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WAR CABINET.

Effect of Income Tax on the Weekly Wage-earner.

Memorandum by the Minister of Labour and National Service.

1. In December I informed my colleagues on the Lord President's Committee of the urgent need, in my view, for a thorough examination of the whole question of the Income Tax collection especially from wage-earners, and I drew attention to certain specific points which seemed likely to cause dissatisfaction and unrest if the method of applying the tax to the new classes was not modified. There is growing evidence of resentment against the alleged injustices inherent in the present system, and this is bound to have a serious effect on production. Within the past few days a resolution has been passed by a mass meeting of Shop Stewards on the Clyde in favour of an embargo on all overtime as from 1st March if adjustments are not made to meet real grievances. The view of many trade union officials is that the main cause of discouragement is the fact that the current tax is related to past earnings and that the main grievance would be met if the tax was paid on current earnings, leaving for later settlement, minor adjustments between individuals. I am bound, therefore, to state, with the utmost emphasis, my conviction that the present system as it applies to the weekly wage earner must be modified and I ask that a Committee should be appointed to report urgently on improvements which could be made with the view to their inclusion in the forthcoming budget.

2. I regard it as of the utmost importance that a decision be taken on this matter, and a suitable announcement made, at the earliest opportunity.

3. It may be convenient if I indicate to my colleagues the aspects of the present system which give rise to a sense of injustice, and in some cases cause hardship and discouragement of full support for war production.

- (a) Tax based on earnings for the period April to September is deducted in the subsequent period January to June. Thus the rate of tax is increased at the time when earnings in many vital trades, particularly shipbuilding, building and docks, are at their lowest. On the other hand when earnings are at their peak in the summer, the rate of tax will be reduced.
- (b) Again owing to the delayed action in tax collection, the tax becomes a debt to be paid by men who have ceased to earn wages at taxable level, e.g., men who are required to join the Services; men who are injured in the course of their employment or become sick or are compulsorily transferred to lower paid employment. Unless the tax can be deducted immediately in respect of the current earnings, the present serious position will continue and will become more acute when earnings fall as overtime and Sunday work are reduced and financial embarrassment will be widespread.
- (c) Although there is a level below which wages cannot be reduced in any week (£1.17.6d. for a single man and £2.17.6d. for a married man), there is no limit on the proportion of income which may be deducted in any week. Accordingly a married man whose standard of living is adjusted to an income of £6 a week, may find that owing to arrears of tax, his wage in a particular week may be reduced by more than half. Moreover a married man has to make formal application before he becomes entitled to the higher level of £2.17.6d.

- (d) It is, no doubt, logical that all overtime and payment for Sunday work should be treated as additional income which is subject to tax. There is, however, a big psychological difference between the tax on ordinary weekly remuneration and the tax on the payment made for the extra effort in the interests of production which overtime and Sunday work represent. Some way must be found of recognising this difference between ordinary income and income due to special efforts made because of the urgent needs of war production.
- (e) Married women are being asked to return to industry or to take wage earning employment for the first time. The operation of the income tax arrangements is a definite discouragement, as a large proportion of the earnings is taken in income tax if the husband has already exhausted the benefit of the personal allowances. Also it is made to appear that the wife pays more in taxation than her husband in relation to her wages.

4. These are some of the questions which call for urgent examination and adjustment. In all these cases the real essence of the matter is that the wage earner budgets on the basis of his weekly earnings. He judges the operation of the Income Tax system by its immediate effect on his weekly pay packet and he is not consoled by assurances that, taken over a period of six or twelve months, the British system of taxation is the most equitable that can be devised. It is possible to remove misunderstanding about the operation of Income Tax and a good deal is being done in this direction. But the trouble goes much deeper than that and the grievances must be removed if continuous support is to be given to the war effort. Any system must be simple in its operation and must be related to current earnings.

E.B.

13th February, 1942.



