

WOMEN AND TAX

REPORT OF THE COMMITTEE ON WOMEN AND TAX ESTABLISHED
IN JANUARY 1978 BY BARONESS YOUNG, DEPUTY CHAIRMAN OF THE
CONSERVATIVE PARTY, UNDER THE AEGIS OF THE WOMEN'S NATIONAL
ADVISORY COMMITTEE OF THE CONSERVATIVE PARTY, AND PUBLISHED
BY THE COMMITTEE

CHAIRMAN: MISS SHELAGH ROBERTS
G.L.C.

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Terms of Reference

To consider the working of the tax system as it affects women in particular and family life in general, bearing in mind the changing role of women both at home and at work.

The Committee was asked to distinguish between alterations which could be effected by changing the administrative practices of the Inland Revenue and those which would involve major legislative reform, and was also asked to take into account whenever necessary the inter-action of the taxation and social security systems.

This report is a contribution by the Committee to discussion and not an official Party pronouncement.



MEMBERSHIP OF THE COMMITTEE

Miss Shelagh Roberts G.L.C., Leader of the Planning and Communications Policy Committee of the Greater London Council and an Industrial Relations Adviser.

Mr. Antony Newton OBE MP., Secretary of the Conservative Parliamentary Committee on Health and Social Security.

Mr. John Wakeham, MP., a Chartered Accountant with a specialist knowledge of taxation.

Mrs. Mary Baker, a member of the Board of a Television Company and wife of Mr. Kenneth Baker MP.

Miss Margaret Marshall, a Chartered Secretary and Conservative Candidate in the 1978 by-election at Berwick and East Lothian.

Miss Angela Hooper, Chief Women Executive of the Conservative Party.

Mr. Peter Cropper, Desk Officer at the Conservative Research Department with particular responsibility for taxation matters.

Miss Barbara Wallis, Executive Assistant to the Shadow Front Bench Spokesmen on the Environment and Conservative Parliamentary Candidate for Feltham in 1966 and 1970 (Secretary to the Committee).

The Committee wishes to express its appreciation to the Secretary, Miss Barbara Wallis, for her invaluable help and for the immense amount of work which we placed upon her and the cheerful and efficient manner in which she responded.

SHELAGH ROBERTS

Chairman

January, 1979

EVIDENCE SUBMITTED TO THE COMMITTEE

The Committee received information and views based on knowledge and experience from a number of different organisations and individuals and express their gratitude to all concerned.

In particular they would wish to thank:

- The National Association of Widows
- The Child Poverty Action Group
- The Married Women's Association
- The National Council for One Parent Families
- The National Council of Women of Great Britain
- The National Council for the Single Woman and her Dependants
- The National Federation of Women's Institutes
- The Country Landowners' Association
- The National Children's Bureau.

The Committee also acknowledge some very helpful information contained in "Income Tax and Sex Discrimination" published by the Equal Opportunities Commission.



THE PRESENT SYSTEM

Our tax system is a relic from the time when not only was it exceptional for a married woman to go out to work, but also it was exceptional for women to think in terms of a career structure.

The social climate has now changed completely. Currently almost half of all the married women go out to work — although a great number of these are employed part-time. Most of the remainder are engaged in the socially important work of caring for their families at home. Many women are in the higher-earning brackets, and in some families they are the highest earner. Indeed, because of the present high level of unemployment, in some households the woman is the only earner. There is a considerable increase in one-parent families and also in non-married, but stable, households. One in six pensioner households relies on a woman for financial support, and the majority of these households contain dependants.

Income Tax was introduced by William Pitt in 1798 and from the start husband and wife were taxed as a single unit on the principle of aggregation of income; the Interpretation Act 1887 states that the word "masculine" where it appears is held to embrace the feminine. Section 37 of the Income and Corporation Taxes Act 1970 says "A woman's income chargeable to income tax shall . . . be deemed for income tax purposes to be his income and not to be her income." One Inland Revenue form (only now about to be changed) carries the instruction "If you are a married woman living with your husband will you please ask him to complete this form as if it were addressed to him."

In the 1918 Finance Act an allowance was instituted for the married man which assumed the wife to be a dependant even if she totally supported herself. In 1942, in a wartime situation, the allowance for a wife's earnings was raised to the level for a single person. The motive for this was the need at that particular time to persuade married women to take up employment.

The current Married Man's Allowance is £1535, whilst the single personal allowance is £985. Thus two single people living together with both earning have a joint personal allowance of £1970, but a married couple both at work get £2520. There is therefore at present a direct tax incentive for married women to go to work. However in a marriage where the wife is the only earner, her husband can claim both the married man's allowance and the wife's earned income allowance, both of which are then offset against the wife's earnings. But a married man and a married woman earning the same salary do not take home the same money; she is more heavily taxed and takes home £3.50 less because of the Married Man's allowance.

A wife's investment income remains the property of her husband and must be declared on his tax return.

The effect is that, one hundred years after women have won the battle to own their own property, and fifty years after the introduction of universal suffrage, married women are treated for taxation purposes as if they do not exist as individuals.

At present there are, in principle, two ways of mitigating this situation — the "Wife's earned income election" and "Separate assessment."

The wife's earned income election must be jointly applied for by both husband and wife and all joint income is declared on the one tax return *which the husband signs*. Husband and wife will then each receive a single person's allowance. The wife becomes responsible for paying the tax due on her earned income and is entitled to receive any rebates due. But any investment income she has continues to be owned for tax purposes by her husband, and he remains liable to tax on it. The election, therefore, is only worthwhile for couples whose joint taxable income is high enough to be taxed at the higher rates. By having the wife's earnings separately taxed, the couple can then reduce their total tax bill.

Separate assessment can be applied for by either spouse and only one signature is required. The effect is that each partner is liable for his or her tax on his or her income. Each partner may complete a tax declaration. The tax allowance due to the husband on their joint income is divided between them according to the proportion of their earnings. If a wife is earning she will receive at least the equivalent of the wife's earned income allowance to set against her earnings. The effect of separate assessment is to divide the total tax bill between the two partners and each is then responsible for his or her share.

However only about 3% of married women in employment choose this option, which until recently the Inland Revenue has done little to publicise. Therefore virtually no married woman has an independent tax status which recognises her contribution to society.

Some of the problems can be dealt with by administrative action, but the solution to the fundamental problem depends upon changes in policy.

THE OBJECTIONS TO THIS SYSTEM

In a social climate in which women are increasingly being given equal legal status, and are expected to undertake equal responsibility, great resentment is building up amongst women that in the vital area of taxation policy their whole position changes once they are married.

"Woman's Own" has been running a campaign on this issue, subsequently taken up by the "The Sunday Times" and many thousands of women (and a good many men) have responded by giving examples of their personal resentment at the present system. The Conservative Party has for some time been drawing attention to the



discrimination which exists in the administration of taxation policy and can take some credit for the recent announcement by the Chancellor of the Exchequer that in future Inland Revenue Offices will reply direct to married women who write to them concerning their tax situation.

Under the present taxation system a husband's total income includes the relevant income of his wife. In the vast majority of cases the income tax return is signed by the husband and not by the wife. There is no legal obligation on a husband to tell his wife how much his income is, and husbands can conceal from their wives all their earnings if they wish to do so. However many wives dislike feeling totally dependant on their husbands for all their needs and undertake paid work, such as house-work or baby-minding, for which they receive cash. This money is then invested, perhaps in a Building Society or Post Office Savings Account, and the wives feel they have a personal "nest egg" to be used, perhaps, for some family occasion such as the marriage of a child, or a special anniversary, or even just as a personal allowance. The first knowledge the husbands have of this money is when they receive queries from the Inland Revenue about the tax liable on it. There are examples of marriages in which the revelation of this income has caused a major rift.

Considerable problems can also arise from the tax treatment of investment income on assets, especially property, acquired by the wife before marriage. Although remaining her assets in law, the investment income has to be aggregated to her husband's income and he is liable for tax on it.

Although there are a number of exceptions — and the Government has announced that more are to be made — it is currently the general position that since the husband is responsible in law for tax due on the couple's income, he is also entitled in law to any repayment due. Allowances for investments and mortgages are given to a man even where his wife is paying the bill. They must *both* apply for such allowances to be allocated to the wife.

OUR OBJECTIVES

In a changing social climate one of our objectives is to enable women to be treated as independently as they wish to be treated, but, at the same time, to encourage and support the family. In particular we wish to end the discrimination which at present exists under our tax system against the married woman who stays at home, either because she is engaged in caring for a family, or dependant relative, or simply because she prefers to do so. If she remains at home to look after a family, or dependant relative, in both cases performing a valuable social role, she already pays a high price in terms of damage to her career when she wishes to return to work.

Following on this, the dilemma to be resolved when considering the tax system must be:

Is the basic tax unit to be the individual, or the family?

The Meade Report set out the criteria for decision on this question in the following way, noting that there is inbuilt conflict:—

The decision to marry or not to marry should not be affected by tax considerations.

Families with the same joint resources should be taxed equally.

The incentive for a member of the family to earn should not be blunted by tax considerations which depend upon the economic position of other members of the family.

Economic and financial arrangements within the family (e.g. as regards the ownership of property) should not be dominated by sophisticated tax considerations.

The tax system should be fair between families which rely upon earnings and families which enjoy investment income.

Two persons living together and sharing household expenditures can live more cheaply and therefore have a greater taxable capacity than two single persons living separately.

The choice of tax unit should not be excessively costly in loss of tax revenue.

The arrangements involved should be reasonably simple for the taxpayer to understand and for the tax authorities to administer.

Having said this, however, we believe that the tax system should remain neutral so far as the question of married women going out to work is concerned, and should neither encourage, nor discourage, them from doing so. There are a number of other factors which do require to be considered when deciding whether or not married women should be encouraged to work, but tax should not be one of them. Therefore it is essential to make women a separate entity for tax purposes.

The main difficulty in establishing completely separate treatment for married women is the fact that a married couple both earning currently enjoy *larger* personal allowances than if they were single. Hence separation is only possible by making married earners worse off by comparison with single people.

It would be possible to avoid making them absolutely worse off by substituting a new adult personal allowance set at half the combined level of the married man's allowance *plus* the wife's earned income relief, but this would be expensive. One possibility would be to move gradually by ceasing to increase the married



allowance in line with the single allowance, so that in due course an adult allowance could be introduced without cost to the Exchequer.

OUR SOLUTION

THE COMMITTEE PROPOSES THE FOLLOWING FORMULA, which in their view will remove the major discrimination against women and redress the balance between the earning married couple and two single persons, but which at the same time will support the family situation:

EVERY ADULT PERSON SHOULD HAVE A UNIFORM PERSONAL TAX ALLOWANCE

THIS WOULD BE SET FIRST AGAINST HIS OR HER OWN TOTAL INCOME AND, SUBJECT TO CERTAIN SAFEGUARDS, IN THE CASE OF A MARRIED COUPLE ANY, OR ALL, WOULD BE TRANSFERABLE BETWEEN THE PARTNERS. THIS ALLOWANCE WOULD HAVE TO BE AT A FIGURE MID-WAY BETWEEN THE MARRIED MAN'S ALLOWANCE AND THE SINGLE PERSON'S ALLOWANCE TO MAINTAIN THE CURRENT POSITION OF THE WORKING WIFE.

Investment Income

If this proposal to treat adults as individuals for the purpose of tax on earned income were accepted it would follow logically that the same should be done for investment income.

There are, however, conflicting considerations involved. On the one hand, the new situation would compound the present injustice of treating the income on a married woman's capital acquired before marriage or built up out of her own earnings after marriage, as if it were her husband's. On the other hand, complete separation for investment income would produce opportunities for some people to reduce their tax bills by capital-splitting, and might make it difficult to sustain the tax free status of husband/wife transfers under Capital Transfer Tax.

There is no immediate solution to this dilemma, but we believe the first step should be to allow both husband and wife the same threshold of surcharge-free investment income taxed on his or her marginal rate; beyond this some form of aggregation would continue.

Whilst this would not be a perfect solution, it would, we believe, deal with the majority of cases where married women have built up their own capital.

The Committee believe that the benefits of these proposals would be:-

- a. An end to the tax discrimination against the family where a parent stays at home to look after young children.
- b. The removal of the present inequity whereby a married couple receives two and a half times the single person's tax allowance, if they are both earning.
- c. An advantage to married couples where the wife is not working, or is working but earning less than the tax threshold.
- d. The removal of the anomaly in the present tax structure whereby if a wife is the only breadwinner she gets her husband's tax allowance in addition to her own, whereas when the husband is the only wage earner he does not get the unused wife's allowance.
- e. It would modify the present injustice whereby a woman who has acquired capital through savings prior to, or during, a marriage, has her investment income aggregated to her husband's income for tax purposes.
- f. In the event of a move towards Tax Credits at some future date, it would facilitate the transition.
- g. It would maintain a woman's personal responsibility for her tax affairs, which arise on widowhood or divorce.
- h. It would eliminate most of the discriminations against women in the tax system which are implicit in the treatment of married women as dependants, and should enhance the status of married women at work and at home, and facilitate the transition between the various stages of a woman's economic life.
- i. It would be welcomed by married women as a recognition of their independent status as people within a marriage and would serve to strengthen the family relationship.

One drawback would be a diminished tax incentive when a wife returns to work. The present situation is that when a married woman returns to work she is taxed at her husband's marginal rate only when she has used up her wife's earned income allowance and entitlement to the lower rate band. We recognise that our proposal that the allowance should be transferable between the partners means that for a couple as a whole, where the wife has not been working, all extra income will be taxed at the basic rate, apart from the existence of the reduced rate.

On the other hand, however, this situation could be an incentive to married women to obtain realistic wages.

We are satisfied, though, that the advantages outweigh the disadvantages; hence our recommendations.



Impact on the Social Security System

We recognise that our proposals raised important questions for the social security system. For example, if men and women are to be treated as separate entities for taxation, should they be treated separately for social security purposes i.e. should married couples have two single pensions? However we do not feel that it is part of our remit as a committee to discuss these matters in this particular paper.

ADMINISTRATIVE CHANGES

Income Tax Returns

The Committee has noted with approval the inclusion in the Finance Act 1978, undoubtedly encouraged by pressure from, amongst others, Conservative Members of Parliament in the House of Commons, measures which extend the rights of married women to receive their own repayments of PAYE tax and which

- (i) Allow the housekeeper allowance to be claimed in respect of a male or female housekeeper
- (ii) Allow the "daughter's service allowance" to be claimed in respect of a son
- (iii) Allow the "child minder" housekeeper allowance to be claimed in respect of any relative, male or female, who is maintained to look after a child.

They have also noted with pleasure that in future Inland Revenue Offices will reply direct to a married woman who writes to them about her tax affairs and will amend the wording on certain Revenue forms to meet complaints which have been made, and to which reference is made in this report. They are also glad to see that new leaflets are to be issued designed to secure a better understanding of the rules governing the tax treatment of married couples and separate assessment provisions.

Whilst these deal with a number of points of administrative detail which have given rise to complaint, the Committee would wish to emphasise the over-riding importance of making women independent entities for tax purposes.

At the same time the Committee wishes to see the tax system made as simple and straightforward as possible. They recognise that the vast majority of people have perfectly straightforward tax returns and that, in general, for a married couple a tax return should be a joint return showing all income and signed by both partners. If either partner wishes to make an individual return however, they should be able to do so with the minimum of complications.

Arising out of this, the Committee discussed in some detail proposals that:

- (a) A tax form should include two separate sections, one to be completed and signed by the wife, and one by the husband.
- (b) The form should be a joint return, signed by both partners as being correct to the best of their knowledge.

On balance the majority of the Committee preferred (a), making it the responsibility of each partner to declare his or her own income and claim the appropriate tax allowance, any balance being automatically transferred to the other partner unless a special application to the contrary was registered.

Mortgage Interest

The Committee is opposed to the present system under which mortgage interest relief is automatically assigned to the husband unless he writes to the Inland Revenue giving permission for the wife to receive it.

We consider that this should be the subject of agreement between husband and wife. However where there is a dispute about who should receive relief for mortgage interest, the Inland Revenue should rely upon evidence from the lender about who is, in fact, making the payments. This is important both in a settled marriage and if a marriage breaks up.

The Committee has noted the suggestion that there should be an entitlement to relief for mortgage interest for both partners in a marriage where each owns a home. However we do not believe this to be acceptable.





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