance - an individual's tax bill may be reduced by other reliefs and allowances, eg relief for mortgage interest payments. In the case of the married couple, the aggregation rule means that (except for the wife's earned income allowance, which is given automatically against her earnings) these reliefs and allowances have to be claimed by and given to the husband even where the expenditure giving rise to the allowance is incurred by the wife - though for PAYE purposes a different allocation may be agreed by both husband and wife.

Year of marriage

2.3 In the year in which marriage takes place different rules apply (unless the marriage takes place on 6 April, in which case the normal rules described above apply). For that year only husband and wife continue to be taxed separately. Both complete their own tax returns and have responsibility for the payment of tax on their own incomes (earned and investment). Each is entitled to his or her own set of rate bands. The wife gets the single allowance and the husband is entitled to single allowance plus 1/12th of the difference between the

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single and married allowances for each month in the tax year after the date of marriage.

Separate assessment and wife's earnings election

2.4.1 The normal rules for treating married couples can be varied in either or both of the following ways:-

- a. separate assessment,
- b. wife's earnings election.

Separate assessment

2.4.2 Ever since 1914 either husband or wife has been able to apply for separate assessment. This option does not reduce the total amount of tax which the couple pay, but it makes both husband and wife responsible for handling their individual tax affairs, and for the payment of their own share of the tax due. It also enables them to complete separate tax returns if they wish. Under separate assessment the tax due from the couple is worked out in the normal way, and then the available reliefs and rate bands apportioned between them broadly in the same proportion as each spouse's income bears to the total. (Appendix 4 illustrates how these calculations work). The main exception to these general rules is where the wife has earned income, in which case her share of the total reliefs must not be less than the wife's earned income allowance due against her earnings.

2.4.3 The advantage of separate assessment is that it secures for the wife the right to handle her affairs independently, and releases her husband from the responsibility for paying the tax due on his wife's income. It secures for the wife greater privacy; but even so it is possible for each spouse to deduce - from his/her own allocation of the tax bill - the approximate size (though not the sources) of the other's income.

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Wife's earnings election

2.4.4 A couple may jointly elect to have the wife's earnings taxed separately as if she were a single person with no other income. This option, which is also illustrated in Appendix 4, was introduced in 1971 and is known as the wife's earnings election. When it is in force the wife is entitled to the single person's allowance (in place of the wife's earned income allowance) against her earned income. The husband also receives a single person's allowance in place of his married man's allowance. The election is of advantage only where the couple's total income and the wife's earnings are of such a size that if she is taxed separately on her own earnings, the reduction in their higher rate tax outweighs the loss of his married allowance. Although the wife's earnings election enables the wife to be treated as a single person so far as her earnings are concerned, receiving her own repayments and making good any underpayments on her earnings, any investment income she has continues to be treated as belonging to her husband for tax purposes. In addition he retains responsibility for completing returns of both his and his wife's total income.

Recent developments

2.5.1 In recent years the administration of the income tax system has been changed in a number of respects to provide more equal treatment for married women. These changes have affected:

- a. the collection of tax where a husband and wife are both working and liable to higher rate tax;
- b. the rights of married women to receive their own repayments;
- c. Inland Revenue practice on correspondence with married women.

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Collection of higher rate tax

2.5.2 Where a husband and wife are both working and their joint earnings are sufficient to bring them into higher rates of tax, some adjustment to their tax codes is needed in order to ensure that enough tax is deducted at higher rates. This adjustment, which has the effect of reducing the allowances which one spouse can set against his/her income, is known as the "excessive basic rate" (EBR) adjustment. Until very recently tax offices made this adjustment in a wife's coding, so increasing the amount of tax which was deducted from her income (which in most cases was smaller than her husband's). But from 1980/81 onwards tax offices will make this EBR adjustment in the husband's coding unless it is clear that the wife's earnings are likely to be the higher of the two, or the couple notify the tax office that they would prefer the reduction to be made in the wife's coding.

Repayments to married women

2.5.3 The general rule is that the husband is liable to make good any underpayment of tax and to receive any repayment due, since he has overall responsibility for the tax on both his and his wife's income. There have, however, long been exceptions to this rule. The wife is entitled to her own repayment (and has to meet any underpayment) if separate assessment and a wife's earnings election are in force. In addition, repayments due in the course of the year in respect of a wife's earnings subject to PAYE have always gone to the wife. In the last five years, the number of occasions on which the wife receives her own tax repayments have been increased. They now include:

- a. any repayments of PAYE tax due to the wife in the year following that in which the tax was deducted;

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b. repayments to wives whose husbands have already been assessed, and wives who claim repayment later than one year following the tax year;

and

c. the "breadwinner" wife to whom repayment is due as a result of giving her the benefit of allowances due to her husband, which he is unable to use because he has insufficient income.

The result is that most wives who pay tax under PAYE are entitled to receive any repayments due on their earnings. However some wives who are liable to higher rate tax and those wives who pay tax under Schedule D do not get their own repayments.

Correspondence with married women

2.5.4 Traditionally the normal Inland Revenue practice was to write to the husband (who was in law responsible for any tax due) on a matter concerning his wife's tax affairs. But recently these rules were changed, and tax offices were instructed to reply direct to a married woman who had written to them about her own tax affairs. This change of practice has now been extended and the current rule is for the Revenue to write to the married woman herself whether or not she has written to them first. The present practice does not apply where the correspondence involves reference to the husband's income as well as the wife's nor does it apply to assessments and other formal documents.

Conclusion

2.6 Notwithstanding these recent changes, some of the present rules for taxing husband and wife are still of considerable antiquity. However the mere fact of

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antiquity does not mean that, taken as a whole, the system is necessarily out of date or incapable of catering for society as it is today. Already the net result of the current rules is to give a married woman a considerable degree of independence - at least as far as her earned income is concerned. She gets the same personal allowance against her earnings as a single person, and receives most of her own repayments and tax correspondence. And where the effect of aggregation is to bring a couple into the higher rates of tax, there is an option (wife's earnings election) whereby the wife can be taxed as a single person on her earnings. Furthermore the separate assessment option, while it does not affect the total amount of tax payable, extends a married woman's individual responsibility to cover the tax on her investment income as well as on her earnings.

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Introduction

3.1 Though the present system has changed in several respects in recent years, to some extent it inevitably reflects ideas and social patterns which were current in the early decades of this century. Within the last 50 years society has changed dramatically, and it is these changes which underlie much of the present criticism of the taxation of married couples.

Social Change

3.2.1 Much the most important social development has been the changing role of a married woman within the family. At the time when the income tax system took shape the vast majority of women gave up work on marriage to spend the rest of their lives looking after their home and family. This is not true today. The significant change which has taken place in the last three or four decades is chronicled in the Report of the Committee on One Parent Families (Cmnd 5629, July 1974):

"Women's contribution to the country's labour force hardly varied between 1851 and 1951 but it has risen since 1961. Their contribution to the national economy has been regulated by the timing of marriage and the progress of family building. In the generations before the second world war women used to work for several years between leaving school earlier than they do today and getting married later than they do today. They withdrew from the labour market on marriage. Few ever returned and then only if they had suffered domestic catastrophe in such form as a broken marriage or a disabled or unemployed husband unable to provide. So, before the last world war, representative women workers were young and single. Working women in the older age groups were mostly

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lifelong spinsters drawn from the reservoir of unmarried women. The custom then both among the middle and the working classes was for work to cease on marriage and therefore the proportion of married women in paid jobs was less than 10 per cent."

3.2.2 As Appendix 5 on married women in employment demonstrates, whereas in the earlier decades of this century less than 10 per cent of all married women were working or looking for work, by 1951 the proportion had doubled and in the next 20 years doubled again. Since then there has been a further rapid growth, so that today over a half of all married women under pension age are working or actively looking for a job. Married women now count for over a quarter of the total labour force and outnumber single women by 2:1. The married woman may be newly married, simply carrying on the career she pursued when single; or she may have young children and do a part-time job during school hours. (It is noteworthy that in 1978 only 28 per cent of mothers whose youngest child was under 5 worked at all, compared with 67 per cent of mothers whose children were all over 5.) Alternatively, she may be an older person who has returned to full-time work after her children have ceased to be dependent; or she may be the family breadwinner with her earnings supporting a husband who is not himself in paid employment.

3.2.3 Married women today may still be financially dependent on their husbands while they are looking after young children, but for much of their married life they have the opportunity to be financially independent. This in turn means there is more financial equality within the marriage. It is social changes like these which underline the growing criticism of certain aspects of the present rules for taxing husband and wife. The various criticisms that have been made are analysed in the following section.

Criticisms of the Present System

3.3.1 There are perhaps two major strands of criticism of the present system of taxing husband and wife. Both focus on the proposition that the married man's allowance in its present form is unsatisfactory. More specifically the first strand of criticism points to the different tax treatment of husband and wife. In other words, it sees discrimination within the family unit. The other strand of criticism, looking at the overall impact of taxation as between different types of family unit - single people, couples with only one earner, couples where both partners go out to work, one-parent families, etc - sees the current rules as favouring some types of family unit at the expense of others.

Discrimination within the Family

3.3.2 The main focus of criticism here is the aggregation rule which deems the wife's income to belong to her husband for tax purposes and makes him responsible for all her tax affairs. This is seen as reducing the married woman to the status of her husband's "chattel". It has been criticized as a matter of principle, and there have been complaints about the practical effects. Some of these points have been met by the procedural changes referred to at the end of Chapter 2. Beyond this however a number of people feel particularly strongly about the issue of the married woman's privacy. Because a husband is liable for tax on his wife's investment income, it follows that he must get to know about any savings or investments she has. Criticism of our tax system as discriminating unfairly between husband and wife does not come exclusively from women: some men object to having to go through the process of obtaining details of their wife's income, dealing with all correspondence relating to it, and being liable for any tax due on it.

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3.3.3 The second criticism focuses on the allowance for a married woman. People have taken issue with the fact that the wife's earned income allowance is given, not to the wife, but to the husband to set against her income and that, unlike all other personal allowances, it can be set against her earnings only and not against her investment income. In addition there has been criticism of the relative size of this allowance. The husband gets a higher tax allowance against his earnings than his working wife gets against hers, so that where two spouses are earning the same amount the wife takes home less than her husband. Allied to this are complaints about the way the couple's other allowances are usually allocated to the husband, thus further increasing his take home pay relative to that of his wife. This issue most often arises in respect of mortgage interest relief and is obviously a source of particular complaint where the wife is the one actually paying the mortgage interest.

Discrimination between Family Units

3.3.4 There are three main areas of criticism:-

a. The favourable treatment where both partners work; this is criticised as excessively generous both by comparison with the treatment of one-earner couples and by comparison with the treatment of single people.

b. The treatment of the one-earner couple. It is argued on the one hand that the allowance is inadequate where one spouse stays at home to look after dependent children, elderly relatives etc, and on the other there is the point of view that there is no reason to give more than a single allowance where the spouse at home has no such responsibilities.

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- c. The treatment of married couples where each spouse has investment income.

These various criticisms are analysed in turn in the paragraphs below.

Two-earner couples

3.3.5 Since 1942 the couple where both husband and wife are earning has been able to enjoy total tax allowances around $2\frac{1}{2}$ times as large as a single person's allowance, whereas the couple where only the husband works get $1\frac{1}{2}$ times the single allowance. This feature of the tax system may be felt particularly by a couple who move from one category to another - eg where the wife gives up work to start a family. As long ago as 1954 the Royal Commission on the Taxation of Profits and Income concluded that the present arrangements were over-generous to two-earner couples because they gave them greater relief than two single earners. Their proposed solution was to restrict the wife's earned income allowance, but it is now commonly argued that it is the continued entitlement of the husband to a full married man's allowance, while his wife is enjoying the equivalent of a full single allowance, which creates the imbalance between two-earner couples and others.

One-earner couples

3.3.6 In recent years there have been suggestions that the married allowance for one-earner couples should be increased to the equivalent of the allowances given to two single persons. There seem to be two distinct (if inter-related) lines of thinking underlying this. On the one hand there is the body of opinion which considers it important to give every encouragement - fiscal and otherwise - for a mother to stay at home and look after her young children. On the other is the point of view

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that housework is just as much work as paid employment and the tax system should recognise it as such. At the same time, from another stand-point, it is sometimes said that the married man's allowance should not be given to one-earner families where the wife has no home responsibilities, on the grounds that in a society where it is common for wives with no home ties to work, it is wrong in principle for the tax system to give any relief for the wife who chooses instead to remain at home.

3.3.7 It is widely held that the present rules are very generous to couples where the wife is the breadwinner and the husband has no income. The couple get the same allowances as a working married couple (married allowance plus wife's earned income allowance), whereas only the married allowance is available where the husband is the breadwinner.

3.3.8 Finally, there is the criticism that, under the present rules, where husbands and wives both have investment income the tax bill can be higher than if they were two single people with the same total investment income split between them. This criticism is more frequently heard now that there are some 2½ million wives with income-producing assets.

Conclusion

3.3.9 It is of course possible to meet each of these criticisms individually but there is no single "solution" which would encompass answers to them all. It is only necessary to consider the two criticisms discussed in para 3.3.6 to see some of the difficulties involved. The obvious answer to those who want more encouragement for family life in its traditional form would be to award the equivalent of two single allowances to all one-earner couples. But this would be objectionable to

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those who maintain that only families where the non-working spouse has specific home responsibilities should qualify for additional tax relief.

3.3.10 Moreover any "solution" could well create as many problems as it would solve. For instance, a switch to independent taxation, under which husband and wife would each be treated as separate units, would certainly meet many of the criticisms outlined in the foregoing paragraphs. But a reform on these lines might not find favour with those married women who have no particular quarrel with the status quo. Independent taxation confers obligations as well as rights: every man and woman, married as well as single, would be responsible for filling in his or her own tax return, dealing direct with the tax authorities and paying his or her own tax bill. At present, in the case of a married couple, these obligations fall solely on the husband (subject to the rules for separate assessment under which the wife may choose to assume responsibility for her own share of the tax due). Moreover, as Chapter 6 makes clear, mandatory independent taxation would mean a substantial shift in the relative tax bills paid by different types of family. In particular, couples where both spouses are working would, in relative terms, be worse off than at present.

3.3.11 It is clear, therefore, that any attempt to meet the criticisms of the current taxation of husband and wife must be a compromise between conflicting interests. The previous Chapter has demonstrated how the present system itself represents just such a compromise. Moreover, even today, it is a compromise which seems to be broadly acceptable to many people. Therefore, before turning to the possibility of changing to an entirely different system, it is worth considering the scope for building on the present working compromise in a way which would meet at least some of the criticisms levelled against it. This possibility is examined in the following chapter.

4.1 A system of fully independent taxation would be needed to provide a comprehensive answer to the criticism that the current rules discriminate against married women and also that they favour some types of family at the expense of others. This is examined in Chapter 6. Nevertheless, it would be possible without such a fundamental restructuring to meet some of the main points of criticism by building upon features of the present system which enable, within limits, husband and wife to be treated as individual units rather than as a couple. These would be major reforms of the present system and would go much further than the procedural changes (referred to in Chapter 2.5) which have already been implemented. Before we consider how this might be done, it is worth looking briefly at an alternative way of meeting the criticism that the present aggregation rule is sex discriminatory. Instead of moving towards an "individual" basis, this approach - which may best be described as "joint taxation" - would effectively reinforce the aggregation of the incomes of husband and wife.

4.2 Joint Taxation Several variants would be possible, but essentially this would involve substituting for the present aggregation rule a rule under which the income of husband and wife would be jointly returnable by them, and jointly assessable on them, and there would be a joint responsibility for payment of the tax. This would remove what is seen as the offensiveness of deeming a wife's income to be her husband's, but:

- a. In practice this would mean that both husband and wife would be liable for the tax on the other's income. A wife with no income of her own could thus be liable for the tax on her husband's income, even though she had no

resources from which to pay it, and a husband with no income would be in a similarly invidious position. This difficulty might be met by making joint taxation optional. But this would substantially add to the administrative complexity. Furthermore, while in some cases joint liability might work satisfactorily, in others - where the option would have been exercised because of its prima facie attractiveness - there would be difficulty over the years in pinning down responsibility for the submission of returns and payment of tax with neither spouse accepting full responsibility and both employing the delaying tactics which could be open to them.

- b. More important, a move to joint taxation would run counter to the overwhelming trend of criticism which has pointed in the opposite direction, towards a system under which husbands and wives would be separately responsible for their tax affairs.

4.3 Rewording the aggregation rule While operating within the existing system, and retaining both the principle of aggregation and the married allowance, it would be possible to remove one of the main sex-discriminatory aspects of the system. The aggregation rule could be re-worded, not to provide for joint taxation but simply to treat the income of husband and wife as if it were one income, the tax remaining assessable etc on the husband, with the existing exceptions of separate assessment and wife's earnings election (see Chapter 2.4.2 - 2.4.4). The income would thus be treated as the joint property of husband and wife and this would meet the objection to the present aggregation rule where the wife's income is deemed to be her husband's.

4.4 Individual Responsibility Such a change in the aggregation rule would not of itself constitute a move towards independence of treatment and individual responsibility by each spouse for his or her own tax affairs. But this could be achieved by building upon the wife's earnings election and separate assessment. In this way it would be possible to create a regime whereby couples had two alternative options for independent treatment open to them. First, they would have their income taxed as if each was a single individual, separately responsible to the Revenue. Secondly, where this first option was not advantageous, because the loss of the married allowance outweighed the benefit of separate single allowances and rate bands, the allowances and rate bands to which the couple were entitled could be split equally between them, with each being separately responsible to the Revenue. This regime might conveniently be described as an option for independent taxation.

4.5 Option for independent taxation: individual taxation of investment income as well as earnings This would mean extending the existing wife's earnings election to investment income. At present, apart from the exemption of the first £70 of National Savings Bank (ordinary account) interest, which is available separately to a married woman, a wife's investment income is always aggregated with her husband's (including liability to the investment income surcharge, where the threshold is the same for a married couple as for a single person). The fact that the wife's investment income is not covered by the wife's earnings election is criticised for two reasons.

a. The tax bill

The effect of the aggregation of investment income is that some men and women may pay more tax when married than when single. In some instances the extra bill resulting from marriage may be substantial. For example, a couple where the

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husband has £25,000 earnings and £5,000 investment income and the wife an investment income of £10,000 will pay £3,700 more tax than if they were two single people. In this area, therefore, it can fairly be said that the tax system is not neutral as between marriage and cohabitation. The extension of the wife's earnings election to investment income would remove this discrimination against married couples with investment income. Unlike the present wife's earnings election, the new option could be beneficial even where the total income was below the higher rate threshold: a wife would get a single person's allowance against her investment income so that if she had no earned income (or very little) the option would be advantageous where her investment income exceeded the difference between the single and the married allowance (ie £770 in terms of 1980/81 allowances) which the husband would lose. For example, if she had £1,000 of investment income but no earnings, the couple paying tax at basic rate would stand to gain £69 (30% of £1,000 - £770). (Appendix 4 shows how the calculation would work in detail).

b. Privacy

Some wives object to having to tell their husbands about any savings and investments which they have. They see it as a breach of their personal privacy, perhaps the more so because there is no obligation on the husband to give corresponding information to his wife. This lack of privacy may well be more keenly felt with regard to investment income than earned income, particularly if the investment income is derived from savings from housekeeping money, legacies from the wife's family or her own past earnings, including earnings before marriage. With an option for

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independent taxation which extended to a wife's investment income as well as her earnings, the need for the wife to tell her husband about her investments would disappear. So it would seem sensible to allow a husband and wife to make separate returns if they wished. (Under the present rules for wife's earnings election the return is made by the husband alone unless there has also been an application for separate assessment). The option would thus give a wife complete privacy once the couple had exercised it (though husband and wife would have to tell each other sufficient about their incomes to establish that it would be beneficial to take up the option).

- c. The numbers benefiting from such an option would be likely to be in the region of 400,000 - as compared with the 100,000 who benefit from the wife's earnings election - at a cost of some £m200 a year. The uncertainties about the distribution of earned and investment income between husbands and wives mean that these figures must be treated with caution. However a recent sample survey conducted by the Inland Revenue gives some indication of the numbers involved. The table below summarises some of the results of this survey, showing the numbers of married couples with investment income in 1977/78, broken down by the respective contributions of husband and wife to the combined income.

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NUMBERS OF COUPLES WITH INVESTMENT INCOME, SHOWING RESPECTIVE CONTRIBUTIONS OF
HUSBAND AND WIFE

1977/78

Range of wife's investment income	Range of husband's investment income								All ranges
	Nil	£1-£9	£10-£99	£100-£499	£500-£999	£1,000-£4,999	over £5,000		
Nil	-	309 (6)	1,108 (23)	617 (13)	122 (3)	115 (2)	7 (-)	2,277 (47)	
£ 1-£ 9	60 (1)	117 (2)	142 (3)	44 (1)	5 (-)	7 (-)	- (-)	376 (8)	
£ 10-£ 99	119 (2)	52 (1)	527 (11)	236 (5)	53 (1)	39 (1)	2 (-)	1,029 (21)	
£ 100-£ 499	117 (2)	18 (-)	48 (1)	405 (8)	86 (2)	75 (2)	6 (-)	755 (16)	
£ 500-£ 999	19 (-)	1 (-)	17 (-)	59 (1)	69 (1)	50 (1)	6 (-)	221 (5)	
£1,000-£4,999	6 (-)	- (-)	7 (-)	24 (-)	28 (1)	88 (2)	14 (-)	168 (3)	
Over £5,000	1 (-)	- (-)	1 (-)	1 (-)	1 (-)	12 (-)	5 (-)	22 (-)	
All ranges	323 (7)	497 (10)	1,849 (38)	1,386 (29)	364 (8)	386 (8)	41 (1)	4,846 (100)	

(Numbers of couples in thousands)

Figures in brackets are percentages of the total number of couples with investment income.

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4.6 Under this option for independent treatment each partner would have a separate set of rate bands, as well as a separate tax allowance. So there would be a potential tax advantage to be gained by transferring income from the better-off husband (or wife) to the other spouse. With earned income the opportunity for splitting income in this way hardly arises, except perhaps where the wife works for her husband. With investment income, however, the opportunities would clearly be much greater. In so far as this could lead to a more even distribution of the underlying capital between husbands and wives, this may be regarded as no bad thing. Nonetheless some people might feel that the potential benefit to richer couples would be so great that a limit should be placed on the size of the tax advantage. (This possibility is examined in Chapter 6.3.3 where some of the implications of a mandatory system of independent taxation - as distinct from an optional one - for the treatment of investment income and for capital taxation are further considered). But in any case, under a system whereby husbands and wives could be taxed as independent individuals on the whole of their income (including investment income) it would be necessary to give consideration to the prevention of artificial methods of reducing the tax bill by transferring income from husband to wife or vice versa. It would certainly be necessary to nullify for tax purposes inter-spouse payments under covenant and perhaps also to amend other settlements legislation to take account of transfers of income between spouses.

4.7 Option for independent taxation: equal split of allowances and rate bands Independent taxation of earnings and investment income, as outlined in Chapter 4.5, would not be beneficial to everybody. In most cases the loss of the married allowance would be greater than any benefit the couple could gain by having an extra set of rate bands and an allowance which could be set against all the wife's income, whether earned or from investments. For these couples, it would be possible to build on the present facility for separate assessment, to give each spouse separate responsibility

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for his or her own tax affairs with an equal share of any reliefs due. The existing arrangements for separate assessment give some independence to the wife, in that she can make her own returns and pay her own tax; but they are little used and have come in for a certain amount of criticism in recent years. This criticism has focused on three particular points:

- a. The split of allowances and rate bands between husband and wife in proportion to their incomes results in the spouse with the lesser income getting the smaller share of the reliefs etc - and this is usually the wife.
- b. The basis of the split is complex, and this may be why only some 10,000 couples take advantage of the option.
- c. The split in proportion to income means that each spouse can calculate the amount, though not the sources, of the other's income, so that the wife with a small income from savings in practice enjoys little privacy from her husband.

4.8 It would be relatively simple to alter the rules for separate assessment, in such a way that, for cases where it would not be beneficial for the couple to choose to be taxed as two single individuals, they could nonetheless opt for separate responsibility with an equal split of the available allowances and rate bands. Thus -

- a. The main allowances and rate bands could be split equally between husband and wife, instead of proportionately to their incomes. Where one spouse had insufficient income to use up his or her half-share of the available reliefs and rate bands, the balance would be transferred to the other spouse. (The calculations in Appendix 4 show just how this would

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affect individual spouses' tax bills.) Thus, the married man's allowance and wife's earnings allowance would be divided equally between the spouses. Certain allowances, such as the blind allowance, and reliefs, such as for mortgage interest, might, instead of being split equally, be allocated wholly to the spouse to whom they were appropriate. Separate responsibility on these lines would obviously be simpler than the present basis of separate assessment. In addition, many would regard the equal basis of the split as self-evidently fairer than the present basis: it would mean that the spouse with the lower income would pay a lower share of the total tax bill than at present. On the other hand, the spouse with the larger income would have a greater share of the tax bill than under the present system. Although this may well be right in principle, the spouse with the larger income (usually the husband) who is separately assessed at present, might not welcome the fact that an equal split of allowances would reduce his partner's share of the tax at his own expense.

- b. In view of the greater simplicity of separate assessment with an equal split of allowances, this option for separate responsibility would in practice be more attractive than at present.
- c. An equal split of the allowances etc would confer a much greater degree of privacy than the present system on both husband and wife in relation to earnings and investment income. In many cases the privacy would be complete: even where it was not, only the spouse with the higher income could calculate the amount (although not the source) of the other spouse's income.

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4.9 Conclusion

4.9.1 This chapter has examined the possibility of an option for independent taxation within the present system: husbands and wives could choose to be taxed as single individuals on the whole of their income, or they could opt to be separately responsible for their own tax affairs, in which case the available allowances and rate bands on the joint income would be split equally between them. Either of these changes could be implemented on its own. The Government consider that each can be justified on its own merits. But they take the view that their real advantage lies in their value as a package. If a package in this form were implemented, there would be three possible ways in which husband and wife could choose to be taxed:

a. under the present aggregation rules, subject to revision of the wording of the aggregation rule itself;

b. as an alternative, an option for independent taxation which could take one of two forms;

either (i) where beneficial, husband and wife each being treated as separate individuals in respect of all their income;

or (ii) where (i) was not beneficial, equal sharing of the combined allowances and rate bands.

Under each of the options in b. husband and wife could be individually responsible for their own tax affairs. Option b(i) would affect the size of the tax bill on the combined incomes of husband and wife and this suggests that the couple should be required to make a

joint election for it (as is the case with the present wife's earnings election). But either husband or wife could choose option b(ii), like separate assessment now, as it does not affect the amount of tax the couple pay between them.

4.9.2 A change on these lines would have the following results:

- a. All spouses, wives as well as husbands, would be able to have a considerable degree of privacy over their tax affairs, and for some the privacy would be complete.
- b. Married women would have the option of being treated as taxpayers in their own right - completing their own tax returns and getting relief for any mortgage interest etc they pay. They would also be able to receive their own repayments and conduct their own correspondence with the Inland Revenue, even in cases where the present procedures (described at the end of Chapter 2) do not normally allow this.
- c. Married women would be able to benefit from exactly the same personal allowance as their husbands.
- d. There would no longer be any tax on marriage - husbands and wives could be taxed as single individuals on all their incomes.

4.9.3 This could be regarded as an answer to the complaints of discrimination between husband and wife (Chapter 3.3.2 and 3.3.3), provided that it were considered sufficient for this purpose that the wife (or husband) who wanted independent treatment could elect for it (so

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that the treatment would not be mandatory). It would also be a major step towards giving more equitable treatment as between married couples in different circumstances. It would not meet many of the arguments that the present system is discriminatory between different family units - for example, the criticism that it is excessively generous to two-earner married couples (Chapter 3.3.4 and 3.3.5). But by the same token it would avoid the major shift of the tax burden between different family units which would be produced by a system of mandatory independent taxation (described in Chapter 6), under which the married allowance would be abolished. By comparison with mandatory independent taxation, it would have the advantage of being relatively cheap, relatively inexpensive in terms of staff (though the revenue and staff costs would nevertheless be substantial in absolute terms) and capable of early implementation. But at the same time it would also be compatible with a subsequent move to such a system of independent taxation. For those who regard full independent taxation as a desirable ultimate solution, the changes discussed in this Chapter could be regarded as a step on the road.

Introduction

5.1.1 The fundamental question underlying any option for structural change in the taxation of the family is the choice of the unit of taxation. There are in principle three basic approaches. The first is to treat the family (husband, wife, children, perhaps also other dependants) as the unit. The second approach takes the married couple (husband and wife) as the tax unit. The third is to look at each person as a separate individual unit regardless of whether they are single or married. It is of course possible to mix these approaches in a particular tax structure (this is the case, as Chapter 2 has demonstrated, in the present UK structure), but it is helpful in any analysis to distinguish between them.

Family as a unit

5.2.1 A family tax unit would involve aggregating the incomes of all members of a family household, and taxing them, subject to any appropriate allowances, as one. One version of this is the French family quotient system under which incomes of spouses, dependent children and certain close relatives living under the same roof are added together. The total income is then divided into a number of "parts" according to the number of persons in the family (children for this purpose count as a half "part"). The tax chargeable on a single "part" is then multiplied by the number of parts to give the total amount payable. Responsibility for making returns and paying the tax is placed on the husband.

5.2.2 How a quotient system, which is based on the family as a unit, works can best be illustrated by a hypothetical example. Assume a country where each adult counts for one unit and each child for a half unit. This country has a progressive income tax structure, with rate bands of -

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0-£ 5,000	-	30%
£ 5,000-£10,000	-	40%
£10,000+	-	50%

A two-child family, where the husband's salary is £12,000, the wife's earnings £6,000 and each of the children has an investment income of £1,500, would have a tax bill calculated as follows:

Total family income	-	£21,000
Total number of units	-	1 + 1 + $\frac{1}{2}$ + $\frac{1}{2}$ = 3
therefore income per unit	-	£7,000

Tax chargeable on income of each unit

	£
£5,000 at 30%	= 1,500
£2,000 at 40%	= 800
	<hr/>
	2,300

Total family tax bill = £2,300 x 3 = £6,900

In effect, therefore, this family pays 3 times the tax paid by a single person with a third of the family's total income.

5.2.3 The tax payable under such a system depends on the weight given to each family member. A husband and wife could, for example, count as 1.5 units rather than 2, and a child could be brought in at less, or more, than a half unit. The tax payable on this income under a UK-type system would depend on the allowance levels and on the treatment of the investment income. At present levels of allowances in the UK, the tax bill would be around the same as under the quotient system described - less if the investment income were treated as the children's, more if it were treated as the father's. But the effect could vary substantially with the family income level, and a quotient system would produce considerable shifts in the relative tax burdens of different family groups.

Husband and wife as a unit

5.2.4 This involves aggregating the incomes of a married couple and taxing them, subject to the provision of the appropriate allowance, as one. The present UK structure works in this way: the income of a married woman living with her husband is "deemed for income tax purposes to be his income and not her income". Treating husband and wife as one unit need not, however, involve treating the income of one spouse as belonging to the other. The law could simply provide for the spouses' incomes to be added together and make them jointly responsible for any tax due (though it would be difficult to make a system like this mandatory, cf para 4.2).

5.2.5 The UK system taxes the joint income of the two spouses according to the same scale of rates as applies to a single person. In West Germany, on the other hand, a married couple may be taxed in much the same way as the family under a quotient system: the joint income is divided by two, and the tax applicable to this sum is calculated and then doubled to give the total tax bill - in other words the married couple's tax is calculated as if their joint income were divided equally between them. This could be regarded as a quotient system (see 5.2.1-3) confined to husband and wife, instead of all members of the family. Some features of this approach are present in the United States system. Further details about these and other countries' tax systems are contained in Appendix 7.

Individual as a unit

5.2.6 The starting point here is that each person - single or married - should be treated as a separate individual for tax purposes. Husbands' and wives' incomes are taxed separately, with each partner having his or her own set of rate bands and the same tax allowance as a single person. Where one spouse has insufficient income

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to use up his or her allowance there may be provision for transferring some or all of the unused allowance (see next Chapter). But, unlike a quotient system, rate-bands are not transferable under individual taxation: a married couple where only one spouse has income will have one set of rate bands, not two. In a system where the individual is the tax unit, each spouse is separately responsible for completing his or her own tax returns, conducting his or her own correspondence with the tax authorities and paying his or her own tax.

Direction of change

5.3.1 In principle, a quotient system which takes the family as the unit can be justified as a means of measuring personal tax liability. But, if one is to judge by the criticisms of the present system outlined in Chapter 3, it seems unlikely that there would be much support in the UK for a change in this direction now. Many of the criticisms of the way the present system treats married couples would apply with even greater force to a quotient system or to any other system based on a family unit. For example, a married woman would have no more privacy than she does at present and, depending on the precise form of the system, her husband and children could have considerably less.

5.3.2 In addition, a family tax unit would produce major changes in the treatment of children. In principle it would mean that income of a dependent child would be added to his parents' income for tax purposes. With one brief exception, direct aggregation of children's income with their parents' has never been a feature of our tax system. The exception was from 1969 to 1972, when the principle of aggregation was extended to include children's investment income (though not their earned income). As a corollary of aggregating their income, the use of the family as a tax unit would also call for some relief in respect of children eg as half units under a quotient

system (see paragraph 5.2.2). But child tax allowances have now been largely withdrawn and replaced by tax-free child benefits, and in this sense it would be a retrograde step to reintroduce tax relief for children as such.

5.3.3 More generally, to move to a family tax unit would be to fly in the face of recent changes in our personal tax system. The UK tax system has already modified the aggregation principle in important respects - giving the wife an allowance against her earnings equal to the single person's allowance and introducing an option for the separate taxation of wife's earnings - to provide more individual treatment for married women. Moreover, as Appendix 7 demonstrates, international trends over the last decade have almost all been in the direction of individual taxation. Against this background it seems unlikely that the substantially wider aggregation a family tax system involves would be generally acceptable in the UK today.

5.3.4 In practice, therefore, the choice for the basic tax unit seems to rest between the married couple (ie continuing to aggregate husband and wife's income) and the individual. The first of these options has already been discussed in Chapter 4, which has examined the extent to which the criticisms of the present system might be met by retaining the married couple as the basic tax unit but modifying the existing rules. The following Chapter deals with the consequences of moving to an individual tax unit.

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CHAPTER 6 - MANDATORY INDEPENDENT TAXATION

6.1.1 Chapter 4 described an option under which married couples could choose to be treated as separate individuals. Here we are concerned with a change to a new system under which independent taxation would be the rule for all married couples. Such a mandatory system of independent taxation would mean the abolition of the married allowance and of the aggregation rule, so that all married women would become taxpayers in their own right, with their own personal allowance and rate bands. They would complete their own tax returns, conduct their own dealings with tax offices, and be ultimately responsible for paying any tax due on their own incomes. In this respect all married people would get the treatment which would be available as an option under the schemes outlined in Chapter 4. But the changes in personal allowances would give rise to significant shifts in the share of the tax burden borne by different family groups. The implications of this are examined under three heads -

- a. the treatment of the one-income couple where one spouse is financially dependent on the other;
- b. the treatment of investment income;
- c. other effects of independent taxation; and the distributional effects of the various options are illustrated in Appendix 6.

6.2 The one-income couple

6.2.1 Case for a transferable allowance Proponents of a system of independent taxation must face the question of providing for the case where one spouse has little or no income, so that he or she cannot use, or fully use, the single allowance. Should there in these circumstances be provision for transferring the allowance to the supporting spouse who would thus receive an allowance higher than

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the single allowance? There is clearly a strong case for such a provision on grounds of equity. In the present system the married allowance recognises the special legal and moral obligations on a husband to support his wife. In recent years the tendency has been for these obligations to become reciprocal: thus the Matrimonial Causes Act 1973 gives husbands the same right of support against their wives on divorce as wives have against their husbands. All this suggests that, with the abolition of the married allowance, some allowance in excess of the single allowance is needed in recognition of the support the one spouse gives to the other out of his or her own income. To put it another way, where one spouse is dependent upon the other for financial support, there is a case for some recognition by the State. In so far as the need to support the dependent spouse reduces taxable capacity, then tax relief should be increased to take account of it. Savings from abolishing the married allowance could be used at least in part to provide transferability of allowances between spouses, so giving the supporting spouse a higher allowance, not as now simply in recognition of marriage, but in recognition of the need to give financial support to the other. Those who argue that recognition should be given through a cash benefit rather than a tax allowance (see 6.2.7-6.2.9 below) would see the savings from abolition of the married allowance used instead to provide a new benefit (or to improve an existing benefit).

6.2.2 Fully or partially transferable? Allowances within a system of independent taxation could be made fully or partially transferable.

- a. With full transferability any unused allowance could be used by the other spouse. Thus, if the single allowance was £1,000 and the wife had no income, the husband would get the full £1,000 of the wife's allowance, in addition to his own. If the wife's income was £500 the husband would get £500 in respect of her unused allowances, and so on. So each £1 of the supported spouse's

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income would reduce the allowance transferred to the other spouse by £1 until it ran out entirely where the supported spouse's income reached the level of the single allowance.

- b. Partial transferability, on the other hand, would limit the transferable allowance to a proportion of the single allowance. Thus, if the partially transferable allowance were to give the one-income couple the same relativity as now to a single person, ie 1.56:1, then if the single allowance was £1,000 the supporting spouse would get £1,560 (through transfer of £560). The amount of allowance transferable would vary with the supported spouse's income. Income up to £440 (£1,000 - £560) would not affect the amount transferred: it would remain at £560 because income below this level would be disregarded. This would mean that no tax liability would arise where the supported spouse had small part-time earnings or income from savings which amounted to less than the disregard limit. Any income above this £440 disregard would reduce the transferable allowance £1 for £1, from £560 to nil. Thus, where the supported spouse had income in the range between the disregard limit and the single allowance (ie £440 to £1,000), each extra £1 of income would reduce the transferable allowance and would thus effectively be taxed at the other spouse's marginal rate in the same way as with fully transferable allowances. If the wife had £450, the husband would get £550 in respect of her unused allowances; if she had £500 the husband would get £500, and so on. The level of the transferable allowance (and its converse, the disregard) could be varied according to the view taken of the reduction in table capacity arising from the need to support two married persons on one income.

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6.2.3 In assessing the merits of fully or partially transferable allowances, the following criteria are relevant:-

a. Equity

Whether allowances were fully or partially transferable, there would be an effect on the relative incidence of taxation among different types of families. On either basis two-earner couples would not, as now, have greater allowances than two single people, and, depending on how much of the allowance was transferable, the one-earner couple could have relatively greater allowances than now. (Here, and elsewhere in this part of the Green Paper, couples are referred to as "one-earner" or "two-earner" because the context is primarily that of one or both going to work; but the same considerations arise as to the transferability of allowances etc whether the incomes are derived from earnings or investments or a mixture of the two). But in general these shifts in the contributions of different family groups to the total income tax revenue (which are set out in detail in Appendix 6) would be more marked with fully than with partially transferable allowances:

- i. The main effect of fully transferable allowances would be to tilt the balance in favour of the couple where one spouse stays at home as compared with two-earner couples and single people. Taking the illustration in paragraph 6.2.2, the one-earner couple would now get allowances of £1,560, the two-earner couple £2,560, and two single people £2,000. Under fully transferable allowances, these different types of households would all get total allowances of £2,000. Some people would welcome this relatively generous treatment of

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the one-earner couple, as it would recognise the contribution of the spouse at home and cushion the drop in income when, for example, the wife gave up work to have children. Others, however, would regard it as unfair not to recognise through a higher allowance the extra expenses involved when both spouses go out to work. Also, it might be thought unfair that single people and widows, who might also be running a household on a single income, should get only half the allowances of a one-earner couple.

- ii. Partially transferable allowances would also mean that the two-earner couple were given no more allowances than two single people (ie £2,000 if one follows the illustration above). But, for the couple where one spouse stays at home, partially transferable allowances would have an inbuilt flexibility: their level could be adjusted as seemed appropriate in relation to the allowance given to single people and working couples. It could be set so as to maintain the present relationship between the married man's allowance and the single allowance (£1,560 as compared with £1,000 in terms of the illustrative example), thus continuing to mirror the ratio borne by the married to the single rates of social security benefits. This relationship would be regarded by many as a fair reflection of the reduction in taxable capacity caused by the need to support a spouse at home. But if it were felt desirable

to give even greater recognition to the contribution of the spouse at home, the transferable allowance could be set at a higher level - (so that, in terms of the illustrative example, the one-income couple's allowances amounted to between £1,560 and £2,000). A much lower allowance, on the other hand, would recognise the contrary point of view that the spouse at home is not so much a financial liability for the spouse at work as a provider of various services which would otherwise have to be bought on the market. With partial transferability, unlike full transferability, the size of the allowance given to the one-income couple could be varied to reflect the weight given at different times to such different views.

b. Work incentives

The present system contains a provision - the wife's earned income allowance - specifically designed to encourage married women to go out to work. This would disappear under independent taxation. Under fully transferable allowances, a wife's income up to the level of the single allowance would effectively be taxed at the husband's marginal rate. The married woman herself would not pay any income tax but the husband would lose the transferable allowance from his PAYE code which he had enjoyed while he was the sole earner. Looked at from the point of view of the family as a whole, a fully transferable allowance could well discourage some married women from taking up work in the first place. This would be particularly true where she was contemplating part-time work, when all her income could bear tax at her husband's

marginal rate. If the allowance was only partially transferable, the wife's earnings or other income below the disregard limit would not affect the couple's tax bill. So any disincentive would apply for a narrower range of income than with fully transferable allowances.

- c. Privacy. Unless the allowances were non-transferable, the supporting spouse would necessarily know something about the other spouse's income, if it was below the level of the single allowance, since it would affect the level of his own tax allowance. If they were fully transferable, he would know of changes in the level of the other income from nil up to the single allowance. However if they were only partially transferable he would only know of changes between the disregard limit and the single allowance; below that limit he would know only that it was below the disregard but not by how much. This would effectively give almost total privacy for wives with a small income, and it is perhaps in relation to small amounts of savings income - the nest egg - that the need for privacy is most strongly felt. With a transferable allowance complete privacy could only be achieved in all cases if the dependent spouse was given the right to refuse to transfer any unused allowances. This would of course mean that the total tax on the couple's income could be significantly increased.
- d. Administrative costs Under fully transferable allowances, the fact that every £ of the supported spouse's income up to the level of the single allowance would affect the allowances of the other spouse would have serious administrative implications for the Inland Revenue requiring thousands of extra staff (see Chapter 10). If the allowances were partially transferable, the

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administrative costs would be less severe (since the transfer of allowances would apply only within the range of income from the disregard limit to the single allowance) but they would still be substantial.

- e. Revenue cost. This would vary with the extent of transferability. Clearly, full transferability would be more expensive than partial transferability. With either system the cost could be phased over a period by starting the transferable allowance at a relatively low level and then raising it. This possibility is examined further in Chapter 8.

6.2.4 Status of supported spouse : Restriction on transferability It has so far been assumed that the mere fact of a spouse's financial dependence would give the supporting spouse entitlement to some additional allowance. But it is arguable that this should not be so and that the transferability of the allowance should depend on the status of the supported spouse. Whereas the case for a generally available allowance depends on fiscal arguments (see paragraph 6.2.1 above), the case for restriction would be derived largely from social considerations. Thus, it could be argued that the circumstances where one partner has no family responsibilities but does not work should not be reflected in the tax bill of the partner with the income and that there should be no allowance unless the non-working spouse had specific home responsibilities.

6.2.5 The implications of this are best examined by reference to the circumstances which are likely to cause husband or wife, usually wife, to stay at home:-

- a. Dependent children It is clear that most married women who stay at home do so because they have dependent children to care for (see Appendix 5). It would be hard to exclude these wives from transferability, at least where there was a child under 5 and, in the view of many, where there was a child under 16.

- b. Dependent relatives Those who look after an incapacitated or elderly parent or other relative would be regarded by many as equally entitled to a transferable allowance as those who stay at home to care for dependent children. The burden of caring for adult dependants is often heavier, may go on for longer, and is not chosen in the way couples choose to have children.
- c. Incapacity There would also be strong arguments for recognising the case where one spouse is incapacitated and thus cannot work. (At present the family with children where the wife is totally incapacitated gets an extra allowance - the additional personal allowance - on top of the married man's allowance. But under independent taxation, this extra allowance for the husband with an incapacitated wife could hardly continue in its present form).
- d. Older spouses There would be a clear case for recognising spouses who are over retirement age and who are neither working nor drawing a pension in their own right. But it would be difficult to exclude those below retirement age whose children have grown up (or whose elderly dependent relatives have died) and who may no longer be able to find suitable employment.
- e. The "involuntarily unemployed" At whatever age the line was drawn under d. above, there would be many without dependants to look after who, though relatively young, might find it very difficult to get suitable employment, eg because they live in an area where jobs are scarce. In equity their position should be recognised, but they are not easily defined as a group. If, eg transferability of the allowance for this group were made dependent on the wife registering for work, substantial numbers of wives might register as unemployed primarily for tax reasons.

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6.2.6 These considerations suggest that, if one started from the proposition that some restriction would be desirable, one would be likely to find that on the merits few cases would fall into the restricted category. On fiscal grounds, the case for an unrestricted allowance is strong. Likewise, administrative considerations would point this way, since restrictions would inevitably introduce complexity. And, if on the merits the majority of supported spouses would fall outside the restriction, it seems doubtful whether even on social grounds there is a good case for it.

Provision through cash benefit rather than tax allowance

6.2.7 Some would argue that the need to provide for a dependent spouse should be met through social security rather than through a tax allowance. The comparative effects would depend upon the nature of the social security provision, but in general the major differences would be these -

- a. Moving from a tax allowance, the value of which varies with the taxpayer's marginal tax rate, to a cash benefit would alter the relative positions of families at different income levels. Higher rate taxpayers would lose - relatively if not absolutely - and those below the tax threshold would gain (subject to the point that many of those below the tax threshold are already in receipt of some social security benefit which could be reduced by the amount of any new benefit).
- b. Within the family, there would be a transfer from the supporting spouse, who would suffer a reduction in take-home pay, to the supported spouse who would receive the benefit (on the assumption that the benefit would be paid to the spouse at home).

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- c. If the benefit were to be withdrawn from a spouse who began earning, as with a transferable tax allowance, there would be a marked disincentive for married women to take up or return to part-time, perhaps even full-time, work. This could be more marked than with a tax allowance, because it would be the supported spouse taking up work who would directly suffer the penalty of withdrawal. If on the other hand benefit were not withdrawn from part-time earners, it would be difficult to defend the provision of full benefit, regardless of total income, where one spouse earns full-time and the other part-time.

- d. Even if the effect was to leave an individual family with the same net income as before, substituting a cash benefit for existing tax allowances would mean increasing public expenditure. In the Government's view more than accounting conventions are involved here: the distinction between cash benefits (which increase public expenditure) and tax allowances (which do not) is an important one.

6.2.8 If social security provision were made, it would be administratively simpler to build on an existing benefit. The possibilities would appear to be -

- a. Child benefit "Savings" from the abolition of married allowance could be used to increase child benefit, either for the first or for all children. But, to fit the case of the mother at home for whom the benefit would be intended (as distinct from the working mother), the additional child benefit would have to be payable only to non-working mothers, however defined. Administratively, this would be very costly and it would be difficult to prevent abuse. On the other hand, if the additional

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benefit went equally to two-earner and one-earner families, this would mean that one-earner families with children would be no better off, relative to two-earner families with children, than under the present system.

- b. Invalid Care Allowance This is the nearest equivalent in the present system to a cash benefit for spouses at home who care for elderly or sick dependants. But at present it applies only where the dependant is very severely disabled and it is not given to married women looking after such dependants. It could however be extended, in such a way that, if it were coupled with an addition to child benefit for the mother at home looking after children, there would be provision for virtually all wives who do not work because of home responsibilities.
- c. Housewives' Non-contributory Invalidity Pension This is a benefit for married women who are incapable both of paid work and of normal household duties. In principle it could be built upon to cover all incapacitated spouses. In its present form, however, it does not cover all disabled married women who are unable to take up suitable work, but the possibility of altering the rules is currently under consideration.

6.2.9 An alternative approach would be to devise a new cash benefit for the supported spouse. The two main possibilities would appear to be -

- a. Home Responsibility Payment This could be based on the home responsibilities protection incorporated into the new pension scheme, which provides pension coverage for people at home for a whole tax year in which they are in receipt of child benefit or have care of a relative in

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receipt of attendance allowance or constant attendance allowance, or in receipt of supplementary benefit to look after a sick person at home. It would be possible, though difficult, to pay a benefit to people who qualified for such protection, one of the difficulties being that it would not be known until after the end of the year whether the home responsibility payment would be due. But, unless the qualifying conditions were extended to all spouses at home with care of the sick, many worthy cases would fail to qualify. Moreover, a home responsibility payment, unlike invalid care allowance, would not build up the contribution record for short term benefits, so that it would not help those whose families had grown up or who were seeking employment unsuccessfully. Even on this restricted coverage, a home responsibility payment could be very costly in staff terms.

- b. Financial Dependency Payment Another approach would be to devise some payment which recognised the fact of financial dependency. Even if this were practicable, it would be unlikely to command much support. Thus, it would be payable to many wives who, though financially dependent, were because of their husband's resources self-evidently not in financial need. Such a payment could also be represented as reinforcing the traditional domestic role of women.

Other Possibilities

6.2.10 It would be possible to replace the married allowance by some combination of tax allowance and cash benefit. Indeed, this is what some critics of the present system have suggested. But, apart from the arguments against cash benefits summarised in the following paragraph, such an approach would involve setting up systems both for a transferable allowance and for new or revised cash

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benefits. The administrative costs of such a combination could well be much greater than either a cash benefit or a tax allowance on its own.

6.2.10A The preceding paragraphs have assumed that each spouse would be entitled only to a single allowance and that, where one was financially dependent upon the other, this would be recognised by transferability of the tax allowance or by a cash benefit (or by some combination of the two). It can however be argued that on top of the transferable tax allowance (or cash benefit) there should be an additional allowance or benefit, so that, if the basic tax allowance was fully transferable, the supporting spouse would get twice the single allowance and in addition an allowance (or benefit) in recognition of the dependent spouse's home responsibilities. This could be seen as extending the family's freedom of choice - eg for the wife to give up employment and stay at home to look after children or an elderly parent - and unlike a transferable tax allowance it would be in specific recognition of the circumstances that required her to stay at home. On the other hand, whereas independent taxation with a transferable allowance would remove what many people see as the bias in the present system in favour of a wife going out to work, an additional allowance for home responsibilities would introduce a new bias in favour of the wife staying at home in certain circumstances and against her going out to work; and it would produce a corresponding increase in the relative tax burden of working couples as compared with one-earner couples. Unless additional resources were available for such a new allowance (or benefit) its introduction would inevitably mean that the single allowance (and hence tax thresholds generally) would have to be held down to finance it. Furthermore, such a combination of allowances (and or benefits) would be more complex than either a transferable tax allowance or a cash benefit on its own and could greatly increase the number of staff needed to run the system.

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6.2.11

Conclusion

The main arguments for provision for the dependent spouse through cash benefit rather than tax allowance would seem to be that this would ensure that the benefit went direct to the supported spouse, and that it would be equally available for those whose incomes were below the tax threshold so that they could not benefit from a tax allowance. On the other hand:

- a. Distributional effects. While the effects of providing for a dependent spouse through social security rather than through a tax allowance (noted in paragraph 6.2.7 above) do not point clearly towards or against a cash benefit, they indicate some of the difficulties inherent in a cash benefit approach. Replacing a tax allowance which varies with the taxpayer's marginal tax rate with a flat rate benefit, and transferring income within the family, could be regarded as comparable with those which have arisen from the switch from child tax allowance to child benefit. But, whereas with child tax allowance it was not the claimant's own allowance which was at stake but only in effect an additional allowance for a dependant, with the abolition of the married allowance married men might be even more inclined to regard themselves as "losers" particularly if their circumstances were such that the family did not stand to benefit from the additional social security provision available (eg if the couple were childless and the additional provision were made through child benefit). With regard to the question of what happens to the provision for the wife at home when the wife takes up work, it is evident that the problem of the wife who is a part-time earner would be considerably more difficult to solve satisfactorily with a cash benefit than with a transferable tax allowance.

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Whereas a cash benefit has either to be paid in full or withdrawn completely, under a transferable allowance scheme the amount of the allowance available to the supporting spouse would be tailored to the level of the other spouses income.

- b. Form of the benefit. But even greater problems arise when one considers the form which the benefit might take. Neither of the new forms of benefit described in paragraph 6.2.9 is attractive; and, although the Government would welcome comments on these and suggestions for other forms of benefit which might be more suitable, it seems unlikely that a satisfactory form of new benefit could be found. But, if one turns to the possibility of building upon existing benefits as examined in paragraph 6.2.8, it is apparent that, although it might be possible by a combination of the three benefits there mentioned to achieve a coverage which could be broadly comparable with that of a transferable tax allowance, full coverage would not be attainable. If one turns to the circumstances listed in paragraph 6.2.5, child benefit, invalid care allowance and housewives non-contributory invalidity pension might be extended in such a way as to cover categories a., b. and c. (dependent children, dependent relatives and incapacitated spouses). But they could not be extended to cover categories d. and e. (older spouses and the involuntarily unemployed). It would not be easy to defend the denial of provision for these cases on abolition of the married allowance; but it would be extremely difficult to provide for them through social security in a satisfactory way.

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6.2.12 In the Government's view, the arguments against provision for a dependent spouse through the social security system, as set out in the preceding paragraphs, are very weighty; and it follows from this that, if the married man's tax allowance is to be abolished, there is a very strong case for replacing it with a transferable tax allowance along the lines examined in paragraphs 6.2.1 and 6.2.3 above.

The treatment of investment income

6.3.1 The main criticisms of the present treatment of investment income, that the system is unfair because it is not neutral as between the married couple and two single people living together and that it involves a breach of the wife's personal privacy, would be substantially met if the present system were to include options for independent taxation of the kind described in Chapter 4. But a mandatory system of independent taxation would be necessary to ensure that both criticisms were fully met in all cases. Under such a system no married couple's tax bill would be affected by whether the income of husband or wife came from earnings or investments, subject only to any surcharge imposed on investment income (and husband and wife would have separate thresholds to the surcharge, instead of as now the same threshold for a married couple as for a single person). If each had sufficient income - earned or investment - to absorb the whole of the personal allowance, each would have complete privacy over investment income as well as earnings. If the allowance was wholly or partially transferable, the degree of privacy would be more limited - the more so, the greater the degree of transferability - for the reasons described in paragraph 6.2.3c.

6.3.2 Measures would be needed, as under an option for the separate taxation of a wife's investment income as well as her earnings (see Chapter 4), to prevent avoidance through schemes for transferring income between spouses. In addition it would be for consideration whether, for

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investment income unlike earnings, independence should be limited, in other words, there should continue to be at least partial aggregation. This might involve, as in Sweden, allowing each spouse a slice of investment income which would be taxed individually, and aggregating investment income above this slice in such a way that the excess would be treated as income of the better off partner in order to determine the tax payable. But such a combination of disaggregation for earnings and partial aggregation for investment income would be difficult to defend on grounds of fiscal principle and administratively complex; and it could only be justified in political or social, not in fiscal terms.

6.3.3 If the combination of total disaggregation of investment income for income tax purposes with the favourable treatment of transfers between spouses for capital tax purposes were considered too generous, an alternative to partial aggregation would be some restriction applied through the capital taxes. Taking first capital gains tax, independent taxation would in any event involve separate thresholds for husband and wife; but it would also logically require the withdrawal of the present facility whereby the losses of one spouse can be set against the net gains of the other. It would be possible to tighten the regime under independent taxation, so that transfers between husband and wife on a "no gain, no loss" basis would cease to be exempted. The case for a comparable change in the capital transfer tax is less clear cut. Removal of the spouse exemption at death could hardly be justified as a corollary of independent taxation for income tax. The case for withdrawing the exemption for lifetime transfers would be perhaps somewhat stronger; but it would be a major change in the capital transfer tax system to charge the tax on lifetime transfers and exempt those at death. Such a change would be complex and administratively expensive, and many of the transactions that were thus brought into tax might not in fact be effectively compensated by any reduction in income tax through independent taxation.

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Other effects of independent taxation

6.4 Mandatory independent taxation would totally end the problems (described in Chapter 3.3.2-3.3.3) of discrimination between husband and wife which tend to be focal points of criticism under the present system, subject to the difficulty of ensuring complete privacy described in Chapter 6.2.3c above. The options for independent taxation described in Chapter 4 would also remove them to the extent that the options were exercised with, again, a qualification about privacy - see Chapter 4.5b. Reference has also been made to the problems which can arise under the present system on the allocation of allowances and reliefs between husband and wife. A particular example of this is the relief for mortgage interest, which, even where the wife pays the interest, can be allowed in her PAYE coding only if the husband agrees. Under mandatory independent taxation all wives would as of right be given relief for mortgage interest which they pay, just like any other relief to which they would be entitled in their own right, and the options for independent taxation described in Chapter 4 could achieve the same result where they were exercised.

The elderly within the present system

7.1.1 Ever since 1925 our income tax system has included, in some form or other, special relief for elderly taxpayers of modest means. The present age allowance, which dates from 1975/76, provides higher tax thresholds for all taxpayers aged 65 or over whose total income does not exceed a prescribed limit. If their income exceeds this amount, the special relief is reduced by £2 for every extra £3 received until it is the same as the ordinary single or married allowance, as appropriate. Appendix 3 sets out the current values of the age allowance and income limit.

7.1.2 The present reliefs for the elderly are given on the grounds that a reduction in taxable capacity comes with the onset of old age. In addition age allowance has certain practical advantages. Because it is set at a level somewhat above the National Insurance Retirement Pension, elderly people can also have a small occupational pension or a modest amount of earnings without becoming liable to tax. Single pensioners, for example, can supplement their pensions at present by up to £10.11 a week without incurring any tax liability.

7.1.3 On grounds both of principle and practice, therefore, it has been accepted that some special tax relief for the over-65s should be retained. International practice reinforces this approach: of the countries covered in the Appendix on international comparisons (Appendix 7) only in Australia and New Zealand is there no fiscal preference for the elderly. The rest of this Chapter therefore proceeds on the assumption that, in any scheme of structural change, something similar to the existing age allowance is likely to be required.

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Developing the present system (Chapter 4)

7.2.1 In essence the possible developments of the present system discussed in Chapter 4 would have much the same effect on the elderly as on other taxpayers. However, the option for a wife to be taxed independently on her investment income as well as her earnings (paras 4.5 to 4.6) could prove to be relatively more advantageous to elderly taxpayers as a group than to the non-elderly, and about one third of the total £m200 tax reductions would accrue to the elderly as a group. Two factors are relevant here. First is the tax treatment of pensions paid to a wife by virtue of her husband's contributions, such as the Category B National Insurance Retirement Pension, paid to married women who do not qualify for a retirement pension on their own contributions. Like all pensions, these are taxable as earned income. But these particular pensions, unlike a pension which arises from the wife's own contributions, do not qualify for wife's earned income allowance. Under an option for independent treatment, however, a married woman would be entitled to an allowance which she could set against all her income, including pensions paid to her by virtue of her husband's contributions. Whatever the basis of her entitlement, such a pension is entirely separate from her husband's. The married woman makes her own claim, has her own pension book and receives her own cash. The net effect of treating such pensions as the wife's income under such an option would be to increase the numbers of elderly people who would benefit from the option.

7.2.2 Second, under the present rules for wife's earnings election there is no entitlement to age allowance, so that husband and wife are each limited to the single allowance, regardless of age. This is of no significance in practice, since wife's earnings election is only beneficial to higher rate taxpayers and higher

rate thresholds have always been well above the income limit for special relief for the elderly. However, a number of taxpayers below the higher rate thresholds would stand to gain if the wife could be taxed as a single individual on all her income. Under an option for independent taxation, there is no good reason why the age allowance should not be available to a spouse over 65 (or to both, if both are over 65). Though it would inevitably complicate the calculations necessary to decide whether or not it would be beneficial to take up the option, the effect of admitting age allowance would likewise be to increase the number of over-65s who would stand to gain.

7.2.3 The other development of the present system, which would have a similar effect on the elderly as on other taxpayers is the new system for separate responsibility proposed in paras 4.7 to 4.8. This would split the elderly couple's total reliefs and allowances between the two spouses in precisely the same way as with non-elderly couples. Where, however, one spouse was over 65 and the other under 65, it would be for consideration whether the benefit of any age allowance they were entitled to should also be divided equally between them, or given to the spouse who is over 65.

Mandatory Independent taxation (Chapter 6)

7.3.1 If there was a move to mandatory independent taxation on the lines discussed in Chapter 6, age allowance could not continue in precisely its present form. These questions would arise:

- a. The age condition. At present a married couple qualifies for age allowance if either spouse is aged 65 or above. Independent taxation of married couples would logically imply the withdrawal of age allowance from a

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spouse aged less than 65, who currently enjoys the benefit of it because the other spouse is over 65.

- b. Transferable allowances. Under a scheme of independent taxation with transferable allowances it would be for consideration what amount of allowance should be transferred. Where husband and wife were both over 65, it would follow naturally from the fact that the difference between married and single allowances for the over-65s is greater than for the under-65s that the transferable allowance should be similarly higher. But if, where the supporting spouse was over 65 but the dependent spouse under 65, the latter had available for transfer only the amount allowed for persons under 65, one-income couples could be relatively worse off than at present. In practice this would not happen often, since, under a system where independent taxation was mandatory as under an option for independent treatment (see para 7.2.2), the wife would have an allowance to set against her Category B National Insurance Retirement Pension, so that ordinarily there would be no unused allowance available for transfer. But the possibility of a relative increase in the tax liability of some old people could be avoided if the transferable allowance where either was over 65 reflected the present difference between the single and married allowances for those over 65, ie was set at a higher level than for those under 65.
- c. Income limit. Under the current rules the same income limit - £5900 - applies to the joint income of a married couple as to that

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of a single person. If an income limit were to continue under a system of mandatory independent taxation, the obvious course would be to apply it to each spouse individually; and, to avoid some older people being adversely affected when the new system was introduced, each would have to be entitled to the equivalent of the joint limit at the time of change.

Tax treatment of pensions

7.3.2 The case for treating pensions paid to the wife by virtue of her husband's contributions as her income, not his, applies with even more force to mandatory independent taxation than to an option for independent treatment (see para 7.2.2). But it should be noted that the overall result of treating these pensions in this way would be to make a switch to independent taxation relatively more advantageous for elderly taxpayers than for the non-elderly. (In 1980/81 terms, elderly couples paying tax at basic rate could have their tax bill reduced by up to £196.) In particular the large numbers of elderly couples where the wife's only - or main - source of income is a Category B National Insurance Retirement Pension would stand to gain.

CHAPTER 8 - SWITCHING TO INDEPENDENT TAXATION

8.1 Independent taxation for everyone would produce substantial shifts in relative tax burdens, largely because the present married allowance would disappear. It would necessarily increase the burden on two-earner couples, relative to single people; most couples where the wife is the breadwinner would be worse off, relative to all other groups; and the position of other one-income couples would depend on the amount of the transferable allowance. These distributional effects are further examined in Appendix 6. An important question is whether it would be feasible, and at what cost, to prevent an absolute increase in the tax burden for these groups in the year of change to mandatory independent taxation.

8.2 One-income couples (apart from those where the wife is the breadwinner) would not suffer an absolute increase in the tax burden, provided that there were a transferable allowance which when added to the single allowance equalled the level of the married allowance in the year preceding the year of change. However, breadwinner wives would effectively suffer a reduction in their tax allowances from $2\frac{1}{2}$ times the single allowance to the single allowance plus the transferable portion of their husband's allowance. Particularly if only part of the husband's allowance were transferable, an absolute increase in the family's tax burden could not be avoided at any acceptable cost by juggling with the levels of the allowances. To prevent an absolute increase a special transitional regime for breadwinner wives would be needed; so that in terms of tax allowances they could at least mark time until the allowances to which they were entitled under the new regime reached an acceptable level.

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8.3.1 Two-earner couples are in a different case. Whatever form mandatory independent taxation took, the effective reduction in their tax allowances would be from $2\frac{1}{2}$ times the single allowance to twice the single allowance, which in present terms, for a couple paying tax at the basic rate, would be an increase in their annual tax bill of £231. A change of this order might, unlike that for breadwinner wives, prove not to require any special regime at the time of change. Nevertheless, if the change from married allowance plus wife's earnings allowance to 2 single allowances were to be effected in one year, an absolute increase in the tax burden of two-earner couples could be avoided only at what might prove to be substantial revenue cost. They would need a single allowance which was equal to half the total of the present married allowance and wife's earnings allowance; and the yield from abolition of the married allowance would not pay for a single allowance of this magnitude, if under independent taxation the single allowance were to be transferable. The greater the degree of transferability, the greater the shortfall. At present levels of tax allowances and rates, it would cost $£3\frac{3}{4}$ billion to ensure that two-earner couples were not worse off absolutely if the allowance were fully transferable. The cost would be $£2\frac{3}{4}$ billion with a partially transferable allowance which maintained the present relativity between married and single allowances (as in the example in paragraph 6.2.2 above).

8.3.2 Costs of the order of £3 billion or £4 billion would represent a substantial demand on resources. The problem of financing costs of this order in any one year would be even greater. This suggests that the introduction of mandatory independent taxation might be phased in over a period, so that the cost of preventing any absolute increase in the tax liability of two-earner couples, could be spread over a number of years. One method would be to increase the single allowance

gradually relative to the married allowance prior to the year of change, thus reducing the actual cost in the year of change of providing a single allowance which was equal to half the married and wife's earnings allowances. However, this approach would only yield a significant saving in the year of change if the transferable allowance, under independent taxation, was substantially less than the present difference between the single and married allowances. Moreover, it would be open to the serious objection that it would mean a relative increase in the burden of tax on married couples (in particular, one-earner couples), as compared with single people, during the transitional period. Even given acceptance of the ultimate goal, this would be undoubtedly difficult to justify. For similar reasons, another possible method - allowing the wife's earnings allowance to fall below the level of the single allowance in the years preceding the change - would be unlikely to command support.

8.3.3 An alternative, and more attractive, approach would involve a transitional period following, rather than preceding, the year of change to independent taxation. The single allowance and the transferable portion of the allowance for the spouse at home could be gradually increased, while over the same period the allowance given to a married man in his own right was brought down to the level of the single allowance. This is illustrated by the following table in which year Y represents the year of change to independent taxation.

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Year	Y-1 £	Y ¹ £	Y+1 ¹ £	Y+2 ¹ £	Y+3 ¹ £
1. Single allowance (and wife's allowance)	1,375	1,475	1,575	1,675	1,760
2. married man's allowance/ husband's allowance	2,145	2,045	1,945	1,845	1,760
3. transferable to husband	-	255	515	770	985
4. (not transfer- able to husband) = disregard limit (1-3)	-	(1,220)	(1,060)	(905)	(775)
5. Total allces for two-earner couple (1+2)	3,520	3,520	3,520	3,520	3,520
6. Total allces for one-earner couple (2+3)	2,145	2,300	2,460	2,615	2,745
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Cost		1,290m	1,720m	2,250m	2,650m

¹All the figures quoted are in constant prices. Allowances would ordinarily be uprated each year in line with prices: the increase in the single and transferable allowances (Items 1 and 3) during the transitional period would thus be additional to, and not at the expense of, the increase in line with prices.

Items 3 and 4 reflect the system of partially transferable allowances examined in paragraphs 6.2.2-3 above. Thus, in year Y+1, a married man whose wife had no income would be entitled to an allowance of £2,460 (£1,945 + £515), whereas if his wife had an income of £1,200 he would be entitled to £2,320 (£2,460 as before less the amount by which the wife's income exceeded the disregard limit - ie £1,200 - £1,060). Although over the phasing period the wife's allowance would be smaller than her husband's, the goal of equal allowances in year Y+3 would be in sight. On this approach, the phasing could in fact be spread over any number of years, in order to reduce the extra cost in each year: the total cost of the process of transition would be higher than the cost of a change in a single year, but it would be spread.

Introduction

9.1.1 The foregoing Chapters have been concerned with the taxation of married couples. But it is necessary to ensure that the distribution of the tax burden resulting from changes in the tax rules for this group is fair to all sections of the community, not only married couples but single people as well. This Chapter accordingly looks first at the tax treatment of single people including widows and lone parents in the present system. It goes on to examine the implications of structural change in the taxation of married couples for single people in general and in particular for single persons who have children to support.

Present system

9.2.1 Widows and other single people. All single people, including those who are widows/widowers, separated or divorced, are entitled to the single person's allowance. In addition to their single allowance, widows are entitled to an extra allowance - the widows' bereavement allowance - for the tax year in which their husband died. This allowance, introduced in the 1980 Finance Act, brings the widow's total allowances for this period up to the level of the married man's allowance.

9.2.2 Lone parents. Those 825,000 (1978 figure) people who have single-handed responsibility for a child may also qualify for the additional personal allowance (APA). All lone parents who have at least one child under 16, or over 16 in full time education, living with them are entitled to the APA. This means that, in cases of separation or death, the deserted wife or widow who is left with the children gets the single person's allowance and the APA from the date of separation or

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bereavement. Since 1975, following a recommendation of the Finer Committee, the APA has bridged the gap between the single and married allowances. The Finer Committee considered that an allowance at this level was the proper way to recognise through the fiscal system the sort of additional expenses that were likely to arise when there was only one parent. They took the view that a fair relativity would be established between one and two parent families if the tax threshold for both were set at the same level (disregarding any entitlement to wife's earned income allowance).

9.2.3 Today therefore the allowance is £770, worth about £4.40 a week to a lone parent paying tax at the basic rate. Some 425,000 lone parents currently claim the APA. This includes about 50,000 who are taken out of tax altogether by the allowance, and a further 5000 who are liable to tax at higher rates. The cost of the allowance is currently about £m90.

The treatment of lone parents under a system of independent taxation

9.3.1 Under any of the schemes for mandatory independent taxation discussed in Chapter 6, the current criterion for determining the level of the APA would necessarily disappear. The APA could no longer simply equal the difference between the single and married allowances, because there would be no married allowance as such. If independent taxation were implemented, therefore, it would be for consideration at what level the APA should be set.

9.3.2 There is no reason why independent taxation should of itself call for any changes in the relative tax treatment of lone parents and single persons without such family responsibilities. Although some might argue that the APA should be relatively increased, the relativity

recommended by the Finer Committee seems to be generally regarded as reasonable; and there are certain administrative advantages in an allowance for lone parents which is at the same level as the married allowance. If a partially transferable allowance which bore the same relativity to the single allowance as the present married allowance were to be introduced for a supported spouse, preserving the status quo would be fairly straightforward: the APA could simply equal the maximum of that allowance. An allowance which was fully transferable between spouses, so that the one-income couple would get double the single person's allowance, would, however, pose the question of whether the lone parent's lead over other single persons should be increased to this extent.

9.3.3 An alternative approach would be to question whether the tax system should continue to recognise the special position of a lone parent. Now that child tax allowances have been replaced by Child Benefit, the tax system no longer takes account of the effect of a dependent child on taxable capacity. Like all other parents whose children are under 16 or under 19 and still at school, lone parents get a tax free Child Benefit of £4 per week (£4.75 from November 1980) in respect of each of their children. Furthermore, some 420,000 child benefit recipients receive an additional amount, also tax free, worth £2.50 per week (£3 from November 1980) per family. This additional sum, known as Child Benefit (Increase) is primarily of benefit to working lone parents, though it is not payable immediately on separation.

9.3.4 Thus the case for the APA today can only rest on the diminution in taxable capacity caused, not by the child as such, but by the need to maintain a household as a single person. On this basis, it is not easy to see why a single parent should enjoy a higher tax allowance than for example, a working widow without children, except in so far as the presence of the child involves

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somewhat greater expenses (for child care, etc) which are perhaps not fully recognised in the existing child benefit arrangements (see Chapter 9.4).

9.3.5 If the APA were to be abolished an obvious means of providing a corresponding cash benefit would be to increase CB(I), the additional amount payable to lone parents with their Child Benefit (para 9.3.3). Such a move would have a number of advantages. It would concentrate help for lone parents in the single form of a regular cash benefit; low paid working lone parents whose earnings are below the tax threshold would gain financially and their incentive to work would be improved.

9.3.6 Abolition of the APA would, however, have disadvantages as well as advantages. It would mean that those lone parents who currently benefit from the APA would have a lower tax threshold than at present. More people would be brought within the scope of income tax and for others it would increase the tax payable. If the additional benefit which replaced it reflected the value of the APA to basic rate taxpayers, higher rate taxpayers would lose.

9.3.7 A further important area of difference between APA and CB(I) concerns the provisions for increasing the value of the tax allowance and the benefit. The allowance is increased each year, in line with the movement of prices, under the statutory requirement applying to personal tax allowances generally, whereas there is no statutory requirement to increase child benefit or CB(I). Conversion of the allowance into CB(I) would mean, therefore, that this requirement no longer applied. However, the child benefit legislation requires the Secretary of State for Social Services to review the rate of child benefit in payment each year. Moreover, in July 1980 he announced that it was the Government's intention, subject to economic and other circumstances,

to uprate child benefit each year in line with prices. This undertaking will, of course, apply also to CB(I) which has been increased twice by the Government since taking office. In practice, since it was introduced, CB(I) has more than kept its value, a recognition of the fact that one parent working families are amongst the hardest pressed families.

9.3.8 A number of other questions would arise. As structured at present CB(I) does not benefit all lone parents who currently qualify for the APA. For example, those receiving long-term national insurance benefits (eg widows) are not entitled to the CB(I); and, for those dependent on supplementary benefit, CB(I) and Child Benefit are fully deducted from benefit entitlement. In addition, whereas no child benefit is available for students in advanced education, a lone parent may qualify for APA even though the only child is such a student: the case for making any special provision for such parents is clearly much less strong than for parents with younger children, and it would not be consistent with the existing child benefit concept to provide CB or CB(I) in respect of students in advanced education. Another difficulty is the effect of a higher cash benefit on entitlement to housing benefits which are normally assessed on gross income, including child benefit and CB(I). Measures would be examined to safeguard the position of lone parents receiving these benefits.

9.3.9 There would also be a number of practical issues to be faced. If the additional benefit were at the value of the APA to the basic rate taxpayer, the switch from APA to CB(I) - producing a weekly cash benefit of £7.40 (at November 1980 rates) - would probably lead to increased take-up above the current estimated level of about 60 per cent. This would add both to the expenditure on the benefit and to administrative costs. DHSS in particular would require extra staff to deal with the substantially higher number than at present of

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claims to the benefit. In addition, if its value were more than doubled, improved procedures could be necessary to check on entitlement to benefit.

Child care and cash benefits

9.4.1 Replacing the present APA with a bigger CB(I) would also have an impact on the argument, which is sometimes advanced, that lone parents should get tax relief for the expenses of child care. As far as the tax system is concerned this proposal is open to a number of objections, both in principle and in practice. Relief related to specific expenses would call into doubt the general rule under which no tax relief is available for expenses of a personal nature. Moreover a tax relief on these lines would impose a considerable administrative burden. This would fall both on the lone parent in providing evidence of the precise child care costs he or she had incurred, and on the Inland Revenue.

9.4.2 Furthermore, a tax deduction confined to lone parents would arguably be unfair to two-parent families, many of whom also incur child care costs. In the countries which provide such a deduction, with the exception of France, it is extended to two parent families where both husband and wife go out to work. But in fact it is only in relatively few countries that such a deduction is available at all.

9.4.3 If tax relief were given at a flat rate rather than by reference to actual costs, this would be tantamount to an addition to, or replacement of, APA. This would meet the fiscal and administrative objections outlined in 9.4.1, although not the point that it would discriminate between lone parents and two-parent families. But in

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any case, because child support is now provided directly as a cash benefit rather than indirectly through the tax system, it would be inappropriate to build upon, or create, a tax allowance which was essentially related to maintaining a child.

9.4.4 Another possible approach would be to provide for lone parents' child care costs directly in the form of a cash benefit, rather than indirectly through the tax system. The existing CB(I) (just like the income tax APA) already recognises in broad terms the extra expenses involved in lone parenthood, and typically these would include child care costs. Theoretically there may be an argument that, where individual lone parents incur particularly heavy child care expenses, there should be some extra compensation through the benefit system. But it is questionable whether extra compensation of this sort would be any more appropriate in the benefit system than it would in the tax system. And to tailor a cash benefit paid to individual costs incurred would pose considerable administrative problems. Assuming that it could be done at all, it would be a particularly staff-intensive - and hence costly - operation. All this suggests that support for lone parents in respect of child care should be recognised in the level of the CB(I), rather than through a cash payment related to specific costs or through tax relief.

Support for lone parents: conclusion

9.5 Any major structural change in the taxation of married couples would be bound to call into question the current tax treatment of lone parents. But changes in the regime for lone parents need not turn on changes in the taxation of married couples: they can be considered on their own merits. The Government would therefore welcome views on the proposal to replace the existing APA by an enhanced CB(I) (paragraphs 9.3.5-9.3.9).

CHAPTER 10 - ADMINISTRATION

10.1.1 One of the main yardsticks set out in Chapter 1 for assessing any system for taxing married couples is that of simplicity. The simpler any set of rules, the easier they are for taxpayers to understand, for employers to operate, and for the Inland Revenue to administer. The present Chapter focusses on this particular criterion, by looking at the administrative implications of the possible changes discussed in the earlier Chapters.

10.1.2 It is the Government's objective to reduce the size of the Civil Service, and any additional tasks for the Inland Revenue must be seen in this context. Because of the continuing search for more economical methods of administration, implementation of some, or all, of the possible changes in the tax treatment of husband and wife might not mean more public servants in the Inland Revenue than at present. In addition the level of tax thresholds - and hence the number of taxpayers - also has a significant impact on the numbers needed to run the tax system. But, in order to bring the effects of the various policy changes into sharper focus, this Chapter proceeds on the basis of current administrative practices and current levels of taxation.

The present position

10.2.1 Nine out of ten people who pay income tax today come within the PAYE system whereby employers deduct tax at source from wages and salaries. These deductions enable the correct amount of tax to be deducted over the year as a whole, so there is no need for adjustment at the end of the year. In the case of married couples, the tax affairs of the 7 million or so married women without paid employment, but who may have a small investment income of their own, are controlled from their husband's

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file in their husband's tax district. The position of the 6 million married women who do have a job and whose earnings are above the PAYE threshold (roughly the level of the single person's allowance) is rather different.

Although aggregation means that a married woman in this position is not required to make a separate tax return, in other respects she is treated in just the same way as a single person with earnings. She has her own tax file and her own tax office, determined according to which employer she works for. Often this is not the same one as deals with her husband's affairs, so a certain amount of liaison between tax offices is required.

10.2.2 Quite apart from any changes in the taxation of husband and wife, the present decade is likely to be fairly momentous for the PAYE system as a whole. Except in Scotland, the system still works on a manual basis - that is to say in much the same way as it did when it was set up 35 years ago. However the Inland Revenue are planning for the computerisation of PAYE so as to enable the Department to give a more efficient service to the public. In addition, a computerised system should be more flexible than the present manual one, enabling, for example, changes to tax rates and allowances introduced in a Budget to be implemented more efficiently and, in the longer term, allowing for possible changes in the underlying structure of personal taxation to be implemented over time without the same degree of upheaval which makes such changes impracticable or uneconomic under the manual system. Ministers are considering the proposals and expect to reach a decision shortly.

10.2.3 Computerisation of PAYE will be a major operation. If it is to be completed as quickly and efficiently as possible, during the period of changeover there will inevitably be some constraints on the extent to which the underlying tax system can be changed. This is not to imply that the tax system is effectively frozen between now and the completion of PAYE computerisation. But it does mean

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that over the intervening years any disruption to the PAYE computerisation programme will have to be weighed in the balance against the expected benefits of implementing any tax reform sooner rather than later.

Developing the present system: option for independent taxation (Chapter 4)

10.3.1 Chapter 4 examined the possibility of extending the options already available within the present system which enable a husband and wife to be treated as independent units rather than as a couple. The administrative effects of this would depend on which of the two alternative options a married couple chose. As with the present wife's earnings election, it would be for each couple to decide jointly whether it would be to their advantage to opt to be treated independently (when the wife's investment income as well as her earnings would be taxed as if she were a single individual). As there would be more factors to be taken into account - such as the age of the couple, and the mix of their income between earned and investment - this could in some cases be a rather more complex process than with wife's earnings election.

10.3.2 Tax offices would have the job of processing options, issuing returns to all husbands and wives who had opted and making end-of-year assessments in the significant minority of cases where it was not possible to deduct the right amount of tax through PAYE in the course of the year. Largely because four times as many couples would stand to benefit as under the wife's earnings election, this extended option could mean additional work for the Revenue, and, depending on the numbers who opt, this extra work could be significant.

10.3.3 To move from separate assessment arrangements to separate responsibility in the way suggested in Chapter 4 would, for the couples affected and the Inland Revenue,

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represent a simplification. The calculations necessary to split a couple's allowances and rate bands down the middle are a lot less complex than those required to operate the present separate assessment rule under which they are divided in proportion to the spouses' respective incomes. Of itself, therefore, the new system would reduce the time spent on each case in tax offices. But with the switch to separate responsibility, the option is likely to become more popular, in which case the net staff requirement would rise.

10.3.4 It seems probable that both of these new options for independent treatment could - unlike mandatory independent taxation (see 10.4) - be implemented before PAYE computerisation. However they are substantial changes and, depending on the numbers opting, could mean a significant change in the workload of tax offices.

Mandatory independent taxation (Chapter 6)

10.4.1 Any of the variants of mandatory independent taxation discussed in Chapter 6 would involve a much bigger upheaval for all concerned with the PAYE system - taxpayers, employers and Inland Revenue alike - than independent taxation on an optional basis. The additional work involved could be substantial and require a much larger number of extra staff to administer the system. It would therefore in any event take longer before such changes could be introduced. The timing of such changes could, however, also be affected by the plans for computerising PAYE. At this stage it is not possible to predict the extent to which the implementation of schemes for mandatory independent taxation would be affected by computerisation (or vice versa). But it seems probable that changes of this magnitude (unlike schemes for independent treatment on an optional basis) could not be implemented before computerisation of PAYE. The problems involved in introducing radical changes in the tax structure whilst the Revenue's staff were engaged on the transition to computerised working could mean that the introduction of schemes for mandatory independent taxation

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might have to be deferred for some time to avoid unacceptable disruption of computerisation. This aspect of the matter will require further study. But in any case, the Government believe that before such radical changes were made, there should be time to examine thoroughly their implications, which, as Chapter 6 has demonstrated, are many and far reaching.

10.4.2 With mandatory independent taxation all husbands and wives would become independent units, each with his or her own allowance and set of rate bands. As far as the taxpayer is concerned, the main impact would be on the wife. For the first time she would be required to complete her own tax return, deal independently with her tax office and be legally liable for the tax due. For the Inland Revenue there would be some savings in a change of this kind. These would arise mainly from reducing the present amount of liaison between wife's and husband's districts and from the fact that the existing options for separate assessment and wife's earnings election would be abolished. But there would also be additional work which would be likely to outweigh any savings that would accrue. Married women could no longer be dealt with in the context of their husband's tax affairs. The 6 million or so married women with income above the PAYE threshold would become, for the first time, just like any other taxpayer for whom returns, assessments and related correspondence would be required from time to time, if not every year. In addition a large number of married women with small investment incomes would be entitled to repayment of some or all of the tax deducted at source.

Independent taxation with transferable allowances

10.4.3 Chapters 6.2.1 to 6.2.3 discussed the possibility of providing for the circumstances where one spouse has insufficient income to use up the single allowance by permitting him or her to transfer the unused portion of this allowance to the other partner. The scale of this

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operation would be determined largely by the nature of married women's employment. First, many married women have part-time jobs, which means that there are large numbers (perhaps around 2 to 2½ million) earning less than the value of a single allowance. Other married women have a small investment income, which would use up some, but not all, of their single allowance. This means that there would inevitably be many cases where the husband's allowance would have to be adjusted to reflect the precise level of his wife's income.

10.4.4 Secondly changing family commitments mean that married women tend to move in and out of employment rather more than other members of the community. Typically a married woman will leave her job to have a baby and return to work when her child (or children) has ceased to be dependent. In many cases couples will not be able to predict, before the beginning of the tax year, whether - and if so how - their commitments will change during the course of the year. All this suggests that, in order to prevent any possible hardship, every effort should be made to transfer the allowance between spouses during the course of the tax year (though it would not of course always be possible to arrive at the correct tax deductions without some further adjustment at the end of the year). Looking at the operation from the tax office angle, the issue and examination of the extra returns required, the consequential "in year" coding changes, end-of-year assessments and appeals work would represent a substantial additional burden.

10.4.5 A scheme under which the whole of the allowance could be transferred to the supporting spouse would be more expensive in staff terms (as indeed in revenue terms) than one where only part of the allowance was transferable. With fully transferable allowances every £ of one spouse's income would affect the quantum of the allowances available to the other. If only part of the allowance were transferable, on the other hand, the one spouse could have up to a certain level of income - the "disregard

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limit" - without in any way affecting the total allowances due to the other spouse. No adjustments - and hence no breach of the supported spouse's privacy - would therefore be required where a spouse had only small part-time earnings or a modest income from savings. Administratively, therefore, a partially transferable allowance scheme would be a cheaper alternative than fully transferable allowances. But, whatever form the scheme took, the numbers of Revenue staff needed to run the system would be significantly greater than now.

10.4.6 From the operational point of view, therefore, as well as for the reasons advanced in Chapter 8, there would be considerable advantages in phasing in independent taxation with transferable allowances. If, as Chapter 8 suggested, phasing in were to be achieved by gradually building up the proportion of the allowance which was transferable, in the early years relatively few couples would be in the 'transferable' band. So the millions of new cases and links between the records of married couples could be set up over a number of years, and the increased burden of casework would build up more gradually.

10.4.7 Chapter 6.2.4 examined the suggestion that only those spouses who are financially dependent for particular reasons - because they look after young children, elderly relatives, are themselves incapacitated, etc - should be allowed to transfer their allowance to the supporting spouse. If the allowance were to be restricted in this way, it would add considerably to the enquiries which the Revenue would have to pursue with a claimant (names/ages of children or relatives, nature of incapacity, facts on registration for employment, etc). It seems however unlikely, for the reasons advanced in paragraph 6.2.6, that the total number of claims would be significantly reduced. The overall effect would therefore be a substantial further addition to Revenue staff requirements, as compared with a scheme which simply recognised financial dependence.

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Independent taxation with cash benefits

10.4.8 Chapter 6 (paragraph 6.2.7 to 10) went on to examine the implications of providing for a dependent spouse through social security rather than through a tax allowance. In this case any DHSS staff requirement would need to be added to the Revenue staff needed to cope with basic independent taxation (see paragraph 10.4.2) to give the total staff cost. On the face of it a straightforward increase in child benefit would not involve any additional costs provided the benefit was paid generally; any attempt to confine the increase to non-working mothers only would have major implications for the scheme as a whole, requiring the collection of information about the circumstances of the parents. An increase in child benefit for the first child only would be a substantial change, but at least to a scheme already in existence. The largest DHSS staff implications would be likely to arise on an option for a completely new cash payment such as a "home responsibilities" benefit. In this case the total cost of administering the new system could well be greater than for a transferable allowance scheme (see paragraph 10.4.6).

10.4.9 Chapter 9 discusses the treatment of lone parents under independent taxation and raises the possibility of abolishing the APA and increasing CB(I), the addition to Child Benefit payable to certain lone parents. Under this proposal the premium to Child Benefit would more than double, and a considerable increase in the numbers claiming should therefore be expected. Extra staff would be required to deal with these new claims and with the problems arising out of this substantially higher number of cases - for example the relationship with other DHSS benefits. The higher benefit would also make it more important to check that continuing entitlement to the benefit existed, and procedures would have to be designed with this in mind.

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Treatment of Investment Income

10.5.1 If, as suggested in paragraph 6.3.2, within a basically independent system any degree of aggregation of investment income were retained, further staff would be needed over and above those needed to implement basic independent taxation (see paragraph 10.4.2). The main extra work would lie in liaison between spouses' districts when it appeared from either the husband's or the wife's return that aggregation might be required, and the special calculations necessary to determine the rate of tax applicable to the joint investment income. These calculations would be complicated and not easy for those married couples affected - especially those who had no professional advice - to understand. The numbers of extra Inland Revenue staff would depend on the threshold above which husbands' and wives' investment income would be added together and taxed at the higher earner's marginal rate.

Measures to counter artificial reallocation of investment income

10.5.2 If it is accepted that investment income should be taxed individually in all cases, it is arguable that, to limit the scope for artificial reallocation of income between husbands and wives, the rules governing inter-spouse transfers of income and capital should be changed. Tightening up the income tax legislation applying to covenants and settlements between spouses in the way suggested in Chapter 6 would mean some extra work, the extent of which would depend on the precise nature of the measures adopted. The administrative consequences of removing the CTT spouse exemption on lifetime transfers would vary according to the way in which the change was carried out, but it could make it difficult for taxpayers and the Revenue to determine which transactions between husband and wife were transfers of value, which were chargeable and which exempt. For capital gains tax the withdrawal of

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the present 'no gains/no loss' basis would result in extra administrative costs as a consequence of the additional assessments and the valuation work required.

10.6 Conclusion

- a. Most of the changes considered in the Green Paper would inevitably introduce some degree of complexity into a system which is now relatively simple. The more complex the administration, the greater would be the staff required to run it - and the greater the difficulties for the taxpayer in comprehending the system and playing his or her part in it. It would be the interests of all concerned to look for a system as straightforward as possible, which resulted in a regime that was both fair to the taxpayer and workable by the Inland Revenue.

- b. It is not possible at this stage to quantify in terms of manpower the effects of modifications in the tax structure as it applies to married couples, particularly as implementation of the more far-reaching changes lies some years ahead and the effect of PAYE computerisation on such changes is at present uncertain. But, two points are clear:
 - i. Independent treatment on an optional basis should require far fewer additional staff than the schemes for mandatory independent taxation: the staff cost for the optional scheme is likely to run to several hundreds compared with staff costs which would run to several thousands for mandatory independent taxation.

 - ii. There could be considerable differences between the staff requirements for possible variants of mandatory independent taxation.

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Any claims on staff resources would, of course, have to be assessed by the Government in the context of its overall priorities. But it is necessary to make the point quite clearly that the Government is committed to reducing the size of the Civil Service, including the Inland Revenue, and this may well preclude solutions which while theoretically attractive would have an unacceptable staff cost.

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CHAPTER 11 - SUMMARY: THE ISSUES TO BE FACED

11.1 This Green Paper raises some far-reaching questions which could affect every individual and every married couple with income above the tax threshold. The main issues are raised in Chapters 4-9. Chapter 1 sets the scene by putting forward some yardsticks for judging any system of taxing the income of married couples. Chapter 2 describes the present UK system, and Chapter 3 outlines the main criticisms that are made of this system today. Chapter 10 brings out the administrative implications of the various changes examined in the intervening chapters, demonstrating that all these changes would, to a greater or lesser extent, involve administrative cost (and would probably not make things easier for the taxpayer) and could not be carried out overnight: the time it would take to implement the changes would vary with the nature and extent of the change to be made.

11.2 The main questions which are thrown up in Chapters 4-9 of the Green paper are as follows:-

- a. The case for change and the direction it should take. Should the system remain essentially unchanged, or should it be developed along one or more of the paths marked out in Chapter 4, ie joint taxation or options for independent treatment? Or should there be a fundamental change to mandatory independent taxation of the kind examined in Chapter 6? Development on the lines suggested in Chapter 4 could itself be a stage en route to fundamental change. Each of the options raised can be assessed by measurement against the criteria outlined in Chapter 1, but it is also of crucial importance to weigh the cost to the Exchequer of lessening, if not removing, the adverse effects of a change on particular groups (Appendix 6) and the administrative costs (Chapter 10).

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- b. Joint taxation. If the present system is developed, should there be a move toward making the husband and wife jointly responsible for the tax on their combined incomes? (4.2)
- c. Aggregation rule. Should the formulation of the rule which aggregates the income of husbands and wives for tax purposes be changed, so that instead of deeming the wife's income to be her husband's it should simply treat the income of husband and wife as if it were one income (the tax remaining in general the responsibility of the husband)? (4.3)
- d. Option for independent taxation
Disaggregation of the wife's income
- i. Still keeping within the structure of the present system, should the present rule under which the couple may elect to have the wife's earnings taxed as if she were a separate individual be extended to her investment income, so that where the couple so wished the whole of the wife's income could be taxed independently?
(4.5)
- ii. Should the option under which husband and wife can apply to be separately responsible to the Revenue (so that each makes separate returns and is separately assessed, but without affecting the quantum of the tax bill on the total income) be revised so that, when such an application is made, the allowances etc are split equally between the couple, instead of being split in proportion to their respective incomes? (4.7-4.8)

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iii. And would there be advantage in carrying out these two changes together, so that husbands and wives would be enabled, if they so wished, to achieve treatment as separate individuals, or where this is not beneficial, to have an equal split of the reliefs between them? (4.9)

- e. Separate taxation of investment income. If an option for the independent taxation of a wife's investment income as well as her earnings were introduced, ie if an affirmative answer were given to the question in subparagraph d(i), should there be some compensatory restriction on transfers of income and/or capital between husband and wife, for the purposes of income tax, capital gains tax and capital transfer tax? (4.6 and 6.3.3)
- f. Tax unit. If there were to be a structural change in the system, should the family or the individual become the basic tax unit? In other words, should there be a move towards something akin to the French quotient system, or should the move be in an entirely different direction, so that husband and wife (and other members of the family) would be treated as independent individuals for tax purposes? (5.2-5.3)
- g. Transferable allowances. Under a system of mandatory independent taxation, where one spouse has no (or not enough) income to use the tax allowance, should it be transferable to the other spouse? And if it is to be transferable, should the whole of the allowance be transferable, or only part of it? (6.2.1-6.2.3)

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- h. Cash benefit alternative. If, where the couple rely on one income, the need of one spouse support the other is to be recognised, should it be through a transferable tax allowance (as in the preceding subparagraph) or through some form of social security benefit? And if through a cash benefit, what form should the benefit take? (6.2.7-6.2.12)
- i. Restriction on provision for supported spouse. Whether the provision takes the form of a tax allowance or cash benefit, should it be restricted by reference to the circumstances of the supported spouse? (6.2.4-6.2.6)
- j. Investment income under mandatory independent taxation. Should there be restrictions on transfers of income and/or capital between husbands and wives? Alternatively, should a wife's investment income be only partially disaggregated from her husband's, ie should the investment incomes be aggregated above a certain income level? (6.3.2-6.3.3)
- k. The elderly. Assuming the continuance of a special preference for the elderly, how should the present rules governing entitlement to the age allowance be altered under a system of mandatory independent taxation? (7.3.1.)
- l. Revenue cost of independent taxation. The tax liability of certain groups (in particular, working couples) would be relatively increased by a change to independent taxation (see Appendix 6). The revenue cost of ensuring that they did not pay more tax in the year of change than in the previous year could be substantial. In recognition of this, should two-earner couples be

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protected and the cost spread by phasing in the introduction of independent taxation over a period of years, along the lines considered in 8.3.3?

- m. Lone parents. Should the system for lone parents be changed, so that instead of receiving an additional allowance for tax purposes, they would receive an increased cash benefit? If so should this increased benefit recognise the costs of child care? (9.3-9.5)

11.3 These issues are not all of equal importance. The first is obviously fundamental, since the response to this will determine the individual's attitude to most of the other issues. But, apart from this, the questions which are most essential to the debate are probably those posed in subparagraphs d., f. to i., and l. of the previous paragraph. If the Green Paper is to be followed by action, then the timetable for action will largely depend on the response to these questions. If it were decided to develop the present system along the lines suggested in Chapter 4 of the Green Paper, ie if the questions posed in sub-paragraph d. above were answered in the affirmative, then the necessary changes could probably be carried into effect within 3 years (ie from 1983/84), provided that a decision was taken by the Autumn of 1981 and the necessary legislation introduced in 1982. On the other hand, for the reasons explained in Chapter 10, it would take considerably longer to introduce a structural change to mandatory independent taxation, and, if it were to be phased in over a period, as suggested in Chapter 8, the change might therefore not be completed for many years ahead. The two types of change are not of course mutually exclusive. It would be possible to make quite far reaching changes to the present system within the next 3 years or so, and to hold out the prospect of a fundamental change towards the end of the decade.

11.4 Chapter 9 is distinct from the rest of the Green Paper. It is concerned with single people rather than married couples and the main issues which it raises (mentioned in paragraph 11.2) could be decided independently of decisions on the rest. Independent taxation would, with the abolition of the married allowance, call for review of the additional personal allowance for lone parents (which is currently linked with the level of the married allowance). But the provision for lone parents, and in particular the question whether the tax relief should be replaced by additional cash benefit, could be decided in advance of, and without prejudice to, decisions on the treatment of husbands and wives (though, because of existing operational commitments, a change to additional cash benefit could probably not be implemented before 1984).

11.5 The issues raised by the Green Paper are relevant to the great majority of taxpayers. Some of the changes considered could substantially alter the relative tax burdens of many people, single as well as married. Moreover, most will materially affect the married woman's status, and hence her responsibilities within the income tax system. Some of the leading representative bodies have already expressed their views on these matters, and their further views on the issues raised by the Green Paper will be welcome. But one of the main objects of the Green Paper is to open up the issues for a wider debate than has hitherto taken place, so that men and women who have hitherto remained silent can make their views known. The Government will welcome the fullest possible response from individuals as well as representative bodies to the important questions raised by the Green Paper; and these views will be fully taken into account in the formulation of any proposals for change which emerge from the response to the Green Paper. Comments should be sent to the Board of Inland Revenue, Room F11 West Wing, Somerset House, London, WC2R 1LB.

GLOSSARY

ADDITIONAL PERSONAL
ALLOWANCE

Tax allowance which can be claimed by an individual with single-handed responsibility for a child living with him/her who is under 16 or in full-time education. Provided that there is such a child in the family, the allowance may also be claimed by a married man whose wife is completely incapacitated for the whole of the tax year.

AGE ALLOWANCE

Higher tax allowance which can be claimed by a single person or a married man who is (or whose wife is) aged 65 or over. The claimant's income (including wife's income in the case of a married man) must be within the income limit for this allowance, if not the age allowance is reduced by £2 for every £3 over the limit until it equals the ordinary single or married allowance, as appropriate.

AGGREGATION

In the context of income tax this refers to the rule whereby the incomes of husband and wife are added together and, subject to any allowances, taxed as one, with only one set of rate bands against the joint income. Under the present UK aggregation rule (S37 ICTA) the husband is responsible for returning and paying tax on the joint income unless there is an election for separate assessment (q.v.) or wife's earnings election (q.v.).

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ASSESSMENT, END OF
YEAR

Formal calculation of a person's tax bill after the end of the tax year, taking account of the total income received and the total allowances due in that year.

BREADWINNER
WIFE

An earning wife who may receive the married man's allowance as well as the wife's earned income allowance, because her husband has no earnings or other taxable income of his own.

CASH BENEFIT

Cash payment in recognition of a particular need paid through the Social Security system to taxpayers and non-taxpayers alike.

CAPITAL GAINS
TAX

Tax charged on the capital gain realised in certain circumstances where assets are disposed of.

CAPITAL TRANSFER
TAX

Tax on transfers or deemed transfers of capital by lifetime gift or on death or held in trust. It is charged at progressive rates on the cumulative total of the gifts made by a person during his life and the value of his estate on death.

DISREGARD

In a system of mandatory independent taxation (q.v.) where a spouse's unused allowance may be transferred in part only, the disregard is the amount of the allowance which is not transferable. It follows that the one spouse can have income up to the amount

of the disregard without either paying tax him/herself, or affecting the allowances available to the other spouse. Once the income of the supported spouse is over the disregard limit, the transferable allowance is reduced £ for £.

INDEPENDENT
TAXATION OPTION

Possible amendment within the present system enabling a husband and wife to choose jointly, where beneficial, to be taxed as two single individuals. Where this option was taken up each would get a single person's allowance and separate set of rate bands, and be separately responsible to the Revenue for the tax on all their income. (An extension of the current wife's earnings election (q.v.).)

INVESTMENT INCOME

For tax purposes this is any income received by an individual other than earned income eg wages, salary, trading profits, pensions.

MANDATORY
INDEPENDENT TAXATION

System under which the married allowance would be abolished, and all husbands and wives treated as individuals with each receiving a single allowance, making a separate return, and paying tax on his/her income.

MARGINAL RATE

Rate of tax payable on the top £1 of total income.

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MARRIED MAN'S ALLOWANCE

Tax allowance to set against joint income which can be claimed by a husband living with his wife. It is also available for a husband in the year in which his wife dies or is permanently separated from him; or for a husband who is living apart from his wife but fully maintaining her by voluntary payments.

PAYE

Pay As You Earn. The system by which an employer deducts the appropriate amount of tax (calculated according to tables provided by the Inland Revenue) from a taxpayer's weekly or monthly pay before he/she receives it. The employer then pays the tax for all his employees direct to the Revenue.

PAYE CODE

This represents the amount of income which a taxpayer is (because of personal allowances, reliefs etc) entitled to receive before any tax is deducted. It is issued to every employee each year by his/her tax office.

PERSONAL ALLOWANCE

In effect the first slice of tax free income, the size of which varies in broad terms according to the taxpayer's personal circumstances. (See THRESHOLD.)

RATE BANDS

The rate(s) of tax levied on successive slices of taxable income (ie income after all allowances and reliefs have been deducted). For 1980/81 tax is

charged at 30 per cent (the "basic" rate) on the first £11,250 of taxable income, and successive slices of income above this amount are charged at the higher rates of 40-60 per cent.

SEPARATE
ASSESSMENT

This may currently be claimed by either a husband or a wife who wishes to have independent dealings with the Revenue in his or her own tax affairs. It makes no difference to the total amount of tax paid by the couple; the available reliefs and rate bands are split between husband and wife in the same proportion as their incomes.

SEPARATE
RESPONSIBILITY

Possible amendment to the current system under which, although their total tax bill would not be affected, either husband or wife could choose to be taxed separately with an equal split of the available allowances and rate bands. (A development of the existing separate assessment provisions (q.v.)).

SINGLE PERSON'S
ALLOWANCE

Tax allowance automatically available to set against income for all single people, including widows/widowers, the separated and divorced as well as unmarried individuals. Husbands and wives who have made a wife's earnings election (q.v.) also get this allowance.

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TAX YEAR

This runs from 6 April to the following 5 April.

THRESHOLD

The level of total income at which tax first becomes payable. Less often it represents the point at which tax at a specific rate becomes payable, thus "higher rate" threshold etc.

TRANSFERABLE ALLOWANCE

In a system of mandatory independent taxation (q.v.) where a spouse has insufficient income to benefit from his/her own tax allowance, the unused portion may be transferred in part or whole to the other spouse.

WIFE'S EARNED INCOME ALLOWANCE

Tax allowance automatically available to set against a wife's earnings. It is equivalent in value to the single person's allowance or the level of her earnings whichever is less, but may not be set against any investment income she may have.

WIFE'S EARNINGS ELECTION

A currently available option under which a married couple can jointly elect to have the wife's earnings (but not her investment income) taxed as if she were a single individual. When this election is in force, the married man's allowance is no longer available; instead each spouse receives a single person's allowance.

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HISTORICAL DEVELOPMENT OF THE PRESENT TAX
TREATMENT OF HUSBAND AND WIFE

- 1799 Income tax first introduced. A married woman's income was to be "stated and accounted for by her husband".
- 1806 Aggregation rule reached, in substance, its present form: the profits of any married woman living with her husband "shall be deemed the profits of the husband".
- 1894 New provision ensured that where a couple's combined income did not exceed £500, the wife qualified for the same tax reliefs as a single person in respect of her earnings.
- 1909 Supertax introduced. Henceforth the effect of aggregation could be to push married couples into higher tax brackets.
- 1914 Present facility for separate assessment first introduced.
- 1918 "Wife" allowance introduced: for the first time married men qualified for a higher allowance than a single person.
- 1920 A Royal Commission on the Income Tax examined the current rules for taxing husband and wife. They reported in favour of the aggregation rule:

"The aggregation for Income Tax purposes of the income of husband and wife is not dependent upon any mediaeval conception of the subordination of women ... The incomes are aggregated because the law of taxable capacity is the supreme law in matters of taxation, and taxable capacity is, in fact, found to depend on the amount of the income that accrues to the married pair

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and not upon the way in which that income happens fortuitously to be owned by the members of that union. It is beyond question that in the immense majority of cases where the wife has separate means she contributes to the common purse, either by the actual merger of her income with her husband's or by bearing expenses which in less fortunate households would fall upon the husband".

1920 Following Royal Commission's recommendations:

1. Married man's allowance substantially increased to equal 1.6 times the single allowance.

2. Wife's earned income relief (equal to the difference between the married man's allowance and 2 single allowances) replaced 1894 provision for separate taxation of wife's earnings.

1942 Wife's earned income relief increased to the level of the single person's allowance.

1944 PAYE system first introduced.

1948 Working wife given her own reduced rate bands

1954 Whole issue of taxation of married couples reviewed by Royal Commission on the Taxation of Profits and Income (the Radcliffe Commission).

They too endorsed the aggregation of husband and wives' incomes:

"We see in the existing rule nothing that embodies an outmoded or unworthy conception of the relations of man and woman in marriage ... It does appear to us ... that marriage creates a social unit which is not truly

analogous with other associations involving some measure of joint living expenses and that to tax the incomes of two married people living together as if each income were equivalent to the income of a single individual would give a less satisfactory distribution than that which results from the present rule".

They felt the extra expenses involved where both spouses worked created "a valid difference between the taxable capacity of a married couple where the wife is at work and the married couple where the wife is at home". But they saw the present wife's earned income relief (which gave a two-earner couple $2\frac{1}{2}$ times the single allowance) as "excessive". No action was taken on this particular recommendation.

- 1971 Wife's earnings election - which enabled a married couple to opt for the wife's earnings to be taxed as if she were a single person - introduced.
- 1978 Wife given statutory right to receive her own PAYE repayments.
- 1978 Inland Revenue practice on correspondence with married women changed. Instead of writing to her husband, tax offices were instructed to reply direct to a married woman who had written to them.
- 1979 Change of practice to ensure that it is the husband, not the wife, who normally suffers the restriction of allowances (the "excessive basic rate" adjustment) necessary where higher rate tax is due from a working couple's joint income.

Tax office practice of writing direct to a

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married woman about her own tax affairs
extended to cover occasions where she has not
initiated the correspondence.

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CURRENT INCOME TAX RATES AND ALLOWANCES, AND CAPITAL TAX TREATMENT OF HUSBAND AND WIFE

This Appendix falls into two parts. The first completes the detailed description in Chapter 2 of the present income tax rules applying to husband and wife by setting out the income tax rates and the levels of the relevant personal allowances for the current year (ie 1980/81). Secondly there is a brief description of the existing capital gains and capital transfer tax rules insofar as they affect married couples.

1. Income tax rates and allowances

a. 1980/81 tax rates.

<u>Rate of tax</u>	<u>Taxable income</u>
30% (basic rate)	£1-£11,250
40%)	£11,251-£13,250
45%)	£13,251-£16,750
50%) (higher rates)	£16,751-£22,250
55%)	£22,251-£27,750
60%)	over £27,750

Investment income surcharge

In addition investment income surcharge (IIS) is charged at 15% on all investment income in excess of £5,500.

b. 1980/81 personal allowances.

	£
Single person's allowance	1,375
Married man's allowance	2,145
Wife's earned income allowance	1,375
Age allowance	
- single person	1,820
married couple	2,895
(income limit for full age allowance £5,900)	
Additional personal allowance	770
Widow's bereavement allowance	770

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2. Capital tax treatment of married couples

a. Capital Gains Tax (CGT)

Capital gains tax is charged at 30 per cent on gains made when assets are disposed of. In general, the CGT liabilities of a husband and wife who are living together are calculated separately. But the husband is liable for his wife's capital gains tax as well as his own unless one of them makes an application for separate assessment, in which case she will be liable for her own tax.

One exception to the rule that the CGT liabilities of a husband and wife are calculated separately is where either of them makes an overall loss, or has brought a loss forward from an earlier year. In this case the loss is set against any gains of the other (whether or not an application for separate assessment has been made). But this does not happen if either of them makes an application for this particular provision not to apply.

Another exception occurs with the annual exemption of the first £3,000 of an individual's gains. A husband and wife have a single £3,000 exemption to share between them. Normally, it is divided in proportion to their net gains for the year (that is after deducting losses of the year and losses brought forward from earlier years). But if the total of their net gains does not exceed £3,000 and there are losses brought forward, they may agree between them how it should be divided.

The final exception occurs with the exemption of an individual's home. A husband and wife get only one exemption between them. So if they own more than one home only one is exempt. This will be the one which is their main home unless they both elect for another home to be exempt.

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The other special rule that applies to a husband and wife is that where an asset is transferred from one to the other capital gains tax is not payable, no matter how much is paid for the transfer. For the purpose of calculating capital gains tax on a subsequent disposal, the transfer is deemed to have taken place on a "no gains no loss basis", - in other words the spouse who acquires the asset is treated as having paid the same amount for the acquisition as the other spouse paid to acquire it.

b. Capital Transfer Tax (CTT)

Transfers between husband and wife are exempt from capital transfer tax unless at the time of the transfer, the transferor is domiciled in the United Kingdom and his or her partner is domiciled abroad. In these circumstances the exemption is limited to £50,000 (this is in addition to the normal threshold).

Apart from this special exemption, husband and wife are treated as separate individuals. It follows that any transfers made by either of them which are chargeable to CTT are separately subject to the same rate scales and attract the same exemptions (including the annual exemption of gifts not exceeding a total of £2,000) and reliefs are transfers made by other individuals.

The rates of tax applicable to any transfer depend on the cumulative total of chargeable transfers made during the life of the transferor or at death. No tax is chargeable on the first £50,000 of a person's cumulative total. The next £10,000 is chargeable at 30 per cent if the transfer is made at date or within the three years before death; the starting rate on lifetime transfers is 15 per cent. The top rate of 75 per cent is reached for both lifetime and death transfers on slices of the cumulative total above £2,010,000.

HUSBANDS' AND WIVES' TAX BILLS

This appendix sets out how a married couple's tax bill is calculated. It shows how the amount of tax an individual husband or wife is asked to pay can already differ according to whether the normal rules apply or whether the couple choose either of the current options for wife's earnings election or separate assessment. The effects on the husband and wife's tax bill of the two major developments of the present system considered in Chapter 4 are also illustrated.

In the following illustrations, the husband receives a salary of £7,000 and pays mortgage interest of £500. His wife has part-time earnings of £500 and receives investment income of £3,000. All the calculations are based on the allowances and rates of tax applying in 1980/81.

1. Present system: normal aggregation rule
(Chapter 2.1-2)

Under the normal aggregation rules the married couple's tax bill is £2,206.50, wholly chargeable on the husband. This figure is arrived at by adding the wife's income to the husband's, as follows:-

	£	
Husband's salary	7,000	
Wife's earned income	500	
Wife's investment income	<u>3,000</u>	
	10,500	
<u>less</u> mortgage interest	500	
	<u>10,000</u>	
Married man's allowance	2,145	
Wife's earned income allowance	<u>500*</u>	<u>2,645</u>
		<u>7,355</u> @ 30% = <u>£2,206.50</u>

*When the wife's earned income is less than £1,375, this allowance has to be restricted to the amount of her earned income.

Under the normal aggregation rule the HUSBAND's tax bill is £2,206.50.

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2. Separate assessment (Chapter 2.4.2-3)

If either the husband or the wife applies for separate assessment under the existing rules, the overall liability of £2,206.50 will be unchanged, but the tax bill will be split between the two spouses in proportion to their respective incomes.

	<u>Husband</u>		<u>Wife</u>
	£		£
Salary	7,000		500
Investment Income	-		3,000
	<u>7,000</u>		<u>3,500</u>
<u>less mortgage interest</u>	500		-
	<u>6,500</u>		<u>3,500</u>
Personal allowances			
$\frac{6,500}{10,000} \times 2,645 =$	1,719	$\frac{3,500}{10,000} \times 2,645 =$	926
	<u>4,781</u>		<u>2,574</u>
	@ 30% = <u>£1,434.30</u>	+	<u>£772.20</u> = <u>£2,206.50</u>

Under separate assessment HUSBAND's tax bill is £1,434.30, WIFE's tax bill is £772.20.

3. Separate responsibility with equal split of tax relief (Chapter 4.7-8)

Under the revised form of separate responsibility, discussed in Chapter 4, the total tax bill would still remain the same but each spouse would receive half of the available personal allowances. The total tax bill would therefore be split as follows:-

	<u>Husband</u>	<u>Wife</u>
	£	£
Salary	7,000	500
Investment Income	-	3,000
	<u>7,000</u>	<u>3,500</u>
<u>less</u> mortgage interest	500	-
	<u>6,500</u>	<u>3,500</u>

Personal allowances

$$\frac{1}{2} \times 2,645 = \frac{1,323}{5,177}$$

$$@ 30\% = \underline{\underline{£1,553.10}}$$

$$\frac{1}{2} \times 2,645 = \frac{1,322}{2,178}$$

$$+ \quad \underline{\underline{£653.40}} = \underline{\underline{£2,206.50}}$$

Under the new form of separate responsibility discussed in Chapter 4 HUSBAND would pay £1,553.10, WIFE would pay £653.40.

4. Wife's earnings election (Chapter 2.4.4)

It can be seen from the following calculation that it would not be to this couple's advantage to make a wife's earnings election. [Their combined income is not high enough for the election to produce a saving of tax at the higher rates, and since the married man's allowance of £2,145 is replaced by the single allowance of £1,375 the total liability is £231 (£770 @ 30%) higher than at 1. above.]

	(a) Husband	(b) wife
	(all income apart from wife's earnings)	(wife's earnings only)
	£	£
Salary	7,000	500
Investment Income	3,000	-
	<u>10,000</u>	<u>500</u>
<u>less</u> mortgage interest	500	-
	<u>9,500</u>	<u>500</u>
Single personal	<u>1,375</u>	<u>500*</u>
	<u>8,125</u>	<u>NIL</u>

*Although the wife is entitled to the single allowance of £1,375, her earnings are such that she can use only £500. The balance of £875 cannot be transferred to her husband.

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Under wife's earnings election the couples' tax bill is increased by £231, the HUSBAND pays £2,437.50 the WIFE NIL.

5. Option for independent taxation of wife's income
(Chapter 4.3-5)

If, as is suggested in Chapter 4, the couple were able to opt to have the whole of the wife's income taxed independently, each would receive the single personal allowance against all his or her own income. Since two single allowances are worth £2,750 compared with personal allowances totalling £2,645 at 1. above, in this particular case there would be an overall tax saving of £31.50 (£105 @ 30%).

	<u>Husband</u>	<u>Wife</u>
	£	£
Salary	7,000	500
Investment Income	-	<u>3,000</u>
	<u>7,000</u>	<u>3,500</u>
<u>less mortgage interest</u>	500	-
	<u>6,500</u>	<u>3,500</u>
Single personal allowance	<u>1,375</u>	<u>1,375</u>
	<u>5,125</u>	<u>2,125</u>

$$\text{@ 30\%} = \underline{\underline{£1,537.50}} + \underline{\underline{£637.50}} = \underline{\underline{£2,175.00}}$$

If the couple were able to opt for independent treatment the couple's tax bill would be reduced by £31.50, HUSBAND would pay £1,537.50, WIFE would pay £637.50.

MARRIED WOMEN IN EMPLOYMENT

This appendix illustrates the place of married women in the labour force. First it looks at how this has changed dramatically in the course of the current century. Secondly it focuses on those married women who do work today, showing how the choice between working and not working is affected by family commitments.

The first table, which is based on census data, shows how the composition of the work force in Great Britain has altered over the last 50 years. During this period, in particular the last two decades, the contribution of married women has increased from 4 per cent of the total to 23 per cent. In 1921 less than 1 in 10 married women were working or looking for work, but by 1971 nearly half of all married women were economically active.

TABLE 1 OCCUPIED/ECONOMICALLY ACTIVE POPULATION AND ACTIVITY RATES, GB 1921-1979

	1921	1931	1951	1961	1966	1971	1979 (Provisional)
<u>Males and Females</u> (million)	19.4	21.1	22.6	23.8	24.9	25.1	26.0
- Activity rate % of which:-	58.1	60.7	59.6	60.5	62.1	61.2	62.1
<u>Males</u> (million)	13.7	14.8	15.6	16.1	16.0	15.9	15.8
- Activity rate % - % of total	87.1 (70.5)	90.5 (70.2)	87.6 (69.2)	86.0 (67.5)	84.0 (64.3)	81.4 (63.4)	78.6 (60.8)
<u>Females</u> (million)	5.7	6.3	7.0	7.7	8.9	9.2	10.2
- Activity rate % - % of total of which:-	32.3 (29.5)	34.2 (29.8)	34.7 (30.8)	37.4 (32.5)	42.2 (35.7)	42.7 (36.6)	46.9 (39.2)
<u>Married Females</u> (million)	0.7	1.0	2.7	3.9	5.1	5.8	6.7
- Activity rate % - % active females	8.7 (12.9)	10.0 (15.2)	21.7 (38.2)	29.7 (50.2)	38.1 (57.1)	42.2 (63.1)	49.6 (65.7)
<u>Unmarried Females</u> (million)	5.0	5.3	4.3	3.9	3.8	3.4	3.5
- Activity rate % - % active females	53.8 (87.1)	60.2 (84.8)	55.0 (61.8)	50.6 (49.8)	49.2 (42.9)	43.7 (36.9)	42.5 (34.3)

Source: 1921 - 1971 Censuses of Population

1979 data are based on results from the European Community Labour Force Survey.

The second table is a snapshot picture of the involvement of married women in the labour force in 1979. It illustrates how their economic activity rates vary with age. Those least likely to be working include married women in the 25 to 34 age group (largely wives who are staying at home to look after young children) and the 55 to 59 year olds (in many cases wives whose families have grown up or whose health may be too poor for them to take a job).

Table 2 - Provisional estimates of the number of economically active and inactive married women under 60, by age: GB, 1979.

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Age	Economically active*	Economically inactive
Under 20	66	63
20 - 24	560	412
25 - 34	1,618	1,524
35 - 44	1,827	895
45 - 54	1,698	892
55 - 59	700	645
Total	6,469	4,431

Source - EEC Labour Force Survey

*Working or seeking work.

The third table confirms that it is largely family commitments which determine whether or not a married woman is likely to be in paid employment. Of those wives aged 25 to 45 who are not economically active, only 9 per cent have no dependent children.

Table 3 - Estimated number of economically inactive wives under pension age, by age and presence of dependent children: GB, 1978.

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Age	With children	Without children	Total
Under 25	465	69	534
25 - 44	2,235	221	2,456
45 - 59	374	1,065	1,439
Total	3,074	1,355	4,429

Based on DE Labour Force Projections and 1976 FES (SR3).

Dependent children are those aged under 16, or 16 to 18 in full-time education. About 270,000 of the 1,355,00 economically inactive wives without dependent children live in households containing an elderly or disabled person.

Breadwinner wives

There are probably between 150,000 and 200,000 breadwinner wives - ie economically active wives with economically inactive husbands. In the majority of cases the husbands are retired, permanently sick or students, although there are no doubt a few "role reversal" couples - ie couples who have made a conscious decision that the husband should remain at home while the wife works.

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DISTRIBUTIONAL EFFECTS

1.1 Changes to the system of taxation of husband and wife would have the effect of changing the share of income tax paid by different groups of people, including single persons.

1.2 This Appendix gives examples of the effect of the different forms of independent taxation described in Chapter 6. For comparison they are presented in this Appendix on a revenue neutral* basis although in practice, whether or not they are phased in over a period (see Chapter 8), revenue costs would have to be incurred to avoid any absolute reduction in the total allowances received by a working couple. For simplicity the comparison is with the tax system as it stands at present; the figures would differ to some extent (particularly where the wife had investment income) if independent taxation were to be introduced after implementation of the option described in Chapter 4 for extending the wife's earnings election to cover her investment income.

The various schemes considered are:-

1. Independent taxation with non-transferable tax allowances and no cash benefit for the spouse at home.
2. Independent taxation with allowances which are fully transferable between spouses.
3. Independent taxation where up to 56% of one spouse's tax allowance might be transferred to the other spouse (ie a partly transferable allowance scheme which reflects the present relativity between the married allowance and the single allowance).

*ie the change from one set of tax rules to another is made without any gain or loss of tax revenue: the new system would yield precisely the same amount of revenue as the old.

4. Independent taxation with non-transferable allowances where the yield of tax from married couples whose total allowances are reduced would finance a general increase in the level of child benefit.

Each of these schemes would allow for the independent taxation of wives' investment income (Chapter 6.3) and for Category B National Insurance pensions to be counted as the wife's income for tax purposes (Chapter 7.3.2).

Tax allowances

2.1 Implementing any of these schemes would mean a substantial change in the relative tax allowances available to different kinds of household. This is illustrated in the table below which compares, for both the present system and each of the independent taxation schemes, the total allowances available to each type of household with the allowance given to a single person under that particular scheme.

<u>Household type</u>	<u>1980/81 allowances</u>	<u>Present system</u>	<u>As a percentage of single allowance</u>			
			<u>No transferable allowance</u> (Scheme 1)	<u>Independent taxation with:</u>		<u>No transferable allowance, but increased child benefit</u> (Scheme 4)
	£			<u>Fully transferable allowance</u> (Scheme 2)	<u>Partly transferable allowance</u> (Scheme 3)	
<u>Single people</u>						
Without children	1,375	100	100	100	100	100
With children	2,145	156	156*	156*	156*	100
Two single people	2,750 [†]	200 [†]	200	200	200	200
<u>Married couples</u>						
Both husband & wife working	3,520	256	200	200	200	200
Husband working, wife no income	2,145	156	100	200	156	100
Wife working, husband no income	3,520	256	100	200	156	100
Husband working, wife with investment income only	2,145	156	200	200	200	200
Wife working, husband with investment income only	3,520	256	200	200	200	200

[†]Also applies where a married couple have made a wife's earnings election.

*Assuming that, under independent taxation the support given to a lone parent family would bear the same relativity to the single person's allowance as the APA does at present.

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2.2 Whereas the table above shows the relative amount of allowances that would be available to different types of family unit under each of the independent taxation schemes, the absolute level of the allowances would vary according to which scheme is being considered if the change from the present system were to be made on a revenue neutral basis. The single person's allowance under the various schemes would be as follows:

Scheme 1

(Independent taxation with
no provision for spouse at home) £1,655

Scheme 2

(Fully transferable allowances) £1,370

Scheme 3

(Partly transferable allowances) £1,450 with a maximum of
£810 transferable
to the supporting
spouse

Scheme 4

(No transferable allowance £1,290
but child benefit increased
by £4.90 per week)

2.3 It is possible to compare the absolute levels of allowances as between the different schemes for independent taxation by using a method somewhat similar to that used to illustrate the relativities within each scheme. In the table below the total allowances available to the various types of household are, under all 4 independent taxation schemes, expressed as a percentage of the present single person's allowance of £1,375.

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Household type	Present system	Scheme 1	Scheme 2	Scheme 3	Scheme 4
<u>Single people</u>					
Without children	100	120	100	105	94
With children	156	187	155	164	94
Two single people	200	241	199	211	188
<u>Married couples</u>					
Both husband & Wife working	256*	241	199	211	188
Husband working, wife no income	156	120	199	164	94
Wife working, husband no income	256	120	199	164	94
Husband working, wife with investment income only	156	241	199	211	188
Wife working, husband with investment income only	256	241	199	211	188

Overall effect on tax bills

3.1 Switching to any kind of independent taxation will make a difference - sometimes a substantial difference - to people's tax bills. There are two main reasons for this. The first is the different personal allowance structure implied by independent taxation which has been illustrated above. Secondly, independent taxation may affect the rate of tax levied on spouses' income. At present a husband and wife, except where they make a wife's earnings election, have only one set of rate bands

*If a wife's earnings election were in force the allowances under the present system would be 200.

to set against their joint income. With independent taxation a two-income married couple would be entitled to two sets of rate bands (though this would affect the total amount of tax they pay only where their joint income, after allowances, would bring them into the higher tax rates - ie is above £13-14,000 a year). The overall effects on individual taxpayers of switching to the various schemes of independent taxation is summarised in the two tables below.

Basic rate taxpayers

3.2

Change in annual net income under scheme:

	1	2	3	4*
Single persons	+£84	-£1	+£22	-£25
Married, husband only earning	-£147	+£178	+£34	-£256
Married, wife only earning	-£559	-£234	-£378	-£669
Married both earning [†]	-£63	-£234	-£186	-£282
Married, husband earning, wife with investment income only:				
Maximum increase	+£349	+£178	+£226	+£130

*In addition, each family with children would receive an extra £255 (£4.90 a week) per child in child benefit

[†]These figures would apply in all cases where the wife has sufficient earnings to use up the available allowances (ie over £1,375 schemes 2-4 and £1,655 in scheme 1). If the wife's earnings were below this level, the change in net income would be somewhere between the figures in this line and those in line 2 (the "married husband only earning" line).

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3.3 For two-income couples who pay tax at higher rates on their joint incomes under the present system, one of the effects of independent taxation would be to give them a full basic rate band and a full set of higher rate bands against both the husband's income and the wife's. The effect of the change to independent taxation in a particular case would depend on the size of the joint income, its distribution as between husband and wife and the split as between investment income and earned income. It would also be affected by whether the present wife's earnings election is beneficial, and whether the couple would benefit from the option for extending the wife's earnings election to cover investment income, if this had been introduced. The following example gives a broad illustration of the relative effects of the independent taxation options, compared with the present tax system, for taxpayers (single and married) with a total income of £25,000 a year.

TAXPAYERS WITH INCOME OF £25,000

	Present tax bill	Change in annual net income under scheme:-			
		1	2	3	4
Single	£9,256	+£154	+£3	+£41	-£47
Married, income all husband's earnings	£8,833	-£269	+£327	+£63	-£470
Married, income all wife's earnings	£8,115	-£987	-£390	-£654	-£1,188
Married, income half husband's earnings, half wife's earnings	£6,675 [†]	+£168	+£63	+£45	-£51
Married, income half husband's earnings, half wife's investment income	£9,883	+£2,326	+£2,155	+£2,203	+£2,107

*before allowing for child benefit increase.

[†]assuming couple have made a wife's earnings election.

Shares of the total tax bill

4.1 As well as affecting individual tax bills, a move to independent taxation would obviously have an impact on the contribution to total revenue provided by households of different types. This is illustrated in the table below, which shows, to the nearest £m50, the full year effect based on 1980/81 income levels. (In this table, unlike the earlier tables, a plus sign indicates a bigger tax bill, and hence a smaller net income.)

	Current system		Change under scheme:-			
	Nos. of taxpayers	Tax bill	1	2	3	4
	m	£b	£m	£m	£m	£m
Aged-Single	1.2	1.1	-100	Nil	-50	+50
Married	1.2	1.6	-200	-250	-300	Nil
Non-aged:-						
Single	7.8	6.7	-650	Nil	-200	+150
Married, wife not working						
with children	3.0	4.3	+350	-550	-150	-550
without children	1.7	2.5	+200	-300	-100	+400
Married, wife working						
with children	3.3	5.4	+250	+500	+400	-350
without children	3.1	5.1	+150	+600	+400	+800
Total	21.3	26.7	-	-	-	+500*

*The various increases and reductions under Scheme 4 would not cancel one another out, because some of the benefit from increased child benefit would be given to non-taxpayers - a group who are not covered in this table.

Conclusion

5.1 The illustrative figures do no more than indicate in very broad terms the financial effects of moving the present system for taxing husband and wife to independent taxation. Nonetheless, the figures quoted serve to underline the points about the distributional effects of the independent taxation options which have been referred to in the text of the Green Paper:-

- independent non-transferable allowances would benefit no group of married couples, except those where the wife has substantial investment income;
- transferable allowances would benefit couples where the wife is not working compared with those where she is;
- couples where the wife is working and where there are no children would lose substantially from most options;
- single persons generally would benefit from the change (except where the yield from changes goes to increase child benefit);
- the married aged would benefit from the separate taxation of the Category B pension;
- couples with substantial investment income and where the wife is not working would benefit from all the options;
- "breadwinning" wives would lose in all the options.

INTERNATIONAL COMPARISONS

Introduction

1. The grid below gives a summary of the basic treatment of the family for taxation purposes in the EEC countries, Australia, Canada, Japan, New Zealand, Sweden and the USA.
2. These fifteen countries have systems of taxation (and cash benefits for children etc) which differ considerably in law and in practice: no format such as the grid used here can cover every detail or every option of such diverse systems. Accordingly, it should only be regarded as giving a broad outline for comparative purposes: the answers may be capable of change in unusual circumstances, or if various options are exercised. For more detailed information, the individual countries section which follows this note should be consulted.

Basic unit of taxation

3. The possible units are individual; husband and wife; and family. Ten of the fifteen countries regard the individual - whether married or not - as the basic unit, and four the husband and wife combined. The French quotient system, under which the family is the basic unit, is explained in the country section. Of the four in which the husband and wife combined are the basic unit, options for separate taxation of either the spouses' total income, or their earnings only, are available in Belgium, Germany and the United Kingdom.
4. Four of the ten countries which treat husband and wife as separate individuals for earned income nevertheless aggregate their investment incomes. In the USA and Ireland couples would generally exercise the option of aggregating their total income from all sources as in most cases this would reduce their overall tax bill.

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5. In recent years there has been a general trend away from compulsory joint or family taxation towards the choice of the individual as the tax unit for earned income or, at least, the provision of an option for individual taxation. In particular there have been the following changes:

1970 Denmark moved from joint to individual taxation of earned income.

1971 Sweden moved from joint to individual taxation of earned income.

1973 Netherlands moved from joint to individual taxation of earned income.

[1974 Italy, in reforming its schedular system of taxation, moved from individual taxation to compulsory family taxation for couples whose joint income exceeded 5 million lire (but see 1977 below).]

1976 Belgium moved from family to compulsory individual taxation, except where joint income exceeded 350,000 Belgian Francs.

1977 Italy moved from joint to individual taxation.

1980 Ireland is moving from joint to individual taxation, but giving married couples the option of being taxed jointly under income splitting rules.

Treatment of married couples

6. All the countries considered here give some extra tax relief where there is a financially dependent spouse, whether by deduction from total income, tax credit, or some form of quotient system. In Germany and the United States, spouses may choose between joint and

separate assessment. Under the joint taxation rules in both of these countries a husband and wife are taxed as if their total income were split equally between them. So for most married couples, opting for joint taxation reduces their total tax bill. (The new Irish system contains a similar option; and again it is expected that most husbands and wives will choose joint taxation).

7. Where there is a financially dependent spouse, eleven of the fifteen countries give allowances at least equal to two single allowances against the one income. (In Sweden there is a combination of allowance and tax credit for marriage which makes it impossible to generalise on the value of the couple's allowances). The United Kingdom is in the minority here in giving less.

8. Where both spouses work, tax relief for the financially dependent spouse is normally subsumed in the separate allowances, and the couple are left with two single allowances. The United Kingdom, together with Belgium, is unusual in giving the two income married couple more than two single allowances: none of the countries gives less than two single allowances.

Treatment of children

9. Eight of the countries give a tax allowance and all countries except the USA provide a cash benefit for a dependent child. Only in Canada is this cash benefit taxable. As in the UK, the general trend in recent years has been to move from tax allowances to cash benefits.

Lone parents

10. Twelve countries give extra tax allowances to one parent families. Apart from those countries, Belgium gives extra allowances to such families where the parent

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is a widow or widower and Denmark does so where there is a dependent child of 17 or over who is undergoing education.

11. Many of the 15 countries also provide extra help for lone parents through the social security system. In some instances, as in the UK, there is some provision for all lone parents. Elsewhere there are different types of provisions for different types of lone parents. Often there is a special family allowance where one parent has died: in Denmark and France, this is paid in addition to an ordinary family allowance; in Germany and Luxembourg it is similar to a pension. In addition various countries have schemes for other one-parent families, those of France, Ireland, Australia and New Zealand are means tested.

	Belgium	Denmark	France	Germany	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Australia	Canada	Japan	New Zealand	Sweden	USA
1. What is the legal unit of taxation?	^{1a} Husband and wife	³ Individual	Family	^{1b} Husband and wife	² Individual	Individual	Husband and wife	³ Individual	^{1a} Husband and wife	Individual	⁴ Individual	³ Individual	Individual	³ Individual	² Individual
2. Is there tax relief in respect of a financially dependent spouse?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. Does a one income married couple receive the same total tax allowances as 2 single persons each with an income?	More	Same	Same	Same	Same	More	Same	Less	Less	More	Less	Same	More	Variable	Same
4. If both husband and wife work, do they receive higher total tax allowances than 2 single persons in work?	⁵ Yes	No	No	No	No	No	No	No	Yes	No	No	No	No	No	No
5. Is there tax relief for a dependent child?	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No	Yes	Yes	No	No	Yes
6. Is there a cash benefit for a dependent child?	Yes	Yes	⁶ Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	⁶ Yes	Yes	Yes	No
7. Is there an extra tax deduction for child care costs?	No	No	⁷ No	⁸ Yes	No	No	Yes	⁷ No	No	No	Yes	No	No	Yes	Yes
8. Is there an additional tax allowance for one-parent families?	⁹ No	¹⁰ No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes

1. Option for individual taxation:
(1a) of each spouse's earned income only
(1b) of each spouse's total income.
2. Option for joint taxation of husband and wife.
3. Compulsory aggregation of a husband and wife's investment income in certain circumstances.
4. Husband and wife are taxed jointly where the wife's income is below \$2,990.
5. Providing they are jointly assessed.
6. Not for all children in a family.
7. Except for lone parents.
8. For 1980/81 only.
9. Except for lone parents who are widows/widowers.
10. Except where there is a child aged 17 or over who is being educated.

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Husband and wife are taxed jointly.</p> <p>2. If beneficial, there is separate taxation of earned income of husband and wife if combined earned income does not exceed 390,000 B Frs.</p> <p>Investment incomes are still aggregated.</p>	<p>1. Taxable income of employees and professional people is reduced by a minimum deduction for professional expenses. The amount of the minimum deduction varies with income, and the maximum flat-rate deduction is 75,000 B Frs.</p> <p>2. There is a further deduction against net earned income of 10,000 B Frs.</p>	<p>1. Married taxpayers who are jointly assessed on the whole of their income receive a tax credit equal to 5 per cent of the tax payable on the first 390,000 B Frs of income.</p> <p>2. If husband and wife are jointly assessed and both have earned income, that of the wife is reduced by 56,000 B Frs.</p> <p>3. Where both husband and wife earn, each receives the expenses deduction. The deduction of 10,000 B Frs is a combined deduction, which is apportioned in the case of separate assessment.</p>	<p>1. Tax credits are granted for dependants, including the wife (see previous column, 1). The <u>cumulative</u> credits are</p> <p>1 dependant - 5 per cent of tax on first 390,000</p> <p>2 dependants - 10 per cent of tax on first 390,000</p> <p>3 dependants - 20 per cent of tax on first 390,000</p> <p>2. There are cash benefits (not taxable) for dependent children amounting to:</p> <p>1st child - 1,524.00 B Frs per month</p> <p>2nd child - 2,417.00 B Frs per month</p> <p>3rd child - 3,310.00 B Frs per month</p> <p>4th child - 3,376.00 B Frs per month</p> <p>each subsequent child - 3,400.00 B Frs per month</p> <p>plus 'age addition' for children over 6.</p> <p>3. LONE PARENTS - there is relief only for widows/widowers who have not remarried: the deceased spouse is regarded as a dependent for tax purposes.</p>

*Exchange Rates throughout as at 7 January 1980

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are taxed individually for earned income, but investment incomes are added to the husband's earned income.</p>	<p>1. There is a personal allowance of 14,800 Kr. The allowance is converted at the lowest income tax rate for deduction from the tax due.</p> <p>2. There is a wage-earner's standard deduction of 2,000 Kr.</p>	<p>1. Two personal deductions are given to a married couple with only one income.</p> <p>2. If a spouse has insufficient income to make full use of the personal allowances, the balance is deducted from the taxable income of the other spouse.</p>	<p>1. There are no tax allowances for dependent children.</p> <p>2. There are cash benefits (not taxable) for dependent children of 161 Kr per month for each child.</p> <p>3. LONE PARENTS - a double personal allowance (29,600 Kr) at the lowest income tax rate is received by a single parent with a dependent child of 17 or over who is being educated.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. The joint income of the family, including children who are in the care of the family. Investment incomes are aggregated.</p> <p>2. The spouses are always taxed jointly, but children over 18 may opt for separate taxation.</p>	<p>1. There is a minimum expenses deduction for employees of 10 per cent of net salary (minimum 1,800 frs, maximum 40,000 frs). There is an additional deduction for employees of 20 per cent of earnings less social security contributions and the minimum expenses deduction, up to 360,000 frs.</p>	<p>1. Under the "quotient familial" system, net total income is divided into a number of parts according to the taxpayer's status and number of dependants (one part for each spouse, half a part for each child). The tax attributable to a single part is multiplied by the total number of parts to give the total amount payable.</p>	<p>1. Allowances are normally given by the quotient system, but there are limits to allowances for children over the age of 18.</p> <p>2. There are cash benefits (not taxable) for the second and subsequent children in a family amounting to:</p> <p style="padding-left: 40px;">2nd child - 218.27 frs per month 3rd child - 389.09 frs per month 4th child - 351.13 frs per month each subsequent child - 332.15 frs per month</p> <p>plus 'age addition' for children over 10.</p> <p>3. LONE PARENTS -</p> <p>(a) a widow with dependent children of the marriage is treated like a married person. Other lone parents (single/divorced/separated) are accorded more than the usual child part ($\frac{1}{2}$) in addition to the adult part (1). For example:</p> <p style="padding-left: 40px;">a widow with 1 child = $2\frac{1}{2}$ parts 2 children = 3 parts</p> <p style="padding-left: 40px;">a divorced/) separated/) with single) 1 child = 2 parts person) 2 children = $2\frac{1}{2}$ parts</p> <p>(b) lone parents are also entitled to a deduction for child care costs of up to 3,000 frs per year per child if they have earned income of less than 114,850 frs.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are normally assessed jointly on earnings and investment income, but have the option of being separately assessed.</p>	<p>1. There is a basic allowance of DM 3,719 (at the 22 per cent rate only) granted to all taxpayers.</p> <p>2. There is a personal allowance of DM 510.</p> <p>3. There are standard deductions for employees of DM 1,444; there is also a minimum deduction of DM 240 for certain special expenses.</p>	<p>1. In the case of joint assessment, the basic allowance, personal allowance, and lump sum of DM 240 are doubled.</p> <p>2. Total income of spouses is divided by two; the tax applicable to this sum is calculated, and doubled to give the joint liability.</p> <p>3. If both husband and wife are employed each receives the standard deduction of DM 1,444.</p>	<p>1. There are no tax allowances for dependent children [at present, but see 3 below].</p> <p>2. There are cash benefits (not taxable) for dependent children amounting to:</p> <p style="padding-left: 40px;">1st child - DM 50 per month 2nd child - DM 100 per month each subsequent child - DM 200 per month</p> <p>3. [For 1980 there is a deduction of up to DM 600 per child (up to DM 1,200 where couple jointly assessed), with <u>no</u> requirement that <u>both</u> spouses should be working, for expenses incurred in the education, care, or professional (etc) training of a taxpayer's child. But] from 1981 it is <u>proposed</u> instead to reintroduce an ordinary tax allowance for children of DM 800 (DM 1,600 where couple jointly assessed) given at the starting rate of 22 per cent.</p> <p>4. LONE PARENTS - an additional allowance of DM 3,000 is available where there are dependent children.</p>

IRELAND (£IR 1.048 = £1)

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1.* Spouses are assessed on their separate incomes, but may opt jointly for joint assessment.</p> <p>The tax rate scale bands of income are doubled for a married couple jointly assessed, eg:</p> <p> separate assessment: first £IR 1,000 of income @ 25%</p> <p> joint assessment: first £IR 2,000 of income @ 25%</p>	<p>1. The single person's allowance is £IR 1,115 per year.</p> <p>2.* There is an additional allowance for each individual with income taxed under PAYE.</p>	<p>1. The married person's allowance is £IR 2,230 (£IR 1,115 each if separately assessed) per year.</p>	<p>1. There is a tax allowance of £IR 195* per year for a dependent child.</p> <p>2. There are cash benefits (not taxable) for dependent children amounting to:</p> <p> 1st child - £IR 3.50 per month each subsequent child - £IR 5.50 per month</p> <p>3. LONE PARENTS - there is an additional personal allowance of £IR 1,500 for lone parents with dependent children.</p>

*Subject to final approval of 1980 Finance Bill by Irish Parliament

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are assessed individually on earnings and investment income. They may opt for joint assessment, which does not alter the tax payable as this is still calculated on an individual basis.</p>	<p>1. There is no basic allowance, but there is a tax credit (deducted from the tax bill) for all taxpayers of 36,000 lire.</p> <p>2. All employees receive a deductible tax credit of 160,000 lire.</p> <p>3. Individuals with incomes from employment/pension of less than 2,500,000 lire receive an additional credit of 52,000 lire.</p>	<p>1. A tax credit of 108,000 lire is given.</p> <p>2. The working wife receives the same credits as the husband. Where the wife's income exceeds 960,000 lire, the credit of 108,000 lire for marriage is lost.</p>	<p>1. A married person receives tax credits of 24,000 lire for one child, 40,000 lire for two children etc. Where the spouse's income exceeds 960,000 lire, half the credit is given to each spouse.</p> <p>2. There are cash benefits (not taxable) for dependent children of about 10,000 lire per month for each child.</p> <p>3. LONE PARENTS - a lone parent receives the <u>spouse</u> credit for one child, and the appropriate child credit for the total of the other children, less 24,000 lire.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are taxed jointly on earnings and investment income.</p>	<p>1. There is a minimum flat-rate deduction of 15,000 Frs for special expenses from total net income.</p> <p>2. There is a minimum expenses deduction of 12,000 Frs from net employment income. There is also a deduction of 18,000 Frs from <u>taxable</u> income in respect of employment income.</p>	<p>1. There are no allowances or tax credits for marriage. However, the tax payable by a married couple is derived by halving their taxable income, calculating the tax due on this part, and then doubling the resulting tax.</p> <p>2. Where both spouses work the allowances and deductions in the previous column are doubled.</p>	<p>1. Where taxable income does not exceed 505,200 Frs and there are up to 3 dependent children the income is divided into parts: the tax due on one part is multiplied by the number of parts to give the tax liability. The number of parts into which income is divided is:</p> <p style="padding-left: 40px;">for 1 dependent child, 2.6; for 2 dependent children, 3.4; for 3 dependent children, 4.6.</p> <p>2. Where there are more than 3 dependent children, or for other levels of income, there are tax credits of varying amounts in respect of the children.</p> <p>3. There are cash benefits (not taxable) for dependent children amounting to:</p> <p style="padding-left: 40px;">1st child - 1,244.00 Frs per month 2nd child - 1,555.00 Frs per month each subsequent child - 3,203.00 Frs per month</p> <p>plus 'age addition' for children over 6.</p> <p>4. Married couples (there is no requirement for both spouses to be working) and lone parents with at least 3 children under 14 in the household, are entitled to a deduction of up to 18,000 Frs if they employ someone to help in the house and pay that person.</p> <p>5. LONE PARENTS -</p> <p>(a) a lone parent with children is treated as a married person for tax purposes ie he/she is at least entitled to have income divided by 2, the tax calculated on the</p>

(Luxembourg)

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
			divided sum and then remultiplied by 2 (quotients of 2.6, 3.4 or 4.6 will apply where income is below 505,200 Frs and there are up to 3 dependent children, as for a married person). (b) See also 4 above.

RESTRICTED

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS																							
<p>1. Spouses are taxed separately on earned income, but jointly on investment income.</p>	<p>1. A single taxpayer receives an allowance of 6,087 fl (for those who are divorced or over 35, the allowance is 8,183 fl).</p> <p>2. There is an expense allowance of 4 per cent of employment income (minimum 200 fl, maximum 800 fl) plus a minimum allowance of 200 fl for the cost of travelling to work.</p>	<p>1. A married man receives a personal deduction of 10,489 fl.</p> <p>2. There is a wife's earned income allowance of 2,101 fl.</p>	<p>1. There are no tax allowances for dependent children.</p> <p>2. There are cash benefits (not taxable) for dependent children amounting to:</p> <table data-bbox="1533 454 2138 900"> <tr> <td>1st child</td> <td>-</td> <td>86.33 fl per month</td> </tr> <tr> <td>1st child (if born after 1.1.79)</td> <td>-</td> <td>43.33 fl per month</td> </tr> <tr> <td>2nd child</td> <td>-</td> <td>140.00 fl per month</td> </tr> <tr> <td>3rd child</td> <td>-</td> <td>141.00 fl per month</td> </tr> <tr> <td>4th child</td> <td rowspan="2">}</td> <td rowspan="2">- 170.34 fl per month</td> </tr> <tr> <td>5th child</td> </tr> <tr> <td>6th child</td> <td rowspan="2">}</td> <td rowspan="2">- 188.00 fl per month</td> </tr> <tr> <td>7th child</td> </tr> <tr> <td>each subsequent child</td> <td>-</td> <td>207.00 fl per month</td> </tr> </table> <p>3. LONE PARENTS -</p> <p>(a) a lone parent under 35 with a child entitled to a cash benefit is entitled to an additional personal allowance of 4,402 fl; in similar circumstances a lone parent over 35 is entitled to an additional allowance of 2,306 fl. If the lone parent works outside the home, there is a further additional allowance of one-quarter of earned income up to a maximum of 3,361 fl;</p> <p>(b) lone parents of children under 16 are also entitled to a deduction for "extraordinary burdens relief" in respect of the expense of employing a household help, within certain limits.</p>	1st child	-	86.33 fl per month	1st child (if born after 1.1.79)	-	43.33 fl per month	2nd child	-	140.00 fl per month	3rd child	-	141.00 fl per month	4th child	}	- 170.34 fl per month	5th child	6th child	}	- 188.00 fl per month	7th child	each subsequent child	-	207.00 fl per month
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UNITED KINGDOM

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Husband and wife are taxed jointly.</p> <p>2. A couple may elect to have wife's <u>earnings</u> taxed separately, but investment incomes have to be aggregated.</p> <p>3. They may also opt for separate assessment, which apportions rates and allowances between the spouses, but does not alter the total joint tax liability.</p>	<p>1. There is a single person's allowance of £1,375.</p>	<p>1. A married man receives an allowance of £2,145.</p> <p>2. A working wife receives an allowance of £1,375, or the amount of her earnings if less.</p>	<p>1. Tax allowances for dependent children have now ceased [in most cases].</p> <p>2. There are cash benefits (not taxable) for dependent children of £17.33 per month for each child.</p> <p>3. LONE PARENTS - where a person has single-handed responsibility for at least one child who is under 16, or if over 16 in full-time education, and living with him/her the additional personal allowance of £770 per annum is also available.</p>

RESTRICTED

AUSTRALIA (\$2.027 = £1)

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Individuals are taxed separately.</p>	<p>1. There is a general rebate of 33.07 per cent of qualifying personal expenditure (eg medical expenses, superannuation contributions, rates in excess of \$1,590) which is set off against tax payable.</p>	<p>1. A rebate for a spouse of \$597 is allowable provided that the spouse's income does not exceed \$203. The rebate is reduced by \$1 for every \$4 by which the spouse's separate net income exceeds \$203.</p>	<p>1. There are no tax allowances for dependent children.</p> <p>2. There are cash benefits (not taxable) for dependent children amounting to:</p> <ul style="list-style-type: none"> 1st child - \$15.20 per month 2nd child - \$21.70 per month 3rd child) - \$26.00 per month 4th child) each subsequent child - \$30.35 per month <p>3. LONE PARENTS - a lone parent is entitled to a rebate of \$417 where there is a dependent child under 16 or a student in the household.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are taxed individually; however, where the income of a wife is below \$2,990 she is required to file a joint return.</p>	<p>1. There is a basic personal exemption of \$2,890 plus a minimum standard deduction in respect of medical expenses and charitable contributions of \$100.</p> <p>2. There is also a general tax deduction of 9 per cent of federal tax otherwise payable, with a minimum of \$200 and a maximum of \$500.</p>	<p>1. Where a wife's income is below \$2,990 the husband receives a tax allowance in respect of his wife (maximum \$2,530) which is reduced by the excess of the wife's income over \$460.</p> <p>2. If the wife's income is greater than \$2,990 both husband and wife must file as separate individuals and each receives the basic allowance of \$2,890 and the 9 per cent tax reduction.</p>	<p>1. There is an exemption of \$540 for each dependent child under the age of 18 whose income is less than \$1,910. If the child's income is more than \$1,910 but less than \$2,990, the exemption is reduced by one-half of the child's income above \$1,910. For dependent children aged 18 and over, the exemption is \$990. The exemption is reduced by the amount of the dependent child's income over \$2,000.</p> <p>2. There is a child tax credit of \$238 for each child under 18 given where the income of the claimant and spouse (if any) does not exceed \$21,380. The total credit is reduced by 5 per cent of the income in excess of \$21,380. In the case of a married couple, the credit would normally be claimed by the wife, any excess of the credit over her tax liability being refunded.</p> <p>3. There are cash benefits (<u>taxable</u>) for dependent children of \$21.80 per month for each child (this rate does not apply in Quebec).</p> <p>4. A deduction for child-care expenses is allowed in respect of children under 14 (or over 14 in cases of mental or physical handicap). This is limited to the least of: \$4,000; \$1,000 per child; two-thirds of the claimant's earned income in the tax year.</p> <p>5. LONE PARENTS -</p> <p>(a) a lone parent may claim the additional personal allowance for a spouse (\$2,530) in respect of one dependent child, reduced by the child's income in excess of \$460, as for a spouse. The ordinary child allowances are claimed for any other dependent children;</p> <p>(b) see also 3 and 4 above.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Individuals are taxed separately on their earned income.</p> <p>2. Where members of a family (including parents, grandparents) live together and aggregate income exceeds 10 million yen all investment income of the family is added to the total income of the member of the household with the largest income (apart from investment income). The tax due on the investment income is then apportioned pro rata among the relevant members of the family.</p>	<p>1. There is a basic allowance of 40 per cent of employment income up to a salary of 1,500,000 yen per year. The rate of relief varies with income: on salaries over 10,000,000 yen per year it is 2,050,000 yen + 5 per cent of the excess of earned income over 10,000,000 yen.</p> <p>2. There is a personal allowance of 290,000 yen.</p>	<p>1. An allowance of 290,000 yen per year is given, if the spouse's earned income does not exceed 200,000 yen (100,000 yen for investment income).</p>	<p>1. There is an allowance of 290,000 yen per year for each dependent child.</p> <p>2. There are cash benefits (not taxable) for the third and subsequent children in a family of 5,000 yen per month for each child. (This allowance is means-tested.)</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
1. Individuals are taxed separately.	1. There is a basic allowance of \$52 on employment income, for expenses.	<p>1. There is a rebate for a spouse of \$156 provided the spouse's income does not exceed \$520. The rebate is reduced by 20 cents for every \$1 earned by spouse over \$520 and ceases when spouse's earnings reach \$1,300 per annum.</p> <p>2. See also 2 in next column.</p>	<p>1. There are no tax allowances for dependent children, except that a rebate of \$468 per annum is allowed (in the case of a married couple, to the spouse with the higher income level) provided that:</p> <p>(a) the family includes a child under five during the income year;</p> <p>(b) the income level does not exceed \$9,360 per annum.</p> <p>The rebate is reduced by 10 cents for every \$1 income over \$9,360 and ceases when income reaches \$14,040.</p> <p>2. <u>Single income family rebate</u> - this is given where there is a child under 12 in the family and where there is only a single income or the income of the other person having care of the child is \$1,300 or less. The rebate is \$260, reduced by 20 cents for every \$1 of the other person's income in excess of \$1,300, so that it ceases when income reaches \$2,600.</p> <p>3. There are cash benefits (not taxable) for dependent children of \$6 per week for each child.</p> <p>4. LONE PARENTS - are also eligible for the rebates outlined in 1 and 2 above.</p>

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. Spouses are taxed separately, but wife's total investment income is aggregated if it exceeds 2,000 Kr.</p>	<p>1. There is a basic lump-sum deduction of 6,000 Kr for every taxpayer (local income tax only).</p> <p>2. Each separately assessed taxpayer also receives a tax credit of 320 Kr.</p>	<p>1. There is a tax credit of 1,800 Kr where a spouse has no income.</p> <p>2. Where the spouse has income, the credit is reduced: it is withdrawn when spouse's income reaches 6,000 Kr.</p>	<p>1. A deduction of 2,000 Kr is given to families with children under 16 years of age, when both parents are in employment.</p> <p>2. There are cash benefits (not taxable) for dependent children of 2,800 Kr for each child.</p> <p>3. LONE PARENTS -</p> <p>(a) a lone parent with a child under 16 is also entitled to the deduction at 1 above;</p> <p>(b) a lone parent with a child at home under 18 is entitled to a tax credit of 1,800 Kr.</p>

RESTRICTED

TAX UNIT	BASIC TAX ALLOWANCES AND CREDITS	MARRIED COUPLE: ONE-EARNER/TWO-EARNERS	CHILDREN/LONE PARENTS
<p>1. The basic principle is individual taxation.</p> <p>2. In practice, however, most married couples exercise the option to be taxed jointly. In this case their tax bill is calculated as if their joint income was split equally between them. A special scale of tax rules, with rate bands wider than (but not double) the single person's rate scales, applies to married couple's joint returns.</p>	<p>1. There is a zero bracket amount of \$2,300 (\$1,700 for a spouse filing a separate return).</p> <p>2. There is a personal exemption of \$1,000.</p>	<p>1. For a married couple filing jointly, there is a zero bracket amount of \$3,400.</p> <p>2. There is an exemption of \$1,000 for a spouse.</p>	<p>1. There is an exemption of \$1,000 for each dependent child under 19, or full-time student</p> <p>2. A taxpayer with a dependent child under 19 in his household is entitled to an earned income credit of the lesser of either 10 per cent of earned income, or, \$500 reduced by 12½ per cent of earned income over \$6,000. If the credit exceeds liability after all other credits have been given, the excess is refunded.</p> <p>3. A taxpayer who maintains a household may receive a tax credit for 20 per cent of child-care expenses, where they were paid to enable the taxpayer to be employed; subject to a maximum of \$400 for one qualifying child and \$800 for two or more.</p> <p>4. There are no cash benefits for dependent children.</p> <p>5. LONE PARENTS - a special scale of tax rates applies to "heads of households" which would include lone parents with dependent children whose principal place of abode is with the parent. The rate scale is more favourable than that for a single person although the zero bracket amount (\$2,300) is the same as for a single person.</p>