



Minister of State

Mr Scholar

I attach

- ① An additional note by officials on the Opposition amendment (probably the most useful)
  - ② The general note on Clause 29 with the background note on abatement flagged
  - ③ A copy of the Hansard pages, with Mr Hayhoe's comments sidelined.
- Res Dunn  
RPS / Mr Hayhoe 27/4

NOTE ON AMENDMENT RESTORING 5% ABATEMENT OF UNEMPLOYMENT BENEFIT  
(Clause 29 of Finance Bill 1982)

Mr Peter Shore  
Mr Robert Sheldon  
Mr Robin F Cook  
Mr Jack Straw

Clause 29, Page 19, Line 29, after '1982', insert 'provided that unemployment benefit is increased by 5 per cent'.

RESIST

The amendment would have the effect of precluding the commencement of taxation of unemployment benefit and supplementary benefit to the unemployed until the 5% abatement of unemployment benefit is restored.

2. The Government has decided it cannot make further resources available to restore the abatement at present, but an undertaking has been given to keep the abatement under review.

SPEAKING NOTE

1. The Government cannot accept this clause. The abatement of unemployment benefit has been extensively discussed in this House and this is not the time to go over the same ground yet again. I therefore propose to state as clearly and briefly as possible the Government's position on this issue.

2. From the outset it was made clear that the decision to abate unemployment benefit was not taken solely as a proxy for taxation, but was part of a public expenditure savings package, and likely to improve work incentives; the Chancellor's budget statement in March 1980 was the first of many statements along these lines. We did undertake to review the abatement when unemployment benefit was brought into tax. We have done this. We have decided that further resources cannot be made available to restore the abatement, which would cost £60 million in a full year, when we have already allocated an extra £700 million to the unemployed in 1982-83.

3. DHSS Ministers have made clear that the question of the abatement will be kept under review, and, when circumstances allow, the claim will be considered along with other priorities for the available money.

4. It is clear then that we are not able to restore the abatement before July, when unemployment benefit is due to come into tax, so the effect of this amendment would be to prevent the benefits coming into tax at that time. We have had considerable debate on the principle of taxing unemployment benefit and supplementary benefit to the unemployed, and this House has given its approval to that principle, we must not allow the proposers of this amendment to delay the taxation of benefits by this back door route.

[Mr. Derek Foster]

responsibility to provide proper income support for those unfortunates who find themselves unemployed as a result of the Government's policy, or for any reason.

My hon. Friend the Member for Workington was right when he said that whatever policies are pursued, by whichever Government, in the next five to seven years, they will result in a long period of high unemployment. Even if the Labour Party were returned to office tomorrow and implemented with great vigour its radical strategy for reducing unemployment, and even if we were successful in bringing unemployment down to below 1 million within the lifetime of a Parliament, we are still talking about excessively high unemployment until about 1989 or 1990.

7.15 pm

What can we do about the unemployed in the interim period? We cannot just leave them abandoned or impose this suffering on them without giving them any relief. Do not Ministers believe that there is a moral responsibility to be fair and just to the unemployed? We can look at the problem by saying that the unemployed are doing us a service. If they were not unemployed, others in our society would have to be. Those others may well be hon. Members here today.

There is a moral responsibility to do something about unemployment in this interim period. There are many measures that are necessary and the amendment is only one of them. It is puzzling why the Government are digging in their heels so firmly on this small matter. The cost of implementing it would be small in relation to the money that the Government will get in taxation. I hope that there will be a detailed explanation of why they cannot agree to the amendment.

The long-term unemployed suffer most as the result of unemployment. I wonder how many people in the Chamber have any concept of how worrying and distressing it is not to know how one can pay the gas or electricity bill or the rent., or how to send the children to school properly clothed and with a proper breakfast inside them. Those are problems that people in our society wrestle with day after day. Many mothers are being driven to distraction because of these problems.

We can discuss these matters in a sophisticated way and invent a whole range of complicated and convoluted arguments on sophisticated points, but when it comes down to it, there are people going through the most difficult period of suffering that they have ever experienced.

Here is an opportunity for the House to make life a little bit better for some of our people. I do not know why Conservative Members will not come into the Lobby to support the amendment and make life a little more tolerable for many of our people.

**Mr. Hayhoe:** The clause to which the amendment relates, is concerned with the postponement by three months of the taxation of unemployment benefit. That was a decision of the House some time ago. I congratulate the drafters of the amendment on their ingenuity in getting in order an amendment that would give an opportunity for a further debate about the 5 per cent. abatement of unemployment benefit, and a rerun of the debate of 18 March to which much reference has been made already.

A number of hon. Members on both sides of the House have referred to the timing of the debate. Some of my hon.

Friends have suggested that a bad time has been chosen by the Opposition, and that it would have been better to wait. On the other hand, the hon. Member for Stockport, North (Mr. Bennett) thought that it was right to seek to achieve the amendment today and, if not today, to try again. However, the timing of the debate is not a matter for me. We have had a repetition of what has been heard before.

The hon. Member for Edinburgh, Central (Mr. Cook) at least referred to the substance of the clause when he spoke about the postponement and asked whether there would be sufficient time to introduce the taxation of unemployment benefit by July on the sensible presumption that the amendment would be defeated. I am advised that the staff will be ready to operate these new provisions by July.

The hon. Gentleman asked whether a mistake in putting the taxation information onto the unemployment benefit office computer could lead to delay in the payment of benefit to an unemployed person. I can assure him that that sort of delay will not occur.

The hon. Gentleman referred to the yield estimates—the figures associated with both the amendment and with the taxation of unemployment benefit. I can confirm to him that the yield from the taxation of unemployment and supplementary benefit in a full year will be £650 million and that the cost of restoring the 5 per cent. abatement in a full year would be £60 million.

Reference was made by the hon. Member for Edinburgh, Central and by my right hon. Friend the Member for Chesham and Amersham (Sir I. Gilmour) to the public sector borrowing requirement and the recent welcome news that in 1981-82 the latest figures are showing that it is £2 billion less than was estimated only some weeks ago. Right hon. and hon. Members who understand these matters will know that when we talk about the PSBR we are talking of the difference between two very substantial sums of well over £100 billion. At this stage of the succeeding financial year it is not possible to determine the results exactly. That being so there is this difference between the two levels—there have been fewer payments out and more payments in than expected. The full explanation of the £2 billion has been given.

It is suggested that in some way this statistical exercise concerned with the figures for the past financial year could influence the decisions which are to be taken today about the taxation of unemployment benefit and the restoration of the abatement. However, they have no relation to the PSBR of last year. These decisions have been made in the context of public expenditure and revenue-raising this year.

I was asked by the hon. Member for Edinburgh, Central whether the Government were committed to making good the abatement of 5 per cent. when unemployment benefit came into taxation, and whether certain eventualities did not flow from it. He seemed to ignore whether the making of the commitment was central to the issue. I shall return to that, but first I want to deploy the argument as to whether the Government are committed to the proposal.

**Mr. Cook:** I felicitate the Minister on having accepted the argument about the unreliability of the PSBR which has been put forward by critics of the Government's strategy over the past three years. The statement that he has just made will be of great importance to us in future debates on economic strategy. But I return to one of the questions that I put to him earlier. The Minister has just

confirmed that the expected yield from the taxation of unemployment benefit is £650 million. Will he explain how the expected yield this year is £650 million when last year the Committee on the 1981 Finance Bill was told that the expected yield was only £240 million?

**Mr. Hayhoe:** I am unable to give the hon. Gentleman that information immediately, but my understanding is that to the extent that the margins of error affect the PSBR, they are published in available texts and that anyone who follows these matters closely appreciates that these margins exist. If the hon. Gentleman thinks that I have said something new, he is singularly ill-informed about the normal basis of the financial statistics provided by successive Governments.

The hon. Member for Stockport, North raised a number of matters about the effect on supplementary benefit levels. He suggested that taxing benefit might push a claimant below the supplementary benefit level and make him entitled to it. That is not so, because the method of taxing benefit is such that tax will not be deducted from the benefit as it is being paid. The benefit will continue to be paid gross. Taxation will not in any case take a person below the needs level of supplementary benefit.

**Mr. Andrew F. Bennett:** At present, if someone gets a tax refund, that is taken into account in calculating supplementary benefit. Since no tax refunds will be paid until the end of the year, those amounts will not be taken into account, which should mean that more people will be entitled to supplementary benefit. Will the hon. Gentleman confirm that that is the position?

**Mr. Hayhoe:** A comparison between refunds which might be made at present and those which might be made in future could have some influence. Perhaps I may be allowed to look into that aspect of the matter.

The hon. Member for Stockport, North also wanted to know whether a delay in producing a P45 form would cause any hold-up in the payment of benefit. I am advised that it will not.

My hon. Friend the Member for Chippenham (Mr. Needham) spoke of the 5 per cent. abatement applying to unemployment and supplementary benefit for the unemployed. I can assure him that the abatement does not apply to supplementary benefit. That remains available as a safety net in cases where hardship may otherwise be involved.

I was grateful to my hon. Friend the Member for Bath (Mr. Patten) for his gracious comments. I am sure that he was, as always, trying to be helpful. He referred, as did other hon. Members, to statements made by my right hon. Friend who is now the Secretary of State for Industry during the debates on the Social Security (No. 2) Bill. We heard many quotations from what was said in a very long debate, though most attention was concentrated on the remarks made by my right hon. Friend at about 1.25 in the morning of 30 April-1 May.

It distorts the sense of that debate to suggest that the words used by my right hon. Friend at that early hour of the morning changed what he had been saying throughout the rest of the debate. If my right hon. Friend had made a new and highly important statement, it is remarkable that members of the Committee, who voted only a few minutes later, did not realise that it had happened. The hon. Member for Stockport, North was present. He did not refer to it. The hon. Member for Birmingham, Perry Barr (Mr.

Rooker) is very lyrical about these matters. Why did not he refer to it? He is not the sort of hon. Member who is slow in coming forward if he thinks that he has won a victory.

**Mr. Rooker:** I did not refer to it at the time for the very same reason that I did not refer to the unqualified commitment to restore the 5 per cent. on injury benefit given by the Minister for Social Security in Committee a few weeks ago on the Social Security and Housing Benefits Bill. I accepted it at face value, as other hon. Members did.

7.30 pm

**Mr. Hayhoe:** "At face value" was in the context of all the other Minister's statements during the course of a long debate which made it perfectly clear that he was not entering into a specific commitment linking the ending of that rebate with the bringing in of the taxation of unemployment benefit. Those people who argue that case should look back over the long series of comments made by my right hon. Friend in that debate. The point was raised during the debate on the Social Security and Housing Benefits Report stage. None of my hon. Friends—whose strong feelings on these matters I appreciate—suggested that my right hon. Friend had sought to deceive the Committee. Nobody questioned his integrity. I hope that his integrity will not be questioned now. He has made it clear that he was not changing ground in the early hours of the morning. Therefore, the words that he had used consistently earlier in the day do not have the meaning which has been linked with them. Those are the words which stand.

**Mr. Chris Patten:** May I try once again this evening to be helpful to my hon. Friend? For the time being, I am prepared to concede that "temporary" and "interim" mean "permanent". Will my hon. Friend turn to the nub of the question, which is whether it is right to double tax the severely disadvantaged group. That is the point mentioned by the Social Security Advisory Committee. That is the real point at issue.

**Mr. Hayhoe:** There are many points at issue in the debate. Like my hon. Friend the Member for Bath (Mr. Patten) I have sat through the whole debate and listened to the many arguments that have been produced, as my hon. Friend acknowledged. He claimed that he and his colleagues had won the arguments on 18 March, but he went on to say that the arguments being made today were identical. I agree. However, on abatement, all I can do at this hour, with people looking at the clock, without repeating what was said last time, is to reiterate the point made by my hon. Friend the Minister for Social Security in winding up that debate. He said:

"My right hon. Friends on the Front Bench have promised to keep this matter under review. We have said that the abatement will not be a permanent reduction"

—that answers one of my hon. Friend's points—

"It is equally clear that the abatement cannot be made good now, but it will be made good. My right hon. Friends have the matter under review. At the right time it will be made good."—[*Official Report*, 18 March 1982; Vol. 20, c. 536.]

**Mr. Needham rose—**

**Mr. Hayhoe:** On abatement, I can only be expected—by those who understand the way in which Government works—to reiterate the view of the Minister for Social Security at the Dispatch Box about a month ago.

[Mr. Hayhoe]

My hon. Friend the Member for Woolwich, West asked what would happen if the amendment were passed. He got it right. He said that if the amendment were passed it would mean that unemployment benefit could not be subject to taxation as from July this year. The principle of making unemployment benefit taxable has been debated and approved by the Committee. The amendment would delay that agreed taxation of unemployment benefit. If the amendment were passed it could cost £650 million in the context of a full year. We should not seek to do that by a back door route. I hope that the Committee will reject the amendment.

**Mr. Rooker:** We are in Committee. We are under no time constraints. The Minister has twisted the words of the amendment. If the amendment were carried unemployment benefit could be taxed from 5 July, provided that the 5 per cent. was put on from November. It is as simple as that.

**Mr. Hayhoe:** It is perfectly clear, and it was made clear in the debate, that the effect of the amendment, since one would not be able to do that would be that the taxation of unemployment benefit, which the Committee has approved of in the past, could not be achieved by the July date.

**Mr. Peter Bottomley:** The point that I was making, as my hon. Friend appreciates, is that if we pass the amendment either now—which I doubt, because there were not enough listening to the debate—or on Report, the Government will be faced with losing £650 million in taxation or giving back the £60 million which the Committee understands should be put back on unemployment benefit.

**Mr. Cook:** It would be a great pity if what has been a constructive and positive debate over the last four hours were to end in a procedural wrangle on a technicality. If there is anything in the amendment that will create technical problems for Treasury Bench Members, we offer them the honourable deal that they should accept in principle what we are trying to establish and we will happily not press our amendment to a Division. They can then bring back on Report whatever amendment is appropriate to secure the principle underlying the amendment. There is no adequate technical difficulty here to explain why the Treasury Bench is resisting the principle that is clearly supported by all hon. Members.

**Mr. Hayhoe:** I was not suggesting that there was a technical difficulty. I made it clear that on the question of abatement I stood by the position that was enunciated from the Dispatch Box on 18 March by my hon. Friend the Minister for Social Security. I did not seek in any way to resile from that position. However, I also said what would be the immediate effect of the issue raised by my hon. Friend—no more than that.

**Mr. Cook:** That intervention was at least useful in establishing that there is not a technical difficulty to the amendment being accepted. It is a question of principle. It is not sufficient for the hon. Gentleman to say to the Committee that he rests on the reply given by the Minister for Social Security on 18 March. The Minister for Social

Security did not explain why the Government are refusing to restore the 5 per cent. abatement. No explanation was provided by the Minister in that debate.

The Minister's reply was useful in one respect, in that he confirmed the figures. We now have it on record that last year the Treasury expected £240 million from the taxation of unemployment benefit. This year it expects to get £650 million from taxation. By any standard, those are generous margins of error. If the Treasury is so uncertain about the impact on its tax revenue of this measure, how can it be sure what the impact will be on the many poor households that will be called upon to pay the tax to provide that revenue? Many of them will be subject to a liability which appears to be very uncertain.

The essential point remains that the Government will receive £410 million more in tax than they expected last year. If they receive a bonus of £410 million above what they thought they would get when they brought the clause forward last year, the case for resisting giving only £60 million of that to the unemployed by the 5 per cent. is overwhelming. There are no possible grounds on which the Government can argue that they do not have the money. They will be left with £350 million more than they thought they would get in the first place.

The Minister suggested that we should not rely on any one quotation but should look at the whole, that we should add up all the quotations and find the average. If that is so, let me throw in another quotation. It is a quotation from a speech made, not late at night, but at a reasonable hour, within the Chamber. The right hon. Member for Daventry (Mr. Prentice) said

"we have a rough and ready substitute to last until 1982 when we hope to bring in proper taxation".

There is no room for equivocation. It is perfectly clear that in that right hon. Gentleman's mind—if not in the minds of his colleagues—the 5 per cent. abatement would be restored when tax was brought in in 1982.

**Mr. Reg Prentice (Daventry):** Will the hon. Gentleman take it from me that I was in no sense saying that the 5 per cent., would be restored. That was not in my mind. Nor is it explicitly or implicitly contained in anything that has been quoted.

**Mr. Cook:** I shall repeat those words:

"we have a rough and ready substitute to last until 1982, when we hope to bring in proper taxation."—[*Official Report*, 15 April 1980; Vol. 982, c. 1142.]

If that was not an indication that the right hon. Member for Daventry (Mr. Prentice) thought that the Government would restore the 5 per cent. abatement when taxation was introduced in 1982, he did not choose his words carefully enough to convey a lucid impression. Any objective and impartial audience would have assumed that he said that the 5 per cent. abatement would not last beyond 1982, when taxation would be introduced.

**Mr. Prentice:** I accept criticism of my syntax, but I had no right at that time, and did not claim the right, to say what financial priorities would be announced by the Chancellor of the Exchequer two years later. The hon. Gentleman has no right to assume that I meant anything of the sort.

**Mr. Cook:** I entirely accept that the right hon. Gentleman could not commit a future Government, even if the Government in question are of the same colour and party as the right hon. Gentleman, and even if he is no

## CLAUSE 29: SOCIAL SECURITY BENEFITS

## SUMMARY

1. This clause amends in three respects the legislation in the Finance Act 1981 bringing into tax unemployment benefit and supplementary benefit paid to the unemployed and to strikers. First, it brings into tax certain additional payments of supplementary benefit to the unemployed. Second, it changes the start-date for bringing these benefits into tax. Third, it makes some drafting changes to the 1981 provisions, to take account of a proposed change to Section 5 of the Supplementary Benefits Act 1976.

## DETAILS OF THE CLAUSE

2. Paragraphs (a) (b) and (c) of subsection (1) amend Section 27 of the Finance Act 1981, to bring into tax payments of supplementary benefit to the unemployed made under Regulations 12, 16 or 19 of the Supplementary Benefit (Urgent Cases) Regulations 1981 and under the equivalent provisions in Northern Ireland.

3. Paragraph (d) of subsection (1) changes from 6 April 1982 to 5 July 1982 the starting date for bringing into tax benefits paid to the unemployed and to strikers.

4. Subsections (2) and (3), with a revised form of wording introduced in subsection (1)(a)(ii), adapt the references in the Finance Act 1981 provisions to Section 5 of the Supplementary Benefits Act 1976; this adaptation is made so that the references take account of a proposed change to Section 5 introduced in the Social Security and Housing Benefits Bill 1981.

5. Subsection (4) provides for the amendments in the clause to take effect at the appropriate dates.

## BOARD OF INLAND REVENUE

### PART II For Ministers' Personal Use Only

#### GENERAL NOTE

6. Payments under the Supplementary Benefit (Urgent Cases) Regulations. The general effect of the amendments in this part of the clause is to ensure consistency of treatment by bringing into tax certain additional payments of supplementary allowance. These are payments made in the period before a claimant has established entitlement to normal benefit; in the period after a claim has been made but before the first payment of normal benefit is actually due; or in a period where a claimant is disqualified from entitlement to normal benefit (for example, because he has unreasonably restricted the type of work he will undertake). The reason for taxing these payments is partly equity, partly operational simplicity. As regards equity, there is no reason why stop-gap payments to (say) someone who has failed to produce the necessary evidence of his needs or resources should remain untaxed, while regular payments made to someone who establishes the details of his claim straightaway should be taxed. As regards operational simplicity, it would not be particularly easy to separate out for taxation purposes these additional payments of benefit from normal payments.

7. Change of date from 6 April to 5 July. This change was announced on 17 September 1981. It followed a ten-week strike of DHSS computer programmers at the benefit service computers at Reading. Ministers may be pressed on the reason for the postponement, which was not at the time attributed by the Government directly to civil service industrial action. The answer to questions on this point is that industrial action was clearly one factor in the postponement, but obviously the timetable for a detailed and complex operation of this nature is subject to a number of different constraints and pressures. The revenue loss from the three-month postponement is £m200 (£m175 in 1982-83 and a further £m25 in 1983-84), though this has not so far been made public.



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8. Drafting changes to reflect alteration to Section 5 of the Supplementary Benefits Act 1976. The current Social Security and Housing Benefits Bill introduces an amendment to this section (which contains the condition to which a person's right to supplementary allowance is normally subject). At present, the right is normally subject to registration and availability for employment. When the new provision takes effect, it will in most cases be subject only to availability for employment. The consequential changes to the Finance Act provisions are drafting changes only, and have no substantive effect.

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/BACKGROUND NOTE

*5% abatement  
of unemployment*

BACKGROUND NOTE

Abatement

9. The main issue which is expected to be raised on Clause 29 - and no doubt the main reason why the Opposition have chosen to have it debated on the Floor of the House - is the 5 per cent abatement of unemployment benefit.

10. Unemployment benefit (together with invalidity, sickness and injury benefit, and maternity allowance) was abated by 5 per cent in November 1980.

11. The Chancellor's Budget Statement in March 1980 made it clear that the decision to abate unemployment benefit was not taken solely as a proxy for taxation, but was part of a public expenditure savings package, and likely to improve work incentives.

12. Ministers undertook to review the abatement when unemployment benefit came into tax in the light of economic circumstances. Restoring the abatement would have a public expenditure cost of £m20 in 1982-83 and £m60 in a full year. The PSBR cost, net of tax, would be £m40 in a full year. The Government has decided that it cannot make further resources available to restore the abatement, particularly when an additional £m700 is being spent on benefits paid to the unemployed in 1982-83, including restoration of the 2 per cent shortfall (experienced at the November 1981 uprating).

13. MPs on both sides of the House have suggested that Ministers have made misleading statements which created a clear impression that the abatement would be restored when unemployment benefit came into tax. These statements have been taken out of context. Ministers have undertaken to keep the abatement under review, and, when circumstances allow, the claim will be considered along with other priorities for the available money.

Mechanics

14. The annex to this note contains a general brief on the mechanics of bringing into tax benefits paid to the unemployed, and the reason for withholding tax refunds from benefit claimants with effect from 6 April 1982.

## BOARD OF INLAND REVENUE

Mechanics of taxing benefits paid to the unemployed

1. Unemployment benefit and supplementary benefit paid to the unemployed will be brought into tax this year under a modified form of PAYE. The mechanics of this, in brief, are as follows.
2. When a person becomes unemployed he will hand over to the benefit office his P45. This is the "leaving certificate" from his last employer which shows his levels of pay and tax at the point he became unemployed. The benefit office will then act for tax purposes as his new employer, but his tax position will be "frozen" - that is to say, he will not receive any refunds of tax nor will tax actually be deducted from his benefit as it is paid to him. His position will be reviewed by the benefit office, and a tax calculation made, either when he terminates his benefit claim (normally because he is going back to work) or when the tax year ends, whichever is the sooner.
3. At that point most unemployed people will receive from the benefit office a small net refund of tax. This is because their personal tax allowances have been accruing to them during unemployment, with the benefit being set against their allowances. The latter will normally be smaller than the former, giving rise to a small refund of tax when the position is reviewed. In the exceptional case, there may be some net liability to tax. In these cases, it will be collected over a period of time by a subsequent adjustment to the person's PAYE code. When the person returns to employment, his P45 will be passed on to his new employer.
4. Benefits will therefore be taxed under a "subsequent" rather than "current" system, but the cumulative PAYE principle will be maintained because any earnings or other income during the tax year will be taken into account in determining tax liability. Tax will not be deducted from benefit currently, which means that nobody will be taken below his supplementary benefit "minimum needs" level. This is the essential reason for the "subsequent" system.

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5. Why hold back tax refunds from 6 April 1982 while not bringing benefit into tax until 5 July 1982? The reason for this is a mechanical one. Withholding the refunds from 6 April, rather than from 5 July, will affect only a limited group of people - those who become unemployed after the beginning of the tax year, and have some pay and tax from their employment in the year (from the month of April, for example). Details of this pay and tax have to be recorded and taken into account when a person's tax position is calculated on his return to employment, assuming that this is after benefit starts to be taxed in July - say, for example, in September 1982. If he was paid refunds in the meantime, the details of his tax which had been recorded would be out of date and incorrect - and the tax calculation made on his return to work would be wrong. For this reason, tax refunds have to be withheld from unemployment benefit claimants from the start of the 1982 tax year.

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