

Ralph Howell file ←

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### AN ALTERNATIVE TO THE COMMUNITY CHARGE

The Community Charge is a major mistake and should be abandoned.

1. It is patently unfair - no other tax or charge is imposed uniformly in this way. The argument about electricity charges does not stand up to examination.
2. It will be a further disincentive to work and deepen the unemployment trap.
3. It will demoralise people, both in work and pensioners, who are just above the social security demarcation lines - those who have tried to remain independent of the State.
4. It will encourage young people to leave home and rely on State support - a further attack on the family.
5. The introduction of the safety net will negate the initial principal.

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The Government is correct in its intention to bring local government expenditure under control but the community charge will prove to be inadequate for this task. A great many people who live in areas currently controlled by irresponsible local authorities will be virtually exempt from the burden of the community charge as they will receive additional social security benefits to enable them to pay the 20% nominal charge. Local government expenditure will still be outside central government control.

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### AN ALTERNATIVE TO THE COMMUNITY CHARGE

Replace **COMMUNITY CHARGE** with **COMMUNITY TAX**.

A 6% extra VAT charge added to the present 15% VAT should be used to replace personal Rates.

#### How the system would work

Domestic rates 1989/90 will amount to	£9.9 billion
1% of VAT raises	£1.6 billion

#### Examples of how Community Tax might affect different salary groups

Annual income - say	£ 3,000	5,000	10,000	20,000
Estimated tax & savings	-	500	3,000	7,000
Estimated spending on VAT free goods & services (food, rent, etc)	2,000	2,500	4,000	7,000
Leaving balance of	1,000	2,000	3,000	6,000
Extra 6% VAT on this balance in place of rates	£ 60	120	180	360

This would have the effect of bringing all local government expenditure firmly under the control of central government.

## DISTRIBUTION OF CENTRALLY COLLECTED VAT SUPPLEMENT

Grants to individual local authorities could be allocated by keeping the below-average spenders down to present levels (except for inflation allowance) and reducing the excess expenditure of the above-average spenders by 25% for four years, by which time all high-spenders would be brought down to a maximum of £274.00 per person (at 1989/90 prices).

### FOR EXAMPLE

#### NORTH NORFOLK -

Present community charge 1989/90 (est'd)	£210.00
Grant from VAT Supplement at 1989/90 prices	£210.00

#### HARINGEY

Present community charge 1989/90 (est'd)	£627.00
Excess over English average of £274.00 =	£353.00
Thus reduction 25% each year over 4 years =	£ 88.25
Grant from VAT Supplement at 1989/90 prices -	
1st year	£538.75
2nd year	£450.50
3rd year	£362.25
4th year	£274.00 - in line with English average.

Overall local government expenditure under present scheme - £9.9 billion.

Approximate costs, at 1989/90 prices, of these proposals :-

	<u>£ billion</u>	<u>Approx. equivalent in VAT (%)</u>	<u>Saving £ million</u>
1st year	9.7	6	200
2nd year	9.4	6	500
3rd year	9.1	5½	800
4th & subsequent years	8.9	5½	<u>1000</u>

OVERALL SAVING, over 4 years, at 1989/90 prices, would be £2.5 BN

This scheme would not only be totally fair, as far as rich and poor are concerned, but would also bring about the control of the high spending Councils which the Government seeks. At the same time, there would be an overall saving in four years of £2.5 BN and, after a few years, VAT could be brought down to a 5% supplement, making a total of 20% VAT and even lower if so desired.

Bearing in mind that all local authorities are overmanned - 3 million employees in the United Kingdom now compared with 2 million in 1960 - no hardship would be incurred if no extra money in real terms was allocated to any authority, even the lowest spenders such as North Norfolk.

#### COSTS OF COMMUNITY CHARGE

The community charge has already cost more than £120 million, in setting up the registers, etc.

It is estimated that the community charge will cost £435 million to operate in 1990/91 and each subsequent year, and will require 14,300 extra staff. The current cost of collecting rates is £200 million and 9,000 staff are involved.

The VAT supplement system would need no staff at all. Therefore, there would be a saving of 23,300 staff and reduced expenditure of approximately £600 million per year, over and above the savings already mentioned.

#### ADVANTAGES

No extra staff  
No registration  
No exemption  
No fraud  
No prosecutions.

#### DISADVANTAGES

Nil

*Only end of local government as we know it.*

Such a system would be fully in line with the general philosophy of the Government.

RALPH HOWELL MP  
August 1989