

## The Impact on Women of the Budget 2012

UK Women's Budget Group - April 2012

The UK Women's Budget Group is an independent, voluntary organization made up of individuals from academia, non-governmental organizations and trade unions. We have been scrutinizing the gender implications of the Budgets and spending plans of UK governments since the early 1990s. Here we provide our gender impact assessment of the Coalition Government's March 2012 Budget.

### **A lost opportunity for a recovery plan with gender equality at its heart**

The 2012 Budget grabbed headlines for its tax measures - tax reductions for some, and increases for others. We discuss these in detail below. These measures should not be seen in isolation, instead they must be situated in the context of an increasing squeeze on public spending, even greater than forecast last year; cuts in public sector services; loss of public sector jobs; the public sector pay freeze, and now the prospect of further falls in public sector pay in the poorest regions. These factors will disproportionately impact women and make it harder for them to contribute to the well-being of their families and communities.

The Women's Budget Group believes that the budget will further undermine gender equality in the UK:

- The Chancellor said that, in order not to have to increase the cuts in other departments' real expenditure, he would have to cut a further £10 b from what he called 'welfare' spending by 2016/17<sup>1</sup>. As benefits make up, on average, one-fifth of women's income, compared with only a tenth for men, if the government succeeded in this, the impact would be devastating for women<sup>2</sup>.
- The Office for Budget Responsibility has increased its estimate of how many jobs will be lost in the public sector between the beginning of 2011 and the start of 2017 by 30,000, to 730,000<sup>3</sup>. Women account for two thirds of employment in the public sector, and therefore will face the brunt of these losses. Women's unemployment is at the highest level in 25 years; and women account for two thirds of the latest monthly increase in unemployment<sup>4</sup>.
- Many women who do have a job face the prospect of further reductions in their real earnings, and not only if they are subject to the public sector pay freeze. Just before the Budget, the government announced that the minimum wage for young people will be frozen for 2012/13. Even the for older workers the 11p rise is a cut in real terms. Women make up the majority of those on the minimum wage.

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<sup>1</sup> Budget 2012 Annex A - Spending beyond 2014-15 p. 87.

<sup>2</sup> Fawcett Society (2006) *Who Benefits?: A Gender analysis of the UK benefits and tax credits system*.

<sup>3</sup> Office for Budget Responsibility (2012) *Economic and Fiscal Outlook*, p. 75.

<sup>4</sup> Office for National Statistics (2012) *Labour market statistics: March 2012*.

- The Chancellor wants to introduce ‘regional pay’ in the public sector, to reduce the gap between earnings in the public sector and the private sector. The Treasury says that currently public sector workers earn on average 8% more than private sector workers, but in some areas the gap is bigger: in Wales the gap is up to 18%.<sup>5</sup> However, these averages mask differences between different groups of workers: according to the Office for National Statistics, employees with a degree in fact earn about 4% less on average in the public sector than in the private sector; whereas employees with low educational qualifications earn more in the public sector<sup>6</sup>. The proposal is not to reduce the gap by increasing private sector wages, but by reducing public sector wage. Lower income women – home helps and dinner ladies, for instance, will be disproportionately affected by such a move to regional pay. More women work in the public sector than in the private sector, with a particularly high concentration in some of the regions which would be worst affected (for example, the North East). There will also be a knock-on impact on local economies, as public sector workers’ cut back on their spending. The TUC estimates that reducing public sector pay by 1% would take at least £1.7bn out of the poorest local economies.<sup>7</sup>

**The Chancellor has missed a major opportunity to put forward an economic recovery strategy with gender equality at its heart.** The government’s belief that tax cuts for business, relaxing regulations that protect worker’s rights and the environment, reducing real pay, and cutting public sector employment will stimulate growth is flawed. This strategy is based on intensifying inequality in what is already one of the most unequal economies if the world. It does nothing to address what the National Institute of Economic and Social Research calls, “the major factor depressing business investment this year: a lack of demand”.<sup>8</sup>

Instead money should be put in the hands of lower income people, particularly women, where it is more likely to be spent in local shops on immediate needs and on local services. Putting more money in the hands of low income women, through improvements in benefits, tax credits, pensions, and public sector employment opportunities would do more to stimulate demand than tax cuts for rich men and the corporations that they largely control.

### **The government has failed yet again to conduct an adequate gender impact assessment of Budget measures**

The main Budget document, *Budget 2012*, the so-called *Red Book*, does not contain any gender equality impact assessment. It follows the pattern of the *Red Books* for the June 2010 Budget and the March 2011 Budget in providing, in Annex B, a comprehensive analysis of the cumulative impact on household incomes of changes in taxes, tax credits, benefits and public services by equivalised income or expenditure quintiles. We welcome the continuation of this practice. However, given the tax cuts for high income people, to analyse fully the distributional impact of the budget requires further breakdown of the top quintile of households to show the impact on the top 10% and 1% of household incomes. Similarly it is disingenuous to limit the illustrative examples of income tax and National Insurance paid in Table B1, giving changes as a result of this Budget, to incomes of £150,000

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<sup>5</sup> As reported by Brian Groom, Andrew Bounds and Chris Tighe, *The Financial Times*, 22/03/12, p. 17.

<sup>6</sup> Office for National Statistics (2012) *Estimating differences in public and private sector pay*.

<sup>7</sup> As reported by Brian Groom, Andrew Bounds and Chris Tighe, *The Financial Times*, 22/03.12, p. 17.

<sup>8</sup> National Institute of Economic and Social Research, Press release: Budget 2012 and the OBR’s forecasts, 21/3/2012.

and below, when one of the changes was to lower the additional rate of tax, which is paid only by those with incomes above that amount.

We are also disappointed that no attempt has been made to include any analysis of gender equality impacts, which can easily be done using the same analysis used to create household quintiles, by simply re-dividing households by gender and other related characteristics, for example, into female and male single pensioners, couple and lone parents, etc. The Women's Budget Group, in partnership with Howard Reed of Landman Economics, pioneered this type of analysis in our 2010 response to the Comprehensive Spending Review<sup>9</sup>. We advised the Fawcett Society and Institute for Fiscal Studies on how to apply this to tax, tax credits and benefits. We have offered to advise the government on how to use this approach, but our offer has not been taken up.

In a relatively obscure document, on the website of H M Revenue and Customs, equality impact assessments of the tax measures contained in the Budget can be found in Annex A of *Overview of Tax Legislation and Rates*. This is a continuation of the practice introduced in relation to the 2011 Budget. Some, but not all, tax measures are individually assessed for their impact (positive and negative) on government revenue; their economic impact (defined as impact on growth, entrepreneurship and competitiveness); impact on individuals and households; equalities impact; impact on business (including civil society organizations); operational impact (i.e. cost of implementation); and other impacts (including on small firms). No reason is given why certain measures do not have any equality impact assessment.

We criticised the quality of the equality impact assessments in our comments on Budget 2011. There has been no improvement in the quality of the assessments provided this year and they are missing for some measures, without explanation. We discuss some of these assessments alongside major tax changes below. The government demonstrates over and over its lack of understanding of what a gender impact assessment requires. For instance, in considering a measure to increase tax breaks for individuals to invest in small businesses (the Enterprise Investment Scheme and Venture Capital Trusts), HMRC states that:

Analysis of self-assessment returns indicates that EIS and VCT investors tend to be male, located in the South of England and have higher overall income levels. The changes to the schemes are not likely to change that position. The Government has no data to suggest that there will be impacts on other groups. From the data available it is reasonable to conclude that these changes will not have any further impact on those groups affected by equality legislation.

This is almost word for word the same as the equalities impact provided for this measure in 2011. As we noted last year: "Clearly the government's own data shows that this tax break will perpetuate existing patterns of inequality"<sup>10</sup>. The publication of such inadequate analysis, with no high level oversight being applied to secure consistency, shows how little value the government places on gender impact assessment and by implication, on the need to promote equality.

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<sup>9</sup> Women's Budget Group (2010) *The Impact on Women of the Coalition Spending Review*.  
[http://www.wbg.org.uk/RRB\\_Reports\\_4\\_1653541019.pdf](http://www.wbg.org.uk/RRB_Reports_4_1653541019.pdf)

<sup>10</sup> Women's Budget Group (2011) *The Impact on Women of the Budget 2011*.  
[http://wbg.org.uk/RRB\\_Reports\\_7\\_282363355.pdf](http://wbg.org.uk/RRB_Reports_7_282363355.pdf)

There is no attempt to provide a gender impact assessment of the cumulative implications of the Budget for employment, for earnings, for social security and for availability of public services. It appears that the Treasury continues to believe that gender impact assessments are not its responsibility, and need only be undertaken by other Departments, such as HMRC and Department of Work and Pensions.

## **How will Budget 2012 affect women?**

### **Changes in taxation**

Many of the changes in taxation are reductions. The main increases of note are the freezing of the higher personal allowance for pensioners (actually a 'Granddad' tax rather than a 'Granny' tax, as more women pensioners have incomes below the personal allowance), the increase in Stamp Duty on houses sold for more than £2m and the cap on reliefs allowable against income tax. The Women's Budget Group is concerned that £2,040m in net revenue is being lost over the period 2012/13 to 2016/17<sup>11</sup>. Moreover, £17,975m could have been saved over that period simply by not raising personal allowances above inflation, not cutting the additional rate to 45% and not lowering corporation tax<sup>12</sup>. Nearly £18bn could go a long way towards mitigating the adverse gender equality impacts of previous spending cuts.

#### ***Changes in Personal and Property Taxation***

Changes in personal taxation have to be set in the context of significant cuts in benefits and tax credits announced in previous Budgets, whose implementation will impact significantly on the incomes of the poorest families from April 2011. Changes to taxes and benefits due to come in during 2012–13 will cost households an average of £160, rising to £370 in following years. Households with children and those in the lower part of the income distribution will feel the biggest impacts as a proportion of income<sup>13</sup>. There are more women than men in these families because women's earnings are less than men's, and because women make up 90% of lone parents, one of the groups hardest hit by the planned changes. It is against this background that any reductions in income and property taxes, which inevitably do not benefit the poorest, have to be seen.

Women gain from greater public spending and therefore the Women's Budget Group has always argued against most tax cuts, preferring to see increased spending on the services that matter to women, and on benefits, tax credits and state pension that help the poorest women. Personal income and wealth taxes are progressive ways to collect revenue, so we would particularly argue against cuts in these. If taxes are to be cut we would prefer to see cuts in VAT which is a regressive tax.

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<sup>11</sup> See HM Treasury, Budget 2012, p. 7, Table 1, p. 7.

<sup>12</sup> *ibid* p. 50, Table 2.1.

<sup>13</sup> IFS Press Release 8 March 2012 "Households with children to lose most from tax and benefit changes in coming year".

*The above inflation increase in the personal allowance for those under 65 from £8,105 (in 2012/13) to £9,205 (in 2013/14)*

Raising the personal allowance above inflation is the most expensive tax cut which the government estimates will cost £3,320m in 2013/14 and £13,860m over the period 2012/13 to 2016/17. It does not help the poorest who do not have incomes above the current level of the personal allowance. It also benefits those who are higher rate tax payers as well as standard rate tax payers (though not by as much because the basic rate limit has been lowered, but not by enough to take away all gains from the higher personal allowance from higher rate tax payers).

The government has provided an equalities impact assessment<sup>14</sup> of this measure:

- 45% of those who will be better-off will be women
- 59% of those taken out of tax will be women (but the government does not add that this group will gain less than others because they do not earn enough to make full use of the new higher personal allowance)

But there is no mention of those who will gain nothing<sup>15</sup>:

- 59 % of those with no earnings and 67% of those with earnings below the current personal allowance are women.
- 42% of women gain nothing from this increase (and 28% of men).
- The majority (55%) of the people gaining from this measure will be men.

So fewer women than men will gain and women will on average gain less than men, because more women do not earn enough to make full use of the new personal allowance. This measure therefore increases gender inequality in disposable incomes.

*Changes to the Higher Personal Allowances for People Aged 65 to 74 and Aged 75 and Over: a 'Granddad' not a 'Granny' tax*

People aged 65 and above have, up to now, had higher personal allowances (£10, 500 in 2012/13 for those aged 65-74; and £10,660 in 2012/13 for those aged 75 and over). These allowances will not be increased in line with inflation, and they will not be available to those who become 65 in 2013/14 and after. The intent is to harmonize the personal allowance for all age groups. This was presented by the Chancellor as a 'tax simplification', though it will raise increasing revenue from this group (£360m in 2013/14, up to £1250m by 2016/17).

We agree with the principle that the personal tax allowance should be harmonised for all age groups, but not because we think that pensioners have been largely protected from the cuts and should pay more. Pensioners are being affected by cuts to benefits like Disability Living Allowance, and by cuts to social care services and to health services. Rather, we think that an age – related tax

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<sup>14</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A7.

<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>

<sup>15</sup> Estimates provide by Howard Reed, Landsman Economics.

allowance does not deliver benefits to those who most need support, whose incomes are too low to take advantage of it. Nevertheless, this measure brings an immediate loss in real income to many existing pensioners, and cannot therefore in all honesty be presented as merely a tax simplification.

The losers earn well below average income; it is only fair that they should be compensated in some way. Using the revenue saved by this measure for an above inflation increase in the basic state pension would bring most benefit to the poorest pensioners, mainly lone women, and, being taxable, least benefit to the most well-off.

Freezing the age-related personal tax allowance has rather misleadingly been called the “Granny Tax” in the media. The “Granddad Tax” might be a better name, since it will impact on more men than women, given that most women pensioners have incomes below the current personal tax allowances for those over 65.

The government has produced an equalities impact assessment of this measure<sup>16</sup>:

- 35% of the losers in 2013-14 in the 65 to 74 age group will be women;
- 44% in the over 75 age group will be women.

That so few losers are women demonstrates the shockingly low level of most women’s pensions, and is evidence that an age-related tax allowance is not the best way to help those pensioners in most need of support.

#### *Reduction of the additional rate of tax from 50% to 45%*

This measure impacts on the 330,000 individuals who declare income of above £150,000. The government argues that the 50% tax has not yielded the hoped for tax revenue because rich people have found ways to avoid it. Doubt has been thrown on the estimates of how little revenue a 50% additional tax rate raises, since insufficient data was available to make reliable estimates of the effect of this tax rate on behaviour. If tax avoidance leads a 50% rate tax to raise less than predicted, surely measures should have been taken to close the loopholes by which such tax avoidance was made possible. Without such measures it is not clear if a cut to 45% tax will result in less tax avoidance.

This tax reduction is estimated, on equally shaky grounds, to cost £100m a year, and the government claims to be introducing other measures that will bring in £500m a year, but this is far from certain. It claims that the tax reduction will improve the competitiveness of the UK, encourage entrepreneurship and support growth. However, this is not guaranteed. Indeed, the Office for Budget Responsibility has not factored in any impact of this tax cut on business investment in its forecasts for the coming years.

The government has produced an equalities impact assessment of this measure<sup>17</sup>:

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<sup>16</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A10.  
<<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>>

- 15 per cent of those who will gain from this measure are women.

It does not point out that many men will gain considerable amounts, particularly those with very large incomes; those earning £1million will gain £42,500. Over 80% of the gains will go to men<sup>18</sup>.

This measure increases gender inequality in disposable incomes since women's average income is much lower than men's. For this reason alone the Women's Budget Group regrets that this cut in the additional rate of tax has been introduced. More importantly, it gives a message that the government regards tax cuts for those with very high incomes as more of a priority than restoring the services on which women depend, or raising the incomes of the poorest women and their families.

#### *Increase in Stamp Duty*

The government claims that the effects of reducing the additional rate of tax on income will be counteracted by raising by 2% (to 7%) the stamp duty payable on residential purchases of over £2m; and by closing of tax loopholes by which such stamp duty had been avoided in the past.

The tax increase is expected by the government to raise £180m in 2012/13 and the closing of the loophole to raise £65m in 2013/14. But it can be avoided by selling a house for just less than £2m.

These measures will impact only on the very wealthy: each year there are only around 3000 sales of residential properties of value greater than £2m, mainly in London. The government gives no estimates of the numbers of men and women affected by this measure, merely stating that: "These changes are not expected to have an impact on any protected equalities group."<sup>19</sup>

#### *Introduction of a general anti-abuse rule*

The Women's Budget Group welcomes the government's consultation on introducing a general anti-abuse rule and its commitment to ensuring that any such legislation effectively tackles abusive tax avoidance and that the supporting guidance is practical both for taxpayers and for HMRC.

#### *Introduction of a cap on unlimited tax reliefs*

The Women's Budget Group also welcomes the introduction of a cap on hitherto unlimited tax reliefs, including reliefs for contributions to a private pension, and for charitable donations. The Treasury does not provide any equality impact assessment of how this measure will impact on women and men. We know that in its proposed form this limit on tax reliefs will apply only to those seeking to claim more than £50,000 in reliefs, and the cap will be set at 25% of their income. It is likely that women are in a minority in this group. This is therefore a measure that has positive effects in reducing gender inequalities in disposable incomes.

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<sup>17</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A2.

<<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>

<sup>18</sup> Estimates from Howard Reed, Landman Economics.

<sup>19</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A106.

<<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>

However, we consider that the proposed cap should be limited to a maximum of the value of average earnings, applying to everyone. Making the maximum the greater of 25% of income or £50,000 continues unfairly to favour the rich who will avoid more tax by claiming larger reliefs than low income people, even if less so than at present. Moreover the cap will apply only to reliefs which are currently unlimited, and the Women's Budget Group would also like the caps on reliefs which are already limited, such as pension relief, also to be subject to scrutiny. We are disappointed that the Budget has not abolished the 40% rate of relief on private pension contributions, which would have saved £7bn pa. This could have been spent on improving state pensions, on which women rely more heavily than men, having far lower private pensions. Tax relief on private pensions benefits the highest earners, mainly men, who are the least in need of it and who are most likely to save for their retirement without the incentive<sup>20</sup>.

The Women's Budget Group has long argued that all tax reliefs should be limited to the basic rate of tax. This, in addition to a cap on reliefs, would bring in a more worthwhile increase in revenues without impacting those on low incomes. It would make the impact on reducing gender inequalities far stronger.

Tax avoidance, whether "abusive" or by such reliefs, is a gender issue, because it costs the Treasury a great deal that could be spent on the services that women need and improving the levels of benefits, tax credits and pensions so that the women whose incomes depend on them can have a reasonable standard of living.

### **Corporate Taxes**

#### *Reduction in main rate of corporation tax by an additional 1%*

The government's plan to cut corporation tax has been accelerated, so that the main rate of corporation tax will be 24% for 2012/13, to be followed by a two further one percent cuts, to fall to 22% by 2014/15. This will cost a substantial amount of revenue, £405 in 2012/13, rising to £820 in 2014/15, £3,755m in all by 2016/7.

The government argues that this will make the UK more attractive as a place to locate business activity, and will promote higher levels of business investment. However, the Office for Budget Responsibility estimates this impact will be small - only 1%, and not enough to offset their sharp downward revision to estimates of business investment, relative to the November 2011 estimate.<sup>21</sup> In the *Financial Times*, Martin Wolf was even more sceptical, arguing that these cuts will do nothing to raise investment, and that it would be better to maintain or even increase corporation tax, and increase investment incentives.<sup>22</sup>

The government provides no gender impact assessment, on the grounds that corporate taxes have no impact on equality. But while there may not be a direct impact, there is an indirect impact. This

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<sup>20</sup> Unfortunately the Office for National Statistics only publishes data on receipt of private pensions by household, and this limits the gender analysis we can do.

<sup>21</sup> Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2012, p. 9.

<sup>22</sup> *Financial Times*, 22/3/2012, p. 20.



measure seems very unlikely to create more jobs to offset the historically high levels of women's unemployment, while it entails a loss of revenue that could have been used to mitigate the adverse gender quality impact of expenditure cuts.

#### *Reform of taxation of controlled foreign companies*

This is a complex measure that changes the ways in which UK-based multinationals are taxed on profits from their overseas subsidiaries. It will cost the Treasury £175m in 2013/13, rising to £805m in 2016/17. The government argues that this will enable businesses based in the UK to be more competitive, and will support investment in the UK. However, it will make UK arrangements more lenient than those in almost all other countries. It will also result in losses of tax revenue for governments, often in developing countries, in which the subsidiaries are based.

Again the Treasury provides no gender impact assessment on the grounds that this is a corporate tax measure. But the lost revenue could have been used to mitigate the adverse gender equality impact of expenditure cuts in the UK; and the lost revenue to developing country governments overseas could have been used to fund services vital to gender equality in developing countries, such as access to clean water and sanitation.

#### **Plans for greater Budget transparency**

The Chancellor announced new measures to provide people with more information on what taxes they are paying and what it is being spent on. We support this goal but have many concerns about the way it is being pursued.

From 2014 the 20 million people who are required to complete self-assessment tax forms will get a personal statement from HMRC stating how much income tax and national insurance they have paid, their average tax rate, and what proportion of their tax bill goes to fund services such as health education and (so-called) 'welfare', and how much on servicing national debt. The Chancellor said: "People will know what they are paying and what they are paying for."

This is problematic for the following reasons:

- It will only provide information to a limited group of tax payers, who are more likely to be in higher income groups;
- It only covers income tax and national insurance, and leaves out indirect taxes which are paid by almost everyone;
- It will not show what those who receive the statement pay in tax, as compared to other groups;
- It will miss the opportunity to educate people on what the 'welfare' spending covers - most people do not realize that benefits for unemployed people are only a small component and that pensions are the largest component ;
- It is likely to encourage people to think of their income tax and national insurance contributions as payments for specific services, rather than as contributions to a social security system, a health service, an education service, and a network of roads and other infrastructure which is open to all, when they need to use it, free at the point of use;
- It will not tell the tax payer *who* they are paying - public sector agencies, voluntary bodies or private sector businesses making a profit out of supplying contracted-out services and infrastructure.

We call upon the Chancellor to put in place a better system of providing information to all adults in the UK which treats them as citizens contributing to sustaining public facilities and collectively sharing risks, not as consumers buying their own private consumption.

## **Changes in Social Security**

Spending on social security is the largest item of government spending, and of this, spending on pensions and pension credits has the largest share. In the Budget the government confirmed previously announced changes to spending, with the exception of child benefit. The government will also stick to its decision to freeze some benefits and tax credits, rather than up-rating them in line with inflation. This is a stealth tax that reduces the real incomes of recipients. Pensions were up-rated, presented by the Chancellor as extra income for pensioners, but in fact it simply maintains the real value of pensions.

### *Child Benefit*

No change was made to the decision, taken in 2010, to freeze child benefit for three years. This will reduce the benefit's real value by over 10% by 2013/14, according to government figures. In 95% of child benefit cases, it will be women's income that is reduced.

A change was made to the plans, announced in 2010, to withdraw child benefit from households with a higher rate taxpayer. Under the original plan mothers (or fathers in those cases in which mothers have transferred their right to child benefit to their partner) in these households could still claim child benefit. But if they, or anyone else living in their household, was a higher rate tax payer, receipt of child benefit would have to be declared to the tax authorities, and they would have to pay the amount received as an additional tax payment. Thus the child benefit would be clawed back from the household.

This plan has been modified, so that the income level at which people begin to be affected is higher (£50,000 per year, rather than the higher rate tax threshold of £42,475), and the value of child benefit is lost through additional income via a taper (1% of child benefit per £100 of extra income), rather than being a 'cliff edge'. The value of child benefit will be lost completely once the income of the claimant or someone else in the household reaches £60,000 per year. Instead of 1.6 million families having their child benefit clawed back, 700,000 will lose it all, and 400,000 will lose some<sup>23</sup>.

This measure increases the complexity of the tax system, and will mean about half a million more people having to fill in a tax form. The government estimates that the administrative costs will be £20-25m a year.<sup>24</sup>

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<sup>23</sup> R. Joyce(2012) 'Tax and benefit changes, excluding this affecting mainly the very rich', Institute of Fiscal Studies.

<sup>24</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A25.  
<<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>

In its equalities impact assessment of this measure, the government reports that this policy will “affect the 51-65 age group more than other age groups, but this is because they are generally more likely to be higher earners with children”.<sup>25</sup> There is no discussion of the possibility of women being pressured to give up claiming child benefit to spare their husbands the need to fill out a tax form. HMRC has commented that anyone receiving more than £60,000 a year can ask for payment of child benefit to stop<sup>26</sup>.

This policy remains a fundamental challenge to the principle that child benefit should be a non-means-tested universal benefit. It is vital to maintain universal benefits to sustain social solidarity. We argued in our pre-Budget briefing that a much fairer way of ensuring that the better-off contribute a fairer share would be to raise the higher rate of income tax.

We will be working with others to persuade the Government to abandon this form of means testing child benefit completely before it is due to come into effect in January 2013.

### *Tax credits*

The Chancellor persisted with several policies that will hit low and middle income women. The government had argued that above inflation increases in the child element of child tax credit would compensate for other cuts and help tackle child poverty. But last November it decided not to implement the real increase this April. This will take much-needed cash away from low-income families.

Although we welcome the extension of support for help with childcare costs to those working fewer than 16 hours, the reduction in the childcare element of working tax credit, from 80% to 70% of costs, has not been reversed, and will make it harder for women to stay in work, particularly with rising childcare fees.

- In 2010 30% of working mothers depended on paid childcare. This included 56% of lone mothers with a child under 5 and 34% of mothers with partners<sup>27</sup>.
- HMRC figures show that the cuts made last April to the childcare element of working tax credit from 80% to 70% of childcare costs means the average claim has fallen by over £10/week. Compared with a year ago, 44,000 fewer families are receiving any help with childcare costs<sup>28</sup>.
- Childcare places have become more expensive. By January 2012 the average part-time (25 hours) childcare nursery place cost more than £100 a week in many parts of Britain. The Daycare Trust’s latest Annual Childcare Costs survey show that the average hourly price of

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<sup>25</sup> HMRC (2012) Overview of Tax Legislation and Rates, Appendix A, A25.  
<<http://www.hmrc.gov.uk/budget2012/ootlar-main.htm>

<sup>26</sup> As reported by Miles Brignall, *The Guardian*, 23/3/12 ,p. 6.

<sup>27</sup> Office for National Statistics (2011) *Social Trends 41*, Social Protection, table 9.

<sup>28</sup> Daycare Trust(2012) *Annual Child Care Costs Survey*.

nursery care is 6% higher than a year ago, with a childminder place costing over 3% more. Over the same period wages increased on average by only 0.3%.

- Half of local authorities say that parents had reported a lack of childcare in the past 12 months. This was a problem especially for parents working outside normal office hours as well as for those with a disabled child<sup>29</sup>.

The Chancellor also failed to reverse the planned freeze in the couple and lone parent elements of working tax credit from April. Worth £265m, these go to the poorest members of the working population and the freeze will disproportionately affect women, who make up at least 90% of lone parents.

The increase in the number of hours that couples with children are required to work between them to qualify for working tax credit (from 16 to 24 hours per week) will also penalise many families. There are already many people working part-time who would like to work longer hours but find that no more hours of work are available.

This requirement has been modified for those families with disabled children, which WBG welcomes. Couples will continue to receive tax credits if one partner works 16 hours a week and the other is in receipt of Carer's Allowance. They will also be able to claim the additional childcare credit. However, the latter is no help if a childcare place cannot be found.

### *Pensions*

We welcome the announcement that the government will combine the basic and second state pensions into a single-tier pension. This will eventually simplify the state pension system and reduce the necessity for means-tested benefit, such as Pension Credits. However, we have concerns about the proposed level of the pension:

- £140 per week is too low. It is barely above the current Pension Credit level and will be one of the lowest state pensions in the OECD countries, and is about £30/week below the international poverty threshold (60% of national average income, adjusted for household size).
- It will not be enough to make means-tested benefits unnecessary. It is estimated that about 40% of future pensioners under the single tier proposal would still be eligible for means tested Housing Benefit and Council Tax Benefit.
- It is not high enough to ensure that voluntary saving in NEST (National Employment Savings Trust) and similar auto-enrolled direct contribution pension schemes are financially worthwhile for all women and others with insecure and interrupted employment.

We deplore the government's failure to help existing low-income pensioners who are excluded from the improved 30-year eligibility requirement of the current basic pension and also the planned single-tier pension:

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<sup>29</sup> Daycare Trust (2012) Annual Survey of Child Care Costs.

- Older women have a personal income of only 57% of men's in retirement, due to their past caring roles, and because of an unequal labour market and inadequate pension system that fails to take into account changes to women's roles in society.
- Previously, older women, if married when they worked, were advised to pay lower national insurance contributions, which reduce their pension entitlements.
- Many raised their children before Home Responsibilities Protection (which maintains the pension contributions of those who are out of the labour market caring for children) was introduced.
- Part-timers were excluded from occupational pension schemes, further limiting women's chance of obtaining a good retirement income.

The single-tier pension, if paid to all existing pensioners, go some way to right this historic injustice and lift older women above Pension Credit level.

The Chancellor also announced that there would be automatic reviews of the state pension age in line with rises in life expectancy. In many ways this reflects a significant change in attitudes towards older people working. In 1983 70% of residents of Britain thought older people should retire early to reduce unemployment. By 2009 this had fallen to 15%<sup>30</sup>. However, rises in average life expectancy mask big differences between different social groups, as data available for England and Wales show<sup>31</sup>:

- average life expectancy is higher for women than for men;
- life expectancy is higher for the better off than for low income groups, among both women and men;
- life expectancy is rising faster for men than for women; and fastest for better off men (an additional 8.5 years between 1972/6 and 2002/6);
- and slowest for low income women (an additional 4.1 years between 1972/6 and 2002/6).

We call for reviews of the state pension age to take into account the life expectancy of the social groups that are most reliant on the state pension, low income women and men, rather than the average life expectancy. The government must also take into account the large and growing amount of unpaid care provided mainly by older women – but also by a growing number of older men - for grandchildren, frail parents and for a spouse or partner. There are 2.8 million people aged over 50 years who are providing unpaid care in the UK<sup>32</sup>. Grandparents, and grandmothers in particular, provide childcare to over a third of working mothers. **Who will provide this unpaid care if the retirement age is raised to 70?**

Unpaid care must be complemented by paid care. As the numbers of older people, especially those surviving beyond the age of 85 years grows, spending on social care must increase just to maintain current standards. However there is worrying evidence that the standard of care available to those

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<sup>30</sup> Office for National Statistics (2011) *Social Trends 41*, Social Protection, p7 table 7.

<sup>31</sup> Brian Johnson (2011) 'Deriving trends in life expectancy by the National Statistics Socio-Economic Classification using the ONS Longitudinal Study', *Health Statistics Quarterly*, No. 49, Tables 4 and 7.

<sup>32</sup> Age-UK(2012) *Older Carers: Invisible but Invaluable*.

who need it is far from satisfactory;<sup>33</sup> and funding for care services is being cut by local government who face a 28% cut in their funding up to 2014/15. People, women especially, are being forced to give up paid work or reduce their hours because of cuts to social care for their parents, partners or other relatives.

The promise of the publication of a White Paper on Social Care this summer is very welcome and the WBG looks forward to the end of the longstanding uncertainty surrounding the funding of both home care and residential care in England. The Dilnot Report's recommendations make a good starting point.

However against the background of the possibility of a further £10bn cuts to public spending, the WBG is concerned that a new system may not be adequately funded and that social care funds will not be protected by ring-fencing.

## **International Development**

The WBG firmly supports the continuation of international development funding and welcomes the Coalition government's statement that, "We won't balance the Budget on the backs of the world's poorest people" (DfID 20 Oct 2010). But while the government says it remains committed to providing 0.7% of GDP for development assistance, and has not cut its target for 2012-13 (0.56% of GDP), it has continued to use the fall in the UK's GDP as an opportunity to cut the Budget of the Department for International Development by £380m in 2012-13 and £790m 2013-15. Moreover, it has begun to count debt relief as part of development assistance even though this does not provide any new resources to developing countries.

The WBG is also concerned about the Coalition government claims to be pursuing "value for money" and "higher impact" agendas by narrowing the remit of the Department for International Development, cutting contributions to UN organisations and aligning development assistance with trade and foreign policy priorities through its selection of which countries receive aid.

In February 2012 the cross-party Parliamentary Select Committee for International Development raised concerns about budget cuts and the increasing use of private-for-profit contractors, 92% of which are UK companies, and the re-introduction of the discredited practice of tied aid, achieved through the setting of informal barriers to developing country organizations bidding for aid contracts.

While this Budget has not made any further incursions into the UK's development assistance programme, the changes in the Controlled Foreign Company tax regime, mentioned above, will give UK multinational companies a strong incentive to move their profits out of poorer countries into tax havens, significantly reducing the tax revenues of developing countries and their capacity to invest in education, health services and other vital public services, all of which have significant implications for gender equality.

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<sup>33</sup> Which (2012) Care at Home Investigation. April.

In November 2011 the IMF, World Bank, OECD and UN called on G-20 countries to undertake “spillover analyses” before making significant changes to their tax laws, especially in the light of OECD estimates that tax havens cost developing countries lost revenues worth three times the amount they receive in aid. The new Controlled Foreign Company rules scrap the requirement for UK-based companies to pay corporation tax on overseas profits being sheltered in tax havens. Until now, the CFC rules have said that a UK-based company moving profits out of a third country, for example in Africa, to a tax haven would still be taxed on those profits at the difference between the UK rate and the tax haven rate. In removing the strong disincentive to use tax havens to escape developing country taxes, the Coalition government has boosted the transfer of untaxed profits generated on backs of the world's poorest people, which will now end up in the pockets of the wealthiest investors, bypassing developing country tax coffers and undermining the capacity for elected governments to be responsive to local needs.

*Action Aid*, a development NGO, estimates that this could cost developing countries £4bn a year. The Treasury disputes this, but has not provided any estimate of its own.<sup>34</sup>

The Women’s Budget Group shares the concerns of other women’s organisations that gender equality is no longer central to UK development assistance. Incentivising tax dodging by UK multinational companies, cutting the UK aid budget, privatising aid, focusing on management processes and using women as cheap deliverers of services will not make international aid more effective, and will not reduce the need for international assistance or deliver gender equality.

## **Wage Employment**

The unemployment situation in the UK continues to worsen. In early 2012:

- The rate of unemployment is 8.4% overall, 20.2% for young people (18-24);
- 1.12 million women are unemployed;
- Women’s unemployment rate is 7.8%, and is at the highest level in 25 years;
- Women account for two thirds of the latest monthly increases;
- While women’s rate of unemployment remains lower than men’s, in part owing to women’s lower likelihood of registering as unemployed, women’s unemployment continues to rise at a faster rate than men’s with an 11.2% increase among those unemployed for over 12 months, compared to a small decline in the male rate during 2011<sup>35</sup>.

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<sup>34</sup> Estimates reported by Felicity Lawrence, *The Guardian*, 20/3/12, p. 32.

<sup>35</sup> ONS (2012) Labour market statistics: March 2012 plus links to Tables - UNEM01: Unemployment by age and duration (last updated March 2012).

There is nothing in this Budget that is likely to increase the total jobs available. So far, the private sector with an increase of 226,000 jobs, has been unable to match the 270,000 jobs lost in the public sector,<sup>36</sup> in scale or quality, as the majority of new jobs created are low paid, part-time and insecure.

The adoption of 'regional pay' in the public sector would put further pressure on gender equality in the labour market. The current national pay arrangements have been designed with a focus on the need to deliver equal pay. Devolving pay - and bargaining in particular - to the local level decreases transparency and increases the chances of mistakes and omissions that can lead to unequal pay.

A report by the European Federation of Public Service Unions (EPSU) showed that that decline of national bargaining in most sectors outside health, local government and education was a significant factor in the UK becoming one of the most unequal countries in the EU in terms of pay distribution. In contrast, in most other EU countries where national or sector-based bargaining prevails, a more equal pay distribution has been maintained<sup>37</sup>.

#### *Women's Self Employment and Enterprise*

The Chancellor announced a one-year pilot scheme worth £10m to provide enterprise loans to young people aged 18-24. He claims that this would be similar to student loans but for those wishing to go into business. However, it is not clear if the repayment conditions would be similar. Student loans only have to be repaid once the graduate is earning above £21,000 a year. Will these loans still have to be repaid if the business fails? The latest ONS data shows that for the second consecutive year, business deaths (297,000) were higher than births (235,000) in 2010.<sup>38</sup>

It is disappointing to see no improvement to the government's current provision of 26 weeks total support, under the New Enterprise Allowance scheme, for people who want to move from benefits into self-employment. The period is too short, this is compounded by the withdrawal of working tax credits in the early stages of the business at the first sign of profit, making the adjustment difficult to manage.

In order to create better conditions for female entrepreneurs, who are usually setting up very small businesses, the WBG recommends:

- Doubling the period covered by the New Enterprise Allowance to 6 months pre-start-up and 6 months afterwards. Passported benefits should continue to be available throughout this period;
- An extended programme of training, business support and mentoring for women moving from benefits to enterprise, to develop the skills, networks and confidence to launch a business;
- Incentives for banks to make low-cost, small-scale loans to small businesses.

However these measures will be of little use if there is no market for women to sell their products and services. Such measures must be complemented by investment for equitable recovery.

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<sup>36</sup> ONS (2012) Labour market statistics: March 2012 plus links to Tables - EMP02: Public and private sector employment (last updated March 2012).

<sup>37</sup> EPSU (2006) 'Collective bargaining and social dialogue in the public services – tackling low pay'.

<sup>38</sup> Standard Note SN/EP/6152 Business Birth and Deaths, House of Commons, December 2011.



## Conclusion

### Investment for Equitable Recovery: Plan 'F'

A one-sided emphasis on cutting the budget deficit and reducing public debt has not led to recovery. In the USA both the debt to GDP ratio and budget deficit are higher than in the UK, but growth is considerably higher. Output in the UK is below the 2008 level and is not projected to recover until 2014.

The Chancellor claimed in his Budget speech that Britain has record debts. But this is not true of public debt; the ratio of public debt to GDP has been higher than current levels for most of the last 250 years; and the cost of servicing public debt is the lowest since the 1890s.<sup>39</sup> With such low interest rates, now is the time for the government to borrow more to invest in recovery.

Therefore WBG is calling for a 'Plan F', a feminist plan for investment in equitable recovery that works for women and for all disadvantaged groups, including low and middle income men. This should include public investment in social, as well as physical, infrastructure, creating jobs for women as well as for men.

The government should be stimulating the economy by investing more in education, health and child and social care services, as well as in public transport, green energy, and other physical infrastructure. In the social care services, for example, several reports have revealed the need for more staff if declining standards are to be halted<sup>40</sup>.

Higher levels of employment would boost consumer spending, provide markets for businesses and generate higher tax revenues, which in turn would finance government spending. Such spending would result in a virtuous circle of expansion rather than the current vicious circle of decline. As Keynes famously said: "Expenditure creates its own income" and "Look after unemployment and the budget will look after itself."<sup>41</sup>

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<sup>39</sup> Will Hutton, *The Observer*, 23/03/12, p. 38.

<sup>40</sup> See for example EHRC (2011) *Close to home: An inquiry into older people and human rights in home care* [http://www.equalityhumanrights.com/uploaded\\_files/homecareFI/home\\_care\\_report.pdf](http://www.equalityhumanrights.com/uploaded_files/homecareFI/home_care_report.pdf) ;  
Age UK (2012) *Care in Crisis*  
[http://www.ageuk.org.uk/Documents/ENGB/Campaigns/care\\_in\\_crisis\\_2012\\_report.pdf?dtrk=true](http://www.ageuk.org.uk/Documents/ENGB/Campaigns/care_in_crisis_2012_report.pdf?dtrk=true)

<sup>41</sup> These remarks by Keynes are frequently cited by Post Keynesians – see Robert Skidelsky, *Austerity is for the boom*, *The Guardian* 24/3.12 ,p.36 ;and V. Chick (ud) *The Economic Consequences of Mr Osborne*, <http://www.postkeynesian.net/downloads/Osborne/Chick121010.ppt#256,1>, *The Economic Consequences of Mr Osborne*. The original remarks can be found in J.M Keynes (1933) *Collected Works* Vol.21 p. 150 and Vol. 29 p.80-1.