

POLICY GROUP ON TAXATION

## Chairman's Interim Report to the Shadow Cabinet

*(Savings  
Example)*

The Taxation Policy Group is examining the whole tax structure, the need for change and the scope for reductions in rates in the period ahead. Some of our initial conclusions are set out below:

1. General Approach

We intend to place the main emphasis on an equitable deal for savers and work people and their families; and on the appalling and growing unfairness in the present tax structure. The incentive arguments, which we have used so much in the past, remain valid. But we are not convinced that they have cut much ice in political presentation and we think the time has come to establish a far more vivid case for the Conservative approach to taxation. In general, we intend to develop our detailed proposals from this positive and coherent position, which enables us to go much more onto the offensive in tax matters.

2. Rates of Tax

Our declared objective should be to bring United Kingdom tax rates down to the European Community norm. Current U.K. rates, particularly on savings, are far beyond anything to be found in the E.E.C.

3. Scope for Cuts

We realise the limitations on any proposals which reduce Revenue, especially at the moment. But we shall be assuming in later reports

- (a) that the Party's broad aim is shifting substantial resources from the public sector into investment and exports will enable and mean major fiscal changes; and we shall require guidance on the amounts involved.
- (b) that in the short term our readiness to move to a higher standard rate of VAT (with abolition of the 25 per cent 'luxury' rate) gives us some fiscal leeway elsewhere.
- (c) that some cuts are desirable in themselves, particularly in the savings area, and are consistent with our medium term strategy.
- (d) that cuts in taxes on savings not only have a nil or negative effect on final demand but that the cost of such cuts will in many cases be zero, or negative even in Revenue terms; we intend to bring forward work in support of this view. In the meantime, proposals for cuts should take this into account.

4. Minimum Legislation

We share the view that new tax legislation should be kept to a minimum and that the time is not suitable for a further radical re-casting of the tax system, however desirable. Changes that we propose will be directed to further simplification.

5. Schedule of Work

Because of the time scale, we have concentrated so far on taxation on capital and savings. In our view, an early statement on the outlines of Conservative policy for capital taxation is desirable. A more balanced picture will emerge when we are able to report on the tax system as a whole. In the meantime our initial thoughts are as follows:

/... (a) Capital

(a) Capital Transfer Tax

As an interim measure we would favour the reduction of effective rates by half by abolishing the grossing-up provision. The eight years allowed for payment should also be extended. A more radical change in line with our commitment to repeal C.T.T. would be to eliminate life-time accumulation and/or to move to a donee-based tax. (The estimated yield of C.T.T. in the current year is £150 million).

(b) Wealth Tax

We believe that a Wealth Tax makes no sense either from the point of view of Revenue or equity. We do not feel that a Wealth tax should therefore have a place in any final package we propose. If a Wealth tax comes into being before we assume office we shall have to return to this subject, when we know the details of the tax.

(c) Capital Gains Tax

We favour tapering out of C.G.T. over a period of seven years. This might halve the current yield of £325 million in a full year.

(d) Investment Income Surcharge

We will probably recommend abolition of the I.I.S. If necessary, we would be prepared to see adjustment of income tax bands to compensate for its abolition.

(e) Stamp Duty

We will also aim for the abolition of stamp duty in the capital taxation package. The cost would be £200 million and we would want to persuade our European partners to go the same way. We will return to this in detail later.

(f) Development Gains Tax and Community Land Tax

We will be liaising with Mr. Raison's Group on this. Urban redevelopment and new building on farmland represent two distinct problems which should be separately considered and we shall bring forward further proposals. In the interim period we would give priority to the abolition of the first letting charge.

(g) Savings

We are examining ways of de-institutionalising savings in order to put the private investor in a better position vis a vis the pension funds and insurance companies. We will be bringing forward proposals on worker shares, small savings and ownership of bonds in nationalised industries and the problem of negative real interest rates. We might start with the reversal of measures by the Labour Government against stock options and share saving schemes. We intend to liaise with other groups concerned with worker participation and worker co-operatives to provide new opportunities in these directions.

6. Further Work

In the next stage of our work we shall be developing our proposals on the points outlined above; and will also be examining tax credits and social security benefits, indexation of personal taxation, changes in business taxation and in indirect taxation other than VAT. We have reached a preliminary view in favour of staying with the tax credit system and will be doing further work to reconcile its attractions with

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its potentially very high costs. We shall also be looking, at the possibility of moving to a non-cumulative system, particularly in view of the role of PAYE in subsidising strikes, and the possible administrative gain. We shall also put forward a proposal to set an overall ceiling on the proportion of income that can be taken in tax annually.

Decisions required:

- 1) Approval by the Shadow Cabinet of the general approach.
- 11) A view from the Policy Sub-Committee on the amount of resources available for tax reductions in the years ahead to 1979.

D.H.