PO-CH/NL/0607
PART A

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PART A

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PART A

1992 BUDGET
INDEPENDENT TAXATION

11.3.88

DD'S 25yrs N/A 8/8/96

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Independent
Taxation
1988 check
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607

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON
DATE: 5 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION : PRESENTATION OF DISTRIBUTIONAL EFFECTS

Introduction

1. The Green Paper on the Reform of Personal Taxation, Annex 4, gave a detailed analysis of the distributional effects of transferable allowances. We are now considering the need for similar analysis on independent taxation at the Budget or shortly afterwards.

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cc. Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middelton
Sir T Burns
Mr Scholar
Mr Culpin
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Mr Riley
Mr Odling-Smee
Mr Cropper
Mr Tyrie
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Mr Eason
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2. An analysis on our normal basis of changes for tax units will show that the large gainers from Independent Taxation will be married couples on high incomes. Some aged couples on quite low incomes will gain from the disaggregation of Category B pensions, but the largest gains and a high proportion of the Exchequer cost will benefit those couples with incomes above, say, £25,000 per annum (precise figures, of course, depend on the tax rates and thresholds of the tax regime in 1990-91.) We have therefore considered whether further analysis based on the principles of Independent Taxation are worth pursuing.

<u>Style of Analysis</u>

3. We have given some preliminary thought to the type of analyses that could be produced. It seems inappropriate to replicate Annex 4 of the Green Paper since only half of all taxpayers will be affected and there will be few losers. We therefore have prepared a new set of tables more appropriate to Independent Taxation. These incorporate two complementary approaches to the analysis.

(a) <u>Based on Existing Tax Units</u> where the analysis is based on the change in tax liability for each married couple. Under the existing regime tax liability for the couple is a straightforward calculation but following Independent Taxation, it requires the aggregation of the liability for each spouse.

(b) <u>Based on Individuals and changes in their individual tax liabilities</u>. This type of analysis reflects the principles underlying Independent Taxation and treats each person separately. Calculation of liability is straightforward after the reform, but it is not currently possible for each spouse under a strict interpretation of existing tax law. However we can estimate individual liability approximately from existing data recorded on the Survey of Personal Incomes by, for example, treating the wife's income (earnings and from investments) as the top slice of the couple's income. The husband's liability would be derived directly from his income and the wife's liability by deducting this from the couple's liability. This approach can at best be approximate because we cannot split reliefs and deductions between spouses properly.

We think that any distributional analysis must include some tables based on existing tax units, both for consistency with previous approaches and because of the close financial relationship that exists between partners in a marriage. A question is whether a complementary analysis by income of separate spouses would also be helpful.

4. Almost without exception, if a couple gains, so does the wife and in many cases the size of her gain will equal that of the couple (in other words the husband's gain is zero). In some cases, husbands will also gain, for example if his married man's allowance is restored after no longer claiming wife's earnings election or if the aged income limit no longer prevents the aged married allowance being claimed. Husbands will also lose when the vanishing exemption arrangements withdraw the couple's allowance. But on the basis of para 3(b), the vast bulk of the total gain under Independent Taxation would be attributable to the wives. Moreover many of these will have relatively low levels of income.

5. I attach a set of tables to illustrate the two approaches. They are roughly prepared at present and are only intended as an introduction to consideration of more detailed requirements if this seems worthwhile. All tables are based on 1990-91 income levels with Option 3 introduced in 1988-89 and then indexed. Composite rate has been incorporated at a rate consistent with a basic rate of 25p but without taking account of the changing distribution of accounts between taxpayers and non-taxpayers under Independent Taxation. Hence the aggregate cost figures in the tables are slightly distorted. Withdrawal of the married couple's allowance has been incorporated, but we have made no allowance for income splitting nor of the large upsurge in share ownership from privatisation issues.

6. The tables are in four sets:

Set A - shows the change in the tax unit's tax liability by the tax unit's income.

Set B - shows the change in the tax unit's tax liability by the wife's income.

Set C - shows the change in the wife's liability by her income.

Set D - shows the change in the husband's liability by his income.

Sets C and D are therefore based on the new approach and subject to greater error.

7. The main features of the tables can be summarised as follows.

(i) Set A shows the large proportion of gains at high levels of income despite large numbers of gainers with low incomes. The latter comprise aged couples gaining from disaggregation of Category B pensions and others gaining from setting the wife's investment income against her personal allowance. The losers in the final table will mainly be protected (e.g. breadwinner wives), but the 150,000 losers at the highest levels of income are losing from the withdrawal of the married couple's allowance.

(ii) Set B shows that much of the aggregate gain is to wives with no or little income of their own (about 40 per cent to those with incomes of less than £5,000). Nonetheless the average gain still increases with income.

(iii) Set C reveals, as expected, almost identical results to Set B. So the couple's gain will normally accrue to the wife and the majority of these will have low income.

(iv) Set D shows 350,000 cases where the husband gains irrespective of his wife's gain or loss. These are nearly all wife's earnings election cases in which the husband will claim a married couples allowance. There are also cases where the aged income limit will not reduce entitlement to age allowance. There are also over 200,000 husbands who lose from the withdrawal of the married couple's allowance.

8. Although both the statistics and the style of the analyses are provisional, we should welcome guidance on whether this topic needs further work, either for internal briefing or for publication in any form when the Independent Taxation proposals are announced.

R J EASON

SET A Table 1
Aged and Non aged

SET A: Gain/Loss of tax unit by range of total income of tax unit

Gainers ranged by total income (lower limit)

Range of total income £000s	Amount of gain £million	Number of gainers 000s	Average gain £
0	0	4	23
5	132	679	194
10	81	378	215
15	44	229	191
20	22	126	173
25	20	100	202
30	80	255	315
35	96	209	460
40	67	120	561
45	55	76	727
50	115	130	890
TOTAL	713	2306	309

Gainers by range of income and amount of gain

Income range (lower limit) £000s	Amount of gain (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	3	0	0	0	0	0	0	4
5	182	73	121	71	207	21	4	679
10	122	42	48	21	82	19	43	378
15	88	20	43	10	39	11	18	229
20	45	9	35	6	17	8	5	126
25	40	17	14	3	7	4	16	100
30	31	15	39	55	38	46	30	255
35	12	7	8	19	15	90	58	209
40	7	4	6	7	6	34	56	120
45	3	2	3	3	5	10	50	76
50	6	4	6	6	9	13	85	130
TOTAL	540	194	324	201	426	255	366	2306

LINE 588 COLUMN WRAP
GAIN←GAIN1×(DAGED=2)
GAINERS R

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	4	11
5	6	119	50
10	3	135	25
15	4	102	43
20	5	65	78
25	5	59	82
30	59	225	264
35	78	190	413
40	53	109	488
45	44	68	650
50	80	109	733
TOTAL	339	1185	286

LINE 610 COLUMN WRAP
GAINS R

Gainers by range of income and amount of gain

Income range (lower limit)	Amount of gain (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	3	0	0	0	0	0	0	4
5	100	10	3	4	0	2	1	119
10	109	22	2	1	4	0	¯3	135
15	82	12	2	1	0	2	1	102
20	43	8	8	1	3	0	2	65
25	38	11	5	1	1	1	2	59
30	27	15	39	50	37	44	12	225
35	11	7	8	19	15	88	42	190
40	7	4	5	7	5	34	47	109
45	3	2	2	3	5	9	44	68
50	5	3	5	6	8	12	69	109
TOTAL	429	94	81	91	79	192	219	1185

LINE 506 COLUMN WRAP
GAINERS R

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	0	0
5	126	560	224
10	78	243	321
15	39	128	309
20	17	61	274
25	15	42	368
30	21	30	705
35	18	19	930
40	14	11	1315
45	11	7	1465
50	35	20	1741
TOTAL	374	1121	333

LINE 527 COLUMN WRAP
GAINS R

Gainers by range of income and amount of gain

Income range (lower limit)	Amount of gain (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	83	63	118	67	207	19	3	560
10	14	21	46	20	78	18	46	243
15	6	8	41	8	38	9	17	128
20	3	1	27	6	14	7	4	61
25	2	6	9	2	6	3	14	42
30	3	0	1	5	1	2	18	30
35	0	0	0	0	0	2	16	19
40	0	0	0	0	1	1	9	11
45	0	0	0	0	0	1	6	7
50	1	0	1	0	1	1	16	20
TOTAL	111	100	243	110	346	63	147	1121

SET A Table 4
Non aged 1 earner
married couple

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LINE 745        COLUMN WRAP
      GAIN←((DTI-DWEI)>4455)×(DWEI<2835)×GAIN1
      GAINERS R
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Gainers ranged by total income (lower limit)

Range of total income £000s	Amount of gain £million	Number of gainers 000s	Average gain £
0	0	3	11
5	6	119	50
10	3	135	25
15	4	102	43
20	5	65	78
25	4	36	101
30	7	32	212
35	9	25	345
40	6	16	403
45	5	8	615
50	27	21	1289
TOTAL	77	562	136

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LINE 767        COLUMN WRAP
      GAINS R
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Gainers by range of income and amount of gain

Income range (lower limit) £000s	Amount of gain (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	2	0	0	0	0	0	0	3
5	100	10	3	4	0	2	1	119
10	109	22	2	1	4	0	¯3	135
15	82	12	2	1	0	2	1	102
20	43	8	8	1	3	0	2	65
25	26	3	3	1	1	1	2	36
30	10	5	5	4	2	1	4	32
35	8	4	3	2	1	1	4	32
40	5	2	2	2	1	2	6	25
45	2	1	1	1	0	1	4	16
50	1	1	1	1	1	3	14	21
TOTAL	387	67	31	17	13	13	35	562

SET A Table 5
Non aged 2 earner
married couple

LINE 808 COLUMN WRAP

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GAIN←((DTI-DWEI)>4455)×(DWEI>2835)×GAIN1
GAINERS R
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Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	0	0
5	0	0	0
10	0	0	0
15	0	0	0
20	0	0	0
25	1	22	52
30	53	193	273
35	70	165	423
40	47	93	502
45	40	60	655
50	53	88	599
TOTAL	263	622	422

LINE 830 COLUMN WRAP

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GAINS R
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Gainers by range of income and amount of gain

Income range (lower limit)	Amount of gain (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
15	0	0	0	0	n	0	0	U
20	0	U	0	0	0	0	0	0
25	12	7	2	0	0	0	0	22
30	17	10	33	47	36	43	8	193
35	3	4	5	16	14	86	36	165
40	3	2	4	5	5	33	43	93
45	1	1	2	2	5	9	41	60
50	5	2	4	4	8	10	55	88
TOTAL	41	27	50	74	66	180	184	622

SET A Table 6
ALL LOSERS

LINE 416 COLUMN WRAP
LOSERS R

Losers ranged by total income (lower limit)

Range of total income	Amount of loss	Number of losers	Average loss
£000s	£million	000s	£
0	0	3	47
5	46	143	324
10	55	144	379
15	26	67	385
20	7	22	325
25	6	13	465
30	1	2	328
35	0	0	0
40	4	15	256
45	4	27	157
50	58	124	470
TOTAL	207	559	370

LINE 437 COLUMN WRAP
LOSSES R

Losers by range of income and amount of loss

Income range (lower limit)	Amount of loss (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	2	0	1	0	0	0	0	3
5	21	17	24	16	14	16	34	143
10	14	11	30	20	9	7	52	144
15	8	5	9	10	7	7	21	67
20	3	2	5	1	1	6	5	22
25	4	0	1	1	0	1	5	13
30	0	0	0	0	0	0	0	2
35	0	0	0	0	0	0	0	0
40	5	4	3	0	0	0	3	15
45	3	6	10	7	1	0	0	27
50	4	6	7	14	12	13	68	124
TOTAL	64	50	90	70	45	50	189	559

GAINS R

SET B Table 1
Aged and Non aged

SET B: Gain/Loss of tax unit by range of wife's income (earned + investment)

LINE 677 COLUMN WRAP

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by tax unit	Number of tax units who gain	Average gain
£000s	£million	000s	£
0	19	408	47
1	178	695	257
2	39	176	222
3	31	119	264
4	27	96	284
5	137	326	420
10	120	262	458
15	76	136	560
20	40	49	813
25	17	16	1066
30	11	10	1093
35	6	6	1126
40	3	3	1106
45	1	2	846
50	6	3	2003
TOTAL	713	2306	309

LINE 703 COLUMN WRAP

Gainers by range of wifes income and amount of gain

Income range (lower limit) — Amount of gain by tax unit (£ per year)

£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	294	60	33	17	3	0	0	408
1	117	58	86	70	296	34	35	695
2	70	18	13	10	23	18	24	176
3	20	17	32	9	14	12	16	119
4	10	7	24	28	13	1	13	96
5	9	15	99	18	35	36	113	326
10	13	18	28	34	16	76	77	262
15	7	1	4	12	18	55	39	136
20	0	0	4	1	5	19	21	49
25	0	0	1	1	2	2	11	16
30	0	0	0	1	0	2	7	10
35	0	0	0	0	0	1	4	6
40	0	0	0	0	0	0	2	3
45	0	0	0	0	0	0	1	2
50	0	0	0	0	0	0	3	3
TOTAL	540	194	324	201	426	255	366	2306

LINE 863 COLUMN WRAP
GAINERS R

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by tax unit	Number of tax units who gain	Average gain
£000s	£million	000s	£
0	10	84	115
1	172	616	280
2	33	94	353
3	22	64	339
4	14	46	303
5	53	145	364
10	23	43	536
15	17	14	1169
20	12	6	1921
25	6	3	1951
30	4	2	2041
35	2	1	1973
40	1	0	0
45	1	0	0
50	4	1	3059
TOTAL	374	1121	333

LINE 890 COLUMN WRAP

Gainers by range of wifes income and amount of gain

Income range (lower limit)	Amount of gain by tax unit (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	30	16	17	18	2	0	0	84
1	61	49	86	62	293	32	34	616
2	11	10	8	5	21	15	25	94
3	0	9	17	7	13	6	12	64
4	4	5	17	4	7	0	8	46
5	0	5	83	7	10	7	34	145
10	2	7	15	6	-1	1	12	43
15	3	0	0	1	0	1	9	14
20	0	0	0	0	0	1	5	6
25	0	0	0	0	0	0	3	3
30	0	0	0	0	0	0	2	2
35	0	0	0	0	0	0	1	1
40	0	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	1	1
TOTAL	111	100	243	110	346	63	147	1121

SET B Table 3
Non aged

LINE 1040 COLUMN WRAP

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income £000s	Amount of gain by tax unit £million	Number of tax units who gain 000s	Average gain £
0	9	324	29
1	6	79	76
2	6	82	73
3	10	55	174
4	13	50	268
5	84	181	464
10	97	219	443
15	60	122	488
20	28	43	650
25	11	13	842
30	7	8	868
35	4	4	883
40	2	2	842
45	1	1	607
50	3	2	1381
TOTAL	339	1185	286

LINE 1066 COLUMN WRAP IN

Gainers by range of wifes income and amount of gain

Income range (lower limit) £000s	Amount of gain by tax unit (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	264	44	16	¯1	1	0	0	324
1	56	8	1	8	3	2	1	79
2	59	8	5	5	2	3	¯1	82
3	19	9	14	2	1	6	4	55
4	6	2	7	24	5	1	5	50
5	9	10	17	12	25	29	79	181
10	11	11	13	28	16	75	65	219
15	4	1	4	11	18	54	30	122
20	0	0	4	1	5	18	15	43
25	0	0	1	1	1	2	8	13
30	0	0	0	0	0	2	5	8
35	0	0	0	0	0	1	3	4
40	0	0	0	0	0	0	2	2
45	0	0	0	0	0	0	0	1
50	0	0	0	0	0	0	2	2
TOTAL	429	94	81	91	79	192	219	1185

SET B Table 4
ALL LOSERS

LINE 756 COLUMN WRAP

Losers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of loss by tax unit	Number of tax units who lose	Average loss
£000s	£million	000s	£
0	44	104	423
1	4	15	273
2	8	20	384
3	4	22	200
4	6	42	135
5	72	230	312
10	45	91	494
15	15	23	651
20	5	8	686
25	0	1	398
30	1	1	686
35	3	2	1112
40	0	0	0
45	0	0	0
50	0	0	0
TOTAL	207	559	370

SET C Table 1
Aged and Non aged

SET C: Wife's gain/loss by range of wife's income (earned and investment)

LINE 367 COLUMN WRAP INPUT

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GAINERS R

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by wife	Number of wives who gain	Average gain
£000s	£million	000s	£
0	20	424	48
1	182	703	260
2	41	183	225
3	34	128	264
4	31	105	297
5	112	286	391
10	55	148	369
15	38	67	570
20	22	23	966
25	11	6	1942
30	7	3	2185
35	4	2	2310
40	2	1	2023
45	1	0	0
50	6	2	3223
TOTAL	567	2080	273

LINE 425 COLUMN WRAP INPU

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GAINS R

Gainers by range of wifes income and amount of gain

Income range (lower limit) £000s	Amount of gain by wife (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	303	63	35	19	4	0	0	424
1	117	58	87	70	296	34	41	703
2	73	19	13	10	24	18	26	182
3	21	19	36	9	14	10	19	128
4	9	6	24	37	14	2	14	105
5	14	17	99	18	35	24	79	286
10	21	21	32	36	14	1	23	148
15	10	3	6	13	19	1	15	67
20	2	1	5	1	1	1	12	23
25	0	0	0	0	1	0	4	6
30	0	0	0	0	0	0	2	3
35	0	0	0	0	0	0	1	2
40	0	0	0	0	0	0	1	1
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	2	2
TOTAL	571	206	338	213	422	90	240	2080

SET C Table 2
Aged and Non aged

LINE 395 COLUMN WRAP
LOSERS R

Losers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of loss by wife	Number of wives who lose	Average loss
£000s	£million	000s	£
0	0	0	0
1	0	0	0
2	0	0	0
3	1	12	65
4	3	32	93
5	71	227	315
10	45	91	494
15	15	23	651
20	5	11	463
25	1	4	196
30	1	1	596
35	3	2	1111
40	0	0	0
45	0	0	0
50	0	0	0
TOTAL	145	403	359

LINE 452 COLUMN WRAP

Losers by range of wifes income and amount of loss

Income range (lower limit) £000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
	Amount of loss by wife (£ per year)							
0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0
3	7	2	3	0	0	0	0	12
4	12	9	8	2	1	0	0	32
5	23	19	51	33	23	24	53	227
10	4	5	7	13	6	11	45	91
15	4	0	1	1	2	1	14	23
20	5	0	0	0	0	0	6	11
25	1	0	1	0	0	1	0	4
30	0	0	0	0	0	0	1	1
35	0	0	0	0	0	0	2	2
40	0	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	0	0
TOTAL	57	35	71	49	32	37	122	403

SET D Table 1
Aged and Non aged

SET D: Husband's gain/loss by range of husbands income (earned and investment)

LINE 540 COLUMN WRAP INF

Gainers ranged by husbands total income (lower limit) after independent taxation

Range of husbands total income	Amount of gain by husbands	Number of husbands who gain	Average gain
£000s	£million	000s	£
0	0	0	0
5	0	1	370
10	4	9	404
15	13	31	405
20	34	84	406
25	50	96	515
30	51	81	637
40	17	30	550
50	4	13	281
TOTAL	172	346	498

LINE 587 COLUMN WRAP INPUT

Gainers by range of husbands income and amount of gain

Income range (lower limit) £000s	Amount of gain by husband (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	1	0	1
10	0	0	0	0	0	9	0	9
15	0	0	0	0	0	31	0	31
20	0	0	0	0	0	84	0	84
25	0	0	0	0	0	50	46	96
30	0	0	0	0	0	3	77	81
40	0	0	0	0	4	5	21	30
50	1	1	2	3	2	1	2	13
TOTAL	1	1	2	3	6	185	146	346

Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

Copy No ~~24~~ of 24.
(361)

FROM: ~~A J G ISAAC~~

5 February 1988

CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

1. The attached note from our Statistics Division reports the outcome of the work we have done so far on the distributional effects of independent taxation for married women.

2. I would not want you to put too much weight on any precise figures at this stage. The underlying data are imperfect; and a good deal of work remains to be done before we can be reasonably satisfied about their interpretation. Even the final figures are likely to represent no more than broad orders of magnitude. By the same token we have not at this stage attempted to polish the presentation: the figures are as they come out of the machine.

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Odling-Smee
Mr Cropper
Mr Tyrie
Mr Call
- A Hudson (24b)

Mr Battishill
Mr Isaac
Mr Painter
Mr Calder
Mr Lewis
Mr Beighton
Mr Eason
Mr Mace
PS/IR

3. I am showing this material to you at this stage, because it sets the context for two questions on which we should be grateful for your policy guidance.

(i) On what basis, or combination of bases, should we present the figures?

(ii) Should we take the initiative in publishing? Or should we publish only in response to (the almost certain) request from others to publish, or in response to the publication of alternative estimates by (for example) the Institute for Fiscal Studies?

<u>The basis for the calculation</u>

4. The work that you have seen so far has been on a "conventional" basis. That is, it shows the distribution of gains and losses by "taxpaying units" - taking husband and wife as a single unit. Clearly, it is essential that you should have the figures on this basis - if only because it is familiar and describes the changes to existing tax units. The figures show the familiar "regressive" effect - with a lion's share of the gains going to couples where the wife's <u>personal</u> income may or may not be high, but where the <u>husband's</u> income is high (and who are therefore classed as "high income families").

5. It has occurred to us that it might be worth looking at the figures on a rather different basis - and arguably one more consistent with independent taxation. When all is said and done, the justification for independent taxation has to be that the married woman should be taxed by reference to her income, not by reference to her husband's income.* Arguably (as I have said)

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*Some people - and many of those most likely to criticise any "regressive" effects of independent taxation - would go further, and argue that tax should pay no regard to marriage, which they see as no more than a private contract between man and woman.

this points to the logical conclusion that we should analyse the distributional effects on the same basis - that is, the married woman's gain or loss by reference to her income - not by reference to her husband's income. To the extent that many married women gain, it may be largely because many have relatively low personal incomes in their own right. There is no need for apology if the effect of independent taxation is (for the first time) to recognise that fact and extend to married women the same treatment that we now give to single men and women.

6. In effect, the argument is that it would be internally inconsistent - not to say quixotic - to base the tax reform on a principle of "independence", and then analyse its distributional effects on a principle of "aggregation".**

7. The table below illustrates the extent to which the alternative approach might show a less "regressive" effect of independent taxation. Inevitably, a number of married women with large incomes enjoy large gains on either basis; but the alternative approach shows a much larger share of the total gains going to women with modest personal incomes.

** I am reminded of the "internal inconsistency", when fiscal policy was being determined having regard to its likely financial effects (a fixed money supply assumption), but people were using the Treasury model to simulate the effects of a fiscal stimulus without regard to the financial effects (a fixed interest rate assumption).

	Income (£000s)						(%)
	<5	5-10	10-15	15-20	20-25	25+	Total
Distribution of gains by							
- tax units income	-	18.5	11.4	6.1	3.1	60.7	100
- wife's income	41.2	19.2	16.8	10.7	5.6	6.2	100
Distribution of gainers by							
- tax units income	-	29.4	16.4	9.9	5.6	38.5	100
- wife's income	64.5	14.3	11.3	6.1	2.2	1.7	100

Thus, for example:

- under the conventional approach $^3/5$ths of the total Exchequer cost and nearly $^2/5$ths of the total number of "gainers" can be found amongst married couples with an income of over £25,000;

- Under an alternative approach $^2/5$ths of the total cost and nearly $^3/4$ of the total number of gainers can be found amongst married women with income of less than £5,000.

8. In more detail, Mr Eason's note gives you four sets of tables:

- Set A: "conventional" analysis.

- Set B: Changes in tax liability of <u>tax unit</u> analysed by income of the <u>married woman</u>.

- Set C: Changes in tax liability of <u>married women</u> analysed by income of <u>married women</u>.

- Set D: Changes in tax liability of <u>married men</u>, analysed by income of <u>married men</u> (these account for perhaps one-quarter of the total cost, but there are both gainers and losers).

9. I imagine that you will agree that it would not be right, or realistic, to attempt to suppress the "conventional" figures (distribution by reference to the income of tax units/families). The question is whether you think it would be helpful to supplement the conventional figures, by showing, in addition, the income and distribution on an "independent" basis (by reference to the income of the married women themselves). As Mr Eason's note explains, in order to carry out the analysis on the independent basis, it is necessary to establish a convention under the existing tax regime to identify the separate tax liabilities of each spouse.

10. One further point is worth consideration at this stage. The analyses in Mr Eason's paper (and all the income tax costings of independent taxation Ministers have seen so far) are based on the existing distribution of income between spouses. That is, they ignore any transfer of assets there might be from (say) husband to wife and the possible conversion of such assets into a more tax efficient form in the wife's hands. Such transfers would, of course, add to some married couples' gains and increase the cost to the Exchequer. We are now looking at this in more detail to consider whether a reasonable estimate of these behavioural changes can be made.

Whether the Government should take the initiative

11. In principle, there seem to be three main options:

(i) The Government could take the initiative in publishing the figures.

(ii) The Government could publish only in response to an outside question.

(iii) The Government might refuse to publish, in any circumstances - even in answer to a Parliamentary Question.

12. On the face of it, Ministers may think that Option (iii) does not look plausible. The Green Paper on the Reform of Personal Taxation gave (in Annex 4) a full distributional analysis of transferable allowances, including independent taxation for married women's investment income. The task for this year's Budget changes would be self-evidently easier - both because it would involve only independent taxation (without the major complication of transferable allowances generally); and because it would not in practice need (as Annex 4 of the Green Paper needed) to analyse in detail the interrelations with social security. It can therefore hardly be said that the distributional analysis of independent taxation is either unimportant, or technically unduly difficult or uncertain.

13. The arguments in favour of Option (ii) are that it might give publication a rather lower profile, allowing the Government to distance itself a little from the results. However, we must presumably plan on the assumption that the Government will be asked to publish the distributional effects; and it would be very surprising if others - such as the IFS - did not publish their own estimate pretty soon. The disadvantages of this course are therefore perhaps (first) that Ministers would forgo the initiative in handling the presentation (for example, a Parliamentary Question from the Opposition would be likely to focus explicitly on the "conventional" analysis); and (second) the IFS analysis might be accepted by default, so that in practice the commentators might focus predominantly on the IFS presentation (which we might expect to be both less accurate, and less favourable).

14. Against that background, officials in the Revenue see some attraction in Option (i), as being (generally) consistent with an "open Government" approach and (more directly) allowing Ministers to retain the initiative, and (so far as possible) control the initial presentation. However, it is very much a matter for Ministers' political judgment. If you decide in favour of Option (i), you might in due course like to consider with us the most effective tactics and vehicle for publication.

Questions for consideration

15. It would be most helpful to have your guidance on three general questions at this stage:

- Do you see attractions in some form of the "alternative" approach discussed in paragraphs 5 to 10 above?

- If so, would it be helpful to discuss with us how we could develop a more targeted and polished presentation? Are there any aspects on which you would like further work to concentrate?

- What is your attitude to publication?

A J G ISAAC

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON
DATE: 5 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION : PRESENTATION OF DISTRIBUTIONAL EFFECTS

Introduction

1. The Green Paper on the Reform of Personal Taxation, Annex 4, gave a detailed analysis of the distributional effects of transferable allowances. We are now considering the need for similar analysis on independent taxation at the Budget or shortly afterwards.

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cc. Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middelton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Odling-Smee
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill
Mr Isaac
Mr Painter
Mr Calder
Mr Lewis
Mr Beighton
Mr Eason
Mr Mace
Miss White
PS/IR

2. An analysis on our normal basis of changes for tax units will show that the large gainers from Independent Taxation will be married couples on high incomes. Some aged couples on quite low incomes will gain from the disaggregation of Category B pensions, but the largest gains and a high proportion of the Exchequer cost will benefit those couples with incomes above, say, £25,000 per annum (precise figures, of course, depend on the tax rates and thresholds of the tax regime in 1990-91.) We have therefore considered whether further analysis based on the principles of Independent Taxation are worth pursuing.

Style of Analysis

3. We have given some preliminary thought to the type of analyses that could be produced. It seems inappropriate to replicate Annex 4 of the Green Paper since only half of all taxpayers will be affected and there will be few losers. We therefore have prepared a new set of tables more appropriate to Independent Taxation. These incorporate two complementary approaches to the analysis.

(a) Based on Existing Tax Units where the analysis is based on the change in tax liability for each married couple. Under the existing regime tax liability for the couple is a straightforward calculation but following Independent Taxation, it requires the aggregation of the liability for each spouse.

(b) Based on Individuals and changes in their individual tax liabilities. This type of analysis reflects the principles underlying Independent Taxation and treats each person separately. Calculation of liability is straightforward after the reform, but it is not currently possible for each spouse under a strict interpretation of existing tax law. However we can estimate individual liability approximately from existing data recorded on the Survey of Personal Incomes by, for example, treating the wife's income (earnings and from investments) as the top slice of the couple's income. The husband's liability would be derived directly from his income and the wife's liability by deducting this from the couple's liability. This approach can at best be approximate because we cannot split reliefs and deductions between spouses properly.

We think that any distributional analysis must include some tables based on existing tax units, both for consistency with previous approaches and because of the close financial relationship that exists between partners in a marriage. A question is whether a complementary analysis by income of separate spouses would also be helpful.

4. Almost without exception, if a couple gains, so does the wife and in many cases the size of her gain will equal that of the couple (in other words the husband's gain is zero). In some cases, husbands will also gain, for example if his married man's allowance is restored after no longer claiming wife's earnings election or if the aged income limit no longer prevents the aged married allowance being claimed. Husbands will also lose when the vanishing exemption arrangements withdraw the couple's allowance. But on the basis of para 3(b), the vast bulk of the total gain under Independent Taxation would be attributable to the wives. Moreover many of these will have relatively low levels of income.

5. I attach a set of tables to illustrate the two approaches. They are roughly prepared at present and are only intended as an introduction to consideration of more detailed requirements if this seems worthwhile. All tables are based on 1990-91 income levels with Option 3 introduced in 1988-89 and then indexed. Composite rate has been incorporated at a rate consistent with a basic rate of 25p but without taking account of the changing distribution of accounts between taxpayers and non-taxpayers under Independent Taxation. Hence the aggregate cost figures in the tables are slightly distorted. Withdrawal of the married couple's allowance has been incorporated, but we have made no allowance for income splitting nor of the large upsurge in share ownership from privatisation issues.

6. The tables are in four sets:

Set A - shows the change in the tax unit's tax liability by the tax unit's income.

Set B - shows the change in the tax unit's tax liability by the wife's income.

Set C - shows the change in the wife's liability by her income.

Set D - shows the change in the husband's liability by his income.

Sets C and D are therefore based on the new approach and subject to greater error.

7. The main features of the tables can be summarised as follows.

(i) Set A shows the large proportion of gains at high levels of income despite large numbers of gainers with low incomes. The latter comprise aged couples gaining from disaggregation of Category B pensions and others gaining from setting the wife's investment income against her personal allowance. The losers in the final table will mainly be protected (e.g. breadwinner wives), but the 150,000 losers at the highest levels of income are losing from the withdrawal of the married couple's allowance.

(ii) Set B shows that much of the aggregate gain is to wives with no or little income of their own (about 40 per cent to those with incomes of less than £5,000). Nonetheless the average gain still increases with income.

(iii) Set C reveals, as expected, almost identical results to Set B. So the couple's gain will normally accrue to the wife and the majority of these will have low income.

(iv) Set D shows 350,000 cases where the husband gains irrespective of his wife's gain or loss. These are nearly all wife's earnings election cases in which the husband will claim a married couples allowance. There are also cases where the aged income limit will not reduce entitlement to age allowance. There are also over 200,000 husbands who lose from the withdrawal of the married couple's allowance.

8. Although both the statistics and the style of the analyses are provisional, we should welcome guidance on whether this topic needs further work, either for internal briefing or for publication in any form when the Independent Taxation proposals are announced.

R J EASON

SET A Table 1
Aged and Non aged

SET Gain/Loss of tax unit by range of total income of tax unit

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	4	23
5	132	679	194
10	81	378	215
15	44	229	191
20	22	126	173
25	20	100	202
30	80	255	315
35	96	209	460
40	67	120	561
45	55	76	727
50	115	130	890
TOTAL	713	2306	309

Gainers by range of income and amount of gain

Amount of gain (£ per year)

Income range (lower limit) £000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	3	0	0	0	0	0	0	4
5	182	73	121	71	207	21	4	679
10	122	42	48	21	82	19	43	378
15	88	20	43	10	39	11	18	229
20	45	9	35	6	17	8	5	126
25	40	17	14	3	7	4	16	100
30	31	15	39	55	38	46	30	255
35	12	7	8	19	15	90	58	209
40	7	4	6	7	6	34	56	120
45	3	2	3	3	5	10	50	76
50	6	4	6	6	9	13	85	130
TOTAL	540	194	324	201	426	255	366	2306

LINE 588 COLUMN WRAP
GAIN←GAIN1×(DAGED=2)
GAINERS R

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	4	11
5	6	119	50
10	3	135	25
15	4	102	43
20	5	65	78
25	5	59	82
30	59	225	264
35	78	190	413
40	53	109	488
45	44	68	650
50	80	109	733
TOTAL	339	1185	286

LINE 610 COLUMN WRAP
GAINS R

Gainers by range of income and amount of gain

Income range (lower limit) £000s	Amount of gain (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	3	0	0	0	0	0	0	4
5	100	10	3	4	0	2	1	119
10	109	22	2	1	4	0	¯3	135
15	82	12	2	1	0	2	1	102
20	43	8	8	1	3	0	2	65
25	38	11	5	1	1	1	2	59
30	27	15	39	50	37	44	12	225
35	11	7	8	19	15	88	42	190
40	7	4	5	7	5	34	47	109
45	3	2	2	3	5	9	44	68
50	5	3	5	6	8	12	69	109
TOTAL	429	94	81	91	79	192	219	1185

SET A Table 3
Aged

LINE 506 COLUMN WRAP
GAINERS R

Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	0	0
5	126	560	224
10	78	243	321
15	39	128	309
20	17	61	274
25	15	42	368
30	21	30	705
35	18	19	930
40	14	11	1315
45	11	7	1465
50	35	20	1741
TOTAL	374	1121	333

LINE 527 COLUMN WRAP
GAINS R

IN

Gainers by range of income and amount of gain

Income range (lower limit) £000s	Amount of gain (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	83	63	118	67	207	19	3	560
10	14	21	46	20	78	18	46	243
15	6	8	41	8	38	9	17	128
20	3	1	27	6	14	7	4	61
25	2	6	9	2	6	3	14	42
30	3	0	1	5	1	2	18	30
35	0	0	0	0	0	2	16	19
40	0	0	0	0	1	1	9	11
45	0	0	0	0	0	1	6	7
50	1	0	1	0	1	1	16	20
TOTAL	111	100	243	110	346	63	147	1121

SET A Table 4
Non aged 1 earner
married couple

LINE 745 COLUMN WRAP

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GAIN←((DTI-DWEI)>4455)×(DWEI<2835)×GAIN1
GAINERS R
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Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	3	11
5	6	119	50
10	3	135	25
15	4	102	43
20	5	65	78
25	4	36	101
30	7	32	212
35	9	25	345
40	6	16	403
45	5	8	615
50	27	21	1289
TOTAL	77	562	136

LINE 767 COLUMN WRAP

GAINS R

Gainers by range of income and amount of gain

Income range (lower limit)	Amount of gain (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	2	0	0	0	0	0	0	3
5	100	10	3	4	0	2	1	119
10	109	22	2	1	4	0	¯3	135
15	82	12	2	1	0	2	1	102
20	43	8	8	1	3	0	2	65
25	26	3	3	1	1	1	2	36
30	10	5	5	4	2	1	4	32
35	8	4	3	2	1	2	6	25
40	5	2	2	2	1	1	4	16
45	2	1	1	1	0	0	3	8
50	1	1	1	1	1	3	14	21
TOTAL	387	67	31	17	13	13	35	562

SET A Table 5
Non aged 2 earner
married couple

LINE 808 COLUMN WRAP

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GAIN←((DTI-DWEI)>4455)×(DWEI>2835)×GAIN1
GAINERS R
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Gainers ranged by total income (lower limit)

Range of total income	Amount of gain	Number of gainers	Average gain
£000s	£million	000s	£
0	0	0	0
5	0	0	0
10	0	0	0
15	0	0	0
20	0	0	0
25	1	22	52
30	53	193	273
35	70	165	423
40	47	93	502
45	40	60	655
50	53	88	599
TOTAL	263	622	422

LINE 830 COLUMN WRAP

GAINS R

Gainers by range of income and amount of gain

Income range (lower limit) £000s	Amount of gain (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0
25	12	7	2	0	0	0	0	22
30	17	10	33	47	36	43	8	193
35	3	4	5	16	14	86	36	165
40	3	2	4	5	5	33	43	93
45	1	1	2	2	5	9	41	60
50	5	2	4	4	8	10	55	88
TOTAL	41	27	50	74	66	180	184	622

SET A Table 6
ALL LOSERS

LINE 416 COLUMN WRAP
LOSERS R

Losers ranged by total income (lower limit)

Range of total income	Amount of loss	Number of losers	Average loss
£000s	£million	000s	£
0	0	3	47
5	46	143	324
10	55	144	379
15	26	67	385
20	7	22	325
25	6	13	465
30	1	2	328
35	0	0	0
40	4	15	256
45	4	27	157
50	58	124	470
TOTAL	207	559	370

LINE 437 COLUMN WRAP
LOSSES R

Losers by range of income and amount of loss

Income range (lower limit) £000s	Amount of loss (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	2	0	1	0	0	0	0	3
5	21	17	24	16	14	16	34	143
10	14	11	30	20	9	7	52	144
15	8	5	9	10	7	7	21	67
20	3	2	5	1	1	6	5	22
25	4	0	1	1	0	1	5	13
30	0	0	0	0	0	0	0	2
35	0	0	0	0	0	0	0	0
40	5	4	3	0	0	0	3	15
45	3	6	10	7	1	0	0	27
50	4	6	7	14	12	13	68	124
TOTAL	64	50	90	70	45	50	189	559

GAINS R

SET B Table 1
Aged and Non aged

SET B: Gain/Loss of tax unit by range of
wife's income (earned + investment)

LINE 677 COLUMN WRAP

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by tax unit	Number of tax units who gain	Average gain
£000s	£million	000s	£
0	19	408	47
1	178	695	257
2	39	176	222
3	31	119	264
4	27	96	284
5	137	326	420
10	120	262	458
15	76	136	560
20	40	49	813
25	17	16	1066
30	11	10	1093
35	6	6	1126
40	3	3	1106
45	1	2	846
50	6	3	2003
TOTAL	713	2306	309

LINE 703 COLUMN WRAP

Gainers by range of wifes income and amount of gain

Income range (lower limit) £000s	Amount of gain by tax unit (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	294	60	33	17	3	0	0	408
1	117	58	86	70	296	34	35	695
2	70	18	13	10	23	18	24	176
3	20	17	32	9	14	12	16	119
4	10	7	24	28	13	1	13	96
5	9	15	99	18	35	36	113	326
10	13	18	28	34	16	76	77	262
15	7	1	4	12	18	55	39	136
20	0	0	4	1	5	19	21	49
25	0	0	1	1	2	2	11	16
30	0	0	0	1	0	2	7	10
35	0	0	0	0	0	1	4	6
40	0	0	0	0	0	0	2	3
45	0	0	0	0	0	0	1	2
50	0	0	0	0	0	0	3	3
TOTAL	540	194	324	201	426	255	366	2306

SET B Table 2
Aged

LINE 863 COLUMN WRAP
GAINERS R

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by tax unit	Number of tax units who gain	Average gain
£000s	£million	000s	£
0	10	84	115
1	172	616	280
2	33	94	353
3	22	64	339
4	14	46	303
5	53	145	364
10	23	43	536
15	17	14	1169
20	12	6	1921
25	6	3	1951
30	4	2	2041
35	2	1	1973
40	1	0	0
45	1	0	0
50	4	1	3059
TOTAL	374	1121	333

LINE 890 COLUMN WRAP

Gainers by range of wifes income and amount of gain

Income range (lower limit)	Amount of gain by tax unit (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	30	16	17	18	2	0	0	84
1	61	49	86	62	293	32	34	616
2	11	10	8	5	21	15	25	94
3	0	9	17	7	13	6	12	64
4	4	5	17	4	7	0	8	46
5	0	5	83	7	10	7	34	145
10	2	7	15	6	1	1	12	43
15	3	0	0	1	0	1	9	14
20	0	0	0	0	0	1	5	6
25	0	0	0	0	0	0	3	3
30	0	0	0	0	0	0	2	2
35	0	0	0	0	0	0	1	1
40	0	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	1	1
TOTAL	111	100	243	110	346	63	147	1121

SET B Table 3
Non aged

LINE 1040 COLUMN WRAP

Gainers ranged by wifes total income (lower limit)
after independent taxation

Range of wifes total income	Amount of gain by tax unit	Number of tax units who gain	Average gain
£000s	£million	000s	£
0	9	324	29
1	6	79	76
2	6	82	73
3	10	55	174
4	13	50	268
5	84	181	464
10	97	219	443
15	60	122	488
20	28	43	650
25	11	13	842
30	7	8	868
35	4	4	883
40	2	2	842
45	1	1	607
50	3	2	1381
TOTAL	339	1185	286

LINE 1066 COLUMN WRAP IN

Gainers by range of wifes income and amount of gain

Income range (lower limit)	Amount of gain by tax unit (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	264	44	16	¯1	1	0	0	324
1	56	8	1	8	3	2	1	79
2	59	8	5	5	2	3	¯1	82
3	19	9	14	2	1	6	4	55
4	6	2	7	24	5	1	5	50
5	9	10	17	12	25	29	79	181
10	11	11	13	28	16	75	65	219
15	4	1	4	11	18	54	30	122
20	0	0	4	1	5	18	15	43
25	0	0	1	1	1	2	8	13
30	0	0	0	0	0	2	5	8
35	0	0	0	0	0	1	3	4
40	0	0	0	0	0	0	2	2
45	0	0	0	0	0	0	0	1
50	0	0	0	0	0	0	2	2
TOTAL	429	94	81	91	79	192	219	1185

SET B Table 4
ALL LOSERS

LINE 756 COLUMN WRAP

Losers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of loss by tax unit	Number of tax units who lose	Average loss
£000s	£million	000s	£
0	44	104	423
1	4	15	273
2	8	20	384
3	4	22	200
4	6	42	135
5	72	230	312
10	45	91	494
15	15	23	651
20	5	8	686
25	0	1	398
30	1	1	686
35	3	2	1112
40	0	0	0
45	0	0	0
50	0	0	0
TOTAL	207	559	370

SET C Table 1
Aged and Non aged

SET C: Wife's gain/loss by range of wife's income (earned and investment)

INE 367 COLUMN WRAP INPUT
^
GAINERS R

Gainers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of gain by wife	Number of wives who gain	Average gain
£000s	£million	000s	£
0	20	424	48
1	182	703	260
2	41	183	225
3	34	128	264
4	31	105	297
5	112	286	391
10	55	148	369
15	38	67	570
20	22	23	966
25	11	6	1942
30	7	3	2185
35	4	2	2310
40	2	1	2023
45	1	0	0
50	6	2	3223
TOTAL	567	2080	273

INE 425 COLUMN WRAP INPU'
^
GAINS R
Gainers by range of wifes income and amount of gain

ncome range lower limit) £000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
	Amount of gain by wife (£ per year)							
0	303	63	35	19	4	0	0	424
1	117	58	87	70	296	34	41	703
2	73	19	13	10	24	18	26	182
3	21	19	36	9	14	10	19	128
4	9	6	24	37	14	2	14	105
5	14	17	99	18	35	24	79	286
10	21	21	32	36	14	1	23	148
15	10	3	6	13	19	1	15	67
20	2	1	5	1	1	1	12	23
25	0	0	0	0	1	0	4	6
30	0	0	0	0	0	0	2	3
35	0	0	0	0	0	0	1	2
40	0	0	0	0	0	0	1	1
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	2	2
TOTAL	571	206	338	213	422	90	240	2080

SET C Table 2
Aged and Non aged

LINE 395 COLUMN WRAP I

LOSERS R

Losers ranged by wifes total income (lower limit) after independent taxation

Range of wifes total income	Amount of loss by wife	Number of wives who lose	Average loss
£000s	£million	000s	£
0	0	0	0
1	0	0	0
2	0	0	0
3	1	12	65
4	3	32	93
5	71	227	315
10	45	91	494
15	15	23	651
20	5	11	463
25	1	4	196
30	1	1	596
35	3	2	1111
40	0	0	0
45	0	0	0
50	0	0	0
TOTAL	145	403	359

LINE 452 COLUMN WRAP IN:

Losers by range of wifes income and amount of loss

Income range (lower limit)	Amount of loss by wife (£ per year)							
£000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0
3	7	2	3	0	0	0	0	12
4	12	9	8	2	1	0	0	32
5	23	19	51	33	23	24	53	227
10	4	5	7	13	6	11	45	91
15	4	0	1	1	2	1	14	23
20	5	0	0	0	0	0	6	11
25	1	0	1	0	0	1	0	4
30	0	0	0	0	0	0	1	1
35	0	0	0	0	0	0	2	2
40	0	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	0	0
TOTAL	57	35	71	49	32	37	122	403

SET D Table 1
Aged and Non aged

SET D: Husband's gain/loss by range of husbands income (earned and investment)

LINE 540 COLUMN WRAP INF

Gainers ranged by husbands total income (lower limit) after independent taxation

Range of husbands total income	Amount of gain by husbands	Number of husbands who gain	Average gain
£000s	£million	000s	£
0	0	0	0
5	0	1	370
10	4	9	404
15	13	31	405
20	34	84	406
25	50	96	515
30	51	81	637
40	17	30	550
50	4	13	281
TOTAL	172	346	498

NE 587 COLUMN WRAP INPUT

Gainers by range of husbands income and amount of gain

Amount of gain by husband (£ per year)

ıcome range ower limit) £000s	0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	1	0	1
10	0	0	0	0	0	9	0	9
15	0	0	0	0	0	31	0	31
20	0	0	0	0	0	84	0	84
25	0	0	0	0	0	50	46	96
30	0	0	0	0	0	3	77	81
40	0	0	0	0	4	5	21	30
50	1	1	2	3	2	1	2	13
TOTAL	1	1	2	3	6	185	146	346

LINE 559 COLUMN WRAP

LOSERS R

Losers ranged by husbands total income (lower limit) after independent taxation

Range of husbands total income	Amount of loss by husband	Number of husbands who lose	Average loss
£000s	£million	000s	£
0	0	0	0
5	0	0	0
10	0	0	0
15	0	0	0
20	0	0	0
25	0	0	0
30	0	0	0
40	10	72	142
50	78	139	558
TOTAL	88	212	416

INP

LINE 605 COLUMN WRAP

LOSSES R

Losers by range of husbands income and amount of loss

Income range (lower limit) £000s	Amount of loss by husband (£ per year) 0-50	50-100	100-200	200-300	300-400	400-500	>500	TOTAL
0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0
25	0	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0	72
40	15	13	25	13	6	0	0	139
50	1	1	3	7	9	15	104	
TOTAL	16	14	27	20	15	15	104	212

Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

Copy No 1 of 24.

Ch/ A lot to be said for taking the initiative and publishing these alternative tables, I think.

5/2

FROM: A J G ISAAC
5 February 1988

CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

1. The attached note from our Statistics Division reports the outcome of the work we have done so far on the distributional effects of independent taxation for married women.

ISAAC → CH/EX 5/2

2. I would not want you to put too much weight on any precise figures at this stage. The underlying data are imperfect; and a good deal of work remains to be done before we can be reasonably satisfied about their interpretation. Even the final figures are likely to represent no more than broad orders of magnitude. By the same token we have not at this stage attempted to polish the presentation: the figures are as they come out of the machine.

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Odling-Smee
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill
Mr Isaac
Mr Painter
Mr Calder
Mr Lewis
Mr Beighton
Mr Eason
Mr Mace
PS/IR

3. I am showing this material to you at this stage, because it sets the context for two questions on which we should be grateful for your policy guidance.

(i) On what basis, or combination of bases, should we present the figures?

(ii) Should we take the initiative in publishing? Or should we publish only in response to (the almost certain) request from others to publish, or in response to the publication of alternative estimates by (for example) the Institute for Fiscal Studies?

The basis for the calculation

4. The work that you have seen so far has been on a "conventional" basis. That is, it shows the distribution of gains and losses by "taxpaying units" - taking husband and wife as a single unit. Clearly, it is essential that you should have the figures on this basis - if only because it is familiar and describes the changes to existing tax units. The figures show the familiar "regressive" effect - with a lion's share of the gains going to couples where the wife's personal income may or may not be high, but where the husband's income is high (and who are therefore classed as "high income families").

5. It has occurred to us that it might be worth looking at the figures on a rather different basis - and arguably one more consistent with independent taxation. When all is said and done, the justification for independent taxation has to be that the married woman should be taxed by reference to her income, not by reference to her husband's income.* Arguably (as I have said)

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*Some people - and many of those most likely to criticise any "regressive" effects of independent taxation - would go further, and argue that tax should pay no regard to marriage, which they see as no more than a private contract between man and woman.

this points to the logical conclusion that we should analyse the distributional effects on the same basis - that is, the married woman's gain or loss by reference to her income - not by reference to her husband's income. To the extent that many married women gain, it may be largely because many have relatively low personal incomes in their own right. There is no need for apology if the effect of independent taxation is (for the first time) to recognise that fact and extend to married women the same treatment that we now give to single men and women.

6. In effect, the argument is that it would be internally inconsistent - not to say quixotic - to base the tax reform on a principle of "independence", and then analyse its distributional effects on a principle of "aggregation".**

7. The table below illustrates the extent to which the alternative approach might show a less "regressive" effect of independent taxation. Inevitably, a number of married women with large incomes enjoy large gains on either basis; but the alternative approach shows a much larger share of the total gains going to women with modest personal incomes.

** I am reminded of the "internal inconsistency", when fiscal policy was being determined having regard to its likely financial effects (a fixed money supply assumption), but people were using the Treasury model to simulate the effects of a fiscal stimulus without regard to the financial effects (a fixed interest rate assumption).

	Income (£000s)						(%)
	<5	5-10	10-15	15-20	20-25	25+	Total
Distribution of gains by							
- tax units income	-	18.5	11.4	6.1	3.1	60.7	100
- wife's income	41.2	19.2	16.8	10.7	5.6	6.2	100
Distribution of gainers by							
- tax units income	-	29.4	16.4	9.9	5.6	38.5	100
- wife's income	64.5	14.3	11.3	6.1	2.2	1.7	100

Thus, for example:

- under the conventional approach $^3/5$ths of the total Exchequer cost and nearly $^2/5$ths of the total number of "gainers" can be found amongst married couples with an income of over £25,000;

- Under an alternative approach $^2/5$ths of the total cost and nearly $^3/4$ of the total number of gainers can be found amongst married women with income of less than £5,000.

8. In more detail, Mr Eason's note gives you four sets of tables:

- Set A: "conventional" analysis.

- Set B: Changes in tax liability of tax unit analysed by income of the married woman.

- Set C: Changes in tax liability of married women analysed by income of married women.

- Set D: Changes in tax liability of married men, analysed by income of married men (these account for perhaps one-quarter of the total cost, but there are both gainers and losers).

Clearly can't suppress but consider option (ii) approach; or at least not on main proposals.

9. I imagine that you will agree that it would not be right, or realistic, to attempt to suppress the "conventional" figures (distribution by reference to the income of tax units/families). The question is whether you think it would be helpful to supplement the conventional figures, by showing, in addition, the income and distribution on an "independent" basis (by reference to the income of the married women themselves). As Mr Eason's note explains, in order to carry out the analysis on the independent basis, it is necessary to establish a convention under the existing tax regime to identify the separate tax liabilities of each spouse.

10. One further point is worth consideration at this stage. The analyses in Mr Eason's paper (and all the income tax costings of independent taxation Ministers have seen so far) are based on the existing distribution of income between spouses. That is, they ignore any transfer of assets there might be from (say) husband to wife and the possible conversion of such assets into a more tax efficient form in the wife's hands. Such transfers would, of course, add to some married couples' gains and increase the cost to the Exchequer. We are now looking at this in more detail to consider whether a reasonable estimate of these behavioural changes can be made.

Whether the Government should take the initiative

11. In principle, there seem to be three main options:

(i) The Government could take the initiative in publishing the figures.

(ii) The Government could publish only in response to an outside question.

(iii) The Government might refuse to publish, in any circumstances - even in answer to a Parliamentary Question.

12. On the face of it, Ministers may think that Option (iii) does not look plausible. The Green Paper on the Reform of Personal Taxation gave (in Annex 4) a full distributional analysis of transferable allowances, including independent taxation for married women's investment income. The task for this year's Budget changes would be self-evidently easier - both because it would involve only independent taxation (without the major complication of transferable allowances generally); and because it would not in practice need (as Annex 4 of the Green Paper needed) to analyse in detail the interrelations with social security. It can therefore hardly be said that the distributional analysis of independent taxation is either unimportant, or technically unduly difficult or uncertain.

13. The arguments in favour of Option (ii) are that it might give publication a rather lower profile, allowing the Government to distance itself a little from the results. However, we must presumably plan on the assumption that the Government will be asked to publish the distributional effects; and it would be very surprising if others - such as the IFS - did not publish their own estimate pretty soon. The disadvantages of this course are therefore perhaps (first) that Ministers would forgo the initiative in handling the presentation (for example, a Parliamentary Question from the Opposition would be likely to focus explicitly on the "conventional" analysis); and (second) the IFS analysis might be accepted by default, so that in practice the commentators might focus predominantly on the IFS presentation (which we might expect to be both less accurate, and less favourable).

14. Against that background, officials in the Revenue see some attraction in Option (i), as being (generally) consistent with an "open Government" approach and (more directly) allowing Ministers to retain the initiative, and (so far as possible) control the initial presentation. However, it is very much a matter for Ministers' political judgment. If you decide in favour of Option (i), you might in due course like to consider with us the most effective tactics and vehicle for publication.

Questions for consideration

15. It would be most helpful to have your guidance on three general questions at this stage:

- Do you see attractions in some form of the "alternative" approach discussed in paragraphs 5 to 10 above?

Yes

- If so, would it be helpful to discuss with us how we could develop a more targeted and polished presentation? Are there any aspects on which you would like further work to concentrate?

Yes for discussion*

- What is your attitude to publication?

Talk to ministers

A J G ISAAC

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

pup

FROM: B A MACE

DATE: 8 FEBRUARY 1988

Ch/ Main note immediately behind. Agree that long-term solution is to abolish the restriction on the relief? If so, do this immediately, or make only a limited concession at the outset?

FINANCIAL SECRETARY

AG 8/2

INDEPENDENT TAXATION: PERSONAL ALLOWANCES FOR NON-RESIDENTS

SECTION 27 ICTA 1970

1. In my note on this subject earlier today I omitted to say that, on a very rough estimate, we think that the Option 2 changes described in paragraphs 36-37 might give rise to an additional 20,000 new claims (because married women would become claimants in their own right) at a revenue cost of some £5-10 million.

[Await FST's views]

B A Mace

B A MACE

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cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call
Parliamentary Counsel
(Mr Jenkins)

Mr Isaac
Mr Painter
Mr Cleave
Mr Lewis
Mr Houghton
Mr Beighton
Mr Fawcett
Mr Shepherd
Mr Mace
Mr R Thomas
Mr O'Brien
Mr Davenport
Mr Bousher
Mr S C Jones (Claims)
Mr J C Jones
Miss Dyall
PS/IR

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BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 8 FEBRUARY 1988

1. MR ISAAC 8.2

2. FINANCIAL SECRETARY

INDEPENDENT TAXATION: PERSONAL ALLOWANCES FOR NON-RESIDENTS SECTION 27 ICTA 1970

1. This note considers the treatment under Independent Taxation of certain non-residents who qualify (under existing rules) for a measure of personal reliefs. The relevant provisions are very arcane and do not fit well with the Independent Taxation proposals for transfer of the married couple's allowance (MCA) where the husband has a small income. It is necessary to decide how the provisions should be adapted.

Background

2. Under existing law a non-resident is not normally entitled to personal allowances. But the legislation (Section 27(2) Income and

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cc Chancellor
Chief Secretary
Paymaster General
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Mr P Middleton
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(Mr Jenkins)

Mr Isaac
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Mr Lewis
Mr Houghton
Mr Beighton
Mr Fawcett
Mr Shephard
Mr Mace
Mr R Thomas
Mr O'Brien
Mr Davenport
Mr Bousher
Mr S C Jones (Claims)
Miss Dyall
PS/IR

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Corporation Taxes Act 1970) gives a measure of relief to non-resident British subjects including forces and diplomatic service personnel overseas (who are liable to UK tax on their pay), and to some others, including citizens of the Irish Republic, Commonwealth citizens and (indirectly) some people who qualify for relief under certain double taxation agreements. The relief is related to the proportion of the individual's total world income which is liable to tax in the UK. For example, suppose a qualifying non-resident has total world income from all sources of £7,000 of which £2,000 is liable to tax in the UK. Suppose in addition that he would be entitled to personal allowances of £3,795 if he were resident in the UK. Then the income tax he has to pay is

$$\frac{2{,}000}{7{,}000} \times \text{notional UK tax liability } \underline{\text{on total world income}}$$

$$= \frac{2{,}000}{7{,}000} \times ((7{,}000 - 3{,}795) \times 27\%)$$

$$= £247.24$$

3. It is difficult to obtain precise figures for the numbers who benefit from these provisions but we think that the total number might be around 60,000 or so of which around 27,000 are Crown Servants including British Servicemen and Crown Pensioners, a further 20,000 are ex-patriate British subjects born in this country and now resident abroad, around 2,500 who are citizens of the Irish Republic and the remainder are Commonwealth citizens, colonal service pensioners, residents of the Isle of Man or Channel Islands and some beneficiaries under double tax agreements.

Effect of Section 27 under Independent Taxation

4. In some cases these relief provisions will operate satisfactorily under Independent Taxation, without further amendment. It will follow automatically from the abolition of the aggregation rule that the special rules will apply separately to the incomes of husband and wife if they individually satisfy the

necessary qualifying conditions. Indeed there are two respects in which the rules would arguably give a more logical and sensible result under Independent Taxation than they do at present.

5. First, under Independent Taxation a married woman will have to satisfy the qualifying conditions for relief under these provisions in her own right rather than on the basis of her husband's status. So, on the one hand, for example, some non-resident married women who are not British subjects will fall outside the scope of the relief on the change to Independent Taxation while, on the other, married women who are British subjects but who are presently barred from claiming relief because their husbands do not satisfy the qualifying conditions will gain entitlement.

5. Second, abolition of the aggregation rule will end an anomaly in the provisions which exists following a High Court decision in 1984. As a result of this decision any income of a man's wife which is not chargeable to UK tax is not brought into the calculation of his total world income for the purposes of determining the measure of relief for which he qualifies. The effect of leaving out this part of the wife's income from the calculation gave benefit in a rather capricious way to certain non-resident taxpayers and put the calculation of relief under these provisions on a less rational basis than it had been previously. Under Independent Taxation, if the present rules were continued roughly in their present form, a wife's income which is not chargeable to UK tax would be brought into the calculation of her liability in the same way as non-chargeable income is brought in in calculating the tax of any other individual. In some cases this might lead to an increase in the couple's joint liability to UK tax compared with the present position. But the effect would often be to do no more than restore the position to broadly what it was before the adverse High Court decision in 1984. (The previous treatment had been generally accepted for over 60 years up to then).

Transfers of married couple's allowance

6. The present rules for this group of non-residents do not fit

well, however, with the provisions for transfer of the married couple's allowance from husband to wife where the husband is unable to use his full allowance. If a non-resident husband has a small income liable to UK tax the provisions may give rise to anomalous results. The following examples show the effect of the provisions if no action were taken to amend them.

Example 1

7. In this example a non-resident British subject has no income liable to tax in the UK but total world income (ie all income whether or not liable to UK tax) of £4,200. If he were a UK resident his personal allowances would be £3,795 (including £1,370 MCA).

8. Under Section 27 his liability to UK tax is, of course, nil (no income chargeable to UK tax). The effect of the provisions on the transfer of the MCA is far from certain in this case but it looks as if the whole of the MCA would be available to transfer to his wife.

Example 2

9. In this example the individual has a small income of £200 liable to UK tax and £4,000 of income which is not liable. Again it is assumed that if he were resident in the UK he would be entitled to personal allowances of £3,795.

10. In this case the effect of Section 27 is to give the individual the benefit of relief based on the proportion of his total world income which is liable to tax in UK. So he effectively gets reliefs of

$$\frac{200}{4200} \times £3,795 = £180$$

to set against the £200 of income chargeable to UK tax (making his tax bill £5.20). But this completely exhausts his entitlement to relief and there are no further allowances available to transfer to his wife. The (non-) taxpayer in Example 1 gets more favourable treatment because the MCA is available to transfer to his wife if she is liable to UK tax.

Example 3

11. In this example, the husband has income of £4,200 all of which is liable to tax in the UK and his wife has investment income of £4,200 of which £4,000 is not liable to UK tax. Again the husband's personal allowance is assumed to be £3,795 and the wife's allowance is assumed to be £2,425.

12. Under Section 27 and Independent Taxation the husband's liability to UK tax would be (4200 - 3795) @ 27% = £109.35. The wife's liability would be

$\frac{200}{4200}$ (4200 - 2425) @ 27% = £22.82.

13. Under Section 27 as it applies within the present aggregation system the couple's joint liability to UK tax would be:

(4400 - 3795) @ 27% = £163.35

(As a result of the High Court decision mentioned previously the wife's income which is not liable to tax does not enter into the calculation of the relief.) So in this instance the couple would see a reduction in their combined liability to tax under Independent Taxation.

Example 4

14. In this example the roles of the husband and wife in Example 3 are reversed so that the husband has income of £4,200, £4,000 of which is not liable to tax in the UK and the wife has income of £4,200 all of which is liable to UK tax. The allowances available are as in the previous example.

15. Under Section 27 as it would apply under Independent Taxation the husband's liability to UK tax would be

$$\frac{200}{4200} \ (4200 - 3795) \ @ \ 27\% = £5.20$$

as in Example 1. But his wife's liability would be

(4200 - 2425) @ 27% = £479.

16. With the present aggregation system the couple's joint liability as a result of Section 27 would be £308 if the wife's income is earned income and £651 if the wife's income is from investments.* So the couple's total liability falls substantially on the change to Independent Taxation if the wife's income is from investments but increases significantly if her income is earned.

Comment

17. As these examples show the combination of the effect of Section 27 and the change to Independent Taxation can give rise to capricious results. The examples have been chosen to bring out the effect of the changes particularly sharply and in practice the disparities of treatment which would arise would in most cases be less severe than those illustrated. Nevertheless a number of general conclusions can be drawn.

18. First, the provision for transfer of the MCA does not work satisfactorily for those non-residents who qualify for personal allowances under Section 27. In particular a full transfer of the

* The comparison with the present liability of the couple in Example 3 shows the capricious effect of the High Court decision mentioned earlier. Before that decision the liability of the couple in Example 3 would also have been £651.

MCA from husband to wife would be available where the husband had no income liable to UK tax but none would be due if the husband had a small amount of income liable to UK tax and a small amount of non-liable income (compare Examples 1 and 2). There seems little justification for the generous effect of the present provisions in the case where the husband has no income liable to UK tax; but the inpact where there is a small income (a pension from a former employment in the UK for example) and a small amount of non-liable income is harsh since it can lead to an unexpected increase in a couple's liability on the changeover to Independent Taxation if the wife has income liable to UK tax (see Example 4).

19. Second, the effect of the interaction between the relieving provision and Independent Taxation is that a couple's total liability can depend to a considerable extent on the disposition of income of different kinds between the spouses (compare Examples 3 and 4). There is no corresponding disparity of treatment for UK residents: under Independent Taxation the total tax liability of a couple in which the husband has income of £5000 and the wife has income of £2000 will be the same as the liability of a couple in which the roles of the husband and wife are reversed (so that the husband has income of £2000 and the wife has income of £5000). This is achieved because of the transferability of the MCA in the second case.

20. Third, as the examples generally show, the change to Independent Taxation can lead to gainers and losers amongst this group of non-residents in a way which is unpredictable because it depends on the distribution of income between the couple and whether or not it is liable to UK tax.

Options for amending Section 27

21. We have spent some time considering how the provisions of Section 27 might be amended to achieve a more satisfactory result under Independent Taxation. But we have not been able to devise a simple approach which retains something like the present relief provisions and deals with all the potential anomalies which could

arise on the change to the new system. The interactions between the approach to giving relief to this group of non-residents, based on the proportion of the individual's world income liable to tax in the UK and the change to Independent Taxation, including the transfer of the MCA from husband to wife, are too complex to permit acceptable results to be obtained in every case. The following paragraphs consider two possible options for amending Section 27 so that it would fit in better with Independent Taxation. Although we think either option is administratively feasible both options have drawbacks on policy grounds.

Option 1: give unrestricted relief

22. Against the background of the anomalies to which the present form of Section 27 could give rise on the change to Independent Taxation one option might be simply to abolish the present treatment which restricts the personal reliefs of this group of non-residents by reference to the proportion of their world income which is liable to UK tax. This would mean that with effect from 1990-91 this group of non-resident taxpayers (both single and married) would qualify for full personal allowances against their income liable to UK tax. The Independent Taxation provisions including the transfer of the MCA could then apply to this group in exactly the same way as they apply to all taxpayers resident in the UK. (We think however that we would probably want to preclude these non-residents from claiming the special transitional relief available for breadwinner wives who are resident in the UK; it would be exceptionally generous to give this group of non-residents the benefit of both unrestricted allowances and transitional relief.)

Advantages of Option 1

23. We think there are a number of advantages in the Option 1 approach.

24. First by giving more generous treatment it would eliminate the capricious consequences which could otherwise arise for this group of non-residents on the changeover to Independent Taxation. Even

without the transitional relief for breadwinner wives which will be available to UK residents it is most unlikely that there would be any losers on the change to Independent Taxation.

25. Looking at the Examples in paragraphs 7-16 the tax liabilities of the individuals concerned under Independent Taxation with unrestricted allowances compared with their liabilities under the present system would be as follows:

Tax payable (1987-88 allowances) £

	Independent Taxation Unrestricted Allowances			Present System
Example 1	Nil:	transfer of full MCA to wife available		Nil
Example 2	Nil:	transfer of full MCA to wife available		£5.20
Example 3	Husband	109.35	Husband and Wife	163.35
	Wife	Nil		
Example 4	Husband	Nil transfer of full MCA available	Husband and Wife	(a) £651 (wife's income from investments)
	Wife	109.35 (allowing for MCA transfer)		(b) £308 (wife's income earned)

26. As the figures show, getting rid of the restriction on reliefs ensures that there is parity of treatment between the taxpayers in Examples 1 and 2 and between the couples in Examples 3 and 4. The combination of removing the restriction on reliefs and the change to Independent Taxation leads to a reduction in the tax payable

compared with the present system in each of Examples 2-4. In Example 4 the reduction is substantial.

27. Second the change would very considerably simplify the calculation of the tax liabilities of this group of non-residents: in future the liability would be calculated in exactly the same way as those of a resident taxpayer and the complicated calculations based on the proportion of UK liable income to total world income would no longer be required. Removing the restriction on relief would, however, be likely to encourage more claims for relief particularly from those non-residents with only very small incomes liable in the UK who at present may not find it worthwhile to make a claim. So the total volume of work in relation to this class of non-residents might not change significantly even though the calculation of liability in each case would be very much simpler.

28. Third, the change would, of course, be very widely welcomed by those expatriate British Subjects who form the vast majority of those who make claims for relief under Section 27 (see figures in paragraph 3). The wider relief would be likely to encourage investment by them (and others) in the UK.

Disadvantages of Option 1

29. The change would, however, have drawbacks.

30. First, unrestricted relief would undoubtedly be very generous in cases where the individual had only a small income liable to UK tax but a relatively large total world income. (The individual in the example in paragraph 2 for example would pay no tax on his UK income (compared with £247.25 at present) and would have the full MCA available to transfer to his wife if she could make use of it.) And single people would also benefit from the change, although they are unaffected by the introduction of Independent Taxation. It is very difficult to estimate what the overall cost of giving unrestricted relief would be but our best guess is that it might generate an additional 40,000 claims at a revenue cost of around £30-£40 million.

31. Second, our double taxation agreements generally require us to give nationals and (usually) residents of treaty partner countries the same tax treatment as UK subjects who are in similar circumstances. Unrestricted relief would therefore allow most individual residents of treaty partner countries to receive UK income free of UK tax up to the level of the UK personal allowance, including any transferred allowance. We are not aware, however, that the domestic laws of such countries will enable reciprocal treatment to be provided by UK residents. Although the new treatment will seem most generous to the non-resident himself, we think that some of our treaty partners might object, either because our treaty with them provides for the income to be taxed only in the UK, or because they fear that the income will remain undisclosed by the recipient and therefore remain untaxed in both countries. We think there is a possibility that some partner countries could suggest that the UK was adopting tax haven practices, even though the change arises as a result of our domestic reforms and in some cases, where the UK income is taxed in the recipient's country of residence, the financial benefit of relief would eventually pass to that country's Exchequer.

32. Third, Ministers may not want to consider making a change at present in the treatment of this particular group of non-residents when a consultative document may be published shortly looking more generally at the UK tax system's approach to residence. (Mr Beighton sent you a draft of the document on 3 February). In practice we think there is likely to be only a very slight interrelationship, if any, between a proposal to give unrestricted personal reliefs to this particular, narrow, class of non-residents and the wider issues which it is at present proposed should be discussed in the consultative document. Nevertheless you may feel that this change might more naturally come forward in the context of any other changes made in response to the consultation on residence.

Option 1: variant

33. A variant of the Option 1 approach would be to give unrestricted personal allowances against an individual's income

liable to UK tax but to restrict the transfer of the MCA by reference to a husband's total world income (along the lines suggested in paragraph 37 below). This would limit the transfer of the allowance where a husband had substantial world income but only a small amount of income liable to UK tax and there is some justification for this approach in principle. On the other hand it would mean that some of the anomalies which may arise on the change to Independent Taxation would not be eliminated. (The disparity of treatment between Examples 3 and 4 above would remain, for example). This might perhaps be defended on the ground that giving unrestricted personal allowances was, overall, a very generous response to the effect of Independent Taxation and that it was right that the transfer of the MCA should be restricted where a husband had substantial world income. Nevertheless it is unlikely that this restriction would in practice reduce very significantly the generosity and cost of giving restricted personal allowance to this small class of non-residents. If Ministers wish to give unrestricted relief our view would, on balance, be that there is attraction and simplicity in doing this on exactly the same basis as for residents (subject to the point about transitional relief in paragraph 22).

Option 2: limited changes

34. If Ministers are not attracted by the Option 1 approach of giving unrestricted personal allowances to this group of non-residents (or would prefer to keep this Option in reserve for the moment either in the context of the consultative document on residence or for other reasons) we see no alternative to simply making some limited structural changes to the existing Section 27 provisions so they can be applied in practice under Independent Taxation and accepting any anomalies and disparities of treatment that might produce. We think these anomalies will in due course almost certainly give rise to complaint about the operation of Section 27 though it is difficult to judge at present how quickly the problems would come to the surface. It is possible that many couples might find that the change to Independent Taxation did not noticeably alter their liabilities and so would not have any

complaint. But others might find their tax bills increasing, possibly fairly substantially, and in many cases it might be very difficult for tax offices or Ministers to offer a rational justification for the change.

35. A factor here is that the tax affairs of groups of the expatriate British Subjects who benefit from Section 27 are often handled by agents who are familiar with the complex and detailed provisions (including, for example, double tax relief) which effect the liabilities of non-residents. Any anomalies that arise on the move to Independent Taxation may therefore be identified more quickly since the agents concerned will obviously examine how any proposed changes to Section 27 are likely to affect their clients. One possible option would be initially to make only minor changes to the Section 27 provisions, keeping the option of giving unrestricted reliefs as a fall-back for a Committee stage amendment (or for another year) if pressure for change did not build up immediately.

Scope of changes

36. If you decide to make only limited structural changes to the Section 27 provisions at this stage we think we would at least need legislation to adapt the provisions relating to the transfer of the MCA to the Section 27 context. (We would also aim to adapt, along the same lines, the provisions for transitional relief for breadwinner wives. However, because those provisions and the Section 27 rules are very complex this might not, in the event prove practicable. In that case we might have to provide that the transitional relief was not available to this group of non-residents.)

37. For the MCA we think we should have to provide specifically that it should be available for transfer under Section 27 only where the husband's allowances exceeded his total world income. This would, for example, allow a husband with a small UK pension but no other income to transfer any unused MCA to his wife. It would also deal with the anomaly identified in Example 1 in paragraph 7. It would mean there would be no transfer of relief available in that

example. On this approach, for example, a non-resident with world income of £3000, £2000 of which was chargeable to UK tax and total allowances of £3,795 including the MCA would have allowances of £795 available to transfer. This seems a reasonable result. There would be no discontinuity of treatment between the man with total world income of £3794 and allowances of £3795 who would be able to transfer £1 of his MCA and the position of a similar man with total world income of £3796 (including some income chargeable to UK tax) whose entitlement to relief would be fully exhausted against his own income.

38. The approach would by no means eliminate all the anomalies that can arise because of the interaction of Section 27 and Independent Taxation. (It does not, for example, tackle the disparity of treatment between Examples 3 and 4 in the earlier part of this note). It will also make for some disparities of treatment depending on the exact form of a non-resident's income. For example some UK resident and ordinarily resident individuals are entitled to a 100% deduction against all (or part) of their earnings from an overseas employment. Other individuals doing very similar or even identical jobs (spending the same amount of leave in the UK perhaps) may, due to particular characteristics of our residence rules, be not resident and not ordinarily resident with the result that the earnings from an overseas employment may simply be non-liable. An individual in the first group would be able to transfer the MCA to his spouse whatever the earnings against which he could claim a 100% deduction (provided his other income was sufficiently small). But those in the second group would not be able to do so. It seems doubtful whether the reason for this distinction in treatment would be capable of explanation and justification to those concerned. (This disparity would be dealt with by giving completely unrestricted relief on the Option 1 approach.)

Status of spouses

39. There is one further condition which we suggest should apply where a non-resident husband has allowances available to transfer to his wife. We think in order to qualify for the benefit of the

transferred allowances a non-resident wife should qualify in her own right for relief under the existing provisions (for example, she should be a British subject). There is no provision for non-residents who do not satisfy these conditions to qualify for any personal allowances under UK law and it would give rise to anomalies and disparities of treatment if a wife who did not satisfy the conditions in her own right could get relief on the basis of allowances transferred from her husband. Where the wife does satisfy the qualifying conditions the allowances transferred by her husband would be taken into account in the normal way in the computation of her relief under the provisions. These tests would be needed whether you adopted the Option 1 or the Option 2 approach.

Conclusion and Questions for decision

40. The provisions which give personal reliefs to certain non-residents will not operate satisfactorily under Independent Taxation. We think the only long-term solution to the anomalies which could arise is to abolish the present restriction on relief for those in this group and to give them reliefs against their UK income in the same way as residents. Ministers may, however, not wish to offer this concession immediately but prefer to keep it back either for presentation in the context of the consulative document on residence or as a possible Committee stage amendment.

41. We should be grateful to know whether you would prefer to adopt the Option 1 approach or to keep that Option in reserve for the time being and make only limited structural changes to Section 27 along the lines suggested in paragraphs 36 and 37 above.

B A Mace.

B A MACE

ps3/3T

BUDGET SECRET: TASK FORCE LIST

COPY NO. 20 OF 21.

FROM: J M G TAYLOR
DATE: 8 February 1988

MR ISAAC - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr Culpin
Miss Sinclair
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Painter - IR
Mr Eason - IR
PS/IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

The Chancellor has seen and was most grateful for your submission of 5 February.

2. He sees attractions in some form of the "alternative" approach which is set out in your note. He agrees that it would be helpful to discuss how you could develop a more targeted and polished presentation. Further work should concentrate on Sets C and D. He is inclined to take the initiative over publication, though he does not entirely rule out Option (ii) (ie publishing only in response to an outside question).

3. This office will arrange a time for discussing this: probably at next week's Overview meeting.

J M G TAYLOR

COPY NO. 12 OF 22.

FROM: J M G TAYLOR

DATE: 10 February 1988

MR CULPIN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Miss Sinclair
Mr Riley
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Eason - IR
Mr Mace - IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

The Chancellor was grateful for your minute of 9 February.

2. He has commented that we clearly need to know more about the 200,000 losers; but he would imagine that they are all gainers taking the 1988 Budget package as a whole. He would be grateful if you could cross-check this.

3. He has commented, further, that some of these losers will presumably be married to wives who gain from independent taxation. It would also be helpful to know a bit more about this.

JT

J M G TAYLOR

V2719.11

BUDGET SECRET: TASK FORCE LIST

Copy No. 12 of 22
FROM: ROBERT CULPIN
DATE: 9 February 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Miss Sinclair
Mr Riley
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill: IR
Mr Isaac: IR
Mr Painter: IR
Mr Eason: IR
Mr Mace: IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

I should like to draw attention to paragraph 7(iv) of the paper by Mr Eason which Mr Isaac sent you on 5 February. It will be relevant to our discussion of presentation.

2. I assume we shall sell independent taxation as privacy for women plus recognition of marriage. We need to keep in mind that it will have quite marked effects on men.

3. Briefly:

(a) about 350,000 men will gain an average of about £500 per year;

(b) about 200,000 men will lose an average of about £400 a year.

These are quite large numbers - and quite odd results.

4. If I understand it correctly, about 350,000 men will gain because you are giving them the married man's/couple's allowance when

- they do not enjoy it now and

- they do not expect, in a million years, to be given it.

They are mostly in relatively well-off couples, where the wife has already elected to have her earnings taxed separately.

5. As I understand it, about 200,000 men will lose because you are taking the married man's/couple's allowance away from them when they do get it at the moment. Their wives have little or no income, so they are not exercising the wife's earnings election; but the husbands are well paid enough to see their MCA vanish under independent taxation. They will not necessarily have offsetting gains when independent taxation is introduced: the higher rate reductions will be over and done with by then.

6. All these figures are approximate and depend on the precise details of the scheme - in particular, when and how the MCA vanishes. But I assume, subject to correction, that the broad orders of magnitude should be roughly right.

7. The effects on men are probably too arcane for anyone to notice straight away. But if and when people fathom them, I suspect they will look a bit rum. They come, of course, from combining a move to independence for women with a joint allowance (in virtue of marriage) paid to, and withdrawn from, men.

8. My note on presentation flags the general issue, very briefly. But I found the figures in Mr Eason's paper striking enough to highlight here.

RC

ROBERT CULPIN

pw

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 11 February 1988

MR BEIGHTON IR

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Mr Cropper
Mr Tyrie
Mr Painter IR
PS/IR

RESIDENCE

The Financial Secretary was most grateful for your minute of 3 February. He would like to discuss this with you and others next week.

2. In the meantime, the Financial Secretary would be grateful for a comment on how the four options would relate to Sir David Wolfson's suggestions (attached for ease of reference).

J.H.

JEREMY HEYWOOD
Private Secretary

P/TAX/1

Sept.17,1987

Dear David,

The Expatriate rules are, I presume, designed to discourage people from moving their residence abroad in order to avoid UK Tax. If return is made too easy, many people who do not require to be in UK full-time would "emigrate" and enjoy the benefits of lower tax rates while continuing to be in UK as much as they wanted.

Therefore I propose that, for a period of say 4 years, the expatriate would continue to operate under present rules. BUT, AFTER SUCH A PERIOD, THE RULES COULD BE RELAXED TO ENCOURAGE EXPATRIATES TO SPEND MORE TIME OVER HERE. An additional 60, or even 30 days per year, after 4 years, would not encourage more people to emigrate. But it could generate a considerable sum of Foreign Income into the UK, since many expatriates spend as much time over here as they are allowed, and spend money each day they are here!

One could even restrict the additional days to people over retirement age, and make it a concession which only applied from year to year. That way no-one would emigrate because of an enlarged allowance in the future which might be withdrawn before they could take advantage of it!

But each year it operated we would derive income, hotel charges, food bills, and shopping requirements which might otherwise have gone to Marbella, Palm Beach or Cannes.

Why not try to get the best of both worlds?

No reply needed, this is merely to put on record the object of the exercise as I see it.

Yours etc.

David

David Wolfson

FINANCIAL SECRETARY

23 SEP 1987

ACTION

Mr. Fawcett IR.

PPS, CST, PMG, EST

Mr Scholar

Mr. Cropper Mr Tyrie

Miss. Sinclair

PS/IR

BUDGET CONFIDENTIAL

mnp

FROM: MISS C E C SINCLAIR
DATE: 11 February 1988

MR SCHOLAR

cc PS/Chancellor
Mr Culpin
Mr Riley
Mr Michie

DUTY DEFERMENT

Given the interest which Ministers have expressed at Overview in an extra month's duty deferment, I have asked Mr Jefferson Smith to produce a paper for circulation next week, which might be taken at Overview on 22 February. This will examine the arguments for extra duty deferment under revalorisation, and under double revalorisation. It could be done in time to affect the 1987-88 PSBR if the announcement is made in the Budget - the duty for March is not due until 29 March.

pp P A Nelson

CAROLYN SINCLAIR

42/2.BTW.1234/22

BUDGET: CONFIDENTIAL

→ Jonathon

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 11 February 1988

MR TYRIE

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Call
Mr Jenkins OPC
Mr Mace IR
Mr Isaac IR
PS/IR

INDEPENDENT TAXATION: PERSONAL ALLOWANCES FOR NON-RESIDENTS SECTION 27 ICTA 1970

The Financial Secretary would be grateful for your views on Mr Mace's submission of 8 February.

J.H

JEREMY HEYWOOD
Private Secretary

BUDGET SECRET: TASK FORCE LIST

12/24

Inland Revenue

Policy Division
Somerset House

PWP (APH)

FROM: B A MACE

DATE: 12 FEBRUARY 1988

1. MR ISAAC n.2
2. CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS

1. Mr Taylor's note of 10 February to Mr Culpin asked two questions about those husbands who will lose on the change to Independent Taxation because of the withdrawal of the married couple's allowance (MCA) where income for tax purposes exceeds a certain level.

2. We have looked at these two points very quickly. (As Mr Isaac indicated in his note of 5 February, figures for the distributional effects of Independent Taxation are provisional at this stage.)

3. First, as I indicated in my note of 7 December, we think it is true that any husband who loses in 1990-91 because of withdrawal of the MCA will almost certainly have gained more (and probably substantially more) from the tax reductions in the 1988 Budget. In the typical case the maximum loss from withdrawal of the MCA at its 1990-91 indexed level will be about £650; the gain to someone with income for tax purposes in excess of £40,000 from

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Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Miss Sinclair
Mr Riley
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Culpin

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Lewis
Mr Mr Eason
Mr Mace
PS/IR

the 1988 Budget changes is likely to be at least £2,000. There could be a handful of exceptional cases where the husband might gain less from the 1988 Budget changes than he loses when the MCA is withdrawn (if, for example, he was paying exceptionally large subscriptions under the BES scheme or sheltering income in some other way) but these cases are likely to be very unusual. The 1988 Budget changes will, of course, be well in the past when Independent Taxation comes in in April 1990.

4. Second, of the just over 200,000 husbands who lose from withdrawal of the MCA (if withdrawal starts at income for tax purposes of £40,000) about 50,000 are in couples who <u>gain</u> overall from the change to Independent Taxation (because of the disaggregation of the wife's income). But about 160,000 are in couples who <u>lose</u> overall (because the benefit from disaggregating the wife's income (if she has any) is insufficient to outweigh the loss from withdrawal of the MCA. About 70,000 of these couples lose more than £500 per year on the introduction of Independent Taxation.

5. These figures may overstate to some extent the actual number of losers because our present information about <u>joint</u> investment income of husband and wife is not complete. Such income will at present tend to be allocated wholly to the husband where there are doubts about the precise position. Losses could also be mitigated to the extent that husbands transfer income-bearing assets to their wives in anticipation or in consequence of Independent Taxation.

6. On a quick look it appears that the number of losers could be roughly halved if the starting point for withdrawal of the MCA were set at income for tax purposes of £50,000.

B A Mace.

B A MACE

RA7.41 UNCLASSIFIED

FROM: A C S ALLAN

DATE: 12 February 1988

MR CAYLEY - INLAND REVENUE

cc PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr Cropper

CGT

The Chancellor would be grateful for a note listing any major countries which:

(i) do not have a capital gains tax at all;

(ii) have only introduced a capital gains tax in the relatively recent past;

(iii) have a capital gains tax on short term gains only;

(iv) have a capital gains tax but have announced plans to abolish it (or restrict it to short term gains only).

ACSA

A C S ALLAN

4369/20

BUDGET CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

MR MACE -IR

FROM: JEREMY HEYWOOD
DATE: 15 February 1988

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Jenkins
Mr Mace
Mr Isaac
Mr Cropper
Mr Call
Mr Tyrie
PS/IR

OK -

INDEPENDENT TAXATION: PERSONAL ALLOWANCES NON-RESIDENTS SECTION 27 ICTA 1970

behind The Financial Secretary was most grateful for your submission of 8 February and for Mr Tyrie's minute of 11 February.

2. The Financial Secretary agrees with Mr Tyrie that Option 1 is the preferred solution to this small problem. The Financial Secretary also agrees that to the extent that non-resident servicemen make substantial gains from this option, we should seek to claw some of the costs back in the review of non-resident servicemen's allowances.

JH

JEREM Y HEYWOOD
Private Secretary

BUDGET CONFIDENTIAL

FROM: A G TYRIE

DATE: 11 FEBRUARY 1988

FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Jenkins
Mr Mace
Mr Isaac
Mr Cropper
Mr Call

INDEPENDENT TAXATION: PERSONAL ALLOWANCES NON-RESIDENCE SECTION 27 ICTA 1970

You asked for my views on Mr Mace's submission of 8 February.

I agree with Mr Mace. Option 1 looks best. The logic for Option 2 (and indeed the present position) is a bit ropy. The result would be even more complexity - another fillip for tax consultants. Option 1 has the virtue of providing simplicity, equal treatment between residents and non-residents (except where double-taxation arrangements intervene), and, incidentally, some encouragement for investment in the UK.

The only substantial disadvantage with Option 1 is the cost, put at £30 to £40 million. I am surprised that it is as high as this. I note that half of the 60,000 people affected are servicemen. Unfortunately the Revenue cannot tell us whether they would reap their share of this, ie £15 to £20 million, though it is likely that they would get a fair chunk of it.

Assuming they would, I wonder whether we could claw some of this back on the spending side. A review of allowances for non-resident servicemen has been in train for three years and is due, finally, to report this Spring. Decisions will be taken in the Summer. If it turns out that Option 1 would be generous to servicemen abroad it should strengthen our case for demanding cuts in their allowances. This seems to be a rare occasion when the timing would favour us.

Option 2 would cost us £5 to £10 million anyway. If the public spending side of the house judge that we could also claw back something from servicemen the cost objection to Option 1 weakens a lot.

RG.
pp A G TYRIE

030/3651

BUDGET CONFIDENTIAL

FROM: A G TYRIE
DATE: 16 FEBRUARY 1988

CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
Mr Cropper
Mr Call

INDEPENDENT TAXATION: PERSONAL ALLOWANCES NON-RESIDENTS SECTION 27 ICTA 1970

As I mentioned in my note to the Financial Secretary (11 February), I think we should be able to claw back some spending on servicemen's allowances as a quid pro quo for this minor tax reform.

Apparently, the MOD's report on review of allowances is due to come in next week. We will need to ask Steven Robson/Diana Seammen to do some stalling until budget day. Since they have been pressing the MOD hard for some action there might be some minor embarrassment!

AGT.

A G TYRIE

mjd 2/127Jn

BUDGET CONFIDENTIAL

pmj

FROM: J M G TAYLOR
DATE: 17 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Jenkins
Mr Mace
Mr Isaac
Mr Cropper
Mr Call
Mr Tyrie

PS/IR

INDEPENDENT TAXATION: PERSONAL ALLOWANCES NON-RESIDENTS SECTION 27 ICTA 1970

The Chancellor has seen your minute of 15 February. He agrees with the Financial Secretary that we should go for option 1. He also agrees that, to the extent that non-resident servicemen make substantial gains from this option, we should seek to claw some of the costs back in the review of their allowances.

JT

J M G TAYLOR

UNCLASSIFIED

Inland Revenue

Policy Division
Somerset House

FROM: C D LESTER
DATE: 18 FEBRUARY 1988

Thanks: background useful. What are the definitions of 'short-term' & 'long-term' in those countries where there is tax on S-T share gains, but not on L-T share gains (eg Germany, Netherlands), & how much does this distort the markets? (FIM advice pse). N

18/2

1. MR CAYLEY

2. PRINCIPAL PRIVATE SECRETARY

CGT

1. In your note to Mr Cayley of 12 February, the Chancellor asked for some background information on the capital gains regimes in other major countries. What follows is based on information available at the present time. For one or two countries the available details are not entirely clear, and we have drawn the best inferences we can. We shall, however, be keeping a close watch on international developments over the coming months.

<u>Countries without a tax on capital gains</u>

2. All major countries tax at least some capital gains and the majority of these charge them to income tax. The United Kingdom and Ireland are the only countries which tax gains within a separate and comprehensive capital gains tax. Denmark, Portugal and some of the Swiss cantons (such as Zurich) have a separate tax limited to certain gains, and tax other gains to income or corporate taxes. Some countries tax only short-term gains, or tax longer term

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Mr Scholar	Mr Isaac
Mr Culpin	Mr Pitts
Mr Cropper	Mr Cayley
	Mr Hamilton
	Mr Michael
	Mr Lester
	PS/IR

gains at lower rates. The Annex (which inevitably gives only the broad picture and does not cover all the fine detail) summarises the position. Even those countries most usually cited as not having a capital gains tax - for example, the Netherlands - tax gains on at least some assets such as business assets and substantial shareholdings.

Recently introduced taxes on capital gains

3. Since 1979, only Australia has introduced a tax on capital gains. Gains realised on assets acquired after 19 September 1985 (fully indexed) are included in income and taxed accordingly, subject to top-slicing relief. We also understand from very recent press reports that New Zealand is proposing to introduce a comprehensive capital gains tax as part of their tax reform programme. Japan recently proposed to extend its tax on gains to portfolio shareholdings but the proposal was withdrawn: there are current rumours that the idea will be resurrected.

Tax on short-term gains only

4. For individuals in the Netherlands, Germany and Austria the charge on investments is restricted to short-term gains only. All business gains, however, are subject to income or corporate taxes. Luxembourg exempts all long-term gains except gains on land.

Portfolio Gains Exempt

5. In general gains on portfolio investments are exempt in Japan and Belgium - though, as explained above, this may change in Japan.

Plans to limit/abolish CGT

6. No major country, as far as we are aware, has announced plans to abolish an existing tax on capital gains, or to restrict the charge to short-term gains only.

President Reagan's proposals

7. In his note of 29 January, Mr Cayley commented on press reports that President Reagan is likely to be asking Congress to reduce the US tax burden on gains. We now understand from our Embassy in Washington that the US Treasury have distanced themselves from such ideas and that the Administration is unlikely to be bringing forward legislative proposals in the near future. On the other hand, Vice President Bush has indicated during the current election campaign that he favours a reduction in tax rates on gains.

C. D. Lester.

C D LESTER

ANNEX

Same tax rates on both long and short-term gains	Lower rates on long-term gains	Tax mainly confined to short, or short and medium, term gains
Australia	Finland	Luxembourg
Austria (1)	France	
Belgium (2)	Germany (1)	
Canada	Ireland (3)	
Denmark	Japan (2)	
Ireland	Sweden	
Italy (4)		
Netherlands (1)		
Norway		
Portugal		
Spain		
Switzerland (Zurich)		
USA		

Notes

(1) Long term gains on portfolio investments are however exempt.

(2) No tax normally payable on portfolio investments.

(3) There is a special penal rate on short-term gains.

(4) Tax charge mainly confined to business assets and speculative gains.

RJ4.26

UNCLASSIFIED

bf. 25/2

FROM: J M G TAYLOR

DATE: 19 February 1988

MR LESTER - INLAND REVENUE

cc Mr Scholar
Mr Culpin
Mrs Lomax
Mr Ilett
Mr Cropper
Mr Isaac - IR
Mr Pitts - IR
Mr Cayley - IR
PS/IR

CGT

The Chancellor was grateful for your minute of 18 February, which provides useful background. He has asked what is the definition of "long-term" and "short-term".

2. He has also asked by how much the markets are distorted - in those countries where this happens - by the existence of a tax on short-term share gains, but not on long-term share gains. Perhaps Mr Ilett could advise on this.

J M G TAYLOR

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 19 FEBRUARY 1988

APH *
I have a few pts: pse discuss. NL

1. MR ~~ISAAC~~

Seen in draft
BAM 19/2

2. CHANCELLOR OF THE EXCHEQUER

On a quick glance, this looks v.clear, tho' long. We shall need to make sure
(a) it's in line with the HMT release
(b) it makes all the key presentational points.
AHH

INDEPENDENT TAXATION: PRESS RELEASE

1. I attach a first draft of our detailed press release on Independent Taxation. It needs more work yet, both on content and presentation, but we thought you might like to see the draft at this early stage in case you have any initial views on how any particular aspects of the proposals should be dealt with.

Content of the Press Release

2. Because there is a lot of material to cover we have tried to structure the information by dividing the press release into sections

- Section 1 describes the changes in the taxation of income and capital gains of husbands and wives which result from Independent Taxation

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
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
PS/IR

press4.txt

- Section 2 sets out the new structure of income tax allowances

- Section 3 describes, briefly, the changes which will be needed to get the new system into place.

3. Section 4, on which we are still working and which is not attached to this draft, would include tables about the distributional effects of the change to Independent Taxation (if you decide to publish them) and, possibly, some more general qualitative information about the effect of the change on taxpayers in different circumstances. We hope to let you see a draft of this Section early next week.

B A Mace

B A MACE

INDEPENDENT TAXATION

1. In his Budget today the Chancellor of the Exchequer announced a new system of Independent Taxation for husband and wife to take effect from 6 April 1990. This major reform of the tax treatment of married couples would mean

* independent taxation of the incomes of husbands and wives;

* independent taxation of capital gains;

* privacy and independence for married women in their tax affairs;

* a new structure of income tax allowances:

    - a full personal allowance for married women;

    - higher allowances for elderly wives;

    - a new married couples allowance.

2. The introduction of Independent Taxation will remove a major tax penalty on marriage. Other changes announced in the Budget will remove further tax penalties. These changes are described in a separate Inland Revenue Press Notice issued today.

3. This Notice explains the new system of Independent Taxation, how it would work and how it would affect married couples. The information is arranged as follows

Section 1	Independent Taxation of Incomes and Capital Gains
Section 2	The New Structure of Personal Allowances
Section 3	Changing to the New System
Section 4	Distributional etc effects of the New System [to follow].

Annex Summary of the present system of taxing husband and wife

A separate Treasury Press Release issued today explains more of the background to the proposed changes.

1. INDEPENDENT TAXATION OF INCOMES AND CAPITAL GAINS

1. Independent Taxation means a fundamental change to the present rules for taxing married couples. These rules, which have been in existence for nearly two hundred years, deem a married woman's income to be her husband's for tax purposes. The new system will sweep away this outdated provision. If Parliament approves the new rules, from 6 April 1990 a married woman will for the first time be treated as an independent taxpayer in her own right.

Independent Taxation

2. Under the present system a married woman's income is added to her husband's and taxed as if it were his. Husband and wife are treated as if they were one taxpayer and share a single set of income tax rate bands and a single annual exemption for capital gains between them. This means that some couples may pay more tax than two single people with the same incomes or gains, simply because they are married.

3. The new proposals will remove this tax penalty on marriage. Husband and wife will be taxed completely independently on all their income and capital gains and will be entitled to separate capital gains tax annual exemptions. The changes will also remove complex special provisions which have been introduced over the years to mitigate the effects of the present system, for example the wife's earnings election and separate assessment.

Privacy

4. Under the present system of taxing married couples the husband is legally responsible for a couple's tax affairs and for paying any income tax due on their combined income. He has to include his wife's income on any tax return he is asked to complete. This means that a married woman cannot have complete privacy in her financial affairs.

5. Under Independent Taxation husbands and wives will each take responsibility for their own tax affairs and for paying the tax due on their own income and capital gains. Where it is necessary for either husband and wife to complete a tax return they will have to give details only of their own income and not that of their partner. So, if they wish, a husband and wife will both be able to have complete privacy and independence in their affairs.

6. At present only a minority of husbands are asked to fill in tax returns each year. The operation of the PAYE system and arrangements for deduction of tax at source from many forms of income from savings mean that annual returns are not required from many taxpayers. The same will be true under Independent Taxation: only a minority of husbands and wives will need to complete a tax return each year.

Independence

7. Under the new system each partner in a married couple will become an individual taxpayer. They will have:

- their own tax allowances

- their own set of rate bands for income tax

- their own annual exempt amounts for capital gains tax.

For the first time married women will become taxpayers in their own right. And married men will no longer be responsible for their wives' tax affairs.

Changes in the handling of married women's tax affairs

8. The new system will mean changes in the way a married women's tax affairs are handled

- all repayments of tax overpaid on her income will be made to her (and all payments of tax on her income will be recovered from her rather than her husband);

- all tax assessments on her income will be made in her name;

- all correspondence from the tax office about her tax affairs will be addressed to her;

- if she has a small income which includes investment income taxed at source such as dividends she may be able to obtain repayment of the tax deducted (but not composite rate tax on bank and building society interest which is not refundable in any circumstances);

- if she receives a National Insurance retirement pension on the basis of her husband's contributions it will be taxed as her income and her allowance will be available to set against it, in the same way as a pension which she receives on the basis of her own contributions. (At present a pension based on husband's contributions is taxed as the husband's income.)

<u>Changes in the handling of married men's tax affairs</u>

9. The new system will also mean changes for married men:

- they will no longer be responsible for including their wives' income on any tax return they are asked to complete

- they will no longer be responsible for paying any tax due on their wives' income where this is not deducted at source (for example under PAYE).

<u>Changes affecting both husband and wife</u>

10. Many aspects of the present tax treatment of husband and wife reflect the rule that their incomes are added together and taxed as if the income all belonged to the husband. Thus tax reliefs due to either husband or wife are available to set against the combined income of the couple; on the other hand where there are limits on relief the couple may have to share the

limit between them. The following paragraphs describe how this will change under the new system.

(a) Calculation of income

11. Under Independent Taxation the taxable incomes of husbands and wives will be worked out independently. The same rules will apply as for taxpayers generally so tax reliefs will therefore be given only against the income of the partner who qualifies for relief instead of against their combined incomes. Reliefs which will be given in this way include

- relief for income tax losses. (Each partner's capital losses will also only be available to set-off against their own capital gains);

- relief for interest paid (other than on a mortgage loan) where this is allowable for tax purposes;

- annual payments, for example payments under a charitable covenant;

- relief for payments under the Business Expansion Scheme.

Special rules will, however, apply for payments of mortgage interest relief; these are described in a separate press release.

(b) Limits on relief

12. Husband and wife will no longer have to share certain limits on the amount of some payments and expenditure which qualify for tax relief. The main changes are that husband and wife will each have

- separate limits of £1,500 (or one-sixth of income) on relief for premiums under pre-1984 life assurance policies;

- separate limits of £40,000 a year on the amount paid for shares under the Business Expansion Scheme which qualifies for relief.

Special rules will apply to the limit on relief for payments of mortgage interest on a loan to purchase a married couple's main residence. These rules are described in a separate Inland Revenue press release issued today.

Income from assets held jointly by husband and wife

13. The general rule will be that each partner in a married couple will be taxed on the income to which they are entitled. Special provisions will, however, be introduced to cover circumstances where a married couple receive income from, for example, a bank or building society deposit account or other assets which are held in their joint names. In such cases each partner will normally be taxed on half the income from the account (or other asset). If, however, the couple do not own the asset in equal shares and they make a declaration to the Inspector of Taxes each partner will be taxed on the portion of the income to which they are entitled.

Other tax provisions affecting husband and wife

14. There will be no change in the treatment for capital gains tax purposes of transfers of assets between husband and wife. These will continue to be treated on the basis that they give rise to no gain and no loss. Similarly, there will be no change in the rule that transfers of assets between husband and wife are free from Inheritance Tax.

15. There will be no change in the provisions which treat husband and wife (often in the same way as others who are related or partners in a business) as connected or associated with each other for certain tax purposes.

Abolition of redundant measures

16. Two options at present available to married couples will no longer be required under Independent Taxation:

A. The Wife's Earnings Election

Some married couples where both partners are working find it beneficial to make a "wife's earnings election". The wife's earnings are then taxed as if she were a single woman with her own set of tax rate bands. The husband loses the married man's allowance and gets a single person's allowance instead.

Under Independent Taxation all married couples will be taxed independently not just on their earnings but on every form of income. The wife's earnings election arrangements will therefore no longer be needed after 6 April 1990 when Independent Taxation applies.

B. Separate Assessment

Some married people opt to be "separately assessed". This option does not affect the total tax the couple have to pay but allows the partners to fill in separate tax returns and to divide the payment of their total tax bill between them broadly in proportion to their incomes. Under Independent Taxation these arrangements will no longer be needed since all husbands and wives will pay their own tax (and fill in their own tax returns where required).

2. NEW STRUCTURE OF INCOME TAX ALLOWANCES

1. As part of the change to Independent Taxation the Chancellor proposes a new structure of income tax allowances. This will replace the existing structure which is unsatisfactory because married women do not have a full tax allowance of their own. The present wife's earned income allowance is available only against a married woman's earnings. It cannot be set against her income from savings.

[introduce MCA differently: There will also be an MCA, of (£xxx). Tax system recog marriage. Will go to man unless...

New Allowances

2. Under the new system there will be a personal allowance available to everyone, male or female, married or single, which can be set against all types of income. For the first time married women will have a full tax allowance in their own right. The new personal allowance will be equal in size to the present single person's allowance.

3. A married man will be entitled to a new "married couple's allowance" on top of his personal allowance. The personal allowance and the married couple's allowance will together be [at least] equal in size to the married man's allowance under the present system. So a married man will suffer no reduction in his tax threshold as a result of the change to the new system. The new married couple's allowance means that the tax system will continue to give recognition to marriage.

4. There will be larger personal and married couple's allowances for elderly taxpayers aged 65 and over, or 80 and over (see paragraph 10 below).

5. The existing single person's, married man's and wife's earned income allowances will be abolished.

Level of allowances

6. The change to the new allowances will be made in the 1990-91

tax year. The value of the allowances will not, of course, be determined finally until 1990 but the following table illustrates what their value would be if they were introduced at [1987-88] levels. [Drafting note: allowance levels shown in the final version will be the 1988-89 figures].

Independent Taxation: Main Allowances

Personal allowance: (Age under 65)	£2425
Personal allowance: (Age 65-79)	£2960
Personal allowance: (Age 80 or over)	£3070
Married Couple's Allowance: (Age under 65)	£1370
Married Couple's Allowance: (Age 65 - 79)	£1715
Married Couple's Allowance: (Age 80 or over)	£1775

Transfer of Married Couple's Allowance

7. The new married couple's allowance will go to the husband in the first instance. But if a married man's income is less than the combined personal allowance and married couple's allowance to which he is entitled he will be able to transfer the unused part of the married couple's allowance to his wife. This will ensure that a couple where the wife is the sole earner have the same allowances has a couple where the husband is the sole earner.

8. The personal allowance will not be transferable between husband and wife. But there will be transitional

relief for some couples on the change to the new system (see Paragraphs 13 - 17 below).)

The Elderly

9. As now, elderly people aged 65-79 or over 80 will be entitled to higher levels of allowance if their incomes do not exceed the age allowance income limit (£9,800 for 1987-88). But for the first time elderly married women will be able to get age-related allowances in their own right (instead of the wife's earned income allowance as at present).

* All elderly people, whether single or married, will qualify for a personal allowance (as shown in the table in paragraph 6) on the basis of their own age. Elderly married women will be able to set this allowance against a pension - including the National Insurance retirement pension - they receive on the basis of their husband's contributions as well as against any other income they may have.

* A husband in an elderly couple will be entitled to a higher rate of married couple's allowance depending on the age of the older partner in the couple. So if a husband is under 79 but his wife is 80 or over he will be entitled to the highest level of married couple's allowance (see table in paragraph 6). As for younger couples the married couple's allowance can be transferred to the wife if the husband has insufficient income to use it.

* As at present, the age allowances will be subject to an income limit, and they will be withdrawn by £2 for every £3 of income by which the taxpayer's income exceeds the limit until the level of the personal allowance and married couple's allowance for those under 65 is reached.

* Husband and wife will, however, each have their own income limit, [£9,800 at 1987-88 levels] which will apply

separately to their incomes. This is instead of the present single limit which applies to the combined incomes of husband and wife.

Blind allowance

10. Married people who are blind will be entitled to the blind allowance. If both partners in a couple are blind they will each be entitled to an allowance. (Under the present system the husband in a couple who are both blind is entitled to an allowance equal to twice the ordinary blind allowance). If one partner in a married couple is unable to use any part of their blind allowance because their income is too small they will be able to transfer the unused part of the allowance to the other partner (whether blind or not).

Allowances in years when a marriage begins or ends

11. In the year in which a couple marry the married couple's allowance will be apportioned so that, for example, where the marriage takes place half way through the tax year, the husband will be entitled to half the allowance. The allowance will not be apportioned for the year in which a couple separate or divorce or in which one spouse dies. These provisions will be very similar to those which apply under the present system.

12. In the year in which a married woman is widowed and the following tax year she will be entitled (as at present) to the widow's bereavement allowance. Under Independent Taxation the allowance will be available against any of her income for the year in which her husband dies, not just income arising after his death, as it is at present.

TRANSITIONAL MEASURES

13. Transitional measures will be introduced to smooth the change from the present system to the new structure of allowances These measures will give

* transitional relief for couples where the husband has an income less than his personal allowance.

* transitional relief for certain husbands in elderly couples.

Couples where the husband has a small income

14. Under the present system a married man with no income of his own may set the whole of the married man's allowance and, in addition, the wife's earned income allowance against his wife's earnings if he has insufficient income of his own to absorb it. But a married man whose wife has no earnings has only the married man's allowance to set against his income. This means that couples in similar circumstances can have very different tax bills depending on whether the husband or the wife is the main earner.

15. Under the new system only the married couple's allowance will be available for transfer to the wife if the husband cannot use it himself (see paragraph 5). So couples where the wife is the sole earner will get the same total allowances as couples where the husband is the sole earner. This could mean, however, that some couples would suffer a reduction in their allowances on the change to Independent Taxation. This would affect couples where the husband has an income which is less than his personal allowance in 1990-91.

16. Husbands in such couples will therefore be able to transfer part of their unused personal allowance to their wives for a transitional period so that the couple do not suffer a reduction in the total allowances available to them. Further details will be available in the Finance Bill.

Husbands in certain elderly couples

17. Under the present system of taxing husband and wife men married to older wives may qualify for married age allowance on the basis of their wife's age. Under the new structure of

allowances a man married to an older wife will receive the married couple's allowance based on his wife's age. But his personal allowance will be based on his own age and he might therefore suffer a reduction in allowances on the change to the new system. Married men who are affected by this change will therefore be able to claim transitional relief. Instead of the personal allowance they will be able to claim an allowance equivalent to the single age allowance frozen at its 1989-90 level. This will ensure that they do not suffer any reduction in their allowances as a result of the change to the new system.

3. CHANGING TO THE NEW SYSTEM

1. Some special arrangements will be necessary to prepare for the transition from the present system to Independent Taxation. This is a big change both for taxpayers and for the Inland Revenue which will need to train its own staff, change present forms and procedures, and adapt the computer systems dealing with PAYE and Schedule D assessing.

2. Tax office staff will need to carry out some preparatory work starting early in 1989-90. For example, they will need to create new records for many married women (including all those in business on their own) and transfer information about wives from their husband's tax records to their own records. Most of this work can be done from information already in tax offices and from returns which married men would be asked to make in any event in 1989/90. But the Revenue will also be seeking help from some taxpayers to provide the information it needs to set up the new system and launch it smoothly

3. In 1990 some married men will be asked to complete tax returns covering income for the 1989-90 tax year (the last year to which the present rules will apply). A husband will remain responsible for returning all his wife's income for that year. However this will be the last year for which a combined tax return will be necessary.

4. To help ensure that tax offices dealing with married women receive directly the information they need to deal with taxpayers' affairs on the new basis some married women, mainly those in business on their own account, will also be asked to provide returns of their own 1989-90 income. This will apply in particular where this income will form the basis of an assessment to tax for the year 1990-91. The payment of tax charged on such an assessment will under Independent Taxation be the responsibility of the wife.

5. Returns of income of the year 1990-91 (which will be made after 5 April 1991) will be made independently by husband and wife.

6. Further announcements about the transition to the new system will be made in due course.

ANNEX

THE TAXATION OF HUSBAND AND WIFE: PRESENT SYSTEM

1. The basis of the present system of taxing married couples is that the incomes of a husband and wife are added together and taxed as if all the income belonged to the husband. He is formally responsible for handling the couple's tax affairs, claiming the allowances and paying the tax.

2. The main personal allowances for married couples are:

- the married man's allowance (£[ ] in 1988-89). This can be set against any income of the couple. In practice it is usually set against the husband's earnings under PAYE.

- the wife's earned income allowance (£[ ] maximum in 1988-89, equal to the single person's allowance). This is technically an allowance available to the husband to set against his wife's earnings only; in practice it is usually given directly against the wife's earnings under PAYE.

3. Income above the personal allowances is charged to tax at the basic rate ([ ]% in 1988-89) or, if it exceeds the basic rate band (£[ ] in 1988-89), at the [higher rates of ..]. A married couple have only one basic rate band between them.

4. The vast majority of married couples are taxed according to the basic system described above. These are however two alternatives to that system, which have different purposes.

a. Separate assessment was introduced in 1914. It enables each partner to be responsible for handling his or her own tax affairs independently of the other. Either partner may apply for this - the other does not have to agree. This option does not affect the total amount of tax the couple have to pay - the partners' incomes are still added together in order to work out their tax bill - but the couple can fill in separate tax returns. The Inland Revenue put the information together, work out the joint tax bill, and divide it up between the couple broadly in proportion to their incomes. Each partner is then responsible for paying his or her own share of the bill.

b. By contrast, the wife's earnings election, introduced in 1971, can reduce a couple's tax bill. A couple have to elect jointly for this option. The effect is that the wife's earnings are taxed as though she were a single woman, with her own set of tax rate bands, while the husband loses the married man's allowance and becomes entitled to the single person's allowance instead. The election is only worthwhile where their incomes are such that the savings of higher rate tax from having the wife's earnings taxed separately outweigh the loss of the married man's allowance. In 1988-89, the joint income needs to be over [ ], of which the lower earner's share must be at least [ ] for the election to be beneficial. This election does not affect the investment income of the wife which is always taxed as her husband's income.

The Elderly

5. People aged 65 or over have higher tax allowances, and people aged 80 or over have higher allowances than those aged 65-79. In 1988-89 the allowances are [ ] for a single person aged 65-79, [ ] for a single person aged 80 or over, [ ] for a married man in a couple where the older partner is aged 65-79 and [ ] for a married man in a couple where the older partner is aged over 80. The age allowance is given in full where income does not exceed [ ]. This limit applies to single people and to the joint income of a married couple. The allowance is then withdrawn by £2 for every £3 of income over that limit, until it is reduced to the same level as the corresponding main personal allowance.

6. The maximum wife's earned income allowance for elderly married women is the same as for younger married women, £[ ].

Capital Gains Tax

7. At present the chargeable gains and allowable losses of a husband and wife are added together for CGT purposes. A married couple share a single annual exemption (£6,600 in 1988-89), and the tax is assessed on the husband, unless there is an election for separate assessment.

BUDGET CONFIDENTIAL

Rutt (APH)

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 19 FEBRUARY 1988

APH General

1. Shd we do income tax + CGT together or have a separate CGT section?
2. Does it mention what couples shd do? (i.e. nothing).

1. MR ~~ISAAC~~ Seen in draft BAM 19/2

2. CHANCELLOR OF THE EXCHEQUER

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	Paymaster General	Mr Painter
	Economic Secretary	Mr Beighton
	Sir P Middleton	Mr Calder
	Mr Scholar	Mr Lewis
	Mr Culpin	Mr Mace
	Miss Scholar	Mr J C Jones
	Mr Hudson	Mr Cayley
	Mr Cropper	Mr Eason
	Mr Tyrie	Miss Dyall
	Mr Call	PS/IR

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BUDGET CONFIDENTIAL

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1. Independent Taxation means a fundamental change to the present rules for taxing married couples. These rules, which have been in existence for nearly two hundred years, deem a married woman's income to be her husband's for tax purposes. The new system will sweep away this outdated provision. [If Parliament approves the new rules] from 6 April 1990 a married woman will for the first time be treated as an independent taxpayer in her own right.

Independent Taxation

2. Under the present system a married woman's income is added to her husband's and taxed as if it were his. Husband and wife are treated as if they were one taxpayer and share a single set of income tax rate bands and a single annual exemption for capital gains between them. This means that some couples may pay more tax than two single people with the same incomes or gains, simply because they are married.

3. The ~~new~~ proposed scheme will remove this tax penalty on marriage. Husband and wife will be taxed completely independently on all their income and capital gains and will be entitled to separate capital gains tax annual exemptions. The changes will also remove complex special provisions which have been introduced over the years to mitigate the effects of the present system, [for example] the wife's earnings election and separate assessment.

Are there any others?

Privacy

4. Under the present system of taxing married couples the husband is legally responsible for a couple's tax affairs and for paying any income tax due on their combined income. He has to include his wife's income on any tax return he is asked to complete. This means that a married woman cannot have ~~complete~~ privacy in her financial affairs.

5. Under Independent Taxation husbands and wives will each take responsibility for their own tax affairs and for paying the tax due on their own income and capital gains. Where it is necessary for either husband and wife to complete a tax return they will have to give details only of their own income and not that of their partner. So, if they wish, a husband and wife will both be able to have complete privacy and independence in their affairs.

6. At present only a minority of ~~husbands~~ people are asked to fill in tax returns each year. The operation of the PAYE system and arrangements for deduction of tax at source from many forms of income from savings mean that annual returns are not required from many taxpayers. The same will be true under Independent Taxation: only a minority of husbands and wives will need to complete a tax return each year.

Independence

7. Under the new system each partner in a married couple will become an individual taxpayer. They will have:

- their own tax allowances

- their own set of rate bands for income tax

- their own annual exempt amounts for capital gains tax.

For the first time married women will become taxpayers in their own right. And married men will no longer be responsible for their wives' tax affairs.

Agree C, insert allces here.

Changes in the handling of married women's tax affairs

8. The new system will mean changes in the way a married women's tax affairs are handled

- all repayments of tax overpaid on her income will be made to her (and all underpayments of tax on her income will be recovered from her rather than her husband);

?

- all tax assessments on her income will be made in her name;

- all correspondence from the tax office about her tax affairs will be addressed to her;

- if she has a small income which includes investment income taxed at source such as dividends she may be able to obtain repayment of the tax deducted (but not composite rate tax on bank and building society interest which is not refundable in any circumstances);

- if she receives a National Insurance retirement pension on the basis of her husband's contributions it will be taxed as her income and her allowance will be available to set against it, in the same way as a pension which she receives on the basis of her own contributions. (At present a pension based on the husband's contributions is taxed as the husband's income.)

Changes in the handling of married men's tax affairs

9. The new system will also mean changes for married men:

- they will no longer be responsible for including their wives' income on any tax return they are asked to complete

- they will no longer be responsible for paying any tax due on their wives' income where this is not deducted at source (for example under PAYE).

Changes affecting both husband and wife

10. Many aspects of the present tax treatment of husband and wife reflect the rule that their incomes are added together and taxed as if the income all belonged to the husband. Thus tax reliefs due to either husband and wife are available to set against the combined income of the couple; on the other hand where there are limits on relief the couple may have to share the

limit between them. The following paragraphs describe how this will change under the new system.

(a) Calculation of income

11. Under Independent Taxation the taxable incomes of husbands and wives will be worked out independently. The same rules will apply as for taxpayers generally so tax reliefs will therefore be given only against the income of the partner who qualifies for relief instead of against their combined incomes. Reliefs which will be given in this way include

- relief for income tax losses. (Each partner's capital losses will also only be available to set-off against their own capital gains);

- relief for interest paid (other than on a mortgage loan) where this is allowable for tax purposes;

- annual payments, for example payments under a charitable covenant;

- relief for payments under the Business Expansion Scheme.

Special rules will, however, apply for payments of mortgage interest relief; these are described in a separate press release.

(b) Limits on relief

12. Husband and wife will no longer have to share certain limits on the amount of some payments and expenditure which qualify for tax relief. The main changes are that husband and wife will each have

- separate limits of £1,500 (or one-sixth of income) on relief for premiums under pre-1984 life assurance policies;

- separate limits of £40,000 a year on the amount paid for shares under the Business Expansion Scheme which qualifies for relief.

No. Redraft. Own goal.

Special rules will apply to the limit on relief for payments of mortgage interest on a loan to purchase a married couple's main residence. These rules are described in a separate Inland Revenue press release issued today.

Income from assets held jointly by husband and wife

13. The general rule will be that each partner in a married couple will be taxed on the income to which they are entitled. Special provisions will, however, be introduced to cover circumstances where a married couple receive income from, for example, a bank or building society deposit account or other assets which are held in their joint names. In such cases each partner will normally be taxed on half the income from the account (or other asset). If, however, the couple do not own the asset in equal shares and they make a declaration to the Inspector of Taxes each partner will be taxed on the portion of the income to which they are entitled.

Other tax provisions affecting husband and wife

14. There will be no change in the treatment for capital gains tax purposes of transfers of assets between husband and wife. These will continue to be treated on the basis that they give rise to no gain and no loss. Similarly, there will be no change in the rule that transfers of assets between husband and wife are free from Inheritance Tax.

15. There will be no change in the provisions which treat husband and wife (often in the same way as others who are related or partners in a business) as connected or associated with each other for certain tax purposes.

Abolition of redundant measures

16. Two options at present available to married couples will no longer be required under Independent Taxation:

A. The Wife's Earnings Election

Some married couples where both partners are working find it beneficial to make a "wife's earnings election". The wife's earnings are then taxed as if she were a single woman with her own set of tax rate bands. The husband loses the married man's allowance and gets a single person's allowance instead.

Under Independent Taxation all married couples will be taxed independently not just on their earnings but on every form of income. The wife's earnings election arrangements will therefore no longer be needed after 6 April 1990 when Independent Taxation applies.

B. Separate Assessment

Some married people opt to be "separately assessed". This option does not affect the total tax the couple have to pay but allows the partners to fill in separate tax returns and to divide the payment of their total tax bill between them broadly in proportion to their incomes. Under Independent Taxation these arrangements will no longer be needed since all husbands and wives will pay their own tax (and fill in their own tax returns where required).

2. NEW STRUCTURE OF INCOME TAX ALLOWANCES

1. As part of the change to Independent Taxation the Chancellor proposes a new structure of income tax allowances. This will replace the existing structure which is unsatisfactory because married women do not have a full tax allowance of their own. The present wife's earned income allowance is available only against a married woman's earnings. It cannot be set against her income from savings.

New Allowances

2. Under the new system there will be a personal allowance available to everyone, male or female, married or single, which can be set against all types of income. For the first time married women will have a full tax allowance in their own right. ? The new personal allowance will be equal in size to the present single person's allowance. replace

3. A married man will be entitled to a new "married couple's allowance" on top of his personal allowance. The personal allowance and the married couple's allowance will together be at least equal in size to the married man's allowance under the present system. So a married man will suffer no reduction in his tax threshold as a result of the change to the new system. The new married couple's allowance means that the tax system will continue to give recognition to marriage.

4. There will be larger personal and married couple's allowances for elderly taxpayers aged 65 and over, or 80 and over (see paragraph 10 below). Expand

5. The existing single person's, married man's and wife's earned income allowances will be abolished.

Level of allowances

6. The change to the new allowances will be made in the 1990-91

tax year. The value of the allowances will not, of course, be determined finally until 1990 but the following table illustrates what their value would be if they were introduced at [1987-88] levels. [Drafting note: allowance levels shown in the final version will be the 1988-89 figures].

Independent Taxation: Main Allowances

Personal allowance: (Age under 65)	£2425
Personal allowance: (Age 65-79)	£2960
Personal allowance: (Age 80 or over)	£3070
Married Couple's Allowance: (Age under 65)	£1370
Married Couple's Allowance: (Age 65 - 79)	£1715
Married Couple's Allowance: (Age 80 or over)	£1775

Transfer of Married Couple's Allowance

7. The new married couple's allowance will go to the husband in the first instance. But if a married man's income is less than the combined personal allowance and married couple's allowance to which he is entitled he will be able to transfer the unused part of the married couple's allowance to his wife. This will ensure that a couple where the wife is the sole earner have the same allowances has a couple where the husband is the sole earner.

8. The personal allowance will not be transferable between husband and wife. But there will be transitional

relief for some couples on the change to the new system (see paragraphs 13 - 17 below).)

The Elderly

9. As now, elderly people aged 65-79 or over 80 will be entitled to higher levels of allowance if their incomes do not exceed the age allowance income limit (£9,800 for 1987-88). But for the first time elderly married women will be able to get age-related allowances in their own right (instead of the wife's earned income allowance as at present).

* All elderly people, whether single or married, will qualify for a personal allowance (as shown in the table in paragraph 6) on the basis of their own age. Elderly married women will be able to set this allowance against a pension - including the National Insurance retirement pension - they receive on the basis of their husband's contributions as well as against any other income they may have.

Drafting

What about H 60 W 65?

* A husband in an elderly couple will be entitled to a higher rate of married couple's allowance depending on the age of the older partner in the couple. So if a husband is under 79 but his wife is 80 or over he will be entitled to the highest level of married couple's allowance (see table in paragraph 6). As for younger couples the married couple's allowance can be transferred to the wife if the husband has insufficient income to use it.

* As at present, the age allowances will be subject to an income limit. They will be withdrawn by £2 for every £3 of income by which the taxpayer's income exceeds the limit until the level of the personal allowance and married couple's allowance for those under 65 is reached.

* Husband and wife will, however, each have their own income limit, [£9,800 at 1987-88 levels] which will apply

separately to their incomes. This is instead of the present ~~single~~ limit which applies to the combined incomes of husband and wife.

Blind allowance

10. Married people who are blind will be entitled to the blind allowance. If both partners in a couple are blind they will each be entitled to an allowance. (Under the present system the husband in a couple who are both blind is entitled to an allowance equal to twice the ordinary blind allowance). If one partner in a married couple is unable to use any part of their blind allowance because their income is too small they will be able to transfer the unused part of the allowance to the other partner (whether blind or not).

Allowances in years when a marriage begins or ends

11. In the year in which a couple marry the married couple's allowance will be apportioned so that, for example, where the marriage takes place half way through the tax year, the husband will be entitled to half the allowance. The allowance will not be apportioned for the year in which a couple separate or divorce or in which one spouse dies. These provisions will be very similar to those which apply under the present system.

12. In the year in which a married woman is widowed and the following tax year she will be entitled (as at present) to the widow's bereavement allowance. Under Independent Taxation the allowance will be available against any of her income for the year in which her husband dies, not just income arising after his death, as it is at present.

TRANSITIONAL MEASURES

13. Transitional measures will be introduced to smooth the change from the present system to the new structure of allowances These measures will give

* transitional relief for couples where the husband has an income less than his personal allowance.

* transitional relief for certain husbands in elderly couples.

<u>Couples where the husband has a small income</u>

Legalistic

14. Under the present system a married man with no income of his own may set the whole of the married man's allowance and, in addition, the wife's earned income allowance against his wife's earnings if he has insufficient income of his own to absorb it. But a married man whose wife has no earnings has only the married man's allowance to set against his income. This means that couples ~~in~~ with similar incomes circumstances can have very different tax bills depending on whether the husband or the wife is the main earner.

Makes it sound like a cutback rather than a logical change.

15. Under the new system only the married couple's allowance will be available for transfer to the wife if the husband cannot use it himself (see paragraph 5). So couples where the wife is the sole earner will get the same total allowances as couples where the husband is the sole earner. This could mean, however, that some couples would suffer a reduction in their allowances on the change to Independent Taxation. This would affect couples where the husband has an income which is less than his personal allowance in 1990-91.

16. Husbands in such couples will therefore be able to transfer part of their unused personal allowance to their wives for a transitional period so that the couple do not suffer a reduction in the total allowances available to them. Further details will be available in the Finance Bill.

<u>Husbands in certain elderly couples</u>

17. Under the present system of taxing husband and wife men married to older wives may qualify for married age allowance on the basis of their wife's age. Under the new structure of

allowances a man married to an older wife will receive the married couple's allowance based on his wife's age. But his personal allowance will be based on his own age and he might therefore suffer a reduction in allowances on the change to the new system. Married men who are affected by this change will therefore be able to claim transitional relief. Instead of the personal allowance they will be able to claim an allowance equivalent to the single age allowance frozen at its 1989-90 level. This will ensure that they do not suffer any reduction in their allowances as a result of the change to the new system.

These are domestic points. Better to blend in with the pts in para 2 affecting tprs.

3. CHANGING TO THE NEW SYSTEM

1. Some special arrangements will be necessary to prepare for the transition from the present system to Independent Taxation. This is a big change both for taxpayers and for the Inland Revenue which will need to train its own staff, change present forms and procedures, and adapt the computer systems dealing with PAYE and Schedule D assessing.

2. Tax office staff will need to carry out some preparatory work starting early in 1989-90. For example, they will need to create new records for many married women (including all those in business on their own) and transfer information about wives from their husband's tax records to their own records. Most of this work can be done from information already in tax offices and from returns which married men would be asked to make in any event in 1989/90. But the Revenue will also be seeking help from some taxpayers to provide the information it needs to set up the new system and launch it smoothly

3. In 1990 some married men will be asked to complete tax returns covering income for the 1989-90 tax year (the last year to which the present rules will apply). A husband will remain responsible for returning all his wife's income for that year. However this will be the last year for which a combined tax return will be necessary.

Drafting ?

4. To help ensure that tax offices dealing with married women receive directly the information they need to deal with taxpayers' affairs on the new basis, some married women, mainly those who are self-employed ~~in business on their own account~~, will also be asked to provide returns of their own 1989-90 income. This will apply in particular where this income will form the basis of an assessment to tax for the year 1990-91. The payment of tax charged on such an assessment will under Independent Taxation be the responsibility of the wife.

X 5. Returns of income ~~of~~ for the year 1990-91 (which will be made after 5 April 1991) will be made independently by husband and wife.

6. Further announcements about the transition to the new system will be made in due course.

What? When? Who does what?

THE TAXATION OF HUSBAND AND WIFE: PRESENT SYSTEM

1. The basis of the present system of taxing married couples is that the incomes of a husband and wife are added together and taxed as if all the income belonged to the husband. He is formally responsible for handling the couple's tax affairs, claiming the allowances and paying the tax.

2. The main personal allowances for married couples are:

- the married man's allowance (£[ ] in 1988-89). This can be set against any income of the couple. In practice it is usually set against the husband's earnings under PAYE.

- the wife's earned income allowance (£[ ] maximum in 1988-89, equal to the single person's allowance). This is technically an allowance available to the husband to set against his wife's earnings only; in practice it is usually given directly against the wife's earnings under PAYE.

3. Income above the personal allowances is charged to tax at the basic rate ([ ]% in 1988-89) or, if it exceeds the basic rate band (£[ ] in 1988-89), at the [higher rates of ..]. A married couple have only one basic rate band between them.

4. The vast majority of married couples are taxed according to the basic system described above. These are however two alternatives to that system, which have different purposes.

a. <u>Separate assessment</u> was introduced in 1914. It enables each partner to be responsible for handling his or her own tax affairs independently of the other. Either partner may apply for this - the other does not have to agree. This option does not affect the total amount of tax the couple have to pay - the partners' incomes are still added together in order to work out their tax bill - but the couple can fill in separate tax returns. The Inland Revenue put the information together, work out the joint tax bill, and divide it up between the couple broadly in proportion to their incomes. Each partner is then responsible for paying his or her own share of the bill.

b. By contrast, the wife's earnings election, introduced in 1971, can reduce a couple's tax bill. A couple have to elect jointly for this option. The effect is that the wife's earnings are taxed as though she were a single woman, with her own set of tax rate bands, while the husband loses the married man's allowance and becomes entitled to the single person's allowance instead. The election is only worthwhile where their incomes are such that the savings of higher rate tax from having the wife's earnings taxed separately outweigh the loss of the married man's allowance. In 1988-89, the joint income needs to be over [ ], of which the lower earner's share must be at least [ ] for the election to be beneficial. This election does not affect the investment income of the wife which is always taxed as her husband's income.

The Elderly

5. People aged 65 or over have higher tax allowances, and people aged 80 or over have higher allowances than those aged 65-79. In 1988-89 the allowances are [ ] for a single person aged 65-79, [ ] for a single person aged 80 or over, [ ] for a married man in a couple where the older partner is aged 65-79 and [ ] for a married man in a couple where the older partner is aged over 80. The age allowance is given in full where income does not exceed [ ]. This limit applies to single people and to the joint income of a married couple. The allowance is then withdrawn by £2 for every £3 of income over that limit, until it is reduced to the same level as the corresponding main personal allowance.

6. The maximum wife's earned income allowance for elderly married women is the same as for younger married women, £[ ].

Capital Gains Tax

7. At present the chargeable gains and allowable losses of a husband and wife are added together for CGT purposes. A married couple share a single annual exemption (£6,600 in 1988-89), and the tax is assessed on the husband, unless there is an election for separate assessment.

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 19 FEBRUARY 1988

FINANCIAL SECRETARY

INDEPENDENT TAXATION: LEGISLATION

1. This note brings to your attention a number of minor issues which have arisen during the course of drafting the legislation for Independent Taxation and lets you know the approach which we have adopted in each case. The first three points are all concerned with aspects of the provisions for transfer of allowances where a husband has a small income.

Transfer of married couple's allowance for elderly couples

2. Under Independent Taxation a married man in an elderly couple will be entitled to a higher level of married couple's allowance (MCA) depending on the age of the older partner in the couple. (At 1987-88 allowance levels the figures would be £1,715 if the older partner was aged 65-79 and £1,775 if the older partner was aged over 80. These compare with MCA of £1,370 if both partners are aged under 65.) If the husband's income exceeds the aged income limit the excess of the elderly MCA over the basic MCA will be withdrawn (as now) at the rate of £2 of allowance for every £3 of additional income (once any personal

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cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call
Parliamentary Counsel
(Mr Jenkins)

Mr Isaac
Mr Painter
Mr Cleave
Mr Lewis
Mr Beighton
Mr Mace
Mr O'Connor
Mr Kuczys
Mr O'Brien
Mr J C Jones
Mr Bousher
Miss Dyall
PS/IR

ge allowance to which the husband is entitled has been fully withdrawn.)

3. Where a husband in an elderly couple has insufficient income to make full use of the married couple's allowance he will be able to transfer the unused balance to his wife. In these circumstances we have not provided for the excess of any transferred elderly MCA over the basic MCA to be withdrawn if the wife's income exceeds the aged income limit which applies to her. There are a number of reasons for adopting this simple approach.

(i) Since the MCA goes in the first instance to the husband it is right in principle that any age allowance element in the MCA should be subject only to the income limit which applies to the husband and not to the separate limit which applies to his wife. If the husband's income is below the aged income limit the couple should qualify for the full MCA due on the basis of their ages.

(ii) It could be complicated to provide rules for withdrawing the age allowance where only part of the MCA were transferred. (If the husband transfers £1,000 of the elderly MCA of £1,715 there is no unique way of determining how much of the age allowance component (the excess of £1,715 over the basic MCA of £1,370) he has transferred. Since the number of couples where the husband has insufficient income to use the MCA in full but the wife has income in excess of the aged income limit is likely to be very small (probably fewer than 10,000) it seems sensible to avoid awkward complications and adopt a simple (and more generous) approach.

(iii) If any age allowance component in MCA transferred to the wife were subject to withdrawal by reference to the wife's income this could lead to anomalies and inconsistencies of treatment between different couples.

(A couple where the husband had a very small income would get less benefit from the age allowance component of the MCA than a couple where the husband had a slightly larger income and was able to use the allowance in full.)

Interaction between transfer of MCA and composite rate interest

4. The legislation will provide that a husband can transfer his MCA to his wife to the extent that the allowance exceeds what is left of his income after all other deductions (including other personal allowances) have been made from it. So if the MCA is £1,370 and the husband's income after deducting all his other reliefs and allowances is £500 he will be able to transfer £870 of the MCA to his wife. Thus the size of the MCA transfer would depend on the size of the husband's income, however it is made up. This seems the right approach in principle.

5. One consequence of this fundamental rule, however, is that if the husband's income includes some bank or building society interest from which composite rate tax has been deducted, the amount of MCA which he can transfer will be reduced by the amount of the interest subject to composite rate tax. Because the husband in these circumstances will not, of course, be able to recover the composite rate tax deducted it might be suggested that any composite rate income should be ignored in working out how much of the MCA should be transferred.

6. We think this proposition would have to be firmly resisted. If interest subject to composite rate tax were ignored in calculating how much of the MCA could be transferred the basic principle that composite rate tax is never repaid might be called into question. Where a husband had a small income including interest subject to composite rate tax the couple would be able to obtain the equivalent of a repayment of the composite rate tax by the husband transferring his MCA to his wife. It would be undesirable to call the basic composite rate principles into question in this way, particularly when the composite rate

arrangements are in any case likely to be under pressure on the change to Independent Taxation from married women who are unable to obtain repayment of small amounts of composite rate tax deducted from their own bank or building society interest. We think it is right that composite rate interest should be taken into account in determining any transfer of MCA in the same way as it is taken into account for the application of the aged income limit and for other purposes. It would be a complication both in the legislation, and for tax offices and the public, to apply different rules for measuring income for the purposes of determining the size of any transfer of allowances and from those which apply for other purposes.

7. Except, possibly, for a small number of elderly people (who will in any case usually be benefiting substantially from the disaggregation of the wife's Category B National Insurance pension and from the extension of age allowance to wives) it is unlikely that transfers of MCA would be significantly restricted by the rule for composite rate interest which we are proposing. If the husband's income is so small that a transfer of the MCA is in point, it is unlikely that he will own substantial bank or building society deposits. Couples could, in any case, avoid the effects of the rule by transferring investments between them.

"Breadwinner wives" transitional provisions

8. In the course of preparing the legislation to provide transitional relief for certain breadwinner wives we have had to simplify somewhat the scheme which was outlined in Miss Dyall's note of 16 September since we found that it did not entirely eliminate losers on the change to Independent Taxation in certain cases where the wife had investment income.

9. The basic structure of the transitional scheme remains unaltered: the effect is to provide transitional relief for 1990-91 and subsequent years where a husband has a very small income so that the couple's total allowances are preserved at their 1989-90 level. The transitional relief is then gradually

reduced by subsequent increases in the wife's allowances and by increases in the MCA until it eventually disappears. In order to eliminate the losers on the change to Independent Taxation we have, however, altered the initial qualifying conditions for the relief in 1990-91. The availability of relief will now depend only on the size of the husband's income in 1990-91; the rules will not look back to 1989-90 (the year before the introduction of Independent Taxation), as we had originally proposed, to see how the couple actually shared the available allowances between them that year. This is a simplification of the rules but it means that a few additional couples (as well as those who would have been losers under the original proposals) will qualify for transitional relief, in particular if the husband's income suffers a sharp drop between 1989-90 and 1990-91. he cost of the additional transitional relief in these cases will, however, be negligible.

Specification of Allowances

11. The legislation for Independent Taxation will include values for the personal allowances and the MCA based on 1988-89 allowance levels. This will make the provisions much easier to understand than if no figures were given. But it will be important to explain that the figures are simply for illustrative purposes and do not necessarily represent the allowances which will actually apply in 1990-91.

12. It will be necessary to amend the figures specified in the legislation in next year's Finance Bill to uprate them to the level of allowances fixed for 1989-90. Once that has been done, however, the legislation provides for the 1989-90 figures to be indexed to 1990-91 for the start of Independent Taxation (if that is what is required) without a further Finance Bill amendment.

Life assurance policies: chargeable events

13. The attached Annex 1 explains how we are proposing to treat the assignment of life assurance policies between husband and

fe under Independent Taxation. (This is a case where we are not making a change in the existing legislation). Although the treatment we are proposing is consistent with the approach you have approved on other similar issues you may like to be aware of the point.

References to wife and widow

14. In Miss Dyall's note of 6 November, "Independent Taxation: Sex Discrimination in the Tax System" we identified a provision in the legislation on the approval of occupational pension schemes which referred to benefits for widows, but excluded widowers. You agreed to extend this reference to include widowers. Since then we have identified some half dozen other references in legislation on pensions, annuities, life assurance, and provident benefits which give favourable treatment to a "wife" or "widow" (see Annex 2) but from which husbands and widowers are excluded. We propose to amend these provisions in a similar way. These are all very minor items. (It seems unlikely that any discrimination was ever intended in these provisions but that at the time the legislation was introduced it was not commonly open to a woman to provide for her widower in these ways. This is now becoming more common - the Civil Service pension scheme introduced widowers' benefits for the first time last year.)

B A Mace

B A MACE

Annex 1

Life Assurance Policies: Chargeable Events

1. Under the present legislation applying to life assurance policies certain events (known as "chargeable events") such as the assignment or surrender for money or money's worth of a policy can give rise to a charge to higher rate tax on the gains from the policy if the person assigning or surrendering the policy is liable at the higher rates. At present an assignment whether or not for money or money's worth of an insurance policy between husband and wife does not give rise to a chargeable event. So a husband can transfer the benefit of a policy to his wife without triggering a higher rate charge on the policy gains if he is a higher rate taxpayer. If the wife subsequently surrenders the policy, however, her husband will then be subject to a higher rate tax charge; although his wife gets the proceeds of the policy the gains are still treated as his income because of the aggregation rule.

2. This position would change under Independent Taxation since husbands and wives incomes would no longer be aggregated. The effect will be that a husband, liable at higher rates, could assign a policy to his wife who could then surrender it without triggering a higher rate charge if she was liable only at the basic rate.

3. We have considered whether we should take any action to stop the loss of higher rate which will arise in these circumstances. But we have come to the conclusion that this would not be appropriate. There are three reasons.

4. First there is a very close analogy here with the approach we are adopting for capital gains tax where transfers between husband and wife will not give rise to a capital gains tax charge. It would be inconsistent with that approach (and the approach we are adopting generally to transactions <u>between</u> husbands and wives) to make assignments of life assurance

licies between husbands and wives chargeable events.

5. Second, any assignment of a policy which is not for money or monies is outside the scope of the chargeable events legislation in any case. Most assignments of policies between husbands and wives are likely to be of this kind and it would be difficult to single out assignments between husband and wife as giving rise to a chargeable event when similar assignments between other individuals do not.

6. Third, although the chargeable events legislation is primarily intended to counter the avoidance of higher rate tax, and its deterrent value could be affected if no action is taken on assignments between husband and wife, the loss of tax is in practice likely to be relatively small. The current higher rate yield for <u>all</u> chargeable events is only in the region of £10 - 15 million.

Annex 2

Provisions extended to include husbands or widowers

(i) S.266(9) ICTA 1988 which treats members of the armed forces and their wives as if they were resident in the UK for certain life assurance relief purposes.

(ii) S.266(ii) ICTA 1988 which ensures relief is available for deferred annutiy contracts under a superannuation or pension scheme for benefit of an employee, his wife, widow or dependents

(iii) S.273 ICTA 1988 which provides relief for an employee on deferred annuity contracts for the benefit of his widow or children

(iv) S.683 and 628 ICTA 1988 which ensure that annuties paid by partners in a business to a former partner or his widow are not regarded as the partners' income for higher rate liability purposes and are treated as earned income in the hands of the recipient

(v) S.467 ICTA 1988 which exempts trade unions and employers' associations from tax on certain income used for "provident benefits" including payment of funeral expenses of a member or his wife. (We already give this in practice).

Inland Revenue

Policy Division
Somerset House

FROM: A C GRAY
DATE: 19 FEBRUARY 1988

PHP

FINANCIAL SECRETARY

Who he?

MR JOHN BUTTERFIELD'S PROPOSALS ON HOME ANNUITY LOANS:
A COUNTER VIEW

1. Following your meeting yesterday with Mr Butterfield and others we are looking further into the details of the proposal and will be letting you have another note in due course.

2. However we felt you would wish to be aware of a strong counter-view, against providing additional special treatment for home annuity loan schemes - which are largely marketed by Allied Dunbar - emanating from a competitor company, Stalwart Assurance Company Ltd. Stalwart offer a different sort of scheme, 'home reversions' which work by buying a freehold or leasehold interest in the elderly home owners property in return for allowing him or her an income for life, and to remain in the property until his or her death. Unlike the Allied Dunbars current scheme this home reversion variant apparently offers

---

c PS/Chancellor
Mr Cropper
Miss Sinclair

Mr Johns
Mr O'Connor
Mr I Stewart
Mr Gray
PS/IR

increased income payments over the remaining years of the elderly person's life. We have just received this correspondence to deal with from the Economic Secretary's office and we have not of course had time to look at illustrative figures, and these are no doubt given their most favourable light. But they do appear to provide significantly higher sums under the Allied Dunbar schemes, where the annuity is fixed from the outset. The scheme does not appear to depend in any way upon the granting of any (extra) tax relief.

3. But perhaps the more essential point to note at this stage is that the company are very concerned about the possibility of further special tax reliefs being granted to one particular form of income support for elderly people, (and one which in practice may well go to benefit one particular insurance company).

A C GRAY

STALWART

Stalwart Assurance Company Limited
Stalwart House, 142 South Street, Dorking, Surrey
Tel: (0306) 76581
Fax: (0306) 888717

HM TREASURY – MCU
17 FEB 1988
ACTION 1R
T.O.
14407/88

RECEIVED 18 FEB 1987 PARLIAMENTARY UNIT

our ref: GPBL/JCP/SAC

date: 12th February 1988

P Lilley MP
Economic Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Mr Lilley

Interest roll-ups on Home Income Plans – A Counter View

Home Income Plans of the mortgage/annuity type have been highlighted recently by the news that the charities 'Age Concern' and 'Help the Aged' have embarked on a campaign with the insurance company Allied Dunbar Provident to persuade the Government to extend tax relief on such plans to interest that is rolled up and repaid from the Estate after a borrower's death.

As you are probably aware the essence of the mortgage/annuity scheme is that a mortgage of up to 75% of the value of the property with a maximum of £30,000 is taken out. The capital sum advanced is used to purchase an annuity which provides a fixed income for life.

The efficacy of the scheme hinges on a concession through which MIRAS tax relief has been extended in the case of those over 65 to cover a loan that is not made for property purchase. The scheme as it stands relies heavily on this concession since were it not available the arrangement would be insufficient to provide a worthwhile income for most people.

Other practical problems that already stem from the mortgage/annuity schemes include :-

1. The income receivable is fixed at outset. There is no possibility of obtaining a rising income so there is no protection against inflation. The elderly non-working population are of course the major group who cannot protect their incomes against price rises.

2. Because of the dependence of the scheme on the MIRAS tax relief concession no matter how valuable the property the mortgage is restricted to £30,000 – the point at which mortgage interest relief terminates. This limits the capital available for the purchase of an annuity and therefore the income it can produce.

3. It has been argued that the advantage of the mortgage/annuity method is the benefit of leaving the surplus value of the property after a payment of the mortgage to the Estate – it enables something to be left to the family or other legatees. The current proposal to roll up interest payments is akin to making a virtue out of a vice since, by definition, surplus of the Estate will be reduced by adopting this expediency.

cont. .....

If the further concession of interest roll-up is granted there could be a serious risk that the capital value of the property no longer supporting the original mortgage plus the accumulated rolled up interest burden.

It was precisely to overcome these and what we consider to be other deficiencies of the mortgage/annuity schemes that we introduced our own plan in January 1986.

The essence of this scheme which works on the reversionary principle is that we acquire the freehold or leasehold interests in the property taking account of its full market value and in return grant the occupant a lifetime lease and an income for life.

Properties taken into the scheme form part of a fund divided into units which is valued regularly by independent Chartered Surveyors. Increases in the fund's value are reflected in increased income payments to members of the plan in the second and subsequent years.

The plan's ability to provide an increasing income is the protection against the rising cost of living. It should be borne in mind that actuarially a lady of 75 for example has a life expectation of more than 12 years. Even in the less inflationary 1980's there has been a noticeable rise in the cost of living for the 12 year period December 1975 to December 1987. The purchasing power of money as measured by the Index of Retail Prices fell by over 60%. For your interest I enclose a number of examples which clearly demonstrate in fiscal terms the options presently available to elderly homeowners.

The Government's taxation policy leans towards fiscal neutrality. It does not appear to favour introducing further tax concessions for particular sectors of the community. MIRAS for Home Income Plans is already an extension of the normal rules for tax relief on mortgages.

In fact the Government may take the view that since the mortgage/annuity route is only one of several available to elderly home owners who wish to use the value of their property to supplement income they should continue to judge the various schemes on their merits without their choice being further influenced, arguably distorted, by further tax concessions to one particular type of scheme.

I look forward to your observations.

Yours sincerely

G.P.B Lowen

G P B Lowen
Director

Enc.

COMPARISON OF A MORTGAGE/ANNUITY SCHEME WITH A STALWART HOME INCOME PLAN

Example 1

Female aged 70 (life expectancy: 15.382 years). House value: £40,000

Mortgage/annuity (Allied Dunbar Provident)	Stalwart 1	Stalwart 2
£30,000 (maximum qualifying for MIRAS)	£30,000 of property's value utilised	£40,000 of property's value utilised
Fixed annual income for life:	First £1,442 p.a. tax-free	First £1,896 p.a. tax-free
Taxpayer - £1,080 Non-taxpayer - £1,356	1st year £1,002 5th year £1,467 10th year £2,363 15th year £3,806 20th year £6,130	1st year £1,336 5th year £1,957 10th year £3,151 15th year £5,075 20th year £8,173

NB. Projected income after 1st year assumes 10% per annum compound growth in the value of the unit-linked fund.

Example 2

Female aged 70 (life expectancy: 15.382 years). House value £100,000

Mortgage/annuity (Allied Dunbar Provident)	Stalwart
£30,000 (maximum qualifying for MIRAS)	£100,000 of property's value utilised
Fixed annual income for life:	First £4,740 p.a. tax-free
Taxpayer - £1,080 Non-taxpayer - £1,356	1st year £3,341 5th year £4,891 10th year £7,878 15th year £12,687 20th year £20,432

N.B. Projected income after 1st year assumes 10% per annum compound growth in the value of the unit-linked fund.

Example 3

Female aged 75 (life expectancy: 11.971 years). House value: £40,000.

Mortgage/annuity (Allied Dunbar Provident)	Stalwart 1	Stalwart 2
£30,000 (maximum qualifying for MIRAS)	£30,000 of property's value utilised	£40,000 of property's value utilised
Fixed annual income for life:	First £1,979 p.a. tax-free	First £2,638 p.a. tax-free
Taxpayer - £1,646 Non-taxpayer - £1,899	1st year £1,451 5th year £2,124 10th year £3,421	1st year £1,934 5th year £2,832 10th year £4,561

NB. Projected income after 1st year assumes 10% per annum compound growth in the value of the unit-linked fund.

Example 4

Female aged 75 (life expectancy: 11.971 years). House value: £100,000

Mortgage/annuity (Allied Dunbar Provident)	Stalwart
£30,000 (maximum qualifying for MIRAS)	£100,000 of property's value utilised
Fixed annual income for life:	First £6,595 p.a. tax-free
Taxpayer - £1,646 Non-taxpayer £1,899	1st year £4,836 5th year £7,081 10th year £11,404

NB. Projected income after 1st year assumes 10% per annum compound growth in the value of the unit-linked fund.

4372/017

I agree with the FST. But we will need to have drafted, or ready to send out on the day after the Budget a cogent ~~argument~~ letter explaining why we have not ~~decided~~ embraced Butterfill. These arguments will also, of course, need to be deployed when the inevitable amendment is debated. N.

FINANCIAL SECRETARY TO THE TREASURY

FROM: FINANCIAL SECRETARY

DATE: 19 February 1988

CHANCELLOR

Ch / Agree with FST? (Mr Gray's note, immediately behind, provides a further reason against doing anything).

AT 19/2

cc Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Culpin
Mrs Lomax
Mr Cropper
Mr Tyrie
Mr Johns - IR
PS/IR

HOME ANNUITY LOANS

I held a meeting today with John Butterfill, Marcus Fox and John Redwood to hear their thinking on the proposed extension of the existing relief for home annuity loan schemes.

2. It is clear to me that these proposals would <u>not</u> be of great benefit to low income/low capital pensioners. The main beneficiaries as explained below would be pensioners with houses worth more than £50,000. There <u>would</u> be a few people with low incomes and houses worth more than £50,000, particularly in the South East. The real question, therefore, is whether we want to bend the interest relief rules to help this small group, and as a by-product to encourage a good little money-earner for Allied Dunbar.

3. Two further issues became clear at my meeting:

(i) John Butterfill's proposals have a secondary objective. As well as to raise the net incomes of pensioners, they are designed to encourage the infirm elderly to be treated and looked after at home. I am not convinced that this is always a particularly desirable objective or, even if it were, that increasing pensioners' net incomes would achieve it.

(ii) He clearly believed that our only objection to his proposals would be on grounds of cost. With this in mind he was happy to restrict the scope of the proposals to persons aged 65 or over, earning less than £4-6000 and with free capital of less than £6,000. He also made much of the public spending savings which would accrue from having pensioners treated at home rather than in residential care.

4. I think that if we are to convince supporters of these proposals that they should not be introduced, we will have to set aside arguments about cost (we have no estimate in any case) or tax principle (which never cut much ice in the House) and focus upon the likely inefficacy of the proposals.

5. The key to this is John Butterfill's "Home Income Plan Illustrations" (attached). He contrasts the existing home annuity plans (where interest is relieved but not rolled up) with the proposed roll-up scheme for a person aged 75 years with a house worth £50,000. His figures are designed to illustrate the advantage to the pensioner of the new scheme, but, in my view, these figures demonstrate how limited the new scheme will be.

6. You will see from his table that under the existing scheme this pensioner is able to take out a £30,000 loan and to derive from it an annual net increment to income of £1,908. On death (assuming no capital appreciation of the house) the net value of the estate amounts to £20,000. Under the proposed regime, Allied Dunbar would only be prepared to lend up to 30% of the initial house value - this presumably reflects their commercial view of the risks, having taken account of average life expectancy and expected capital appreciation. Thus the pensioner would take out a £15,000 loan with annual interest rolled up and paid on death.

7. The 30% limit is actually the fatal weakness in the proposed scheme. There clearly has to be a low limit because of the potential growth in the rolled up interest. Under the existing home annuity loan schemes, without rolled up interest, the proportion of the property the lender can prudently lend is that much greater.

Em?

The effect of the rolled up scheme is to increase the pensioner's net income by £152 p.a. and to save the Exchequer £568 p.a. during the pensioner's life relative to the 'normal' home annuity scheme. This would be a useful increase in net income for a low income pensioner - but it would hardly make a major impact. What the table does not show, however, is the effects of the rolled up interest on the value of the net estate. Mr Johns' note of 10 February looks at the effects of compounding up interest payments. For instance, if this pensioner lived on for twelve years, the original liability of £15,000 would have increased to £47,600 on John Butterfill's assumptions. Even if the Exchequer gave relief on the rolled up interest at 27% of £8,800, the net value of the estate (again assuming no capital appreciation) would be reduced to £11,200.

9. Thus, in this example, the Exchequer loses £1984 in undiscounted terms (though it actually gains in discounted terms); the heirs lose £8800 (and would lose even more if tax relief were denied); and the pensioner only gains £152 p.a. for 12 years.

10. Of course, the precise gains and losses will depend upon the details of the plans offered and the time that elapses before the pensioner dies. Nevertheless it seems clear to me that for people with "low" value houses a rolled-up interest home annuity plan will not offer significant benefits, particularly if, as John Butterfill claims, pensioners are reluctant to enter into arrangements which significantly reduce the amount of capital that is available to bequeath.

11. By contrast, the pensioner will find it beneficial to take out a rolled-up interest plan (with interest relief) if he has a substantial house. He will prefer the proposed plan to the normal plan in the circumstances because under the latter interest relief is available in respect of only £30,000 worth of loan, whilst under the new proposals, interest relief would be available in respect of interest paid not only on the initial loan of £30,000 but also on the rolled-up interest.

Conclusion

12. We can review at Committee stage if necessary. On the face of it this does not seem to me a very attractive scheme, though John Butterfill

will no doubt press it. I have therefore told the Revenue to look at whether there are any variations of these proposals which would be acceptable. There is no possibility at this late stage of getting anything into the Finance Bill.

NORMAN LAMONT

HOME INCOME PLANS

ILLUSTRATIONS: (A) Net Income under both the Current Plan and Future Plan.

(B) Future Loan Interest and MIRAS

ASSUMING: LADY AGED 75
HOME VALUE £50,000 (UK Average)
TAX @ 27%

(A) NET INCOME

			CURRENT PLAN			FUTURE PLAN
INITIAL LOAN			£30,000	(Maximum 30% of of house value)		£15,000
ROYAL LIFE	Annuity Income		£ 4,620			£ 2,310
Tax Free Content Tax at 27% on £1,848 =		£2,772	£ 500	on £924 =	£1,386	£ 250
NET ANNUITY			£ 4,120			£ 2,060
LESS:						
ABBEY NATIONAL	Loan Interest					
@ 10.1% Less MIRAS		£3,030 £ 818		(Interest Added to Loan)		£ NIL
			£ 2,212			
NET SPENDABLE INCOME per annum			£ 1,908			£ 2,060

NOTE: (1) If the home value was £100,000 it would be possible under the Future Plan to lend £30,000 at outset and increase spendable income by £4,120 per annum.

(2) The tax on the annuity, is deducted at source, and then sent to the Inland Revenue quarterly.

Continued ....

FROM: J M G TAYLOR
DATE: 22 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Culpin
Mrs Lomax
Mr Cropper
Mr Tyrie
Mr Johns - IR
PS/IR

HOME ANNUITY LOANS

The Chancellor has seen the Financial Secretary's minute of 19 February.

2. He agrees with the Financial Secretary's view that this does not seem a very attractive scheme. He has commented, however, that we will need to have drafted, and ready to send out on the day after the Budget, a cogently argued letter explaining why we have not embraced Mr Butterfill's proposals. These arguments will also, of course, need to be persuasively deployed when the inevitable amendment is debated.

J M G TAYLOR

42/2.BTW.4372/34

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 22 February 1988

PS/CHANCELLOR

cc Miss Sinclair
Mr Cropper
Mr Johns IR
Mr A Gray IR
PS/IR

HOME ANNUITY LOANS

The Financial Secretary has seen Mr Gray's minute of 19 February. He has commented: "That kills it!"

JEREMY HEYWOOD
Private Secretary

UNCLASSIFIED

Inland Revenue

Policy Division
Somerset House

FROM: C D LESTER
DATE: 23 February 1988

1. Mr Cayley

2. PS/CHANCELLOR (MR TAYLOR)

CGT

1. Your note of 19 February asked about the definition of "short-term" and "long-term" in those countries where the rules are different for some or all short-term gains. The attached table summarises the position.

2. We are aware of no published information on the market effects in the countries concerned of having different rules for short-term gains.

C.D. Lester.

C D LESTER

Thanks. Two observations:
1) It must be the case that one important reason why some countries have a lower rate of CGT on long term gains is to make some allowance for cumulative inflation. This is not relevant in the UK given indexation (which I take it we alone have – pse confirm).
2) It is characteristic – and noteworthy – that the Japanese define short-term gains on shares as those made within 5 years.
NL.

Mr Scholar
Mr Culpin
Mr Cropper
Mrs Lomax
Mr Ilett

Mr Isaac
Mr Pitts
Mr Cayley
Mr Hamilton
Mr Michael
Mr Lester
PS/IR

UNCLASSIFIED

COUNTRIES WHERE DISTINCTION IS RELEVANT

Country	Period which counts as short-term	Relevance of distinction
Austria	Land and buildings : 5 yrs or less Other assets : 1 yr or less	Long-term gains on land and portfolio investments exempt
Finland	Land and buildings : 10 yrs or less Other assets 5 yrs of less	Lower rate on long term gains
France	Land and buildings : 2 yrs or less Other assets : 1 yr or less	Lower rate on long term gains
Germany	Land and buildings : 2 yrs or less Other assets : 6 months or less	Long-term gains on portfolio investments exempt. Lower rate on other long-term gains.
Ireland	1 yr or less	Short-term gains taxed at 60 per cent
Japan	Land and buildings: 10 yrs or less Other assets : 5 yrs or less	Lower rate on long term gains
Luxembourg	Land and buildings: 2 yrs or less Other assets : 6 months or less	Tax mainly confined to short term gains
Netherlands	speculative gains on shares and securities:period not defined.	Long-term gains on portfolio investments exempt
Sweden	Shares : 2 yrs or less other movable property: 5 yrs or less	Lower rate on long-term shares. Exemption of other long-term movables (with lower rate after two years).

PWP(APH)

Inland Revenue

Policy Division
Somerset House

FROM: P LEWIS
DATE: 23 FEBRUARY 1988

Chancellor

INDEPENDENT TAXATION: MARRIED COUPLES ALLOWANCE AND ADDITIONAL PERSONAL ALLOWANCE

1. At the Overview yesterday afternoon you raised the possibility of amalgamating these two allowances under a new name.

2. This is a major change to contemplate at this very late stage in the run up to the Budget and Finance Bill. We must therefore ask for a very early decision on whether or not you wish to go ahead. Otherwise, there is a distinct danger that we will not have picked up - and dealt with as smoothly as possible - all the consequences. If you wish to go ahead, we ought to have this change well in hand before the weekend. I am afraid it really is not now feasible to leave it until the next Overview.

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Olding-Smee
Miss Sinclair
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Chairman
Mr Isaac
Mr Beighton
Mr Lewis
Mr Mace
Mr J C Jones
Mr O'Brien
Miss Dyall
PS/IR

3. This note looks briefly in turn at the presentational, policy and legislative implications.

Presentational

4. In your presentation of Independent Taxation, we can see the attraction of bringing MCA and APA together under a new name. But it is crucial to find a name which carries the right message.

5. Additional personal allowance is one possibility. But that is already in the tax system and would be an obvious source of confusion.

6. We have not been able to think of any better name than "family allowance" despite the historical connotations with something quite different. The historical link with "children" could have some wider presentational disadvantages (see paragraph 12).

Policy

7. Although MCA and APA will generally be the same amount, there are important differences between them which would create a number of specific awkwardnesses in bringing them together as one allowance.

8. More generally, we would have two large subsets of rules for the same allowance, one relating to marriage and the other to single-handed responsibility for child care. On the whole, it seems likely to be rather more difficult for taxpayers and fairly junior staff in tax offices to grasp a large bundle of different qualifying rules for one allowance than to continue to separate it off into its two, more manageable and coherent, component parts.

9. There are a number of points where the two allowances operate on a different basis. In principle there would be a choice between either maintaining the present differences - which would be highlighted within a combined allowance - or achieving greater uniformity by bringing the rules more into line. But in

practice, at this late stage we would not be able to undertake any recasting of the rules to produce greater uniformity, even if this were desirable.

10. Some specific points which would be awkward to handle with an amalgamated allowance are:

APA: incapacitated wives

You have decided to maintain the APA relief for incapacitated wives. Husbands who can claim APA in this way can, of course, also claim MCA, so they would effectively be entitled to two "family allowances". These are the only circumstances in which a dual claim would be possible.

Transfers of MCA

In certain circumstances (eg breadwinner wives) MCA may be transferred from husband to wife. There are no corresponding provisions for APA; so the "transfer provisions" would have to apply only to the MCA leg of the "family allowance". In practice, however, it may be open to either the man or woman in an unmarried couple to claim APA, depending on which is more advantageous. The MCA goes to the married man, without any option, if he has sufficient income to absorb it.

Year of marriage

The MCA is apportioned in the year of marriage. Again, there are no corresponding rules for APA, so these rules would need to apply only to the MCA leg of family allowance.

Elderly MCA

For claimants where either partner in a married couple is 65 or over there are two higher rates of MCA (corresponding to the higher rates of age allowance at present). There is nothing corresponding to that for APA - though introducing a "family allowance" might lead to such suggestions - so the raft of rules for the elderly would need to apply only to the MCA leg of family allowance. (There is not time to bring these rules into line and it would certainly raise some awkward problems. For example, if APA were age related it ought also to be subject to the same income limits and gradually withdrawn as with the higher rate of MCA where income is above a certain level. But withdrawal rules would then have to apply to both allowances, creating a formidable additional complexity for those affected, however it were done. These differences between MCA and APA would thus have to survive into the new system).

Apportionments of APA

In some circumstances there can be more than one claimant in respect of the same child, and APA is then apportioned. This rule would have to apply only to the APA leg of "family allowance".

11. These points illustrate that, except for the link between the amount of APA and the basic level of MCA, there is little common ground between the two allowances. Within a single "family allowance", therefore, each would need to maintain its own completely separate subset of rules.

Wider aspects

12. Bringing the two allowances under a common head would give at least a debating point to the vocal body of opinion which would argue for a genuine modification of MCA and APA, so that a "family" allowance was given to (and only to) those who - whether married or unmarried - had caring responsibilities for children.

Legislation

13. We have been able to discuss with Parliamentary Counsel the the legislative consequences of amalgamating MCA and APA only briefly, but our first impression is that to do the job of amalgamation properly would require a substantial recasting of the provisions we already have drafted.

14. The drafting of the present provisions on independent taxation is not yet complete, but the broad plan, in relation to MCA and APA is as follows.

15. The main personal allowance provisions will be repealed and replaced by new provisions covering the personal allowance, the MCA, and the enhanced rates for elderly taxpayers. Separate clauses then deal with indexation, the permanent rules for transferring MCA, and the transitional provisions relating to breadwinner wives and the elderly.

16. With the exception of the change in the qualifying rules to restrict the APA for unmarried couples (which will be dealt with separately) we expect the changes needed to the APA will entail only a few amendments in a Schedule rather than a total recasting of the existing APA provisions. (These changes are not yet drafted).

17. It might be possible to do little more than amend the name of the allowance in relation to each set of provisions. But that would emphasise the last-minute hasty stitching together of the two allowances.

18. Ideally - and subject of course to Parliamentary Counsel's views - we ought to bring up the main qualifying conditions for APA into the start of the main personal allowance provisions so that they are stated at the outset as an alternative way of qualifying for the "family allowance". We have not had time to look at that in detail. But it clearly requires both the re-enactment of most of the APA provisions which would not otherwise be necessary, and a careful restructuring of the whole of this batch of provisions so that they interact properly and fit together as smoothly as possible.

19. Although we cannot say that that is absolutely impossible at this stage it would undoubtedly be a substantial extra task both for ourselves and Parliamentary Counsel to add to the already very tight timetable for the personal taxation changes. That is one reason why we need a very early decision on whether or not you wish to go down this route.

Conclusion

20. There is no time to consider a proper "full-blooded" amalgamation of MCA and APA making changes of substance. As this note brings out, we see a number of disadvantages in simply bringing the present MCA and APA together, particularly at this late stage. But none is in itself decisive if you see other strong reasons for amalgamation.

21. I am sorry to press you for an early decision on this but, as I hope I have explained, even with amalgamation of the existing provisions it is not simply a question of renaming the two allowances, and if you wish to go ahead we will all need to think through very quickly all the consequentials, not only for the legislation, but also for all the Budget publications, the deadlines for which are now fast approaching.

22. We would, of course, be happy to discuss this with you tomorrow if that would be helpful.

Peter Lewis

P LEWIS

PS <u>Widow's bereavement allowance</u> - Your Private Secretary has just asked if amalgamation could also cover the widow's bereavement allowance. At first sight this would introduce a new range of difficulties. For example, within a single allowance the fact that MCA goes (generally) only to married men and WBA only to widows and not widowers would be highlighted. This would also be another odd case where two "family allowances" could be claimed since WBA recipients can also claim APA. And bringing WBA within MCA/APA would no doubt give rise to pressure for age-related additions to be given for WBA also.

CONFIDENTIAL

FROM: P J CROPPER
DATE: 23 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chancellor
Miss Sinclair
Mr Johns IR
Mr A Gray IR
PS/IR

HOME ANNUITY LOANS

While I agree that the Stalwart Assurance letter is a useful corrective to Allied Dunbar, we must be careful to compare like with like.

2. I should be appalled if my spinster aunt decided to hand over her house to Stalwart Assurance, because that would ensure that, on her death, there was not a penny left for me to inherit. She would have handed over the house in exchange for an income that ceased with her death.

3. At least with Allied Dunbar she has only parted with a proportion of the value of the house, so there may be something left for me. If she does live to be 110, then Allied Dunbar will be as damaging to my expectations as Stalwart. If, on the other hand, she only lives a year after contracting with Allied Dunbar, then the rolled up interest will have made relatively small inroads into my inheritance. Meanwhile I am protected to some extent by the effect of inflation on the value of the house.

4. It all depends whose interests come first.

5. I think the Chancellor's post budget letter to backbenchers, saying why we do not favour the Butterfill scheme, will still be a difficult one to put together.

P J CROPPER

Inland Revenue

Policy Division
Somerset House

I regret that this amalgamation did not occur to me earlier – tho' it did not occur to officials @ all. In the circs, better go ahead as planned. But make this a starter for 1989 streamlining. N.

FROM: P LEWIS

DATE: 23 FEBRUARY 1988

Chancellor

INDEPENDENT TAXATION: MARRIED COUPLES ALLOWANCE AND ADDITIONAL PERSONAL ALLOWANCE

1. At the Overview yesterday afternoon you raised the possibility of amalgamating these two allowances under a new name.

2. This is a major change to contemplate at this very late stage in the run up to the Budget and Finance Bill. We must therefore ask for a very early decision on whether or not you wish to go ahead. Otherwise, there is a distinct danger that we will not have picked up - and dealt with as smoothly as possible - all the consequences. If you wish to go ahead, we ought to have this change well in hand before the weekend. I am afraid it really is not now feasible to leave it until the next Overview.

---

cc Chief Secretary
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Miss Sinclair
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
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3. This note looks briefly in turn at the presentational, policy and legislative implications.

Presentational

4. In your presentation of Independent Taxation, we can see the attraction of bringing MCA and APA together under a new name. But it is crucial to find a name which carries the right message.

5. Additional personal allowance is one possibility. But that is already in the tax system and would be an obvious source of confusion.

6. We have not been able to think of any better name than "family allowance" despite the historical connotations with something quite different. The historical link with "children" could have some wider presentational disadvantages (see paragraph 12).

Policy

7. Although MCA and APA will generally be the same amount, there are important differences between them which would create a number of specific awkwardnesses in bringing them together as one allowance.

8. More generally, we would have two large subsets of rules for the same allowance, one relating to marriage and the other to single-handed responsibility for child care. On the whole, it seems likely to be rather more difficult for taxpayers and fairly junior staff in tax offices to grasp a large bundle of different qualifying rules for one allowance than to continue to separate it off into its two, more manageable and coherent, component parts.

9. There are a number of points where the two allowances operate on a different basis. In principle there would be a choice between either maintaining the present differences - which would be highlighted within a combined allowance - or achieving greater uniformity by bringing the rules more into line. But in

practice, at this late stage we would not be able to undertake any recasting of the rules to produce greater uniformity, even if this were desirable.

10. Some specific points which would be awkward to handle with an amalgamated allowance are:

APA: incapacitated wives

You have decided to maintain the APA relief for incapacitated wives. Husbands who can claim APA in this way can, of course, also claim MCA, so they would effectively be entitled to two "family allowances". These are the only circumstances in which a dual claim would be possible.

Transfers of MCA

In certain circumstances (eg breadwinner wives) MCA may be transferred from husband to wife. There are no corresponding provisions for APA; so the "transfer provisions" would have to apply only to the MCA leg of the "family allowance". In practice, however, it may be open to either the man or woman in an unmarried couple to claim APA, depending on which is more advantageous. The MCA goes to the married man, without any option, if he has sufficient income to absorb it.

Year of marriage

The MCA is apportioned in the year of marriage. Again, there are no corresponding rules for APA, so these rules would need to apply only to the MCA leg of family allowance.

Elderly MCA

For claimants where either partner in a married couple is 65 or over there are two higher rates of MCA (corresponding to the higher rates of age allowance at present). There is nothing corresponding to that for APA - though introducing a "family allowance" might lead to such suggestions - so the

But how many people over 65 claim APA?

raft of rules for the elderly would need to apply only to the MCA leg of family allowance. (There is not time to bring these rules into line and it would certainly raise some awkward problems. For example, if APA were age related it ought also to be subject to the same income limits and gradually withdrawn as with the higher rate of MCA where income is above a certain level. But withdrawal rules would then have to apply to both allowances, creating a formidable additional complexity for those affected, however it were done. These differences between MCA and APA would thus have to survive into the new system).

Apportionments of APA

What? In some circumstances there can be more than one claimant in respect of the same child, and APA is then apportioned. This rule would have to apply only to the APA leg of "family allowance".

11. These points illustrate that, except for the link between the amount of APA and the basic level of MCA, there is little common ground between the two allowances. Within a single "family allowance", therefore, each would need to maintain its own completely separate subset of rules.

Wider aspects

12. Bringing the two allowances under a common head would give at least a debating point to the vocal body of opinion which would argue for a genuine modification of MCA and APA, so that a "family" allowance was given to (and only to) those who - whether married or unmarried - had caring responsibilities for children.

Legislation

13. We have been able to discuss with Parliamentary Counsel the the legislative consequences of amalgamating MCA and APA only briefly, but our first impression is that to do the job of amalgamation properly would require a substantial recasting of the provisions we already have drafted.

14. The drafting of the present provisions on independent taxation is not yet complete, but the broad plan, in relation to MCA and APA is as follows.

15. The main personal allowance provisions will be repealed and replaced by new provisions covering the personal allowance, the MCA, and the enhanced rates for elderly taxpayers. Separate clauses then deal with indexation, the permanent rules for transferring MCA, and the transitional provisions relating to breadwinner wives and the elderly.

16. With the exception of the change in the qualifying rules to restrict the APA for unmarried couples (which will be dealt with separately) we expect the changes needed to the APA will entail only a few amendments in a Schedule rather than a total recasting of the existing APA provisions. (These changes are not yet drafted).

17. It might be possible to do little more than amend the name of the allowance in relation to each set of provisions. But that would emphasise the last-minute hasty stitching together of the two allowances.

18. Ideally - and subject of course to Parliamentary Counsel's views - we ought to bring up the main qualifying conditions for APA into the start of the main personal allowance provisions so that they are stated at the outset as an alternative way of qualifying for the "family allowance". We have not had time to look at that in detail. But it clearly requires both the re-enactment of most of the APA provisions which would not otherwise be necessary, and a careful restructuring of the whole of this batch of provisions so that they interact properly and fit together as smoothly as possible.

19. Although we cannot say that that is absolutely impossible at this stage it would undoubtedly be a substantial extra task both for ourselves and Parliamentary Counsel to add to the already very tight timetable for the personal taxation changes. That is one reason why we need a very early decision on whether or not you wish to go down this route.

Conclusion

20. There is no time to consider a proper "full-blooded" amalgamation of MCA and APA making changes of substance. As this note brings out, we see a number of disadvantages in simply bringing the present MCA and APA together, particularly at this late stage. But none is in itself decisive if you see other strong reasons for amalgamation.

21. I am sorry to press you for an early decision on this but, as I hope I have explained, even with amalgamation of the existing provisions it is not simply a question of renaming the two allowances, and if you wish to go ahead we will all need to think through very quickly all the consequentials, not only for the legislation, but also for all the Budget publications, the deadlines for which are now fast approaching.

22. We would, of course, be happy to discuss this with you tomorrow if that would be helpful.

Peter Lewis

P LEWIS

PS Widow's bereavement allowance - Your Private Secretary has just asked if amalgamation could also cover the widow's bereavement allowance. At first sight this would introduce a new range of difficulties. For example, within a single allowance the fact that MCA goes (generally) only to married men and WBA only to widows and not widowers would be highlighted. This would also be another odd case where two "family allowances" could be claimed since WBA recipients can also claim APA. And bringing WBA within MCA/APA would no doubt give rise to pressure for age-related additions to be given for WBA also.

mjd 2/141Jn

BUDGET CONFIDENTIAL

PWP (APH)

FROM: J M G TAYLOR

DATE: 24 February 1988

MR LEWIS - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss Sinclair
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Mr Battishill IR
Mr Isaac IR
Mr Beighton IR
Mr Mace IR
PS/IR

INDEPENDENT TAXATION: MARRIED COUPLES ALLOWANCE AND ADDITIONAL PERSONAL ALLOWANCE

The Chancellor has seen your minute of 23 February.

2. In the circumstances he is content to go ahead as planned. But he would like the possibility of amalgamating these two allowances to be a starter for 1989.

JT

J M G TAYLOR

PWA

FROM: A P HUDSON

DATE: 24 February 1988

MR MACE - INLAND REVENUE

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

INDEPENDENT TAXATION: PRESS RELEASE

The Chancellor was grateful for your 19 February minute. He has the following comments on the draft press release.

2. He does not think the present arrangement of the sections brings out the key points to best advantage. He will therefore like to move the first eight paragraphs of section 2, on the new allowances, to come after paragraph 7 of the first section on independence. He also thinks it would be better to pull out the changes to CGT from the Income Tax section, and cover them in a separate, short section of their own.

3. The press release should give more prominence to the reasons why the new system cannot be introduced until 1990.

4. It should also deal with the question of why the Government's objectives cannot be achieved within the existing system, for example through the present options for separate taxation, and the possibility of extending them into a wife's income election.

5. The Chancellor would like to make more of the fact that it would not be compulsory for the wife to fill in her own tax return.

She can ask her husband to do the job, if she wishes, though she will, of course, have to sign it herself.

6. The Chancellor has the following specific comments on the drafting.

- Section 1, paragraph 4, final sentence: Delete "complete".
- Section 2, paragraph 3: Redraft the opening along the lines:

  "There will also be a married couple's allowance of [size]. The tax system thus continues to recognise marriage. It will go to the man unless ..."

  In the second sentence of the present draft, delete "at least".
- Section 2, paragraph 9, third indent: Redraft to read "... income limit, and will be withdrawn ...".
- Section 2, paragraph 17: Replace "1989-90" with something like "its level before the change".

APH

A P HUDSON

mjd 2/141Jn

BUDGET CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 24 February 1988

MR LEWIS - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss Sinclair
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Mr Battishill IR
Mr Isaac IR
Mr Beighton IR
Mr Mace IR
PS/IR

INDEPENDENT TAXATION: MARRIED COUPLES ALLOWANCE AND ADDITIONAL PERSONAL ALLOWANCE

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2. In the circumstances he is content to go ahead as planned. But he would like the possibility of amalgamating these two allowances to be a starter for 1989.

J M G TAYLOR

mjd 4/6/An

BUDGET CONFIDENTIAL

FROM: A P HUDSON
DATE: 24 February 1988

MR MACE IR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair

Mr Isaac IR
Mr McManus IR

BUDGET SPEECH: INDEPENDENT TAXATION

... I attach a redraft of Section F, taking account of the Chancellor's comments.

2. Please could I have any comments by close tomorrow (25 February).

3. We want to end with an upbeat wrap-up paragraph. Can anybody think of some thing better than the present F16?

APH

A P HUDSON

F. INDEPENDENT TAXATION

F1. The present system for the taxation of married couples goes back 180 years. It assumes that everything a married woman has, or earns for herself, belongs to her husband. So it taxes her income as if it were his. In the last part of the twentieth century, that is simply not acceptable.

F2. Year after year, there has been extensive consultation on this subject. The time has come to take action.

F3. I therefore propose a major reform, with three objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. Second, to end the tax penalties that can arise on marriage. And third, to ensure that the tax system continues to recognise marriage.

F4. I have decided to introduce, at the earliest possible date of April 1990, a completely new system of Independent Taxation.

F5. Under the new system, a husband and wife will be taxed independently, on the whole of their income. The married man's allowance and wife's earned income allowance will be abolished, and all taxpayers, male or female, married or single, will start with the same personal allowance, which will be available against income of all kinds, whether from earnings or savings.

F6. Married women will pay their own tax, irrespective of their husbands' income, and they will have the chance to fill in their own tax return, when one is necessary. [Married women who wish to ask their husbands to continue to handle their tax affairs will, of course, be free to do so, provided they sign any tax returns themselves.]

F7. If nothing else were done, there would be no recognition of marriage and, all married couples would see a substantial fall in their tax threshold. I am therefore introducing a new married couple's allowance, equivalent to the difference between the married man's allowance and the single allowance. For simplicity, this new allowance will go in the first instance to the husband. But if he does not have enough income to cover it, his wife will be able to set any usused portion against her income.

F8. A husband and wife will also be taxed independently on their capital gains, with an annual exemption each, instead of one between them, as now. But transfers of capital between husband and wife will continue to be exempt from both capital gains tax and inheritance tax.

F9. This new system will give complete privacy and independence to married women, for the first time in the history of income tax. And it combines this with continuing recognition of marriage in the tax system. [Many couples will pay less tax, and none will pay more.]

F10. The new system will start considerably earlier than would have been possible for most of the other reforms that have been canvassed, in particular transferable allowances. The legislation will be in this year's Finance Bill.

Penalties on marriage

F11. I mentioned a few moments ago the tax penalties on marriage. It is clearly absurd that some couples should find themselves paying more tax, simply because they get married. I propose to put that right.

F12. Independent taxation by itself will remove the most common tax penalty on marriage - the taxation of a married woman's income from savings at her husband's top rate of tax. I am also introducing measures to tackle the other tax penalties, and these can take effect in advance of Independent Taxation.

F13. The biggest problem comes with mortgage interest relief. An unmarried couple can get twice as much relief as a single person or a married couple, and that has attracted increasing - and justified - criticism. I am putting a stop to it from August this year. In future, the £30,000 limit on relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution canvassed in the 1986 Green Paper on Personal Taxation, and it was generally welcomed. Existing mortgages, however, will be unaffected.

F14. A further anomaly is that an unmarried couple with two children can each claim the Additional Personal Allowance, which is intended for single parents. This can, again, give them more tax relief than a married couple in the same position. I therefore propose to restrict the Additional Personal Allowance to one per household. This will take effect from [April 1989].

F15. This Budget will therefore eliminate, for all practical purposes, the tax penalties which can arise on marriage.

F16. The reform I have described puts an end to the discrimination against married women in tax, which has been such a lengthy hangover from the last century. And it does so in a way which continues to recognise marriage, and eliminates the penalties against it.

BF 1/3

Mr B/BT

FROM: P J CROPPER
DATE: 25 February 1988

CHANCELLOR

Grateful for PSS's comments, please. Lam

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

BUTTERFILL'S EDM

Mervyn Kohler, formerly a colleague at Central Office, puts the Butterfill motion in a balanced way.

PJC

P J CROPPER

Help the Aged
THE TIME TO CARE IS NOW

St. James's Walk London EC1R 0BE
Telephone: 01-253 0253
Telex: 22811 HELPAG G
Fax: 01-608 2683

Patron: HRH The Princess of Wales

12th February 1988

Peter Cropper Esq CBE
Special Adviser
HM Treasury
Parliament Street
London
SW1P 3AG

Dear Peter,

We corresponded last year about easing the regulations by which elderly home owners can borrow against the equity value of their homes. Plus ca change - plus c'est la meme chose!

As you will know, John Butterfill has put down EDM 501, and attracted an impressive level of conservative support. In addition, I have a number of letters from MPs describing their reluctance to sign EDMs (devalued through overuse) but promising support, and suggesting that they will try to have a word with the minister.

This proposal seems to me both good sense and good politics. From April, the housing benefit changes will sharply restrict the number of elderly home owners eligible for rate rebates, and the proposal I am commending offers potential income help to the same broad group. Much of this year, we shall be discussing care in the community and that too will have financial implications for elderly people who do not qualify for state benefits. Using their homes to provide care could be an attractive thought. Less clear, we will see changes in home improvement grants likely in 1989: here too, the changes are likely to require home owners to find more finance though loans, and again the elderly home owner will have to look at re-mortgages.

Even with the changes suggested in EDM 501, I am under no illusion about the extent of help that this will provide. The proposal is going to be of assistance to people of 70/75 or more: actuarially, it is impossible to see how capital can be tapped realistically over a lifespan much in excess of ten years, even if laid off against insurance. However this is the age group facing the greatest difficulties of loneliness and diminishing physical abilities, and it seems an appropriate form of help for them.

Yours sincerely,

Mervyn

Mervyn Kohler

BUDGET CONFIDENTIAL

From: S D H SARGENT

Date: 25 February 1988

MR HUDSON

cc PPS
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr R I G Allen
Mr Pickford
Mr Burr
Miss C Evans
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Call

PS/IR
Mr Issac)
Mr Corlett) IR
Mr Mace)

INDEPENDENT TAXATION, AND MAINTENANCE AND COVENANTS: DRAFT TREASURY PRESS RELEASES

Sir Peter Middleton had a couple of suggestions on the draft press release on independent taxation. In paragraph 4, revise the second sentence to read "It produces results which are not acceptable today". In the same section he suggests that the order of paragraphs 6 and 7 is reversed and that paragraph 8 is deleted. In paragraph 21 first line, delete "automatically" and insert "by its nature".

2. More generally, he has commented that in presentational terms he believes it would be a mistake to combine the married couples' allowance with the additional personal allowance.

Se

S D H SARGENT
Private Secretary

COPY NO 2 OF 35

BUDGET SECRET: TASK FORCE LIST

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 25 FEBRUARY 1988

1. MR ISAAC 25.2

2. CHANCELLOR OF THE EXCHEQUER

BUDGET INCOME TAX CHANGES

1. Mr Eason is sending you separately today a submission about an income tax option involving a 10 per cent increase in the main personal allowances. This note deals with two separate points which were raised at the Overview on 22 February.

(a) INCOME WITHDRAWAL BAND FOR AGE ALLOWANCE

1. At the Overview meeting on 22 February we were asked to examine the possibility of reducing the rate at which age allowance is withdrawn where the taxpayer's income exceeds the

---

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 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 Unwin (Customs & Excise)
Mr Knox (" & ")

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr R H Allen
Mr Eason
PS/IR

income.txt

aged income limit. (With the present rate of withdrawal of £2 of allowance for every £3 of income above the limit and a basic rate of 25 per cent the effective rate of tax on each £ of income within the withdrawal band would be 41.7 per cent).

2. I am afraid that at this late stage a change in the withdrawal rate is not practicable for 1988-89. The change would require some complex programming changes to our computer systems to enable the reduced age allowance of all taxpayers within the withdrawal band to be recalculated. These changes could not now be completed in time for implementation in 1988-89 along with the other Budget measures.

3. Although the effective rate of tax on an additional £ of income for a taxpayer in the age allowance withdrawal band would exceed 40 per cent for 1988-89 this is not, of course, a rate which is explicitly charged in the income tax rate schedule. If you are content therefore we do not think the age allowance point need constrain you in saying that there is no rate in excess of 40 per cent in the system.

(b) TIMETABLE FOR DECISIONS

4. As you know, in view of the complexity of the Budget package this year we had asked for a final decision on all the income tax allowance and rate changes by Friday 26 February. At the last Overview meeting we undertook to consider whether we could hold the work until a final decision on Monday 29 February and your Private Secretary subsequently told us that you would like to hold the decision further until the Overview meeting on the Monday afternoon. At this stage every additional day until all the decisions are taken compresses the already very tight timetable for completing the preparatory work for the Budget changes. Amongst other things a very large amount of material about the changes has to be prepared and printed either by Budget Day or very shortly afterwards for immediate distribution to tax offices. Work on this cannot begin until all the changes are settled. However, we have reviewed again the work programme and

adjusted it so that, so far as we can judge, we should be able to accommodate, without unacceptable risk, a final decision at the 29 February Overview.

B A Mace.

B A MACE

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

COPY NO 2 OF 38.

FROM: R J EASON

DATE: 25 February 1988

option 10 looks attractive, if you can afford it.
CHe
25-2

1. MR ~~ISAAC~~
2. CHANCELLOR OF THE EXCHEQUER

1 Jonathan (Spare)
2 pmg.

INCOME TAX OPTIONS - VARIANTS OF OPTION 3

1. Following the overview meeting on 22 February, this note considers some further income tax options. They are based on Option 3 with a basic rate of 25 per cent and a single higher rate of 40 per cent starting at £20,000 taxable income, but each has further increases to personal allowances.

---

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
Miss 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 (C&E)
Mr Knox (C&E)

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

2. The options considered are

- Option 10, in which allowances are increased by 10 per cent: this would give a married man on average earnings £5.24 per week.

- Option 85, in which allowances are increased from 1987-88 levels by 8.5 per cent: this would give a married man on average earnings of £244.70 per week in 1988-89 a gain of £5.02 compared with his gain of £4.88 under Option 3.

We have also looked at an option (Option 74) in which personal allowances are increased by 7.4 per cent (by contrast with Option 3 in which the increases due from indexation of 3.7 per cent are doubled.)

Costs

3. The table below summarises the extra costs of these options compared with Option 3.

Direct Revenue Costs* (£'billion)

	1988-89	1989-90**	Full Year at 1988-89 incomes
Option 3 compared with indexation	-4.19	-6.09	-5.62
Additional costs of			
Option 10	-0.38	-0.55	-0.50
Option 85	-0.18	-0.22	-0.20
Option 74	+0.02	+0.03	+0.03

* at pre-Budget levels

** using the latest forecast movement of 4 per cent for indexation.

4. Increasing personal allowances by 10 per cent would therefore add about £380 million to the cost of Option 3 in 1988-89, making the total cost of the income tax package

about £4.6 billion. (This includes about £400 million for the cost of reducing the ACT rate by 2p). The total cost in 1989-90 of Option 10 would be about £6.6 billion. A 8.3 per cent increase in allowances would add about £180 million to the cost of Option 3 in 1988-89. Increasing allowances by 7.4 per cent, rather than double indexation, would save only £20 million in 1988-89.

Levels of Personal Allowances

5. Table 1 attached gives the levels of allowances for Options 10 and 85 and Table 2 gives the real increases since 1978-79, assuming inflation between 1987-88 and 1988-89 is 4 per cent. The principal feature is that a 10 per cent increase would raise the real value of both the single and married man's allowances to 30 per cent more than the 1978-79 levels. The starting point for higher rate tax would be 20 per cent higher in real terms. A 7.4 per cent increase in allowances, compared with Option 3, would reduce all the married allowances and the APA by £10.

6. The real value of the single allowance under either Option 10 or Option 85 will be the highest since 1972-73. The real value of the married men's allowance will be the highest since 1939-40. With forecast earnings for a full-time male at £244.70 in 1988-89, the married man's allowance of £4175 under Option 10 would be 32.8 per cent of average earnings, below the level of 33.5 reached in 1985-86 (which is the peak under this Government) but better than the 1987-88 figure of 31.1 per cent.

7. Table 3 attached gives the gains for a married man at various levels of income under each option. Option 10 would be worth £20 extra per annum, compared with Option 3, for married men liable at the basic rate while Option 85 would be worth £7.50.

Average rates of tax and NIC

8. Tables 4 and 5 show the effects of the options on average rates of income tax and NIC at multiples of average earnings. Option 10 produces lower or the same average rates of tax and NIC for single people as in 1978-79 at all multiples shown in the table. However, for married men, rates were lower in 1978-79 from about 30% to 60% of average earnings.

Numbers of taxpayers and staffing effects

9. The table below sets out the changes in numbers of taxpaying tax units (counting married couples as one), individual taxpayers (counting husbands and wives separately), and higher rate tax-units.

Number of taxpayers

(million)

	Tax units	Individuals	Higher rate tax units
1987-88	20.89	24.70	1.17
1988-89			
1987-88 tax regime	21.42	25.46	1.50
Indexation	21.17	25.10	1.34
Option 3	20.92	24.75	1.093
Option 85	20.84	24.65	1.088
Option 10	20.75	24.52	1.080

Increases of 8.5 per cent and 10 per cent in personal allowances would reduce the number of higher rate taxpayers by about 5,000-10,000 compared with Option 3. There would, however, be reductions in the number of tax units liable to tax of about 80,000 under Option 85 and 170,000 under Option 10. Both options would, on the latest forecasts of income growth, lead to a small reduction in tax units in 1988-89 compared with 1987-88.

10. Estimates of Inland Revenue staff savings are set out below:

	Manpower Effect	
	April 1989	April 1990
Option 3	-30	-95
Option 85	-45	-120
Option 10	-65	-155

Compared with Option 3, Option 10 offers a useful additional saving of 35 units in April 1989 and 60 in April 1990.

Distributional impact

11. The increases in personal allowances are worth proportionately more at the lowest levels of income. For example, a married man with income of £5,000 would gain 20 per cent more under Option 10 than under Option 3. At £20,000, the improvement is only 5 per cent. The extra relief going to the low income tax units is shown below:

£ billion

	Full Year Costs		
Tax Units with Incomes	Option 3	Option 85	Option 10
below £10,000	0.88	0.96	1.07
£10,000-£25,000	2.17	2.27	2.43
over £25,000	2.67	2.69	2.72

Those with incomes below £10,000 would therefore gain almost £200 million of the extra costs of Option 10.

Summary

12. Compared with Option 3, a similar package with allowances increased by 10 per cent would:

(a) cost about £380 million in 1988-89 and about £550 million in 1989-90;

(b) raise the real value of the single and married man's allowances to 30 per cent more than their value in 1978-79;

(c) give over £5 per week to a married man on average earnings;

(d) avoid any increase in the number of taxpayers between 1987-88 and 1988-89;

(e) produce additional revenue staff savings of 35 units in April 1989 and 60 in April 1990;

(f) give an extra £200 million of relief to tax units with incomes below £10,000 per annum.

An 8.5 percentage increase in allowances would cost £180 million in 1988-89 and £220 million in 1989-90. It would also give over £5 per week to a married man on average earnings and avoid any increase in the number of taxpayers between 1987-88 and 1988-89.

R J EASON

TABLE 1: LEVELS OF MAIN PERSONAL ALLOWANCES (£)

	1987-88	1988-89 Indexation	Option 3	Option 85	Option 10
Single, wife's earned income allowance	2,425	2,515	2,605	2,635	2,675
- increase		+90	+180	+210	+250
Married man's allowance	3,795	3,945	4,095	4,125	4,175
- increase		+150	+300	+330	+380
Additional personal allowance	1,370	1,430	1,490	1,490	1,500
- increase		+60	+120	+120	+130
Single age allowance (65-79)	2,960	3,070	3,180	3,220	3,260
- increase		+110	+220	+260	+300
Married age allowance (65-79)	4,675	4,855	5,035	5,075	5,145
- increase		+180	+360	+400	+470
Single age allowance (80 and over)	3,070	3,190	3,310	3,340	3,380
- increase		+120	+240	+270	+310
Married age allowance (80 and over)	4,845	5,025	5,205	5,265	5,335
- increase		+180	+360	+420	+490
Aged income limit	9,800	10,200	10,600	10,700	10,800
- increase		+400	+800	+900	+1,000

TABLE 2: REAL[(1)] INCREASE IN PERSONAL ALLOWANCES AND FIRST HIGHER RATE THRESHOLD SINCE 1978-79

	to 1987-88	to 1988-89[(2)] under Option 3	Option 85	Option 10
	%	%	%	%
Single and wife's earned income allowance	22.6	26.6	28.1	30.1
Married man's allowance	23.1	27.8	28.7	30.3
Additional personal allowance	24.1	29.7	29.7	30.6
Aged single allowance				
65-70	13.4	17.2	18.6	20.1
80 and over	17.6	21.9	23.0	24.5
Aged married allowance				
65-79	12.2	16.2	17.1	18.8
80 and over	16.3	20.1	21.5	23.2
Aged income limit	22.0	26.9	28.1	29.3
Higher rate threshold	11.4	19.7	19.7	19.7
Starting point for higher rate tax				
- married man	13.3	21.0	21.2	21.4
- single	12.7	20.5	20.7	20.9

(1) Based on changes in the RPI for financial years.

(2) Based on forecast RPI movement of 4 per cent.

Change in income after tax and NIC (£ per year) compared with indexation (married man)

TABLE 3

Yearly income(£)	OPTION 3	OPTION 74	OPTION 85	OPTION 10
3,000	0.00	0.00	0.00	0.00
4,000	14.85	14.85	14.85	14.85
5,000	58.60	56.10	66.10	78.60
6,000	78.60	76.10	86.10	98.60
7,000	98.60	96.10	106.10	118.60
8,000	118.60	116.10	126.10	138.60
9,000	138.60	136.10	146.10	158.60
10,000	158.60	156.10	166.10	178.60
15,000	258.60	256.10	266.10	278.60
20,000	358.60	356.10	366.10	378.60
25,000	642.00	638.00	654.00	674.00
30,000	884.75	880.75	896.75	916.75
35,000	1,367.50	1,363.50	1,379.50	1,399.50
40,000	1,935.25	1,931.25	1,947.25	1,967.25
45,000	2,685.25	2,681.25	2,697.25	2,717.25
50,000	3,588.00	3,584.00	3,600.00	3,620.00
60,000	5,588.00	5,584.00	5,600.00	5,620.00
70,000	7,588.00	7,584.00	7,600.00	7,620.00
80,000	9,588.00	9,584.00	9,600.00	9,620.00
90,000	11,588.00	11,584.00	11,600.00	11,620.00
100,000	13,588.00	13,584.00	13,600.00	13,620.00

Change in income after tax and NIC (£ per year) compared with the 1987-88 tax regime (married man)

Yearly income(£)	OPTION 3	OPTION 74	OPTION 85	OPTION 10
3,000	0.00	0.00	0.00	0.00
4,000	55.35	55.35	55.35	55.35
5,000	99.10	96.60	106.60	119.10
6,000	119.10	116.60	126.60	139.10
7,000	139.10	136.60	146.60	159.10
8,000	159.10	156.60	166.60	179.10
9,000	179.10	176.60	186.60	199.10
10,000	199.10	196.60	206.60	219.10
15,000	299.10	296.60	306.60	319.10
20,000	399.10	396.60	406.60	419.10
25,000	833.25	829.25	845.25	865.25
30,000	1,123.50	1,119.50	1,135.50	1,155.50
35,000	1,623.50	1,619.50	1,635.50	1,655.50
40,000	2,268.75	2,264.75	2,280.75	2,300.75
45,000	3,019.00	3,015.00	3,031.00	3,051.00
50,000	4,019.00	4,015.00	4,031.00	4,051.00
60,000	6,019.00	6,015.00	6,031.00	6,051.00
70,000	8,019.00	8,015.00	8,031.00	8,051.00
80,000	10,019.00	10,015.00	10,031.00	10,051.00
90,000	12,019.00	12,015.00	12,031.00	12,051.00
100,000	14,019.00	14,015.00	14,031.00	14,051.00

Table 4

NIC AS % OF INCOME
SINGLE PERSON

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	5.6	4.2	1.7	0.8
1987-88	0.0	5.0	7.0	7.0	9.0	9.0	9.0	9.0	9.0	9.0	7.7	5.8	2.3	1.2
1988-89	0.0	5.0	7.0	7.0	9.0	9.0	9.0	9.0	9.0	9.0	7.5	5.6	2.2	1.1

TAX AS % OF INCOME
SINGLE PERSON

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	0.0	8.0	13.1	17.0	19.7	21.6	23.0	24.1	25.0	27.7	29.5	50.5	66.6
1987-88	0.0	0.0	8.7	13.3	16.0	17.9	19.2	20.2	20.9	21.5	23.3	26.4	43.6	51.8
1988-89														
Indexation	0.0	0.3	9.2	13.7	16.3	18.1	19.4	20.3	21.1	21.7	23.4	26.9	44.0	52.0
Option 3	0.0	0.0	7.9	12.2	14.8	16.5	17.7	18.6	19.3	19.9	21.6	24.1	33.6	36.8
Option 74	0.0	0.0	7.9	12.2	14.8	16.5	17.7	18.6	19.3	19.9	21.6	24.1	33.6	36.8
Option 85	0.0	0.0	7.7	12.1	14.6	16.4	17.6	18.5	19.2	19.8	21.5	24.1	33.6	36.8
Option 10	0.0	0.0	7.5	11.9	14.5	16.2	17.5	18.4	19.2	19.7	21.5	24.0	33.6	36.8

TAX + NIC AS % OF INCOME
SINGLE PERSON

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	6.5	14.5	19.6	23.5	26.2	28.1	29.5	30.6	31.5	33.3	33.7	52.2	67.5
1987-88	0.0	5.0	15.7	20.3	25.0	26.9	28.2	29.2	29.9	30.5	31.0	32.2	45.9	53.0
1988-89														
Indexation	0.0	5.3	16.2	20.7	25.3	27.1	28.4	29.3	30.1	30.7	30.9	32.5	46.2	53.1
Option 3	0.0	5.0	14.9	19.2	23.8	25.5	26.7	27.6	28.3	28.9	29.1	29.7	35.9	37.9
Option 74	0.0	5.0	14.9	19.2	23.8	25.5	26.7	27.6	28.3	28.9	29.1	29.7	35.9	37.9
Option 85	0.0	5.0	14.7	19.1	23.6	25.4	26.6	27.5	28.2	28.8	29.0	29.7	35.9	37.9
Option 10	0.0	5.0	14.5	18.9	23.5	25.2	26.5	27.4	28.2	28.7	29.0	29.6	35.8	37.9

Income levels where 1988-89 options exceed average rates for 1978-79 are shown in blocks.

Table 5

NIC A[illegible]OF INCOME
MARRIED MAN

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	5.6	4.2	1.7	0.8
1987-88	0.0	5.0	7.0	7.0	9.0	9.0	9.0	9.0	9.0	9.0	7.7	5.8	2.3	1.2
1988-89	0.0	5.0	7.0	7.0	9.0	9.0	9.0	9.0	9.0	9.0	7.5	5.6	2.2	1.1

TAX AS % OF INCOME
MARRIED MAN

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	0.0	0.0	5.1	9.5	13.4	16.2	18.3	20.0	21.3	25.2	27.2	48.8	65.7
1987-88	0.0	0.0	0.0	5.6	9.9	12.7	14.8	16.3	17.5	18.4	21.3	23.9	42.2	51.1
1988-89														
Indexation	0.0	0.0	0.0	6.1	10.3	13.0	15.0	16.5	17.7	18.6	21.4	24.4	42.7	51.3
Option 3	0.0	0.0	0.0	4.9	8.9	11.6	13.5	14.9	16.1	17.0	19.6	21.8	32.7	36.4
Option 74	0.0	0.0	0.0	4.9	8.9	11.6	13.5	15.0	16.1	17.0	19.6	21.8	32.7	36.4
Option 85	0.0	0.0	0.0	4.7	8.8	11.5	13.4	14.9	16.0	16.9	19.6	21.7	32.7	36.3
Option 10	0.0	0.0	0.0	4.5	8.6	11.3	13.3	14.7	15.9	16.8	19.5	21.6	32.7	36.3

TAX+NIC AS % OF INCOME
MARRIED MAN

Multiple of average earnings
(full time males,adult rates, all occupations)

Fin Year	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.5	2	5	10
1978-79	0.0	6.5	6.5	11.6	16.0	19.9	22.7	24.8	26.5	27.8	30.8	31.4	50.5	66.5
1987-88	0.0	5.0	7.0	12.6	18.9	21.7	23.8	25.3	26.5	27.4	29.0	29.7	44.5	52.3
1988-89														
Indexation	0.0	5.0	7.0	13.1	19.3	22.0	24.0	25.5	26.7	27.6	28.9	30.0	44.9	52.4
Option 3	0.0	5.0	7.0	11.9	17.9	20.6	22.5	23.9	25.1	26.0	27.1	27.4	35.0	37.5
Option 74	0.0	5.0	7.0	11.9	17.9	20.6	22.5	24.0	25.1	26.0	27.1	27.4	35.0	37.5
Option 85	0.0	5.0	7.0	11.7	17.8	20.5	22.4	23.9	25.0	25.9	27.1	27.3	34.9	37.5
Option 10	0.0	5.0	7.0	11.5	17.6	20.3	22.3	23.7	24.9	25.8	27.0	27.3	34.9	37.5

Income levels where 1988-89 options exceed average rates for 1978-79 are shown in blocks .

RJ4.53

CONFIDENTIAL

bf. 3/3

FROM: J M G TAYLOR
DATE: 29 February 1988

MR LESTER - INLAND REVENUE

cc Mr Scholar
Mr Culpin
Mrs Lomax
Mr Ilett
Mr Cropper
Mr Isaac - IR
Mr Pitts - IR
Mr Cayley - IR
PS/IR

CGT

The Chancellor was grateful for your minute of 23 February.

2. He has a couple of observations:

(i) It must be the case that one important reason why some countries have a lower rate of CGT on long term gains is to make some allowance for cumulative inflation. This is not necessary in the UK, given indexation;

(ii) It is characteristic - and instructive - that the Japanese define as short-term gains on shares made within 5 years.

3. He would be grateful for confirmation that we are alone in having indexation for CGT purposes.

J M G TAYLOR

369/26

FINANCIAL SECRETARY TO THE TREASURY

CHANCELLOR

FROM: **FINANCIAL SECRETARY**
DATE: **29 February 1988**

Noted

cc Chief Secretary
Paymaster General
Economic Secretary
Mr Cropper
Mr Tyrie
Mr Call

BUTTERFILL'S EDM

You asked for my views on the two notes from Peter Cropper (23rd and 25 February).

2. My views are as set out before. I think the Stalwart letter re-inforces the case though I accept Peter's point that these are different schemes for different cases.

3. I am, on balance, still against the Butterfill EDM.

NL

NORMAN LAMONT

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: C D LESTER
EXT : 7325
DATE: 1 March 1988

1. Mr Cayley
2. PS/Chancellor (Mr Taylor)

Thanks.

CAPITAL GAINS TAX

1. In your note of 29 February the Chancellor asked whether we are alone in having indexation for CGT purposes.

2. The short answer is not quite. Spain has indexation on lines broadly equivalent to the UK; so do Australia and Ireland for assets held for more than one year. There is a degree of inflation adjustment in Luxembourg for assets held for at least two years.

3. These countries aside, four other OECD member states (Belgium, Denmark, Norway and Sweden) provide some form of inflation adjustment for some or all disposals of land.

C.D. Lester.

C D LESTER

cc	Mr Scholar	Mr Isaac
	Mr Culpin	Mr Pitts
	Mrs Lomax	Mr Cayley
	Mr Ilett	Mr Hamilton
	Mr Cropper	Mr Michael
		Mr Lester
		PS/IR

mjd 2/152Jn

BUDGET CONFIDENTIAL

FROM: J M G TAYLOR

DATE: 2 March 1988

MR C D LESTER - IR

cc Mr Scholar
Mr Culpin
Mrs Lomax
Mr Ilett
Mr Cropper

Mr Isaac IR
Mr Pitts IR
Mr Cayley IR
PS/IR

CAPITAL GAINS TAX

The Chancellor was grateful for your minute of 1 March.

JT

J M G TAYLOR

53/2/MAD/3759/1

BUDGET SECRET - TASK FORCE LIST

ECONOMIC SECRETARY TO THE TREASURY

ANNEX

BUDGET FOLLOW-UP

Oil

On Budget Day: EST to write to UKOOA.

Day after Budget: EST to see Energy Correspondents.

Stamp Duty

On Budget Day:- Mr Cropper to speak to Stuttaford of Unit Trust Movement.

- EST? to speak to Cohen of Venture Capital Tax Consultative Committee.
- EST? to speak to CBI.

Building Societies

On Budget Day:- EST to write to Alliance and Leicester.

- EST's Office to speak to Boleat of BSA.
- Miss Noble to speak to Abbey National.

Unleaded Petrol

On Budget Day:- EST to write to Des Wilson of CLEAR.

- EST to write to Petrol Refiners.

Forestry

My tentative view is that there is no point in a Budget follow-up on this aspect. The chief concern of correspondents and interest groups will be the details of the new grant scheme which it is better to leave to the Department of the Environment when they announce them the following week. The Chief Secretary may, however, think some action on this area worth while.

CGT/IHT

I assume that the Financial Secretary will cover these in his meeting with personal finance correspondents.

Keith

I would prefer to adopt a low-key approach on this issue without any follow through, although it would be possible to contact either the IFS or one of the accountancy groups.

53/2/MAD/3759/2

Pmp

BUDGET SECRET - TASK FORCE LIST

COPY NO 1 of 15

FROM: ECONOMIC SECRETARY
DATE: 8 March 1988

CHANCELLOR

A good pt. Discuss @ prayers -

cc: Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Michie
Miss Hay

PS/IR
PS/C&E

EST → CH 8/3

BUDGET PRESENTATION

I have been holding a series of meetings with officials and advisers to discuss the presentation of Budget matters for which I am responsible. Press notices and Budget briefs are or have been revised accordingly.

One point on which I understand there has not yet been any central co-ordination is the follow-up to the Budget itself in terms of soliciting favourable public reactions from influential organisations and individuals and ensuring that specialist commentators adopt our line on Budget changes.

I set out below my provisional plans for Budget Day and the days immediately thereafter. Perhaps we might discuss this at Prayers.

PBL

PETER LILLEY

ph94

UNCLASSIFIED

FROM: J M G TAYLOR
DATE: 9 MARCH 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Cropper
Mr Tyrie
Mr Call

JMGT
→PS/CST
9/3

BUDGET PRESENTATION

The Economic Secretary's minute of 8 March to the Chancellor was discussed at Prayers this morning.

2. The Chancellor thinks it would be helpful if other Ministers could each prepare a similar note setting out how the changes in the areas in which they have presentational responsibility could best be followed up. Mr Tyrie will then prepare a consolidated note, for discussion at Prayers on 11 March.

3. It would be helpful if these notes could reach this office by 4.00pm tomorrow.

J M G TAYLOR

BUDGET CONFIDENTIAL

FROM: S P JUDGE
DATE: 10 March 1988

PS/PMG
BUDGET PRESENTATION
10/3

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Cropper
Mr Tyrie
Mr Call

BUDGET PRESENTATION

Thank you for your minute of yesterday.

2. The Paymaster General considered the question of targeted follow-up some time ago. In general, he decided against writing to interested parties, lobbyists etc, or inviting people in to meetings.

3. The only exceptions are as follows:

i. the Paymaster will write to colleagues on the Ministerial Group on Women's Issues on Budget Day, enclosing material on independent taxation; and

ii. now that Mr Ridley has decided <u>not</u> to see the British Property Federation, National House Building Council etc, the Paymaster will be inviting them in soon after the Budget (my minute of today to Miss Hay).

S P JUDGE
Private Secretary

BUDGET
PRESENTATION

011/3652

BUDGET CONFIDENTIAL

FROM: A G TYRIE

DATE: 10 MARCH 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr Scholar
Mr Cropper
Mr Call
Mr R.I.G. Allen

Discussed @ Prayers

BUDGET PRESENTATION

You asked me to collect together a list of people to contact for consideration at Prayers. This draws together notes by Ministers on their plans together with some further suggestions. In no particular order:

Independent Taxation	Baroness Platt, Equal Opportunities Commission	(FST)
	Dame Jill Knight, Family and Children Protection Group	(FST)
	Dame Joan Seccombe	(FST)
	Letters to colleagues on the Ministerial group on Women's Issues	(PMG)
CGT	Country Landowners Association? (Unlocking effect of rebasing)	(FST)
Forestry	Council for the Protection of Rural England.	(FST)
	RSPB.	(FST)
Private Rented Sector	British Property Federation, National House Building Council	(PMG)
Student Support	Presume Mr Baker has this in hand	

Small Business	Michael Grylls (10 point differential between the main stream and small business corporation tax rates)	(FST)?
Charities	Charities Aid Foundation, Brophy (increase in the payroll giving limit)	(EST)?
PEPs	Barclayshire, Gavin Oldham?	(FST)?
Butterfill	Letter	(FST)
MIR and Home Improvement Loans	Someone from the PAC about past abuse?	
Maintenance	Any suggestions for someone to make the point that it is more equitable (less for rich men, more for impoverished divorcees)	
Stamp Duty	Unit trust movement, Stuttaford	(PJC)
	Venture Capital Tax Consultative Committee, Cohen	(EST)
Building Societies	Letter to Alliance and Leicester	(EST)
	BSA, Boleat	(EST'S office to speak)
	Abbey National	(Miss Noble to speak)
Unleaded Petrol	Letter to CLEAR, Des Wilson	(EST)
	Letter to Petrol Refiners	(EST)

Oil	Letter to UKOOA	(EST)
	Energy correspondents	(EST to see on 16 March)

GENERAL

Who should we speak to:

- CBI

- IOD

- IEA? Would it be useful to get Graham Mather to try and get coverage for something?

- Personal Finance Correspondents (FST to see on 17 March)

Any other major organizations worth contacting?

AGT.

A G TYRIE

014/3652

BUDGET CONFIDENTIAL

FROM: A G TYRIE

DATE: 11 MARCH 1988

CHANCELLOR

Ch: Agree with 'X'?

25 11/3

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr R I G Allen
Mr Culpin
Mr Cropper
Mr Call

CGT AND THE NFU

It crossed my mind after Prayers that it really would be far better if MAFF lobbied the NFU about CGT reform. John MacGregor (or, if unavailable, John Gummer) is far better placed to get a favourable response from the NFU than we are.

What's more, ringing the NFU ourselves, without telling MAFF, is likely to put up John MacGregor's blood pressure.

X Would you like the Chief Secretary to buttonhole MAFF's Minister at Cabinet on Tuesday?

pp RJ
A G TYRIE

011/3652

BUDGET CONFIDENTIAL

FROM: A G TYRIE

DATE: 11 MARCH 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr Scholar
Mr R I G Allen
Mr Cropper
Mr Call

CHANCELLOR

Prayers

OK as in @ prayers

BUDGET PRESENTATION

This note incorporates decisions at Prayers.

Independent Taxation (also Maintenance where appropriate)	Baroness Platt, Equal Opportunities Commission	(FST)
	Doreen Miller, 300 Group	(FST)
	Dame Jill Knight, Family and Children Protection Group	(FST)
	Dame Joan Seccombe	(FST)
	Letters to colleagues on the Ministerial group on Women's Issues	(PMG)
	City Women's Network	(EST)
CGT	NFU, Simon Gourlay	(MAFF) Minister?)
Forestry	Council for the Protection of Rural England	(FST)
	RSPB	(FST)
Private Rented Sector	British Property Federation, National House Building Council	(PMG)

Student Support	Presume Mr Baker has this in hand	
Small Business	Michael Grylls, Small Business Bureau	(FST)
	Graham Bright, Backbench Small Business Committee	(FST)
Charities	Charities Aid Foundation, Brophy	(PMG)
PEPs	Barclayshire, Gavin Oldham	(FST)
Butterfill	Letter	(FST)
Stamp Duty	Unit Trust Association, Stuttaford	(PJC)
	Venture Capital Tax Consultative Committee, Cohen	(EST)
Building Societies	Letter to Alliance and Leicester	(EST)
	BSA, Boleat	(EST's office to speak)
	Abbey National	(Miss Noble to speak)
Unleaded Petrol	Letter to Petrol Refiners	(EST)
Oil	Letter to UKOOA	(EST)
	Energy correspondents	(EST to see on 16 March)

<u>GENERAL</u>

	CBI, David Nickson	(CX)
-	IOD, Judith Chaplin	(PMG)
-	Personal Finance Correspondents	(FST to see on 17 March)

AGT.

A G TYRIE