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POLICY GROUP ON TAXATION

SECOND INTERIM REPORT

PART I : THE TAX SCENE

1. The work of the Taxation Policy Group has been taking place in a rapidly changing fiscal climate.

2. In our first interim report (dated 23rd July, 1975) and in Sir Geoffrey Howe's position paper on taxation to the Shadow Cabinet (LCC/76/99) we identified two broad priorities in the British Tax system - to reduce substantially the 'political' or 'enterprise' taxes, which bring in little net revenue but do enormous economic damage, and to unscramble the now chaotic relationships between income tax, national insurance contributions and social security benefits.

3. We argued in the first interim report that a coherent and workable tax package demanded both a reduction in the political taxes (where we sketched out the main priorities) and a substantial reduction in the burden for the ordinary taxpayers, although we pointed to the obvious short-term difficulties in implementing the second, and expensive, part of the package.

4. Since then our doubts about planning for a general reduction in overall taxation in the short or medium term have greatly increased. Any savings on public expenditure in the foreseeable future will be taken up in the need to reduce the enormous borrowing requirement. At the same time the difficulty of cutting the real tax burden in present circumstances may now be more widely appreciated, thus making it easier to 'sell' what amounts to an 'enterprise first' tax package at minimum cost in Revenue terms.

5. This does not mean that we have abandoned the attempt to deal with the income tax/social security muddle, but the approach in the first instance will have to be through redistribution of the burden of taxes and other payments and we accordingly make proposals below. An all-round lowering of taxation will have to wait. The political taxes must come first.

PART II : ENTERPRISE TAXATION

6. In the first interim report we proposed reductions and reforms in Capital Transfer Tax and Capital Gains Tax, cuts in top marginal investment and income tax rates, and also abolition of stamp duty. Since then CTT has been modified in two major respects, relief for business assets and owner-occupied land, and the doubling of the annual exemption. The relief on business assets barely compensates for the rise in retail prices since 1974 (see Appendix A). We still take the view that CTT is a destructive tax, pitched far too high and with numerous objectionable features, particularly affecting family business and agriculture. Our position therefore remains that the tax should be replaced completely in the long-term and that it should be modified within the limits of early and swift legislation in the short term. Our proposals, adjusted to take account of the latest Government reliefs, and with particular emphasis on ties of consanguinity, are set out in Appendix A.

7. Capital Gains Tax remains unfair and damaging. The recent Government review brought only trivial reliefs. We propose that rather than merely offset CGT against CTT all disposals within the scope of CTT should cease to attract CGT (as with disposal at death, at present). We also feel that the present rate of CGT is inappropriate for an inflationary world. In theory this could be corrected by an inflation-linked relief, but this would be administratively very complicated. A simpler course would therefore be to introduce a taper to a zero rate for assets held over five years. For possible cost and details see Appendix B.

8. The top marginal rates of tax on investment and earned income stand out like a beacon of fiscal absurdity and do great psychological damage to Britain's case abroad. We believe that a modest goal would be to set the highest rate at 75 per cent (still at the top European level). We have in mind a top earned income rate of 60 per cent. For many reasons we would like to see the eventual abolition of IIS as providing some compensation for the ravages of inflation on the real value of capital; this will be essential if we find a wealth tax in force on our return to power. For the time being, we would retain a surcharge of a flat 15 per cent after raising the starting point to a minimum of £2,500. We think that our proposals for a lower top rate on income both earned and unearned should be combined with a general revision of rate bands up the scale and/or raising of thresholds. The merit of these options and the means of financing a major redistribution away from income tax are discussed in paragraph 15 and Appendix D. Alternative new patterns of rates or threshold increases are outlined in Appendix C.

9. The Value Added Tax, besides having major general revenue implications, has important 'business' aspects where changes can be engineered without great cost and with considerable business benefit. A special group is to examine detailed ways of improving VAT administration; we propose initially that the minimum turnover requirement be raised from £5,000 to £10,000 which would remove ¼ million registrations at a revenue cost of only £40 million. We favour reconsolidation of VAT into a single rate. A 10 per cent rate could be achieved immediately by the use of the regulator. For the rates we might need in relation to our income tax strategy, see paragraph 22.

10. We see no merit in retaining stamp duties as a permanent feature of the tax system. The proper means of taxing deals in shares or land is now through VAT on brokers' and agents' commission. Higher turnover caused by greater switching between securities, taxed at an increased standard rate of VAT, would give some compensating increase in revenue and would also widen the base of Capital Gains Tax. Total abolition of the duties would eventually cost some £300m. In the interests of minimum impact on the Revenue this would have to wait.

11. We have examined the workings of Corporation Tax, particularly in the light of the Sandilands debate and of the Government's continuing stock appreciation relief, with its unsatisfactory year-by-year postponement of tax liability. While we have accepted the concept of inflation accounting, until the question of accounting practice is finally settled by the Morpeth Committee it is hard to reach firm conclusions on the best treatment of corporate profits, but we are working on initial proposals for alleviation and simplification.

We have concluded that reforms must be within the context of the imputation system.

12. It has been put to us that as part of the 'enterprise first' approach a number of special provisions should be made for smaller and independent business enterprises. We agree that smaller firms should receive maximum encouragement and take the view that changes suggested to CTT, CGT and the high income tax rates should be beneficial. In addition the qualifying limits for lower corporation tax rate, and for the marginal relief, should be raised to compensate fully for inflation rather than by the lesser amounts proposed in the 1976 Finance Bill.

13. We are examining further methods by which smaller firms of a proprietary character might be given further tax encouragement but we recognise that it is a reduction in the high levels of income and capital taxation which would do more than any other special arrangements to assist new and smaller business enterprise. We estimate that the net revenue cost allowing for offsets of the 'enterprise' package outlined above would be of the order of £200 - £300 million in a full year - in theory (excluding stamp duty). In practice, taking into account the effects on incentives, capital-building and the consequential impact on the tax base, the cost would certainly be much less. There would also be bureaucratic savings in VAT administration. A rough table of costings is set out in Appendix D.

14. Clearly the future plans for the local rating system, both domestic and industrial, will influence overall costing. We have not yet had a joint meeting with the Environment groups.

PART III : PERSONAL TAXATION AND SOCIAL SECURITY

15. We have examined a number of proposals for coming to grips with the income tax/social security issue, and for doing so without revenue cost. All are agreed that the first immediate need is somehow to lift very substantially the income tax basic rate threshold and/or reduce the basic rate. Thereafter there are a number of different approaches.

16. Those led by Mr. Ralph Howell, wish to tax short-term benefits on the grounds that this can be done administratively, that this must be combined with a benefit 'ceiling' for families and a national wages 'floor' and that the way can thus be paved for a major reduction in the number of below average-earnings income tax payers, for non-cumulation and a much greater degree of self-assessment in our tax system. (Some Members, while recognising that administrative difficulties may be substantial, nevertheless feel that some kind of flat-rate tax on short-term benefits would provide a solution).

17. A different view is that these goals can be better achieved by the tax credit system, and that short-term benefits cannot be handled for tax except in this context, or at least the adoption of non-cumulative PAYE. (See also Appendix G on non-cumulation and self-assessment). In a fully developed tax credit system, tax thresholds would disappear altogether and every £ of income be taxed at the basic rate. In a partial system, the tax threshold is inevitably depressed. This was a major factor in Labour's recent decision to drop plans for a child benefit scheme. A policy group under Mr. Patrick Jenkin is looking at these various aspects.

18. As an alternative to tax credits, our attention was also drawn to the apparent simplicity of the "Economist's" recent proposal to eliminate personal allowances and charge a single effective rate of income tax in the range 15 - 17 per cent. However, as this would involve an increase in taxation for at least ten million people, and there would be grave difficulties in softening apparent or real regressive effects, we feel that in practice substantial complexities, including new ones, would be reintroduced.

19. Our own approach within the taxation policy group in no way challenges the need for radical medium-term changes. But for the time being we are convinced that further administrative upheaval is undesirable. This leads us to the view that if we can succeed merely in raising the thresholds or cutting the rates that in itself will be a major achievement and take much of the urgency out of the problems which more radical solutions seek to overcome.

20. Accordingly the Group has confined itself to the more immediate objective of reducing the income tax burden (both thresholds and rates) and has looked for alternative sources of revenue, either from a substantially higher single VAT rate or from payroll tax, or from higher social security contributions, or from a combination of these.

21. Raising VAT would mean a direct addition to prices to the consumer, who would of course be paying less direct tax. The payroll tax would also work through in higher prices as employers sought to recoup. So would higher social security contributions from employers. The arguments are psychological. In the end the consumer pays.

22. Our conclusion, bearing very much in mind the need to minimise legislation and administration upheaval, is that the charges to raise revenue should be diversified, both in incidence and timing. We put our major emphasis on VAT as the broadest-based expenditure tax. We propose a two- (or three) stage operation: first, by the immediate operation of the regulator to reconsolidate the rates into a single 10 per cent rate (revenue increase of £500 million p.a.); (this could conveniently be associated with the use of the regulator on conventional excise duties to raise a further £500 million). Next the new standard rate of VAT could be moved up in one or two jumps to 15 per cent. This would raise a further £2,000 million. In determining this standard rate, we do not feel that it is essential to choose a conveniently divisible fraction (e.g. 12½ per cent is ⅑, but 8 per cent is 2/27 of the tax value), if revenue considerations dictate otherwise. We do not favour the alternative of widening the base of VAT by including zero-rated items like food and fuel, which would be even more difficult practically than the increase in VAT basic rate.

23. In addition to the VAT increase we also propose a significant increase in social security contributions. At present, the Exchequer contributes some £1,300 million a year to the national insurance fund. We propose that the whole of this be added to employer contributions to bring them to 12½ per cent or thereabouts. There would be no increase in the Class IV contributions by the employed. We should also be able to check the rate of increase in employee contributions, and possibly raise the earnings threshold for contributions, although the onset of national superannuation would have to be funded. Our proposals amount to an increase in the overall social security contribution from its present

14½ per cent to, say 17½ per cent (plus national superannuation) which would bring us more into line with other EEC countries. At the same time we believe there is real psychological advantage in the concept of 'social taxes' and in linking these increasingly in the public mind with expenditure on social programmes. In the long term we would like to see this concept much further developed in the overall pattern of taxation, thus paving the way for future reductions in direct taxes.

24. The arithmetic of these changes is set in Appendix E. The broad outcome is that a sum of £4,500 million could be taken off income tax in a full year, allowing new rates and thresholds as outlined in Appendix B. The permutations of various tax rates are virtually endless, but the following considerations could affect content, presentation and timing. First, increases in indirect taxation and employer contributions bear directly on prices; our proposals above would be likely to involve an increase in the RPI of the order of 5 per cent. Second, this will intensify the need to raise the threshold - already an urgent requirement because of the 'poverty trap' and inflation. On the other hand, any move to shift some of the burden from income tax to employer contributions and any reductions in the basic rate automatically 'devalue' the tax allowances, making easier both immediate threshold increases and the eventual introduction of tax credits, and it would also alleviate the intensity (though not the extent) of the poverty trap.

25. In the long term any increase in the employer's costs of labour should encourage better use of investment and lead to tighter manning. In the short-term, although unemployment is high, we doubt whether these moderate additional costs would have more than a momentary deterrent effect on the hiring of additional employees, when one bears in mind the already formidable disincentives to taking on extra hands.

26. Although our tax proposals so far provide a significant tilt back in favour of rewards to capital and to wealth creation we would not accept that this need be a programme which favours only the few. More rewards to capital should go hand in hand with a wider diffusion of capital ownership, not only through the strongest encouragement to new enterprises and smaller firms but also through the wider distribution of equity amongst employees. We therefore offer proposals which, although modest in themselves, would have the effect of greatly encouraging the spread of asset ownership in the community and would form a useful part of a wider programme of encouragement to the building of democratic capitalism, should the Party wish to pursue such a theme. The details of these proposals are outlined in Appendix F.

27. The Group has looked at the idea of indexing the personal tax thresholds and, indeed, all money values expressed in the tax statutes. We see obvious difficulties in requiring a Chancellor automatically to forego all revenues which inflation may wash into the Exchequer but indexation does not in practice demand this. All it requires is that the increased taxation which results from non-adjustment of thresholds and other tax figures expressed in money terms should be explicit and that the authorities should be obliged in periods of inflation to go through all the relevant figures setting out what the adjusted and fully indexed values should be and explaining why, in practice, the adjustment is only to be partially made or not at all - i.e. why the taxes in question are being raised and by how much. We think truth

in taxation policy is a good principle and one upon which a strong and determined Parliament ought to insist.

28. We believe that our proposals for lifting the income tax thresholds and revising the bands will help to reduce the enormous manpower involved in raising Britain's revenues, both through the very considerable drop in the numbers liable for income tax and through the reduced incentives at lower rates generally to attempt avoidance - or evasion - which ties up large number of officials. The proposed VAT change should also release numerous Customs and Excise officers from time-consuming cases with minimal gains to revenue.

29. The savings do not, of course, compare with the immense gains that ought in theory to flow from a fully developed tax credit system or similar schemes. But these lie further ahead. The plans we offer here are aimed at meeting the early needs of a country in severe economic crisis, greatly overburdened with complex and in some instances totally unintelligible tax laws, social security regulations and administration, anxious for a period of stability and minimum legislation and above all prepared, if given the opportunity, to give the business of business the very highest priority. That is what our proposals seek to do.

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TEB/RME
16.6.76

Appendix A (1) omitted (20 pages of complex draft amendments to financial legislation of little general interest)

Editor, margaretthatcher.org
18 June 2003

APPENDIX A

(2) THE BUSINESS RELIEF IN THE 1976 BUDGET

The "concession" made in the Budget, reducing by 30 per cent the value transferred in the case of a sole proprietor or partnership business, or a controlling shareholding in an unquoted company, needs to be looked at carefully.

The scale rates of CTT were set out in the Finance Bill of late 1974; and took effect on "any transfer of value made by an individual after 26th March, 1974, other than an exempt transfer."

The general index of retail prices stood at 102.6 on 19th March, 1974. Two years later on 16th March, 1976, it stood at 150.6, a rise of 46.8 per cent.

If one assumes, which seems a reasonable thing to do, that the value of the assets of an unquoted business has gone up in the same proportion as prices in general, then a business worth £100,000 on 19th March, 1974 would be worth £146,800 now.

Reduce that £146,800 by 30 per cent, and you have a CTT valuation basis of £102,800.

In other words the 30 per cent "concession" is not quite enough to compensate for the inflation which has taken place since the Capital Transfer Tax first took effect.

May we look for another "concession" in next year's Budget, sufficient to rectify this year's shortfall and to compensate for the inflation due to take place in the coming twelve months?

This "concession" is completely phoney, and it underlines again the needs to look at ~~tax rates~~ in the context of inflation and not in vacuo.

APPENDIX B

NEW CAPITAL GAINS TAX SCALE

Time Assets held	% Rate
Up to 1 year	30
1-2 years	25
2-3 years	20
3-4 years	15
4-5 years	10
Over 5 years	0

The alternative basis of charge (effectively, half the marginal rate of income tax) would be retained, but would clearly be less valuable for assets held for a number of years. It is virtually impossible to compute an accurate cost for the concession, and the Treasury's own estimates at Budget are often up to 50 per cent out. Yield of the tax for 1976-7 is estimated at £400 million, and perhaps (allowing for greater readiness to sell assets) the cost could be up to £200 million.

APPENDIX C

NEW INCOME TAX SCALE

Basic Rate	25%
£5,000 - 8,000	40%
£8,000 -12,000	50%
Over £12,000	60%

1. Investment Income Surcharge would be added as appropriate. (At 15 per cent above a starting point of £2,500).

2. As an example, a married man with 2 young children (enjoying the 'conditional' tax reliefs) and earning £10,000 would find himself paying £2,607.50 compared with £3,348.25).

3. The overall cost of the proposals would be of this order:

10% cut in basic rate	£4,000 m.
Cuts in higher rates	£500 m.

Alternative

Increase personal allowance (single married and age)	by £500	£3,500 m.
Increase child allowance (or child benefits)	by £200	£1,000 m.
		£4,500 m.

APPENDIX D

COSTINGS OF 'ENTERPRISE' PACKAGE

	£m.
Reliefs in CTT	100
Reliefs in CGT	200
Higher Income Taxes	500
Corporation Tax (small cos.)	50
	£850 m.
Less VAT (10% single rate)	500
VAT admin.	50
	£550 m.
Overall cost	£300 m.

This overall cost can be more than covered by the implementation of the 10 per cent regulator on conventional excise duties, to raise a further £500 m.

APPENDIX E

OVERALL COSTING INCLUDING INCOME TAX/SOCIAL SECURITY CHANGES

Cost	Cut in basic rate from 35 to 25 per cent	£4,000 m.
	Cuts proposed in higher rates	500 m.
		£4,500 m.
Revenue	Standard VAT at 10 per cent would raise (N.B. This is the maximum to which the rate could be raise by regulator immediately)	£4,150 m.
	representing an increase over present rates of	£ 500 m.
	Regulator on Revenue Duties (10% change)	£ 500 m.
	Increase in VAT rate from 10 to 15 per cent	£2,000 m.
	Total indirect tax 'package'	£3,000 m.
	Exchequer supplement to National Insurance Contributions	£1,300 m.
	Total revenue raised	£4,300 m.
	Notional shortfall	£ 200 m.
	Suggested Contribution Schedule	
	Employee increased to 6 per cent (total £2,000 m.)	+ £ 100 m.
	Employer contribution increased from 8% to 12½ per cent (total £5,900 m.)	+ £1,000 m.

1. The balance of increased National Insurance Revenue could be applied to national superannuation.

2. The overall impact of the package on the RPI is likely to be of the order of 5 - 6 per cent.

APPENDIX F

WIDER SHARE OWNERSHIP:

PROPOSALS FOR EMPLOYEE PROFIT-SHARING

1. Our guiding consideration in the work of this sub-committee has been that a reversal in the erosion of the proper rewards to capital must go hand-in-hand with a wider diffusion of the ownership of capital. The two policies combine to make each other possible. We note how a number of emerging Conservative policies are being built around this powerful theme - policies for increased house ownership and for encouraging smaller businesses for instance (as well, of course, as our hostility to ownership concentrated in state hands) - and our proposals here are put forward as a part of that broader development in our thinking.

Our main proposal for disseminating ownership is deliberate expansion, through tax relief, of employee profit-sharing schemes. While in no sense conceived as solving national problems without the need for other policies, it fits four cardinal principles:

Appendix F contd.

a) A steady move towards a more deeply rooted form of 'mass' capitalism; the wider the division of ownership, the less industry is politically vulnerable to attack from state socialism.

b) A conscious attempt to soften industrial conflict at the work-place; and, more widely, to inculcate in all sections of the community a renewed sense of shared purpose.

c) An emphasis on profitable private industry as the engine-house of the nation's wealth.

d) For the individual, a real opportunity of a measure of economic independence.

3. In amplification of the last point, we see real advantages in the medium of employee profit-sharing. The primary motives for personal saving must properly be house purchase and retirement security. (These are within the purview of other Groups, although in paragraph 4 we suggest a possible link between our proposals and house purchase). We are principally concerned with the creation of new capital on the one hand and its wider personal ownership on the other. We are conscious of the danger that channelling personal savings into the company sector - above all into the company for which one works - risks "all eggs in one basket". But we are concerned here not with the investment of discretionary personal savings - as with the case, for instance, of Rolls Royce, but with additional and set rewards to employees to bring them, possibly in large numbers, into the ownership sector of society.

4. We are of the view that employee shareholding does improve motivation. While much of the evidence is from the United States, we note that ICI, perhaps the most distinguished example of profit-sharing by a conventional UK company, has built up firm loyalties, with over a third of shares issued to employees still held by them personally (though these still represent only a very small proportion of the equity shares of the company). Moreover, profit-sharing would readily solve the problem of giving employees a status analogous to shareholders because they would be shareholders, and it would greatly improve the position of the stable and experienced older employee whose lack of militancy often leads to his relative neglect and lack of status. To achieve this without undue risk to the employee, we advocate that our scheme is confined to bonuses derived from profits belonging to the company (not the employee), which are used to create or purchase employee shares. In this way an employee can build up a fund without risking his own savings.

5. The scheme in detail: tax relief. Our proposals are based on improving the tax position of profit-sharing schemes. At present it is perfectly feasible for companies to give employees bonuses from profits, whether in shares or cash and these qualify for relief from corporation tax as a business expense. The snag is that employees suffer income tax on the bonuses (calculated on the 'earnings' or the 'receipts' basis). We propose to eliminate the charge to income tax and capital gains tax. Instead we propose a deferred income tax confined to employee share bonuses from profits. We are anxious to avoid, on the one hand, giving an excessive advantage to qualifying employees, particularly those with high earnings; and on the other hand, making the relief so trivial or so complicated that no incentive applies. In this connection, we would confine the taper period to an absolute maximum of five years. The existing rates for deferred income tax would, of course, depend on decisions on income tax and capital gains

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Appendix F continued

tax generally. For illustrative purposes based on present tax rates, we have in mind a taper over five years from 50% in the first year to 25% after five years. Certainly, we feel that shares at the end of five years should be taxed at a substantially lower rate than the basic rate of income tax. As a safeguard against excess revenue cost or abuse we propose that companies should not be able to set aside more than 10% of their pre-tax profits for share bonus schemes; that consideration be given to some limit on overall company contributions to all the various kinds of tax - relieved benefits on US lines; and that no individual should benefit by more than a £1,000 a year. The scheme would, of course be voluntary - though we would hope that Ministers in the next Conservative Government make every effort to encourage companies to join.

6. Smaller companies. We recognise that the above arrangements would be most suitable for large quoted companies. We are anxious to preserve a direct profit-sharing link for the employees of smaller and/or unquoted companies. This will not normally take the form of direct equity shareholding. Instead, we recommend consideration of a scheme whereby shared proftis should be distributed to employees in the form of loans maturing after five years, while carrying rights to equity participation in the event of the company going public or resolving on enfranchisement, within a similar (or perhaps rather longer) period. Nevertheless, for many smaller companies this scheme may be exceedingly complicated or otherwise not feasible. As an alternative, we envisage that such companies would be permitted to purchase from profits (and this allows for corporation tax) qualifying unit trust holdings on behalf of their employees. The latter would suffer only deferred income tax on bonus holdings, instead of having to buy units within their own taxed income.

7. Housing. While most of the Group now feel that it may not be possible to taper deferred gains tax to zero (at least in isolation from a decision in capital gains tax) we propose that savings cashed after five years to form the deposit on a house should be completely free from all taxes.

8. Legal and Administrative Aspects. We recognise that technical mistakes in the scheme could damage it considerably at the outset, and we advocate full consultation before the scheme is finalised. Trustees would be necessary:

1) To buy from the company its shares and hold them on behalf of employees for up to five years (we envisage that they would be fully vested after that time).

2) Much of the administrative complication could be resolved by the company's requiring a reasonable minimum period of service before an employee could join the scheme.

3) To administer the tax deduction on sales within the five year period - we envisage that 'deferred income tax' would be operated on a simple tapered tariff, with no personal reliefs, and that trustees would pay out a net sum to vendors.

4) To accumulate dividends and reinvest them on behalf of the employees (we envisage, again, that in return for the special tax advantages of the scheme, employees would expect full basic rate deduction without relief).

We envisage that it would be a condition of the scheme that trustees could invest only in the shares of the company in question or a qualifying unit trust; but consultative machinery could be devised to represent the interests of the trustees and their beneficiaries vis-a-vis management.

Full vesting in individual employees after five years is important. We are anxious to avoid any suggestion of establishment of union-dominated voting trusts within an individual company. American experience suggested that owing to death and retirement, the proportion of a company's shares held by employees rarely exceeds 25 per cent, so control is not lost to the board. Rather, ownership is more widely disseminated and the role of the personal shareholder strengthened.

9. Cost. The Exchequer revenue cost of our proposals is unlikely to exceed £100 million during the first year, but could rise considerably higher later if the scheme is taken up with the enthusiasm which we would wish. In any case, we feel strongly that the scheme provides an opportunity of saving in the hands of the individual rather than forced saving through taxed income.

10. Transfers to employees. In the context of the above proposals we recommend two further relaxations of the capital transfer tax, viz (i) piecemeal tax-free transfers to employee sharing trusts, (ii) raising the tax-free limits on individual transfers to £1,000 (from the present limit of £100) which more nearly represents the old estate limit of £500 in order to allow an entrepreneur to motivate his fellow directors and employees.

11. Relation to other schemes. The above arrangements stand on their own feet. However, their overall impact will need consideration as part of the overall pattern of savings incentives - and their presentation - which the Group will be considering shortly.

APPENDIX G

NON-CUMULATION AND SELF-ASSESSMENT

1. Non-Cumulation

(a) This is logically independent of the self-assessment issue; on the other hand, it would be virtually impossible to introduce it without tax credits. This is owing to the problem of fluctuating earnings. Under PAYE, when a person's income drops (because of illness, or no overtime) this is automatically cushioned by a lower, or even a negative tax take. Under non-cumulation the tax credit, representing personal and child allowances, would provide the cushion.

(b) The main advantages of non-cumulation are twofold. First, there would be administrative savings. At present over 10 million people change jobs every year, and most job-changes require the issue of a triplicate PAYE P45 form, involving the taxpayer, his tax office and his old and new employer each time. Second, the (discreet) advantage of non-cumulation is that it reduces the scope for claiming large tax refunds during the year, whether to finance idleness after a busy period of earning, or more particularly

during a strike (especially when the taxpaying year is dying after Christmas). We do not envisage that these benefits or refunds could be totally cancelled, but they would roll over to a less critical time in the next tax year.

(c) However, the introduction and administration of the new system would require careful preparation and some alteration of procedures. Every taxpayer would have to file a return each year (instead of triennially for PAYE cases - on the other hand, recoding notices would no longer be required). He would have to keep details of his pay and tax in all employments during the year. He would probably also have to carry a "tax credit card" from job to job. Similarly, his employer would have to have quick access to obtain personal details, of allowances, etc. where the card was mislaid, or for a new recruit. Accordingly, we feel:

(i) Almost certainly we should have to standardise tax identification on Social Security numbers, so that taxpayer or employee could have ready file access, and so that a running balance of tax paid during the year for one person (whether in one or more employments and whether those were concurrent or consecutive) could be kept.

(ii) Close consideration should be given to 'staggering' the date of the individual taxpayer's annual return. While the tax year or basis of assessment would still run either from 5th April or 1st January, those with NI numbers ending in 'A' might have to file returns in, say, January; the 'Bs' in April and so on.

(iii) The pattern of allowances and consequent deductions would have to be streamlined (desirable on other grounds). For example, we envisage that marriage or the birth of a child would qualify for an immediate lump-sum cash payment, with tax allowances being adjusted only in the subsequent whole year.

(iv) It is a prerequisite that both advice to taxpayers and employers should be readily available, and that refunds be quick.

(v) Providing these requirements are fulfilled (and subject to whatever general view is taken of tax strategy) we are inclined to suggest that weekly withholding of tax by employers should be standardised at the basic rate (which implies an overall level of overpayment of tax, compared with PAYE); while for administrative reasons we are not inclined to favour a return to a reduced rate band - provided that we can have tax credits, and provided that the basic rate is at least pushed no higher.

2. **Self-Assessment**

Strictly, this stands as a separate issue. It would not require non-cumulation or other changes to work in some form, but in practice it would be sensible to begin with non-cumulation (and tax credits) and only then move on to self-assessment, at least for Schedule E Tax.

Appendix G continued

The case for self-assessment is very largely administrative, and on the basis of the US experience it is overwhelming. The US Internal Revenue handles four times the UK Inland Revenue (and raises almost ten times the income) with the same staff. While potential savings here would require detailed study, they would undoubtedly be substantial - for example in eliminating the distinction between the Inspector's and Collector's branches, which leads to considerable friction involving the innocent taxpayer.

The first step would be to make corporate taxation self-assessed. As accountants are involved for almost all incorporate businesses, this would reflect the real status quo, but could lead to speedier collection.

Unincorporated business, the small trader and the self-employed, give rise to some of the worst problems. This would certainly happen if we shifted to a current-year basis of assessment, which would necessarily increase the Revenue's powers of (and need to) snoop. It would be better to leave assessment on a previous year's basis, but would perhaps offer some offsetting allowance to Schedule E payers.

In any case, Schedule E would be at the end of the line for conversion and this could not be done without e.g. centralised computer storage of tax details through NI numbers.

It would eventually be possible to bring in self-assessment for other (e.g. capital) taxes. The principle should be that each taxpayer need deal with only one office.

As well as advice, the taxpayer could be assisted by a carefully-devised series of incentives for early payment.

FINANCING SOCIAL SECURITY

TABLE II - 1

Rates and ceilings for employees in industry and commerce

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS	
				Rate %	Ceiling
Sickness and maternity	Public health service: - Cash benefits: Ee pays 1% of taxable earnings	£ 0.15 paid by employer on behalf of persons with full eligibility (see Tables III); otherwise paid by insured	1. Weekly flat rate contributions covering all social security benefits Employees under graduated contribution scheme: Paid by Ee men £ 0.75 women £ 0.62 (1) Paid by Er men £ 1.72 (1) women £ 1.46 Employees not under such scheme Paid by Ee men £ 0.87 women £ 0.70 (1) Paid by Er men £ 1.84 (1) women £ 1.54 2. Weekly earnings-related contributions shared equally between employer and employee Employees under graduated contribution scheme 5% of weekly earnings between £ 9 and £ 54 Employees not under such scheme 1.5% of weekly earnings between £ 9 and £ 18 plus 5% of weekly earnings between £ 18 and £ 54	9.50 (a) 2.65 (b) 7.50 (c) Ee 4.75 + 1.2 Er 4.75 + 2.65 + 6.3	(a) Fl 19 760 or Fl 76.- p.day (b) Fl 26 750 (c) Fl 36 400 or Fl 140.- p.day
Invalidity	Er: Dkr 31 per employee per year	Weekly flat rate contributions covering all social insurance benefits 1. Flat rate contributions Employees: men £ 1.27 women £ 1.20 Employers: men £ 1.84 women £ 1.79 2. Pay-related contributions Employer : 2% Employee : 1% of earnings up to a ceiling of £ 2 500		8.4 Ee 2.85 Er 5.55	Fl 36 400 or Fl 140.- p.day
Old age; Survivors	1. National pension: - 2. Supplementary pension: Dkr 36 per month of which Ee 1/3; Er 2/3			12.2 Ee 10.6 (old age) + 1.6 (survivors)	Fl 26 750
Industrial injuries and occupational diseases	Insurance contribution varies according to the risk, paid by employer			See "Invalidity"	
Unemployment	Ee: Contributions fixed every year corresponding to 2.25 times the maximum rate of daily payment (generally Dkr 132 per day) made by the fund Er: Dkr 90 per year per employee			0.6 (a) + 0.5 (b) Ee: 0.3 + 0.25 Er: 0.3 + 0.25	Fl 36 400 or Fl 140.- p.day
Family allowance	-	-	-	Er: 5.7	Fl 26 750
NOTES: Ee: = Employee Er: = Employer			(1) As from August 1974 As from 6 April 1975 flat rate contributions will no longer be payable. Contributions of 14% (5.5% for the employee and 8.5% for the employer) will be payable on earnings up to £ 69 a week provided that earnings exceed £ 11.	Sickness: a = benefits in kind b = general insurance against serious risks c = cash benefits (average rate) Unemployment: a = interim allowance b = unemployment insurance Family allowances: Incl. 0.2% for the compulsory worker's complementary pension scheme	

Rates and ceiling for employees in industry and commerce

TABLE II - 1

GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG	
Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling
Average: 9% Ee : 50% Er : 50%	DM 22 500	5.75 (a) + 3 (b) Ee: 2 + 1.20 Er: 3.75 + 1.80	(a) Bfr 381 300 (b) Bfr 230 700	15.95 Ee: 3.50 Er: 12.45 Of this contribution 3% (Ee = 1% Er = 2%) is calculated without taking ceiling into account	FF 27 840	16.26 Ee 0.30 Er 15.96	-	8 Ee: 4 Er: 4	Lfr 507 204
18 Ee: 50% Er: 50%	DM 30 000	14 Ee: 6 Er: 8	-	10.25 Ee: 3 Er: 7.25	FF 27 840	20.25 Ee: 6.65 Er: 13.60	-	14 Ee: 50% Er: 50%	-
Collective rates according to degree of risks in the various occupational branches. Contribution fixed by the trade cooperative association and calculated on the basis of the total gross earnings low earnings have been brought into line with the average adult earnings of the area Ceiling: DM 36 000; above this depends upon the regulations		Insurance premiums or contributions to employers' joint funds are fixed by contract for industrial injuries. Contribution to the Occupational Diseases Fund (solidarity): 0.75% of the worker's remuneration (Ceiling: Bfr 230 700)		Collective individual or mixed rates according to number employed in the concern and degree of risk. Contribution assessed on total of gross earnings with a ceiling of FF 27 840		Collective rates based on degree of risks in the various occupational branches. The rate, varying between 3% and 5% (average: 3.9%) is calculated on total earnings. Also an additional contribution equal to 20% of social security contributions		Collective rates based on a scale of risks. Contribution fixed by the insurance association and calculated on gross total earnings, with a minimum equal to the minimum earnings of an adult manual worker	
1.7 Ee: 50% Er: 50%	DM 30 000	2.90 Ee: 1.20% Er: 1.70%	Bfr 230 700	0.80 Ee: 0.16 Er: 0.64	FF 111 360	Er: 2.30	-	-	-
-	-	Er: 10.50	Bfr 230 700	Er: 9	FF 27 840	Er: 7.50	-	Er: 2.50	-
Sickness: The rate varies according to regulations of the fund concerned: the ceiling represents 75% of the pension ceiling for manual workers		Sickness: a = benefits in kind b = cash benefits		Unemployment: System under the collective agreement of 31-12-1958, made generally applicable by the ordinance of 31-7-1967. Sickness: A further contribution of 3% is levied on car insurance premiums		Sickness: incl. 3.80% pensioners' sickness insurance, 2% tuberculosis and 0.58% agricultural solidarity; Old age: incl. 0.15% (employer) for assistance to orphans and 0.10% (employer) for the financing of local authority nurseries but not incl. basic contributions (0.1 - 0.2%) Family allowances: low contributions for certain types of employers Unemployment: not incl. 0.2% in industry for supplementary earnings.		Family allowances: rate applicable in commerce: 1.90% Unemployment: financed by public authorities Sickness: rate for the National Sickness Insurance Fund for industrial staff	