TAX-CREDIT SCHEME: DRAFT GREEN PAPER

Memorandum by the Secretary of State for the Home Department and Lord President of the Council

1. The Cabinet discussed a draft Green Paper on the Tax-Credit Scheme at their meeting on 27 June (CM(72) 32nd Conclusions, Minute 1), and invited my predecessor to examine the draft with other Ministers concerned and consider the publicity arrangements in greater detail. I have accordingly had discussions with the Chancellor of the Exchequer, the Secretary of State for Social Services, the Lord Privy Seal, the Secretary of State for the Environment, the Minister of Agriculture and the Secretary of State for Employment.

2. The Cabinet commented in particular on the payment of child credits, the implications of the scheme for the financial position of strikers, and the treatment of non-resident dependants. Our conclusions on these matters are as follows:

a. Child Credits.

It would be simplest to pay all credits to the father; but there will be public pressure for some and possibly all of them to go to the mother. The fairest answer would probably be to split them between the parents, giving the father credit for the first child (or perhaps the first two children), and the mother the credits for the others. But our conclusion is that it would be wrong to reach a decision on this controversial matter at this stage. We therefore propose that the arguments for and against payments wholly to the father, split between father and mother, or wholly to the mother, should be objectively set out in the Green Paper; and it should be stated that the Government regard the issue as entirely open, and that a decision will be reached in the light of public discussion and the views of the Select Committee.

b. Strikers

Strikers and their families do not forfeit income tax allowances, family allowances or family income supplement, all of which the Tax-Credit Scheme will in whole or in part replace. Any proposal
that they should be forfeit would be extremely controversial. The Secretary of State for Employment, the Chancellor and the Secretary of State for Social Services are looking at this further; but our first impression is that it would not be justifiable to use the scheme as a means of penalising strikers, and in any case to do so would almost certainly put at risk the support for the scheme which the Opposition have so far displayed. Moreover, it would still be possible for lost Tax Credits to be claimed at the end of the year as an additional tax allowance, which, unlike credits paid during a strike, could not be offset against any supplementary benefits claimed: if Tax Credits were not paid during the dispute, therefore, strikers would in fact be better off. We do not consider that we should volunteer any statement in the body of the Green Paper itself.

c. Non-resident Dependents

This again is likely to be a controversial issue, particularly among immigrants; and we think that the best course is to set out the position and see how public discussion develops. We therefore propose to explain in the Green Paper that child credits for overseas dependants would probably be payable in all cases where we at present have reciprocal arrangements with the countries concerned on family allowances; and that where we do not, the question is for the moment being left open for further study.

3. Although the scheme cannot come into effect for another five or six years, it proposes the application of a very large sum of money, £1,000 million or more; and in presenting the scheme we must be careful that the impression is not gained either that this sum, which on the whole will benefit the hard-pressed and slightly better-off rather than the poorest members of the community, will diminish what would otherwise be done for the latter, or that the scheme is being launched without regard to the general context of the Government's social policies. The Chancellor of the Exchequer and the Secretary of State for Social Services are drafting a foreword which is intended to cover these points on lines which we have discussed. We have also considered the suggestion that there might be a simplified version of the Green Paper. On the whole, we believe that the Green Paper, as a document for discussion, should stand on its own, and that a simplified version might lead to confusion and misunderstanding of proposals which must be explained in some detail if they are to be justly understood. We are however considering whether it would be feasible to produce a pamphlet to promote the Green Paper; and if so what distribution it should be given.

4. The Chancellor of the Exchequer considers that the most opportune time for publication of the Green Paper might be in September. Our conclusion was that we should at least be ready to publish then. It is desirable that publication should not be delayed, because even as things are the timetable for bringing the scheme into effect in April 1977 is very
tight. Furthermore, publication is expected soon, and too much delay may well be interpreted as disagreement. The Chancellor would propose to consult those colleagues principally concerned about the precise date of publication. Meanwhile we have considered the detailed arrangements for publicity, which will probably include attributable briefing of the Press, television and radio, and extended briefing of selected commentators and specialist publications.

RECOMMENDATION

5. I invite my colleagues to agree that the Green Paper, as amended on the lines set out above, should be published in September: the date to be fixed in consultation with the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Social Services and myself. Unless any of our colleagues raise any objections by midday on Friday 4 August we will assume that we have the Cabinet’s agreement to proceed accordingly.

R C

Home Office

31 July 1972