



file 6

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 June 1986

The Prime Minister's eye was caught
by this article which appeared in the June
issue of Good Housekeeping.

David Norgrove

Mrs Rachel Lomax
HM Treasury.

✓

HUSBAND & WIFE TAXES

Margaret Stone takes a good look at the Government's latest Green Paper – more like waving a red rag at working wives?

One of the longest running sagas on the family finance scene is the taxation of husband and wife. It looks as though this 'soap' has started yet another new series, but I have a feeling that for many women the next few episodes will be as unsatisfactory as was the *Dynasty* wedding massacre in the TV ratings.

At the hub of the tax debate is equality between men and women. For too long, women have been treated as their husband's chattels, at least in the eyes of the taxman. It is the husband's responsibility to fill in the tax return, and it is only in recent years that the Inland Revenue has, when a query arose, deigned to address correspondence to a married working woman.

The 1973 change in the rules which permitted high earning couples each to be taxed as separate individuals, each in receipt of a single person's allowance, helped couples whose incomes jointly exceed £25,361 (tax year 1985-86). But that was a tax-saving device, not a matter of equality between husband and wife, and anyway did little to help lower-earning families. Further reforms were drafted. They promise to be quite incendiary.

Light the Green Paper

Timed to coincide with this year's Budget – and heavily criticised in advance – the Chancellor's Green Paper (The Reform of Personal Taxation) proposes to abolish the married man's tax allowance and introduce independent taxation for both partners. There would be single allowances for all, with husbands and wives able to transfer any unused part of their allowances to each other. Meaning that all couples would get two allowances whether both partners work, or just one. (At present, only working wives are entitled to the wife's earned income relief.)

In future, suggested Mr Lawson, husbands should have the benefit of twice the single person's allowance when their wives give up a job to start a family – belated recognition, of sorts, of the unpaid vital work that women do in the home. But tax experts and women's rights groups were quick to spot flaws, the key complaint being that the long-awaited tax 'reforms' would penalise

two-earner couples and wind up discriminating against working women instead.

It is already being called a charter for 'stay-at-home' wives – wives who choose not to work as distinct from women who, because of domestic responsibilities such as looking after children, cannot go out to work. It is also bound to upset many working wives because of the implied dismissal of their contribution to the family's and the country's economy. And for wives returning to work after a period of absence, the implications are disturbing; their entire income immediately will be taxed at 29% – more, if the husband is in a higher tax bracket, which he will be if his taxable income exceeds £16,200.

Under the Lawson scheme, households with a husband and wife both working would lose, whereas families with just one earner would gain. It is small consolation to know that the Government will introduce the reform very gradually, allowing a long transitional period, during which personal allowances will be raised to the point where two allowances match the two-and-a-half allowances which dual-earner families get today. Meantime, here's how things stand for the 1985-86 tax year, and allowances proposed for 1986-87 (in italics):

Single – both working.

Man	£2,205	(2,335)
Woman	£2,205	(2,335)

Married – both working.

Husband	£3,455	(2,655)
---------	--------	---------

Wife's earned income allowance	£2,205	(2,335)
--------------------------------	--------	---------

Married – both working and joint income over £25,361.

Husband	£2,205	(2,335)
---------	--------	---------

Wife	£2,205	(2,335)
------	--------	---------

Married – wife not working.

Husband	£3,455	(3,655)
---------	--------	---------

Wife	nil	
------	-----	--

Married – husband not working.

Husband	nil	
---------	-----	--

Wife	£3,455	(3,655)
------	--------	---------

plus wife's earned income allowance	£2,205	(2,335)
-------------------------------------	--------	---------

The crucial contrast at the moment is between the ordinary working couple who between them at the moment have two and half times the ordinary single person's allowance, and the household in which the wife doesn't work, where the allowances

are only one and half times the single person's allowance. Clearly, the tax treatment of these two sets of married couples is unbalanced compared with the 'norm' of the tax treatment for single men and women.

Attempts at reform

Debate and discussion on how to redress this imbalance began back in what almost qualifies as 'the good old days' when Jim Callaghan was Prime Minister and Denis Healey his Chancellor of the Exchequer. The Conservatives inherited the issue, and when Sir Geoffrey Howe was Chancellor, the first important Green Paper on the taxation on husbands and wives was published.

The prevailing impression, then, was that Sir Geoffrey favoured individual taxation for husbands and working wives, but that money saved on the abolition of the married man's personal allowance should be diverted to boost child allowances instead of being given to the non-working wife to transfer back to her husband. But the lobby in favour of giving an extra fillip where it is most needed – the child benefit – instead of paying women to stay at home, seems to have lost ground to the more generalist campaigners in favour of the 'family', and a woman's right not to work outside the home.

Full implementation of the proposed new system – assuming it survives without modification the pent-up antagonism and any possible change in Government – will certainly not be until the Inland Revenue is fully computerised at the end of the decade. It is amazing that so many of our tax returns are not yet held on computer; but by the end of this decade, we should have push-button rather than pen-pushing tax officers.

Other Green Paper points: investment income will be the responsibility of the recipient; mortgage interest tax relief (currently available to each of two single persons living together) probably will be reduced to £30,000 per residence; capital gains tax to be charged separately, too.

And a further change afoot for the working woman, of course, is the latest Government proposal to let her carry on working right up to the male retirement age if she wishes. □