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PRIME MINISTER

3 December 1985

PERSONAL TAX GREEN PAPER: SOME QUESTIONS

1. What is the cost of introducing fully transferable allowances? Can the Chancellor find the money if North Sea oil taxes are falling? Is there a risk that commitments made now will be difficult to escape and we will end up with a higher PSBR?
2. What are the objections to alternative ways forward such as cutting the basic rate of tax, raising existing thresholds, or introducing a family tax allowance like the old child tax allowance?
3. What are the labour market effects? How many low-paid single people and one-earner couples will be taken out of taxout of tax. How many people will be affected? How big will be the effect on unemployment?
4. What is the woman's angle? The Chancellor is giving more generous tax treatment to couples with younger children when the wife may wish to stay at home. Women will also get complete independence in their tax affairs if they wish. But the tax treatment of working wives will be relatively less generous.

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5. What will be the effects on two-earner couples? Some will gain - if the woman's earnings are below the tax threshold, if they have already elected for separate assessment, if the wife has an investment income that can now be treated separately. Others will not gain from the overall reduction in the tax burden.
6. Why publish now as the proposals can only be implemented in 1990? Are there implications for the next two Budgets?
7. Will the Chancellor be able to simplify the tax system without having to buy out the twiddly bits, such as the age allowance, at great expense?

You may wish to ask for a note on some of these points at your meeting tomorrow.

David Willetts

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