



The
Marriage
Foundation

A marriage tax break must counter the crazy incentive for parents to “pretend to live apart”

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September, 2013

- Getting married – making a public, intentional and legally recognised commitment as opposed to sliding into cohabitation – is the most reliable way to help couples stay together. Marriage Foundation is therefore interested in potential barriers to marriage, such as the cost of a wedding or myths about marriage.
- The biggest barrier to marriage for some people comes from a tax credit system that, perversely, pays couples thousands of pounds a year more if they are not married and “pretend to live apart”. For a couple with their first child, this may be worth as much as £7,100. For couples with more children, the amount can be significantly higher.
- This is often described as “the couple penalty”. It acts as a significant barrier to marriage, the family form most likely to promote family stability.
- A minimum of 240,000 couples with children already appear to “pretend to live apart”. Official statistics report that there are 1.986 million lone parent families in England and Wales. Yet 2.226 million people claim tax credits as lone parents.
- The pressure to be an intact couple whilst “pretending to live apart” is likely to be exacerbated as new parents. Half of all reported family breakdown already occurs before a child’s third birthday. Three quarters of this involves unmarried parents.
- Government plans to recognise marriage in the tax system are welcome. However the scale must be large enough to counter this huge “couple penalty”.
- We propose instead a married couple element to child benefit that is limited to married mothers with their first child under three, in order to encourage unmarried new parents who want to live together and also get married. A benefit worth, say, £2,000 per year would cost £1 billion per year.
- Unlike the much touted £150 married tax break, it has a reasonable chance of encouraging more couples to live together and marry. This would actually reduce the cost of the scheme as family stability increases and the temptation to “pretend to live apart” reduces.
- Financial incentives to change behaviour are not the only reason for recognising marriage. But if an incentive is sought, it will be much more effective if larger amounts are targeted at a smaller number of people.

“I have just told my wife that she would be £5,000 per year better off if she divorced me. I asked her what she’d like to do about it. She laughed and gave me a kiss.”

I’ve known about the so-called “couple penalty” for years. I helped research and write about it in the original Breakdown Britain and Breakthrough Britain reports produced by the Centre for Social Justice (*Callan et al 2006, 2007*).

The “couple penalty” is all about tax credits, introduced in the UK in 2003. Whereas tax reduces income, tax credits boost income like a negative tax. Aimed at low income families and individuals, tax credit entitlement depends on total household income.

Couples who live together therefore typically receive fewer tax credits than a couple living apart, because both incomes are taken into account. However they also share lower cost of one residence.

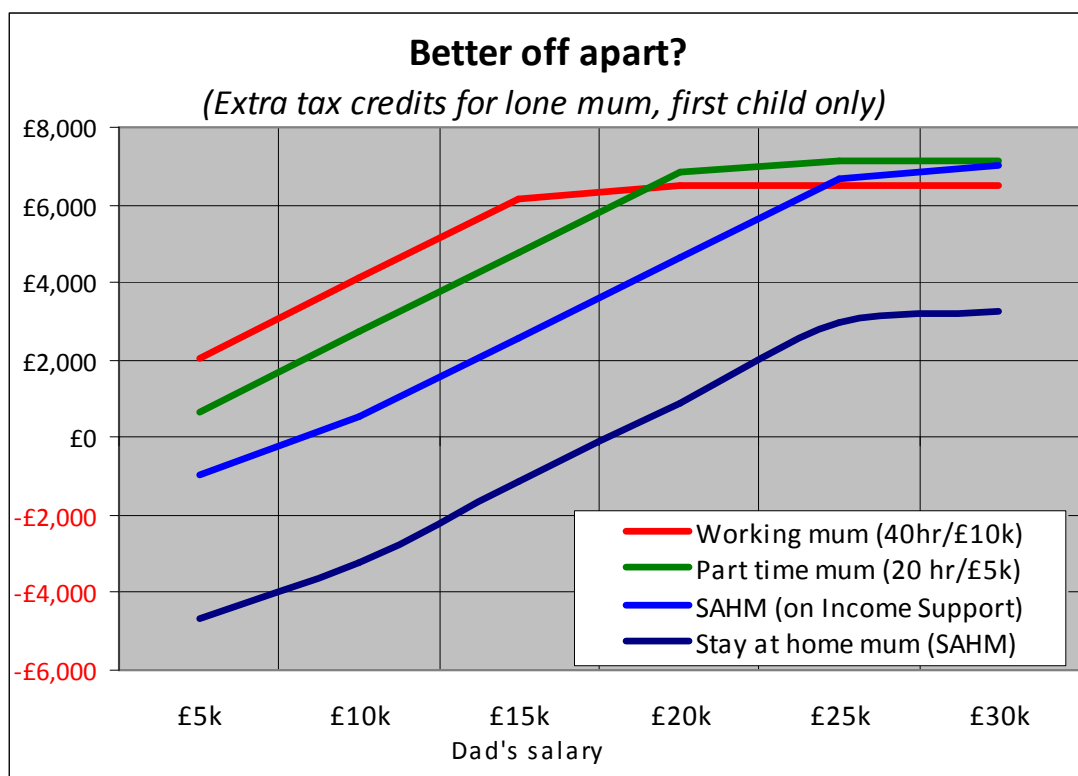
A recent paper by Joseph Rowntree (*Hirsch, 2012*) showed that a genuine “couple penalty” does not exist. When all costs and benefits are taken account, there is little to choose between **actually** living together and **actually** living apart.

But the real “couple penalty” is about having cake and eating it. The subtext of my own real life conversation quoted above is the extra money a couple can claim by **pretending to live apart**. Extra money without the extra costs.

The chart below illustrates the scale of the “couple penalty”. Appendix A at the end of the report covers the detail of how this works.

The only families who are better off living together are those where dad earns less than £15k and mum doesn’t claim Income Support.

Almost all other families are better off by thousands of pounds if they “pretend to live apart” – up to £7,100 per year where dad earns more than £20k.



FAMILY BREAKDOWN IN THE EARLY YEARS

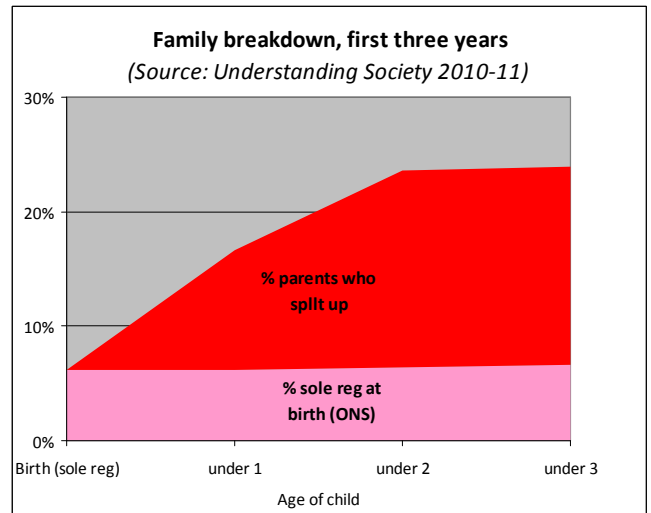
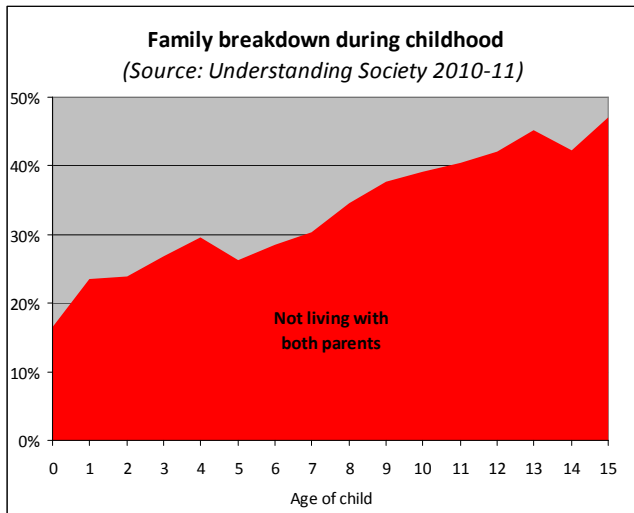
Family breakdown is concentrated amongst unmarried couples during the early years.

- Half of all family breakdown takes place before age three. Thereafter family breakdown occurs at a fairly steady rate (top left chart).
- Three quarters comes from the break up of unmarried couples (bottom right chart).

According to the Understanding Society national survey of 2010/11, 17% of children in their first year do not live with both natural parents. This figure rises to 47% amongst children in their fifteenth year.

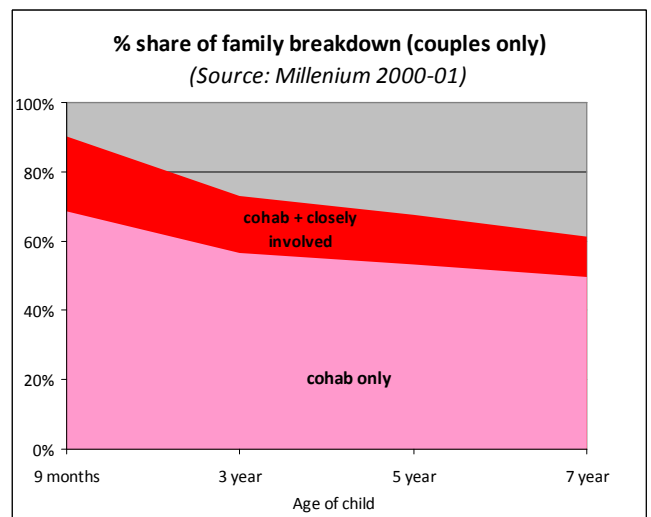
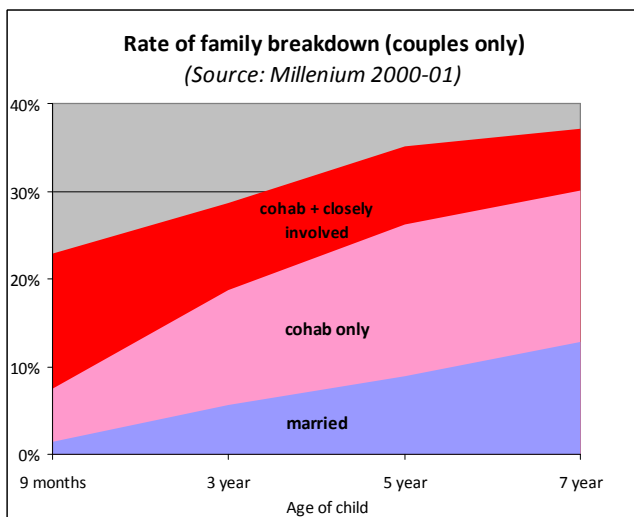
The proportion of parents who split up *before* their child is born has remained at a consistent 6% to 7% of all births, according to Office for National Statistics birth data on births to sole registered parents.

Therefore the proportion of parents who split up *after* their child is born rises from 10% in the first year to 40% in the fifteenth year.



Previous research (*Benson 2010*), using Millennium Cohort data on births in 2000/01, has shown that the bulk of family breakdown in the early years accrues to unmarried parents.

- Between birth and three years, unmarried couples (those who describe themselves as “cohabiting” and “closely involved”) account for 73% of all family breakdown.



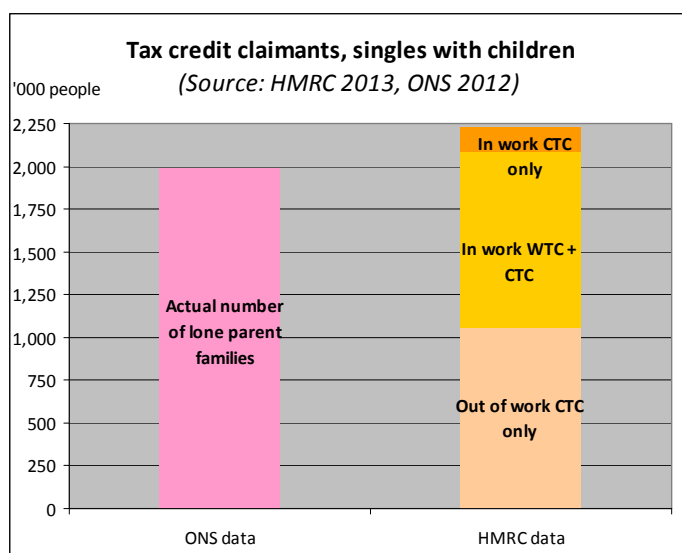
PRETENDING TO LIVE APART?

As well as demonstrating that couples can claim up to £7,100 by claiming to live apart, there is also clear evidence that a significant number of couples is actually doing this.

According to the Office for National Statistics (*ONS, 2013*), there were 1.986 million lone parent families with children in 2012.

According to HM Revenue and Customs (*HMRC, 2013, see table 2.1*) there were 1.059 million lone parents out-of-work receiving Child Tax Credit only, and 1.167 million lone parents in-work receiving either Child Tax Credits and Working Tax Credits or just Child Tax Credits. This totals 2.226 million lone parents claiming tax credits.

From this, it appears that an absolute minimum of 240,000 couples are claiming tax credits to which they may not be entitled. The actual number will be higher than this since it is extremely unlikely that the full 100% of lone parent families are claiming tax credits.



WOULD MORE MARRIAGES MEAN MORE STABILITY?

The main objection to the principle of a tax break for married couples is that it's not obvious why more marriages might mean more stability. This argument assumes that couples who marry do so almost entirely by virtue of background factors (*e.g. Goodman & Greaves, 2011*). Marriage itself is not the factor causing stability. Any additional couples who now marry for the extra money are unlikely to see any changes in outcome.

This argument falls short on several counts:

- Half of the factors mentioned in the Goodman & Greaves study – such as relationship quality and planned birth – are integral to the act of marriage (*MF press release, July 2013*). It would be wrong to conclude that the link is causal. But it is equally wrong to conclude it is not.
- None of the selection factors – such as income or education – provide a plausible explanation for the doubling of family breakdown between 1980 and today, during which time the prominent social change is the trend away from marriage (*Callan et al, 2006*).
- The selection argument disregards the key role of decision making on commitment – and therefore future behaviour – especially amongst men (*Stanley et al, 2006, 2010*).

Those who get married as a result of any financial incentive still need to make the decision to marry. As a working hypothesis, it is therefore reasonable to expect that the act of decision making could therefore increase stability.

TAX BREAK FOR MARRIED MOTHERS WITH FIRST CHILD UNDER THREE

The key social policy agenda for a marriage tax break is to encourage more couples to marry, rather than cohabit or “pretend to live apart”.

The most effective time to implement this is during the first few years of parenthood where half of all family breakdown takes place, three quarters of which from unmarried couples.

During this vulnerable period, 5.6% of married parents split up compared to 22.8% of cohabiting parents. With a gap this large, even a relatively small increase in stability amongst couples who now marry will lead to a significant reduction in family breakdown.

However additional couples will not marry unless a married tax break is big enough to tempt them away from the so-called “couple penalty”.

The Transferable Tax Allowance (TTA) discussed in the media (*e.g. BBC news, 1 July 2013*) has no chance of doing this. Worth just £150 per couple per year, this amount cannot compete with the thousands of pounds involved with the “couple penalty”. The policy would cost the Treasury an estimated £550m (*IFS press release, April 2010*) yet have no influence whatsoever on couple behaviour.

In Appendix B, I have calculated the cost of a £2,000 p.a. “married couple element” added to child benefit, but only for married mothers of first child under three. I have also included various scenarios where a proportion of unmarried couples marry and stability increases. This reduces costs in two ways, through reduced family breakdown and through fewer couples “pretending to live apart”.

The baseline cost of this scheme would be around £1bn per year. However, whereas a successful scheme that sees more couples marry would increase the cost of the TTA, the cost of our proposal will actually fall.

APPENDIX A – BETTER OFF APART ?

The table below shows the estimated annual value of Child tax Credit (CTC), Working Tax Credit (WTC) and Income Support (IS) available to families with one young child, depending on whether the couple lives together or apart.

Tax credit calculations are complex. My data is based on information taken from HMRC website for 2013-2014.

I have included four different scenarios, for each of which I have varied dad's income between £5,000 and £30,000 per year.

- Stay at home mum who does not receive Income support
- Stay at home mum who does receive Income Support
- Part time mum who works 20 hours weekly for £5,000 per year
- Full Time working mum who works 40 hours weekly for £10,000 per year

("Mum" and "dad" gender roles reflect the majority experience but are clearly not prescriptive)

Scenario	Together			Apart				Better off apart? (NO YES)		
	Dad earns	CTC	WTC	Total	CTC	WTC	IS		Total	
Stay at home mum (no income support)										
£5k		£3,265	£4,680	£7,945	£3,265		£0	£0	£3,265	-£4,680
£10k		£3,265	£3,212	£6,477	£3,265		£0	£0	£3,265	-£3,212
£15k		£3,265	£1,162	£4,427	£3,265		£0	£0	£3,265	-£1,162
£20k		£2,377	£0	£2,377	£3,265		£0	£0	£3,265	£888
£25k		£327	£0	£327	£3,265		£0	£0	£3,265	£2,938
£30k		£0	£0	£0	£3,265		£0	£0	£3,265	£3,265
Stay at home mum (on Income Support)										
£5k		£3,265	£3,212	£6,477	£3,265		£0	£3,890	£7,155	£678
£10k		£3,265	£1,162	£4,427	£3,265		£0	£3,890	£7,155	£2,728
£15k		£2,377	£0	£2,377	£3,265		£0	£3,890	£7,155	£4,778
£20k		£327	£0	£327	£3,265		£0	£3,890	£7,155	£6,828
£25k		£0	£0	£0	£3,265		£0	£3,890	£7,155	£7,155
£30k		£0	£0	£0	£3,265		£0	£3,890	£7,155	£7,155
Part time mum (works 20 hours weekly, £5,000 pa)										
£5k		£3,265	£1,162	£4,427	£3,265	£3,212		£0	£6,477	£2,050
£10k		£2,377	£0	£2,377	£3,265	£3,212		£0	£6,477	£4,100
£15k		£327	£0	£327	£3,265	£3,212		£0	£6,477	£6,150
£20k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477
£25k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477
£30k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477
Full time working mum (works 40 hours weekly, £10,000 pa)										
£5k		£3,265	£1,162	£4,427	£3,265	£3,212		£0	£6,477	£2,050
£10k		£2,377	£0	£2,377	£3,265	£3,212		£0	£6,477	£4,100
£15k		£327	£0	£327	£3,265	£3,212		£0	£6,477	£6,150
£20k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477
£25k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477
£30k		£0	£0	£0	£3,265	£3,212		£0	£6,477	£6,477

APPENDIX B – COSTS AND SAVINGS OF A “MARRIAGE BENEFIT”

The table below looks at the cost of a “marriage benefit” worth £2,000 per year given only to married mothers with a first child under three.

Although the cost of this proposal is relatively easy to quantify, any potential savings rely on assumptions about behaviour change. As well as a base scenario that assumes no change, I have also included four other scenarios where between 5% and 20% of unmarried couples get married alongside a similar reduction in fraud (although these may be independent of one another). There is good evidence that the act of both cohabitation and marriage both have causal elements that change couple outcomes. It is therefore plausible to factor in a reduction in the risk of family breakdown that takes these couples half way to that faced by married couples.

	BASE SCENARIO No change	Scenario 1 5% change	Scenario 2 10% change	Scenario 3 15% change	Scenario 4 20% change
FIRST BORN					
First borns in 2011: married parents	160,687	160,687	160,687	160,687	160,687
First borns in 2011: estimate unmarried parents: (based on "cohabit" or "closely involved" in MCS data)	107,772	107,772	107,772	107,772	107,772
FAMILIES WHO CHANGE THEIR BEHAVIOUR					
% unmarried parents who marry as result of tax break	0%	5%	10%	15%	20%
new marrieds from 2011 cohort	0	5,389	10,777	16,166	21,554
COST OF PROPOSED MARRIED BENEFIT					
Cost of proposed married benefit p.a.	£2,000	£2,000	£2,000	£2,000	£2,000
Families affected, including those who now marry, with children under three	482,061	498,227	514,392	530,558	546,724
Total cost per year x3 (children under three) £ million	£964	£996	£1,029	£1,061	£1,093
FAMILY BREAKDOWN DURING FIRST THREE YEARS					
Risk of fb as married couple during first three years	5.6%	5.6%	5.6%	5.6%	5.6%
Risk of fb as unmarried couple during first three years	22.8%	22.8%	22.8%	22.8%	22.8%
Conservative 50% reduced risk of fb if couples marry	14.2%	14.2%	14.2%	14.2%	14.2%
FAMILY BREAKDOWN COST SAVED					
Average cost of fb per family per year (Relationships Foundation)	£23,000	£23,000	£23,000	£23,000	£23,000
Conservative estimate that each family requires 5 years of support	£115,000	£115,000	£115,000	£115,000	£115,000
Unmarried couples who would have split up during first three years	0	1,230	2,460	3,690	4,920
Unmarried couples who split up at reduced rate	0	765	1,530	2,295	3,060
Unmarried couples who now stay together	0	-465	-930	-1,395	-1,860
Total saving on reduced fb p.a. £ million	£0	-£53	-£107	-£160	-£214
COST OF FRAUD					
Minimum no of couples committing fraud	300,000	300,000	300,000	300,000	300,000
Conservative estimate of "Better off apart" p.a. if average partner income is £20k	£4,616	£4,616	£4,616	£4,616	£4,616
Total cost of "better off apart" fraud £m	£1,385	£1,385	£1,385	£1,385	£1,385
FRAUD COST SAVED					
Reduce fraud by	0%	-5%	-10%	-15%	-20%
Total savings on less fraud p.a. £ million	£0	-£69	-£138	-£208	-£277
NET COST (all in £ million)					
Married couples benefit	£964	£996	£1,029	£1,061	£1,093
Family breakdown saved	£0	-£53	-£107	-£160	-£214
Fraud saved	£0	-£69	-£138	-£208	-£277
Net cost £ million	£964	£874	£783	£693	£603

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