Published on *Adam Smith Institute* (http://www.adamsmith.org)

The poverty level and tax [1]

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Following on from Madsen's welcoming [3] of the Joseph Rowntree Foundations report on the poverty level, one more thing that should be pointed out I think.

Yes, we've got a figure for a single person of £13,400 a year: below that and they don't have the minimum level of both material goods and the ability to participate fully in society. Excellent: but it does need to be noted that this is a pre-tax figure. The report looks at what is necessary in disposable income and then upgrades that by the tax that would be paid to give us this total figure.

Further, we might note that someone working full time on the minimum wage does not in fact earn this sum: so does that mean that said minimum wage should be raised? Leave aside for a moment all of the usual objections (true though they are) to such minimum wages and ponder just for a moment. What we desire to do is raise the disposable income to the level the Foundation says is needed and we can do that in one of two ways. We can increase the gross income or we can reduce the deductions made from that gross income.

On £13,400 a year the total tax and NI bill is some [4] £2,345 a year leaving a nett income of £11,055. Someone who works 37 hours a week for 52 weeks of the year (yes, they will get holiday pay) on the current minimum wage [5] of £5.52 an hour will earn gross £10,620 (or on the higher wage coming in in October £11,024). They will then pay £1,483 (or £1609) in tax and NI on that sum.

Now we can ask ourselves the interesting question. Why is it that those working full time on the minimum wage fall short of the amount the report states is necessary to live out of poverty? The answer that leaps out at me is that it's the tax system, stupid.

That minimum wage worker earns gross, from October, £11,024 and this is as near as dangnit the £11,055 needed to live without poverty. So why on earth are we sucking 18% of the incomes of the poor off to pay for the exigencies of the State? Surely it would be better to simply change the tax systyem so that the poor were not paying in the first place?

Strangely, I seem to remember that a think tank [6] did suggest this, that we should raise the personal allowance to £12,000 or so. Might people start listening now?

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