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Some useful examples of the impact of
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a local income tax.
MEFA 12/11

MICHAEL HOWARD QC MP

Release Time: Immd. Thursday
12 November 1987. 705/87

LOCAL INCOME TAX

Local Government Minister Michael Howard today wrote to John Wheeler MP, Chairman of the Greater London group of Conservative MPs, giving further information on some of the points arising from Mr Howard's written answer today to Nicholas Bennett, MP for Pembroke.

Copy of letter attached.

Letter from Local Government Minister Michael Howard QC MP (Folkestone and Hythe) to John Wheeler MP (Westminster North), Chairman of the Greater London group of Conservative MPs:

12 November 1987

Dear John

LOCAL INCOME TAX

I thought I would write to you in your capacity as Chairman of the Conservative Group of London MPs to explain some of the points which arise from the figures on local income tax for each council in the country which I published today. All the local income tax rates would of course be on top of the current rates of national income tax.

The introduction of a local income tax would deal a massive body blow to our inner cities. The figures I published show this very clearly. The present spending levels of many Labour controlled councils in the inner cities would require very high levels of income tax. Yet in many cases nearby suburbs controlled by Conservative councils, which have spending under control, would need far lower rates of tax. A flight of people and talent away from the big spending areas would be the certain result. Let me give you a few examples of what I mean.

Take the London Borough of Camden. Massive overspending by both the Borough itself and the ILEA - to the tune of £604 per adult - means that the council would require a local income tax rate of 25.6p in the pound. The tax bill for a single adult on average earnings resulting from this would be £2,066 per year or around £40 a week. Compare that with the London Borough of Barnet. The local income tax rate there would be 5.9p in the pound. That would mean a tax bill for the single adult of £477. This represents a difference of £1,589 - or £30 a week.

Or take the Borough of Lambeth. Their overspending together with ILEA's is £369 per adult. The local income tax rate would be 16.7p in the pound, which would mean an income tax bill for the

/.. single person

single person of £1,347 a year. Compare that with neighbouring Croydon. There the council keep their finances well under control and the local income tax bill would be 3.8p in the pound. That would mean a tax bill for a single adult of £307 - a difference of over £1,000 a year or nearly £20 a week.

Or take Lewisham. The combined overspend with ILEA is £498 per adult, which would require a local income tax rate of 20.9p in the pound. The single adult would face a bill of £1,687 a year. In neighbouring Bromley good housekeeping means that the council would require only a 4.3p income tax rate, which would mean an income tax bill of £345 a year for the single adult. That is a difference of £1,342 a year or £25 a week.

What would be the effect of these enormous disparities between neighbouring authorities? You don't need a crystal ball to work out that there would be a flight of people from many parts of the inner city to the outer suburbs and beyond. And it would be the young, the skilled, the professionals and the enterprising who would make that move. These are the very people that the inner city needs to sustain a healthy economy.

So people would flock from Camden to Barnet, from Lambeth to Croydon and from Lewisham to Bromley. That really would be an utter disaster for the inner cities.

And think of its effect on house prices. House prices in the areas from which people were fleeing would plummet. That would mean forcing thousands of people to accept a swingeing cut in the capital value of their homes. That would be an arbitrary and totally unfair impost on people whose only crime was to live in high spending Labour authority areas. And of course that might only be the start. Local Income Tax would be a terrifying weapon in the hands of left wing local authorities. A 10p starting rate could quickly become 15 or 20p. The country would find itself with 400 Chancellors of the Exchequer. Many of them would be committed to tax increases rather than tax cuts.

There are other serious objections to the introduction of a local income tax. It would not bring about proper accountability in local government. Eighteen million people are liable to pay rates at the moment. Only twenty million would pay a local income tax. Not much of a gain in accountability. Moreover, yet another deduction from the payslip would scarcely be the best way of showing people the true cost of their local council's spending policies.

These are some of the reasons why the Government has rejected the idea of a local income tax. It is not a way forward for local government in this country. It is more like a blind alley.

The debate about the future of local government finance is moving into a new phase. Everyone now accepts that the domestic rates must go. One by one as the alternatives are examined it will

become clearer and clearer that the only real alternative to the present system is the Community Charge. We are winning the argument. In years to come people will not ask why we introduced the Community Charge but why it took so long for a Government to have the courage to introduce it.

J. er
Michael

MICHAEL HOWARD

John Wheeler Esq MP

