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PRIME MINISTER

REFORM OF PERSONAL TAXATION

At your meeting on 29 January you invited me, in consultation with Norman Fowler, to reconsider the presentation of the economic and distributional effects of the change to transferable allowances and to submit a revised text of the complete Green Paper taking into account the points that were made at the Group's first two meetings.

In the light of these and of my discussions with Norman, I now attach a substantially revised text. The distributional analysis discussed at your last meeting appears in Annex 4, and shows both the real and cash effects of moving to transferable allowances. Norman and Tony are content with this presentation, which follows closely that used in the Social Security White Paper.

As you will see, the text is much greener than the earlier draft, and the difficult question of costing the change has been approached by illustrating the effects of phasing-in the new system over transitional periods of differing lengths against a range of assumptions for inflation and the basic rate of tax. On other issues, we are in full agreement on the treatment of single parents (in Chapter 4) and on the longer term issues raised in Part 3 of the Green Paper.

The Green Paper is necessarily, I am afraid, rather bulky. You and colleagues will probably wish to concentrate particularly on Chapter 3, which outlines the case for a system of transferable allowances. This presentation has changed substantially since the last version you saw, and I think it now meets the points made on that earlier version by yourself and other members of the Group.



I am sure that I need hardly say that the timetable for processing this Green Paper is now extremely tight. I very much hope that we can reach agreement on the new text at your meeting on 12 February. I would then propose to circulate the draft to Cabinet in the form agreed at that meeting. The figures in Annex 4 still require some further checking, and all the figures in the final published version will of course need to be amended to allow for any income tax changes in the Budget.

I am copying this to Willie Whitelaw, Norman Fowler, Norman Tebbit, David Young, John Wakeham, John Moore and Tony Newton.

N.L.

10 February 1986