National Economic Development Council

NEDC(84)54
20 November 1984

TAX POLICY AND THE JOBS EXERCISE: SUMMARY

Memorandum by the Chancellor of the Exchequer

The principal contribution that the Government can make to job creation is to conquer inflation and restore financial stability and business confidence. The Government's macro-economic policy framework is set out in the Medium - Term Financial Strategy. Consistent with this strategy, the Government's prime tax objective is to reduce the overall level of taxation. A second objective is to reform the tax structure to reduce economic distortions and simplify the system.

2. Reducing taxation depends upon controlling public expenditure. The recent Autumn Statement, which set out the Government's public expenditure plans for 1985-86, confirms the public expenditure planning total that was provisionally announced in the Public Expenditure White Paper in February. The Green Paper on Long-Term Public Expenditure discussed the upward pressures on public expenditure and outlined the scope for future tax reductions if these pressures can be successfully resisted. The scope for tax reductions, and the pace at which they can be achieved, depends upon future economic growth and control of public expenditure.

3. Given success in these areas there should be scope for tax reductions over the remainder of the MTFS period. At the time of the Budget, the MTFS indicated scope for tax reductions building up to £13½ billion by 1988-89 on certain assumptions about revenue and expenditure. The Autumn Statement slightly modified the projected fiscal adjustment for 1985-86 but there is no reason to alter substantially the picture for the entire MTFS period detailed in the 1984 Financial Statement and Budget Report (the "Red Book").

4. Tax reductions will improve incentives to work, risk-taking, and enterprise. They will contribute to the release of market forces, which will improve the "supply - side" of the economy, thus increasing output and generating more job opportunities. Tax measures cannot produce these results overnight or by themselves and are only one component of the Government's general policy of reforming institutions and changing attitudes. But, tax reductions should contribute to a more dynamic and adaptable economy, in which choices are more market determined and less influenced by the State.

5. Historical and international evidence points strongly to a link between low taxation and good economic performance.

6. Tax reform is a second objective of Government policy. A broader tax base with fewer special exemptions will reduce tax created distortions and allow marginal tax rates to be reduced and resources to be allocated more efficiently. Tax reform is no substitute for tax reductions but, with a given level of revenue, it can increase the influence of the market and reduce that of the State on resource allocation and thereby minimise the damage that taxation does to economic performance.

7. Since taking office the Government has moved towards tax reduction and reform. The burden of income tax has been reduced through reduction in rates and increases in the real value of thresholds. The latter concentrate the greatest proportionate benefits of tax reductions on those on average earnings and below and helps to mitigate the effects of the unemployment and poverty "traps". It is difficult effectively to relieve poverty without accepting the existence of some degree of poverty trap: this is inherent in the very concept of selective assistance.

8. Company taxation has been reduced and reformed since the Government took office. Measures to encourage business in recent Budgets through the Enterprise packages were augmented by the 1984 Budget changes to the company tax structure. These will provide immediate benefits to companies and reduce the tax burden on companies in the long - term. In particular UK companies will face one of the lowest rates of corporation tax in the OECD. The package will also improve the allocation of resources by reducing previous tax induced distortions between different types of investments and between capital and labour. The net effect of the package should provide a boost to employment prospects.

9. The tax treatment of savings has also been reformed. The abolition of the Investment Income Surcharge has provided encouragement to savings. Various changes to the tax treatment of savings instruments will increase competition between financial institutions and improve the workings of the capital market.

10. The tax burden in the UK remains excessive and the structure needs further reform. Reducing tax is costly and, if it is to be achieved, the additional resources created by a growing economy must not be siphoned off into higher public spending. Ultimately the extent to which taxes can be reduced will depend upon our success in controlling public spending.

TAX POLICY AND THE JOBS EXERCISE

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This paper considers tax policy and its role in creating conditions conducive to economic growth and the creation of new jobs. The note is organised as follows:

Section A discusses the Government's taxation objectives and the contribution that their achievement can make to job creation.

Section B reviews progress to date.

Section C considers the areas where further progress needs to be made and the conditions that need to be fulfilled in order to make it possible.

A. TAXATION OBJECTIVES

The Macro-Economic Framework

2. The Government's macro-economic policy is set out in the Medium-Term Financial Strategy which provides the framework within which other policies operate. The prime objective of the strategy is control of inflation. This is the main contribution that macro-economic policy can make to increasing employment.

3. Each year the Financial Statement and Budget Report (the "Red Book") sets out the monetary growth rates and associated PSBR levels that are compatible with the objective of controlling inflation. In the Government's first term the priority was to reduce the PSBR as a proportion of GDP so that inflation could be reduced at an acceptable level of real interest rates. The table below sets out the progress that has been made.

Table 1 Public Sector Borrowing

	1974-5 to 1978-9	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
PSBR as a proportion of GDP (%)	6.7	4.8	5.4	3.3	3.1	3.2	2.5

4. The PSBR as a proportion of GDP is now half the level of the late 1970s and declining, inflation has been reduced to 5 per cent, and real interest rates are declining. With public sector borrowing and inflation under control and reasonable prospects for falls in real interest rates there should now be scope for reducing the tax burden.

5. The 1984 Red Book set out the room that there should be for tax cuts over the period to 1988-89, provided that there is reasonable economic growth and that public

expenditure is kept under control. The Autumn Statement (published on November 12) further demonstrates the Government's success in controlling public expenditure. The public expenditure planning total has been held to the level set in previous plans, notwithstanding the pressures for higher spending. As a result there should be scope for tax cuts in 1985-86. The Statement amended slightly the fiscal adjustment for 1985-86, but the overall prospects for tax cuts in the 1985-86 to 1988-89 period are broadly unchanged from prospects at the time of the last Budget.

Table 2 Fiscal Adjustment: 1985-86-1988-89

	1985-86*	1986-87	1987-88	1988-89
Annual Fiscal Adjustment (£bn)	2	4½	3½	3½
Cumulative Fiscal Adjustment (£bn)	2	6½	10	13½

* Autumn Statement revised 1985-86 fiscal adjustment to £1.5 billion

6. The £1.5 billion fiscal adjustment for 1985-86 is in addition to the carry-over effect of the 1984 Budget measures, which will reduce taxes by £1.8 billion compared with an indexed base. Thus there is a prospect of a £3.3 billion real reduction in the 1985-86 tax burden.

The Micro-Economic Framework

7. The macro-economic strategy must be complemented by policies which will benefit the micro-economic performance of the economy - improving the supply-side of the economy. This means mobilising resources to undertake productive activity, augmenting the quality of those resources, and increasing the efficiency with which they are deployed. Market forces have the central role here and micro-economic policies are accordingly directed at making market forces work better. Such policies will increase output and generate more employment.

8. Tax reductions have a role to play in this process, along with other supply-side measures, which the Government is pursuing. The process of improving the supply-side is a gradual one, which depends on changing both institutions and attitudes. It would be a mistake to expect tax reductions and reforms to have an overnight effect or to carry the whole burden of improving economic performance.

9. As part of a policy of improving the supply - side reducing taxation is important: taxation distorts the pattern of incentives and can misdirect resources away from efficient activities towards inefficient ones. The higher the level of taxation the greater the potential distortion which can arise. Reduction of the total tax burden - in a way consistent with the Government's overall macro-economic policy - is therefore an

integral part of the policy of revitalising the economy by making it more receptive to market pressures and less influenced by the State.

10. All taxation distorts economic activity to some degree by driving a wedge between pre and post-tax returns. For example income tax drives a wedge between the pre and post-tax return of working and so may reduce the supply of labour. This discouragement relates to both the quantity supplied eg the disincentive connected with an extra hour of overtime compared with going home, and to the quality of labour eg the discouragement to train for a more skilled job or take on more responsibility. High tax rates are especially detrimental to risk - taking activity where the entrepreneur stands to lose something if his enterprise fails and requires the prospect of a reasonable reward to compensate for the risk.

Taxation and Incentives

11. It is never possible to "prove" unequivocally a relationship between two economic variables exists. However, there is historical and international evidence which points strongly to a relationship between low taxation and high output and employment.

12. The overall burden of taxation in the UK is considerably higher now than 20 years ago. (Details of the increase and the background to it are set out in the Green Paper on Long Term Public Expenditure, published earlier this year.) The proportion of non-North Sea tax to non-North Sea GDP was 38 per cent in 1983-84 compared with 29 per cent in 1963-64. In the 1963-64 financial year a married man with no children receiving no allowances except married mans allowance, started to pay tax at an income level of 45 per cent of average earnings. By the 1984-85 financial year a man in similar circumstances started to pay tax at 33 per cent of average earnings. The percentage of earnings paid in income tax by a married man receiving just the personal married man's allowance rose from 13 per cent in 1963-64 to 20 per cent in 1984-85. There is little doubt that our poor economic performance over the last 20 years is at least partly related to the growing burden of tax.

International Evidence

13. This is provided from a recent OECD comparison of tax revenue as a proportion of GDP in the 18 major OECD economies. While the UK was 9th highest out of 18 with a tax burden equivalent to 39.6 per cent of GDP in 1982 it is notable that, Japan and USA, the two economies with the most dynamic economic performance and best job creation records in recent years, have substantially lower tax burdens. The USA is 15th out of 18 with a ratio of 30.5 per cent and Japan is 16th with a ratio of 27.0 per cent.

14. These countries have low tax burdens because public expenditure is also relatively low as a proportion of GDP. According to OECD data, public expenditure as a proportion of GDP in 1981 (defining public expenditure in National Account terms), was 35.4 per cent in the USA and 34.0 per cent in Japan compared with 47.3* per cent in the UK. Since then the UK proportion has fallen to 45.4* per cent but further reductions will be needed if tax is to be reduced to a more sensible level.

15. Income tax starts in the UK at a lower level of earnings than in most of our major international competitors. The table below sets out the starting level at which income tax is charged in the UK for single people and married people without children compared with the four largest OECD economies:

Table 3 Income Tax Thresholds

Country	Single Person (£)	Married without children (£)
France	3840	4250
Germany	1980	3455
Japan	3210	4410
USA (Fed)	2580	4220
UK	2005	3155

Notes (a) November 13 1984 exchange rates.

Long-Term Tax and Public Expenditure

16. Lower taxation is crucially important if incentives to work, risk-taking and enterprise are to be improved. The 1984 FSBR details the scope for such reductions over the period to 1988-89. In the longer-term the potential for tax cutting is discussed in the Green Paper on Long-Term Public Expenditure, published earlier this year. It shows the importance of both controlling public expenditure and economic growth if the tax burden is to be further reduced. The table below [Table 5 from the Green Paper] sets out the burden of Non-North Sea taxation on differing public expenditure and growth assumptions.

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* OECD series compare public expenditure, defined in National Accounts terms, as a proportion of GDP. UK public expenditure on this basis is higher than the planning total. A reconciliation between National Accounts Terms and the Planning Total is given in Table 1.7 of the Autumn Statement.

Table 4 The Burden of Non-North Sea Taxation in 1993-94

(per cent of non-North Sea GDP at market prices)

	Public Expenditure growth after 1988-89	
GDP growth after 1988-89	**Zero**	**1%**
1½%	32½%	34%
2%	31½%	33½%

17. Over the longer-term there is a two way relationship between economic growth and lower taxation. Economic growth, by increasing the size of the tax base, will allow a given borrowng requirement to be achieved with lower rates of taxation. However lower taxation, by improving incentives and resource allocation, will create conditions in which faster economic growth is more likely to occur. The Government's objective is to break into a virtous circle in which lower taxation encourages economic growth which in turn, makes room for further reductions in the rate of taxation.

Tax Reform

18. The Government's objective is not only to reduce the total amount of taxation but also to ensure that revenues are raised in a manner which imposes a minimum distortion to markets. This means moving towards a broadly based tax system with lower rates of tax. Broadening the tax base requires that special concessions and exemptions should be minimised. This does not mean that it is an aim of policy to abolish them all. Some are justified in order to correct market imperfections elsewhere in the economy or because of accompanying social benefits. However, each concession must be justified, not only on its individual merits but also taking into account the repercussions for the rest of the economy. Every concession, no matter how deserving individually, means a higher tax burden on those activities which are not the subject of concessionary treatment and increases the associated disincentive effects.

19. The mixture of incentives and disincentives that results from a tax system with numerous concessions and exemptions distorts activity. Resources in the economy are allocated, not according to the pattern of pre-tax returns, but after the tax system has distorted this patten towards some activities and away from others. Sometimes this is the consequence of a clear decision that particular activities should be favoured for reasons which remain valid today.

20. However, some exemptions and concessions are no longer justified and have misallocated resources. The Government examines existing exemptions and concessions against this background and its policy is to retain only those that can be justified on wider economic or social grounds.

21. Eliminating distortions will also contribute towards a clearer and simpler tax system. Much effort and expertise is currently devoted to artificial activities and devices, which have no economic benefit and whose sole purpose is to save tax by taking advantage of the small print of the system.

22. The Government has also changed the balance of taxation somewhat by shifting the burden from taxes on earnings to taxes on spending. Since 1978-79 income tax as a share of the total tax take has fallen from 32.7 per cent to 26.6 per cent, while taxes on final spending have risen as a share from 27.6 per cent to 30.5 per cent. As the next section points out the Government has given priority to improving incentives to work, save and take risks. Income tax has been cut and this has partly been financed by increasing taxes on spending.

B. PROGRESS TO DATE

23. This section reviews the progress that the Government has made to date in accomplishing its objectives of tax reduction and tax reforms. Action has been taken in three main areas:

(a) personal taxation and reform of benefit;

(b) company taxation;

(c) taxation of savings and investment instruments.

Personal Taxation and Reform of Benefits

24. The Government's reforms have been directed at improving the incentive to work and also to develop skills and to assume responsibility. The following specific measures have been taken:

(a) Reduction of income tax rates. The basic rate of tax has been cut from 33 per cent to 30 per cent and the highest rate from 83 per cent to 60 per cent. The marginal rate of tax - which is an important determinant of the incentive to work - has fallen for nearly all tax payers.

(b) Personal tax thresholds have been increased by 16 per cent in real terms since 1978-79. Earnings have risen almost as much in real terms and so the percentage of average earnings at which people start to pay tax has risen only slightly. For a single person (with no other allowances) the rise has been from 20 per cent of average earnings in 1978-79 to 21 per cent in 1984-85 and for a married person (with no other allowances) from 31 per cent in 1978-79 to 33 per cent in 1984-85. These figures are still too low and it is a high priority to raise thresholds further.

(c) Employee share schemes have been encouraged. The tax regime for profit sharing and savings related share option schemes has been improved and from this year gains under a new form of approved share option will be treated as capital gains rather than income. These measures are intended to encourage the spread of such schemes which directly link rewards to performance.

25. This Government has given special attention to raising tax thresholds. As a result of increases in tax thresholds introduced by this Government there are 850,000 fewer taxpayers than there would have been if taxes had merely been indexed. Increases in thresholds havethe dual advantages of taking many of the poorest people out of tax altogether and of concentrating the greatest relative benefits on those of up to average earnings. Increases in tax thresholds also help alleviate the unemployment and poverty traps. These anomalies in the tax and benefit system have been the focus of several recent studies and are described below.

The "Unemployment Trap"

26. The first of the traps concerns the incentive to the unemployed to take work. One measure of this is the ratio between net income when out of work and net income when working - the "replacement ratio". In some - rare - cases this ratio may be so high that it is scarcely worthwhile for the unemployed person to take a job.

27. However, the Government has made some progress in improving incentives by cuts in taxation for those in work combined with bringing unemployment benefits into tax and the abolition of earnings related unemployment benefit. The table below compares replacement ratios of a sample of men who became unemployed in 1978 with the ratios that they would have faced had they become unemployed in 1982.

Table 5 Replacement Ratios for the Unemployed

Percentage with Replacement Ratios		Under 50%	50%-80%	Over 80%
All	1978	30	46	25
	1982	39	40	21
Single	1978	47	46	6
	1982	62	35	3
Married	1978	16	48	36
	1982	22	55	23
Married + 1/2 child	1978	10	50	40
	1982	13	44	43
Married 3+ children	1978	7	29	64
	1982	7	31	62

Source: GES Working Paper No 69. DHSS June 1984

note taxation of unemployment benefit excluded. Allowing for it would tend to reduce further short-term replacement ratios in 1982.

28. Another approach has been through a range of policies designed to encourage the unemployed to set up their own businesses. Around 45,000 have done so under the Enterprise Allowance Scheme, since it was introduced in January 1982. Overall, self-employment grew by 400,000 between mid-1979 and mid-1983.

The "Poverty Trap"

29. The poverty trap concerns the disincentive to work harder or to get a better job. Some lower paid workers with children find that a combination of deductions from pay and loss of means-tested benefits leaves them with little or no increase in net income from an increase in gross income. The problem partly arises because workers start to become liable for income tax at income levels which are far too low. The Government's general policy of increasing the real value of the personal allowances will therefore help to alleviate the poverty trap.

30. The various aspects of the unemployment and poverty traps are complicated. The complexity of means tested benefits, particularly where they overlap with tax, is such that people are often confused about the circumstances in which they would be better off. Measures which improve one trap may worsen the other; for instance, Family Income Supplement alleviates the unemployment trap by increasing in-work income, but is a major cause of the poverty trap because it is withdrawn at the rate of 50 pence for each £1 increase in income.

31. No-one has so far been able to provide a solution to the traps, which is not either unacceptably expensive or creates wider and perhaps more important effects on

incentives. The recent scheme put forward by the Institute of Fiscal Studies would have eliminated the worst part of the poverty trap, but at the price of a combined marginal rate of tax and benefit withdrawal of 84 per cent for about one-fifth of the working population. The difficulty of reconciling the effective relief of poverty with giving reasonable work incentives arises because of the selective nature of assistance to the poor and is central to the dilemma of dealing with the traps.

Company Taxation

32. Major changes in company taxation were made in the 1984 Budget and earlier Budgets which have reduced the burden on industry and reformed its structure. Earlier Budgets encouraged new businesses and projects though for example the Business Start-up and Expansion Schemes. Enterprise Zones, incorporating tax advantages for companies have also been introduced, and various tax changes have made it easier for businesses to raise money and operate. The changes in the 1984 Budget will reduce, substantially, the tax burden faced by the company sector in 1984-85 and 1985-86. In the longer-term companies will benefit from one of the lowest rates of corporation tax in the developed world. This will increase the company's sector resources, benefitting employment in existing businesses and also attracting inwards investment to the UK. The "reform" element of the package will also encourage employment, by removing distortions against employment compared with certain kinds of investment, and by improving the rate of return on the UK capital stock.

33. The main elements of the company tax package were:

(a) a phased reduction in the main rate of corporation tax from 52 per cent to 35 per cent by 1986-87;

(b) phased withdrawal of first year and initial allowances for plant and machinery and industrial buildings respectively but retention of annual writing down allowances;

(c) abolition of the National Insurance Surcharge;

(d) abolition of stock relief.

Reduction in Burden

34. The total effect of the above package is to reduce taxes on business by about £2 billion in 1984-85 and 1985-86. In 1985-86 the changes to corporation tax, capital allowances and stock relief will produce a net reduction in the tax bills of companies of £450m. The final abolition of NIS is worth another £925m and this is a continuing benefit to industry. [Abolition saves companies £3 billion per year compared with the peak rate of 3½ per cent.]

Company Taxation: International Comparisons

35. As a result of these changes the UK rate of corporation tax will be well below existing levels of corporation tax in our major competitors as the table below demonstrates. In the longer-term this will bring substantial and lasting benefits to companies and increase employment prospects.

Table 6 Comparitive Corporation Tax Rates

UK	Ireland	France	West Germany	Neths	USA	Japan
35	50 (a)	50 (b)	64.5 (c)	40 (d)(f)	46 (f)	54 (e)

Notes

(a) 10 per cent rate for manufacturing

(b) for industrial firms less than 5 years old, profits exempt for tax for first three years and reduced by half before charging to tax in next 2 years.

(c) Includes typical 8½ per cent local profits tax.

(d) Proposed 1985 rate.

(e) Includes typical 12 per cent local profits tax.

(f) These countries have classical, rather than imputation systems. Effective rates about - 10 per cent higher than in the table.

36. The Government has reduced the share of total taxation borne by the non-North Sea company sector since it took office. The table below sets out business taxes as a proportion of total taxation since 1978-79.

Table 7 Business Taxes as % of Total Taxation

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
North Sea	0.9	3.1	4.5	6.1	6.8	7.1	7.1
non-North Sea	28.4	27.0	25.9	24.9	23.8	23.7	24.9

Notes (1) non-North Sea includes public corporations

(2) Taxes include all identifiable taxation of businesses.

37. The table below sets out business taxes as a proportion of GDP in the biggest five OECD economies.

Table 8 Business Taxes as % of GDP at market prices (1982)

	Taxes on Corporate Income	Employers Social Security Payments	Payroll Taxes	Total
France	2.2	12.6	1.0	15.8
Germany	1.9	7.3	-	9.2
Japan	5.4	4.2	-	9.6
USA	2.1	4.9	-	7.0
UK	3.8	3.6	1.3*	8.7

* NIS - since abolished

Source: OECD.

38. Even in 1982 the UK imposed a relatively low tax burden on business by international standards. Abolition of NIS subsequently made an important contribution towards reducing the burden still further. In paticular, the UK raises the lowest contribution from employer social security payments as a share of total taxation and of GDP in the Big Five OECD economies. Thus, it is relatively cheap for employers to take on labour in the UK.

Structural Reform

39. The 1984 Budget also reformed the structure of corporation tax. For many years the tax regime subsidised heavily certain types of investment and ways of financing it. At the same time it discriminated against other types of business expenditure, including the employment of labour.

40. The effect of this year's changes has been to reduce the distortions caused by the tax system. Under the old system it sometimes paid businesses to go ahead with investment projects which were intrinsically unprofitable. As a result the average (pre-tax) rate of return from investment projects was held down, and some projects with a higher pre-tax return never went ahead because of their less favourable tax treatment. The effect of the reform will be to encourage the more profitable and successful projects, raise the average rate of return on investment, and avoid the waste of resources on unprofitable ventures.

41. A better distribution of the capital stock between projects will be matched by an improved allocation of business expenditure between investment in capital and investment in jobs. The previous tax system simultaneously subsidised investment by companies by companies but penalised employment through the National Insurance

Surcharge. Its removal saved business £3 billion per year compared with its costs at its peak rate of 3½ per cent and provided an immediate cashflow benefit to business and reduced the bias against employing labour. Furthermore the switch in emphasis towards profitable investment projects will mean a sounder base for new and lasting jobs.

42. Concern has been expressed that the changes will adversely affect cash flows in later years as past tax losses are run off and that investment will be discouraged. Clearly the effects will vary between different firms; some will lose and others gain. While the cost of capital will rise at the margin because of the reduction in allowances, the new arrangements will still represent a generous average rate of depreciation taking the full spread of a typical business's capital stock, comparing well with rates in other countries. Some highly profitable projects will do better under the new system because of the reduction in the rate of corporation tax. When all the transitional effects have worked through, the lower marginal tax rates will encourage higher quality investment with a higher pre-tax rate of return. This will also result in higher after-tax profitability which in turn will leave room for additional expenditure on employment and innovatory expenditure eg product development.

Taxation of Savings Instruments

43. Finally, the tax treatment of some savings instruments has been reformed. The strategy here has been to reduce tax generated distortions, which encourage savers to direct their money towards institutions rather than undertake direct investments, and towards some institutions rather than others.

44. The 1984 Budget:

(a) Withdrew Life Assurance Premium Relief for new policies.

(b) Abolished the Investment Income Surcharge, which removed a disincentive against direct savings and investment, in particular for equities.

(c) Announced the introduction of a composite rate for bank interest, to parallel that for building societies.

(d) Halved stamp duty on stock exchange transactions to 1 per cent. This should encourage a more efficient capital market.

(e) Exempted the holding of certain company bonds from capital gains tax, bringing their treatment into line with that for comparable Government Securities.

45. As a result market forces will be more important in determining where investors put their money and the tax system less so. The financial sector will be more efficient and better able to market its services overseas.

C THE FUTURE

46. The Government attaches great importance to reducing the burden of tax in a way consistent with the Government's overall macro-economic objectives. In the initial years of the Government priority had to be given to reducing the PSBR as a proportion of GDP to restore financial stability to the economy. Now that the PSBR has been reduced to more manageable levels and inflation is under control there should be scope for tax reductions. The 1984 FSBR, and the Autumn Statement, have set out the scope for future reductions. Their achievement depends upon reasonable economic growth and keeping public expenditure under control. The Green Paper on Long-Term Public Expenditure discussed the pressures for additional spending. If these are resisted there should be room for a gradual reduction in the overall tax burden and the prospect of eventually getting back to the more reasonable levels of tax that prevailed in the mid-1960s.

47. The Government's second aim is to reform the tax system to help markets to work more effectively and allocate resources in the most efficient manner.

48. The last Budget involved a major overhaul of the company tax system with a substantial reduction in the amount of tax paid by the business sector and the introduction of a rate of corporation tax that will be amongst the lowest in the developed world. The taxation of certain savings instruments was also reformed.

49. A course has been set in the company tax field and no further major structural changes are contemplated in the lifetime of this Parliament. A priority in the area of personal taxation will be to raise the real value of allowances. This has the advantage of concentrating the greatest relative benefits on people with lower earnings whilst also helping to alleviate the poverty and unemployment traps.

50. There is no doubt that the level of taxation in this country is too high and that its incidence needs further reform. Reducing the level and reforming the structure are costly in revenue terms. So it is imperative that we devote the additional revenues generated from a growing economy to these ends, and not to financing a rising volume of public expenditure. For this reason, the Government attaches the utmost importance to holding public expenditure to current plans.

Restricted

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Restricted