



Chancellor of the Duchy of Lancaster

SECRET

CC D.W.

NBPN at this stage

34

PRIME MINISTER

REFORM OF PERSONAL TAXATION

I regret that I shall be unable to attend the re-arranged discussion of the Green Paper on personal taxation, circulated under cover of Nigel's memorandum of 23 December.

I support Nigel's view that we should adopt a system of transferable allowances. It reinforces and supplements measures which Norman Fowler is presenting in the Social Security White Paper. It reflects fully our wish to allow individuals to keep more of the money they earn, and to spend it as they wish. It provides further support to families and removes a distortion in the tax system, one which is widely regarded as discriminating against women.

More than most issues, this is one which can be presented at a number of levels. While the green paper is a well-written document, we must be careful not to be too caught up with exploring the technicalities, and forget to argue the points of principle involved. We cannot afford for this to be widely interpreted as a gift to the haves, at the expense of the have-nots.

The most careful advance preparation of commentators is needed for a subject of this kind. There are many aspects which can be attractively presented:

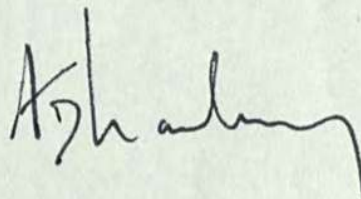
- that people wish to keep the money they earn; that people do not wish to see an ever-increasing proportion of their income come from state benefits;
- that this measure, taken together with social security represents a major reform, ending 40 years of increasing anomaly and bureaucratic interference;
- that these measures will further reduce the employment trap;
- that families with young children are often at their most financially vulnerable when, having dropped to one income, they are at the same time owner occupiers with growing financial responsibilities. Every penny counts for them and many would accept that the tax burden on them should be lessened.

It would, however, be most unfortunate if the figure of £5.3 billion mentioned in the Green Paper as a possible cost, in terms of lost revenue, of implementing these reforms were to gain currency as an amount the Chancellor was ready to "give away". I wonder, therefore, if it might be expedient to widen and make more diffuse such estimates by giving consideration to a half-way stage of reform, in which not the whole of the personal allowance would be transferable.

There would be some sense in this, as some part of the allowance against earnings might be represented as being in respect of the costs of going to work.

Finally, I am concerned that chapter six of the paper should make as strong a case as possible against the full integration of the tax and social security systems, making it clear that most individuals view very differently the money they earn, from whatever benefits they receive, also that blurring the distinction between the two would devalue people's own earnings, and that a full integration of the two systems would either be costly and wasteful or an administrative nightmare. The SDP, in particular, view the integration of tax and benefits systems as a major plank of their policy, and the superficial appeal of such a proposal has to be strongly rebutted.

I am copying this minute to Willie Whitelaw, Nigel Lawson, Norman Fowler, David Young, John Wakeham and to Sir Robert Armstrong.



pp NORMAN TEBBIT

[Approved by the Chancellor
of the Duchy and signed in
his absence]

13 January 1986