

CONFIDENTIAL



FROM: M E DONNELLY

DATE: 5 April 1983

MR F.K. JONES

cc. Mr Wilding
Miss Kelley
Mr Rayner
Mr Coleman
Mr Watts
Mr Facett/IR
PS/IR
PS/C&E

CHARITIES

... Following the 24 March meeting the Financial Secretary has drafted the attached paper.

Before sending it to the Chancellor he would be grateful for any comments you or other officials may have. It would be helpful to have these by Friday 8 April.

MED

M E DONNELLY

LAFT

TASK FORCE FOR CHARITIES SUPERVISION

1. Definition of Charities. Lord Goodman's Committee examined the possibility of changing the definition of a Charity, but did not come up with any good ideas. We all feel that we are unlikely to do any better, and that we should not seek to legislate a new definition.
2. The decision limits us to policing the existing definition. In practice we may be able to do a more effective damage limitation job through policing, than by changing the law. The policeman on the beat may be able to deter and prevent offences more effectively than statute law.
3. In practice there are two possible "offences" in relation to charities:-
 - a) the consumer protection aspects
Does the charity obtain money from donors under false pretences, and does it pay out the money to causes other than those for which it was given?
 - b) the tax evasion aspects
Is the charity used to avoid or evade tax; or is its actual behaviour (as opposed to its stated objects), inconsistent with charitable status and the tax reliefs which they attract? This rather does involve subjective judgement: should tax relief be given to the Moonies or Scientology; to the political aspects of some charities work; are the activities of a charity for the public good?
4. I feel that 3(a) above, is for the Trade Department, if anyone. One could well advance the doctrine of "caveat subscriber". I do not intend to pursue it.

The supervision of 3(b) above, which is important, is currently carried out in different ways in different parts of the kingdom.

In Scotland and Northern Ireland. There are no Charity Commissions, but there is active supervision by the Inland Revenue, relying ultimately on the Courts. A body claiming charitable status applies to the Revenue for tax relief. The Revenue either grant it or not; and the charity, if refused, or any other person, can appeal to the Courts. This apparently works well. There are only [X] Revenue staff in Edinburgh administering it, and [X] Revenue staff in Belfast. There are many fewer charities in both Scotland and Ulster, than in England, partly out of tradition, and partly because the headquarters of most charities tend to be in England.

In England and Wales. The Charity Commission employs 300 staff and supervises the registration of charities, including possible de-registration by appeal to the Courts. They seek to assist charities, both by guiding them away from activities which might cease to qualify, and by providing help with managing their financial affairs. The Official Custodian, with 70 staff, provides investment advice, and prepares claims for tax relief for about 50,000 minor charities. This service is free, and I can see no earthly reason why it should be.

The Charity Commission's Register has about 140,000 charities on it. There are another 60,000 odd un - registered charities which it does not supervise at all. These are not required to register by law, because they are concerned with (.....?) It seems inconsistent that even with 300 staff it does not supervise about $\frac{1}{3}$ of the charities in existence.

In addition the Inland Revenue employ 150 staff and carry out the processing of tax relief for all charities - registered and unregistered, and throughout

the United Kingdom there is communication between the Charity Commission and the Revenue only on the Registration of Charities: on the administration of tax relief the Revenue are bound by the confidentiality rules not to pass on information to the Commission. They exercise their judgement independently as to whether a charity should receive relief.

6. It is hard to see why the procedure in England and Wales needs to be different to that in Scotland, an arrangement which would result in large savings in staff and costs. It is also hard to see why the Commission is not required to supervise unregistered charities. Tradition is probably the main obstacle.

7. The alternatives seem to be:-

- a) to abolish the Charity Commission and allow the Revenue and the Courts to supervise charities, as in Scotland and Ulster, throughout the UK;
- b) to combine the Revenue and the Commission into one body charged with performing the duties of both. In practice this would have to mean the Revenue taking over the Commission; a more gentle form of a) above;
- c) to keep both bodies in place, but set up much closer links to avoid duplication of work by exchanging information freely. Certain other economies could be made like abolishing, or charging for the services of the Official custodian: it might be necessary to reduce the functions of the Commission in other ways.

• Whichever solution is adopted it is unlikely to result in weeding out many goats from among the 200,000 sheep. There are probably not a large number of goats at present: but the number is growing, and "tax planners" are beginning to advertise conferences to educate people how to use charitable status as a vehicle for tax avoidance. Whatever happens we must tighten our defences here.

9. But none of these solutions gives us a means of sorting out the undesirables, as opposed to the fraudulent. I can see no way of doing this short of either a new definition, or a definition leading to two categories of charities - public interest charities or special interest charities. This has already been rejected.

10. It follows that this does not give us a cheap way forward to relieve VAT for a small number of desirable charities, even if Customs and Excise were to come in on the "task force". They would need to check VAT invoices, whereas the Revenue need to check Covenants and dividend mandates - there is virtually no overlap. The only contributions I can make to that problem are:-

- a) we might save so many staff from cutting the Charity Commission out, that we could employ the C&E staff necessary to supervise VAT repayments and still show an overall saving;
- b) the best way forward, if we want to move, is to make grants to the particular charities we want to help, unrelated to their VAT repayment claims. This would simply be public expenditure.

11. So the possibility is for a streamlining of the present administrative machinery, extra large potential staff savings, and possibly more effective anti-avoidance policing. The question arises how to achieve this. The alternatives seem to me to be:-

- a) a Whitehall official group - HO and IR under the chairmanship of Treasury - to work out the best solution;

b) some sort of a Rayner Scrutiny;

c) some outside enquiry.

Of these I prefer a) as being quicker, more under our control, and lower profile.

12. I hope we can have a Ministerial discussion of all this, after which we should approach Willie Whitelaw.

NICHOLAS RIDLEY



FROM: M E DONNELLY
DATE: 5 April 1983

MR PRESCOTT/IR

cc Mr Moore
Mr Robson
Mr Battishill/IF
PS/IR

BUSINESS EXPANSION SCHEME: UNLISTED SECURITIES MARKET, ETC

The Financial Secretary has seen your note of 28 March.

The Financial Secretary has commented while he has no intention of extending BES coverage to USM companies he remains concerned about the ~~we~~ seeming inconsistency whereby USM companies may benefit from purchase of own shares concessions. This was presumably allowed because it was felt that dissident shareholders in USM companies might not be able to find a buyer for their shares. So we are now in a ~~rather~~ difficult position in denying BES relief to these companies because they are able to market their shares. The logical - albeit impractical - solution would be also to deny POS relief to USM companies.

The Financial Secretary would be grateful for your further comments on this point.

MEI
M E DONNELLY

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 5 April 1983

MR R R MARTIN/IR

cc PS/Chancellor
PS/CST
PS/EST
PS/MST(C)
PS/MST(R)
Mr Middleton
Mr Moore
Mr Robson
PS/IR

SCHEDULE D/SCHEDULE E: DHSS

The Financial Secretary is concerned about the apparent differences that exist between the Revenue and the DHSS over classifying persons as Schedule D or Schedule E. He notes that the DHSS has the power to make regulations in order to bring groups of workers within a particular contribution category, and that this can mean certain workers being ordered to pay Class 1 NI contributions while the Revenue had previously taxed them under Schedule D. He is alarmed at the "demarcation dispute" which seems to exist between the two departments over this.

He would be grateful for a full note setting out the background to the present position and commenting on the possibility of the DHSS and IR aligning their procedures in relation to Schedule D/Schedule E.

EK.

E KWIECINSKI



FROM: M E DONNELLY
DATE: 6 April 1983

MR TURNBULL

cc Mr Middleton
Mr Cassell
~~Mr Monck~~
Mr Robson
Mr Crawley - IR
Mr Stewart - IR
PS/IR

INDEX LINKED BONDS - NOTE BY FIELDING NEWSON-SMITH

... The Financial Secretary has received the attached paper from Fielding Newson-Smith, the stockbrokers.

The paper is critical of the discrimination between the tax treatment of gilts and corporate bonds. The Financial Secretary would be grateful for your comments on the paper.

MEJ
M E DONNELLY

INDEX LINKED CORPORATE ISSUES

The Government insists on symmetry for the tax positions of lenders and borrowers.

At present, the increase in capital value for an index linked (I.L.) issue may be either subject only to capital gains tax in the hands of the lender and non-allowable to the issuer (Basis I), or taxable as income to the lender when received and allowable for corporation tax purposes to the issuer when paid, i.e. at maturity (Basis II).

The Government is likely to introduce an "accruals" system for taxing deep discount corporate bonds. It is possible that I.L. issues may come within the scope of this system. The increase in capital value would be taxed as income to the lender on a year by year basis and allowable to the issuer in the same way (Basis III).

For illustrative purposes we assume a 25-year stock with a coupon of $3\frac{1}{2}\%$ for I.L. and 12% for fixed interest (F.I.).

The break-even inflation rate is the rate at which the costs to a corporate issuer of I.L. and F.I. issues are equal. If inflation is higher than the break-even rate, then the cost of I.L. will be higher than that of F.I.

BASIS I. - Capital uplift non-allowable.

$$\begin{aligned} \text{Net interest cost for I.L.:} & \quad 3\frac{1}{2} \times .48 = 1.68 \\ \text{Net interest cost for F.I.:} & \quad 12 \times .48 = 5.76 \\ \text{Break-even inflation rate:} & \quad 100 \left(\frac{1.0576}{1.0168} - 1 \right) = \underline{4.01\%} \end{aligned}$$

BASIS II. - Capital uplift allowable at maturity.

$$\begin{aligned} \text{Net interest cost for I.L.:} & \quad 1.68 \\ \text{Net interest cost for F.I.:} & \quad 5.76 \\ \text{Net maturity value affordable:} & \quad 100(1.040)^{25} = 266.58 \\ \text{Gross maturity value affordable:} & \quad 100 + \frac{166.58}{.48} = 447.04 \\ \text{Break-even inflation rate:} & \quad 100 \left\{ (4.4704)^{\frac{1}{25}} - 1 \right\} = \underline{6.18\%} \end{aligned}$$

BASIS III. - Capital uplift allowable each year.

$$\begin{aligned} \text{Net interest cost for I.L.:} & \quad 1.68 \\ \text{Net interest cost for F.I.:} & \quad 5.76 \\ \text{Net inflation rate affordable:} & \quad 4.0 \\ \text{Break-even inflation rate:} & \quad \frac{4.0}{.48} = \underline{8.33\%} \end{aligned}$$

Index Linked Corporate IssuesComments

Government insists on symmetry for corporate issues, but not for its own. No net fund could afford to buy an I.L. corporate issue unless all the capital return were tax free (Basis I). Issues will have to be held by gross funds.

Gross investors break-even inflation rate is 8½%. It would seem dangerous to issue a stock where the issuer's break-even rate is 2% lower than the investor's rate (Basis II).

Marketability would be limited, which might raise the premium required over a gilt I.L. to more than the 1% assumed.

Capital cover would have to be higher at issue than for F.I., since a period of inflation not accompanied by rising asset values could erode the cover very rapidly.

8th March, 1983.



FROM: NICHOLAS RIDLEY
DATE: 6 April 1983

cc
Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Moore
Mr Reed
Mr Jefferson-Smith (C&E)
Mr Nield/IR PS/IR

CHIEF SECRETARY

SCRUTINY OF DEPARTMENTAL RUNNING COSTS

You letter of 17 November asked ministerial colleagues to provide
... commentaries on their department's running costs. I enclose a
commentary in respect of the Inland Revenue.

Nicholas Ridley
NICHOLAS RIDLEY

COMMENTARY ON INLAND REVENUE RUNNING COSTS

INTRODUCTION

1. The Inland Revenue is responsible for the care and management of the direct taxes, together with the rating and other services provided by its Valuation Offices. It also collects National Insurance Contributions and Surcharge on behalf of other departments and is reimbursed for these services. A single Vote covers the pay and other administrative costs of all of these services.

The department is also a single business for the purposes of the running costs exercise. The account of running costs (Form E35) is attached (Appendix A).

2. This commentary on the running costs falls into 4 parts: (i) an overview of the department's past expenditure and Estimates; (ii) comments on significant changes in prices, volumes or the distribution of costs; (iii) initiatives taken (or to be taken) to improve effectiveness and get better value for money; and (iv) plans to improve control systems and develop management indicators.

(i) overview of actual and Estimated running costs

3. The total running costs of the department (including notional and other costs for accommodation superannuation etc) are Estimated to be £902 million in 1983/84. This is an increase of £41 million (4.3%) over the forecast outturn for 1982/83.

This continues the broad trend shown in Table 1. In the Table the movements in the RPI are shown for comparison. Over the period running costs have increased less rapidly. This comparison is however not really an indication of the department's performance, because its costs are of course very different from the General Index's "shopping basket". Some items essential to the Revenue's work, eg telephones, postage and travel have over recent years tended to increase in price faster than the RPI; many of these price increases have generally had to be absorbed by volume savings and improved methods of operation.

4. As Table 2 shows staff costs (including notional superannuation) account for 74% of total running costs. Other costs (eg accommodation) also depend to a large degree on staff numbers. Reductions in staff have therefore been the major contributor to the volume savings which have been achieved, and are planned, whilst maintaining broadly the same levels of service and workloads. Separate initiatives (described in the next section) have however produced useful economies in particular areas: eg by issuing fewer forms, and by providing official cars.

(ii) Comments on variations in expenditure

A Staff numbers and staff costs

	total man-years	total staff pay costs £m
1982/83 forecast outturn	74,512	640
1983/84 estimate	72,553	665
difference	- 1,959	+25
	(-3%)	(+4%)

5. Since 1979, staff numbers have fallen considerably (see Table 3) and the trend is set to continue to April 1984. By then there will have been a reduction of about 18½% in staff numbers since we reached a peak of 85,615 in October 1977. The reduction has been attributable largely to cuts in functions (eg the abolition of child tax allowances and new arrangements for relief on Life Assurance and Mortgage Interest) and efficiency exercises. We were also required in 1979/80 to cut the manpower component of our cash limit by 3%, and this cut has been perpetuated.

6. The reduction in staff numbers has been proportionately greater in the more junior grades. The result has been that the department's grade balance has shifted slightly. In addition, generally lower rates of recruitment in recent years have led to an element of upwards incremental drift. In consequence, there has been an increase in average salary.

7. There is to be an increased provision of casual employees during 1983/84. This is to enable the staff rundown in the Collection service to be greater than natural wastage would normally allow. Starting in October, a number of posts in Collection Offices will be eliminated, but we have decided to allow wastage of permanent staff to start early. Any vacancies that arise in posts which will be abolished later in the year are being filled for the time being with casual staff.

B Personnel overheads

8. The 3 significant variations here are in travel and subsistence, removals and external training.

B1: travel and subsistence	£m
1982/83 forecast outturn	10.2
1983/84 Estimate	12.6
difference	2.4
	(+23%)

9. Most expenditure on travel and subsistence is incurred in the Taxes, Collection and Valuation networks. In these local offices it is an integral part of the operations of, say, valuers inspecting a property or collectors pursuing payment. With this local element very much in mind travel and subsistence has been the subject of a department-wide experiment in delegated budgeting. A Rayner scrutiny has also been undertaken of the calls made by Revenue staff on taxpayers, employers, etc. Savings have been achieved as a result. However these have been masked in the 1983/84 Estimate by the extra needs for MIRAS, for the setting up of COP and - most significantly - for the expansion of the effort on PAYE Audit and the black economy.

B3: removals	£m
1982/83 forecast outturn	7.95
1983/84 Estimate	7.51
difference	- 0.44
	(- 6%)

10. Changes of residence are used to make the best use of highly trained Inspectors, Valuers etc. The amounts payable are determined by service-wide rules, leaving only the number within the department's control. It is due to continuing restraints on this front that the Estimate shows a small, but worthwhile reduction.

11. The department is represented on the Treasury working party which is studying ways and means of achieving economies in removal costs.

B6: external training	£m
1982/83 forecast outturn	0.475
1983/84 Estimate	0.575
difference	0.100 (21%)

12. The increase is due to the introduction of repayment terms for the Civil Service College. Overall the plans for 1983/84 maintain by and large the level of training budgeted for 1982/83.

C. Accommodation

13. The new system of repayment for property services (PRS) comes into force on 1 April 1983 and the cost figures for accommodation for 1982/83 and 1983/84 are derived wholly from PSA. No meaningful commentary on the 1982/83 figure, nor comparison with the 1983/84 Estimate, is possible since attribution for the former year is not made on the same basis as the transfer of PSA funds for the latter.

14. The underlying figures of total space occupied are also derived from PSA and again there is no valid basis of comparison. For 1983/84 the total attributed to the department included for the first time all common areas in jointly occupied buildings where Inland Revenue was the major occupier.

15. The advent of the PRS system has required the department to establish a central information bank covering all its buildings, and accounting/monitoring arrangements for the funds transferred under the various sub heads of the Accommodation Vote. A review of the volume and location of all accommodation occupied by the department is now being carried out as the first stage in a rationalisation programme which will embrace the entire office network and will be implemented over the next five years or so. The specific aim of such a programme will be to achieve optimum space utilisation compatible with operational requirements but until a full outline programme has been completed and agreed it will not be possible to forecast the timing of what should be successive reductions in the overall size of the department's estate.

D Office Services

D1 postage

	£m
1982/83 forecast outturn	23.64
1983/84 Estimate	23.47
difference	- 0.17
	(-0.7%)

16. 1982/83 was the Department's first full year of commercial postal systems. There was therefore no direct comparison between that year and previous years' experience of the Official Paid System and the projected underspend is partially attributable to this. There was also a refund of some £m2 for unused Official Paid stationery. Other factors include the decision during the year to cease the issue of coding notices and associated forms P6 to employers on the occasion of each mortgage interest change. This alone saved 12 million potential mailings at a cost of £1.5m. A reduction of 1 million in the number of IT returns issued may also account for another £250,000 when the consequent Business Reply cost is added in.

17. The estimate for 1983/84 is based on the 1982/83 projected out-turn making allowance for forecast volume and price changes. The estimate takes account of the Post Office's decision not to increase the rate of second class mail; 90% of the Department's mail falls into this category. At this stage we have not recorded a full 12 months of postal usage (as distinct from expenditure) on the computerised monitoring system introduced at the same time as commercial postal systems. This will, however, provide a comprehensive set of records for reviewing costs and projecting expenditure when preparing the 1984/85 estimates.

D2: telecommunications

	£m
1982/83 forecast outturn	14.6
1983/84 Estimate	17.0
difference	+2.4
	(16%)

18. The Estimate shows an increase over the outturn now forecast for 1982/83 for 2 reasons. First, provision had to be made for the price increases from British Telecom (and which will be felt for a full year in 1983/84). Secondly there are increases on account of COP.

19. Telecommunications costs are, like travel and subsistence, the subject of a departmental wide experiment in delegated budgeting. This has produced volume savings. It has however also brought to the fore the need to provide managers with better information about how telephones are used and where costs arise. This requires call information logging equipment because very many offices share exchanges with other offices, and with other offices, and with other departments. Following the publication by CCTA of a code of practice, the Inland Revenue have identified some 80 locations for a initial programme of installation. This will cost some £1.5m which is included in the telecommunication capital Estimate but should of course provide a good rate of return in terms of savings in future years.

D3: stationery; D4: printing, binding, and reprographics
D6: office machinery; D8: publications and library services

20. These 4 items fall to be taken together, because all are primarily HMSO items, and because there are no clear cut definitions of what items fall under which head.

	£m
1982/83 forecast outturn	18.3
1983/84 Estimate	19.3
difference	1.0
	(+5%)

21. Office stationery and forms printing expenditure is being held down to slightly more than the rate of inflation. Increases in printing expenditure in 1983/84 can be attributed to 2 main causes.

- i. the increased volumes of pre-printed continuous stationery for use by computers: these are, form per form, more expensive than traditional forms
- ii. increased costs resulting from the wider use of colour as an aid to communication. The Department's Forms Review Group is implementing the Government's commitment to more efficient forms design which will cut the cost of completion by the public and give better responses, thus saving Revenue examination time.

22. Printing costs in 1982/83 are higher than estimated to some extent because of extra, transitional requirements resulting from Rayner reviews (eg Partnership assessing) where major staff savings could be made at the expense of extra forms printing. MIRAS printing costs (£0.2m) are also higher than expected.

23. The apparently large increase in Publications expenditure results from very large cash refunds obtained from HMSO in 1982/83. In real terms the effects of the last 2 years' economy exercises are providing useful cash savings, but these will be offset by high price increases already announced by publishing houses.

24. The department-wide general tightening up of consumption of all stationery is proving most effective.

D5: computers (current)

1982/83	forecast outturn	3.4
1983/84	Estimate	4.7
	difference	+1.3
		(37%)

25. The increase in the number of computers run by the Department (some of which are working side-by-side with the machines that they will eventually replace) and the growing number of terminals attached to computers is reflected in the higher cost of maintenance, software license fees and consumables such as magnetic discs and tapes.

J. Capital expenditure

1982/83	forecast outturn	12.5
1983/84	Estimate	11.1
	difference	-1.4
		-(11%)

26. Plans for capital expenditure show recognition of the increasing importance of providing the right tools for the job, including the job of controlling expenditure. Thus the greater use of official cars produces savings on travel and subsistence and makes local offices more effective (although the billing system has concealed the pattern of this expenditure); the expenditure on telecommunications is mainly for new exchanges and, in particular, logging equipment to improve telephone management; and office machinery includes the provision of additional word processors and central dictating systems. To set against these increases there is an estimated decrease in 1983/84 in spending on computers. This is because a major, new mainframe computer was paid for in 1982/83. The overall trend is, of course, to invest more in new technology. The Inland Revenue has in particular the programme to computerise PAYE, and to maintain the technical effectiveness of the computer equipment at its Accounts Offices; it is also pursuing a number of micro-computer applications.

iii. initiatives to get better value for money

27. With staff costs and accommodation amounting to almost 90% of the department's running costs the important thing is to ensure it has the right number of staff, organised in the right local office networks. Developments on this front in 1982/83 included:

- a. reductions in the number of local and regional Valuation Offices, following the review of their organisation;
- b. a review of the tax district organisation;
- c. the review of the collection service, with proposals for a much reduced network of local offices

28. Turning to 1983/84 further wide-ranging reviews have already been set up:

- a. to explore the feasibility and wider issues of self-assessment for corporation tax;
- b. to review non-rating valuation services;

29. These are in addition to the continuing programme of work to improve the cost effectiveness of expenditure under particular heads. Earlier paragraphs have mentioned the review of the department's accommodation holdings and the programme of rationalisation; the continuing experiments in delegated budgeting for travel and subsistence and telephones; and the plans to introduce telephone extension logging.

30. More generally there will be a major effort over the next three years to develop and implement the Inland Revenue's financial management plan so as to provide better information about costs, and more systematic and accurate methods of assessing value for money.

iv plans to improve control systems and develop management indicators

31. The Inland Revenue produces cost/yield ratios to compare the yield of the taxes and duties with the costs of collecting them (Table 4). These ratios are of limited validity for management decisions because of factors such as changes in legislation (eg on rates and allowances) time lags and negative yields. But they are a starting point for considering the combined effects of policy and administrative change on fiscal efficiency.

32. Another indicator sometimes produced is the ratio of Revenue staff to the number of taxpayers served (Table 5). This is however similarly affected by legislative and other (eg demographic) factors outside of the department's control.

33. Furthermore these and similar indicators form the problem that they cannot be forecast in advance and do not lend themselves to targets and measures of progress for line managers.

34. In the absence of comprehensive indicators of final output the department has turned to a mix of intermediate measures of the accuracy, timelines and volume of intermediate outputs, and to measures of yield and coverage in selected target areas.

35. These and other exercises have been brought together in the department's response to the Financial Management Initiative. The financial management plan provides for a management information system to:

- a. generate input/output ratios as indicators of the efficiency of clerical operations;
- b. extend quality control beyond PAYE to other major areas of clerical work;
- c. develop the cost/yield ratios for the technical work of Inspectors;
- d. set clear targets against which to measure the performance of managers.

36. At present cost indicators (such as the cost per employee figures in Table 6) are of limited value to managers. However also within the FMI, a financial and management accounting system has been designed (with the assistance of outside consultants) to provide more accurate and timely costs of offices, functions and activities, and to enable more efficient budgetary control. When implemented this will provide reliable and efficient cost ratios between one year and another, and between one office and another.



MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by *A. W. Palmer*

Telephone no. *Watlington 50255* Date *25 Feb 1983*

Ext *304*

Treasury use only		
Form Code	Department Code	Business Code
E35	45 041 78	01 9

LINE CODE	LINE NO	STAFF NUMBERS	1981-82 OUTFURN		1982-83 ESTIMATE		1982-83 FORECAST OUTFURN		1983-84 AGREED ESTIMATE	
			S-in-P 1.4.81	S-in-P 1.4.82	1.4.82 C	31.3.83 D	S-in-P 1.4.82	S-in-P 31.3.83	S-in-P 1.4.83	31.3.84 H
M01	001	Permanent staff in manpower non-industrial count	75597	73949	73970	73170	73949	73170	72796	69820
M02	002	industrial	27	27	30	30	27	30	30	30
M97	003	TOTAL STAFF IN MANPOWER COUNT M01+M02	75624	73976	74000	73200	73976	73200	72826	69950
M03	004	Ministers	0	0	0	0	0	0	0	0
M04	005	Other public employees non-industrial	0	0	0	0	0	0	0	0
M05	006	e.g. locally engaged staff overseas industrial	0	0	0	0	0	0	0	0
M98	007	TOTAL staff in post M97+M03 to M05	75624	73976	74000	73200	73976	73200	72826	69950

Appendix A

MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by *A. W. Palmer*

Telephone no.

Working 50555
Ext 504

Date *15 MAR 1983*

Treasury use only		
Form Code	Department Code	Business Code
E35	041	7 8 01

LINE CODE	LINE NO.	1981-82 OVERTURN man-years A	1982-83 ESTIMATES man-years B	1982-83 FORECAST OVERTURN man-years C	1983-84 AGREED ESTIMATE man-years D	DIFFERENCE 81-82 OVERTURN TO 82-83 FORECAST OVERTURN		DIFFERENCE 82-83 FORECAST OVERTURN TO 83-84 ESTIMATE	
						E-C-A man-years	F-100*E/A %	G-D-C man-years	H-100*G/C %
M06	008	74123	74330	73588	71292	-535	-1	-2296	-3
M07	009	190	268	268	243	78	41	-25	-9
M08	010	0	0	0	0	0	0	0	0
M09	011	516	656	656	1018	140	27	362	55
M10	012	0	0	0	0	0	0	0	0
M99	013	74829	75254	74512	72553	-317	-0	-1959	-3
Total staff (line M98) expressed in man-years									
Overtime man-years non-industrial									
industrial									
Casuals man-years non-industrial									
industrial									
TOTAL man-years M06 to M10									



MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

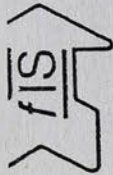
Business Inland Revenue - Departmental summary

Completed by *A. W. Palmer*

Telephone no. *25 0041* Date *25 Oct 1983*

Treasury use only	
Form Code	Business Code
1 E35B	7 8 0 1

N.A.C. CODE	LINE CODE	LINE NO.	1981-82 OUTTURN		1982-83 ESTIMATE		1982-83 ORIGINAL FORECAST OUTTURN		1982-83 LATEST FORECAST OUTTURN		1983-84 AGREED ESTIMATE		DIFFERENCE 81-82 OUTTURN TO 82-83 LATEST FORECAST OUTTURN		DIFFERENCE 82-83 LATEST FORECAST OUTTURN TO 83-84 ESTIMATE		
			A	B	A	B	13	14	15	16	17	18	19	20	21	22	23
11002	A08	022	45527	33577	33842	33879	36332	36332	36332	36332	36332	36332	36332	36332	36332	36332	36332
	A09	023	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
	A10	024	0	11886	11241	9004	9004	9004	9004	9004	9004	9004	9004	9004	9004	9004	9004
11002	A11	025	0	2	2	2	2	2	2	2	2	2	2	2	2	2	2
	A12	026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11002	A13	027	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	A95	028	45542	45480	45100	42900	41324	41324	41324	41324	41324	41324	41324	41324	41324	41324	41324
TOTAL NATIONAL INSURANCE A08 to A13																	
TOTAL A94 + A95			504421	529629	534600	535500	545751	545751	545751	545751	545751	545751	545751	545751	545751	545751	545751



MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by **A. W. Palmer**

Telephone no. **Working 50333** Date **25 MAR 1983**
Ext 504

Treasury Use only			
Form Code	Department Code	Business Code	
E35B	041	7 8 01	9

N.A.C. CODE	LINE CODE	LINE NO.	1981-82 OUTTURN		1982-83 ORIGINAL FORECAST OUTTURN		1982-83 ESTIMATE		1982-83 FORECAST OUTTURN		1983-84 AGREED ESTIMATE		DIFFERENCE 81-82 OUTTURN TO 82-83 LATEST FORECAST ESTIMATE		DIFFERENCE 82-83 LATEST FORECAST OUTTURN TO 83-84 ESTIMATE	
			A	B	C	D	E	F	G	H	I	J				
			£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	%
	12001	A14	10	12	0	0	0	0	13	21	0	0	22	30	31	39
	12002	A15	031		0	0	0	0	0	0	0	0	0	0	0	0
	12002	A16	032		0	0	0	0	0	0	0	0	0	0	0	0
	12001	A17	033		0	0	0	0	0	0	0	0	0	0	0	0
	12002	A18	034		0	0	0	0	0	0	0	0	0	0	0	0
	12002	A19	035		0	0	0	0	0	0	0	0	0	0	0	0
	12002	A20	036		0	0	0	0	0	0	0	0	0	0	0	0
	18001	A21	037		0	0	0	0	0	0	0	0	0	0	0	0
	18001	A22	038		0	0	0	0	0	0	0	0	0	0	0	0
		A23	039		0	0	0	0	0	0	0	0	0	0	0	0
		A97	040		0	0	0	0	0	0	0	0	0	0	0	0
	A98	041	504421	529625	534600	535,500	545751	545751	535,500	545751	545751	545751	545751	545751	545751	+ 1.9
	N01	042	91099	95976	104341	104,892	119211	119211	104,892	119211	119211	119211	119211	119211	119211	+ 13.7
	A99	043	595520	625605	638941	640,392	664962	664962	638941	664962	664962	664962	664962	664962	664962	+ 3.8
Ministers																
Employers ERNIC																
National Insurance Surcharge																
Judicial Officers																
Employers ERNIC																
National Insurance Surcharge																
Less Statutory Sick Pay																
Locally engaged staff abroad																
Other pay costs																
TOTAL A14 to A23																
TOTAL VOTED STAFF PAY COSTS																
Pension and gratuity liability for the whole business (Notional)																
TOTAL STAFF PAY COSTS																

MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by *A. W. Palmer*

Telephone no. *Watlington 502525*
Ext 504

Date *25.2.83*



Treasury use only		
Form Code	Department Code	Business Code
1 E35B	4 5 O41	7 8 O1

N.A.C. CODE	LINE CODE	LINE NO.	1981-82 OUTFURN A £ thousands	1982-82 ESTIMATE B £ thousands	1982-82 ORIGINAL FORECAST OUTFURN C £ thousands	1982-83 LATEST FORECAST OUTFURN D £ thousands	1983-84 AGREED ESTIMATE E £ thousands	DIFFERENCE 81-82 OUTFURN TO 83-84 ESTIMATE		DIFFERENCE 82-82 LATEST FORECAST TO 83-84 ESTIMATE J-100% H/D %
								F-D-A £ thousands	G-100% F/A %	
GENERAL ADMINISTRATIVE EXPENDITURE (Accommodation Costs)										
PSA ESTATE										
	C01	051	60498	66663	66663	66663	0	+ 6165	+ 10.2	* 39
	N02	052	51043	56862	56862	56862	0	+ 5819	+ 11.4	* 39
	C02	053	0	0	0	0	111643			* 39
	C03	054	0	0	0	0	16			* 39
	C04	055	0	0	0	0	9800			* 39
	C05	056	0	0	0	0	5701			* 39
	C06	057	0	0	0	0	2944			* 39
NON PSA ESTATE										
	C07	058	0	0	0	0	0			* 39
	N03	059	0	0	0	0	0			* 39
TOTAL VOTED	C01+C02 to C07	060	60498	66663	66663	66663	130104	+ 6165	+ 10.2	+ 95.2
TOTAL NOTIONAL	N02+N03	061	51043	56862	56862	56862	0	+ 5819	+ 11.4	* 39
TOTAL	C97+C98	062	111541	123525	123525	123525	130104	+ 11984	+ 10.7	+ 65.9



MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by **A. W. Palmer**

Telephone no. **Worthing 50445** Date **25 March 84**

Treasury use only	
Form Code	Outline Code
1 E35B	7 8 01

N.A.C. CODE	LINE CODE	LINE NO.	1981-82 OUTFURN A	1982-83 ESTIMATE B	1982-83 ORIGINAL FORECAST OUTFURN C	1982-83 LATEST FORECAST OUTFURN D	1983-84 AGREED ESTIMATE E	DIFFERENCE 81-82 OUTFURN TO 82-83 LATEST FORECAST OUTFURN		DIFFERENCE 82-83 LATEST FORECAST OUTFURN TO 83-84 ESTIMATE	
								F1-D A	G-100 F/A %	H-E D	J-100 I %
	13004	D01	22883	28792	27000	23640	23471	+ 757	+ 3.3	- 169	- 0.7
	13005	D02	12876	17170	16700	14600	16995	+ 1724	+ 13.4	+ 2395	+ 16.4
	13008	D03	2682	3474	3003	2567	2752	- 115	- 4.3	+ 185	+ 7.2
	13008	D04	9247	10589	9247	10428	11031	+ 1187	+ 12.8	+ 603	+ 5.8
	13009	D05	2088	4139	3600	3400	4669	+ 1322	+ 62.8	+ 1269	+ 37.3
	13010	D06	3229	3152	3550	3394	3866	+ 165	+ 5.1	+ 472	+ 13.9
	13011	D07	32	108	95	40	55	+ 8	+ 25.0	+ 15	+ 37.5
	13030	D08	1280	1419	1392	1273	1619	- 7	- 0.5	+ 346	+ 27.2
	13020	D09	44	55	61	20	77	- 24	- 54.5	+ 57	+ 285.0
	18003	D10	0	0	0	0	163			+ 163	*
	18003	D11	0	0	0	0	57			+ 57	*
	15000	D12	0	0	0	0	301			+ 301	*
	13030	D13	1494	1661	1661	1814	2804	+ 320	+ 21.4	+ 990	+ 54.6
		D99	55855	70519	66309	61146	67860	+ 5321	+ 9.5	+ 6684	+ 10.9

TOTAL D01 to D13



MANPOWER AND GAE ESTIMATES SUBMISSION 1983-84

Department Inland Revenue

Business Inland Revenue - Departmental summary

Completed by *A. W. Palmer*

Telephone no. *Watlington 522525*
Kxt 504

Date

25 MAR 83

Treasury use only	
Form Code	Department Code
1 E35B	5 O41
4	7 B
9	01

N.A.C. CODE	LINE CODE	LINE NO	1981-82 OUTTURN		1982-83 ESTIMATE		1982-83 ORIGINAL FORECAST OUTTURN		1982-83 LATEST FORECAST OUTTURN		1983-84 AGREED ESTIMATE		DIFFERENCE 81-82 OUTTURN TO 82-83 LATEST FORECAST OUTTURN		DIFFERENCE 82-83 LATEST FORECAST OUTTURN TO 83-84 ESTIMATE	
			A	B	C	D	E	F	G	H	I	J	K	L	M	N
			£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	%
	41001	J01	091	0	0	0	13	21	0	22	30	31	39			
Land and buildings																
	44001	J02	092	42	38	117	30	30	125	-12	-28.6	+95	+316.7			
Vehicles																
	44002	J03	093	386	696	696	575	605	3391	+189	+49.0	+2816	+489.7			
Telecommunications																
	44002	J04	094	368	539	580	605	605	818	+237	+64.4	+213	+35.2			
Office machinery																
	44002	J05	095	5024	9168	9000	11320	11320	6748	+6276	+124.9	-4552	-40.3			
Computers																
		J06	096	36	76	45	26	26	63	-10	-27.8	+37	+142.3			
Other																
		J98	097	5856	10517	10438	12536	12536	11145	+6680	+114.1	-1391	-11.1			
TOTAL CAPITAL EXPENDITURE J01 to J06																

TABLE 1

Total running costs, including notional and other non-voted costs

year	total running costs [1] £m	increase on preceding year	
		%	RPI
1980/81	768	-	-
1981/82	792	7.6	11.5
1982/83 ^[2]	861	8.7	7.1
1983/84 ^[3]	904	4.8	5.4

Notes: 1. These figures are not precisely comparable because the basis of the running costs accounts has changed from year to year

2. projected outturn

3. Estimate

TABLE 2

Summary of main elements of Inland Revenue
running costs

	% of total costs	1982/83 £m	1983/84 £m	1982/83 to 1983/84 £m	%
A. Pay	74	640.4	665.0	24.6	3.8
B. Personnel overheads	2	19.1	21.2	2.1	10.9
C. Accommodation	14	123.5	130.1	6.6	5.3
D. Office Services	8	61.2	67.9	6.7	10.9
E. Other (eg agency) services	2	15.0	16.8	1.8	11.7
F. Other running costs	0.1	1.3	1.2	- 0.1	- 3.4
G. TOTAL	100	860.5	902.2	41.7	4.8

TABLE 3

SIP and Manpower
usage

<u>date</u>	<u>permanent SIP</u>
1. 4.78	85175
1. 4.79	84645
1. 4.80	78312
1. 4.81	75624
1. 4.82	73976
1. 4.83	72826
1. 4.84	69850

<u>year</u>	<u>total manyear usage</u>
1979/80	81569
1980/81	76837
1981/82	74829
1982/83	74512
1983/84	72553

TABLE 4

The following table shows the cost/yield ratios for the individual duties over the last 3 years. The breakdown of the ratios for the main taxes on income, profits and capital gains should be taken as no more than estimates since much of the Department's work is carried out for the purpose of more than one tax.

	1979/80	1980/81	1981/82
Income tax - Schedules A, B and D	7.0	7.3	5.1
Other income tax (mainly Schedule E/PAYE)	1.6	1.6	1.5
Capital gains tax	2.2	2.6	2.6
Corporation tax	0.6	0.8	0.8*
Tax on income, profits and gains	1.9	2.1	1.9
Stamp duty	0.9	1.4	1.0
Capital transfer tax and estate duty	3.4	3.8	3.2
Petroleum revenue tax	0.03	0.02	0.01 ^Ø
Development Land tax	12.8 [∕]	13.4 [∕]	11.6 [∕]
Cost Yield Ratio	1.89	1.98	1.72
Total Cost Yield Ratio including NIC and NIS	1.31	1.40	1.23

* takes into account the yield from the special tax on banking deposits levied in 1981/82 only.

Ø takes into account the yield from supplementary petroleum duty which commenced in 1981/82

∕ takes into account the benefit accruing to "net of tax" bodies.

NOTES

1. The fall in the cost/yield ratio from 1.98% in 1980/81 to 1.72% in 1981/82 can be attributed to the rise in the total tax yield (22.1%) compared with the increase in costs of collection (6.5%)

2. Increased revenues in 1981/82 were due mainly to the increased income tax yield (up 18.2%) with no revalorisation of personal allowances in the 1981 Budget and to the introduction of the special bank tax and supplementary petroleum duty.

3. Costs in 1981/82 were affected by the Civil Service strike - to the extent of a saving of about £15 million.

TABLE 5

Staff/taxpayer ratio

year	average number of staff (including casuals)	number of people paying income tax (millions)	number of taxpayers per staff unit
1979/80	81,643	26.1	320
1980/81	76,876	25.2	328
1981/82	74,294	24.9	338

Notes: 1. The number of staff is for all IR employees, including those employed in work other than income tax.

2. Married couples where both pay tax are counted as 2 taxpayers.

TABLE 6

COST PER EMPLOYEE*

Line Code	1981/82	1982/83	1982/83	1983/84	Difference 81/82 Outturn to 82/83 Latest Forecast		Difference 82/83 Latest Forecast Outturn To Agreed Estimate	
	Outturn	Estimate	Latest forecast	Agreed Estimate	£	%	£	%
A. STAFF PAY COSTS	7,958	8,313	8,594	9,165	636	8	571	7
B. PERSONNEL OVERHEADS	203	253	257	293	54	27	36	14
C. ACCOMMODATION COSTS	1,491	1,641	1,657	1,793	166	11	136	8
D. OFFICE SERVICES	746	937	821	935	75	10	114	14
E/F OTHER SERVICES AND COSTS	181	229	219	248	38	21	29	13
TOTAL RUNNING COSTS	10,580	11,374	11,549	12,435	970	9	886	8

* costs divided by the total man-years (line code M99)

NOTES:

Interpretation of cost-per-employee figures

1. Cost per employee ratios have again been computed to show what it costs on average to pay and support each member of staff. This is useful to give a sense of proportion. However, as has been remarked in previous years, neither the absolute figures nor their movements from year to year are straightforward indicators of economy or efficiency. In particular many costs are not directly related to staff numbers, especially the smaller items which make up office and other services.

A. Staff Costs

2. The greater part of the increases in costs per head of staff are due to nationally agreed pay changes. However as indicated in the commentary there have also been proportionately greater cuts in the lower paid grades (eg some 700 part-time cleaners have been lost by contracting-out this work) and a shift in the distribution of staff towards higher incremental bands due to low rates of recruitment.

B. Personnel Overheads

3. The increase in these costs is due to a combination of 3 factors: price increases; much the same volume of calls in the course of operations (and a planned increase for PAYE Audit); and staff cuts which reduce the denominator.

C. Accommodation Costs

4. In view of the changing basis of PSA's costs we cannot explain in detail the changes in these figures.

D. Office Services

5. The underlying increases here are explained in the commentary. Overall the cost per employee shows a more rapid rate of increases. But this is because costs per employee are by and large the wrong measure for these costs, most of which are customer related.

E. Other Services

6. The large increases here are due mainly to increased bank charges, and to the introduction of charges for services previously provided free of charge.

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 6 April 1983

CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Moore
Mr Fraser - C&E
Sir L Airey - IR
PS/IR

CIVIL SERVICE MANPOWER AFTER 1984
COUNTERING TAX FRAUD AND EVASION: THE BLACK ECONOMY

I have considered Lawrence Airey's paper of 25 March; covering the Inland Revenue contribution on Civil Service Manpower after 1984. I would like to make the following comments, although I agree strongly with you that Ministers should discuss the whole subject.

In general, I think it is true that the work state has deteriorated a little. When such dramatic changes have taken place, and when 17 per cent of the staff have been dispensed with, it is not surprising. I think that it is important for the Inland Revenue to digest the changes already made, and get back on top of its work. This would help with Union Co-operation too. I imagine the figures in the Report take this need into consideration, as I think they should.

- 1) On the valuation office: I expect large savings may be possible. But we await Dalton (early summer) and the Government deciding what it wants to do about rates, (when?), as well as the revaluation. I think we should put this whole area on one side, for a full study later.
- 2) On contracting out, I am all for looking at:
 - a) the Revenue sorting centre at Kew; and
 - b) the security services.

I agree that the Accounts Offices are not suitable. I wonder whether there may be some more, minor functions which could be contracted out - eg visiting transport? Form design and production? Filing of past records?

- 3) On major tax reform, I think it is too early to assess the staff effects of Husband and Wife, NICIT, Tax and Savings, ^{and} Keith. If and when we have our plans in these areas further advanced, we can then assess the staff consequences.
- 4) On the options for further savings in Table III
Items 1-6 are either decided already, or should be.
Items 7,8,9 & 10 I am in favour of doing all - but these are quite major political decisions for the Chancellor.
Item 12 We are steaming ahead.
Item 13 I would like to see proposals - the idea has not been put forward for policy consideration yet.
Items 17, 21 I am against.
Items 16&18 I am in favour.
CTT, DLT and CGT Items - depend on money available and our political judgement.

On the Black Economy, I have studied Sir Lawrence Airey's minute of 25 March with great interest. I would like to make a few preliminary comments, although I am sure that Ministers should discuss this paper too.

First, I am sceptical about Black Economy figures. Lawrence Airey mentions a figure of £4 billion tax lost, (but I will not hold him to that!) The figures for the special efforts in 1981 in the attached Treasury minute (Annex F) are as follows:-

Customs & Excise	£150m
DHSS	£ 25m
Inland Revenue	£173m
Total	<u>£348m</u>

I know that we are only considering limited, pilot schemes, but I find myself doubting how much there really is to get, (or at least how much can be got). The staff increase figures for Lawrence's projected offensive against the Black Economy are as follows:-

	At Present	Plans to Increase
Fraud Inspectors	100	0
Special Officers	175	+ 100
Sch D & CT	1375	+ 950
PAYE Audit	700	+ 910
Ghosts & Moonlighters	70	+ 840
Others	500	-
	<u>2920</u>	<u>+ 2800</u>

Thus by nearly doubling the staff employed, one would expect at best to double the results. That would bring in another £175 million or so - or am I wrong? I understand about the future compliance effect, and the deterrence effect; but equally presumably the existing 2920 staff are getting the "cream" of the evasion, and the next 2800 will be fighting in less propitious country. At the least, I think this needs further analysis.

Another way of looking at this is the cost/yield ratio. It currently exceeds 1:4 for many of the activities. But I regard 1:4 as extraordinarily low. Indeed we should probably aim for a cut-off point of more than 1:4, say 1:10. Otherwise anyone who can get four times his salary by bullying traders and workers for tax will be deemed a worthwhile member of society who should be paid from public funds. And the costs for employing such persons will be alleged to put up tax rates for the honourable.

Indeed the danger is that we will be seen to be harassing small traders and working men to an intolerable degree if we are not careful. It is vital to keep public opinion on our side. It is on our side now, as Lawrence's minute says; but for success we must keep it on our side. Keith may be relevant in this context, but I do not know how helpful! The public will support us all the way if the rules are fair, and if those who evade their taxes are made to pay up, to the benefit of the pure-in-heart. But we will lose the support of the

public if the Associations of Small Businessmen, and the Unions, can successfully cry "foul" about the activities of snoopers, informers, and jack-booted Revenue Inspectors.

One essential is that there should be balance between the chastisement of Lloyds Brokers, moonlighters, PAYE defrauders, tax haven operations and ghosts. The attack must be seen to be even-handed between all sections of society.

Another essential is that the publicity should be exactly right, to encourage the support of the silent (compliant) majority. Always it must be presented as "the majority must pay more if the minority does not pay what it should": and always the methods must be seen to be acceptable.

A third essential is that we should not concentrate on "police" action to the exclusion of devising foolproof systems - whereby taxes are harder to evade. Deduction at source, and indirect versus direct taxes, are examples of what I mean. We must continue to show fiscal flexibility.

A fourth essential is one of Lawrence's own: that there must be no "sudden major offensive". It is vital to make it clear that the pursuance of the black economist results from a political decision taken by Ministers, explained and justified by Ministers and approved by Parliament. This means that it has to be the subject of very careful publicity and presentation by Ministers. I do not believe it should be announced in dribs and drabs by the Revenue before Select Committees - a White Paper and ^a full national debate is the right way. That has its problems, and the timing is obviously a little tricky. But it is a must!

Then there is the Keith Report. The pursuit of the Black Economy by increased Revenue effort has to be matched with our reactions to the Keith Report, and the administrative and the legislative decisions obviously have to be viewed alongside each other. We need to work out a full and careful plan for both sorts of action, and to get our public relations exactly right for both.

In view of all this I am hesitant to endorse the precise figure of 2,800 extra Revenue staff allotted to the pursuit of the Black Economy. I think our plans need to be laid with politics very much in mind, and the eventual staff dispositions will be very much a residual decision. And we ought to discuss it.

Nicholas Ridley
NICHOLAS RIDLEY

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 6 April 1983

MR BURGNER

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Bailey
Mr Kemp
Mr Monck
Mr Christie
Mr Morgan
Mr R H Wilson
Mr Wicks
Mr Chivers
Mr Broadbent
Mr S Thomas
Mr A M White
Mr S Wood
Mr Ridley

FUTURE PRIVATISATION PROCEDURES

The Financial Secretary was grateful for your note of 22 March. He wishes to discuss all the issues arising from it and this office is arranging a meeting for Monday 18 April.

You will be accompanying the Financial Secretary to a lunch hosted by Fielding Newson-Smith on Thursday 21 April. A selection of City underwriters and investment institution managers have been invited to discuss the most effective techniques for privatisation.

... Fielding Newson-Smith has produced the attached short paper on Methods of Privatisation. The Financial Secretary would be grateful for any comments you may have on this before the 18 April meeting.

MEJ
M E DONNELLY

METHODS OF ISSUING SHARES OF NATIONALISED COMPANIES ON PRIVATISATION

1. Very Large Issues

In 1982 we produced a paper on the issue strategy of British Telecom, the following extract from which offered a possible method for consideration:

- " 1. The problem is a simple one: how to get rid of £5½ billion of stock in a market with an absorptive capacity of, say, £2 billion. The inference is equally simple: the £3½ billion shortfall must be bridged by substitution for something else. Investors would, in effect, add up to £2 billion to their holdings and swap the other £3½ billion.
2. The counterparty to the swap must, of course, be the Government. Apart from cosmetic effects on the public accounts, there is no difference in principle between debt raising and asset sale. In the one case the cost is interest outgo; in the other, revenue sacrifice.*
3. Specifically, the Exchequer has £1.8 billion of issues coming up for redemption in the back end of 1983, another £5 billion in 1984 and £5.95 billion in 1985. We suggest that, following a 'direct' issue of British Telecom stock to investors (large enough for a base price to be established), the authorities should make further tranches available, at their discretion, coincident with gilt-edged redemptions.
4. The later tranches would be issued at a modest discount to the market price of the existing stock and might be offered to gilt holders in substitution for their maturing bonds as an alternative to cash (at the holders' option). It would be important that pricing should be arranged so as not to disturb the gilt market. The fact that people who hold maturing gilts (banks and discount houses) are not the same as those who buy equities in the long term is not material. Such is the efficiency and liquidity of the market that an injection of cash into one part can be reflected by purchases of new stock in another.
5. This proposed technique would require the investment community as a whole slightly to change the balance of its assets, and some soundings would have to be taken to ensure that this would be acceptable. It can hardly, however, be a big problem. The U.K. equity market is

* see overleaf

Methods of Issuing Shares of Nationalised Companies on Privatisation

- 5. worth in excess of £100 billion and the long and medium gilt market about £70 billion. A transfer of £3 billion from one to the other would be equivalent to a shift of only about 2%: less than that which could occur simply through market movements and trivial compared with the enforced increase in holdings of public sector debt in recent years (cf. steel nationalisation).
- 6. It is possible that some of the divestment could take the form of debt: a more immediate substitute for gilts. In this paper, however, we have not pursued this possibility, partly because British Telecom has indicated a desire to raise additional debt anyway and partly because it already has high interest and capital gearing.

*In a free and rational market, investors must price different types of security to give the same total expected return, so the overall expected 'cost' to the issuer, ex ante, is independent of the type of instrument issued. Ex post, of course, actual returns do diverge, but that risk is inherent in making any decision and only bears on this argument if investors are smarter than the Government. "

2. Methods used in the U.S.

At the meeting on 1st February, mention was made of the methods adopted in the U.S.A. for issues of securities. In brief, we understand these to be as follows:

(a) Placements of Common Stock

The system adopted in the U.S. for the issue of common stock of companies which have not previously been listed is not markedly different from a placing on The Stock Exchange in London. The lead underwriter in the U.S. forms an underwriting syndicate which guarantees the issue. They in turn form a selling group who together "create a book" during the run up period to the issue, while the documents are being considered by the S.E.C. and before the price is fixed. Indications of interest are given within a price range and, following the date of registration, the issue is priced and distributed to the ultimate subscriber.

Methods of Issuing Shares of Nationalised
Companies on Privatisation

2. (a) Costs of such issues, by London standards, are high. An example quoted recently for an issue priced to the public at \$10.00 per share, was purchased by the underwriting group at \$8.90 and sold on to the selling group at \$9.40.

(b) "Off the Shelf" Issues

Recently a variation on the "lead underwriter" method has been developed, whereby, under Rule 415, corporations may apply for blanket issue registration and take action "off the shelf" at short notice when required, without the delays normally necessary under the registration procedures. In such cases competitive tenders are made for the entire issue by a number of underwriting syndicates. This system is limited to issues of common stock already listed and to bonds, where the pricing of the issue can be reasonably accurately determined against existing securities. It has the disadvantage that, since the successful syndicate has bought the issue outright, different members may sell their participations at different prices to the ultimate holders.

3. Methods used in the U.K.

(a) Placings

The Stock Exchange in London only gives approval to a placing by sponsors to their own clients and connections in the case of relatively small issues, since this method does not give the public in general an opportunity of subscribing. The public interest is protected to a limited extent by ensuring that a proportion of the placing is offered to jobbers in the market, who pass it on to interested brokers for their clients.

(b) Offers for Sale

Major issues of previously unlisted companies, which do not have a wide spread of existing shareholders, are carried out by means of offers for sale, so that all members of the public are given the opportunity to apply for shares. Issues are normally sponsored by one or more of the major issuing houses, together with firms of stockbrokers, who prepare the documentation, fix the price and guarantee the proceeds. This is achieved first by the sponsoring house underwriting the whole issue, after which the risk is spread by the stockbrokers placing sub-underwriting with a wide range of institutional clients.

Methods of Issuing Shares of Nationalised
Companies on Privatisation

3. The criticism of this system (which could also be levied at the lead underwriter in the U.S.) is that the sponsors may have a conflict of interest, since they are endeavouring both to achieve the maximum possible price for the company and to ensure that their own liabilities as underwriters and those of their clients as sub-underwriters are protected.

One of the problems of privatisation issues is that the companies, by their very nature, tend to have been monopolies in their fields and there is therefore no comparable yardstick against which a price can easily be fixed. It seems, therefore, that the tender system should be used as often as possible since, while this reduces the number of applicants who are hoping to take a quick profit, it also protects the Government against accusations of selling off the nation's assets too cheaply.

If the tender method is used, the problem of pricing becomes less material, although the size of the current discount on Britoil shares against the issue price may give individual investors less inclination to apply for tender issues in the future.

An innovation which is worth consideration for future privatisation issues lies in the selection of the sponsors. It is important that a leading issuing house, which can devote expert personnel to the company's affairs, should be responsible for the preparation of the prospectus. It would seem sensible that the house concerned should then be charged by the Government to obtain the best possible value from the sponsors. Since the clearing banks, with their substantial cash balances, have not been involved in this type of issue in the past, they might be asked to tender for the sponsorship of issues, having arranged their own syndicates of merchant banks and stockbrokers to take part. There would then be competition in achieving the sponsorship and a clear division of responsibility between the merchant bank working on behalf of the Government and the successful syndicate which gains the sponsorship of the issue.

Finally, we should make it clear that the issuing house usually obtains the larger part of its fee by acting as the underwriter, although the greater part of the work is in the preparation of the prospectus and all the other required documentation prior to the issue. An acceptable fee for an issuing house acting on behalf of the Government might therefore be quite large and, in the end, there might be little, if any, saving in costs for this new method of issue.

RESTRICTED



FROM: M E DONNELLY

DATE: 7 April 1983

MR ANDREN

cc - Mr Bailey
Mr Lovell
Mr Kemp
Mr Gordon
Mr R I G Allen
Mr M Hall
Mr Ridley
Mr Harris

ABCC REACTIONS TO THE BUDGET

I have seen your note of 5 April to Mr Harris.

You say in paragraph 4 that the Chancellor did agree to see the ABCC but that this meeting never took place. In fact the Financial Secretary meet the ABCC in the Chancellor's place, ... to discuss their Budget representations. I attach a note of the meeting (top copy only).

You may wish to amend the draft letter attached to your 5 April note to mention this meeting with the Financial Secretary.

MED
M E DONNELLY



B Ray

NOTE OF A MEETING IN THE FINANCIAL SECRETARY'S ROOM AT 4.30PM ON THURSDAY 3 MARCH TO DISCUSS THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE BUDGET REPRESENTATION

Those present: Financial Secretary
Mr Newsome)
Mr Nicholson) ABCC
Mr Veiler)
Mr Hobbs)
Mr S Wayre)
Mr R Allen)
Mr F Martin)

The Financial Secretary welcomed the ABCC delegation and invited them to develop the points made in their Budget representation.

The ABCC said that since they had last written on 25 January they appreciated that the further fall in the value of sterling and the weakness in the oil price had affected the macro-economic outlook. But they did not think it lessened the force of their argument that the Budget priority should be to reduce the cost to industry rather than personal tax relief. The Financial Secretary stressed that there had been an increase in uncertainty in recent months. The fall in sterling would benefit some parts of industry although it was not without its costs. Equally the fall in oil prices should overall have beneficial effects on world activity; but could also affect Government revenue and hence any possible fiscal adjustment. The overall cost of the ABCC measures would be in the region of £4.5 billion. A large figures. Did the ABCC have specific priorities within this?

The ABCC said that their central demand was abolition of NIS. Measures to increase capital expenditure and improvements in tax allowances and bands were also important. Business rates should be reduced by Government action if necessary. There were also a number of technical taxation amendments set out in the annex of the ABCC's 4 November letter to the Chancellor.

The Financial Secretary said that the problem of business rates was not Budget material, nor primarily for central Government. It was important that the ABCC made clear to local authorities the effect of high commercial rates on employment. The ABCC agreed.

There was now more awareness of the effects of large rate increase on local businesses. On the technical tax points, the Financial Secretary pointed out that the Government had made progress in indexation. But this was a complex area and changes could not be made hastily. The ABCC might like to look at the Treasury evidence to the TCSC Meacher Sub-Committee, which set out the difficulties with schemes of the kind outlined by the ABCC. The Financial Secretary said he would draw the Economic Secretary's attention to the ABCC's comments on the Sterling v Customs (EDN/81/37) decision on the disallowance of otherwise deductible input tax.

The Financial Secretary asked how the ABCC saw the economic outlook. The ABCC said that their end December surveys had shown an increase in orders in Merseyside and the West Midlands. Prospects seemed to be looking up; but already a shortage of skilled labour was reported in some areas. But they did not wish to appear too optimistic.

The Financial Secretary thanked the ABCC representatives for putting their case. He said that their points would be noted in the context of the Budget.

The meeting ended at 5.15pm.

MEJ
M E DONNELLY

Circulation:
Those present (NOT ABCC)
PS/Chancellor
PS/CST
PS/EST
PS/MST(R)
PS/MST(C)
Mr Kemp
Mr Moore
Mr Robson
Mr Griffiths
Mr Ridley



FROM: M E DONNELLY

DATE: 8 April 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Ridley

LEGISLATIVE PROGRAMME 1983-84: MR WHITELAW'S LETTER OF 30 MARCH

The Financial Secretary has seen Mr Whitelaw's letter of 30 March which says:-

"QL thought that it would be better to delay some privatisation, if necessary, rather than to place the short Session programme as a whole at risk" (by including the Public Services Transfer of Functions Bill).

The Financial Secretary has commented that this is a ridiculous line of argument; and indeed this whole correspondence over the need to avoid contentious legislation is an abnegation of the responsibilities of government.

^{ME}
M E DONNELLY



FROM: M E DONNELLY
DATE: 8 April 1983

FINANCIAL SECRETARY

POSSIBLE DISCUSSIONS WITH GREEK BUDGET MINISTER

EC Division will be letting you have a note in the next few days concerning a possible visit to Greece during June.

The Greek Budget Minister, M. Varfis, has expressed interest in meeting you before the Greek Presidency to discuss, inter alia, how to run the Budget Council. Officials also see this as a good opportunity to discuss resolution of the UK Budget problems.

The very preliminary plans are for a visit to Athens, leaving London on Sunday evening and returning on the Monday evening. Possible dates might be 5-6 June, or the following week 12-13 June.

MED
M E DONNELLY



FROM: E KWIECINSKI
DATE: 8 April 1983

PS/IR

CORRESPONDENCE WITH SIR PAUL HAWKINS (PS 14/24/83)
(PS 46/14/83)

... You sent these papers (attached) down suggesting that no further substantive reply was necessary for the letter from Sir Paul Hawkins of 15 March.

The Financial Secretary has seen the correspondence. He has commented that Sir Paul's two letters of 4 and 15 March both require full replies. In particular we should respond to: -

- 1) his point (at Y in the letter of 4 March) about being replied to by Somerset House.
- 2) a full reply to the last paragraph of his letter of 15 March (at X); and
- 3) some further comments on the points he raises about Section 69.

He would be grateful for a draft as soon as possible.

Ek
E KWIECINSKI

COMMERCIAL-IN-CONFIDENCE



*Mrs Kelley
Mr C Farrington
PS/Chancellor
PS/CST
Mr A. ...
Mr Widdow
Mr the Chancellor
Mr Tidd*

Treasury Chambers, Parliament Street, SW1P 3AG

*Mr Mountford
Mr F. ...
Mr W. ...
Mr ...
Miss ...*

Private Secretary to the
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

*EST
MST (R)
MST (L)
8 April 1983
Mr Middleton
Mr Bailey
~~Mr ...~~*

Dear Sue

TRANSFER OF HGV AND PSV TESTING TO LLOYDS' REGISTER VEHICLE TESTING AUTHORITY

I am writing with the agreement of the Financial Secretary, and after consultation with other Treasury Ministers including the Chancellor of the Exchequer, in reply to your Secretary of State's letter of 23 March.

Treasury Ministers have very carefully considered the proposals that have been made to compensate staff for detriment in their terms and conditions as a result of their transfer to Lloyds, and to offer a guarantee to Lloyds to meet some of their costs in the event of future redundancies. In doing so they concur with Mr Howell that the terms should be judged not only against the immediate need to secure the transfer of sufficient staff in a manner defensible to Parliament and the public, but should also protect the Government's position in future, larger-scale negotiations on privatisation/contracting-out arrangements and in calculating detriment.

For this reason I am afraid that Treasury Ministers cannot accept, in the light of the calculations that have been made and the likely pay increase on transfer, that it would be right to pay up to £2,500 per head to induce staff to transfer. Even at the extreme the Government Actuary's assumptions would support payments of considerably less than this; and, in any case, we do not think that sufficient work has yet been done to present the calculations of detriment in an authoritative way. On the understandings, however, that the offer is presented as a complete package, that the calculations underlying it are not made available to the staff side, and that the funds can be found from within your existing public expenditure provision, Treasury Ministers would be prepared to accept a ceiling of up to £1,500 per head (ie £1.5 million in total) for these payments.

The question of guarantees to Lloyds regarding future redundancies raises even more acute difficulties in relation to the likely effect on future deals. As your Secretary of State knows, Treasury Ministers would certainly find quite unacceptable the prospect of an open-ended guarantee to Lloyds in respect of redundancies falling on transferred civil servants, whether or not the intention was to pay at civil service or statutory minimum rates. The Financial Secretary hopes that this position can be put clearly to Lloyds at your Secretary of State's meeting on Monday. Similarly it is felt that a guarantee exceeding the maximum coverage of four years which has been made available in other negotiations would set an undesirable precedent, particularly if the redundancies were to be made on efficiency grounds. Treasury Ministers are sure that the offer to Lloyds with regard to commercial redundancies should be limited in this way, although they would be prepared to consider the possibility of a tightly defined indemnity for up to 10 years to meet the situation where a future Government decides to take the operation back into the public sector.

yours sincerely

Martin Donnelly

M E DONNELLY
Private Secretary

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

8 April 1983

Dear Secretary of State,

LEGISLATIVE PROGRAMME 1983-84

In your letter of 10 March you asked for my comments on the Treasury's earlier forecasts of the state of readiness on the Bills we had proposed for the Legislative Programme for 1983-84 and which have now been recommended for a place. The position is as follows:

INTERNATIONAL MONETARY ARRANGEMENTS BILL

Instructions on this Bill have already been passed to Counsel. As you know, we now hope to take this Bill in the current Session and consideration of that proposal is provisionally on the agenda for Legislation Committee on 20 April.

PENSIONS COMMUTATION BOARD (ABOLITION) BILL

Barney Hayhoe is writing round to colleagues on H Committee today seeking collective agreement to the policy implications of the Bill. Instructions to Counsel are complete and will be passed on by the Treasury Solicitor as soon as collective approval has been given. This is a bill which could be suitable to hand to a private member who is successful in the Ballot next November.

PUBLIC SERVICES TRANSFER OF FUNCTIONS BILL

We hope to have instructions ready in the course of April. We are still awaiting the opinion of the Law Officers on the implications for the Bill of the EC Acquired Rights Directive and the Transfer of Undertakings Regulations. The Bill will incorporate much of the drafting already prepared for the Civil Service and Related Bodies (Redundancy Compensation) Bill - to this extent, some of the drafting work has already been done.

Yours sincerely

N. E. Ridley
NICHOLAS RIDLEY

(affidavit by the Financial Secretary
I signed in the above)



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon the Lord Hailsham
of Marylebone CH FRS DCL
Lord Chancellor's Department
House of Lords
London SW1A 0PW

12 April 1983

Dear Quinton

Thank you for your letter (reference 7/184/01) about the complexities which executors meet in winding-up estates.

I am most grateful for your agreement to amend the Probate Fees Order to enable us to raise to £40,000 the "excepted estate" value in the regulations affecting capital transfer tax accounts. My officials will be in touch with yours about the mechanics and also with those in the Scottish Office if George Younger is also content.

I shall consider carefully what you say about executors' difficulties in cases where tax is payable to see what further can be done by tax measures. Meanwhile I am sure that any step which can be taken to enhance the rights of beneficiaries against dilatory executors will be valuable.

I am copying this letter to George Younger.

*Yours
Nicholas*

NICHOLAS RIDLEY

CC Chancellor
CST
EST
MST(C)
MST(R)
Mr Middleton
Mr Wilding
Mr Moore
Mr King-Slay-Jones
Mr French
Mr Brighton-IR
PS/IR



CC Mr Munnin
Mrs Hedley-Miller
Mr Lennon
Miss Court
Mr Hayden

Treasury Chambers, Parliament Street, SW1P 3AG

Nigel Spearing MP
House of Commons
LONDON
SW1A 0AA

11 April 1983

Dear Nigel

DEBATE ON THE EUROPEAN COURT OF AUDITORS REPORT

During the debate on the Court of Auditors' report on Monday 21 March, you asked me about the Council's role in the procedure for granting a discharge to the Commission in respect of its implementation of the budget. You may find it useful if I briefly set out the main stages.

The timetable which has to be followed is set out in the Financial Regulation under which the Commission is required to draw up a set of Accounts for both revenue and expenditure. The Court of Auditors examines these and sends its observations to the Community Institutions. There follows an informal exchange of views and information between the Court of Auditors and the other Institutions. This process culminates in the publication of the Court's final report together with the formal replies of the Institutions. As you know, this is the report which we debated on 21 March.

The final stage in the discharge process lies with the European Parliament acting on a recommendation by the Council. The Council's recommendation for discharge is discussed in the Parliament's Committee on Budgetary Control and then considered by the Parliament as a whole. The Parliament take account of the observations annexed to the Council's recommendation in reaching their decision on the discharge.

You asked what direct part Ministers played in the formulation of the Council's recommendation. It is normal procedure for the Presidency, currently held by the Germans, in consultation with other delegations, to propose the agenda for Council meetings. Some business is dealt with using the 'A' points procedure because Ministers consider it has been fully dealt with in the earlier stages. This was the case when a draft recommendation for discharge was agreed as an 'A' point by the Council on 15 March. Since the Court's first Annual Report was presented in 1977, it has been the practice of the Council to agree the recommendation in this way. But it is not precedent which has made this a suitable arrangement. As you know, the report is an exceedingly detailed document, and rightly so. The Council's Budget Committee, which is composed of experienced officials representing Finance Ministers from all Member States, examined it item by item, questioning Commission officials closely. This year for the first time representatives from the Court of Auditors were also present. This process took place over a period of ten weeks. So far as the UK is concerned, the Government's attitude to financial management is beyond doubt. We have subjected our domestic procedures to close scrutiny and have explicitly directed officials that similar high standards should be sought within the Community.

Our concern does not stop with the annual scrutiny. This Government does all possible to urge more effective action in following up the implementation of the recommendations in the Court's reports. But the fact remains that the responsibility for this lies within the Community. One way in which we can directly support the Court's work is to follow up points in Council Committees and working groups. For example, when future budgetary provision is sought the institution's record in implementing past budgets is one factor the UK and other like-minded member states consistently take into account. In addition I have sent copies of the Official Report of the debate on the 1981 Report to the Chairman of the European Parliament's Budget Control Committee and to the Budget Commissioner. The points made in the debate will reinforce the UK's efforts in Council Committees to improve financial management.

Yanson
Nicholas

NICHOLAS RIDLEY



CC CST
Sir A Rawlinson
Mr Wilding
Mr Pestell
Mr Hopkinson
Mr Judd
Mr Fitchew

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

11 April 1983

Dear Tom

DOG LICENCES

Our officials have been in contact in recent weeks about the form of the Treasury Minute responding to the PAC report on dog licensing. I can see that there will be difficulties in resolving the substantive issues when we come to consider them; my present concern however is with the tone of what we say to the House in the face of a system which I think we could all agree has become farcical (certainly in financial terms).

I gather that the differences between our officials have centred on whether the Treasury Minute should include a statement to the effect that the present arrangements serve no useful national purpose. Of course they do not; and Sir G Moseley responding to the PAC questioning at their hearing on 20 October last year took the same line (Q3262 et seq). We must admit that fact, - we shall look foolish if we do not.

The second difficulty is whether the response should undertake to consider the option of temporary suspension (as suggested by the PAC) along with other options as soon as a legislative opportunity occurs. Given that the PAC has made the suggestion, which would at least save money, and given that we shall have to consider all the options as soon as reasonably possible, clearly we have to consider that one. There is simply no point in ignoring it. The House will recognise that there will be no early legislative opportunity but we should at least show willing to tackle a problem that we cannot continue to put on one side now that it has run into deficit. In short, as on the preceding point - we must make a positive response; if we do not do so we shall sound irresponsible.

I hope therefore that you will feel able to accept the more "willing" form of Treasury Minute attached to this letter.

A copy of this letter, and its attachment, goes to Peter Walker for whose early agreement I also ask.

Your m
Nicholas

NICHOLAS RIDLEY

DRAFT TREASURY MINUTE ON THE FIRST REPORT FROM THE COMMITTEE OF
PUBLIC ACCOUNTS SESSION 1982-83

Department of the Environment: Dog Licensing

The Treasury, the Department of the Environment and the Ministry of Agriculture, Fisheries and Food note the comments and recommendations of the Committee.

2. They share the Committee's concern about the widening gap between receipts from licence fees and the costs of collection; agree that the present arrangements serve no useful national purpose; and believe that they should be modified or ended as soon as possible.

3. Pending a policy decision, the Department of the Environment has introduced a minor change in the arrangements which will yield an annual saving of about £90,000 on the Department's expenditure. Further possibilities for effecting savings through more efficient working methods are also being examined in consultation with the Post Office.

4. The Committee specifically recommended the suspension of the present arrangements temporarily until a policy decision becomes possible. However, as pointed out in paragraph 10 of the Comptroller and Auditor General's Memorandum, such a suspension would require primary legislation. The Government will consider this option along with the others as soon as a legislative opportunity occurs.

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 11 April 1983

PS/MINISTER OF STATE (R)

~~MR D MOORE~~

~~MR R BLYTHE - IR~~

MR P DRISCOLL - IR

TAXATION OF FRINGE BENEFITS

This is just to confirm that the Financial Secretary's meeting on the "Taxation of Fringe Benefits" has been arranged for 11.00am, Thursday 14 April in the Financial Secretary's room.

... I attach (in note form) the Financial Secretary's preliminary thoughts on how the future regime might look. He would like this to form the agenda for the meeting.

[The relevant background paper for the meeting is Mr Driscoll's major submission "Taxation of Fringe Benefits" dated January 1983].


E KWIECINSKI

Abolish the threshold & treat all alike

All benefits valued on the basis of the worth to the recipient

A. Benefits by virtue of one's job

Miners' free coal
railway & air travel
confectionary workers chocolates etc.

A = ignore small benefits

farmworkers milk and meat etc

retail staff discounts

De minimis allowance of £100 tax free to all?

B. Expenses for Tools, protective clothing etc

De minimis allowance of £100 Tax relief

B = small expenses allowance

[no one to have A and B]

C. Vouchers, Co credit cards, where benefit supplied by 3rd party

(Including Luncheon Vouchers)

make them all taxable emoluments

D. Beneficial loans }
Accommodation } Tax fully as at present

E. Expenses a) claimed by employees for tax relief
b) paid by employers as "necessary"
c) claimed by businesses against CT
sponsorship eg. Covent Garden opera
entertaining
sporting estates

Abuses caught disallowed for CT? and/or
Surcharged on beneficiaries?

F. Company Cars; car allowances; free petrol. etc.

Measure: value to recipient.

No £8500 limit.

Make more work for companies & individuals

Business mileage X

private mileage Y

Total X+Y

Charge on $\frac{Y}{X+Y}$ x total cost

COVERING CONFIDENTIAL



FROM: M E DONNELLY
DATE: 11 April 1983

PS/CHANCELLOR

cc Mr Middleton
Mr Robson *o/a*
Sir L Airey-- IR
Mr Isaac - IR
Mr Green - IR

TAX POLICY

Miss Rutter's note of 10 March gave the Chancellor's first reactions to Mr Robson's draft minute to the Prime Minister sent under my note of 7 March.

The Financial Secretary has now redrafted this note, taking into account comments from the Revenue.

... I attach a copy of the final draft.

MEJ
M E DONNELLY

CONFIDENTIAL



DRAFT MINUTE FROM THE CHANCELLOR TO THE PRIME MINISTER

TAX POLICY

At our recent discussion on mortgage relief I said I would let you have a note about tax policy generally.

2. Our tax policy is based on our economic and political philosophy. Our economic belief is that we should create the environment in which enterprise and wealth creation can flourish. Our political belief is that we should enlarge the role of the individual and diminish the role of the state. We want to encourage personal decision taking, personal responsibility and self reliance. We want to reduce the role of Whitehall.

3. Against this background we have three broad aims in tax policy. First, to reduce the burden of tax. This will provide the incentives necessary to encourage enterprise and hard work. Incentives need further improvement at all levels - particularly in relation to the poverty trap and unemployment trap.

4. Second, to simplify the tax system. We inherited a tax system which was incredibly complex, particularly for entrepreneurs and companies. Tax professionals cannot fully understand some parts of it. Most people find it incomprehensible. Complexity means heavy administrative costs both for the private sector and for the Revenue.

5. Third to take the biases out of the tax system. A wide range of special reliefs have grown up over the years. These discriminate between different activities. They represent layer upon layer of past political prejudices, many of them socialist. Often they produce

CONFIDENTIAL

economic results which are the opposite of what we want.

6. The three aims are closely linked. If we are to simplify, we must tackle the special reliefs. The reliefs are also very costly. This means rates of tax have to be set correspondingly higher to enable us to raise revenue. For example, if we removed all the various special income tax reliefs and left only the basic married and single allowances, the basic rate could be reduced from 30 per cent to around 25 per cent or thresholds raised substantially.

7. The way in which the system directs money and activity into certain activities is quite inconsistent with our aim of enlarging individual choice and responsibility. We give tax reliefs on savings channelled through pension funds and insurance companies worth around £3 billion. Partly as a result people save in these ways rather than investing directly in, say, equities. Institutions now own assets worth £125 billion and this figure is growing. They dominate the equity market. They have grown inefficient on the back of tax reliefs. They invest very little in small businesses. This is not healthy in economic terms. It is directly contrary to our aim of encouraging personal shareholding.

8. We give tax reliefs of £5 billion for housing. We all agree on the importance of owner-occupation. But directing money into housing in this way means less for commerce and industry. In the end all the relief does is push up the price of houses and of land; in the same way the capital transfer tax relief for agricultural land pushes up land prices.

CONFIDENTIAL

9. On corporation tax we give large incentives for investment in plant and machinery. This means we are encouraging firms to employ machines, not people and so we are lengthening the dole queues. We are favouring manufacturing at the expense of the service industries, despite the fact that the latter are the stronger sector of the economy.

10. These are not academic points. The multiplicity of reliefs interact in the market place in a complicated way which magnifies their effect and so their influence on behaviour. For example, take a manufacturing company investing in plant and machinery with a 10 per cent return before tax. After tax this would yield about 8 per cent for the average individual shareholder - an effective tax rate of 20 per cent. To a pension fund, and ultimately to the pensioner, the yield after tax would be 20 per cent - an effective tax subsidy of 100 per cent. No wonder people save through institutions. This is a measure of the incentive we are giving them to do so.

11. In a similar way, take the acquisition of a building by a commercial company which also showed a 10 per cent return before tax. Here the individual investor would be faced by an effective tax rate of 100 per cent. The comparison with the 20 per cent rate on investment in manufacturing plant and machinery is a measure of the way we push investment into certain sectors and certain assets.

12. I doubt if our predecessors intended to produce results like this. I see no economic justification for them. It is also a measure of the complexity of the tax system that it requires a computer to work them out. It is little wonder that companies feel inhibited from taking important decisions until they have had a detailed tax advice.

CONFIDENTIAL

13. But the biggest objection to all this is not the fact that many of the activities we are favouring in this way have little intrinsic merit. Nor is it the large size and erratic nature of the benefits involved. Nor even the heavy administrative costs such a system imposes on all involved. What is objectionable is the fact that the State is intervening selectively at all. It is nannying. It distorts economic decision taking. It erodes personal choice. It inhibits personal responsibility. State intervention in the form of tax reliefs is in many ways as unsatisfactory as state intervention in the form of public expenditure, nationalisation or state controls.

14. There are, of course, groups in special need to whom it is right to give help, such as the blind and the sick. But the tax system is a very blunt instrument for dealing with a particular problem of this sort. In general they are better tackled through the social security system.

15. We need to work towards a simple, understandable "low rate, low relief" tax system, leaving individuals free to take their own decisions rather than be guided by the dead hand of past political prejudice and State intervention. Such a system will enable us to reduce rate of tax and rid ourselves of costly bureaucracy.

16. The work of two groups of Tax and Savings reinforces my view that these are the right lines on which to proceed. You may recall that (on 27 February 1981) I sent you the report of the two groups. One was a mixed group of officials and outside experts looking at tax reliefs for institutional savings through life assurance and superannuation; it also considered the case for introducing new reliefs to encourage direct personal investment in equities. The other was a purely official group considering the more sensitive issue of whether the taxation system biased savings away from investment in productive assets towards gilts and chattels.

CONFIDENTIAL

17. These Reports pointed in the direction of removing the present biases in the tax system.

18. I do not pretend that this is going to be easy. It will require careful planning and delicate selling. We must recognise that many beneficiaries of special reliefs feel that these reliefs are good in themselves partly because they see them as justified on their merits and partly because they are more politically secure than lower tax rates which might be increased by a future administration.

19. We have also to face the problem of the numbers who will lose in any reform. We shall need to proceed carefully on the basis of a well understood and accepted approach. The aim should be to introduce the changes alongside a reduction in the general rates of tax, so that, so far as possible, those whose relative tax burden is increased do not at the same time face an absolute increase in their tax liability.

20. I see these changes as something for the next Government. It is essential to try and advance our plans now in order to know what we can do after the election, and what we cannot. There may be some elements which will be politically attractive and could go into our Manifesto. At least we should be preparing opinion for change. In the meantime, we want to avoid as far as possible making the task more difficult by creating new reliefs, by increasing those that already exist, or by giving pledges which ~~FUN~~ counter to our long term plans. It may be worth having a talk about all this.

RESTRICTED



FROM: M E DONNELLY
DATE: 11 April 1983

SIR L AIREY - IR

BOARD OF INLAND REVENUE'S REPORT 1982

The Financial Secretary has read the report attached Miss Dyall's note of 8 April. He had several minor drafting amendments, which ... are recorded on the attached sheet.

The Financial Secretary had more substantive comments on three sections. On chapter VI he feels that this does not sufficiently reflect the substance of his talk with you about the political implications of certain Revenue cases. He appreciates that this may well be a change of practice, but feels that the draft should include a reference to the fact that in future there will be prior consultation with Treasury Ministers in cases where there is the possibility of a change in the law being required as a result of a decision of the Courts. The Financial Secretary has discussed this change with the Chancellor who agrees that it is desirable. This report seems a good opportunity to present the new policy.

Chapter VII - the Financial Secretary is concerned that this chapter - while admirable in itself - lays insufficient stress on the role of Ministers. There is a danger that it may be misused to heighten the feeling in some circles that the Revenue is a sovereign body over which Ministers have no control. This could be remedied by scattering phrases such as "Ministers would like", "Ministers have asked us to" etc around the text. This does not prevent the distinction being made between areas of direct Ministerial responsibility and "care and maintenance", ^{but} it can hardly be said that Ministers are oblivious to the Revenue's relations with the public. Many of the measures taken to improve relations have been as a result of pressures from Ministers for improved sensitivity in dealing with taxpayers. The Financial Secretary has amended paragraph 128 to make the above distinction much clearer in relation to the

reatment of complaints from MPs and their treatment by Ministers. The Financial Secretary feels it might be useful to provide some figures of the number of Ministerial replies dealing with tax matters.

Collection

The Financial Secretary was rather concerned by paragraph 70 which stresses the failure to collect back tax due to the economic situation and to cash flow problems. He would prefer to leave out comments on the 'economic situation' and simply provide the figures, which show a good record of improvement. The suggested amendment ... is attached.

The Financial Secretary would be happy to discuss these comments with you.

MED
M E DONNELLY

SUGGESTED DRAFTING AMENDMENTS

Para 113

line 7 -- '..., or one of our Regional Offices or to the Board,...

line 12 - delete 'or to the Board'.

line 15 - 'before a reply is drafted to put before a Treasury Minister, which he considers carefully before he sends it'.

Para 47

lines 9-11: '...Offices were not being updated to show payments received local collectors were also often unable to proceed with the collection of overdue tax reported to them before the start of the dispute'.

Para 70

lines 12-17: delete sentence beginning 'One of the reasons why'.

line 17 - 'last quarter of 1982, and attempts to reduce it further continue to be made. It seems probable that...'

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 12 April 1983

MR N MUNRO - IR

cc Minister of State (R) (with *attachés*)
Sir A Rawlinson ("
Mr Wilding "
Mr Monger "
Mr Moore "
Mr Robson "
Ms Seammen "

Mr Ridley "
Mrs Holmans "
Mr O'Leary - IR "
PS/IR "

NICIT, PENSIONS AND SAVINGS: THE PARTICULAR ISSUE OF PENSIONS

The Financial Secretary was grateful for your submission of 7 April.

... I attach his response to your paper.

He would like to discuss this further with officials. I will be in touch shortly to arrange the meeting.

EK
E KWIECINSKI

NICIT & OCCUPATIONAL PENSIONS

These two topics can be divided, both in their consideration, and in the timing of any eventual implementation. The connecting link is what the net yield/cost of changes in the Pensions area would be, which would have to be taken into account at the time of NICIT, COP & H & W etc.

This paper therefore considers Mr Munro's paper of 7 April in isolation. It is mainly to form the basis for an early discussion I would like to have on the pensions issues.

There has to be a practical way of moving forward and it has to be presentable in an exciting way.

Perhaps we could offer "the right to your own savings", analogous to "the right to buy your Council House". Every member of an occupational pension scheme would have the right to have the value of his share of the fund put into a "personal Trust", with a specific commencing sum represented by certain shares or stocks. For those say 60 to 65 there would be an option, and for those over 65 it would be compulsory, for the sum to be used to purchase an annuity. We would then have 3 options on D. Day:-

A 1. Opt for a personal Trust.

A 2. Opt to have one's share used to buy an annuity

A 3. Opt to stay in the pension fund.

[A 4. (for future members) opt out.]

For those contracted in, the "right to your own savings" would mean the following options:-

B 1. Opt for a personal Trust. In this case the state would have to put up the capital to put into the Trust according to actuarial calculations.

- B 2. To opt for calculating a higher National Insurance pension when it becomes due, by virtue of the contracted-in contributions paid on and above/NIC. ^{the contracted-out level of}
- Graduated contributions would cease from D. Day (which is effectively opting out)

For non-contributory, pay as you go schemes, of which the Civil Service scheme is the main example, the options would have to be:-

- C 1. Opt for a personal Trust. Again the state would have to put up the capital according the actuarial calculation of each members' entitlement.
- C 2. Stay within the scheme, but be required to pay the full cost of the employee's contribution to cover the payment of index-linked pensions.
- C 3. Opt out

Taxation

"Personal Trusts"

Occupational Pension Schemes

The Civil Service Pension Scheme

Retirement Annuity Schemes

Would be the four types of schemes remaining. In all cases I believe we should make contributions come out of taxed income by the individual. This is where the big saving comes from. The employer would be able to match the employee's contribution in each case, his share being tax deductible for him. I like the conditions in Mr Munro's paragraph 12, which could effectively frustrate the employer from providing the funds tax fee for his employee. Nevertheless, it is still a good bargain, even with no tax relief, to have one's contribution doubled by one's employer!

The income to funds, whether they be personal, or occupational, is the second stage at which tax can be levied. It would be possible here to build in an advantage to the Personal Trust. If we say that Personal Trusts are to be exempt from Income and Capital Gains Tax, we would either build in a tax on fund income of, say, 10% for the Pension funds, or we could keep both on the same tax-free basis. There is no counter part with the Civil Service scheme, where the taxation of the income of the fund is irrelevant, because there is no fund.

The third stage of possible taxation in the final disbursement of the fund. If the personal Trust, is exchanged in toto for a retirement annuity, or if the entitlement to an occupational pension is converted into a retirement annuity in toto, the taxation is simple. The income from such annuities would be taxed as earned income; the same goes for Civil Service Pensions.

The question arises as to the tax treatment of lump sums paid:-

- a. by commutation of scheme entitlements.
- b. by cashing in all or part of a personal Trust.

It would probably be appropriate here to work out a special rate of tax to compensate for the loss of Revenue.

It remains to be attempted, to define a "Personal Trust". It is a fund, into which contributions are paid for an employee's retirement. The assets belong to him, but are held in the Trust, supervised by trustees, to stop him withdrawing them prematurely. Should the trustees manage the portfolio, or should the employee? For how long should he be obliged to leave his money in trust? For 10, 15, 20 years? Or until he reaches age 60, or 65? What penalties should there be for early withdrawal? Or should it be prohibited?



FROM: FINANCIAL SECRETARY
DATE: 12 April 1983

CHANCELLOR

cc Mr Ridley

MACALPINE CORRESPONDENCE

You raised the question of the letters from the MacAlpines concerning our POS legislation at Prayers yesterday.

There are 3 points:-

1. Should a closely controlled, quoted company be included? The answer is 'no', and must in my opinion remain so.
2. Can we allow POS for the unquoted shares in a company which also has quoted shares? I have already offered to do so, if any candidates can be found.
3. Why do we have to take account of "Associates" holdings? These are restricted to wives and minor children already, which shouldn't cause any problems. I suspect they have misunderstood.

Following my letter of 30 March, which ought largely to deal with their concerns, the ball is rather in their court at present. I would normally wait for them to respond to this: they may be satisfied. But in view of the close interest being taken in this by No.10 - see Ian Gow's letters attached - I propose to invite the MacAlpines and Ian Gow to a meeting early next week.

Perhaps you would let me know if you are content with this approach?

NICHOLAS RIDLEY



10 DOWNING STREET

REC	12 APR 1983
ACT	Mr PRESCOTT IA
CC	PS/CHAMBERLAIN
TO	PS/MST/A
	Mr MOCKE
	Mr ROBSON
	Mr BATTISHELL IA
	PS/IA

6th April 1983

By Ian Nicholas,

Thank you for your letter of 30th March, with which you enclosed a copy of a letter of the same date which you had sent to Malcolm McAlpine.

Forgive me for adding to your burdens but I wonder if you could ask Malcolm and Alistair to come to see you, in order to discuss this.

I Ian

IAN GOW

The Rt Hon Nicholas Ridley MP



10 DOWNING STREET

FINANCIAL SECRETARY	
REC.	12 APR 1983
ACTION	Mr Prescott JA
COMM TO	PS Chancellor
	PS MST A
	Mr Moore
	Mr Robinson
	Mr Battiscombe JA
	PS JA

11th April 1983

Ian Nicholas,

Tax Treatment of Companies buying their own Shares

I write further to my letter of 6th April.

As you know, the Prime Minister is taking a personal interest in this case.

She has commented on your letter dated 30th March as follows:-

"The Treasury just have NOT met the complaints. As usual they have recognised the justice of the case by making changes and then hedged the changes around with so many penalties that they have defeated the purpose."

Could you please look at this again?

IAN GOW

The Rt Hon Nicholas Ridley MP



C Harrison
Mr Carzell
Mr Mank
Mr Pandy
Mr Pinc
Mr Peet
Mr Lett
Mr Sawyer

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign Office
Downing Street
LONDON
SW1

12 April 1983

Dear Secretary of State

EC DRAFT DIRECTIVE ON THE SUPERVISION OF CREDIT INSTITUTIONS ON A CONSOLIDATED BASIS: ARRANGEMENTS FOR DEBATE

On 24 March 1982 the House of Commons Select Committee on European Legislation recommended that the proposed Council Directive on the supervision of credit institutions on a consolidated basis (Commission Document No.9551/81 of 9 September 1981) should be the subject of a Standing Committee debate. On 2 March 1983, the same Committee considered an amendment to the proposal (Commission Document No.4714/83) and recommended that this document too should be considered along with the earlier proposal in Standing Committee. I am writing now to suggest that a Standing Committee debate be arranged in the week beginning 25 April 1983, or as soon as practicable thereafter.

The Proposed Directive

The proposed draft Directive has its origins in the EC First Directive on the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions (77/780 EC). This earlier Directive set out as an ultimate objective the overall supervision of a credit institution operating in several Member States by the competent authorities in the member state where the credit institution has its Head Office. The UK endorses this objective. Indeed the Bank of England already supervises credit institutions on this basis and has played a leading role in encouraging other countries to do so, worldwide. The present draft Directive establishes the principle of consolidated supervision, and so takes a first step towards the objective. The Treasury submitted an explanatory memorandum on the draft Directive to the Select Committee on 14 December 1981, and

issued a consultative document on the proposal to a number of interested non-Government bodies in March 1982.

Timetable Considerations

The draft Directive is at present under consideration in a Council Working Group. At the first meeting of the Working Group last month it became clear that the Directive was likely to make faster progress than had been anticipated. The Presidency now believe that only one further Council Working Group meeting (scheduled for 5 and 6 May) should be necessary; thereafter consideration by Coreper and adoption by the Council could follow before the end of June. It may be that the Presidency's optimism is misplaced; however, it would seem sensible to proceed with the Standing Committee debate on the assumption that the timetable will hold. There is no overwhelming reason to have the debate before the proposal leaves the Working Group, but it would perhaps look better in Parliamentary terms if the debate took place in the week beginning 25 April, before what may be the last Working Group meeting.

Standing Committee

I agree with the Select Committee that, although the draft Directive raises questions of political importance, given its technical nature a debate in Standing Committee rather than on the floor of the House would be appropriate.

Proposed Line in the Debate

We would propose to take the line that the Government supports the proposed Directive since the principle on which it is based is broadly in line with existing UK policy, but has some difficulties with the details of the draft put to the Council. Our representatives in the Working Group are attempting to put these right. The main technical difficulties relate to the proposed wording on the removal of impediments to the exchange of information about institutions covered by the Directive, and the range of institutions affected, which may go beyond those currently supervised in the UK by the Bank of England and the Registry of Friendly Societies. The Government spokesman's remarks on those subjects will of course depend on the precise timing of the debate on progress made in the Working Party.

Form of Motion

I suggest that the motion might read:-

"That this House takes note of European Community documents number 9551/81 and number 4714/83, draft Directive on the supervision of credit institutions on a consolidated basis, and agrees with the Government's intention to support the principles underlying the draft Directive and to negotiate a satisfactory outcome on its form."

I am copying this letter to the members of OD(E) and L Committees a
and to Sir Robert Armstrong.

Yours sincerely

Martin Donnelly
pp NICHOLAS RIDLEY
(Approved by the Financial Secretary
and signed in his absence.)



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
LONDON
SW1

13 April 1983

M Wicks
M Wood
PPS
CST
EST
MISTED
MIST P1
Mr Middleton
M Bailey
Mr Carroll
Mr Burgess
Mr Keenan
Mr Ridley
Mr Harris
PP M
Mr Johns/IK

Dear Secretary of State,

DISPOSAL OF BGC'S OFFSHORE OIL ASSETS

Thank you for your letter of 7 April, in which you reported progress so far and asked me to agree that Holdings' initial capital structure should not include a debenture.

I note that, while you prefer the flotation route, you are keeping open the option of a piecemeal disposal. This preserves some flexibility. The merits of the two options can be compared in the paper for E(DL) which you mention. My officials will be glad to discuss this with yours.

On the timing of disposal, I note that a sale this Summer is now not feasible. I gather that a disposal this financial year is still possible, although uncertain. I should be grateful if you would let me know immediately if new developments appear to require a further postponement.

I accept your conclusion that Holdings' capital structure should not include a debenture to GCE. There will of course be an opportunity to take a dividend from Holdings if its cash position strengthens after the Scheme comes into effect. This should be considered in due course.

Yours sincerely

Nicholas Ridley

PP NICHOLAS RIDLEY

seen and approved by the
Financial Secretary, signed on
his behalf in his absence.



CC Mr Brennan
Mr Grimstone
Mr Morgan
Mr Wicks
Mr Wilson
Mr Neilson

Treasury Chambers, Parliament Street, SW1P 3AG

PS/Secretary of State for Agriculture
MAFF
Whitehall Place
LONDON
SW1

15 April 1983

Dear Robert,

PRIVATISATION: SUSTAINING THE MOMENTUM

The Financial Secretary wrote to your Secretary of State on 17 March instituting the second stage in the follow up to the Prime Minister's minute of 28 July last about the need to sustain the momentum of the privatisation programme. All Cabinet members were asked to give details of privatisations in their areas of responsibility which had occurred or were expected to occur, so that a paper reflecting the present state of the privatisation programme could be prepared to form the basis for the first six-monthly review of the programme at E(DL).

The first six-monthly review of the programme is due to be considered by E(DL) at the beginning of May. In order that a comprehensive report can be completed in time for this, replies were requested for the beginning of April. The Financial Secretary would therefore be grateful if Departmental Ministers who have not yet responded could do so as soon as possible.

I am copying this letter to Private Secretaries of all Departmental Ministers who have not yet provided a full response, to Michael Scholar at No.10 and to Margaret O'Mara here.

Yours sincerely

Martin Donnelly
M E DONNELLY

CONFIDENTIAL



FROM: E KWIECINSKI

DATE: 13 April 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Chivers
Mr Robson
Mr Andren
PS/IR
Mr Driscoll-IR

LETTER OF 8 APRIL FROM SMMT

The Financial Secretary has seen Mr Fraser's letter of 8 April and your minute of 12 April.

He has commented that his worry is that if we agree to a joint study we are in a sense committed to the proposition that the company car market should be protected. To allow company car drivers to have special perks in order to rig the market to protect the UK industry is, he feels, against all that the Government believes in. He finds the SMMT a very "pushy" group who seem very keen to get a foot in the Exchequer door.

They were in fact invited to send the results of their own study to the Financial Secretary, in his letter to Mr Fraser of 22 March
..... (copy attached, top copy only).

Ek

E KWIECINSKI



Handwritten notes in the top right corner: "CIT", "EST", "WST R)", "WST R)".

Treasury Chambers, Parliament Street, SW1P 3AG

Anthony Fraser Esq
Director
Society of Motor Manufacturers &
Traders
Forbes House
Halkin Street
LONDON
SW1X 7DS

Handwritten notes on the right side: "Mr Patten", "Mr Chivers", "Mr Andrew", "Mr Patten", "Mr Patten/IK".

22 March 1983

PS/IK

Dear Mr Fraser

You wrote to me on 25 February about the scales which apply when a company car is made available for an employee's private use.

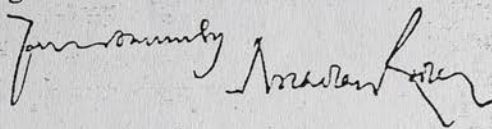
I should first like to clear up one possible misunderstanding. At our meeting on 18 February I did not simply accept your contention that a movement away from the company car would damage the British motor industry and be costly to commerce and industry generally. That was really your argument. What I said was that I simply did not believe we were anywhere near the point where it was likely to happen.

My principal concern in relation to car benefits is to ensure that employees who get part of their remuneration in this particular form should be treated neither better nor worse than employees who get all their remuneration in cash or who enjoy other benefits which are taxed on a more realistic basis. Although I believe it is still an academic question it must be for the motor industry to react to this basis of taxation rather than for the tax system to be distorted simply to benefit the motor industry. One objective of the "gradualist" approach we have adopted has been to give the industry time to absorb any market changes that come about as a result of our policy of moving towards equality of tax treatment for all citizens.

Having said this, I am sure you have by now seen the Chancellor's proposals for car scales for 1984/85 and that you will agree that the proposed scales are scarcely likely to encourage employees to move away from company cars. They are no more than a modest continuation of our policy of moving towards realistic levels.

In your penultimate paragraph you suggest a joint exercise to "re-examine the structure of the company car market". I am not sure that such a joint exercise would necessarily be the best way to proceed. After all, the motor industry's interest, while important, is only one of many involved in this area, all of which have to be taken into account by Treasury Ministers. For that reason, while Treasury Ministers will take a close interest in the situation and will obviously want to see the results of any such research, I am not sure that we would want to proceed by way of a joint exercise. I think it would be more appropriate if the work were done by your industry since it is you who are urging a particular point upon us. I hope you will understand why this must be so.

I would rather leave it to you and your staff to proceed with your research work and then to let me see it when you have firm data which you think will help us in determining what the proper level of the scales should be.

A handwritten signature in dark ink, appearing to read "Nicholas Ridley". The signature is written in a cursive style with a long, sweeping tail on the final letter.

NICHOLAS RIDLEY



FROM: E KWIECINSKI
DATE: 13 April 1983

PS/CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Cassell
Mr Moore
Mr Robson
Mr Griffiths
Mr Martin
Mr Reed
Miss Boardman
PS/C&E
PS/IR

FINANCE BILL - ALLOCATION OF CLAUSES BETWEEN MINISTERS

The Financial Secretary has seen your minute of 12 April.

He feels that he should take clause 59 (Election for Pooling: Indexation), and that the Minister of State (R) should take clauses 38 and 39 (Group Relief). I gather from their private secretaries that the Minister of State (C) and Minister of State (R) would be agreeable to this change.

He is otherwise content with the suggested allocation.


E KWIECINSKI

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 13 April 1983

PRINCIPAL PRIVATE SECRETARY

cc Minister of State (R)
Mr Middleton
Mr Moore
Sir L Airey)
Mr Isaac) IR
Mr Blythe)
Mr Spence)

TAXATION OF HUSBAND AND WIFE

The Financial Secretary has seen the revised version of the note for the Prime Minister attached to Mr Blythe's minute of 11 April, and your minute of 12 April.

He thinks the note for the Prime Minister is now very good and should be sent as soon as possible. He has not made any amendments to the draft.

The Financial Secretary has commented that the important thing to get across is the principle of ITTA. He is less concerned about the distributional effects of any change because he thinks these can be modified by the levels at which the allowances are set and the amount of the transferable element.

Ek
E KWIECINSKI



FROM: E KWIECINSKI
DATE: 14 April 1983

MRS S AYLING/IR

CTU Budget Submission: WIDER OWNERSHIP

... The Financial Secretary has been sent the attached submission sent to him by Mr Ridley.

He would be grateful for a draft letter for the Chancellor to send to the CTU.

The draft letter should agree with the spirit of their submission, and catalogue what has been done, giving hope for further action in the future.


E KWIECINSKI

G.12

FROM: ADAM RIDLEY
11 April 1983

FINANCIAL SECRETARY

CTU BUDGET SUBMISSION: WIDER OWNERSHIP

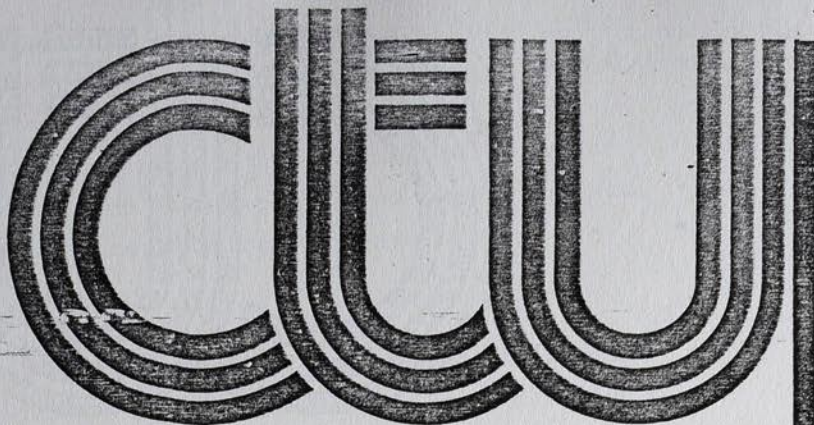
As you may know, the Chancellor received the CTU's Budget submission well after the Budget, and so none of us has been able to give it any consideration so far. Given that the spirit of the submission makes good sense, he wonders if you could make a quick assessment of the proposals it contains.

AR

A N RIDLEY

Conservative Trade Unionists
32 Smith Square London SW1P 3HH
Tel 01-222 9000

S. Type



ANR 2/82

Mr Rodley O.R.

The Rt. Hon. Sir Geoffrey Howe, MP
Treasury Chambers
Parliament Street
London SW1P 3AG

22 March, 1983

Dear Geoffrey,

Thank you for your letter of 11th March and for your advice regarding Budget submissions in future years. The CTU Officers have asked me to say that although they were too late for this year's Budget they hope you will take account of their views when drawing up the manifesto. I know they will be urging Norman Tebbit to do the same.

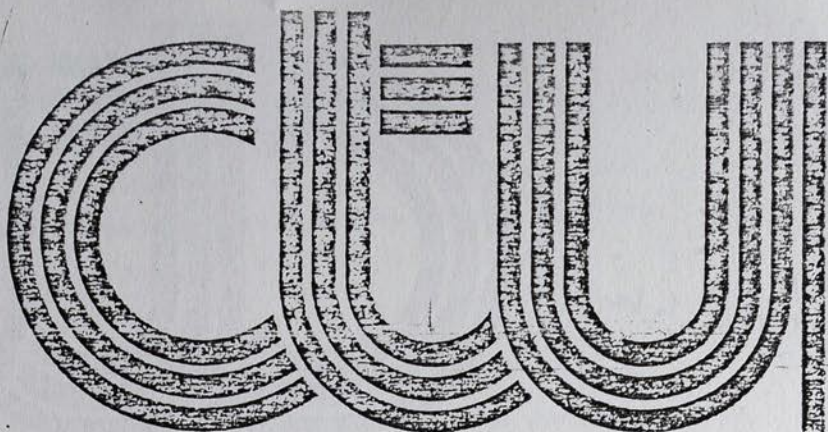
Sincerely
Margaret Daly
Margaret Daly
CTU Director

There was a late submission
a late submission is attached
B. 5/4
Was there a submission from the CTU. DA 10, can I.C. AN 5/4

P.S.

I thought your Budget TV performance was brilliant!! Congratulations.

M.



PRESS RELEASE

TIME: IMMEDIATE

1 March 1983

CTU BUDGET SUBMISSION

The CTU has welcomed the improved concessions employee share ownership schemes which this Government has introduced.

The fact remains that, while relative to May 1979 there has been marked increase in the number of schemes operating, the number of companies involved (around 500) and the number of employees (around 300,000) represent a very small percentage of the workforce. In short, these schemes have not caught or won the imagination of those most likely to benefit from them.

The benefit we see in these schemes include:

1. improving economic literacy
2. highlighting the vital role of profit
3. improving motivation and commitments
4. improving corporate cash flow and liquidity, thereby reducing costs and providing self generated funds for investment in improved plant and equipment.
5. saving interest by reducing external borrowing needs
6. helping demonstrate the difference between working in the risk-taking and risk-exposed private sector and the relatively secure public sector

Cont/.....

7. providing a bulwark against a possible future Socialist.
take-over of the financial institutions be dismantling ownership over millions of worker/owner/shareholders
8. improving the industrial dialogue and facilitating wider and more effective employee involvement and participation.
This would be a positive counter to European moves to impose rigid structures.

The message we seek to preach would be "Take cash and pay tax. Invest and its tax free." We would like to see wage earners given a real option, a simple option each year; with generous tax incentives granted to those who invest.

Our belief is that the present share ownership concessions are too complicated for ordinary people - hence our emphasis on changing the language used. In addition, we feel that the requirement to hold the shares for 7 years in order to escape all tax liability is too long, particularly for people who may never have tried to save. We suggest that the 7 year period should be reduced to 3.

While the Budget is not the place to stipulate which types of share should be available under these schemes, we do feel that, in practice, shop floor culture hesitates about putting all ones eggs in one basket and has fears and reservations about risking money on the "Stock Exchange" in case the market collapses. For these reasons, we feel it should be made clear that the new concessions would be made available to a range of ordinary or preference shares depending upon the degree of security sought, and the willingness to risk capital or yields for a larger gain.

Pricing Labour into Jobs

There has been much criticism of suggestions that workers should be prepared to accept lower wages in return for jobs. An imaginative profit sharing package could help answer the objections. If, for example, wages at, say, 75% or 2/3rds of the normal rate were approved as a basic, with the proviso that the balance of up to say 120% would be a priority claim on the wealth created for the company by the extra sales and profits which would be generated (buy yourself into a high turnover company), many entrepreneurs would be

Cont/.....

encouraged to invest. The initial lower wages would help compete with some of the low-wage foreign competition until such time as sales turnover built up and economies of scale then allowed the higher wages guaranteed by the agreed claim on profit.

If the tax concessions, we suggested earlier, were available, such a proposition would:

- a) appear more credible
- b) the date at which "break even" would be achieved could be accelerated.

Lessons from National Freight Corporation and Associated British Ports

The enthusiasm with which the workforce have bought shares in these and other privatised companies, usually against the advice of the socialist arm of the trade union movement, shows that, if the presentation is right, the workforce want to buy. The improved concessions we seek are an attempt to convey the excitement of a "Start-up" situation, which can only ever apply to a minority, to the majority who, inevitably, find themselves in an ongoing situation.

The above suggestions could hopefully be financed out of improved performance of growth and as such should not constitute a major drain on the Exchequer.

Tax Incentives

The CTU support the view that encouragement should be given to business and industry through a further reduction in the National Insurance Surcharge and encouragement to individuals by raising the tax threshold. Both these moves would increase demand and help create jobs.

END

For further information please contact: Mrs Margaret E Daly, Director, Conservative Trade Unionists, 32 Smith Square, London SW1P 3HH
Tel 01-222 9000

CONFIDENTIAL



FROM: NICHOLAS RIDLEY

DATE: 14 April 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Sir A Rawlinson
Mr Wilding
Miss Kelley
Mr Mountfield
Mr Rayner
Mr F K Jones
Mr Coleman
Mr Alexander
Mr Ridley
PS/IR
PS/C&E

IMPROVING THE SUPERVISION OF CHARITIES

1. Definition of Charities. Lord Goodman's Committee examined the possibility of changing the definition of a Charity, but did not come up with any good ideas. We all feel that we are unlikely to do any better, and that we should not seek to legislate a new definition (though the picture could change as a result of the Attorney General's actions regarding the "Moonie" charities).
2. The decision limits us to policing the existing definition. In practice we may be able to do a more effective damage limitation job through policing, than by changing the law. The policeman on the beat may be able to deter and prevent offences more effectively than statute law.
3. In practice there are two possible "offences" in relation to charities:-

(a) the consumer protection aspects

Does the charity obtain money from donors under false pretences, and does it pay out the money for things or to causes other than those for which it was given?

(b) the tax evasion and public benefit aspects

Is the charity used to avoid or evade tax; or is its actual

behaviour (as opposed to its stated objects), inconsistent with charitable status and the tax reliefs which they attract? This latter does involve subjective judgement : should tax relief be given to the Moonies? Some charities come close to political activity in allegedly charitable operations. And are the activities of a charity for the public good?

4. On point (a) one could well advance the doctrine of 'caveat subscriber' in relation to donations to charities. So I do not intend to pursue it.

Current supervision of charities

5. This varies to some extent between different parts of the Kingdom. In England and Wales. The Charity Commission employs 330 staff and supervises the registration of charities, including possible de-registration. They seek to assist charities, both by guiding them away from activities which might cease to qualify, and by providing help in managing their financial affairs. The Official Custodian, with 70 staff, provides an investment service and prepares claims for tax relief for about 50,000 minor charities.

This service is free and I can see no earthly reason why it should be. Under the Charities Act 1960, large numbers of very small charities are not required to register with the Charities Commission. Nor are charities whose activities are already subject to supervision, eg under the Friendly Societies Act or by another government department.

6. In addition the Inland Revenue employ 150 staff and carry out the processing of tax relief for all charities - registered and unregistered. There is liaison between the Charity Commission and the Revenue about the registration of Charities: but this is limited on the administration of tax relief because Revenue are bound by the confidentiality rules not to pass on information to the Commission. They exercise their judgement independently as to whether a charity should receive relief.

7. In Scotland and Northern Ireland. There are no Charity Commissions. A body claiming charitable status applies to the Revenue for tax relief. The Revenue either grant it or not; and the charity, if refused, can appeal to the Courts. ~~The charities~~ also use the Courts to revise schemes etc. This apparently works well. Scottish charity work is handled by only 20 Revenue staff from a separate office in Edinburgh, while comparable work for Northern Ireland is dealt with together with the charity work for England and Wales.

Improving the supervision of charity activities

8. The present arrangements for supervising charities have grown up over time. If we were starting a fresh, we would want to do things differently, taking into account changing views about what constitutes charitable activities and taking into consideration the best way of providing whatever level of official support is considered desirable. Given a free hand, the alternatives would seem to be: -
- (a) to abolish the Charity Commission and allow the Revenue and the Courts to supervise charities, as in Scotland and Ulster, throughout the UK; this would require legislation. It would save some £4 million per year in running costs, though the net saving would be less than that;
 - (b) to combine the Revenue and the Commission into one body charged with performing the duties of both. In practice this would have to mean the Revenue taking over the Commission; a more gentle form of (a) above, probably also requiring legislative changes;
 - (c) to keep both bodies in place, but set up much closer links to avoid duplication of work by exchanging information freely. Certain other economies could be made such as abolishing or charging for the services of the Official custodian. This is already/^{being} considered in the context of the Commission's long-term manpower review.

9. Whichever solution is adopted it is unlikely to result in weeding out many goats from among the 200,000 sheep. There are probably not a large number of goats at present: but the number is growing, and "tax planners" are beginning to advertise conferences to educate people how to use charitable status as a vehicle for tax avoidance. Whatever happens we must tighten our defences here.
10. But none of these solutions gives us a means of sorting out the undesirables, as opposed to the fraudulent. I can see no way of doing this short of either a new definition, or a definition leading to two categories of charities - public interest charities or special interest charities. This has already been rejected.

Helping Desirable Charities

11. It follows that this does not give us a cheap way forward to relieve VAT for a small number of desirable charities, even if Customs and Excise were more closely involved. They would need to check VAT invoices, whereas the Revenue need to check Covenants and dividend mandates - there is virtually no overlap. The only contributions I can make to that problem are:-
- a) we might save so many staff from cutting the Charity Commission out, that we could employ the C&E staff necessary to supervise VAT repayments and still show an overall saving;
 - b) but the best way forward, if we want to move, is to make grants to the particular charities we want to help, unrelated to their VAT repayment claims. This would simply be public expenditure.
12. Conclusion So the possibilities are for a streamlining of the present administrative machinery, large potential staff savings, and possibly more effective anti-avoidance policing. The question arises how to achieve them. The alternatives seem to me to be:-
- a) a Whitehall official group - HO, IR and perhaps MPO under the chairmanship of Treasury - to work out the best solution;

b) some sort of a Rayner Scrutiny;

c) some outside enquiry.

~~Of these I prefer a) as being quicker, more under our control, and~~
lower profile.

13. I hope we can have a Ministerial discussion of all this, before the prospective meeting of the Family Policy Group on 19 April if possible, since I understand that Willie Whitelaw will be putting papers to that meeting about aid for the voluntary sector suggesting wider fiscal benefits for private giving.

N. E. Donnelly
PP NICHOLAS RIDLEY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 14 April 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr Beighton)
Mr Battishill)
Mr Lusk) IR
Mr Bryce)
Mr Corlett)
PS/IR

HOLIDAY LETTINGS

(top copy only)
... The attached note from Mr Lusk (IR) sets out the very great difficulties of taking any action to help in this field. There is also the psychological difficulty of providing another special relief for another special activity - holiday lettings. All the attendant problems of ring-fencing, detailed legislation, and claw back are present with dreary familiarity. Nor are there any great economic advantages in moving on this front. I doubt if the tourist trade in general, or foreign visitors in particular, will increase dramatically as a result of our providing relief.

On the other hand there is deep resentment among those affected: solely by following the fashions of the market, and moving from boarding houses or bed and breakfast to self catering lets, these people find themselves accused of "not earning" their income - which they find insulting, and are denied CGT reliefs - which they find expensive. This resentment is bound to be expressed in strong political pressure through MPs, many of whom are formidable proponents of the cause within our Party. We will have a major and most unpalatable political row on our hands if we continue to resist.

Nor is our case strong in logic: by moving simply from cooking breakfast to not cooking breakfast it is hard to understand why a much more penal tax regime should be brought down upon one's head. Equally,

If the capital asset involved is a machine, trading status is available, whereas if the asset is bricks and mortar - it is income from investment. It is hard to explain why the income from the property represented by a shop, or a machine, or a herd of dairy cows is so much more virtuous than the income from a bricks and mortar property.

Perhaps the best thing to do is set out the options as I see them, in order of ascending helpfulness.

1. Do nothing, but mount the most convincing campaign possible to persuade the world we are right.
2. Set up an enquiry, (and make it public) into the whole question of the taxation of the tourist industry, including hotels and capital allowances.
3. Isolate self-catering by a tight definition in legislation, and extend roll-over relief for CGT and possibly (after the Review thereof) CGT retirement relief too.
4. Isolate self-catering as above, and deem it to be a trade. This would bring in relief from IIS as well as the two CGT reliefs.
5. Legislate to make income from the use of a property for the purposes of earning money into a trade. This would bring in not only self-catering, but ^{also} ordinary furnished and unfurnished lets, and agricultural lettings too. This is probably the next logical place to stop if we abandon the present line of defence. One can draw a line between income derived from physical property, and income derived from shares and other financial assets. We have been urged by John Stanley to do this for rented property - (it is an old running sore) - as well as by farmers and landlords for let land. This would probably be fairly expensive. But it would be a nail in the coffin of IIS.

I think we should have a meeting to discuss this. I suspect the proper choice should be either (1) or (5), but that in the end we may go for (3).

PP. Lic Kwiinski
NICHOLAS RIDLEY



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: R G LUSK

11 April 1983

FINANCIAL SECRETARY - SECRETARY

TAX TREATMENT OF SELF-CATERERS

1. Our understanding from the meeting on 28 March (since confirmed by your Private Secretary's note) is that you are disposed to hold firm on the present tax treatment of self-catering holiday lets. Possible solutions whether by reference to capital gains tax, capital allowances or income tax all have their problems and common to all is the prospect of long and complex legislation to set the form of any scheme and define its beneficiaries. But you asked us to consider a minimum fall back position which would do least damage in the event that the political pressure to do something became irresistible. In the latter event it is for consideration whether you should not go beyond promising to consider the issues without commitment, saying too complex for this year and perhaps signposting those aspects which seem to offer the best prospect for change. It is a matter for your political judgment as to how effective this approach might be in heading off the immediate pressures.

Pressure for Change

... 2. The analysis in the Appendix attached to this note shows that there have been 20 odd letters to date and in the main the pressure has come from Cumbria, North East Yorkshire and the South West - all areas where the local Inspector is proposing to adopt a stricter approach to the correct basis of assessment. Understandably owners are disturbed at the

change of practice and have enlisted the support of their MPs. But apart from our contacts with Cumbria and one meeting with Messrs Binder Hamlyn there has been no input from those representing the holiday industry more widely. While it is true that there has been some inconsistency in our local offices practice it is difficult to gauge how representative the present complaints are. For example, a recent newspaper report quoted the Cumbria Association as having only 54 members being some 20% of all known self-caterers within the Cumbria area. Until last year there had been no case law in this area for 30 years and it is in this period that the provision of self-catering accommodation has mushroomed. Clearly of course if there is a hint of a tax relief all will add their chorus in support. For example, if non-trading status is so inequitable it is strange that there are no substantial and repeated representations from the silent majority who are presently correctly charged under Case VI. A very approximate check last year by Kendal District indicated that about two-thirds of the furnished letting cases in its area were being taxed on the correct basis, whether Case I or Case VI according to the facts. The Inspector in Exeter 3 District who deals with part of the Devon coast reports that his self-catering cases are generally assessed under Case VI or Schedule A. And in Taxation of 26 March there is a piece which starts "Our client owns a holiday cottage, the income on which it is agreed is assessable under Case VI". We do not suggest that the present representations can be brushed aside; but being predictable and explainable they have to be kept in perspective and viewed with caution as the basis for making a significant change in the law.

Tax Problem

3. We are in some difficulty in offering advice on a fall back position as it is not clear precisely where the tax shoe is supposed to pinch. A number of the representations ask

for Case I treatment but predictably that is no more than a plea for restoration of the status quo. Others who have thought through the implications of the change to Case VI put the loss of the capital gains tax reliefs as the most important. The Cumbria Association also has shifted its ground. The initial approach laid emphasis on the loss of earned income treatment for rentals and the effect of the investment income surcharge; but at the meeting on 23 March the income tax treatment was put to the bottom and it was indicated that they would settle for action on capital gains and capital allowances. Nor does the Association regard personal involvement by the owner as a necessary condition for any relief (a condition that was to the fore in your earlier considerations of an earned income allowance). We need a clearer idea of the industry's demands and priorities and to this end it would be better to have a set of specific proposals on the table. Cumbria have promised to contact us again and we are awaiting a come back from Messrs Binder Hamlyn on behalf of the English Tourist Board. If you are attracted by the idea we could take the initiative with the Tourist Board and invite them without commitment to explain their problems and put their proposals to us.

Review of Taxation of Tourism

4. On reflection we see little merit in offering a wider review of the taxation of tourism generally. There is no ready made definition of tourism and any review would inevitably range far and wide taking in the many diverse interests which could loosely claim an association with the tourist trade. There is no special tax regime applicable as such to tourism: income (or losses) arising from tourist activities of one sort or another is dealt with in accordance with the normal tax rules, the only special treatment being the designation of hotels for capital allowances. Most if not all of the taxes (including the indirect taxes) would be involved and the sponsoring departments would need to be

brought in. There is no obvious pressure for such a general review and no clear justification for picking out tourism from other activities for special attention. In the absence of an acknowledged need and without specific objectives it would simply lead the industry to expect tax changes in consequence. We think it is altogether too strong a reaction to a fairly limited problem. You would be buying off pressure on one front at the expense of opening up all fronts. Tactically we think it better to contain the current pressure and endeavour to isolate out specific aspects where some limited change may be possible.

Self-Catering as a Trade

5. The most comprehensive solution and the most radical would be to treat the provision of self-catering accommodation as a trade. But by the same token it could be potentially the most repercussive. And if Cumbria and Messrs Binder Hamlyn are to be believed it could go too far in yielding trading treatment on the income front which they regarded as of lesser importance than the capital gains treatment.

6. The definition of trade in the Taxes Act ("trade" includes every trade, manufacture, adventure or concern in the nature of trade) is not particularly illuminating and it is necessary therefore (as in other parts of the tax legislation) to fall back on the normal meaning of the word as applied to the facts. That meaning has been considered by the Courts on a number of occasions and in the course of their judgments they have identified certain 'badges of trade' against which each case must be decided according to its own circumstances. The word usually connotes buying or selling or the giving of services for reward. It has nothing to do with the extent of the personal time and effort which may have been expended on the activities. The Courts have said more than once (and confirmed recently) that income from the letting of furnished property is not income from the carrying on of a trade. Personal involvement does not turn something which is not a trade into a trade.

7. Therefore to bring the self-caterers within trading it would be necessary, by statutory definition, to extend the meaning of the term much wider than at present. It would mean treating an investment in property and where ~~the return is in the form of rent for the use of the property~~ as a trade. But, unless substantial services are provided, on any count that is not a trade; the landlord's income arises from his exploiting the ownership of the property and not from carrying out a trade on the property. One can understand the resentment felt by owners at the implication that, by resisting trading status, they are not working for their return. But these are not relevant considerations to the way in which the tax rules are constructed and in no way is it being disputed that they are carrying on a business. But they are not carrying on the business of trading.

8. But a test based on business (which has a wider meaning than trade) would go too far. It would let in almost any business activity which falls the wrong side of the trading line, for example, speculative investment in commodities, landlords generally and the individual with a portfolio of stocks and shares who was active in the market. At risk would be the general distinction between trading and non-trading.

9. Should it prove possible to construct a workable definition of a self-caterer there remains the difficulty of singling out the self-caterers for special tax treatment and confining that treatment to this sector. There is no special significance in the term self-catering accommodation: in substance it is no different from any other furnished accommodation offering minimal cooking facilities. Indeed, when the Chief Secretary was considering the possibility of capital allowances before the Budget, he was inclined to the view that the test could not rely on the provision of cooking

facilities at all, but would probably have to turn solely on tests of sleeping accommodation, letting conditions and minimum availability during the holiday season. The only distinguishing feature, if any, is the comparatively short term period of letting ie up to a month. That it is aimed at holiday makers adds little if anything. A change in the law can scarcely be supported on the basis of a few complaints following some tightening up of the Revenue's practice to accord with established law.

10. Moreover it would be a fundamental shift to treat a return from an investment in property (the rent for the use of the property) as income from a trade. A change of this sort would inevitably have a major repercussion on the tax treatment of income from property generally as in practice we see little prospect of being able to hold it to self-catering landlords. Urban and agricultural landlords and landlords of unfurnished properties would want the same treatment. Indeed 4 or 5 of the current representations are not concerned with holiday lettings. Open the door for self-caterers, and others (particularly the agricultural lobby) will be beating at the door that they have been pressing to have opened for years. The current representations will be as nothing to the pressures which will develop if one sector of the property sector is given a concession. Extension to property income generally would be very costly.

11. The only precedents for a statutory prescription of trading status relate to farming and the commercial occupation of woodlands (Sections 110 and 111, Taxes Act). But these relate to the occupation of land for the carrying out of specified activities on it and not to the return for allowing someone else to use it. While the tenant farmer is carrying on a trade on the land his landlord in renting the land to him is not.

Definition

12. A definition of self-catering accommodation would we think have to be based on: the length of the lets (say not exceeding one month), that the accommodation (a room) was let and/or available for letting for a minimum number of months in the holiday season (to be specified) and with some requirement as to its being furnished - at a minimum the provision of sleeping facilities (? a bed, convertible or sleeping bag on the floor). Inevitably a definition of this sort would be pretty arbitrary in nature and no doubt anomalies would abound making it difficult for Ministers to defend and hold the line wherever it was drawn.

13. The scheme would also need rules to deal with use outside the holiday season, use by the proprietor or his family for some of the time, and whether the accommodation had to be self-contained (? would a beach hut with a camp bed qualify). If a single room in a house could qualify the rules would need to provide for the situation where some rooms were used for a non-qualifying purpose.

14. Under present law it is a question of fact when a trade begins or ceases. But if self-catering were deemed to be a trade the rules would have to be spelt out when the deemed trade started and ended eg at a specified date or the beginning or end of the relevant tax year. It would also need to be provided whether a self-caterer with, say, three separate properties was deemed to be carrying on one trade or a separate trade in respect of each property. The special rules for assessing the profits of a trade under Case I of Schedule D in its opening and closing years would then come into play. In the time available we may not have picked up all the points that would need to be covered.

Consequences of Treating Self-Catering Rental Income
as from a Trade

15. The two major consequences on the income front are in the nature of the income and the treatment of losses. First the income would be earned income and so would not attract liability to the investment income surcharge; and it would rank for wife's earned income allowance where appropriate. Also it would qualify as relevant earnings for the purpose of relief on retirement annuity contracts. Second the treatment of losses would be more generous in that where a loss is incurred in a trade this may be set against other income of the same or the succeeding year or carried forward to set against future profits of the trade. A Case VI loss may only be set against other Case VI income of the year of loss or carried forward against such income of future years. There are also differences in the basis of assessment (Case VI is usually assessed on a current year basis whereas Case I is on the preceding year with special rules for opening and closing years) and in the computation of income and allowance of deductions.

16. Without a specific provision on the lines of that for hotels the cost of construction of new self-catering accommodation (being commercial buildings) would not qualify for capital allowances. But treatment as a trade would enable furniture and fittings which qualified as plant and machinery to qualify for 100 per cent first year allowances. The self-caterer could then write off the total cost of newly equipping his property in the first year rather than as now over, broadly, 10 years (normally an annual deduction of 10 per cent of the rents) or by having a deduction for the full cost of renewals as and when these take place.

17. Treatment as a trade would enable the assets (the self-catering properties) to qualify for the capital gains tax

roll-over and retirement reliefs since these operate on assets used in a trade. But in relation to self-catering properties further rules, including clawback provisions would almost certainly be needed otherwise the reliefs would be open to exploitation. For example, a trader could roll-over the gain on the disposal of his trade into a self-catering holiday house and, say a year hence, give up the self-catering activity and move into the house as his main residence.

Alternative Approach - Limited to Capital Gains Tax

18. The following paragraphs deal with the suggestion that CGT roll-over relief should be provided in respect of self-catering units. The suggestion has also been made that the self-caterer should qualify for CGT retirement relief, but since the Chancellor has already announced that this relief will be reviewed in consultation with the main representative bodies, we assume that you would not wish to introduce a major extension of this relief in advance of this review.

Present Legislation Providing Roll-Over Relief

19. Under present law, a person carrying on a trade can defer payment of capital gains tax by "rolling-over" the gains accruing from the disposal of certain trading assets if the proceeds are reinvested in new qualifying assets. The legislation also provides for those carrying on certain other activities which do not amount to trading eg certain unincorporated associations and occupiers of commercial woodlands, to benefit from the relief.

20. The effect of the relief is that the capital gain on the old asset is not charged but is deducted from the cost of the new asset for the purposes of calculating the gain on a subsequent disposal.

21. It is difficult to gauge the extent to which the lack of availability of this relief is a real problem for the self-catering industry. There is a risk that one or two cases are tending to assume a wholly disproportionate importance.

22. The combination of the increasing threshold, and more important the indexation provisions means that so far as the future is concerned the problem must be of very limited compass. Moreover in one of the examples quoted to us, of a hotelier converting existing accommodation to provide self-catering units, no CGT arises under present law. In principle, however, there is a charge if for example a hotel is sold and self-catering units are purchased with the proceeds (or of course where it is the reverse and a hotel is purchased with the proceeds from the sale of self-catering units).

Framework of Legislation

23. If legislation were to be provided to extend the existing roll-over relief to gains made either on a disposal or acquisition of self-catering units, then it will be necessary to construct a new relief on the lines of that introduced in 1982 in connection with the compulsory purchase of properties. That legislation required three pages of the Finance Bill.

24. We have already referred to the problem of defining the activities which you particularly wish to benefit so that the relief does not extend widely to all kinds of furnished lettings. (See paragraphs 12-14). But there is an additional problem arising from the introduction of roll-over relief. At the time the roll-over relief is claimed, it will not be clear whether the conditions for the relief are satisfied, or for how long they will be satisfied. It will therefore be necessary for a provision withdrawing the relief if, within a certain period of the relief being claimed, the conditions are no longer satisfied. This will be highly unpopular since

the tax charge will come at a time when the proceeds have already been spent. And presumably some provision would need to be made where the failure to satisfy the conditions was merely temporary.

Wider Implications

25. The implications of introducing a specific tax relief for self-catering have already been referred to, but there are particular points in relation to a CGT relief. The essential purpose of the present CGT roll-over relief is to promote industrial efficiency by enabling individuals and companies to redeploy their capital assets without incurring a CGT charge. Extending the relief to one form of investment will lead to pressure -

- (a) from landlords of agricultural and residential property. You will know that this has been pressed in recent years. To concede it could cost up to £m65;
- (b) those holding other assets which do not presently qualify for roll-over relief eg holders of North Sea licence interests which Sir William Clark has been pressing;
- (c) from those who are currently denied the relief because the proceeds are re-invested in non-qualifying assets eg the proceeds of part disposal of land invested in remaining land.

26. It must be open to question how far the introduction of relief on these lines would have any significant effect on the provision of self-catering accommodation. The very real risk which we see is that its effect would be insignificant

but that the repercussions would be widespread and costly. It is essentially a matter of political judgment whether this is a risk which should be taken.

Conclusion

27. The introduction of a special relief for self-caterers will require a number of highly arbitrary rules and conditions. Moreover it is precisely the sort of relief which the Government has set its face against introducing and in relation to capital gains tax is in stark contrast to the Government's general philosophy.

28. We would hope therefore that you can resist the political pressures to introduce a special tax relief. But if something has to be done a relief restricted to the capital gains roll-over is perhaps the least damaging although there remains the substantial objections to which the note draws attention in particular the very real problem of constructing a satisfactory definition.

R G LUSK

	Area	Status	Reason	Problem	Action recommended
1.	Cumbria	Local accountant	Review by tax office	income unearned; no CGT relief	Redefine 'trade' for self catering holiday accommodation
2.	Cumbria	Chairman, local self-catering association	Review by tax office	no CGT; loss relief; surcharge	Accept services associated with holiday accommodation as a trade
3.	Cumbria	local owner	Review by tax office	income unearned	Treat as earned
4.	Blackpool	owner & accountant	own income assessed Case VI	loss interest relief, no CGT relief or CAS surcharge	Treat holiday lettings as a trade
5.	Bridlington	local owner	Review by tax office	income unearned	Treat as earned*
6.	Bridlington	local accountant	Review by tax office	not specified	Treat holiday lettings as a trade
7.	Filey (Scarborough)	local owner	local newspaper report	income unearned	Treat as earned
8.	Scarborough	Chairman of local accountants' group	Review by tax office	no CGT reliefs; no WEIA, RAR, surcharge restricted loss relief, CAs	Treat holiday lettings as Case I Schedule D
9.	Scarborough	local owner	Review by tax office	income unearned	Treat as earned
10.	Scarborough	local owner	Review by tax office	income unearned	Treat as trade
11.	Scarborough	local owner	local newspaper report	loss of small business reliefs	Introduce transitional reliefs
12.	Scarborough	local owner	local newspaper report	income unearned	not specified
13.	Torquay	local owner	Review by tax office	loss of income and CG tax reliefs	Treat holiday lettings as a trade
4.	Torquay	local accountant & owner	Review by tax office	loss of CGT reliefs	Treat holiday lettings as a trade*
5.	Torquay	local owner	Review by tax office	income unearned	Treat holiday lettings as a trade
6.	Inverness	local owner	Revenue change of policy to Case VI	income unearned	Treat holiday lettings as a trade
7.	Herts	Prospective owner	Revenue change of policy to Case VI	income unearned	not specified

b. Other furnished lettings

	Area	Status	Reason	Problem	Action recommended
8.	Anglesey	not known	High Court judgment	income unearned	Treat all rents from living accommodation as earned
9.	London	furnished flats owner	own income assessed Case VI	income unearned	Treat as earned
7.	Bristol	Accountant & furnished flat owner	High Court judgment	loss of income & CG tax reliefs	Treat income from property as Case I
11.	Glasgow	furnished flats owner	Basis of assessment changed to Case VI	income unearned	not specified
10.	Glasgow	furnished flats owner	Basis of assessment changed to Case VI	liability to surcharge	Treat as earned

Notes:

* Files out of office. Full review impossible.

1. No general approach has been made by representative bodies (eg Tourist Boards).
2. Only one local association has made representations (Cumbria).
3. Approximately 23% of the representations concern property other than holiday accommodation.
4. Representations from professional representatives tend to stress the loss of CGT reliefs.
5. Representations from local owners express resentment at the implication that they have not worked for their income, rather than analyse the financial implications.

PERSONAL AND CONFIDENTIAL



FROM: NICHOLAS RIDLEY

DATE: 14 April 1983

CHANCELLOR

cc Chief Secretary
Minister of State (R)
Mr Ridley

REPORT OF EMPLOYMENT POLICY GROUP

You asked for my comments on Annexes D, E & F of this report.

Annex D

The overwhelmingly important issue here is portable pensions. I am sure they are right to stress the need for a policy here, and preferably a manifesto one too. It is enormously complicated and expensive, and I fear they have not thought out their ideas enough.

I am struggling with this issue, and enclose a copy of my discussion paper of 12 April which was not copied to you. I am having an early meeting with officials to try and take this forward. I have attempted to give the subject more political sex appeal, as you will see.

Earlier retirement could be accommodated for second pensions within the above scheme I am trying to work up; it is highly desirable, especially since I doubt ^{that} you will want to reduce the retirement age for all men from 65 to 62! It may be preferable to concentrate on:-

- 1) Selective early retirement schemes
- 2) portable pensions covering early retirement.

Annex E Tax free investment in private companies direct

This has been done, and done much better, in the Budget. Not only can you invest up to 15% of gross income in pension funds, but you can already invest as much extra as you want of gross income in unquoted companies under the BES.

PERSONAL & CONFIDENTIAL

para 10 : I doubt if it is wise to extend BES to partnerships: we want to encourage small business to be limited companies rather than partnerships, and the avoidance problems with BES and partnerships would be severe.

~~On the last sentence of para 10,~~ BES relief will be available through codings under PAYE.

Annex F

para 3 (a) Small firms should be exempt from Corporation Tax, or sole traders from income tax on profits.

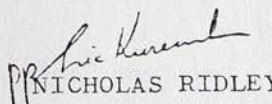
This is Peter Hordern's proposal in yesterday's Daily Telegraph. I will have it costed - but it seems to me impossibly over-generous and open to exploitation.

3 (b) similarly generous and open to exploitation I will report further on both of these.

Business Start-Up

It remains my view that we cannot allow close associates of the proprietor to invest ^{through} the BES in his company. Such people can nearly always get tax relief for the interest on borrowing.

Capital Taxation - One "free" transfer of shares within the family, - this is an attractive idea which I will study and report further on.


NICHOLAS RIDLEY

NICIT & OCCUPATIONAL PENSIONS

These two topics can be divided, both in their consideration, and in the timing of any eventual implementation. The connecting link is what the net yield/cost of changes in the Pensions area would be, which would have to be taken into account at the time of NICIT, COP & H & W etc.

This paper therefore considers Mr Munro's paper of 7 April in isolation. It is mainly to form the basis for an early discussion I would like to have on the pensions issues.

There has to be a practical way of moving forward and it has to be presentable in an exciting way.

Perhaps we could offer "the right to your own savings", analogous to "the right to buy your Council House". Every member of an occupational pension scheme would have the right to have the value of his share of the fund put into a "personal Trust", with a specific commencing sum represented by certain shares or stocks. For those say 60 to 65 there would be an option, and for those over 65 it would be compulsory, for the sum to be used to purchase an annuity. We would then have 3 options on D. Day:-

A 1. Opt for a personal Trust.

A 2. Opt to have one's share used to buy an annuity

A 3. Opt to stay in the pension fund.

[A 4. (for future members) opt out.]

For those contracted in, the "right to your own savings" would mean the following options:-

B 1. Opt for a personal Trust. In this case the state would have to put up the capital to put into the Trust according to actuarial calculations.

B 2. To opt for calculating a higher National Insurance

~~pension when it becomes due, by virtue of the~~
~~contracted-in contributions paid on and above/NIC.~~
the contracted-out level of

Graduated contributions would cease from D. Day
(which is effectively opting out)

For non-contributory, pay as you go schemes, of which the Civil Service scheme is the main example, the options would have to be:-

C 1. Opt for a personal Trust. Again the state would have to put up the capital according to the actuarial calculation of each member's entitlement.

C 2. Stay within the scheme, but be required to pay the full cost of the employee's contribution to cover the payment of index-linked pensions.

C 3. Opt out

Taxation

"Personal Trusts"

Occupational Pension Schemes

The Civil Service Pension Scheme

Retirement Annuity Schemes

Would be the four types of schemes remaining. In all cases I believe we should make contributions come out of taxed income by the individual. This is where the big saving comes from. The employer would be able to match the employee's contribution in each case, his share being tax deductible for him. I like the conditions in Mr Munro's paragraph 12, which could effectively frustrate the employer from providing the funds tax fee for his employee. Nevertheless, it is still a good bargain, even with no tax relief, to have one's contribution doubled by one's employer!

The income to funds, whether they be personal, or occupational, is the second stage at which tax can be levied. It would be possible here to build in an advantage to the Personal Trust. If we say that Personal Trusts are to be exempt from Income and Capital Gains Tax, we would either build in a tax on fund income of, say, 10% for the Pension funds, or we could keep both on the same tax-free basis. There is no counter part with the Civil Service scheme, where the taxation of the income of the fund is irrelevant, because there is no fund.

The third stage of possible taxation in the final disbursement of the fund. If the personal Trust, is exchanged in toto for a retirement annuity, or if the entitlement to an occupational pension is converted into a retirement annuity in toto, the taxation is simple. The income from such annuities would be taxed as earned income; the same goes for Civil Service Pensions.

The question arises as to the tax treatment of lump sums paid:-

- a. by commutation of scheme entitlements.
- b. by cashing in all or part of a personal Trust.

It would probably be appropriate here to work out a special rate of tax to compensate for the loss of Revenue.

It remains to be attempted, to define a "Personal Trust". It is a fund, into which contributions are paid for an employee's retirement. The assets belong to him, but are held in the Trust, supervised by trustees, to stop him withdrawing them prematurely. Should the trustees manage the portfolio, or should the employee? For how long should he be obliged to leave his money in trust? For 10, 15, 20 years? Or until he reaches age 60, or 65? What penalties should there be for early withdrawal? Or should it be prohibited?



FROM: E KWIECINSKI
DATE: 14 April 1983

PS/CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Cassell
Mr Moore
Mr Robson
Mr Griffiths
Mr Martin
Mr Reed
Miss Boardman
PS/C&E
PS/IR
Mr Corlett - IR

FINANCE BILL: ALLOCATION OF CLAUSES BETWEEN MINISTERS

The Financial Secretary has had further thoughts on the suggested allocation of clauses circulated by you on 12 April.

He would now also like to take clauses 55 (Capital Allowances for expenditure on production or acquisition of certain films etc) and 57 (Allowances for dwelling houses let on assured tenancies).

I understand from his private secretary that the Minister of State (C) will be content with this change.

EK
E KWIECINSKI



FROM: E KWIECINSKI
DATE: 14 April 1983

MR D G DRAPER - IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr O'Leary - IR
PS/IR

OFFICIAL ERROR: REVIEW OF INCOME LIMITS

The Financial Secretary has seen your note of 12 April.

He is content with the new suggested scales. He would though be inclined to leave the pensioners' additional leaway at £2000.

He does not really see the justification for giving them a higher scale anyway, and wonders whether we could leave the pensioners addition at £2000 without being criticised.

He would be grateful for your further comments.

E KWIECINSKI



FROM: M E DONNELLY
DATE: 14 April 1983

~~Mr~~ MR GRAY

cc PS/Chancellor
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Mr Odling-Smee
Miss Court
Mr Edwards
Mr Ingham
Mr Peet

EC BUDGET: TAKS WITH ITALIANS: OLIVE OIL

The Financial Secretary was most grateful for your helpful note of 11 April.

He has commented that only some strict quota ceilings, with a system of co-responsibility levies to cover the cost of the disposal of production surpluses, has any hope of stopping olive oil production from making the CAP even more unmanageable.

MEJ
M E DONNELLY

CR-41/70



Treasury Chambers, Parliament Street, SW1P 3AG

J MacGregor Esq MP
Department of Industry
123 Victoria Street
LONDON
SW1

18 April 1983

Dear John

SMALL BUSINESS BUREAU GROUP: POLICY DOCUMENT ON SMALL BUSINESSES

You will see from the enclosed that Michael Grylls has written to Geoffrey enclosing the policy document. I believe you may not have had a copy.

I have asked for the contents to be appraised. Many of them are familiar, and I am sure that we would welcome your views on them. I am sure our officials should discuss it and mine will be getting in touch with yours.

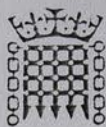
There are inevitably a number of points on taxation raised. These are being examined by Inland Revenue, who will be reporting to me on them.

Yours

Nick

NICHOLAS RIDLEY

Michael Grylls



HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
11 Downing Street
LONDON SW1

11 Downing St.
London, W1A 0AA
For the attention of the
Secretary of State

31st March 1983

Dear Geoffrey,

SMALL BUSINESS BUREAU POLICY GROUP
POLICY DOCUMENT ON SMALL BUSINESS

The SBB Policy Group has had eight meetings to consider Government policy towards small business and I now have pleasure in enclosing our proposals.

I hope you will find these interesting and worthwhile and, perhaps, the odd paragraph or two will find its way into the Manifesto?! In any event, I hope the Document will be useful to you.

The Policy Group comprises:

Richard Page MP, Graham Bright MP, Brian Jenks, Barry Baldwin, Bill Poeton, Adrian White, Michael Brent, Philip Coussens, Martyn Rose, Derek Cooper, Ken Gunbie, Christopher Kirkham-Sandy, Tony King, Andrew Rowe, Alan Cleverly, Wensley Hayden-Baillie and myself.

I will be very interested to know your comments, in due course, and please let us know if we can be of any assistance.

Yours sincerely,
Michael Grylls

Enc:

THE CONSERVATIVE PARTY

AND SMALL BUSINESS

IN PRINCIPLE AND IN PRACTICE

It is entirely consistent with Conservative philosophy that the Party should give its utmost commitment to small and medium sized enterprise. Until the advent of Mrs Thatcher's Government in 1979 fine sentiments were rarely, if at all, matched by fine deeds. To its credit the present Government has introduced many measures during the last four years which have been specifically designed to help the small business sector. Much, however, remains to be done. Fortunately, there is every indication that given another term of office the Party will set about consolidating the very sound start it has made.

LEGISLATION

Government policy probably exerts the biggest single influence on the lives of those who run small businesses. And yet the ~~legislation that outlines that policy is~~ drafted by civil servants who, with the best will in the world, can hardly be expected to comprehend the full impact of that legislation on the entrepreneur. For many years, and particularly in the last ten, there has been a deepening mood of disillusionment and discontent among smaller firms about the volume and nature of the legislation with which they have had to contend. To apply laws equally to large firms and small firms inevitably handicaps the latter and diminishes their competitiveness. That, in turn produces a trend towards industrial concentration which negates the Government's policy of encouraging competition. There is, therefore, an urgent need for all social and economic legislation to be examined and justified. To ensure this, legislators should be obliged to set down and justify the following points when they are contemplating proposals for new legislation:

- a rationale for the action proposed.
- the objective and legal base for the proposal.
- an estimate of the number of smaller firms that it will affect and what types.
- a detailed estimate and description of the reporting, record keeping and compliance requirements anticipated.
- an identification of the relevant rules and regulations which may conflict with, duplicate or overlap the proposal.
- alternatives which would accomplish the same objectives, such as different standards for large and small firms (multi-tiering) simplification, performance standards or exemption of smaller firms.

2.

It must be demonstrated by analysis that any proposed legislative action is based on adequate information concerning the need for, and consequences of, such action; that the potential benefits to society outweigh the potential costs; and that of all the alternative approaches to the given legislative objective, the proposed action will maximise net benefits to society.

Inevitably these proposals will provoke vigorous opposition both from within the existing bureaucracy and from some politicians. It is time that Parliament recognised that smaller firms have been gravely damaged by inflexible uniform regulations and the over-zealous enforcement proceedings which are aimed at the smallest and possibly the most defenceless targets.

It is not unreasonable to seek to correct the transitory excesses and enthusiasms of our legislators. Equally, commonsense requires that when complex legislation is being drafted adequate consideration should be given to the capability of smaller firms to comply with them.

STRUCTURE & ADMINISTRATION

"No sector of industry is more representative of the entrepreneurial spirit of Britain than the small and independent business community."

So said the Prime Minister in her message to the inaugural Conference of the European Year of Small and Medium Sized Enterprises 1983. "Small businesses", she added, "are ideally placed to provide a boost to the economy in terms of productivity and growth."

Such a commendation cannot easily be discounted. Any yet, Britain is totally lacking in any comprehensive small business legislation. There is not a single major piece of legislation on the Statute Book which was designed to promote the interests of smaller firms. Other countries, particularly the United States and Japan, have accepted the need to assist smaller firms to overcome the economic and competitive disadvantage of being small, and have enacted legislation which helps their smaller business sector.

Lacking such beneficial statutory back-up, it is not surprising that small firms in Britain receive a smaller commitment of resources than their counterparts in any comparable country. Not only that, but the Government machinery for helping small firms is just not good enough. That in no way implies criticism of either John MacGregor or his predecessor, David Mitchell. Neither was provided with the tools to do the job properly. The present Junior

Minister cannot even give one hundred per cent of his attention to the task because of his other responsibilities.

Although the strength of the Small Firms Division of the Department of Industry increased to over forty people, its West German equivalent has nearly five times as many staff. And, whilst there is no need for fourteen thousand civil servants, a Cabinet Minister, two Ministers of State and a Parliamentary Under-Secretary to look after small business (which is the current Government establishment for looking after farming and fisheries) there is a need for something a little more substantial than that which now exists. The Small Firms Division should be able effectively to advance and defend the interests of smaller firms. It should have an advocacy role as does the US Agency for small firms in America.

Small businesses have an ability, equal to their larger counterparts, to achieve exports, but not an equal opportunity to do so. For them the cost of export sales is disproportionately high to get started and often the most able export salesman is the entrepreneur himself who has difficulty in breaking away from domestic day to day business and administration. The greatest help for such people could be through:

- the establishment of a Small Business 'Export' Division within the British Overseas Trade Bureau, with one full time member of staff who understands the special problems of small and medium sized enterprises (SME's).

- the Board of Trade's Export Intelligence Service to be made available free for the first 12 months to small business exporters.
- SME's being subsidised in full for their first overseas Trade Mission (subject to the usual vetting by the Overseas Post as to product/market viability).
- SME's being subsidised in full for overseas exhibitions via, perhaps, a 'multi-product' stand run by the proposed Small Business Export Bureau.
- a specific (but not necessarily additional) member of the commercial staff of each Overseas Post being appointed to handle small business product promotion as well as to establish a display of the promotional material in their entrance foyer (currently dominated by very large companies).
- SME's being permitted to pay VAT annually, instead of quarterly. Steps would need to be taken to avoid the 'reverse cash flow' situation for small business exporters whose reclaim would be yearly rather than the necessary monthly VAT reimbursement. Therefore, consideration should be given to zero rating small business exporters.

The Secretary of State for Industry would continue to speak for small business in the Cabinet but he should be fortified by the appointment of a Minister of State who would be their advocate throughout Whitehall.

To complete the scenario, the Houses of Parliament should establish Select Committees whose task it would be to examine legislation and policies affecting small firms. These Committees would be able to call Ministers and their advisers before them for questioning and to produce reports that could have a profound influence on future policy. Provided such Select Committees had access to independent advice and research, they would provide an appropriate counterweight to the administrative structure which is being proposed.

PROCUREMENT

Central and Local Government expenditure in the UK now accounts for about 50% of the Gross Domestic Product. Paradoxically, the more the Government spends the worse small firms fare. The temptation for Government contracts to be placed with large suppliers, who can handle bulk requirements, seems irresistible. This tendency is reinforced by the fact that large firms are likely to be better informed about the Government's bulk purchasing needs than their smaller competitors.

In most other countries it is true to say that the share of smaller firms in public purchasing is lower than their share of national output, suggesting that the growth of Government has been a depressing factor on the role of smaller businesses in the economy. For this reason, if for none other, the Government should take active steps to ensure that smaller firms receive a fair share of all Government purchasing.

In the United States a specific percentage is set by Congress for Government purchasing from smaller firms. Over the past seven years this has varied between 21% and 24% of total Government purchasing. In France, smaller businesses are given a second chance in tendering for Government purchasing when their bid is within 4% of the lowest bid from a large firm. In addition, for enterprises with less than five hundred employees, a Government Agency will pay 90% of outstanding amounts due to such enterprises under Government contracts if payment is delayed beyond forty five days. West Germany gives preferential treatment

to smaller firms in bidding for Government contracts and quotas are set for the amount of main contracts which must be sub-contracted to these smaller firms.

More recently, in the United States, a larger share of Federal Research and Development contracts has been guaranteed for smaller, high technology firms. It is anticipated that this will provide \$30m of contracts in 1983, growing to more than \$275m in 1987.

In this country it is not even known what the level is of purchasing from smaller firms by Central and Local Government. No records of the size of firms to which contracts are awarded are kept and suppliers are selected on merit - regardless of company size. Such ignorance is indicative of indifference and puts in doubt the fine sentiments increasingly expressed about small business by this Government.

To correct this impression it is essential that each Government Department and nationalised industry should publish annually an analysis indicating the share of its purchasing which is supplied by smaller firms. It would then be possible to set targets for each Department and nationalised industry to obtain - at least 10% at first - and for these targets to be increased progressively year by year. Major contracts offered by Departments, Agencies or nationalised industries should contain provisions for sub-contracting to smaller firms or be capable of being broken down into individual parts for which smaller businesses might bid. These provisions should be incorporated in the regulatory framework governing the activities of the nationalised industries.

Government Departments and nationalised industries should be under an obligation to explain to unsuccessful applicants the reasons for their failure. This would enable them to avoid mistakes in future tenders and would widen the range of competent suppliers in the longer term. In addition, consideration would be given to adopting the two particular measures used in France, as noted above, which provide considerable stimulus to the purchasing by public authorities from smaller firms in that country.

Local Authorities should also be made to publish annual information about their purchasing policies and be set targets which will progressively increase the amount of their purchasing from smaller business. Furthermore, there is an urgent need for a comprehensive review of the extent to which Local and National Government competes with the private sector with the aim of eliminating subsidised competition, particularly by Local Authorities. A start has been made with the legislation in 1980 to ensure that direct labour organisations are more competitive. However, there is scope for this process to be carried much further.

A study carried out for the Department of the Environment in 1981 showed that external contracts could take over a whole range of Local Authority operations stretching from refuse collection and waste disposal to the running of sports centres and golf courses, with significant savings and a clear improvement in efficiency.

RISK CAPITAL

BUSINESS START-UPS AND EXPANSION

The Business Start-Up Scheme is radical in concept and its potential for helping new start-up companies is huge.

Furthermore, the significant widening of the scope of the Scheme in the 1983 Budget to include existing unquoted trading companies is a fundamental step forward to the equity financing of these companies. However, certain anti-avoidance provisions have made the Scheme very difficult to operate and, as a result, it has not been attracting the volume of investment for which it was designed. It is important, therefore, that a review of these provisions should be carried out as soon as possible to ensure that the full potential of the enlarged Scheme is to be realised. The prime points that need to be considered are:

- there should be no time limit for ending the Scheme.
 - up to £20,000 of unused relief should be able to be carried forward at least one year and equally carried back at least one year.
 - there should be no restriction on the tightness of share capital; participating preference shares should be available also.
 - tax relief should be given by repayment or through PAYE as soon as the start-up company has commenced trading.
 - employees should qualify for relief.
 - the redefinition of associates to include spouses, parents and business partners.
-

LOAN GUARANTEE SCHEME

The Government has recognised in its review of the Loan Guarantee Scheme that it is an important contributor to employment.

As the pilot scheme is due to end in 1984, now is the time when consideration should be given to the way in which the scheme might further be developed. One possibility in this respect is the involvement of pension funds.

Pension funds should be enabled to put money up for loan guarantee investment. The banks would carry on advancing the funds under the loan guarantee. The 80% guarantee portions of the loans could then be parcelled up and sold to the pension funds, which would pay the bank interest at Treasury rate. The banks would charge interest to borrowers at a higher rate. This improved margin dramatically increases the banks profits and, therefore, the loan guarantee premium should be paid out of it.

The advantage would be:

- pension funds would be involved as backers for businesses which is highly desirable.
- banks would be able to advance more money because they could sell 80% to pension funds.
- the loan guarantee premium would no longer be charged directly to the borrower, thus reducing the overall cost of the loan guarantee money to the borrower.
- the individual maximum loan amount should be increased from the present £75,000 to £250,000 and to £500,00 in areas of high unemployment or where there is the prospect of substantial export orders.

- an upper limit of 1% above base rate should be placed on the amount of interest chargeable by the banks to the borrowers on the Government guaranteed portion of the Scheme monies.
 - the Government should limit its guarantee premium to 1% or even consider abolishing it altogether.
-

SMALL BUSINESS INVESTMENT COMPANIES

Small business investment companies should be encouraged to attract funds for investing in small independent trading companies. This would help people who have money to invest in start-up companies but who do not know specific situations in which they might invest.

Small business investment companies should be exempt from Capital Gains Tax as an incentive.

14.

GRADUATED SCHEME OF CORPORATION TAX

At present, because of the small companies Corporation Tax rate of 38%, employee proprietors are encouraged to take out salary until their marginal rate of Schedule E tax reaches 38%. This means they very often have to pay themselves, for tax planning reasons, more than they wish to take out of the business, thus depleting the cash resources of the business.

A scheme should be introduced which provides for the payment of Corporation Tax with graduated rates of tax for unquoted trading companies, leading up to the full rate of corporation tax without the present marginal rate penalty.

TURNING START UP TAX LOSSES INTO ADDITIONAL EQUITY

When a new small business company starts it needs all the cash it can get to survive in the early years.

At present, the owner of a loss making business which does not run through a company can recover the tax for those losses. This cannot be done with a company. It is proposed that companies should be permitted to do this providing they are trading companies, that the losses only relate to the first five years of trading and the cash recovered from the Inland Revenue is paid into the company as permanent new capital.

This substantially improves the cash flow of companies in their formative years and in particular helps those which have invested substantially in equipment and factories because although they may be trading profitably, they usually have tax losses.

TAXATION OF ASSOCIATED COMPANIES

At present, where a company has associated companies for tax purposes, the lower and upper limits for the small companies rate of corporation tax and the marginal rate are divided by the number of associated companies plus one in order to assess the limits applicable to each company. Such associated companies under common control should be allowed to allocate these limits each year, insofar as they do not use them individually, to their associated companies.

This will enable the retention of the full benefit of the relief where the profits of the associated companies fall in such a way that relief is permanently lost, as may happen, for example, when for commercial reasons businesses are operated through associated companies rather than by means of a group or a single company operating through divisions.

ENTERPRISE BONDS

Such bonds should be issued by the Treasury fully indexed, to be purchased by unquoted trading companies. The cost of purchase would be fully deductible for Corporation Tax purposes as a trading expense in the year of purchase but become taxable as a trading receipt in the year of redemption.

These Bonds will enable companies to set aside their entire pre-tax profits for future expansion but would be of immediate advantage to the Treasury which would receive a loan of 100% of these funds until such time as they were needed for investment in the business. The cost to the Treasury would be in respect of the indexation only and the Bonds would not attract interest.

LONG TERM INVESTMENT

The Loan Guarantee Scheme has been a major stimulus to medium to long term bank lending to smaller enterprises. It is time for a further change. The aim should be to encourage more direct long term industrial lending from private and institutional investors, in addition to funds from the clearing banks. The practice has already been adopted in West Germany, France and Japan and has produced a steady supply of medium and long term funds at attractive cash flow costs. There must, of course, be the right mix of equity and loan stock funding.

Such a scheme would have the advantage of attracting 'new money' into the medium to long term loan market. Thus, institutions, and not the clearing banks, would take over the role of middleman in the raising of substantial funds for industrial investment. Furthermore, long term funds of this kind could well be linked with additional injections of equity.

Provided these 'approved funds' attract outside investors, it might be possible to add a Treasury subsidy so that the industrial borrower could be assured that the cash flow cost does not exceed a specified annual rate. Alternatively, the institutions would issue industrial investment bonds at a net rate of interest free of all income tax to the lender so enabling the funds to be onlent to industry at a rate significantly below the current market rate. Any proposal of this kind would, of course, have to apply to all defined borrowers and not just to tax exhausted companies.

12.

CAPITAL TAXATION

From the point of view of small companies, capital taxation requires revision in several respects. A summary of the recommendations which that revision should include are:

CAPITAL GAINS TAX

- calculation of the indexation allowance in respect of assets held at April 1981 should be by reference to the indexed increase in original cost from date of acquisition (or March 1965 if later).
- retirement relief should be available from age 55.
- rollover relief should apply when proceeds of the sales of any asset (quoted investments, property, chattels etc.) are re-invested in a private trading company within 12 months.

CAPITAL TRANSFER TAX

- there should be a rollover of capital transfer tax when shares in private trading companies are handed on to the next generation of managers who are wholly employed in the business. The liability should be deferred until any subsequent transfer or disposal results in the acquisition by the transferor or the transferee, or both, of cash or its equivalent or of an interest in a quoted company or other readily marketable asset.
- reliefs for private company investments, business property, agricultural property should be increased from existing rates

which vary from 30% to 50% according to the nature of interest, to a flat rate of 75%; and

- tax credit certificates should be available for purchase in advance to meet capital transfer tax due on death or on a subsequent chargeable transfer. These certificates would be index-linked and would not be aggregable with the estate of the deceased.

DEVELOPMENT LAND TAX

- the exemption limit should be increased from £50,000 to £200,000 as a first move towards abolition of this tax.
-

CHOICE OF TRADING STRUCTURE

There seems to be a lamentable lack of information for anyone contemplating the setting up of a new business.

An official leaflet outlining the differences between a sole trader, a partnership and a limited liability company - and the steps necessary to set up a new business, would prove invaluable to the newcomer.

Ad additional aid which could be provided in conjunction with the legal and accountancy professions would be an approved local list of accountants and solicitors willing to take on and assist first time traders for a nominal fee.

NATIONAL INSURANCE CONTRIBUTIONS

A heavy and inequitable burden is placed on a husband and wife working together in a small limited liability company. Both have to pay the full rate, in order to receive the full benefits. When only one of the two is employed both are entitled to receive full benefits for the single contribution. At the present very high level of the contribution, the total joint liability for a husband and wife can be as much as £5028 (less a small amount for the August 1983 surcharge reduction).

The present rule should be revoked and a return should be made to the rules which prevailed until April 1975 when one contribution covered both husband and wife whether one or both worked.

UK SMALL BUSINESS AND THEIR EUROPEAN COMPETITORS

Statistical information about the small business sector in the UK is at a premium. It would not be difficult to guess that if such information were available then UK small companies would, on balance, be worse off in two major respects - capital resources and state support - than their counterparts in most other countries of the Community.

It is good news, therefore, that the UK Organising Committee of the European Year of Small and Medium Sized Enterprises has commissioned research in this field. As a result of these investigations it will be possible to construct a 'league table' which will illustrate the advantages and disadvantages experienced by small companies in all the member states. It will then be clear where the small companies in each state stand in relation to each other.

Upon this information becoming available, the UK Government should be prepared to introduce such measures as would ensure that small companies in the UK competed on level terms with their European competitors. Harmonisation in this field could not be other than beneficial to the small company sector and, in turn, to the country as a whole.

RESTRICTED



FROM: M E DONNELLY
DATE: 18 April 1983

MR BURGNER

cc PS/Chancellor
PS/Chief Secretary
PS/Minisier of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Burns
Sir Anthony Radinson
Mr Byatt
Mr Bailey
Mr Lovell
Mr Christie
Mr Morgan
Mr Wicks
Mr R H Wilson
Mr Chivers
Mr Grimstone
Mr Ridley

BESLEY AND LITTLECHILD PAPER ON PRIVATISATION

The Financial Secretary was grateful for your minute of 15 April commenting on this paper. He agrees with the points that you make.

Given the sensitive reference to the NCB in your draft letter to Professor Littlechild the Financial Secretary is rather concerned about its confidentiality. He has commented that we do not wish to stir up the NUM; and would be grateful if further thought could be given to this point.

The Financial Secretary thinks that a copy of the paper should be sent to the Secretary of State for Energy. He wonders whether, as the draft reply mentions the NCB, it should also be agreed by the Department of Energy. Perhaps you would consider this point too.

MED
M E DONNELLY



FROM: E KWIECINSKI
DATE: 18 April 1983

PRINCIPAL PRIVATE SECRETARY

cc Chief Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Mr Middleton
Sir Anthony Rawlinson
Mr Bailey
Mr Le Cheminant
Mr Kemp
Mr Gordon
Mr St Clair
Mr White
Mr Ridley
Ms Seammen
Mr Saunders
Mr Ridley
Mr Munro/IR

CENTRAL FUND FOR EARLY LEAVERS

The Financial Secretary has seen Ms Seammen's submission of 11 April and your minute of 13 April. He has discussed this with officials.

He agrees with Ms Seammen's advice on this. He does think though that Mr Fowler's suggested response to Max Lander places too much emphasis on the taxation problem which, he feels, is not an important factor in deciding against the Central Fund proposal. He has commented that "It is a pity that we have to turn down this initiative, but we must also be careful not to pre-empt more fundamental solutions to the problem of occupational pensions and transferability."

I attach a redraft of the Chancellor's letter to Mr Fowler which makes the tax point. The Financial Secretary commends the redrafted letter to the Chancellor.


E KWIECINSKI

DRAFT LETTER TO NORMAN FOWLER

CENTRAL FUND FOR EARLY LEAVERS

Thank you for your letter of 29 March.

2. It is regrettable that the proposal presents so many difficulties. We need to give every encouragement to the pensions industry to better the lot of early leavers, both in the interests of job mobility and of equity. But having considered the proposal carefully I agree with your conclusion that a central fund would not offer advantages to early leavers commensurate with the complex legislation required to set up such a system and to provide for its continuing supervision.

3. As you say, there is a separate taxation point. But I think your present draft reply to Max Lander gives this too much prominence. If we had concluded that the potential advantages of central funds warranted legislation for their establishment, then we could, if it had proved necessary, have included legislation on tax aspects. I therefore suggest a recast of your proposed para 4, as well as a slight revision to your para 6, along the lines of the attached.

4. I am otherwise content that you should proceed

as you propose. I am copying this letter to
Arthur Cockfield, Patrick Jenkin, Norman Tebbit
and for information to Willie Whitelaw.

ANNEX

4. My colleagues and I have considered your proposal most carefully, and I am writing to advise you that we accept the Board's conclusions. As you will see, they say that complex legislation would be required to regulate what would in effect be a new kind of financial institution. ~~A central fund, because it would lack the distinguishing feature~~ of the security provided by an employer, could not be regarded as equivalent to an occupational pension scheme, and therefore could not be subject to similar treatment, particularly in the area of supervision. Nor, under existing powers, could the Inland Revenue approve the scheme in its present form; legislation would be required on this aspect too.

6. Given the difficulties identified by the OPB, and these further points, you may wish to consider afresh...

PERSONAL & CONFIDENTIAL



FROM: FINANCIAL SECRETARY

DATE: 18 April 1983

CHANCELLOR

cc Minister of State (R)
Mr Ridley

ENTERPRISE POLICY GROUP REPORT

Four of the nine recommendations appear to come straight from the IOD. W Goldsmith sent these 4 recommendations to John MacGregor, who in turn has pressed them on to Lord Bellwin (letter dated 14 April).

The 4 are:-

Proposal 2) Enterprise allowance - disregard the £1000 investment.

Proposal 4) Statutory right to tender

Proposal 3) Self employment to be promoted by job centres.

Proposal 5) Deregulation to be subjected to "Rayner" Scrutiny.

The IOD also included these other proposals in their submission:-

Planning permission relaxations

Self employed to receive unemployment benefit or to pay less NIC

£5000 personal allowance for those going self employed.

[this is an old and unloved friend!]

In response to the Chancellor's request for my comments on the Enterprise Group Report; I think:-

(1) Pensions. I have already minuted the Chancellor on this, in relation to the Employment Group's very similar recommendations. I am sure we should try and include an attractive proposal on personalised portable pensions in the Manifesto, and I will continue to work at it.

I would be glad to hear the result of the Chancellor's talk to N Fowler

5) Rayner-type approach to regulation & compliance costs

At first sight this does sound an attractive idea: but it is very sketchy in the Report. It seems much more attractive to examine the rules and regulations to which small business is subjected, than to consider reimbursing compliance costs. The latter can be done, and has been done, by reducing business taxation generally; but the principle that people should not be paid for complying with the law, is one to which I think we should hold. What we should do is to make sure that the law does not impose unreasonable burdens on people. At first sight I am in favour of the first, but against the second.

7) Venture capital

I) SFICs We have discussed this often, and I remain opposed to it for a year or two at least, until we see how the BES is working.

II) BES to be available for R&D It more or less is already. Provided a company is set up, BES is available; it doesn't have to make a profit. What is hard to envisage is giving relief for investment in R&D which doesn't have the discipline of being in a company which eventually intends to become profitable.

9) Enterprise through Innovation

Anything that can be done in this field would be worthwhile, but I doubt if much can be done by Government action. The BES may turn out ^{to be} more valuable than anything contained in this recommendation. I suspect a lot of scientific discoveries are unmarketable and unviable most of the complaints I hear are because businessmen won't take up unviable inventions!



NICHOLAS RIDLEY



FROM: FINANCIAL SECRETARY
DATE: 18 April 1983

CHANCELLOR

cc Mr Ridley
PS/IR

TAX ENQUIRIES AND CLOSURE OF COLLECTION OFFICES

I have seen Margaret O'Mara's minute of 12 April outlining your discussion with David Bevan about the implications of the Gracey Report for the efficiency with which tax enquiries are handled.

This was a point I raised in my recent visit to Cumbernauld tax collection office. At present there can be a delay of 3 weeks between a taxpayer writing to Cumbernauld office and the case being dealt with. In the meantime the computer automatically sends out reminders for the tax unpaid. I have asked them ^{to Su L Army} to look at ways of reducing this delay, and will continue to watch the situation.

We should not exaggerate the effect the fall in the number of collection offices will have on those making tax enquiries. This is a separate issue, as the majority of these are in fact usually dealt with by tax districts.

NICHOLAS RIDLEY

PERSONAL AND CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 18 April 1983

c Mr Ridley

CHANCELLOR

REPORT OF NIPG

I have had a quick first reading of the NIPG report.

Generally I found the report to be of a high standard. It is most useful in its comments on individual industries (chapter 3). There is a healthy emphasis on break-up of large units, regionalisation where possible and a willingness to look seriously at the use of independent regulatory bodies to control monopolies.

Perhaps not surprisingly given the composition of the group, the report is weaker when looking at Government relations with those industries that remain in the public sector (chapter 2). It suggests retaining and not even reforming the industry - Department - Treasury relationship which has caused us so much difficulty. Setting up special units within sponsor Departments to second guess the industries would only muddy the waters further; since financial control must still remain in the Treasury. Much better to retain tight central control until an industry is genuinely privatised. I think your mind is moving this way too.

For these reasons I am not very keen on changing nationalised industries into Company Act Companies unless they are just about to be privatised. It would at best be cosmetic, and could be counter productive.

Individual Industries

Comments on BGC and ESI are helpful in areas where too little radical thinking has been done. The regionalisation and common carrier ideas are feasible and need not take too long to put into practice. But my own view is that privatising the networks (or grids) should be our lowest priority.

ne Post Office proposals are rather wet (perhaps because Sir William Barlow was on the Committee). The Group feel that the need to keep a single postage rate, so subsidising rural areas, overrides all other priorities.

~~The proposal to split and dispose of the NBC is sensible. But the~~
~~Group do not seem to have looked at Scotland, where the STG is a~~
candidate for similar treatment.

Comments on the mechanics of privatising BAA and the ROFs are helpful. On BR the Group has not had the chance to enquire deeply into the question of franchising out train services. More work might usefully be done here.

I strongly agree with their comments on disposing of the Government's minority stakes in privatised industries.



NICHOLAS RIDLEY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 18 April 1983

CHANCELLOR

cc Mr Kemp
Mr Board

FAMILY POLICY GROUP: NOTES BY HOME SECRETARY

I found the two paper circulated by the Home Secretary on 5 April a little worrying.

Their cost implications are one thing - but there is an indiscriminate flavour about them too. I feel we are more and more being forced to look at the problem of how to design a genuinely worthwhile charity. Otherwise we are going to have everyone and anything becoming a charity with tax relief and now Government grants!

NICHOLAS RIDLEY

CONFIDENTIAL



NOTE OF A MEETING HELD AT 4PM ON MONDAY 18 APRIL IN FINANCIAL SECRETARY'S ROOM TO DISCUSS FUTURE PRIVATISATION PROCEDURES

Those present: Financial Secretary

Mr Middleton
Mr Bailey
Mr Burgner
Mr Turnbull
Mr Morgan
Mr Broadbent
Mr Grimstone
Mr A M White
Mr Ridley
Mr Rickard

Papers were Mr Burgner's note of 22 March; Mr Donnelly's note of 6 April.

The Financial Secretary said that the aim of the meeting was to try to draw lessons from the varied experience of privatisation to date to improve the procedure used in future cases.

Press Reaction

The Financial Secretary said that the recent cases of Britoil's under-subscription and ABP's over-subscription suggested that press reaction to the prospectus was a disproportionately important factor in the final price. It would clearly be helpful if press reaction could be taken into account before a price was definitively set. This pointed towards the US idea of publishing a "red herring" prospectus before a price was fixed and then taking reactions to it into account when deciding on price.

In discussion it was pointed out that to issue such a prospectus would mean taking all decisions on such matters as underwriting at an early stage. But it would then provide Government with a much better idea of the likely demand curve facing the sale, so decreasing the gambling element apparent in most UK issues. On the other hand City feeling about such prospectuses was mixed. Because the City was so much more homogenous than US financial markets the lead merchant bank should have a reasonably good idea of the reception of the issue anyway. Wider consultation might lead to a lower price. Potential

buyers would have an interest in talking the price down, and perhaps adding a further discount to allow for the unfamiliarity of the method of sale.

The Financial Secretary suggested that the underlying problem was that of a lack of competition between City institutions. A red herring prospectus would only be effective if such competition existed. In theory the factual material in the prospectus should be largely available to city investment analysts already. But against this few investors would have the resources to put this information together separately.

There was a further problem of the extent to which wider press coverage influenced the City institutions which took up most of the stock. For example when indexed gilts had been issued there had been a large amount of press comment which had turned out to be inaccurate. City institutions had used their own experts and taken their own separate view of the question. In practice the US system was similar to a placing of shares, in that the selling syndicate asked investors to say how many shares they would be prepared to buy and at what price. To introduce this approach into the UK would require a change in the Stock Exchange rules. A further possible drawback to the red herring prospectus idea was that it extended the time period when the issue was under consideration and so increased the risk of some unforeseen event either raising or depressing the price. But equally it provided a second opportunity to rethink the price level.

Competitive Underwriting

The Financial Secretary said that a more competitive underwriting system, with rival sets of sub-underwriters, was one idea put forward by Fielding Newson-Smith in their recent paper. Competition could be increased by encouraging clearing banks to form underwriting syndicates, so bringing new blood into the market.

In discussion it was pointed out that clearing banks had already been involved in privatisations to the extent of providing debt before sale

and assisting in employee buy outs such as NFC. It should not therefore be too large a step to encourage them to provide funds for equity also. The City underwriting community was not large enough by itself to sustain competitive underwriting syndicates for issues of a significant size. The Britoil issue would have been too large; but something might have been possible for a sale the size of ABP.

Use of Tap Issues

It was pointed out that if there was no time constraint on the date by which a firm had to be privatised it would be possible to sell shares as a tap issue. The drawback with this was that no one would know how far the company in which they were buying equity was likely to be privatised; and there would be an additional uncertainty as to how the Government would use its shareholding while it retained a majority stake. Though it was a moot point whether this would serve to depress or boost the price, Kleinworts thought it would have a net depressing effect. A small scale sale followed by a tap had the advantage of providing an initial market price as a marker for future sales. This decreased the risk of political criticism. The tap system could also be used to discourage staggings by issuing further shares at the issue price in the weeks immediately following a flotation.

British Telecom

Officials said that all these options were being reviewed in the context of the sale of shares in BT planned for after the election. Discussions with City institutions were still at an early stage but the idea of a red herring prospectus, and the possibility of a tap were under consideration. The size of the BT issue made questions of volume and of phasing of sales particularly important. There was inevitable uncertainty as to which method of sale would produce the best price. In addition to the normal commercial uncertainty there was the further question of how far the regulative system would encourage or discourage investors. An initial sale of a small number - perhaps 10 or 20 per cent - of the shares would provide a price. But the overhang of the remaining shares might deter investors. Alternatively by increasing the share's similarity to

a gilt it could actually improve the price. It would be important to present the BT sale as that of a telecoms stock not simply a public utility. The Financial Secretary asked for a note in due course, following current discussions with DOI and others, setting out the options for a BT sale and if possible providing some preliminary figures.

Privatisation Seminar

The Financial Secretary said that he and Mr Burgner would be having lunch with a dozen representatives of City institutions on Thursday at which some of these issues would be discussed. Officials suggested that it would be useful to have a wider symposium with others in the City. Following this a smaller working group might be set up to look at some issues in more detail, and in relative privacy, if this seemed worthwhile. The Financial Secretary agreed that officials should consider this further.

Summing up, the Financial Secretary said that it was agreed that the three ideas of red herring prospectuses, competitive underwriting and sale by a tap should be considered further in internal discussions and in talks with interested bodies in the City and elsewhere.

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Christie
Mr Monck
Mr Wicks
Mr R Wilson

MED
M E DONNELLY



Mr Burgner

I attach a draft note
of yesterday's meeting for
comments.

I have left the B.T. remit as
vague as decency possible!

M.D.
11/4.

CONFIDENTIAL

NOTE OF A MEETING HELD AT 4PM ON MONDAY 18 APRIL IN FINANCIAL SECRETARY'S ROOM TO DISCUSS FUTURE PRIVATISATION PROCEDURES

Those present: Financial Secretary
Mr Middleton
Mr Bailey
Mr Burgner
Mr Turnbull
Mr Morgan
Mr Broadbent
Mr Rickard
Mr A M White
Mr Ridley

Papers were Mr Burgner's note of 22 March; Mr Donnelly's note of 6 April.

The Financial Secretary said that the aim of the meeting was to try to draw lessons from the varied experience of privatisation to date to improve the procedure used in future cases.

Press Reaction

The Financial Secretary said that the recent cases of Britoil's under-subscription and ABP's over-subscription suggested that press reaction to the prospectus was a disproportionately important factor in the final price. It would clearly be helpful if press reaction could be taken into account before a price was definitively set. This pointed towards the US idea of publishing a "red herring" prospectus before a price was fixed and then taking reactions to it into account when deciding on price.

In discussion it was pointed out that to issue such a prospectus would mean taking all decisions on such matters as underwriting at an early stage. But it would then provide Government with a much better idea of the likely demand curve facing the sale, so decreasing the gambling element apparent in most UK issues. On the other hand City feeling about such prospectuses was mixed. Because the City was so much more homogenous than US financial markets the lead merchant bank should have a reasonably good idea of the reception of the issue anyway. Wider consultation might lead to a lower price. Potential buyers would have an interest in talking the price down, and perhaps adding a further discount to allow for the unfamiliarity of the method of sale.

The Financial Secretary suggested that the underlying problem was that of a lack of competition between City institutions. A red herring prospectus would only be effective if such competition existed. It was pointed out that the only new information after the red herring prospectus was issued would be the dividend or profit forecasts. In theory all the other material in the prospectus should be available to city investment analysts already. But against this few investors would have the resources to put this information together separately.

There was a further problem of the extent to which wider press coverage influenced the City institutions which took up most^{of} the stock. For example when indexed gilts had been issued there had been a large amount of press comment which had turned out to be inaccurate. City institutions had used their own experts and taken their own separate view of the question. In practice the US system was similar to a placing of shares. When faced with

The red herring prospectus investors would say how many shares they would be prepared to buy and at what price. To introduce this into the UK would require a change in the Stock Exchange rules. A further possible drawback to the red herring prospectus idea was that it extended the time period when the issue was under consideration and so increased the risk of some unforeseen event either raising or depressing the price. But equally it provided a second opportunity to rethink the price level.

Competitive Underwriting

The Financial Secretary said that a more competitive underwriting system, with rival sets of sub-underwriters, was one idea put forward by Fielding Newson-Smith in their recent paper. Competition could be increased by encouraging clearing banks to form underwriting syndicates, so bringing new blood into the market.

In discussion it was pointed out that clearing banks had already been involved in privatisations in the extent of providing debt before sale and assisting in employee buy outs such as NFC. It should not therefore be too large a step to encourage them to provide funds for equity also. The City underwriting community was not large enough by itself to sustain competitive underwriting syndicates for issues of a significant size. The Britoil issue would have been too large; but something might have been possible for a sale the size of ABP.

Use of Tap Issues

It was pointed out that if there was no time constraint on the date by which a firm had to be privatised it would be possible...

...to sell shares as a tap issue. The drawbacks with this were that no one would know how far the company in which they were buying equity was already privatised; and there would be an additional uncertainty as to how the Government would use its shareholding while it retained a majority stake. Though it was a moot point whether this would serve to depress or boost the price, Kleinworts thought it would have a net depressing effect. A small scale sale followed by a tap had the advantage of providing an initial market price as a marker for future sales. This decreased the risk of political criticism. The tap system could also be used to discourage staggung by issuing further sale of shares at the issue price in the weeks immediately following a flotation.

British Telecom

Officials said that all these options were being reviewed in the context of the sale of shares in BT planned for after the election. Discussions with City institutions were still at an early stage but the ideas of a red herring prospectus, some changes in the system of underwriting, and the possibility of a tap were under consideration. The size of the BT issue made questions of volume and of phasing of sales particularly important. There was inevitable uncertainty as to which method of sale would produce the best price. In addition to the normal

commercial uncertainty, there was the further question of how far the regulative system would encourage or discourage investors. An initial sale of a small number - perhaps 10 or 20 per cent of the shares would provide a market price. But the overhang of the remaining shares might deter investors. Alternatively by increasing the share's similarity to a gilt it could actually improve the price. It would be important to present the BT sale as that of a telecoms stock not simply a public utility. The Financial Secretary asked for a note in due course, following current discussions with DOI and others, setting out the options for a BT sale and if possible providing some preliminary figures.

Privatisation Seminar

The Financial Secretary said that he and Mr Burgner would be having lunch with a dozen representatives of City institutions on Thursday at which some of these issues would be discussed. Officials suggested that it would be useful to have a wider symposium with others in the City. Following this a smaller working group might be set up to look at some issues in more detail, and in relative privacy. The Financial Secretary agreed that officials should consider this further. The group should work in private.

Summing up, the Financial Secretary said that it was agreed that the three ideas of red herring prospectuses, competitive underwriting and sale by^a tap should be considered further in internal discussions and in talks with interested bodies in the City and elsewhere.

M E DONNELLY

CONFIDENTIAL



NOTE OF A MEETING HELD AT HM TREASURY 11.00am, 19 APRIL 1983

Present at meeting: Financial Secretary
Mr Moore
Mr Monger
Mr Robson
Mr Aaronson
Mr Isaac) IR
Mr Blythe)

NICIT

The Financial Secretary opened the discussion by commenting that our objective should be to design a new, fairer and simpler system of tax and NIC. It needed to be designed on the assumption that ITTA would go ahead and that COP would be complete. At this stage he was less concerned with the detailed costings and distributional effects of any change but more with designing the best and simplest system. The overriding constraint was one of affordability but subject to that, the variables (ie allowances, rates, reliefs and benefits), could be precisely set to achieve the distributional pattern desired.

Mr Isaac commented that if we were to proceed on a revenue neutral basis our room for manoeuvre would be limited. It was important to recognise, at an early stage, the implications of any suggested proposal. Mr Moore commented that fairly early on we would need to face some big political questions arising from the distributional effects of any proposal.

The Financial Secretary commented that his own aim would be to achieve more progressivity in the rate structure to try to alleviate the burden on the lower paid. The prospect of ^areduction in the main personal allowance and/or an increase in the basic rate of tax/NIC should be ruled out.

After lengthy discussion the meeting agreed that the Inland Revenue should work up an illustrative scheme on the following lines:-

- 1) The LEL - should be retained at the present (or slightly lower)

level. It was also decided that the existing form of the LEL should be retained - to charge "Social Welfare Tax" (SWT) on only the excess of income above the LEL would, in the absence of the abolition of one or more of the major reliefs, be too expensive to contemplate (costing £2 billion or more).

2) Assume the special reliefs (especially mortgage interest relief) would remain in place. This would mean a loss of potential revenue as well as not achieving the staff savings envisaged in the original NICIT - which flowed from the abolition of the reliefs.

3) The rate of SWT should be slightly higher than the present rate of NIC ($9\frac{1}{2}$), say 10%.

Any increase in the yield from the changes in 1) and 2) (and 3) below) would be largely used to finance an increase in the main personal tax allowances (and possibly a reduction in the combined basic rate of income tax/NIC - currently at 39%).

4) A long band of income subject to the combined basic rate would need to be retained for administrative reasons. But consideration should be given to changing the starting point of the higher rate bands. This would mean:

a) effectively the removal of the UEL:

b) assuming the combined basic rate remained at 39%, a first higher rate band of 45% (rather than 40%);

c) the top rate remaining at 60% - unless the IIS was abolished, when a slightly higher top rate could be contemplated.

The Revenue would illustrate the staffing and revenue effects of lowering the starting point of the higher rates in £1000 steps from the present level to a low point of about $1\frac{1}{2}$ times average (gross) earnings.

- 5) Assume ITTA in place (illustrate at 1983 allowance levels), with transferability applying to the income tax thresholds.
- 6) Husband and wife - all working wives would pay SWT and have entitlement to benefits.
- 7) Pensioners - basic pension exempt from SWT. This would achieve the same effect as if pensioners with income above the LEL paid SWT on excess income only.

Mr Isaac commented that at first sight such a scheme would increase the burden on those with very low incomes and would reduce the burden on those with incomes at about the level of existing tax thresholds.

The Financial Secretary agreed but commented that the really low income groups were generally not 'breadwinners', but more likely to be part-timers or young people living with their parents. He thought it was right that as many people as possible should pay the SWT.

Mr Monger would consider the effect such a regime would have on the poverty trap which it was a major object of the whole exercise to alleviate. The Financial Secretary would hold a separate meeting with him on this aspect and on other issues concerned with benefits.

E. Kwiecinski
E KWIECINSKI

Circulation:
Those present
Chancellor
CST
EST
MST(C)
MST(R)
Mr Middleton
Mr Kemp
Mr Ridley
Mr Spence/IR
PS/IR



FROM: M E DONNELLY

DATE: 19 April 1983

MR STEWART-IR

cc PPS

Mr Moore

Mr Robson

PS/IR

FINANCE BILL: CLAUSE 27: NATIONAL FREIGHT CONSORTIUM

The Financial Secretary has seen Mr Kerr's letter of 15 April setting out the amendments needed to clause 27 to accommodate the NFC.

The Financial Secretary has commented that it might be better to add pensioners to employers and spouses within the relevant category, rather than to reduce the 75% figure. But we must find some way of bringing NFC within the relief provided by the clause.

He would be grateful for your advice.

MEJ
M E DONNELLY



FROM: E KWIECINSKI
DATE: 19 April 1983

PS/CHANCELLOR

cc PS/MST(C)
Mr Middleton
Mr Moore
PS/IR
Mr Roberts)
Mr Sadler) IR
Mr Peace)
Mr Priestly - MPO

TAX DISTRICTS: PROPOSED CHANGES IN THE LOCAL OFFICE NETWORK

The Financial Secretary has seen Mr Roberts' submission of 15 April and your minute of 18 April.

He has given detailed consideration to the question of notifying MP's of intended closures in their constituencies. He has decided that he should write to the relevant MP's giving notice of the proposals on the day the announcement is made in Parliament. The news will be given inside the Department on the same day. Arrangements are in hand for the announcement to be made on 25 April.


E KWIECINSKI

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 19 April 1983

CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Sir A Rawlinson
Mr Cassell
Mr Bailey
Mr Kemp
Mr Mountfield
Mr Traynor
Mr Stibbard
Mr Norgrove
Mr Ridley

ECONOMIC ASSUMPTIONS

The Financial Secretary has read Mr Stibbard's minute of 16 April.

He has commented that he is rather concerned that although these assumptions are not published there must be the risk of a leak when they are circulated more widely within Government. Both the inflation and unemployment assumptions for later years could be damaging if leaked.

On the specific point of the GAD figures for unemployment and average earnings from 1983-84, the Financial Secretary considers 2.9 million and 6½% to be broadly suitable.

MEJ

M E DONNELLY



NOTE OF A MEETING HELD AT 2.15pm on 19 APRIL IN THE FINANCIAL SECRETARY'S ROOM TO DISCUSS TAXATION OF COMPANY CARS

Those Present: Financial Secretary
Mr A Lewis MP
Mr J Silverman MP
Mr J Gannon - UCTA/ASTMS
Mr R Tomlinson - UCTA/ASTMS
Mr Driscoll- IR
Mr Savage - IR

The Financial Secretary welcomed the delegation and invited them to set out their case.

Mr Gannon said that it was unreasonable to treat the commercial traveller's car as a perk. It was vital for his job. Both the car benefit scale charges and the fuel scale charges were unfair on commercial travellers. He said that there was all party support for a change in this area. ASTMS proposed that if an employer were to declare that a car was provided "wholly, necessarily and exclusively" to enable an employee to perform the duties required by the employer then that car should not be treated as a benefit in kind for the employee.

The Financial Secretary said that there were a number of anomalies in this area. But the principle was clear. Insofar as an employee received a benefit in kind from his employment it was only right that he should pay tax on it. If a commercial traveller did not use his car for any other purposes than business travel he would not be taxed on it. Mr Gannon said that the Revenue had accepted that it was legitimate for some commercial travellers to count their journeys from home on business trips as part of their work, and not as travelling to work. It followed that if an employee could make a declaration that he made no private use of his car he should not have to pay tax on it. But Mr Gannon said that the Revenue would not accept this. They worked on the principle that if the car was available for private use it was in fact so used. The Financial Secretary suggested that this was in fact almost always the case. But it was



NOTE OF A MEETING HELD AT 2.15pm on 19 APRIL IN THE FINANCIAL SECRETARY'S ROOM TO DISCUSS TAXATION OF COMPANY CARS

Those Present: Financial Secretary
Mr A Lewis MP
Mr J Silverman MP
Mr J Gannon - UCTA/ASTMS
Mr R Tomlinson - UCTA/ASTMS
Mr Driscoll - IR
Mr Savage - IR

The Financial Secretary welcomed the delegation and invited them to set out their case.

Mr Gannon said that it was unreasonable to treat the commercial traveller's car as a perk. It was vital for his job. Both the car benefit scale charges and the fuel scale charges were unfair on commercial travellers. He said that there was all party support for a change in this area. ASTMS proposed that if an employer were to declare that a car was provided "wholly, necessarily and exclusively" to enable an employee to perform the duties required by the employer then that car should not be treated as a benefit in kind for the employee.

The Financial Secretary said that there were a number of anomalies in this area. But the principle was clear. Insofar as an employee received a benefit in kind from his employment it was only right that he should pay tax on it. If a commercial traveller did not use his car for any other purposes than business travel he would not be taxed on it. Mr Gannon said that the Revenue had accepted that it was legitimate for some commercial travellers to count their journeys from home on business trips as part of their work, and not as travelling to work. It followed that if an employee could make a declaration that he made no private use of his car he should not have to pay tax on it. But Mr Gannon said that the Revenue would not accept this. They worked on the principle that if the car was available for private use it was in fact so used. The Financial Secretary suggested that this was in fact almost always the case. But it was

open to the employee to appeal to the independent Commissioners if he considered he was being taxed unfairly. Mr Gannon intervened that it was unacceptable for his members to be expected to negotiate this question on an individual basis. He was looking for a collective solution. The Financial Secretary reiterated that where there was a private benefit it was right that it should be taxed. A statutory declaration by the employer would not help. Nor was it acceptable that an employee's tax position should depend on such a declaration.

... Mr Gannon suggested that the 9 February Daily Mail article (attached) showed the Government compensating civil servants for the tax on their expense allowances. They should be prepared to do the same for other employees. The Financial Secretary said that the Daily Mail article was inaccurate. No decision had yet been made by the Government. Further the sums involved were relatively small - only £10 million in total - and covered four specific categories of expenses. It was in any case always open to private sector employers to gross up expenses allowances in the same way. Mr Lewis raised the problem of tax - free cars for Government ministers, ex-Prime Ministers and senior mandarins. He wondered whether firms could set up a pool system and allocate cars to employees, so avoiding paying tax, on the same basis. The Financial Secretary said that this was a separate problem which was being looked at. He agreed with Mr Lewis that it was important to be fair across the board.

In conclusion the Financial Secretary stressed that he was aware of the inequities caused by the £8,500 limit and the mileage rules. He hoped to be able to make the system more fair over the longer term - though the changes might not be ones which ASTMS would welcome. But there was no possibility of further action in this year's Finance Bill. It was of course always open to ASTMS to attempt to have a new Clause put down at Committee stage.

The Financial Secretary thanked the ASTMS delegation for putting the arguments so cogently. The meeting ended at 3.00pm.

MEJ
M E DONNELLY

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Kemp
Mr Moore
Mr Robson
Mr Ridley
PS/IR

By MICHAEL EDWARDS
Industrial Editor

CIVIL Servants are to be given extra cash in order to pay tax on their expense allowances.

This is because of a new ruling by the Inland Revenue that all 650,000 Civil Servants must pay income tax on what are known as 'reimburse-

These are sums to cover such items as detached duties, telephones, clothing, annual family visits from Northern Ireland to Britain, and consecutive visits home for Civil Servants under 21.

The biggest element is travel and subsistence, for which Government departments pay out more than £250 million a year to Civil Servants.

All will now be taxable, but the Treasury has agreed to gross up these allowances by more than 40 per cent. This extra will also be taxed but it means the Civil Servants will be left with enough to pay their tax.

The Inland Revenue will collect it — and hand it to the Treasury. A similar principle is likely to be extended to other areas of public ser-

Civil Servants get a rise for tax on expenses

vice, such as the police and teachers. The Civil Service unions have urged the Treasury Minister Nicholas Ridley that instead of taxing Civil Servants individually, Government departments should hand over a lump sum to the Inland Revenue.

This, argued the unions, would save time and money but Mr Ridley turned it down because it was the Government's philosophy that every individual should be shown to be meeting his tax liabilities.

Mr Tom Casey, general secretary of the Association of Government Supervisors and Radio Officers protested: 'This is bureaucratic madness. It will cause enormous expense and trouble with no benefit to the Government in the end.'

The Inland Revenue said: 'The simple proposition is that under the Taxes Act expenses are taxable—they are part of taxable emoluments.' A senior official of the Metropolitan Boroughs Association, speaking

for teachers and other public service workers, said: 'We are surprised by this. The question is whether it would be fair to the individual.'

The unions complain that the system would be unfair where the additional grossing up pushes Civil Servants into a higher tax band.

A Treasury spokesman said the Government considered all money be taxed, but Civil Servants have not so far been taxed on these allowances.

Allowances to be taxed would include special clothing provided for weather forecasters on TV, certain information officers who have to travel around a lot, and hostesses at Government functions.

Allowances paid for extra expenses, such as travelling and subsistence for Civil Servants temporarily transferred to other stations, would be liable to tax where the detached duty exceeded a year.

People such as tax inspectors or Customs officials with no permanent place of work are regarded by their departments as being on continuous detached duty.

Tories 15 p

ahead

THE Tories are trying to get their support in the poll for BBC TV, their lead with Labour narrowed from 17 to 15 per cent.

The poll shows 46 per cent for the Conservative Party, Labour, and 22 per cent for the Liberal/SDP alliance.

This compares with 47 per cent for the Tories and 20 per cent for Labour in the poll for the Alliance last week.

Thatcher, the best Minister available, would prefer David Steel to be Prime Minister.

The boy who inspires Coe

CHAMPION athlete Seb Coe met his match in yesterday's 100m sprint.

Louis Ferguson, 16, muscular dysplasia, has inspired Coe. He has won hundreds of pounds for charity for disabled swimmers.

Louis, from Avonmouth, named Young Citizen of the Year, and Coe, a judge, said He is an inspiration.

Car men reach bumper target

BRITISH car makers are a last competing with the rest of Europe on equal terms.

Mother finds twins dead in their cots

A MOTHER wept last night as she told how she found her twin babies dead in their carry-cots.

They were two months old. Miss Ann Young, who is 25, put David and John to sleep beside her own bed after their 2 a.m. feed. They seemed perfectly happy, she said. But when she woke five hours later she found them dead.

He is dead, they had died in vain to revive them. Miss Young, a 29-year-old divorcee, said at his home, 11 Abbey Street, Bacup, Lancashire: 'We have been told that these were Mr. Aven-

Police quiz pupils over stabbed boy

POLICE were last night hunting the killer of a 15-year-old boy found stabbed near his comprehensive school.

The boy, who has not been named, was found

BODY FOUND IN WOOD NEAR HIS SCHOOL

The boy, wearing his school uniform, of dark blue blazer and socks, was found in a copse 50 yards from his

School head Mr Owen Shelton said: 'Everyone is giving us all very shocked and upset.'

An incident room was installed in the area and investigators concentrated around the school.

His father is seriously ill and the boy's name is being withheld because police fear that a public spotlight on his sons' death

CONFIDENTIAL



MINUTE OF MEETING HELD IN FINANCIAL SECRETARY'S ROOM HOUSE OF COMMONS
AT 4.30pm 20 APRIL 1983

Present at meeting: Financial Secretary
Minister of State (R)
Mr Moore
Mr Robson
Mr Blythe/IR
Mr Driscoll/IR

TAXATION OF FRINGE BENEFITS

The Financial Secretary opened the discussion by commenting that the Revenue's review (of January 1983) while usefully summarising the facts of the present regime did not offer any concrete proposals for reform.

Mr Driscoll commented that there were many vested interests involved which made it difficult to move anywhere fast.

The Financial Secretary said that this inclined him towards the need for an overall, all embracing plan with some gainers and losers, although he realised this approach may be too ambitious.

Mr Blythe said that one of the problems with the "overall plan" was the problem of perceiving exactly how the package would look.

Mr Moore commented that one of the reasons for the Review's diffidence could be that it recognised the staff costs (for both IR and employer) in the clean sweep approach.

Mr Blythe agreed, commenting that the abolition of the £8500 threshold alone could increase IR staff by about 1000.

The Minister of State (R) wondered whether we would end up merely going through the periodic ritual of Ministers reviewing the problem only to be eventually thwarted by the real difficulties involved in changing the system.

Mr Robson said he favoured the "big bang" approach, rather than piecemeal action which would be successfully resisted by individual pressure groups.

Mr Driscoll pointed out that the 1976 experience was that out of a whole range of proposals only two items survived the opposition - higher paid public sector employees and cars (on very low scales).

Minister of State (R) thought that this could be a clue to the way forward - to get the basis for taxation right albeit at low rates, and then gradually increase the rates once the system was in place.

Mr Robson commented that circumstances were more difficult in 1976, as people were being asked to accept a tighter perks regime against a background of central pay restraint which did not allow for any compensation through higher wages.

A Universal Rule?

The meeting discussed the various options for assessing the quantum of the benefit for tax purposes. There were basically two: "value to the employee" and "cost to the employer". The meeting agreed that there was not one correct method, and that different types of benefit required a different approach.

The £8500 threshold

The Financial Secretary commented that he would favour abolishing the threshold and having the same tax regime for both lower and higher paid. As far as he could see the only reason not to abolish the threshold was the potential staff increase involved.

Mr Driscoll agreed that there would be a higher staff cost. Already as the threshold was being withered by inflation, Inspectors were finding it difficult to cope with the increased work load involved in applying the stricter higher paid regime to more and more people. What benefits would actually be found "under the stone" if the threshold was abolished completely was an unknown quantity.

The Minister of State (R) suggested that instead of the £8500 threshold of gross emoluments, the fringe benefits should be valued separately and taxed subject to a de minimis limit.

Mr Blythe envisaged some difficult anomalies arising from this approach. He suggested though that two of the main perks, cars and beneficial loans, could be taken out of the £8500 syndrome, and tax charged to every recipient in the same way. This would significantly increase the tax yeild.

The Financial Secretary thought this might be a way forward.

A Balanced Package

The Financial Secretary was concerned that reform on perks should not only be at the low end of the income scale. He thought more should be done on the luxury front eg bogus business expense accounts. He thought there was widespread abuse in this area and wondered whether compliance could be improved by stronger penalties.

The meeting agreed that any package of measures would have to be seen to be even handed for people at all income levels.

The Revenue agreed to send a note outlining the various options available for a package of reform.

SK

E KWIECINSKI

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
PS/IR

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 20 April 1983

CHANCELLOR

cc Mr Coleman
Mr Rayner
Mr Stewart) IR
Mr Gray)

ADOPTION ALLOWANCES

I discussed this with Angela Rumbold who will in turn discuss it confidentially with the other Tories on the Social Services Committee (David Crouch, Neil Winterton, and Sheila Faith).

The Committee's report is likely to come out in mid-May.

There seems advantage in making our concession on the non-taxability of the allowance in response to the Report, which will assuredly demand it. The advantages are:-

- 1) we are doing it in response to pressure from a Select Committee of the House;
- 2) by then it will be rather late for legislating this year and an extra statutory concession would seem the more appropriate response;
- 3) it will be a success for the Select Committee.

On the other hand we will have to keep everybody waiting for another month. I do not think this is a very serious problem so, if you are content, we can proceed on this basis.

I will report to you again/^{with} any further thoughts from the Tories on the Social Services Committee that are passed on to me.

Nicholas Ridley
NICHOLAS RIDLEY



Treasury Chambers, Parliament Street, SW1P 3AG

Sir Keith Joseph
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

Mr Faulkner
PPS
CST
EST
MST (1)
MST (2)
Sir Rowland
Mr Bailey
Mr Widdery
Mr Carey
Miss Kelley
Mr Meantfield
Mrs Diggle
Mr Thomas
Mr Salmon.

21 April 1983

Dear Keith

EDUCATION (FEES AND AWARDS) BILL

I have seen a copy of your letter of 20 April to John Biffen.

I am very glad that it has proved possible for you to introduce a Bill this week. There would be serious consequences for public expenditure if it were not passed by the summer recess. I see no difficulty in the draft enclosed with your letter.

You say that on introduction you will be making a statement of policy towards students affected by the Scarman judgement who have paid the overseas fees in the current year. No doubt you will clear this in draft with Leon Brittan. It will have a significant bearing on the cost of the judgement for the academic year 1982-83.

I am copying this letter to the recipients of yours.

Nicholas Ridley

NICHOLAS RIDLEY



cc PS/Chancellor
E S
Mr Middleton
Mr Cassell
Mr Monck
Mr Gordon Mr Turnbull
Mr Robson
Mr Andrew
Mr Willetts
Mr Salveson
Mr Stewart - IR
Mr Hosker - T-Sols
Mr Hill - B of E.

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1

21 April 1983

Sean Arthur

As you will be aware from your honourable stewardship in the Treasury we have been working to create the conditions in which the corporate bond market could play a greater role in providing long term finance for companies. An important condition for this is, of course, lower long term interest rates. On this we are making satisfactory progress and rates are now nearly back to the levels at which we saw some activity in the bond market last year. At the same time, we have been developing proposals to increase the variety of ways in which bonds can be structured. In two announcements, last June and again in the Budget, we have put forward proposals which would allow companies to issue zero coupon and deep discounted bonds.

We have, however, encountered one possible and rather unexpected obstacle on which I would be grateful for your help. A potential issuer of a deep discounted bond has drawn the Bank's attention to the provisions of Section 66(1) of the Bankruptcy Act 1914, which states:-

"Where a debt has been proved, and the debt includes interest, or any pecuniary consideration in lieu of interest, such interest or consideration shall, for the purposes of dividend, be calculated at a rate not exceeding five per centum per annum, without prejudice to the right of a creditor to receive out of the estate any higher rate of interest to which he may be entitled after all the debts proved in the estate have been paid in full."

This section which applies both in personal bankruptcy and in the winding up of companies restricts the right to dividend of creditors whose debts carry interest at a rate greater than 5 per cent. Interest in excess of 5 per cent is postponed and ranks in dividend only after all the debts which have been proved have been paid in full.

The original purpose of the provision was to ensure that interest in excess of normal rates (and in the 25 years before 1914 bank rate never exceeded 5 per cent) could not be recovered from an insolvent estate. It was thought reasonable to provide that where all creditors were bound to lose some of their money, those who had contracted for interest at excessive rate should not obtain an advantage at the expense of the rest.

For many years it was thought that this provision did not apply to companies, but the Courts took the contrary view in 1967. The provision applies to all creditors including holders of conventional bonds, but it is likely to bear particularly harshly on holders of deep discounted or zero coupon stock.

The exact legal implications of this Act for deep discount and zero coupon bonds are not at all clear - indeed this uncertainty is part of the problem. But the rather limited body of case law suggests the following possible interpretation of the present position. The crucial question is whether the accruing discount on the bonds, which is of course part of the total return, would be regarded by the Courts as in some sense a capital appreciation or as interest. If it is thought that a low coupon constitutes a 'non-illusory' interest rate then the uplift is capital appreciation and is not relegated to the back of the queue for claims on a liquidated company under the 1914 Act. But in the case of a zero-coupon or deep-discount any coupon could be regarded as 'illusory' and the uplift treated as interest and hence would be caught under the Act. Thus, the lenders' claims on the company would be given lowest priority along with interest repayments on conventional stock over and above the 5 per cent limit. But this treatment is a greater problem for investors who have lent through deep-discounted instruments because it is in the very nature of these instruments that a proportionally larger amount of funds will be owing to them during the life of the instrument than with conventional stock. In these circumstances some trustees of proposed issues might feel that they could go ahead only with a large "health warning" in the prospectus, which could impair the success of the issue.

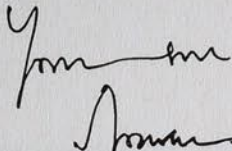
As you will be aware, the Cork Report criticised this provision as being outmoded and unworkable, and recommended that Section 66 should be repealed.

One solution which we considered was whether the legislation being prepared for the Finance Bill on the tax treatment of zero-coupon and deep-discounted bonds could include a provision in effect exempting such bonds from Section 66. However we concluded that the Finance Bill cannot properly be used to amend company law.

An alternative, on which I would welcome your views, is whether we could announce that the Government has decided that Section 66 should be repealed and that legislation to implement this and introduce whatever consequentials are necessary will be introduced at an early opportunity. I am assuming that there is no suitable existing or forthcoming legislation which could be used to bring this about. One obvious avenue would be any legislation in the 1984-85 session arising

it of the Cork Report. While this could not, of course, provide a certainty to investors that by the time of any bankruptcy, legislation will have reached the Statute Book, it would provide a reasonable degree of assurance since in the nature of things investors are likely to accept deep discounted bonds only from highly rated companies whose future for the next few years at least looks sound.

I would be grateful therefore for your views on whether you would be prepared to make such a statement and if so what the possible timetable for such legislation might be.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY



FROM: M E DONNELLY
DATE: 21 April 1983

MR BURGNER

LUNCH WITH FIELDING NEWSON-SMITH

I jotted down the following specific comments during the course of lunch today:

i) Lord Garmoye said that Government objectives changed between each privatisation, in reaction to whatever problem had come out of the previous one. He subsequently supported the view that Britoil had been a red herring issue in all but name, given the amount of interest in the City and in the press before the prospectus was actually issued.

ii) Lord Rockley stressed that investors needed to be allowed to make ^{immediate} profit. This was why they bought new issues. (Presumably he was thinking of individual investors rather than institutions.)

iii) Mr Tucker made the point that it might be difficult for institutions to find a significant amount of spare cash as the economy recovered to pay ~~for~~ a large issue such as BT. He supported the idea of several rights issues spread over the whole life of the Government to help avoid this cash flow problem.

iv) Mr Bell similarly suggested that decision - taking on an issue the size of BT should be spread as widely as possible. This could be done through a mixture of convertible stock, loans, warrants and partly - paid equity.



FROM: M E DONNELLY
DATE: 21 April 1983

MR BURGNER

LUNCH WITH FIELDING NEWSON-SMITH

I jotted down the following specific comments during the course of lunch today:

i) Lord Garmoye said that Government objectives changed between each privatisation, in reaction to whatever problem had come out of the previous one. He subsequently supported the view that Britoil had been a red herring issue in all but name, given the amount of interest in the City and in the press before the prospectus was actually issued.

ii) Lord Rockley stressed that investors needed to be allowed to make ^{immediate} profit. This was why they bought new issues. (Presumably he was thinking of individual investors rather than institutions.)

iii) Mr Tucker made the point that it might be difficult for institutions to find a significant amount of spare cash as the economy recovered to pay ~~for~~ a large issue such as BT. He supported the idea of several rights issues spread over the whole life of the Government to help avoid this cash flow problem.

iv) Mr Bell similarly suggested that decision - taking on an issue the size of BT should be spread as widely as possible. This could be done through a mixture of convertible stock, loans, warrants and partly - paid equity.

Of the others present Mr Manser took a robust pro-City line that was strong on generalities and not very constructive; Mr Smith of BGC not unnaturally favoured wholesale privatisation rather than regionalisation and the selling of parts of public sector enterprises; Mr Miller mentioned clearing banks' liquidity problems in providing the staging funds for new issues; Mr Newmarch raised the question of privileged information being provided to some underwriters but not others and specifically not subunderwriters.

General impressions: A majority favoured tender, though little thought seemed to have been given to quite how an non-underwritten tender would work. There was limited understanding of the Government's responsibilities to the tax payer when selling public assets. Several sub-underwriters seemed to be happy to take what they were given by the lead underwriters. There was no enthusiasm for competitive underwriting or sub-writing; but little thought had been given to it. The main reasons for opposition seem to be:-

i) innate conservatism;

ii) a feeling (not expressed) that the lead underwriter made his money from underwriting while he took his risks in putting together the prospectus. Though no one confronted the point that this should imply a merchant bank simply charging a large sum for the responsibility of the prospectus;

iii) a lack of structure in the City to accommodate competition here. Sub-underwriters would not expect to be approached by more than one merchant bank etc.

I hope that these rather unstructured notes are of some help.

Future action

You agreed to consider how best to advance the seminar idea,

It would be aimed at general issues rather than privatisation of
BT. Perhaps you could keep me in touch with how PE thinking is
progressing in this issue.

ME
M E DONNELLY

Fielding, Newson-Smith & Co.

Garrard House, 31 Gresham St, London EC2V 7DX (& Stock Exchange) / Tel: 01.606 7711 / Telex: 883395 / Cables: Fielding London EC2

L U N C H E O N .

Thursday, 21st April, 1983.

at

1.00 for 1.15 p.m.

THE RT.HON. NICHOLAS RIDLEY, M.P.	Financial Secretary to the Treasury
MARTIN DONNELLY ESQ.	Private Secretary to the Financial Secretary
THE VISCOUNT GARMOYLE	Director - S. G. Warburg & Co.
R. J. M. GIBSON ESQ.	Investment Manager - Electricity Supply Superannuation Schemes
T. HEYES ESQ	General Manager (Investments) - Imperial Chemical Industries Pension Funds
P. J. MANSER ESQ.	Director - Save & Prosper Group Limited
G. MILLER ESQ.	General Manager - Barclays Bank plc
M. G. NEWMARCH ESQ.	Deputy Chairman - Prudential Portfolio Managers Limited
THE LORD ROCKLEY	Director - Kleinwort, Benson Limited
P. B. BELL ESQ.	General Manager (Investments) - Legal & General (Investment Management) Limited
J. H. SMITH ESQ., C.B.E.	Deputy Chairman - British Gas Corporation
D. L. TUCKER ESQ.	Director - M. & G. Investment Management Limited
T. U. BURGNER ESQ.	<i>H. A. Treasury</i>

Mr. J. Dundas Hamilton

Mr. Donald C. Macpherson

MR. J. H. SMITH

MR. T. BURGNER

D. C. MACHERSON

LORD ROCKLEY

MR. R. J. M. GIBSON

MR. P. J. MANSER

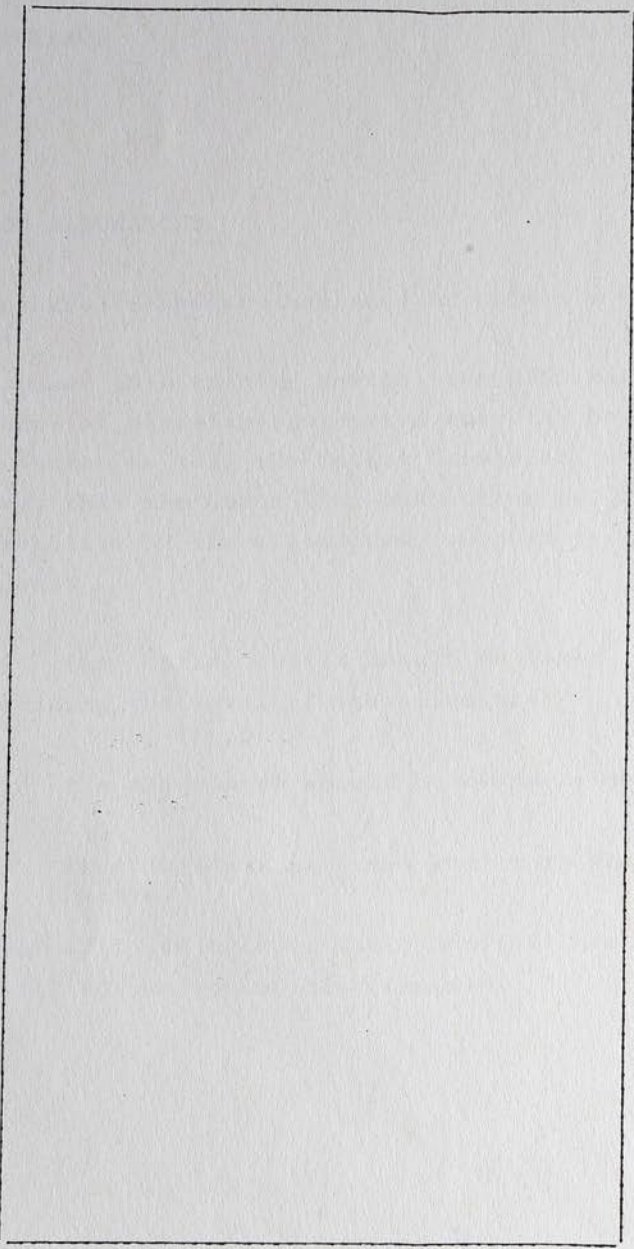
MR. M. DONNELLY

MR. P. BELL

MR. T. HYPES

MR. D. TUOHY

MR. G. MILLER



LORD GARMOYLE

J. D. HAMILTON

RT. HON NICHOLAS RIDLEY

MR. M. G. NEWMARCH

WINDOW

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 22 April 1983

PS/CHANCELLOR

cc Mr Rayner
Mr Colman
Mr Stewart/IR
Mr Gray/IR

ADOPTION ALLOWANCES

The Financial Secretary has seen Mr Colman's note of 20 April.

He discussed this with Mr Newton (the DHSS Minister) last night. The Financial Secretary suggested that the best plan might be for Mr Newton to tell the Select Committee, when he gives evidence on 4 May, that the Chancellor had authorised him to announce the non-taxability of the allowances, subject to the following Treasury conditions: -

- a) that child benefit should be taken into account when deciding the level of the allowance
- b) the allowances should be means tested
- and c) that this was an extra statutory concession of a temporary nature.

Mr Newton will get back to the Financial Secretary on this shortly, and I will advise you of his response.


E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 22 April 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Moore
Mr Monger
Mr Robson
Ms Seammen
Mr Reed
Mr Munro - IR
PS/IR
Mr. Graham (Party. Counsel.)

CAPITAL AND INCOME BONDS

I discussed this question with officials today, in the light of the minutes of 18 April from Mr Isaac and Mr Munro. I am sure that, for the reasons given in those notes, there is now a strong case for immediate legislation.

The necessary provisions would be relatively straightforward and probably quite short - perhaps about half a page, subject to any unforeseen difficulties. The Revenue would hope to have the new clause ready in two to three weeks, and it could be tabled in plenty of time for Standing Committee stage.

If you and the Chief Secretary agree, I propose to make an early announcement of our precise intentions, and to apply the legislation from that date. Existing holders of these bonds would not be affected, unless they tampered with them. Such an approach is fully in accordance with the 'Rees rules'.

I am becoming increasingly fed up with the continuing need for ad hoc legislation to curb this sort of device. I think it is high time for a general look at this whole area. We are of course anxious to review the tax treatment of life assurance generally - perhaps in the context of my review of pensions and savings.

But that is a major undertaking, involving fundamental and wide-ranging issues. Within this wider area there is clearly scope for a more limited internal review of the tax treatment of single premium life assurance policies, and I intend to discuss with officials the possibility both of the wider review, and this narrower one.

Nicholas Ridley
PP NICHOLAS RIDLEY



FROM: M E DONNELLY
DATE: 22 April 1983

MR GUY

cc PS/Chief Secretary
Sir A Rawlinson
Mr Pestell
Mr Griffiths
Mr Fitchew
Mr Culpin
Mrs Diggle
Parly Clerk
Mr Hutson
PS/IR

PRIVATE MEMBER'S BILL TO DEBATE SOCTTISH REED BEDS

The Financial Secretary has seen your submission of 20 April. The Financial Secretary does not wish to write on the lines suggested as he doubts whether it is wise to raise this series of important issues on such a tiny pretext. He thinks it would be better to allow the Leader of the House and the Secretary for Scotland to solve this problem between themselves.

On the particular question of de-rating the Scottish reed beds the Financial Secretary considers that the case for so doing is overwhelming.

MED
M E DONNELLY



FROM: M E DONNELLY
DATE: 22 April 1983

MR PEET

cc Mr Unwin
Mrs Hedley-Miller
Mr Edwards
Miss Court

MEETING WITH SIR HENRY PLUMB AND MR NEIL BALFOUR

We spoke briefly about the outcome of this meeting. I have now seen Mrs Hedley-Miller's note of 22 April as well.

Points for further action were:

MEPs Tour of Community Funded Projects in UK

I understand that there is a submission on its way to the Financial Secretary on this subject. It was suggested that some time this summer (June or July) could be the most convenient time for some MEPs to be shown around projects within the UK which had benefited from EC refunds money. The Drax Power Station, the Kielder Dam and the Selby Coalfield were mentioned. Neil Balfour expressed particular interest in showing MEPs Selby. He said he would be able to arrange a tour of the coalmine for them as Selby is within his Euro-constituency.

Safety Net (Filet de Sécurité)

Neil Balfour expressed particular interest in learning more about our ideas here. The Financial Secretary said that he would write to him, enclosing a copy of the Chancellor's speech and any other relevant material. You have a draft of this in hand.

Contacts with MEPs

Both Balfour and Plumb thought the mid-May/^{Strasbourg} visit would be useful. Sir Henry suggested that David Curry MEP might be worth inviting to/^{the lunch.} Sir Henry expressed interest in finding out when Dankert would be

visiting the UK; Neil Balfour wished to know when Herr Lange would be coming. It might be courteous to ensure that we inform the EDG when these two visits are finalised.

Other Points

There were two other points worth recording. Neil Balfour was of the opinion that the Parliament was no longer (or at least not at present) in a mood to censor the Commission. It had reverted to the view that it should aim to maximise its pressure on the Council through the Commission.

Sir Henry Plumb detected some interest in the Commission's ideas for an agriculture surplus tax. But Neil Balfour felt that this would never get through the current European Parliament; there were simply too many farming interests represented.

MEJ
M E DONNELLY



Mr Mergan
 Chancellor
 Mr
 Mr (R)
 Mr (C)
 Mr Middleton
 Mr Bailey

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Howell MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1P 3EB

Mr A Bowdler
 Mr Kirkett
 Mr Howell
 Mr Pasbell
 Mr Manger
 25 April 1983
 Mr Mountfield
 Mr Burgess
 Mr Wick
 Mr R Wilson
 Mr Broadbent
 Mr Carrington
 Mr Grimshaw
 Mr Edley

Dear Secretary of State,

PRIVATISATION - SUSTAINING THE MOMENTUM

Thank you for your letter of 14 April updating privatisation proposals for the next E(DL) review. I note that you intend to build on past success by tackling the privatisation of a wide range of transport bodies. I am pleased to see the National Bus Company and BREL included in particular. Both of these will require a particularly strong effort to bring proposals to fruition quickly.

We have, as you know, an outstanding commitment following discussion of the report of the Interdepartmental Committee on Ports Policy to bring a review of privatisation of the ports to E(DL). Following the successful flotation of ABPH, I am concerned to ensure that the opportunity is not missed for some early progress, given (apart from the PLA) the generally more buoyant state of the ports. I hope you will feel able to let me have something to add to your proposals to put to E(DL).

I am copying this letter to recipients of yours.

yours sincerely

Martin Donnelly

PPNICHOLAS RIDLEY

(Approved by the Financial Secretary and signed in his absence).

RESTRICTED



FROM: M E DONNELLY
DATE: 25 April 1983

NOTE OF A MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM AT 3.30PM
21 APRIL TO DISCUSS MINISTER FOR THE ART'S 14 FEBRUARY LETTER

Those present: Financial Secretary
Mr Channon
Mr Stone - DES
Mr Lusk - IR

The Financial Secretary invited Mr Channon to develop the case set out in his 14 February letter.

Theatre Angels

Mr Channon said that the main aim was to find some concession to offer in response to the Select Committee's proposals for fiscal concessions for the arts. His major concern was with the tax treatment of theatre angels. The Financial Secretary said that there were two possibilities. One would be to explore further whether high risk investments in theatrical productions could not be taxed on a capital rather than an income basis. The second was whether the investment could not be structured in such a way as to qualify for relief under the measures available for small businesses eg the Business Expansion Scheme or the venture capital provisions. Another possibility might be to operate as a limited partnership. It was noted that the Select Committee's recommendation had been based on the mistaken belief that prior to 1960 a tax concession had operated.

Mr Channon said that the extremely diverse and high risk nature of this type of investment made it difficult to fit in with more conventional capital schemes.

The Financial Secretary suggested that Revenue and OAL should discuss what might be achieved under the existing tax reliefs, perhaps bringing in representatives of the theatre industry on a confidential basis. This was agreed.

Tax foregone on works of art etc accepted in lieu of CTT not to be met from vote provisions

The Financial Secretary said that this idea had severe drawbacks. Purchase of a work of art did not involve tax relief because no tax was payable - it was simply public expenditure and had to be treated as such. A preferable option - if any relief were to be given - would be to transfer the responsibility for acceptance in lieu to the National Heritage Memorial Fund. This would allow reserve funds for purchasing art etc to be transferred between years, freed of annual public expenditure constraints. Mr Channon said that this option was ruled out because the NHMF did not want this role; and the Government had given assurances that they would not force it on the NHMF. The Financial Secretary suggested that it might be sensible for the DES to perhaps consider further the idea of a separate fund for art acquisition in the context of the usual annual public expenditure discussions.

Capital allowances

Mr Channon said he saw this as the least important of the 3 proposals. The Financial Secretary said that it was objectionable in principle given the Government's overall aim of simplifying and rationalising the tax system. It was agreed that no further action need be taken on this option.

The meeting closed at 3.40pm.

MED
M E DONNELLY

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr Ridley

CONFIDENTIAL



FROM: FINANCIAL SECRETARY

DATE: 25 April 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Littler
Mr Bailey
Mr Unwin
Mr Burgner
Mr Mercer
Mr Traynor
Mr Ridley

EMPLOYEE INVOLVEMENT

You asked for my views on Norman Tebbit's memorandum to the Prime Minister of 20 April. I will pursue this with officials and report further in due course. But some interim comments are:-

Employee Involvement means, or rather covers, three things, as indeed do the 2 draft European Directives.

- 1) The organisation of management and ownership -
2 tier boards or unitary boards;
- 2) Methods of informing employees of company news, and of giving them information, and of ascertaining their views: Works Councils, employee Directors, methods of obtaining information;
- 3) Worker participation in management, or even control of it.

On each I would comment

- 1) I happen to be a 2-tier board advocate, because I think the interests of owners and managers are different and should be separately represented, with owners having the ultimate contrd. But I am not in favour of making it compulsory.

2) I am whole-heartedly in favour of all forms of disseminating information to workers [short of market sensitive or industrially valuable information] I think we would be justified in legislating one more other means of facilitating this - and I am in favour of compulsory Works Councils. Employee directors are not a good way of achieving this aim: they tend to become more pro-management than the managers.

3) I don't think workers want to run the business, nor do I think they should. If they want to run a business they should set up an employee buy-out, or a cooperative. We have helped them a lot to do so. But the vital people in a business are the owners, and neither management nor workers should be able to obstruct the owners in the proper use of their capital assets. Hence my support for 2 tier boards, the top tier representing the owners, or shareholders.

To sum up

I am broadly in favour of Vredeling, but not keen on the 5th Directive.

As a footnote I never understand why good practice (if it is so very good) should only apply to companies with 800 or 1000 employees or more. If it is a good egg, it should apply to all companies.

NE Donald
PPNICHOLAS RIDLEY

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 26 April 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Moore
Mr Monger
Mr Wilson
Ms Seammen
Mr Reed

Mr Munro - IR
PS/IR
Mr Graham - Parly Counsel


CAPITAL AND INCOME BONDS

The Financial Secretary has seen your minute of 25 April.

He notes the Chancellor's concern about the position in the event of an early election, but he does not see what else could be done. He thinks the abuse must be stopped before it gathers too much momentum. If no announcement were made the abuse will develop enormously before the next Finance Bill. If there is an early election the announcement (which we need to make soon) will hold the position until it can be legislated.

The Financial Secretary thinks this would be all right especially since it is intended to publish draft clauses as soon as possible after the announcement. He has commented that the same considerations apply to the other 4 or 5 loophole stoppers in the Finance Bill. In practice he would expect the Opposition to let all of them (including the Capital and Income Bonds) through on the nod in the event of an early dissolution.

The Financial Secretary agrees with the Chancellor that the limited internal review should retain a higher priority than any more wide-ranging review. He will be holding a meeting to discuss plans with the Revenue in the near future.


E KWIECINSKI

PERSONAL AND CONFIDENTIAL



FROM: M E DONNELLY
DATE: 26 April 1983

PS/CHIEF SECRETARY

cc PS/Chancellor
Mr Ridley

LORD COCKFIELD ON THE NATIONALISED INDUSTRY POLICY GROUP REPORT

The Financial Secretary has seen Lord Cockfield's letter of 19 April copied under Mr Ridley's note of 25 April.

The only point on the Financial Secretary's side which could possibly relate to Lord Cockfield's claim that the Treasury is obstructing BA's privatisation concerns the problems Trade have had in getting a bill^{to} privatise BA into the next Session's programme. The Financial Secretary supported this aim in Q(L). But it was defeated by the business managers who were aiming for a non-contentious legislative programme.

The Financial Secretary thinks it might be worthwhile, when replying to Lord Cockfield, stressing that we have been as helpful as possible in this area.

Like the Chancellor, the Financial Secretary would be happy for a commitment to privatise British Airways to go into the Manifesto.

MED
M E DONNELLY

RESTRICTED



FROM: M E DONNELLY
DATE: 26 April 1983

MR R MARTIN - IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr Beighton) IR
Mr Stewart)
PS/IR

FISCAL AID FOR EMPLOYEES TRUSTS, BUY-OUTS ETC

Mr Grimond MP raised several points related to the treatment of employee trusts during the Committee of the Whole House debate on the Finance Bill on Monday 25 April.

The Financial Secretary would be grateful if you could examine the points raised by Mr Grimond. He would like to consider them sympathetically with a view to taking on board any constructive suggestions. In particular the Financial Secretary feels that there would be little point having provisions in the Finance Bill to help employee trusts if in fact the majority of cases fall outside their provisions.

The case of NFC is already being considered separately by the Revenue.

MED
M E DONNELLY

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 26 April 1983

MR S N WOOD

cc PPS
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Sir A Rawlinson
Mr Cassell
Mr Bailey
Mr Wilding
Mr Mountfield
Mr Burgner
Mr Wicks
Mr Allwood
Dr Webb
Mr Ridley
Mr Johns - IR

BGC OFFSHORE OIL ASSETS DISPOSAL

We spoke about your submission of earlier today.

This note is to confirm that the Financial Secretary's reaction on the four outstanding points detailed in paragraph 1 of your note is as follows:

- i) BGC's pre-emption rights for gas. The Financial Secretary considers it vital that Mr Lawson should stand firm on not allowing BGC right of first refusal over gas.
- ii) Past corporation tax liabilities. He agrees with your advice that option 3 is the least satisfactory. Of the others the Financial Secretary would prefer option 2 (to indemnify holdings); but has commented that this choice can wait.

iii) and iv) Costs arising out of sale and possible tax liability on BGC. The Financial Secretary accepts your advice.

You agreed to pass on the Financial Secretary's views to the Department of Energy this evening.

MEJ

M E DONNELLY



Treasury Chambers, Parliament Street, SW1P 3AG

John MacGregor Esq MP
Parliamentary Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

26 April 1983

Dear John

BUSINESS START-UP SCHEME

Thank you for your letter of 29 March, concerning Philip Darwin's letter of 17 March to Geoffrey Howe about extending the time limit under the Start-up Scheme within which companies must start to carry on a qualifying trade.

... Details of the new, extended Business Expansion Scheme were of course published in the Finance Bill and you will see that we are proposing some relaxation of this particular rule. But, for the reasons Geoffrey Howe has explained in his reply to Philip Darwin (copy of letter attached) we think that we should run into all sorts of new difficulties and complexities if we tried to go any further than this.

Nicholas Ridley

NICHOLAS RIDLEY



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

21 April 1983

P W Darwin Esq CA
 Laurence, Prust & Company
 Basildon House
 7-11 Moorgate
 LONDON
 EC2R 6AH

Dear Phil

Thank you for your letter of 17 March about extending the time limit under the Business Start-up Scheme within which companies must start to carry on a qualifying trade.

Details, of the new, extended Scheme (the Business Expansion Scheme) were published in the Finance Bill, and you will have seen that, among the many improvements, we are proposing some relaxation of this particular provision. For the Business Expansion Scheme, the discretionary element will be dropped and all companies will have a maximum period of up to 2 years from the issue of eligible shares in which to start a qualifying trade. This goes some way towards meeting your own suggestion.

However, you also suggest that the Revenue should have discretion to extend the maximum pre-trading period beyond 2 years. There are two main difficulties with this.

First, it would reintroduce the discretionary element. We thought it right to remove this element partly in order to simplify the Scheme wherever possible, but also because in practice it is extremely difficult for the Inland Revenue to exercise discretion on matters of this kind. The case where construction of a new building prior to the start of trading is delayed owing to, say, an industrial dispute might be relatively straightforward. But there would be many other instances where the Revenue would simply not be in a position to judge whether the delay in the start of trading was avoidable or not. And, in the case of start-ups that are based on the exploitation of new technology, there may be no single and obvious reason for the delay in getting the new trade going, other than the time needed to complete the pre-trading development state.

Quite apart from this, however, there would be serious practical difficulties in relation to certain other of the provisions in the Scheme if a pre-trading period of more than 2 years was allowed, whether or not with a discretionary element. As you will have seen, for BES (like BSS) it is proposed that the individual investor should continue to satisfy certain conditions for a period of 5 years from the issue of eligible shares in order to retain his tax relief on those shares. (Thus, for example, the investor must hold on to his shares for at least 5 years, and during that period he must not become "connected" with the company.) Similarly, the company must continue to satisfy the qualifying conditions for a



specified period. But this period runs for 3 years from the date on which the eligible shares are issued if the company is already trading, or for 3 years from the subsequent date on which it starts a qualifying trade. So, with a maximum pre-trading period of 2 years, the end of the company's subsequent 3-year qualifying period will coincide with the end of the 5-year period for individual investors.

But if the maximum pre-trading period were extended to, say, 3 years there would be some very odd results. The company's 3-year qualifying period would extend into year 6 - after the end of the qualifying period for individual investors. Thus, if for some reason the company ceased to satisfy the qualifying conditions in year 6, individual investors would stand to lose their relief even though their own qualifying period had ended and, possibly, they had already disposed of their shares.

To get round these difficulties, it would be necessary either to extend the qualifying period which applied to individual investors, or to provide that the qualifying period for the company could not extend beyond year 5. Neither alternative is attractive. The first would no doubt be criticised as hard on individual investors. The second could, amongst other things, lead to inequity of treatment as between one company and another. For example, with an overall 5-year limit, the longer the permitted pre-trading period, the shorter the period in which the company concerned would need to satisfy the qualifying conditions once it had started trading.

In addition, where a company is undertaking research and development or constructing a building, and it is possible that the pre-trading period may exceed 2 years, there is nothing to stop investors coming in a little later, and the company relying on, say, bank finance for its early expenditure. This would enable investors to make sure that they remained within the two year period.

For all these reasons, I hope you will agree that we have gone as far as we can in relaxing this rule.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath it.

CONFIDENTIAL



CC PS/Chancellor
Mr Rayner
Mr Colman
Mr R Evans
Mr Salvason
Mr Stewart } IR
Mr Gray } IR
PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG

A Newton Esq MP
Parliamentary Under Secretary of State for
Social Security
DHSS
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

27 April 1983

Dear Minister,

ADOPTION ALLOWANCES

We spoke last week about the taxation of adoption allowances in the context of your appearance before the Social Services Committee next week.

This is to confirm that Geoffrey Howe and I have agreed that these allowances should not be taxable. We propose to announce this decision by means of a Written PQ on 4 May so that you can refer to it when you give evidence to the Select Committee that afternoon.

I told you that in deciding to exempt adoption allowances from tax, Geoffrey Howe and I attached importance to the fact that a means test will be required in each case before any allowance is awarded. We also regard it as essential that the individual schemes should specify that the amount of the allowance will be reduced in each case by the amount of Child Benefit to which the adoption parents will become entitled. I hope you can agree to impose this condition on adoption scheme submitted for your approval.

I mentioned to you that we are proposing to introduce the concession through an Extra-Statutory Concession by the Inland Revenue. That will be more in keeping with the experimental nature of the schemes than the alternative of legislating in this year's Finance Act. We can of course readily include it in legislation in the light of experience with the schemes, if we want to on a future occasion.

Nicholas Ridley
NICHOLAS RIDLEY
seen and approved by
the Financial Secretary.

RESTRICTED



NOTE OF A MEETING HELD IN FINANCIAL SECRETARY'S ROOM AT 12.00pm
WEDNESDAY 27 APRIL 1983

Those Present: Financial Secretary
Mr I Gow MP
Mr A McAlpine
Mr M McAlpine
Mr Battishill-IR
Mr Prescott-IR
Mr Donnelly

The Financial Secretary welcomed the McAlpines and Mr Gow, and suggested that they might like to develop the case set out in their note (sent to the Chancellor on 3 March).

Mr M McAlpine said that he thought the intention of the Purchase of Own Shares tax legislation had been to make it easier for families to continue to control their own firms. In practice the opposite appeared to be the case.

The Financial Secretary said that the purpose of the tax concessions in the 1983 Finance Act was to make it easier for unquoted companies to purchase their own shares where this was to the benefit of the company's trade and where the shareholder might not otherwise be able to dispose of his shares due to their lack of marketability. But they were not intended to provide a simple route for companies to pay out dividends tax free. By definition, shares in quoted companies were more marketable, so the relief was not for quoted shares. Moreover, if the scheme was extended to quoted shares the way would open to abuse, which could be very costly to the Exchequer.

Mr MaAlpine said that nevertheless the legislation did not help the family shareholder who wished to dispose of quoted shares in the company but who did not want control to go outside the family. Responding on this point, the Financial Secretary said that it was arguable that the government had now provided almost too much advantage

for unquoted companies to compensate for their other problems. On the face of it, there would be two options open to a family controlled public company wishing to retain internal control and to benefit from these tax provisions. One was to restructure the company's equity so that control was held through the unquoted shares even if there were also quoted equity. When these provisions were going through Parliament he had offered to consider an amendment, to allow relief on unquoted shares where a company had some quoted shares also, if the case could be established for such a change. That offer still stood. A second approach might be to return to being an unquoted company. Under both approaches, it was important to remember that the other qualifying conditions for the relief would also need to be satisfied in each case.

Mr McAlpine raised the question of the tax treatment of sale of shares held in discretionary trusts and of executors handling unquoted shares. Mr Battishill stressed the many complications in this area. It was agreed that the point could be followed up in more detail with the relevant Revenue officials later.

Mr McAlpine inquired about the "hardship" criterion for relief from CTT payment on a sale back of shares to the company. He wondered whether this also applied during life as opposed to simply on death. [The provisions are limited expressly to the payment of CTT on death.]

Summing up the Financial Secretary said that the POS legislation was designed to deal with the problem of marketability in the unquoted sector. It was not therefore suitable for extension to quoted firms. Nonetheless there might be ways forward for quoted family firms, on the lines he had suggested. Mr McAlpine agreed that several of the detailed points raised might offer further scope. He agreed to follow them up separately with Revenue Officials.

The meeting ended at 12.45pm

Circulation:
PS/Chancellor
PS/MST(R)
Mr Ridley
Mr Battishill - IR
Mr Prescott - IR

MEJ
M E DONNELLY
4 May 1983

RESTRICTED



FROM: M E DONNELLY
DATE: 27 April 1983

MR PEET

cc Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards
Miss Wilkinson

POSSIBLE VISIT BY MEPs TO LOOK AT S.M. SCHEMES

The Financial Secretary was grateful for your submission of 26 April.

He agrees that in principle the visit is a good idea. But to plan on a June visit might coincide with an EC Budget crisis (as you point out in paragraph 3); and, conceivably, might be inopportune due to domestic political developments.

Consequently the Financial Secretary thinks the visit should be advanced to the last week of May, if this is possible. Alternatively, it should be delayed until September because of the holiday season.

MED

M E DONNELLY



FROM: M E DONNELLY
DATE: 27 April 1983

MR ROBSON

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (R)
PS/Minister of State (C)
Mr Middleton
Mr Bailey
Mr Kemp
Mr Moore
Mr Lovell
Mr Gordon
Mr Andren
Mr Ridley

MEETING WITH CBI SMALL FIRMS DIRECTORATE

My note of 7 April refers.

The CBI have decided that they cannot attend at 9.30am on 5 May,
as previously arranged.

This meeting has now been postponed until 11.45am on Tuesday 10 May.

ME
M E DONNELLY



FROM: M E DONNELLY
DATE: 27 April 1983

MR R MARTIN - IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Moore
Mr Lovell
Mr Robson
Mr Beighton - IR
Mr Stewart - IR
PS/IR

FINANCE BILL - EMPLOYEE BUY-OUTS ETC

... The Financial Secretary has asked me to pass on to you the attached letter and enclosure from Robert Oakshott Esq, Director of Job Ownership Ltd, sent to the Economic Secretary.

The Financial Secretary has commented that many of the Oakshott proposals came up in the Tax Consultative Committee meeting yesterday.

He would be grateful for Inland Revenue comments, and on the basis of these would like to discuss the more general questions of employee buy-outs etc to which my note of 26 April referred.

ME
M E DONNELLY

Job Ownership Ltd

9 Poland Street London W1V 3DG

Telephone: 01-437 5511

Jock Bruce-Gardyne Esq MP
Economic Secretary
The Treasury
Treasury Chambers
Parliament St
London SW1P 3 AG

Buy (a) Yes, with do
(b) No, ~~but~~ as well.

There is time to do a buy
with the FT
April 22 1983

10/24
1/2

Dear Jock,

We spoke about the enclosed yesterday. I hope they are self-explanatory. It would be very good indeed if you were able to commend them to Nicholas Ridley at an early date and in any case well before the Finance Bill is due to go into committee, as it is, I gather, on Tuesday 3rd May.

One other question. Would you advise me to write a brief note to Norman Tebbit with the same enclosures. He sent me a most friendly letter at the time of the Liverpool dustmen/Reg Flude drama, beginning 'Dear Robert'. But a letter to him about these apparently rather abstract Finance Bill amendments - which will, I hope, be set in context in Monday's Daily Telegraph - might be superfluous.

Many thanks for your help.

Yours
Robert

Background

The two key passages in the budget speech on which we mainly rely are worth quoting:

"I want more people to share in the ownership of the companies for which they work (emphasis added). It is both a good incentive and a good way for people to build up a capital stake".

"I also want to ease the path for employees who seek to buy the business for which they work. The transformation that followed the employee buy-out of the National Freight Company shows how valuable this can be".

Proposals with commentary

- 1 That the condition 10D(b) be dropped (viz. that 'shares are acquired before, or not later than 12 months after, the date on which a company becomes an employee controlled company'.)..... if we wish to encourage ownership by people of the companies in which they work, then it is surely a mistake to restrict tax concessions to those who happen to be employees at the time of a buy-out or within a 12-month period. There are no obviously adequate grounds for applying different rules to National Freight's drivers in 1982-83 and those who are subsequently recruited into their workforce.
- 2 That the definition of an Employee Controlled Company be enlarged to cover situations in which an employee trust, as well as individual employees, is involved in the minimum 75% shareholding..... a suggested legal gloss is that ownership on the part of an employee trust is already implicit in the phrase 'is beneficially owned by persons who ... are full time employees of the company'. But assuming the gloss is correct, it would still be helpful to have what is implied made explicit in the official record. And if the gloss is incorrect the point is one of real substance.
- 3 That in situations where ownership is transferred to an employee trust as a first step on the road which will end with the formation of an employee controlled company and where this first step is taken through the mechanism of the company purchasing and then cancelling its own shares, then no capital transfer tax liability should be incurred..... Section 67 of the 1978 Finance Act gives CTT exemption where beneficial ownership is transferred directly to an employee trust. The mechanism of purchase and cancellation by a company of its own shares reaches the same trust ownership result by a less direct route; and one which has been followed by Baxi at the recommendation of the Financial Secretary. But there seem to be no adequate grounds for restricting the exemption to cases in which the direct route to trust ownership has been followed.

4

That where the ownership of a company is so re-organised that it becomes an employee controlled company, then either zero or lower capital gains tax shall apply..... Baxi is very anxious that pressure for this concession should do nothing to jeopardise the CTT concession sought in 3 above. But the logic of the two submissions is, of course, quite distinct. The logic in this case is simple enough. CGT is levied much more as a tax on 'privilege' than on revenue grounds. Owners who sell their companies to employee controlled companies are likely to do so at well below market values. By so doing they will be showing greater self denial in relation to their own privilege than anything likely to result from CGT. Philip Baxendale is a case in point. Had he and his family sold the company to a competitor the price would probably have been £30m and their own 'estates' net of CGT would have been likely to show a gain of £20m. As it is their own estates net of CGT will show a gain of some £3.5m. Relief of CGT in these cases would do much to "ease the path" for employee buy-outs.

5

That in the case of employee controlled companies and co-operatives the present rules which restrict to non-redeemable shares those which may be allocated under an approved profit sharing scheme should not apply and that those enterprises should be permitted to allocate redeemable shares..... This submission is of no direct interest to Baxi since the scheme which it has adopted does not involve the issue of redeemable shares. On the other hand it is of crucial interest to production co-operatives the shares of which are normally (and ? by definition) redeemable. It is also of interest to Job Ownership Ltd since the current draft of its model articles, following a recommendation from the Companies Division of the Department of Trade, depends on the individual workers owning redeemable shares.

6

That in the case of employee controlled companies the present rules which limit the allocation of shares to employees when there is more than one class of shares in issue should not apply. Here again JOL has an interest. Companies which issue redeemable shares must also issue non-redeemable ones. So, according to the present model articles a Job Ownership Company will have more than one class of shares in issue. An objectionable rule then applies: namely that the majority of the class of shares used in the scheme must be held other than by persons who acquired their shares as employees or by trustees holding shares on their behalf.

FINANCE BILL 1983 PROPOSED AMENDMENTS (Draft)

Amendment 1

S.27 10 D (1) delete (b) "the shares....employee-controlled company"

Amendment 2

in S.27 10 D (2) after "beneficially owned" insert "whether under a trust or otherwise"

Amendment 3

S.27 After (3) add new (4)

- (1) In Section 67 of the Finance Act 1978 after subsection (1) there shall be inserted
" (1A) For the purposes of this section an exempt transfer shall be deemed to include any transfer the object and final effect of which is to transfer shares in a company to a settlement whose trusts are as specified in Paragraph 17(1) of the Finance Act 1975.
- (2) The new subsection (1A) applies when the transfer referred to is after the passing of this Act.

Amendment 4

S.27 After new (4) insert (5)

- (i) In the 1979 Capital Gains Tax Act there shall be inserted after section 19
19A
(1) This section applies where the beneficial owner of shares in any company transfers some or all of these shares to either
 - (a) trustees to hold on trust for persons who or whose spouses are full time employees of the company or
 - (b) persons who or whose spouses are full time employees of the companyand where either
 - (a) the company was an employee controlled company or
 - (b) as a result of the transfer the company becomes an employee controlled company
- (ii) where this section applies the transferor shall be entitled to relief from capital gains tax as provided in subsections (3) and (4) of this section.
- (iii) For the purpose of calculating gains or losses under this section reference shall be had only to the actual price obtained by the transferor and not the market value of those shares under Part VIII of this Act

- (iv) where a transferor makes a transfer within the meaning of subsection 1 of this section and the actual price is less than the sum that he would have obtained if the shares had been sold at market value and capital gains tax had been paid then the transfer shall be exempt from capital gains tax
- (v) any losses which would apart from this section be deductible from the transferor's chargeable gain shall remain so deductible
- (vi) for the purposes of this section employee controlled company has the meaning given by S.27 Finance Act 1983
- (vii) the new section 19A applies when the transfer referred to is after the passing of this Act

Amendment 5

- S.27 After new (5) insert new (6)
In the Finance Act 1978 Schedule 9 Part II in subsection 7(B) there shall be substituted
- (A) for "not redeemable" "not redeemable except
 - (i) after five years from the date on which the shares are appropriated to the employee or his spouse or if it is earlier
 - (ii) the date on which the participant ceases to be an employee or director of a relevant company by reason of injury or disability or on account of his being dismissed by reason of redundancy within the meaning of the Redundancy Payments Act 1965 or the Contracts of Employment and Redundancy Payments Act (Northern Ireland) 1965 or
 - (iii) the date on which the participant reaches pensionable age as defined in Schedule 20 to the Social Security Act 1975 or
 - (iv) the date of the participant's death".
 - (B) The exception to the requirements that the shares must not be redeemable shall apply only to
 - (a) employee controlled companies as defined in S.27 of the Finance Act 1983
 - (b) co-operative enterprises as defined in Section 2(2) of the Industrial Common Ownership Act 1976

Amendment 6

- S.27 After new (6) insert new (7). In the Finance Act 1978 Schedule 9 Part II after subsection 8(b) then shall be inserted
- 8(c) this section shall not apply to employee controlled companies as defined in S.27 of the Finance Act 1983



Treasury Chambers, Parliament Street, SW1P 3AG

S C Laws Esq
Office of Parliamentary Counsel
36 Whitehall
LONDON
SW1A 2AY

28 April 1983

Dear Laws

HOUSING (HOUSES IN MULTIPLE OCCUPATION) BILL

... I enclose a money resolution for this Bill duly
initialled by the Financial Secretary.

Yours sincerely
E Kwiecinski

E KWIECINSKI
Private Secretary

HOUSING (HOUSES IN MULTIPLE OCCUPATION) [MONEY]: Queen's
Recommendation signified

Mr Nicholas Ridley

That, for the purposes of any Act of the present Session to consolidate and amend the powers of local authorities as regards houses occupied by persons who do not form a single household, to empower the Secretary of State to specify standards to apply to such houses and to confer duties on local authorities to enforce standards in such houses, it is expedient to authorise the payment out of moneys provided by Parliament of .

- (a) any increase attributable to that Act in the sums which are payable out of such moneys under any other enactment; and
- (b) any administrative expenses incurred by the Secretary of State in consequence of the provisions of the said Act of the present Session.



RESTRICTED



FROM: M E DONNELLY
DATE: 28 April 1983

PS/CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Bailey
Mr Wilding
Mr Judd
Mr Monger
Mr Rayner
Mr N J King
Mr Yeo

PAC REPORT: EXCHEQUER AND AUDIT DEPARTMENT

... The Financial Secretary has read the PAC report on the Exchequer & Audit Department (attached top copy).

The Financial Secretary considers that the 5% staff increase projected until 1984 plus a fall in the proportion of staff employed on VFM work suggest that E&AD need not look very far to find an example of mushrooming bureaucracy. Given the Chief Secretary's close involvement with the St John Stevas Bill the Financial Secretary thinks he might like to look at this report and the proposed draft response.

The Financial Secretary would be happy to discuss this if the Chief Secretary so wishes.

ME D
M E DONNELLY



Mr Hartin
Mr Atkinson
Party. Clerk

Mr Percy

Skinner P.Q. Supplementaries

Final version attached.
The Financial Secretary
is most grateful.

MED
28/4

DRAFT SUPPLEMENTARIES

WHY IS GOVERNMENT LENDING MONEY TO ARGENTINA TO BUY ARMS?

Hon Gentlemen talking nonsense. IMF loans carry tough conditions which constrain Argentine economy policy - just as IMF loans to the last Labour Government in 1976 forced them to follow a sensible economic policy.

British Banks Lending Money to Argentina - Will Be Used to Buy Arms

No doubt hon Gentlemen would like a nationalised banking system where loans were only made to those with his Party's seal of approval. The loans by international banks are linked with the IMF package for Argentina. The fact is that the wider effects of a default could hit jobs in the UK and leave Argentine with more money to buy arms.

Hypocrisy in Government's position on loans to Argentina while refusing to sell arms

Not so. As the Prime Minister has made clear loans made by IMF and international banks are not for arms purchases but to make Argentina restore sense to her economy so she can continue to pay debts. The plain fact is that if Argentina defaulted its position as a primary producer with a trade surplus means it would have more money, not less, to spend on arms.

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 29 April 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Cassell
Mr Monck
Mr Pirie
Mr Gordon
Mr Saunders
Mr Ridley
Mr Hosker - T. Sols

STOCK EXCHANGE: RESTRICTIVE PRACTICES COURT

The Financial Secretary has seen Mr Pirie's 22 April submission, Mr Middleton's covering note and the Economic Secretary's comments.

The Financial Secretary agrees that a discussion of this subject would be valuable. Like the Economic Secretary he feels that withdrawal of the case from the Restrictive Practices Court would raise difficult problems.

MEJ
M E DONNELLY

COVERING
COMMERCIAL IN CONFIDENCE



FROM: M E DONNELLY
DATE: 29 April 1983

MR FITCHEW

LSA: MEETING WITH MR WALKER

... I attach a draft note of the conclusions of this morning's meeting.
I propose to send these in letter form to Mr Walker's Private Secretary.

The only point I have deliberately omitted was the suggestion
that negotiations over the Sidlesham estate be left until last.
That is perhaps best kept as an informal guideline.

be
I would/grateful for your comments on the draft letter.

MED
M E DONNELLY

COMMERCIAL IN CONFIDENCE

DRAFT LETTER FROM: PS/FINANCIAL SECRETARY

TO: PS/SECRETARY OF STATE FOR AGRICULTURE

LAND SETTLEMENTS ASSOCIATION

This letter records the conclusions of your Secretary of State's meeting with the Financial Secretary this morning to discuss disposal of the Land Settlement Association estates. Mr Parker, Chairman of the LSA, was also present.

The following conclusions were reached:

- i) as far as possible the land, and shares in the centralised facilities and equipment, should be sold as one package;
- ii) negotiations should take place separately on each site over the price of sale between the LSA and the tenants. In addition Mr Eden would make an independent assessment of each estate's value as a going concern. Cases where no agreement on price could be reached would be referred to Ministers for decision;
- iii) sales to the tenants of central facilities would be limited to those assets that were genuinely required to ensure the commercial viability of the co-operatives;

- iv) there would be an estoppage of not less than 15 years on the resale of the centralised facilities by the tenants;
- v) the co-operatives would not ^{be} eligible ^{for} grants from the Agricultural and Horticultural Co-operative Scheme;
- vi) the tenant's co-operatives would use their "best endeavours" to fund their purchases from commercial banks rather than through Government mortgages.

I am sending a copy of this letter to Mr Parker.

M E DONNELLY
Private Secretary

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 29 April 1983

MR MONGER

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Wilding
Mr Moore
Mr Robson
Ms Seammen
PS/IR

OCCUPATIONAL PENSIONS: POSITION OF WOMEN

The Financial Secretary has been considering the position of women in occupational pension schemes.

He thinks that there may be some discrimination against women under the present law. He has commented that both men and women pay the same insurance premiums. If a man dies in service, his wife and dependents get the appropriate benefit. But when a woman dies in service there is no automatic right of benefit for her spouse and dependents.

He would have thought that either sex should receive the same benefits for the same amount of contribution.

He would be grateful for your comments, and suggests that this item should be added to the agenda of next Wednesday's meeting on Pensions.


E KWIECINSKI

COVERING CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 29 April 1983

MR ROBSON

cc Mr Monger
Mr Moore
Mr Aaronson
Mr Ridley
Mr Isaac)
Mr Blythe) IR

PAYROLL TAX

... I enclose a note the Financial Secretary has written on this subject.

He would be grateful for your and copy recipients' comments.

UK
E KWIECINSKI

PAYROLL TAX

If we were to succeed in finding a form of NICIT which was acceptable and practical (and that is a very big if), we would need to consider the employers' contribution. When we have discussed this on previous occasions, (and decided to leave it aside for the present) we have envisaged a payroll tax to replace employers' NIC and NIS, to be charged on the total payroll of all employers. There are no doubt some technical and definitional problems (and problems over the self-employed) which would have to be ironed out. I do not want to invite a lot of work on it now.

A. What might be relevant to the NICIT study are the Revenue implications of this. We would need payroll tax to make a contribution to the NI fund: how much might we be able to raise? How much, at present, do NIC and NIS raise? If the tax was levied at the same rate as now, on say, employers for all their employees

would it not bring in more revenue, a) due to there being no LEL b) due to it bringing in more on higher paid workers because of the removal of the UEL?

B. One could envisage, say a 10 per cent rate of tax, to match the rate of SWT (also 10 per cent). If this was levied on all payrolls, including casuals, part-timers, and married women equally with men, how much more would that bring in? Would there be adverse industrial effects from such a level of tax? Would it be a way of taxing casuals which would be easier to collect than PAYE?

I ask these questions, not to have a payroll tax designed in detail, but solely to get some idea of whether there is extra Revenue to be obtained from this source which could be put to the service of NICIT.



FROM: E KWIECINSKI
DATE: 29 April 1983

MR N S TANT/IR

cc Mr Reed
Mr Blomfield (C&E)
PS/IR

KEITH REPORT: LETTERS FROM NFSE

The Financial Secretary has seen your submission of 27 April.

• • • I attach his suggested revised draft of the reply to be sent. He would be grateful for your comments.


E KWIECINSKI

DRAFT

You wrote to me on _____ enclosing this further letter from the Press and Parliamentary Officer of the National Federation of Self-Employed and Small Businesses Ltd. I am grateful to Mr Fothergill for letting me know the Federation's initial views on the first part of the Keith Committee's Report. The Government will need a lot more time, and to hear a lot more views, before coming to any conclusions.

I have noted the suggestion that there should be an independent enquiry set up specifically to examine the black economy. There have been several studies of the subject in recent years, producing widely varying conclusions, as to the extent of the problem.

Nobody has ever suggested that/ ^{the problem} is confined to any one section of the population: though that is no reason for conniving at it in any section of the population! The Revenue Departments are continuing to advise us about ways to improve their procedures for tackling the problem and we weigh each one on its merits. There are a number of recommendations in the Keith Report that bear upon the black economy and indeed the Committee devoted a whole chapter to the topic. We are still considering this - the first part of the Report - it is a very lengthy document. Obviously while doing so we will keep the black economy very much in mind.

Perhaps you might agree that in a way the Keith Committee has conducted an independent enquiry into the black economy? I would question whether there is a need for a further one.