

# What is the Highest rate of 'tax' in England?

In some family circumstances it could be over 100%

The effective tax rate is the amount clawed back by the Treasury for every extra £1 earned, in tax, national insurance, tax credits or universal credit, child benefit tax charge.

The highest effective tax rates occur around cliff edges such as the withdrawal of the marriage allowance. If someone in work gets £1 income liable at the higher rate they lose all their marriage allowance.

Unfortunately for families this withdrawal occurs at the same time as the Child Benefit withdrawal so families can find themselves poorer by earning more!

# Worse off by earning more!

“How does it work that my husband got a pay rise to help with cost of living but we will actually be worse off a month?? How does that make sense?”

*MAHM member response to a post*

“My husband's employer has been great over the last year helping with the increased cost of living. We have received a cost of living increase and an additional point increase on his scale in August, as well as an additional £1000 spread over 10 months from October. He then got his usual point this January, and an advanced cost of living increase. However, when I do the calculations, I really wish they hadn't because these extras that we weren't expecting have now pushed us into a far worse tax situation, meaning not only are we subject to the High Income Child Benefit Tax, we lose our married tax allowance and he becomes a higher rate tax payer...”

# High marginal tax rates at different income levels

High marginal tax rates affect families at many different income levels. Here are the main areas:

- Income over £12,570 and withdrawal of universal credit 69% +9% where student loan repayments. For those still on legacy benefits 77% + 9%.
- Income over £50,570 74% + 9%, 86% if 3 children
- HICBC (£50k - £60k) 1 child 54.5%, 2 children 62.75%, 3 children 71% + 8.25% for each further child.
- People with high rents can be drawing UC as well at these incomes, so marginal rates ....
- Income £100k - £125k 62%
- Income over £125k 47%

# What does this mean in practice?

Across a wide range of incomes it is very difficult for families to earn more through their own efforts, particularly for single earner families where one parent works and the other stays home to care.

Pay rises make little difference to families' disposable income.

Less incentive to work overtime, seek promotion.

# Example of the family on median wage

If the family is on old tax credit system the father has to earn an extra £12,500 a year to make £3k net!

If the family is on UC the father has to earn an extra £9,677 to make £3k net.

The effective tax rate on UC is 69% (+9% student repayments).

For every extra £1 earned 69p goes back to the Treasury in tax, NI and reduction in UC.

# Cost of living pay rises may not help much

Today families are asking for pay rises to keep pace with rising cost of living. These may help little with cost of living.

Illustration is of a single earner family but a similar tax rate would apply to single parent households.

There is little incentive to work harder for those already in work. Making childcare free would make little difference to this problem.



What options are available to families?

Send the mother (second earner) to work. She too will be caught in the tax trap but at a lesser rate.

If her income is less than £12,500 she will need to earn £6666 to bring home £3k net. If she earns over this she also will face the 69% tax rate.

She is already doing a valuable job caring for her children but she must leave this unpaid labour of love to work long hours for relatively little reward.

# How many families are caught up in this trap?

ONS figures:

- Number of families
- 8 million
- one child families            3.5 million
- two children                    3.4 million
- three or more children        1.2 million

2 million families with children on UC November 2021

Further 1.9 million claiming CTC or WTC (tax credit) April 2021

# Higher rate tax earner on £50k – how much of the £10k increase does he bring home?

He will only bring home £2900 of that increase (minus Marriage tax allowance).

If he is on UC he will only bring home £1400.

Should his wife return to work instead she can earn the full £10k without paying tax, and they keep their MTA and Child Benefit.

Although they would be significantly better off financially the family then face childcare costs.

# Cry for 'affordable childcare' but this masks a deeper desire to be with our babies.

When economic necessity steals you from your children to another workplace it adds insult to injury if most of the working wage ebbs away on 'childcare' – paying someone else to usurp our precious privileges – the first steps, the funny words, the infectious laugh, the awesome questions. It is understandable that there is a cry for 'affordable childcare'.

If mothers actually realised what was really going on, that choice is being taken away from them rather than the narrative of gender equality and finding fulfilment in work the pain might be unbearable.

And what are the costs to the well being of the family?

# At what cost to the family?

“Recently we bought a house and the reality of mortgage and bills has meant I am now working 16 hours/week at Tesco. I chose this job particularly for the flexibility (I can still be there for our children during the daytime and then my husband can have them when I go to work in the evening) but - wow, it's hard! I'm exhausted even with working just 16 hours.

As a result, I'm much less patient with the kids and my relationship with my husband is more distant. I can't stay on top of the housework and cooking as well as I previously did. This is a temporary Christmas job (that I took on because we have a big bill to pay in January) so we will reassess in a couple of months' time. It's just making me really appreciate the homemaker/stay-at-home mum role even more than I already did! I never intended to stay home with my kids but it's been an absolute blessing in my life. I only hope I can continue to do it. I'm burned out though.”

If the family rent in North London there is a housing allowance of £442 pw.  
They can have an income of £100k

If the family have a mortgage (costs £442 pw) UC cuts out at £36,344

Where on the income distribution does a family with 3 children on £50k lie?

*“We have always been clear that those with the broadest shoulders should carry the greatest burden. ...Some people - the richest 15 per cent of households with children - will lose out from January next year but ... it is very difficult to justify continuing to pay for the Child Benefit of the wealthiest 15 per cent of families in society.”*

*Conservative Party Press Release 29th October 2012*

*Mr Osborne: “I think it is fair to ask those in the top 15% of the income distribution to make a contribution to the fiscal consolidation.”*

*George Osborne responding to questions in the Commons March 2012*

# Equivalisation – measurement used to work out how well off a family is

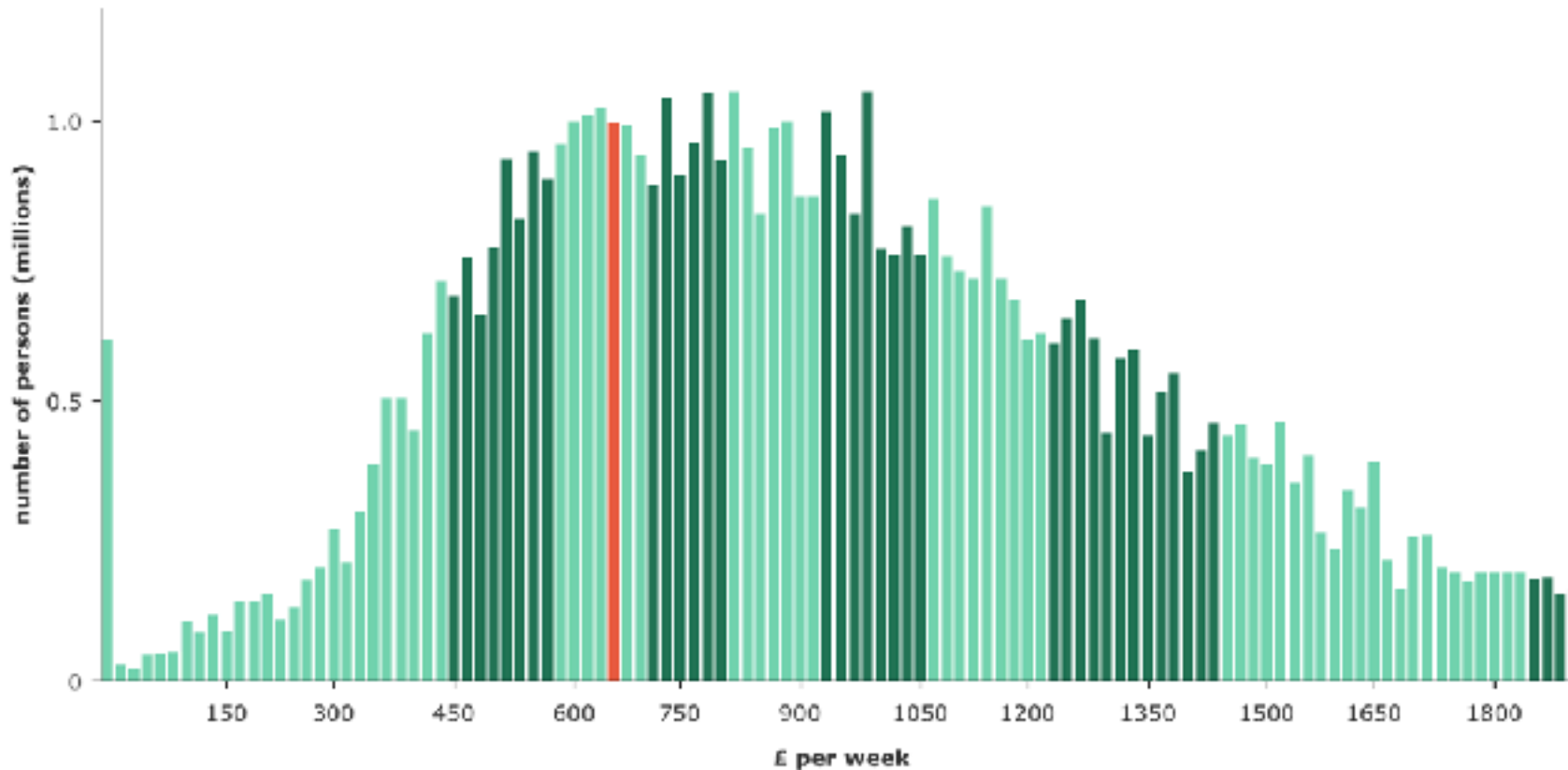
The income that a household needs to attain a given standard of living depends on its size and composition. So, to compare your household income with that of the rest of the population, we first need to know the number of adults and dependent children living in your household.

You input your net income after tax, NI and include any benefits, credits.  
Include Council Tax – housing costs vary widely across UK



### Family with 3 children on £50k gross:

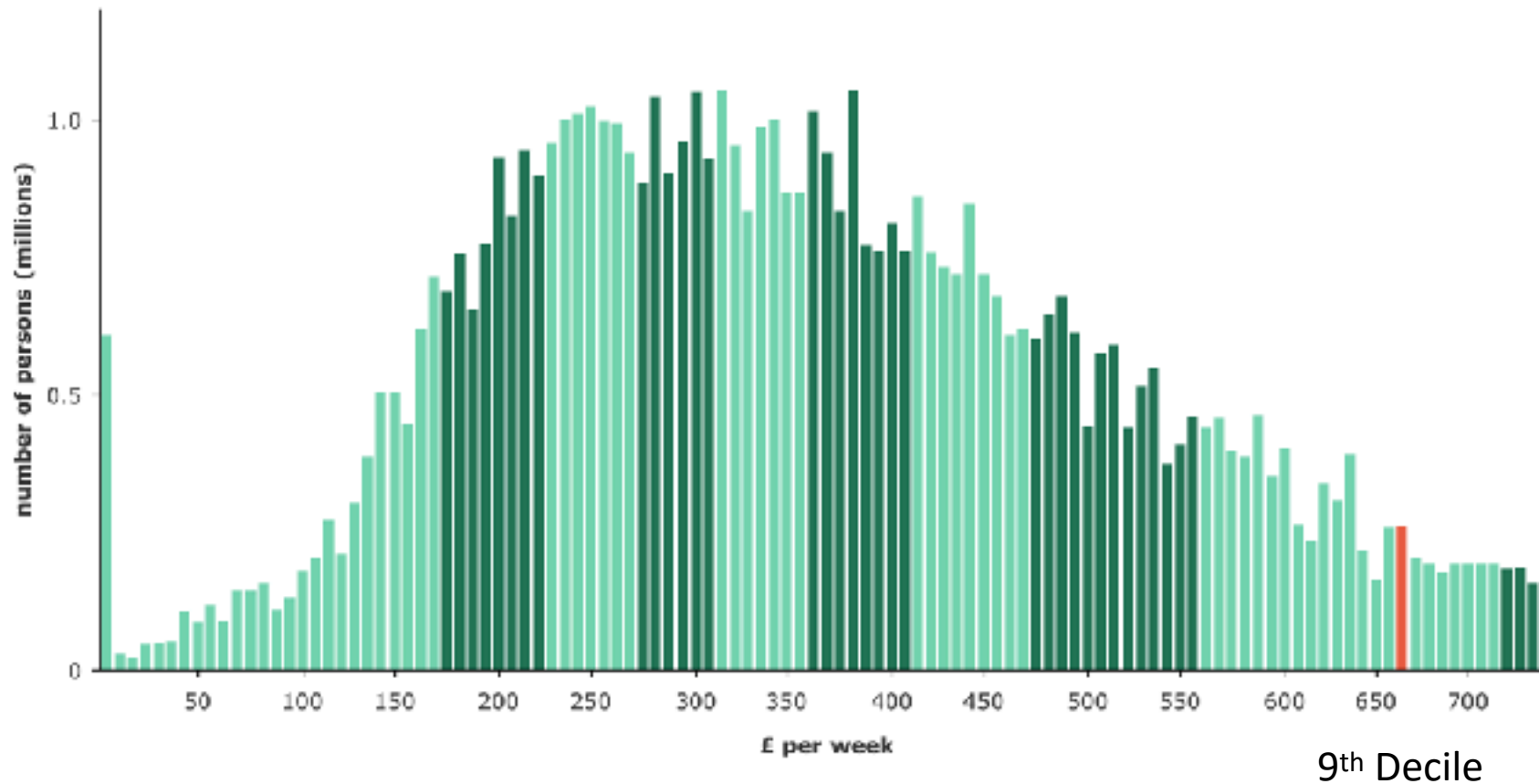
With a household after tax income of £666 per week, you have a higher income than around 25% of the population - equivalent to about 16.5 million individuals.



3<sup>rd</sup> Decile

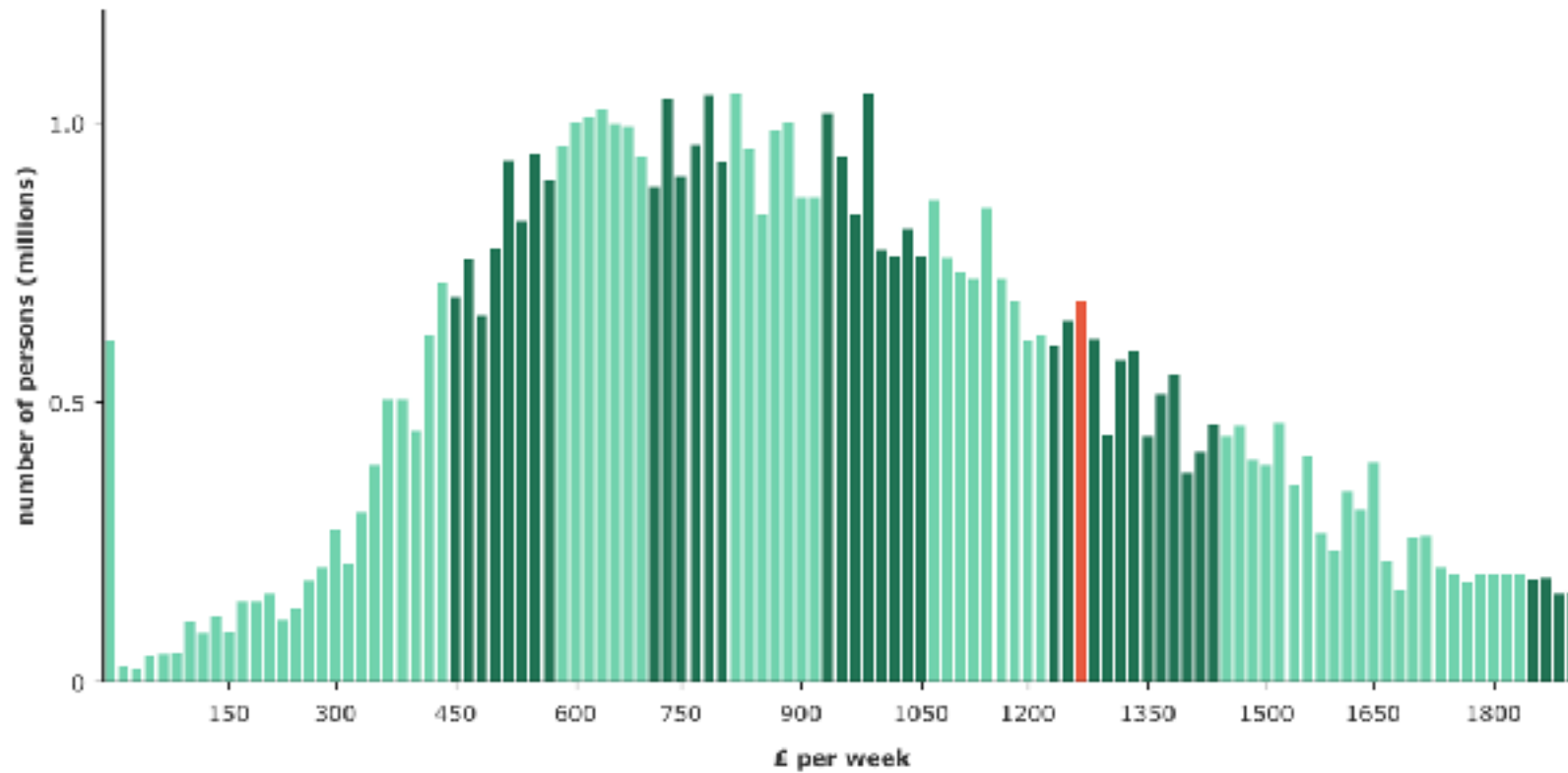
Single adult on £50k gross:

With a household after tax income of £666 per week, you have a higher income than around 87% of the population - equivalent to about 57.4 million individuals.



Family with 3 children with 2 earners on £45k each:

With a household after tax income of £1276 per week, you have a higher income than around 72% of the population - equivalent to about 47.5 million individuals.



8th Decile



# Impact on households: distributional analysis to accompany Spring Statement 2022

Table 2.A: Median gross income for each decile (£ per year, 2021-22) for different household compositions<sup>2</sup>

Median gross income of households in decile	1 adult	1 adult and 1 child	2 adults	2 adults and 1 child	2 adults and 2 children
Top decile	69,700	-	104,100	142,500	174,300
Ninth decile	46,500	-	68,900	90,400	112,100
Eighth decile	37,700	-	55,100	73,000	90,300
Seventh decile	31,300	43,400	45,900	59,500	74,500
Sixth decile	26,600	36,200	39,000	52,100	61,400
Fifth decile	22,200	29,300	32,900	44,200	52,200
Fourth decile	18,500	23,700	28,100	36,700	44,700
Third decile	15,600	21,000	23,700	31,500	36,200
Second decile	12,700	17,100	19,700	25,100	29,100
Bottom decile	9,500	12,600	14,500	17,400	20,600

Source: HM Treasury distributional analysis model

# Independent Taxation introduced 1990

“The system of independent taxation being what it is, every individual, including each partner in a couple, is treated equally and independently within the income tax system. That means that the child benefit charge, sitting as it does within the income tax system, must adhere to those principles; that is the idea behind it....

...we do not look at the circumstances of those individuals' partners and tax them on their partner's income. That is the underlying principle.”

Does independent taxation mean that a woman loses her only source of income because her partner is a higher earner. Is this the principle?

# Is this the principle?

“I was just reading the transcript of the debate last Thursday and it made me so angry. I have sat at the computer doing the accounts tonight almost in tears wondering how we will deal with increasing bills and they are talking about people like us as if we rolling in it. In particular Victoria Atkins going on about how important individual taxation is, so why am I having my money removed based on my husbands income, how is that individual taxation?”

*MAHM Member*

# The root of the problem

“One way or another, my constituents still face so many anomalies, with the obvious one being family income versus that of the individual.”

Martin Day SNP Led debate on Child Benefit Charge 2<sup>nd</sup> Feb 2023

The UK tax system is almost alone in the world in not recognising the dependent nature of the family.

Failure to support the family through removal of family allowances led Gordon Brown to introduce tax credits.