

Marriage-related tax reform analysis for the Centre for Policy Studies

Analysis by PolicyEngine

Background

The UK tax system is largely individual, but has some tax benefits for marriages and civil partnerships. The Marriage Allowance is the main tax benefit fulfilling this purpose: if one member of a couple earns less than the Personal Allowance (£12,570 in a given tax year) and another pays the basic rate of income tax (has income between £12,571 and £50,270), the basic rate taxpayer can increase their Personal Allowance by up to 10% of their partner's unused allowance.

In this analysis, we use the PolicyEngine UK microsimulation model to estimate reforms to the Marriage Allowance, and wider reforms that allow couples to arbitrarily split their income for tax purposes.

Policy reforms

We consider eight reforms in total:

1. Expand the Marriage Allowance cap to 100% and remove the higher and additional rate taxpayer restriction.
2. Expand the Marriage Allowance cap to 100% and remove the higher and additional rate taxpayer restriction **only for couples who have a child under 5**.¹
3. Expand the Marriage Allowance cap to 100% and remove the higher and additional rate taxpayer restriction only for couples who have a child **under 12**.
4. Expand the Marriage Allowance cap to 100% and remove the higher and additional rate taxpayer restriction only for couples who have a child **under 19**.
5. Allow couples to equally split their income for tax purposes.
6. Allow couples to equally split their income for tax purposes **only if they have a child under 5**.
7. Allow couples to equally split their income for tax purposes **only if they have a child under 12**.
8. Allow couples to equally split their income for tax purposes **only if they have a child under 19**.

¹ For all other couples, we retain the existing Marriage Allowance.

Results

For each policy reform, we estimate the budgetary and distributional impacts using the PolicyEngine UK microsimulation model. PolicyEngine UK compares against the baseline of current law and assumes no behavioural responses to reforms.

Headline impacts

For each reform, we estimate the following impact categories:

- **Budgetary impact:** the increase in tax revenues, reduced by any increases in benefit outlays
- **Poverty impact:** the relative change in the poverty rate (as a percentage of the current poverty rate)
- **Inequality impact:** the relative change in the Gini index of equivalised household net income
- **PolicyEngine link:** a link to the reform's full results on PolicyEngine, including more detailed poverty breakdowns, other distributional impacts, and a personalised household calculator

Table 1 shows the results for each reform for each impact category.

| Reform | Budgetary impact (£bn) | Poverty impact (%) | Inequality impact (%) | PolicyEngine link |
|--------|------------------------|--------------------|-----------------------|-------------------------------|
| 1 | -6.1 | -4.3 | -0.4 | CPS Reform #1 |
| 2 | -2.1 | -3.0 | -0.3 | CPS Reform #2 |
| 3 | -3.1 | -3.7 | -0.3 | CPS Reform #3 |
| 4 | -3.6 | -3.9 | -0.4 | CPS Reform #4 |
| 5 | -19.2 | -4.3 | +1.3 | CPS Reform #5 |
| 6 | -5.2 | -3.0 | +0.1 | CPS Reform #6 |
| 7 | -8.9 | -3.7 | +0.4 | CPS Reform #7 |
| 8 | -10.9 | -3.9 | +0.6 | CPS Reform #8 |

Table 1

Distributional impacts

For each reform, we compute the following distributional-specific charts from the microsimulation model:

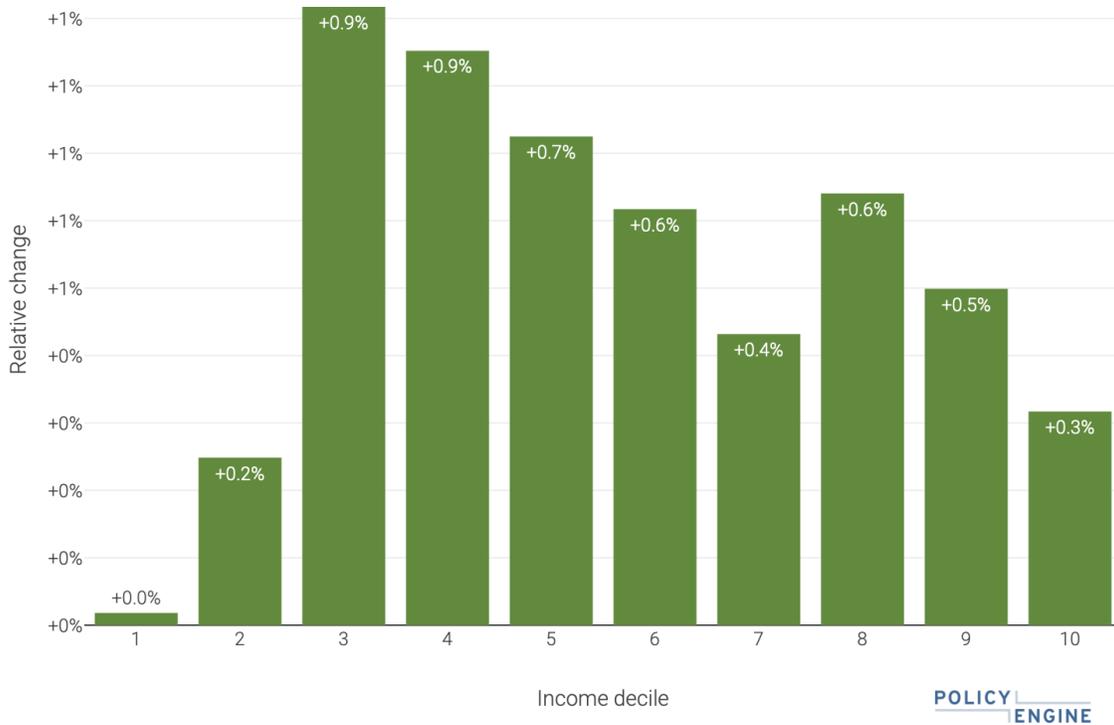
- **Relative impact by income decile:** the relative change in aggregate net income for each income decile
- **Absolute impact by income decile:** the average (mean) change in net income for each income decile
- **Outcomes by income decile:** for each income decile (and all deciles together), the percentage of individuals whose household net income
 - Rises more than 5 percent
 - Rises less than 5 percent
 - Does not change
 - Falls less than 5 percent
 - Falls more than 5 percent

More charts, including impacts by wealth deciles, are available on the PolicyEngine results page links from Table 1.

Reform 1

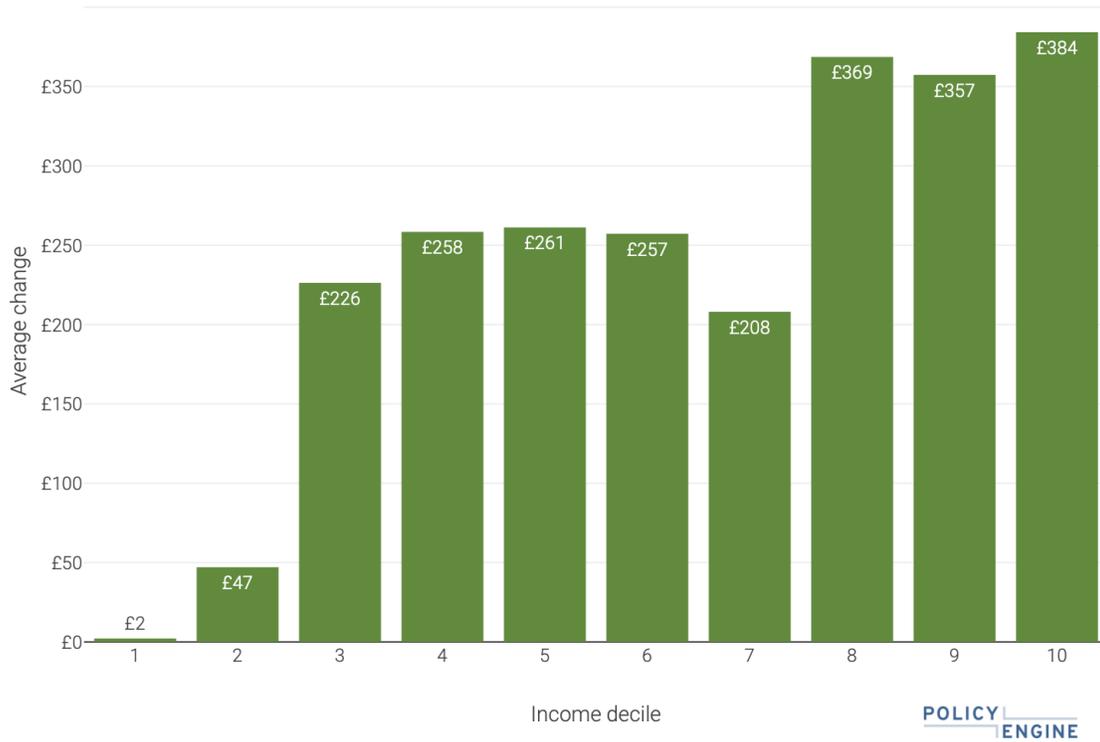
Relative impact by income decile

CPS Reform #1 would increase the net income of households by 0.5% on average



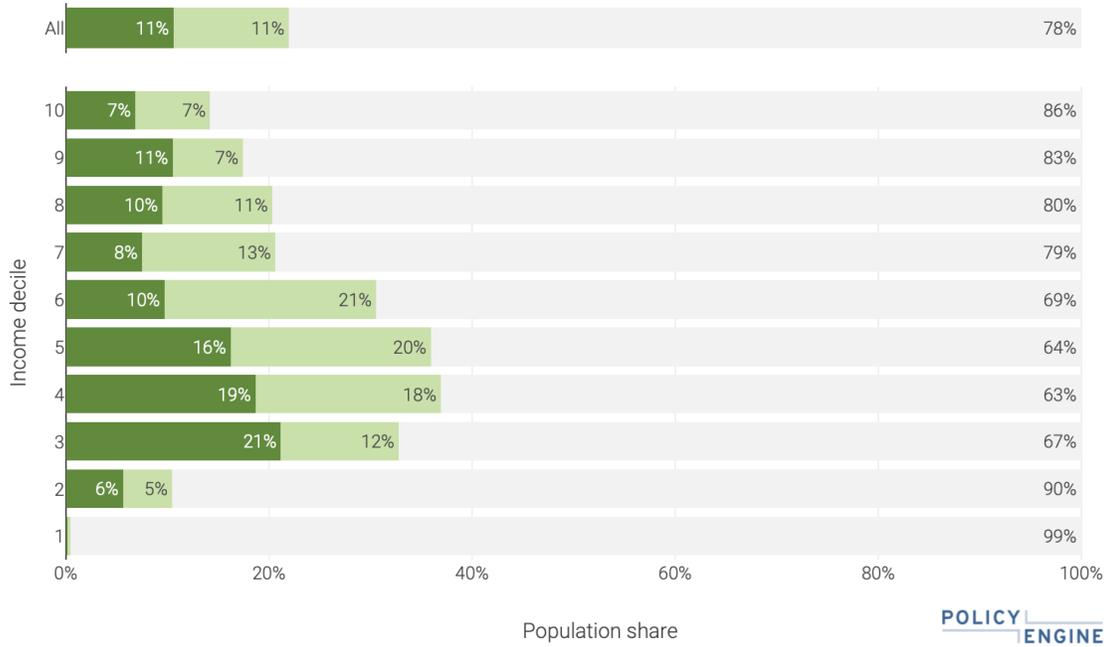
Absolute impact by income decile

CPS Reform #1 would increase the net income of households by £204 on average



Outcomes by income decile

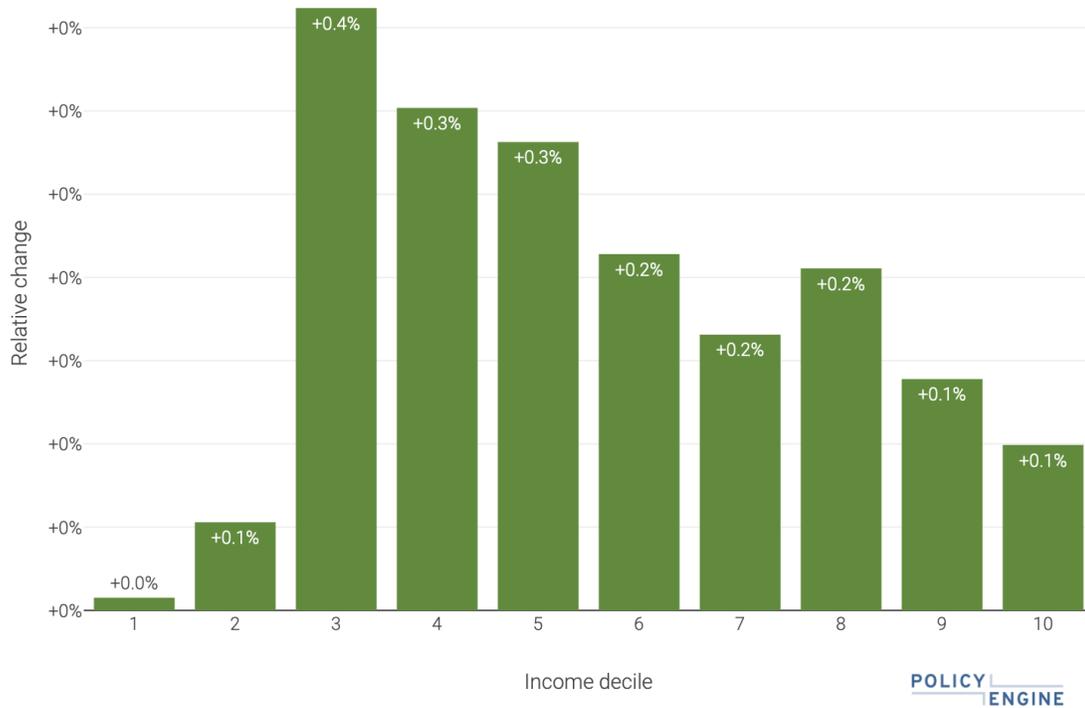
CPS Reform #1 would benefit 22% of the population



Reform 2

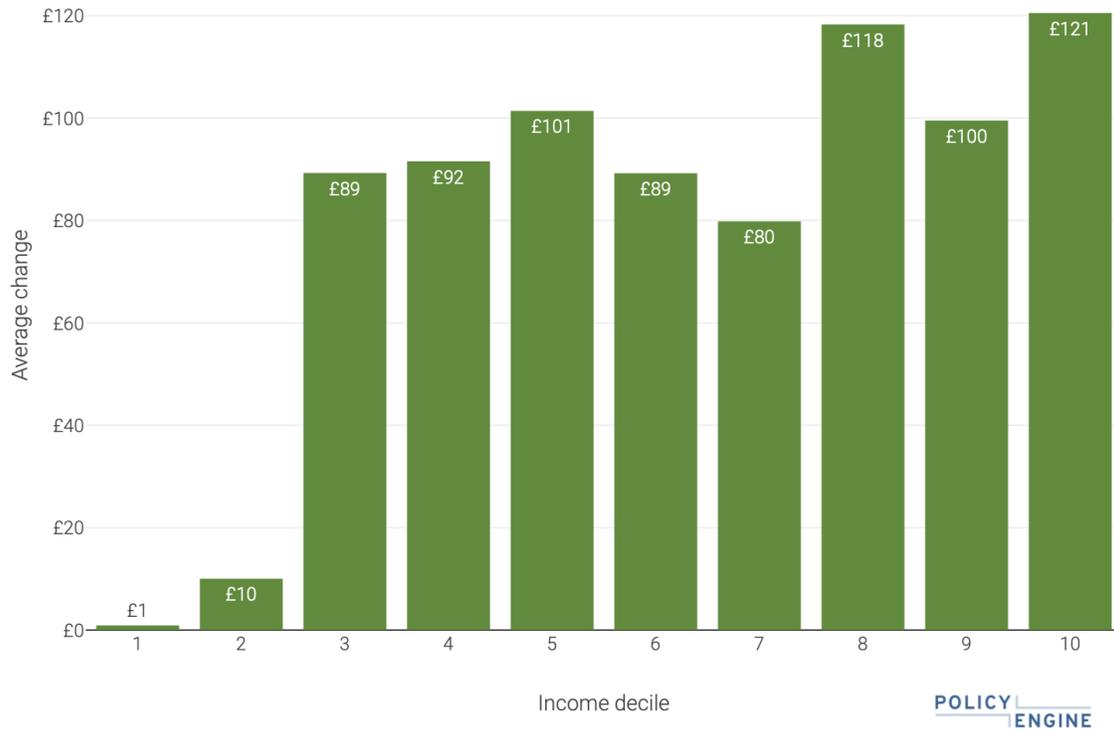
Relative impact by income decile

CPS Reform #2 would increase the net income of households by 0.2% on average



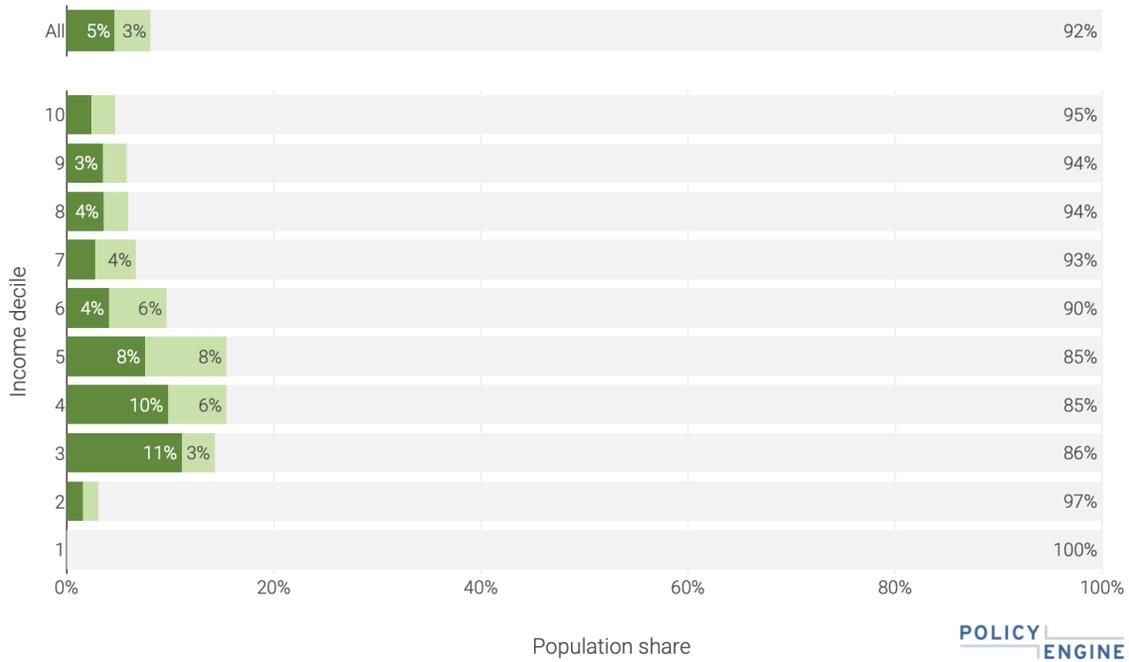
Absolute impact by income decile

CPS Reform #2 would increase the net income of households by £70 on average



Outcomes by income decile

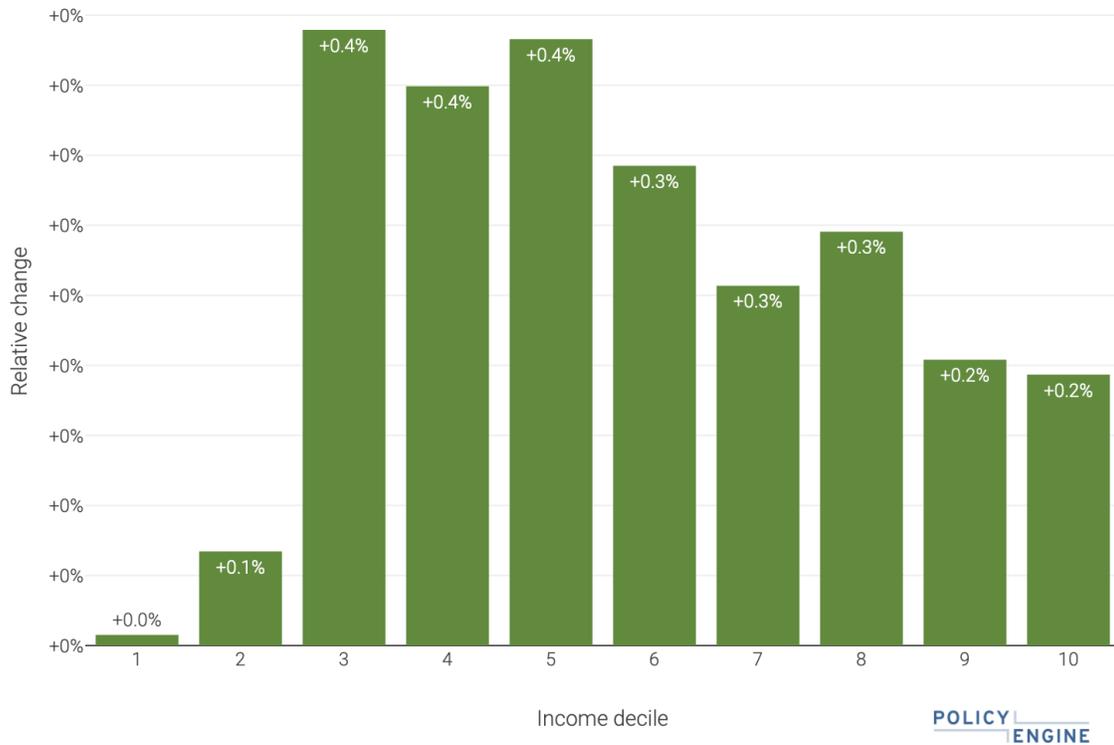
CPS Reform #2 would benefit 8% of the population



Reform 3

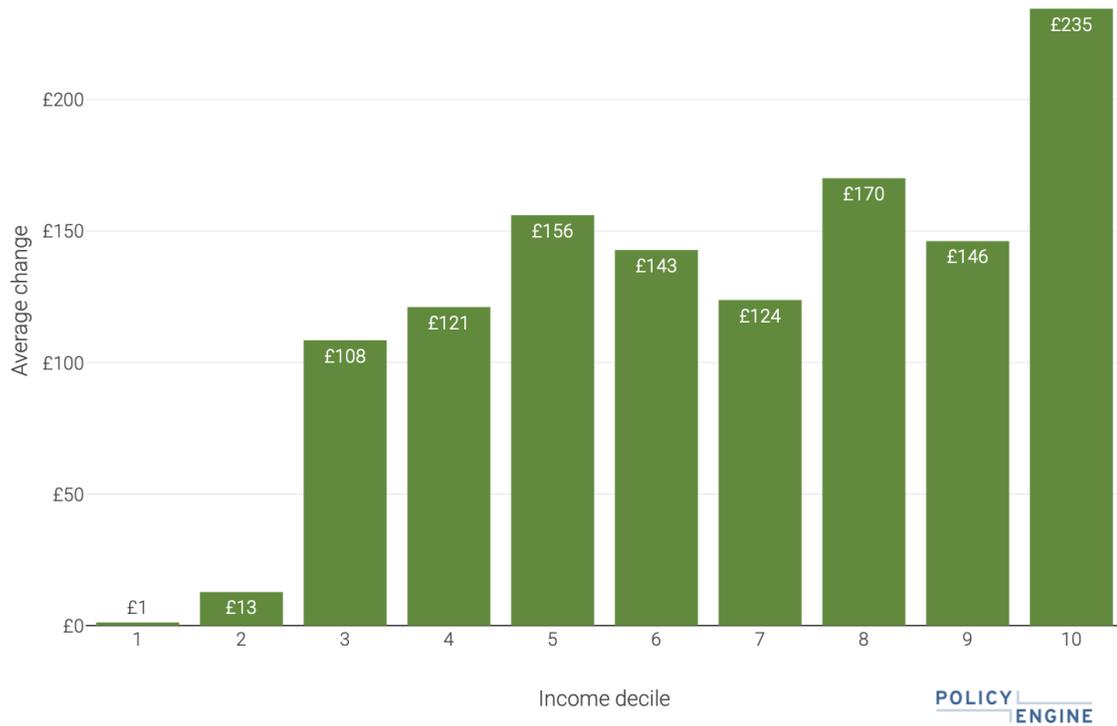
Relative impact by income decile

CPS Reform #3 would increase the net income of households by 0.3% on average



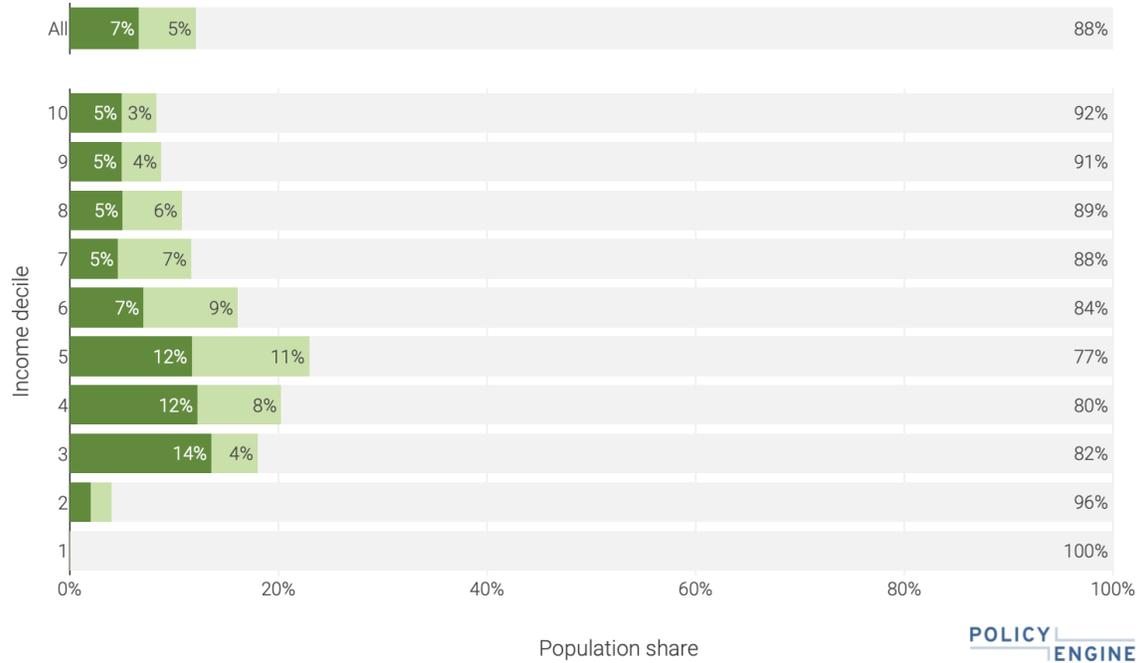
Absolute impact by income decile

CPS Reform #3 would increase the net income of households by £104 on average



Outcomes by income decile

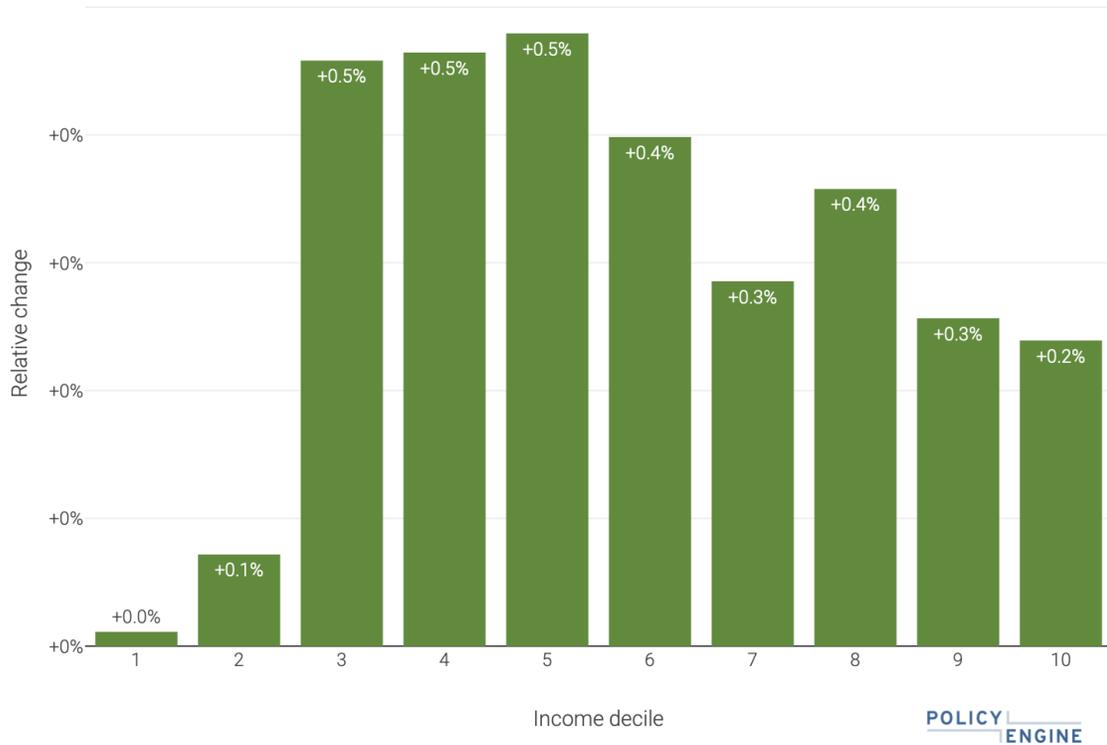
CPS Reform #3 would benefit 12% of the population



Reform 4

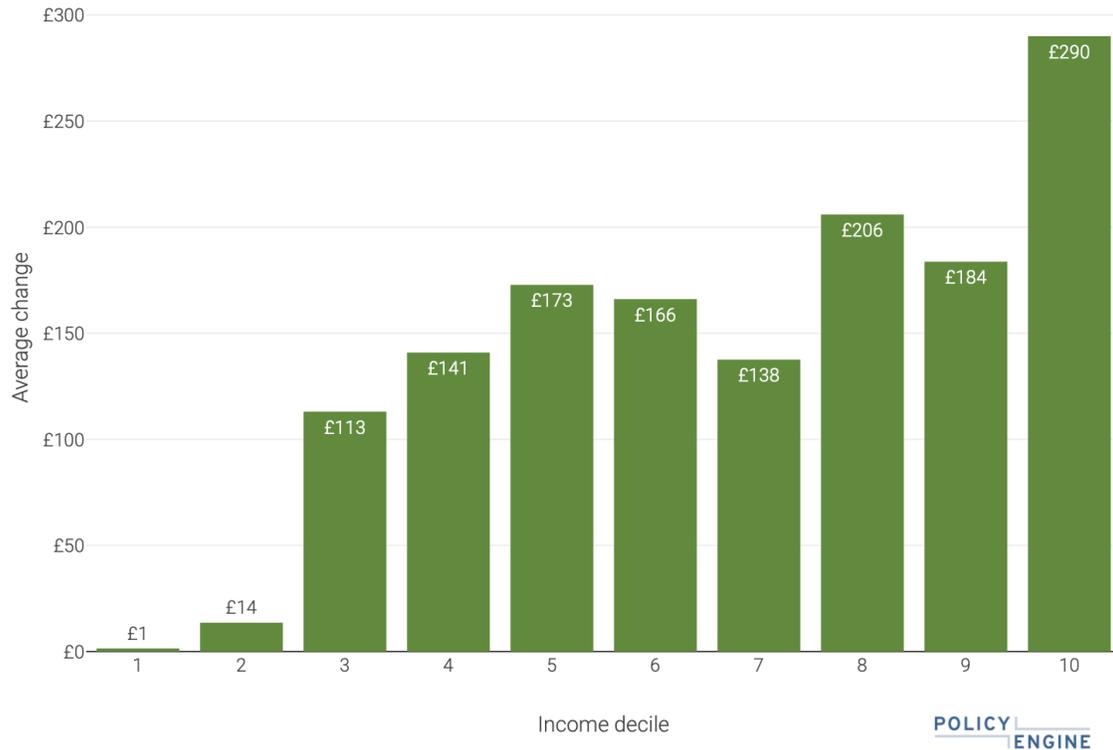
Relative impact by income decile

CPS Reform #4 would increase the net income of households by 0.3% on average



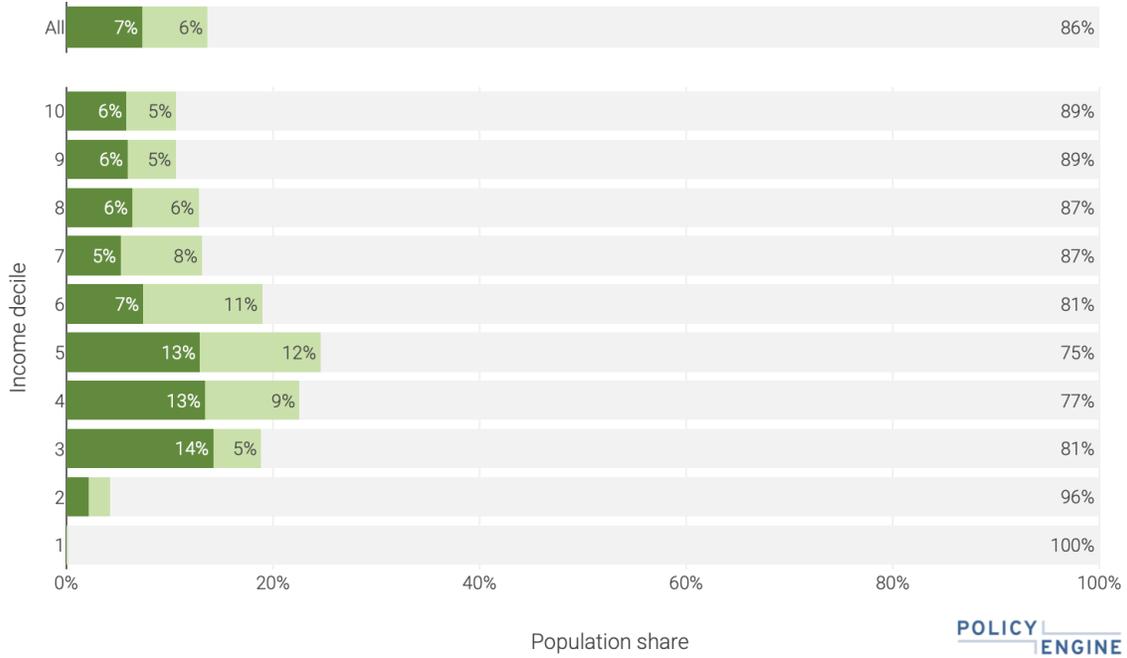
Absolute impact by income decile

CPS Reform #4 would increase the net income of households by £121 on average



Outcomes by income decile

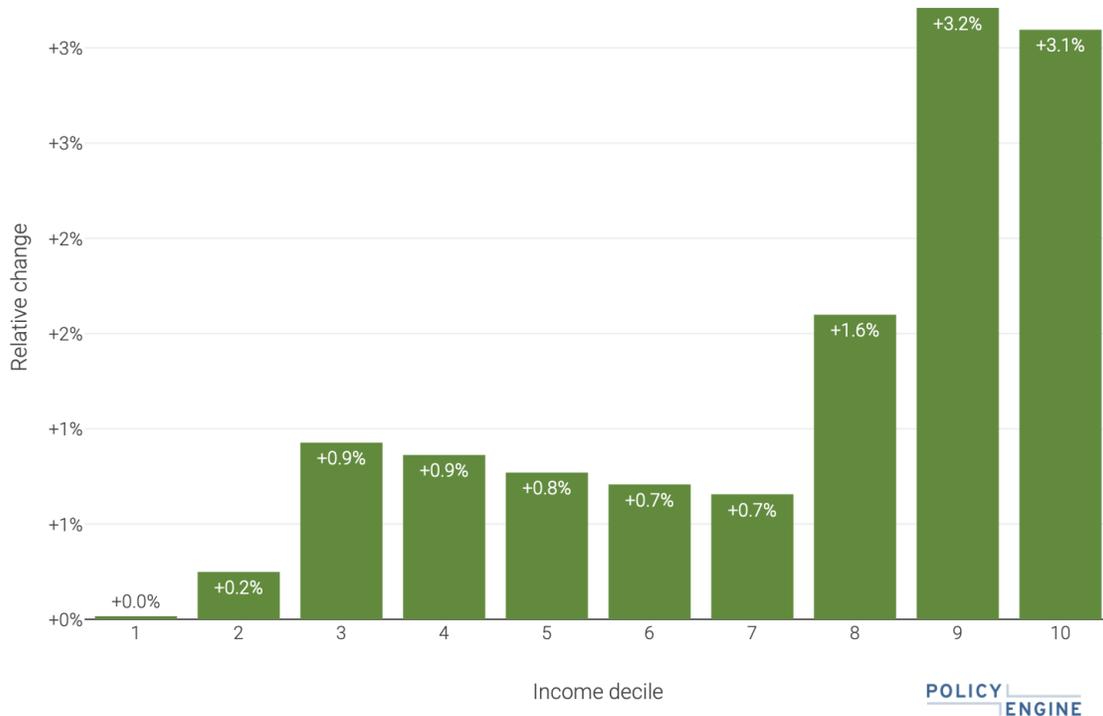
CPS Reform #4 would benefit 14% of the population



Reform 5

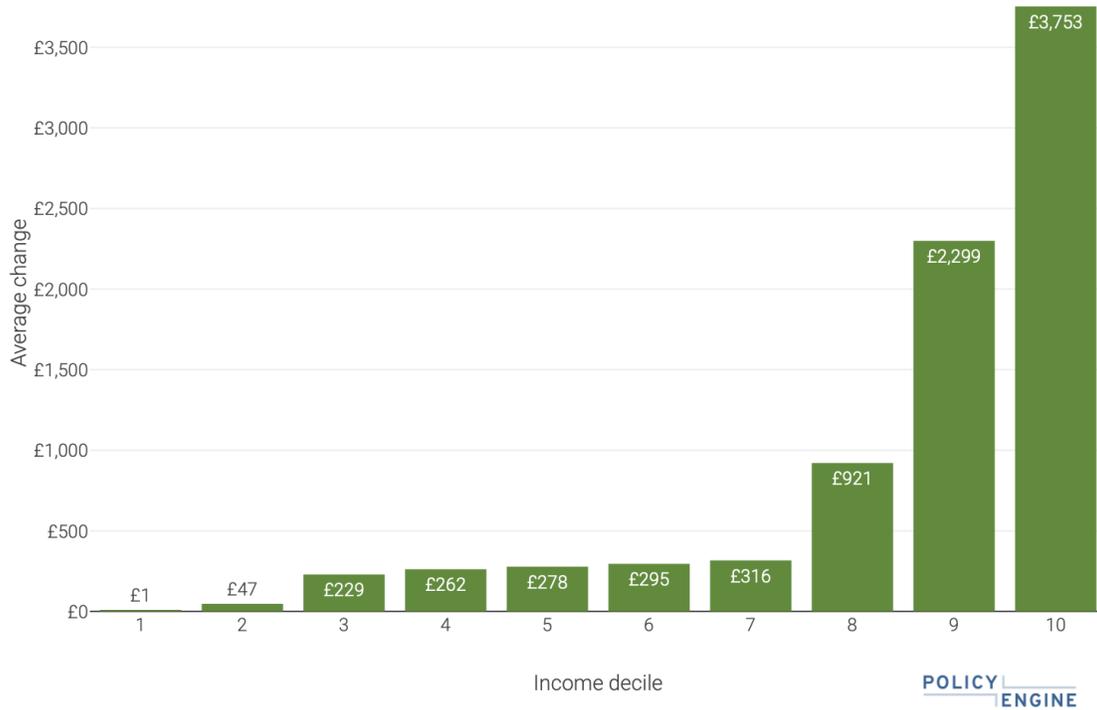
Relative impact by income decile

CPS Reform #5 would increase the net income of households by 1.6% on average



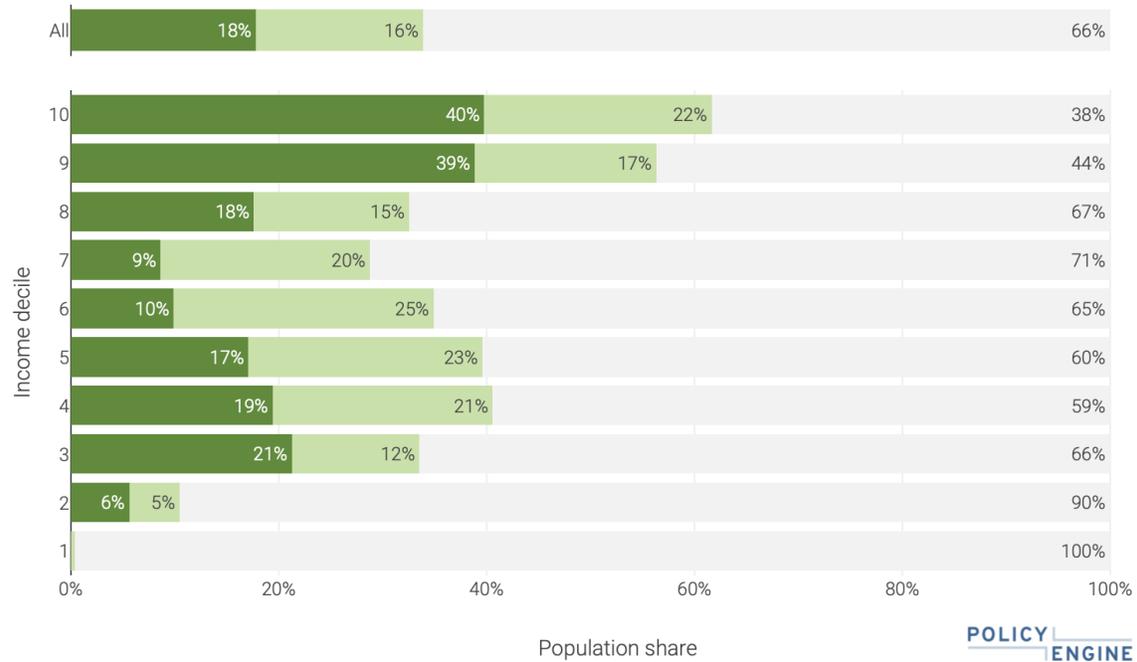
Absolute impact by income decile

CPS Reform #5 would increase the net income of households by £640 on average



Outcomes by income decile

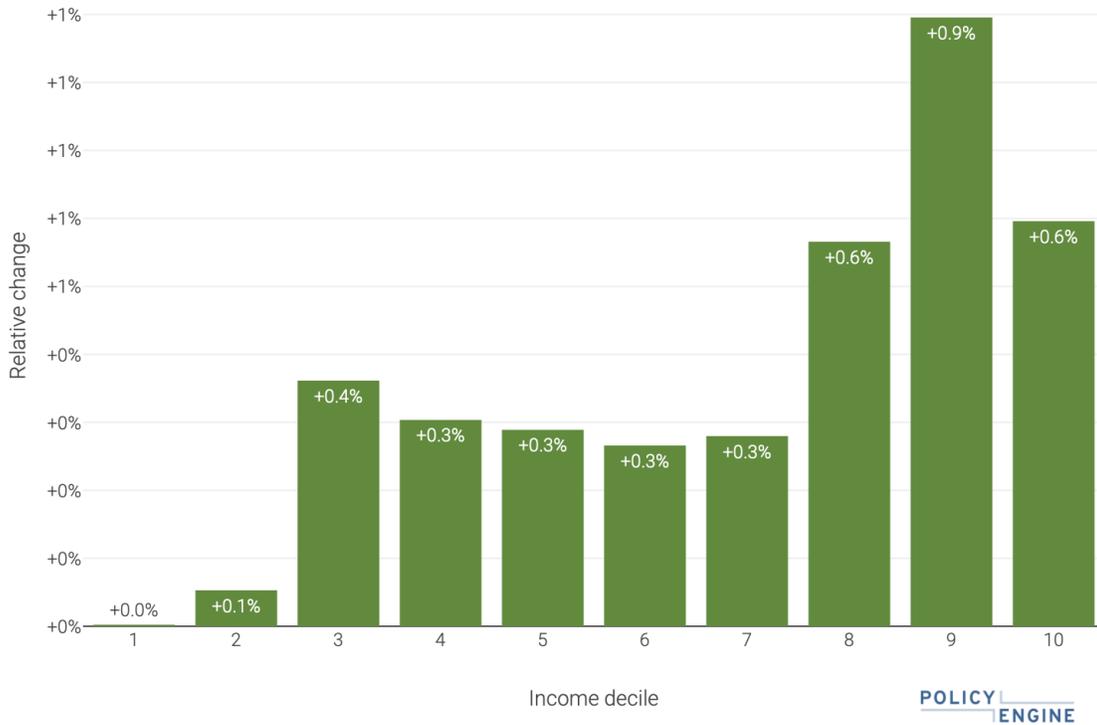
CPS Reform #5 would benefit 34% of the population



Reform 6

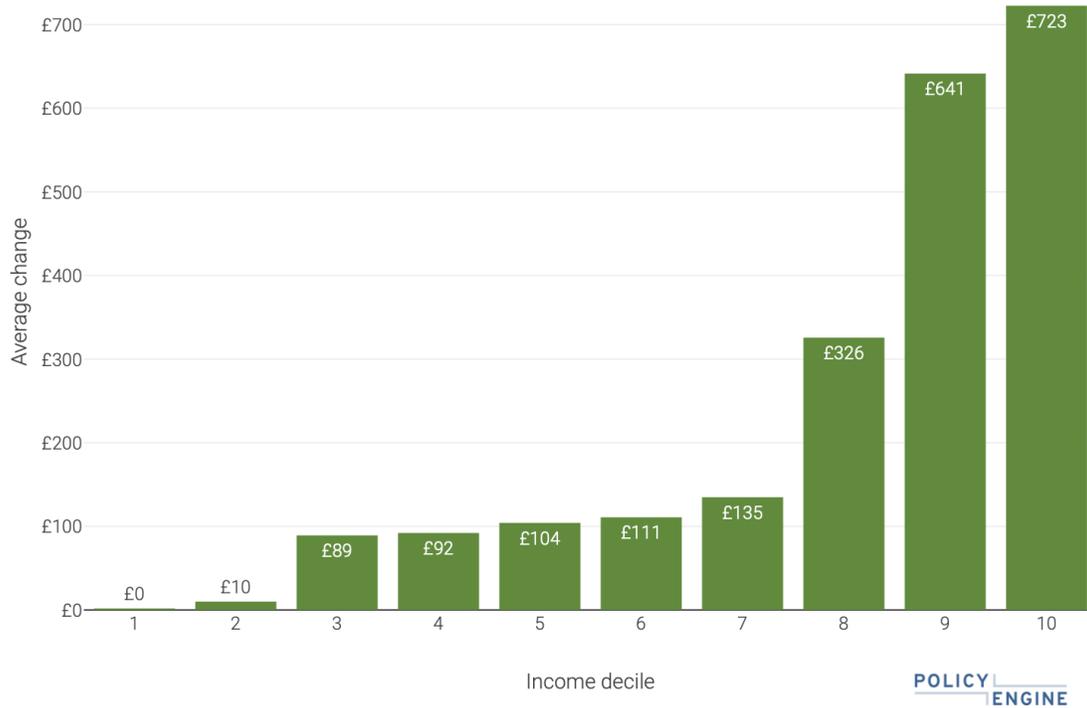
Relative impact by income decile

CPS Reform #6 would increase the net income of households by 0.4% on average



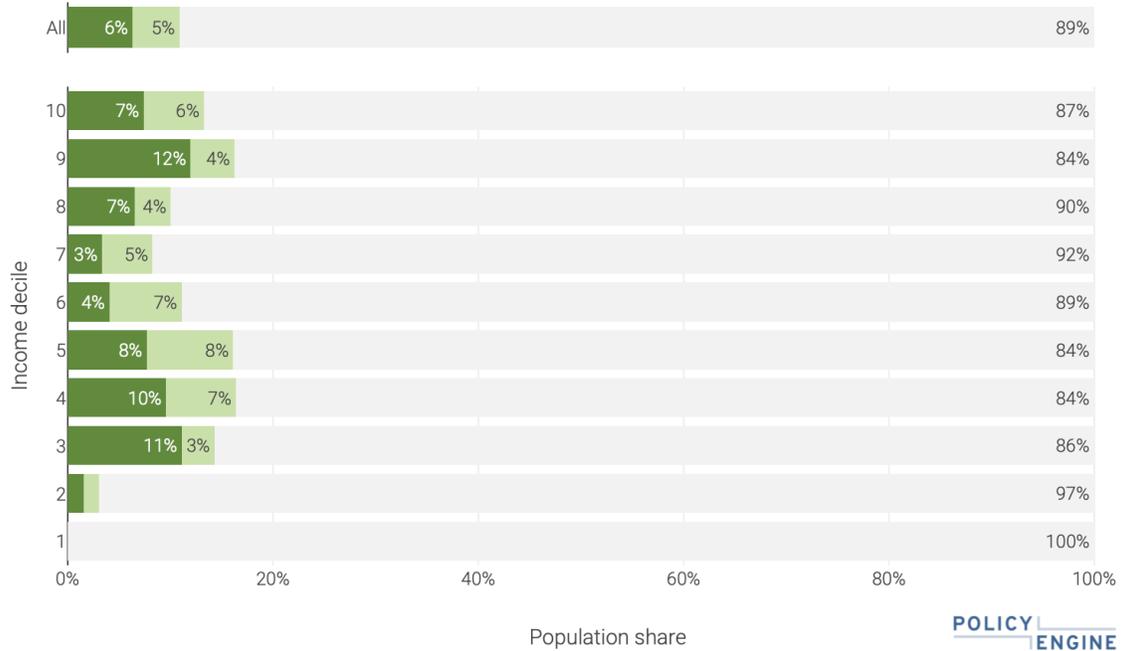
Absolute impact by income decile

CPS Reform #6 would increase the net income of households by £175 on average



Outcomes by income decile

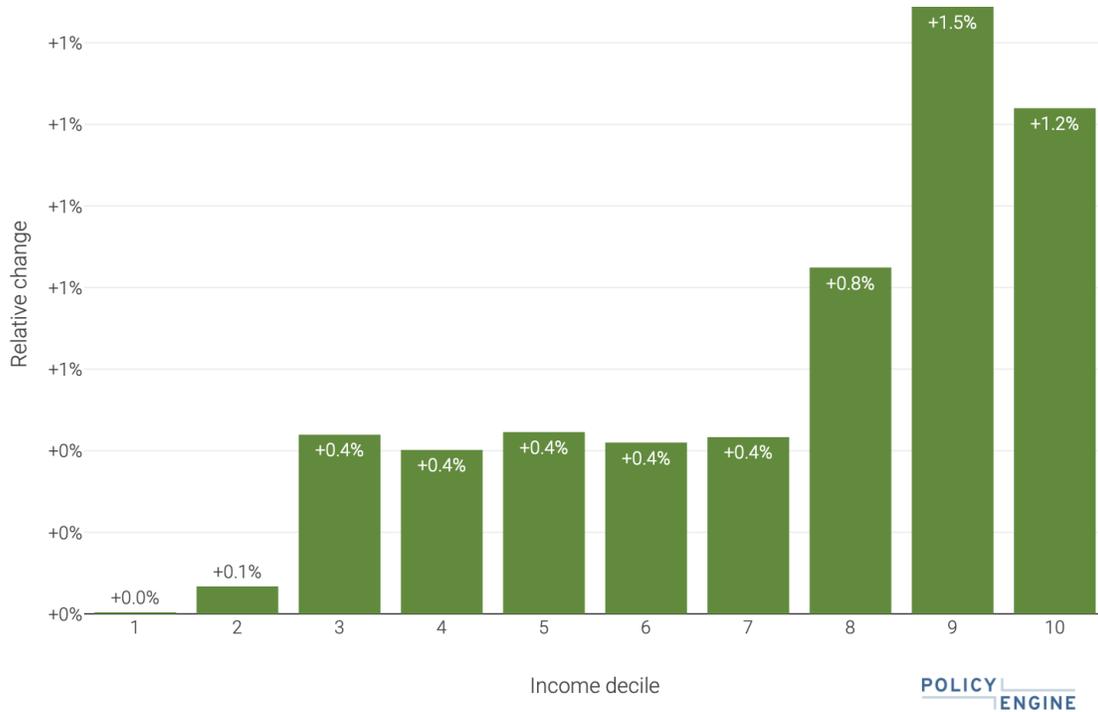
CPS Reform #6 would benefit 11% of the population



Reform 7

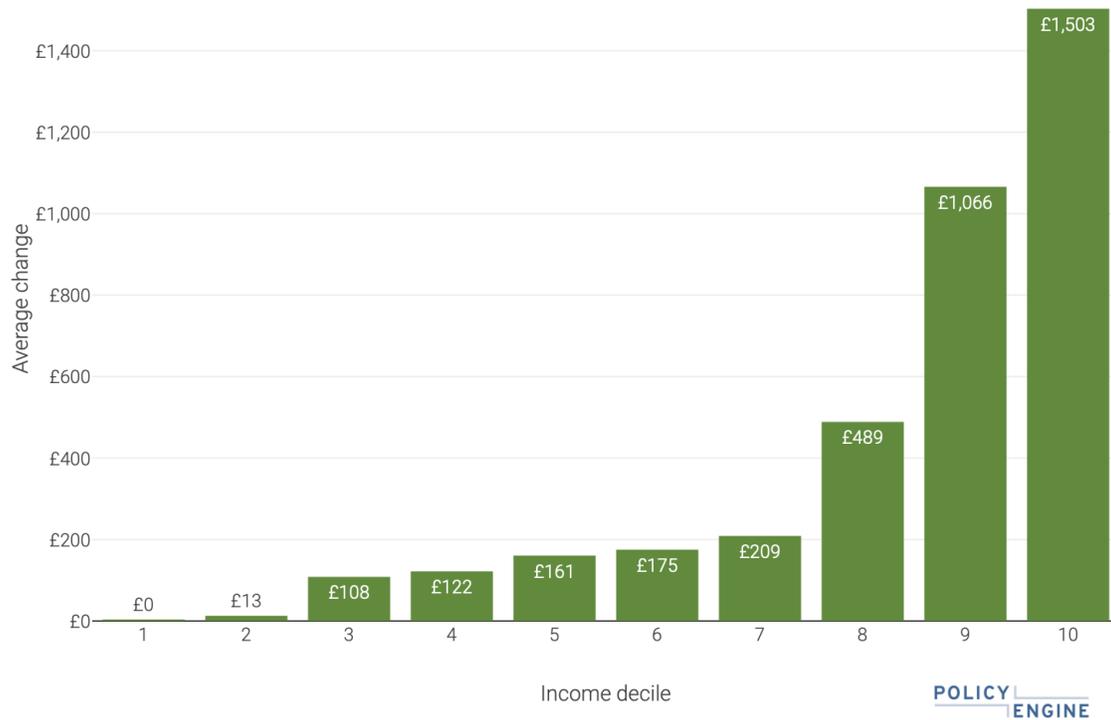
Relative impact by income decile

CPS Reform #7 would increase the net income of households by 0.7% on average



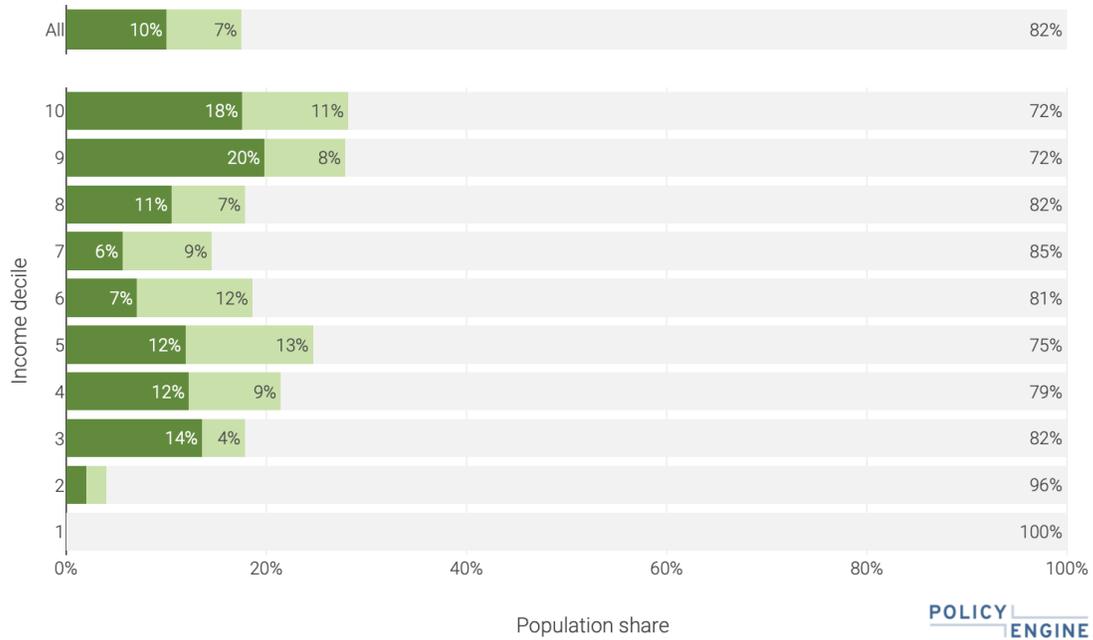
Absolute impact by income decile

CPS Reform #7 would increase the net income of households by £295 on average



Outcomes by income decile

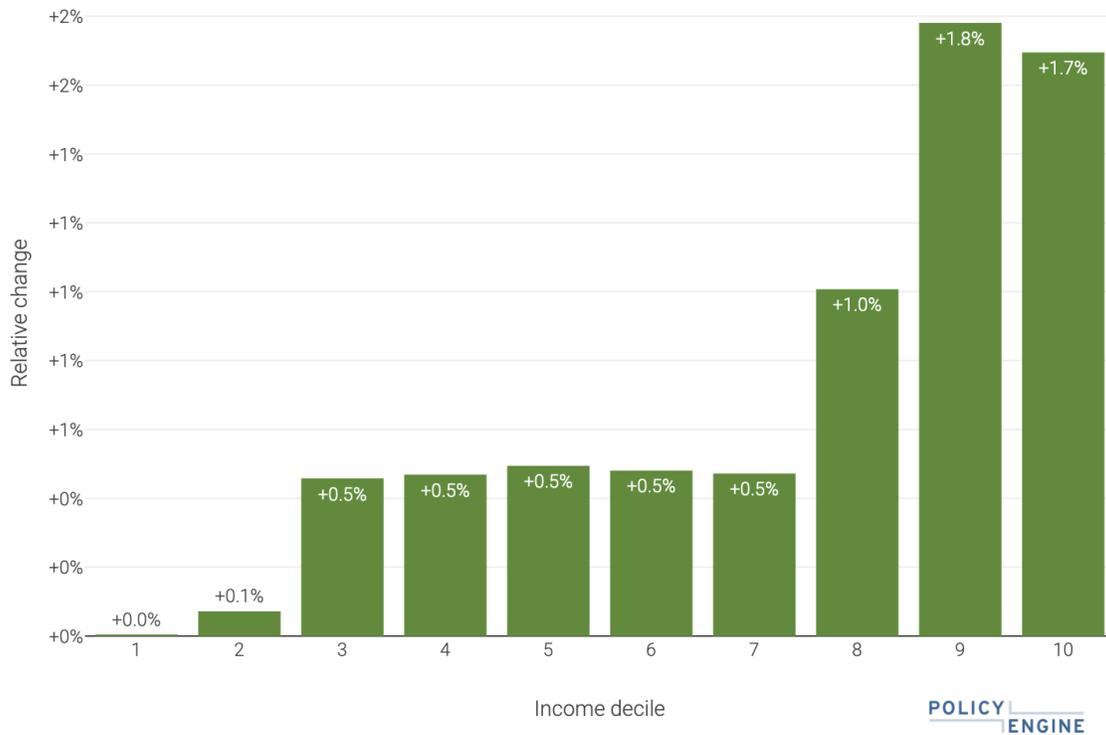
CPS Reform #7 would benefit 18% of the population



Reform 8

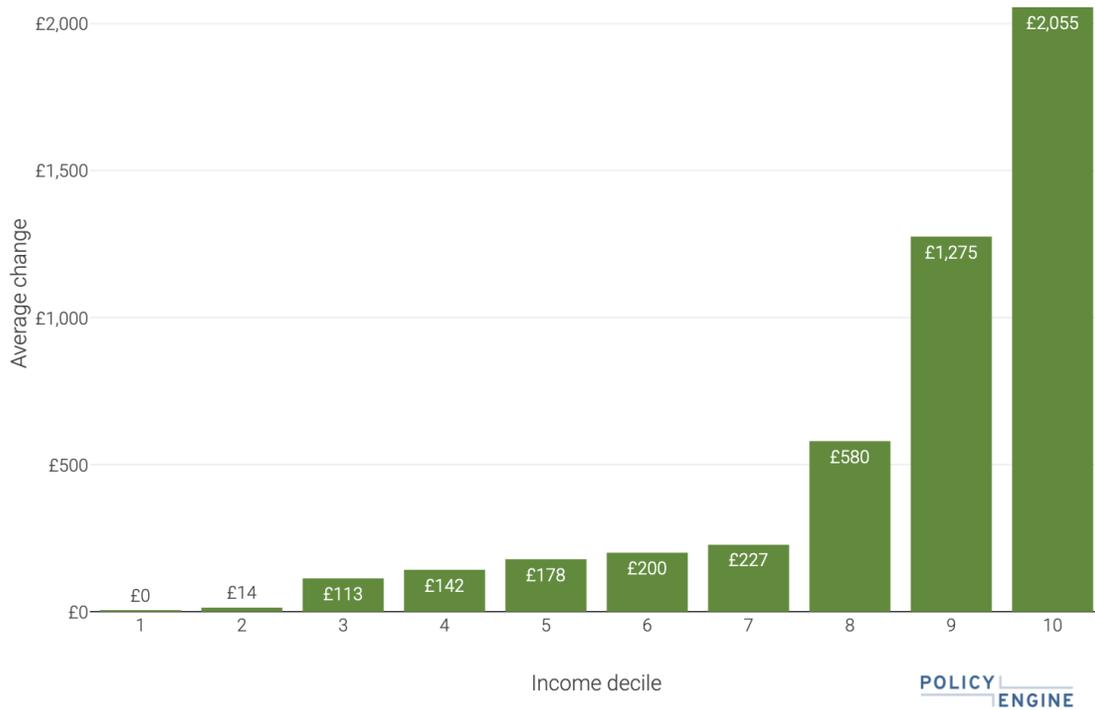
Relative impact by income decile

CPS Reform #8 would increase the net income of households by 0.9% on average



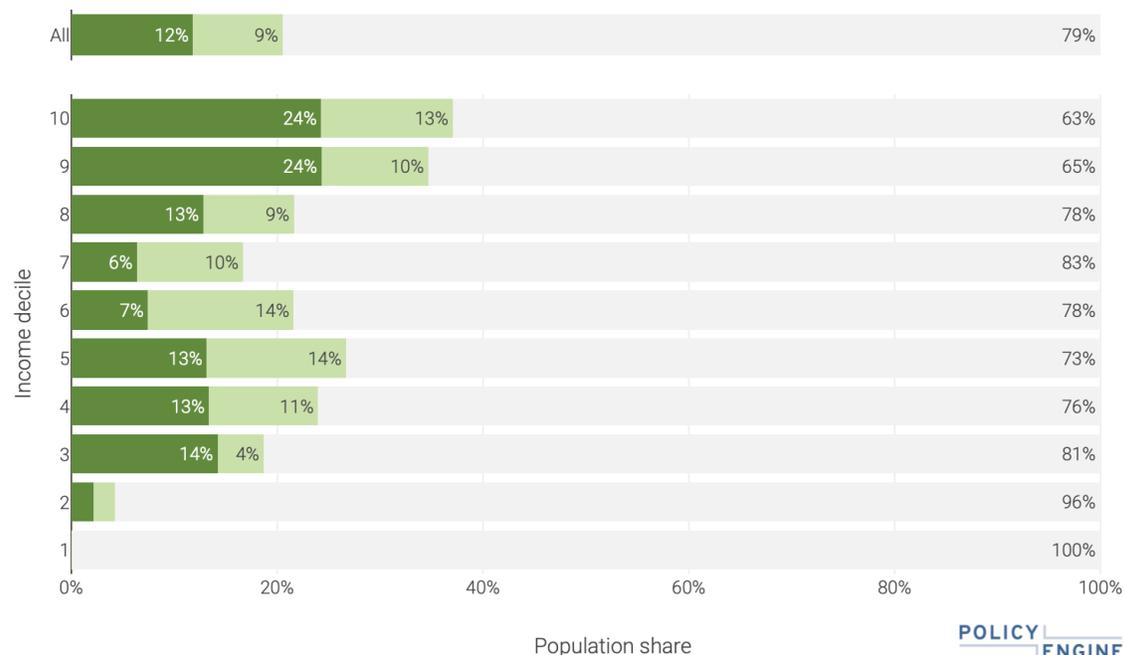
Absolute impact by income decile

CPS Reform #8 would increase the net income of households by £364 on average



Outcomes by income decile

CPS Reform #8 would benefit 21% of the population



Appendix: household examples

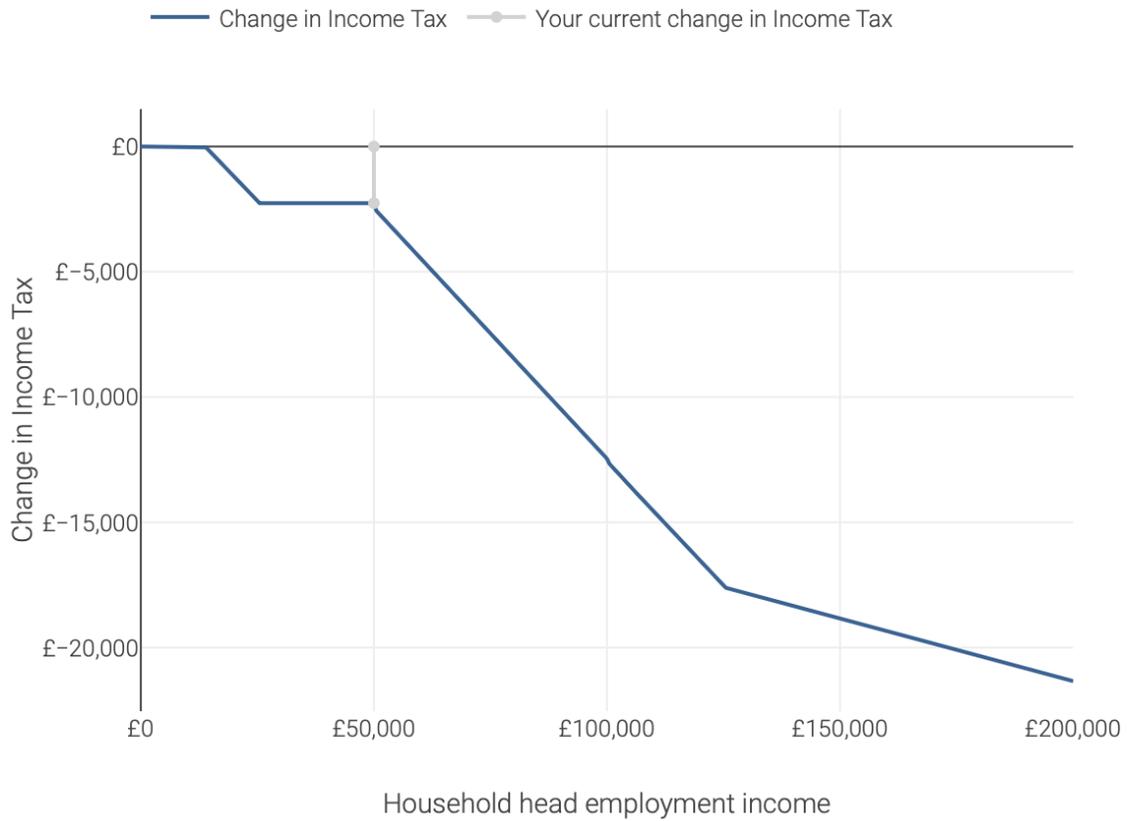
The below tables show the impacts and intermediate household results for the marriage-neutral income tax reform (CPS Reform #5).

Married couple with £50k and £5k employment income

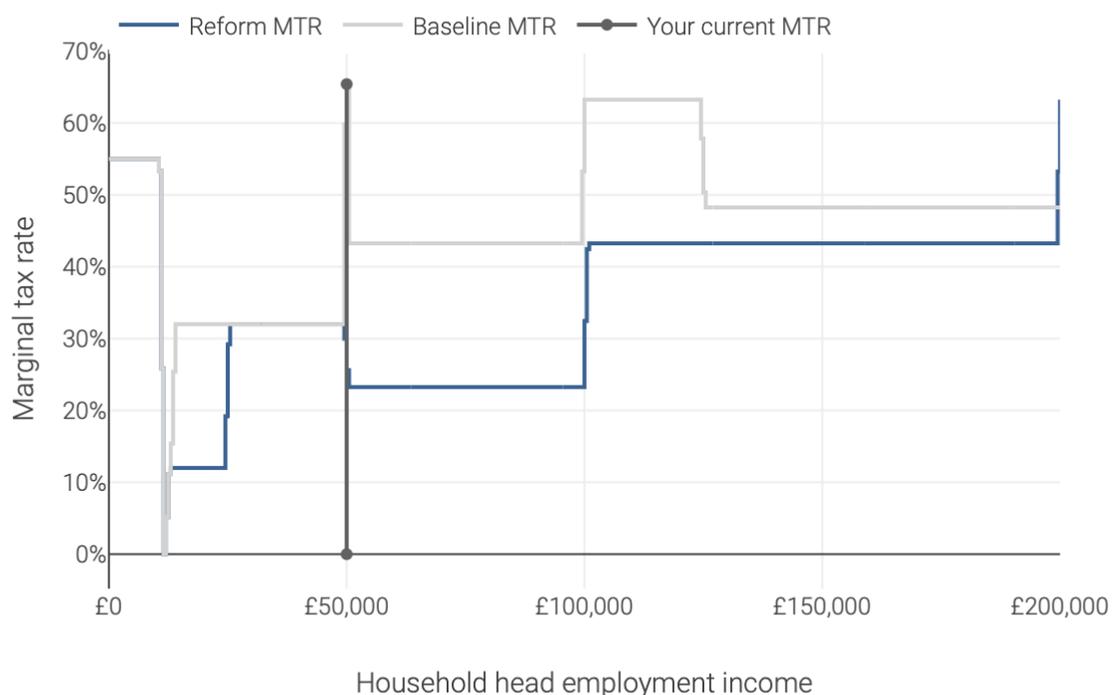
The table below shows the impact of the reform for a couple with a large earnings gap.

| Person | Employment income | Adjusted net income | Optimised adjusted net income | Income Tax under current law | Income Tax under reform | Tax cut |
|----------|-------------------|---------------------|-------------------------------|------------------------------|-------------------------|---------|
| Person 1 | £50,000 | £50,000 | £27,500 | £7,234 | £2,986 | £1,262 |
| Person 2 | £5,000 | £5,000 | £27,500 | £0 | £2,986 | |

The chart below shows the change to net income as Person 1's employment income varies from £0 to £200,000.



Similarly, the chart below shows the effective marginal tax rate over the same earnings range.



There are three main differences:

1. Under the Personal Allowance (PA), there is no change in MTR, which is zero in both current law and reformed law.
2. Between the 1x and 2x the PA, the MTR falls to zero as the couple can fully use the second earner’s PA.
3. Between 2x the PA and 2x the higher rate threshold, the reformed MTR is 20%: because under income-splitting, the rate applied to each marginal pound is the same (20% of half of each increase paid by each member of the couple), but the maximum income of each of the members moves towards the higher threshold twice as slowly.
4. At 2x the higher rate threshold, the MTR moves from the basic rate (20%) to the higher rate (40%).
5. Beyond this, the Personal Allowance phase-out increases MTRs (but at twice the £100k starting point, and over twice the region), and the additional rate applies at twice the usual threshold.

Married couple with £40k and £30k employment income

Below is an additional example with more similar earnings between couples.

| Person | Employment income | Adjusted net income | Optimised adjusted | Income Tax under | Income Tax under | Tax cut |
|--------|-------------------|---------------------|--------------------|------------------|------------------|---------|
| | | | | | | |

| | | | net income | current law | reform | |
|----------|---------|---------|------------|-------------|--------|----|
| Person 1 | £40,000 | £40,000 | £35,000 | £5,486 | £4,486 | £0 |
| Person 2 | £30,000 | £30,000 | £35,000 | £3,486 | £4,486 | |