



How Much Does a Family Need to Earn to be Out of Poverty?

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A key policy objective is to reduce child poverty. But how much income does a family need to be above the “poverty line” and therefore how much does it need to earn? The answer depends on the size and composition of the family and also on its housing costs. There is no one answer.

Poverty means different things to different people. The Child Poverty Act 2010 defined poverty as children living in households with less than 60% of equivalised income – income adjusted for the size and composition of the household – before housing costs are taken into account. The Social Metrics Commission, in its recently published report¹, views poverty as being “the situation where a person’s available material resources are insufficient to adequately meet their immediate material needs”. The measure of resources available should, they say, include not only net income and benefits, but also deductions should be made for “costs that are inescapable in the short term” – in particular the cost of housing. The Commission is clear that resources have to be seen in context – a two-person family needs more than a single person. The poverty line will differ according to the make up of the household and its housing costs. Childcare costs and debt repayments should also, they say, be taken into account.

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The Department of Work and Pensions (DWP) publishes household income figures on an after housing cost basis². The Commission has some reservations about the way these figures are calculated – the needs of children may be underestimated, they do not differentiate sufficiently between children of different ages, and the needs of lone parents are probably underestimated. At present the DWP figures are the best available. The table below shows the poverty line in 2016/17 (latest available figures) for nine household types. A household is regarded as being in poverty if its income is below 60% of the equivalised median.

Poverty lines 2016/17

HOUSEHOLD	POVERTY LINE (£PW)
Single adult	£146
Couple no children	£252
Lone parent one child under 14	£197
Lone parent two children one over one under 14	£302
Lone parent three children one over two under 14	£353
Couple one child under 14	£302
Couple two children one over one under 14	£408
Couple three children one over two under 14	£459
Couple four children one over three under 14	£509

Neither the DWP nor the Institute for Fiscal Studies has published the gross equivalents. The table below shows our estimates of the pre-tax income these households will need in 2018/19 on the assumption that the family in each case will be paying rent of £150 per week. We recognise that in some cases rents will be higher and in others lower. For comparison purpose it seemed sensible to assume the same rent in each case.

¹ A new measure of poverty in the UK.

² Households Below Average Income (HBAI) 2016/17.



Gross Equivalents 2018/19 tax rates

HOUSEHOLD	POVERTY LINE (£PW)	PRE-TAX INCOME	INCOME TAX PA
Couple no children	£146	£17,785	£1,207
Lone parent one child under 14	£252	£25,602	£2,512
Lone parent two children one over one under 14	£302	£6,570	£0
Lone parent three children one over two under 14	£353	£6,570	£0
Couple one child under 14	£302	£6,570	£0
Couple two children one over one under 14	£408	£29,774	£3,347
Couple three children one over two under 14	£459	£36,917	£4,775
Couple four children one over three under 14	£509	£39,576	£4,890

Depending on the size and composition of the family, the income required to take a family out of poverty can vary from as little as £6,570 to as much as £39,576 and families with incomes below the poverty line can be paying almost £5,000 in income tax. This is because income tax takes no account of the size and composition of the household. Because of the way the benefit system works it seems that some families can get above the poverty line by working 16 hours a week at the minimum wage. Others may need to earn £40,000. The poverty lines in 2018/19 will be higher than in 2016/17 – the figures will not be available for a couple of years. Pre-tax incomes required and the tax payable will obviously be higher.

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Two-income families

We have not calculated the figures for two income couples - the figures will be lower. We estimate, however, that a two-income couple with a combined income of £28,758 (split 60/40) would be £9 per week short of what a couple with two children needs to be out of poverty – their combined income tax bill would be £634. A single earner couple with the same income would be £50 below the 2016/17 poverty line and paying £3,148 in tax. A single parent with 2 children and this income would be £57 above the poverty line. The poverty line for a single parent family is lower but takes no account of childcare costs.

High Income Child Benefit Charge (HICBC) Child Benefit starts to be withdrawn when income exceeds £50,000 (a figure which is not indexed). A four-child couple family paying rent of £150 per week appears to need to earn over £55,000 to be above the poverty line. They would be paying higher rate tax, liable to the Charge, and would not qualify for the Marriage Allowance. In Germany they would probably not be paying any income tax at all. It will be noticed how little income tax liabilities relate to how well-off families are.

Policy implications

In an ideal world the income tax and benefits systems would define income in the same way. This is not going to happen in the foreseeable future. Income tax could, however, take account of household size and composition as does the benefits system. Most people live



in families and it is family income and family circumstances which determine whether or not the family is in poverty.

There are a number of ways in which a start can be made within the context of independent taxation, as has been shown by the HICBC and the marriage allowance, Another measure which we should be thinking about would be to give couples the option of being taxed jointly. Lord Lawson has told Tax and the Family that this was “implicit” in his original proposals for independent taxation. This would not however help single parent families and there would appear to be a need to reintroduce something like the Additional Personal Allowance for these families.

In the short run there is a strong case for focussing any tax cuts that can be afforded on those households most likely to have incomes below the poverty line, i.e. households with children. Also, it is surely unacceptable to be withdrawing Child Benefit through the HICBC from any family that could be in poverty.

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