

PRIME MINISTER

GREEN PAPER ON PERSONAL TAXATION

A further point on the use of money from indexation to finance transferable allowances.

Social Security payments are likely to continue to rise in line with inflation even if tax allowances do not. This would affect the distribution of gains and losses. In the limiting case, where transferable allowances were wholly financed from use of money which would otherwise have gone to finance indexation, it would be exactly as if they had been introduced on a revenue neutral basis. The full benefits of transferable allowances will not be achieved if they are financed in whole or in part by not indexing the allowances.

As I suggested in my other note to you, this problem can be avoided in drafting the Green Paper.

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