

Prime Minister (2)



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 6522 EXT

cc. AD
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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London
SW1

July 27 1982.

Dear Geoffrey.

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TAX RELIEF ON NI CONTRIBUTIONS PAID BY THE SELF-EMPLOYED

There is one other matter, quite separate from the 1982 uprating of social security benefits, to which I should draw your attention while you are considering your Budget proposals. This is the possibility of giving tax relief on that proportion of the national insurance contributions paid by self-employed people which corresponds to the employer's share of the Class 1 contribution about which Hugh Rossi wrote to you last autumn. In your reply to Hugh of 23 December you said that you were not convinced that introducing this measure of tax relief should be regarded as a high priority.

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I should like to reinforce the case that Hugh put to you and to ask you to reconsider the matter. I think that there are powerful political arguments, as well as those which the organisations representing self-employed people have put to us, for making the change. You will obviously not want me to repeat everything that Hugh said when he wrote to you, but perhaps I might answer one of the chief points which you raised in your reply.

You rested your case mainly on the argument that, because self-employed people are, unlike employers, paying contributions to get benefits for themselves, those contributions are in the nature of a personal, rather than a business, expense. I think, however, that the existence of Class 4 contributions would make it hard to convince the self-employed lobby of this. I appreciate, of course, that Class 4 contributions go to finance benefits collectively; but the fact remains that a self-employed man at the upper profits limit will be paying £648 in 1982/3, compared with £195 for a man with Class 2 liability only, but will have nothing more in terms of benefit entitlement to show for it. This is in direct contrast with an employee, all of whose Class 1 contributions can be said to "work" for him by giving additional pension rights on earnings above the lower limit. This means that while primary Class 1 contributions are undoubtedly a personal expense, the analogy breaks down for self-employed people when we come to Class 4. So I think that it would be possible to defend tax relief on a proportion of the self-employed contributions without opening the door to a spate of rival claims.

I see two major political attractions in giving relief. The first, and more obvious, one is that our review of the self-employed and national insurance is coming to an end. At present there seems little prospect of our being able to offer any concession either in the way in which self-employed contributions are calculated or in

the range of benefits open to self-employed people. As you will know, we conducted the review to honour a Manifesto pledge, and expectations were inevitably raised. A tax concession on the lines suggested by a number of organisations during the review would be seen as a positive response and meet widespread criticisms that the review was a mere formality.

The second argument concerns Clause 22 of the Social Security and Housing Benefits Bill, which makes statutory sick pay (SSP) earnings for the purposes of contribution liability. As you know, an amendment put down in Committee by our own backbenchers and carried with Opposition support relieves the employer of his liability to pay contributions on SSP: this would result in huge administrative problems and a loss of £65 million in revenue. The main reason for their amendment advanced by our supporters was to help small businesses. However, Hugh Rossi pointed out repeatedly that it would not achieve this: all employers would benefit, and large ones in proportion to the size of their payroll. We hope to restore the original Clause at Report Stage, but this may be difficult if we do not have adequate sweeteners for our own side. While I take your point that tax relief on contributions for self-employed people would not necessarily create new businesses, it would undoubtedly provide a stimulus beamed more directly than the SSP concession at small businessmen, and distributed more evenly among them irrespective of the size of their work force. If you were able to announce this small measure of tax relief in your Budget statement, I believe that it could tip the scales in our favour at Report Stage, which will follow shortly afterwards.

I very much hope that you will feel able to reconsider the question of tax relief in the light of what I have said. I am copying this letter the Prime Minister, Patrick Jenkin and to Sir Robert Armstrong.



NORMAN FOWLER