

Tax system “biased”: families pay 44 per cent more tax than in other countries, new report reveals

Families with one working parent are being penalised by Britain’s tax system, reveals a new report today (9th Feb 2009).

The report, published by the Christian charity CARE, analyses the tax paid in 2007/08 by one-earner married couples with two children on an average wage and compares this with the tax comparable families paid in other OECD countries.

The Taxation of Families 2007/08 found that in 2007/08 these British families paid on average 44 per cent more tax than the countries in the Organisation for Economic Development - up seven per cent points more than in 2006/07. By contrast, the tax burden on other families was broadly comparable with that in other OECD countries.

This means that the tax burden in Britain on these one-earner families after national insurance contributions, tax credits and child benefit are taken into account was £2000 more than the OECD average for a comparable family. Primarily because of the difference in the tax system, a comparable family in the USA would have paid almost £3000 less.

The study, by fiscal policy consultants, Don Draper and Leonard Beighton, concluded that not only are these British families much worse off compared with others overseas, but that they lose out to UK families where both parents earn.

As Professor Rowthorn of Cambridge University points out in his foreword, if two adults in a couple both work and earn £10,000 a year, they pay less tax on their combined earnings than they would if one stayed at home and the other took a job at £20,000. In most other countries the tax system takes into account the number of adults who share the family income and the tax burden on one-earner couples is reduced accordingly.

CARE’s director of parliamentary affairs Dan Boucher, said that the tax system is encouraging the disappearance of traditional families and the children are the losers. The retreat in the tax system from recognising families is just one example of the culture of individualism referred to by the Children’s Society in its report *A Good Childhood*.

Draper and Beighton also point out that on average in other OECD countries a single earner married couple on an average wage with two children pays typically only 55% of the tax paid by a single person without dependents on the same income. In the UK the percentage is 76%. This percentage has risen each year since 2001. They say that the Government has shown no sign that it recognises that these families are bearing a disproportionate share of the tax burden. When times are tough it is all the more important that the tax burden is shared out fairly.

The Rt Hon Frank Field MP said: “A fiscal priority is to recognise two parent families when levying tax and calculating the eligibility to tax credits. Ceasing discrimination against two parent families would also be the most significant move a Government

could take in helping create the most stable environment in which to nurture children.”

Shadow Chief Secretary to the Treasury, Philip Hammond, said: "This report highlights the continuing bias in the tax system against two parent families where only one adult works. No other European country penalises families in this way.

If we want to end child poverty we must end this discrimination. That is why Conservatives have pledged to re-introduce a recognition of marriage into the tax system and to raise tax credits for two-parent families to level the playing field."

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For more media information, interviews with families, or a full copy of the report, please contact:

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Notes for editors

1. The report, *The Taxation of Families 2007/08: A review examining how the UK compares internationally* examines the tax burden on UK families in 2007/08 and compares this with the burden in other developed countries. Tax for this purpose is income tax plus national insurance contributions net of tax credits and child benefit. The report is based in the main on statistics produced by the OECD and published annually in *Taxing Wages* showing the taxes, social security contributions and cash benefits of eight different kinds of household in the 30 OECD member countries. The 2007 edition of *Taxing Wages* shows estimates for 2007 and definitive results for 2006.
2. The report looks first (Section 1, paragraphs 9-19) at how the taxation of families has changed over the last 40 years and in broad terms how the changes have affected different types of household. Over the last 40 years there has been a redistribution of the tax burden as a result of which some families now bear a much larger share of the tax burden than once was the case. For other taxpayers there has been surprisingly little change.
3. The report then looks (Section 2, paragraphs 20-56) at how other countries tax families and how the UK income tax system differs from that in other tax jurisdictions. The UK income tax system is unusual in that it takes virtually no account of either marriage or of a taxpayer's family responsibilities. Most other developed countries do.
4. The study compares tax regimes in two ways. It compares first the proportion of income taken in tax from various types of UK families and from single people

with that paid by comparable taxpayers in other OECD countries (“tax rate” or “tax burden”) (paragraphs 32-45). It then compares the tax paid by families with that paid by single people without dependants across OECD but with the same income (paragraphs 46-56).

5. Figures are based on the average wage in each country. In the UK in 2007 the OECD use a figure of £33,165. In the US the average wage is shown as \$41,143.
6. For this purpose average means the average (mean) wage of an average adult worker (male and female, manual and non-manual, including supervisory and management employees). The worker is assumed to be in full-time employment during the entire year. For further information about OECD definitions used in this study see pages 458-456 *Taxing Wages 2006-2007* or contact OECD direct.