THE TAXATION OF UK FAMILIES 2021

INCLUDING INTERNATIONAL COMPARISONS FOR 2020

BY LEONARD BEIGHTON, DON DRAPER AND ALISTAIR PEARSON
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FOREWORD

Across the UK, household bills are rising. Many families are already feeling the strain of choosing between eating or heating. The Government decision to raise National Insurance Contributions, coupled with rampant inflation, gives rise to the serious concern that we now face a financial pandemic. Given the financial strain facing many families, it is once again timely that the annual 'Tax and the Family' report is published.

This report highlights the important issue, that the UK tax system fails to treat families fairly. The amount of tax that a family pays in the UK bears little relationship to how well off that household is. It is deeply concerning that any family finding themselves in poverty should pay any income tax, it is shocking that some families in the bottom half of income distribution pay tax at the higher rate. This unfairness in the tax system must be addressed.

This is the fourteenth report that CARE, in conjunction with Tax and the Family, have published and the problem is largely the same today as it was in 2008. The individualised tax system in the UK, disadvantages single income households with children. As this report highlights, a single adult without children earning £50,000 will have disposable income that is in the top 10% most well-off. By contrast, a one-earner couple or single parent with two children, making the same salary, is likely to be in the bottom half of the population. Put simply, the British tax system does not take account of a person's ability to pay.

Rather than assess each household on its merits and its ability to pay, current Government policy seeks to help families through the benefit system. This approach builds yet more unfairness into the system. Recently, the Government announced a raise in the level of the living wage. On the face of it, this looked like good news for those who need it most. One Government Minister suggested that the rise in the living wage meant that two hours extra work per month would make up for the loss of the Universal Credit COVID uplift. Given the relationship between tax and benefits, getting an extra hour's pay, results in the loss of part of a person's Universal Credit and additional tax and National Insurance Contributions', meaning for the working families, an extra hour at work provides only £1.43 extra to the family budget.

This report highlights that a shift in Government policy is needed. What the UK needs is a tax system that is fair, and which does not trap people in poverty even We recognise that the change called for in this report will come at a cost and will be complex, but as a society we should always strive for what is fair, even if its difficult to achieve.

Reform of the income tax system is only one way we can help families, but it could be an important step in ensuring that people across the UK are treated with fairness, at the very least, this is a debate that is worth having.

ROSS HENDRY
Chief Executive, CARE
March 2022

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The views expressed in the report are those of the authors, and should not be assumed to be those of organisations acknowledged here.

LEONARD BEIGHTON, DON DRAPER AND ALISTAIR PEARSON
February 2022

ABOUT THE AUTHORS

The authors are independent consultants.

Leonard Beighton spent 37 years in the Inland Revenue, ending in 1994 as Deputy Chairman of the Board. In 2011 he was made an Honorary Fellow of the Chartered Institute of Taxation.

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Leonard and Don are trustees of Tax and the Family Charitable Trust.

Alistair Pearson is a management consultant with a concern for fairness in public policy.

EXECUTIVE SUMMARY

1. This report calls for a fairer tax system in the UK, where some families in poverty pay income tax. So long as income tax is based on individual income without regard for household size or circumstances, it will be difficult to achieve just outcomes for families.

2. The need is urgent. The tax burden is now at its highest level since the 1950s, with income tax accounting for more than a quarter of tax revenue. Following the pandemic, the cost of living is reaching a crisis point. It is against this background that the report calls for fairer sharing of the tax burden.

THE SITUATION IN 2021

3. Because income tax and National Insurance Contributions are both based on individual income, the amount of tax paid by families – households with children – bears little relationship to how well off they are:

   - families with household income below the poverty line pay income tax
   - families pay considerably more income tax than taxpayers without children who have the same standard of living
   - families in the worse off half of the population pay higher rate tax and lose child benefit because of the High Income Child Benefit Charge.

4. The pre-tax incomes needed to escape poverty (defined as less than 60% of the median household income) vary widely depending on household size and circumstances. A single parent with 60% median income in rented accommodation is unlikely to be paying income tax, but with a mortgage could be paying £1,800 per annum. A couple with four children with 60% median household income could be paying over £6,000. Many children in poverty are in households where at least one parent is in work.

5. To have an average standard of living (a median household income), a one-earner couple with two children needs a gross income of nearly £59,000, more than double that needed by a single adult without children. With four children, the one-earner couple needs a gross income of almost £80,000. And because of the overlap with the benefits system, many families on modest incomes face a 70% marginal tax rate, far higher than that faced by most high income taxpayers.

INTERNATIONAL COMPARISONS

6. This report considers how UK households are taxed compared with their counterparts in other developed countries. 'Tax' in this context is defined as income tax plus employee social security contributions less cash benefits.

7. In 2020, the latest year for which there is OECD data, the overall UK tax burden on one-earner families at the average wage (£41,807 for the UK) is nearly 40% greater than for the OECD as a whole. By contrast, the burden on single people without family responsibilities at the same income point is 5% less than the OECD average.

The overall UK tax burden on two-earner couples with two children is slightly greater than the OECD average.

8. Although the UK tax system is not more burdensome in general than the tax systems of other developed countries, its treatment of one-earner families on the average wage is clearly unfavourable by international standards. This is because UK income tax is based on the individual and takes little account of family responsibilities.

9. In the UK, universal credit and tax credits compensate many but not all families for the heavy income tax burden, such that their overall tax rate is low by international standards. However, the withdrawal of benefits as incomes rise results in relatively high marginal tax rates.

WHAT SHOULD BE DONE

10. Income tax should be based on household income, not individual income. This would be a major reform and could not be achieved overnight, but changes could be made within the present system to make it fairer for families who are currently bearing an unfair share of the tax burden.

11. These short and medium term changes should be considered:

    - the threshold for the High Income Child Benefit Charge increased substantially and the marginal provisions redrawn
    - the reintroduction of child tax allowances explored
    - the marriage allowance increased significantly, consideration given to its widening, and a marginal relief added
    - the restriction of child credits to two children in a family repealed
    - child benefit increased to restore its value in real terms.

    All these options would reduce inequality.

12. Such changes would be costly, but would be offset so long as the personal allowance remains frozen. It is important to resist measures that primarily benefit the better off. Income tax rates should not be cut, and if the personal allowance is unfrozen, any increase should be limited to individuals with children.

13. It will take time to address the issues presented in this report, but a start should be made now. Too many people are trapped in debt and poverty by the current tax and benefits system. A change in direction is needed.

CHAPTER 1 - INTRODUCTION

1. Since 1990, income tax in the UK has been based almost entirely on individual income, presenting problems for families that are not apparent in other countries. This report looks at these problems in some detail and considers whether it is possible to reshape the income tax system so that the tax burden is shared more fairly.

2. This is our fourteenth annual review of the taxation of families. As in previous years, we compare the taxation of UK households with the treatment of similar households in other developed countries. In this context 'tax' means income tax plus employee social security contributions less cash benefits, which in the UK means universal credit and the legacy benefits as well as child benefit. The combined effect of these three elements determines how well off any particular household is. The term 'tax rate' or 'tax burden' is used when tax is expressed as a percentage of gross wage earnings. Overall tax rates do not take account of VAT or any other indirect tax.

3. For international comparisons, we use statistics published by the OECD in *Taxing Wages 2021.*[1] These statistics take account of income taxes, social security contributions and cash benefits of eight different kinds of household in the 37 OECD member countries.[2] *Taxing Wages* includes links to data for individual countries (in StatLink tables), enabling us to look at tax rates for a wide range of income points. The 2021 edition of *Taxing Wages* shows estimates for 2020 and definitive results for 2019.

4. For most OECD countries, the tax year is equivalent to the calendar year, the exceptions being Australia, New Zealand and the UK. Since the UK tax year starts in April, the calculations for the UK are 'forward-looking': the tax rates reported for 2020 are those for the tax year 2020-21.

5. We have supplemented *Taxing Wages* data with our own calculations for the UK: income tax rates for the tax year 2020-21, and a wide range of statistics for the tax year 2021-22. Our calculations for 2021-22 take account of November 2021 changes to universal credit.[3]

6. Our UK figures are for England, Wales and Northern Ireland unless otherwise stated. Income tax rates in Scotland are different: in 2021 there is a starter rate of 19% on incomes up to £14,667, and the higher rate is 41%, which starts to be paid on incomes above £43,662.[4] In the rest of the UK the higher rate of 40% applies on incomes above £50,270.

1 *Taxing Wages 2020*, OECD, Paris

2 In 2020 there were 37 OECD member countries: Australia, Austria, Belgium, Canada, Chile, Columbia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

3 A Department for Work and Pensions Press Release on 24 November 2021 stated that the universal credit changes will make those who qualify better off by £1,000 a year on average

4 In December 2021, Tax and the Family and CARE published 'A Fairer Share. How rethinking income tax can free families from poverty', a report on the income tax system in Scotland

7. Many UK households are now on universal credit[5] (which includes an element for rent), and our 2021-22 figures assume that universal credit which replaces housing benefit does apply. We have considered the effect of universal credit and the withdrawal of Council Tax Support on Effective Marginal Tax Rates (EMTRs), which show how much of an extra unit of income is retained.

8. The report is structured as follows:

   - Chapter 2 – the tax treatment of UK households, highlighting the challenges facing UK families that result from the income tax system
   - Chapter 3 – the UK income tax liabilities of different household types compared with those in selected other OECD countries and in the OECD as a whole
   - Chapter 4 – overall UK tax burdens on different household types compared with those in the OECD as a whole
   - Chapter 5 – EMTRs faced by UK households compared with those in the OECD as a whole
   - Chapter 6 – how the UK Government should address the issues raised in this report.

9. The OECD defines a couple with children as a married couple with two dependent children aged between six and eleven inclusive. We restrict ourselves to these couples with children when comparing the UK with the OECD in Chapters 3, 4 and 5. Our coverage of couples is broader in Chapter 2. Apart from the marriage allowance, which we discuss in Chapter 6, in the UK couples are treated similarly whether or not they are married. Any reference to married couples in the UK includes civil partnerships.

10. The OECD average wage used for international comparisons is a mean, or arithmetic average. The OECD estimate of the average wage in the UK in 2021 is £41,807.[6] This is slightly higher than the estimate of mean gross earnings of full-time employees in the UK obtained from the Annual Survey for Hours and Earnings (ASHE), which is £38,131 for the tax year 2020-21.[7]

11. The OECD average wage differs from country to country. It is important to remember this when comparing the UK tax burden with tax rates in other countries. Making comparisons at income points based on the average wage does not mean that we are comparing like with like.

12. An alternative measure of the average wage is the median wage. Unlike the mean, which puts disproportionately greater weight on high earning individuals, the median wage is not influenced by differentials in the upper part of the wage distribution. The ASHE estimate of median gross earnings of full-time employees in the UK is £31,285 for the tax year 2020-21.[8]

5 UK Government statistics show that 4.9 million households were on Universal Credit in August 2021
6 *Taxing Wages 2021*, p 609
7 Annual Survey of Hours and Earnings (ASHE), ONS, 26 October 2021, Table 1.7a
8 Annual Survey of Hours and Earnings, op. cit., Table 1.7a

CHAPTER 2 - UK FAMILIES 2021

This chapter summarises the current situation, highlighting the failure of the income tax system to take account of household size and circumstances.

13. The UK tax burden is increasing. As a result of the tax increases announced in March and October 2021, tax as a percentage of GDP is rising from 33.5% of GDP before the pandemic to 36.2%, its highest since the 1950s.[9] UK income tax is forecast to account for 26% of all tax revenue, and National Insurance Contributions (NICs) and the Health and Social Care Levy a further 18%.[10] These three taxes on income account for almost half of total taxation. There could not be a more appropriate time to stand back and consider how the tax burden, and in particular the income tax burden, should be shared.

14. The main problem is that because income tax and NICs are both based on individual income, the amount of tax paid by families – households with children – bears little relationship to how well off they are. Families in poverty pay income tax, often significant amounts. This problem, long ignored by successive governments and others, should be addressed now.

15. In general conversation, and even in general political discussion, it is usually assumed that how well off someone is depends on their income – the higher their income is, the better off they are. But that is by no means the whole story. Except for the very richest people for whom money is of little concern, someone's standard of living will depend not only on their income but also on the number of people – adults and children – which that income has to support.

16. Government statisticians accept this. The Office of National Statistics assumes that to have the same standard of living as a single adult without children after allowing for housing costs, a single parent with two children needs 70% more income, a couple with two children needs almost two and a half times as much, and larger families need even more. However the income tax system takes almost no account of families or the costs of children or of a second adult.[11]

17. The failure of the income tax system to take account of household size and circumstances results in:

    - taxpayers with children paying a lot more tax than taxpayers without children who have the same standard of living
    - some families with income below the poverty line paying income tax
    - families in the worse off half of the population paying higher rate tax and losing their child benefits because of a charge on people on high incomes.

18. By contrast, the benefit system does take account of household size and

9 Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021
10 Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021, Table 3.4. The figures for NICs include employer as well as employee contributions, which are over half of the total. This will also be the case for the new levy
11 There is a small exception in that one-earner married couples can transfer one tenth of the personal allowance from the non-earning spouse to the earning spouse provided that the latter does not pay tax at the higher rate

circumstances, except that families do not generally get universal credit for more than two children unless they were born before 6 April 2017. But families face very high marginal rates when allowing for income tax, NICs and the withdrawal of benefits. This is not just a problem for those with low incomes, but can affect families with incomes just below the higher rate threshold.

19. Many in-work families are facing marginal rates of 75% or more. The cut in the taper rate which came into effect on 1 December 2021 only brings the marginal rate down from 75% to 69%, while the minimum rate faced by people returning to work is 55% and will rise to 70% in April 2022 with the increase in NICs. The taper rate cut pushes high marginal rates further up the income scale. A single parent with one child will get universal credit on earnings above £40,000, which is close to the higher rate threshold in Scotland.

20. To assess the impact of the current UK tax system, we have analysed eight different households:

- single adult without children
- single adult with two children
- married couple (one earner) without children
- married couple (two earners, equal incomes) without children
- married couple (one earner) with two children
- married couple (two earners, equal incomes) with two children
- married couple (one earner) with four children
- married couple (two earners, equal incomes) with four children

at three different income points:

- 60% of median income (the 'poverty line')
- median income
- gross income at the higher rate tax threshold.

21. As a starting point for our analysis, we have made the following assumptions:

- everyone living in rented accommodation is paying rent equivalent to the local housing allowance in Leeds, which is £161 per week for a family entitled to a three-bedroom house
- households with a mortgage have the same housing costs as households paying rent
- two of the children in a four-child family were born after April 2017
- households have no childcare costs
- universal credit is claimed where appropriate
- child benefit is claimed where appropriate, and the High Income Child Benefit Charge (HICBC) is an adjustment to the benefit.

HOUSEHOLDS WITH A 60% MEDIAN INCOME

22. The failure of the income tax system to take account of the family helps to explain why households with children are the poorest in the country, and why so many children are in households with low incomes. The usual definition of a family in poverty is one with less than 60% of the median income after tax, benefits and housing costs. This equates to a disposable income of less than £14,042 for a single adult and two children, and less than £20,060 for a couple with two children.

23. There were 4.3 million children in poverty in 2019-20 after taking housing costs (and housing benefit) into account.[12] Most of these children are in families where a parent is in work. The latest HBAI figures[13] show that more than two-thirds of children in households with less than 60% median income have at least one parent in work, who is likely to be paying income tax.

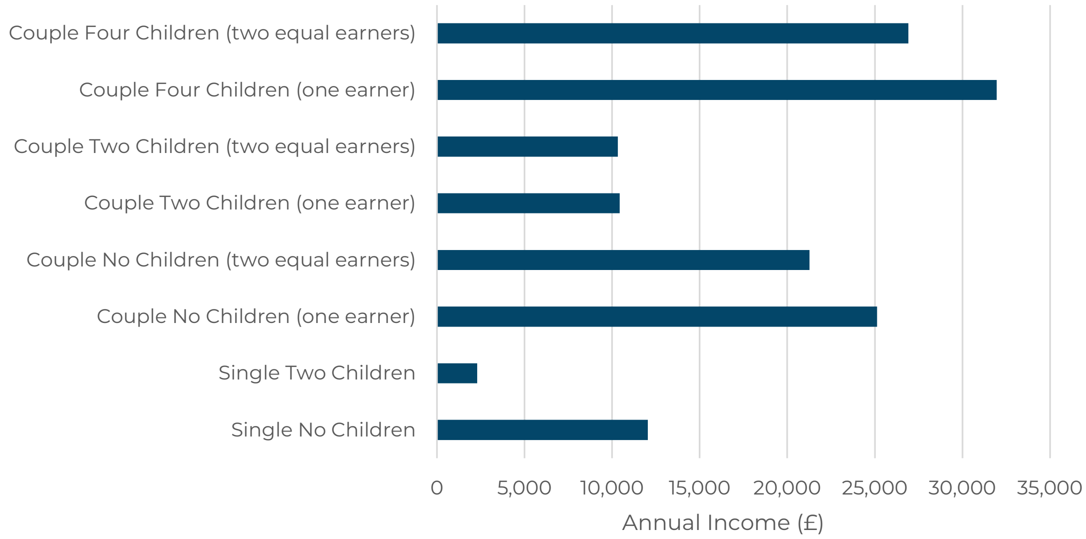
24. The TUC has published research which shows that one million of these children were in key worker households.[14] Tax and the Family have been told by Landman Economics, who undertook this research, that 1.1 million of the children in poverty who have at least one parent in work are in households with gross incomes between £20,000 and £30,000, and another million in households with gross incomes between £30,000 and £50,000.

25. How is it that a family can be in poverty with an income of up to £50,000? The answer is that in measuring poverty, the Office of National Statistics uses household incomes and adjusts for family size. As explained in paragraph 16, households with children need considerably more disposable income than a single adult with no children to have the same standard of living. A couple with four children needs three times as much. Actual rents may exceed the local housing allowance paid, and families with a mortgage will have a lower disposable income because there is no element for their housing costs in universal credit. More than a quarter of the households in the third decile of the income distribution have a mortgage.[15]

26. Charts 2.1 and 2.2 show the gross income required for households paying rent and households with mortgages to have a 60% median income. It is assumed that the universal credit rules effective from 24 November 2021 applied to the whole 2021-22 tax year.

CHART 2.1

GROSS INCOME REQUIRED FOR HOUSEHOLDS PAYING RENT TO HAVE A 60% MEDIAN INCOME 2021-22



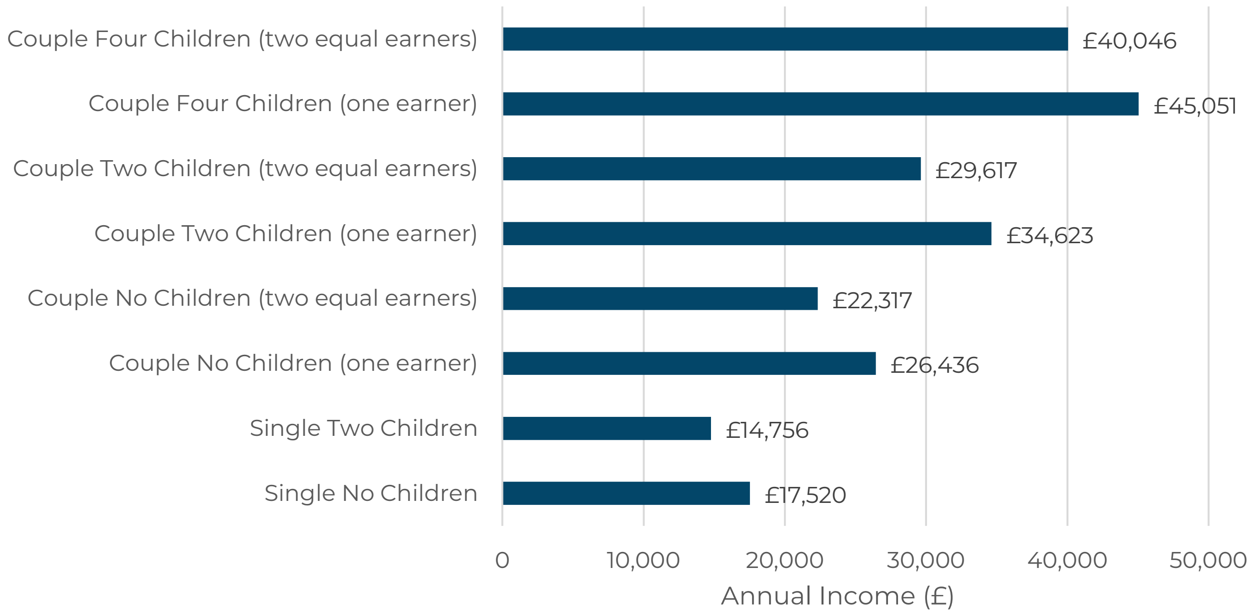
12 House of Commons Library research briefing, 26 October 2021

13 Department of Work and Pensions, Households below average income (HBAI) 1994/95 to 2020, published in March 2021

14 Research produced for the TUC by Landman Economics and available on the TUC website. The Government defines a key ('critical') worker as one whose work is critical to the Covid-19 response

15 ONS, Household Disposable Income and Inequality, UK, 2019/20, Table 20

CHART 2.2
GROSS INCOME REQUIRED FOR HOUSEHOLDS WITH MORTGAGES TO HAVE A 60% MEDIAN INCOME 2021-22

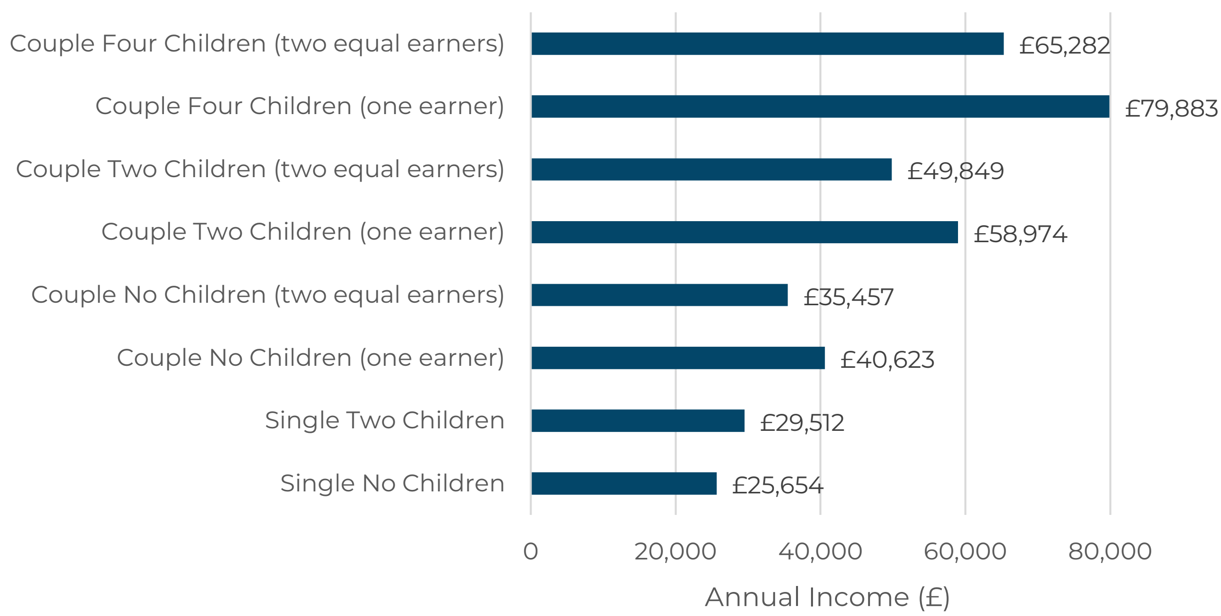


27. To have a 60% median income, a one-earner couple with two children with a mortgage needs a gross income of £34,623, and pays £4,161 in income tax. A gross income of £45,051 is needed by a one-earner couple with four children, and income tax is £6,246.

HOUSEHOLDS WITH A MEDIAN INCOME

28. Chart 2.3 shows the gross income needed by households paying rent to have a median income (and hence an average standard of living). It is assumed that the universal credit rules effective from 24 November 2021 applied to the whole 2021-22 tax year.

CHART 2.3
GROSS INCOME REQUIRED FOR HOUSEHOLDS PAYING RENT TO HAVE A MEDIAN INCOME 2021-22

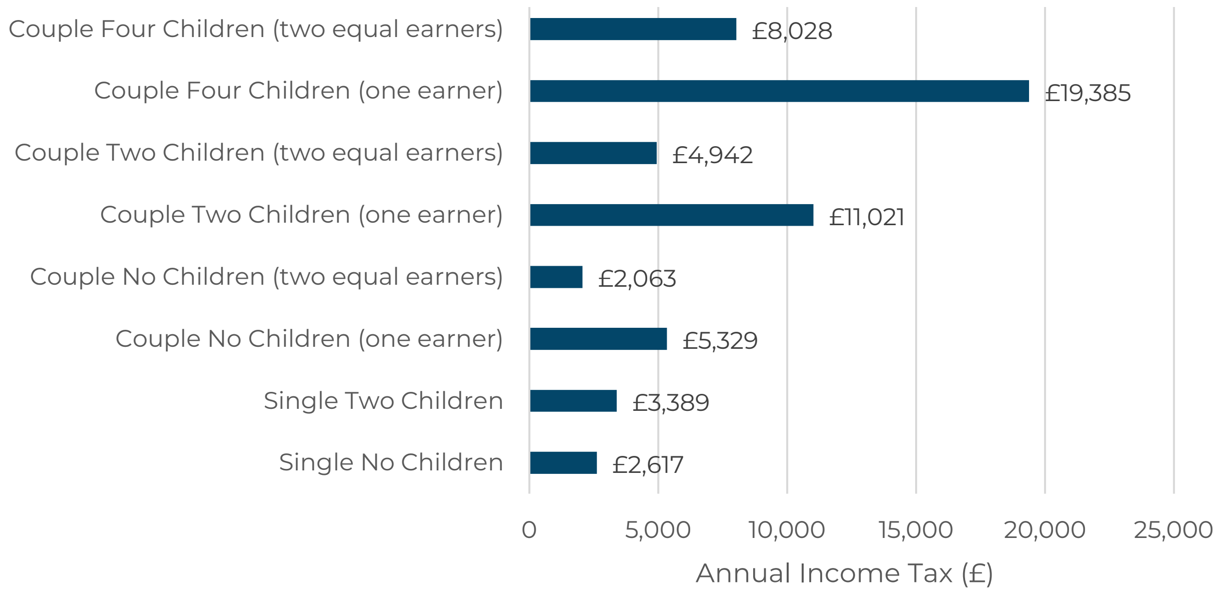


29. The gross income needed by a one-earner couple with two children (£58,974) is more than double that of a single adult without children (£25,654). With four children, the one-earner couple needs a gross income of £79,883, more than treble that of the single adult with no dependents.

30. Chart 2.4 shows the income tax paid by the eight households. A one-earner couple with two children is liable to higher rate tax and pays over £11,000 in income tax – more than four times as much as the single person. In addition, the couple effectively lose their child benefit because of the HICBC.

CHART 2.4

INCOME TAX PAID BY HOUSEHOLDS PAYING RENT WITH A MEDIAN INCOME 2021-22



31. At median household income there is very little difference between renters and mortgagors because at this level of income the only household getting universal credit is the single parent with two children. At higher rents the picture is different. For example, a one-earner couple with two children renting a three-bedroom house in London for £442 per week would need to earn over £64,000 to have a median income. They would be entitled to £11,900 in credits, and would be paying £21,000 in income tax. A mortgagor with the same housing costs would need to earn £84,000 to have a median income, and would be paying £21,262 in income tax. The mortgagor needs higher earnings to compensate for the fact that they do not get universal credit.

32. Of the eight different household types analysed, all have the same standard of living, but some are taxed as if they are rich, and others as if they have only a modest income. The wide disparity in income tax paid shows that sharing the tax burden fairly has not been a policy objective over the last four decades. The authors have been told that if we want to support families, it is more efficient to do this though the benefits system than through the income tax system. Taxation is about paying for public expenditure, not about supporting families or anyone else. That is for the benefits system to accomplish.

33. At lower income levels, benefits may compensate for the disproportionately heavy share of the income tax burden which households with children bear, but even at very low incomes not all households with children will be getting significant amounts in tax credits.

34. Following the cut in the taper rate, a one-earner couple with two children paying £161 per week in mortgage interest will be entitled to some credits up to a gross income of £35,000, but the amount will be very small. They will be paying income tax of well over £4,000 and in the bottom 30% of the population. A single adult earning £35,000 with the same housing costs will also be paying over £4,000 of income tax but will be in the top 30%. Benefits received do not level up the living standards of the two households.

HOUSEHOLDS AT THE HIGHER RATE THRESHOLD

35. It is also important to know which households are affected by tax thresholds. The higher rate threshold is currently £50,270; in Scotland it is £43,662. The HICBC applies where there is income of £50,000. A single adult without children earning £50,000 may be in the top 10% of the population, but a one-earner couple with two children is likely to be in the bottom half.

36. Clearly the HICBC applies to families who are not well off, as was the case even in 2013 when it was introduced. There is an urgent need to restrict the charge to families who really are well off. Table 2.1 shows the deciles in which the eight households fit with incomes of £50,000 in the current tax year, on the basis of the latest information. The actual figures for 2021-22 will not be available for two years, by which time the incomes required may be higher.

TABLE 2.1

HOUSEHOLDS WITH GROSS INCOME OF £50,000 – POSITION BY DECILE IN THE 2019-20 INCOME DISTRIBUTION

Household	Income AHC		Income decile
	Renters	Mortgagors	
Couple (one earner) four children under 11	£28,899	£35,228	3rd
Couple (two equal incomes) four children under 11	£32,527	£35,233	4th
Couple (one earner) two children under 11	£29,843	£31,594	5th
Couple (two equal incomes) two children under 11	£33,471	£33,471	6th
Couple (one earner) no children	£30,105	£30,105	7th
Couple (two equal incomes) no children	£33,732	£33,732	8th
Single person two children under 11	£31,929	£30,156	7th
Single person no children	£30,105	£30,418	9th

37. This table is another way of showing the unfairness brought about by using the gross income of an individual as a basis of tax liability. A single person without children will be in the 9th decile and a one-earner couple with four children in the 3rd docile, with other families falling in between depending on the number in the household. The one-earner households all pay income tax of approximately £7,500, however well off they are, and the two-earner households pay £4,962.

UNIVERSAL CREDIT AND MARGINAL RATES

38. For the past four decades, and possibly longer, policy has been shaped by the view that families are best supported through the benefit system. This line of thinking can be traced back to the 1970s when child tax allowances were replaced by child benefit. Unless benefits can be given to everyone, as was originally the case with child benefit, means testing is unavoidable with resultant marginal rate problems. There is all too little appreciation of how serious these problems are and how many families are affected.

39. This issue came to the fore recently with the increase in the Minimum Wage (Living Wage), which one minister tried to suggest would compensate families for the loss of the temporary Covid £20 addition to universal credit and tax credits. It was suggested that two hours' work at the new Minimum Wage was enough to fill the £20 hole in household budgets. It was quickly pointed out that the extra earnings would result in a cut in benefits and in addition many employees would have to pay income tax and NICs (being increased from 12% to 13.25% on the extra earnings). Subsequently it was announced that the universal credit taper rates were being reduced from 63% to 55%.

40. Tax and the Family have looked at the effect of these two policy changes on household budgets. The first point to make is that when income tax and the new NIC rate are taken into account, the net effect is only to reduce the marginal rate from 75% prior to the Autumn 2021 budget to 70% in April 2022.

41. The second point is that employees on the Minimum Wage gain very little. The main beneficiary is the Treasury. An extra hour's work at the new Minimum Wage of £9.50 increases take-home pay by only £6.34, and this leads to a reduction in universal credit of £2.86, and for many low income families a loss of council tax support. The net benefit to the family budget from an hour's work will be £1.43. The Treasury gains £5.49 and the cost to the employer is £10.93. This example shows the damage done by a tax system which ignores the family.

42. For a household with an earner on the UK median wage of £31,285, an extra £333 – more than £17,000 per annum – would be needed to improve the family weekly budget by £100.

43. The high marginal rate problem is not one that affects only people with low incomes. Table 2.2 shows our calculation, using the new 55% taper rate and the appropriate local housing allowance in Leeds, of the gross income levels at which universal credit and hence high marginal rates cease to apply. Some families receiving universal credit are exposed to higher rate tax and the HICBC.

TABLE 2.2

INCOME LEVELS AT WHICH UNIVERSAL CREDIT CEASES FOR RENTING HOUSEHOLDS

Household	Income point
Couple (two earners, equal incomes) four children	£50,683
Couple (one earner) four children	£57,253
Couple (two earners, equal incomes) two children	£49,223
Couple (one earner) two children	£55,428
Single person two children	£48,701

CONCLUSION

44. The UK tax system does not treat families fairly. The amount of tax that they pay bears little relationship to how well off they are. Many families in poverty pay income tax. Some in the bottom half of the income distribution even pay higher rate tax and are liable for the HICBC. This problem, which has been ignored by successive Chancellors, is a serious one, and needs to be tackled.

45. Latest data from the ONS indicates that there are 27.8 million households in the UK.[16] Nearly 8 million of these households are families with dependent children: 5.26 million couples with one or two children, 0.94 million couples with three or more, and 1.67 million single parent families.

46. Families with a single income (one-earner couple families and single parent families) are the most disadvantaged by the income tax system. Our figures also suggest that families with two equal incomes may have higher tax liabilities than households without dependents.

47. This unfairness is due to the fact that UK income tax is based on the individual and has little regard for family responsibilities. The extent to which this is a UK-specific problem is explored in the next chapter, in which we compare the income tax paid by UK households with the income tax liabilities of their counterparts in other developed countries.

16 ONS, Families and households in the UK: 2020, released 2 March 2021

CHAPTER 3 - INTERNATIONAL COMPARISON OF INCOME TAX RATES 2020

This chapter uses OECD data and supplementary data for the UK to compare income tax rates. We look at four different one-earner households at various income points, comparing the UK with France, Germany and the US, and with the OECD as a whole.

48. We use OECD data for 2020 (UK tax year 2020-21) and our own calculations for the UK to compare UK income tax rates with those of France, Germany and the US, and with OECD averages, for four one-earner household types:

    - singles without children
    - one-earner married couples without children
    - singles with two children
    - one-earner married couples with two children.

49. We consider income tax burdens on these one-earner household types at five income points ranging from 50% to 150% of the OECD average wage. We have derived income tax rates from StatLink data,[17] and made our own calculations for the UK using Tax Benefit Model Tables.

50. One difficulty when comparing income tax burdens is to decide what to include as income tax. The OECD treats tax credits as part of the UK income tax system.[18] It is sensible to treat tax credits as part of the income tax system where they are integrated with it. In Germany, for example, the taxpayer obtains the tax allowance instead of the tax credit if the value of the credit is less than the relief from the allowance.[19] In the UK, however, tax credits are not part of the income tax system, even if they complement it, and in general it is appropriate to look at income tax net of tax credits when comparing the UK with other countries.

51. Table 3.1 shows the income tax rates faced by four different one-earner household types. The UK rates, calculated by the authors, exclude tax credits. Summaries of the income tax systems of France, Germany and the US are attached as Appendix A.

52. At 100% of average wage, the UK income tax burden is 26% greater than the OECD average on a single person with two children, and 38% greater on a one-earner married couple with two children. By contrast, the UK income tax burden on a single person without children is 4% less than the OECD average at the 100% income point. The UK income tax burden on one-earner families is greater than the OECD average at all five income points.

17 ITR = (LIT+CIT)*(100/(100-SSC)), where
ITR = income tax as percentage of gross wage earnings
LIT = average local income tax as percentage of total labour costs
CIT = average central income tax as percentage of total labour costs
SSC = employer SSC as percentage of total labour costs
total labour costs = gross wage earnings + employer SSC

18 *Taxing Wages 2021*, p 610

19 *Taxing Wages 2021*, p 317

TABLE 3.1
INCOME TAX AS PERCENTAGE OF GROSS WAGES 2020

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
	single person without children				
UK	8.0%	12.0%	14.0%	16.9%	20.1%
France	9.5%	13.0%	16.0%	19.1%	21.3%
Germany	10.2%	14.4%	18.8%	22.3%	25.4%
US	12.3%	14.4%	16.8%	19.1%	20.7%
OECD	6.8%	11.5%	14.6%	17.0%	19.1%
	one-earner married couple without children				
UK	6.8%	11.2%	13.4%	16.1%	20.1%
France	9.5%	9.5%	9.5%	11.9%	13.5%
Germany	0.8%	5.2%	10.7%	13.9%	16.5%
US	7.0%	10.2%	12.3%	13.6%	14.4%
OECD	4.1%	9.1%	12.3%	15.0%	17.3%
	single person with two children				
UK	8.0%	12.0%	14.0%	16.9%	20.1%
France	9.5%	9.5%	9.5%	11.3%	13.4%
Germany	-15.6%	-2.8%	4.8%	10.6%	14.5%
US	-17.7%	1.7%	6.7%	9.5%	12.7%
OECD	0.3%	6.9%	11.2%	14.2%	16.7%
	one-earner married couple with two children				
UK	2.3%	11.2%	13.4%	16.1%	20.1%
France	9.5%	9.5%	9.5%	9.5%	10.7%
Germany	-20.3%	-7.7%	-0.3%	5.2%	9.2%
US	-22.7%	-3.6%	5.0%	7.7%	9.5%
OECD	-0.3%	5.5%	9.7%	12.8%	15.4%

Source: UK rates for each household type calculated by authors using TBMT; all other rates derived from StatLink tables accessed from *Taxing Wages 2021*, pp 88-124[20]

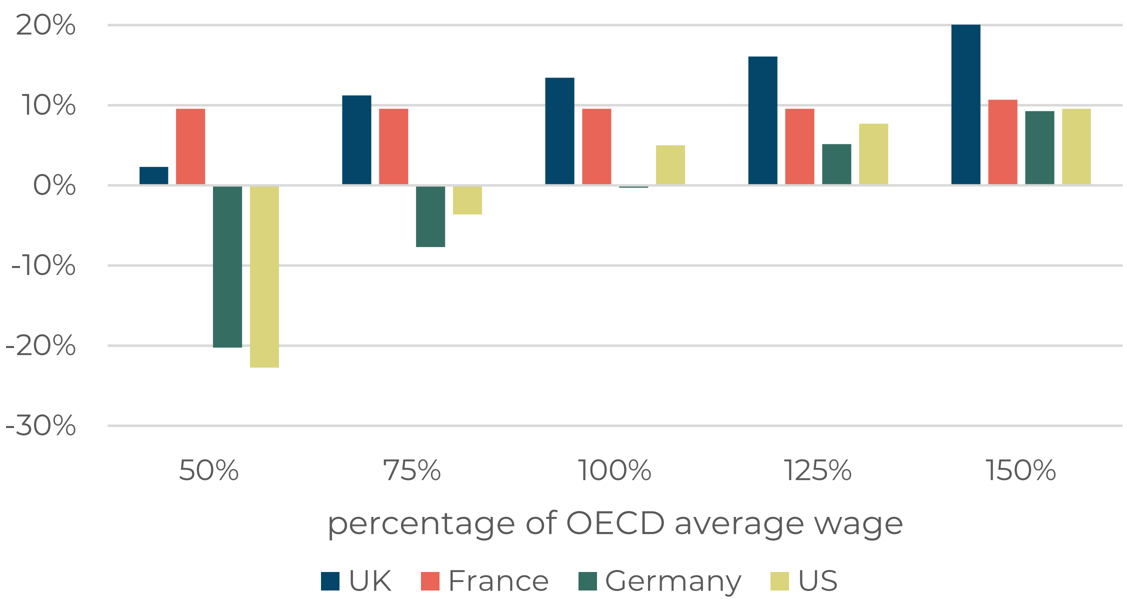
53. Chart 3.1 compares the income tax paid by a UK one-earner married couple with two children as a percentage of income with the income tax burden in France, Germany and the US. At the OECD average wage, the UK family pays 41% more than the French family and nearly three times as much as the US family. The German family receives a small net benefit.

20 UK rates derived from StatLink tables are as follows:

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
Single person without children	8.0%	12.0%	14.0%	16.1%	20.1%
One-earner married couple without children	6.7%	11.2%	13.4%	16.1%	20.1%
Single person with two children	-21.8%	5.8%	14.0%	16.1%	20.1%
One-earner married couple with two children	-23.0%	5.0%	13.4%	16.1%	20.1%

CHART 3.1

INCOME TAX AS PERCENTAGE OF GROSS WAGES 2020, ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

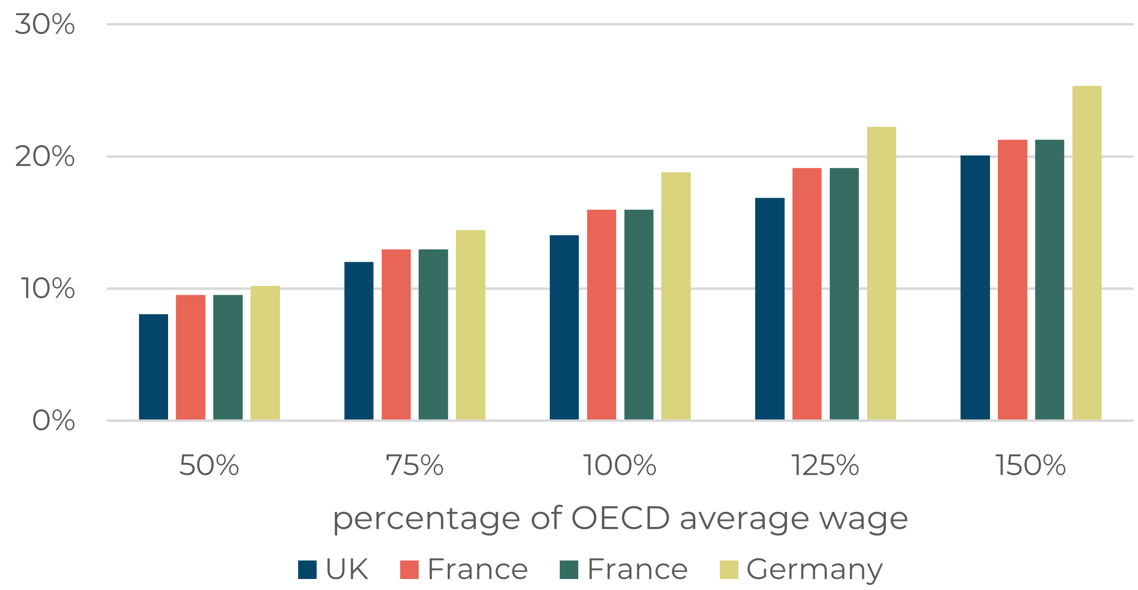


Source: Table 3.1

54. Chart 3.2 compares the income tax paid by a UK single person without children as a percentage of income with the income tax burden in France, Germany and the US. At each of the five income points, the income tax burden on single people without children is least in the UK.

CHART 3.2

INCOME TAX AS PERCENTAGE OF GROSS WAGES 2020, SINGLE PERSON WITHOUT CHILDREN



Source: Table 3.1

55. We acknowledge that there are OECD members (such as the Scandinavian and Australasian countries) with greater income tax burdens than those of the UK. Compared with the UK, Australia and Sweden have higher income tax rates but similar overall tax burdens.

56. Data for 2020 for individual countries for eight household types are to be found in Appendix B, which is equivalent to Taxing Wages Table 3.4.

INCOME TAX BURDEN ON TWO-EARNER FAMILIES

57. It is unfortunate that OECD data on two-earner families is limited, because most households with children have two incomes. At the two income points for which there is published data,[21] the UK income tax burden is greater than the OECD average: 12.8% compared with 11.6% at a combined income of 167% (100%+67%) of average wage, and 14.0% compared with 13.7% at a combined income of 200% (100%+100%).

58. Comparing the UK with individual countries, the UK income tax burden is greater than the figures for France, Germany and the US at the same two income points: 12.8% compared with 11.7%, 10.0% and 10.5% respectively at a combined income of 167%, and 13.9% compared with 13.9%, 13.3% and 13.1% respectively at a combined income of 200%.

59. Using our own data for the UK, we have calculated income tax rates for two-earner couples with two children (incomes split 80:20 and 60:40) at five income points. Table 3.2 and Chart 3.3 compare these rates with those for one-earner couples with two children in France, Germany and the US, on the assumption that the income tax liabilities in these three countries will be approximately the same for two-earner families under a system of joint assessment. We acknowledge that the precise amounts payable will depend on how income is split, given that some tax reliefs vary with earnings.

TABLE 3.2

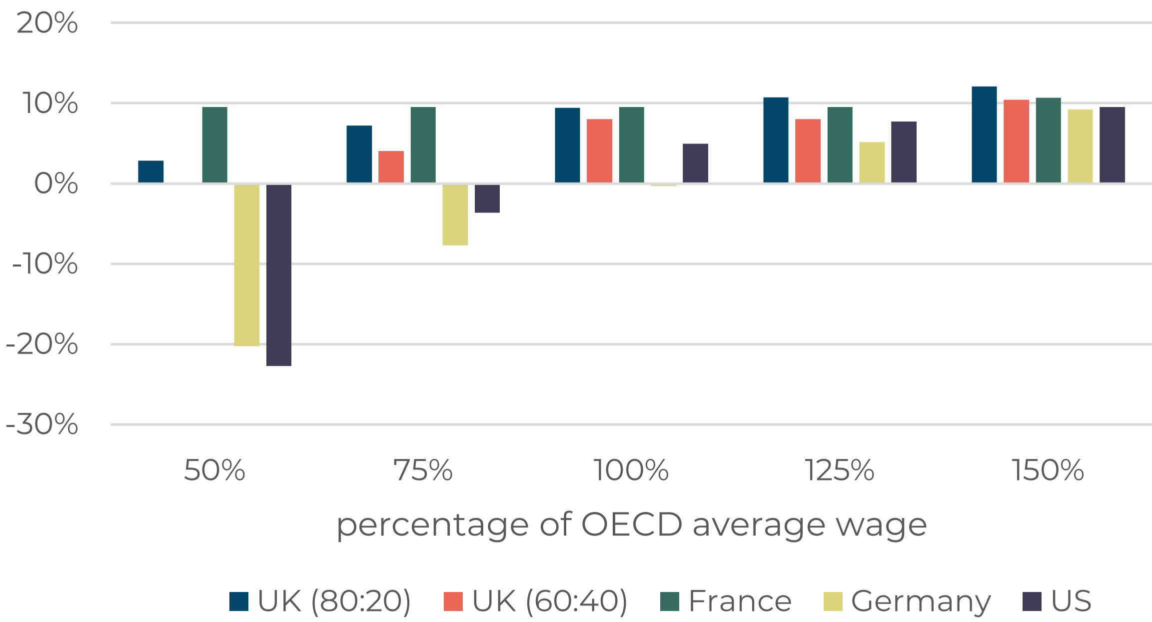
INCOME TAX AS PERCENTAGE OF GROSS WAGES 2020, TWO-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK (80:20)	2.9%	7.2%	9.4%	10.7%	12.1%
UK (60:40)	0.0%	4.1%	8.0%	8.0%	10.4%
France	9.5%	9.5%	9.5%	9.5%	10.7%
Germany	-20.3%	-7.7%	-0.3%	5.2%	9.2%
US	-22.7%	-3.6%	5.0%	7.7%	9.5%

21 *Taxing Wages 2021,* Table 3.4

CHART 3.3

INCOME TAX AS PERCENTAGE OF GROSS WAGES 2020, TWO-EARNER MARRIED COUPLE WITH TWO CHILDREN



Source: UK rates calculated by authors using Tax Benefit Model Tables updated for 2019-20; other rates taken from Table 3.1

60. At the lower income points, income tax rates on two-earner families are lower in the UK than in France, but much higher than in Germany and the US, where the income tax liability is negative at 50% and 75% of the OECD average wage. The high rates faced by French families at the lower income points are due to flat rate 'contributions' which are treated as income tax in the *Taxing Wages* statistics. At 125% and 150% of the OECD average wage, UK income tax rates for two-earner families with an 80:20 income split are much higher than those in the other three countries.

CHAPTER 4 – INTERNATIONAL COMPARISON OF OVERALL TAX BURDENS 2020

This chapter uses OECD data to compare average tax rates (income tax plus employee social security contributions less cash benefits). We look at six different household types at various income points, comparing the UK with all OECD countries together.

61. We use new OECD data for 2020 (UK tax year 2020-21) to compare the overall UK tax burden with OECD averages for four different one-earner household types:
    - singles without children
    - one-earner married couples without children
    - singles with two children
    - one-earner married couples with two children.[22]

62. We consider tax burdens on these one-earner household types at five income points ranging from 50% to 150% of the OECD average wage.

63. In addition, we look at tax burdens on two-earner married couples at two income points (100%+67% and 100%+100% of the OECD average wage).

64. Historical data for eight household types, comprising UK and average OECD tax rates for 2000, 2010 and 2013-2020, are to be found in Appendix C. Data for 2020 for individual countries for the same eight household types are to be found in Appendix D, which is equivalent to Taxing Wages Table 3.3.

65. The tax mix varies between countries. In the UK income tax accounts for a quarter of all tax revenue.[23] In the past, social security contributions have been lower in the UK than in some other OECD countries, and this has compensated for higher income tax liabilities for households with children. This will be less true in the future following the introduction of the Health and Social Care Levy.

TAX BURDEN ON ONE-EARNER HOUSEHOLDS

Single person without children

66. Table 4.1 and Chart 4.1 show the tax burden on a single person without children at five income points. We compare the UK with all OECD countries together. At all five income points, the tax burden in the UK is slightly less than the OECD average. At the 100% income point, it is 5% less than the OECD average.

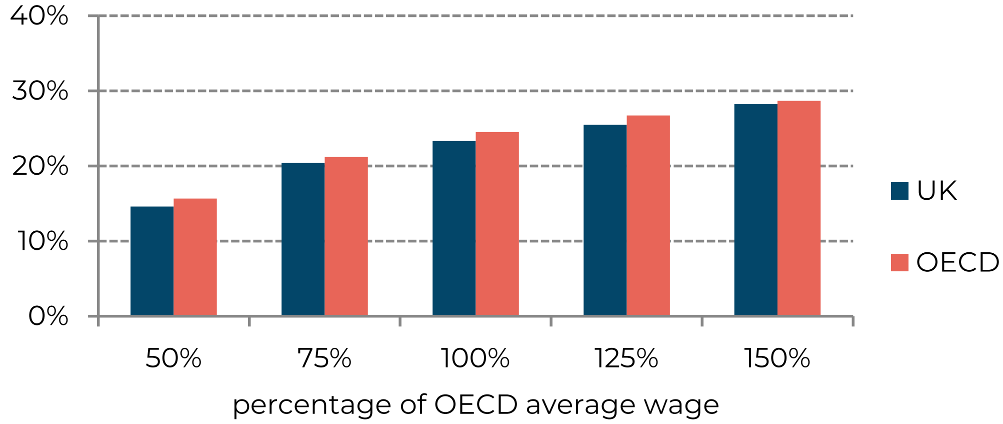
22 The OECD data available does not enable us to make equivalent international comparisons for cohabiting as opposed to married couples. It seems from the limited information provided by the OECD that the tax treatment of cohabiting couples is in many countries less generous than that of married couples

23 Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021, Table 3.4

TABLE 4.1
TAX AS PERCENTAGE OF GROSS WAGES 2020 – SINGLE PERSON WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	14.6%	20.4%	23.3%	25.5%	28.2%
OECD	15.7%	21.2%	24.5%	26.7%	28.7%

CHART 4.1



Source: StatLink tables accessed from *Taxing Wages 2021*, pp 88-124

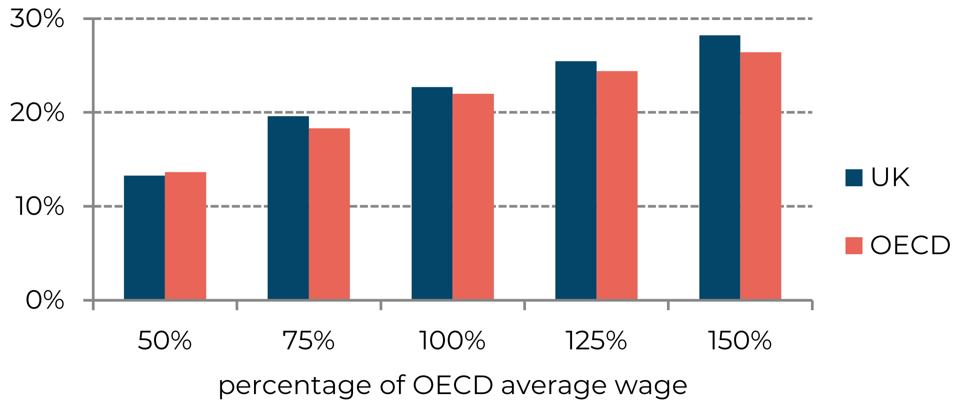
One-earner married couple without children

67. Table 4.2 and Chart 4.2 compare the tax paid by a one-earner married couple without children as a percentage of income in the UK with the tax burden in the OECD as a whole. At all income points, UK one-earner married couples without children bear a tax burden similar to the OECD average.

TABLE 4.2
TAX AS PERCENTAGE OF GROSS WAGES 2020 – ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	13.3%	19.6%	22.7%	25.5%	28.2%
OECD	13.6%	18.3%	22.0%	24.4%	26.4%

CHART 4.2



Source: StatLink tables accessed from *Taxing Wages 2021*, pp 88-124

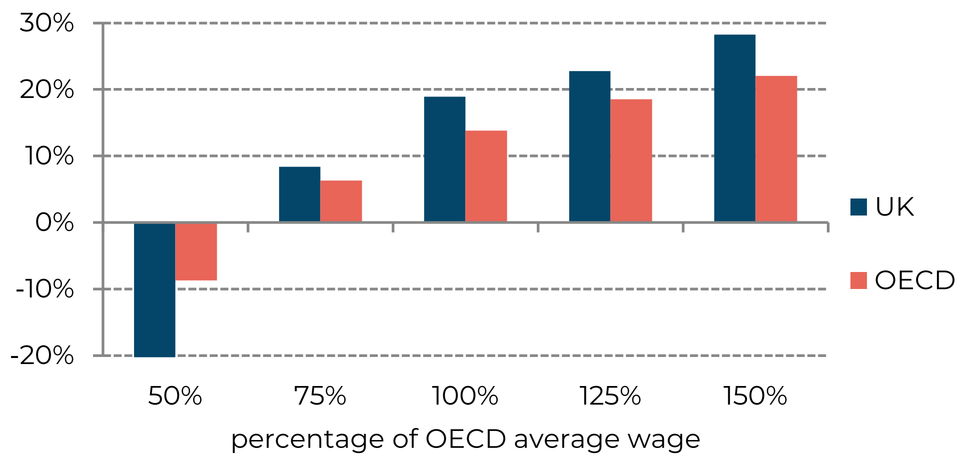
Single person with two children

68. Table 4.3 and Chart 4.3 compare the tax paid by a single person with two children as a percentage of income in the UK with the tax burden in the OECD as a whole. At 50% of average wage, a single person with two children has a negative tax liability (i.e. cash transfers exceed income tax and SSCs). The OECD average is also negative, but much smaller. At and above 75% of average wage, the UK tax burden exceeds the OECD average. At the 100% income point, it is 37% more than the OECD average.

TABLE 4.3
TAX AS PERCENTAGE OF GROSS WAGES 2020 – SINGLE PERSON WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-24.0%	8.4%	18.9%	22.8%	28.2%
OECD	-8.7%	6.3%	13.8%	18.5%	22.0%

CHART 4.3
TAX AS PERCENTAGE OF GROSS WAGES 2020 – SINGLE PERSON WITH TWO CHILDREN



Source: StatLink tables accessed from *Taxing Wages 2021*, pp 88-124

One-earner married couple with two children

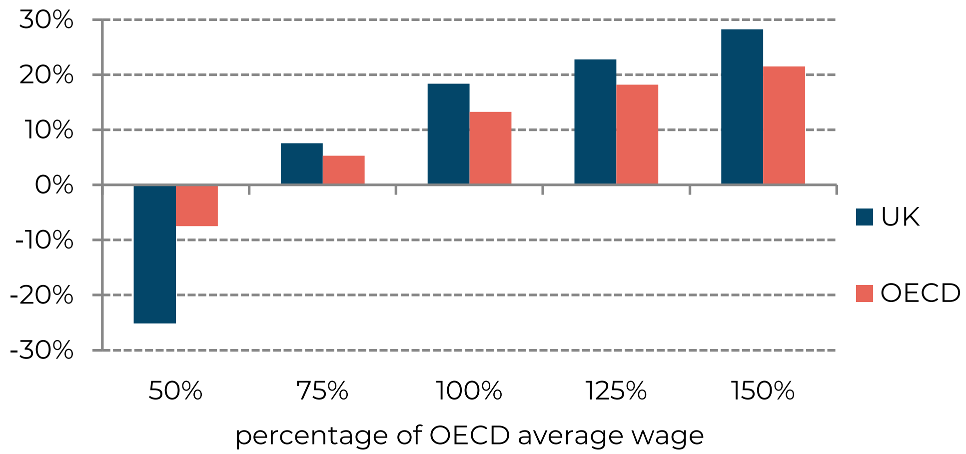
69. Table 4.4 and Chart 4.4 compare the tax paid by a one-earner married couple as a percentage of income in the UK with the tax burden in the OECD as a whole.[24] At 50% of average wage, one-earner married couples with two children fare comparatively well in the UK. This is due to tax credits. However, the picture changes significantly as income rises. At and above 75% of average wage, the UK tax burden exceeds the OECD average. At the 100% income point, UK one-earner married couples with two children pay 38% more tax than the OECD average.

TABLE 4.4

TAX AS PERCENTAGE OF GROSS WAGES 2020 – ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	-25.2%	7.6%	18.3%	22.8%	28.2%
OECD	-7.5%	5.3%	13.3%	18.2%	21.5%

CHART 4.4



Source: StatLink tables accessed from *Taxing Wages 2021*, pp 88-124

TAX BURDEN ON TWO-EARNER HOUSEHOLDS

70. Appendix D includes comparative data on two-earner married couples with and without children.

Two-earner married couple without children

71. For two-earner married couples without children, comparative data is available only where one earner is on the OECD average wage and the second earns 67% of it. Appendix D shows that in 2020 the UK tax burden was 21.6%, less than the OECD average of 23.0%.

24 UK figures assume that the Marriage Allowance is claimed where appropriate

Two-earner married couple with two children

72. Comparative data is available for two-earner married couples with two children at two income combinations: 100%+67% of average wage and 100%+100% of average wage. At a combined income of 167% of average wage, the 2020 UK tax rate was 19.0%, higher than the OECD average of 18.1%. At a combined income of 200% of average wage, the 2020 UK tax rate was 21.1%, slightly higher than the OECD average of 20.9%.

Tax burden on families compared with singles' tax

73. Table 4.5 shows the UK tax burden on two household types (single person with two children and one-earner married couple with two children) as a percentage of that on a single person without children at four income points, and averages for the OECD.

TABLE 4.5

TAX ON ONE-EARNER FAMILIES AS PERCENTAGE OF TAX ON SINGLE PERSON WITHOUT CHILDREN 2020

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
	(a) single person, two children				
UK	n/a	41%	81%	89%	100%
OECD	n/a	30%	56%	69%	77%
	(b) one-earner married couple, two children				
UK	n/a	37%	79%	89%	100%
OECD	n/a	25%	54%	68%	75%

Note: At the 50% income point, the tax liability of one-earner families is negative. Cash transfers exceed income tax and SSCs.

Source: derived from Tables 4.1, 4.3 and 4.4

74. At low levels of income, the difference between the tax rate of one-earner families and that of single people without children is significantly greater in the UK than in the OECD as a whole. This results from the relative generosity of UK tax credits. However, the picture changes rapidly as income rises, such that at and above average wage the gap between one-earner families and single people is narrower in the UK than in the OECD as a whole.

75. At average wage, the 2020 UK tax burden on a single parent with two children was 81% of that on a single person without children, whereas the OECD average was 56%. At the same income point, the 2020 UK tax burden on a one-earner married couple with two children was 79% of that on a single person without children, whereas the OECD average was 54%.

76. By contrast, the gap between the tax burdens on two-earner families and single

people at 167% of average wage is similar in the UK to that in the OECD as a whole. At this income point, the 2020 UK tax burden on a two-earner married couple with two children was 64% of that on a single person without dependants (a tax rate of 19.0% compared with the single person's tax rate of 29.6%). The OECD average was 60% (18.1% compared with 30.1%).

Historical perspective

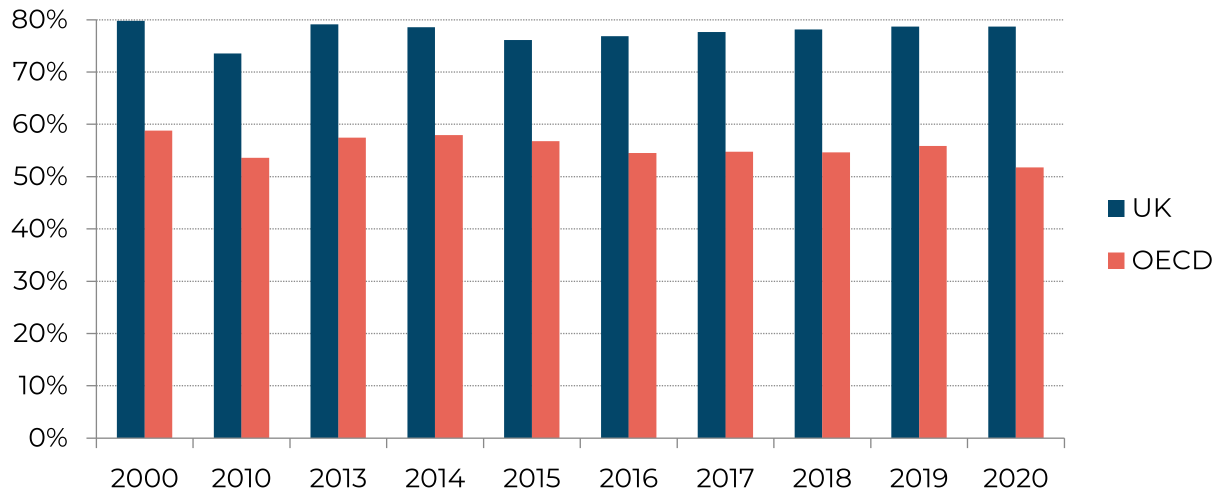
77. Table 4.6 and Chart 4.5 show the tax burden on a one-earner married couple with two children on average wage as a percentage of that on a single person without children on the same income. There are percentages for the UK and the OECD for the years 2000 and 2010 and the period 2013-2020. The UK figure, 78.7% in 2020, remains much greater than the OECD average.

TABLE 4.6

TAX ON ONE-EARNER TWO-CHILD MARRIED COUPLE AS PERCENTAGE OF TAX PAID BY SINGLE PERSON WITHOUT CHILDREN 2000, 2010, 2013-2020

at 100% OECD average wage		
Year	UK	OECD
2000	79.8%	58.8%
2010	73.5%	53.6%
2013	79.1%	57.4%
2014	78.6%	57.9%
2015	76.1%	56.8%
2016	76.9%	54.5%
2017	77.6%	54.8%
2018	78.2%	54.7%
2019	78.7%	55.8%
2020	78.7%	51.8%

CHART 4.5



Source: derived from columns 2 and 5 of Appendix C

CHAPTER 5 – INTERNATIONAL COMPARISON OF EFFECTIVE MARGINAL TAX RATES 2020

This chapter uses OECD data to compare effective marginal tax rates. We look at four different one-earner households at various income points, comparing the UK with all OECD countries together.

78. It is not only the average tax rate that matters. The marginal tax rate, which shows how much of an extra unit of income is retained, is an important influence on whether people work, whether they increase working hours, and whether they look for a better-paid job. This EMTR takes account of income tax and employee SSCs payable, and cash benefits foregone. For the UK it takes account of the loss of tax credits but not of other means-tested benefits such as housing benefit and Council Tax Support.

79. These EMTRs take no account of 'passported benefits', which are linked to entitlement to other benefits. In the UK one of the most important of these is free school meals, the loss of which is a significant disincentive to obtain a job which gives an entitlement to Working Tax Credit.

80. The UK EMTR does not take account of universal credit, received by only a small proportion of households in 2020.

81. We use OECD data for 2020 (UK tax year 2020-21) to compare the UK with the OECD as a whole for four different one-earner household types:

    - singles without children
    - one-earner married couples without children
    - singles with children
    - one-earner married couples with children.

    Our five income points for each household type range from 50% to 150% of the OECD average wage.

82. OECD data for 2020 for all individual countries for eight household types are to be found in Appendix E, which is equivalent to *Taxing Wages* Table 3.7.

EMTRS FOR ONE-EARNER HOUSEHOLDS

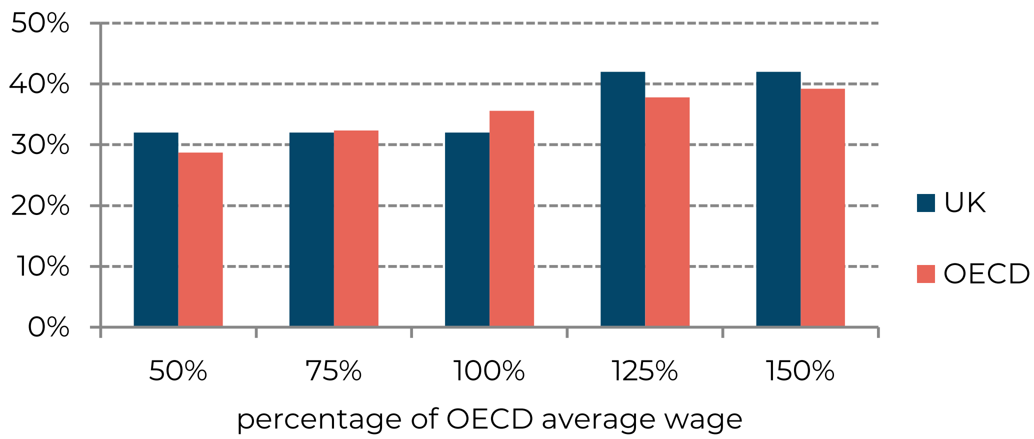
Single person without children

83. Table 5.1 and Chart 5.1 compare EMTRs for a single person without children at five income points. The UK EMTR is higher than the OECD average at 50% of OECD average wage, almost the same at 75%, lower at 100%, and higher at 125% and 150%.

TABLE 5.1
EMTR 2020 – SINGLE PERSON WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	32.0%	32.0%	32.0%	42.0%	42.0%
OECD	28.7%	32.3%	35.6%	37.8%	39.2%

CHART 5.1



Source: StatLink tables accessed from *Taxing Wages 2021*, pp 88-124

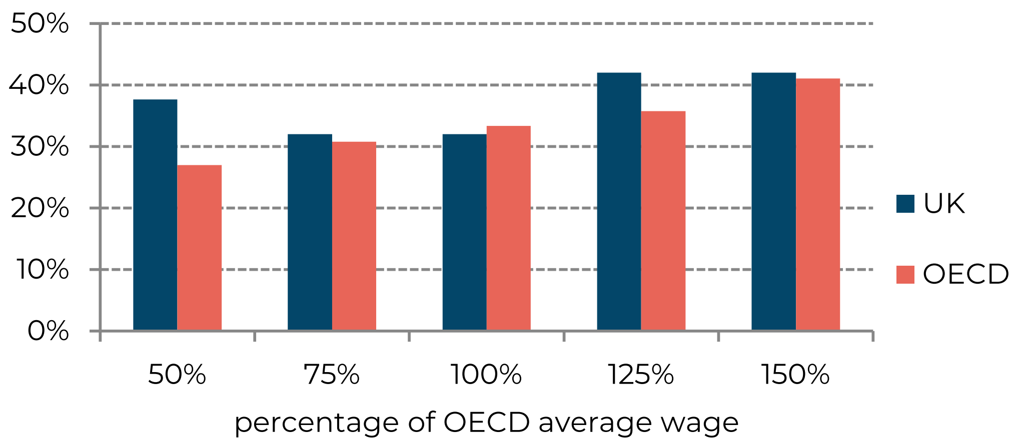
One-earner married couple without children

84. Table 5.2 and Chart 5.2 compare EMTRs for a one-earner married couple without children at five income points. The UK EMTR is slightly lower than the OECD average at 100% of OECD average wage, but higher at the other four income points.

TABLE 5.2
EMTR 2020 – ONE-EARNER MARRIED COUPLE WITHOUT CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	37.6%	32.0%	32.0%	42.0%	42.0%
OECD	27.0%	30.8%	33.3%	35.7%	41.0%

CHART 5.2



Source: StatLink tables accessed from Taxing Wages 2021, pp 88-124

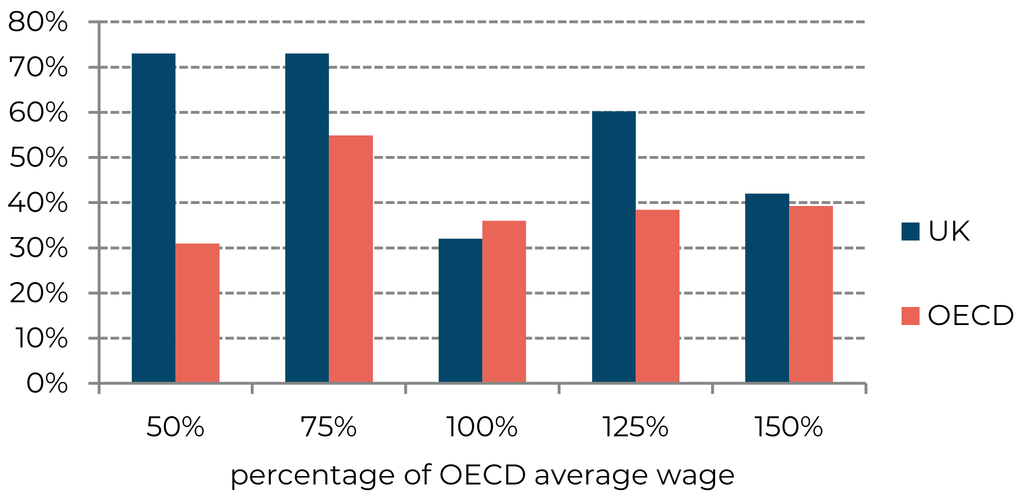
Single person with two children

85. Table 5.3 and Chart 5.3 compare EMTRs for a single person with two children at five income points. The UK EMTR far exceeds the OECD average at the 50%, 75% and 125% income points. It is lower at 100% of OECD average wage.

TABLE 5.3
EMTR 2020 – SINGLE PERSON WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	60.3%	42.0%
OECD	30.9%	54.9%	36.0%	38.4%	39.3%

CHART 5.3



Source: StatLink tables accessed from Taxing Wages 2021, pp 88-124

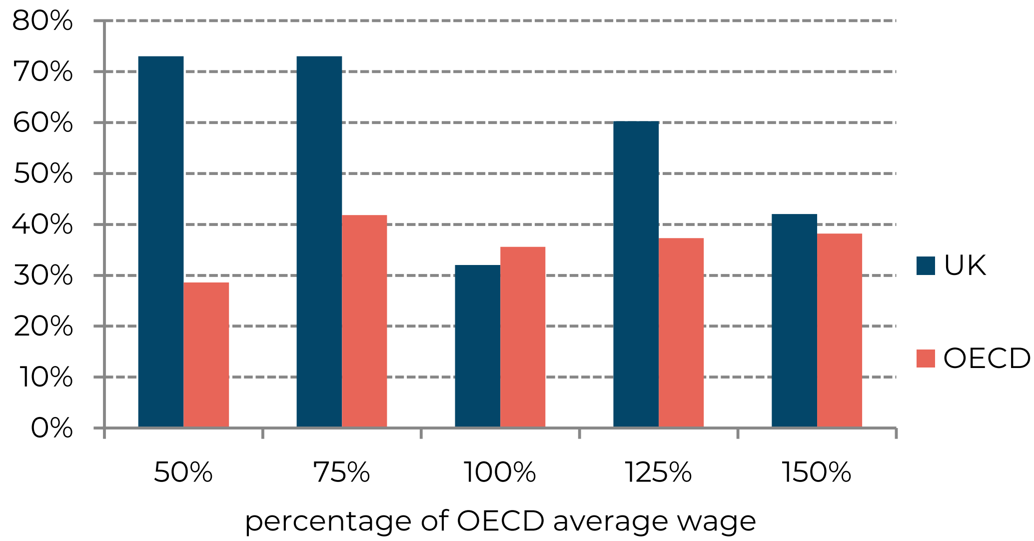
One-earner married couple with two children

86. Table 5.4 and Chart 5.4 compare EMTRs for a one-earner married couple with two children at five income points. The UK EMTR far exceeds the OECD average at the 50%, 75% and 125% income points. It is lower at 100% of OECD average wage.

TABLE 5.4
EMTR 2020 – ONE-EARNER MARRIED COUPLE WITH TWO CHILDREN

	percentage of OECD average wage				
	50%	75%	100%	125%	150%
UK	73.0%	73.0%	32.0%	60.3%	42.0%
OECD	28.6%	41.8%	35.6%	37.3%	38.2%

CHART 5.4



Source: StatLink tables accessed from Taxing Wages 2021, pp 88-124

HIGH EMTRS FOR UK ONE-EARNER FAMILIES

87. The withdrawal of tax credits accounts for much of the high UK EMTR at low income points. Both Working Tax Credit and Child Tax Credit are income-related. They are tapered jointly, with Working Tax Credit being withdrawn first. The 73% EMTR faced by one-earner families comprises income tax payable 20%, SSCs payable 12% and tax credits withdrawn 41%. The UK is the only OECD country with such high EMTRs across a wide range of modest incomes.

88. The reason why EMTRs for one-earner families on modest incomes are much higher in the UK than in other OECD countries is that family responsibility is recognised not within the income tax system, but by means of tax credits that are tapered sharply. When independent taxation was introduced in the UK (in 1990), recognition of family responsibility was retained within the income tax system through provision of the Married Couples Allowance and the Additional Persons Allowance. These provisions

were removed subsequently, and tax credits introduced. It is the withdrawal of benefits as incomes rise that has caused the UK EMTR to rise to 73% in 2020, and higher if account is taken of the withdrawal of housing benefit and Council Tax Support.

89. In 2020 the UK EMTR is only 32% at the 100% income point in 2020, but it is 60% at 125% of average wage (£52,259) because of higher rate tax, payable above £50,00, and the HICBC, which applies in the income range £50,000-60,000.

CHAPTER 6 – WHAT NEXT FOR THE UK?

This chapter considers how the Government should respond to the issues raised in this report.

90. In the earlier chapters of this report, we have argued that it is families – households with children – who bear the heaviest tax burdens. They need higher disposable incomes to have the same standard of living as people without children, but their tax income liabilities do not take this into account.

91. David Cameron, the then Prime Minister, said in 2014[25] that 'the family ... hadn't been central to the way government thinks'. He added that as a result 'you get ... policy decisions which take no account of the family and sometimes make matters worse'. He gave as an example the benefit system incentivising couples to live apart. He could, and perhaps should, have also cited the income tax system which is based almost entirely on individual income and where liabilities take no account of the number of mouths there are to feed. He promised that in future 'every single domestic policy that government comes up with will be examined for its impact on the family'. However there is very little evidence that this has happened in the tax field for a very long time. The problem goes back many years and is rooted in the way people now think.

92. Most of those of us who have taken part in writing this report or who read it will have been brought up with the understanding that how well off someone is depends on how much income he or she has, in particular what they earn. We have scarcely given any thought as to whether it matters that income tax bills take no account of family commitments. We are pleased to draw child benefit or the national insurance retirement pension to which everyone is entitled. But unless at any time we have had to rely on means-tested benefits, we are unlikely fully to appreciate the difficulty which many in-work people have in providing for the whole household at even a basic standard of living. This mindset has affected policy makers in all political parties and many non-governmental organisations.

93. This is the background against which we have put forward in our previous reports what we believe to have been strong arguments for reform. Nevertheless neither CARE nor Tax and the Family have found it easy to get our case established publicly – not necessarily accepted, but at least worth discussing. And yet the arguments set out in this report are powerful, and we believe demonstrate very clearly that there can be a fair income tax system which bases tax liabilities on the ability to pay only when the household is seen as the basic unit. For so long as the general view that a single person without dependents on an income of say £30,000 has the same taxable capacity as a one-earner couple with children on the same income is accepted without any discussion or consideration, we shall make little progress towards introducing a fairer system. And a system which is fairer for families would also help them to thrive and to be stronger.

25 Speech to the Relationships Alliance Summit, 18 August 2014

CURRENT ECONOMIC CIRCUMSTANCES

94. In the hope that the issues may be becoming a little better understood, in this chapter we look at what needs to be done if the problems brought out in this report are to be addressed. However, the current circumstances in which our lives have been profoundly affected by the Covid-19 pandemic and, with it, the economy, are not helpful. In his Autumn 2021 Budget, the Chancellor of the Exchequer announced substantial increases in public expenditure, but few changes in taxation and none on personal taxation beyond the increase of 1.25% in NICs which had been foreshadowed. On top of the freezing of the personal allowances until 2025 announced in his Spring Budget, this amounts to a considerable increase in the burden of taxation for many families. Indeed, since he appeared to regard the reduction in the universal credit taper rate and the increase in the work allowances as a reduction in tax, they should also be taken alongside the withdrawal of the £20 emergency addition to universal credit as imposing a tax increase on very many families.

95. The context in which the issues which concern us might be discussed could however be rather different in two or three years' time. The Chancellor is relying on the high pay, high skills economy which he hopes to enable by increases in public expenditure, allowing the economy to grow over time to a point where tax reductions may be possible. He will certainly be under a lot of pressure from some on the backbenches to bring them about. Much will depend on whether the economy grows at a rate sufficient to leave scope for cuts in taxation consistent with his fiscal rules. If there is such scope, then the recommendations which we put forward in this report should have a high priority.

96. Meanwhile the immediate outlook for families is pretty grim. Inflation is climbing fast, and sharp rises in energy prices are very likely in April, just as the 1.25% increase in NICs comes into effect. The pressure on the Chancellor not to wait for the economy to grow, but to make further changes this year will be very strong and, if he does, it is most important that he takes full account of the analysis in this report which in particular shows the very considerable disadvantage which families with children suffer, and gives them priority.

STRUCTURAL REFORM

97. We start with the structural issues which go to the heart of the problem. Our recommendations recognise that major tax changes take several years to bring in. Those of any significance need to be the subject of consultation, and often on the basis of a Green Paper. In addition if, as is likely, new IT systems or major changes to existing systems are required, it will take time for them to be designed, tested and embedded to meet the demands of taxpayers and HMRC alike.

98. With these timetable factors in mind, our most substantial recommendation is that as soon as reasonably possible the Chancellor of the Exchequer should announce a study into putting income tax on a household basis and how it might be done. This would include looking at the tax systems in other countries, in particular perhaps the United States, France and Germany, and consulting the professional bodies, the think tanks, other interested parties and of course the general public. It might well be the subject of an inquiry by the Treasury Select Committee. Only when that

has been done can a decision be taken and the necessary legislation introduced. In the meantime all the administrative and IT changes would need to be planned and implemented.

99. The income of the members of a couple would have to be combined, just as with means-tested benefits. It would doubtless be argued that this would break one of the purposes of introducing independent taxation in that it would be necessary for the members of the couple to disclose their income to each other. It might be possible for HMRC or an agent to make the assessment, but even then a reasonable estimate of the partner's income could probably be made. But why should couples be different in this regard in relation to taxation than they are in relation to means-tested benefits? Why should only those in households with no need of benefits have the right to non-disclosure? We shall not get a fair system of taxation unless this issue is addressed.

INTERIM CHANGES

100. In the meantime, before this major structural change could come into effect, there are measures which could be taken to ease the impact of the current tax regime on families. But they come against a background in which the income tax system is not generally seen as a platform on which measures to help poor families can be based: rather this is the role seen for the benefits system. Yet our analysis has shown that that system does not ensure that everyone who needs help gets it: to take just one example, mortgagors are poorly supported compared with renters.

101. First, it will take time to restructure the HICBC so that it does what it set out to do and apply only to the top 15% of families. It may be possible to do this fully only as part of bringing taxation onto a household basis, but meanwhile there could be different starting and cut-off points for the charge, based on equivalisation factors, which would depend on whether there were one or two adults and the number of children in the household.

102. Failing a restructuring of this nature, it would be essential to raise substantially the starting point of the HICBC from its current level of £50,000 if it is not to continue to affect those in the bottom half of the income distribution. When the charge was introduced, both the Prime Minister, David Cameron,[26] and the Chancellor, George Osborne,[27] said that it was to affect the top 15% of families. According to the Office for National Statistics,[28] in 2020 the richest fifth of people had an average household income before taxes and benefits of £107,800 and after taxes and benefits of £75,600. This would suggest that the very least at which the threshold should now be set is £100,000 and probably more.

103. Alas, the Government appears to be unaware of the situation. In the course of a recent written answer,[29] the Chief Secretary to the Treasury, Simon Clarke said 'At present the adjusted net threshold of £50,000 affects only a small minority of those with high incomes.' This needs to be set against the estimate that, in the absence

26 Hansard, 7 March 2012, Col 841
27 Hansard, 6 March 2012, Col 708
28 ONS, Effects of taxes and benefits on UK household income: financial year ending 2019, released 23 June 2020
29 14 December 2021

of any increase in the threshold since it was fixed in 2012, over 20% of all people entitled to child benefit are now subject to the HICBC. It might of course be argued with only a slight exaggeration of our analysis that it is those with low incomes who pay the charge rather than those with high incomes, but we doubt whether that is what Simon Clarke intended!

104. The point at which the HICBC runs out also needs to be raised substantially, but a better way of tackling that issue might be to have a standard withdrawal rate of, say, 10% however many children there may be in the family. At present child benefit rates the marginal withdrawal rate is 11% for the first child and 7% for each additional child, so for example it is 26% for a three-child family. These withdrawal rates are in addition to higher rate tax of 40% and NIC of 2%, so that the overall marginal rate is 53% for a one-child family and 68% for a three-child family. In the admittedly pretty unusual case of an eight-child family it is 104%. Insofar as it is likely that larger families are more usually found in some ethnic and faith minorities, the present basis of the withdrawal rate is discriminatory on racial and religious grounds. With the rate of NIC going up to 3.25% in April 2022, these overall marginal rates will become 54%, 69% and 105% respectively.

105. Another area which might be enhanced in the meantime is the marriage allowance. This is hardly surprising in that its roots are in the transferable allowance which the then Chancellor, Nigel Lawson, proposed in the Green Paper 'The Reform of Personal Taxation' in 1986.[30] Had effect been given to that proposal when independent taxation was brought in, some of the issues we face today would not have arisen or would at least be less significant.

106. Although the introduction of the marriage allowance in 2014 was to be welcomed, it was the minimum which could have been done to satisfy the commitment in the 2010 Conservative Party manifesto. At only 10% of the personal allowance and with considerable limitations, it falls well short of the fully transferable allowance which should now be introduced. In addition, the cliff edge denial of the allowance if the transferee spouse is a higher rate payer suggests that the cut-off point should be raised very considerably and a marginal provision introduced. Only when all couples are treated fairly in both the tax and benefits systems will we get rid of the couple penalty which may inhibit people coming together and forming families.

107. There is also a question of whether to extend the allowance to all couples or to reserve it for married couples only. Both options are possible. If viewed from the perspective of treating everyone with family responsibilities in the same way, regardless of the level of formal commitment made in their relationship, then clearly one would extend the allowance to all couples. In this regard it is interesting to note that, while marriage was previously recognised in a much more meaningful way under the old Married Couples Allowance than it is under the current marriage allowance, a broadly similar level of support was afforded to unmarried couples and single parents through a separate provision called the Additional Personal Allowance.

108. However, if viewed from the perspective of wanting to recognise the public policy

30 Green Paper on Reform of Personal Taxation (Cmnd 9756), Treasury, 1986

benefits of the marriage commitment in terms of both adult and child wellbeing, a position which we believe has considerable merit, then the allowance would be reserved for married couple families. It is notable that in his speech referred to earlier,[31] David Cameron also said 'I think it's wrong that Britain has been one of the few countries in the world that hasn't properly recognised marriage in the tax system.'

109. An alternative way of so doing would be to address the basic underlying unfairness facing all couple families, but to provide an additional fiscal premium for those in committed married relationships to help provide some additional support for marriage. It is not the purpose of this publication to explore these options fully, but simply to recognise that they exist and need to be considered. It is also arguable, particularly if cost is a factor, that priority in the first instance should be given to families with children or where the non-earning spouse is physically or mentally disabled and unable to go out to work.

110. Another beneficial change worth considering, in addition, or as an alternative, to an increase in the marriage allowance, would be to introduce an allowance for people with children. A better targeted and more flexible measure would be to reintroduce child tax allowances. An allowance could be given for each child: the amount of the allowance could be varied with the age of the child: and an increased allowance could be given if the child were disabled. There might however be quite a time lag while the IT systems were devised and put in place. Moreover either of these would suffer from the disadvantage that, unlike tax credits, for someone on universal credit much of the tax reduction could be cancelled out by a reduction in the credit. However that may be, it is most important that, when the freezing of personal allowances comes to an end, they are not raised again across the board without regard to the fact that the main beneficiaries would be those on high incomes with a resulting increase in inequality.

111. Consideration also needs to be given to repealing the restriction of child credits to two children in the case of those born from April 2017 onwards. The case for the restriction which George Osborne made[32] was that each extra child brought a family on benefits an additional £2,780 a year. While, he said, it was important to support families, it was also important to be fair to many working families who did not see their budgets rise by anything like that when they had more children. Welfare support was not sustainable and those who could work should be expected to look for it.

112. Clearly this argument cannot be lightly disregarded, but, with the scales so heavily weighed against families with children as this report has shown, the need to ensure that those with largest families do not remain in poverty has to be addressed. The problems of large families were emphasised in a recent short debate in the House of Lords[33] and, even though the Minister said then that the Government had no intention of removing the two-child limit, there is a very good case for so doing. Apart from anything else, there is also the point noted above in relation to the HICBC that it is often those with an ethnic or faith background who have the largest families and in this respect the restriction is discriminatory.

31 Speech to the Relationships Alliance Summit, 18 August 2014
32 Hansard, 8 July 2015, col 335.
33 House of Lords Hansard, 11 January 2022

113. Next, there is a good case for raising the level of child benefit so as to provide a greater level of support for all children except for those with the truly highest incomes: an increase would not affect the amount of universal credit a claimant received. However, unless there is a further announcement in the next few months, there will be no increase in child benefit next year. Indeed there has been no increase in most years since 2010/11. The result is that the rates of child benefit are 4.2% higher than in that year – about an eighth of the increase in the retail prices index over the same period.

114. Finally, and most importantly, there are two things which should not be done: unfreeze the personal allowances or reduce tax rates. This is because to do so would primarily help the better off, as was the case when the allowances were raised regularly pretty well every year. Any funds which become available must be channelled to those who need them most – families with low incomes and considerable responsibilities for children.

CONCLUSION

115. What is needed is a culture change so that the household is recognised as the basic unit of taxation, just as it is for other purposes. This will enable the unfairness and disadvantages for families with children considered earlier in this report to be tackled and the UK system brought more closely into line with those in most other developed countries.

116. The necessary structural change should start with a consultation paper which would look at how best the household basis might be introduced. However, the conclusions would take time to put into effect. Meanwhile short and medium term changes would be needed to reduce the inequalities that result from present system.

117. When it becomes possible to unfreeze the personal allowance, priority should be given to individuals with children. Effect could be given to the original purpose of the HICBC so that it no longer impacts on families in the second and third quartiles of the income distribution; the marriage allowance should be increased and widened in scope; and child benefit could be restored to its previous value in real terms as soon as finances permit.

118. These changes would be costly, but they should be a high priority when reductions in taxation are possible if levelling up is to include strengthening the least well off families so that they may thrive. Any cuts in tax should be targeted. What we need is not lower taxes for everyone but fairer taxes.

APPENDIX A – INCOME TAX SYSTEMS OF SELECTED COUNTRIES

The authors wish to acknowledge the extent to which they have drawn on the very helpful summaries of national tax systems in Taxing Wages and on various websites (in particular the PwC Worldwide Tax Summaries and French-Property.com). It is difficult for a non-national to grasp every detail of another country's tax system. Any reader wanting to really understand the tax systems in France, Germany and the USA should consult these sources.

France

The tax unit is aggregate family income, but children over 18 are included only if their parents claim them as dependants. Other persons may be fiscally attached on certain conditions: unlike spouses, who are always taxed jointly, children over 18 and other members of the household may opt to be taxed separately. The law provides for joint taxation of partners in a French civil union (*pacte civil de solidarité*, or PACS), as soon as the PACS is signed. Reporting obligations for 'PACSed' partners are similar to those of married couples.

Tax reliefs include work-related expenses, corresponding to actual amounts or a standard allowance of 10% of net pay (with a minimum of EUR 442 and a ceiling of EUR 12,652 per earner).

The *quotient familial* system takes a taxpayer's marital status and family responsibilities into account. It involves dividing net taxable income into a certain number of shares (two shares for a married or PACSed couple, one share for a single person, one half-share for each dependent child, an additional half-share for the third and each subsequent dependent child, an additional half-share for single parent, and so on): the total tax due is equal to the amount of tax corresponding to one share multiplied by the total number of shares. The tax benefit for a half-share is limited to EUR 1,570 per half-share in excess of two shares for a couple or one share for a single person, except for the first two half-shares granted for the first child of a single parent, in which case the maximum benefit is EUR 3,704.

Tax rates on one share of taxable income are

up to EUR 10,084	0%
EUR 10,085-25,710	11%
EUR 25,711-73,516	30%
EUR 73,517-158,122	41%
above EUR 158,122	45%

There is a special reduction for taxpayers with low tax liability if the household income is less than EUR 1,722 (double for couples). The rebate is equal to 42.5% of the difference between this ceiling and the amount of tax before the rebate.

For 2019 there is also a reduction rate of 20% of the tax if the household income is less than EUR 19,175 (double for couples) plus EUR 3,835 for each dependent person – for a couple with two children the reduction applies if the household income is less than EUR 45,382.

There are surcharges on high incomes: 3% for singles on incomes above EUR 250,000 and for married couples on incomes above EUR 500,000; and 4% on incomes above EUR 500,000 and EUR 1,000,000 respectively.

In addition to income tax, there is a *contribution sociale* (CSG) of 9.2% on 98.25% of taxable income, which is deductible against taxable income but at a lower rate of 6.8%; and a *contribution au reimbursement de la dette sociale* of 0.5%, which is non-deductible.

Example – one-earner married couple, two children

Gross earnings	EUR 38,188	
Deductions – SSC and work related	10,002	
Taxable income	28,186	
Income tax	3,639	(9.5% of gross income)
Contributions	4,319	(11.3% of gross income)

Income tax paid by a single adult with the same income is EUR 6,101 (16.0% of gross income)

Germany

Spouses may choose between two options: joint assessment or individual assessment. In the case of joint assessment, specific allowances are doubled. The vast majority of couples benefits financially from the joint assessment by minimizing the tax burden of the household. The income of dependent children is not assessable with that of the parents.

The income tax liability for spouses who are assessed jointly is computed as follows: (1) all incomes of the spouses are summed up and the sum is divided by two; (2) the tax rate is applied to this tax base; (3) the amount calculated in the second step is doubled.

Given the progressive income taxation, the resulting tax liability for the household is lower than the sum of individual taxation. The household as a unit benefits from this solution otherwise both parts of the couple would opt out. Principal and second earners have the same average and marginal income tax rates. The splitting effect decreases as the incomes of principal earner and the spouse converge.

Individual income tax rates are

up to EUR 9,408	0%	
EUR 9,409-14,532	14%	(rising progressively to 24%)
EUR 14,533-57,051	24%	(rising progressively to 42%)
EUR 57,052-270,000	42%	
over EUR 270,500	45%	

As at 1 January 2020, there are tax credits of EUR 2,488 for the first and the second child, EUR 2,520 for the third child and EUR 2,760 for the fourth and subsequent children. There is a tax allowance of EUR 2,686 for the subsistence of a child and an additional EUR 1,320 for minding and education or training needs. The amount of this allowance is doubled in case of jointly assessed parents. If the value of the tax credit is less than the relief calculated applying the tax allowances, the taxpayer obtains the tax allowance instead of the tax credit. It is also doubled for lone parents in cases where the other parent does not pay alimony.

In 2020 families with children received a bonus payment of EUR 300 per child. For households with higher incomes, the bonus payment is offset against the tax allowance for children.

A single parent with one child gets an extra allowance of EUR 1,908, increased by EUR 240 for each additional child.

The standard allowance for single parents has been increased to EUR 4,008 for 2020 and 2021.

Social security contributions and life insurance contributions are deductible up to a ceiling. There is also a EUR 1,000 work expenses allowance.

There is in addition a 'solidarity surcharge'. This is 5.5% of the income tax liability net of the child tax credit, subject to an exemption limit of EUR 972 for singles and EUR 1,944 for couples. If the income tax liability exceeds the exemption limit there is marginal relief. Couples with incomes below the average wage in 2018 would seem to be exempt.

Employees who are members of a church have to pay a church tax. In most cases the church tax rate is 9% of the wage.

Example – one-earner married couple, two children

Gross	EUR 52,104
Deductions – SSC and work related	8,598
Taxable income	42,434
Tax	5,338
Tax credits children	5,496
Tax paid	-158 (-0.3% of gross income)
Employee social security contributions	10,388 (19.9% of gross income)

Income tax paid by a single adult with the same income is EUR 9,787 (18.8% of gross income)

USA

Families are generally taxed in one of three ways:

- as married couples filing jointly on the combined income of both spouses
- as married individuals filing separately and reporting actual income of each spouse
- as heads of households (only unmarried or separated individuals with dependents).

All others, including dependent children with sufficient income, file as single individuals.

In 2020 a married couple filing a joint tax return is entitled to a standard deduction of USD 24,800. The standard deduction is USD 18,650 for heads of households and USD 12,400 for single individuals. This relief is indexed for inflation.

Married couples generally benefit from a more favourable schedule of tax rates for joint returns.

Low income workers with dependents are allowed a refundable (non-wasteable) earned income credit. For taxpayers with one child, the credit in 2020 is 34% up to USD 10,540 of earned income (USD 24,350 for married taxpayers). For taxpayers with two children, the credit is 40% of earned income up to USD 14,800. For taxpayers with three or more children, the credit is 45% of earned income up to USD 14,800. The credit is phased out as income rises.

Since 1998, taxpayers have been permitted a tax credit for each qualifying child under the age of 17. In 2019 the maximum credit is USD 2,000. The maximum credit is reduced for taxpayers with income in excess of certain thresholds.

Low income workers without children are eligible for the earned income credit. In 2020 low income workers without children are permitted a non-wasteable earned income credit of 7.65% of up to USD 7,030 of earned income. The credit phases down when income exceeds USD 8,650 (USD 14,450 for married taxpayers) and phases out when income reaches USD 15,820 (USD 21,710 for married taxpayers). This credit is available for taxpayers at least 25 and under 65 years old.

The District of Columbia and 41 of the 50 states impose some form of individual income tax. In addition, some local governments (cities and counties) impose an individual income tax, although this is not generally the case. State individual income tax structures are usually related to the federal tax structure by the use of similar definitions of taxable income, with some appropriate adjustments.

Example – one-earner married couple, two children

Gross income (average wage)	USD 60,220	
Standard deduction	24,800	
Taxable income	35,420	
Tax credits	4,000	
Federal income tax	-145	
State and local income taxes (Detroit, Michigan)	3,140	
Total income taxes	2,995	(5.0% of gross income)
Employee social security contributions	4,607	(7.7% of gross income)

Income tax paid by a single adult with the same income is USD 6,310 federal income tax (10.5% of gross income) and USD 3,788 state and local taxes (6.3% of gross income)

APPENDIX B – INCOME TAX BURDEN BY HOUSEHOLD TYPE AND WAGE LEVEL 2020

Household type	Single no children	Single no children	Single no children	Single two children	Married two children	Married two children	Married two children	Married no children	Married as % of Single
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**	**100,100**	**100,67**	**100**
Australia	18.7	24.1	30.8	18.7	24.1	21.9	24.1	21.9	100%
Austria	8.7	14.6	21.3	-2.6	7.1	8.5	11.5	12.2	48%
Belgium	16.2	24.5	32.8	10.0	11.8	19.5	23.1	21.2	48%
Canada	11.6	15.7	21.8	3.2	11.2	14.1	15.7	14.1	71%
Chile	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	n/a
Columbia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a
Czech Republic	10.9	13.9	16.4	-7.4	-4.5	5.3	7.8	12.7	n/a
Denmark	32.6	35.3	40.8	30.8	31.4	34.2	35.3	34.2	89%
Estonia	8.9	14.0	19.7	5.6	9.1	10.6	12.9	11.9	65%
Finland	12.4	20.0	27.8	12.4	20.0	16.9	20.0	16.9	100%
France	12.0	16.0	22.4	9.5	9.5	11.7	13.9	14.2	60%
Germany	13.9	18.8	27.1	-6.0	-0.3	10.0	13.3	16.6	n/a
Greece	3.9	9.9	17.3	3.1	10.5	8.2	10.5	8.8	106%
Hungary	15.0	15.0	15.0	0.7	5.4	9.3	10.2	15.0	36%
Iceland	23.7	27.7	32.9	23.7	20.6	26.1	27.7	26.1	74%
Ireland	11.7	20.8	30.7	6.5	10.0	16.1	20.8	16.1	48%
Israel	5.5	10.1	18.1	-1.8	10.1	6.1	8.0	7.8	100%
Italy	11.5	19.5	29.5	3.7	12.5	13.3	17.2	16.3	64%
Japan	6.2	7.9	12.9	6.2	6.5	7.2	7.9	7.2	82%
Korea	2.4	6.0	10.9	0.8	4.0	3.7	5.3	4.6	67%
Latvia	12.1	16.8	18.0	0.0	7.5	9.4	12.2	14.9	45%
Lithuania	12.6	16.3	19.3	12.6	16.3	14.8	16.3	14.8	100%
Luxembourg	8.0	16.7	25.2	0.6	5.6	10.8	15.0	10.8	33%
Mexico	3.7	9.4	13.9	3.7	9.4	7.1	9.4	7.1	100%
Netherlands	5.7	16.2	26.9	3.6	16.0	11.2	15.6	12.0	98%
New Zealand	14.0	19.1	24.5	15.2	19.1	17.6	19.1	17.1	100%
Norway	15.8	19.3	25.7	13.1	19.3	17.9	19.3	17.9	100%
Poland	5.4	6.3	7.0	-1.3	1.8	3.8	4.5	5.9	28%
Portugal	11.1	16.4	23.1	1.9	5.8	10.3	13.3	14.0	35%
Slovak Republic	7.0	10.1	12.6	0.8	0.2	6.4	8.0	8.8	2%
Slovenia	8.4	11.6	15.1	2.4	3.8	6.8	8.7	10.3	33%
Spain	10.2	14.8	20.6	-4.4	7.8	10.9	13.0	13.0	52%
Sweden	14.9	17.7	29.9	14.9	17.7	16.5	17.7	16.5	100%
Switzerland	7.9	10.7	15.6	2.2	4.3	8.1	10.0	10.5	40%
Turkey	10.3	14.1	18.0	8.7	12.3	11.9	13.6	12.6	87%
United Kingdom	11.1	14.0	22.1	-0.8	13.4	12.8	14.0	12.8	96%
United States	13.9	16.8	21.6	-3.0	5.0	10.5	13.1	14.9	30%
Unweighted averag	10.8	15.1	20.8	5.1	9.8	11.6	13.7	13.3	65%

Source: *Taxing Wages 2021* Table 3.4

APPENDIX C – OVERALL TAX BURDEN 2000, 2010, 2013-2020

Household type	Single no children	Single no children	Single no children	Single two children	Married two children	Married two children	Married two children	Married no children
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**	**100,100**	**100,67**
United Kingdom								
2000	22.8	25.8	28.8	7.7	20.6	20.6	23.2	24.6
2010	22.6	25.4	30.0	0.6	18.7	18.7	22.8	24.3
2013	20.0	24.0	30.1	-3.1	19.0	19.0	21.5	22.4
2014	19.4	23.6	29.8	-4.1	18.5	18.5	21.1	21.9
2015	19.2	23.4	29.8	-3.4	17.8	17.8	20.9	21.7
2016	19.3	23.5	29.9	-1.4	18.0	18.0	21.0	21.8
2017	19.3	23.5	29.9	0.9	18.2	18.2	21.2	21.8
2018	19.3	23.5	29.9	2.6	18.3	18.3	21.2	21.8
2019	19.2	23.4	29.6	4.5	18.4	18.4	21.2	21.7
2020	19.0	23.3	29.6	0.6	18.3	18.3	21.1	21.6
OECD								
2000	21.9	25.6	30.9	5.2	15.1	15.1	22.6	24.1
2010	20.2	24.1	29.4	3.2	12.9	12.9	20.9	22.5
2013	21.0	25.0	29.9	4.7	14.4	14.4	21.8	23.4
2014	20.9	25.0	30.2	4.5	14.5	14.5	21.8	23.3
2015	20.9	25.0	30.0	3.9	14.2	14.2	21.6	23.3
2016	20.7	24.9	29.9	1.7	13.6	13.6	21.3	23.2
2017	20.7	24.9	29.9	2.0	13.6	13.6	21.3	23.2
2018	20.4	24.8	29.9	1.8	13.6	13.6	21.2	23.0
2019	20.8	25.2	30.3	2.5	14.1	14.1	21.6	23.4
2020	20.3	24.8	30.1	0.8	12.9	12.9	20.9	23.0

Source: T*axing Wages 2021* Tables 6.17-6.24

APPENDIX D – OVERALL TAX BURDEN BY HOUSEHOLD TYPE AND WAGE LEVEL 2020

Household type	Single no children	Single no children	Single no children	Single two children	Married two children	Married two children	Married two children	Married no children	Married as % of Single
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**	**100,100**	**100,67**	**100**
Australia	18.7	24.1	30.8	-4.7	16.1	21.9	24.1	21.9	67%
Austria	26.7	32.6	38.0	-2.6	12.9	19.3	23.4	30.2	40%
Belgium	30.1	38.4	46.8	6.9	17.2	28.5	32.7	35.1	45%
Canada	16.7	23.2	26.5	-30.1	0.7	15.6	19.2	21.6	3%
Chile	7.0	7.0	8.3	6.1	7.0	6.6	7.0	7.0	100%
Columbia	0.0	0.0	0.0	-8.0	-5.4	-6.4	-5.4	0.0	n/a
Czech Republic	21.9	24.9	27.4	-4.5	1.1	13.1	16.1	23.7	4%
Denmark	32.4	35.2	40.8	4.0	25.1	30.5	32.2	34.1	71%
Estonia	10.5	15.6	21.3	-9.8	2.1	7.0	10.1	13.5	13%
Finland	22.3	30.2	38.0	9.6	24.9	23.9	27.5	27.0	83%
France	23.3	27.3	33.4	-5.7	15.3	20.6	23.2	25.5	56%
Germany	34.0	38.9	43.3	13.9	19.6	29.9	33.2	36.7	50%
Greece	19.4	25.4	32.8	11.4	21.7	22.0	26.0	24.3	85%
Hungary	33.5	33.5	33.5	8.6	17.6	24.0	25.5	33.5	52%
Iceland	24.2	28.0	33.1	10.7	13.4	25.5	27.7	26.5	48%
Ireland	15.7	24.8	34.7	-9.6	6.8	15.8	21.2	20.1	27%
Israel	11.4	18.0	27.6	-1.8	15.4	11.6	14.6	14.9	85%
Italy	21.0	29.0	39.0	-0.1	16.4	21.1	25.6	25.8	56%
Japan	20.6	22.3	26.1	4.7	16.3	18.9	20.0	21.6	73%
Korea	11.4	15.0	18.9	4.6	9.5	10.6	12.5	13.5	64%
Latvia	23.1	27.8	29.0	4.9	14.4	17.9	21.1	25.9	52%
Lithuania	32.1	35.8	38.8	6.6	18.7	28.2	30.7	34.3	52%
Luxembourg	20.3	28.9	37.5	-6.8	4.7	15.2	20.8	23.1	16%
Mexico	4.9	10.8	15.4	4.9	10.8	8.4	10.8	8.4	100%
Netherlands	20.3	28.7	36.8	-5.5	21.6	19.9	24.1	25.4	75%
New Zealand	14.0	19.1	24.5	-18.1	5.0	17.6	19.1	17.1	26%
Norway	24.0	27.5	33.9	12.3	23.4	23.7	25.4	26.1	85%
Poland	23.3	24.1	24.8	-20.5	-1.1	9.2	11.9	23.8	n/a
Portugal	22.1	27.4	34.1	5.3	13.3	21.3	24.3	25.0	49%
Slovak Republic	20.4	23.5	26.0	7.4	9.0	17.1	19.2	22.2	38%
Slovenia	30.5	33.7	37.2	0.5	13.5	25.1	28.7	32.4	40%
Spain	16.6	21.1	26.9	1.9	14.1	17.2	19.4	19.3	67%
Sweden	21.8	24.7	34.8	11.6	17.8	19.4	21.2	23.5	72%
Switzerland	14.3	17.1	22.0	-1.7	3.8	10.4	13.0	16.9	22%
Turkey	25.3	29.1	33.0	23.7	27.3	26.9	28.6	27.6	94%
United Kingdom	19.0	23.3	29.6	0.6	18.3	19.0	21.1	21.6	79%
United States	18.6	22.4	29.2	-0.8	7.0	14.7	17.9	20.1	31%
Unweighted average	20.3	24.8	30.1	0.8	12.9	18.1	20.9	23.0	52%

Source: *Taxing Wages 2021* Table 3.3

APPENDIX E – EFFECTIVE MARGINAL TAX RATES BY HOUSEHOLD TYPE AND WAGE LEVEL 2020

Household type	Single no children	Single no children	Single no children	Single two children	Married two children	Married two children	Married two children	Married no children
Wage as % of average wage	**67**	**100**	**167**	**67**	**100**	**100,67**	**100,100**	**100,67**
Australia	36.0	42.0	39.0	56.0	42.0	42.0	42.0	42.0
Austria	43.3	48.2	36.9	43.3	48.2	48.2	48.2	48.2
Belgium	51.0	55.6	59.1	51.0	50.1	55.6	54.5	55.6
Canada	41.5	38.8	37.9	52.2	73.1	39.5	39.5	33.8
Chile	7.0	10.2	10.2	7.0	7.0	7.0	7.0	10.2
Columbia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Czech Republic	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1
Denmark	38.7	41.7	55.5	36.9	41.7	41.7	41.7	41.7
Estonia	21.3	32.4	21.3	21.3	32.4	32.4	32.4	32.4
Finland	34.6	46.6	50.2	34.6	46.6	46.6	46.6	46.6
France	32.6	43.0	42.2	51.6	51.6	32.6	43.0	29.0
Germany	46.2	51.5	44.3	43.2	42.3	48.6	51.3	48.9
Greece	34.1	37.6	45.1	34.1	37.6	37.6	37.6	37.6
Hungary	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Iceland	35.7	35.7	44.4	46.7	45.3	42.9	35.7	35.7
Ireland	28.5	48.5	52.0	71.4	48.5	48.5	48.5	48.5
Israel	26.0	32.0	47.0	29.4	32.0	32.0	32.0	32.0
Italy	40.4	40.4	51.2	42.0	42.0	41.2	41.2	40.4
Japan	22.8	27.7	33.1	45.1	27.7	27.7	27.7	27.7
Korea	21.5	23.2	28.4	14.6	23.2	23.2	23.2	23.2
Latvia	37.4	37.4	31.8	11.0	37.4	37.4	37.4	37.4
Lithuania	43.3	43.3	43.3	43.3	43.3	43.3	43.3	43.3
Luxembourg	37.2	51.1	49.6	42.1	31.1	44.4	51.1	44.4
Mexico	12.1	19.5	22.9	12.1	19.5	19.5	19.5	19.5
Netherlands	45.8	45.8	51.8	52.1	52.1	45.8	45.8	45.8
New Zealand	17.5	30.0	33.0	42.5	55.0	30.0	30.0	30.0
Norway	34.4	34.4	46.4	34.4	34.4	34.4	34.4	34.4
Poland	25.8	25.8	25.8	96.3	25.8	25.8	25.8	25.8
Portugal	34.0	39.5	48.0	34.0	34.0	39.5	39.5	39.5
Slovak Republic	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9
Slovenia	34.6	42.4	42.4	34.6	34.6	34.6	34.6	42.4
Spain	28.1	32.9	40.4	28.1	30.0	32.9	32.9	32.9
Sweden	28.1	32.3	55.3	28.1	32.3	32.3	32.3	32.3
Switzerland	21.8	25.8	32.7	13.9	17.3	25.0	28.5	25.9
Turkey	32.8	38.7	38.7	32.8	38.7	38.7	38.7	38.7
United Kingdom	32.0	32.0	42.0	73.0	32.0	32.0	32.0	32.0
United States	26.3	36.3	38.3	48.6	26.3	26.3	36.3	26.3
Unweighted averaç	31.0	35.6	38.8	37.9	35.9	34.7	35.4	34.5

Source: *Taxing Wages 2021* Table 3.7

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