

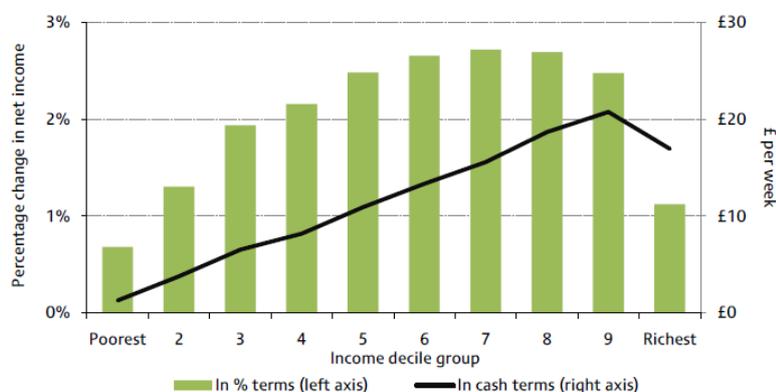
Progressive Politics - Increase the tax threshold or introduce the transferable allowance?

a) Increase Tax Allowance to £10K

The Coalition Agreement commits to increasing the income tax threshold to £10,000. This is not a progressive agenda for two reasons.

First, it means spending a very large amount of tax payers' money (£4.1 billion) in a way that will primarily benefit those in the top half of the income distribution, as the following Institute for Fiscal Studies (IFS) graph demonstrates. Indeed, when we look at the precise figures, it turns out that 75% of the benefit of the tax threshold increases will go to taxpayers in the top half of the income distribution, whereas 70% of the benefit of the transferable allowance proposal promised in the Coalition agreement goes to taxpayers in the bottom half of the income distribution.¹

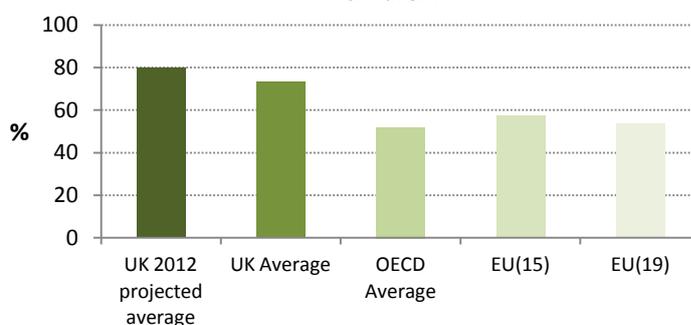
Figure 5.1. The distributional impact of increasing the income tax personal allowance to £10,000



Notes: As Figure 2.1.
Source: As Figure 2.1.

Second, this change has the effect of making our tax system even more individualistic and insensitive to family responsibility than it is already. Indeed, as research by CARE clearly demonstrates, in 2009 the tax burden on a one earner married couple with two children on an average wage, as a proportion of that placed on a single person with no dependents on the same wage, was 73%, whilst the comparable OECD average was just 52%² (see graph below).³ Increasing the individual tax allowance to £10,000 will inevitably put pressure on that 73% figure to further diverge from the OECD average, thereby rendering our tax system even more individualistic and insensitive to family responsibility.

Tax burden on one-earner married couple with two children compared with that on single people without children.



¹ Figure 5.1, Adam et al, Taxes and Benefits: The Parties plans, 2010 election briefing note no.13, IFS, 2010.

² Beighton, Draper and Pearson, *Taxation of Families 2009/10*, CARE, London, para 58, page 31.

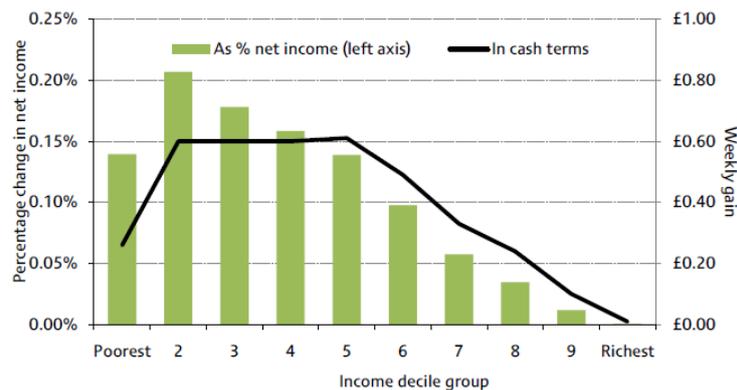
³ Binder, CARE Fiscal Policy team research, 2010.

b) Transferable Allowance

Another Coalition Agreement commitment which, unlike the £10,000 tax allowance policy, the implementation of which has not yet begun, is the policy of introducing a transferable allowance for married couples. On the basis of the policy details given at election time on the Conservative party website, far less would be invested in this but it would actually be much more progressive.

First, it will have a disproportionately positive effect on those in the lower half of the income distribution, as the following IFS graphic demonstrates:⁴

Figure 4.4. Distributional impact of the Conservatives' plans for a transferable personal allowance



Note: As for figure 2.1.
Source: As for figure 2.1.

Second, it will move the tax burden so that it is less individualistic and more sensitive to family responsibility. It will help move Britain from a place where the burden on a one earner married couple on average wage with 2 children as a proportion of that on a single person moves from 73% nearer the OECD average of 52%.⁵ Given that the total amount to be invested in the policy of increasing personal tax allowances to £10 K per head is estimated to cost in the region of £4.1 billion, whereas the transferable allowance proposals will only involve £550 million,⁶ it is no surprise that in absolute terms those in the lower half of the income distribution will gain more in absolute terms under the £10K personal allowances, although not nearly as much as those who are in the top half of the income distribution!

⁴ Figure 4.4, Adam et al, Taxes and Benefits: The Parties plans, 2010 election briefing note no.13, IFS, 2010.

⁵ Beighton, Draper and Pearson, *Taxation of Families 2009/10*, CARE, London, para 58, page 31.

⁶ This is based on the specific and rather limited proposal advanced by the Conservatives during the 2010 election campaign. It permitted one member of an eligible couple to transfer £750 of their tax free personal allowance to their partner in order to reduce their partner's income tax bill. The proposal was limited to basic rate taxpayers and was worth up to £150 a year per couple at the 20% rate of tax. In 1999, its final year before abolition for all but pensioner couples, the Married Couples Allowance was worth £197 per couple per year. The web site explained that the transferable allowance would be tapered away at incomes above £42,500 so that no higher rate taxpayer earning £44,000 or more would benefit. Eligible couples where one partner was not using all of their tax free personal allowance and the other earned between £6,600 and £44,000 would be up to £150 a year better off. The full benefit of £150 would go to eligible couples where the main earner earned between £7,300 and £42,500.

http://www.conservatives.com/News/News_stories/2010/04/Recognising_marriage_in_the_tax_system.aspx April 10th 2010.

The £550 million figure comes from the IFS analysis of the Conservative manifesto.

http://www.ifs.org.uk/pr/marriage_pr.pdf

Of course the Government could recognise marriage in the tax system on a more generous basis. A transferable allowance worth £1,000 a year for all married couples would cost the Government about £3.2 billion, significantly less (nearly one billion) than the £4.1 billion being spent on raising the personal tax allowance to £10,000, which disproportionately benefits those in the top half of the income distribution.

When announcing the partially transferable tax allowance Mr Cameron said, 'Of course I want to go further [than just a partially transferable allowance] and I'm sure over a Parliament we would be able to go further, but this is a good first step that says commitment is important, marriage is important – I want us to be the most family-friendly country in Europe and this is one step along that road.' <http://news.sky.com/skynews/Home/Politics/General-Election-Tories-Unveil-Plans-To-Offer-150-A-Year-Tax-Breaks-For-Married-Couples/Article/201004215598382>

Conclusion

In conclusion, the point is very simply that, pound for pound of government money, increasing the personal allowance to £10 K is far less progressive than introducing a transferable allowance. The former uses government money to help the rich more than the poor and pressures our already very individualistic and family insensitive fiscal arrangements to become even more individualistic and more insensitive to family responsibility. The latter uses government money to help the poor more than the rich and to actually ease the individualist insensitivity to family responsibility in our tax system. Faced with the choice of one or the other, this is a no brainer for those committed to a progressive politics.

Dr Dan Boucher
CARE Public Policy Team
53 Romney Street
London
SW1P 3RF
07768165543