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PRIME MINISTER

REFORM OF PERSONAL TAXATION

I think it would be helpful to you and colleagues if I briefly set out my first reactions to Nigel's memorandum and Green Paper.

Carrying through these proposals will be a major element in the Government's programme over the next few years. We need to make sure that we get the details of these proposals right and that we are able to present them effectively. Clearly it will not be possible to complete this work in one discussion and I suggest that, as with the social security and local government finance proposals, there should be an opportunity for further meetings to enable us to go into the proposals in more detail.

There are one or two particular issues which we might cover. The Green Paper concentrates on the extra help going to families. We shall need to be able to demonstrate this and in particular the overall effect on family finances rather than just the effect of tax reductions. Now that we have a set of illustrative figures for the social security reform, we shall be able to look at the combined effect of the tax and benefit changes. This will enable us to see how the tax reforms affect poorer families as well as families in general. Similarly, we ought now to be able to show the effect on the poverty and unemployment traps of the tax reforms, on which Nigel rightly places so much importance. At the same time, we need to be able to explain why we have chosen transferable allowances rather than other ways of reforming the tax system e.g. by specifically recognising children again in some way.

We shall also have to consider the "no cash loser" basis in Nigel's proposals, as compared with the social security proposals. The presentation will not be easy.

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There are two other social security aspects. First, I agree with Norman Tebbit that the Green Paper should deal in more detail with the case against full integration of tax and social security. My Green and White Papers have relied on Nigel's Green Paper to cover this issue. In developing this, we need to recognise the support amongst our own people as well as outside commentators for greater integration. We must therefore make the most of our moves to partial integration, as with family credit. Second, we need to consider very carefully before we convert another tax allowance - in this case the additional personal allowance for lone parents - into a cash benefit. As with the earlier conversion of child tax allowance into child benefit we shall be lowering the tax threshold. It would also add complications to social security at a time when we are trying to simplify it.

Finally, the presentation of the tax changes to married women will not be easy. Providing opportunities for tax privacy and equal treatment in investment income will be good news. But for women not in work, the picture would be different. Unlike now, they will have to declare every pound they earn on their return to work. And they will have no extra tax allowance, compared with women at home, to meet for example the costs of caring for children. We shall therefore have to convince people that the changes are not intended in any way to dissuade married women from returning to work.

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

A handwritten signature, likely of the Secretary of State, in dark ink.

NF

15 JANUARY 1986

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