

File

Prime Minister (2)

I relayed your news on this subject to Lord Young.

AF
17/6



Treasury Chambers, Parliament Street, SW1P 3AG
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14 June 1985

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The Rt. Hon. Lord Young of Graffham
Minister without Portfolio

Alan Davis

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

Thank you for your letter of 6 June.

I am glad you agree that my Green Paper should say something about what you describe as "the broader options". As you will remember, I emphasised the need for this in my Budget Statement and again in my speech last month to the Equipment Leasing Association, of which you have already been sent a copy. I also very much agree with you about the need not to arouse false expectations. For example, you will remember what the 1972 Tax Credit Green Paper said about a form of income guarantee scheme (page 22 of Cmnd 5116); and we shall have to consider very carefully whether there has since been all that much change in the harsh practical constraints of money and motivation. We shall also have to consider whether the paying of cash benefits and the deduction of tax from an individual's income really are, as some argue, just "two sides of the same coin".

They are not

The important thing is that the Green Paper should, in due course, provide an objective analysis of the costs and benefits of the various options for reform. This is something on which I should, of course, be very happy to have your comments when we have been able to put together a draft as a basis for this consultation.

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

John Major
Nigel Lawson

NIGEL LAWSON

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Prime Minister ② To note
Lord Young clearly did not
go through the tax/benefit
debate. There is also danger
of making receipt of benefit
automatic.

AF 7/6

CABINET OFFICE

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From the Minister without Portfolio
The Rt Hon Lord Young of Graffham

The Rt. Hon. Nigel Lawson Q.C., M.P.,
Chancellor of the Exchequer,
H M Treasury,
Parliament Street,
London, S.W.1.

6th June, 1985

file

Note
Delayed then by
phone to Lord Young
and cancelled. AF 10/6

The sooner we put
an end to this
one the better.
It is a
Shirley's
charter
not

Nigel

STUDY OF TAX AND SOCIAL SECURITY SYSTEMS

I was interested to see the recent correspondence on this subject between you and Norman Fowler. I am pleased that the social security Green Paper published earlier this week says that the Government will bring forward ideas for establishing closer links between the PAYE and social security systems in the Green Paper on the reform of personal income tax and I welcome the intention to explore opportunities for securing greater co-ordination and simpler administration of the two systems. MISC 114 will be discussing later this month some specific options in this area put forward in the framework of the recent deregulation exercise in the Inland Revenue.

I think we should recognise, however, that the scope for integration goes wider than administration and that computerisation opens up options for more radical changes in the whole system of income redistribution. Some form of combined tax/benefit system, or income guarantee, would afford a basis for dealing with the disincentive effects of our existing tax and social security structures in a much more comprehensive way than has so far been possible. While I recognise the need not to arouse public expectations, I do hope that you will consider putting something about the broader options in your Green Paper later this year and that your officials will keep mine in touch with their thinking on the longer term options.

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

Lawson
Nigel

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