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Prime Minister (2)

SECRET AND PERSONAL

For the Chequers

PRIME MINISTER

Yes meeting?

A SCHEME TO HELP THOSE STARTING UP AS SELF EMPLOYED

MS 12/7

1. Our objective is the creation of employment. This will lead to a reduction in unemployment: but it is not the same thing. The creation of employment always adds to the wealth of the nation: a reduction in unemployment does not necessarily do so.
2. Both for employment and self employment, tax and national insurance contributions are a serious bar to entry. It is not simply the money: it is the procedures and form filling involved. The obvious remedy of a massive increase in thresholds is completely out of court on grounds of cost: and in the case of national insurance because of the insurance principle. One needs therefore to find some device for getting people at the bottom out without repercussions right up the income scale.
3. In order to do this we have to have some means of defining closely the group to benefit: and a definition which is simple; as near as possible automatic; and requiring little or no intervention by the administration.
4. I put forward one such proposition in my minute of 1 July. That suggestion referred to the young unemployed. The present suggestion relates to people wishing to set up in business on their own.
5. The present VAT limit of £18,000 per annum is sufficiently high to take the new entrant to self employment out of liability in the great majority of cases. We cannot increase it because of EEC regulations but it is not likely to be an inhibiting factor in the present context. But the income tax threshold of £1,785 (£2,795 for the married man) is much too low. So too is the NIC threshold. The Institute of Directors suggested a tax threshold of £5,000. The difficulty of fixing a threshold in profit terms is that one needs to calculate the profit first and this in turn brings the Inland Revenue into the picture. Moreover a simple profit test of this kind too readily invites comparison with the employee.
6. What I have in mind is linking the scheme to a training programme - either an existing one or one developed for the purpose. I would then link the relief to turnover or takings - not to profit.

The outline of such a scheme would be as follows -

A person who had completed the appropriate training course and then set up in business on his own would be exempted from all requirements relating to income tax, VAT and NIC for a period of three years provided his turnover did not exceed £10,000 per annum.

The £10,000 limit would mean that the man would be outside the VAT net anyway. In most cases the £10,000 turnover limit would mean that net profit would be well under £5,000 pa. And the 3 year limit would ensure that no massive benefit could be secured.

The real sanction however would be the "approved Training Course". This would enable one to eliminate at source the bogus cases such as the "self employed draughtsmen". Moreover the necessity of attending a training course would make the operation unattractive to existing established self employed people.

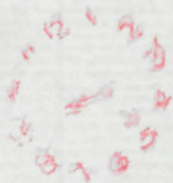
8. I am sending copies of this minute, on a strictly personal basis, to the Chancellor of the Exchequer and the Secretaries of State for Education and Science, for Employment, for Trade and Industry and for Energy.

A.C.

COCKFIELD

11 July 1983

12 JUL 1983



CONTROL

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10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Alex,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (the Chancellor of the Duchy's minute of 1 July).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?

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2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct change, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation only with the Department of Employment)

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which the Chancellor of the Duchy of Lancaster might wish to offer on any of the above topics, or in any other areas in which he believes decisions are required to encourage enterprise, wealth creation and employment opportunities.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers which the Chancellor of the Duchy may present are sent to the Prime Minister by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she would prefer the Chancellor of the Duchy to prepare his papers on a personal basis without departmental or inter-departmental advice and consultation.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to

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which reference was made during last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will form a useful background to the Chequers discussions.

*Yours sincerely,*

*Michael Scholar*

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Alex Galloway, Esq.,  
Chancellor of the Duchy of Lancaster's Office,