

# Taxation of the Family

## Restoring Balance and Fairness

### A paper for the Iona Institute

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***“You are forcing women to go out to work .. you are changing the kind of Ireland we have known and changing it for the worse”***

Michael Noonan (1<sup>st</sup> December 1999) to Charlie McCreevy during tax individualisation debate hosted by Brian Farrell.

***“Across the tax and welfare code there is now a significant anti-family bias that is worrying”***

Joan Burton (15<sup>th</sup> March 2007)

We have seen and heard much analysis of how unfair our income tax system is to PAYE workers.

Few would disagree.

But there is another huge unfairness in our tax code: A quarter of a million single income families are penalized for having a spouse working in the home.

What’s more, over time the tax system has been changed to take less and less account of dependents, especially children, in the family home. This is another form of individualisation. It treats each tax-payer as an individual and ignores the children and other dependents they may have.

As part of this paper, we have compared the amount of tax a family with three children would have paid if the tax code of 1974 applied today: we find that they pay far more in tax than they once did. (See page 3).

Tax individualisation itself, introduced by Charlie McCreevy in 1999, penalises one-income married couples in favour of two-income married couples.

One of the major assumptions behind this is that all or most married couples want to work and to leave their children in day-care. In fact, according to an Amarach poll commissioned by The Iona Institute, only 17pc of people would prefer to see young children placed in day-care.

By assuming that only 17% of parents are doing childcare the “right” way, and by forcing stay at home parents to subsidise double income families – robbing Petra to pay Paula - our tax code is against the clear wish of the people.

## How Tax Individualisation Discriminates:

	1 income family Married	2 income family Married
		
Total Income	€65,600	€65,600
Tax liability	€12,358	€6,520
As % of income	18.8%	9.9%

Source: Calculated from Department of Finance (Budget 2014) data

By having lower standard rate tax bands and tax credits and taking no account of children the system:

- Dismisses the role of women and men working in the family home
- Penalises single income families to the tune of up to:
  - €5,838 per annum
  - €486.50 per month
  - €112.27 per week
- Forces single income families to pay up to double the effective tax rate.
- Treats children as non-persons

In opposition Michael Noonan and Joan Burton promised to fight individualisation. With both in cabinet and the economy recovering they can now do it by

- **Doubling Home Carer’s Credit (cost €100m)**
- **Announcing a “Commission on Family Taxation” to plan a “Family-Fair” Taxation system by 2020**

## 1.2 How Individualisation works

The idea behind tax individualisation is quite simple:

If you are working in the home rather than in the Labour force the tax code assumes that your contribution to the life of the nation is not only inferior, but undesirable.

With the exception of a Home Carer's Credit of just €810 per annum - which is less than half of the PAYE credit of €1,650 - no recognition is made of a quarter of a million stay-at-home spouses<sup>1</sup>.

The thresholds for paying the higher rate of tax clearly underscore how, as far as our tax code is concerned, those who work in the family home are second class citizens. For the case of a combined income of €65,600:

- A two income family receives a standard rate band of €65,600 and tax credits of €6,600
- A one income family receives a standard rate band of €41,800 and tax credits of €5,760
- Neither family receives tax credit for dependent children, unlike the 1970s (see below)



### How tax individualisation works:

	1 income family Married	2 income family Married
		
Total Income	€65,600	€65,600
Standard rate band	€41,800	€65,600
Tax paid at 20%	€8,360	€13,120
Tax paid at 41%	€9,758	0
Less credits	(€5,760)	(€6,600)
<b>Total tax</b>	<b>€12,358</b>	<b>€6,520</b>

Source: Calculated from Department of Finance (Budget 2014) data

The operation of the system is shown above for a fairly typical income level roughly equal to one and a half times the Average Industrial Wage<sup>2</sup> (AIW). This is also where the gap in take home pay between a one and double income couple reaches its maximum.

But even at incomes below €65,600 the gap is significant as shown by Annex chart 1.

There are many calls to make on this coming budget.

But given how long families have been discriminated against – and with recovery now gathering strength – **the time to begin working towards a Family-Fair system of taxation has now arrived. Individualisation should be phased out by 2020.**

**Starting now.**

<sup>1</sup> This is taken from Census 2011

<sup>2</sup> Equal to €44,298.80 according to the CSO's Quarterly Earnings and Labour Cost release, August 2014.

## 2.1 Four decades of drift

The Irish tax system generally has been moving away from treating families as a unit to treating them as individuals. Therefore, the tax credit allowed to families with dependent children and/or a dependent spouse have been hugely diminished.

### A one income family (3 children) under 1974 and 2014 income taxation\* compared

	2014 system		1974 system*
Total Income	€65,600		€65,600
	-	1974 married persons credit	(€17,714)*
	-	1974 child tax allowance	(€13,285)
Taxable income	€65,600		€34,601
Tax paid at 20%	€8,360	Tax paid at 26%	€8,923
Tax paid at 41%	€9,758	Tax paid at 35%	€99
PRSI USC	€2,624 €3,911	Social insurance	€1,635
Less credits	(€5,760)		
Tax + social insurance	€18,893		€10,657
Difference	If credits, rate bands and social insurance prevailing in 1974 were in force today today's 1 income family with 3 children would pay <b>€8,236 less in tax*</b>		
*Note	A family with three children would receive €4,680 per annum in child benefit today.		

Source: Calculated from Department of Finance (Budget 2014) data

\*See Annex III for the methodology and calculations

\*Calculations are approximate and aimed at giving a broad indication of

the impact of changes in the tax code between 1974 and 2014.

The foregoing table illustrates the outcome of a **broadly indicative** theoretical exercise which applies key aspects of the 1974 income tax system to a contemporary income level:

The methodology simply takes the tax credits, rate bands, child allowances and social insurance payments prevailing in 1974, expresses them as a percentage of the Average Industrial Wage in that year and then applies these percentages and their operation to our contemporary benchmark income of €65,600 (the method is illustrated in Annex III).

Regarding the precise difference in tax paid arising from a comparison of the current system and that prevailing in 1974 it must be borne in mind that the methodology here is a broadly indicative.

**Nonetheless it is safe to say that a very significant difference of over €8,000 arises in tax liability (see table and note). So changes to the tax code in the last four decades have clearly and undeniably been adverse for families.**

Key causes of this are as follows (Annex IV provides more detail):

In 1974 a family earning an Average Industrial Wage (AIW) paid a marginal tax rate of **26%**

In 2014 a family earning below the AIW pays a marginal tax rate of **52%**

By contrast in 1974 a family needed to earn **three times** the AIW to hit a marginal tax rate of 50%

In 1974 family received a married person's tax credit of **£800 or 40% of the 1974 AIW of £2,000 per annum.**

In 2014 the married couple's credit is **€3,300, only 7.4% of the current AIW of €44,300**

In 1974 Families received a child tax credit of **£200 per child or 10% of the 1974 AIW of £2,000 per annum.**

In 2014 the annual value of child benefit is **€1,560 per child or just 3.5% of the current AIW of €44,300**

The practical effect of all these measures is that less and less allowance is being made for family dependents.

Sociologist Dr Peter Saunders told a conference organised by The Iona Institute about the way in which this process happened in the UK: "Tax policy used to enable couples with children to be relatively self-reliant. The principal earner (usually the husband) had one tax allowance to cover his own subsistence needs, another to cover those of his wife, and a third in respect of his children, so they didn't need much extra help from government. A married man with a family to support would end up paying much less tax than a single person earning the same money. This is known as 'horizontal equity.'

"But many countries have moved away from this system as traditional family life has weakened. The UK has gone further than most by radically individualizing its tax system, (a path Ireland is also following)."

In Ireland, apart from the brief row when Charlie McCreevy introduced a particular form of tax individualisation, there has been almost no debate as to whether our tax system should treat everyone as individuals or whether it should take account of the fact that a family is an interdependent group of people with common interests.

We need to have that debate.

Article 41.2 of the constitution describes stay at home workers as:

***"A support without which the common good cannot be achieved"***



### 2.2 Double Disadvantage

The one income married family is not only hugely disadvantaged vis-à-vis the past and vis-à-vis double income families today.

There is also a very significant disadvantage in terms of take home income per family member vis-à-vis a single parent family.

As Annex II shows, for the case of 1 child and 2 children respectively, there is across the full spectrum of incomes a significant gap in the income after tax received by a one income married family on the one hand and on the other by a one income single parent family earning the same income.

#### Per person after tax income: 1 child

Income level	1 income 1 parent 1 child		1 income 2 parents 1 child	
	After tax	After tax per person	After tax	After tax per person
€23,750	€23,750	€11,875	€23,750	€7,918
€43,750	€38,491	€19,245	€40,351	€13,450
€66,250	€51,766	€25,883	€53,626	€17,875
€88,750	€65,041	€32,520	€66,901	€22,300

Source: Calculated from Department of Finance (Budget 2014) data.

The table above illustrates how at income levels corresponding approximately to one half; the same; one and a half times; and twice the Average Industrial Wage (AIW) the per person after tax income is significantly higher for a single parent family a single income family.

Because they are beyond the scope of this paper, this analysis takes no account of entitlement of single parents under the social welfare system, including the provision of council housing.

**However it is clear that before these welfare benefits are taken into account, the financial penalty to single income married families is already very significant.**

### 3.1 What about the children?

*“most women choose to spend part of their life producing children and rearing them, and prefer to be supported financially by someone else while they are doing it”<sup>3</sup>*

Dr. Catherine Hakim

Ireland has tended of late to look to Britain and the EU for trends to follow in relation to family policy. And a recent trend has been to push more and more people into the workforce, on the basis that this will automatically lead to personal fulfillment.<sup>4</sup>

That view is increasingly being challenged - by the feminist left and the traditional right – as doctrinaire and out of date.

Far from being behind the curve, the more diverse approach taken in Ireland before individualisation has paid off:

Ireland scores 10<sup>th</sup> the world for the well-being of its children conducted by UNICEF<sup>5</sup> (Britain ranks 16<sup>th</sup>). Irish children are also happier than British children according to an earlier 2009 NUIG study<sup>6</sup>. The children covered in those studies were reared before the economic recession took hold.

The 2013 report Growing up in Ireland<sup>7</sup> survey showed, there is a clear preference in Ireland for rearing children both in the family home, or in cases where direct care by a parent was not possible, by a family relative.

Instead of working against the grain of what parents want, Ireland should be looking to Finland where a model of family taxation and childcare has been built around the wishes of parents.

<sup>3</sup> Hakim, C “The Sexual division of labour and women’s heterogeneity” The British Journal of Sociology Vol. 47 No. 1 (March 1996) pp178-188

<sup>4</sup> See ‘European Jobs Strategy’ Strasbourg, 18.4.2012 COM(2012) 173 final

<sup>5</sup> UNICEF “Child well-being in rich countries, A comparative overview”, 2013

<sup>6</sup> WHO, NUIG “Young People’s Health in Great Britain and Ireland” (2009)

<sup>7</sup> ESRI “Growing up in Ireland”, 2013. Section 3 on Childcare and parenting support.



Allowing parents to use a home care allowance for a child under 3 years of age – either in recognition of the work parents and relatives do in caring for them or as a contribution towards private care – has helped Finland to score the second highest level of child well-being in the developed world and the lowest rate of child poverty<sup>5</sup>.

And in terms of educational attainment, Finland remains one of the best performers in Europe.

Policy on taxing the family should be based on evidence from successful policy experiences rather than ideology.

By affording choice to families Finland’s experience suggests that outcomes will be better for children also.

It should also be based on what parents – women and men – want. According to British feminist and sociologist Dr. Catherine Hakim there is a 20-60-20 balance between women who want to work full time, who want to combine part time work with child rearing and who want to rear children full time.

Broadly this 20/60/20 balance tallies with the Amárach Research poll of July 2013 showing 17 per cent favouring day care while 49 per cent favour care in the family home by a parent and 27 percent by a relative.

When experts and popular wisdom are in agreement, it is folly for governments to go against them.

### 3.2 Employment

As successive Quarterly National Household Surveys have shown three quarters of women working part

time are not “underemployed”, i.e. not seeking full time employment<sup>8</sup>

Were the same survey to ask how many fully employed persons would like to work fewer hours to care for children, it might well reveal that tens of thousands do.

When Finland’s childcare reforms were introduced in the late 1980s 13 per cent of Finnish women moved from working in the Labour force to working in the family home over a period of six years.

If even partly replicated in Ireland such a shift could lower our unemployment rate by several percentage points as jobs are freed up for those currently seeking employment.

Given the scale of Ireland’s fiscal challenge, moving towards a choice based pro child system cannot be done instantly.

But in an era when joined up policy making has become imperative, the policy objectives of restoring full employment on the one hand and on the other matching the income tax system to the needs of families can and should be linked.

**In this respect the current low level and operation of the Home Carer’s Credit (HCC) needs immediate attention.**

- **The €810 annual allowance should be brought up to equal the €1,650 PAYE allowance**
- **The threshold of a family’s lower income at which the HCC is reduced<sup>9</sup>, a mere €5,080 per annum, must also be doubled**
- **The rate at which the HCC is reduced<sup>9</sup> should be more gradual enabling part time workers to benefit from it up to a level of half the Average Industrial Wage.**

<sup>8</sup> Quarterly National Household Survey, Q2 2013 Central Statistics Office Table 1a: Females in part-time employment are 308,600 of which 224,300 are “not underemployed”.

<sup>9</sup> For second incomes above €5,070 the Home Carer’s Credit of €810 is reduced according to following formula:  $[(X - 5,070) / 2]$  so that at incomes above €6,070 it equals zero



For too long policies on employment taxation and social welfare have been disjointed and short term in outlook.

As well as opposing tax individualisation the current Tánaiste Joan Burton showed vision in proposing the establishment of a Commission on Taxation in 2006.

Another opponent of tax individualisation is now Finance Minister.

With an eye on restoring full employment by 2020, both should now begin work to make our income tax system more family friendly, more child friendly and more employment friendly.

When tax individualisation was brought in in December 1999 it had no mandate whatsoever from the Irish people.

Not only had Fianna Fáil – the main party in government at the time – made no reference to it in their manifesto, but there was strongly negative reaction from the public. In July of last year, an opinion poll by Amárach Research showed that opposition is as strong as ever.

The only institution to praise individualisation was the EU Commission. Until recently the Commission seemed entrenched in its view:

Last year former Commissioner Laszlo Andor suggested that the idea of parents working in the family home was a “waste of human capital”<sup>10</sup>. However the reaction against the EU in last May’s elections suggests that this mentality is not only unhealthy, but detrimental to public support for the EU. The Commission’s view – that stay at home parents are “wasting human capital” is not only unpopular but ideological. It reduces people to nothing more than economic units.

Last year President Michael D Higgins warned that Ireland’s sense of community was at risk from “the growth of an individualistic culture”<sup>11</sup>. And the most basic communal unit is the family.

*“Many of us are realizing the value of turning to an older wisdom, that while respecting the material comfort and security as a basic right of all, also recognizes that many of the most valuable things in life cannot be measured”*

President Michael D Higgins<sup>6</sup>

President Higgins also spoke of the failure of EU institutions to represent the needs of citizenry. On tax

<sup>10</sup> Keynote address at Ireland’s EU Presidency Conference “Women’s Economic Engagement and the Europe 2020 Agenda”, 30 April 2013. A year later Andor’s party suffered its worst defeat in a quarter century in Hungarian elections. He is no longer EU Commissioner.

<sup>11</sup> Address to the Westmeath County Council Cathaoirleach Awards 22 June 2013.

individualisation at least, he would appear to have a point.



***“Nowadays people know the price of everything and the value of nothing”***

Oscar Wilde

The policy is also clearly out of step with new realities: In 1999 Ireland was enjoying full employment and there was understandable pressure on employers to find workers.

While thankfully falling, the unemployment at 11.1%<sup>12</sup> remains unacceptably high, particularly amongst young people and the long-term unemployed.

Forcing parents who want to be with their children to be separated from them and forcing unemployment on willing participants in the Labour force is simply bad policy, economically and socially.

The government has targeted bringing unemployment below 10% by 2016. Despite significant progress nothing can be taken for granted.

However with a reversal of tax individualisation – gradual if need be – the experience with Finland (see above) shows that this target can be attained if not surpassed.

Happier children, happier parents and lower unemployment.

Should we really throw the chance of achieving this away for the sake of empty ideology?

<sup>12</sup> As inferred from the Live Register for September 2014, CSO.

## 5. Conclusions and Recommendations

### Conclusions and Recommendations

Ireland has a reputation internationally for the strength of its families and – according to various studies by UNICEF and other organisations – some of the happiest children in the world.

Unfortunately Ireland's tax system is working against the family on several fronts

- Discriminatory thresholds for the standard rate of taxation penalize single income families by as much as €5,838 per annum
- By being less than half of the PAYE tax credit, the €810 Home Carer's Credit is demeaning and dismissive of the role of stay at home parents.
- Compared to a single income family with 3 children and earning one and a half times the Average Industrial Wage (AIW) in 1974 a similar family today is worse off by over €8,000 per annum (less when Child Benefit is taken into account).
- Compared to single parent families, single income two parent families take home significantly less pay per person.

The causes of this unfairness are clear:

- The abandonment of child tax credits in the 1980s (as a share of the AIW today's child benefit is a fraction of previous tax credits)
- The discrimination that tax individualisation introduced to our tax code in 1999
- The operation of the Home Carer's Credit; not only its low level but the low income threshold and rapid rate at which its value is reduced.
- A marginal rate of taxation on an average worker that – when PRSI and USC are included – is double that prevailing in 1974.

So far the only debate coming up to Budget 2015 relates to the unfairness of our marginal tax rates.

Such debate is welcome.

But it is far from sufficient.

It is widely accepted – and has been articulated by President Michael D Higgins – that excessive individualism is damaging the community spirit for which Ireland is so renowned. The same applies to the family, which budgetary policy has been working against for over four decades.

Budget 2015 must now begin to reverse this. Both Joan Burton and Michael Noonan – both opponents of tax individualisation – have a major opportunity to reconnect Irish tax policy (and Irish politics) with a quarter of a million stay-at-home spouses and their familie, plus all tax-payers with children.

To do this they should

- Announce the beginning, in Budget 2015, of a drive towards "Family Fair Taxation".
- Immediately double the Home Carer's Credit to parity of esteem with the PAYE credit.
- Immediately double the threshold for reducing the Home Carer's credit and ease the rate at which it is taken away.
- Announce the establishment of a Commission on Taxation of the Family to
  - o Investigate the numbers currently forced to work outside the family home as a result of tax individualisation.
  - o Plan the restoration of equity between one and two income families by 2020
  - o Plan the restoration of child tax credits between now and 2020
  - o Integrate the recommendations of the Mangan report with the system of family income taxation

For years the family has been under attack from cultural and media sources.

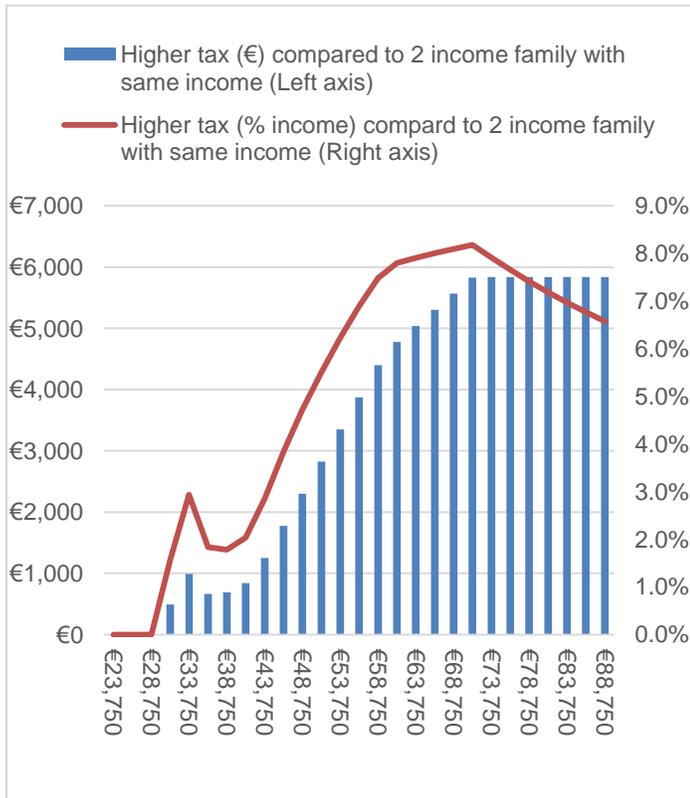
At the same time individual families have subjected to enormous pressure from the economic crisis and unemployment.

The state should be assisting the family in defending itself. By changing tack on individualisation it will put the family – and children – back at the heart of taxation policy. And it will further its own goals of reducing unemployment and creating a better Ireland for all of us.

# Annex I Tax Individualisation:

## How it works

**Chart 1** How single earning families lose out



Source: Calculations based on Department of Finance (Budget 2014) data

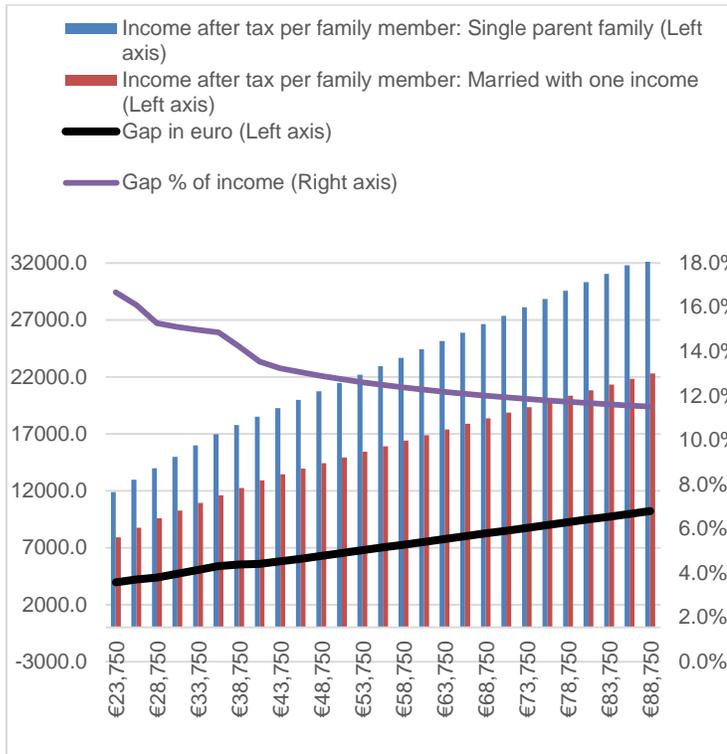
**Table 1** How individualisation works: A breakdown of the impact of differences in standard tax rates and tax credits\*

	Married/CP 1 income	Married/CP 2 incomes	Difference <sup>†</sup>
Joint income	65,600	65,600	0
Standard rate band	41,800	65,600	23,800
<b>Tax paid @ 20%</b>	<b>8,360</b>	<b>13,120</b>	<b>-4,760</b>
Remainder of income	23,800	0	23,800
<b>Tax paid @ 41%</b>	<b>9,758</b>	<b>0</b>	<b>+9,758</b>
<b>Total</b>	<b>18,118</b>	<b>13,120</b>	<b>+4,998</b>
Married credit**	(3,300)	(3,300)	0
PAYE credits**	(1,650)	(3,300)	+1,650
Home Carer's credit**	(810)	0	-810
<b>Tax liability</b>	<b>12,358</b>	<b>6,520</b>	<b>5,838</b>
<b>Effective tax rate</b>	<b>18.8%</b>	<b>9.9%</b>	<b>9.9%</b>

Source: Calculations based on Department of Finance (Budget 2014) data

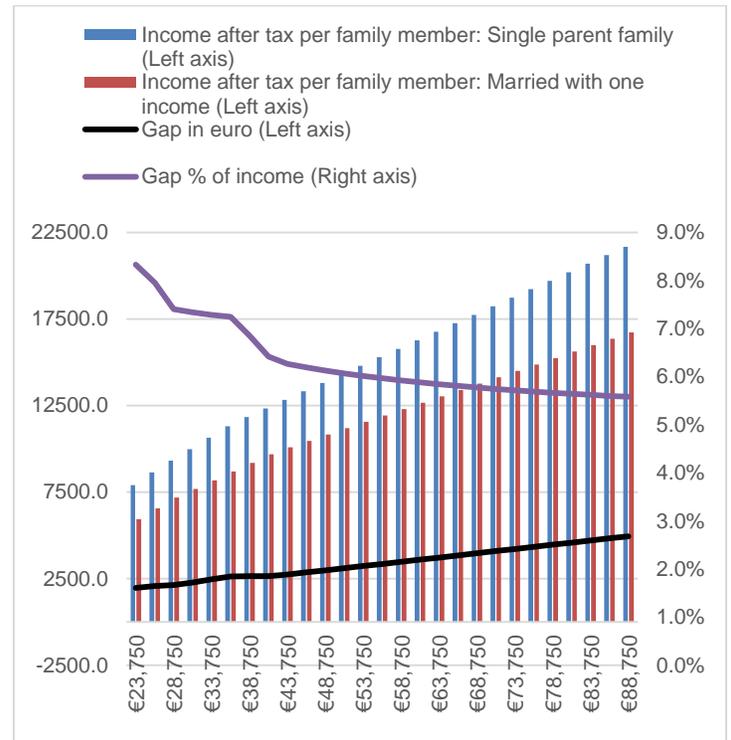
## Annex II Per Person take home pay: Single income and lone parent families compared.

**Chart 2(a) A 1 child family**



Source: Calculations based on Department of Finance (Budget 2014) data.

**Chart 2(b) A 2 child family**



Source: Calculations based on Department of Finance (Budget 2014) data.

### Annex III Note on methodology to apply 1974 tax regime to today for a 1 income family of 3 children

#### Basic approach:

Use the Average Industrial Wage (AIW) in both 1974 and 2014 as benchmarks against which tax credits, standard rate bands and social insurance rates for 1974 are scaled and applied to our benchmark income of €65,600

In 2014 Q2<sup>13</sup> the AIW was

= €44,298.80

For simplicity we round this to

= €44,300

Our benchmark joint income

=€65,600

Therefore equals 1.48 times the AIW which we round to

= 1.5 times AIW

In 1974 the AIW WAS

= £2,000<sup>14</sup>

So as a % of AIW the Married credit<sup>13</sup> of £800 was

= 40% of AIW

The equivalent of which in 2014 would be

= €17,720

Child allowance<sup>15</sup> per child of £200 was

= 10% of AIW

The equivalent of which in 2014 would be

= €4,430

x 3 = €13,290

Finally the tax bands in 1974 were as follows

1<sup>st</sup> £1,550 was paid at 26%

...as £1,550 was 77.5% of AIW today's equivalent band threshold would be

=€34,320

From £1,500 to £4,350 was paid at 35%

..as £4,350 was 217.4% AIW today's Equivalent band threshold would be

=€96,317

In 1974 higher tax bands were only paid by highly paid earners and are thus ignored here

#### Resultant calculation of tax liability 1 income family with 3 children on €65,600:

<b>Total income</b>	<b>= €65,600</b>
<i>Less married persons allowance</i>	<i>(€17,714)</i>
<i>Less child allowance x 3</i>	<i>(€13,285)</i>
<b>Taxable income</b>	<b>= €34,601</b>
€34,332 paid at 26%	= € 9,016
€269 paid at 35%	= € 94
Social insurance	= € 1,635**
<b>Total tax and social insurance</b>	
<b>Based on 1974 rates, bands, credits &amp; social insurance as % of AIW</b>	<b>=€10,657</b>
<b>Current tax and social insurance</b>	<b>= €18,893</b>
<i>(For calculation see table on page 3)</i>	
<b>Difference<sup>#</sup></b>	<b>= € 8,236</b>

\* CSO figures are only readily available for 1973 (£38.3 per week or £1568 per annum) and 1978 (£91.07 per week or £3729.62) and the figure for 1974 is interpolated from these.

\*\* A worker on 1.5 AIW paid £1.27 per week in social insurance and £0.15 in health premiums equal to £73.84 per annum or 3.7% of AIW the equivalent of which according to this methodology is €1,635.

# a 3 child family today would receive child benefit of €4,680

Source for data: 2014, 1974 budget booklets. 1975 IPA Yearbook.

#### Annex IV Income tax in 1974 and 2014:

<sup>13</sup> CSO Quarterly Earnings and Labour Costs, August 2014

<sup>14</sup> The precise figure, £2,000.73, is rounded down for simplicity.

<sup>15</sup> In 1974 married and child credit was deducted before applying tax rates to tax bands

## A general comparison

	1974	2014
Population	3.1 million	4.6 million
GDP/GNP per capita relative to EU	64.2%†	105%††
Married tax credit as % of AIW~	40.0%	7.4%
Marginal rate of income tax PRSI and Social insurance paid at AIW*	26%*	52%
Multiple of AIW needed to pay 50% in combined taxes to government on income*	Married 1 income 3.17 times	Married 1 income 0.94 times
	Married 2 incomes 3.17 times	Married 2 incomes 1.48 times
Married persons allowance/ Home Carers credit as % of AIW	40%	1.8%
Child tax free allowance/benefit as share of AIW (per child)	10.0%	3.5%

Source: Calculations based on Department of Finance, Central Statistics Office data

~AIW Average Industrial Wage

† Figure shown is Gross Domestic Product for 1973. 1974 data not available.

†† Figure shown is Gross National Income (GNI) per capita for 2012. 2014 figure not yet available. GNI figure is used in preference to GDP for 2014 to reflect growth in FDI related activity in the economy in the last four decades.

\* No PRSI or USC was payable in 1974. A flat charge was deducted for social insurance equating to approximately 3.7% of the AIW

\*\* The rate of monthly child allowance (€130) annualized (€1,560) amount to 3.5 per cent of the Average Industrial Wage in 2014