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PRIME MINISTER

25 April 1990

COMMUNITY CHARGE: THE QUESTION OF 'FAIRNESS'

file into BP

Chris Patten proposes a package of graded national supplements to the community charge to be paid by all higher rate taxpayers. John Major has set out various ways this might be done, but his firm initial conclusion is that it is not the right way to go.

John Major's main arguments against are:

- a retreat from the basic principles of the community charge;
- it would be seen as no more than tokenism;
- it would simply be a reintroduction of higher rates of tax and thus a retreat on one of the Government's major achievements.

The Policy Unit have been thinking about this in the knowledge that you have recently considered that a scheme along the lines proposed would be a valuable way of disarming criticism about unfairness. But we have reached the preliminary view that John Major is right. We are concerned that such a scheme would be seen as:

- an admission that the Community Charge is not fair, and that the principle of equal payment for equal service, which the Government has put so strongly, is of no account;
- a recognition that the introduction of the Community Charge has been mishandled, with the Government provoked into pressing the panic button;
- an acceptance of the Opposition's case that the 'rich' can always pay more.

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And it would keep the spotlight on the Government's alleged failings, rather than on excessive spending by local authorities which is the real culprit.

What then to do about 'fairness'?

Of course it is crucial. But much depends on sticking consistently with the arguments already deployed: that not everyone pays the same; that those on low incomes pay much less; and that those on higher incomes pay much more towards local authority services through general taxation.

There is certainly scope for 'micro' action on benefit, transitional relief, standard charge, hard cases (like nurses), etc. Careful consideration of all that must proceed.

But if you still judge that a gesture aimed at the well-off is essential, then our feeling is that this would be better done through simple budget adjustments which as far as possible avoid the 'extra tax' stigma. An obvious approach would be to leave unchanged again next year the threshold for higher rate tax. That would generate £300 million or so, and if necessary it could be said that this was a deliberate act to fund extra transitional relief. But it would be much less overt than getting into a minefield of tax levies.

CONCLUSION

Income tax levies, albeit in the name of fairness, will create enormous difficulties for the Government. They would play into the hands of critics by overtly linking community charge with income and ability to pay. They would breach basic principles of the charge which the Government has been at such pains to defend, without any guarantee of doing enough to allay criticism of unfairness.

*John Mills*  
JOHN MILLS

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