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PRIME MINISTER

GREEN PAPER ON PERSONAL TAXATION

From this immense document I suggest you read Chapters 2 and 3, and glance through Chapters 4 and 5. Chapter 3 sets out the case for transferable allowances, and Chapters 4 and 5 discuss the proposals for other allowances, and other taxes (for example, capital taxes).

This is a very important piece of work, proposing the expenditure of £5.3 billion on transferable allowances. The changes in other allowances and taxes, though less important by comparison, are themselves also very important. The abolition of age allowance, the application of mortgage relief to the residents rather than to the individual taxpayer and separate charging for capital gains tax on husband and wife are all examples which themselves merit careful thought.

Nigel Wicks' minute discusses handling. This will be relevant to your bilateral with the Chancellor on Wednesday.

The Chancellor's proposals are immensely expensive. He is in a sense putting his bid on the table for years beyond the Public Expenditure Survey, before the spending Departments mop up the money with their bids. One has to sympathise with that.

But will his bid look credible? Commentators and the Opposition will point to the Government's failure so far to control public expenditure. They may accuse the Government of irresponsibility.

You will want to assure yourself that they would be wrong to do so. This cannot be done with certainty. But in the 1990s we may well face falling North Sea oil revenue. And we

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shall face falling Corporation Tax revenues as the value of capital allowances builds up again. But (by assumption) the Corporation Tax rate remains at 35 per cent. (The Chancellor's reforms in the 1984 Budget changed the timing of all capital allowances. But they did not change the total amount that would be given over the life of an asset. So the cost of the allowances will build up to what it was before.)

DLW

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