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PRIME MINISTER

Taxation of Benefits Paid to the Unemployed
(E(80) 9)

BACKGROUND

E Committee decided in principle on 23rd January on the taxation of short term benefits paid to the unemployed, by the 'subsequent' method of taxation. The benefits to be covered included unemployment benefit itself, the Earnings Related Supplement, and supplementary benefit paid to the unemployed himself (though not to certain dependants).

2. The Committee invited the Chancellor to reconsider the timing: it was suggested that a November 1981 start-up might be possible, rather than Spring 1982 as planned. In the light of that, he was asked also to consider the revised staffing requirements. The Minister of State, Northern Ireland Office, was asked to look at both points as they affected the rather separate problems of Northern Ireland.

3. Since then, Cabinet has confirmed the public expenditure decisions, including a limited measure of de-indexation of short term benefits. This was specifically seen as an interim measure, pending the inclusion of those benefits in the tax net work. In a related field, your meeting on Tuesday will have taken decisions on strikers and supplementary benefit (subject to Cabinet approval). Finally, there is the question of manpower. The last discussion took place against the background of firm Cabinet decisions on manpower cuts, taken in December. Since then, it has become clear that the imposition of cash limits on Civil Service manpower as a whole - to be considered by Cabinet on 28th February - is likely to impose a further volume squeeze, requiring additional manpower cuts. The base-line on which earlier calculations were done has therefore shifted somewhat.

HANDLING

4. I suggest you take the discussion in two separate stages: the operative date, and the question of staff numbers.

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Operative Date

5. You might invite the Chancellor to lead the discussion on the first point, seeking comments successively from the Secretary of State for Social Services, the Secretary of State for Employment and the Minister of State, Northern Ireland Office.

6. It seems generally agreed that the November 1981 deadline is just too tight. Moreover, now that Cabinet has decided on the interim de-indexation of short term benefits, there is less need for an early start-up - either for PSBR reasons, or to tackle the 'why work' syndrome. The Committee should, therefore, be able to agree fairly rapidly on an April 1982 start-up. This would also apply in Northern Ireland, but there the operation would be performed manually until 1984 when their benefit payment becomes computerised.

Staffing

7. There are four separate positions to consider (and you might call on each Minister in turn to speak, followed by the Minister of State, Civil Service Department):

- 12th cut.
5/1982.
- (i) The Department of Employment makes an additional bid for 600 staff which they claim they cannot absorb, particularly in view of the cuts they have already taken. It is fair to record that, proportionately, the Department of Employment have taken one of the biggest staff cuts of all so far.
- (ii) Department of Health and Social Security. An extra 90 staff. The Secretary of State agreed last time to absorb this small additional requirement. It should cause him no difficulty.
- (iii) Inland Revenue. The bid is 1,400. Admittedly, further examination may bring this, and the other bids, down somewhat: but it would be unwise to count on this. The Chancellor proposes that this additional bid be offset against the further unspecified savings of 5,500 he promised in the cuts exercise. The Civil Service Department, with Mr. Channon's support,
- 79,000.

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believe that further, though unspecified, reductions should be possible, which would offset this extra bid. But they admit (we have pressed them on this) that they cannot actually point to areas in which reduction could be made. They also point out that any figures agreed at this stage are likely to be swamped by the imposition of further volume squeezes as a result of the cash limits decision. It might therefore be possible for the Committee to agree that the extra staff requirement should be noted, offsetting savings found wherever possible, and the overall position reviewed again when Cabinet next considers public service manpower.

- (iv) Northern Ireland. Mr. Rossi was not able to report in writing before the meeting. But I understand that the manual operation would need 100 extra staff, which would be roughly halved after computerisation. Northern Ireland Ministers are still (Tuesday) considering whether they can absorb this number. The argument is much the same as over Inland Revenue: any deal done now is in practice likely to be swamped by further volume squeezes.

CONCLUSIONS

8. Subject to the outcome of the discussion, I think there would be two conclusions:-

- (i) To agree that the scheme already approved by Ministers should be introduced from April 1982, including Northern Ireland.
- (ii) To note the manpower required and to invite the Ministers concerned to seek the maximum possible offsetting savings.

RA

Robert Armstrong

12th February 1980