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Treasury Chamber, Parliament Street, SW1P 3AG
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Prime Minister

The Chancellor has to
take a final decision
on this. Are you
content?

PRIME MINISTER

~~Y. H. ...~~
~~with ...~~
~~...~~

DISTRIBUTIONAL EFFECTS OF INCOME TAX PACKAGE

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The income tax package I propose increases the main personal allowances by the full "Rooker-Wise" increase of 17½/18 per cent but abolishes the lower rate band. The higher rate threshold and bands and the IIS threshold will be increased by about 11 per cent, which matches the net increase in the married allowance (i.e. after offsetting the effect of abolishing the lower rate band).

2. The only group who will be better off in real terms as a result of this package are those just above the present income tax threshold. Those who will lose most in real terms are at the bottom of the basic rate band (i.e. married men in the range £2,500 to £5,000 and single people with slightly lower incomes) and those in the £12,000 to £40,000 income ranges. The problem of presenting the effects of the package on the lower paid will at least be eased by its comparable effects on incomes above £12,000 (thanks to holding back to 11 per cent the increase in the higher rate threshold and bands); and more positively it can be presented as giving relatively more to skilled workers and junior managers.

3. For the same PSBR saving as my preferred package (£m900 on forecast) it would be possible to retain the lower rate band and increase allowances by something /under

But the increase in child benefit helps them proportionately more, and taking into account child benefit it can be shown that all groups with children will be better off. Including CB, people on average earnings and below will do better relatively than people higher up.

12.



under 10 per cent. The broad effect of this would be (i) less favourable than my preferred package to married men and more to single people; (ii) less favourable to the aged; and (iii) less favourable to those at the very bottom of the income scale, so that in particular the tax threshold would drop to around the pension level.

4. The abolition of LRB as in my preferred package shifts the balance marginally in favour of the married man, because, while the LRB is worth the same to married and single, the yield from its abolition is used to give a larger allowance increase to the married man. This does something to compensate the family for our inability to index fully child benefit, and I can make a presentational virtue of this. Similarly, there will be advantage in being able to say that the elderly do better, relative to their younger counterparts, than they would have done had the LRB been retained. Perhaps the most potent presentational argument in favour of abolishing the LRB is that it will allow us to keep the tax threshold ahead of pensions. And, of course, it saves staff in the Revenue: the net saving under my package will be 1200, whereas retaining the LRB at the same revenue cost would require 450 additional staff.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

5 March, 1980

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Ms