CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 30 JULY 1974
at 12.00 noon

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury
# CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>NATIONAL SUPERANNUATION</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>TAXES ON CAPITAL</td>
<td>3</td>
</tr>
</tbody>
</table>
The Cabinet had before them a memorandum by the Secretary of State for Social Services about National Superannuation (C(74) 84), to which was appended a draft White Paper.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that much of the credit for the very ingenious proposals for improved long-term pension arrangements rested with the Minister of State in her Department, Mr O'Malley. The main principles which any scheme adopted by the present Government would have to satisfy were that it should afford an adequate earnings-related pension for everyone; provide a role for good occupational pensions schemes; be simpler than the proposals put forward by Mr Grossman in the time of the last Labour Government; make some improvement in the position of existing pensioners; provide for equal treatment for women and for an element of redistribution in favour of the lower paid; and offer proofing against inflation. Her proposals satisfied these requirements. The benefits proposed were outlined in the memorandum she had circulated. The base level pension would be revalued in line with average national earnings and the remainder of the pension would be price protected. It would be assumed that the rate of contributions at the start of the scheme would be no more than 16½ per cent. This compared with a contribution of 14½ per cent as from April 1975 and reflected a reduction in her original proposals in the light of discussions with Treasury Ministers. Employees who had been contracted in would be paying 6½ per cent; those who had been contracted out would be paying 6½ per cent up to the base level and probably 4 per cent on the remainder of their earnings; but the detailed arrangements for contracting out could not be finalised pending the completion of consultations with the interests concerned. The period of maturity would be 20 years and pensions would be calculated on the basis of the contributor's best 20 years of earnings. The latter was a particularly attractive provision which would be appreciated by manual workers and by younger workers generally. The proposals envisaged equality of treatment for women, and therefore the married woman's option would be abolished for all women newly entering employment. But, because of the consequential increase in contributions, phasing-in arrangements were needed for women already at work; the White Paper indicated that there were to be discussions with interested organisations but that the Government looked sympathetically at the possibility of allowing the continuance for existing working wives of the right to opt out of cover for short-term benefits. This would significantly reduce the total cost of the scheme and would have the further advantage of largely eliminating the...
need for additional staff to operate it. A point still outstanding was the provision to be made for existing pensioners. A general improvement in basic pensions would be very expensive, and the alternative possibility of some form of negative income tax was being examined. In the meantime, alternative forms of words had been included in the draft White Paper; the choice between them would have to depend on the outcome of the discussions which her Department was at present having with the Treasury. The scheme would not involve any additional public expenditure until 1978-79 and the extra cost after the first year would be about £135 million - less, if the married woman's right to opt out from short-term benefits were retained. She sought the Cabinet's agreement to publication of the draft White Paper early in September, if possible before the annual Trades Union Congress.

THE CHANCELLOR OF THE EXCHEQUER said that in principle he endorsed the proposals put forward by the Secretary of State for Social Services. There would be public expenditure implications; but they would not arise until the last year of the present PESC period and it was possible that if there were a general election in 1978-79 the introduction of the scheme might be deferred for a further year. The cost of the proposals would in the long run be very great, and it was important that the White Paper should be presented so that it would have the least effect on confidence in this country's financial stability. He had four comments on the draft which had been circulated. First, whatever might be decided about negative income tax - and the prospects of proposals being worked out did not at present seem promising - he strongly preferred the second of the two alternative versions of paragraph 9 of the foreword. Secondly, paragraph 14 of the draft White Paper itself should indicate that the part of the pension above the base level would receive price protection rather than "no less than" price protection. Thirdly, it was arguable that the proposals for widows and widowers were unduly favourable and it would therefore be desirable to review them. Fourthly, the wording of paragraphs 36 and 38 should be reviewed to reflect the fact that the figure of 16½ per cent for the initial contribution was to be regarded as a maximum.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet congratulated the Secretary of State for Social Services and the Minister of State on having produced an ingenious and acceptable set of proposals. They agreed that a White Paper should be published early in September, if possible before the annual Trades Union Congress. The draft which had been circulated was agreed, subject to examination by the Chancellor of the Exchequer and the Secretary of State for
Social Services of the points which had been raised. In the light of their consultations, any necessary amendments should be made to the draft, and the Cabinet need be consulted again only if there were points which the Ministers were unable to settle between themselves. The Secretary of State should consider the issue of a popular version of the White Paper and the provision for Ministers of suitable briefing material at the time of publication.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer, to proceed accordingly.

2. The Cabinet considered taxes on capital. Their discussion and the conclusions reached are recorded separately.

Cabinet Office
30 July 1974
THE CHANCELLOR OF THE EXCHEQUER said that the Government were committed by their Election Manifesto to measures of redistribution of wealth as well as of income. The only tax on wealth at present was estate duty, which was widely avoided by lifetime gifts and trusts. If a wealth tax was not to be similarly avoided, a tax on gifts was also indispensable. He had therefore already announced in his Budget a new gifts tax which would have immediate effect and for which the legislation, which would be very complicated, would be introduced in the second Finance Bill. He had undertaken to give further information about the tax, and this would now be published in a White Paper. The rates of tax would be lower than those of the present estate duty, but the eventual yield would be higher, which was an indication of the extent to which estate duty was avoided at present. The most complex provisions would relate to trusts, where the general principle would be that the charge to tax should be neither greater nor less than the charge on assets held absolutely. The exemption for gifts to national heritage bodies would continue. The present relief from estate duty for business and farm assets would be discontinued, but following discussion in the Ministerial Committee on Economic Strategy, the draft White Paper was being modified to show more recognition of the problems faced by small businessmen and farmers.

He had also accepted an obligation to publish a Green Paper on the wealth tax. This tax would be a new departure in this country, although other countries had had similar taxes for a considerable time. The Green Paper would indicate the broad shape and structure of the tax, and explain the main difficulties, suggesting alternative solutions where appropriate. It would be proposed that the Green Paper should be referred to a Select Committee of the House of Commons. It would not be possible to include the necessary legislation in a spring Finance Bill in 1975, although it might well be possible to include it in an autumn Finance Bill if there was one.
Otherwise it would have to be deferred until the 1976 Finance Bill, in which case the valuation and the first payments of the new tax would take place in 1977. It was proposed that the starting point for the tax should be £100,000, rather than the figure of £50,000 which had been previously envisaged. This was necessary in order to avoid an unmanageable burden on the Inland Revenue, and it also recognised the effect of inflation since the figure of £50,000 was originally suggested. Depending on share values, the tax would affect one in every 200 to 300 of the population. The tax would start at 1 per cent, and two possible illustrative scales would be indicated, yielding approximately £200 million and £300 million respectively. Any special exemption for works of art would be associated with a requirement that they should be placed on public display, but household goods might be exempted below a specified limit. When the wealth tax had been introduced, it should be possible to abolish the investment income surcharge, and also to reduce somewhat the higher rates of income tax. The proposals generally might be felt by some to be insufficiently draconian, but it was preferable to introduce them in a way which would not damage confidence. The important thing was to get the tax onto the statute book, and it would always be possible to change the rates later if necessary.

The proposals in both documents would be provisional. The Green Paper on the wealth tax was intended as a basis for public discussion. The White Paper on the capital transfer tax would sketch out the main principles, but the details would be contained in the Finance Bill. He proposed to publish both documents during the following week.

In discussion, concern was expressed that the taxation of gifts would affect those of relatively modest means. There would however be exemptions for gifts made out of income, for the first £1,000 of gifts made in any one year, and gifts on marriage up to £2,500; and the first £15,000 of the cumulative total of chargeable transfers would also be free of tax. Gifts to charities would also be exempt up to a cumulative limit of £50,000, with half the normal rate of tax applying thereafter. There were difficulties in giving complete exemption for charities because of the unsatisfactory definition of charities in existing charity law. A further effort would however be made to see if complete exemption could be given for gifts to charities falling within some stricter definition included in the Finance Bill for this particular purpose.

In further discussion the following points were made -

a. The special position of agriculture has already been recognised in the draft Green Paper, and agreement has been reached on a passage of a similar kind to be included in the draft White Paper on the capital transfer tax. The effect on agriculture could however still be serious.
b. It had been argued that the rate of tax on lifetime gifts should be somewhat lower than on death, since otherwise the flow of gifts might dry up, to the detriment of the revenue. Any such differential could however probably only be created by increasing the rate of tax payable on death, rather than by decreasing the rate payable on lifetime gifts.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the Chancellor of the Exchequer's proposals. Further consideration would be given to the point raised in discussion about the taxation of gifts to charities.

The Cabinet -

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

Cabinet Office

31 July 1974