



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

12 June 1981

Prime Minister

T P Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

The Chancellor has considered this issue again, but is not prepared to make any change of substance. Shall we let it go?

Dear Tim,

Yes not

Following his recent discussion with the Prime Minister about the taxation of widows and single women aged 60-65, the Chancellor has been considering further what he should say in reply to Jeff Rooker's letter of 26 March.

12

Unless the Prime Minister has any objection, he proposes to send the attached letter to Rooker. You will see that it differs in various respects from the draft attached to the Chancellor's minute of 21 May to the Prime Minister.

18/6

Yours ever,

Richard Tolkien

R I TOLKIEN
Private Secretary

Jeff Rooker, Esq MP
House of Commons

As you know, I have been considering the points you raised in your letter to the Prime Minister of 26 March about the taxation of single women and widows aged 60-64, and the Prime Minister has passed me your further letter of 10 May on this subject.

As you recognise, single women and widows between 60 and 64 whose only income is the basic State pension will not have to pay tax this year. However, there are some single women and widows between 60 and 64 who may become liable to tax for the first time because they have income in addition to their basic State pension (whether by additions to the State pension or other income) which will take them above the combined level of the single allowance and the assessing tolerances. This is an inevitable consequence of the fact that pensions have been fully protected from inflation (taking the November 1981 and November 1982 upratings together) at a time when it has not been possible to increase tax thresholds.

You suggest in your letters the possibility of giving age allowance (or some smaller relief) to widows and single women aged 60 and 64. Previous Governments - Labour as well as Conservative - have rejected this. I have re-examined the position with care, and this accounts for the delay in replying to your letter. But I have come to the conclusion that it would still not be right to introduce such a relief.

The justification for age allowance has always been that the taxable capacity of people declines as they get older, because of the extra expenses they incur, and that an additional allowance is justified on this account. I would find it very difficult indeed to say with any conviction that the extra expenses etc of old age comes upon single women or widows as a group any earlier than they come upon men, or married women, and I suspect you would find the same difficulty. From this standpoint, therefore, it is difficult to see how it could be fair to give a special relief to single women and widows at age 60 whilst the qualifying age for other people remained at 65.

Even if this basic objection could be overcome, I do not see that it could be possible to devise a relief which would make sense or seem fair to those affected by it. Would it make sense to give the tax relief to a single woman aged - say - 63 who was still working but deny it to a man or married woman who had stopped work at age 60? Alternatively, if it were given to all retirement pensioners, what would be done about widows between 50 and 60, who receive the same amount as retirement pensioners? Would it be equitable to extend the relief to a substantial number of younger people? There are, of course, other special groups whose position we could also consider - but I think the point is well enough made already.

These seem to me to be compelling arguments against introducing a special relief for single women or widows aged between 60 and 64.

You have referred particularly in your letter to the position of those who have additions to their basic State pension. But I think we should be clear what these additions to pension really are. The graduated addition - on which you have concentrated your attention - was introduced to give a "second pension" to people who did not have an adequate occupational pension, or any occupational pension at all. In essentials, the additional components payable under the current pension scheme are exactly the same.

I see no reason to treat women with these additions to pension any differently from those whose income over and above the basic pension comes from another source such as an occupational pension. Indeed to a large degree they are essentially the same as an occupational pension. The maximum amount of these earnings-related additions to pension is already considerable. (The maximum graduated pension is now over £200 a year, and the maximum additional component is approaching £300). The amount of the additional component will increase rapidly in future. So an additional tax relief would not keep all people with these additions outside the scope of tax in future, even if there was a case in principle for giving it.

Your final suggestion was ^{that} the Revenue's assessing tolerances should be increased. The level of these tolerances is related to the administrative cost of collecting small amounts of tax and there is no administrative reason for the Revenue to increase them this year. I do not think it could be right to increase the tolerances in order to give some people what would be - in effect - a higher tax threshold through the back-door.

I am, of course, concerned about the financial position of widows and single women between 60 and 65, just as I am about that of other groups of older taxpayers. But what we must strive to do is to order our affairs so that in due time we will be able to increase the level of the tax allowances generally and thus ensure that we avoid the recurrence of the difficulties that can arise if tax allowances are below the basic pension. This problem is itself essentially a by-product of inflation and it is an added reason why we must ensure that inflation is brought under proper control. It is to that end that our Budget strategy as a whole is directed.

MFJ

Elon Rook

CP

22 June 1981

Thank you for your letter of 12 June about the Chancellor's letter to Jeff Rooker on the taxation of widows and single women. The Prime Minister is content for the Chancellor to write to Mr. Rooker in the terms of his revised draft.

TPL

R.I. Tolkien Esq
HM Treasury

RT