A New Deal for Parents

Reforming tax, benefits, and employment rights for working mums and dads

Phoebe Arslanagić-Little

ONWARD

About Onward

Onward's mission is to develop bold and practical ideas to boost economic opportunity, build national resilience, and strengthen communities across all parts of the United Kingdom.

We are not affiliated to any party but believe in mainstream conservatism. Our vision is to address the needs of the whole country: young and old, urban and rural, for all communities across the UK – particularly places that have too often felt neglected or ignored by Westminster.

We believe in an optimistic conservatism that is truly national – one that recognises the value of markets, supported by a streamlined state that is active not absent. We are unapologetic about standing up to vested interests, putting power closer to people, and supporting the hardworking and aspirational.

Thanks

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About the author

Phoebe Arslanagić-Little is Head of the New Deal for Parents at Onward and Director of Boom, focused on how we can make it easier to have children, for everyone. Prior to Onward, Phoebe was a Senior Policy Advisor at the charity Impetus and a Senior Research Fellow at the think tank Bright Blue.

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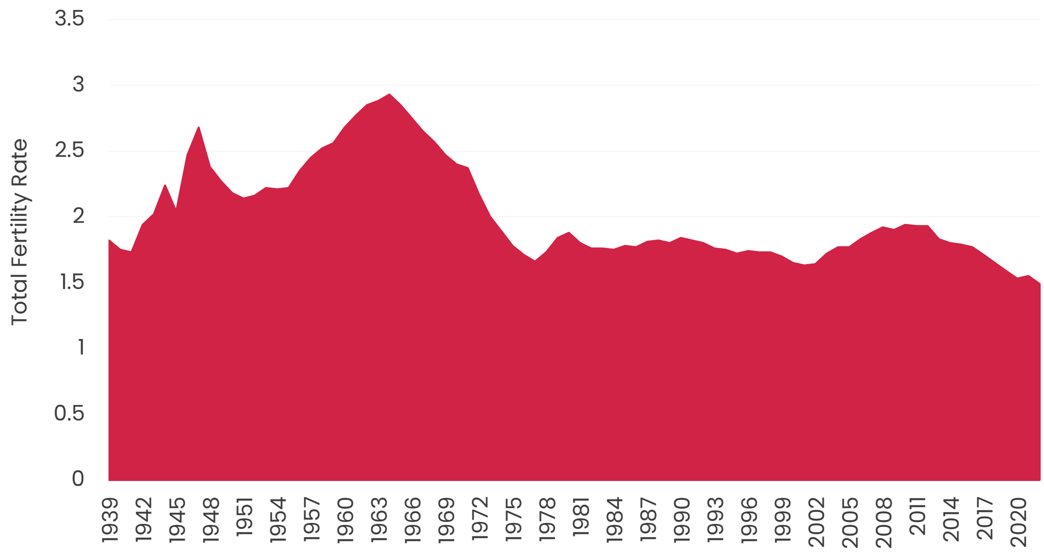
What we believe

The New Deal for Parents exists because people are having fewer children than they want. We propose policy ideas to lift the material barriers that price people out of parenthood and prevent them from starting or growing their families.

The UK has a 'birth gap', meaning UK women are having smaller families than they want. While women on average say they want 2.35 children, the UK's actual birth rate is only 1.49 and we have a long-running trend of falling fertility, as can be seen in Figure 1 below.[1] Many parents and prospective parents cite material factors — including financial instability, difficulty accessing housing, and childcare costs — as preventing them from starting or growing their families.

Figure 1: Total fertility rates in England & Wales, 1939-2021

Source: Office for National Statistics, Onward analysis[2]



It is urgent to close the birth gap not only because of the thousands of people who are being locked out of family life, but because children are important, in their own right, socially, and economically. As life spans increase and the fertility rate declines, our working-age population is shrinking. The demand on the public purse is rising as its income through tax revenue diminishes. The effects of an ageing society threaten our prosperity and standard of living, dragging down productivity and economic growth, while reducing the functioning of public services and curtailing our ability to care for an older population.

Averting the negative consequences of an ageing society will mean increasing the size of our working-age population. Some suggest higher immigration is the solution. But modelling has demonstrated that the amount of immigration necessary to offset or even largely ameliorate the effects of an ageing population is extremely large.[3] Research published in 2023 found that maintaining a 'reasonable' ratio of working-age people to those aged over 65 into the middle of this century – still lower than the ratio we have today – through immigration would require 37% of the UK population to be foreign-born by 2083, with annual net immigration starting at 500,000 and rising over time. Currently, just under 15% of the UK population is foreign-born.

Not only does democratic consent for permanent immigration of this level not exist,[4] but with many other nations experiencing falling fertility rates and looking to bolster their working-age populations, the UK may struggle to attract such a level of immigration in the medium to long term.

The collective challenge of the ageing society means making it easier for everyone to have and support the children they want when they want is in all our interests. In tangibly making life better for families and consistently communicating that we appreciate and recognise the efforts of parents, we can move the dial and see more people reach their desired family size and meet the UK's demographic challenge.

Executive summary

This paper argues that in having children, parents make an important contribution to our future shared prosperity and that the UK should do a better job of recognising that, making it easier for couples to start and support families.

Focusing on working parents, the paper looks at the tax system, the social security system and parental employment rights. It highlights the ways in which these systems do not function well for working parents and proposes a package of reforms. If all proposed reforms were implemented then all working parents would be better off in terms of job security, income, or both, regardless of income, marital status, and whether or not they are receiving benefits.

We believe that these policies, by improving the financial wellbeing and stability of all working parents, can help close the UK's 'birth gap', so that all parents can realise their ideal family size.

The Tax System

A major consequence of the UK's individual taxation model is that children are not properly recognised in the tax system. Dependent children are not accounted for and parents do not pay less tax as a result. This is different to many other similar countries, including France and Germany, and means that the UK is missing an opportunity to use the tax system to reflect the contribution that parents make in having children.

The parents of young children are also more likely to be under financial strain, both because of their stage of life and of the costliness of children in their early years. 19% of households with dependent children are in 'serious financial difficulty' compared to 13% of those without dependent children.

Reform is justified by the twin rationales of ability-to-pay and lifetime transfer.

First, in having and raising children, parents take on significant fixed costs. By directing their income towards paying for their children's needs, parents have less money left over to pay tax: their ability-to-pay is reduced.

Second, taxes can be used to redistribute money between people, from those who are wealthy to those in need of support, but also to facilitate lifetime transfers for individuals. A lifetime transfer mechanism allows tax to be lessened upon individuals at times in their lives when they are likely to be poorer, and raised at times in their lives when they are likely to be wealthier.

We recommend the introduction of a tapered child tax allowance, allowing the UK tax system to 'see' and account for children. The child tax allowance will essentially raise the personal tax allowance for parents and be most generous when children are youngest. This measure could be funded by freezing the personal tax allowance threshold.

High Income Child Benefit Charge

The High Income Child Benefit Charge is a clawback mechanism that reduces a family's Child Benefit payment after the parents reach a certain income threshold. It is another aspect of the tax system that fails to reflect the contribution that parents are making.

That is because, despite recent and welcome reforms, the High Income Child Benefit Charge continues to create high effective marginal tax rates for families and is particularly burdensome for single parent families. Even post-reform, the High Income Child Benefit Charge affects 22% of families with dependent children, some 1.8 million families in total, up from 13% of families with dependent children when it was introduced in 2013.

We recommend the abolition of the High Income Child Benefit Charge, ending the means-testing of Child Benefit.

Social Security System

The two-child benefit cap, introduced in 2017, caps the child element of Universal Credit and the Child Tax Credit so that parents do not receive these benefits for any third or subsequent children born after April 2017. It is affecting an increasing number of families, primarily working parents. As of April 2024, the cap meant that around 450,000 families were not receiving the child element of Universal Credit or Child Tax Credit for at least one child in the household.

The two-child benefit cap increases children's risk of being in poverty. In 2022/23, 4.3 million children were in relative low income after housing costs, the highest level of child poverty after housing costs in 30 years. The cap also sends a harmful signal that the government does not value children, both as individuals and as crucial contributions to our future. This is not only wrong but counterproductive in an ageing society.

We recommend the two-child benefit cap be abolished.

Parental employment rights

For UK women, becoming a mother is associated with earning less money and working fewer hours. Research suggests that, as a result, many women are concerned that parenthood is incompatible with a career.

In making parenthood a financially and professionally risky choice for women and their partners, this ‘motherhood penalty’ forces couples to delay having children for longer than they want to. Parental employment rights are a key lever for policymakers seeking to alleviate the ‘motherhood penalty’ and mitigate the trade-off between career and parenthood.

Good parental employment rights meet the following four-part test: provide parents and prospective parents with certainty; allow parents to spend the time they want to with their children in the early years; ensure that parents have a smooth transition back into the labour market; and ensure the UK can maximally benefit from working parents' economic contributions.

To meet the standard of this four-part test, reforms must be made to: Statutory Maternity Pay; Statutory Paternity Leave and Pay; and the obligations upon businesses to inform prospective employees about their parental leave policies.

Statutory Maternity Pay

The ‘41 week’ rule means that to be eligible for Statutory Maternity Pay, a new mother must be working for her employer before becoming pregnant. This deters pregnant working women from changing jobs, forcing women to weigh up whether a new opportunity offsets the financial blow of losing Statutory Maternity Pay. It also deters women who are moving jobs, or who plan to, from trying to conceive.

Furthermore, while women receive 90% of their average weekly earnings for six weeks, Statutory Maternity Pay payments then become significantly less generous for the remaining 33 weeks, dropping to £184 or 90% of a woman’s average weekly earnings, whichever is less. This increases financial pressure on new mothers: £184, the maximum an eligible woman can receive after the initial six weeks of Statutory Maternity Pay have elapsed, is just over a third (34.7%) what the median woman aged 22-39 earns in a week before tax in the UK.

We recommend the ending of the '41 week rule', so that all women are eligible for Statutory Maternity Pay if they have been employed by any employer for 26 weeks out of the 66 weeks before their expected week of childbirth. To increase the financial stability of new mothers, we also recommend that Statutory Maternity Pay payments at 80% of women's average weekly earnings be doubled from six weeks to 12 weeks.

To contribute to these expansions in the scope and eligibility of Statutory Maternity Pay, we propose capping Statutory Maternity Pay at £577 a week. With the median average working woman aged 22-39 earning £529 a week before tax in 2023, the cap would only affect the top 25% of female earners in this age group.

Statutory Paternity Leave and Pay

Eligible UK fathers receive only two weeks of Statutory Paternity Leave. There is consensus between the public, employers, and academic research that this is too short. Furthermore, the amount of pay fathers receive during these two weeks is capped at £184, or 90% of their average weekly earnings, whichever is less. This is equivalent to an annual wage of under £9,000 a year, less than half the earnings from a full time minimum wage job, and is 71% less than the gross weekly pay earned by the median man aged 22-39 in the UK.

This brevity of Statutory Paternity Leave and ungenerosity of Statutory Paternity Pay puts new parents under undue pressure and does not support working parents to spend the time they want to with their children in their early years,

Though a minority of fathers have access to enhanced Statutory Paternity Leave offered by their employers, these fathers are much more likely to be higher earners. This means that it is families lower down the socio-economic spectrum missing out on the benefits of longer paternity leave.

We recommend tripling Statutory Paternity Leave to six weeks and increasing Statutory Paternity Pay to 80% of average weekly earnings, capped at £577 a week.

Lack of parental leave transparency

Employers are not obliged to publish their parental leave policies or put this information into job adverts. This means that some applicants and current employees must ask their managers or seek clarification during the recruitment process. With 52% of women reporting experiencing some form of discrimination while pregnant, on maternity leave, or upon their return from maternity leave, many applicants are understandably unwilling to do this. This lack of transparency contributes to uncertainty for parents and prospective parents.

We recommend the government make it mandatory for employers to publish information on what maternity and paternity leave and pay they offer in all job advertisements, giving parents the certainty they need to make informed decisions and plans.

Funding a new deal for working parents

The full package of policies proposed in this report will cost just over £8 billion annually to implement. This is undoubtedly a sizable investment. But turning the tide on the UK's birth gap demands serious action. These measures would transform the nature of national support offered to working parents and prospective parents, marking a renewed focus on helping younger generations to get on in life and raise families.

While still continuing to meet important obligations owed to older people who have contributed all their lives, the Government should consider shifting the balance of state support towards working families. For example, two politically challenging measures - indexing the state pension to wages and raising the state pension age by one year - could raise over £17.3bn annually, more than necessary to support a New Deal for Parents.

These steps will not be easy, and some will say the country cannot afford to make this investment. But a New Deal for Parents that makes it easier for prospective mums and dads to start the families they want is an essential part of securing Britain's future. The country cannot afford not to.

Problem		Solution	
1.	Children are not recognised in the tax system, which means the additional costs borne by parents with dependent children are not accounted for and parents do not pay less tax as a result	1.	Introduce a child tax allowance, recognising the financial pressures on parents and reducing their tax burden
2.	High Income Child Benefit Charge inflicts high effective marginal tax rates on parents	2.	End the High Income Child Benefit Charge
3.	The two-child benefit cap increases children's risk of being in poverty and the policy sends a harmful signal that the government does not value children	3.	Abolish the two-child benefit cap
4.	The current parental employment rights system does not offer prospective parents and parents adequate certainty, time with their children, and financial support	4.1	End the Statutory Maternity Pay '41 week' rule and instead make women eligible for Statutory Maternity Pay if they have been employed by any employer for 26 weeks out of the 66 weeks before their expected week of childbirth
		4.2	Increase Statutory Maternity Pay and introduce a Statutory Maternity Pay Cap
		4.3	Triple Statutory Paterntiy Pay
		4.4	Increase Statutory Paternity Pay
		4.5	Make it mandatory for employers to publish information on what maternity and paternity leave and pay they offer in all job advertisements

Introduction

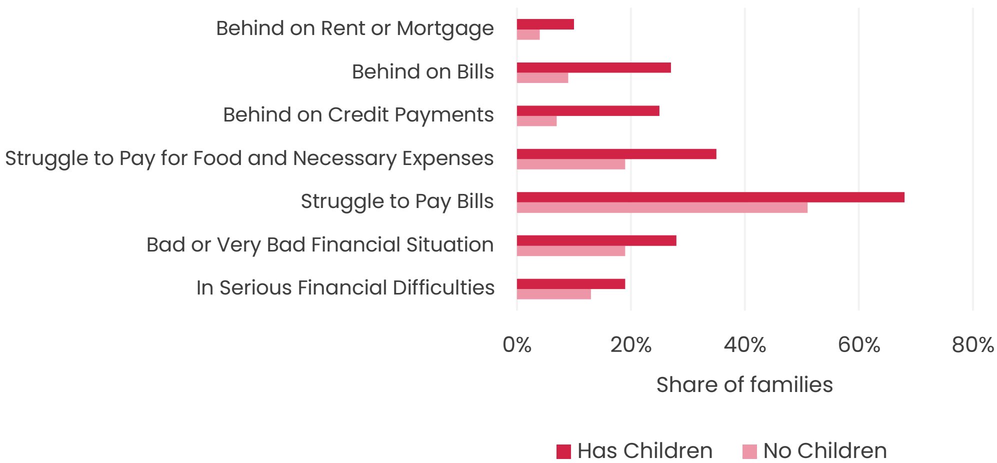
Britain's 'birth gap'

This paper focuses on working parents, and how the UK can better support them and reflect the contributions to the country's mutual prosperity they make in having children. It highlights the ways in which the UK is failing to recognise these contributions and puts particular burdens upon working parents, and how that can be changed.

As Figure 2 below shows, parents are more likely than those who are not raising children to be financially struggling. 2023 data shows that 19% of households with dependent children are in 'serious financial difficulty', as opposed to 13% of those without dependent children. In 2023, households with dependent children were also significantly more likely to be behind on their household bills (27% versus 9%) and on their rent or mortgage payments (10% versus 4%).[5]

Figure 2: Reported household financial security by dependent children, 2023

Source: Action for Children, Onward analysis[6]



The financial strain experienced by those with young children leads prospective parents to delay having children and prevents people from having the number of children they want, because of the anticipated impact on household finances and fears about economic vulnerability.[7] There is very strong global evidence that economic uncertainty makes people more likely to delay having children and UK polling from 2023 found that 41% of those who were unsure about whether they would have children felt they would need to 'become less economically vulnerable' in order to do so.[9]

Importantly, improving families' financial stability helps parents to realise their ideal family size. When the Bank of England lowered its interest rate during the financial crisis era of 2008 and 2009, UK families of childbearing age with mortgages on an adjustable rate saw a swift decrease in their mortgage payments. This unexpected increase in wealth – despite coming at a time of great difficulty for many – had a sizable positive effect on fertility: Bank of England analysis indicates the change led to an additional 14,500 babies being born in 2009 and an increase in UK birth rates by 7.5% over the next three years.[10]

Based on the evidence that improving parents' financial wellbeing and stability is key to helping individuals have the families they want when they want, this paper examines and proposes reforms across three areas of policy that affect working parents: the tax system; the social security system; and parental employment rights.

This package of reforms will work to directly improve working families' financial wellbeing and stability, making it easier for couples to reach their desired family size and helping to close the birth gap. Taken together, these reforms will positively affect the life of every working parent in some way, regardless of their income level, whether or not they are claiming benefits, and whether they are married, cohabiting or single.

There are other factors that make it difficult for parents and prospective parents, including working parents, to have the children they want when they want, but that are not covered in this paper. These include childcare and housing costs. The New Deal for Parents plans to investigate and produce research on these topics over the course of 2024.

The tax system

People should not be treated as untethered free economic agents. To understand an individual's financial position, they must be placed in the context of their household and the obligations and responsibilities that come alongside it. This allows us to ask questions including: does the individual's household benefit from the income of another earner also? Are there dependents in the home, such as children or elderly parents, that the individual supports? What necessary expenses does the person have that come alongside these dependents? These questions give important insight into every individual's financial situation.

Our tax system does not operate on the basis of this perspective. It snips individuals out of the context of their household, working on the basis of individual taxation only: how much tax each person should pay is based on their individual earnings, not on the household context in which they live and take every economic decision.

This system of individual taxation is the product of reforms initiated by then-Chancellor Nigel Lawson in the 1980s, with independent taxation enacted in 1990. The transition to individual taxation was completed in 2000 when Gordon Brown abolished the Married Couples Allowance.

Reform away from the household taxation system was undertaken with good reason. Household taxation can disincentivise second earners, because if an individual's co-resident partner is a higher rate tax payer, they themselves are immediately affected by the tax band the primary earner pulls the household into. This effect is likely to disproportionately impact women married to higher earning men, discouraging them from participating in the labour market with negative effects on productivity. As highlighted in Onward's 2021 report Family Fortunes, with the majority of UK parents wanting to work, the individual taxation model is broadly the right one for the UK.[11]

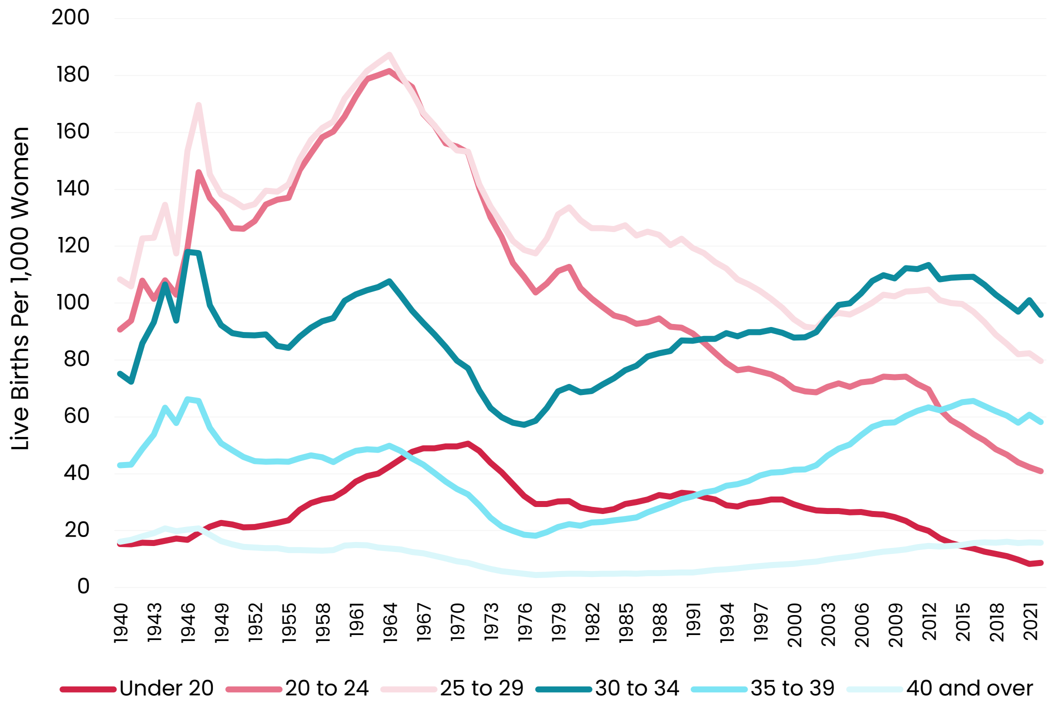
Parents do receive support for their children from the state, in the shape of free education, subsidised travel schemes, and many receive child benefit. But an outcome of Britain's embrace of the individual taxation model is that children are not recognised in the tax system. This means that the additional costs borne by parents with dependent children are not accounted for.

Yet the parents of young children are under particular financial strain for two reasons. First because people are most likely to become parents – and so take on the expenses of parenthood – in their late twenties and early thirties, a time when they are less wealthy and financially stable in comparison with those in older age groups. Second, because children are more expensive in their early years. In part because of childcare costs and the extent to which having very young children limits parents', particularly mothers', ability to work.

As shown in Figure 3 below, the number of children born to women aged below 35 has been declining for decades, likely reflective of the particular burdens upon young prospective parents.

Figure 3: Live births per 1,000 women by age cohort in England & Wales, 1940-2022

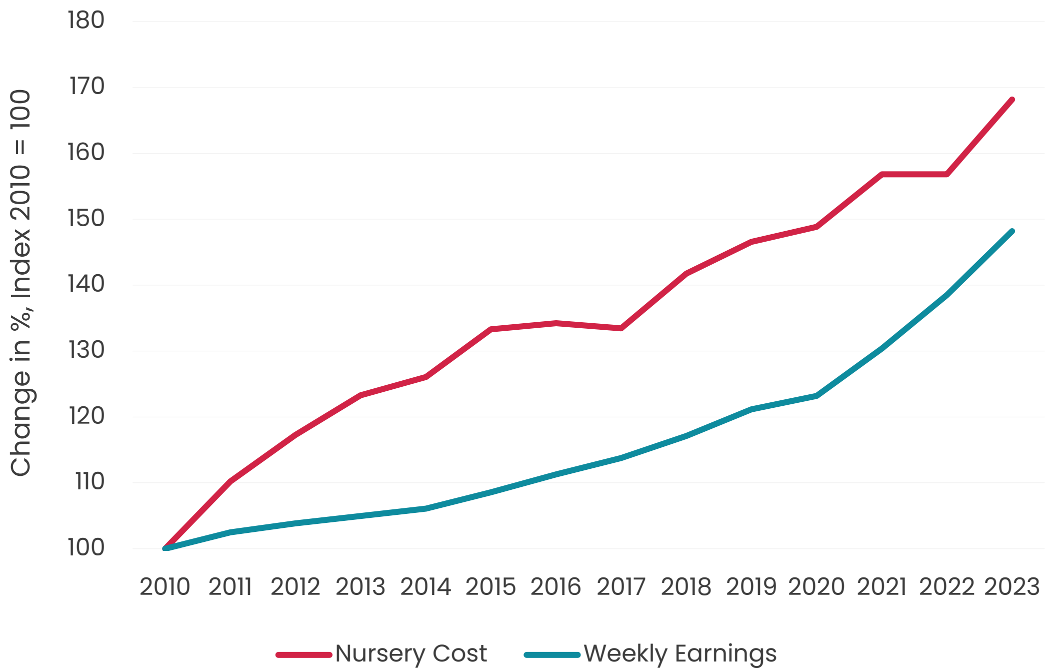
Source: Office for National Statistics, Onward analysis[12]



Some of the costs parents face have also precipitously increased, including childcare. Figure 4 below shows the extent to which increases in nursery costs for children aged under two have outpaced growth in average weekly earnings since 2010.

Figure 4: Growth in nursery costs for children under the age of two and average weekly earnings in England (2010 - 2023)

Source: Office for National Statistics and Family & Childcare Trust, Onward analysis[13]



Governments can and regularly do use taxes as a behavioural tool that can better align private and social incentives. ISAs give retail investors a tax-free way of investing money, encouraging investment and saving. Gift Aid means higher rate taxpayers receive some tax relief on money they donate to charities. Conversely, taxes on cigarettes and related products disincentivise the unhealthy and addictive practice of smoking by making taking it up costly.

In having children, parents make an important socio-economic contribution to the country's shared future. By not recognising children in the tax system, an opportunity is missed not only to better support parents materially, but to send the signal to parents and prospective parents that their efforts are valued.

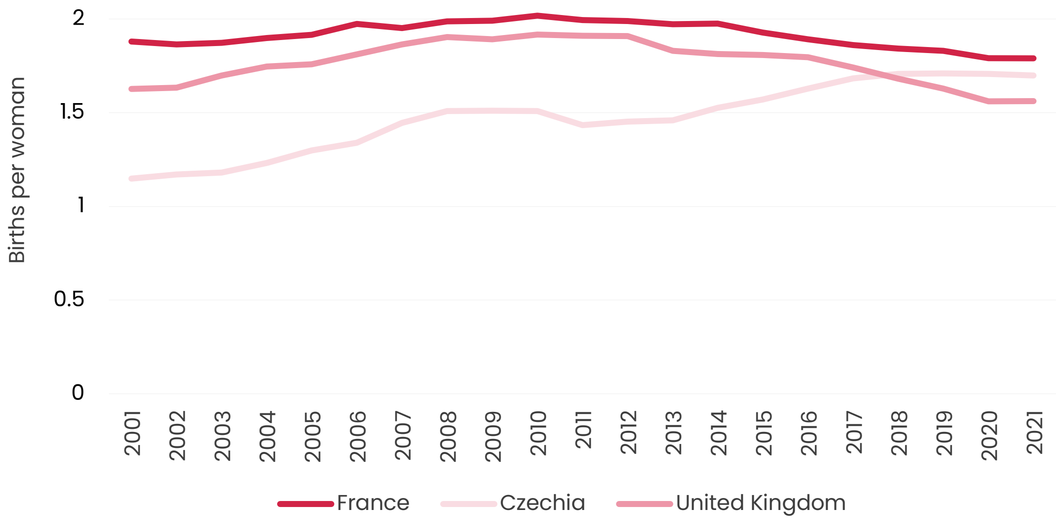
While the UK's non-recognition of children in the tax system is not necessarily unusual, many European countries take a different approach.

France uses a quota system called the *quotient familial*. This is a form of income splitting that means the system can 'see' dependent children and reduce the tax burden on parents in recognition of the additional costs they bear.[14]

In Czechia, child tax credits are in place for households with dependent children. This child tax credit is worth, roughly, £520 for a first child, £764 for a second child, and £953 for a third.[15] A family-friendly tax system is an important part of Czechia's offer to families, which has been the subject of democratic political focus and policy innovation in the country since the late 1990s.

Figure 5: Fertility rate in France, Czechia and the United Kingdom, 2001-2021

Source: Our World in Data, Onward analysis[18]



While Czechia has seen its birth rate increase from 1.13 children per woman in 1999 to 1.7 in 2021,[16] France had the highest birth rate in the EU at 1.83 in 2021. With excellent evidence that uncertainty, including financial and political uncertainty, makes people less likely to have children,[17] it is likely that France and Czechia's long-running and predictable policy record of working to make family life easier has helped give their citizens the certainty that means they can have the families they want when they want. Both countries enjoy a fertility rate that is higher than the UK's.

Instead of a wholesale replacement of the individual taxation model, it is quicker and more pragmatic to implement reforms that ameliorate its negative effects upon families while still allowing us to capture its benefits.

Reforms are justified by the linked rationales of ability-to-pay and lifetime transfer.

First, ability-to-pay is an economic principle providing that those with greater wealth and income should pay greater levels of tax, while those with less wealth and income should pay lower levels of tax. In having and raising children, parents take on significant fixed costs, from the need for extra space and childcare to extra clothes and food. In short, by directing their income towards paying for their children's needs, parents have less money left over to pay tax.

Second, taxes can be used to redistribute money between people, from those who are wealthy to those in need of support, but also to carry out lifetime transfers upon individuals. Policies that facilitate lifetime transfers mean tax burdens can be lessened upon individuals at times in their lives when they are likely to be poorer, and raised at times in their lives when they are likely to be wealthier.

Recommendation 1: Introduce a child tax allowance

The current income tax system treats everyone equally and individually. Whether you are an adult or child, you can earn £12,570 a year and pay no income tax. There are also small additional individual allowances for savings income, and there is a small transferable marriage allowance.

The case for the UK's individual taxation system is strong, because a household taxation system can hugely reduce the incentive to work - particularly for commuting mothers, who have to pay both transport and nursery costs.

There is, however, a very strong case for recognising children in the tax system. Children do increase costs, and reduce the ability to contribute to the tax system. We also know that the period in which people have children, particularly small children, can be particularly costly.

For these reasons, the individual personal allowance should be frozen, and an additional personal allowance for people with dependent children should be created: the child tax allowance. By effectively raising the personal tax allowance for parents of young children, a child tax allowance would recognise the financial pressures on parents and reduce their tax burden.

Raising the personal tax allowance threshold by 1% costs a little over £1 billion.[19] Preserving the current level, therefore, saves around £2.5 billion a year, with inflation at 2.5%. This will be cumulative - that is, £2.5 billion in year one, £5 billion in year two, £12.5 billion in year five, and so on, although the exact amount will depend on inflation.

There are 15.2 million parents in 8.2 million families with children,[20] of whom 12.6 million are in work.[21] The ONS does not record the proportion of parents who are below the income tax threshold, basic rate payers, and higher rate payers. If it is assumed, for simplicity, that all working parents are basic rate taxpayers, this implies that, £2.5 billion can be used to create a child tax allowance of £1,000 per child, making each of these 12.6 million working parents with children £200 better off per year on average. £12.5 billion can be used to create a £5,000 child tax allowance that makes each working parent £1,000 better off per year on average.

With the cumulative savings from the frozen general personal tax allowance, after five years a £5,000 child tax allowance can be created that makes a family with two parents working full-time £2,000 better off per year on average. This would be paid irrespective of the number of children or their age. If funding for the child tax allowance increases over time, it should be tapered to be most generous when children are in their early years and most costly, particularly because of childcare.

A child tax allowance will give more money to higher rate taxpayers than to others. This is appropriate above all because the reform is paid for by freezing the personal tax allowance. This means that richer people without children - including those who will have children in future, or who now have adult children - will pay most for this change. The proposal is as much about reallocating your tax contribution away from the period in which you have children, to other periods of your life.

Indeed, in giving parents a more generous tax allowance when their children are young, and a less generous one when their children are no longer dependent, this policy is a lifetime transfer, reducing the tax burden on parents when they are poorer and increasing it as their ability-to-pay and disposable income rises.

The introduction of a child tax allowance will mean an ultimate redistribution of wealth away from those who will never have children. This is because non-parents never become beneficiaries of the child tax allowance, but still help fund it via taxes.

This is reasonable because the positive socio-economic effects of children are felt across society and not only by parents. All collectively benefit when it is easier for people to have the children they want and the effects of the UK's ageing society is mitigated. This includes people who do not have and do not want children. Despite this nation-wide benefit, it is individual parents who take on additional costs when they have children. For these reasons, it makes sense for non-parents to contribute to national efforts to better support parents.

It is not proposed to make the child tax allowance transferable between parents. There is a significant risk that a transferable allowance would weaken mothers' incentive to work, including by disincentivising full-time work as mothers who have transferred their allowance will experience a higher rate of taxation more quickly with greater earnings. Reducing the trade-offs between career and parenthood is key to helping more women to have the families they want, and a transferable child tax allowance would likely be counterproductive to that.

In introducing a child tax allowance, the government would send an unmistakable signal to parents that the contribution they are making in having children is recognised and valued, and that the government will support them. As mentioned above, governments frequently make use of tax-based incentives to encourage, reward, and recognise pro-social behaviours including investment and charitable giving.

The tax system's current inability to recognise children sends a very different type of signal: that the state does not adequately value or recognise the contribution that parents are making in having children and accordingly, does not support them as it could.

The High Income Child Benefit Charge

Far from reflecting the socio-economic contribution parents make to our mutual prosperity, there are design elements in the tax system that actually increase the financial burden upon parents.

Parents eligible for Child Benefit currently receive £24 a week for their eldest or only child, and £15.90 per week for each additional child. But once a parent in the household begins to earn over £60,000, they are subject to the High Income Child Benefit Charge. The High Income Child Benefit Charge is a tapered clawback mechanism: a tax charge equal to one percent of a family's Child Benefit for every £100 a person in the household earns over £60,000. Once an individual earns £80,000, their household is no longer eligible for Child Benefit. In order to pay the charge, every parent earning who receives Child Benefit and earns over £60,000 must submit a Self Assessment tax return each year, or choose not to claim Child Benefit at all.

The High Income Child Benefit Charge was introduced in 2013 as a cost-cutting measure that turned Child Benefit from a universal payment to every family on a per child basis to a means-tested one. The High Income Child Benefit Charge was originally introduced with a payment threshold of £50,000, affecting 13% of families with dependent children.[22] There have been three major concerns with the design and effect of High Income Child Benefit Charge since its introduction.

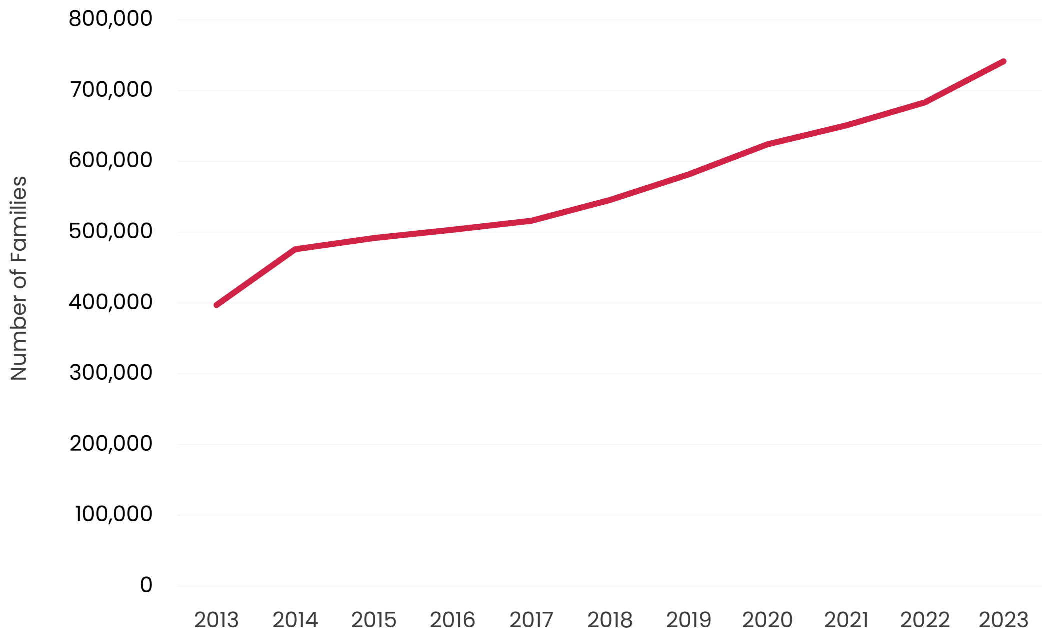
First, the effects of fiscal drag meant that more and more families became subject to the charge. By 2022/23, the proportion of families with dependent children affected by the charge had doubled to 26%, meaning some two million families were having their Child Benefit partially or completely withdrawn by the measure.[23]

Second, High Income Child Benefit Charge has interacted with student loan repayments and the Universal Credit work allowance taper to produce very high effective marginal tax rates for some parents, up to 92% for those with two children and 96% for those with three children.[24] This was particularly the case for single parents and those in single earner households.

Third, the number of families who have chosen to opt out of receiving Child Benefit payments has steadily increased since the introduction of the High Income Child Benefit Charge. Between 2022 and 2023, the number of families who opted out increased by 9%, with 714,000 families opting out in 2023.[25] The administrative burden of the High Income Child Benefit Charge – which requires the submission of a Self-Assessment tax return annually – may make parents likelier to forgo a partial Child Benefit payment that they are entitled to.

Figure 6: The number of families opting out of receiving Child Benefit payments, 2013–2023

Source: HM Revenue & Customs, Onward analysis[26]



The previous government responded to these concerns in March 2024 by lifting the High Income Child Benefit Charge payment threshold to its current £60,000 and doubling the length of the taper.[27] These reforms have reduced the number of people who are affected by the charge, and the effective marginal tax rate has decreased from 71% to 57% for those who remain affected.[28]

However, even post-reform, it is the case that 1.8 million families – 22% of families with dependent children – are still subject to the High Income Child Benefit Charge and lose out on some or all of Child Benefit because of it. This means that despite the Government's changes, the charge is still affecting considerably more families than upon its introduction in 2013, when it affected 13% of families with dependent children.[29]

Recommendation 2: End the High Income Child Benefit Charge

Despite these welcome reforms, the High Income Child Benefit Charge continues to contribute to extreme effective marginal tax rates for many families, particularly single parent and single earner families.

The means-testing of Child Benefit should be ended, removing cliff edges in the tax system for parents and sending a strong positive signal of support to parents.

Abolishing the High Income Child Benefit Charge would cost £3.4 billion per year.[30]

The social security system

While the UK's tax system assesses payees as individuals to establish what they should pay, the social security system examines recipients within their household context to establish what they are entitled to.

Just as the ability-to-pay principle provides that those with greater wealth and income should pay greater levels of tax, and that those with less should pay less, the need principle provides that those with greater need should receive more social security support. As discussed above, parents raising children have fixed expenses and it is logical that parents relying on social security payments should receive more support when they have more children.

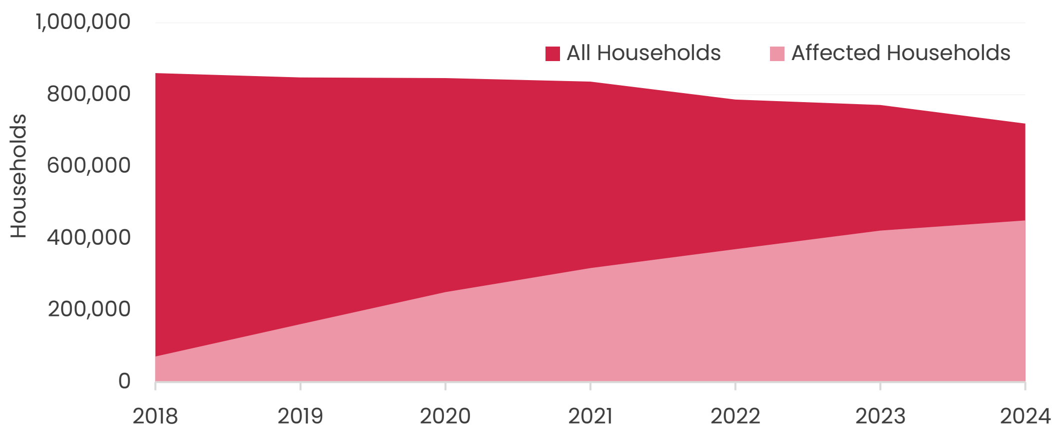
But the two-child benefit cap, introduced in 2017, undermined the relationship between a household's need and what they are entitled to receive in support. The two-child benefit cap applies to two different means-tested benefits, the child element of Universal Credit and the Child Tax Credit, which is a legacy benefit that the child element of Universal Credit is replacing as it is rolled out. The child element of Universal Credit is worth £3,445 per child per year.

The two-child benefit cap restricts payment of these means-tested child benefits to only two children per family: parents will not receive these payments for any third or subsequent children born after April 2017.

The design of the two-child benefit cap means the number of families affected by it is increasing, as shown in Figure 7 below. In 2018, 70,000 families were affected. In 2024, it had increased to 450,000.[31]

Figure 7: Households claiming the child element of UC or Child Tax Credits, affected by the two-child benefit cap, 2018-2023

Source: Department for Works & Pensions, Onward analysis[32]



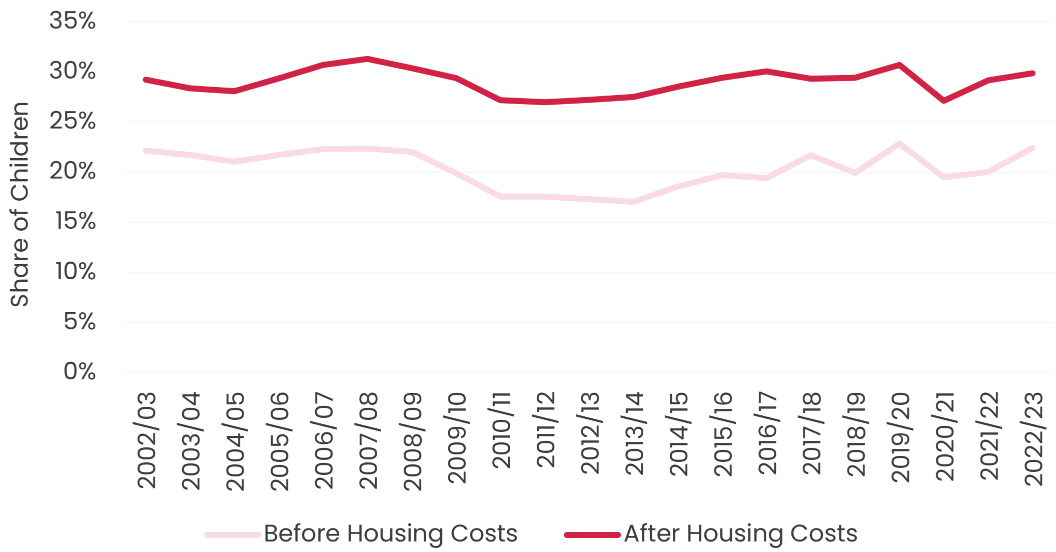
The two-child benefit cap primarily affects working parents. Some 59% of those who miss out on child tax credit payments and 57% of those affected by the withdrawal of the child element of Universal Credit are in work.[33] It also disproportionately affects single parent families, as they are more likely to be in poverty.[34]

Analysis of the two-child benefit cap's effects has found a small but negative impact on family sizes, reducing an affected family's chance of having a further child by 5%.[35] The same analysis found that the cap has an equivalent effect to a decrease in income of £3,000 per child relative to the pre-cap system.[36]

As Figure 8 below shows, this is taking effect in a wider context of increasing child poverty. In 2022/23, 30% of children (4.3 million) were in relative low income after housing costs, the highest level of poverty by this measure since it began being recorded in 1994/95.[37]

Figure 8: Percentage of children in relative low income after and before housing costs, 2002-2023

Source: Department for Works and Pensions, Onward analysis[38]



As the two-child benefit cap has not been found to have significantly reduced the number of households with three or more children, and is affecting more and more families, its main effect is to make more families poorer. Poverty rates are consistently already higher for larger families with three or more children, and have been rising since 2013. In 2013-14, 34% of children in large families were in relative poverty after housing costs,[39] but by 2021-2022 that had increased to 43%.[40]

Finally, as the tax system's failure to recognise children sends the signal that the government does not recognise or value parents' efforts in raising children, the two-child benefit cap similarly communicates a lack of recognition of the importance of children, as individuals and as crucial contributions to our future. In a country with an ageing society, this is counterproductive.

Recommendation 3: Abolish the two-child benefit cap

The two-child benefit cap, which primarily affects families with working parents, pushes more children into poverty and sends a harmful signal that the government does not value children.

The government should end the two-child benefit cap, meaning that eligible families with three or subsequent children born after April 2017 would receive the child element of Universal Credit or child tax credits for those third or subsequent children.

Estimates suggest ending the two-child benefit cap would cost £2.5 billion.[41]

Parental employment rights

For UK women, becoming a mother is associated with earning less money and working fewer hours. Public awareness about this ‘motherhood penalty’ is high: 53% of UK women aged 18-35 identify ‘impact on career’ as a key factor in influencing women they know not to have children, and indeed the second biggest factor after ‘impact on household finances’.[42] Qualitative research underlines that women delay starting their families because of a sense that parenthood is incompatible with a career and they must advance further in their careers before they can take on the financial risk of having a child. This is particularly the case for degree-educated women.[43]

These concerns are well-grounded. It is likely that the ‘motherhood penalty’ accounts for a significant proportion of the gender pay gap, with inequalities in earnings between men and women greatly increasing after parenthood.[44] There are major long term financial effects for individuals – reduced pension contributions from employers during maternity leave account for the gender pension gap, wherein women have average pension savings of £69,000 by the age of 67, in comparison with £205,000 for men.[45]

In making parenthood a financially and professionally risky choice for women and their partners, the ‘motherhood penalty’ forces couples to delay having children for longer than they want to. This contributes to the birth gap because postponing parenthood raises couples’ chances of childlessness or of a smaller-than-desired family because of the higher risk of infertility and difficulty conceiving that comes with age.[46]

Parental employment rights are the key lever for policymakers seeking to alleviate the ‘motherhood penalty’ and mitigate the trade-off between career and parenthood. Good parental employment rights give new and expectant parents certainty and stability, helping new parents to maintain contact with the labour market and transition smoothly back into their jobs. This allows couples to plan financially, confident that they will be able to access adequate paid support during leave – and able to return to work with minimum career damage.

In making it easier for new parents to maintain links with the labour market, good parental employment rights are also beneficial for the wider economy in helping parents remain productive participants in the labour force. This is especially true for women, who are far more likely than fathers to drop out of the labour force when they have children. It is important the UK does its utmost to preserve, unlock, and fully benefit from mothers' skills and economic potential.

Box 1: What do good parental employment rights look like?

In order to allow expectant couples to plan and have the children they want when they want, ensure the government supports parents back into work, and that the UK fully benefits from their human capital, a good parental employment rights regime meets the following four interconnected criteria.

1. Provide parents and prospective parents with certainty. The ability to predict how having a child will affect their finances and careers allows parents to make future plans and family-planning decisions with confidence. This increases the financial stability of parents and makes it easier for them to have the number of children they want when they want.

2. Allow parents to spend the time they want to with their children in the early years. Making it straightforward for parents who wish to to spend time with their children in their early years ameliorates the trade-off between parenthood and career, making it easier for parents to have children when they want and reducing the risk of permanent labour market drop-out.

3. Ensure that parents have a smooth transition back into the labour market. Making it simple for parents who have taken time off work to have children improves families' financial wellbeing. Again, a smooth transition back to the labour market also makes it easier for parents who wish to spend time with their children in their early years to do so, alleviating the trade-off between parenthood and career.

4. Ensure the UK can maximally benefit from working parents' economic contributions. Reducing the risk of the UK losing out economically from parents dropping out of the labour market or becoming less productive when they return to work means making it straightforward for parents to take temporary breaks with the certainty of a smooth return to work.

The next section considers different elements of the UK's parental employment rights regime and highlights how they fail to meet the above test and require reform to work better for parents.

Statutory Maternity Pay

Statutory Maternity Pay entitles new mothers to be paid 90% of their average weekly earnings, before tax, for six weeks. After this period elapses, new mothers then receive £184 a week, or 90% of their recent earnings, whichever is less, equivalent to working a 35-hour week for £5.25 an hour. Statutory Maternity Pay is paid by employers via PAYE, who claim an average of 90% back from the Government. The payments women receive are subject to tax and national insurance.

The '41 Week Rule'

To be eligible for Statutory Maternity Pay, an employed new mother must be working for her employer before becoming pregnant: this is known as the '41 week rule'. Otherwise, she will only receive the lower paid Statutory Maternity Allowance, which is worth only £184 a week at maximum. This deters pregnant working women from changing jobs, forcing women to weigh up whether a new opportunity offsets the financial blow of losing the considerably more generous initial six weeks of Statutory Maternity Pay. It also deters women who are moving jobs, or who plan to, from trying to conceive. Statutory Maternity Pay's current design does not meet the good parental employment rights test laid out above.

Statutory Maternity Pay is also very ungenerous in the brevity of its higher payment rate, with women moved onto a payment of £184 per week (at maximum) after six weeks. Though this system is more generous than some international comparisons and less so than others – Swedish mothers receive a little over 34 weeks of leave at 80% of their pay – the best illustration of the ungenerosity of the UK system is its impact on median earning women.[47]

The median employed woman aged 22-39 earned £528.90 before tax in 2023: payments to the median woman receiving Statutory Maternity Pay after the initial six weeks of Statutory Maternity Leave have elapsed would be just over a third (34.7%) of her usual weekly salary.[48]

This means that unless they return to work after the six weeks of Statutory Maternity Pay period has elapsed, working women who have a child face a very significant reduction in their income, alongside the rise in their costs that comes with having a child.

Recommendation 4.1: End the Statutory Maternity Pay '41 week' rule

The current eligibility design of Statutory Maternity Pay means that working women miss out on the payment if they are pregnant before beginning a new job. This deters women who are trying to conceive or who are pregnant from taking up new employment opportunities.

Instead, all women should be eligible for Statutory Maternity Pay if they have been employed by any employer for 26 weeks out of the 66 weeks before their expected week of childbirth. Positively, in July 2024, the Government set out its legislative agenda in the King's Speech, including the intention to make all parental employment rights applicable from day one of employment. There are no further details at the time of publication.

This change would mean that when an employed women becomes pregnant is irrelevant to whether or not she receives Statutory Maternity Pay. Instead, eligibility would rest entirely on how long a woman has been employed.

Requiring women to have been employed for 26 weeks out of the 66 weeks before the expected week of their childbirth means women who have never worked or have been unemployed for an extended period of time who get a job upon falling pregnant will not be able to access Statutory Maternity Pay under this proposed reform. This prevents abuse of the system: a woman who has never worked will not be able to ask a friend to employ her in a pretend job in order to get Statutory Maternity Pay.

Employers will continue to receive government support for these payments. Currently, employers are able to claim back the majority – 92% on average – of Statutory Maternity Pay payments back from the government. Small employers qualify for Small Employers' Relief and can claim back 103% of benefits paid. It is not clear what the cost to the government of this change would be as we do not know whether the abolition of the '41 week rule' will mean that there are significantly more Statutory Maternity Pay claimants or how the change might affect women's behaviour.

Level of Statutory Maternity Pay

The initial six weeks of Statutory Maternity Pay is currently uncapped at 90% of a recipient's average weekly pay, but then decreases to a maximum of £184 a week for 32 weeks. This means that eligible women receive 90% of their salary for six weeks no matter how high their salary is.

The government then makes a major contribution to that cost through reimbursement claims made by employers. Currently, someone earning £200,000 a year can claim more than £20,000 in Statutory Maternity Pay over their six week eligibility period. Their employer will then claim back almost all of that amount from the government, that is, from taxpayers.

At the same time, the 32-week cap of £184 puts financial pressure on many new mothers and their families. A 2023 survey found that 58% of mothers returning to work from maternity leave early cited financial reasons, up from 42% in 2022,[49] reflecting the cost of living crisis' pressure on young families.

Recommendation 4.2: Increase Statutory Maternity Pay and introduce a Statutory Maternity Pay Cap

To increase the financial stability of new mothers, and to stop the government paying uncapped levels of maternity pay to some of the richest people in the country, a three-part reform should be made that follows the precedent of the Furlough Scheme.

1. Statutory Maternity Payments should be capped at £577, equivalent to the Furlough Scheme cap of £2,500 a month.
2. The proportion of salary paid to recipients should decrease from 90% to 80% of average weekly earnings – again following the Furlough Scheme's precedent.
3. Payments at 80% of recipients' average weekly earnings should double from six to 12 weeks.

With the median average working woman aged 22-39 earning £529 a week before tax in 2023,[50] the proposed cap would mean only the top 25% of female earners in this age group will receive less for the first six weeks of Statutory Maternity Pay than they would without the cap.

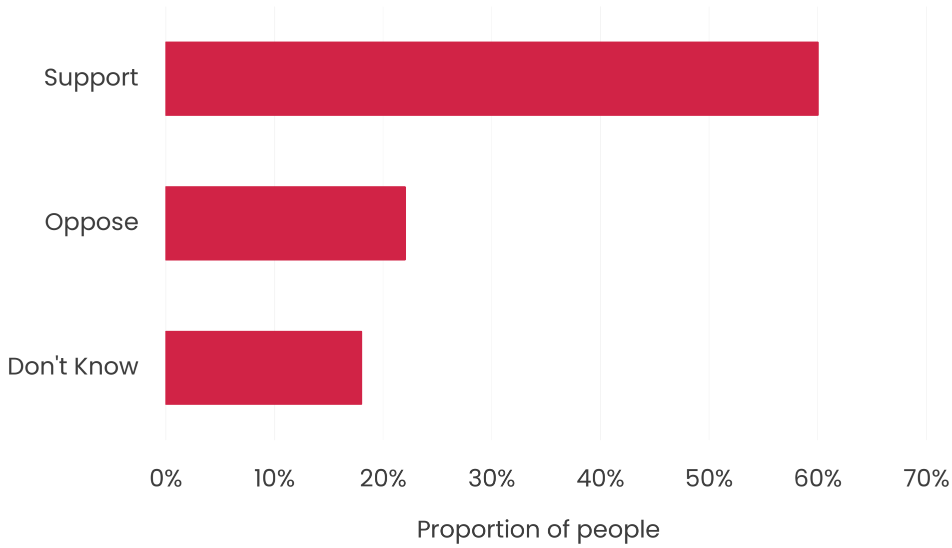
With the savings from the payment cap accounted for – around £450 million – doubling the higher payment period from six to 12 weeks, but at a rate of 80% of average weekly earnings, would cost around £870 million, with the estimated cost of extending Statutory Maternity Pay at 80% of average weekly earnings £231 million a week.[51]

Statutory Paternity Leave and Pay

Eligible UK fathers receive only two weeks of Statutory Paternity Leave. Multiple surveys have shown that the public believe this is too little and should be extended, with 60% of British adults surveyed in 2019 supporting an extension to twelve weeks.[52] Many employers agree: almost half of UK company senior decision makers support extending statutory paternity leave, with more than a quarter supporting an extension to at least six weeks.[53]

Figure 9: Proportion of people who say they support, oppose, or don't know if Statutory Paternity Leave should be increased to twelve weeks

Source: YouGov, Onward analysis[54]

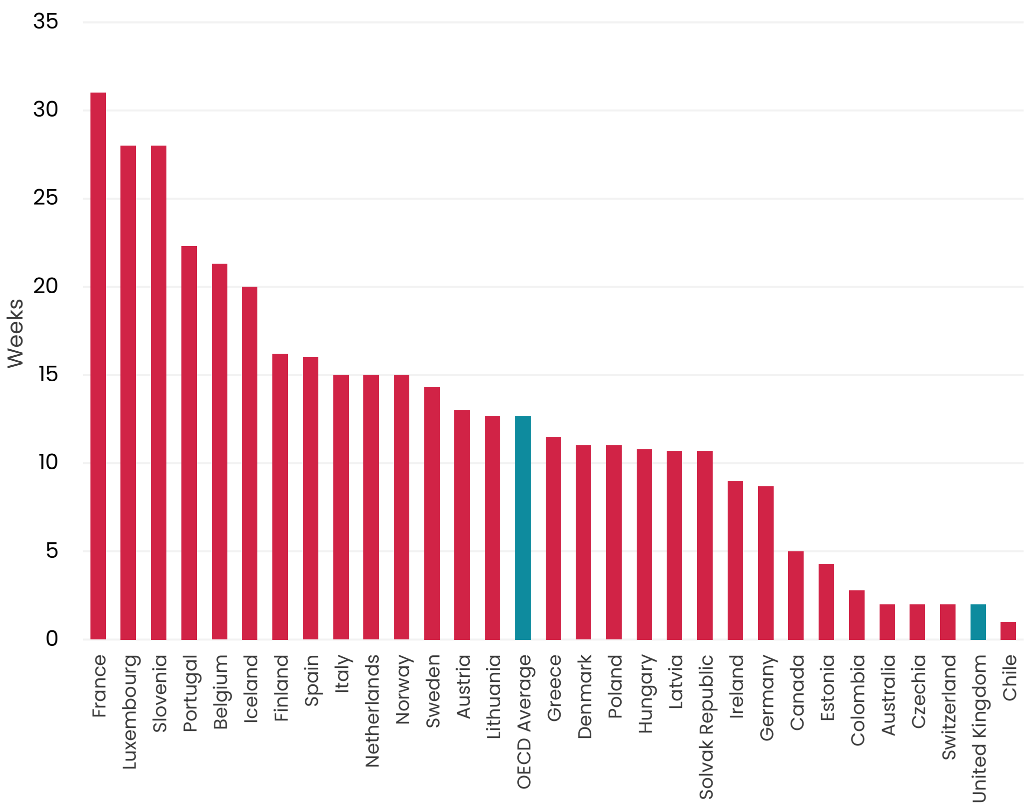


The public's consensus that two weeks of paternity leave is too short is supported by evidence that greater paternal involvement in the early years is positive for both parents and children. Alongside evidence that more involvement from fathers in early years caregiving decreases mothers' level of stress and strengthens couples' relationships,[55] paternal involvement is strongly associated with better cognitive developmental outcomes for children.[56] This is likely due in part to the lower demands placed upon an individual parent when their partner is present to offer support.[57]

As shown in Figure 10 below, the short length of Statutory Paternity Leave provided by the UK is by no means the norm, with significantly more generous provision in peer countries.[58] In Sweden, each parent is eligible for up to 240 days of paid parental leave, 90 days of which is non-transferable between parents. In 2021, France doubled the amount of paid paternity leave fathers are entitled to 28 days.[59] Spanish fathers are entitled to 16 weeks leave at full pay.[60]

Figure 10: Total paid leave available to fathers (weeks), 2023

Source: OECD, Onward analysis[61]



Fathers on Statutory Paternity Leave are entitled to Statutory Paternity Pay of £184 a week – equivalent to an annual wage of under £9,000 a year, or less than half the earnings from a full-time minimum wage job. In 2023, the median gross weekly pay earned by men aged 22-39 was £643.30, making Statutory Paternity Pay a 71% downgrade for the median man.

The financial strain this causes makes men less likely to take up Statutory Paternity Leave. 2019 data shows 74% of fathers take up the first week of leave they are entitled to, and 66% the second week. 35% of fathers who took no Statutory Paternity Leave and 62% of those who did not take their full entitlement reported that affordability was the primary reason they took no or less leave.[62]

Some UK employers offer enhanced paternity leave that goes beyond the statutory offer in terms of length and pay. But 2023 polling shows only 29% of fathers have access to enhanced leave, with almost two-thirds taking the statutory two weeks or less of paternity leave.[63] Fathers who do have access to enhanced paternity leave are much more likely to be higher earners. This means that it is families lower down the socio-economic spectrum missing out on the benefits of longer paternity leave.

In not supporting working parents to spend the time they want with their children in their early years, Statutory Paternity Leave and Pay's current design fails the good employment rights test outlined above.

Recommendation 4.3: Triple paid Statutory Paternity Leave to six weeks

At only two weeks, Statutory Paternity Leave is not adequate in providing fathers with the necessary time to support their partners and be with their new children. This is supported both by public consensus and research.

Statutory Paternity Leave should be tripled to six weeks. This will shrink the gap between those able to access enhanced leave via their employers and those, likely to be earning less, who are only offered the statutory minimum by employers.

For employers, the primary burden of this reform will be felt in employees taking more time away from work. However, as with Statutory Maternity Pay, employers are able to claim back the majority of the increased payments fathers will receive from the government, mitigating the burden.

Recommendation 4.4: Increase Statutory Paternity Pay

It is unrealistic to expect the vast majority of men to take Statutory Paternity Leave when the rate is just £184 a week, less than a third of what the median man aged 22-39 earns per week.

The rate of Statutory Paternity Pay should be raised to 80% of average weekly earnings for the entirety of the six weeks of Statutory Paternity Leave proposed above, capped at £577 a week, equivalent to the cap proposed for Statutory Maternity Pay. This would increase the average Statutory Paternity Pay payment to £577 a week.[64] Allowing for a small number of multiple births,[65] and some fathers not working,[66] the cost of this change is £1.4 billion.

Lack of parental leave transparency

As of 2022, a sizable minority of employers offer employees enhanced parental benefits including enhanced maternity pay policy (39%), enhanced paternity or partner leave policy (25%), and enhanced paternity pay (33%).[67]

Currently, employers are not obliged to publish their parental leave policies or put this information into job adverts. This means that some applicants and current employees must ask their managers or seek clarification during the recruitment process.

With 52% of women reporting experiencing some form of discrimination while pregnant, on maternity leave, or upon their return from maternity leave in 2023,[68] and 11% of mothers reporting leaving their jobs because of discriminatory or negative experiences such as these in 2015,[69] women may reasonably feel uncomfortable seeking such clarification from employers.

Clear information about what they are entitled to helps prospective parents – from those who are currently pregnant to those who are hoping to become parents soon – to plan and make financial arrangements with certainty. Conversely, the lack of accessible information makes it harder for couples to make informed decisions.

Recommendation 4.5: Make it mandatory for employers to publish information on what maternity and paternity leave and pay they offer in all job advertisements

The government should make it mandatory for employers to publish information on what maternity and paternity leave and pay they offer, along with information about eligibility. This information should be signposted to in job advertisements.

This low cost and simple intervention will increase transparency for parents and prospective parents, allowing them to make better family planning decisions without concerns that attempts to establish what they are entitled to will jeopardise their chance of getting a new job.

Funding a New Deal for Working Parents

As laid out in the table below, the policies recommended throughout this report amount to an estimated £8.17 billion a year. The cost of the abolition of Statutory Maternity Pay's '41 week' eligibility rule is not included as it cannot be reliably estimated because it is unknown how the change might affect women's behaviour. The recommendation to require employers to include their paternity and maternity leave and pay packages in job descriptions is also not included as it is cost-neutral.

Table 1: Cost of recommendations

Recommendation	Cost
A Child Tax Allowance of a £1000	- £2.5 billion
Freeze Personal Allowance threshold	+ £2.5 billion
Abolition of High Income Child Benefit Charge	- £3.4 billion
End of two-child benefit cap	- £2.5 billion
Increase Statutory Maternity Pay	- £1.32 billion
Introduce a Statutory Maternity Pay Cap	+ £450 million
Increase Statutory Paternity Pay and Leave	- £1.4 billion
Estimated Total Cost	**+ £8.17 billion**

At over £8 billion, the proposed new deal for working parents is undeniably a significant investment at a time when the country is facing fiscal challenges. But this concerted package of policies will be crucial in addressing long-running intergenerational unfairness in the UK, particularly in terms of our tax and benefits system, transforming the nature of support offered to children and prospective parents.

We owe important duties and responsibilities to older people who have contributed all their lives. But under-prioritising our working-age population chips away at the UK's long-term socio-economic stability. As young parents find it increasingly difficult to establish and support their families, they are in need of the renewed government focus and support this report recommends.

Table 2 highlights three current areas of spending on older age groups and how much revenue could be raised via a series of potential reforms.

The decisions that would need to be taken to fund this report's proposals would be difficult, including in political terms. But table 2 shows that there are options available to a government that is serious about supporting young families, both because it is the right and the economically prudent thing to do in a country under pressure from the costs of an ageing population.

Table 2: Funding a New Deal for Parents: options for reform

Current policy	Option for reform	Estimated amount raised
State Pension triple-lock The triple-lock is a guarantee that the value of the State Pension will not fall in real terms, increasing it annually by whichever is highest of average earnings growth, CPI inflation, or 2.5%. The triple-lock exceeds the government's legal obligation to increase State Pension annually in line with average earnings. The triple-lock means that government spending on State Pension is £11 billion higher than it would be without it.[70]	Remove the State Pension triple-lock Instead, the government would simply meet the legal requirement to raise State Pension annually in line with average earnings.	£11 billion
State Pension Age The State Pension Age is currently 66. Raising the State Pension Age from 65 to 66 in 2018 generated an estimated £5 billion for the Treasury, an estimated £6.3 billion in 2024 terms.[71]	Raise the State Pension Age from 66 to 67	£6.3 billion

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[66] "Families and the labour market, UK: 2021", ONS (2022).
[67] "Employer focus on working parents – Parental leave and pay and childcare policies", *CIPD* (2022).
[68] "1 in 61 pregnant women say their boss insinuated they should have an abortion", *Pregnant Then Screwed* (2023).
[69] "Pregnancy and Maternity-Related Discrimination and Disadvantage: Summary of key findings", *Equality and Human Rights Commission* (2015).
[70] Cribb, Emmerson and Johnson, "A new triple-locked personal allowance for pensioners?", *Institute for Fiscal Studies* (2024).
[71] J Cribb and L O'Brien, "How did increasing the state pension age from 65 to 66 affect household incomes?", *Institute for Fiscal Studies* (2022).

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