



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

12 July 1982

Michael Scholar Esq
No.10 Downing Street

Dear Michael,

BRIEFING FOR GOVERNMENT WHIP ON THE 5 PER CENT ABATEMENT

I attach briefing on the reasons for resisting the 5% abatement of unemployment benefit which has been made available to the Government Whips for drawing on as needed.

I am copying this to David Clark and Tim Elms in DHSS.

*Yours ever,
Peter*

P S JENKINS

5% ABATEMENT OF UNEMPLOYMENT BENEFIT

Background

November 1980 proposal of 5% abatement was not only

- for (rough) justice between those in and out of work before benefits could be taxed; but also
- to help the why work/unemployment trap; and
- to save money. Restoration now would cost £20m in '82/3, £60m (full year) gross of tax which, when levied, would reduce figures by 1/3rd.

Though benefits for the unemployed came into tax this month, the other two objectives remain valid.

Restoring the 5% would provoke pressure to restore abatement of incapacity benefits (invalidity, sickness and injury benefits, maternity allowance) which cannot be taxed for the foreseeable future: cost £24m this year, £70m in a full year.

2. A fair deal, given resources available

- Compared with April '79, and taking Budget red book GDP and price forecasts, UB in November '82 with abatement will be 2% lower in real terms - but so will real GDP. More important perhaps, money UB has risen as fast as money GDP since the Government came to power. [N.B. Beware undue precision - different versions of this comparison give slightly different answers.]
- One must also look at relation between earnings of those in and out of work this year. Underlying earnings increase this wage round should be some 9%. When next round begins this autumn it should be substantially lower. But even with abatement, money UB will increase by 11% in November 1982. Both on grounds of equity and incentives this makes it inappropriate to restore abatement now.
- There have been and remain many other claims on Government revenue and Social Security funds in particular, which demonstrate danger of looking to the seemingly large (£650m) revenue from move to taxing benefits as a way of funding removal of abatement. In particular:

- (1) Restoring the 2% shortfall in November '81 uprating - £515m.
- (2) Higher-than-forecast spending (very largely statutorily and demand determined) on Social Security this year - over £300m. This has become apparent since March 1982.

[N.B. Figures not yet announced and to be used judiciously.]

Wrong to hypothecate money from taxing benefits in principle

- but this shows that even if one did, that extra revenue is already more than accounted for.

3. Who are affected?

- Three quarters or so of unemployed not affected at all by abatement. Typically they will get SB on top of UB and their total receipts will not change.
- The majority of the remaining quarter will be single and married men without children, dependent on UB alone. Rest, mainly married women, likely to have other family income.
- Such people if dependent on UB through a year will not be taxed, as its level is below income tax threshold.

4. Labour market effects important

- Many of those affected by proposal are unskilled and likely to have low earnings, not greatly different from UB level for a married couple of £57.80 from November '82.
- Impact of UB on those at low end of labour market significant both for individuals and general atmosphere. Benefit levels and minimum pay (e.g. Wage Councils) between them help create a floor which tends to sustain excessive levels of real wages and thereby increase unemployment.

Unemployment benefit compared to GDP over time - at current pricesComparisons from April 1979

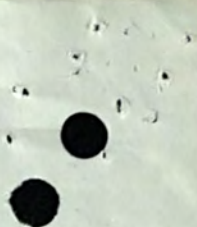
	<u>April 1979</u>	<u>November 1981</u>	<u>November 1982</u>
A Unemployment Benefit	100	143	159
GDP at factor Cost	100	137	151

Comparisons from November 1979

	<u>November 1979</u>	<u>November 1981</u>	<u>November 1982</u>
B Unemployment Benefit	100	122	135
GDP at factor Cost	100	122	135

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Clause 30

Amendment	Page	Line
57	26	43

Mr Jim Lester	(Beeston - Con)
Mr Richard Needham	(Chippenham - Con)
Mr David Crouch	(Canterbury - Con)
Mr Robert Hicks	(Bodmin - Con)
Mr Patrick Cormack	(Staffordshire SW - Con)
Mr Charles Morrison	(Devizes - Con)
Mr Tom Benyon	(Abingdon - Con)
Mr Julian Critchley	(Aldershot - Con)
Mr David Madel	(S Bedford - Con)
Sir Ian Gilmour	(Chesham and Amersham - Con)
Mr Robin Squire	(Hornchurch - Con)
Mr David Knox	(Leek - Con)
Mr Cyril D Townsend	(Bexleyheath - Con)
Mr Alan Haselhurst	(Saffron Walden - Con)
Mr Stephen Dorrell	(Loughborough - Con)
Mr Hugh Dykes	(Harrow E - Con)
Mr John Hunt	(Bromley Ravensbourne - Con)
Mr Dennis Walters	(Westbury - Con)
Sir Anthony Meyer	(Flint, W - Con)
Sir William van Straubenzee	(Wokingham - Con)
Sir Brandon Rhys Williams	(Kensington - Con)
Mr Kenneth Lewis	(Rutland and Stamford - Con)

Clause 30, page 26, line 43 at end insert 'but this section shall cease to have effect as from 22nd November 1982 unless or before that date the five per cent. abatement of the adult rates of unemployment benefit, made under section 1 of the Social Security (No. 2) Act 1980, is made good.'

 PURPOSE OF THE AMENDMENT

Resist

Cost: see Paragraph 9 below

1. The effect of the amendment is to provide that the taxation of benefits paid to the unemployed and to strikers will lapse at the date of the social security uprating next November, unless the five per cent abatement of unemployment benefit is then restored.

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2. The Government's stated position is that it cannot make further resources available to restore the abatement at present, but an undertaking has been given to keep the abatement under review, and to restore it at the right time.

NOTES FOR USE IN DEBATE

3. The Government cannot accept this amendment. 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.

4. 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 as being 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; this Government and Party is committed to reducing public expenditure, and restoring the abatement would cost £60 million in a full year. We are making good the 2 per cent shortfall in the last uprating. This applies to all benefits whether or not we are pledged to preserve their value, including unemployment benefit which we are not pledged to protect. The total cost will be £515 million in a full year.

5. Department of Health and Social Security and Treasury 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.

6. The effect of this abatement would be either to restore the abatement or to prevent the taxation of benefits paid to the unemployed from next November. For the reasons I have given, we do not intend to restore the abatement at this point. So far as taxation is concerned, we have had considerable debate on the principle of taxing unemployment benefit

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and supplementary benefit paid to the unemployed, and this House has given its approval to that principle. I do not think it would be right now to stand in the way of that.

/BACKGROUND NOTE

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BACKGROUND NOTE

7. This note is based on the Committee Stage note on a similar amendment, drafted by SS Division and agreed with the Department of Health and Social Security.
8. Attached* as background is the briefing prepared for a recent Parliamentary Question on this topic. Also attached* is a copy of the winding up speech by the Minister of State (Civil Service) in the Finance Bill Committee Stage debate [Hansard, 26 April 1982, Cols 657-661].
9. Cost. The amendment would imply either restoring the 5 per cent abatement of unemployment benefit (public expenditure cost of £m20 in 1982/83 and £m60 in a full year); or halting the taxation of benefits paid to the unemployed from November 1982 (revenue cost of some £m180 in 1982/83 and £m650 in a full year - but see paragraph 16 below).
10. Staff costs: the staff costs of restoring the abatement of unemployment benefit are not easy to calculate precisely, but would be likely to fall in the range 50-100 units.
11. Taxable amount of supplementary benefit. If abatement were restored, this would have an implication (of which Ministers need to be aware) for the taxable amount of supplementary benefit. As the legislation stands, supplementary benefit is taxable up to the standard rate of unemployment benefit. At present, the unemployment benefit rate (£22.50 for a single person) is below the personal rate of supplementary benefit (£23.25).
12. If the abatement of unemployment benefit is restored, the position will be reversed, and unemployment benefit will go above the supplementary benefit level. If supplementary benefit continues to be taxed up to the unemployment benefit rate, this will mean that in some cases additions to supplementary benefit (eg child additions) will to a small extent be brought into tax. Ministers originally said that these additions to benefit would not be taxed.

*Ministers' copies only.

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13. If abatement were restored in November 1982, this effect could not be prevented, because the Department of Health and Social Security would be unable in the time available to make the necessary alterations to the computer programs for taxing the benefits; and in any event to obviate it would require Finance Bill legislation. We do not see any real need for Ministers to draw attention to this point now. We suggest that, if the point is raised, (though we think it unlikely that it will be) Ministers should say that they are aware of it and are giving it consideration.

14. Variations in estimates of yield.
Mr Cook in the debate on Clause 29 on 26 April compared a yield figure of £m240 last year with a figure of £m650 this year. The figure of £m240 (quoted on 11 May 1981 by the then Financial Secretary) was for the yield from taxing unemployment benefit alone; not both unemployment benefit and supplementary benefit paid to the unemployed. The estimate for the latter figure stood at the time at £m370. It was subsequently increased (by March 1982) to £m550. The increase from £m550 to £m650 is explained simply by the difference between 1981/82 and 1982/83 levels of unemployment, income, benefit and tax thresholds.

15. The increase which needs explaining is that from £m370 in May 1981 to £m550 in March 1982. It is attributable to a refinement in the estimate of unemployed people's earnings in previous employment; an increase in the estimate of the proportion of unemployed people entitled to unemployment benefit; and changes in the estimates of the distribution of lengths of spell of unemployment.

16. However, Ministers will want to know that we are currently reviewing our estimates of the yield of taxing benefits paid to the unemployed, and it is likely that the yield figures will be reduced (perhaps fairly substantially). The changes stem mainly from revised estimates from the Government Actuary's Department and the Department of Health and Social Security of the amounts of unemployment benefit and taxable supplementary benefit paid to the unemployed. The review is not yet complete. Until it is, we suggest that the current estimates of the various yields should stand.

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17. Drafting. We have consulted Parliamentary Counsel about the technical merits of this amendment. Their view is that it is inexpertly drafted, but that in all probability it would actually achieve its purpose, if carried. (However, the version of the amendment printed on the 7 July marshalled list contained a printing confusion.)

ORAL

THURSDAY 17 JUNE 1982

La - Walsall North

MR DAVID WINNICK: To ask Mr Chancellor of the Exchequer, what proportion of the 1½ million unemployed who are not likely to be liable to incur tax because of low income are: (a) men and (b) women.

DRAFT REPLY

About 80% and 20% respectively.

/NOTES FOR SUPPLEMENTARIES

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R A BLYTHE
POLICY DIVISION 1
9 June 1982

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NOTES FOR SUPPLEMENTARIES

PEOPLE NOT LIKELY TO PAY TAX ARE BEING CHEATED BY 5 PER CENT ABATEMENT OF UNEMPLOYMENT BENEFIT?

No, sir. The hon Gentleman makes the assumption that the abatement of unemployment benefit was made solely as a proxy for taxation. This is not so. It was done also to reduce public expenditure and to improve work incentives. The Chancellor's Budget Statement in March 1980 made that clear.

WHY NOT RESTORE ABATEMENT OF UNEMPLOYMENT BENEFIT WHEN IT IS TAXED IN JULY?

[Answer on lines of reply to previous supplementary.]

MINISTERS HAVE PROMISED ABATEMENT OF UNEMPLOYMENT BENEFIT WOULD END WHEN IT IS TAXED?

This is not so. We have given a firm commitment to restore the abatement of Invalidity Pension when it is brought into tax, and, as a token of our commitment to this, the abatement of Invalidity Allowance was restored at the last benefit uprating. But we have given no similar commitment to restore the abatement of unemployment benefit, which was abated at the same time. We undertook only to consider the position when it was brought into tax. For unemployment benefit we have now done this. The position is the same for the other short term benefits - maternity allowance, and sickness and injury benefit.

BUT MINISTER OF STATE FOR SOCIAL SECURITY HAS SAID ABATEMENT WILL BE MADE GOOD?

(Mr Rossi said - during the Report Stage of the Social Security and Housing Benefits Bill on 18 March - "We have said the abatement will not be a permanent reduction. It is equally clear that the

abatement cannot be made good now, but it will be made good. My rt hon Friends have the matter under review. At the right time it will be made good.".)

We have given an undertaking to keep the matter under review. Having already decided to restore the 2 per cent shortfall on benefits, including unemployment benefit, we cannot afford to do more in the current economic circumstances. When circumstances allow we will consider this claim along with other priorities for the available money.

COST OF RESTORING ABATEMENT OF UNEMPLOYMENT BENEFIT?

£m20 in 1982-83 and £m60 in full year.

TAX YIELD FROM BENEFITS PAID TO THE UNEMPLOYED?

<u>For 1982-83:</u>	unemployment benefit	£m265
	supplementary benefit paid to the unemployed	£m110
		<hr/>
	total	£m375
		<hr/>
<u>Full year:</u>	unemployment benefit	£m460
	supplementary benefit paid to the unemployed	£m190
		<hr/>
	total	£m650
		<hr/>

WHY HAVE TAX YIELD FIGURES GONE UP SO SUBSTANTIALLY FROM LAST YEAR'S ESTIMATES?

The figure of £m240 quoted last year was for unemployment benefit only, and was based on 1981-82 assumptions. The most recent figure of £m650 is for unemployment benefit and supplementary benefit paid to the unemployed; and is based on 1982-83 assumptions. The figures have also increased because of improved statistical methods and revisions to the data on which they are based.

COST OF RESTORING ABATEMENT COULD BE MET FROM REVENUE FROM TAXING BENEFIT?

Making such a comparison does not alter the public expenditure cost of restoring abatement. We are, in any case, spending an additional £700 million on benefits to the unemployed in 1982-83. Bringing benefit into account for tax purposes has enabled us to contain the tax burden on the rest of the working population.

GOVERNMENT CAN AFFORD TO RESTORE THE ABATEMENT OUT OF THE £2 BILLION WINDFALL ON LAST YEAR'S PSBR?

This sort of suggestion does not alter the public expenditure cost of restoring abatement. In any case, the very welcome PSBR outturn for 1981-82 of £2 billion below forecast was within the margin of error for such forecasts; clearly there can be no presumption that the same will happen in 1982-83 and later years. When circumstances allow we will (as I have already said) consider the claim, on its merits, along with other priorities for any available money.

WHEN WILL OTHER ABATED BENEFITS (INVALIDITY, SICKNESS AND INJURY BENEFIT AND MATERNITY ALLOWANCE) BE TAXED?

We regard these income replacement benefits, such as invalidity benefit, as taxable in principle. But no date for bringing them into tax has yet been fixed.

COST OF RESTORING ABATEMENT OF THESE OTHER ABATED BENEFITS?

We are committed to restoring the abatement of Invalidity Benefit when it is brought into tax. To restore the abatement of this benefit this November would result in a net cost, after allowing for savings in payment of supplementary benefit, of around £m18 in 1982-83, £m50 in a full year. To restore the abatement of the remaining benefits (sickness benefit, maternity allowance and injury benefit) would add around £m40 in a full year to that cost - £m20 once the Statutory Sick Pay Scheme is implemented.

UNFAIR TO REDUCE STANDARD OF LIVING OF UNEMPLOYED BY TAXING BENEFIT?

Taxing benefits paid to the unemployed is a matter of fairness. It is only right that a person with an income of £4,000 wholly from earnings should pay the same amount of tax as a person with an income of £4,000 partly from earnings and partly from benefit. The principle is supported by hon Members on both sides of the House. The rt hon Member for Ashton-under-Lyne has said (of taxing unemployment benefit): "I think that everyone who has ever been concerned with these problems has agreed with it.". (Standing Committee D, 23 June 1977, c.1182)

WILL PROCEDURES FOR TAXATION MEAN ANY DELAY IN PAYMENT OF BENEFIT TO CLAIMANTS?

No sir, The procedures for bringing these benefits into tax relate closely to the procedures for payment of benefit, but payment will not be in any way delayed by them.

WILL TAXING BENEFITS PUSH MORE UNEMPLOYED PEOPLE ONTO SUPPLEMENTARY BENEFIT?

No, sir. Benefits to unemployed people will continue to be paid gross. Tax refunds are being withheld from the unemployed, but they are not taken into account in calculating an unemployed person's entitlement to benefit. Taxation will therefore not lead to extra supplementary benefit payments to the unemployed. [NOTE: the same cannot be said of strikers, and comment on their position is best avoided.]

WHY WITHHOLD TAX REFUNDS FROM THE UNEMPLOYED?

It would not make sense to pay refunds to a person during unemployment while at the same time a tax liability was accruing because he was receiving benefit. He would only have to settle that liability when he returned to work. A person's whole tax

position will therefore be "frozen" while he is out of work, his taxable benefit being set against the tax allowances accruing to him during unemployment.

REAL VALUE OF UNEMPLOYMENT BENEFIT HAS FALLEN?

Abolition of earnings related supplement, the 5 per cent abatement and the decision to phase out child dependency additions to unemployed benefit (in which we are following the practice adopted by the last Labour Government) has reduced the value of unemployment benefit. For those in genuine need, however, Supplementary Benefit provides a safety net.

/BACKGROUND NOTE

BACKGROUND NOTE

Purpose of Question

1. The point of Mr Winnick's Question probably relates to the 5 per cent abatement of unemployment benefit. In the debate on Clause 29 of the Finance Bill on 26 April 1982 he said: "Many unemployed people will not pay income tax because, despite what the Government are doing, their incomes will remain insufficient. Yet they will remain penalised as a result of the 5 per cent reduction.". Mr Winnick's point is based on the premise that abatement was introduced wholly as a proxy for taxation. The answer is that it was not.
2. Copies of the reply to a previous Question on this topic by Mr Winnick, and of the exchange on a related Oral Question on 13 May, are attached.

The figures

3. As the level of taxable benefit is below the tax threshold, a person who is unemployed for the whole tax year will not normally incur liability to tax. However - in a full year - earnings from relatively few weeks of work, in combination with taxable benefits during a period of unemployment, would render and individual liable to tax.
4. DHSS estimate that, in a full year at 1982/83 levels of unemployment, about 5.75 million people would receive unemployment benefit and/or supplementary benefit while unemployed. This figure of 5.75 million is uncertain because DHSS have had to translate information on individual spells of unemployment into numbers of people.
5. Of these 5¾ million beneficiaries it is estimated from data supplied by the Manpower Services Commission (MSC) that

1½ million would be unemployed for all, or nearly all, the tax year and as a result their total taxable income (including benefits) would be below the level of their tax allowances.

6. MSC also estimate that 20 per cent of these 1½ million long term cases are women.

Unemployment Benefit

11. **Mr. Campbell-Savours** asked the Chancellor of the Exchequer what further representations he has received on the taxation of unemployment benefit.

Mr. Hayhoe: We continue to receive a number of letters on this topic, expressing a variety of different views.

Mr. Campbell-Savours: Is it not a disgrace that the Government intend to press on with the taxation of unemployment benefit when in the previous Budget they gave £260 million back to the better-off and privileged in society in the form of capital gains tax and capital transfer tax concessions? Does not that reinforce the view of many people that the Government wish to promote a divided nation—a two nation society?

Mr. Hayhoe: It is right that we should press ahead with the proposals to tax unemployment benefit.

"But I think that everyone who has ever been concerned with these problems has agreed with it."—[*Official Report, Standing Committee D*; 23 June 1977, c. 1182.]

I am quoting the right hon. Member for Ashton-under-Lyne (Mr. Sheldon).

Mr. Peter Bottomley: Does my hon. Friend accept that the major issue is whether £650 million coming into the Exchequer in taxation should be balanced by returning the £60 million that has been taken in the abatement? Can he tell us whether the Government would prefer the House to drop the taxation proposals at a cost of £650 million or whether the Government will restore the £60 million, which is obviously of more benefit to the national exchequer?

Mr. Hayhoe: As my hon. Friend knows, we debated the matter at some length on 26 April. I have nothing to add to what I said then, which made it clear that the abatement will not be a permanent reduction. It will be made good at the right time.

Mr. Robert Sheldon: Is not the main point that the Government introduced an abatement on the promise that it would be restored when the taxation of unemployment benefit was introduced? They have ratted on that promise. It is all very well postponing the matter to some future date, but the time to have restored the abatement was when taxation of unemployment benefit was introduced.

Mr. Hayhoe: I repudiate the suggestion that a promise has been ratted upon. Anyone who examines the record will know that that is not true.

Unemployed Persons (Income Tax)

29. **Mr. Winnick** asked the Chancellor of the Exchequer what is his estimate of the number of unemployed persons who are not likely to be liable to income tax because of their low income.

Mr. Ridley: About 1¼ million in a full year at 1982-83 levels.

[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