

## IT IS TIME TO BACK MARRIAGE

***Why a transferable tax allowance for marriage helps fight poverty more effectively than increasing the income tax threshold to £10,000***

### **A bold 2012 Budget to tackle family breakdown**

The Government will be judged on its record of fulfilling pledges contained in its *Programme for Government*.<sup>1</sup> Reducing the deficit and securing growth in the economy is its duty. But, as the Centre for Social Justice (CSJ) has long argued, this must also mean mending aspects of British society that are broken: failing schools, intergenerational worklessness and skyrocketing levels of family breakdown – all of which condemn children growing up in such circumstances to a lifetime of disadvantage. Addressing these issues is not only the right thing to do, but it also makes fiscal sense. Social breakdown has economic costs. A full economic recovery is simply not possible without a social recovery.

In tackling these issues, the CSJ identified the need for radical welfare and educational reform – confronting worklessness and transforming failing schools in deprived areas. Work rightly began in these areas on the very first day the Coalition Government entered office.

Yet the third major area in need of reform – and the most significant driver of social instability and poverty – is family breakdown. Seemingly, however, this has not been understood widely enough within Government. The forthcoming Budget is an opportunity to make important progress in this vital area, but such progress is in danger of being derailed in Coalition negotiations by a dangerously inaccurate notion that increasing the income tax threshold to £10,000 is a more ‘progressive’ step in tackling poverty. In fact a more progressive policy currently being debated that would benefit the poorest is, rather, a marriage tax allowance. The fact that the impact this will have on the poorest has been lost amidst misplaced concerns about moralising and ‘social engineering’ demonstrates a surprising level of misunderstanding about certain empirical facts.

### **Income tax threshold versus transferable tax allowance: policies for the poor?**

A 2012 Budget battle line has seemingly been drawn between the Liberal Democrat pledge to increase the income tax threshold for individuals to £10,000, and the Conservative party’s promise to introduce a transferable tax allowance to support marriage.

Driving this debate is a mistaken belief that increasing the income tax threshold to £10,000 for individuals is ‘progressive’ – meaning it benefits the poorest more than the richest – while giving a tax break to married couples is of greatest benefit to the middle classes.

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<sup>1</sup> HM Government, *The Coalition: our programme for government*, London: Cabinet Office, 2010

This paper shows that the opposite is true. Increasing the income tax threshold to £10,000 benefits the richest more than the poorest, whilst recognising marriage in the tax system would give the greatest help to those on lower incomes.

### **Myth-busting about marriage**

If the Coalition Government is serious about tackling poverty and supporting aspiration, however, it will require those who argue against marriage to reconsider their outdated stereotypes about marriage.

The Deputy Prime Minister has argued that support for marriage is tantamount to harking back to the middle of the last century.<sup>2</sup> Others have suggested that the institution of marriage is irrelevant and for the better off. But this elitist perspective is dangerously out of touch not only with the overall benefits that marriage brings, but with the aspirations of the overwhelming majority of the British public:

- Nine out of ten young people say they would like to get married in the future;<sup>3</sup>
- 75 per cent of those under 35 years old currently in cohabiting relationships want to get married;<sup>4</sup>
- Over 70 per cent of people who expressed an opinion in a recent CSJ / YouGov poll supported introducing an extra tax allowance for married couples;<sup>5</sup>
- The UK is rare among European countries in its failure to recognise the family in the tax system. The vast majority of European countries, including France, Germany, Denmark and Norway, recognise the caring role undertaken by a spouse in families in which one chooses to stay at home and the other to work.<sup>6</sup>

Aspirations to marry are high across the country, but there are significant cultural and economic barriers which make it harder for the poorest people to realise those ambitions. When Governments support marriage in clear and unapologetic ways, people are helped to achieve their hopes for the future.

### **Marriage is a social justice issue**

Family breakdown, fuelled by cultural and economic barriers to marriage, is a national emergency – but it is most prevalent in our poorest communities:

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<sup>2</sup> Speech by the Deputy Prime Minister Nick Clegg to Demos and the Open Society Foundation, 'The Open Society and its Enemies', 19 December 2011

<sup>3</sup> Opinion Research Business, *Young People's Lives in Britain Today*, London: The Opinion Research Business, 2000

<sup>4</sup> Institute for Social and Economic Research, *British Household Panel Survey*, University of Essex: Institute for Social and Economic Research, 2009

<sup>5</sup> CSJ/YouGov Polling of 2084 adults, September 2011

<sup>6</sup> Centre for Social Justice, *The Centre for Social Justice Green Paper on the Family*, London: Centre for Social Justice, 2010

- Half of all children born today, at current trends, will see the breakdown of their parents' relationship;<sup>7</sup>
- Where parents were not living together when a child is born the break up rate (five years later) is a staggering 60 per cent;<sup>8</sup>
- 83 per cent of people think family breakdown is a serious problem; over a third think it is very serious.<sup>9</sup>

This family breakdown damages the life chances of our children:

- The more transitions between different family arrangements that children experience, the more detrimental it is to their wellbeing: those who grow up in lone parent or broken families are between three to six times more likely to suffer serious abuse. Children on the 'at-risk' register are eight times more likely to be living with a natural mother and 'father substitute';<sup>10</sup>
- Children with separated, single or stepparents are 50 per cent more likely to fail at school, have low esteem, struggle with peer relationships and have behavioural difficulties, anxiety or depression;<sup>11</sup>
- Children living in households with unrelated adults were nearly 50 times as likely to die of inflicted injuries than children living with two biological parents;<sup>12</sup>
- Raising children on one's own is a risk factor for poverty everywhere – Swedish statistics show parental separation is the biggest driver into child poverty by a large margin. Thus even in the most generous welfare regime in the world, the state does not and cannot prevent single parenthood's link with poverty.<sup>13</sup>

And nationally, we see the importance of marriage:

- Fewer than one in ten married parents have split by the time a child is five compared with more than one in three who were not married;<sup>14</sup>
- 97 per cent of all couples that are still intact by the time their child is 15, are married;<sup>15</sup>

<sup>7</sup> Projections based on 2001 Census, British Household Panel Study and the Millennium Cohort Study

<sup>8</sup> Goodman, Alissa and Greaves, Ellen, *Cohabitation, Marriage and relationship stability IFS Briefing Note BN107*, London: Institute for Fiscal Studies, 2010

<sup>9</sup> CSJ/YouGov Polling of 2084 adults, September 2011

<sup>10</sup> See Creighton, S.J., *Child Abuse Trends in England and Wales 1988-90* NSPCC, 1992, and commentary by Quilgar, D., *Poverty: the Outcomes for Children (Child Abuse)* Economic & Social Research Council, 2001

<sup>11</sup> Layard R and Dunn J, *A Good Childhood: searching for values in a competitive age*, London: Penguin, 2009, p28

<sup>12</sup> Schnitzer P.G. & Ewigman B.G., 2005, "Child Deaths Resulting From Inflicted Injuries: Household Risk Factors and Perpetrator Characteristics" *Pediatrics* Vol. 116, No. 5, November 2005, pp. e687-e693

<sup>13</sup> Among children in single parent families the incidence of poverty is more than three times as high (24.7 per cent) than those in families with two parents (8.1 per cent). In comparison with households headed by couples, at least four times as many households headed by single parents are in poverty. Source: Save the Children Sweden, *Child Poverty in Sweden 8<sup>th</sup> Report 2010b*, Stockholm: Save the Children Sweden, 2011

<sup>14</sup> Analysis of Millennium Cohort Study corroborated by Goodman and Greaves, IFS Briefing Note BN107, 2010

<sup>15</sup> Analysis of Census data (on a subsample of 451,468 families with children, there were 13,676 intact married couples with 15 year olds and only 456 intact cohabiting couples with children)

- Marriage leads to better life outcomes for children. Children of married parents are more likely to achieve at school, less likely to use drink and drugs and less likely to get involved in delinquent or offending behaviour.<sup>16</sup>

Supporting marriage to tackle family breakdown is a social justice issue. And as evidence presented in this paper moves on to demonstrate, a tax break for marriage fits solidly within a fiscal strategy to support low-income families.

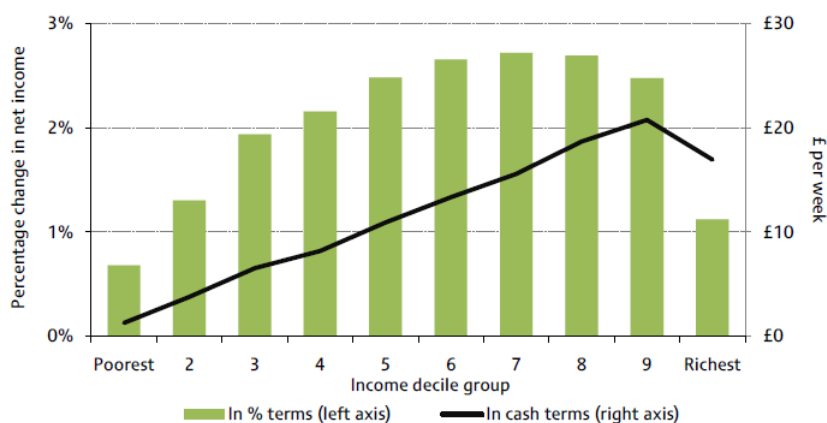
### Raising income tax thresholds favours better off families

Wrongly, some people in Government believe that increasing the income tax threshold to £10,000 for everyone is ‘progressive’, while giving a tax break to married couples is not.

Yet in using figures and analyses from the independent Institute of Fiscal Studies (IFS), the policy think-tank Care has established that 75 per cent of the benefit of increasing the personal tax threshold to £10,000 would go to the richer half of families, whereas 70 per cent of the benefit of the transferable tax allowance proposal goes to the poorest 50 per cent of families.<sup>17</sup>

The different distributional effect of both of these policies is shown in the IFS graphs below.<sup>18</sup>

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



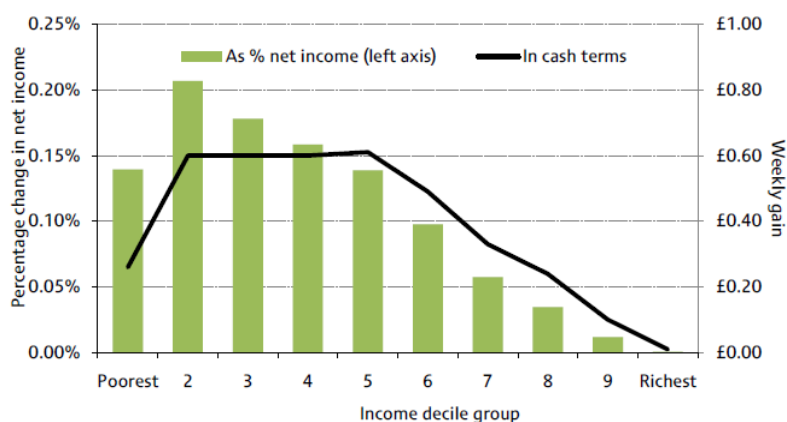
Notes: As Figure 2.1.  
Source: As Figure 2.1.

<sup>16</sup> For the impact on educational outcomes see for example Dawson, D.A., 1991, 'Family Structure and Children's Health and Well Being: Data from the 1988 National Health Interview Survey of Child Health', *Journal of Marriage and the Family*, Vol. 53; Sarantakos, S., 1996, 'Children in three contexts: family education and social development', *Children Australia*, Vol.21; and McLanahan, S. and Sandefur, G., 1994, *Growing Up With a Single Parent: What Hurts, What Helps*, Harvard University Press; for impact on substance abuse see McVie, S. And Holmes, L., 2005, *Family Functioning and Substance Use at Ages 12 to 17*, Edinburgh Study of Youth Transitions and Crime report Number 9; and for impact on delinquency and offending see Farrington, D. And Welsh, B., 2007, *Saving Children from a Life of Crime: Early Risk Factors and Effective Interventions*, Oxford University Press, and Kolvin, I. et al, 1988, 'Social and Parenting Factors Affecting Criminal Offense Rates: Findings from the Newcastle Thousand Family Study (1947-1980)', *British Journal of Psychiatry*, 152

<sup>17</sup> Care, *Progressive Politics - Increase the tax threshold or introduce the transferable allowance?* London: Care, 2011

<sup>18</sup> Adam et al, *Taxes and Benefits: The Parties' Plans, 2010 Election Briefing Note No. 13 (IFS BN100)*, London: Institute for Fiscal Studies, 2010, figure 5.1 p37; figure 4.4 p27

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.

It is clear from the second graph above that those among the poorest working families, households in the bottom 20 per cent of the income distribution, gain most in terms of the net increase in income that flows from a transferable tax. A fully transferable tax allowance would still favour poorer families to a greater extent than raising the income tax threshold.

### Why do poorer families lose out from higher tax thresholds?

Higher tax thresholds favour the better off because those in the top 50 per cent of families are more likely to have two people in work. Both individuals would benefit from the higher threshold and between the two of them they have a tax free income of £20,000. Those in the poorest half of families are more likely to have only one person in work and can only earn £10,000 tax free.

As Care points out, better off families tend to benefit more from every pound of Government expenditure if it is used to raise tax thresholds. Although in absolute terms raising the tax threshold *does* give poorer families more money than the limited Conservative manifesto commitment to allow couples to transfer only £750 of their personal allowance, introducing the former measure within the forthcoming Budget has been estimated to cost as much as £11 billion.<sup>19</sup> The IFS estimated that only £550m would be invested in the transferable tax policy.

### Why do poorer families gain from the transferable allowance?

Further down the income scale it is more likely that there will be only one spouse in work, and one non-earning spouse with an unused tax allowance. Even where both people are working, there is a greater likelihood that one will not be earning up to the full personal tax

<sup>19</sup> See comment from PricewaterhouseCoopers, for example, via: <http://www.ukmediacentre.pwc.com/News-Releases/Nick-Clegg-s-speech-PwC-comments-on-increasing-the-personal-allowance-11bb.aspx>

threshold and will have £750 or more unused tax allowance to transfer to their partner. A fully transferable tax allowance could benefit families by as much as £1,621 per year.<sup>20</sup>

## **Budget 2012: options to back marriage and deliver social recovery**

In the long-term the CSJ recommends the implementation of a transferable tax allowance for all married couples, but in the current financial climate we recommend staggered implementation. These calculations allow the entirety of one person's personal allowance to be transferred (rather than only £750 as the Conservative party pledged) but limit those eligible to couples with children of differing ages.<sup>21</sup> We believe that as a priority, a transferable tax allowance should be introduced for married couples with children aged 0-3, the formative years of a child's life.

Implementation options, which the CSJ outlined in its *Green Paper on the Family*,<sup>22</sup> could include:

- Married couples with children under three years old, the most important years for a child's development: £0.8 billion, given 2012-13 basic tax rate/tax threshold;<sup>23</sup>
- Married couples with children under six years old: £1.15 billion;<sup>24</sup>
- Married couples with dependent children or in receipt of Carers Allowance: £1.9 billion;<sup>25</sup>
- All married couples: £4 billion.<sup>26</sup>

### **The benefits of the transferable tax:**

It could be argued that it is unfair that only married couples would benefit from such a move. However, a transferable tax allowance benefits wider society too.

It sends a signal, from Government, that marriage is positive for children, adults and communities. It also acknowledges that family breakdown is a leading cause of poverty, and that it is far more likely to occur when parents do not make an explicit commitment from the outset, usually through marriage. Furthermore, it requires a clear legal relationship: cohabitation is usually characterised by a lack of clarity, for example there is often no agreement as to when cohabitation actually started.<sup>27</sup>

<sup>20</sup> Based on 2012/13 tax thresholds

<sup>21</sup> Our expectation was that those in civil partnerships would be included in these measures along with married couples because of the recognised legal commitment entailed in both relationship statuses

<sup>22</sup> Centre for Social Justice, *The Centre for Social Justice Green Paper on the Family*, London: Centre for Social Justice, 2010

<sup>23</sup> This figure excludes higher rate tax payers and reduces the total number of eligible couples by 12 per cent (the percentage of the population paying higher rate tax), which saves about £0.11 billion

<sup>24</sup> Excluding higher rate tax payers which saves about £0.16 billion

<sup>25</sup> Excluding higher rate tax payers which saves about £0.24 billion

<sup>26</sup> Excluding higher rate tax payers which saves about £0.54 billion

<sup>27</sup> Centre for Social Justice, *Breakthrough Britain Volume 1: Family Breakdown* London: Centre for Social Justice, 2007, p92

## Conclusion

Marriage is no panacea, but combined with real early intervention, reform of the benefits system, and general couple support, it plays a crucial role in tackling social breakdown. A transferable tax allowance to support marriage, as part of wider reform to champion its value, would be more beneficial to the poorest than plans to increase the income tax threshold to £10,000.

Such a move would not constitute moral finger-wagging or telling people how to live their lives; it would play a part in tackling the perverse incentives which currently persuade people on low incomes to reject couple formation and marriage. For as the CSJ has highlighted consistently through its work on the tax and benefit systems,<sup>28</sup> those who believe that the state currently takes a neutral position in relation to the decisions people make about family are wrong.

Backing marriage in 2012's Budget would encourage strong and stable families, and tackle the social breakdown that fuels poverty. Family policy that targets the devastating breakdown and chaos which damages children's opportunities and life chances should be the foundation on which we build a socially just society. From strong families other crucial reforms – such as in welfare, education, criminal justice and addiction – can take root. The Government should be bold. There is no time to waste.

*February 2012*

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<sup>28</sup> See for example Centre for Social Justice, *Dynamic Benefits: Towards Welfare that Works*, London: Centre for Social Justice, 2009