

Prime Minister ①

Agree Lord Young feed his ideas into the  
the wider debate.

AT 31/5

Yes Mr

File

PRIME MINISTER

31 May 1985

TAX CREDIT FOR THE LONG-TERM UNEMPLOYED

David Young suggests that people who are unemployed for more than two years should be offered the opportunity of a £20 per week tax credit for the first 12 months if they take work. This idea is certainly worth considering. It is very similar to our suggestion that people unemployed for over one year should be given a £20 tax free allowance in their first year of work.

The idea behind both David Young's scheme and ours is to give the long-term unemployed a greater incentive to return to work - to help them 'hop out' of the unemployment trap.

The most important difference between David Young's scheme and ours is that he proposes to operate through tax credits rather than cash allowances. There are arguments both ways: the tax credit would not appear as an item of public expenditure and would be more directly in line with the moves already proposed by Norman Fowler and the Chancellor; but it would probably be more complicated than the payment of an allowance because of its relationship to the PAYE, NIC and in-work benefit systems. These points - like many other aspects of the suggestion - will need thorough investigation.

Since Tom King is already preparing a paper for you on long-term unemployment, in which our allowance proposal will be discussed, the sensible thing is for David Young to send his paper to Tom and other Ministers who will be present at the 12 June meeting. The various possibilities can then be discussed together in an orderly fashion.

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