

PRIME MINISTER

cc. Professor Griffiths

GREEN PAPER ON PERSONAL TAXATION

The worries expressed by Lord Young and others at the last meeting about the size of gains to high earners are not well founded. The maximum gain to any couple would be £25.44 a week.

The Chancellor's analysis depends heavily on the assumption of no cash losers. The examples shown in the paper circulated with his minute assume that the total allowances for a two-earner couple are frozen in cash terms, and that the married man's allowance would fall. In other words, two-earner married couples earning more than the tax thresholds would lose in real terms (if I have understood the argument correctly). This does not seem a good way to win a constituency for tax cuts.

Moreover, how would this fit with Rooker-Wise-Lawson? Would a resolution of the House of Commons be needed each year? If so, there would need to be strong support in the House for transferable allowances to allow the married man's allowance to be reduced in cash terms for several years in succession in a way which would leave the total of the couples' allowances unchanged in cash terms but reduce them in real terms.

The Chancellor aims to create a constituency for tax cuts. To get maximum value the Green Paper ought surely to be less precise about whether reductions in the real value of the married man's allowance are envisaged. It could be drafted to say that the speed of progress towards fully transferable allowances will depend on the size of the fiscal adjustment (though without using that term), but that less than full indexation of the married man's allowance would be an option if there were widespread agreement that a more rapid move towards fully transferable allowances was desirable.

*Duty Clerk*

pp David Norgrove

SECRET

28 January 1986