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PRIME MINISTER

GREEN PAPER ON PERSONAL TAXATION: FAMILY TAX ALLOWANCE

I have seen Norman Fowler's minute of 11 February proposing that a new system of family tax allowances should be grafted on to the existing proposal for transferable allowances.

I am afraid that I cannot accept this last minute suggestion, which would amount to nothing less than a fundamental transformation of the logic and nature of the Green Paper. Our principal aim in the Green Paper is to outline a better structure of income tax, which would achieve a number of objectives. As it happens, transferable allowances would benefit families with children, because the great majority of non-working wives are looking after children. But that is not its main purpose, which is to equalise the treatment of one and two earner couples.

The question of whether it is right to help families with children any further raises afresh the whole issue of child support. Following thorough discussion, the Government decided that the right answer was to retain the existing system of child benefit and augment it by a new family credit: this was set out in Norman's Green and White papers, and is now in the process of enactment. If we are now to make the somewhat damaging admission that we believe this to be inadequate, the right approach must be to build on that structure, not to change - and complicate - the tax system, whose purpose is not that of a surrogate social security system.



Moreover, Norman's proposal would greatly exacerbate the distributional problems. This can be seen by the fact that, on the basis on which the existing proposals would produce no cash losers, Norman's proposal would mean some 2½ million cash losers, some of them on low incomes.

Then there is the question, to which I have already alluded, of the relationship between the proposed family tax allowance and child benefit. We have been here before. Abolition of child benefit is not on politically; but the bureaucratic nonsense of having dual arrangements for child tax allowances and cash family allowances was one of the reasons we supported the introduction of child benefit in the first place.

And even if we were, notwithstanding the complications, to have family tax allowances as well as child benefit, to whom would we give the allowance? Giving it to the father would reopen the "pay packet versus purse" argument. It would be widely seen as a retrograde step, especially if introduced in the context of a move towards greater independence for married women. This problem is already rearing its head over the new family credit: we do not want to stir it up further.

The staffing implications of parallel arrangements for family tax allowance and child benefit payments would be horrendous. Payment of the latter already involves a large number of DHSS clerks. At present, it would not be technically possible for DHSS to communicate automatically with Revenue to provide a basis for giving family tax allowances. Developments in both Departments should make this possible some time in the course of the 1990s, but not in 1990 or 1991. Pending such developments, payment of family tax allowances would involve a very substantial number of extra clerks in the Revenue.



Finally, it would be distinctly odd just to mention this one variant in the Green Paper. Why not mention other variants such as mandatory separate taxation? But if we did introduce these other options we should be virtually reproducing the 1980 Green Paper. People might find this curious, to say the least. The point about this Green Paper is that it takes account of reactions to the earlier one and, having considered those reactions, puts forward a positive proposal in some detail, as a possible alternative to the status quo.

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

N.L.

N.L.

11 February 1986