Family Fortunes

The case for a broader and deeper family tax allowance

ONWARD

About Onward

Onward is a modernising think tank whose mission is to develop bold and practical ideas to boost economic opportunity and strengthen communities in all parts of the United Kingdom.

We are not affiliated to any party but believe in a mainstream conservatism. We recognise the value of markets and support the good that government can do, and believe that a strong society is the foundation of both. We want to seize the opportunities of the future while preserving the accumulated knowledge of the past. We believe that most people are hard working, aspirational and decent, but that many do not have the opportunities to fulfil their potential.

Our goal is to address the needs of the whole country: young as well as old; urban as well as rural; in all parts of the UK – particularly places that feel neglected or ignored in Westminster – by working with ordinary people directly and developing practical policies that work.

Thanks

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We are also grateful to our partners for the Repairing our Social Fabric programme – the Joseph Rowntree Foundation, Power to Change and Shelter UK – and our patron Richard Oldfield, who have collectively made the Social Fabric Programme possible.

The Social Fabric Programme

Onward's Repairing our Social Fabric programme seeks to understand the changing nature of community in different parts of the UK, and explore ways to repair the social fabric of different places in meaningful and practical ways. It is chaired by Lord O'Shaughnessy, and the steering group includes Jon Cruddas MP, Alex Smith, Vidhya Alakeson, Richard Clark, Richard Oldfield, Frank Sodeen, Chris Wood and Rob Walsh. We are grateful for the support of Danny Kruger MP, who stepped down from the steering group on his appointment as a PPS at the Department for Levelling Up, Housing and Communities.

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Summary of the argument

The reason the Coalition Government reintroduced transferable tax allowances for married couples was to help make family life easier and to reinforce the institution of marriage by encouraging it within the tax system. This rationale still holds: family life is expensive, the benefits of strong family foundations are well-established and there is considerable evidence that the stability and reciprocity of marriage helps both spouses and their children to lead happier, healthier and more prosperous lives.

But it is also true that the Marriage Allowance, introduced in 2015, has had limited take-up. Only 43% of eligible couples currently make use of the scheme. This may be partly because the scheme is inherently limited: it only applies to one type of family - couples who marry - and the amount a spouse can transfer is small, at just 10% of the personal income tax allowance, or £1,260. This reduces the tax bill by up to £252, a relatively small incentive.

This note argues that ministers could usefully consider ways to strengthen the current allowance - to reduce cost of living pressures on families, broaden the base of beneficiaries and further strengthen the institution of the family. To do so would recognise the central role that families play within society, whose benefits extend well beyond economic materiality to physical and mental welfare, social stability, and resilience. In addition to countless academic studies, these benefits have been shown recently by Onward's own analysis in *The State of our Social Fabric*.

One way in which the Government could achieve these ends would be to broaden the current allowance to different kinds of families, and deepen the generosity of the subsidy for those families that need support most. There are three key arguments for such a reform today.

First, the increase in the number of unmarried cohabiting couples raising children in the UK over the last thirty years means that family and marriage are no longer synonymous. Since 1990, the proportion of children across the UK born to married couples has dropped from 72% to 51%. Expanding the eligibility for Marriage Allowance would ensure that our tax system better recognises the value of strong families, regardless of marital status, and reflects the society we live in today.

Second, families should have financial security to shape their family structure as they wish, without penalty for their decision. While the majority of couples may expect and want both partners to work, many families do not, and would prefer to reduce commitments in order to be able to spend more time on family care. This has been demonstrated by ONS data showing a third of parents with children under five claim there are work-placed obstacles making fulfilling childcare responsibilities more difficult.

Third, couples with children face a considerable financial penalty through our tax system. The tax burden on single-earner married families with children in the UK is

9th highest in the OECD, well above the developed world average (18.3% of gross wage earnings compared to 12.9%). Single-earner households are considerably more likely to be represented in the bottom-fifth of families for disposable income (35%) than lone parent families (24%). Given the link between financial insecurity and child life outcomes, it is counterproductive for our tax system to penalise families who want to spend more time on care. Of course there are areas of policy in which other types of families are disadvantaged, for example, the impact of childcare costs on lone parents, and targeted action is needed in each of these areas.

One reason why the UK has a high tax burden on single-earner families is that the UK is unusual in its treatment of such families within the tax system. Other developed countries better support single-earner couples in their tax system, without the associated fall in female employment that many people rightly fear from tax breaks that reward one parent to stay home.

For example, both Germany (73%) and Canada (71%) have similar levels of female labour market participation as the UK (72%), but recognise the family within the tax system. The former allows for both individual-based or family-based taxation, while the latter offers an additional tax allowance for dependent spouses. Meanwhile, Iceland provides fully transferable tax allowances between married couples while maintaining the highest level of women's employment in the OECD (82%). Family incentives do not seem to undermine women's progress in the workplace.

There are three core ways in which ministers could strengthen families through the tax system. These are as follows:

1. **Extend the marriage allowance into a wider Family Allowance available to cohabiting couples with children**. Ministers should expand marriage allowance to cohabiting couples with children through a new Family Allowance. Allowing such couples to transfer 10% of their personal allowance, as exists currently for married couples, would reflect the societal changes over the last thirty years that have transformed typical family forms. This would reduce the financial penalty on unmarried cohabiting couples raising a child together, as well as better valuing these types of family within our tax system by putting them on an equal footing with married families. We estimate this proposal would cost around £98.4 million.
2. **Drive take-up of the Family Allowance by making it easier to access and more attractive for parents.** To drive take up, the Government should improve signposting for the allowance by, for example, including guidance when couples are applying for a Marriage or Birth Certificate, alongside services provided by Family Hubs and at antenatal classes. At the same time, ministers should ensure the increase in take home pay is paid to the couple's lower earner, to incentivise more low earners to take advantage of the allowance.

3. **Radically expand the tax break by allowing certain families to transfer their full £12,570 allowance to their spouse.** Full allowance flexibility would be worth up to £2,514 a year per couple, making it far more financially feasible for family members to reduce their working hours and spend more time at home, should they wish to do so. This would be a considerable reform and comes with a considerable Exchequer cost, so the Government might wish to prioritise certain families. Broadly speaking, we believe there are four options to consider.

    a. Letting parents with young children transfer their full personal allowance, given that early years are crucial for a child's lifelong development. This would cost around £665 million a year;
    b. Supporting families with informal caring responsibilities to transfer their full personal allowance, given that we should help families to care for their relatives. This would cost around £457 million a year;
    c. Extending full allowance flexibility to both these priority groups, for the reasons set out above. The cost of this reform would be around £1.1 billion; and
    d. The "full fat" version of this policy would be to allow any couple in receipt of Family Allowance to transfer their full personal income allowance to their partner, at the cost of around £5 billion.

The three recommended reforms outlined above, would be both radical, in the value delivered for couples struggling to juggle care for their children and parents, and relatively affordable, depending on how far the full allowance flexibility is extended.

However, action in this area should be taken alongside other reforms to support families to spend more quality time together. We therefore also urge ministers to accelerate action to deliver greater family leave entitlements, enhance childcare and introduce more flexible working rights.

The new nuclear

Changes to family life in the UK

There have essentially been three broad changes to family life in the UK in recent decades: a more diverse variety of family types; a greater number of mothers in work; and a rise in the amount of time that families spend caring for each other.

More diverse families

Since the 1970s, there have been a number of changes to the parental structures of families, with the biggest transformation being the fall in the number of children raised by married couples. In 2019, just 51% of babies across the UK were born to married couples or parents in a civil partnership, down from 91% of babies born within a marriage in 1975.[1]

However, official data suggests that the overwhelming majority of children are still being raised in two parent households. In 2020, the proportion of children being raised in a lone parent household (21.0%) was virtually unchanged from the mid-90s (20.5% in 1996). Over the same period, the proportion of children being raised by a cohabiting couple has more than doubled (6.8% to 15%).[2]

Despite these changes, marriage still plays a pivotal role in strengthening families. As David Cameron wrote when launching his proposals for Marriage Allowance in 2013:[3]

> *"There is something special about marriage: it's a declaration of commitment, responsibility and stability that helps to bind families. The values of marriage are give and take, support and sacrifice – values that we need more of in this country."*

There is also evidence of a "marriage premium" when it comes to child development. As the Institute for Fiscal Studies has noted, on average, "children born to married parents display better social and emotional development and stronger cognitive development than children born to cohabiting parents." Likewise, unmarried couples are "considerably more likely to experience a period of separation of a month or longer before their child is 3 years old" (26% to 7%).[4] However, the organisation has noted that many of these differences could be a result of sorting effects from different types of people choosing to get married or remain unmarried, rather than the impact of marriage itself.[5]

Aside from changes to marital status among couples, there have also been profound changes in the nature of couples raising children. The Coalition Government's reforms to introduce same-sex marriage, together with the introduction of civil partnerships and reforms to adoption under the Labour governments that preceded it, have extended family rights to same-sex couples. Partly as a result of these reforms, the number of same-sex couples adopting looked after children has grown steadily since 2007, even while the overall number of adoptions has fallen. This has meant that the proportion of same-sex couple adoptions has increased fivefold, from

2.7% in 2007 to 16.6% last year.[6] On top of adoptions of looked after children, same-sex couples are increasingly using fertility treatment, with female same-sex couples accounting for 6.4% of patients in 2018. A further 0.2% of fertility treatment patients in 2018 were surrogates carrying children for same-sex couples.[7]

Figure 1: Proportion of births within a marriage or civil partnership.

Source: ONS[8], NRS[9], NISRA[10]

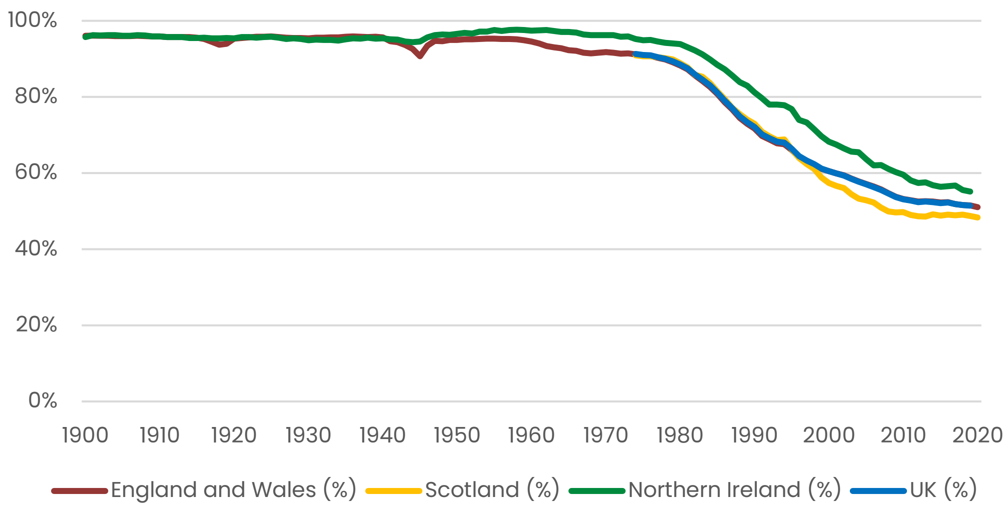


Figure 2: Proportion of dependent children in UK by family type, 1996 to 2020.

Source: ONS[11]

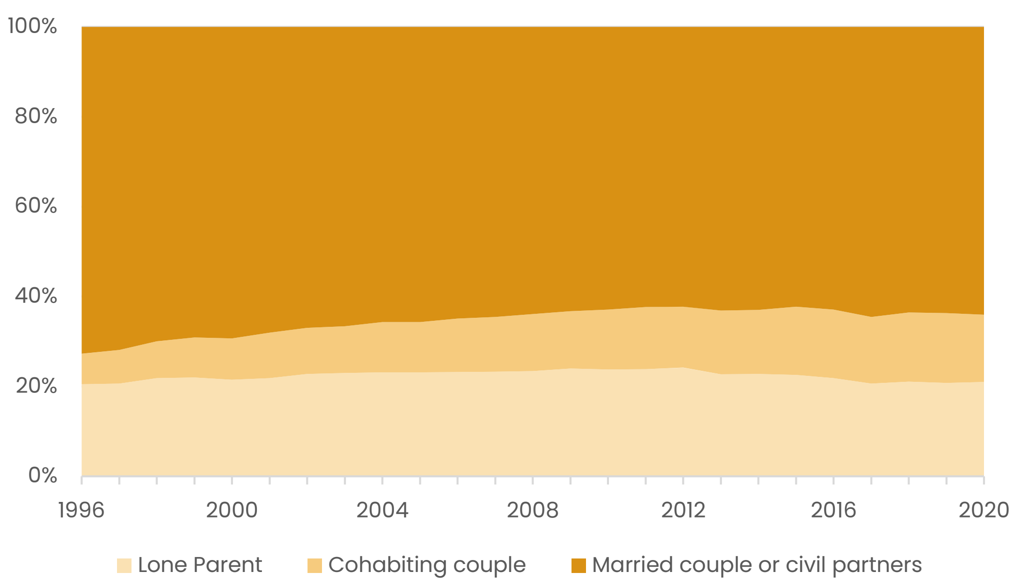
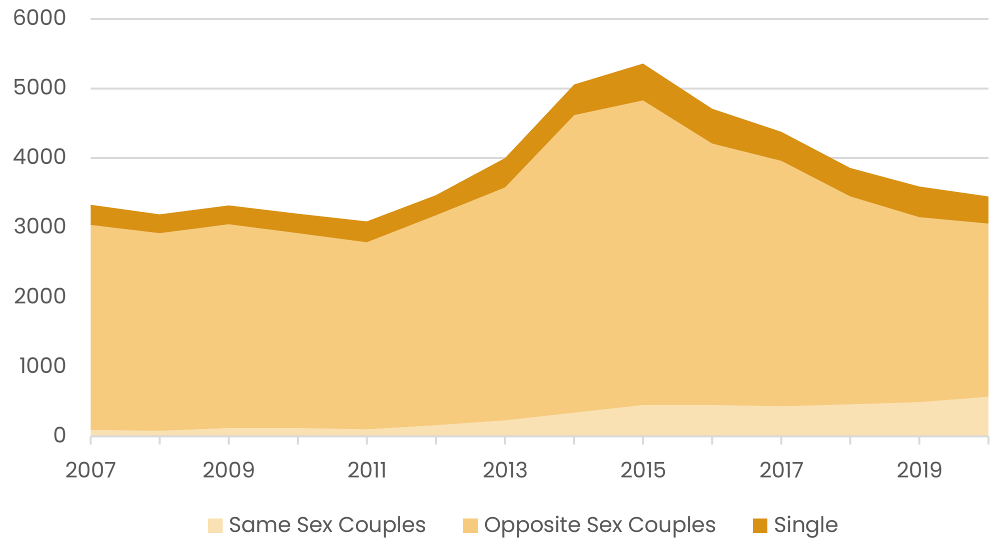


Figure 3: Number of adoptions of looked after children by family type, 2007 to 2020.

Source: Department for Education[12]



More mothers in work

The second broad change to families we have seen since the 1970s is that the economic emancipation of women has led to considerably more mothers in work.

Looking at rates of working age women's participation in the economy as a whole, the proportion of women in employment has increased by over one-third since the early 1970s, from 52.7% (1971) to 71.9% (2020). Over the same period, job market inactivity among working age women has fallen by over two-fifths (44.5% to 24.8%).[13]

More detailed data available since the mid-1990s shows that while the proportion of fathers in employment has remained largely unchanged over the last 25 years (92.4% in 2020, up from 87.0% in 1996), the proportion of mothers in work has increased by over 13% (from 61.9% in 1996 to 75.2% in 2020), with three-quarters of mothers now in employment.[14]

However, these high overall employment rates can be deceptive, with mothers much more likely than fathers to work part-time. Fathers with dependent children are more than twice as likely to be in full-time work than mothers (83.9% rate to 36.8% rate), while mothers are six times as likely to be in part-time work as fathers (36.8% rate to 5.4% rate) and eight times as likely to be inactive in the job market and looking after the family home (15.2% to 1.9%).[15]

When it comes to mothers with young children, aged 4 or younger, they are more likely to be in part-time work (38.5%) than full-time work (30.7%) and rates of job market inactivity on the grounds of family care (20.8%) are also higher than among mothers generally. Interestingly, fathers of young children are actually slightly more likely to be in full-time work (85.9%) than fathers generally (83.9%).[16] This highlights the challenge of helping more fathers with young children to have quality time at home.

The gradual increase in employment rates for women and mothers also appears to have been accelerated by the recent pandemic. A recent report by the Resolution Foundation has found that labour force participation for mothers with young children (aged 0 to 3) increased by 6 percentage points between 2019 and 2021. Their analysis suggests that this increase could be driven by flexible working, with 10% of coupled mothers saying that remote working had allowed them to enter work or increase their hours since the beginning of the pandemic. However, the report also notes that financial necessity may have been a driver too, with 15% of people whose partners were furloughed on less than full pay working more in October 2021 than pre-pandemic, compared to 9% furloughed with full pay.[17]

Figure 4: Rates of working age female employment and job market inactivity, 1971 to 2020.

Source: ONS[18]

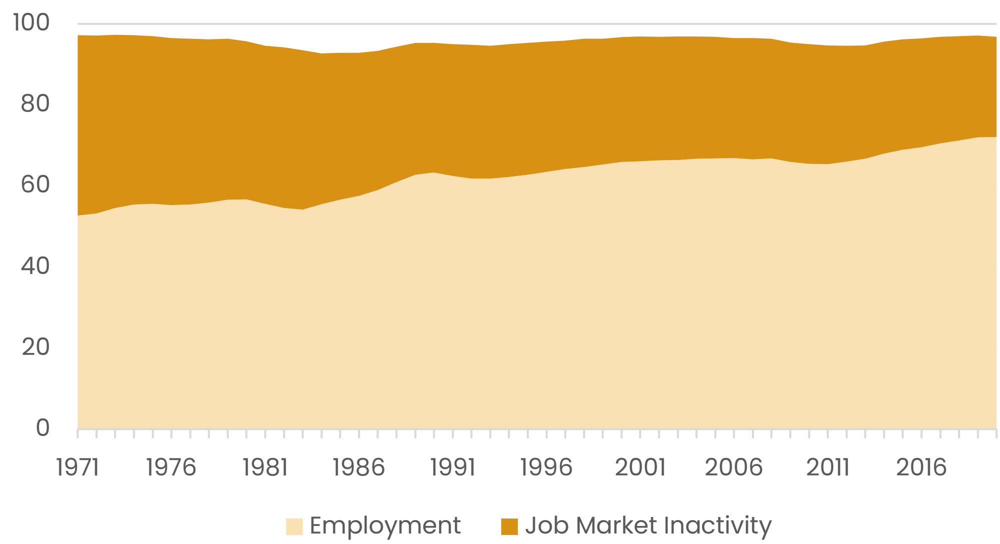


Figure 5: Employment rates of parents, 1996 to 2020.

Source: ONS[19]. (Quarter 2 of each year compared)

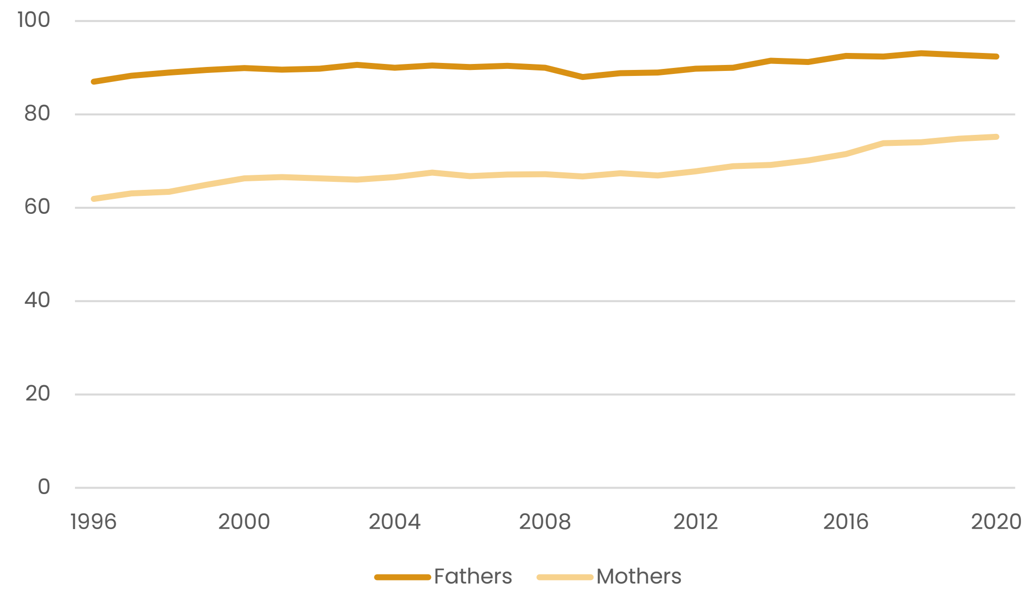
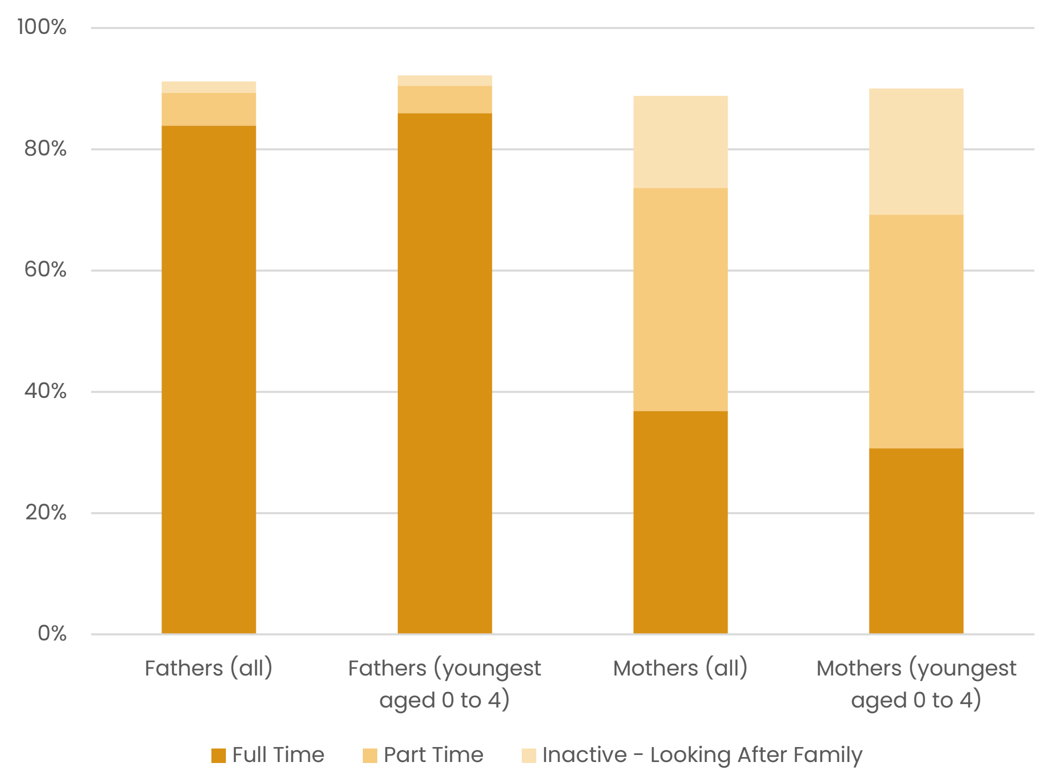


Figure 6: Rates of job market activity for parents compared, 2020.

Source: ONS[20]

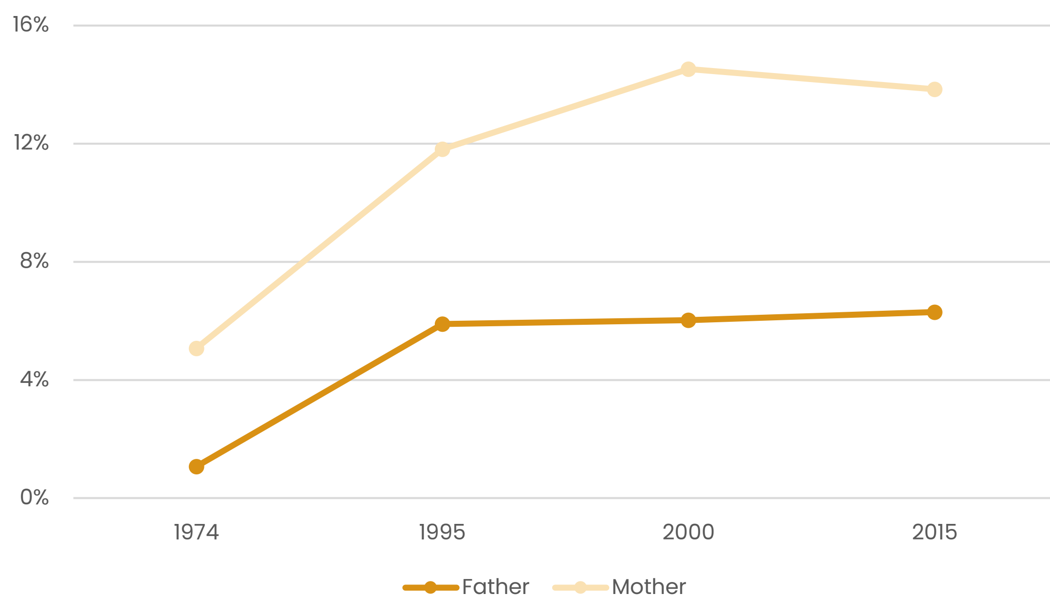


Rises in family time

The final change to family life in recent decades has been in the amount of time that family members spend with one another.

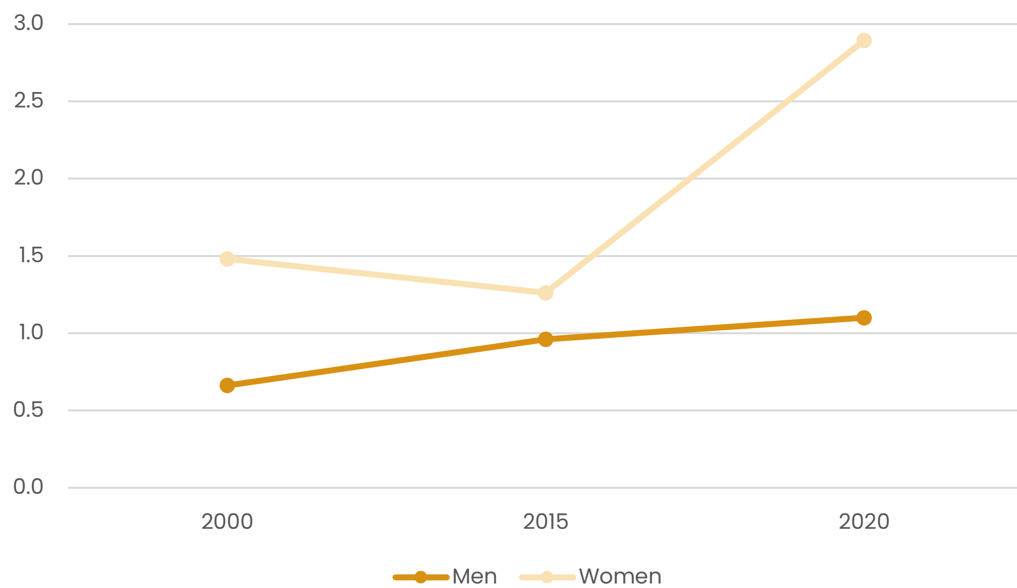
Analysis of time use data shows that the amount of time that parents with pre-school children spend on childcare has grown strongly since the 1970s. In 1974, mothers spent 5.1% of their day on childcare, compared to 1.1% for fathers. By 2000, childcare time had nearly tripled among mothers, to 14.5% of their day and grew fourfold among fathers, up to 6.0% of their day. As of 2015, childcare time among mothers has fallen slightly, down to 13.8% of their day, while it has slightly increased among fathers to 6.3%. Collectively, these changes mean that the average two-parent household in 2015 spends 10.1% of their shared time on childcare per day, up from just 3.1% in 1974, and that fathers today spend more time on childcare than mothers did in the 1970s.

Figure 7: Average proportion of day spent on childcare, 1974 to 2015.
Source: ONS analysis; Onward analysis of OPCS Omnibus Survey, Time Use Module, May 1995 and People's Activities and Use of Time, 1974-1975.[21]



At the same time, adults are also spending more time providing informal adult social care. Between 2000 and 2020, the time that adult women spend providing social care for adults increased by 71 percent among women and by 22 percent among men.[22] While the statistics in Figure 8 seem small - just three minutes per day on adult care responsibilities sounds perfectly manageable - this data is averaged across the whole adult population, and therefore disguises the disproportionate impact on caring responsibilities on different families.

Figure 8: Average minutes spent on adult social care per day, 2000 to 2020.
Source: Onward analysis of United Kingdom Time Use Surveys, 2000, 2014-2015, and 2016-2020.[23]



Parents are the most common recipient of informal care, with 39% of informal carers across the UK in 2019-20 providing care for their parents. Within this group, the overwhelming majority (84.6%) were caring for parents that lived in a separate household, rather than under the same roof.[24] With the UK's ageing society, it is likely that families' informal care responsibilities for their elderly parents will only increase in the coming years. Indeed, in 2017, the ONS calculated that, due to increases in adult caring responsibilities, women over 50 in England are likely to spend 5.9 years of their remaining life as unpaid carers, with the equivalent figure for men 4.9 years.[25]

The need for flexibility

Family leave entitlements and flexible work

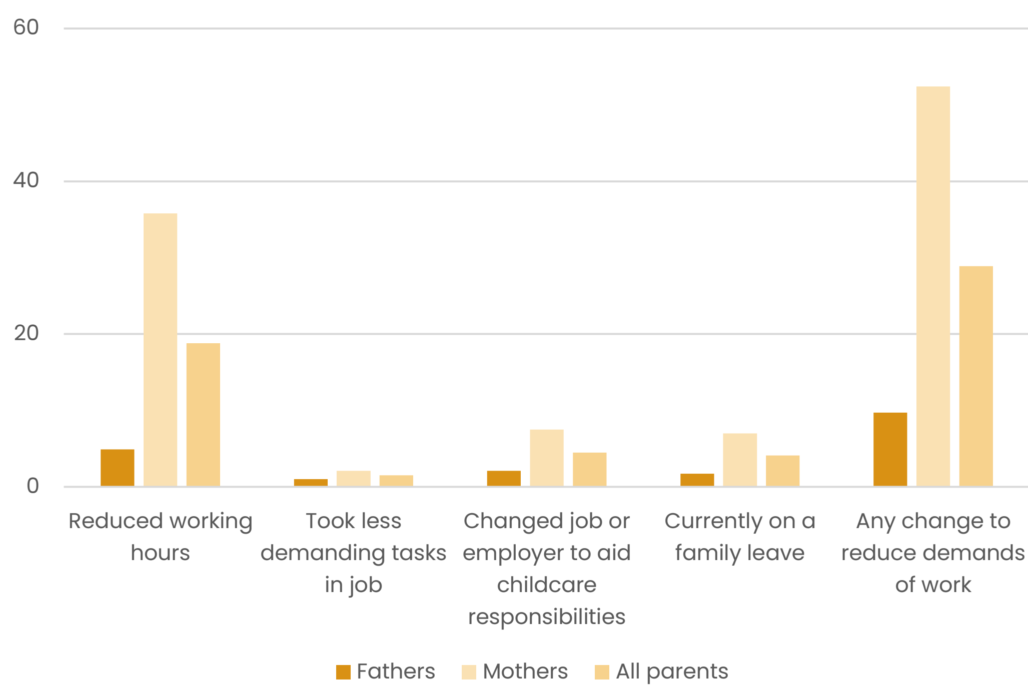
The value of time with family

Despite parents with young children spending more time on childcare than ever before, many parents are keen to spend even more time with their families. A recent poll by the Pew Research Centre on public attitudes towards the meaning of life found that almost half of the UK (46%) mentioned families and children, more than double the one in five (20%) who mentioned their occupation or career.[26]

Analysis by the ONS has shown that, in 2019, 28.9% of parents with children aged four or younger reduced their work demands for childcare reasons, although the proportion for mothers (52.4%) was five times that of fathers (9.7%). The most common actions taken to improve time at home included reducing work hours (18.8%), changing job or employer (4.5%) or taking family leave (4.1%).

Figure 9: Proportion of parents reducing work demands due to childcare responsibilities, 2018.

Source: ONS analysis[27]



There is a good argument that parents who want to spend more quality time with their family should be free to choose to do so. This is particularly true for those with young children, with the Leadsom Early Years Review noting in its final report that child "development is heavily influenced by the loving attachment babies have to their parents" and highlighting the damaging effects that adverse childhood experiences can have on babies' mental health.[28]

Looking beyond early years, there is a wealth of evidence highlighting the importance of relationships to child development more broadly. Researchers from the Harvard Study of Adult Development, a longitudinal study that has been running since the 1930s, have noted that, when it comes to the ability to overcome serious hardship in life, the "single most common factor for children who develop resilience is at least one stable and committed relationship with a supportive parent, caregiver, or other adult."[29]

Researchers from the same study have also noted that higher levels of childhood nurturance are associated with better romantic relationships and offer protection against the effects of childhood poverty on midlife health. In contrast, low levels of nurturing predict worse mental and physical health, greater substance abuse, and higher job-related stress in adulthood.[30] A recent ONS survey of UK children also suggests that "Feeling loved and having positive, supportive relationships, particularly with friends and family" is the top priority for children.[31]

With the relationship between parents and children one of the most important determinants of a child's life chances, naturally time together is crucial. For example, a recent study in Denmark found a "significant overall association between parental time spent on developmental care and children's educational performance."[32] Other studies have suggested that the quality of time between a parent and a child is more important than quantity. A 2014 study in the United States found that maternal employment mostly impacts time spent with children on unstructured activities that are less crucial for child development, but that mothers with lower qualifications also lose time with their children on more important, structured activities.[33]

Leaving aside children, relationships and time spent together also matter in adulthood. For example, ONS analysis of the Community Life Survey found that adults who see friends and family less than once a month or never were 84% more likely to be lonely than those who met up with friends and family daily.[34] A 2010 study of married couples over the age of 80 also found that happy marriages left those individuals with daily health problems less likely to be unhappy as a result of these health issues.[35]

Family leave entitlements

Recognising the importance of helping families to spend quality time together, particularly families with young children, the Government is currently considering three ways to increase leave entitlement for families.

First, ministers are in the process of evaluating the existing Shared Parental Leave and Pay scheme, to consider ways to address barriers to take up. The Government's 2019 "Good Work Plan" consultation noted that only around 5% of eligible couples were making use of Shared Parental Leave, citing anecdotal evidence that the complexity of accessing the leave might be a factor.[36]

There are a number of eligibility requirements that might be perceived as unnecessarily complex for couples. For example, there is a stipulation that a mother must have been working for at least 26 weeks out of the 66 weeks before the week the baby is due and have earned at least £390 in total across any 13 of these 66 weeks.[37] A 2016 survey of employers by the advocacy group Working Families found that almost half of respondents (47%) were concerned that complexity could be a barrier for take up.[38]

Aside from complexity, another aspect of the evaluation is whether the leave is being used by parents to take time off work together or to enable the father to be their child's sole carer for a period of time. The Good Work Plan consultation expressed an interest in the idea, suggested by Working Families, that each parent be given their own equally-sized pot of leave and pay, with a larger pot to be shared between the parents however they decide.[39] As Working Families has noted, this could have a greater impact in promoting shared parenting rather than providing additional weeks of Paternity Leave and Pay.[40]

Action to drive up take up and help families to have time at home together would be welcome, and bring the UK into line with other developed countries. For example, in Sweden, parents are jointly entitled to 480 days of paid parental leave, but each parent has 90 days each that they cannot transfer, with full flexibility over how the remaining 300 days are allocated.[41]

Interestingly, in the case of multiple births, such as twins or triplets, Sweden also provides an additional 180 days for the birth of each additional child.[42] During the passage of the Children and Families Act 2014, which established Shared Parental Leave and Pay, there was some interest in strengthening leave entitlements for parents with multiple births, with the Twins and Multiple Births Association calling for the length of maternity and paternity leave for multiple birth families to be doubled.[43] More recently, the Government completed an internal review examining the challenges faced by parents of premature, sick and multiple babies. This led to the proposals on Neonatal Leave, discussed below, but to no specific proposals related to extending entitlements to multiple births.[44]

Second, the Government has announced its intention to introduce Neonatal Leave and Pay, an extension to existing entitlements for parents while their baby is receiving neonatal care. In the March 2020 Budget, the Chancellor of the Exchequer announced the Government would introduce a new entitlement of up to 12 weeks of paid leave for parents in this situation, to ensure they do not have to choose between returning to work and caring for their vulnerable baby. Ministers have since announced their intention to introduce this reform through the forthcoming

Employment Bill, while the costing in the March 2020 Budget indicates that the right is not expected to come into effect before April 2023.[45]

Third, ministers intend to create a new Carer's Leave, a new in-work entitlement for employees with unpaid caring responsibilities. After a consultation on the design of the entitlement, the Government announced in September that Carer's Leave would consist of one working week of unpaid leave per year, to be available as a "day one right" for those managing caring responsibilities. Eligibility will be broadly defined, allowing the carer to access leave if they are caring for a family or household member with a long-term care need, and the entitlement will be able to be taken flexibly, from half day blocks to the full week.[46]

Action to strengthen leave entitlement across these three areas will help working families to spend more time together, and ministers should seek to introduce these policies as swiftly as possible. However, each of these leave entitlements last for a finite period of time, and need to be complemented with further action to support more open-ended entitlements for families to spend time together, through flexible working.

Flexible working and family

The pandemic has in some ways strengthened familial bonds, with lockdown and working from home helping parents spend greater time with their children without sacrificing time in employment.

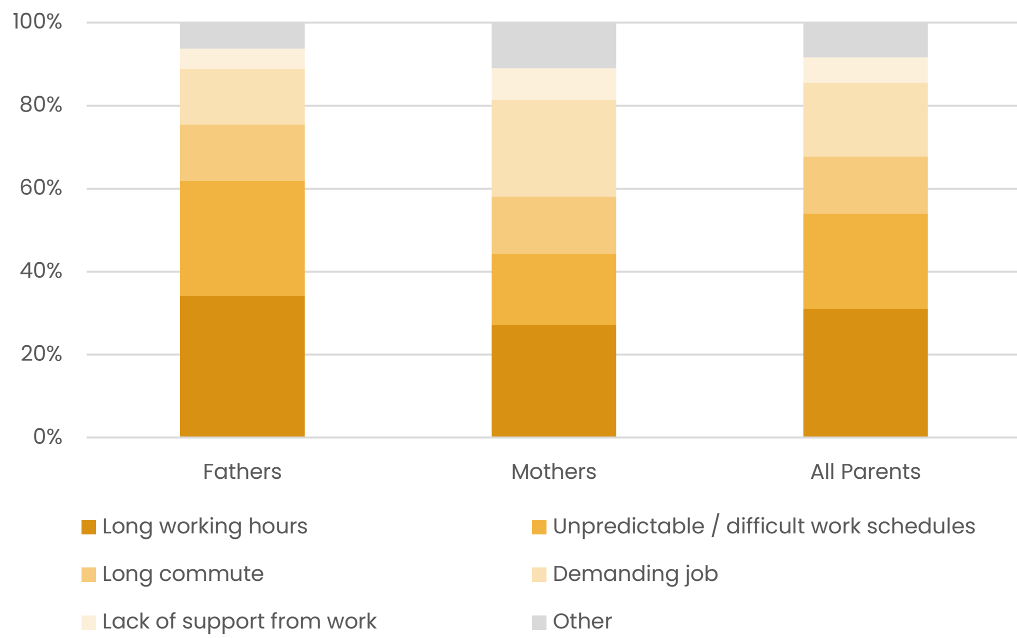
Analysis by the ONS found that during the first lockdown parents spent more than twice as much time a day on developmental childcare - high quality relationship-building activities such as helping with school work - as previously (64 minutes per day, compared to 24 minutes in 2014-15).[47] Lockdown particularly helped strengthen bonds between fathers and their children, with a report by the Fatherhood Institute finding that 78% of dads reported spending more time with their children, while 65% reported a better relationship with their children after the spring 2020 lockdown.[48]

Earlier this year, the Government launched a consultation to consider how to make flexible working the default, setting out recommendations that could protect the rights of families to work from home in the longer term. Its proposals include giving all employees the right to request flexible working, regardless of the length of time in the role, as well as allowing workers to make applications for flexible working more than once a year and cutting the current 3 month period an employer has to consider any request. Ministers believe these proposals would give around 2.2 million more people the right to request flexible working, including not just home working, but other forms of flexible work such as job-sharing and flexing working hours.[49]

Action in this area would be particularly pertinent given that pre-pandemic analysis by the ONS suggests that the barriers which make it harder for parents to fulfill their childcare responsibilities are predominately work-based. Their research has found that over one-third of parents (35.3% of fathers and 34.4% of mothers) with children under the age of 4 state there are work-based obstacles that make fulfilling childcare responsibilities more difficult.[50]

Figure 10: Main work-based obstacle to fulfilling childcare responsibilities cited by parents, 2018.

Source: ONS analysis[51]



Of these parents, most identify long hours (31.0%), and work schedules (23.0%) as the main issues, followed by feeling tired from the demands of the job (17.8%), and long commutes (13.7%). Fathers are more likely to identify long working hours (34.1% to 27.1%) and work schedules (27.7% to 17.2%) as the principal obstacles than mothers, who were more likely to struggle with the demands of the job (23.2% to 13.4%) and a lack of support at work (7.6% to 4.8%).[52]

Despite the benefits of flexible working, greater rights in this area will not be a panacea for spending greater quality time with family. Research by Working Families has recently found that employers' negative attitudes towards part-time and flexible working arrangements, and a perception that senior roles cannot be performed flexibly, can act as a barrier for working parents.[53] The impact of stronger rights to request flexible working could be limited by such employer reluctance.

Perhaps more significant is the cost barrier for families. Ministers providing better rights for family members to ask to reduce their hours to spend time with their children or take unpaid leave to care for their elderly parents is well and good, but in many cases families cannot afford to reduce their income in this way.

One way to help ensure that families are not only contractually able but also financially able to reduce their work loads would be to boost families' disposable income by addressing the tax penalty on families.

Family penalty

The tax burden on single earner families

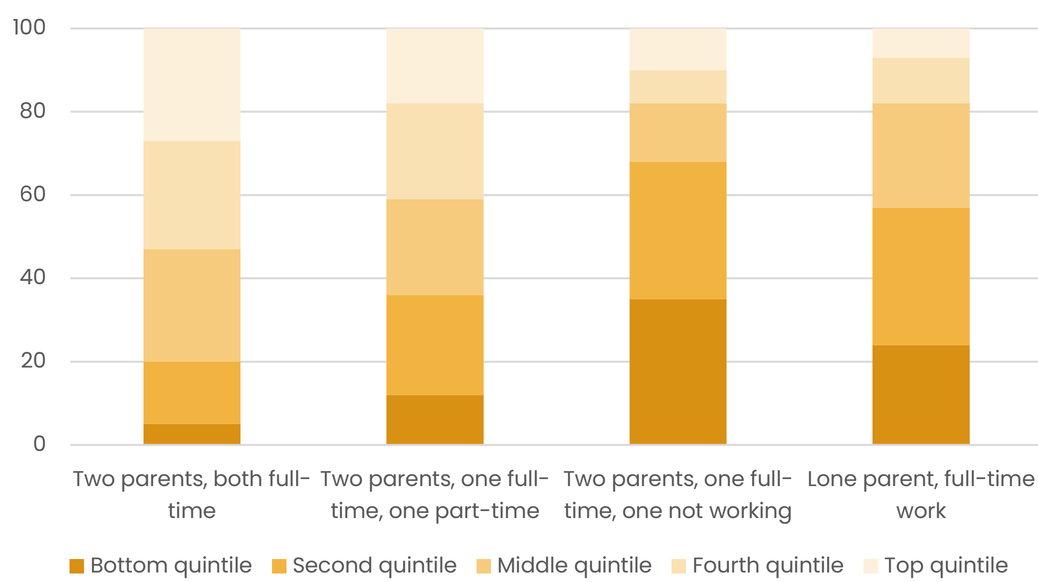
The impact of financial insecurity

We all know how expensive having children can be. In the UK, households with children are far less likely to have strong savings, with the latest figures showing that almost half (47%) of two parent households with children have less than £1,500 in savings or none at all, compared to just over a quarter (28%) of two adult households without children.[54]

But having children can be more expensive for some types of family than others, with single-earner couple families among the economically worst off across the UK. For example, one-third of two parent families with a single earner are in the bottom quintile for disposable household income (35%), more even than lone parent families (24%).[55]

Figure 11: Quintile distribution of income for children by family structure (After Housing Costs)

Source: Department for Work and Pensions[56]



Financial insecurity damages relationships, particularly within couples. For example, a recent study found that a spell of unemployment made couples in both the UK and Germany almost twice as likely to separate in the two years following, increasing the annual separation rate from 0.9% to 1.6%.[57] Likewise, a 2017 study by the charity Relate found that money problems were the most common strain in relationships among those surveyed.[58] Research into relationship difficulties commissioned by the Department for Education in 2010 also found that their "data showed that couples frequently experienced relationship difficulties which they attributed to financial concerns", with some of those contacted reporting that "significant shortages of funds, and difficulties in budgeting had caused severe and ongoing relationship problems”.[59]

Leaving aside the impact of financial problems on couples themselves, such troubles also have a strong impact on children. Analysis of UK data by the London School of Economics found that major financial problems reported by mothers correlates strongly with child well-being, anti-social behaviour, physical health, and education, while a separate study in 2020 found that childhood financial hardship is an important predictor of common mental health disorders.[60]

Analysis by the Institute for Fiscal Studies suggests that single earner families are worse off financially because they are less likely to have benefited from the recent growth in working mothers’ earnings.[61] But there is also the role of tax at play.

The impact of tax

The UK’s tax burden on single-earner married families is substantially higher than the average for the OECD, and has been consistently so for over two decades. The latest figures from 2020 show that the average tax rate for a single-earner married couple with two children in the UK on average earnings was 18.3% of gross wage earnings, compared to the 12.9% average across the OECD. The UK has the 9th highest tax burden on this type of family out of over 30 countries in the OECD.[62]

Of course there are areas of policy in which other types of families are disadvantaged and targeted action is needed in each of these areas. For example, single parents are almost twice as likely to struggle to pay for childcare than single earner couples (40% to 21%).[63] Similarly, analysis by the debt advice charity StepChange has found that lone parents disproportionately experience problem debt, with 13% of single parents experiencing this form of debt before the pandemic, compared to just 5% of couple parents.[64]

But while there is a great deal of awareness about the specific disadvantages facing lone parent families, there is a good deal less about those specific to single earner couples, such as this tax penalty they face.

Figure 12: Proportion of income lost in tax for a single-earner couple with two children on an average wage, UK and OECD average compared, 2000 to 2020

Source: OECD[65]

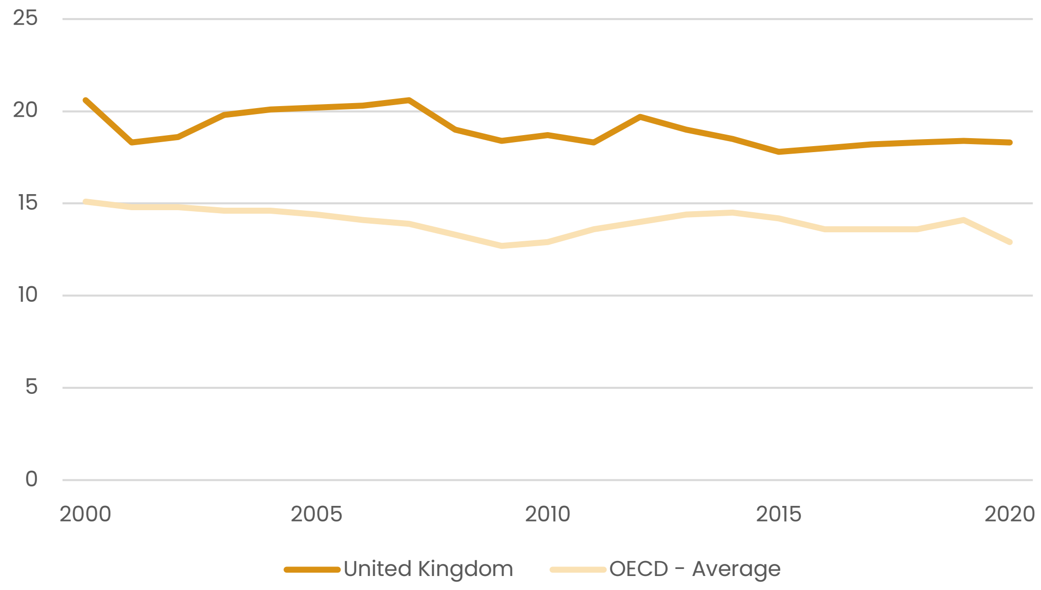
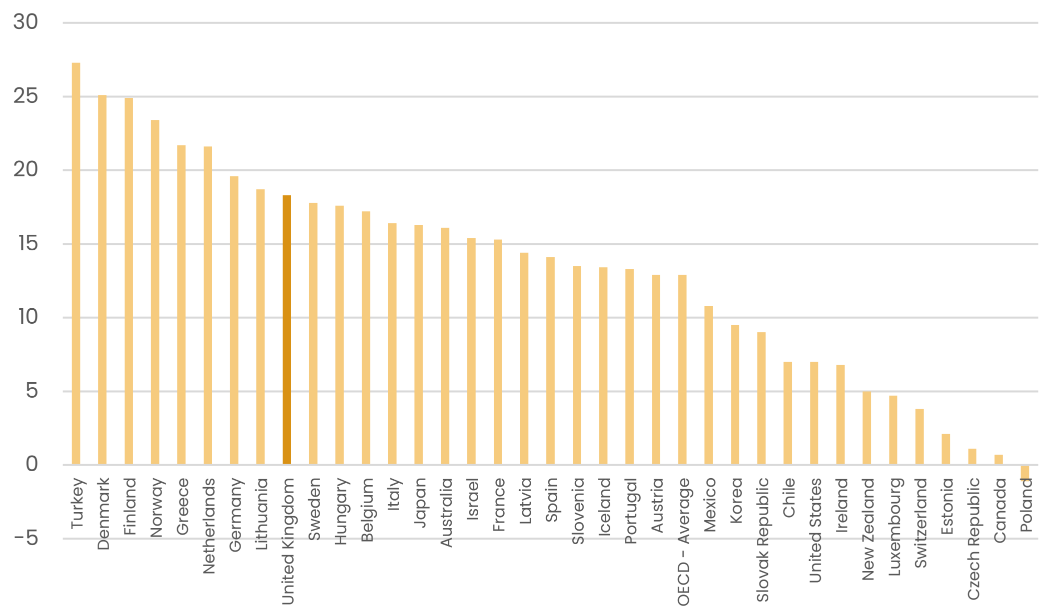


Figure 13: Proportion of income lost in tax for a single-earner couple with two children on an average wage, OECD countries compared, 2020

Source: OECD[66]



The UK has a fully individual-based tax system, under which each parent is taxed separately, rather than a household-based tax system, under which household income is taxed jointly. As a result, a single-earner household often pays more in tax than a two-earner family on the same income. For example, at present a single-earner household on £50,000 a year pays substantially more in tax (£12,340 in income tax and National Insurance) than a two-earner family on £25,000 each (£8,670 in income tax and National Insurance).

As the OECD has noted, an individual-based income tax system encourages both parents in a family to work.[67] With the majority of parents in the UK wanting to work, at least part-time, and given the importance of protecting the strides that our society has made towards equality in the workplace, the current system is broadly the right approach.

That said, unlike many other developed countries such as Germany, the United States, and Ireland, the UK does not offer the option for couples to apply for joint tax assessment. [68] Operating this kind of opt-in system could help ensure families where one of the parents would prefer to stay at home in order to focus on taking care of their family, are able to do so.

Box 1: Mixed and family-based income tax systems across the OECD
Source: OECD, *Taxing Wages* 2021

Mixed systems

Germany. Spouses in Germany can choose between joint assessment or individual assessment. As the OECD has noted, "the vast majority of couples benefits financially from the joint assessment by minimizing the tax burden of the household."

United States. Families in the United States have a range of options for income taxation. Married couples can file jointly on their combined income or separately on the income of each spouse. Unmarried or separated individuals with dependents are taxed as heads of households. In the words of the OECD, this means that "married couples generally benefit from a more favourable schedule of tax rates".

Ireland. Families in Ireland are taxed on the combined income of both spouses, but either spouse can opt for separate assessment. In such cases, the tax payable by both spouses must be the same as would be payable under joint taxation.

Other mixed systems with less flexibility include:

- **Israel**. Spouses are usually taxed separately on their earned income, but if one spouse works in a business owned by the other they are taxed jointly.
- **Belgium**. Some income can be transferred for tax purposes between spouses if one of them earns no more than 30% of the couple's combined earned income.
- **Netherlands**. Couples are taxed separately on their personal income but certain parts of income may be freely split between husbands and wives, including incomes from savings and investments.

Family-based systems

France. In France, family income is taxed rather than individuals. Spouses are always taxed jointly, but children over 18 living at home and other members of the household can opt to be taxed separately.

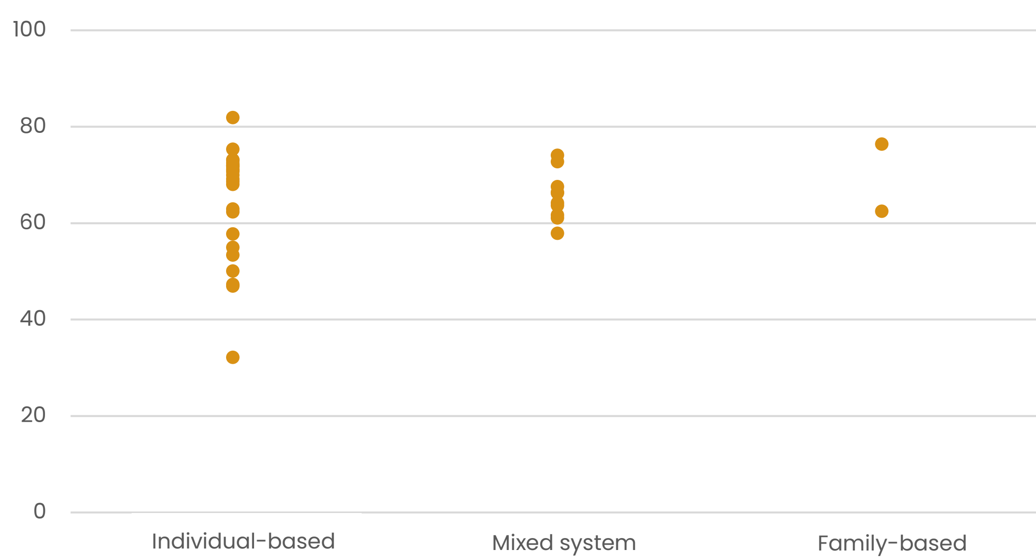
Switzerland. The income of spouses living together in Switzerland is taxed jointly, while the income of children living under parental authority is added to the income of their custodian.

While not all couples raising children are opposite sexes and not all women in opposite-sex couples are the lower earner, broadly speaking, the average couple with kids is made up of a higher earning father and a lower earning mother. Because of this, policies to support single-earner families can sometimes be perceived as being damaging to women's equality. As a result, it is important to assess any policies that seek to provide freedom and greater childcare time to couples, regardless of gender, against their potential impact on women's employment.

However, as shown in Figure 14, the type of tax system - individual-based, mixed, or family-based - does not necessarily correlate with overall levels of women employment. While a number of countries with a mixed system do have lower levels than the UK (72.0%), including the United States (66.3%) and Ireland (64%), Germany has higher levels (72.8%), and Switzerland, who have a full family-based system have still higher rates (76.4%). This shows that it is possible to have high levels of overall women's employment while using tax systems other than those solely individual-based.[69]

Figure 14: Women's employment rate across OECD countries, by income tax system.

Source: OECD[70], Onward analysis

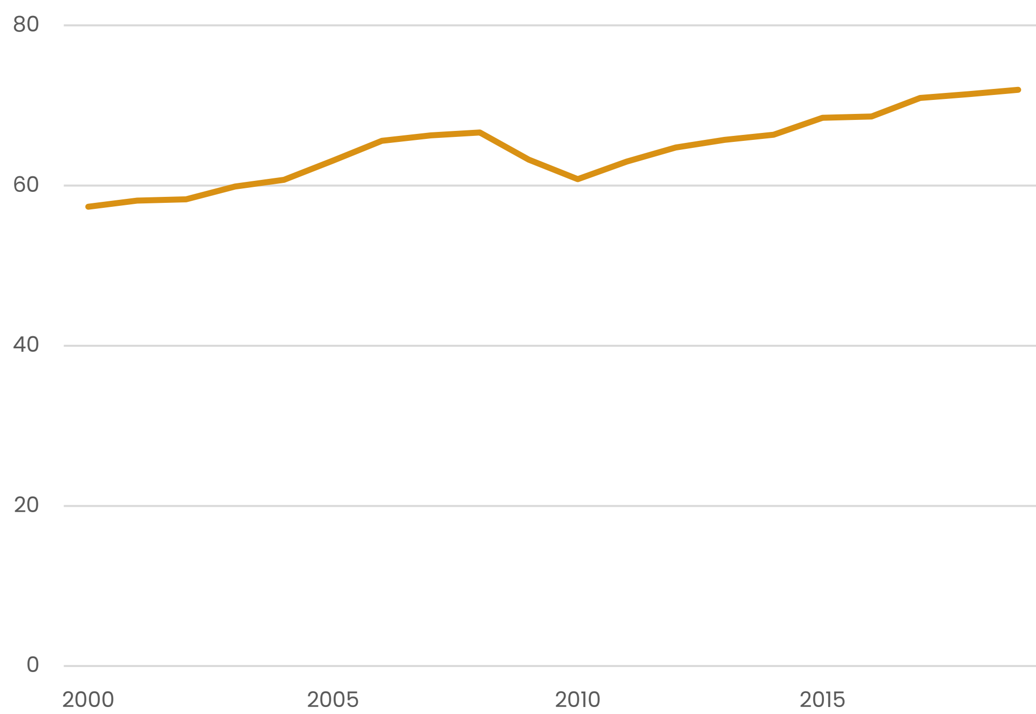


That said, changes to such systems certainly can have an impact. For example, a 2018 report by the Institute of Labor Economics concluded that Ireland's move from a family-based system to a partially individualised system in 2000 increased the employment rate of married women by around 5-6 percentage points, increased average time spent working by 2 hours per week, and reduced childcare by married women by 3 hours per week. Studies of older reforms from family to individual-based tax systems in Canada (1988) and Sweden (1971) found that these changes substantially increased women's workforce participation, by 10 percentage points and up to 17 percentage points respectively.[71] Separate research by the European Commission has concluded that the availability of high quality, affordable and flexible childcare increases the impact of individualised taxation on women's employment rates.[72]

More recently though, the impact of such reforms has been less dramatic. At the beginning of 2017, Estonia changed its tax system from being family-based to individual-based, which did correlate with an increase of 2.3 percentage points in women's employment.[73] However, in the context of Estonia's steady increase since 2010, this appears less substantial. In the three years since 2016, the rate has grown by 3.4 percentage points, just 0.5 points more than the 2.9 point increase in the three years preceding the change. This suggests these tax systems might today have a smaller impact on overall levels of women's employment than was true decades ago.

Figure 15: Women's employment rate in Estonia, 2000 to 2019.

Source: OECD[74]



The evidence therefore suggests that a joint-taxation system could indeed undermine female participation in work. However, there is another way ministers could reduce the tax penalty on single earner couples, while maintaining high levels of female participation: reforming the UK's approach to transferable tax free limits to better cater to families.

At present, the UK allows married couples and couples within a civil partnership to transfer 10% of their tax free Personal Allowance to their partners (see next section), helping couples with either a single-earner or couples with one full-time and one part-time earner to reduce their taxes and boost household take home pay by up to £252. But many OECD countries operate far more generous systems. These include fully transferable personal allowances, as in Iceland, Denmark and Ireland, and additional tax free allowances for earners with dependent spouses, as in Canada, Italy and Japan.[75]

Box 2: Transferable tax allowances across the OECD
Source: OECD, *Taxing Wages 2021*

Iceland. All individuals over 16 are granted a Basic Tax Credit of ISK 655,538 (£3,700), which is fully transferable between married couples and civil partners.

Denmark. Every individual is granted a personal allowance via tax credit. If a married person cannot fully utilise this allowance, the remainder is transferred to the spouse.

Ireland. Couples who are assessed separately are entitled to a marriage tax credit of EUR 3,300 (£2,780) per year, twice the basic relief credit of EUR 1,650 (£1,390), which is split equally between the couple. Any unused credits can be transferred between the couple.

Again, it is clear that countries can offer incentives for married couples while maintaining high levels of women's employment. This is certainly the case for transferable personal allowances, with Iceland having the highest level of women's employment (81.9%) across the OECD, while Denmark has the same level as the UK (72.0%).[76] Providing greater flexibility over the transfer of tax free allowances could therefore be one way to tackle the penalty on single-earner families in the UK, without undermining women's participation in the workforce.

Box 3: Support for sole earner families across the OECD

Source: OECD, *Taxing Wages 2021*

Australia. Offers a two-part Family Tax Benefit, Part B of which is targeted at families with children under the age of 16 who are single income couples or sole parents. Payments are dependent on the age of children within the family and the income of the second earner, with the maximum payment AUD 4,500 (£2,430) for those with children under the age of 5.

Canada. Taxpayers supporting a spouse or other eligible dependent receives a Credit for Spouse or Eligible Dependent, which is set equal to the Basic Personal Amount - Canada's tax credit, used to provide tax free income for workers, in a similar way to the UK's Personal Allowance. In 2020, the maximum value for the credit was CAD 1,984.35 (£1,200).

Ireland. Provides a Home Carers Allowance, worth EUR 1,600 (£1,340) for families where one spouse works at home to care for children, the aged or incapacitated persons, where the spouse's income is less than EUR 7,199 (£6,050).

Italy. Offers a tax credit worth EUR 800 (£680) for those with dependent spouses, which tapers down to 0 for net income over EUR 80,000 (£67,700). Earners are only eligible if the spouse earns less than EUR 2,841 (£2,400) per year.

Japan. Offers a tax allowance of up to JPY 380,000 (£2,470) for resident taxpayers whose income, after other deductions, does not exceed JPY 10,000,000 (£65,100) and whose spouse's income, after other deductions, does not exceed JPY 480,000 (£3,120). A more generous allowance is given for families with spouses over the age of 70.

South Korea. Offers a tax allowance of KRW 1,500,000 (£940) - equal to the basic allowance - for taxpayers whose spouse's taxable income is less than KRW 1,000,000 (£630). Earners can also claim for certain eligible dependents, including their spouses' parents.

Czech Republic. Offers a tax credit of CZK 24,840 (£820) for spouses earning less than CZK 68,000 (£2,240).

Austria. Offers tax credits per child for sole earner and single parent families, worth EUR 494 (£420) for a single child and EUR 669 (£570) for two children, with EUR 220 (£190) for each additional child thereafter.

Slovakia. Offers a tax allowance for taxpayers with a spouse earning less than EUR 4,036 (£3,410) per year if they are taking care of a child aged up to three years old.

Latvia. Offers a tax allowance for dependents, including unemployed spouses caring for eligible children, including those caring for one child under the age of three or three or more children under the age of 18, provided one is aged 7 or younger. The maximum allowance is EUR 300 (£250) per month, but is tapered against the taxpayers' salary.

Netherlands. Taxpayers who are single parents in work or who are the lower earner in a parental couple both in work are eligible for an Income Dependent Combination Credit of up to EUR 2,881 (£2,500).

Greece. A marriage allowance, set at a rate of 10% of the gross salary, is granted to workers employed by employers that belong to contracting employer organisations. The allowance is not granted to public servants.

Tax free families

Rewarding family through the tax system

Married Couple's Allowance in the 1990s

With many other developed countries offering either the option of joint assessment for families or a fully transferable tax allowance between couples, the UK is something of an outlier. In 1990 when the Thatcher Government introduced individual taxation, a fully transferable allowance was considered, in order to ensure that married couples in which the wife did not work would not be severely impacted.

Before 1990, a married woman's income was taxed as part of her husband's income. Under this system, the family was given a married man's allowance (£4,375 in 1990) for income tax, slightly more generous than the single person's allowance (£2,785) given to non-married individuals. Families in which married women worked were also eligible for a wife's earned income relief set at the same level as the single person's allowance. This meant that couples who married had a higher level of tax-free income than those who did not.[77]

Proposals for a transferable marriage allowance were abandoned after responses to the Government's Green Paper on tax reform criticised this transferability on the grounds that such an allowance would: [78]

- **Be too expensive**. To ensure no couple lost out, the Government would need to increase the personal allowance, with the Institute for Fiscal Studies forecasting this would cost more than £4 billion at the time.
- **Be too complex**. There were concerns that tax offices would need to keep track of small incomes if one partner chose to transfer only part of their allowance to their spouse.
- **Discourage women from working**. Under the previous system, a wife's decision to work did not impact her husband's tax liability, but under a transferable allowance system her decision to work would reduce her husband's take home pay.
- **Cause problems at home.** Concerns were raised that a husband's income being automatically cut by the decision of his wife to work could risk causing conflicts at home, and would also allow a husband to calculate his wife's income, risking her financial privacy.

In response to this criticism, the Chancellor of the Exchequer Nigel Lawson introduced a new Married Couple's Allowance (MCA) instead, set at the equivalent to the gap between the married man's allowance and the single person's allowance, to ensure a husband's tax threshold would not fall under the new system. The Thatcher Government also continued to provide an Additional Personal Allowance (APA) for lone parents with children, cohabiting couples with children, and a married parent with an incapacitated spouse, set equal to the value of MCA.[79] From 1994, both allowances were implemented as tax credits, with the partners in each couple deciding at the start of the tax year which individual would receive the credit.[80]

During the Major Government, the MCA was increasingly seen as a historic anomaly and was gradually restricted. In 2000, the MCA and the APA were abolished altogether by Gordon Brown, replacing them with a new child tax credit.

Marriage Allowance

In 2007, the Centre for Social Justice resurrected the idea of a transferable tax allowance for married couples, arguing in their landmark "Breakthrough Britain" report that such an allowance was merited given marriage's "proven advantages to children and the wider society".[81]

Responding to the report, then Leader of the Opposition David Cameron set out his support for the proposal, on the grounds that, "Britain is almost the only country in Europe that doesn't recognise marriage in the tax system."[82] There were two principal reasons underpinning Cameron's support for such an allowance.

First, he was keen to address the financial burden on families, discussed in the previous section. In 2009, he told the Conservative Party Conference that while family life was not always easy, "recognising marriage and civil partnerships in the tax system and abolishing the couple penalty in the benefits system" would "help make it that little bit easier."[83]

Second, Cameron saw such an allowance as a way to value marriage and its important role in British society. In 2013 he wrote:[84]

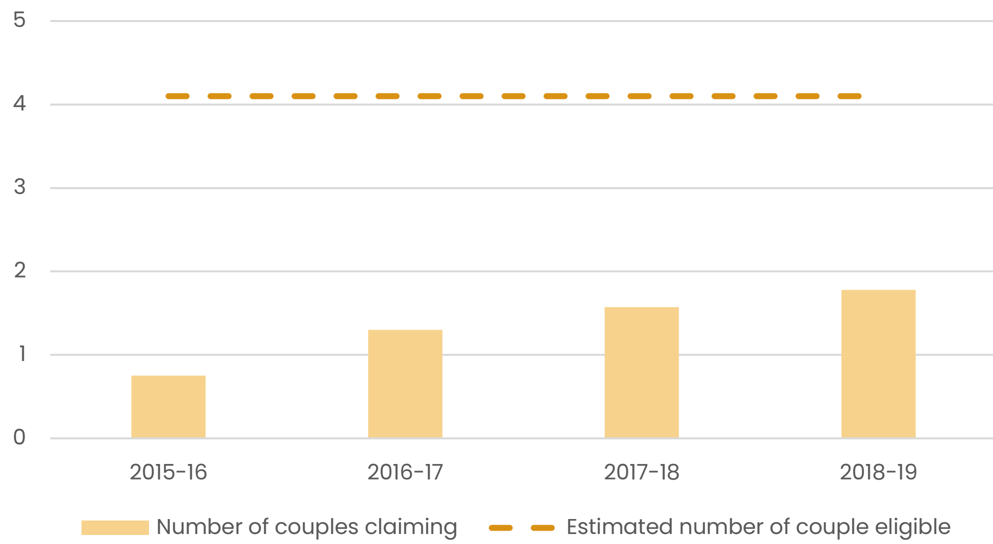
> *"There is something special about marriage: it's a declaration of commitment, responsibility and stability that helps to bind families. The values of marriage are give and take, support and sacrifice – values that we need more of in this country. … because marriage is an institution that helps to build a strong society, shouldn't society properly recognise that in the tax system?"*

Following his election as Prime Minister, in 2013 the Coalition Government announced plans to introduce a transferable tax allowance for married couples, which came into effect in 2015.[85] This Marriage Allowance enables an individual to transfer 10% of their Personal Allowance - currently set at £1,260 - to their husband, wife or civil partner, potentially reducing their annual tax by up to £252.[86]

Despite the Government initially estimating that 4.1 million married couples would be eligible for the allowance, take up has remained fairly low.[87] The latest figures from HMRC suggest around 1.8 million couples are currently claiming the allowance, less than half of those estimated to be eligible. As a result of the low take up, in 2018-19 the allowance cost the Exchequer just £480 million, only three-fifths of £775 million forecast when the policy was announced in 2013.[88]

Figure 16: Marriage Allowance claimants (millions), 2015-16 to 2018-19.

Source: HMRC[89]



The take up of Marriage Allowance was not helped by problems in the initial rollout. In early 2015, the Low Incomes Tax Reform Group criticised the Government for failing to provide a way for couples to register their interest in the allowance without using the internet, and it took until November for the Government to confirm couples could apply for the allowance by phone. While HMRC ran two advertising campaigns to raise awareness of the allowance between 2015 and 2017, more recent action to increase take up has been less ambitious.[90]

In recent years, there have been calls to reform Marriage Allowance, with proposals including extensions to its generosity and eligibility. For example, in 2019 Ranil Jayawardena MP urged the Treasury to increase the allowance, while former Labour MP Ged Killen proposed extending the allowance to long-term cohabiting couples.[91] The Centre for Social Justice has also called for the Allowance to be increased, to allow married couples to transfer £2,000 of their personal allowance.[92] In the past, the costs of increasing allowance transferability have been seen as prohibitive, with Treasury analysis in 2011 estimating that allowing a spouse to transfer any unused part of their allowance to their partner would cost around £4 billion.[93] Earlier this year, Fiona Bruce MP suggested limiting the Allowance to married couples with preschool children and improving take up by making it automatic.[94]

Despite the low take up of Marriage Allowance, the concepts behind it are fundamentally strong. The allowance helps reduce the tax penalty on single-earner families and symbolically recognises the value of families. Reforms to better ease the family tax penalty, drive up take up, and expand eligibility to a wider variety of families could help the allowance deliver on these concepts even better.

Time to care

Giving every family the financial security to spend greater time at home

We believe there is a strong case for reforming Marriage Allowance to deliver wider eligibility for different kinds of family and deeper generosity for specific types of family who need support most. There are three key reasons for such reform:

First, there is a strong argument that we should be encouraging the institution of family as well as the institution of marriage. The increase in the number of unmarried cohabiting couples raising children in the UK over the last thirty years means that family and marriage are no longer synonymous.

Second, families should have the financial security to shape their family structure as they wish. While in the majority of couples both partners want to work, many families want to reduce their work commitments in order to be able to spend more time on childcare for their kids or older age care for their parents. There is also a sizeable minority of single-earner couples, in which a partner wants to remain out of employment in order to focus on family care.

Third, at present, many couples with children face a considerable financial penalty through our tax system. The UK tax burden on single-earner married families with children is the ninth highest in the OECD, well above the developed-world average (18.3% of gross wage earnings compared to 12.9%). This penalty makes it significantly harder for those couples who want to structure their family in this way to be able to afford to do so.

Many other developed countries better support single-earner couples in their tax system, through mixed income tax systems allowing for both individual-based or family-based taxation, as in Germany, the United States, and Ireland, through fully transferable tax allowances, as in Iceland and Denmark, or through additional tax allowances for dependent spouses, as in Canada, Italy and Japan.

While some of these different tax systems can have an impact on overall levels of women's employment, this can easily be overstated. Indeed, Switzerland has an entirely family-based tax system and yet has higher rates of women's employment than the UK, while Iceland has the highest rate of women's employment in the OECD at the same time as offering a fully flexible marriage allowance.

We are therefore proposing a radical overhaul of the UK's Marriage Allowance system, to better reflect modern day family life, boost families' disposable income, and address the tax penalty on single-earner families. This boils down to three core recommendations:

1. Extend the marriage allowance into a wider Family Allowance available to cohabiting couples with children

First, eligibility for the allowance transfer should be expanded, to reflect the societal changes over the last thirty years that have transformed the typical parental structures of a family. In 1990, when the Thatcher Government introduced the precursor to Marriage Allowance, the Married Couple's Allowance, 72% of children across the UK were born to married couples. As of 2019, this has fallen to 51%.

Writing in 2013 regarding his plans to introduce Marriage Allowance, David Cameron argued that marriage ought to be recognised in the tax system because it was "the ultimate form of commitment under the law".[95] While this may be true in a narrow legal sense, speaking more broadly, it is a far greater commitment for a couple to bring a child into the world and agree to raise it together.

With cohabiting couples now a common family structure for children, Marriage Allowance should be extended to such couples and rebranded as a "Family Allowance", allowing them to benefit from the 10% personal allowance transferability of the current scheme. This would reduce the financial penalty on unmarried cohabiting couples raising a child together, as well as better valuing these types of family within our tax system by putting them on an equal footing with married families. Cutting taxes for cohabiting couples with children will also make it financially easier for them to reduce their working hours, should they want to do so, allowing them to spend more time at home. There is also precedent for this, given that cohabiting couples with children were able to claim an allowance equivalent in value to the Married Couple's Allowance before 2000.

Onward analysis of Understanding Society data suggests that extending the 10% personal allowance transferability to all cohabiting couples with dependent children across England and Wales would cost around £98.4 million, if take up was universal.

2. Drive take-up of the Family Allowance by making it easier to access and more attractive for parents

With just two-fifths (43%) of eligible married couples and couples in civil partnerships currently taking advantage of Marriage Allowance, the Government should bring forward a package of measures to increase take up by making the scheme easier to access and more attractive.

To improve take up, the Government should consider improving signposting for the scheme. For example, when an engaged couple signs the legal statement giving notice of their intention to marry, local register offices could provide guidance advising the betrothed couple of the scheme.[96] Such guidance could also be provided alongside services at Family Hubs and at antenatal classes.

Ministers should also reform the technical way in which the allowance transfer is delivered to make it more attractive for the lower earners within eligible couples. At present, the lower earner transfers their unused Personal Allowance to their partner, HMRC revises down the higher earner's taxable income, and the up to £252 is provided through their adjusted pay packets. While this might be the simplest way for the allowance to be provided, it is not necessarily the fairest way. After all, the take home pay boost is as much a result of the lower earner's allowance as it is the higher earner's income.

To incentivise more low earners to take advantage of the allowance, the Government should consider providing the take home pay boost as a lump sum paid to the lower earner at the end of the tax year. There is precedent for this, given that the previous Married Couple's Allowance could be paid out to lower earners. Although this process would require HMRC to consider each partner's tax returns against one another in each participating couple, they already do so as part of the existing Marriage Allowance system. The lump sum being automatically paid out at the end of the tax year would also be fairly similar to the process of HMRC providing refunds for those individuals successfully claiming to have paid too much tax.

3. Radically extend the tax break by allowing certain families to transfer their full £12,570 allowance to their spouse.

Scaling up the generosity of the allowance and allowing full allowance flexibility would be worth up to £2,514 a year per couple, making it far more financially feasible for family members to reduce their working hours and spend more time at home, should they wish to do so. Of course, extending this flexibility does come with a price tag for the general taxpayer. Broadly speaking, there are four options that ministers should consider.

The first option would be to extend full allowance flexibility to parents with young children. While all children need time, attention, and care to flourish, this is particularly true for young children, with early years crucial in laying foundations for their lifelong development. The role of parents in these early years cannot be overstated, and it is essential that parents are given the choice to spend more time at home and the financial flexibility to be able to afford this, should they wish to do so. Onward analysis suggests that extending full allowance flexibility to all married couples, civil partner couples and cohabiting parents across England and Wales with children under the age of five would cost around £665 million, if all couples took up the allowance. The methodology for our analysis is given in the appendix below.

The second option would be to extend full allowance flexibility to families with informal caring responsibilities. In our rapidly ageing society, informal caring responsibilities for other adults are becoming more and more common for families. While family-based care is not realistic for everyone, for those who can be cared for by family and who have family who are happy to provide this care, it is right that they are supported. Extending additional allowance flexibility for families in which one person in the couple spends a significant proportion of their time providing informal care would help to facilitate this, by helping them to better afford to reduce their working hours. Our analysis finds that extending full allowance flexibility to families in England and Wales who spend 35 or more hours a week providing informal care would cost £457 million.

The third option would be to extend full allowance flexibility to both of these priority family groups. While there is likely to be some small levels of overlap between the two groupings, broadly speaking we can assume that the cost would be roughly the sum of both of these individual costs - so around £1.1 billion.

The fourth and final option would be to give every couple in receipt of Family Allowance - each married couple, pair of civil partners and cohabiting couple with children - a fully transferable allowance. This would be the most costly option, with the Treasury costing the proposal at £4 billion in 2011 - around £5 billion today, after accounting for inflation. However, this option would be the most impactful, providing all married couples and couples with children with the financial security to spend more time with their families or in the wider community.

There will be some degree of interaction between the expanded Family Allowance reducing the tax burden and levels of Universal Credit paid to low income families, which tapers as take home earnings increase. These costs are therefore conservative, as they do not take into account savings in Universal Credit payments.

Conclusion

A radical overhaul of the way in which single earner families are taxed in this country is long overdue, with single-earner couples facing a significant tax penalty. A new, broader and deeper Family Allowance would address this penalty and make it far financially easier for families to spend more quality time together.

The proposals outlined above would be both radical and affordable, but are just one piece of the puzzle. Alongside reforming Marriage Allowance, the Government must also accelerate action on family leave entitlements and flexible working, to give families greater rights to spend time at home caring for one another.

Appendix

Costing methodology

The costings of the proposed reforms to Marriage Allowance included in this report are based upon Onward analysis of Wave 10 of the Understanding Society survey of couples in England and Wales, which relates to data from the 2018-19 financial year.[97]

For each scenario, we:

- Generated annual income estimates for each individual, using data on labour, investment, and benefits income.
- Using this data, generated estimates of how much each individual paid in tax in the 2018-19 financial year.
- Identified married couples, civil partners, and cohabiting couples with children using data on relationships from variable *relationship_dv*.
- Used this data to identify individuals who met the additional eligibility criteria for each scenario:
    - Presence of a dependent child aged under 5 based upon *agegr5* variable.
    - Individuals' caring responsibilities are based upon the *aidhrs* variable.
- Removed all individuals who:
    - Did not have an income that corresponded to paying the basic rate of income tax and who did not have a partner with an income below the Personal Allowance threshold.
    - Were not married, in a civil partnership, or cohabiting with children.
    - Did not meet the additional eligibility criteria for our two scenarios - children under the age of 5 or 35 hours or more informal caring responsibilities.
- Calculated for each couple in the resulting sample how much they would save in tax if they were able to use the additional Personal Allowance flexibility, which we then summed.
- Estimated the total income tax paid by the full sample of the Understanding Society Wave 10 data and the total income tax paid by the group in our scenario within the sample.
- Using this data we calculated:
    - the income tax paid within the overall sample as a proportion all income tax paid across England and Wales;
    - the income tax paid by our scenario group as a proportion of the sample's overall income tax revenue; and
    - the total income tax savings for our scenario group as a proportion of the scenario group's total tax revenue within the sample.
- Applied these proportions to the £175.2 billion of income tax paid in England and Wales in the 2018-19 financial year, to calculate an estimate of the revenue lost.
- Adjusted the data for CPI inflation, to put the data into 2020 prices.
- All survey data was weighted using *indinui_xw*.

Scenario	**Estimated cost**
1. Extending existing 10% Personal Allowance transferability to cohabiting couples with dependent children.	£98,435,000
2. Extending full Personal Allowance transferability to all married couples, civil partner couples and cohabiting parents, with children under the age of five.	£664,683,000
3. Extending full Personal Allowance transferability to all married couples, civil partner couples and cohabiting parents, in which an individual spends 35 or more hours a week on informal adult care.	£457,225,000

Endnotes

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