



AIDE MEMOIRE

PARTIALLY TRANSFERABLE ALLOWANCES

The possibility of partially transferable allowances was discussed in paragraphs 69 to 75 of Chapter 6 of the 1980 Green Paper on The Taxation of Husband and Wife (Cmd 8093).

2. In brief, under partial transferability the transferable allowance would be limited to a proportion of the single allowance. Supported spouses income up to the difference between the single allowance and the amount of allowance transferable would be disregarded so that no tax liability would arise where the supported spouse had a small part-time earnings or income from savings amounting to less than the disregard limit. However, any income above the disregard limit would reduce the transferable allowance £1 for £1. The level of the transferable allowance (and its converse, the disregard) could be varied according to the view taken of the reduction in taxable capacity arising from the need to support two married persons on one income.

3. The following arguments in favour of partial transferability emerged in the Green Paper discussion:-

(i) there would be an in-built flexibility for the couple where one spouse stays at home. The size of the allowance given to the one-income couple could be varied to reflect the weight given at different times to different views about the appropriate relationship between married and single allowances;

(ii) a fully transferable allowance could discourage some married women from taking up work in the first place, since 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 as a sole earner). On the other hand, with a partially transferable allowance 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;



(iii) with partially transferable allowances there would be greater privacy for the supported spouse since the husband would only know of changes between the disregard limit and the single allowance. This would effectively give almost total privacy for wives with a small income;

(iv) administratively, a partially transferable allowance scheme would be cheaper than fully transferable allowances since every £ of one spouse's income would affect the quantum of allowances available to the other. Under partial transferability, no adjustments would be required where a spouse had only small part-time earnings below the "disregard limit";

(v) the revenue cost of full transferability would be greater than partial transferability.

14 January 1986

