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THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

FROM: A J G ISAAC

DATE: 6 FEBRUARY 1986

CHANCELLOR OF THE EXCHEQUER

MEETING WITH MR FOWLER: FAMILY TAX ALLOWANCE

1. You have asked for additional defensive briefing on Mr Fowler's proposals for a family tax allowance, combined with transferable allowances.

2. The DHSS are proposing that, for the same £5.3bn cost as your "no real losers" basis, you should have

- a single transferable allowance of £2,700 (instead of £2,830);
- a family tax allowance of £750.

In the time available, we have not been able to check their arithmetic (it is probably of the right order of magnitude); or to rework the figures on a "revenue neutral" basis.

ADVANTAGES

3. Mr Fowler will probably say that this package would combine two advantages:

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Byatt
Mr Monger
Mr G P Smith
Mr Cropper
Mr Scholar

Sir Lawrence Airey
Mr Isaac
Mr Lewis
Mr Painter
Mr Mace
Mr Pinder
Mr Eason
Mr Hudson
PS/IR

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- giving independent treatment, equality and privacy to husband and wife (eliminating tax penalties on marriage);
- targeting help more effectively on families with children.

ARGUMENTS AGAINST

Distributional effects

4. As the draft Green Paper acknowledges, anyone proposing tax reform has to accept some distributional effects. But Mr Fowler's are much more severe than anything proposed in the Green Paper.

5. For example, Mr Fowler's own arithmetic shows that, even if he spends £5.3bn on the change, he still leaves over 2½ million cash losers (of whom over ½ million lose more than £2 a week).

6. As I have said, we have not seen the "revenue neutral" figures. But they would seem likely to be pretty horrific.

Relationship between tax and benefit

7. Public opinion is running strongly in favour of further integration between tax and benefits. Both Mr Fowler's Green/White Papers and your draft Green Paper, bow in this direction.

8. Support for children is perhaps the one area in which integration has been achieved in practice.

9. The Tax Credit Green Paper of 1972 sparked off a violent argument about how integration should be achieved.

- Should support be given through the tax system, in the father's pay packet?

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- Or should it be given by way of cash benefits to the mother?

In the end, the Government bowed to the poverty and women's lobbies, and agreed that support should be given to the mother. That may, or may not, have been the right decision. But the one point, on which everyone agreed, was that the earlier regime - with a mixture of child tax allowances and cash family allowances - was a bureaucratic nonsense.

10. To set the clock back to the 1960s at this late stage - after all the words that have been spent on integration of tax and benefits - would risk derision.

Balance of the Green Paper

11. At present, the Green Paper (like Mr Fowler's) focuses on only one alternative to the present system rather than the range of possibilities canvassed in 1980. This is an accepted approach to consultation. But if we were to go beyond this, a lot of people would find it odd if only one further option were canvassed, and if that were the new idea of a family tax allowance, rather than the usual alternatives of partially transferable allowances, or mandatory separate taxation with higher cash benefits (Michael Prowse's IIT).

Operations

12. In present circumstances, a child tax allowance or family allowance would be operationally absurd. DHSS employ an army of clerks to receive benefit claims from families and issue cash order books to the mother. But there is no way in which they can effectively communicate with our tax offices, in a way that would enable us to award a family tax allowance on the basis of DHSS information. Amazingly, the child benefit records do not even use the standard national insurance reference number (which we use for tax purposes and which DHSS use for most other purposes). So, we should have to employ a second army of clerks to receive tax claims from families and award allowances to the father.

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13. As the Green Paper recognises in Chapter 6, developments in information technology (both here and in DHSS) should in due course make it easier for DHSS to pass information to us, in a form in which it can be directed reasonably cheaply and effectively to tax offices. Certainly, our hope is that this kind of facility should begin to emerge in the course of the 1990s. But not even the optimists expect to have this kind of facility on stream in (say) 1990 or 1991.

(In this section I am talking only of what could be done: paragraphs 7 to 9 above have discussed what should be done.)

EFFECTS ON THE GREEN PAPER TIMETABLE

14. If you decide that it is necessary to include a "family tax allowance" option in the Green Paper, we should of course provide a draft of text and figures accordingly. But I think I have to say that, at this late stage, it would carry a significant risk to the Budget timetable. I (and I think Mr Cassell) are already conscious of how much work remains to be done to bring the existing text and figures in line with the new approach (adopted in the Prime Minister's Group) on cost and phasing; and then to bring all the figures and commentary on to a 1986 Budget basis. Much of this work will have to be done at the same time as the peak of last minute work for the Budget itself. To work up and analyse a major new variant, within the few days remaining, would put a significant new strain on already-stretched resources. We might find ourselves slipping until after the Budget.

CLC

A J G ISAAC

*Write (over
the Group's
agreement
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of the Group
see back
of folder)*