

DC SIR R. ARMITAGE  
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10 DOWNING STREET

From the Private Secretary

10 March 1980

Dear Jim,

The Prime Minister considered the Chancellor's minute of 5 March about the distributional effects of his proposed income tax package over the weekend, and also his minute of 7 March setting out his proposals in respect of capital taxation.

As I told you on the telephone, the Prime Minister is most concerned about the distributional implications of both sets of proposals. As regards income tax, she does not believe a package which will bear most heavily on those in the £2½-£5,000 income bracket is tenable; for in her view, it would severely aggravate wage pressures in the next pay round.

For similar reasons, she believes it would be most unwise to make significant concessions on capital taxes this year. Even if the income tax package can be made more equitable, she thinks that even the relatively modest proposals put forward by the Chancellor will be widely criticised as favouring the rich at a time when the less well off are having to face higher prescription charges, charges for school transport, higher charges for school meals, etc. The Prime Minister therefore suggests that the Chancellor should drop his main proposals on CGT and CTT, and confine his proposals to the minor changes mentioned in paragraph 7 of his minute of 7 March.

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The Prime Minister agrees that the stamp duty proposals should not be scored as a capital tax measure, and she agrees with the proposal to raise the thresholds by £5000.

The Prime Minister would like to have an early discussion with the Chancellor. As I mentioned to you, she would find it helpful to have some clear figures on the distributional effects of both the Chancellor's preferred income tax package, and possible alternatives.

Tom  
The  
Lambert

John Wiggins, Esq.,  
HM Treasury.