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Reform of Personal Taxation

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Note of a third meeting
at 10 Downing Street on
Wednesday 12th February
1986 at 9.00am

PRESENT

Rt Hon Margaret Thatcher MP
Prime Minister

Rt Hon Viscount Whitelaw
Lord President of the Council

Rt Hon Norman Fowler MP
Secretary of State for
Social Services

Rt Hon Lord Young of Graffham
Secretary of State for
Employment.

Rt Hon John Moore, MP
Financial Secretary,
H M Treasury.

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Rt Hon Norman Tebbit MP
Chancellor of the Duchy of
Lancaster

Rt Hon John Wakeham MP
Parliamentary Secretary,
H M Treasury

Mr Antony Newton MP
Minister of State,
Department of Health and
Social Security
(Minister for Social Security).

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Mr J B Unwin

Mr A J Wiggins

The Meeting had before it a minute of 10 February from the Chancellor of the Exchequer to the Prime Minister, covering a revised draft of the proposed Green Paper on the Reform of Personal Taxation. The Group also considered further minutes of 11 February to the Prime Minister from the Secretary of State for Social Services and from the Chancellor of the Exchequer, covering the possibility of mentioning in the Green Paper the introduction of a system of Family Tax Allowances (FTAs) along side Transferable Allowances (TAs) for married couples.

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2. THE CHANCELLOR OF THE EXCHEQUER said that the Group had asked him, at their previous meeting on 29 January, to make three important changes to the draft: to make the whole presentation much 'greener', to meet the concern that there should be no specific Government commitment to large scale net tax reductions in the context of the introduction of TAs, and to present the distributional affects on the introduction of TAs in a way consistent with the presentation of the comparable affects of the changes in social security to be effected by the Bill currently before Parliament. With the sole exception of the possible mention of FTAs, he had reached agreement with the Secretary of State for Social Services on all the outstanding points, so that the present draft could be regarded broadly as an agreed document. There remained some minor outstanding points on Annex 4, but there should be no difficulty in settling these at official level. It would be essential to complete the text quickly, in order to make possible publication on Budget day. So far as FTAs were concerned, he rested on the arguments in his minute of 11 February; there was not time to undertake a full analysis of these possibilities, and a mere mention of them would reopen the whole question of the provision of family support and the future of Child Benefit. It would be a mistake to move back to a situation in which there were separate systems of tax allowances and social security benefits applicable to children; if the Government concluded that present arrangements for family support were inadequate, it would be better to build on the existing Child Benefit System and the new Family Credit arrangements.

3. THE SECRETARY OF STATE FOR SOCIAL SERVICES confirmed his agreement with the Chancellor of the Exchequer on all issues apart from FTAs. He was satisfied with the presentation of the distributional affects of the change to TAs, noting that there was no question of early legislation to implement the changes, and no commitment to the changes being put into effect on any particular timescale. He supported the objective of achieving a more equitable tax system, but doubted whether it was possible to leave aside completely the wider aspects of tax changes. He was not proposing any sort of Government commitment to the


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introduction of FTAs; but the Government would need to be able to show that they had considered how available resources (in this case the available fiscal adjustment) could be used to best effect, and on that basis the possibility of introducing FTAs deserved a mention. His Department had prepared an illustration of the affects of introducing an FTA of £750 alongside a move to TAs for married couples. Because personal allowances had to be reduced somewhat to make room for FTAs within the same overall cash cost, there would be some relatively small cash losers among two-earner couples; but compared with the Chancellor's proposals, 1½ million two-earner families with children would gain, there would be further reductions in the numbers caught in the poverty and unemployment traps, and the extent of 'churning' would be reduced by a third. Nothing would be lost through mentioning this possibility; indeed, commentators would particularly notice its omission.

4. In discussion of FTAs, the following further points were made:

(a) such a mention would detract from the general theme of the Green Paper, which was greater equity in the tax system, and justice for married women. The fact that there would be 2½ million cash losers under the Social Services Secretary's illustration would undermine support for the move to TAs. The family support lobby would not be satisfied with FTAs: they wanted big increases in Child Benefit unambiguously paid to the mother, and not reaching the family through the father's wage packet. It would be better to leave the social security system to meet the Government's objectives in terms of family support.

(b) Under the arrangements proposed by the Chancellor, childless one-earner couples gained relatively more than one-earner couples with children; over one million childless couples gained more than £11 a week. Insistence that family support was the job of social security benefits

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would draw attention to the fact that by the time of the Budget there would have been two successive announcements of social security benefit upratings in the course of which Child Benefit had been frozen in money terms, and it was unlikely that there would be resources in the social security programme for any significant increase in Child Benefit even in April 1988. In view of this it was essential that at the least the first sentence of paragraph 3.17 should be cut out of the text.

5. The following further points were made in discussion:

(c) it remained doubtful whether the change to TAs would have substantial political appeal. Two-earner couples would be bound to realise that they would be bearing a larger share of the burden of taxation, and that they might well face real losses. Professional women would see themselves as disadvantaged in relation to non-working wives, many of whom were childless. Against this it was argued that the position of individuals should be considered over their whole life-cycle; most families moved at some point from having two incomes to having only one, and then reverted to two incomes again as children grew up. The large majority of non-working wives were either looking after children or dependent relatives, or were already over 50.

(d) The change to TAs would not have any substantial impact on the problem of incentives. Even the £20 a week subsidy under the Job Start Scheme to encourage people to accept work at less than £80 a week was proving inadequate. Ministers would need to tackle the incentives problem separately; it was arguable that a mistake had been made when all benefits had been put onto a flat-rate basis, and the wage stop abolished - the maintenance of incentives required benefit levels to be earnings-related. The Green Paper should be seen as directed essentially towards equity in taxation; it did not constitute an effective Government response to the problem of incentives. It was, however,

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pointed out that a system providing FTAs as well as TAs would be significantly more effective in reducing the extent of the incentives problem than the Chancellor's proposals.

6. THE PRIME MINISTER, summing up the discussion, said that the Group endorsed the publication of the Green Paper broadly on the lines proposed by the Chancellor of the Exchequer, emphasising that there was at this stage no question of any Government commitment either on substance or on timing. The Green Paper should not, however, say that the Government regarded family support as entirely a matter for the Social Security system, and paragraph 3.17 should be amended accordingly. In view of the importance of the issues raised by the Green Paper, the Chancellor of the Exchequer should therefore circulate the full text for ^{consideration} ~~discussion~~ by the Cabinet on 20 February.
 approval STET

7. The Group -

1. Took note with approval of the Prime Minister's summing up of their discussion.

2. Invited the Chancellor of the Exchequer to circulate the full text of the draft Green Paper to the Cabinet for ~~discussion~~ on 20 February.

consideration (STET).