

PRIME MINISTER

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19 July 1985

SDP PROPOSALS FOR TAX REFORM

The SDP have just published a Green Paper on the tax system.  
John Redwood and I thought you might be able to exploit some  
of their juicier proposals.

Merge National Insurance Contributions and Basic Income Tax  
at a 39% Rate

- \* End the contributory principle.
- \* Increase the tax burden on people earning around  
£15,000-£20,000, who are above the UEL but below  
higher-rate income tax.
- \* Reduce tax thresholds. (The SDP Green Paper suggests a  
6% cut to cover the loss of National Insurance on the  
first tranche of income.)

Income tax should become an "exemption of savings" tax

Income tax would become an expenditure tax of the type  
proposed by Professor James Meade in a 1978 Report for the  
Institute of Fiscal Studies. All taxpayers would fill in a  
return at the end of the year, showing their income and the  
change in their financial assets. Tax would be levied on

income, less any increase in savings (or plus any  
realisation of savings).

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The Chancellor of the Exchequer has commented that:

"Going from an income base to an expenditure base would constitute a massive upheaval, with a multitude of side effects. No country has (understandably) moved to this, despite its theoretical attractions. (We considered it very fully in Opposition, but concluded that it was not a practical proposition.)"

#### Other Changes to Income Tax

- \* Taxation of full value of company cars.
- \* Personal tax allowances only to give relief against basic rate tax.
- \* Abolition of the married man's allowance. (The Chancellor is also working on this, but he would increase total tax reliefs. The SDP would raise more tax and spend it on benefits.)
- \* A 9% reduction in the rate for pensioners to offset damage to them of merging tax and NIC.

## Capital Taxation

- \* All realised gains from saving and investment to be taxed as income. So if you sell your house, any receipts you don't save or spend on another house would bear income tax without indexation of capital gains.

## The SDP would:

- end National Insurance;
- lower tax thresholds and raise income tax to 39%;
- increase the tax burden on middle income groups;
- clobber company cars;
- tax your home as income if you don't reinvest the money.

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