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PRIME MINISTER

Handwritten notes:
No way in this Parliament
- - before 1980's - computer
Priority - on views at that time
Can be reduced by phasing

GREEN PAPER ON PERSONAL TAXATION

I am in favour of publishing the Green Paper on Personal Taxation circulated under cover of C(86)7 so that we can see what the public response is to the Chancellor's proposals, but I am opposed to legislation in this Parliament to introduce the changes.

In presenting these proposals we should be clear that, if they were to be implemented, there would be a very substantial price tag indeed - up to £5 billion a year. It would pre-empt resources that could go to reducing taxation in other ways. And it would add to the pressures to contain ^{raise} public spending in areas like health care.

I have yet to be convinced that what we are going to achieve through the Chancellor's proposals will be worth the high price - or that the public generally will think that it would be money well spent. It will be evident that the extra resources are not being targeted in a discriminating way. In particular, although most one-earner working couples do have children, over a million without children would also gain - mostly by £10 or more a week. Indeed, on average one-earner couples without children will gain more (£11.58 a week) than those with children (£10.75). And over 7 million single people would benefit - on average by £3.44 a week.

There is no doubt about the importance which our own supporters attach to helping families with children. It was very evident in the response in the House to my statement on Monday on the uprating of social security benefits. There was a clear welcome for the uprating of child benefits in line with prices - and pressure to restore the 35p deducted from last November's uprating.

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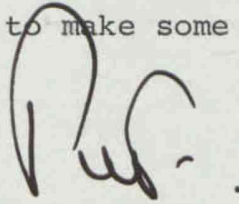
E.R.

As you know, against this background I have seen considerable political advantage in acknowledging in the Green Paper that there is an approach which combines a smaller transferable allowance with a new Family Tax Allowance, available to all families with children whether the wife was at home or at work. If the Family Tax Allowance was set at, say, £750 it would be possible to meet almost all the Green Paper's stated objectives to a greater extent than with transferable allowances alone. As I pointed out in my minute of 11 February, for the same total cost,

- around 1.4 million more families with children would gain than under transferable allowances alone;
- the numbers in the poverty and unemployment traps would also be reduced by even more, thus further strengthening work incentives;
- there would be a bigger reduction in "churning" compared with transferable allowances alone. The number in this position would be reduced to 200,000;
- childless couples where both couples were working would be net losers, but the losses would generally be very small (under £2 a week) and would affect families on average earnings.

would
A combined reform on these lines show/that we were committed not only to removing discrimination in the tax systems but also to targeting available resources where possible on families with children. This would fit well both with our general support for families and with our planned improvements in help for low-income families through the social security system. Above all by showing that we had not overlooked the particular needs of families with children, it would avoid handing a very powerful weapon to our opponents.

I am copying this only to the Chancellor, the Chief Whip and to Sir Robert Armstrong but I shall want to make some of these points in Cabinet tomorrow.



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