



10 DOWNING STREET

PRIME MINISTER

Mr. Bruce Sutherland wrote to you last December putting forward a radical proposal for recasting the taxation of employment income. In effect he was suggesting that wages, like dividends, be paid on a net basis with an accompanying tax credit. At the same time income tax and national insurance contributions could be intergrated. While this would have ironed out a number of the anomalies in our tax and produced a more smooth progression of tax rates it would have involved all pay rates being expressed as 61% of existing rates $\sqrt{0.61 = 1 - (0.30 \text{ income tax} + 0.09 \text{ NIC})}$

This proposal was examined by John Moore in the Tax Consultative Committee. Although an interesting discussion was generated, the proposals were considered by other members to be unworkable. Nevertheless, you will want to write to Mr. Sutherland to thank him for putting forward his ideas and provoking discussion of the problems involved. A draft is attached.

AT

14 June 1984



CC 40

FROM: FINANCIAL SECRETARY

DATE: 13 June 1983

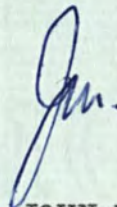
PRIME MINISTER

PAPER FROM MR BRUCE SUTHERLAND ON PROPOSALS FOR A NEW SYSTEM OF TAXING EMPLOYMENT INCOMES

1. You may recall that towards the end of last year Bruce Sutherland sent you a copy of a paper outlining his proposals for a radical change in the system of taxing employment incomes aimed principally at improving incentives. (A copy of the paper is attached.) I arranged for the proposals to be considered by the Tax Consultative Committee and said that I would let you have a report once Mr Sutherland's ideas had been examined by the Committee. The Tax Consultative Committee (TCC) is a group of outside tax experts and officials which I chair, and I attach brief notes on those attending the 14 May meeting.

2. The TCC discussed Mr Sutherland's ideas fully at a meeting on 14 May. The Committee's general conclusion, which I share, was that although Mr Sutherland's proposals addressed a number of important questions about the present tax and social security systems - the effect of taxation on incentives, whether income tax and national insurance contributions should be brought closer together, the problem of poverty and the poverty trap, the scope for reducing the costs of administration and the burden of compliance for employers - the solution which he put forward was in itself not acceptable. In particular, the Committee doubted whether the scheme would bring about the change in perceptions and improvements in employees' motivation and incentives which Mr Sutherland saw as its prime objective. They were concerned that the scheme required a complete recasting of employees' pay rates, which would be very difficult for the general public to understand and accept. And they considered that any benefits to employers from the scheme would not be sufficient to outweigh the fact that some employers would inevitably find themselves worse off following a change to the new system. I attach a copy of the minutes of the meeting which summarises in more detail the points made during the Committee's discussions.

3. At the conclusion of the meeting Mr Sutherland recognised that the Committee had not found his particular proposals acceptable but considered it had nevertheless been worthwhile to have examined the issues which he had raised. I think that is a fair assessment. Mr Sutherland's scheme attempted to find solutions to a number of questions in the field of tax and social security to which we are currently directing attention. But the general conclusion was that though his proposals involved bold and comprehensive changes in the organisation and presentation of pay, tax and social security, they did not in practice offer a solution to the problems of real substance: incentives, poverty trap, Exchequer and staff costs.



JOHN MOORE

TAX CONSULTATIVE COMMITTEE: NOTES ON MEMBERS ATTENDING 14 MAY MEETING

Outside Members

Mr M J Kerr MA ACA

Accountant. Senior member of staff of Messrs Ernst & Whinney. Joined TCC 1980.

Mr G W Penrose QC

Advocate (and Chartered Accountant) a co-opted member of the Revenue Law Committee of Scottish Law Society. Joined TCC 1982

Mr D C Potter QC

Barrister, and Chairman of the Revenue Bar Association since 1978. Joined the TCC in 1982.

Mr E E Ray FCA

Accountant. Partner in Messrs Spicer & Pegler. Last year's President of the Institute of Chartered Accountants in England and Wales. Joined TCC 1982.

Mr I P A Stitt

Chartered Accountant, a partner with Arthur Andersen in Leeds. He has been President of the Institute of Taxation since 1982. He has been a member of the Tax Consultative Committee since 1982.

Mr B W Sutherland CBE FCA

Tax Consultant and Director. Chairman of Tax Committee of ABCC. Member of IOD and CBI Tax Committees. Joined TCC 1982.

Mr F Cassell

Deputy Secretary, HM Treasury

Mr R A L Lord

Special Adviser. HM Treasury

Inland Revenue Members

Mr J M Green)

Mr A J G Isaac)

Deputy Chairmen

Mr D B Rogers

Director General, Technical Divisions

Mr R A Blythe

Under Secretary, Personal
Taxation

Mr B A Mace

Assistant Secretary, Personal
Taxation

Mrs C B Hubbard

Secretary to the Committee