



10 DOWNING STREET

From the Private Secretary

17 February 1986

**INCOME TAX: DIFFERENTIATION BY
FAMILY CIRCUMSTANCES**

The Prime Minister was grateful for your letter of 14 February and for the note by the Inland Revenue about the way the income tax system has taken account of family circumstances over the years.

(David Norgrove)

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14 February 1986

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Prime Minister

DRS
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*See paragraph 10
in particular.*

Dear David

INCOME TAX: DIFFERENTIATION BY FAMILY CIRCUMSTANCES

- ... I attach a short note by the Inland Revenue about the way the income tax system has taken account of family circumstances, since its
- ... first introduction in 1799. As you requested, I also enclose copies of the Reports of the two Royal Commissions on Income Tax this century. The Revenue would be grateful for their return in due course.

Yours ever,

Tony

A W KUCZYS
Private Secretary

INCOME TAX: DIFFERENTIATION BY FAMILY CIRCUMSTANCES

Income Tax

1. A form of income tax was first introduced by Pitt in 1799. The provisions were recast and extended in 1805-1806 but repealed in 1816. They were then reintroduced in 1842.

2. The ways in which income tax has taken account of family circumstances have varied, since its first introduction in 1799.

Basic System

3. The income tax introduced in 1799 made the husband accountable for returning his wife's income. But the incomes of husband and wife were not aggregated for tax purposes, and the wife could have her own set of reliefs.

4. Since 1805, however, a married woman's income has been "deemed" to be her husband's for tax purposes. Subject to the wife's earnings election introduced in 1971, tax has always been charged on the joint income.

Personal Allowances

5. From 1805 to 1894, the joint income of a married couple was taxed in exactly the same way as the income of a single person - there were no special exemptions or reliefs to reflect marriage.

6. In 1894, a separate relief was introduced for a wife's earnings up to a certain limit.

7. There was no special allowance for a married man until 1918, when a very small allowance was introduced.

The married man's allowance itself was introduced in 1920, with about the same lead in percentage terms over the single allowance that it has today.

8. The wife's earned income allowance was introduced in 1920. For much of the inter-war period, the married man's allowance and wife's earned income allowance together amounted to roughly double the single person's allowance. The wife's earned income allowance was increased to the same level as the single allowance in 1942.

Children

9. Children's income has never been aggregated with that of their parents, except for the period 1969-72, when investment income was aggregated.

10. Child tax allowances were given in 1799, but were withdrawn when the provisions were recast in 1805 and did not reappear until 1910. They remained a feature of the system until 1979, when child benefit replaced them. It was recognised at the time that a tax-free child benefit, which had been a part of the tax credit proposals, served to reflect the reduced taxable capacity of people with children, and thus subsumed that function of child tax allowances.