

## **Extract 1**

You asked for advice on the practicalities of bringing in a 10p rate band from 6 April 1999, with or without a cut in the basic rate at the same time.

Timing: Urgent. If you are minded to do this, the consequential changes to legislation are complex and numerous and we need to get to work on them.

This note looks at:

- cutting the basic rate in 1999/2000.

....the key points are:

- For non-savings income, a 10/23/40% structure from 6 April is feasible.
- A 10/22/40% structure for non-savings income could also be done, although we see clear advantages in not moving to that structure until 2000-2001; and
- There would be complex consequential for taxation of savings income and capital gains, in particular. We would need to know urgently what you want to do and we think some options would be very difficult for 1999/2000.

### **Cutting the basic rate**

We think you could also move to a 10/22/40% structure from April 1999. But it involves more consequential changes and closes off some of the options on taxation of savings (see below)....

### **Consequential**

If you change the basic rate, there are two main areas where you need to think about consequential changes:

- the tax rate applicable to trusts (currently 34%) is a free-standing rate but it reflects the income tax rates for individuals. We can let you have a note on whether a change in the basic rate should be accompanied by a change in the rate applicable to trusts:
- the rate at which tax is deducted from payments to sub-contractors. Traditionally, this has been set in line with the basic rate of income tax, which changes taking effect later than changes under PAYE in May. This year, the new construction industry scheme comes into force in August, when the rate will be set by Treasury Order. We think that, if you change the basic rate in April, there would be a case for not changing the subcontractors' rate until the start of the new scheme. (Subcontractors will get the benefit of the tax changes when they make their self assessment – the rate of deduction at source determines only how much

they pay on account.) We will let the Paymaster General have a note on this.

There are a number of other areas in tax legislation, requiring deduction of tax or providing relief at the basic rate. If need be, we will send you (or the Paymaster) further advice on any tricky consequential changes.

### A possible approach

In the light of all this, one approach you might want to consider would involve:

#### **In 1999/2000,**

- introducing the 10p rate band, ..... but leaving the basic rate at 23%.

#### **Then in 2000/2002,**

- Reducing the basic rate....

## Extract 2

The package underlying options you asked us to look at comprises (by 2001/2002):

- A 10/22/40% structure;

## Extract 3

### **Changing the basic rate**

Since rates of tax are set annually, are you content to announce the cut in the basic rate to 22p on March 9<sup>th</sup> but legislate for it next year? There are some consequential changes when the basic rate is altered (for example, in the rate applicable to trusts and the subcontractors' deduction rate) which we would not need to sort out before the Budget if we legislate next year.

## Extract 4

We assume we will legislate for the basic rate change in the 2000 Finance Bill.