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From the Secretary of State for Social Services

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Nigel Lawson

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

When we met on 5 February you said you were content with my suggestion that there should be a joint DHSS/Treasury study of the tax and social security systems following the conclusion of my review of social security. I am writing now to explain the background to this proposal and provide more detail about what I have in mind.

I believe it will be very important for both of us that, in presenting the Government's proposals for social security reform, we are able to make it plain that we have addressed directly the case that is frequently put for increasing cooperation between the tax and social security systems.

What I have in mind is that the study would examine the scope for improved cooperation between the tax and social security systems and identify those areas, especially in the development of computer systems, where we should take steps to prevent future options for cooperation from being blocked off. I was struck, when I was recently given a presentation on the two computerisation programmes (the computerisation of PAYE and the social security operational strategy), by the importance which the directors of each programme attached to identifying such areas as soon as possible for planning purposes.

There is clearly a strongly held and widely shared view that the solution to many of the current social security problems involving incentives, targeting of help, complexity and administration lies

in integration, aided by the benefit of computerisation. This has been a strong theme of many leading articles and it is a view shared by many economic commentators, research bodies like the Institute for Fiscal Studies and indeed many of our colleagues in the House. This was emphasised in Friday's debate in the Commons on tax and social security.

The position is in many ways similar to that faced by the Canadian Government in the 1970s when there was considerable pressure over a period of years for the integration of various transfer programmes with the personal income tax system. They responded by setting up an interdepartmental "task force" involving revenue, Treasury and social security officials reporting to a Finance Minister. The outcome was a discussion document issued in 1978 setting out in some detail the practical, policy and other issues to be faced in considering the feasibility of integration.

The study I propose would have the same sort of value as the Canadian work in identifying the issues, questions, obstacles and opportunities. It would enable us to answer the proposition that integration is both easy and self-evidently right - a proposition too often made without any detailed supporting evidence.

I am sure we must satisfy ourselves about what advantages there might be in terms of greater efficiency, improved operations and better service to the public. But there are four areas where there is scope for closer links between the tax and social security systems.

First, there is the assessment of title where information available in one system could be used in the other. For example, information about income, earnings, dependants could affect entitlement to benefit or allowances and if collected by one system might inform the other system. This could improve efficiency, strengthen safeguards, save staff and save the public time and effort in dealing with both systems.

Second, there is the payment of benefit where this could be delivered through the tax system. Child support is one obvious example, as illustrated by my family credit proposal.

Third, there is the taxation of benefits where the two systems could be linked. For example, our Departments have previously looked at the possibility of DHSS deducting tax from retirement pension, though in that case it was decided the administrative cost was too high. The taxation of benefits makes an important contribution to revenue - £2.3 billion is the estimated yield for 1984/85. Pensions and benefits for unemployed people account for most of this and there may be scope to improve the efficiency of collection when both systems are computerised. The major untaxed benefit is invalidity benefit - now costing £2 billion a year - and we have yet to devise an administratively acceptable and efficient way of taxing it. Again computerisation and closer links should assist in finding a solution.

Fourth, there is the collection of revenue where it is accepted (in the context of the recent scrutiny of burdens on businesses) that there may be scope for greater alignment or integration and work is

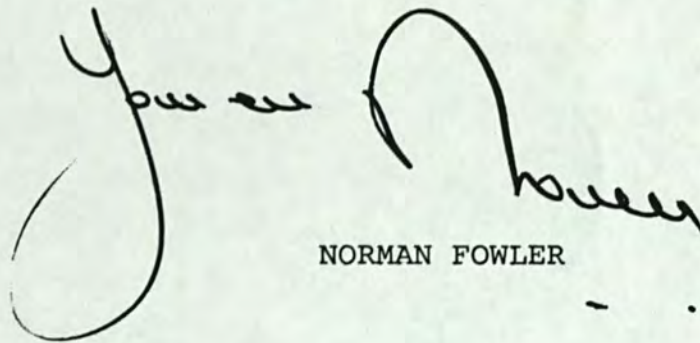
to be put in hand. This is an area where there is a good deal of overlap between Revenue and DHSS, in particular on policing operations, and where substantial staff saving might be gained.

In considering whether to look into these possibilities, we must take into account that greater coordination could help us considerably in reaching our staff savings targets. Between the two Departments, nearly 150,000 civil servants are employed on income tax and social security, about one-quarter of the Civil Service as a whole and this is without adding in the 25,000 staff in unemployment benefit offices.

I am clear that the criticism of the review that it is too narrowly focussed is misconceived and I will deal with it accordingly in the Green Paper. The review rightly began with the basic objectives and structure of social security. The assessment, payment and taxation of benefits and the collection of revenue must follow on those proposals. Nevertheless, cooperation between the systems is still an important and fundamental issue and is regarded as such outside the Government. We must be able to demonstrate that we have considered and responded to that public perception.

That is why I have proposed a study of the links between the tax and social security systems. I would refer to this study in the Green Paper to demonstrate that, as a Government, we take these ideas seriously and will, where this makes sense, reflect them in our forward planning. My intention would then be to include the conclusions of that study in the White Paper which I would propose to publish when the Bill is introduced in the Autumn.

I am copying this letter to the Prime Minister and to members of MISC 111.

A handwritten signature in black ink, appearing to read 'Norman Fowler', written in a cursive style.

NORMAN FOWLER