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HOW CAN £5.25 BN OF TAX RELIEF BE BEST SPENT?

The Chancellor's proposals have some good elements. The separate taxation of husband and wife for capital gains and investment income is not a costly move, and would be a welcome step towards greater equality of tax treatment between single people and married couples. Raising the threshold to reduce the number of lower paid single people in tax, and to reduce the favoured treatment which is accorded to two-earner couples, also have some merit.

However, the proposals will be seen as an attempt to discourage married women from going out to work - as it raises their marginal rate of tax; and will be administratively very complex, given the need to calculate the amount of allowance being transferred between husband and wife for each tax year. Promising tax changes after the next Election is feeble: people expect tax reform and reduction in this Parliament.

£5.25 billion of tax relief is a large sum of money. The Chancellor did well out of reform of Corporation Tax. He has not been so successful with the promised reform of capital taxation. Only Development Land Tax has gone; the worst elements of Capital Transfer Tax have been removed; and Stamp Duties have been halved, but there has been no dramatic reform. For £1.6 billion more (March 1985 Treasury Estimate of 1984-5 revenues) Capital Gains Tax could be abolished entirely, and Stamp Duty removed. This would simplify the tax

system greatly, and remove an impediment to house mobility and to the purchase of shares.

The proposal to scrap Capital Gains Tax would be attacked as favouring the rich and the speculator. In its place, gains made in under one year from time of purchase - whether of real estate or shares - could be taxed as income for both companies and individuals.

If a net £1.25 billion were spent on removing Stamp Duties and Capital Gains Tax in this way, any other money available can be spent on reforming income tax. £4 billion, for example, would allow a reduction in the standard rate of income tax to 26%. Alternatively, thresholds could be raised by around 20%, taking the single allowance to around £2,600 and the married man's allowance to around £4,150. This would leave everyone better off in direct proportion to the amount of tax relief on offer, rather than skewing the advantages against the two-earner married couple towards the single-earner married couple, as the Chancellor's scheme proposes.

Conclusion

A way forward would be:

1. To accept the separate Capital Gains and investment income taxation for husband and wife - a long overdue reform.

2. To criticise the Chancellor's proposals for transferrable allowances, on the grounds that they penalise married women returning to work and they are administratively very cumbersome.
3. Suggest that capital tax reform be pursued as vigorously as Corporation Tax reform was pursued, by abolishing Stamp Duties and Capital Gains Tax, but taxing as income capital gains made in under one year.
- This money is not in the Treasury's Parliament,* 4. Using up to £4,000 million, either to cut the standard rate of tax by four percentage points, or to up thresholds by around 20%.

If this could be done in the next two Budgets (it depends on controlling public spending) this would enable the Government to go to the country on the platform that it had scrapped four taxes outright - Development Land Tax, National Insurance Surcharge, Stamp Duty and Capital Gains Tax - and had brought the standard rate of income tax down from 30% to 26% following the reduction from 33% to 30% in the previous Parliament. This would represent a significant achievement of tax reduction and reform, a programme which the country has been expecting ever since 1979.



JOHN REDWOOD