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PART B

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PART B

1988 PRESS RELEASE AND
PRESS CONTACT

PO -CH /NL/0359

-CH

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PART B

DD's 25 years NAZIS 24/11/95

7.3-88

1988 Press Release
+ Press Contact.

Part A .

359.

1988 Press.
Release .



mp

Ch.

Sorry not to have shown you the FSI's exchange with Ed. Young (behind the draft PR): it got squeezed out.

2. The terms of the FSI's letter certainly do not commit us to saying anything about Compliance Costs in the release. I've asked IR to remove the reference - and to remove similar refs. from other PRs, unless strictly relevant.

25/3

dti

the department for Enterprise

prop

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Norman Lamont MP
Financial Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

Department of
Trade and Industry

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Date 27 January 1988

FINANCIAL SECRETARY	
1 FEB 1988	
Mr. Flanagan.	
PPS, CST, PMG, EST.	
Sir. P. Middleton, Mr. Mowck	
Mr. Schlar, Miss Sinclair	
Mr. Cropper, Mr. Tyckie	
Mr. Mackin IC	
Mr. Filinson C+E	
PS/IC PS/C+E.	

Norman

IMPACT OF GOVERNMENT REGULATIONS ON BUSINESS : PUBLICITY

Compliance Cost Assessments (CCA's) which Departments prepare on all proposed new regulations have been publicly available under arrangements we announced in December 1986. But as yet there is little evidence that business makes enough use of them and a common complaint is that business, trade bodies and other interested groups have no way of knowing precisely which CCA's are available. This has led to a number of requests to publish lists of CCA's and officials in the Enterprise and Deregulation Unit have discussed with deregulation units in other Departments how best this information might be made available.

As a result, it has been argued that to assist business DTI should public details of selected CCA's in "British Business" every six months, together with a list of deregulation contacts for each Department. Each Department will then be responsible for publishing comprehensive lists of CCA's it has prepared and officials in EDU have agreed with officials in Departments suitable ways in which this can be done. To launch these new arrangements I am arranging for the attached Parliamentary Question to be tabled in both Houses.

the
Enterprise
initiative



the department for Enterprise

You will recall that we decided at MISC 133 not to proceed, for the time being, with the proposal to include a statement on business impact on Explanatory and Financial Memoranda. I have considered whether this might appear to be contradictory with the publication of CCA's but have concluded there is no difficulty in this. CCA's are of course already publicly available and it is important that business have the opportunity to comment on them before we take final decisions. Explanatory and Financial Memoranda on the other hand only present details of proposals once final decisions are made and it was this that MISC 133 was concerned about. We can of course review the decision taken in MISC 133 in the light of the further experience we shall gain from increased publicity given to CCA's.

I am copying this letter to all members of MISC 133.

A handwritten signature in black ink, appearing to read 'J. L. Davis'.

DRAFT

- Q. To ask the Chancellor of the Duchy of Lancaster if he will take steps to publish lists of Compliance Cost Assessments which Departments prepare showing the impact of proposed new Government regulations on businesses.
- A. Officials in the Enterprise and Deregulation Unit are arranging for a selected list of Compliance Cost Assessments (CCA's) to be published in the Department of Trade and Industry magazine "British Business". In addition, Departments will arrange for lists of CCA's to be published in appropriate external publications and press notices.

CC: PPS, CST, PMG, EST
 Sir. P. Middleton
 Mr. March
 Mr. Scholok
 Mr. MacAuslan
 Miss. Sinclair
 Mr. Wynn-Awen
 Mr. Creeper
 Mr. Tyk.E
 Mr. J. Marshall
 Mr. W. Carr
 Mr. P. Trevett C+E
 19 February 1988
 Mr. C. Holloway C+E



[Handwritten signature]

Treasury Chambers, Parliament Street. SW1P 3AG

The Rt Hon Lord Young of Graffham
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

cc. Mr. Flanagan.

IMPACT OF GOVERNMENT REGULATIONS ON BUSINESS: PUBLICITY

Thank you for your letter of 27 January. I am glad to see that CCAs are getting more publicity, as I feel it should be a major priority to convince businesses that we are interested in pursuing deregulatory paths.

None of the Chancellor's Departments, of course, has a house magazine such as the DTI's "British Business". But the Inland Revenue will be including references to new CCAs in their press releases where appropriate, and will be providing lists of their available CCAs (currently some 35) to accountancy magazines.

[Handwritten signature]

NORMAN LAMONT



X looks intentional. I have not seen No P55's letter of 19/2, so for an recall, to see in (I should have written to P55's). Now I cannot find the letter in 15 +.

INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

15 March 1988

MORTGAGE INTEREST RELIEF - RESIDENCE BASIS AND MINOR CHANGES

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1988/89 at £30,000. The limit will be applied to the residence rather than, as hitherto, to the borrower. The relief is also being simplified by abolishing the relief for interest on new loans for the purchase of properties used as the only or main residence of a dependent relative or a former or separated spouse.

[1] RESIDENCE BASIS

Present position

At present unmarried people sharing the purchase of the same property as their only or main residence are each entitled to relief on the interest on loans up to £30,000. Married couples have to share the £30,000 between them.

Proposed change

From 1 August 1988 relief on the interest on new loans applied to the purchase of a property used as the borrowers' only or main residence will be limited to the interest on £30,000 irrespective of the number of people borrowing to purchase that residence. This will bring unmarried people sharing the purchase of a home into line with married couples and end the situation where the reduction in the amount of mortgage interest relief available created a disincentive to getting married. It follows the suggestion in the Green Paper on the Reform of Personal Taxation (Cmd. 9756) published in 1986.

Protected loans

The new rules will take effect from 1 August 1988. Any loans taken out before that date will continue to qualify for relief by reference to the limit of £30,000 per borrower under the provisions of the present law so long as all the conditions for relief are met. Protection will continue only for the life of the protected loan and will not be extended to replacement loans.

/Effect of new

Effect of new residence basis on married couples

Married couples must already share the £30,000 limit and in most cases for the next two years prior to the introduction of independent taxation, the new residence basis will make no difference to the relief allowable to them. Mortgage interest relief is allowable whether the eligible loan is made to the husband or the wife or jointly to both and whether the interest is paid by the husband or wife.

Independent taxation

When independent taxation is introduced on 6 April 1990 wives will become taxpayers in their own right. Each will become entitled to an equal share of the limit applying at that time. For example, with a limit of £30,000 both husband and wife would be entitled to individual limits of £15,000 and each could have relief on loans up to £15,000. However, they will be able to elect jointly that relief on interest on loans up to the overall limit, whether to the husband or wife or jointly to both, can be allocated on a year by year basis between them in whatever proportions they wish and irrespective of which of them actually pays the interest.

Where one spouse pays a higher marginal rate of tax than the other, it will be possible to make an election to allocate the eligible relief to the first spouse and so ensure that it is all allowable at the higher marginal rate.

Wife's earnings election

Until 1990 married couples will be entitled to continue to elect for wives' earnings to be taxed separately from their husbands' Mortgage interest relief within the limit has, in some circumstances, to be allocated between the husband and wife. The election described in the previous two paragraphs will be available to these married couples in both 1988/89 and 1989/90.

Effect of new residence basis on unmarried home sharers

Where two or more people who are not married to each other share an only or main residence and each takes a loan or a share in a joint loan to purchase an interest in the residence, the limit of £30,000 will be allocated between them in equal shares. For example three such sharers will be entitled to individual limits of £10,000. Each sharer will qualify for relief on any interest he or she pays on his or her loan or share of a joint loan up to £10,000. Relief will not be allowable in any circumstances to one sharer in respect of interest paid by another.

Where a married couple shares with another person, the limit will be allocated two-thirds to the couple and one third to the other person. Within their share the couple will be able to allocate the relief between them as described for a couple on their own.

/Transferability of unused

Transferability of unused portions of limit

There will be special rules permitting transferability of the limit in circumstances where otherwise unmarried sharers with unequal loans would not be able to use all the limit between them, even though the total loans equal or exceed the limit. The following example describes the situation:

A has a loan of £25000
B has a loan of £ 8000
C has a loan of £ 5000

The rule described in the previous paragraph would give each a ceiling of £10,000 with the following result:-

A gets relief on £10000 with £15000 unrelieved
B gets relief on 8000 with nil unrelieved
C gets relief on 5000 with nil unrelieved
Total relief 23000

In such circumstances there will be provision to allow the transfer of unused limit from a sharer who cannot use it to one or more who can. In this example B would transfer £2000 to A and C would transfer £5000 to A. A will then be entitled to relief on the interest on £17,000 and £30,000 of the total loans of £38000 will qualify for relief.

[III] DEPENDENT RELATIVES

Present position

At present relief is allowable within the limit on the interest on loans applied to the purchase or improvement of a property used as the only or main residence for a dependent relative or former or separated spouse of the borrower.

Proposed Change

It is proposed to abolish this relief where a loan is applied for this purpose on or after 6 April 1988. Relief will continue for the life of existing loans which already qualify under the present law. Relief will still be available to the relative or spouse where they pay the interest and have an interest in the property.

Capital Gains Tax

At the same time, it is proposed to abolish the equivalent capital gains tax relief for homes provided free for a dependent relative. This change will apply for disposals on or after 6 April 1988. Relief will continue to be available where a home would have qualified for the relief on a disposal before 6 April.

/Under present law,

Under present law, the level of relief may be reduced where the relative has not occupied the home throughout the taxpayer's period of ownership. Relief will be available on disposals on or after 6 April 1988.

(i) for periods before that date during which a dependent relative occupied the property, and

(ii) where a dependent relative is actually in occupation on 5 April, for the period until that relative ceases to occupy the home.

Notes for Editors

1. Most loans affected by these proposals are now within the MIRAS (mortgage interest relief at source) scheme. Further detailed guidance about the changes will be sent shortly to lenders operating the scheme. ~~Assessments of the compliance costs of proposals affecting businesses are available.~~ A copy of the assessment for these proposals can be obtained from the Inland Revenue Deregulation Unit, Room 77, New Wing, Somerset House, London WC2R 1LB. IX

2. Relief is also allowable in respect of interest on loans applied to the purchase or improvement of property let or available for letting at a commercial rent for more than 26 weeks in any period of 52 weeks. The limit does not apply but relief is allowable only against rental income. No change is proposed to this relief which will continue as at present.

3. The change to the residence basis is expected to have a negligible yield in 1988/89 and to yield £25 million in 1989/90. The abolition of the relief for dependent relatives and separated or divorced spouses is expected to have a negligible yield.

4. See also separate press release on abolition of relief for Home Improvement Loans.

SIR P MIDDLETON

pm
FROM: A G TYRIE
DATE: 10 FEBRUARY 1988

cc PS/Chancellor
Mr R I G Allen
Mr Cropper
Mr Call

PRESS CONTACT

Unfortunately I picked up a ringing 'phone and found Robin Oakley on the other end of it!

He asked me about regional pay on which I did not give him any help. The conversation lasted about three minutes and at no stage were budget matters discussed.

AG
A G TYRIE



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

COPY NO 2 OF 38

FROM: R J EASON

DATE: 17 FEBRUARY 1988

- This is the proposed submission. It shall, of course, need to look carefully at the rest accompanying and explaining them tables. (J.E. 17.2)*
1. MR ISAAC
 2. CHANCELLOR OF THE EXCHEQUER

BUDGET INCOME TAX PRESS RELEASE

1. As requested in Mr Hudson's note of 8 February, I
... attach a first draft of the tables for the main income tax
Press Release. All figures are provisional and they are
based on Option 3. Tables 1 to 12 are the traditional
specimen income tables in which we assume taxpayers have no
allowances or reliefs other than their appropriate personal

cc. **Principal Private Secretary**

Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr J Anson
Sir A Wilson
Mr I Byatt
Mr M C Scholar
Mr R Culpin
Mr P Sedgwick
Mr J Odling-Smee
Mrs C Evans
Mr A Hudson
Mr P McIntyre
Mr P Cropper
Mr A Tyrie
Mr M Call
Miss C E C Sinclair
Mr C J Riley
Mr Unwin (Customs & Excise)
Mr Knox (" & ")

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr Cayley
Mr Eason
Mr Ko
Miss White
PS/IR

allowances. Tables 13 and 14 are new 'real life' tables as foreshadowed in Mr Isaac's submission of 5 February. We should welcome guidance on

- (a) whether you would like any changes to the traditional tables;
- (b) whether you would like real life tables included in the Press Release, and if so whether Tables 13 and 14 are suitable.

Traditional Tables

2. There is still some further work outstanding on the traditional tables, such as checking that the income ranges for the aged tables cover the aged income limit adequately and that the tables which include NIC show the effects of the changes in the reduced rate bands. The main findings from the tables are not unexpected.

- (a) The majority of basic rate taxpayers will gain about 2 per cent of gross earnings (because the tax value of double indexation is about 2 per cent of the allowance level (27 per cent of the 7.4 per cent increase) and the value of the basic rate cut is 2 per cent of taxable income);
- (b) gains at the highest incomes are large in both absolute terms and as a proportion of total income;
- (c) in the dynamic tables (Tables 9 to 12) in which gross earnings are assumed to rise by $6\frac{1}{2}$ per cent, increases in net income in 1988-89 comfortably exceed this rate of growth except for low income families in Table 11 who are affected by the unchanged level of child benefit.

Real-Life Tables

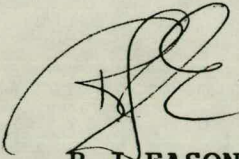
3. Tables 13 and 14 are our first attempt at 'real-life' tables for publication. They are designed to show the actual distributional effects of the main Budget income tax package taking account of each tax units sources of income, its allowances, and reliefs. The tables will need some notes of explanation to avoid confusion with the traditional tables. Table 13 gives a broad analysis of gainers by income and family type. It therefore shows larger average gains to married two earner couples than to other family types because of their higher incomes. It also shows that within a particular income range, gains are larger for single people. The main difference from the traditional tables however is that Tables 13 and 14 show how few people will gain very large amounts and how many will gain smaller but significant amounts from the basic rate cut. Compared with Tables 1 to 12, we have used less detailed income ranges in Tables 13 and 14 since all figures are estimates based on projections of the Survey of Personal Incomes. We have however retained the top level of £70,000 for consistency.

4. Table 13 would make public the total cost of the income tax package by showing the reduction in tax liability averaged over all 21.4 million tax units. This is the full year cost against an unindexed base and therefore not the same as the receipts cost for 1988-89 that will be given in the FSBR.

5. Tables 13 and 14 are similar in style to those given in Annex 4 of the Reform of Personal Taxation and publication would help pre-empt some parliamentary questions and perhaps analysis by outside institutions such as the IFS.

Coverage of Press Release Tables

6. In the past the tables in this Press Release have only shown the changes in tax liability from the main income tax package (changes in allowances, thresholds, and rates), although changes in NIC and child benefit are included in some tables. We have constructed this year's tables on the same basis and the proposed new Tables 13 and 14 include the effects of the main income tax package only. It is possible that publication may generate requests for more comprehensive analysis of Budget measures which at present it would be difficult to meet.



R J EASON

*I do not think that X is a reason for not doing what we can do.
(He)*

TABLE 1**SINGLE PERSONS - ANNUAL FIGURES**

Income	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	155	5.2	99	3.3	56	1.9
4,000	425	10.6	349	8.7	76	1.9
5,000	695	13.9	599	12.0	96	1.9
6,000	965	16.1	849	14.2	116	1.9
7,000	1,235	17.6	1,099	15.7	136	1.9
8,000	1,505	18.8	1,349	16.9	156	2.0
9,000	1,775	19.7	1,599	17.8	176	2.0
10,000	2,045	20.4	1,849	18.5	196	2.0
12,000	2,585	21.5	2,349	19.6	236	2.0
14,000	3,125	22.3	2,849	20.4	276	2.0
16,000	3,665	22.9	3,349	20.9	316	2.0
18,000	4,205	23.4	3,849	21.4	356	2.0
20,000	4,745	23.7	4,349	21.7	396	2.0
25,000	6,812	27.2	5,958	23.8	854	3.4
30,000	9,170	30.6	7,958	26.5	1,212	4.0
40,000	14,384	36.0	11,958	29.9	2,426	6.1
50,000	20,203	40.4	15,958	31.9	4,245	8.5
60,000	26,203	43.7	19,958	33.3	6,245	10.4
70,000	32,203	46.0	23,958	34.2	8,245	11.8

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

Charge for 1987-88			Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,000	55	1.4	0	0.0	55	1.4
5,000	325	6.5	226	4.5	99	2.0
6,000	595	9.9	476	7.9	119	2.0
7,000	865	12.4	726	10.4	139	2.0
8,000	1,135	14.2	976	12.2	159	2.0
9,000	1,405	15.6	1,226	13.6	179	2.0
10,000	1,675	16.8	1,476	14.8	199	2.0
12,000	2,215	18.5	1,976	16.5	239	2.0
14,000	2,755	19.7	2,476	17.7	279	2.0
16,000	3,295	20.6	2,976	18.6	319	2.0
18,000	3,835	21.3	3,476	19.3	359	2.0
20,000	4,375	21.9	3,976	19.9	399	2.0
25,000	6,195	24.8	5,362	21.4	833	3.3
30,000	8,486	28.3	7,362	24.5	1,124	3.7
40,000	13,631	34.1	11,362	28.4	2,269	5.7
50,000	19,381	38.8	15,362	30.7	4,019	8.0
60,000	25,381	42.3	19,362	32.3	6,019	10.0
70,000	31,381	44.8	23,362	33.4	8,019	11.5

Calculations assume that only the husband has earned income.

TABLE 3

SINGLE PERSONS AND MARRIED COUPLES - ANNUAL FIGURES

COMPARISON BETWEEN INDEXATION FOR 1988-89 AND
PROPOSED CHARGE FOR 1988-89

Income	Charge under Indexation ¹		Proposed charge for 1988-89		Reduction in tax over Indexation	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	131	4.4	99	3.3	32	1.1
4,000	401	10.0	349	8.7	52	1.3
6,000	941	15.7	849	14.2	92	1.5
8,000	1,481	18.5	1,349	16.9	132	1.6
10,000	2,021	20.2	1,849	18.5	172	1.7
12,000	2,561	21.3	2,349	19.6	212	1.8
15,000	3,371	22.5	3,099	20.7	272	1.8
20,000	4,721	23.6	4,349	21.7	372	1.9
25,000	6,640	26.6	5,958	23.8	682	2.7
30,000	8,944	29.8	7,958	26.5	986	3.3
40,000	14,089	35.2	11,958	29.9	2,131	5.3
50,000	19,823	39.6	15,958	31.9	3,865	7.7
60,000	25,823	43.0	19,958	33.3	5,865	9.8
70,000	31,823	45.5	23,958	34.2	7,865	11.2
MARRIED COUPLES						
4,000	15	0.4	0	0.0	15	0.4
6,000	555	9.2	476	7.9	79	1.3
8,000	1,095	13.7	976	12.2	119	1.5
10,000	1,635	16.4	1,476	14.8	159	1.6
12,000	2,175	18.1	1,976	16.5	199	1.7
15,000	2,985	19.9	2,726	18.2	259	1.7
20,000	4,335	21.7	3,976	19.9	359	1.8
25,000	6,004	24.0	5,362	21.4	642	2.6
30,000	8,247	27.5	7,362	24.5	885	3.0
40,000	13,302	33.3	11,362	28.4	1,940	4.8
50,000	18,965	37.9	15,362	30.7	3,603	7.2
60,000	24,965	41.6	19,362	32.3	5,603	9.3
70,000	30,965	44.2	23,362	33.4	7,603	10.9

¹ Assuming allowances and thresholds are indexed in accordance with Section 24, Finance Act 1980.

² Calculations assume that only the husband has earned income.

TABLE 4A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - ANNUAL FIGURES

Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change		
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	11	0.4	0	0.0	11	0.4
4,000	281	7.0	205	5.1	76	1.9
5,000	551	11.0	455	9.1	96	1.9
6,000	821	13.7	705	11.8	116	1.9
7,000	1,091	15.6	955	13.6	136	1.9
8,000	1,361	17.0	1,205	15.1	156	2.0
9,000	1,631	18.1	1,455	16.2	176	2.0
10,000	1,937	19.4	1,705	17.0	232	2.3
11,000	2,315	21.0	2,022	18.4	293	2.7
12,000	2,585	21.5	2,349	19.6	236	2.0
MARRIED COUPLES¹						
5,000	88	1.8	0	0.0	88	1.8
6,000	358	6.0	241	4.0	117	2.0
7,000	628	9.0	491	7.0	137	2.0
8,000	898	11.2	741	9.3	157	2.0
9,000	1,168	13.0	991	11.0	177	2.0
10,000	1,474	14.7	1,241	12.4	233	2.3
11,000	1,924	17.5	1,558	14.2	366	3.3
12,000	2,215	18.5	1,975	16.5	240	2.0

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 4B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - ANNUAL FIGURES

Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change		
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	0	0.0	0	0.0	0	0.0
4,000	251	6.3	172	4.3	79	2.0
5,000	521	10.4	422	8.4	99	2.0
6,000	791	13.2	672	11.2	119	2.0
7,000	1,061	15.2	922	13.2	139	2.0
8,000	1,331	16.6	1,172	14.6	159	2.0
9,000	1,601	17.8	1,422	15.8	179	2.0
10,000	1,907	19.1	1,672	16.7	235	2.4
11,000	2,315	21.0	1,989	18.1	326	3.0
12,000	2,585	21.5	2,349	19.6	236	2.0
MARRIED COUPLES¹						
5,000	42	0.8	0	0.0	42	0.8
6,000	312	5.2	199	3.3	113	1.9
7,000	582	8.3	449	6.4	133	1.9
8,000	852	10.6	699	8.7	153	1.9
9,000	1,122	12.5	949	10.5	173	1.9
10,000	1,428	14.3	1,199	12.0	229	2.3
11,000	1,878	17.1	1,515	13.8	363	3.3
12,000	2,215	18.5	1,932	16.1	283	2.4

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 5
SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

Income	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
50.00	0.91	1.8	0.00	0.0	0.91	1.8
60.00	3.61	6.0	2.48	4.1	1.13	1.9
65.00	4.96	7.6	3.73	5.7	1.23	1.9
70.00	6.31	9.0	4.98	7.1	1.33	1.9
80.00	9.01	11.3	7.48	9.4	1.53	1.9
90.00	11.71	13.0	9.98	11.1	1.73	1.9
95.00	13.06	13.7	11.23	11.8	1.83	1.9
100.00	14.41	14.4	12.48	12.5	1.93	1.9
120.00	19.81	16.5	17.48	14.6	2.33	1.9
140.00	25.21	18.0	22.48	16.1	2.73	2.0
160.00	30.61	19.1	27.48	17.2	3.13	2.0
180.00	36.01	20.0	32.48	18.0	3.53	2.0
200.00	41.41	20.7	37.48	18.7	3.93	2.0
250.00	54.91	22.0	49.98	20.0	4.93	2.0
295.00	67.06	22.7	61.23	20.8	5.83	2.0
300.00	68.41	22.8	62.48	20.8	5.93	2.0
350.00	81.91	23.4	74.98	21.4	6.93	2.0
400.00	96.60	24.2	87.48	21.9	9.12	2.3
500.00	139.65	27.9	122.27	24.5	17.38	3.5
600.00	187.89	31.3	162.27	27.0	25.62	4.3
MARRIED COUPLES¹						
75.00	0.55	0.7	0.00	0.0	0.55	0.7
80.00	1.89	2.4	0.31	0.4	1.58	2.0
90.00	4.59	5.1	2.81	3.1	1.78	2.0
95.00	5.94	6.3	4.06	4.3	1.88	2.0
100.00	7.29	7.3	5.31	5.3	1.98	2.0
120.00	12.69	10.6	10.31	8.6	2.38	2.0
140.00	18.09	12.9	15.31	10.9	2.78	2.0
160.00	23.49	14.7	20.31	12.7	3.18	2.0
180.00	28.89	16.0	25.31	14.1	3.58	2.0
200.00	34.29	17.1	30.31	15.2	3.98	2.0
250.00	47.79	19.1	42.81	17.1	4.98	2.0
295.00	59.94	20.3	54.06	18.3	5.88	2.0
300.00	61.29	20.4	55.31	18.4	5.98	2.0
350.00	74.79	21.4	67.81	19.4	6.98	2.0
400.00	88.29	22.1	80.31	20.1	7.98	2.0
500.00	127.80	25.6	110.81	22.2	16.99	3.4
600.00	174.72	29.1	150.81	25.1	23.91	4.0

¹ Calculations assume that only the husband has earned income.

TABLE 6A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - WEEKLY FIGURES

Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change		
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
55.00	0.00	0.0	0.00	0.0	0.00	0.0
60.00	0.83	1.4	0.00	0.0	0.83	1.4
80.00	6.23	7.8	4.71	5.9	1.52	1.9
100.00	11.63	11.6	9.71	9.7	1.92	1.9
120.00	17.03	14.2	14.71	12.3	2.32	1.9
140.00	22.43	16.0	19.71	14.1	2.72	1.9
160.00	27.83	17.4	24.71	15.4	3.12	2.0
180.00	33.23	18.5	29.71	16.5	3.52	2.0
200.00	40.71	20.4	34.71	17.4	6.00	3.0
220.00	46.81	21.3	42.40	19.3	4.41	2.0
MARRIED COUPLES¹						
90.00	0.03	0.0	0.00	0.0	0.03	0.0
100.00	2.73	2.7	0.79	0.8	1.94	1.9
120.00	8.13	6.8	5.79	4.8	2.34	2.0
140.00	13.53	9.7	10.79	7.7	2.74	2.0
160.00	18.93	11.8	15.79	9.9	3.14	2.0
180.00	24.33	13.5	20.79	11.6	3.54	2.0
200.00	31.80	15.9	25.79	12.9	6.01	3.0
220.00	39.70	18.0	33.49	15.2	6.21	2.8

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 6B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - WEEKLY FIGURES

Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change		
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
55.00	0.00	0.0	0.00	0.0	0.00	0.0
60.00	0.26	0.4	0.00	0.0	0.26	0.4
80.00	5.66	7.1	4.09	5.1	1.57	2.0
100.00	11.06	11.1	9.09	9.1	1.97	2.0
120.00	16.46	13.7	14.09	11.7	2.37	2.0
140.00	21.86	15.6	19.09	13.6	2.77	2.0
160.00	27.26	17.0	24.09	15.1	3.17	2.0
180.00	32.66	18.1	29.09	16.2	3.57	2.0
200.00	40.14	20.1	34.09	17.0	6.05	3.0
220.00	46.81	21.3	41.78	19.0	5.03	2.3
MARRIED COUPLES¹						
90.00	0.00	0.0	0.00	0.0	0.00	0.0
100.00	1.84	1.8	0.00	0.0	1.84	1.8
120.00	7.24	6.0	4.98	4.2	2.26	1.9
140.00	12.64	9.0	9.98	7.1	2.66	1.9
160.00	18.04	11.3	14.98	9.4	3.06	1.9
180.00	23.44	13.0	19.98	11.1	3.46	1.9
200.00	30.92	15.5	24.98	12.5	5.94	3.0
220.00	39.70	18.0	32.67	14.8	7.03	3.2

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 7

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Charge for 1987-88				Proposed charge for 1988-89			Reduction in tax and NIC after proposed change	
Income	Income tax	NIC ¹	Net income after tax and NIC	Income tax	NIC ¹	Net income after tax and NIC	Income tax and NIC	As percentage of total income per cent
£	£	£	£	£	£	£	£	
SINGLE PERSONS								
50.00	0.91	2.50	46.59	0.00	2.50	47.50	0.91	1.8
60.00	3.61	3.00	53.39	2.48	3.00	54.52	1.13	1.9
65.00	4.96	4.55	55.49	3.73	3.25	58.02	2.53	3.9
70.00	6.31	4.90	58.79	4.98	4.90	60.12	1.33	1.9
80.00	9.01	5.60	65.39	7.48	5.60	66.92	1.53	1.9
90.00	11.71	6.30	71.99	9.98	6.30	73.72	1.73	1.9
95.00	13.06	6.65	75.29	11.23	6.65	77.12	1.83	1.9
100.00	14.41	9.00	76.59	12.48	7.00	80.52	3.93	3.9
120.00	19.81	10.80	89.39	17.48	10.80	91.72	2.33	1.9
140.00	25.21	12.60	102.19	22.48	12.60	104.92	2.73	2.0
160.00	30.61	14.40	114.99	27.48	14.40	118.12	3.13	2.0
180.00	36.01	16.20	127.79	32.48	16.20	131.32	3.53	2.0
200.00	41.41	18.00	140.59	37.48	18.00	144.52	3.93	2.0
250.00	54.91	22.50	172.59	49.98	22.50	177.52	4.93	2.0
295.00	67.06	26.55	201.39	61.23	26.55	207.22	5.83	2.0
300.00	68.41	26.55	205.04	62.48	27.00	210.52	5.48	1.8
350.00	81.91	26.55	241.54	74.98	27.45	247.57	6.03	1.7
400.00	96.60	26.55	276.85	87.48	27.45	285.07	8.22	2.1
500.00	139.65	26.55	333.80	122.27	27.45	350.28	16.48	3.3
600.00	187.89	26.55	385.56	162.27	27.45	410.28	24.72	4.1
MARRIED COUPLES ²								
75.00	0.55	5.25	69.20	0.00	5.25	69.75	0.55	0.7
80.00	1.89	5.60	72.51	0.31	5.60	74.09	1.58	2.0
90.00	4.59	6.30	79.11	2.81	6.30	80.89	1.78	2.0
95.00	5.94	6.65	82.41	4.06	6.65	84.29	1.88	2.0
100.00	7.29	9.00	83.71	5.31	7.00	87.69	3.98	4.0
120.00	12.69	10.80	96.51	10.31	10.80	98.89	2.38	2.0
140.00	18.09	12.60	109.31	15.31	12.60	112.09	2.78	2.0
160.00	23.49	14.40	122.11	20.31	14.40	125.29	3.18	2.0
180.00	28.89	16.20	134.91	25.31	16.20	138.49	3.58	2.0
200.00	34.29	18.00	147.71	30.31	18.00	151.69	3.98	2.0
250.00	47.79	22.50	179.71	42.81	22.50	184.69	4.98	2.0
295.00	59.94	26.55	208.51	54.06	26.55	214.39	5.88	2.0
300.00	61.29	26.55	212.16	55.31	27.00	217.69	5.53	1.8
350.00	74.79	26.55	248.66	67.81	27.45	254.74	6.08	1.7
400.00	88.29	26.55	285.16	80.31	27.45	292.24	7.08	1.8
500.00	127.80	26.55	345.65	110.81	27.45	361.74	16.09	3.2
600.00	174.72	26.55	398.73	150.81	27.45	421.74	23.01	3.8

¹ National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

² Calculations assume that only the husband has earned income.

TABLE 8

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1987-88					Weekly income in 1988-89				Increase in income after tax, NIC and child benefit	
Income ¹	Child benefit	Income tax	NIC ²	Net income ³	Child benefit	Income tax	NIC ²	Net income ³	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
75.00	14.50	0.55	5.25	83.70	14.50	0.00	5.25	84.25	0.55	0.7
80.00	14.50	1.89	5.60	87.01	14.50	0.31	5.60	88.59	1.58	2.0
90.00	14.50	4.59	6.30	93.61	14.50	2.81	6.30	95.39	1.78	2.0
95.00	14.50	5.94	6.65	96.91	14.50	4.06	6.65	98.79	1.88	2.0
100.00	14.50	7.29	9.00	98.21	14.50	5.31	7.00	102.19	3.98	4.0
120.00	14.50	12.69	10.80	111.01	14.50	10.31	10.80	113.39	2.38	2.0
140.00	14.50	18.09	12.60	123.81	14.50	15.31	12.60	126.59	2.78	2.0
160.00	14.50	23.49	14.40	136.61	14.50	20.31	14.40	139.79	3.18	2.0
180.00	14.50	28.89	16.20	149.41	14.50	25.31	16.20	152.99	3.58	2.0
200.00	14.50	34.29	18.00	162.21	14.50	30.31	18.00	166.19	3.98	2.0
250.00	14.50	47.79	22.50	194.21	14.50	42.81	22.50	199.19	4.98	2.0
295.00	14.50	59.94	26.55	223.01	14.50	54.06	26.55	228.89	5.88	2.0
300.00	14.50	61.29	26.55	226.66	14.50	55.31	27.00	232.19	5.53	1.8
350.00	14.50	74.79	26.55	263.16	14.50	67.81	27.45	269.24	6.08	1.7
400.00	14.50	88.29	26.55	299.66	14.50	80.31	27.45	306.74	7.08	1.8
500.00	14.50	127.80	26.55	360.15	14.50	110.81	27.45	376.24	16.09	3.2
600.00	14.50	174.72	26.55	413.23	14.50	150.81	27.45	436.24	23.01	3.8

¹ Calculations assume that only the husband has earned income.

² National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

³ Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit.

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES - COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89

Charge for 1987-88			Proposed charge for 1988-89			
Income	Income tax	Percentage of total income taken in tax	Adjusted income ¹	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	155	5.2	3,195	148	4.6	7.1
4,000	425	10.6	4,260	414	9.7	7.6
6,000	965	16.1	6,390	946	14.8	8.1
8,000	1,505	18.8	8,520	1,479	17.4	8.4
10,000	2,045	20.4	10,650	2,011	18.9	8.6
12,000	2,585	21.5	12,780	2,544	19.9	8.7
15,000	3,395	22.6	15,975	3,342	20.9	8.9
20,000	4,745	23.7	21,300	4,674	21.9	9.0
25,000	6,812	27.2	26,625	6,608	24.8	10.1
30,000	9,170	30.6	31,950	8,738	27.3	11.4
40,000	14,384	36.0	42,600	12,998	30.5	15.6
50,000	20,203	40.4	53,250	17,258	32.4	20.8
60,000	26,203	43.7	63,900	21,518	33.7	25.4
70,000	32,203	46.0	74,550	25,778	34.6	29.0
MARRIED COUPLES ²						
4,000	55	1.4	4,260	41	1.0	6.9
6,000	595	9.9	6,390	574	9.0	7.6
8,000	1,135	14.2	8,520	1,106	13.0	8.0
10,000	1,675	16.8	10,650	1,639	15.4	8.2
12,000	2,215	18.5	12,780	2,171	17.0	8.4
15,000	3,025	20.2	15,975	2,970	18.6	8.6
20,000	4,375	21.9	21,300	4,301	20.2	8.8
25,000	6,195	24.8	26,625	6,012	22.6	9.6
30,000	8,486	28.3	31,950	8,142	25.5	10.7
40,000	13,631	34.1	42,600	12,402	29.1	14.5
50,000	19,381	38.8	53,250	16,662	31.3	19.5
60,000	25,381	42.3	63,900	20,922	32.7	24.1
70,000	31,381	44.8	74,550	25,182	33.8	27.8

¹ The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

² Calculations assume that only the husband has earned income.

TABLE 10
SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

 COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89
 INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Charge for 1987-88				Proposed charge for 1988-89				
Income	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Adjusted income ²	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Percentage change in income after tax and NIC per cent
£	£	£		£	£	£		
SINGLE PERSONS								
50.00	0.91	2.50	6.8	53.25	0.79	2.66	6.5	6.9
60.00	3.61	3.00	11.0	63.90	3.45	3.19	10.4	7.2
65.00	4.96	4.55	14.6	69.22	4.78	3.46	11.9	9.9
70.00	6.31	4.90	16.0	74.55	6.11	5.21	15.2	7.6
80.00	9.01	5.60	18.3	85.20	8.78	5.96	17.3	7.8
90.00	11.71	6.30	20.0	95.85	11.44	6.70	18.9	7.9
95.00	13.06	6.65	20.7	101.18	12.77	7.08	19.6	8.0
100.00	14.41	9.00	23.4	106.50	14.10	9.58	22.2	8.1
120.00	19.81	10.80	25.5	127.80	19.43	11.50	24.2	8.4
140.00	25.21	12.60	27.0	149.10	24.75	13.41	25.6	8.6
160.00	30.61	14.40	28.1	170.40	30.08	15.33	26.6	8.7
180.00	36.01	16.20	29.0	191.70	35.40	17.25	27.5	8.8
200.00	41.41	18.00	29.7	213.00	40.73	19.17	28.1	8.9
250.00	54.91	22.50	31.0	266.25	54.04	23.96	29.3	9.1
295.00	67.06	26.55	31.7	314.18	66.02	27.45	29.8	9.6
300.00	68.41	26.55	31.7	319.50	67.35	27.45	29.7	9.6
350.00	81.91	26.55	31.0	372.75	80.66	27.45	29.0	9.6
400.00	96.60	26.55	30.8	426.00	93.98	27.45	28.5	10.0
500.00	139.65	26.55	33.2	532.50	135.27	27.45	30.6	10.8
600.00	187.89	26.55	35.7	639.00	177.87	27.45	32.1	12.5
MARRIED COUPLES³								
75.00	0.55	5.25	7.7	79.88	0.28	5.59	7.3	7.0
80.00	1.89	5.60	9.4	85.20	1.61	5.96	8.9	7.1
90.00	4.59	6.30	12.1	95.85	4.28	6.70	11.5	7.3
95.00	5.94	6.65	13.3	101.18	5.61	7.08	12.5	7.4
100.00	7.29	9.00	16.3	106.50	6.94	9.58	15.5	7.5
120.00	12.69	10.80	19.6	127.80	12.26	11.50	18.6	7.8
140.00	18.09	12.60	21.9	149.10	17.59	13.41	20.8	8.0
160.00	23.49	14.40	23.7	170.40	22.91	15.33	22.4	8.2
180.00	28.89	16.20	25.0	191.70	28.24	17.25	23.7	8.4
200.00	34.29	18.00	26.1	213.00	33.56	19.17	24.8	8.5
250.00	47.79	22.50	28.1	266.25	46.88	23.96	26.6	8.7
295.00	59.94	26.55	29.3	314.18	58.86	27.45	27.5	9.3
300.00	61.29	26.55	29.3	319.50	60.19	27.45	27.4	9.3
350.00	74.79	26.55	29.0	372.75	73.50	27.45	27.1	9.3
400.00	88.29	26.55	28.7	426.00	86.81	27.45	26.8	9.3
500.00	127.80	26.55	30.9	532.50	123.81	27.45	28.4	10.3
600.00	174.72	26.55	33.5	639.00	166.41	27.45	30.3	11.6

¹ National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

² The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

³ Assuming that only the husband has earned income.

TABLE 11**MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES**

COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Income ¹	1987-88				1988-89					
	Child Benefit	Income tax	NIC ²	Net income	Adjusted income ³	Child benefit	Income tax	NIC ²	Net income	Percentage change in net income per cent
£	£	£	£	£	£	£	£	£	£	
75.00	14.50	0.55	5.25	83.70	79.88	14.50	0.28	5.59	88.51	5.7
80.00	14.50	1.89	5.60	87.01	85.20	14.50	1.61	5.96	92.13	5.9
90.00	14.50	4.59	6.30	93.61	95.85	14.50	4.28	6.70	99.37	6.2
95.00	14.50	5.94	6.65	96.91	101.18	14.50	5.61	7.08	102.99	6.3
100.00	14.50	7.29	9.00	98.21	106.50	14.50	6.94	9.58	104.48	6.4
120.00	14.50	12.69	10.80	111.01	127.80	14.50	12.26	11.50	118.54	6.8
140.00	14.50	18.09	12.60	123.81	149.10	14.50	17.59	13.41	132.60	7.1
160.00	14.50	23.49	14.40	136.61	170.40	14.50	22.91	15.33	146.66	7.4
180.00	14.50	28.89	16.20	149.41	191.70	14.50	28.24	17.25	160.71	7.6
200.00	14.50	34.29	18.00	162.21	213.00	14.50	33.56	19.17	174.77	7.7
250.00	14.50	47.79	22.50	194.21	266.25	14.50	46.88	23.96	209.91	8.1
295.00	14.50	59.94	26.55	223.01	314.18	14.50	58.86	27.45	242.37	8.7
300.00	14.50	61.29	26.55	226.66	319.50	14.50	60.19	27.45	246.36	8.7
350.00	14.50	74.79	26.55	263.16	372.75	14.50	73.50	27.45	286.30	8.8
400.00	14.50	88.29	26.55	299.66	426.00	14.50	86.81	27.45	326.24	8.9
500.00	14.50	127.80	26.55	360.15	532.50	14.50	123.81	27.45	395.74	9.9
600.00	14.50	174.72	26.55	413.23	639.00	14.50	166.41	27.45	459.64	11.2

¹ Calculations assume that only the husband has earned income.² National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.³ The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

TABLE 12
MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

 COMPARISON OF INCOME AFTER TAX IN 1987-88 AND 1988-89
 WHERE EARNINGS INCREASE BY 6½ PER CENT

Weekly income in 1987-88		Charge in 1987-88			Adjusted weekly income in 1988-89 ¹		Proposed charge in 1988-89			
Husband	Wife	Joint	Income tax	Percentage of in- come taken in tax per cent	Husband	Wife	Joint	Income tax	Percentage of in- come taken in tax per cent	Percentage change in income after tax per cent
£	£	£	£		£	£	£	£		
100.00	50.00	150.00	8.20	5.5	106.50	53.25	159.75	7.73	4.8	7.2
	100.00	200.00	21.70	10.8		106.50	213.00	21.04	9.9	7.7
	150.00	250.00	35.20	14.1		159.75	266.25	34.35	12.9	8.0
	200.00	300.00	48.70	16.2		213.00	319.50	47.66	14.9	8.2
	300.00	400.00	75.70	18.9		319.50	426.00	74.29	17.4	8.5
150.00	50.00	200.00	21.70	10.8	159.75	53.25	213.00	21.04	9.9	7.7
	100.00	250.00	35.20	14.1		106.50	266.25	34.35	12.9	8.0
	150.00	300.00	48.70	16.2		159.75	319.50	47.66	14.9	8.2
	200.00	350.00	62.20	17.8		213.00	372.75	60.98	16.4	8.3
	300.00	450.00	89.20	19.8		319.50	479.25	87.60	18.3	8.6
200.00	50.00	250.00	35.20	14.1	213.00	53.25	266.25	34.35	12.9	8.0
	100.00	300.00	48.70	16.2		106.50	319.50	47.66	14.9	8.2
	150.00	350.00	62.20	17.8		159.75	372.75	60.98	16.4	8.3
	200.00	400.00	75.70	18.9		213.00	426.00	74.29	17.4	8.5
	300.00	500.00	107.40	21.5		319.50	532.50	103.77	19.5	9.2
300.00	50.00	350.00	62.20	17.8	319.50	53.25	372.75	60.98	16.4	8.3
	100.00	400.00	75.70	18.9		106.50	426.00	74.29	17.4	8.5
	150.00	450.00	89.20	19.8		159.75	479.25	87.60	18.3	8.6
	200.00	500.00	107.40	21.5		213.00	532.50	103.77	19.5	9.2
	300.00	600.00	136.82 ²	22.8		319.50	639.00	134.70 ²	21.1	8.9
400.00	50.00	450.00	89.20	19.8	426.00	53.25	479.25	87.60	18.3	8.6
	100.00	500.00	107.40	21.5		106.50	532.50	103.77	19.5	9.2
	150.00	550.00	124.50 ²	22.6		159.75	585.75	121.39 ²	20.7	9.1
	200.00	600.00	138.00 ²	23.0		213.00	639.00	134.70 ²	21.1	9.2
	300.00	700.00	165.00 ²	23.6		319.50	745.50	161.33 ²	21.6	9.2

¹ The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

² Denotes wife's earnings election beneficial.

TABLE 13

**NUMBERS OF TAXPAYERS¹ GAINING FROM THE MAIN INCOME TAX CHANGES
AND AVERAGE REDUCTIONS IN TAX LIABILITY IN 1988-89**

Gross Income (lower limit) £	NON-AGED					
	Single people		Married couples wife not earning		Married couples wife earning	
	Number thousands	Average Reduction £	Number thousands	Average Reduction £	Number thousands	Average Reduction £
0	2,100	70	170	80	20	70
5,000	3,700	140	1,200	140	600	140
10,000	1,700	210	1,600	200	1,500	210
15,000	440	290	810	280	1,600	290
20,000	180	430	270	380	930	370
25,000	60	780	120	680	450	580
30,000	50	1,200	110	1,200	410	870
40,000	20	2,500	50	2,200	130	1,400
50,000	20	4,700	40	4,300	80	3,100
70,000	10	14,000	30	15,000	40	11,000
Total	8,300	190	4,400	390	5,800	460

Gross Income (lower limit) £	AGED				ALL TAXPAYERS ¹				
	Single people		Married couples		Single people		Married couples		£m
	Number thousands	Average Reduction £	Number thousands	Average Reduction £	Number thousands	%	Average Reduction £		
0	650	70	50	40	3,000	14	70	210	
5,000	480	140	840	130	6,800	32	140	950	
10,000	170	270	300	290	5,300	25	210	1110	
15,000	60	340	120	330	3,100	14	290	900	
20,000	30	610	80	460	1,500	7	390	590	
25,000	20	930	50	830	700	3	640	450	
30,000	20	1,600	30	1,300	610	3	990	600	
40,000	-	-	20	2,500	210	1	1,800	380	
50,000	-	-	10	5,200	150	3/6	3,800	570	
70,000	-	-	10	14,000	80	1/4	13,000	1040	
Total	1,400	220	1,500	380	21,400		320	6850	

¹ Single people and married couples

Note: where there are no entries figures are less than 5,000

Top 5% 38%
Top 15% 53%
Bottom 46% 17%

TABLE 14

TAXPAYERS¹: SIZES OF REDUCTIONS IN TAX LIABILITY IN 1988-89

(thousands)

Gross Income (lower limit)	Reductions in tax liability in 1988-89 (£)							All
	0-50	50-100	100-200	200-300	300-400	400-500	Over 500	
0	410	2,600	-	-	-	-	-	3,000
5,000	40	570	6,100	30	-	-	-	6,800
10,000	-	10	2,000	3,200	120	-	-	5,300
15,000	-	-	60	1,700	1,300	-	-	3,100
20,000	-	-	-	70	940	370	100	1,500
25,000	-	-	-	-	50	220	430	700
30,000	-	-	-	-	-	20	590	610
40,000	-	-	-	-	-	-	210	210
50,000	-	-	-	-	-	-	150	150
70,000	-	-	-	-	-	-	80	80
Total	450	3,200	8,200	5,100	2,400	600	1,600	21,400

¹Single people and married couples

Note: where there are no entries figures are less than 5,000

FROM: MRS T C BURNHAMS**DATE: 22 February 1988****MR CULPIN****cc Mr Scholar
Under Secretaries
Miss Sinclair
Mr R I G Allen
Mr Pickford
Miss Evans
Miss Hay
Mr Michie
Mr Porteous
Mr Dyer
Mr Rawlings
Miss Wallace 12/2****PS/IR
Mr Walker
PS/CE
Mr P R H Allen****BUDGET DAY PRESS NOTICES AND POST BUDGET STATEMENTS**

We already have a provisional list of the press notices the Inland Revenue and Customs and Excise expect to issue on Budget Day and first drafts have been requested for 25 February in order that a discussion could take place at the overview on 29 February if required. I would be grateful if Mr Michie could establish what press notices the Department of Transport will be producing, and if Mrs Lomax could advise on the intentions of the Bank.

2. We need also to consider Treasury press notices. In earlier years, but not in 1986 or 1987, FP produced a press notice bringing together the main indirect tax changes; but there seems to be no good reason for reverting to this practice. A notice on the revenue from the North Sea has also been abandoned. The only regular notice is, therefore, a main Supply Estimates press notice, and it has been agreed that there will be at least two others of which you are already aware. Detailed arrangements are set out in the attached annex.

3. Miss Wallace will write to all other Departments asking them to

- i. let us know by Monday 7 March if they propose to issue press notices on Budget Day;

- ii. clear any such notices in draft with the relevant Treasury divisions as early as possible;
- iii. send us copies by midday on Friday 11 March **at the latest.**

4. Finally, it would be helpful if drafts of all press notices (Treasury and others) could be sent to Richard Allen (IDT) Steven Pickford (EB) and myself by Wednesday 9 March if possible. Wherever possible, notices should try to avoid quotations from the Budget Statement since there may be last minute changes to the text which cannot be incorporated into the Notice



MRS T C BURNHAMS

DETAILED ARRANGEMENTS FOR PRESS NOTICES

Treasury press notices are normally reproduced by CRU and as there is always a large volume of work near to Budget Day, Rod Rawlings would appreciate early warning of all work the unit will be required to undertake. The final text of press notices must have been cleared with the Chancellor and sent for reproduction by **no later than midday on Friday 11 March**. At the same time, the final text should also be copied onto a **new** disk and sent to John Flitton in IDT.

Treasury press notices should follow the standard format - a specimen is attached. Notices should be typed single-sided on plan A4 white paper, with a 1½" space at the top (allowing CRU to copy onto Treasury headed paper). The date should appear in the top right corner with the announcement below. After the announcement, the following should appear:

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01 - 270 - 5238

Opposite this will come the serial number. This must be obtained from John Flitton in IDT. After this should come the notes for editors. Any queries on the format of press notices should be addressed to Mr Flitton.

The Chancellor's other Departments, and the Bank, are responsible for copying their own press notices. Again, it would be helpful to know definitely by **close on Monday 7 March** what notices they propose to issue and, where appropriate, the order in which they intend to collate them. They should then arrange for **1835 copies** to reach Committee Section by **not later than midday Friday 11 March** and preferably beforehand. This allows collation with all other press notices over the weekend. If there is any possibility that this deadline will not be met, I should be given advance warning as soon as possible. It would be very helpful if those Departments producing more than one press notice could submit them in collated sets with a hole punched in the top left-hand corner (1" in from the margin and 1" down from the top). It would also ease the collation operation if the copies could be split into three bundles of 1150, 525 and 160 copies respectively.



H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238

Facsimile: 270 5244

Telex: 9413704

3 February 1987

THE RESERVES IN JANUARY 1987

The UK official reserves rose by \$29 million in January. Accruals of borrowing under the exchange cover scheme amounted to \$163 million; repayments of such borrowing amounted to \$151 million. Capital repayments on assignments to HMG of other public sector debt taken out under the exchange cover scheme amounted to \$14 million. The valuation change arising out of the quarterly rollover of the EMCF swap amounted to a fall of \$41 million. At the end of January, the reserves stood at \$21,952 million (£14,495 million*) compared with \$21,923 million (£14,776 million⁺) at the end of December.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01 270 5238

4/87

Note to Editors

After taking account of foreign currency borrowing and repayments, the underlying rise in the reserves during January was \$72 million. The underlying change in the reserves is the result of a variety of transactions, both debits and credits, including, for example, transactions for Government departments and with other central banks, and interest receipts and payments. The underlying change should not therefore be taken as an indication of market intervention during the month. The above figures can also be obtained from the Reuters Monitor (Code TREA).

New borrowing under the public sector exchange cover scheme was as follows:

British Nuclear Fuels PLC, \$142 million; Northern Ireland Electricity Council, \$13 million; South Glamorgan County Council, \$7 million; Lancashire County Council, \$1 million.

* When converted at the closing market rate on Friday 30 January
£1=\$1.5145

+ When converted at the closing market rate on Wednesday 31 December
£1=\$1.4837

~~BF to m 25/2~~

Add to list
 LCD Ellen
 Goodson

FROM: MRS T C BURNHAMS

DATE: 22 February 1988

MISS WALLACE 12/2

Sph Teresa

cc Mr Culpin
 Miss Sinclair
 Mr Pickford
 Miss Evans
 Mr Porteous
 Mr Flitton
 Mr Dight

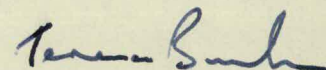
BUDGET DAY PRESS NOTICES

Mr Allan has already requested a provisional list of press notices to be issued by the Revenue Departments but now we need to notify other Departments and Treasury Divisions about the precise arrangements for Budget Day.

2. These arrangements seldom go entirely to plan, partly due to the tight timetable that is necessary, but I have drawn upon the experiences of the last few years to try to make the system as foolproof as possible. I attach a draft letter which I suggest should go out at the end of this week to Private Secretaries and Chief Press Officers (list supplied by IDT attached). We would expect few Departments other than the Revenue Departments and Transport to issue notices although this inevitably varies from year to year depending on particular Budget measures. You will note that the letter covers post-Budget statements as well as press notices themselves.

3. We request any notices to be delivered to us by midday on Friday 11 March which allows a sufficient margin to chase Departments if notices do not arrive on time; collation usually takes place over the weekend.

4. I am circulating a minute setting out the detailed arrangements within the Treasury and for the Revenue Departments, and a copy is attached for your information.



MRS T C BURNHAMS

DRAFT FROM MISS WALLACE TO PRIVATE SECRETARIES

Robert Culehan
 Private Secretary to the Foreign Secretary
 etc.

BUDGET DAY PRESS NOTICES ~~AND POST BUDGET STATEMENTS~~

As you will be aware, the Chancellor will be giving his Budget Statement on Tuesday 15 March. In handling press notices, we propose to follow the arrangements of previous years under which all press notices, including those issued by Departments other than the Chancellor's, are collated by the Treasury and issued both to the press and the House.

Your Department and others will no doubt already be considering what press notices you wish to issue on Budget Day. I would be grateful to know your intentions by close on Monday 7 March and the subject matter of any notices which you will be producing. It would also be helpful if you could let Teresa Burnhams here (270-5179) have ^{by} then a contact point (name and telephone number, together with a proxy) for any subsequent enquiry on each. All press notices should, of course, be cleared in draft with the appropriate public expenditure divisions in the Treasury as early as possible.

As you will appreciate, the Treasury will be photocopying and collating a large volume of material over the weekend before the Budget. As a consequence, I am afraid that we must ask for copies of press notices to be sent to us by no later than midday on Friday 11 March, and preferably beforehand. We will require 1835 copies in all. These should be sent to Mr M C Ralph in our Committee Section split within the package into three sets numbering 1150, 525 and 160 copies respectively.

If you are issuing more than one press notice, it would ease our handling problems considerably if they could be packaged separately.

I would also be grateful to know if your Minister intends to make a statement or to hold a press conference after the Budget.

I am sending a copy of this letter to the Private Secretaries of all other Cabinet Ministers, Paul Gray (No 10), Trevor Wooley (Cabinet Office) and all Chief Press Officers.

Internals

cc ~~Mr Culpin
Mr Pickford
Miss Sinclair
Mr Porteous
Mrs Burnhams
Mr Flitton
Mr Dight~~

CONQUEROR

11

Neville Taylor
Hugh Colver
Romola Christopherson
Brian Mower
Jean Caines
Christopher Meyer
Adrian Moorey
Michael Granatt
Jill Samuel
Jim Coe
Barry Sutcliffe
David Wilkinson
John Machin
John Wright
Alan Thompson
George Munro
Fiona McFarlane
Graeme Hammond
Andy Wood
Ellen Goodson

COI
MOD
DHSS
Home Office
DOE
FCO
DTI
Energy
Transport
MAFF
Employment
DES
ODA
Cabinet Office
Welsh Office - London
Scottish Office - London
Inland Revenue
Customs and Excise
Northern Ireland Office
Lord Chancellor's Dept

MASTER

COPY NO. 33 OF 34 *PH*

FROM: A P HUDSON

DATE: 25 February 1988

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Anson
- Sir A Wilson
- Mr Byatt
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee
- Mr Culpin
- Mr A C S Allan
- Mr Pickford
- Mr R I G Allen
- Miss Sinclair
- Mr Riley
- Miss Simpson
- Miss C Evans
- Mr Cropper
- Mr Tyrie
- Mr Call

- Mr Battishill IR
- Mr Isaac IR
- Mr Painter IR
- Mr Corlett IR
- Mr Mace IR
- Mr Unwin C&E
- Mr Knox C&E

BUDGET DAY PRESS RELEASES: TREASURY PRESS RELEASES ON INDEPENDENT TAXATION

... I attach the draft Treasury Press Release on Independent Taxation. Following today's meeting, I have held up the one on Maintenance and Covenants.

A P HUDSON

Pl. amend.

4 March

Draft of ~~25 February~~

x

TREASURY PRESS RELEASE ON INDEPENDENT TAXATION

[Introduction]

The Chancellor announced in the Budget a completely new system for taxing married couples, giving

which removes a sweeping away a structure that has been in place for nearly two centuries. The new system provides

- independent taxation for husbands and wives
- complete privacy and independence for married women
- an end to the tax penalties on marriage.

The major change to Independent Taxation will be introduced at the earliest possible date, in April 1990. Some of the other reforms will come in earlier.

2. This press release explains the reasons for the change, and what it will mean for taxpayers.

Why the System has to Change

treats ^a married woman's income as belonging to her husband. He is therefore responsible, in law,

3. The present ^{tax} system ~~for taxing married couples~~ treats husband and wife as one taxpayer. ~~The husband is legally responsible~~ for filling in a tax return covering both their incomes, and ^{for} settling the tax bill for both of them. *The tax system does not recognise the married woman as an ^{independent} separate taxpayer.*

4. This system is based on a principle that dates back to the earliest days of income tax, in 1805. It produces results which are ~~simply~~ not acceptable today.

5. First, a wife cannot have privacy or independence in her tax affairs. Because her husband has to fill in the tax return, she has to give him details of all her income - whether earnings, savings, pensions, or anything

x

x else. Even if a woman runs her own business, her husband has to fill in the tax return for her. ~~This is absurd, in an age when two out of three married women are in paid work, and millions more have savings of their own.~~

6. Second, some couples have to pay more tax simply because they are married.

x
B 7. Tax penalties on marriage can occur for various reasons. Two are particularly ^{common} important. The first affects couples where the wife has a certain amount of savings income, ~~but would not have to pay tax if she had her own tax allowance to set against this.~~ The second arises out of mortgage interest relief: a married couple are entitled to mortgage interest relief on loans up to £30,000, whereas an unmarried couple can have relief on up to £30,000 each.

8. The Government have therefore decided on a major reform, to give privacy and independence to married women, and to remove the tax penalties on marriage, while continuing to recognise marriage itself.

THE NEW SYSTEM: INDEPENDENT TAXATION

9. The basic principle of the new system is that husband and wife will be taxed completely independently - on earnings, savings, pensions, and any other income. The two incomes will no longer be added together. Each partner will pay their own tax, and be independent of the other.

D 10. As now, most taxpayers will not get tax returns. ~~But when one is needed, the wife will be able to fill it in herself, if she wishes, and handle her own tax affairs. [Equally, if she still wants to ask her husband to fill it in, she can do so, but she will, of course, sign it herself.]~~

11. The married man's allowance and wife's earned income allowance will disappear. All taxpayers, male or female, married or single, will have a personal allowance, which replaces the present single person's allowance (in 1988-89 terms, £0000, for people under 65).

2605

12. ~~If nothing else were done, all married couples would see their tax threshold fall.~~ So married couples will also get a new married couple's allowance. The married couple's allowance and the personal allowance together will be worth the same as the present married man's allowance. So, in 1988-89 terms, the married couple's allowance would be £0,000 (the difference between the married man's allowance of £4,095 and the single allowance of £2,605).

1,490

13. The married couple's allowance will go in the first instance to the husband, so he will see no reduction in his tax allowances as a result of the change to the new system. But if he does not have enough income to make full use of the allowance he will be able to transfer any unused portion to his wife.

14. The example in the Annex shows how the new system will work.

15. Since the new system is based on treating husband and wife independently, ~~there will be no need for~~ the special provisions in the present system - the Wife's Earnings Election, and Separate Assessment - which enable couples to opt for separate taxation. These will therefore be abolished.

Taxpayers over 65

16. Pensioner taxpayers will see a number of benefits from Independent Taxation.

17. As now, taxpayers over 65 will get a higher tax allowance (and those over 80 a higher allowance still).

18. Married women will qualify in their own right for this allowance. They will be able to set it against income of any kind, including savings income and pensions ~~which are now taxed on their husband's income~~. So a great many pensioner couples will pay less tax.

received on the basis of their husband's national insurance contributions.

19. As now, all the age allowances will be subject to an income limit. They will be withdrawn by £2 for every £3 of income above the limit, until they reach the level of the ordinary allowances. Under Independent Taxation, husband and wife will each have their own income limit, whereas at present the limit applies to their combined income.

ENDING THE TAX PENALTY ON MARRIAGE

20. Independent Taxation ~~itself~~ eliminates a number of tax penalties on marriage, in particular the fact that a wife's savings income is taxed at her husband's marginal rate. The Government are also removing the other tax penalties, and some of the changes will come into effect before the main change to Independent Taxation in 1990.

At present, the tax system causes some couples to pay more tax than they would if they were living together ~~or~~ outside marriage.

Mortgage Interest Relief

21. At present, mortgage interest relief is available on a loan of up to £30,000 to buy a home. But two single people sharing a home can get relief on loans up to £30,000 each, whereas a married couple share a single ration of relief. This tax penalty on marriage is widely resented, and the Government are putting an end to it.

22. For new mortgages, taken out from August 1988, the limit on relief will apply to the house or flat, irrespective of whether there are one or more borrowers, married or single, living there. This puts unmarried couples on the same footing as married couples, and eliminates the tax penalty on marriage.

Capital Taxes

23. The problems of the absence of privacy for married women and the tax penalty on marriage arise for capital gains tax in the same way as for income tax. A married couple share one annual exemption, ~~for capital gains tax, whereas single people have one each,~~ and the husband has to deal with the couple's CGT affairs.

By contrast, single people have one exemption each.

24. From April 1990, under Independent Taxation, husband and wife will each have their own annual exemption, and will handle their own capital gains tax.

25. Transfers of assets between husband and wife will remain exempt from CGT and Inheritance Tax, *as they are now.*

Maintenance and Covenants

Additional Personal Allowance

XX 27 28. At present, ^{the partners in an} unmarried couples ^h can each claim the Additional Personal Allowance if they have two or more children living with them. This means that between them, they get more allowances than a married couple.

XX 28 27. [From April 1989], the rules for the Additional Personal Allowances will be changed so that ^{no} ~~an~~ unmarried couple can get ~~no more allowances in total than a married couple.~~ *more than one Additional Personal Allowance.*

Maintenance and Covenants

26. ~~28. A few unmarried couples exploit the present tax~~
reliefs for maintenance and covenanted payments to gain a
tax advantage not available to married couples. The
Government propose a major simplification of this aspect
of the tax system, which is explained in a separate press
release. This will have the effect of eliminating the tax
penalty in this area.

TIMETABLE FOR CHANGE

29. Some time will be needed to prepare for the new system. Independent Taxation will therefore come into operation from April 1990.

30. Taxpayers do not need to take any action themselves. During the 1989-90 tax year, local tax offices will need to get in touch with some taxpayers to ask for the information they need to run the new system. That will involve, in particular, setting up records for married women as taxpayers in their own right, and transferring information on to these records from their husbands' tax records.

FURTHER INFORMATION

31. A number of Treasury and Inland Revenue press releases give further details of the Government's proposals.

ANNEX

Example

Take a couple where the husband earns £10,000; the wife earns £2,000 from a part-time job and has £500 investment income, in dividends on shares.

Present system

<u>Husband</u>		<u>Wife</u>
Own earnings	10000	Wife's income is taxed with husband's
Wife's earnings	2000	
Wife's investment income	<u>500</u>	
Total income	12500	
<u>less</u> married man's allowance	3795	
<u>less</u> wife's earned income allowance	<u>2000*</u>	
so pays tax at 00% on	6705	
so tax bill is	1810.35	

Independent Taxation

Earnings	10000	Earnings	2000
<u>less</u> single allowance	2425	Investment income	500
<u>less</u> married couple's allowance	<u>1370</u>	<u>less</u> single allowance	<u>(2425)</u>
so pays tax at 00% on	6205	so tax bill is	(0)
so tax bill is	1675.35		

The wife now pays (no) tax on her income at all, whereas previously her husband had to pay tax on her £500 investment income.

*Rest of allowance cannot be used.

BUDGET SECRET - TASK FORCE LIST



H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

BF 29/2

Copy no. 2 of 33

FROM: P R H ALLEN

DATE: 25 February 1988

CHANCELLOR

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Miss Sinclair
Mr Riley
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR

BUDGET DAY PRESS NOTICES

As requested in your Principal Private Secretary's note of 12 February, I attach first drafts of our press notices for discussion at the overview meeting on 29 February.

Internal circulation: CPS, Mr Knox, Mr Jefferson Smith, Mr Finlinson,
Ms French, Mr Fisher, Ms Davenport

2. As last year, there are notices for all those items to be included in the Speech or FSB. As I indicated in my note of 16 February we have six notices on VAT (civil penalties review, registration threshold, self-billing, intending trader registration, confectionery, and business entertainment of overseas customers). But we have reduced the excise duty press notices to five (tobacco products, hydrocarbon oils, unleaded petrol, and 2 on alcoholic drinks by amalgamating the proposed separate notices on coolers and abolition of the minimum duty charge for beer. Our final notice covers disclosure of importers details (to be announced in the Budget Debate) and will not, in fact, go out on Budget Day.

RA.

P R H ALLEN

BUDGET SECRET - TASK FORCE LIST
NEWS RELEASE

No. []/88

15 MARCH 1988

BUDGET 1988: TOBACCO PRODUCTS

In his Budget Statement today, the Chancellor of the Exchequer announced increases in the rates of duty on most tobacco products. The duty increases (and consequential additional VAT) are equivalent to:

Cigarettes:	[3.4p] per packet of 20
Handrolling tobacco:	[5.3]p per 25 gram pack
Cigars:	[1.9p] per 5 small cigars

There will be no change in the duty on pipe tobacco.

Operative date: The changes will apply to goods cleared from midnight
17-18 March

Revenue effect: The estimated net revenue yield from these changes is
£[] million in 1988-89.

Budget notice: Full details of the duty changes are given in Customs and
Excise Budget Notice BN []/88.

BUDGET SECRET - TASK FORCE LIST

NEWS RELEASE

BACKGROUND NOTE

Duty rates are as follows:

		Old Rate	New Rate
Cigarettes	Specific (per 1000)	£30.61	[£]
	plus ad valorem	21% of	21% of
		retail price	retail price
Handrolling			
tobacco	per kilogram	£49.64	[£]
Cigars	per kilogram	£47.05	[£]
Other			
smoking and			
chewing			
tobacco	per kilogram	£24.95	Unchanged

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BUDGET SECRET - TASK FORCE LIST

NEWS RELEASE

No. /88

15 MARCH 1988

BUDGET 1988:HYDROCARBON OILS

In his Budget Statement today, the Chancellor of the Exchequer announced increases in the rates of duty on certain hydrocarbon oils. The duty increases (and consequential additional VAT) are equivalent to:

Light oils (mainly petrol),
petrol substitutes and spirits [5.6p] a gallon
used for power methylated spirits: ([1.07p] a litre)

(This increase does not apply to unleaded petrol, the duty on which remains unchanged).

Heavy oil used as road fuel (derv): [4.9p] a gallon
([0.93p] a litre)

Aviation gasolene (AVGAS) and
gas for use as road fuel: [2.8p] a gallon
([0.535p] a litre)

Rates of duty on gas oil and fuel oil remain unchanged.

Operative date: All increases apply to fuel delivered from refineries and bonded warehouses from 18.00 hours today.

Revenue effect: The estimated net revenue yield from the increases will be some [£355 million] in 1988-89.

BUDGET SECRET - TASK FORCE LIST

NEWS RELEASE

Budget Notice: Full details of the duty changes are given in Customs and Excise Budget Notice [BN/88].

Duty differential in favour of unleaded petrol: This has been increased (to [10.6p] a gallon) by not changing the rate of duty on unleaded petrol. A separate News Release (No /88) has been issued on the subject.

BACKGROUND NOTES

		Old Rate (p)	New Rate (p)
Light oils (except AVGAS)	per litre:	19.38	
	per gallon:	88.10	
Unleaded petrol	per litre:	18.42	
	per gallon:	88.10	
Derv	per litre:	16.39	
	per gallon:	74.51	
Gas oil	per litre:	1.10	
	per gallon:	5.00	
AVGAS and road fuel gas	per litre:	9.69	
	per gallon:	44.05	

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BUDGET SECRET:TASK FORCE LIST
NEWS RELEASE

No []/88

15 MARCH 1988

BUDGET 1988:HYDROCARBON OILS
UNLEADED PETROL:INCREASED DUTY DIFFERENTIAL

In his Budget Statement today, the Chancellor of the Exchequer announced that there would be no change in the excise duty on unleaded petrol, while the duty on leaded petrol would increase by 5.6p a gallon. This increases the duty differential in favour of unleaded petrol from 5p per gallon to about 10.7p per gallon, (2.3p per litre) including VAT.

Operative date: The increased differential applies from 18.00 hours today when deliveries from refineries and bonded warehouses of leaded petrol will be charged at the new rate.

Definition: "Unleaded petrol" is defined as petrol containing not more than 0.02 grams of lead per litre (0.013 grams per litre from 1 April 1990).

Budget Notice: Details of the changes are given in Budget Notice BN 3/88.

BACKGROUND NOTE

As a result of a United Kingdom initiative, European Community law (Directive 85/210/EEC) now requires unleaded petrol to be generally available throughout the Community by 1 October 1989. Member States are to take appropriate steps to ensure its balanced distribution and to encourage its use. In last year's Budget the Chancellor introduced a duty differential of 5p per gallon in favour of unleaded petrol, to encourage wider distribution and uptake by offsetting its higher production costs. This change in taxation was fully reflected in pump

BUDGET SECRET:TASK FORCE LIST

NEWS RELEASE

prices, and allowed garages stocking unleaded petrol to price it typically 0.5p per gallon below their 4 star petrol.

In the year following introduction of the differential, the number of garages in the UK stocking unleaded petrol has increased from about 200 to over 700, and information about unleaded petrol and the vehicles which can safely use it has become widely available. However, unleaded petrol still accounts for less than 0.1 percent of total petrol consumption. The increased duty differential should encourage a further increase in outlets, and stimulate sales. Garages stocking unleaded petrol should now be pricing it comfortably below their 2 star petrol and the number of cars using unleaded petrol should increase significantly. Most cars currently running on 2 star petrol can use unleaded petrol without adaptation, and the number of new cars specifically designed to run on unleaded petrol is increasing. Many cars currently running on 4 star petrol can also readily be adapted by motor dealers to run on unleaded petrol.

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BUDGET SECRET - TASK FORCE LIST

No. []/88

15 MARCH 1988

BUDGET 1988: ALCOHOLIC DRINKS

INCREASES IN DUTIES ON BEER, CIDER AND PERRY, WINE AND MADE WINE

In his Budget Statement today, the Chancellor of the Exchequer announced increases in the excise duties on certain alcoholic drinks. The duty increases (and consequential additional VAT) are equivalent to:

Beer: [] a pint of typical beer

Cider: [] a pint

Table wine and
made-wine: [] a 75cl bottle

Sparkling wine and
made-wine [] a 70cl bottle

There will be no change in the duties on spirits or fortified wines.

Operative date: The changes will apply to goods cleared from 6pm today.

Revenue effect: The estimated revenue yield from these changes is £[]
million in 1988-89.

BUDGET SECRET - TASK FORCE LIST

Budget Notices: Full details of the duty changes are given in Customs and Excise Budget Notices BN []/88 for beer, BN []/88 for cider and perry and BN []/88 for wine and made-wine.

BUDGET SECRET - TASK FORCE LIST

NOTE TO EDITORS

The ~~main~~ duty rates are as follows

		Old (£)	New (£)
<u>Spirits</u>	per litre of alcohol	15.77	[]
<u>Beer</u>	per hectolitre	25.80 plus 0.86 for every degree of original gravity above 1030°	[] plus [] for every degree of original gravity above 1030°
<u>Wine and made-wine</u>	per hectolitre		
Light		98.00	[]
Medium		169.00	[]
Heavy		194.90	[]
Sparkling		161.80	[]
<u>Cider and perry</u>	per hectolitre	15.80	[]

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BUDGET SECRET - TASK FORCE LIST
DRAFT NEWS RELEASE

No []/88

15 MARCH 1988

BUDGET 1988: ALCOHOLIC DRINKS

CHANGES IN THE EXCISE DUTY STRUCTURE FOR LOWER STRENGTH BEERS AND MIXED DRINKS

Following representations made to him by the Ministerial Group on Alcohol Misuse, the Chancellor of the Exchequer has decided to make two changes in the excise duty structure aimed at increasing the availability of lower alcohol drinks.

Lower strength beers - abolition of the minimum duty charge

Beer duty is charged according to the original gravity (o.g.) of the worts (the liquid produced before fermentation has begun). If the alcoholic strength does not exceed 1.2 percent, normally corresponding to an o.g. of 1016°, no duty is chargeable. However, between 1016° and 1030°, normally corresponding to an alcoholic strength of about 2.6 percent, a flat rate of duty is charged based on 1030°; with the result that few, if any, beers are produced in this range.

From 1 October 1988, this flat rate will be abolished. There will be no change to the duty rates for beers of an o.g. of 1030° or above, but beers with an o.g. below 1030° will benefit by a duty reduction of £0.90 per hectolitre for every degree of o.g. below 1030°. Beer with an alcoholic strength not exceeding 1.2 percent will remain exempt from duty. The change is being delayed until 1 October so that industry has time to adapt and Customs and Excise and MAFF (who

are responsible for any labelling requirements) can make the necessary administrative arrangements.

Note: O.g. gives an indication of final alcoholic strength, but the correlation is not precise.

'Coolers' - new duty bands

There are to be new duty bands for lower strength mixed drinks, often known as 'coolers'. These drinks are a relatively new product on the UK market. They usually consist of a fruit juice, mineral water or other soft drink ~~and~~ ^{with} added alcohol. Because of the way the current duty structure operates, different duty rates are applied to these products depending on the source of the alcohol they contain. Coolers based on wine or made-wine and manufactured in the UK have a duty advantage over beer, cider or spirits based products, and over all imports.

As with beer, duty is not chargeable on these drinks if the alcoholic strength does not exceed 1.2 percent. The new duty bands will apply to 'coolers' with an alcoholic strength of over 1.2 percent but no more than 5.5 percent, whatever the alcohol base and whether they are manufactured in the UK or imported. The duty rates for the new bands have been set to approximate to the rates now being paid by UK-manufactured wine and made-wine based coolers. The change will remove distortion caused by the present duty structure and increase competition and consumer choice.

Certain traditional beer-based drinks, for example shandy and lager and lime, will not come within the scope of the new duty bands but arrangements will be made to facilitate their production. Customs and Excise will have powers to exclude by Regulation particular drinks from the new bands in order to protect the revenue from other types of drinks.

The date of introduction of the new duty bands has been left open at this stage to allow Customs and Excise and MAFF (who are responsible for any labelling requirements) to make the necessary administrative arrangements in consultation with the trade.

Budget Notices: Full details of these changes in Excise duty structure are in
Budget Notice BN /88.

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HM CUSTOMS AND EXCISE

NEWS RELEASE

No /88

March 1988

VAT: REVIEW OF CIVIL PENALTIES

The Chancellor of the Exchequer announced in his Budget today a package of proposed changes to most current VAT penalties, as well as a number of technical changes to clarify the law.

The proposals, which follow a review of the 1985 Finance Act VAT penalties by HM Customs and Excise, will mostly be to the advantage of traders, especially small businesses, as follows:

Late registration penalty

The structure of the penalty imposed under s15 of the Act has been changed to a tiered, time related, provision and the rate of penalty on the net tax due (output tax less input tax) eased from the single rate of 30%. The revised rates are:

belatedness not exceeding nine months	- 10%
belatedness exceeding nine months but not exceeding eighteen months	- 20%
belatedness exceeding eighteen months	- 30%

The new penalty rates will be applied from 16 March. The old fixed rate of 30% will be payable on the net tax due up to and including the 15 March and the new appropriate rate to the net tax due after that date. The minimum penalty of £50 will be retained.

The provision, in s18(2) of the Act, which would have made it necessary to charge default interest on tax arrears already subject of the late registration penalty will be repealed.

Reasonable excuse

A Public Notice about the late registration penalty and giving guidance on what might be, and what is not, a reasonable excuse will be published in the Summer. Meanwhile the text of the notice will be available shortly from local VAT offices. Similar guidance will be given in the Spring in 1989 when the default surcharge system has been reviewed. In due course guidance will be available about the serious misdeclaration penalty.

Unauthorised issue of tax invoices

Under s15(1)(b) of the Act persons who were not registered for VAT but nevertheless issued tax invoices were liable to a penalty of 30% of the tax involved or £50 per invoice, whichever was the greater. The provision has been changed so that the penalty is now 30% of the tax involved subject to a minimum penalty of £50 regardless of the number of invoices involved. This change relates the penalty to the offence.

Regulatory penalties

The daily rates of penalty for regulatory offences imposed under s17(1) of the Act have been halved to £5, £10 and £15 a day. Additionally a maximum penalty of 100 days at the appropriate rate and a minimum penalty of £50 are introduced. It will be a statutory condition that a penalty can be imposed only if the registered person concerned has been given a written warning in the two years preceding the assessment. Previously the amount of penalty was unlimited; the changes consolidates the Commissioners previous practice of issuing a warning letter before imposing a penalty and introduces statutory minimum and maximum amounts.

Technical changes have been made to ensure that where registered persons are required to notify changes in their activities there is also a sanction for failure to so notify.

Serious misdeclaration penalty

The serious misdeclaration penalty will not be implemented until late 1989 but in anticipation the complicated third objective test contained in s14(2)(b) of the Act will be repealed. This test was to have been applied automatically. Apart from its complexity the test would have applied only to smaller businesses.

A new tax geared penalty is, however, proposed in clause 14 of the Finance Bill to deal with persons who, despite a previous written warning, persistently underdeclare or overclaim tax. The penalty will not be imposed automatically, and may only be assessed when there have been 2 previous failings within a period of two years and a written warning has been issued. The rate of penalty is 15% of the tax involved.

However, underdeclarations and overclaims which are either voluntary disclosures, or the amount involved is less than a specified amount will not count as previous errors.

Voluntary Disclosure

With the introduction in late 1989 of the serious misdeclaration penalty it will be necessary to introduce a new VAT Return form and a revised method for adjusting errors made on previous returns. This is because of the need to know the true tax liability in an accounting period. This will require notification to the local VAT office on each occasion an error is found. However, in order to facilitate voluntary disclosure of minor errors, registered persons will be permitted to declare amounts, not exceeding £500 in total, in their VAT Account. It is a contingent requirement of the concession that any adjustments made in the VAT Account shall be treated as tax due in the period in which it is declared. It is also intended that, when the Default Interest provisions are introduced in late 1989, the Commissioners will not assess for interest such sums which are correctly adjusted in the VAT Account. It is particularly relevant that there is no liability to the serious misdeclaration penalty or the proposed penalty for persistent misdeclaration if an error is 'voluntarily declared' to Customs and Excise before an official visit has been notified. The overriding objective of these provisions is to encourage candour between the taxpayer and the tax collector.

Repayment Supplement

The level of error on a repayment return above which eligibility to a repayment supplement ceases has been increased from £100 to £250 or 5% of the amount of the claim, whichever is the greater. It has also been decided that where an overclaim of tax is found after payment of the claim, Customs and Excise will in future recover any excess supplement paid if this is more than £30.

Local Authorities and similar bodies

It is proposed that Local Authorities and similar bodies who are **both** registered for VAT and who receive refunds of tax under s20 of the Value Added Tax Act 1983 should be eligible, subject to the usual conditions, to receive a repayment supplement on the full amount of their claim. Previously these bodies were only eligible for a supplement in respect of the tax repayable on their business activities. This change saves the bodies having to separately account for their business and non business activities and, for them, extends significantly the scope of the repayment supplement provisions. However, these same bodies will also be liable, as are all other registered persons, to the serious and persistent misdeclaration penalties on the full amount of the errors they make. These arrangements will not apply to small unregistered councils and the like who receive only refunds of tax under s20 of the VAT Act 1983.

Technical amendments

Technical amendments are proposed to the powers of Customs and Excise to assess tax and the manner in which debits and credits in a persons account are adjusted. The changes permit assessment of tax for the accounting period in which the error occurred, where a credit has been erroneously taken under the voluntary disclosure arrangements. A separate change to the accounting arrangements permits the Commissioners to adopt the commercial practice of striking a balance between all types of debits and credits in a registered persons account and to arrive at a net balance either due or repayable.

BACKGROUND NOTES

The civil penalty system was introduced by the Finance Act 1985 and replaced criminal prosecution in the courts for all but the most serious fraud. This system was itself the result of recommendations made by the Keith Committee. The object of the civil penalty system, including the default surcharge, is to encourage persons to register at the proper time and when registered to furnish returns and pay any tax due promptly. The serious misdeclaration penalty and the default interest provisions are to be introduced in late 1989, and are intended to improve the accuracy of the returns. The package of measures is aimed at reducing the amount of tax remaining unpaid by at least £600 millions in the first five years of operation.

The white paper "Building Businesses Not Barriers" (May 1986) announced a review of the civil penalty system which Customs and Excise undertook in the autumn of 1987. The review, which took on board a considerable volume of comments and criticisms from trade and professional bodies, was considered by Ministers and changes agreed for implementation in the Budget. The review included the default surcharge but there has been insufficient experience of it to reach satisfactory conclusions. Therefore it has been decided to separately review the surcharge system before the 1989 Budget. The provisions for dealing with serious fraud (the civil evasion penalty in s13 of the Finance Act 1985) will be subject of a further review in 1990, and the serious misdeclaration penalty in 1992 when sufficient experience of the working of those provisions has been obtained.

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[BUDGET CONFIDENTIAL]

No /88

15 March 1988

BUDGET 1988 : VALUE ADDED TAX

CHANGES IN THE LIMITS FOR REGISTRATION AND CANCELLATION OF
REGISTRATION

In his Budget Statement today, the Chancellor of the Exchequer announced changes in the limits for VAT registration and cancellation of registration. The details are:

Registration

- From midnight tonight the annual registration limit is being increased from £21,300.
- From the same time, the single quarterly limit is also being increased from £7,250 to £7,500.

Cancellation of registration

- From 1 June 1988, the limit will be increased from £20,300 pa to £21,100 pa (excluding VAT) for persons considering cancellation of their registration on the basis of their expected future annual turnover.
- It is estimated that as a result of this change a further 16,000 persons will be eligible to request cancellation of their registration.

BUDGET NOTICE

Details of the changes in the registration and cancellation limits are in Budget Notice BN 1/88, copies of which are available from all local VAT offices.

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BUDGET SECRET - TASK FORCE LIST



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON

DATE: 26 February 1988

- As I have said, I think the presentation sets an interesting - and on balance helpful - new light on the distributional effects of the reform.*
- C. J. Eason*
ib. 2
1. MR ISAAC
 2. CHANCELLOR OF THE EXCHEQUER

**INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND
PRESS RELEASE**

1. Mr Mace's submission of 19 February with a draft Press Release on independent taxation promised a further possible section dealing with distributional effects. This is now attached. The draft condenses some of the tables in my submission of 5 February and incorporates further work on Sets C and D (which described the effects for wives and husbands respectively).

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Scholar
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr J C Jones
Mr Cayley
Mr Eason
Miss Dyall
Miss McFarlane
Mr Walker
Miss White
PS/IR

BUDGET SECRET - TASK FORCE LIST

2. We would welcome guidance on -

(a) whether you wish to include any distributional tables or quantitative information in the Press Release, ^x bearing in mind the detailed analysis in Annex 4 of the Green Paper on the Reform of Personal Taxation and the decision to limit the main income tax Press Release to specimen incomes tables;

(b) if some tables are included, whether any of the tables 1 to 6 should be dropped or further contracted, for example income levels or amounts of reductions could be combined.

3. There are still one or two outstanding technical issues on the figures and the notes to the tables. We shall resolve these if you decide to include any distributional tables.



R J EASON

x or, of course, any other medium that you think convenient - eg a P Q.

OK?
262

W. H. Jackson
10/10/88

4. EFFECTS OF THE NEW SYSTEM ON INCOME TAX LIABILITIES

1. Many married women, and some married men, will pay less income tax when independent taxation starts in 1990-91. The tables in this section give some broad estimates of the numbers involved and the reductions in their income tax liability. The estimates are based on projected levels of income in 1990-91 and the 1988 Budget proposals for income tax rates and allowances indexed to 1990-91 levels.
2. Tables 1 and 2 show that about 2.1 million wives will have less tax charged on their income, because they will have their own personal allowances and their income will be treated independently of their husbands. The average reduction will be about £270 per annum compared with the tax liability under the present rules in which the income is generally treated as the top slice of the husband's income.
3. About 1.5 million of these wives have income of less than £5,000 per annum and 900,000 of them are elderly. The size of the reduction in tax will often be small if there is only a small amount of investment income or a small pension, but, of the 1.5 million, about a third will have tax reductions of over £300 per annum. A few wives with large incomes will gain substantial amounts from independent taxation.
4. About 500,000 husbands will gain directly from independent taxation. Tables 3 and 4 show that some 350,000 husbands in couples previously making the wife's earnings election will pay between £400 and £650 less tax as they will be able to claim the married couple's allowance. Also an

BUDGET SECRET - TASK FORCE LIST

additional 100,000 elderly husbands will be able to claim age allowance under independent taxation. Under the present system, these husbands are unable to claim because the couple's combined income is above the aged income limit.

5. Taking husbands and wives together, it is estimated that about 2.4 million couples will pay less income tax under independent taxation. Tables 5 and 6 show that some couples at nearly all levels of income, and both aged and non-aged couples, will benefit. The average reduction in income tax liability is expected to be about £320, but the amount will vary over a wide range depending on each couple's circumstances.

Notes to Tables

1. All estimates are derived from details of taxpayers in the 1984-85 Survey of Personal Incomes. Incomes, allowances, and reliefs are projected to 1990-91 on the basis of the tax rates and allowances proposed in the 1988 Budget. It is assumed that the composite rate of tax on interest from Bank and Building Society accounts will move broadly in line with the change in the basic rate of income tax. No change is assumed in the pattern of investments by married couples.

2. The reductions in tax liability relate only to income tax. They are for a full year at 1990-91 projected levels of income. They are on a consistent basis with the estimates of the aggregate receipts effects of independent taxation given in the FSBR.

3. Estimates in the tables are given to the nearest 10,000 taxpayers or £10 tax. Totals may not be the sum of component parts due to rounding and a dash is used to denote less than 5,000 taxpayers. Some cells have been aggregated to provide estimates.

TABLE 1 WIVES WITH REDUCTIONS IN TAX LIABILITY AND AVERAGE REDUCTIONS BY WIFE'S INCOME

Wife's Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	630	90	910	270	1,540	190
5-10	140	410	150	350	290	390
10-15	110	300	40	540	150	370
15-20	50	410	10	1,690	60	600
20-25	20	620	10	2,050	20	970
25-30	)	)	)	)	10	1,930
30-40	10)	1,600)	10)	2,600)))
40-50	)	)	)	)	10)	2,500)
50+))))))
All	960	200	1,110	330	2,070	270

TABLE 2 WIVES : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY BY WIFE'S INCOME

Wife's Income	Amount of Reduction (£ per year)							All
	0-50	50-100	100-200	200-300	300-400	400-500	500+	
£000	0-50	50-100	100-200	200-300	300-400	400-500	500+	All
0- 5	520	160	200	140	400	60	60	1,540
5-10	10	20	110	10	30	20	80	290
10-15	20	20	30	40	10	-	20	150
15-20	10	-	10	10	20	-	20	60
20-25	-	-	10	-	-	-	10	20
25-30	-	-	-	-	-	-	-	10
30-40	-	-	-	-	-	-))
40-50	-	-	-	-	-	-	) 10	) 10
50+	-	-	-	-	-	-))
All	570	200	350	200	460	80	200	2,070

**TABLE 3 HUSBANDS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY HUSBAND'S INCOME**

Husband's income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	-	-	-	-	-	-
5-10	-	-	10	150	10	160
10-15	10	400	100	130	110	150
15-20	30	410	)	)	30	400
20-25	80	410	)	)	80	410
25-30	90	510	10)	600)	100	520
30-40	80	640	)	)	80	640
40-50	30	650	)	)	30	650
50+	30	650	)	)	30	650
All	350	530	130	170	480	430

**TABLE 4 HUSBANDS : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY
BY HUSBAND'S INCOME**

Husband's Income	Amount of Reduction (£ per year)							All	
	£000	0-50	50-100	100-200	200-300	300-400	400-500		500+
0- 5	-	-	-	-	-	-	-	-	-
5-10	-	-	-	-	-	-	-	-	10
10-15	30	10	40	20	-	10	-	-	110
15-20	-	-	-	-	-	-	30	-	30
20-25	-	-	-	-	-	-	80	-	80
25-30	-	-	-	-	-	-	50	50	100
30-40	-	-	-	-	-	-	-	80	80
40-50	-	-	-	-	-	-	-	30	30
50+	-	-	-	-	-	-	-	30	30
All	30	20	40	30	-	180	190	480	

**TABLE 5 MARRIED COUPLES WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY GROSS INCOME**

Gross Income	Non-aged				Aged		All	
	Wife not earning	Wife earning						
£000	Number 000	Average reduction £	Number 000	Average reduction £	Number 000	Average reduction £	Number 000	Average reduction £
0- 5	-	10	-	-	-	-	-	20
5-10	90	30	30	100	560	220	680	190
10-15	80	30	60	20	240	320	380	220
15-20	60	50	40	30	130	310	230	190
20-25	30	90	30	70	60	270	130	170
25-30	20	110	40	70	40	370	100	200
30-40	30	290	380	330	50	800	460	380
40-50	20	450	170	540	20	1,390	200	610
50+	30	970	140	660	30	1,670	190	840
All	350	150	890	360	1,130	340	2,370	320

**TABLE 6 MARRIED COUPLES : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY
BY GROSS INCOME**

Gross Income	Amount of Reduction (£ per year)							All
	0-50	50-100	100-200	200-300	300-400	400-500	500+	
£000								
0- 5	-	-	-	-	-	-	-	-
5-10	180	70	120	70	210	20	-	680
10-15	120	40	50	20	80	20	40	380
15-20	90	20	40	10	40	10	20	230
20-25	50	10	40	10	20	10	-	130
25-30	40	20	10	-	10	-	20	100
30-40	40	20	50	70	50	150	90	460
40-50	20	10	10	10	10	40	110	200
50+	10	10	10	10	10	10	140	190
All	550	200	330	210	420	250	420	2,370

COPY NO. 1 OF 34

FROM: A P HUDSON

DATE: 25 February 1988

CHANCELLOR

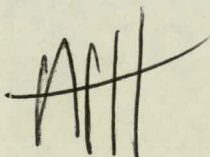
- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Anson
- Sir A Wilson
- Mr Byatt
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee
- Mr Culpin
- Mr A C S Allan
- Mr Pickford
- Mr R I G Allen
- Miss Sinclair
- Mr Riley
- Miss Simpson
- Miss C Evans
- Mr Cropper
- Mr Tyrie
- Mr Call

- Mr Battishill IR
- Mr Isaac IR
- Mr Painter IR
- Mr Corlett IR
- Mr Mace IR
- Mr Unwin C&E
- Mr Knox C&E

INDEPENDENT
TAXATION
HMT
PRESS
RELEASE

BUDGET DAY PRESS RELEASES: TREASURY PRESS RELEASES ON INDEPENDENT TAXATION

... I attach the draft Treasury Press Release on Independent Taxation. Following today's meeting, I have held up the one on Maintenance and Covenants.



A P HUDSON

Draft of 25 February

TREASURY PRESS RELEASE ON INDEPENDENT TAXATION

[Introduction]

200 grammes →

The Chancellor announced in the Budget a completely new system for taxing married couples, giving

- independent taxation for husbands and wives
- complete privacy and independence for married women
- an end to the tax penalties on marriage.

The major change to Independent Taxation will be introduced at the earliest possible date, in April 1990. Some of the other reforms will come in earlier.

2. This press release explains the reasons for the change, and what it will mean for taxpayers.

Why the System has to Change

the couple's total income

3. The present ^{tax} system [for taxing married couples] treats husband and wife as one taxpayer. The husband is legally responsible for filling in a tax return covering [both their incomes,] and settling the tax bill for both of them.

the married woman's income as belonging to her husband and therefore it makes him

The tax system does not recognize the married woman as a separate taxpayer. It is therefore not acceptable in today's world.

4. This system is based on a principle that dates back to the earliest days of income tax, in 1805. It produces results which are simply not acceptable today.

5. First, a wife cannot have privacy or independence in her tax affairs. Because her husband has to fill in the tax return, she has to give him details of all her income - whether earnings, savings, pensions, or anything

else. Even if a woman runs her own business, her husband has to fill in the tax return for her. [This is absurd, in an age when two out of three married women are in paid work, and millions more have savings of their own.]

6. Second, some couples have to pay more tax simply because they are married.

7. Tax penalties on marriage can occur for various reasons. Two are particularly important. The first affects couples where the wife has a certain amount of savings income, but would not have to pay tax if she had her own tax allowance to set against this. The second arises out of mortgage interest relief: a married couple are entitled to mortgage interest relief on loans up to £30,000, whereas an unmarried couple can have relief on up to £30,000 each.

At present this is treated as the husband's income and is taxed at his marginal rate. In many cases, however, if the wife had an allowance to set against her own savings income she would not have to pay tax at all.

8. The Government have therefore decided on a major reform, to give privacy and independence to married women, and to remove the tax penalties on marriage, while continuing to recognise marriage itself.

THE NEW SYSTEM: INDEPENDENT TAXATION

9. The basic principle of the new system is that husband and wife will be taxed completely independently - on earnings, savings, pensions, and any other income. The two incomes will no longer be added together. Each partner will pay their own tax, and be independent of the other.

10. As now, most taxpayers will not get tax returns. But when one is needed, the wife will be able to fill it in herself, if she wishes, and handle her own tax affairs. [Equally, if she still wants to ask her husband to fill it in, she can do so, but she will, of course, sign it herself.]

11. The married man's allowance and wife's earned income allowance will disappear. All taxpayers, male or female, married or single, will have a personal allowance, which replaces the present single person's allowance (in 1988-89 terms, £0000, for people under 65).

12. If nothing else were done, all married couples would see their tax threshold fall. [↑] So married couples will also get a new married couple's allowance. The married couple's allowance and the personal allowance together will be worth the same as the present married man's allowance. So, in 1988-89 terms, the married couple's allowance would be £0,000 (the difference between the married man's allowance of £0,000 and the single allowance of £0,000).

These changes by themselves would mean that all married couples would see their tax thresholds fall. They would also mean that there was no recognition of marriage within the tax system.

13. The married couple's allowance will go in the first instance to the husband, so he will see no reduction in his tax allowances as a result of the change to the new system. But if he does not have enough income to make full use of the allowance he will be able to transfer any unused portion to his wife.

14. The example in the Annex shows how the new system will work.

15. Since the new system is based on treating husband and wife independently, there will be no need for the special provisions in the present system - the Wife's Earnings Election, and Separate Assessment - which enable couples to opt for separate taxation. These will therefore be abolished.

Taxpayers over 65

16. Pensioner taxpayers will see a number of benefits from Independent Taxation.

17. As now, taxpayers over 65 will get a higher tax allowance (and those over 80 a higher allowance still).

18. Married women will qualify in their own right for this allowance. They will be able to set it against income of any kind, including savings income and pensions which are now taxed on their husband's income. So a great many pensioner couples will pay less tax. ↑

19. As now, all the age allowances will be subject to an income limit. They will be withdrawn by £2 for every £3 of income above the limit, until they reach the level of the ordinary allowances. Under Independent Taxation, husband and wife will each have their own income limit, whereas at present the limit applies to their combined income.

ENDING THE TAX PENALTY ON MARRIAGE

20. ✓ Independent Taxation [itself] eliminates a number of tax penalties on marriage, in particular the fact that a wife's savings income is taxed at her husband's marginal rate. The Government are also removing the other tax penalties, and some of the changes will come into effect before the main change to Independent Taxation in 1990.

Mortgage Interest Relief

21. At present, mortgage interest relief is available on a loan of up to £30,000 to buy a home. But two single people sharing a home can get relief on loans up to £30,000 each, whereas a married couple share a single ration of relief. This tax penalty on marriage is widely resented, and the Government are putting an end to it.

*(Category B pensions -
"Pensions received on the
basis of the husband's
contributions")*

*At present the tax
system discriminates
against married couples,
and indeed causes some
couples to pay more tax
than they would if they were
living together as an unmarried
couple.*

22. For new mortgages, taken out from August 1988, the limit on relief will apply to the house or flat, irrespective of whether there are one or more borrowers, married or single, living there. This puts unmarried couples on the same footing as married couples, and eliminates the tax penalty on marriage.

Capital Taxes

23. The problems of the absence of privacy for married women and the tax penalty on marriage arise for capital gains tax in the same way as for income tax. A married couple share one annual exemption [for capital gains tax, whereas single people have one each,] and the husband has to deal with the couple's CGT affairs. *By contrast, single people have one exemption each.*

24. From April 1990, under Independent Taxation, husband and wife will each have their own annual exemption, and will handle their own capital gains tax.

25. Transfers of assets between husband and wife will remain exempt from CGT and Inheritance Tax.

Additional Personal Allowance

26. At present, unmarried couples can each claim the Additional Personal Allowance if they have two or more children living with them. This means that between them, they get more allowances than a married couple.

27. [From April 1989], the rules for the Additional Personal Allowances will be changed so that an unmarried couple can get no more allowances in total than a married couple.

Maintenance and Covenants

28. A few unmarried couples exploit the present tax reliefs for maintenance and covenanted payments to gain a tax advantage not available to married couples. The Government propose a major simplification of this aspect of the tax system, which is explained in a separate press release. This will have the effect of eliminating the tax penalty in this area.

TIMETABLE FOR CHANGE

29. Some time will be needed to prepare for the new system. Independent Taxation will therefore come into operation from April 1990.

30. Taxpayers do not need to take any action themselves. During the 1989-90 tax year, local tax offices will need to get in touch with some taxpayers to ask for the information they need to run the new system. That will involve, in particular, setting up records for married women as taxpayers in their own right, and transferring information on to these records from their husbands' tax records.

FURTHER INFORMATION

31. A number of Treasury and Inland Revenue press releases give further details of the Government's proposals.

Example

Take a couple where the husband earns £10,000; the wife earns £2,000 from a part-time job and has £500 investment income, in dividends on shares.

Present system

<u>Husband</u>		<u>Wife</u>
Own earnings	10000	Wife's income is taxed with husband's
Wife's earnings	2000	
Wife's investment income	<u>500</u>	
Total income	12500	
<u>less</u> married man's allowance	3795	
<u>less</u> wife's earned income allowance	<u>2000*</u>	
so pays tax at 00% on	6705	
so tax bill is	1810.35	

Independent Taxation

Earnings	10000	Earnings	2000
<u>less</u> single allowance	2425	Investment income	500
<u>less</u> married couple's allowance	<u>1370</u>	<u>less</u> single allowance	<u>(2425)</u>
so pays tax at 00% on	6205	so tax bill is	(0)
so tax bill is	1675.35		

The wife now pays (no) tax on her income at all, whereas previously her husband had to pay tax on her £500 investment income.

*Rest of allowance cannot be used.

BUDGET SECRET - TASK FORCE LIST



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON

DATE: 26 February 1988

- As I have said, I think the proposals are an interesting - and a welcome help - new light on the distributional effects of the reform.*
1. MR ISAAC *C.J.E. 26.2*
2. CHANCELLOR OF THE EXCHEQUER *C.J.E. 26.2*

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND PRESS RELEASE

1. Mr Mace's submission of 19 February with a draft Press Release on independent taxation promised a further possible section dealing with distributional effects. This is now attached. The draft condenses some of the tables in my submission of 5 February and incorporates further work on Sets C and D (which described the effects for wives and husbands respectively).

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Scholar
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr J C Jones
Mr Cayley
Mr Eason
Miss Dyall
Miss McFarlane
Mr Walker
Miss White
PS/IR

BUDGET SECRET - TASK FORCE LIST

2. We would welcome guidance on -

(a) whether you wish to include any distributional tables or quantitative information in the Press Release^x, bearing in mind the detailed analysis in Annex 4 of the Green Paper on the Reform of Personal Taxation and the decision to limit the main income tax Press Release to specimen incomes tables;

(b) if some tables are included, whether any of the tables 1 to 6 should be dropped or further contracted, for example income levels or amounts of reductions could be combined.

3. There are still one or two outstanding technical issues on the figures and the notes to the tables. We shall resolve these if you decide to include any distributional tables.



R J EASON

x or, of course, any other medium that you think convenient - eg a P Q.

*Cler?
262*

additional 100,000 elderly husbands will be able to claim age allowance under independent taxation. Under the present system, these husbands are unable to claim because the couple's combined income is above the aged income limit.

5. Taking husbands and wives together, it is estimated that about 2.4 million couples will pay less income tax under independent taxation. Tables 5 and 6 show that some couples at nearly all levels of income, and both aged and non-aged couples, will benefit. The average reduction in income tax liability is expected to be about £320, but the amount will vary over a wide range depending on each couple's circumstances.

Notes to Tables

1. All estimates are derived from details of taxpayers in the 1984-85 Survey of Personal Incomes. Incomes, allowances, and reliefs are projected to 1990-91 on the basis of the tax rates and allowances proposed in the 1988 Budget. It is assumed that the composite rate of tax on interest from Bank and Building Society accounts will move broadly in line with the change in the basic rate of income tax. No change is assumed in the pattern of investments by married couples.

2. The reductions in tax liability relate only to income tax. They are for a full year at 1990-91 projected levels of income. They are on a consistent basis with the estimates of the aggregate receipts effects of independent taxation given in the FSBR.

3. Estimates in the tables are given to the nearest 10,000 taxpayers or £10 tax. Totals may not be the sum of component parts due to rounding and a dash is used to denote less than 5,000 taxpayers. Some cells have been aggregated to provide estimates.

TABLE 1 WIVES WITH REDUCTIONS IN TAX LIABILITY AND AVERAGE REDUCTIONS BY WIFE'S INCOME

Wife's Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	630	90	910	270	1,540	190
5-10	140	410	150	350	290	390
10-15	110	300	40	540	150	370
15-20	50	410	10	1,690	60	600
20-25	20	620	10	2,050	20	970
25-30	)	)	)	)	10	1,930
30-40	10)	1,600)	10)	2,600)))
40-50	)	)	)	)	10)	2,500)
50+))))))
All	960	200	1,110	330	2,070	270

TABLE 2 WIVES : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY BY WIFE'S INCOME

Wife's Income	Amount of Reduction (£ per year)							All
	0-50	50-100	100-200	200-300	300-400	400-500	500+	
£000	0-50	50-100	100-200	200-300	300-400	400-500	500+	All
0- 5	520	160	200	140	400	60	60	1,540
5-10	10	20	110	10	30	20	80	290
10-15	20	20	30	40	10	-	20	150
15-20	10	-	10	10	20	-	20	60
20-25	-	-	10	-	-	-	10	20
25-30	-	-	-	-	-	-	-	10
30-40	-	-	-	-	-	-))
40-50	-	-	-	-	-	-	) 10	) 10
50+	-	-	-	-	-	-))
All	570	200	350	200	460	80	200	2,070

**TABLE 3 HUSBANDS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY HUSBAND'S INCOME**

Husband's income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	-	-	-	-	-	-
5-10	-	-	10	150	10	160
10-15	10	400	100	130	110	150
15-20	30	410	)	)	30	400
20-25	80	410	)	)	80	410
25-30	90	510	10)	600)	100	520
30-40	80	640	)	)	80	640
40-50	30	650	)	)	30	650
50+	30	650	)	)	30	650
All	350	530	130	170	480	430

**TABLE 4 HUSBANDS : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY
BY HUSBAND'S INCOME**

Husband's Income	Amount of Reduction (£ per year)							All	
	£000	0-50	50-100	100-200	200-300	300-400	400-500		500+
0- 5	-	-	-	-	-	-	-	-	-
5-10	-	-	-	-	-	-	-	-	10
10-15	30	10	40	20	-	-	10	-	110
15-20	-	-	-	-	-	-	30	-	30
20-25	-	-	-	-	-	-	80	-	80
25-30	-	-	-	-	-	-	50	50	100
30-40	-	-	-	-	-	-	-	80	80
40-50	-	-	-	-	-	-	-	30	30
50+	-	-	-	-	-	-	-	30	30
All	30	20	40	30	-	-	180	190	480

TABLE 5 MARRIED COUPLES WITH REDUCTIONS IN TAX LIABILITY AND AVERAGE REDUCTIONS BY GROSS INCOME

Gross Income £000	Non-aged		Aged		All			
	Wife not earning	Wife earning	Wife not earning	Wife earning	Wife not earning	Wife earning		
Number	Average reduction	Number	Average reduction	Number	Average reduction	Number	Average reduction	
000	£	000	£	000	£	000	£	
0- 5	-	10	-	-	-	-	-	20
5-10	90	30	30	100	560	220	680	190
10-15	80	30	60	20	240	320	380	220
15-20	60	50	40	30	130	310	230	190
20-25	30	90	30	70	60	270	130	170
25-30	20	110	40	70	40	370	100	200
30-40	30	290	380	330	50	800	460	380
40-50	20	450	170	540	20	1,390	200	610
50+	30	970	140	660	30	1,670	190	840
All	350	150	890	360	1,130	340	2,370	320

TABLE 6 MARRIED COUPLES : DISTRIBUTION OF REDUCTIONS IN TAX LIABILITY BY GROSS INCOME

Gross Income £000	Amount of Reduction (£ per year)							All
	0-50	50-100	100-200	200-300	300-400	400-500	500+	
0- 5	-	-	-	-	-	-	-	-
5-10	180	70	120	70	210	20	-	680
10-15	120	40	50	20	80	20	40	380
15-20	90	20	40	10	40	10	20	230
20-25	50	10	40	10	20	10	-	130
25-30	40	20	10	-	10	-	20	100
30-40	40	20	50	70	50	150	90	460
40-50	20	10	10	10	10	40	110	200
50+	10	10	10	10	10	10	140	190
All	550	200	330	210	420	250	420	2,370

BUDGET SECRET: TASK FORCE LIST

Copy No. **2** of **28**
 FROM: ROBERT CULPIN
 DATE: 29 February 1988

CHANCELLOR

cc ✓ Principal Private Secretary	Mr Riley
Chief Secretary	Miss Evans
Financial Secretary	Mr Hudson
Paymaster General	Mr Cropper
Economic Secretary	Mr Tyrie
Sir P Middleton	Mr Call
Sir T Burns	
Mr Anson	Mr Battishill) Inland
Mr Scholar	Mr Isaac) Revenue
Mr Sedgwick	Mr Painter)
Mr Odling-Smee	
Mr RIG Allen	Mr Unwin) Customs
Mr Pickford	Mr Knox) & Excise
Miss Sinclair	

BUDGET DAY PRESS NOTICES

You asked for comments. Here are a few quick ones, leaving aside purely drafting points.

2. In general, the drafts seem very much on the right lines.

Order

3. We need to consider the order in which we package these press notices. I will let you have some suggestions.

Customs

4. I think we could make more of the press notice on "coolers". The present draft goes into technicalities a bit too soon. It could make more of the simple story (qualified if necessary) that we are reducing tax on low-alcohol drinks. (I doubt, incidentally, if it should start by referring to the ministerial group on alcohol misuse.)

5. The press notice on confectionery might make it clear (in the second paragraph) that we are already taxing some cereal bars.

6. The press notice on importers' details needs to say why you are providing for fuller disclosure - what benefits this will bring to industry.

Inland Revenue

7. In the first two Revenue press notices, how do you want to deal with the abolition of the minor personal allowances? At present they come in the headline first paragraph. Could they be relegated to some less prominent position?

8. In the press notice covering the distributional tables:

- Should the prose give examples for someone earning £200 a week (as in paragraph 2), or should we concentrate instead someone on average earnings?

- Would it be worth giving the absolute amounts of the minor allowances, in paragraph 6, to make implicitly the point that they are less than the increases in the main personal allowances?

- In paragraph 7 - a point I raised at the Overview - what should be the order in which the measures appear? (You have asked to see the figures on two bases before deciding.)

9. In the press notice headed "Income tax rates and personal allowances for 1988-89: Pay As You Earn", the notes for editors explain the minor personal allowances. Would it be worth saying that they all date from the pre-war period?

10. I found the press notice on tax penalties on marriage a little difficult to read, because it talks about changes which will happen in 1990 before the change which happens this year in the basis for mortgage interest relief. I wonder whether it might help to put it into chronological order.


11. In the press notice on benefits in kind, it might be helpful to explain the phrase "scale charges" the first time it appears, by referring to the notes for editors.

BUDGET SECRET: TASK FORCE LIST

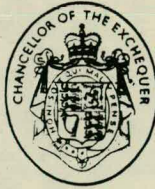
12. I found the press notice on "Pensions: Minor Changes" a bit hard going. It left me wondering what is the bull point here.

13. In the press notice on inheritance tax, should we give a reason for abolishing the limit on the exemption for political parties? And do you want to add the point that you have got the tax down from seven rates to one in the course of two budgets?

14. I think we agreed at the Overview that we should not bring together in one press notice on mortgage interest relief the switch to the residence basis and the abolition of relief on improvement loans. My only other comment on this is that I think the abolition of improvement relief needs to be justified in the press notice.

A handwritten signature in dark ink, appearing to be 'Rc', written in a cursive style.

ROBERT CULPIN



mp

cc Mr Culpin
Miss Sinclair
Mr Pickford
Miss Evans
Mrs Burnhams
Mr Porteous
Mr Flitton
Mr Dight

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

29 February 1988

Robert Culshaw Esq
Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Downing Street
LONDON
SW1

Dear Robert,

BUDGET DAY PRESS NOTICES

As you will be aware, the Chancellor will be giving his Budget Statement on Tuesday 15 March. In handling press notices, we propose to follow the arrangements of previous years under which all press notices, including those issued by Departments other than the Chancellor's, are collated by the Treasury and issued both to the press and the House.

Your Department and others will no doubt already be considering what press notices you wish to issue on Budget Day. I would be grateful to know your intentions by close on Monday 7 March and the subject matter of any notices which you will be producing. It would also be helpful if you could let Teresa Burnhams here (270-5179) have by then a contact point (name and telephone number, together with a proxy) for any subsequent enquiry on each. All press notices should, of course, be cleared in draft with the appropriate public expenditure divisions in the Treasury as early as possible.

As you will appreciate, the Treasury will be photocopying and collating a large volume of material over the weekend before the Budget. As a consequence, I am afraid that we must ask for copies of press notices to be sent to us by no later than midday on Friday 11 March, and preferably beforehand. We will require 1835 copies in all. These should be sent to Mr M C Ralph in our Committee Section split within the package into three sets numbering 1150, 525 and 160 copies respectively.

If you are issuing more than one press notice, it would ease our handling problems considerably if they could be packaged separately.



I am sending a copy of this letter to the Private Secretaries of all other Cabinet Ministers, Paul Gray (No.10), Trevor Woolley (Cabinet Office) and all Chief Press Officers.

Yours sincerely,
Maira Wallace

MOIRA WALLACE
Assistant Private Secretary

BUDGET SECRET: TASK FORCE LIST

Copy No 22 of 34 Copies

From: SIR PETER MIDDLETON

Date: 1 March 1988

FINANCIAL SECRETARY

cc Chancellor
 Chief Secretary
 Paymaster General
 Economic Secretary
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Sedgwick
 Mr Odling-Smee
 Mr Culpin
 Mr A C S Allan
 Mr Pickford
 Mr R I G Allen
 Miss Sinclair
 Mr Riley
 Miss Simpson
 Miss C Evans
 Mr Hudson —
 Mr Cropper
 Mr Tyrie
 Mr Call

Mr Battishill) IR
 Mr Isaac) IR
 Mr Painter) IR
 Mr Corlett) IR
 Mr Mace) IR
 Mr Unwin) C&E
 Mr Knox) C&E

PRESS RELEASES ON INDEPENDENT TAXATION

I have two comments on the Treasury press release. First I think we need to watch the tone. I should delete "simply" in paragraph 4 and the whole of the last sentence of paragraph 5 (as a minimum the word "absurd" should be replaced). Second, the section on maintenance and covenants (paragraph 28) does not seem quite right. At present it rather looks as though the changes in these arrangements have been made because of abuse outside marriage. The point can be met by something like the following:

BUDGET SECRET: TASK FORCE LIST

A "The Government is proposing a major simplification of the tax treatment in two other areas which also affect marriage; maintenance and the use of covenants. The changes are explained in separate press releases. They will remove penalties on marriage which arise from the way in which ~~some~~ unmarried couples can exploit these arrangements to gain tax advantages which are not available to married people."

2. The Revenue press notices seemed very clear to me. I have a number of small points:

- (a) In Section 1 of the notice on Independent Taxation the passage up to paragraph 9 rather gives the impression that the husband will not be able to do a wife's tax return even if she asks him to. This is such an obvious question that it should be made clear. For the same reason I favour keeping the piece in square brackets in paragraph 10 of the Treasury press release.
- (b) In Section 4 of the same notice (Mr Eason's submission of 26 February), I would delete the last sentence in paragraph 3.
- (c) In the separate draft notice on Removing Tax Penalties on Marriage
 - (i) the word "simplification" could appear in paragraph 8;
 - (ii) I assume that we shall have separate press releases on covenants and maintenance.



P E MIDDLETON

BUDGET SECRET: TASK FORCE LIST

Copy No 15 of 34 Copies

From: SIR PETER MIDDLETON

Date: 1 March 1988

FINANCIAL SECRETARY

cc Chancellor
 Chief Secretary
 Paymaster General
 Economic Secretary
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Sedgwick
 Mr Odling-Smee
 Mr Culpin
 Mr A C S Allan —
 Mr Pickford
 Mr R I G Allen
 Miss Sinclair
 Mr Riley
 Miss Simpson
 Miss C Evans
 Mr Hudson
 Mr Cropper
 Mr Tyrrie
 Mr Call

Mr Battishill) IR
 Mr Isaac) IR
 Mr Painter) IR
 Mr Corlett) IR
 Mr Mace) IR
 Mr Unwin) C&E
 Mr Knox) C&E

PRESS RELEASES ON INDEPENDENT TAXATION

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P E MIDDLETON

BUDGET SECRET: TASK FORCE LIST

Copy No 2 of 34 Copies

From: SIR PETER MIDDLETON

Date: 1 March 1988

FINANCIAL SECRETARY

cc Chancellor —
 Chief Secretary
 Paymaster General
 Economic Secretary
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
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 Mr Hudson
 Mr Cropper
 Mr Tyrie
 Mr Call

Mr Battishill) IR
 Mr Isaac) IR
 Mr Painter) IR
 Mr Corlett) IR
 Mr Mace) IR
 Mr Unwin) C&E
 Mr Knox) C&E

PRESS RELEASES ON INDEPENDENT TAXATION

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P E MIDDLETON

BUDGET SECRET: TASK FORCE LIST



COPY NO. 18 OF 18

FROM: A P HUDSON

DATE: 1 March 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr R I G Allen
Mr Pickford
Miss Sinclair
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call

Mr Walker IR
Mr P R H Allen C&E

BUDGET DAY PRESS NOTICES

I have a few comments on the bundles of press releases.

General

2. In one or two cases, press notices refer to an item being in the Budget Statement, when it is not. I think the best convention is to say, when in doubt, 'The Chancellor proposes in his Budget...'.

Customs and Excise

3. Generally, I think it would be better for the opening paragraphs of the main excise duty press notices not to refer to fractions of a penny. The press will be looking for what this means for the price of a packet of 20 etc. We have rounded figures in the



speech, and I suggest those are used in the opening paragraph of press notices, with the precise figures later on.

4. On unleaded petrol, the opening paragraph might make the point currently on the second page that 'garages stocking unleaded petrol should now be [able to price it] comfortably below their 2 star petrol'.

5. On 'coolers', I doubt if you want to start with the representations of the Ministerial Group on Alcohol Misuse. Mr Culpin had the same thought.

6. On VAT and business entertainment, I would delete 'Inland Revenue' in the first paragraph.

Inland Revenue

7. On the main income tax press notice, like Mr Culpin, I thought the abolition of the minor personal allowances was too prominent.

8. I know we have been over this ground before, but I do wonder whether the illustrative tables need go beyond an income of £50,000. The Opposition, and hostile commentators, will be more interested in working out the gain for Sir Ralph Halpern than in comparing this year's table with last year's.

9. In the PAYE press release, the Notes for Editors sound a bit callous about the minor personal allowances! Rather than pick out the reference to 'relics of a bygone age', it would be better to talk about a simplification made possible by lower rates and higher personal allowances.

10. The notice on Tax Penalties does not start very clearly. And independent taxation is not mentioned until the second page. I suggest that the opening section might be along these lines:



- The Chancellor proposes to remove the tax penalties on marriage.
- The main change is independent taxation, see separate press release.
- Other measures to deal with other tax penalties can be introduced sooner.
- The changes affect

11. On benefits in kind, it would be worth giving a figure for the degree of undertaxation, once we are happy with the figures for the speech. On car parking, I would rest on the complexity of taxing the benefit, and the fact that it is often de minimis, rather than saying that the exemption was partly in the light of the increased car scales. And I would delete 'so that he can perform his duties there' in paragraph 9, which will provide ammunition for the nurseries lobby.

12. In the opening sentence on covenants, I would spell out 'non-charitable' more - perhaps at the end, 'other than for covenants to charities, which are unaffected.'

13. The payroll giving notice should lead with the monthly figures, as the speech does.

14. The opening of the tax compliance notice talks about measures 'designed to encourage taxpayers to notify the Inland Revenue if they are liable to tax'. I know why this wording has been chosen - so that the Keith package does not appear to be giving the Revenue a big stick to beat taxpayers with. But most people will imagine that taxpayers are meant to notify the Inland Revenue anyway. Perhaps a better explanation is the one in paragraph 4 - clarifying the requirement to notify.

15. The opening to the general CGT notice is a bit flat. And it does not make anything of the benefits to companies of rebasing. On the Details, paragraph 1 is rather oddly phrased, and paragraphs 8-12, on husband and wife, leave you waiting a long time for the news on what is changing.



16. I would not have a separate press release on CGT dependent relatives residence relief. And all these changes affecting people with dependent relatives must be clearly presented as simplifications.

17. You decided against the overall press notice on mortgage interest relief. But wherever the change for dependent relatives is announced, we should make the point that relief will still be available if the relative makes the payments himself.

18. The layout of the Q and A leaflet on Maintenance Payments seems to me to be very clear. But the opening paragraph is confusing. It would be better to talk about income transfers, as the speech does.

A handwritten signature consisting of the letters "A P H" in a stylized, cursive font.

A P HUDSON

shows the overall
position for
individuals: it
includes & wives
taken together (but
not as couples):
it is the 5-10 yr
there will be 300
individuals (290+10) etc
etc.

S. I wd also like
to see how the
total can be broken
down among the
various home
groups.
M.



Interim, but

today. One or 2 pts:

1. We central don't
want tables 5x6,
a priority, not
tables 2x4 either.

2. As we open to
criticism for priority
now info on this
plan we do ~~refer~~ for
the main Budget IT
package?

3. I wd like better
tables 1-4 to be
with the last 3 lines
collapsed into a
single 30+ line.

4. Perhaps more
important, we need
a table which
over

BS



FROM: A C S ALLAN
DATE: 2 March 1988

MR EASON - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
PS/IR
Mr Isaac - IR
Mr Mace - IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND PRESS RELEASE

The Chancellor was grateful for your minute of 26 February, which raises interesting, but tricky issues. He had the following comments:

- (i) We certainly do not want tables 5 and 6, and not tables 2 and 4 either.
- (ii) Are we open for criticism for providing more information on this than we do for the main Budget income tax package?
- (iii) He would like to see tables 1 and 3 redone with the last three lines collapsed into a single 30+ line.
- (iv) Perhaps most important, he feels we need a corresponding table which shows the overall position for individuals: ie husbands and wives taken together (but not as couples). So, for example, in the 5-10 group there will be 300 individuals (290+10) etc.
- (v) He would also like to see how the total cost breaks down among the various income groups.

A handwritten signature in dark ink, appearing to read 'ACSA' with a long horizontal stroke underneath.

A C S ALLAN

~~Alex~~ ^{Ch}
You wanted Robert's
comments left unedited and
AA

Thanks for showing me this.

2 questions:

① Don't we want to
concentrate on Peter 1 -
the women to whom we're
giving independence?

② Do we want to do this
stuff about husbands -
para 4 of text + tables?



FROM: CHIEF SECRETARY

DATE: 2 March 1988

CHANCELLOR

cc:

Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Scholar
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Riley
Mr Hudson
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call

PS/Inland Revenue

BUDGET DAY PRESS RELEASES

At the last overview you asked colleagues to look particularly at the Press Releases for the areas for which we have presentational responsibilities. In general I found these admirably lucid explanations of the changes. I do have a few comments.

Cars

I thought this was rather good. It will need to be amended to reflect our decisions on the P11D threshold and the change to the scale in 1989-90. It should contain an explanation of what the car scales are.

I do not think it is right (in logic or in fact) to present the car parking exemption as a consequence of the car scale increase. Rather it should be represented as clarifying the

BUDGET SECRET: TASK FORCE LIST

position on something which is de minimis in revenue terms.

Forestry

Since it will not be at all obvious to the layman that exempting forestry from tax will produce a yield the "Tax Yield" point needs to be explained more fully.

In the "overall" section I think we should amend the first indent to bring out that we are tackling a tax shelter:

"...anomalous tax regime, which has been increasingly exploited as a tax shelter."

I would prefer to delete the second indent ("fairer because they will not discriminate in favour of higher rate taxpayers"), which opens us up on the same charge on higher rate relief for mortgages etc.

Paragraph 6 fails to answer the question of what will happen to those who have already invested in trees. Since this is the area of so much public attention I think it should.

Covenants

In general I thought the press release was fine -but it will need to contain suitable cross-references to the separate Treasury press release, the leaflet and any press release DES are putting out on Students. We will need to clear this and I have asked my office to ensure that we do. The draft leaflet is fine.

Top Slicing: Premiums for leases and Redundancy Payments

These are both fine but should cross-refer to each other. The "premium for lease" release notes one area still outstanding for Ministerial decision.

Maintenance

I am sure Norman Lamont will be looking at both the press release and the leaflet as well. These will obviously need to be amended to take account of our new decision on the exempt amount for the provider of maintenance payments.

I did not find the opening paragraph of the maintenance leaflet at all helpful. People associate maintenance with divorce not with couples who are still living together. I think this paragraph should be deleted and simply replaced with an opening sentence: "This leaflet explains the changes to the tax treatment of maintenance payments announced in the Budget."

In answer A I found the piece in square brackets unclear on when an election could be made - could the new rules apply from April 1988 - or only from 1989?

On page 3, I would redraft the answer on "not switching":

"The limit on tax relief for the payer from 1989-90"

Section C: Redraft first question:

"Will I get relief on maintenance payments I make?

On page 7 amend the last sentence of the first answer:- "If you and the recipient(s)."

I would redraft the answer to "what if I re-marry"?

"You will be able to claim the married man's allowance as well as relief on maintenance payments"

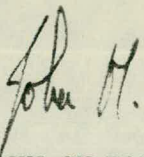
(Incidentally the new maintenance rules apply even-handedly to men and women who are making maintenance payments but the

BUDGET SECRET: TASK FORCE LIST

Q and As drift to the persistent assumption that it will only be men who are making such payments. It will only require some minor re-drafting to remove this and so bring the leaflet into line with the Treasury press release which explicitly says that the rules also apply to women making payments to ex-husbands).

Home Improvement Loans

We have decided that this should be the subject of a separate press release. I will let you have comments when I see it.


JOHN MAJOR

BUDGET SECRET: TASK FORCE LIST

SPJ



COPY No SPJ/15/ 17 OF 30

FROM: S P JUDGE

DATE: 2 March 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Anson
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Miss Sinclair
Miss Evans
Mr A P Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Walker - IR
PS/Inland Revenue
Mr Unwin - C&E
Mr Knox - C&E

BUDGET DAY PRESS NOTICES

I attach a note setting out the Paymaster General's comments on the draft Press Notices on the subjects for which he has presentational responsibility.

S P JUDGE
Private Secretary

Mortgage interest relief

The Paymaster General notes that there are likely to be separate press releases on home improvements and the residence basis.

?
2. He would omit the second paragraph under "Independent Taxation" on page 1.1 ("It will be advantageous ..."), unless the Revenue customarily put in gratuitous advice of this kind.

Corporation tax rates

x
3. The Paymaster thinks it would be useful to have a few simple worked examples, showing how the withdrawal of marginal relief works - say with profits of £100,000, £300,000 and £600,000.

Business expansion scheme: general

4. Paragraph 1 should refer to ship chartering.

?
5. The Paymaster thinks the press notice should explain why "the amount available will be reduced if the company or any of its subsidiaries carries on any trade or part of a trade in partnership, or as a party to a joint venture, with one or more other persons".

Private rented housing

✓
6. The Paymaster does favour a defensive section on the lines of the last paragraph on page 4.

Capital gains tax: retirement relief

✓
7. The spirit of some of the Paymaster's bull points should be worked in.

Business entertainment

✓
8. The Revenue and Customs press notices should cross-refer to each other.

BUDGET SECRET: TASK FORCE LIST

Measures to improve tax compliance

9. The Paymaster is mildly concerned by the possibility of the NCCL making a link - in the Government Data Network context - between paragraphs 6-9 and 18-19. He suggests the release is amended to make it clear that:

a. electronic transfers of data between Departments are not envisaged; or, failing that

b. use of the GDN won't make such transfers any easier.

If neither is done, he thinks the Revenue and CCTA press offices should be briefed on this point.

2 March 1988

BUDGET SECRET : TASK FORCE LIST



[Handwritten signature]

Copy No | of 16

~~MR HUDSON~~

FROM: J J HEYWOOD

DATE: 3 March 1988

cc PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr Isaac - IR
 Mr Corlett - IR
 Mr Mace - IR
 Mr Spence - IR
 PS/IR

PRESS RELEASES

The Financial Secretary has made the following comments on the various press releases in his presentational areas:

INLAND REVENUE : INDEPENDENT TAXATION

(i) Redraft paragraph 1 of the first page to read:

"In his Budget today the Chancellor of the Exchequer proposed a major reform of the tax treatment of married couples. The centre-piece of this reform is a new system of Independent Taxation for husband and wife. From 6 April 1990 this will bring:

- * independent taxation of the incomes of husbands and wives
- * independence and privacy for married women in their tax affairs
- * a new structure of income tax allowances.
 - a full personal allowance for married women

- a new married couples allowance
- higher allowances for elderly wives

* independent taxation of capital gains".

- (ii) Entitle first section "Independent Taxation of Incomes"
- (iii) Delete paragraph 1 of first section on independence, and expand paragraph 2 to read:

"Independent Taxation will sweep away the present rules for taxing married couples which have been in existence for nearly two centuries and which are inappropriate to the modern world. Under these rules a married women's income is treated as her husband's for tax purposes. Husband and wife share a single set of income tax rate bands and this means that some couples pay more tax than two single people with the same incomes, simply because they are married".
- (iv) Redraft first sentence of paragraph 3 to read:

"The new proposals will remove this unjustified tax penalty on marriage. Husband and wife will be taxed completely independently on all their income and they will each have a separate set of income tax rate bands. The changes will also remove complex provisions".
- (v) Paragraph 5: delete reference to capital gains.
- (vi) Delete paragraph 7 and insert paragraphs 1-8 of Section 2 (except paragraph 4 which should be deleted).
- (vii) Follow these paragraphs with a new section drawing out the capital gains changes.
- (viii) Follow that with a section on the elderly, drawing out the relevant figures from Section 2, paragraph 6.

(ix) Re-draft paragraph 7 of Section 2 (sentence 2) to read:

"But if the husband cannot make full use of it he will be able to transfer the unused part to his wife".

(x) The Financial Secretary wonders whether paragraphs 1 or 2 of the first page of the press release ought to say that 1990 is the earliest date that this essential reform can be introduced, and whether we ought also to draw out the bull points from the distributional analysis.

(xi) The Chancellor suggested that the Inland Revenue press release might also deal with why our objectives cannot be achieved within the existing system or by some other less radical reform. The Financial Secretary does not think this is suitable material for an Inland Revenue press release, and doubts whether this should even be covered in the Treasury release.

TREASURY : INDEPENDENT TAXATION

(i) The Financial Secretary thinks that up-front we should refer to the removal of a 200 year anomalous system (i.e. in the first line).

(ii) Re-draft paragraph 3 to read:

"The present tax system treats the married woman's income as belonging to her husband and therefore it makes him responsible for filling in a tax return covering the couple's total income and for settling the tax bill for both of them. The tax system does not recognise the married woman as a separate taxpayer. It is therefore not acceptable in today's world".

(iii) The Financial Secretary agrees with Sir P Middleton that the last sentence of paragraph 5 should be deleted.

- (iv) Paragraph 7. End third sentence after "income". Insert new passage:

B
"At present this is treated as the husband's income and is taxed at his marginal rate. In many cases, however, if the wife had an allowance to set against her own savings income she would not have to pay tax at all".

- (v) Paragraph 12. Replace first sentence with:

C
"These changes by themselves would mean that all married couples would see their tax thresholds fall. They would also mean that there was no recognition of marriage within the tax system".

- (vi) Paragraph 18 should refer to the case of Category B pensions. This should be described as "pensions received on the basis of the husband's contributions".

- (vii) Paragraph 20 should start with:

"At present the tax system discriminates against married couples and indeed causes some couples to pay more tax than they would if they were living together as an unmarried couple. Independent Taxation eliminates a number of these tax penalties on marriage, particularly the fact that".

- (viii) Paragraph 23. Redraft the last sentence to read:

"A married couple share one annual exemption and the husband has to deal with the couple's CGT affairs. By contrast, single people have one exemption each".

- (ix) The Financial Secretary agrees with Sir P Middleton's re-draft of paragraph 28.

INLAND REVENUE : TAX PENALTIES ON MARRIAGE

The Financial Secretary sees no point in having a separate factual Revenue press release on this subject. The drawing together of the various strands on this is best left to a speech. The Financial Secretary thinks that to issue this separate press release, in addition to the others, is to risk accusations of "humbug".

INLAND REVENUE : LLOYD'S

The Financial Secretary thinks these are fine, but queries whether it is normal or necessary to put the Exchequer cost into the RIC release.

INLAND REVENUE : MAINTENANCE AND COVENANTS

The Financial Secretary has examined the draft leaflet and press release. Much of the detail is of course now out-of-date, and he would like to see the re-draft before putting in final comments. But his initial suggestions are:

- (i) Delete first paragraph of leaflet.
- (ii) Start paragraph 2 with "Maintenance payments following divorce or separation made by one".
- (iii) On page 5, there is no need for a separate section on children.
- (iv) Paragraph 5 of the press release, first indent, insert "continue to" before "get".

INLAND REVENUE : INCOME TAX

- (i) Insert the line about minor allowances after paragraph 5.
- (ii) In paragraph 2, use a single person on average earnings rather than £200.

(iii) We do need to keep in the figures for £60,000 and £70,000 earners.

97

J J HEYWOOD
Private Secretary

* 1

Wd like for
Mr Culpin's redrafting.



* tho' with
considerable
redrafting.

Ch.

Marked, below

Mr Culpin thinks there is
value in retaining this Press Release.
Otherwise a number of bull points
may be lost.

(For reference, PST's
comments are flagged, behind).

Confirm that you want to
get rid of it? If so, should
the APA section be placed
somewhere in the main "Independent
Transaction" release. (it does convey
factual info, unlike the other sections)

25
7/13

BUDGET SECRET : TASK FORCE LIST



Copy No 1 of 16

~~MR HUDSON~~

FROM: J J HEYWOOD
 DATE: 3 March 1988

cc PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr Isaac - IR
 Mr Corlett - IR
 Mr Mace - IR
 Mr Spence - IR
 PS/IR

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* independence and privacy for married women in their tax affairs

* a new structure of income tax allowances.

- a full personal allowance for married women

- a new married couples allowance
- higher allowances for elderly wives

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- (ii) Entitle first section "Independent Taxation of Incomes"
- (iii) Delete paragraph 1 of first section on independence, and expand paragraph 2 to read:

"Independent Taxation will sweep away the present rules for taxing married couples which have been in existence for nearly two centuries and which are inappropriate to the modern world. Under these rules a married women's income is treated as her husband's for tax purposes. Husband and wife share a single set of income tax rate bands and this means that some couples pay more tax than two single people with the same incomes, simply because they are married".
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"But if the husband cannot make full use of it he will be able to transfer the unused part to his wife".

(x) The Financial Secretary wonders whether paragraphs 1 or 2 of the first page of the press release ought to say that 1990 is the earliest date that this essential reform can be introduced, and whether we ought also to draw out the bull points from the distributional analysis.

(xi) The Chancellor suggested that the Inland Revenue press release might also deal with why our objectives cannot be achieved within the existing system or by some other less radical reform. The Financial Secretary does not think this is suitable material for an Inland Revenue press release, and doubts whether this should even be covered in the Treasury release.

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(iii) The Financial Secretary agrees with Sir P Middleton that the last sentence of paragraph 5 should be deleted.

- (iv) Paragraph 7. End third sentence after "income". Insert new passage:

"At present this is treated as the husband's income and is taxed at his marginal rate. In many cases, however, if the wife had an allowance to set against her own savings income she would not have to pay tax at all".

- (v) Paragraph 12. Replace first sentence with:

"These changes by themselves would mean that all married couples would see their tax thresholds fall. They would also mean that there was no recognition of marriage within the tax system".

- (vi) Paragraph 18 should refer to the case of Category B pensions. This should be described as "pensions received on the basis of the husband's contributions".

- (vii) Paragraph 20 should start with:

"At present the tax system discriminates against married couples and indeed causes some couples to pay more tax than they would if they were living together as an unmarried couple. Independent Taxation eliminates a number of these tax penalties on marriage, particularly the fact that".

- (viii) Paragraph 23. Redraft the last sentence to read:

"A married couple share one annual exemption and the husband has to deal with the couple's CGT affairs. By contrast, single people have one exemption each".

- (ix) The Financial Secretary agrees with Sir P Middleton's re-draft of paragraph 28.

FST's
COMMENTS

INLAND REVENUE : TAX PENALTIES ON MARRIAGE

The Financial Secretary sees no point in having a separate factual Revenue press release on this subject. The drawing together of the various strands on this is best left to a speech. The Financial Secretary thinks that to issue this separate press release, in addition to the others, is to risk accusations of "humbug".

INLAND REVENUE : LLOYD'S

The Financial Secretary thinks these are fine, but queries whether it is normal or necessary to put the Exchequer cost into the RIC release.

INLAND REVENUE : MAINTENANCE AND COVENANTS

The Financial Secretary has examined the draft leaflet and press release. Much of the detail is of course now out-of-date, and he would like to see the re-draft before putting in final comments. But his initial suggestions are:

- (i) Delete first paragraph of leaflet.
- (ii) Start paragraph 2 with "Maintenance payments following divorce or separation made by one".
- (iii) On page 5, there is no need for a separate section on children.
- (iv) Paragraph 5 of the press release, first indent, insert "continue to" before "get".

INLAND REVENUE : INCOME TAX

- (i) Insert the line about minor allowances after paragraph 5.
- (ii) In paragraph 2, use a single person on average earnings rather than £200.

(iii) We do need to keep in the figures for £60,000 and £70,000 earners.

g.n.
/

J J HEYWOOD
Private Secretary

COPY NO ² OF 22

FROM: A P HUDSON

DATE: 3 March 1988

MR CORLETT - INLAND REVENUE

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Scholar
 Mr Culpin
 Mr Pickford
 Mr R I G Allen
 Miss Sinclair (Mr ACS Allan)
 Mr Burr
 Miss Simpson
 Ms C Evans
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr Stewart - IR

DRAFT TREASURY PRESS RELEASE: MAINTENANCE AND COVENANTS

... I attach a redraft of the Treasury Press Release, which takes account of the changed decisions.

2. You will no doubt want to tighten up the wording in places, and I would be most grateful for any comments to improve the press release as a whole. Please could I have these by tomorrow lunchtime (4 March), since we need to show it to the Chancellor over the weekend.

A handwritten signature consisting of the letters 'A P H' in a stylized, cursive font.

A P HUDSON

Draft of 3 March

TREASURY PRESS RELEASE ON MAINTENANCE AND COVENANTSINTRODUCTION

1. When money is paid from husband to wife, or a parent gives a child pocket money, the tax system is, of course, not involved at all. These are simple, every day situations.

2. Ideally, things should be just as simple whenever one person pays money to another. However, when a legal agreement is involved, a deed of covenant or a Maintenance Order, the tax consequences are very complicated indeed, and produce a host of anomalies. They also make a lot of work for taxpayers and the Inland Revenue alike.

3. The Government have therefore decided on a major simplification, taking most new arrangements out of the tax system altogether. Covenants to charities will not be affected.

4. This press release explains why the changes are being made and how the new system will work.

THE CASE FOR CHANGEMaintenance Payments

5. Increasing numbers of people now either make or receive maintenance payments. The vast majority are made by divorced or separated men to their ex-wives.

6. The rules that face them are extremely complicated.

- Most maintenance payments are paid gross, and the ex-husband has to claim tax relief separately. If the wife is above the tax threshold, she has to pay tax on the payments she receives. In many cases, no tax is raised overall, because the wife's tax payment is cancelled out exactly by the husband's tax relief.
- However, some maintenance payments are paid with tax already deducted. In that case, where the wife is below the tax threshold, she has to reclaim the tax from the Revenue. This makes more work for all, and delays the time when the wife gets the full amount of the money.

7. These arrangements ^{also} mean that rich husbands paying large amounts of maintenance _w get full tax relief at their top marginal rate. On the other hand, wives receiving maintenance payments, who are often on relatively low incomes, ^{can} _w have to pay tax on the money, which uses up their personal allowance and can act as a disincentive to work.

8. The system can also penalise marriage itself. A few couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance orders against each other for the cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

9. [The Courts have recently established that a divorced parent can get a Court Order against him or herself for the cost of educating his children who are living with him, and get tax relief for it. Pushed to extremes, that could mean that the only parents who would not get tax relief for children would be those who got

married and stayed married!] [I would omit this paragraph here, because it will prompt more questions.]

Covenants

10. Similar problems arise from the present tax treatment of covenants.

11. Apart from those to charity, most covenants are made by parents' supporting their student children. But it is difficult to imagine a more convoluted way of getting State support into the hands of students.

12. The parent has to go through the legal rigmarole of making a covenant, and supplying evidence of payment, as well as reporting his income to the local authority when applying for the grant. The Revenue then have to check the student's income, and repay him or her the tax that has been paid.

13. As covenant income itself is taxable, many students are discouraged from taking holiday jobs, because they will have to pay tax on the first pound of their earnings. This is scarcely the best way of introducing young people to the tax system, or to paid work.

14. Covenants can also be used by unmarried couples to gain a tax advantage that is not available to married couples, which creates a tax penalty on marriage.

15. The relief is also often used by better-off taxpayers to shelter other income from tax. This is precisely the sort of shelter that cannot be justified once tax rates are lower generally.

THE NEW SYSTEM

16. The Government have therefore decided on a radical reform.

Maintenance Payments

17. People receiving maintenance payments under new Court Orders or agreements will not have to pay tax on them. [Nor will they have to put them on their tax return.] This will simplify the tax affairs of some A million people.

x 18. A man maintaining his ex-wife will get tax relief on the payments he makes, up to a limit of £1370, the difference between the married allowance and the single allowance. This recognises the cost of helping to maintain a second household. On present experience, this limit will cover the vast majority of payments.

19. No relief will be available for other maintenance payments.

20. The new system

- will be much simpler, with one claim for relief;
- will eliminate the tax penalty on marriage;
- and will remove any disincentive, with the wife able to earn up to the single allowance without having to pay tax.

21. The new rules will apply to arrangements made on or after today. People who are already in the system will get transitional protection. If both partners wish to elect for the new rules, they can do so. An Inland Revenue press notice issued today gives more details.

Covenants

22. With the exception of covenants to charities, new covenants (made on or after Budget Day) will be taken out of the tax system altogether. The payers will not get tax relief, and the recipients will not have to pay tax on the money they get.

23. The main beneficiaries from the existing system have been parents of students, and those who already have covenants will continue to benefit. Tax relief will no longer be available on new covenants. But the parental contribution will be reduced for students starting their studies from the next academic year [or who were under 18 on Budget Day and therefore unable to benefit from covenant tax relief].

24. Students will be able to set the full value of their tax allowance against earnings, which improves their incentive to boost their income with a holiday job.

25. Other covenants are, in effect, a gift from one person to another, often from grandparents to grandchildren. There is no reason why these gifts should get tax relief simply because they are made under a legal agreement. This relief is therefore being abolished, as part of the Government's policy of removing special tax reliefs, where possible, and using the revenue saved to reduce the general burden of taxation.

26. An Inland Revenue press notice gives full details.

Conclusion

27. These changes will bring a radical simplification of the tax system for ordinary people, sweeping away two different systems of taxing maintenance payments, the unintelligible legal mumbo-jumbo surrounding covenants, and the inevitable bureaucracy that follows both.

BUDGET SECRET - TASK FORCE LIST



Inland Revenue

 COPY NO
 Policy Division
 Somerset House

copy no 2 of 17

FROM M A JOHNS

DATE 3 MARCH 1988

 1. MR PAINTER *Note at end of page 3.3*

2. FINANCIAL SECRETARY

MORTGAGE INTEREST RELIEF - BUDGET PRESS RELEASES

Following the suggestion at this week's Overview, I have attempted to split the Mortgage Interest Relief ^{release} relief into two, one concentrating on the residence basis and one on home improvement relief. This raises the problem, however, of what to do about the abolition of relief for dependent relatives and separated/divorced spouses and the associated CGT provision. While it is easy enough to include in one omnibus release, once the issues are separated, it is simplest to give it a separate release of its own, as it does not have a direct connection with either of the other changes. This, however, could give unwanted prominence to the provision. Following discussion with Mr Culpin I have included it with the residence basis as it shares with that change the fact that it affects purchase rather than improvement and because historically it arose as a way of simplifying the residence basis (though this can hardly be exploited presentationally).

 cc Chancellor
 Chief Secretary
 Paymaster General
 Economic Secretary
 Mr Culpin
 Miss Sinclair
 Mr Cropper
 Mr Tyrie

 Mr Painter
 Mr Johns
 Mr Beighton
 Mr O'Connor
 Mr I Stewart
 PS/IR
*Mr A Walker**Miss McFarlane*

I am not sure how far the end result actually achieves the object of getting rid of any impression that the changes are part of a concerted programme of measures on housing. In particular the heading to the residence basis/dependent relative release has to be somewhat unsatisfactory. And it seems difficult not to cross-refer the two releases. But the only alternatives I can see are either to stick with one three part release, or to have three separate releases.

Mr Culpin suggested that the home improvement release should contain some justification for the change. Obviously the Revenue could only refer to Ministers' explanations in this sort of press release and not imply that the Revenue had some reason for abolition. We cannot quote from the Budget Speech as that will not be finalised until after the Press Releases have gone to press. I have discussed this problem with Mr Culpin and he suggests that the best approach is to include some factual material in the notes for editors on such things as the average size of loans and what they are typically used on. This is what we have done, besides presenting the headline change in terms of restructuring relief to home purchase.

Some of the yield figures are subject to confirmation; I will telephone the final versions to your office.

I have not held this up to await all Ministers' comments on the earlier draft in view of the restructuring involved.

M.A. Johns

M A JOHNS

X is a familiar problem and we do not want to make too much of it. It would be easier to handle if the Speech says in terms what the main purpose is to focus on house purchase, as Mr Allen suggests in his memo of 2nd March. The first paragraph of the draft Release, which is purely factual, does carry 2 that duplication.

J/ 3.3.



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6706

{3x}

15 March 1988

ABOLITION OF RELIEF ON HOME IMPROVEMENT LOANS

In his Budget the Chancellor proposes to restrict mortgage interest relief to loans for the purchase of homes. Relief on new loans for home improvement is being abolished.

DETAILS

Present position

At present relief is allowable on the interest on loans up to the £30,000 limit which are applied to the improvement as well as the purchase of a property used as the borrowers' only or main residence. The loan must be used for the improvement within a reasonable time, normally six months before or six months after it is made.

Proposed change

It is proposed to abolish relief on new loans for improvements made on or after 6 April 1988. Relief will continue for existing eligible improvement loans for the life of those loans. It will not be extended to replacement loans.

NOTES FOR EDITORS

1. On a recent sample, over 85% of home improvement loans for which relief is currently claimed do not involve any extension to a property (eg double glazing or central heating); about 5% are for extensions such as garages, porches and patios which do not provide additional living accommodation; the rest are for such changes as loft conversions, bedrooms and kitchens which add to living accommodation.
 2. About 50% of home improvement loans for which relief is currently claimed are less than £3,000; about 80% are less than £6,000.
 3. The proposals expected to yield [£60 million] in 1988/89 and [£179 million] in 1989/90.
 4. For other mortgage interest relief changes see press relief on mortgage interest relief - residence basis and minor changes.
-



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

15 March 1988

MORTGAGE INTEREST RELIEF - RESIDENCE BASIS AND MINOR CHANGES

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1988/89 at £30,000. The limit will be applied to the residence rather than, as hitherto, to the borrower. The relief is also being simplified by abolishing the relief for interest on new loans for the purchase of properties used as the only or main residence of a dependent relative or a former or separated spouse.

[1] RESIDENCE BASIS

Present position

At present unmarried people sharing the purchase of the same property as their only or main residence are each entitled to relief on the interest on loans up to £30,000. Married couples have to share the £30,000 between them.

Proposed change

From 1 August 1988 relief on the interest on new loans applied to the purchase of a property used as the borrowers' only or main residence will be limited to the interest on £30,000 irrespective of the number of people borrowing to purchase that residence. This will bring unmarried people sharing the purchase of a home into line with married couples and end the situation where the reduction in the amount of mortgage interest relief available created a disincentive to getting married. It follows the suggestion in the Green Paper on the Reform of Personal Taxation (Cmd. 9756) published in 1986.

Protected loans

The new rules will take effect from 1 August 1988. Any loans taken out before that date will continue to qualify for relief by reference to the limit of £30,000 per borrower under the provisions of the present law so long as all the conditions for relief are met. Protection will continue only for the life of the protected loan and will not be extended to replacement loans.

/Effect of new

Effect of new residence basis on married couples

Married couples must already share the £30,000 limit and in most cases for the next two years prior to the introduction of independent taxation, the new residence basis will make no difference to the relief allowable to them. Mortgage interest relief is allowable whether the eligible loan is made to the husband or the wife or jointly to both and whether the interest is paid by the husband or wife.

Independent taxation

When independent taxation is introduced on 6 April 1990 wives will become taxpayers in their own right. Each will become entitled to an equal share of the limit applying at that time. For example, with a limit of £30,000 both husband and wife would be entitled to individual limits of £15,000 and each could have relief on loans up to £15,000. However, they will be able to elect jointly that relief on interest on loans up to the overall limit, whether to the husband or wife or jointly to both, can be allocated on a year by year basis between them in whatever proportions they wish and irrespective of which of them actually pays the interest.

It will be advantageous to make such an election in circumstances where one spouse pays a higher marginal rate of tax than the other. Allocating the eligible relief to the first spouse will ensure that it is all allowable at the higher marginal rate.

Wife's earnings election

Until 1990 married couples will be entitled to continue to elect for wives' earnings to be taxed separately from their husbands' Mortgage interest relief within the limit has, in some circumstances, to be allocated between the husband and wife. The election described in the previous two paragraphs will be available to these married couples in both 1988/89 and 1989/90.

Effect of new residence basis on unmarried home sharers

Where two or more people who are not married to each other share an only or main residence and each takes a loan or a share in a joint loan to purchase an interest in the residence, the limit of £30,000 will be allocated between them in equal shares. For example three such sharers will be entitled to individual limits of £10,000. Each sharer will qualify for relief on any interest he or she pays on his or her loan or share of a joint loan up to £10,000. Relief will not be allowable in any circumstances to one sharer in respect of interest paid by another.

Where a married couple shares with another person, the limit will be allocated two-thirds to the couple and one third to the other person. Within their share the couple will be able to allocate the relief between them as described for a couple on their own.

/Transferability of unused

Transferability of unused portions of limit

There will be special rules permitting transferability of the limit in circumstances where otherwise unmarried sharers with unequal loans would not be able to use all the limit between them, even though the total loans equal or exceed the limit. The following example describes the situation:

A has a loan of £25000
B has a loan of £ 8000
C has a loan of £ 5000

The rule described in the previous paragraph would give each a ceiling of £10,000 with the following result:-

A gets relief on £10000 with £15000 unrelieved
B gets relief on 8000 with nil unrelieved
C gets relief on 5000 with nil unrelieved
Total relief 23000

In such circumstances there will be provision to allow the transfer of unused limit from a sharer who cannot use it to one or more who can. In this example B would transfer £2000 to A and C would transfer £5000 to A. A will then be entitled to relief on the interest on £17,000 and £30,000 of the total loans of £38000 will qualify for relief.

[III] DEPENDENT RELATIVES

Present position

At present relief is allowable within the limit on the interest on loans applied to the purchase or improvement of a property used as the only or main residence for a dependent relative or former or separated spouse of the borrower.

Proposed Change

It is proposed to abolish this relief where a loan is applied for this purpose on or after 6 April 1988. Relief will continue for the life of existing loans which already qualify under the present law. Relief will still be available to the relative or spouse where they pay the interest and have an interest in the property.

Capital Gains Tax

At the same time, it is proposed to abolish the equivalent capital gains tax relief for homes provided free for a dependent relative. This change will apply for disposals on or after 6 April 1988. Relief will continue to be available where a home would have qualified for the relief on a disposal before 6 April.

/Under present law,

Under present law, the level of relief may be reduced where the relative has not occupied the home throughout the taxpayer's period of ownership. Relief will be available on disposals on or after 6 April 1988.

(i) for periods before that date during which a dependent relative occupied the property, and

(ii) where a dependent relative is actually in occupation on 5 April, for the period until that relative ceases to occupy the home.

Notes for Editors

1. Most loans affected by these proposals are now within the MIRAS (mortgage interest relief at source) scheme. Further detailed guidance about the changes will be sent shortly to lenders operating the scheme.

2. Relief is also allowable in respect of interest on loans applied to the purchase or improvement of property let or available for letting at a commercial rent for more than 26 weeks in any period of 52 weeks. The limit does not apply but relief is allowable only against rental income. No change is proposed to this relief which will continue as at present.

3. The change to the residence basis is expected to have a negligible yield in 1988/89 and to yield £25 million in 1989/90. The abolition of the relief for dependent relatives and separated or divorced spouses is expected to have a negligible yield.

4. See also separate press release on abolition of relief for Home Improvement Loans.



PPS

FROM: J J HEYWOOD
DATE: 3 March 1988

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
PS/IR
Mr Isaac - IR
Mr Mace - IR
Mr Eason -IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND PRESS RELEASE

The Financial Secretary has one further comment on Mr Eason's minute of 26 February.

2. He thinks that if this text is to go into the press release the last line of paragraph 3 should be omitted.

AMZ

JEREMY HEYWOOD
Private Secretary



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

COPY NO 1 OF 26

FROM: R J EASON

DATE: 4 March 1988

CHANCELLOR OF THE EXCHEQUER

**INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS
AND PRESS RELEASE**

1. In response to Mr Allan's minute of 2 March, I attach a revised version of a possible section of the Independent Taxation Press Release on distributional effects. In this:-

- (1) the tables are restricted to an analysis of gains to wives by their income, an analysis of gains to husbands by their income, and an individuals' table aggregating the separate husband and wife two previous tables;

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr J C Jones
Mr Cayley
Mr Eason
Miss Dyall
Miss McFarlane
Mr Walker
Miss White
PS/IR

*The attached draft
is
with a view to
Budget in press Taxation
The take in para 2
of this note is also
M. Treasury
can be published
via an advance
the Jan after Budget
The problem is, however, a slight
reconciling
£682 m with no figs @ X.
The latter, meanwhile,
are used to case: pstr
are new para
When but
No budget
Spent.*

*(No £500 m
was put in
below
£700 m
No budget
Spent.)*

BUDGET SECRET - TASK FORCE LIST

(2) all the figures have been re-estimated taking account of

(a) the Budget income tax changes;

(b) the 1985-86 Survey of Personal Income and post-Budget economic forecasts, including widening of the income distribution. The 1985-86 SPI incorporates bank interest charged to composite rate tax and therefore provides better information than the 1984-85 survey used for previous estimates (in which such income was paid gross and not distinguished from other similar income). The effect of this is to reduce somewhat the number of wives on low incomes who gain.

(3) the text has been updated and shortened. The last sentence of paragraph 3 has been deleted.

2. I set out below the distribution of full year costs at 1990-91 levels by income of the individual.

Income £000s	Cost £m
0-5	256
5-10	104
10-15	57
15-20	42
20-25	59
25-30	58
30+	105
All	682

X | The total cost shown reflects the direct impact of Independent Taxation on married couples. One consequence however is that in due course the composite rate of bank and building society interest will fall because more interest is going to non-taxpayers (married women). All account holders will gain from this and the costs are essentially part of changing to Independent Taxation. The costings to be shown in the FSBR have been revised to £500 million in 1990-91 (from £630 million) and to £1,000 million in 1991-92 (from £970 million) to reflect the composite rate effect and the other changes in paragraph 1.

Should we publish the figures?

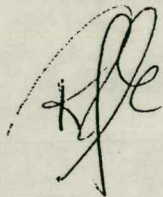
3. You asked whether we would be criticised for releasing some distributional tables about independent taxation while only providing specimen income tables for the main Budget changes.

It is possible that there might be criticism of this kind, but a possible defence would be that the purpose of the specimen income tables is to provide the public, mainly through the press, with a set of look-up tables to allow each taxpayer to see how much he or she gains or loses from the increases in allowances or cuts in rates in most Budgets. Over the years, these have proved very valuable. However Independent Taxation is a major reform of the structure of income tax involving new allowances and separation of incomes within marriage. Its effects will be substantial for many taxpayers and the Press Release tries to describe these changes. It therefore includes some measures of those effects to show the number and type of people affected, in the same way as the 1986 Green Paper.

BUDGET SECRET - TASK FORCE LIST

4. Nevertheless, having discussed with Mr Mace whether the distributional tables should be included in the Press Release, we suggest that, if you are uncertain about their inclusion for any reason, you might prefer on balance to delay release until after the Budget Debate. This would avoid immediate attention being focussed on them. And it would also give us more time to ensure that the results are thoroughly consistent with the final figures which go into the FSBR. The Press Release will have to be finalised by the middle of next week if we are to meet the necessary deadlines.

5. If interest is shown in this subject during debate, tables could be released by an arranged PQ. This does however run the risk that an MP might table a question which would reveal the distributional effects in a less favourable light.



R J EASON

4. EFFECTS OF THE NEW SYSTEM ON INCOME TAX LIABILITIES

1. Many married women, and some married men, will pay less income tax when independent taxation starts in 1990-91. The tables in this section give some broad estimates of the numbers involved and the reductions in their income tax liability. The estimates are based on projected levels of income in 1990-91 and the 1988 Budget proposals for income tax rates and allowances indexed to 1990-91 levels.

2. Table 1 shows that about 1.6 million wives will have less tax charged on their income, because they will have their own personal allowances and their income will be treated independently of their husbands. The average reduction will be about £300 per annum compared with the tax liability under the present rules in which the income is generally treated as the top slice of the husband's income.

3. About 1.2 million of these wives have income of less than £5,000 per annum and 700,000 of them are elderly. The size of the reduction in tax will often be small if there is only a small amount of investment income or a small pension, but, the 1.2 million will have an average tax reduction of over £200 per annum.

4. About 500,000 husbands will gain directly from independent taxation. Table 2 shows that some 370,000 husbands in couples previously making the wife's earnings election will pay between £400 and £650 less tax as they will be able to claim the married couple's allowance. Also an additional 130,000 elderly husbands will be able to claim age

BUDGET SECRET - TASK FORCE LIST

allowance under independent taxation. Under the present system, these husbands are unable to claim because the couple's combined income is above the aged income limit.

5. Overall, over 2 million individuals will pay less tax after the introduction of independent taxation and almost 70 per cent of them have incomes of less than £10,000 per annum.

Notes to Tables

1. All estimates are derived from details of taxpayers in the 1985-86 Survey of Personal Incomes. Incomes, allowances, and reliefs are projected to 1990-91 on the basis of the tax rates and allowances proposed in the 1988 Budget. It is assumed that the composite rate of tax on interest from Bank and Building Society accounts will move broadly in line with the change in the basic rate of income tax. No change is assumed in the pattern of investments by married couples.

2. The reductions in tax liability relate only to income tax and they are for a full year at 1990-91 projected levels of income. They are on a consistent basis with the estimates of the aggregate receipts effects of independent taxation given in the FSBR.

3. Estimates in the tables are given to the nearest 10,000 taxpayers or £10 tax. Totals may not be the sum of component parts due to rounding and a dash is used to denote less than 5,000 taxpayers. Some ~~cells~~ have been aggregated to provide estimates.

groups

TABLE 1

WIVES WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY WIFE'S INCOME

Wife's Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	450	130	730	270	1,180	220
5-10	150	360	110	400	260	380
10-15	70	340	30	780	90	460
15-20	30	370	10	1,870	40	670
20-25	10	500	-	2,200	20	770
25-30	-	2,000	-	2,800	-	2,550
30+	-	2,000	-	3,000	10	2,500
All	720	230	880	340	1,610	290

TABLE 2

HUSBANDS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY HUSBAND'S INCOME

Husband's income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
	000	£	000	£	000	£
0- 5	-	-	-	-	-	-
5-10	-	-	20	190	30	190
10-15	-	400	90	160	90	170
15-20	30	400	)	)	30	400
20-25	110	400	)	)	110	400
25-30	90	490	20)	570)	90	500
30+	140	630	)	)	140	630
All	370	510	130	210	500	430

adds up to 490!

TABLE 3

INDIVIDUAL TAXPAYERS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY INDIVIDUAL'S INCOME

Gross Income	Non-aged		Aged		All	
	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0-5	450	130	730	270	1180	220
5-10	150	360	140	360	290	360
10-15	70	340	110	300	180	310
15-20	70	380	10	1670	80	550
20-25	120	410	10	1140	130	450
25-30	90	540	-	1930	100	590
30+	140	660	10	1400	150	710
1	1090	320	1010	320	2100	320



Inland Revenue

Policy Division
Somerset HouseFROM: J H REED
DATE: 4 MARCH 1988

PWP

1. MR MCGIVERN *4/3*
2. PAYMASTER GENERAL

BUDGET DAY PRESS RELEASES - CORPORATION TAX RATES

I attach the press release on corporation tax rates for your approval. As you requested, we have added a paragraph in the Notes for Editors showing how the marginal relief works. There is one draw-back to this. It shows that the marginal relief does not produce a smooth increase in the average tax rate between the limits of £100,000 and £500,000. As the example shows, a company with profits of £300,000 faces an average tax rate of 33.3 per cent, while the reader who is not familiar with the provision might be expecting an average tax rate of 30 per cent (half way between the 25 per cent small companies rate and the 35 per cent main rate). There is nothing new about this - the marginal relief has always worked in this way - but it may attract comment.

J H REED

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Mr Culpin
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr A P Hudson

Mr Painter
Mr McGivern
Mr Beighton
Mr Reed
Mr Walker
Mr Willmer
PS/IR

BUDGET SECRET: TASK FORCE LIST

[3x]

15 March 1988

CORPORATION TAX RATES

The Chancellor proposes in his Budget to set in advance the rates of corporation tax for the Financial Year 1988. The main rate of corporation tax will remain unchanged at 35 per cent. There will be a reduction in the rate of corporation tax for small companies from 27 per cent to 25 per cent.

Although the rates of corporation tax for the Financial Year 1988 need not be set until the 1989 Budget, advance announcement helps companies plan ahead.

NOTES FOR EDITORS

1. The rate of corporation tax was reduced to 35 per cent for the Financial Year 1986 by the Finance Act 1984 as the last step in a phased reduction in corporation tax rates announced in the 1984 Budget.
 2. The proposed reduction in the small companies rate of corporation tax will apply to profits arising in the year beginning 1 April 1988. No changes are proposed in the lower (£100,000) and upper (£500,000) limits for the marginal relief between the small company rate and the main rate of corporation tax. The marginal relief fraction will become 1/40th.
 3. The effect of the marginal relief will be as follows. A company with profits of £100,000 will pay tax of £25,000 (an average tax rate of 25 per cent - the small companies rate). One with profits of £500,000 will pay £175,000 (an average tax rate of 35 per cent - the main rate). A company with profits between these amounts pays at the main rate of corporation tax less the marginal relief on the difference between its profits and £500,000. So if its profits are £300,000 the tax liability will be £105,000 (35 per cent of £300,000) less £5,000 (1/40th of (£500,000 - £300,000)), which is £100,000. This represents an average tax rate of 33.3 per cent.
-



FROM: A.P. HUDSON

DATE: 4 March 1988

Copy No 5 of 5

CHANCELLOR

cc Chief Secretary
Financial Secretary

TREASURY PRESS RELEASE ON MAINTENANCE AND
COVENANTS

I attach the latest draft of the Treasury press release,
incorporating a number of comments from Mr Corbett and
others.

AHH

A.P. HUDSON

BUDGET SECRET: TASK FORCE LIST

Draft of 4 March

TREASURY PRESS RELEASE ON MAINTENANCE AND COVENANTS

INTRODUCTION

1. When money changes hands within families - for example, when a parent gives a child pocket money - the tax system is, of course, not involved at all. These are simple, every day situations.

2. Ideally, things should be just as simple whenever one person pays money to another. However, if a legal agreement is involved - a deed of covenant or a Maintenance Order - the tax consequences become very complicated indeed, and produce a host of anomalies. They also make a lot of unnecessary work for taxpayers and the Inland Revenue alike.

3. The Government have therefore decided on a major simplification, taking most new arrangements out of the tax system altogether. Covenants to charities will not be affected.

4. This press release explains why the changes are being made and how the new system will work.

THE CASE FOR CHANGE

Maintenance Payments

5. The number of people making or receiving maintenance payments has increased over recent years.

6. The rules that face them are extremely complicated. Take the case of a divorced or separated man paying maintenance to his ex-wife.

- If the maintenance payments are paid gross, as most are, the ex-husband has to claim tax relief separately. If the wife is above the tax threshold, she has to pay tax on the payments she receives. In many cases, the wife's tax payment simply cancels out the husband's tax relief.
- However, some maintenance payments are paid with tax already deducted. In that case, where the wife is below the tax threshold, she has to reclaim the tax from the Revenue. This makes more work for all, and delays the time when the wife gets the full amount of the money.

7. These arrangements also mean that better off husbands paying large amounts of maintenance get full tax relief at their top marginal rate. On the other hand, wives receiving maintenance payments, who are often on relatively low incomes, may have to pay tax on the money, which uses up their personal allowance and can act as a disincentive to work.

8. The system can also penalise marriage itself. Some couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance orders against each other for the cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

Covenants

9. Similar problems arise from the present tax treatment of covenants.

10. Apart from those to charity, the majority of covenants are made by parents to their student children. But it is difficult to imagine a more convoluted way of getting money in to the hands of students.

11. The parent has to go through the legal rigmarole of making a covenant, and supplying evidence of payment, on top of the usual need to report his income to the local authority when applying for the grant. The Revenue then have to check the student's income, and repay him or her the tax that has been paid.

12. As covenant income itself is taxable, many students are discouraged from taking holiday jobs, because they may have used up their personal allowance against the covenant, and thus have to pay tax on the first pound of their earnings.

13. Covenants can also be used by unmarried couples to gain a tax advantage that is not available to married couples, which creates a tax penalty on marriage.

14. Generally, with the exception of those to charities, relief for covenants is precisely the sort of tax shelter that can no longer be justified, now that income tax rates are lower.

THE NEW SYSTEM

15. The Government have therefore decided on a radical reform.

Maintenance Payments

16. People receiving maintenance payments under new Court Orders or agreements from Budget Day will not have to pay tax on them.

17. A man maintaining his ex-wife (or vice versa) will get tax relief on the payments he makes, up to a limit equal to the difference between the married allowance and the single allowance (£1490 for 1988-89). This recognises the cost of helping to support an ex-wife, and maintain a second household. On present experience, this limit will more than cover the majority of payments to ex-wives and ex-husbands.

18. No relief will be available for other maintenance payments.

19. The new system

- will be much simpler;
- will eliminate the tax penalty on marriage;
- and will reduce the tax burden on divorced wives who go out to work.

20. The new rules will apply to arrangements made on or after today. People who already pay or receive maintenance will continue under the present rules, though there will be some changes in April 1989. The payer will be able to change over to the new system from 1988-89, or later, if he or she chooses. An Inland Revenue press notice issued today gives more details.

Covenants

21. With the exception of covenants to charities, new covenants (made on or after Budget Day) will be taken out of the tax system altogether. The payers will not get tax relief, and the recipients will not have to pay tax on the money they receive.

22. People who already have covenants will continue to get tax relief for as long as the covenant lasts.

23. The main beneficiaries from the existing system have been parents of students. Tax relief will no longer be available on new covenants. But to provide broad compensation, there will be a new lower parental contribution scale for students starting their studies from the next academic year.

24. Those students will also be able to set the full value of their tax allowance against earnings, which gives them a greater incentive to boost their income with a holiday job.

25. An Inland Revenue press notice gives full details.

CONCLUSION

26. These changes will bring a radical simplification of the tax system for many people, sweeping away two different systems of taxing maintenance payments, the complications surrounding covenants, and the inevitable bureaucracy that follows both.



COPY No 2 OF 14

FROM: ROSIE CHADWICK

DATE: 7 March 1988

MR J H REED - INLAND REVENUE

cc Chancellor ✓
Chief Secretary
Financial Secretary
Economic Secretary
Mr Culpin
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr A P Hudson
PS/Inland Revenue
Mr McGivern - IR

BUDGET DAY PRESS RELEASES - CORPORATION TAX RATES

The Paymaster General has seen the press release attached to your minute of 4 March. He understands that the Chancellor and the Financial Secretary have both approved this release. He also is content.

REC

ROSIE CHADWICK
Assistant Private Secretary

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BUDGET SECRET: TASK FORCE LIST

Copy No 2 of 22 Copies

From: S D H SARGENT

Date: 7 March 1988

MR HUDSON

cc PPS —
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Anson
Mr Scholar
Mr Culpin
Mr Pickford
Mr R I G Allen
Miss Sinclair
Mr Burr
Miss Simpson
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call

Mr Corlett - IR

Mr Stewart - IR

DRAFT TREASURY PRESS RELEASE: MAINTENANCE AND COVENANTS

Sir Peter Middleton has seen the redraft of the Treasury press release attached to your minute of 3 March to Mr Corlett.

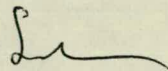
2. He still thinks it would be better to produce either two separate press releases, or a single press release with a short introduction and separate sections on maintenance and on covenants. He believes it would be much easier to read and much more useful to the press if paragraph 22 followed paragraph 15, and if paragraph 17 followed paragraph 9.

3. As regards the text itself, he has the following suggestions:

- (i) Paragraph 7: at the end of the second sentence change "disincentive to work" to "disincentive to employment";

BUDGET SECRET: TASK FORCE LIST

- (ii) Some of the language in paragraphs 11-13 would be more appropriate for a speech than a press notice. In paragraph 11 replace the second sentence with the following: "But the covenanting arrangements were not designed for this. And the result is an excessively convoluted way of getting State support into the hands of students." In paragraph 12 first line replace "rigmarole" with "process". In paragraph 13 delete the final sentence.
4. He agrees that it would be sensible to omit paragraph 9.



S D H SARGENT
Private Secretary