



10 DOWNING STREET

*From the Private Secretary*

27 May, 1981

Taxation of Widows and Single Women aged 60 - 64

I believe that Mike Pattison has already told you that the Prime Minister was unimpressed by the arguments put forward in the Chancellor's minute of last week on the above subject in favour of maintaining the status quo. She will wish to discuss this with the Chancellor quite soon, since we cannot delay much longer the letter to Jeff Rooker.

I suggest that they discuss this at the meeting which we are arranging for next week.

I am sending a copy of this letter to Don Brereton (Department of Health and Social Security).

T. P. LANKESTER

Richard Tolkien, Esq  
HM Treasury

A

PRIME MINISTER

B /

Treasury Ministers have now considered Jeff Rooker's suggestions for special tax relief for single women and widows between 60 and 64. You had indicated some sympathy with this case.

You will see that the Chancellor comes down against any special relief, and seeks your approval for a letter which he proposes to send to Jeff Rooker in response to Mr. Rooker's two letters to you on the subject.

Are you prepared to accept the Chancellor's line?

NO - the reasoning is wrong.

If so, we will arrange for his letter to be despatched, and we will then let you have a short draft to Mr. Rooker referring to the Chancellor's letter (he wrote to you a second time complaining that there had been an unreasonable delay in the initial answer which you had promised from a Treasury Minister).

MAF

ml

21 May, 1981.



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

GR  
Note - this is one of  
the worst minutes  
I have ever seen  
for the  
Treasury!  
ml

PRIME MINISTER

TAXATION OF WIDOWS AND SINGLE WOMEN AGED 60-64

I have been considering, with my Treasury colleagues, the suggestions made by Jeff Rooker for a special relief for single women and widows aged 60-64, and the comments you have made on the subject (recorded in Nick Sanders' letter of 3 April).

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2. I have come to the conclusion that it would be a mistake to introduce any special relief this year, and I attach a copy of the reply I propose to send to Jeff Rooker's 26 March letter, which also refers to his follow-up letter to you of 10 May.

3. I do not think there is any real substance in the arguments Jeff Rooker himself makes in favour of special relief. His argument is that a woman with a graduated addition to her State pension (and no other income) should not have to pay tax because the graduated addition is the same as the basic State pension, and unlike any other income. In principle, his argument is wrong. These graduated additions were introduced in 1961 to give a "second pension" to people who did not have occupational pensions. Jeff Rooker has got his political mileage on this issue from pretending that the graduated pension is unique (and emphasising the smallness of the average amount). But in substance the graduated pension is no different from the additional components payable under the current scheme, which started in 1978. Both these payments are earnings related, and, in effect, surrogate occupational pensions.

/I see no



4. I see no reason to treat a woman with either of these additions any differently from people whose income over and above basic pension comes from a small occupational pension, or some other source. In any event, it would be quite impracticable to try to keep all women with these earnings related additions out of tax, even if we thought it right to make the attempt. The maximum graduated pension is over £200 a year. The maximum amount payable under the additional components is already nearly £300, will rise to nearly £600 by 1983-84, and will keep on increasing. Even if these women got full age allowance, therefore, (i.e. an extra £450 odd tax relief) there is no way in which their tax threshold could keep pace with the growth in the size of these occupational pensions. From this standpoint, a special relief would be a short term expedient which would soon become ineffective.

5. People will just have to accept - and I see no reason for our being defensive about this - that it is right in principle, and inevitable in practice, that some women with these earnings related additions to pension should come into the tax net, even if they have no other income.

6. Another of Jeff Rooker's suggestions is that the Revenue's assessing tolerance should be increased. I do not think it would be right to raise this de minimis administrative limit to take more people out of tax, and I think we would be justly criticised if we made the attempt. The practical difficulties are dealt with in the note to Jeff Rooker.

7. While this disposes of Jeff Rooker's own arguments for a special relief, it does not deal with the more fundamental point raised by your comment. The argument in the past has been that there is no necessary link between retirement age and the qualifying age for age allowance. The age allowance has been justified as recognising the reduction in taxable

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reduction in taxable capacity - only comes with old age because that is the time when work is reduced

capacity which comes with old age. There is no reason to think that old age hits single women any earlier than it hits other people. From this standpoint, it has always been held that if the qualifying age for single women and widows were dropped to 60 this would be unfair on men and married women of the same age. I think the logic must be right, if one starts from this point. But your comment raises the question whether this is the right starting point. If one said that the qualifying age for the tax allowance should be the same as the State pension age then on this basis, as you say, the fact that most women retire at 60 would be some answer to those who said it was unfair that men should have to wait 5 years longer before they got age allowance (though the argument could be more difficult with married women).

No

one doesn't

7. I can see the administrative tidiness of basing the allowance on retirement pension age if we were starting from scratch.

But I think it would be very difficult to defend this in principle. The fact is that the lower pension age for women is itself an anomaly!!

not only do women get the pension sooner,

but their expectation of life is appreciably higher than that of men.

Would eligibility for age allowance be simply on age grounds - which would sharpen the present discrimination against men? Or would it depend also on whether or not the taxpayer actually had any entitlement to retirement pension (i.e. would women over 60 without a pension not get it)? If so, why - except for the administrative tidiness? This just raises again the question why the receipt of retirement pension rather than some other income should carry with it a claim to a special tax relief. And the wider the relief were extended to women over 60, the more difficult it would be to exclude widows under 60 whose financial position is very similar.

yes, as it is now.

Wanwe

8. My conclusion from this is that we would create more problems than we would solve if we departed from the present simple proposition that all people have to wait until 65 before



qualifying for age allowance. The more restrictive we made the entry conditions for people qualifying at 60, the greater the pressure for extensions. The wider the scope of the relief, the greater the administrative cost of running it. On the simplest basis, a relief of this sort would probably cost some 300 or 400 staff to set up, and approaching 200 staff a year thereafter. The revenue cost would also be substantial - about £50m a year if the allowance went to all single women between 60 and 65, and more if the scope of the relief was wider.

9. I should be surprised if we had any real difficulty from our own supporters if we continue to resist Jeff Rooker's arguments for a special relief for these women. There was no criticism from our backbenchers when the point was discussed in the House on Clause 23 of the Finance Bill, and I think it unlikely that there will be any criticism in the rest of the Finance Bill debates. Indeed, I suspect our backbenchers would be a bit disappointed if we took action on it, because it would imply that we had not thought through the implications of our personal tax decisions before the Budget. For the future, the problems we have had in this area emphasise the importance of tax thresholds for next year's Budget.

10. I am copying this minute to Patrick Jenkin.

*P.S. Jenkin*

(G.H.)

May 1981

*(Approved by the Chancellor and signed  
in his absence).*



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

May 1981

Jeff Rooker, Esq., MP.,  
House of Commons

As you know, I have been considering the points you raised in your letter to the Prime Minister of 26 March about the taxation of single women and widows aged 60-64, and the Prime Minister has passed me your further letter of 10 May on this subject.

You are, of course, quite right in saying that some single women and widows between 60 and 64 may become liable to tax for the first time this year because they have income in addition to their basic State pension (whether by additions to the State pension or other income) which will take them above the combined level of the single allowance and the assessing tolerances. This is an inevitable consequence of the fact that pensions have been increased in line with inflation (taking the November 1981 and November 1982 upratings together) in a year when, in our view, economic circumstances do not permit any increase in tax thresholds. I recognise that you would prefer to see a higher PSBR, or an increase in basic rate - or both - and an increase in personal allowances but this general issue has been extensively debated in the House and this is not the occasion for rehearsing my reasons for rejecting these alternatives, and deciding that personal allowances could not be increased from last year's level.

If one rules out the possibility of a general increase in personal allowances, the question may arise of, as you say in your letter, the possibility of giving age allowance (or some smaller relief) to widows and single women aged 60 and 64. Previous Governments - Labour as well as Conservative - have rejected this. I have re-examined the position with care - and this accounts for the delay in replying to your letter - and have come to the conclusion that the balance of argument must still be against the introduction of such a relief.

The justification for age allowance has always been that the taxable capacity of people declines as they get older, and that an additional allowance is justified on this account. I would find it very difficult indeed to say with any conviction that the extra expenses etc. of old age comes upon single women as a group any earlier than they come upon men, or married women,

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and I suspect you would find the same difficulty. From this standpoint, therefore, it seems difficult to see how one could justify giving a special relief to single women and widows at age 60 or - on the other side of the coin - convince men and married women that they ought to wait 5 years longer before they could be entitled to age allowance.

Beyond this, one has to face the fact that once one abandoned the present - simple - proposition of having the same qualifying age across the board, it would be very difficult to devise a relief which could be sensibly administered or - more important perhaps - would make sense to those affected by it. Would it make sense to give the tax relief to a single women aged - say - 63 who was still working but deny it to a man or married woman who had stopped worked at age 60? Alternatively, if it were given to all retirement pensioners, what would be done about widows between 50 and 60, who receive the same amount as retirement pensioners? Would it be equitable to extend the relief to a substantial number of younger people? There are, of course, other special groups whose position we could also consider - but I think the point is well enough made already.

These seem to me to be compelling arguments against introducing a special relief for single women aged 60-64. Some single women in this age group will have to pay tax because their additions to pensions take their income above the assessing tolerances. But I think we should be clear what these additions to pension really are. The graduated addition - on which you have concentrated your attention - was introduced to give a "second pension" to people who did not have an adequate occupational pension, or any occupational pension at all. In essentials, the additional components payable under the current pension scheme are exactly the same.

For my part I see no reason to treat women with these additions to pension any differently from those whose income over and above the basic pension comes from another source such as an occupational pension. It also has to be recognised that the maximum amount of these earnings-related additions to pension is already considerable. The maximum graduated pension a woman in this age group could receive is now over £200 a year, and the maximum additional component is approaching £300. Moreover, the number of people entitled to the additional component will increase in future years, as will the maximum amount payable. In 1983-84 the maximum amount will probably be approaching £600. So an extension of the tax relief would not keep all people with these additions outside the scope of tax in future, even if there was a case in principle for giving it.

Your final suggestion was the Revenue's assessing tolerances should be increased. The level of these tolerances is related to the administrative cost of collecting small amounts of tax and there is no administrative reason for the Revenue to increase them this year. I do not think it could be right to

/increase the





increase the tolerances just to give some people what would be - in effect - a higher tax threshold through the back-door. An increase in the tolerances would also exacerbate the problem you refer to in your letter. As you point out, a person whose incomes is just above the tolerance is liable to tax on all his income above the tax threshold. If the tolerances were increased to - say - £150 income then the disparity of treatment between those whose income was just above the tolerance level and those just below it would be increased. I do not think this would be defensible.

I am, of course, concerned about the financial position of widows and single women between 60 and 65, just as I am about that of other groups of older taxpayers. But the well-being of women in this age group, just like that of all other members of community, must depend ultimately on the defeat of inflation and the creation of sustained economic growth. It is precisely to those ends that our Budget proposals as a whole are directed.

GEOFFREY HOWE

20 MAY 1964

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