

Ami Amisti



✓ Mr Deputy
Mr Holt

Content with
these proposals which
have been agreed

Treasury Chambers, Parliament Street, SW1P 3AG with Mr Price,
01-233 3000

Mr Jenkins and
the Lt President?

PRIME MINISTER

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TAXATION OF SOCIAL SECURITY BENEFITS

In my Budget statement last year I stated our intention, in fulfilment of the manifesto commitment, to bring into tax benefits paid to the unemployed and to strikers with effect from April 1982. Before we legislate for this in the coming Finance Bill, I should report to you where we now stand.

2. Benefits paid to the unemployed.

With rising unemployment the start of taxation in 1982 may be jeopardised by a temporary shortage of computer capacity and the serious problems which would flow from having to handle a lot of claims manually. After careful examination of the conflicting considerations and discussion with the Secretaries of State for Employment and the Social Services and the Lord President, I have come to the conclusion that the risk is not such as to outweigh the substantial revenue yield expected for 1982-83 (about £m400), and I have therefore decided that we should continue with our plans for a 1982 start. It would be possible up to July to alter that decision (and defer to 1983) in the light of further developments; but after July the preparations for a 1982 start will make it very difficult to abort. The question now is whether in the Finance Bill we should specify the date of April 1982, recognising that we might be forced to change to April 1983 (which we could do

/by amendment



by amendment at Report Stage), or whether we should legislate to take effect from "an appointed day", which we should fix by Order in the Summer. Specifying the date might involve some loss of face if we had subsequently to defer; but deferment would be justified on administrative grounds, that is to say, unavoidable delay in the development of computer capacity. The "appointed day" method would introduce uncertainty and unnecessary confusion, in the light of last year's statement that taxation would take effect from 1982. I have no doubt therefore that the Finance Bill should specify the date of 6 April 1982.

3. Strikers

The Finance Bill will provide that with effect from 6 April 1982 -

- (i) supplementary benefit paid to strikers on account of their families will be taxed, tax being recovered after the end of the relevant tax year;
- (ii) tax refunds will be withheld from all strikers (whether or not they claim benefit) until after the end of the strike;
- (iii) benefits paid to the temporary stopped - workers on short-time or laid-off - will also be brought into tax.

You will recall that we discussed early last year some of the problems involved, in particular, the fact that deferring a tax refund can increase a striker's entitlement to supplementary benefit. But we have found no defensible method of taking account of this, and I have concluded that we should go ahead

/on the basis



on the basis which I have described. The colleagues to whom I am copying this minute agree.

4. Incapacity benefits

I also said in last year's Budget statement that we were considering how best to bring into tax at an early date the remaining short-term benefits (chiefly, sickness benefit and maternity benefit) and invalidity benefit. We find that the administrative difficulties and the manpower requirements are such that we must defer this for the time being. It was the intention, through the Employers' Statutory Sick Pay Scheme, to bring the bulk of payments to employees for sickness into tax in this way with effect from 1982; but, as you know, we have had to defer this for further examination of the arrangements.

5. Conclusion

We shall be introducing legislation in the Finance Bill to bring into tax from 1982 benefits paid to the unemployed and to strikers. This will be followed by consultation with employers over the administrative details which will then be incorporated in Regulations. Before the legislation is introduced I seek your agreement to -

(i) specifying the date of 6 April 1982 for the unemployed (as well as for strikers) for the reasons given in paragraph 2 above; and

(ii) dealing with strikers as at paragraph 3 above.

6. I am copying this to the Secretaries of State for Employment and the Social Services and the Lord President and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

27 February 1981

Bratton

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10 DOWNING STREET

From the Private Secretary

2 March 1981

Da Th.

Taxation of Social Security Benefits

The Prime Minister has considered the Chancellor's minute of 27 February on the above subject, and is content with his proposals.

I am sending copies of this letter to Richard Dykes (Department of Employment), Don Brereton (Department of Health and Social Security), Jim Buckley (Lord President's Office) and David Wright (Cabinet Office).

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Th.

John Wiggins, Esq.,
HM Treasury.

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