



FROM: E KWIECINSKI

DATE: 3 May 1983

PS/CHANCELLOR

cc Mrs Ayling/IR
PS/IR

CTU BUDGET SUBMISSION: WIDER OWNERSHIP

The Chancellor asked, through Mr Ridley, for the Financial Secretary's comments on the CTU Budget submission.

The Financial Secretary has sought the Revenue's comments; these ... are attached together with a draft letter for the Chancellor to send to the CTU director, Margaret Daly.

The Financial Secretary commends the letter to the Chancellor.


E KWIECINSKI



Orange

From: MRS S P AYLING

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

25 April 1983

JA
PS TO THE FINANCIAL SECRETARY

*OK on slightly
amended
NR*

CTU BUDGET SUBMISSION: WIDER SHARE OWNERSHIP

1. In response to your minute of 14 April I attach a draft letter for the Chancellor to send to the CTU.
2. The CTU Budget Submission proposes:-
 - i. that the existing tax reliefs for employee share schemes should be simplified (from the employee's point of view) - no details are given of precisely how;
 - ii. that the "release date", after which shares can be taken out of an approved profit sharing scheme and sold free of income tax, should be reduced from seven years to three years; and
 - iii. that the shares used in approved schemes should not be limited to the ordinary shares of the company concerned.
3. Our comments are:-
 - i. in fact we receive no complaints from companies - or from employees themselves - that the reliefs are too complicated for employees to grasp. The profit sharing relief in particular is a perfectly simple idea to understand. We ourselves produce a short leaflet for employees which a lot of the companies concerned use.
 - ii. the "release date" was reduced from ten to seven years in 1980. There has been little pressure on this (apart from Sir John Sainsbury); in fact a number of companies have argued that seven is the furthest we

should go down to. The shorter the period, the less the relief becomes an incentive to hold shares, and the more it comes to resemble a cash or near-cash bonus: it would detract from the principle of the relief if the scheme came to be used simply as a tax-saving roundabout, with each year's tranche of shares cashed in as it "matured".

- iii. The Finance Acts 1978 and 1980 provide that companies operating either type of approved scheme must use ordinary shares. This requirement was designed to encourage employees to identify with the company in which they worked by taking up shares, the value of which mirrors the company's profitability. It is generally considered that ordinary shares of a company best reflect its commercial fortune, which in turn reflects the efforts and success of the work-force.

SPA

MRS S P AYLING

DRAFT REPLY TO MARGARET DALY, CTU DIRECTOR, FROM
THE CHANCELLOR THE EXCHEQUER

Many thanks for your further letter of 22 March about the
CTU Budget Submission.

I have been taking the opportunity to have another look
at your most thoughtful submission. Of the three particular
points you raise about employee share schemes, the first -
complication - is not something that anyone else has put
to us; I have not before heard this criticism of the
scheme. The other two (the seven year period and the type
of shares to be used) are matters on which differing views
are held.

I know you realise how serious we are about employee share
ownership. The largest part of what we have done has been
on the tax front - the measures in this year's Budget included
and you are no doubt very familiar with that. In addition
our privatisation programme has opened up the chance of true
financial participation for thousands of employees for whom
it did not exist before. About 100,000 have responded.
The new Employment Act requires companies with over 250
employees to make an annual statement about their arrangements
for employee involvement. The 1981 Companies Act enable
companies to purchase their own shares: together with the
associated tax provisions this should facilitate employee
share schemes in smaller companies.

On results, I don't really think that the take-up of approved schemes - there are now over 560 in operation - has been disappointing. Of course I would like to see more, but so far as present progress goes, I think three points are worth making. First, the number of schemes considerably understates the number of companies involved; the majority of schemes are for a group and cover more than one company. Second, these figures cover only approved schemes; no detailed figures are available for unapproved schemes. Finally, we have been going through a recession and company profits have been hit hard. There are signs of recovery now.

Despite the economic situation, the results achieved are in my view very creditable. In each of the latest two years for which we have figures, something around a quarter of a million employees have been allocated shares under profit sharing schemes; since the SAYE share option relief took effect in 1980, well over 100,000 employees have been involved in it. In money terms, employees have been allocated over £125 million worth of shares under profit sharing schemes, and have been granted options over shares to a value of over £170 million. These are no mean figures when compared with a total of about 1½ million individual equity shareholders in the UK.

Of course, we are aiming to do a great deal more than this, and our Budget measures are very much part of this. But I do not think you can deny that - all things considered - we have made a very healthy start.

G.12

FROM: ADAM RIDLEY
11 April 1983

FINANCIAL SECRETARY

12 APR 1983

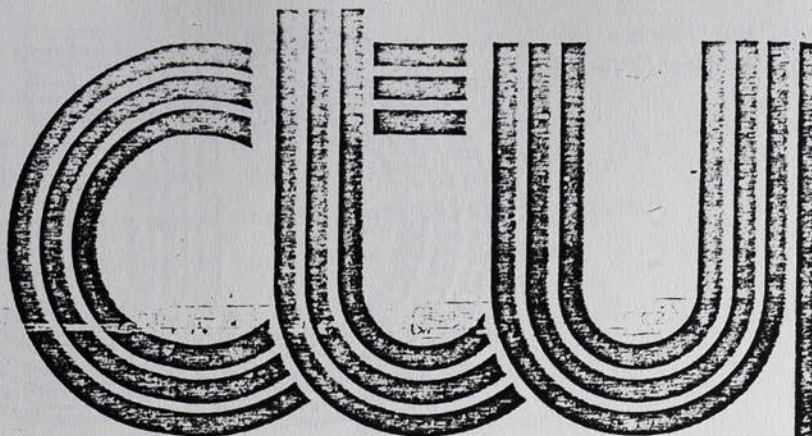
CTU BUDGET SUBMISSION: WIDER OWNERSHIP

~~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

Co-operative Trade Unionists
32 Strand, London SW1P 3HH
Tel 01-222 9000



ANR 10/22

Dr Rodley or.

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

22 March, 1983

Dear Geoffrey,

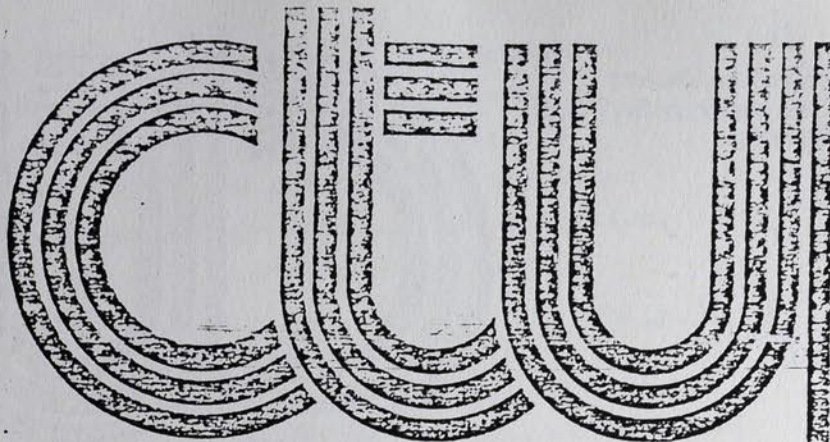
Thank you for your letter of 11th March and for your advice regarding Budget submissions in future years. The CTU Officers have asked me to say that although they were too late for this year's Budget they hope you will take account of their views when drawing up the manifesto. I know they will be urging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

Sincerely
Margaret Daly
CTU Director

There was a late submission is attached B. 8/4
Was there a late budget submission from the CTU? DA 10, can I.L. AN 5/4

PS. 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

COVERING CONFIDENTIAL



FROM: M E DONNELLY

DATE: 3 May 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Littler
Mr Bailey
Mr Unwin
Mr Burgner
Mr Traynor
Mr Burr
Mr Ridley

EMPLOYEE INVOLVEMENT

Miss O'Mara's minute of 27 April to APS/Economic Secretary asked the Financial Secretary to prepare a minute for the Chancellor to send to the Prime Minister in broad support of the Secretary of State for Energy's views on employee involvement, expressed in his 26 minute of the Prime Minister.

The Financial Secretary's suggested draft minute for the Chancellor ... to send is attached.

MEJ
M E DONNELLY

CONFIDENTIAL

FROM: CHANCELLOR

TO: PRIME MINISTER

EMPLOYEE INVOLVEMENT

I have seen a copy of the Secretary of State for Employment's 20 April memorandum, the Secretary of State for Energy's comments on it and your Private Secretary's letter of 25 April. I agree with the Secretary of State for Employment's view that the need for more direct employee involvement in industry is undeniable.

As I see it there are two different aspects of the term "participation". The first is the need to inform employees about the workings and prospects for their company. This increases understanding both of how their company is doing and also of the wider question of how the market works. It makes it more difficult for militant trade unionists to distort or ignore the facts on a dispute, particularly in the private sector.

The second aspect consists of involving workers more fully in the organisation and ownership of the business. Firms like John Lewis Partnership, Mars Bars and Marks & Spencer encourage employees to contribute to the running of their organisations and to benefit from any success through profit sharing schemes. In successive budgets I have tried to encourage this type of activity by generous tax

reliefs, and we are now having a considerable response.

I believe we need to encourage more British firms to develop the form of employee involvement which suits them best. I am sure that a voluntary approach to this is still right at this stage. But I would not want to rule out statutory action which left room for firms to choose their own way forward while making it clear that they had to move.

Nor do I think we should take an entirely negative line ⁱⁿ over this/Europe. While we clearly cannot go along with imposing the two tier board system on British companies, we should not be seen to resist the ideas of better communication, and more profit sharing, within industry.

GEOFFREY HOWE

CONFIDENTIAL



FROM: M E DONNELLY

DATE: 3 May 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Mr Middleton
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Mr Collinson
Miss Court
Mr Edwards
Mr Salveson
Mr Peet

EC BUDGET: WITHHOLDING: PARLIAMENTARY ASPECTS

The Financial Secretary has seen Mr Peet's submission of 29 April attaching a draft letter for the Chancellor to send to colleagues on the Parliamentary aspects of our contingency plans ^{for} withholding our EC budget contributions.

He is not convinced that it would be wise to circulate such a letter. The danger of leaks in this area is very real as well as very damaging; and he considers that a high profile on the Budget dispute would be particularly unwelcome at this time.

ME
M E DONNELLY



FROM: M E DONNELLY

DATE: 3 May 1983

MR ELLIOTT/IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (R)
PS/Minister of State (C)
Mr Middleton
Mr Moore
Mr Robson
Mr Isaac/IR
PS/IR
Mr Graham - Parly Counsel

LEEDALE v LEWIS

The Financial Secretary has seen your submission of 29 April.

He considers that on the corresponding benefit point alternative B would be preferable. On connected persons he finds your idea for a new power attractive.

The Financial Secretary would like to discuss these points with you. But in the meantime he is content for drafting to continue on this basis.

MEJ
M E DONNELLY

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NOTE OF A MEETING HELD IN FINANCIAL SECRETARY'S ROOM H M TREASURY
11.00am 3 MAY 1983

Present at Meeting: Financial Secretary
Minister of State (R)
Mr Moore
Mr Monger
Mr Robson
Mr Ridley
Mr Aaronson
Mr Isaac)
Mr Blythe) IR
Mr Spence)
Mr Calder)

NICIT ETC

The Financial Secretary had called the meeting to discuss the way forward. In the light of the Meacher sub-committee's early report, the possibility of an early election, and the various other recent policy group reports - Conservative and others - the Financial Secretary felt it was important for the Treasury to be ready with a positive input of their own.

It seemed likely that the Meacher sub-committee would come down in favour of some sort of tax credit scheme. There were four alternatives:-

- a) the Hermione Parker scheme
- b) the Philip Vince - Liberal plan for tax and Social Security.
- c) Terence Higgin's Policy group scheme.
- d) Meacher's sub-committee's own scheme (as yet undisclosed).

It was unlikely that Meacher would endorse any particular option. Meacher seemed to be inclined towards NICIT itself; he seemed to have

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Mr Calder)

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It was unlikely that Meacher would endorse any particular option. Meacher seemed to be inclined towards NICIT itself; he seemed to have

moved away from seeking a very gradually stepped rates structure starting at a low level of income - presumably on the grounds of administrative cost. He would propose abolishing all the major reliefs.

TAX CREDITS TAX CREDITS

The Financial Secretary commented that it was not our intention to go down the tax credits route. If we did there would be no administrative savings, it would make no difference to people in work, it would give an uncovenanted bonus to the elderly, and would be very costly by giving credits to those not currently claiming benefit. He asked for comments on the alleged advantage that it would allow a non cumulative tax regime.

Mr Isaac commented that in principle the tax credits idea was not a nonsense but it would mean a very large upheaval of the system. This would be a waste of time unless we had lots of money to spend on the new scheme; it would then be a very powerful weapon for redistribution. The system would be non cumulative on a weekly basis but would result in a lot of end of year assessments to correct the individual's tax position.

Mr Moore suggested that it might be worth considering a tax credit system in the Parliament after next, if real progress had been made in raising tax thresholds during the next Parliament.

Mr Robson commented that most of the tax credit schemes being advocated would increase the marginal rates of tax - which was against one of our major aims for NICIT. If the redistributive effects of a tax credit scheme were neutral there would seem little point in bothering with the upheaval involved.

Mr Spence observed that higher marginal rates would be necessary if the aim was to float people off benefits (as in the Liberal scheme). If one were to increase marginal rates the revenue raised would be better

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used to raise thresholds generally. The tax credit schemes advocated would have a perverse effect on incentives and would do nothing for the unemployment trap.

that it was
Mr Ridley commented that politically the issue was/ illogical to have 2 systems in tandem 1) paying out benefits and 2) collecting tax from the same people at 1). If we were to reject tax credits we would need good arguments for doing so.

NICIT

The meeting moved on to consider the Treasury's own proposals for NICIT. The Financial Secretary commented that we were up against an uncertain future. He thought it was now better to proceed on the assumption that ITTA would not be in place.

Social Welfare Tax (SWT)

The Financial Secretary commented that logically he would feel inclined to charge SWT on small incomes, although it would be a nonsense to charge it on state benefits. Could it be a way of taxing casuals and collecting some revenue from incomes in the black economy?

Mr Isaac thought this would not be welcomed by small businesses. It could have enormous administrative implications unless there was universal end year assessment, which would not be until the next decade.

Mr Monger commented that to charge SWT on small incomes would mean much more bureaucracy for not very much revenue.

It was agreed that SWT should be charged on all income when the income exceeded the LEL, but only on income over and above State benefits.

Contributory principle

Mr Ridley wondered what would happen to the contributory principle if SWT was charged in the way suggested.

The Financial Secretary commented that SWT should pay for all state benefits. He thought it would be difficult to equate an individual's contribution with the level of his benefit entitlement.

Mr Isaac saw three possible benefit regimes: a) all benefits should be means tested; this was logical but rigorous and would probably be administratively costly b) Benefits should be paid subject to some test of an individual's contributions' record - this would require an element of topping up by supplementary benefit, much as today; and c) a Universal benefit system requiring a certain (minimum) level of qualifying contribution - this would be more like a tax credit system and would cost more in benefits.

Mr Ridley suggested that SWT should give entitlement to a very low basic benefit, which would be supplemented by earnings related benefits possibly through private schemes.

Mr Spence observed that if the basic benefit was kept very low we would end up spending the same total amount of money on supplementary benefit payments anyway. The Financial Secretary agreed, saying that this reaffirmed his belief that paying SWT should qualify people for entitlement to benefit generally rather than entitlement to a particular level of benefit.

Child Benefit

The Financial Secretary saw a potential yield in changing the present child benefit system. At present child benefit was paid at the same level to all families with children, rich or poor. It would be more sensible to taper it or even to tax it for those with large incomes. This might even allow it to be raised for the poorest families.

Mr Spence pointed out that we already had FIS, and a tapered child benefit would be very much like FIS. If one were to abolish child benefit and increase and broaden FIS in its place, the poverty trap would be wider but much shallower.

Mr Isaac said that taxing child benefit or means testing it could have enormous administrative implications. He pointed out that child benefit originated from child tax allowances which were given to all

taxpayers (with children) regardless of their income.

The Financial Secretary acknowledged this but said that our objective was to relieve the lowest paid either by reducing their tax-burden, or increasing their income. Any change in child benefit would need to be part of a large package of reform based on NICIT. The MST(R) would be considering child benefit as a discrete subject in the near future.

The Elderly

The Financial Secretary commented that at present retired people had the advantage of the age allowance and of not paying NIC. He wondered whether they should pay SWT on any income in excess of the basic retirement pension, and whether there was a case for eroding or abolishing the age allowances. Mr Spence commented that the elderly had fared comparatively well in recent years as they had not suffered from the increases in the rates of NIC. The age allowances had stayed at broadly the same ratio to the main personal allowances. There was a case for leaving age allowances to wither on the vine. If it were a choice between charging SWT, or squeezing the age allowance, the latter would be preferable. SWT would hit the second poorest group of pensioners, who were very numerous, and charging it would not be very cost effective.

Mr Spence agreed to look at the effect, (yield etc) of charging SWT on the excess of income above the basic NI pension to the present tax allowance level for the aged.

The Poverty Trap

The Financial Secretary commented that we needed to look at all the components which made for the poverty trap eg FIS, school meals, TAX/NIC, housing benefit etc. He would be arranging a separate meeting on this in the near future.

Conclusion

In summing up the discussion the Financial Secretary asked officials to analyse the following:-

1) the implications for pensioners over 65 (60 women) (60 women)

a) if the present system were kept - ie. exempt them from SWT altogether.

b) charging them to SWT (at 10%) on any income above the level of the basic pension to the tax threshold.

and/or c) depressing the age allowance - by a failure to revalorise.

2) Bringing together the UEL and the higher rate threshold;

3) the cost of benefits - if a "badge of entitlement" scheme were introduced.

4) whether SWT should continue from the LEL right up the income scale, or should be cut-off at some point. The problem of not wanting to give full tax relief on SWT as part of a unified tax rate for things like mortgage interest should be considered.

5) Assume ITTA not in place.

6) Assume the higher rate bands not increased nor thresholds depressed significantly.

The other components of the NICIT scheme should remain as discussed at the meeting of 19 April.

Circulation:

Those present
Chancellor
CST
EST
MST(C)
Mr Middleton
Mr Wilding
PS/IR

SK
E KWIECINSKI

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Robert Lowson Esq
Private Secretary to the Minister of Agriculture Fisheries
and Food
MAFF
Whitehall Place
LONDON
SW1

3 May 1983

Dear Robert,

LAND SETTLEMENT ASSOCIATION: DISPOSAL OF CENTRALISED SERVICE FACILITIES

This letter records the conclusions agreed between your Minister and the Financial Secretary at their meeting at 9.00am on Friday 29 April on disposal of the Land Settlement Association estates. Mr Parker, Chairman of the LSA, was also present.

The following conclusions were agreed:

- i) as far as possible individual holdings, and shares in the centralised facilities and equipment, should be considered as single packages;
- ii) negotiations should take place separately on each estate over the price of sale between the LSA and the proposed co-operatives. Mr Eden would, as necessary, make an independent assessment of what each co-operative could be expected to pay while carrying on the business as a going concern. The Treasury would be provided with copies of these reports. In cases where significant problems remained outstanding they would be referred to Ministers for decision;
- iii) sales to the co-operatives of centralised 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 estoppel of not less than 15 years on the resale or sub-letting of the centralised assets purchased by the co-operatives;
- v) in the light of the arrangements agreed, involving possible sale at prices lower than the market price, the co-operatives would not be eligible for grants from the Agricultural and Horticultural Co-operatives Scheme;

iv) the tenants' co-operatives would use their "best endeavours" to fund their purchases through commercial banks rather than through deferred purchase arrangements (at full commercial terms) with the Government.

yours sincerely

Martin Donnelly

M E DONNELLY

Private Secretary



Mr Edwards
Mr Peck
Mr Unwin
Mrs Hedley Miller
Mrs Court
Mrs Wilkinson

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd MP
Minister of State for Foreign and
Commonwealth Affairs
FCO
Downing Street
LONDON
SW1A 2AL

4 May 1983

Dear Douglas

EUROPEAN PARLIAMENT: POSSIBLE VISIT BY MEMBERS OF BUDGETS AND
BUDGET CONTROL COMMITTEES

I mentioned in my letter of 14 April that we were hoping to arrange a visit by members of the Budgets and Budget control Committees to look at UK supplementary and energy measures. This idea was first mooted by the Danish Presidency in the closing stages of last year's budgetary procedure, and a number of MEPs expressed interest in it.

In principle, I believe that such a visit would be useful. It should help to deflect criticisms from the Parliament that UK refunds are a sham, and that they have no connection with practical measures of Community interests. It should also provide a useful opportunity to continue our campaign to persuade MEPs of our case on the EC budget.

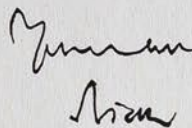
However, I believe that there are sensitivities about the timing. The earliest practical date for such a visit would be the end of June. It is entirely on the cards that we may then be in the midst of a major crisis over the EC budget; and it might also be inopportune due to domestic political developments! I think these difficulties argue against arranging now for a visit at that time.

The alternative might be to go for a visit in the autumn, probably September. UKREP support this timing. But if a crisis does develop after Stuttgart, it is likely to persist for some months. The arguments against going ahead now and arranging the visit are therefore equally strong. I conclude that we should plan provisionally for a visit in September, but that we should not take a final decision nor issue invitations until after we have seen how the discussions go at the European Council.

With this in mind, we have sketched out a possible programme for a visit by MEPs. The projects which we have identified as possibilities are the Drax power station, Hornsea gas storage facility and the Stockport bypass. A preliminary draft outline programme for a visit is attached. It would of course be necessary to confirm the proposed visits with the Drax and Hornsea managements.

On costs, we are hoping that the Parliament itself would finance the MEPs' air fares. But the Government would have to provide meals, accommodation and transport inside the UK. I hope that the FCO would be willing to finance this under their category II visits programme.

I should be grateful to know if you agree with my conclusion that we should not take a final decision now; but that subject to the outcome of the European Council, we should provisionally plan for a visit in September. I should also be interested to hear any reactions from the Secretaries of State for Energy and Transport and Sir Robert Armstrong, to all of whom I am copying this letter.



NICHOLAS RIDLEY

BUDGET AND BUDGETARY CONTROL COMMITTEES OF THE EUROPEAN PARLIAMENT:
PRELIMINARY OUTLINE PROGRAMME FOR VISIT

DAY 1

0845 - 0845	Brussels - London HR
0900 - 1000	LHR - Whitehall
1000 - 1130	Briefing
1130 - 1200	Whitehall - Kings Cross
1200 - 1400	London - York (lunch on train)
1400 - 1515	York - Hornsea
1530 - 1700	Hornsea Gas Storage Facility
1700 - 1815	Hornsea - York
1830 - 1930	York - visit
2000 -	Dinner

DAY 2

0900 - 1000	York - Selby
1000 - 1015	Selby - Drax
1030 - 1400	Drax Power station visit and lunch
1400 - 1630	Selby - Stockport
1630 - 1700	Stockport - presentation on by-pass
1700 - 1830	Stockport - Ringway
1905 - 2100	Ringway - Brussels

Dinner guests could include the MPs for the constituencies where the delegations will make site visits, constituency MEPs if they have not been selected, local authority chairmen and representatives of British Gas and the Central Electricity Generating Board.



Treasury Chambers, Parliament Street, SW1P 3AG

E Sutherland Esq
Office of Parly Counsel
36 Whitehall
SW1A 2AY

5 May 1983

Dear Sutherland

IMPORTATION OF MILK BILL

... I enclose a money resolution for this Bill
duly initialled by the Financial Secretary.

Yours sincerely
E Kwiecinski
E KWIECINSKI
Private Secretary

IMPORTATION OF MILK [MONEY]: Queen's Recommendation signified

Mr Nicholas Ridley

That, for the purposes of any Act of the present Session to make provision as to the importation of milk and as to imported milk and milk brought to Northern Ireland from Great Britain, it is expedient to authorise the payment out of money provided by Parliament of any administrative expenses incurred by a Minister of the Crown under the said Act and any increase attributable to the said Act in the sums payable out of money so provided under any other Act.





*Mr Edwards
Mr Peart
Mr Urwin
Mrs Hedley Miller
Mrs Corbett*

Treasury Chambers, Parliament Street, SW1P 3AG

Neil Balfour Esq MEP
24 The Little Boltons
Studley Royal
North Yorkshire

12 May 1983

Dear Neil

EC BUDGET: THE SAFETY-NET

At our meeting on 22 April, I promised to write to you about our ideas for introducing a 'safety-net' for EC budget contributions.

The concept was outlined by the Chancellor in his statement in Brussels on 7 February of which you have received a copy. The basic idea is that we should concentrate not on trying to fix the total pattern of net transfers, but rather on where the shoe is actually pinching or is likely to pinch - namely, on the net contributor countries. The Community would agree to set limits on the net budgetary contributions of any individual member state. These limits would be designed as a kind of 'safety-net' which would prevent any member state from having intolerable budgetary burdens placed upon it. The Community's present policies would not be disturbed, and new policies could be considered on their merits: only if, at the end of the day, the existing or new policies resulted in excessive net contributions would the safety-net come into play.

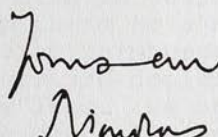
The limits would of course have to be defined by agreement. A possible method would be to specify a small percentage of each country's GDP, defined by reference to its relative prosperity. By way of illustration one could imagine a system for the enlarged Community whereby member states with less than (say) 85 per cent or 90 per cent of Community average prosperity would not be expected to be net contributors in any circumstances. At the other end of the spectrum, the Community might agree to limit the net contribution of the most prosperous countries to some specified small percentage (perhaps 0.3 per cent or 0.4 per cent) of their GDP. Between these two points the limits on net contributions could rise in accordance with some formula related to relative prosperity differentials. I emphasise that the figures mentioned above in parenthesis are intended merely to help clarify the nature of the idea and are in no sense proposals.

The concept of a safety-net is fully compatible with the important objective of solving the problem of budgetary imbalances to the maximum extent possible by firm containment of agricultural expenditure and by development where appropriate of other Community policies. The Commission's new proposals for own resources do not seem to us to do enough to solve the imbalance problem, but the modulated agricultural production tax would at least contribute towards a solution - indeed insofar as it is structured to take account of relative prosperity, it includes an element of our own approach. But it would not be realistic for us to expect that any such general solution could be brought about overnight. That is why we continue to see the need for a 'safety-net' in order to remedy unacceptable situations for any member states.

I have deliberately avoided putting detailed arithmetic on these ideas, since they are at a formative stage, and we do not want to risk misleading anyone by attempting to be over precise. What we need to do is to secure at this stage a full appreciation of the concept, rather than to get bogged down in argument over detailed arithmetic.

I append an aide memorire which sets out in note form the main features of a safety-net scheme. While we have not ourselves formally tabled any such proposals, we have discussed the ideas with other member states and with the Commission. On the whole, we have been encouraged by the response. As an example, the French have occasionally referred to the possibility of 'écurement de soldes'. This idea seems to belong to the same family of ideas as a 'safety-net' scheme.

No doubt we shall have further opportunities to exchange views on these ideas.


NICHOLAS RIDLEY



CC EST
Mr Pirie
Mr Stewart-IR
PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG

Richard Weir Esq
Building Societies Association
34 Park Street
LONDON
W1Y 3PF

13 May 1983

Dear Mr Weir

MORTGAGE INTEREST RELIEF

You wrote to me in October and again on 15 February about the computer programming costs which will fall on building societies as a result of the introduction of the new arrangements for giving mortgage interest relief. I am sorry that you have not had an earlier reply.

We recognise that the change to the new scheme of tax relief involves societies in some additional work and costs not only in preparing for the change but also in the longer term. Every effort has been made to keep these to a minimum and the arrangements which have been made to reimburse to societies the amounts deducted by borrowers are designed to ensure that societies suffer no cash-flow loss. We appreciate that the success of these efforts and the generally smooth transition from the old to the new system of relief has been due in no small measure to the co-operation given by societies to the Inland Revenue, and we are grateful for your help.

We thought it right to offer some financial assistance to lenders in starting up the scheme and in May last year the Chancellor announced in a speech to your Association that he was setting aside £m1 for this purpose. This was done as a once-for-all payment to help lenders meet the costs of telling their borrowers about the new arrangements. It was not intended to help cover computer costs incurred in complying with the tax legislation. The Revenue do not generally meet such costs of implementing changes in tax law and we did not think it right to make an exception for the new tax relief scheme.

We have as a result of your letter again looked very closely at this question but I am afraid that I see no sufficient grounds for altering the view on other costs which we formed last year.

I know that this reply will be a disappointment to you, but I also know that the Inland Revenue will consider sympathetically any proposals you make designed to simplify and reduce the cost of operating the new scheme if there are particular areas where it is proving onerous.

B I

Yours sincerely
Nicholas Ridley

NICHOLAS RIDLEY



FROM: M E DONNELLY

DATE: 4 May 1983

SIR L AIREY - IR

cc Chancellor
PS/IR

SOMERSET HOUSE: MEETING WITH PRIME MINISTER 9 MAY

The Financial Secretary was grateful for your note of 29 April covering Mr Vernon's submission.

He feels that it would be helpful to have full briefing on the costs of any change. This might cover the following costs in particular:

- a) moving the Revenue to new offices;
- b) moving the P.R.F.D. to new offices;
- c) buying or renting such offices for the above organisations;
- d) any extra running costs which might be incurred through the above changes;
- e) the maximum that Kings College could pay for Somerset House.

It might be helpful to have these, and ^{then} any other key figures, on a single sheet of paper which could/be shown to the Prime Minister.

MED
M E DONNELLY

CONFIDENTIAL



FROM: M E DONNELLY

DATE: 3 May 1983

CHIEF SECRETARY: M E DONNELLY

cc PPS
Economic Secretary
Minister of State (R)
Minister of State (C)
Mr Middleton
Mr Bailey
Mr Wilding
Mr Burgner
Mr Christie
Mr Lovell
Mr Judd
Mr Perry
Mr Broadbent
Mr R Wilson
Mr Wynn Owen

THE TELECOMMUNICATIONS BILL

The Financial Secretary has seen Mr Wynn Owen's submission of 3 May commenting on Mr Jenkin's letter of 29 April.

The Financial Secretary has commented that he is hesitant to leave BT while ⁱⁿ the nether regions between the public and private sectors quite as unfettered as Mr Jenkin suggests. This is particularly so given that this transitional period could be lengthened by unforeseen political factors such as a hung parliament or a coalition. But given that Sir George Jefferson's goodwill is vital if we are to privatise BT successfully then we must take this risk.

The Financial Secretary is more concerned by the loss of the Secretary of State for Industry's powers over BT's investment in the manufacture of goods, than over his control of subsidiary creation. But he considers that if we are to give way then we might as well give way on both points.

On balance therefore the Financial Secretary is content to proceed on the basis suggested.

MED
M E DONNELLY



From the Secretary of State

Nicholas Ridley Esq
 Financial Secretary to the Treasury
 HM Treasury
 Treasury Chambers
 Parliament Street
 London
 SW1P 3AG

FINANCIAL SECRETARY	
REC.	- 4 MAY 1983
ACTED	MR WILLETTS
COPIES TO	PS CHANCELLOR EST
	MR MIDDLETON MR CASSELL
	MR MONCK MR ROBSON
	MR GORDON MR ANDREN
	MR SALVESON MR STEWART (HR)
	MR HOSKER (T/SOLS)
	MR HILL (BANK)

May 1983

Thank you for your letter of 21 April about the problems which Section 66(1) of the Bankruptcy Act 1914 is causing to your proposals for zero coupon and deep discounted bonds.

I am fully in agreement with the Cork proposals for the repeal of Section 66 - but I have a major problem in relation to the timing of your request.

We have been under pressure for some time to implement the Cork proposals but translating the report's recommendations into acceptable and workable procedures is going to take some time. We are currently working on the basis of introducing a "phase one" Insolvency Bill in 1984/85, although at this stage we have not settled what would be included in such a Bill. We would dearly love to have such a Bill : but experience with QL Committee illustrates how difficult it is to get legislative time even for highly desirable legislation. It was for this reason that Charlie Lyell - on my instructions - refused to be drawn on this point in the Lords recently.

There is the further point that few people outside the City would regard the repeal of Section 66 as having such pre-eminence that required separate legislation. As a result any announcement about Section 66 would spark off immediate pressure to say what else we proposed including in the legislation - and this we are not yet in a position to do.



From the Secretary of State

Nevertheless I recognise how important the issue of these deep discounted bonds is to your strategy and I would have no objection to you saying that the Government is giving urgent consideration to the question of legislation on the Cork Report, introduction of the necessary legislation, and that the repeal of Section 66 - and the necessary consequential legislation - would be included in such legislation.

A handwritten signature in dark ink, appearing to read 'Cockfield', with a long, sweeping underline.

LORD COCKFIELD

RESTRICTED



FROM: M E DONNELLY

DATE: 5 May 1983

MR R H WILSON

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (R)
PS/Minister of State (C)
Mr Middleton
Mr Bailey
Mr Burgner
Mr A M White
Mr Wynn Owen

FINANCIAL SECRETARY'S LUNCH WITH SIR GEORGE JEFFERSON

The Financial Secretary was most grateful for the thorough briefing provided by Mr Wynn Owen for his lunch with the Chairman of British Telecom on 4 May.

The following points were discussed.

Timing of Sale

Sir George stressed his desire to have a sale as quickly as possible. He still wishes to aim for April 1984 as a target date; though he accepted that this was perhaps over optimistic. He was particularly concerned by the effects of the uncertainty of timing of sale on staff morale, and by the increasing amount of senior management time devoted to preparing for privatisation. He himself now spent most of his time on this, whereas a year ago he had been concentrating on re-organising the business.

The Financial Secretary said that he appreciated these concerns. The April 1984 deadline might in practice prove unattainable. In particular there might be a trade-off between waiting a few months longer and being able to sell a majority stake in the industry rather than having a quick sale of only a minority of shares. But he emphasised that no decisions had yet been taken in this area.

Control during "twilight period"

Sir George stressed that the key psychological point for the business would be when the first equity was sold to the private sector. This was his goal. The Government should then allow the company to behave in a commercial way. The Financial Secretary pointed out that if only a minority of shares had been sold the company would still be in the public sector. It would therefore have to be treated in the same way as all other public sector concerns in terms of financial control. There was no chance of movement on this point. So the best solution was for a majority of the equity to be privatised as quickly as possible.

Share Options etc

Sir George said that he would wish to encourage employees to take up BT shares through share schemes etc. He was also intending to introduce a share option scheme for the top management. But beyond that he could see little point in subsidising all telephone users to buy BT shares. This would be very difficult to do and could in any case encourage staggings. The Financial Secretary noted these points.

Method of Sale

Sir George said he would be happy for some equity to be offered on the New York market, particularly as a US quotation would be helpful if in future BT wished to acquire companies in the USA. But he wondered whether it might not be better to achieve a London quotation first. He was sceptical about the possibility of selling BT equity as a tap stock. The Financial Secretary stressed the need for mutual trust between Government and BT during the runup to sale. It was important for BT to realise that the Government had an obligation to obtain the market value for public assets. If Sir George felt that problems or misunderstandings were emerging between BT and the Government/^{he}would be most welcome to come and discuss them. Sir George said that BT would ^{like} / the opportunity to become more involved in Treasury discussions on the best method of sale.

Other points

Sir George agreed with the Financial Secretary that the best time for BT to be converted into a Public Limited Company would be on the eve of flotation. There was no point in doing this any earlier than necessary. On the POEU industrial action Sir George said he was happy that it had been restricted to a mere 45 people out of the 240,000 BT staff. He offered no immediate hope of its cessation.

Sir George stressed the need for BT to have a reasonable capital structure after sale which would not involve an immediate rights issue to correct gearing. The Financial Secretary said that the Treasury was well aware of this point.

MED

M E DÓNNELLY

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 5 May 1983

MR WILLETTS

cc PS/Chancellor
Economic Secretary
Mr Middleton
Mr Cassell
Mr Monck
Mr Gordon Mrs Lomax o/a
Mr Andren
Mr Salveson
Mr Stewart - IR PS/IR
Mr Hosker - T.Sol
Mr Hill - B/E

DEEP DISCOUNT/ZERO COUPON BONDS AND BANKRUPTCY ACT 1914

The Financial Secretary has seen Mr Turnbull's note of 29 April, and also the Secretary of State for Trade's letter of 4 May.

feel

The Financial Secretary does not/that Lord Cockfield's letter goes far enough in dealing with this problem. He thinks it will be worth trying to push DoT to agree a more positive form of words which we could use in the interim until legislation can be brought forward. He considers that, even taking into account the comments in paragraph 2 of Mr Turnbull's note, a government statement would be of value; and if it would help he is prepared to try and get Opposition endorsement of it.

The Financial Secretary would be grateful for further official advice on these points; and also for a draft reply to send to Mr Jacomb's letter of 27 April.

MED
M E DONNELLY

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 5 May 1983

MR ROBSON

cc Mr Moore
Mr Monger
Mr Aaronson
Mr Ridley
Mr Issac/IR
Mr Blythe/IR
Mr Spence/IR
Mr Calder/IR

PAYROLL TAX

The Financial Secretary was grateful for your minute of 3 May, and also to Mr Blythe for his minute of 4 May. He found them very helpful.

On the general question of the level of the payroll tax he has commented that we should take only what we judge employers can afford - but that this might possibly be more than £12½bn.

On Mr Blythe's point at paragraph 3 of his minute^a he has commented that he did not mean that payroll tax should be/substitute for an individual's income tax, but that it should be revenue from an employer employing casuals.

U.
E KWIECINSKI

CONFIDENTIAL



FROM: E KWIECINSKI

DATE: 5 May 1983

MR ISAAC/IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson Mr Aaronson
PS/IR

TAXATION OF HUSBAND AND WIFE

The Financial Secretary would be grateful for your urgent advice on the following:-

" A) Assuming we had ITTA in 1983/84, with partially transferable allowances as proposed, and taking a married couple with both husband and wife earning average wages, what would be the gross combined earnings and the tax burden, on the couple?

and B) what are the figures for the present tax regime.

- 1) If they were both earning before children were born.
- 2) If there were 2 young children and the wife stayed at home - collecting £11.00 child benefit per week.
- 3) If the children go to school and the wife goes back to work - still collecting child benefit.
- 4) If the couple divorce and the wife goes back to work.
- 5) If the couple divorce and the wife stays at home.

[for 4)&5) assume 2 children - alimony doesn't matter because its the total income minus the total tax of the couple which interests me]

This would help to show the effect of ITTA on the total family income. "

OK .

E KWIECINSKI

CONFIDENTIAL



NOTE OF A MEETING HELD AT 10.45am ON 6 MAY IN THE FINANCIAL SECRETARY'S ROOM TO DISCUSS PRIVATISATION: SUSTAINING THE MOMENTUM

Those Present: Financial Secretary
Mr Burgner
Mr Turnbull
Mr R Wilson
Mr Broadbent
Mr Grimstone
Mr Wood
Mr Neilson
Mr Donnelly

Papers were Mr Neilson's 5 May note covering the draft annex to the forthcoming E(DL) paper; Mr Burgner's 5 May note.

The Financial Secretary said that the purpose of the meeting was to look at the current state of play as set out in the draft annex, with a view to highlighting points which might be made in the covering note; and areas where further work might usefully be done.

The following points were made in reviewing the individual returns.

MAFF. The Financial Secretary said that he had asked IA division to review the overall need to keep the Covent Garden Market Authority in the private sector. Disposing of the entire CGMA would be a more satisfactory option than simply disposing of the Market Towers office block. Satisfactory progress had been made in disposal of the Land Settlement Association.

Low key progress was being made in both the Inland Revenue and HMSO in limited privatisations.

Further sales of BP Shares were largely a question of market timing and would depend on when BT and BGC oil assets came onto the market. It would be helpful to express the value of these and other Government minority shareholdings in monetary terms in the annex.

Progress on ROFs was dependent on legislation.

Progress had been made acknowledging that BNFL privatisation was a possibility though there were clear political sensitivities in this area.

The Government's minority shareholding in Britoil was due to be transferred to the Treasury from D B next month.

Encouraging progress had been made on the Electricity Council, which Energy were treating as their priority. A letter was due from the Secretary of State for Energy over the summer setting out steps towards privatisation. Sales of Gas showrooms could go ahead when current discussions on safety regulations in the private sector were completed. Electricity showrooms might be sold in parallel.

The Financial Secretary asked that a further review of Home Office functions suitable for privatising or contracting out be undertaken. BBC publications might be one possibility.

A review of BSC privatisation options would be a priority for the new chairman.

The Financial Secretary asked for details of the recent management buy-out in British Shipbuilders. Here too the instructions to the new chairman should have privatisation as ^ahigh priority. He suggested that a brief informal meeting with the new chairman might be helpful.

The result of the interdepartmental review of privatisation in the Post Office was due to be ready by June.

It was agreed that little progress was realistically likely on BTG. Plans for privatising B.L. and R.R. remained on a disappointingly slow timescale.

The Financial Secretary recalled his recent correspondence with the Secretary of State for Industry on disposal of the Government's remaining stake in British Aerospace. He suggests that officials might consider a submission on the pros and cons of transferring all

minority stakes in privatised enterprises to the Treasury's control, to allow central co-ordination of further sales.

The report on privatisation of the Paymaster General Office was now with the Lord Privy Seal.

Officials reported that progress on the Scottish Transport Group have been delayed while a paper on the National Bus Company was awaited from Department of Transport. A draft of this had been discussed with Transport officials. It offered the prospect of privatising NBC as a whole, as a management buy-out. This would make it easier to put pressure on the Scottish Office to similarly privatise STG. The Financial Secretary said that it would be helpful to stress the need for progress in this area in his covering note.

Forestry Commission. The Financial Secretary said that there was no realistic prospect of further privatisation here in the near future.

British Airways. The Financial Secretary said that it was necessary to find the correct balance between a realistic capital restructuring for BA prior to privatisation, and avoiding accusations of subsidy by BA's competitors. Officials said that precise decisions on the level of capital restructuring required need not be taken until the necessary legislation was ready to be brought forward.

An interdepartmental report on possibilities for splitting up and selling airports in the British Airports Authority was due in the next few weeks.

The best prospect for quick disposal of BREL was for it to be given a high priority by the incoming B.R. chairman. His brief would be discussed by ministers over the summer. Progress was already being made on sale of Sealink with a target sale date of January 1984. It was agreed that sale of mainline B.R assets fell outside the scope of the exercise.

The Financial Secretary asked for a progress report on sale of HGV testing stations to Lloyds.

The Financial Secretary asked for further work to be done on whether there were more Welsh Office assets which might be candidates for privatisation.

British Waterways Board. Again the need was to stress privatisation as a priority for the new chairman. The Financial Secretary said that it would be important for officials to prevent various grandiose construction projects such as the 'Severn corridor' from going ahead in the meantime.

Receipts

The Financial Secretary said that it would be helpful to show the projected revenue from disposals in future years (although not the detailed breakdown of the figures) in his covering paper as a spur to colleagues. He asked for the draft paper to be submitted by 10 May, for circulation to E(DL) members during the course of that week.

ME'D
M E DONNELLY
6 May 1983

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Bailey
Mr Wilding
Mr Lovell
Miss Kelley
Mr Pestell
Mr Kitcatt
Mr Mountfield
Mr Morgan/OR
Mr Ridley



FROM: E KWIECINSKI
DATE: 6 May 1983

MRS C B HUBBARD/IR

cc PS/Chancellor
PS/Minister of State (R)
Mr Cassell
PS/IR

TAX CONSULTATIVE COMMITTEE

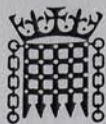
The Financial Secretary has seen the minutes of the meeting on 26 April 1983.

He would be grateful if the Revenue would give their views on any points of substance arising out of the meeting which need further consideration.

He thinks the following are in this category:-

- a) Clause 27 - Employee Buy-outs (Paras 4-5 of the minute)
- b) Clause 38 & 39 - Group Relief (Paras 9-10)
- c) Clause 41: Carryback of Surplus Act (para 18).

E KWIECINSKI



HOUSE OF COMMONS
LONDON SW1A 0AA

FINANCIAL SECRETARY	
REC.	11 MAY 1983
ACTION:	Mr. Spence / IR.
EC:	Mr. Calder / IR
	Mr. Robson
	B/IR

May 6, 1983.

Dear Nicholas,

I am very grateful for the information in your letter of 25 April in response to the three questions I tabled before the recess. You may know that I am a member of the sub-committee of the Treasury and Civil Service Committee which is examining ways of overcoming the poverty and employment traps. The questions which I have been showering on you and on Tony Newton are designed to test the various options to find out what is the cheapest way of solving a problem which Samuel Brittan described in his article last week as the "tax income nightmare." I have been particularly attracted by Scheme C put forward by Mr. Shaun Stewart in written evidence to the Sub-Committee on 25 January this year, though it questions the interpretation put by the committee on the concept of revenue neutrality. So I would be very grateful for more help in trying to work out the net cost of the proposal put there that the whole of the tax, insurance, and benefit system should be replaced by the following:

- (i) a tax exemption of £1800 for married couples and of £500 for aged single and blind person.
- (ii) the present bereavement allowance.
- (iii) a wife's earnings exemption of £1000 or 20% of earnings up to a maximum of £2000, whichever is the greater.
- (iv) a nil-rate band for all taxpayers of £1800 (i.e. for married couples as one and for single persons) which would be reduced (like the present age allowances) by 30% of the amount by which total income (i.e. including social security benefits and tax allowances) exceeded a specified figure--£5800 for single persons and £7600 for married couples.
- (v) a reduced-rate band of £1000 at 10%.
- (vi) a basic rate band of £9000 at 30%, of which the last £6000 would be at an effective rate of 39% by virtue of the progressive reduction in the nil rate band under (iv) above.
- (vii) a band of £4000 at 40% followed by successive bands of £5000 subject to increased of 5% up to a maximum of 65%.
- (viii) The lower limit for National Insurance to be raised to £1800 single and £3600 married, the contribution in each case being restricted to 9% of the amount in excess of the lower limit with a maximum payment of £1260--i.e. making a chargeable band of £14,000. The reduced rate would be abolished, but those "contracted-in" would still pay an extra 2.15% pending a reform of the pensions system.
- (x) Employers would also pay 9%--in addition to the 4.1%--but without the ceiling of £1260.
- (xi) Child benefit would be increased to £15, but taxable in full.

I have made some changes in Stewart's scheme, principally by the addition of (ii), (iii), (x), and the second part of (i).

Married couples without children are the main beneficiaries of the present system, but the abolition of wife's earnings allowance, reduced rate allowance, separate earnings election, and mortgage and life assurance allowances would lead to a very heavy squeeze in the middle income range and would go too far in redressing the present imbalance to be politically acceptable, even to me. However, the room for reflation allows us to be more generous. In practice the reduction in mortgage interest relief could also be phased out as interest rates came down, provided that the mortgagee never paid less than 6% out of his own pocket. This should be easy to accommodate under MIRAS. The other major



HOUSE OF COMMONS
LONDON SW1A 0AA

-2-

omission is the additional personal allowance. The real value of this has fallen very considerably and in view of the proposed increase in child benefit and of the big reduction in the rate of tax/NIC's at the bottom end of the scale I see no case for retaining the concession. Most other allowances have scarcely moved for thirty years. It is time they were scrapped.

The key to this scheme is the nil-rate band. I object to your calling it a "vanishing exemption" because it is in fact an increasing-rate tax band. The exemptions are in (i) and (iii) above. We are talking about the taxpayer's money and not something doled out by the state! There is of course a considerable element of redistribution in the scheme, but I estimate that the maximum for married couples without children is equivalent to only 6p extra under the present system. The equivalent for single persons is 8p. though I should say that I have not done any calculations above £30,000 and that for the reasons you give I have taken no account of changes in allowances.

I understand that in the past the reduced rate allowances were paid to both husband and wife under PAYE and were not clawed back. I would not allow this, but the married exemption and the reduced rate could be credited to either party under PAYE by election and notification to the employer, as used to be done in the case of adjustments for mortgage interest relief. I am not aware of any other obvious pitfalls, but no doubt you will draw my attention to any that arise. I do realise that aged couples at the margin of the age allowance would lose up to £15, but I assume that the Inland Revenue could be instructed not to collect in this case for amounts of less than, say £50: and I notice that in the past there have been "small income" reliefs which may have a bearing on the problem.

It is clear from some of the replies I have been getting from Tony Newton that these proposals would effect very considerable savings in social security, especially on the support of children. It would be very helpful to have even a guesstimate of such savings and a balance sheet of gains and losses to the Revenue as a result of my scheme. I am personally convinced that we would soon get our money back if we invested some £5-10bn in a reform along these lines and I suspect that the total cost would in fact be near the bottom end of this range. My helpers have revised Stewart's calculations-- given on page 221 of the evidence, now in proof. I estimate that the change in the structure of tax and employee's national insurance would cost, respectively, £3559m and £2012m. The first figure is less than your £4.3bn, but the difference is probably accounted for by the elimination of the second reduced rate band (of 20%) and by relating the clawback to total income, as now happens in the case of age allowance-- according to tax form 64(D)(1981). I have also had to use the 1982-83 population weights in your Answer of 31st January and of course a simple average between income points does not reflect the shape of the income bulge accurately in terms of final cost. I have not attempted to estimate the effect of the change in the employer's contribution, but the aim in this case is revenue neutrality. A rough check suggests that the percentage should be nearer 10% than 9% to achieve this, though without taking into account the lifting of the present ceiling on earnings for contribution purposes.

I realise that all this makes quite a large demand, but I was very gratified to find that your Department have done quite a lot of work on the problem and it is probably less trouble than dealing with a lot more probing questions. I woke up very late in



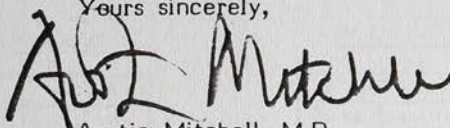
HOUSE OF COMMONS
LONDON SW1A 0AA

-3-

the day to the possibilities and would like to get a scheme worked out well before the June election, in case I lose my seat. However, such personal motives do not affect the validity of the scheme itself, which I think is a good one because concessions in this area would be socially and economically much more productive than eg reductions in VAT--which benefit high spenders most--and property taxes!

I am sending a copy of this letter to Tony Newton, who has also been most helpful in providing answers to my questions. I am also enclosing a set of tables on the proposed scheme. These keep Investment Income Surcharge as it is, and count Child Benefit as unearned income to stop it being offset against wife's earnings allowance by those not working.

Yours sincerely,


Austin Mitchell, M.P.

P.S.:

I did not understand the first table on page 3 of your letter. The effective rates on my clawback band is 39% throughout. I am also puzzled by your frequent references to administrative cost. My scheme is on the face of it much simpler, apart from clawback--which is in fact a rate of 39%, and I am surprised to learn from enquiries I have made that tax officers do not have simple computers into which they can feed in the data from the returns and get an automatic print-out through the appropriate software. There would be no need for main frame computers for this purpose, simply desk top calculators into plug-in units and the system could be introduced almost overnight at minimal cost, given a bulk order. There might also be far fewer mistakes. The figures suggest there could hardly be more.

FISCAL REFORM

Effect on net income of proposed changes in National Insurance, Income Tax and Child Benefits, 1983-84.

Child benefit to be increased from £6.50 to £15 per week, but taxable. National Insurance contributions to be payable only on earnings in excess of £1800 (single) and £3600 (married), the rate of contribution in addition to the 2.15 per cent "pension" element to be increased from 6.85 to 9 per cent up to a maximum contribution of £1260, making a contribution band in each case of £14,000. All income tax allowances to be replaced by a tax exemption of £1800 for married couples; £500 for blind and for single aged persons; £1000 or 20 per cent of earnings up to £2000, whichever is the higher, for wife's earnings; and an amount equal to the present allowance for bereaved persons. No tax reliefs at the rate of tax to be changed to a nil-rate band for married couples and single persons of £1800 to be reduced by 30 per cent of the amount by which total income exceeds £7600 and £5800 respectively; a reduced rate band of £1000 at 10 per cent; a basic rate band of £9000 at 30 per cent subject to clawback of the nil-rate band; and higher rate bands of £4000 at 40 per cent and five successive bands of £5000 in 5 per cent steps to a maximum rate of 65 per cent. Investment Income Surcharge to remain unchanged.

1 TOTAL INCOME	2 HARRIED				3 SINGLE			4 N.I.C + TAX			5 % INCREASE		
	2 TAX UNITS	3 N.I.C.	4 TAX	5 2.C.B.	6 TAX UNITS	7 N.I.C.	8 TAX	9 SINGLE	10 HARRIED	11 + 2.C.B.	12 S.	13 M.	14 + 2.C.B.
1500	0.23	0	0	884	0.79	0	0	0		884			
2000	0.51	174	0	884	1.97	156	44	200	174	958	11	10	39
3000	0.97	242	61	788	1.69	134	204	338	303	1091	14	11	36
4000	0.99	274	321	476	1.66	112	204	316	595	1091	10	18	29
5000	1.20	253	441	416	1.08	91	204	295	694	1110	8	17	23
6000	1.35	236	441	416	0.78	74	186	260	677	1093	5	15	22
7000	1.36	213	441	330	0.53	51	96	147	654	984	3	13	18
8000	1.26	189	405	276	0.34	37	6	43	594	870	1	10	14
9000	1.14	167	315	276	0.23	5	-84	-79	482	758	-1	7	11
10,000	1.16	146	225	276	0.22	-16	-174	-196	371	647	-2	5	9
12,000	1.25	103	45	276	0.11	-59	-356	-415	148	424	-5	2	5
15,000	0.95	153	-239	260	0.11	-387	-656	-1043	-392	-132	-10	-4	-1
20,000	0.10	-387	-640	182	0.01	-387	-954	-1341	-987	-805	-10	-7	-6
30,000	0.12	-387	-818	26	0.01	-387	-1303	-1690	-1205	-1179	-9	-6	-6

Notes Cols 2 & 6 show number of taxpayers - Written Answer 31.1.1983. Cols 3-5 and 7-11 show for each income point the reduction in national insurance contributions (NIC) and income tax (tax) and the increase in child benefit for two children (2 C.B.) Cols 12-14 show percentage increase in take home income compared to present structure.

Fiscal Reform.

Cost of Austin Mitchell's Proposals

National Insurance

The estimated cost works out at £2112m, of which £1272m goes to married couples. This is for employee's contributions. It is assumed that the rate for employers would be increased to bring in the same revenue. The structure would be the same and the rate on earnings would probably be between 9% and 10% compared to the present 7.85%, but there would be no upper limit on earnings.

The abolition of the reduced rate allowance for (some) married women and widows would save £325m. These are available to "newcomers" and the loss to married women is far smaller than the gain under the scheme for those with lower incomes - the breakeven point is about £3000 a year. The proportion earning more than £3000 is 35% for married women and 39% for widows. In 1980/81 there were 2.69m married women and 0.16m widows paying reduced rates, but the numbers are falling steadily and will be very few by the end of the century.

The net cost of the reform of national insurance can therefore be put at approximately £1.8bn, subject to any further information in parliamentary Answers. (The "contracted in" element of 2.15% and 4.1% would continue on a revenue-neutral basis).

Child Benefit

The gross cost of the proposed increase to £15 per week is £5.75bn, but the amount would be taxable and there would be very substantial savings on welfare benefits.

The Treasury put the tax yield on the present benefit of £6.50 per week at about £1bn, with the benefit for 10³/₄m children at standard rate and ¹/₄m at higher rates. This suggests that the increase in benefit could yield another £1.5bn in tax, making £2.5bn in all. The net cost of the increase would then be reduced to £3.25bn. However, lifting the tax threshold would take quite a lot of parents out of the tax net and this could go up to £3.5bn, or perhaps more.

The saving in welfare benefits concern children directly and their parents indirectly eg via housing benefit.

The DHSS estimate that £³/₄bn will be saved on supplementary benefit in respect of 1.9m children and £190m for 0.94m child dependents. Another 0.35m children are covered by Family Income Supplement and there ought to be savings there. This year 6.7m households will be getting housing benefit at a cost of £3.2bn and although most of these are probably pensioners and covered at present elsewhere there should be savings on account of the increase in income from child benefit. The total savings could therefore be in excess of £1bn.

The net cost of £15 child benefit is therefore put at £2.5bn

Income Tax.

The reform of the tax structure proposed would cost £3559m, of which £2535m would go to married couples.

The scheme envisages the abolition of all existing allowances and this would lead to the following savings:-

- (i) Mortgage interest relief (at 10%) - £1615m, of which £920m would fall on taxpayers (incl wives as one) earning over £10,000
- (ii) Wife's earnings allowance, net of the new proposals, would yield £1100m out of the present cost of £2.9bn.

(2)

- (iii) Life Assurance relief - £600m.
- (iv) Additional Personal Allowance - £140m
- (v) Age Allowance - £57m single, net of the proposed £500 allowance, and £320 married, making £377m in all.
- (vi) Wife's earnings election - £110m.
- (vii) Dependent Relatives etc - £30m.

These savings total £3972m. There should also be savings for low incomes caught in the poverty trap and getting means-tested assistance of various kinds, particularly housing benefit. The implication is that the reform would actually yield some £0.5bn more than it cost. This net impost must be offset against the net cost of national insurance and child benefit at £1.8bn and £2.5bn respectively, but it may be thought a bit harsh because those over 65 derive less benefit than wage-earners with less than average earnings. The better alternative may nevertheless be an increase in pensions or supplementary benefits.

The attached table shows how those under 65 would be affected by the changes in tax and national insurance at various income points. It gives figures for single persons, marrieds with one earner and marrieds with two earners. It takes account of the abolition of mortgage interest relief but not life assurance relief, which is much smaller. The two-earner figures have been adjusted to take into account the reduced rate of wife's earnings allowance, the figures up to £8000 assuming that the husband earns £4000 and those above assuming the husband earns £8000. This takes into account the biggest mortgage groups and the biggest wife's earnings groups.

There are many possible permutations and combinations. A great many wives work part time for small earnings and the Revenue have 2.3m on their records as earning and paying no tax. In about 20% of the cases the two pay no tax and in nearly half the cases the joint taxable income in 1982-83 was less than £3000 a year, making a possible total income of about £7000 after allowances - or more with mortgage etc relief. It seems likely that a substantial proportion of the 2.3m non-taxpayers would come within the tax net by reducing the allowance from £1785 to a basic £1000. Those with a joint taxable income of less than £3000 in 1982/3 will of course benefit substantially in other ways under the proposals.

The incidence of mortgage interest relief is also indeterminate. The number of single persons involved is only 0.82m. Married and one earners total 2.23m and with two earners 2.75m. The one-earner couples appear to have the bigger mortgages, possibly because they have families and larger houses. Their mortgages are also much higher relative to their incomes, but if they do have children the burden of abolishing relief will be offset by the very big increase in child benefit. The balance does not look too bad.

The political implications are nevertheless difficult. A reduction in mortgage rates to 7% would mean that nobody would actually be worse off than at present on the standard rate. It is therefore suggested that the policy should be to subsidise the balance above 6 per cent or the standard rate, whichever is the lower. This could be worked without any difficulty through MIRAS. Our aim is to get interest rates down to 6% almost immediately to get the exchange rate down, so the concession would be painless. Once down it would stay down.

The earnings election abolition would not be very painful for many under the new scheme. The miscellaneous allowances could also be justifiably abolished. Many have lost much of their value by not being updated. There should be very big administrative savings.

S. Stewart
6.5.83

Austin Mitchell's Proposals for Tax and National Insurance Reform
Effect on Net Income of Reduction in Wife's Earnings Allowance and the
abolition of Mortgage Interest Relief.

	SINGLE				MARRIED (1 Earner)				MARRIED (2 Earner)				CHILD BENEFIT kfr 1 child	NET GAIN.			
	TAX UNITS m.	No. of Mort. m.	GAIN k	LOSS k	TAX UNITS m.	No. of Mort. m.	GAIN k	LOSS k	TAX UNITS m.	No. of Mort. m.	GAIN k	LOSS k		TAX YIELD k.m.	Singl k	M. (1e) k	M (2) k
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
1500	0.79	0.015		-45	0.23	-	-	-	0.03	-		-	442	0			
2000	1.97	0.030	200	-170	0.41	0.065	174	-60	0.11	0.065	174	-30	442	10	130	114	
3000	1.69	0.050	338	-125	0.70	0.050	303	-135	0.27	0.030	303	-80	424	25	213	168	
4000	1.66	0.075	316	-170	0.69	0.095	595	-215	0.30	0.050	595	-135	288	50	146	380	
5000	1.08	0.070	295	-260	0.84	0.150	694	-180	0.36	0.090	694	-180	208	85	35	514	
6000	0.78	0.120	260	-260	0.79	0.250	677	-230	0.56	0.130	677	-165	208	135	0	447	
7000	0.53	0.110	147	-275	0.66	0.290	654	-300	0.64	0.190	452 667	-195	192	200	-128	354	
8000	0.34	0.080	43	-250	0.63	0.325	594	-245	0.63	0.230	430	-195	138	195	-207	349	
9000	0.23	0.070	-79	-260	0.42	0.285	482	-315	0.72	0.285	373	-215	138	225	-339	167	
10000			-790				371				241		138		-490	81	
11000	0.22	0.080		-300	0.43	0.280		-290	1.03	0.515	150	-215		290		-6	
12000			-415				148				-65		138		-775	-187	
13000											-176					-46	
14000	0.11	0.055		-360	0.32	0.215		-335	0.93	0.560		-285		335		-49	
15000			-1043					-392				-241	130		-1613	-50	
16000	0.11	0.015		-570	0.22	0.125		-500	0.52	0.400		-282		300		-61	
17000												-324				-65	
18000												-365				-70	

Notes: Cols 2, 6 & 9 show millions of taxpayers, excl. wives. Cols 3, 7 & 11 show millions of those claiming mortgage relief. Cols 4, 8 & 12 show net gains (losses) as a result of proposals, including effect of reduced wife earnings allowance. Cols 5, 9 & 13 show loss of mortgage relief on average for tax band in each class. Col 14 shows tax yield from abolishing mortgage relief in each income band and Cols 15-17 are the summary total gains for each class. The income band population is for 1982/3, but the gains and losses are based on 1983/4 taking into account the 1983 Budget concessions. The mortgage rate of interest assumed is 10%. All basic data are derived from Parliamentary Answers. Child Benefit is after tax based on married couple with one child and only one earner. Col 12 assumes that up to £10,000 the husband is earning £6000 and after that £8000. This allows for maximum populations. Bands of more than 200,000 are in the two blue boxes. Child benefit to be treated as unearned income ie not set against wife's earned income allowance.

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FROM: E KWIECINSKI
DATE: 6 May 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Wilding
Mr Monger
Ms Seammen
Mr St Clair
Mr Ridley

OCCUPATIONAL PENSIONS: POSITION OF WOMEN

The Financial Secretary has been investigating the claim that occupational pensions discriminate against women (your minute of 27 April refers).

... He has discussed this point with officials, and is content with the position as described in the attached note.

A handwritten signature in dark ink, appearing to be "E Kwiecinski".

E KWIECINSKI

OCCUPATIONAL PENSIONS: POSITION OF WOMEN

The question has been raised of the apparent discrimination against women in occupational pension schemes, whereby schemes usually provide benefits to widows where a man dies in service but there is usually no automatic right of benefit for the husband of a woman who dies in service. It may be helpful to distinguish between public service schemes and other occupational schemes.

At present men and women are treated differently in the Principal Civil Service Pension Scheme. All male civil servants are required to pay contributions of 1½ per cent of salary towards the cost of widows' pensions, whether they are married or not, and there is no provision for pensions for widowers except in certain limited circumstances. A case has been brought against the Treasury alleging that these arrangements contravene British and European equal pay legislation, and the decision of an industrial tribunal is awaited.

If the plans for moving to a contributory Principal Civil Service Pension Scheme are approved, we would hope to remove all discrimination on grounds of sex from the scheme. This would mean that male and women civil servants would pay the same contribution rate and receive the same benefits including automatic pensions for surviving spouses.

The other public service schemes also contain discrimination of one kind or another at present, but will probably be changed over the next year or two.

Occupational schemes in general are required to provide widows' pensions if they are to contract out of the state scheme but there is no comparable provision regarding widowers' benefits. But this does not of course prevent schemes from providing widowers' benefits if they want to and if there is a demand from contributors. It may be that, particularly if public service schemes take the lead, provision for widowers will become more common. It is questionable however whether the Government would want to legislate to impose this additional requirement on occupational schemes given the absence of a clear consensus on the issue and competing priorities for the available money such as improvements for early leavers and better price protection of pensions in payment.

It is of course open to working women to make provision for their spouses and children in other ways eg through life assurance. To the extent that future pension provision incorporates a greater degree of flexibility in determining individual pension arrangements, this would also be of benefit to such women.

PERSONAL & CONFIDENTIAL



FROM: NICHOLAS RIDLEY
DATE: 6 May 1983

CHANCELLOR

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

PENSIONS

... I enclose a note by Treasury and Revenue officials which describes a possible way forward on the pensions question. This arose out of my meeting with officials on Wednesday.

An immense amount of study, testing, and costing will have to be done on this before we can be sure if it leads anywhere. But it could be a way forward, and it could enable us to:-

- * abolish 3 reliefs - yielding some £2bn for increasing tax allowances generally or reducing tax rates;
- * Solve the portable pension problem;
- * limit the cost of occupational pensions to Industry.

The trouble is of course that it is too early to say anything if we have to produce an early manifesto. I tried my hand at a draft, but this was only a cockshy to see how it would look. To give any hint on this we would need to test the scheme and consult with colleagues first. Perhaps we should discuss?

Nicholas Ridley
NICHOLAS RIDLEY

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This note summarises the main factors involved in examining pension schemes and outlines a possible new approach.

The Main Factors

2. There are four aspects of the current arrangements for pensions which can give rise to concern :

- (a) the disadvantages suffered by the "early leaver" from an occupational pension scheme. These are inequitable in themselves and can inhibit job mobility;
- (b) the cost of tax reliefs for pension schemes;
- (c) the increase in the burden of pensions as both the State earnings related pension scheme and occupational pension schemes mature;
- (d) the need to give individuals greater freedom to determine their own pension provision.

These aspects do not have to be tackled at the same time - or on the same timescale - but it is important to bear in mind the links between them.

3. It is probably best to start by examining how the new State pension scheme fits into this picture.

4. The scheme matures in the late 1990s. People retiring after that date will have built up full entitlement to earnings related pensions. This pension will be in excess of the Supplementary Benefit level. This applies to those contracted into the State scheme and to those contracted out. In the case of the latter, the employer has to provide a guaranteed minimum pension (GMP) at least equal to the State earnings related pension.

5. When the State scheme matures the vast bulk of the population will no longer suffer an early leaver problem. The earnings related element - both for contracted in and contracted out - will be revalued in line with ^{his} average earnings up to the point of retirement - no matter how many times an employee changes jobs. The earnings related element is related to earnings up to the upper earnings limit (UEL), currently £235. The UEL is, and will no doubt remain, well above average earnings.

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6. But there remains the early leaver problem until the State scheme matures. And we will continue to have an early leaver problem after 1998 for people with earnings above the UEL whose pension rights above this level will not be protected. Such people include middle-managers, who are a vocal group and who may be particularly important in the context of job mobility. They are also the group most likely to want and to be able to take advantage of a greater freedom in determining their own pension provision.

7. The simplest way of dealing with the early leaver problem both in the period up to 1998 and beyond is to ensure that all preserved rights in an old scheme are revalued at least in line with prices or possibly with average earnings (as applies to the GMP). But if this is not to involve an overall increase in the resources devoted to pensions by occupational schemes (which is arguably undesirable) then there must be redistribution of resources between early leavers and stayers. The Government's current position is that it looks for an early response from the pensions industry. Only a change along these lines would provide that immediate improvement in the position of early leavers which is so desirable. No amount of ingenuity can create for early leavers resources which their own pension scheme is not willing to give.

8. There could be considerable advantage for some early leavers in creating a system of portable pensions. These would be designed essentially for the high flyers who expected to be mobile. Such schemes would not give immediate relief to early leavers. But they would enable people who expected to be mobile to start building up, perhaps in a personal trust, pension rights which would be independent of job changes. This would also fulfill the objective of greater freedom in determining ones own pension provision. Insofar as these portable pensions attract tax relief, the government would have a legitimate right to place certain conditions on the trust - otherwise we would just be creating a new indiscriminate tax shelter for savings.

A Possible new approach

9. In designing a scheme it is as well to start by identifying the State's interest in pension provision. There seem to be two aspects :

- (a) a practical interest in encouraging people to make provision for themselves in order to relieve the State of the burden that would otherwise fall on it - particularly in the form of expenditure on Supplementary benefit. At present about 1.7 million pensioners (out of a total of some 9 million) get Supplementary Benefit at a current cost of £1.7 billion;

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- (b) a social concern to encourage savings generally and particularly savings in a form which avoided a sharp drop in income after retirement.

10. Historically the second objective has predominated. But today it is arguably of less relevance. Most people are well aware of the desirability of providing for themselves and their family in retirement. They do not need the State's encouragement. This suggests the State's main interest now is to keep pensioners off Supplementary Benefit.

11. Against this background the first issue is the extent to which any scheme should be compulsory. The logic above suggests contributions should be compulsory up to the level required to provide a pension in excess of Supplementary Benefit.

12. This approach is reflected in the State scheme. As already mentioned, when the scheme matures the State will provide a pension for those contracted in which is in excess of Supplementary Benefit. This leads to the proposition that contributions should be compulsory for employers and employees up to the contracted in rates.

13. As now, there should be scope to contract out of the State scheme as long as the employer continues to provide the guaranteed minimum pension. For the contracted out the position would be :

- (a) compulsory contracted out contributions to the state scheme by employer and employee; and
- (b) compulsory contributions by employer and employee equal to the excess of the contracted in rate over the contracted out rate. This would differ from the present position under which there is no requirement that contribution must be made up to contracted in rates - only that the scheme provides the GMP. These contributions could be paid into any one of :
 - (i) the state scheme - so effectively contracting back in
 - (ii) an occupational scheme run by the employer
 - (iii) the employee's personal trust. This would provide portability for those who wanted it.

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14. Contributions in excess of the contracted in rate would be voluntary. These contributions could be paid into :

- (a) an occupational scheme
- (b) the employees personal trust.

It would probably be necessary to legislate to ensure that companies did not - as they do now - effectively impose membership of a company scheme as a condition of employment.

Tax Treatment

15. The second issue is the way these arrangements should be taxed. The present tax treatment of pensions is as follows :-

- (a) State pensions
NIC are made out of post-tax income by the employee. Employers' nic are deductible for tax purposes, and are not treated as taxable benefits in kind in the hands of the employee. State pensions are subject to income tax.
- (b) Occupational pensions and retirement annuities
Employees' contributions (if paid) enjoy tax relief, within certain limits. Employers' contributions are treated in the same way as employers' nic. Income and gains accumulated in the funds are exempt. Pensions are subject to income tax (apart from the tax-free lump sum).

The objective of a 'portable pension' is already possible for the self-employed who have taken out retirement annuity contracts.

16. It is difficult to give a precise estimate of the overall cost of the present tax reliefs for occupational pensions but on one assumption the figure would very broadly be in the region of £2 billion, with a further £ $\frac{1}{2}$ billion for retirement annuity schemes. (On other, equally valid, assumptions, the figure could be much higher or much lower.)

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17. The historical justification for the tax reliefs for occupational pension and retirement annuity arrangements rests on the points in paragraph 9 above. It would be possible to introduce the new portable pension without disturbing the present tax arrangements at all. But arguably the historical justification for such preferential tax treatment for pensions is less valid now than in the past, and there is a good case at least for reviewing the tax position.

18. So far as the State pension is concerned, there seems no reason to change the present arrangements. There is a good case in equity for extending them to the compulsory contributions which employees and employers would make, as proposed in paragraph 13(b) above; if this were not done there would be a tax incentive to contracting out which would be hard to justify. On this basis employees would no longer obtain tax relief for such contributions, but the position of the employer would remain the same as now.

19. So far as the voluntary contributions made by employees, as described in paragraph 14 above, are concerned, it could be argued that there is even less reason for these to attract tax relief. The State has no obvious reason to encourage people to make voluntary contributions, since their compulsory contributions will provide an adequate pension on retirement. Moreover, in principle the fewer tax reliefs that are given for pension arrangements, the less the State needs to be concerned about imposing conditions on pension schemes. (In practice, the trade off is not quite so straightforward: even without relief for employees' contributions, pensions would still be attractive since the tax charge in respect of employers' contributions would in effect be deferred for many years. It would therefore be necessary to maintain some restrictions to safeguard the Exchequer.)

20. Withdrawal of relief for employees' pension contributions could yield in the order of £1100m assuming that all employees would continue to contribute at the same level as they do now. To prevent a switch to non-contributory pension schemes, it would be necessary to require some sharing of total contributions between employer and employee (possibly in the same ratio as *nic* contributions).

21. It may be too large a step to withdraw all the present tax advantages. Payments into occupational schemes and into personal trusts could attract:

- (a) a preferential or zero rate of tax for fund income and capital gains. and/or

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- (b) allowing lump sums to be paid free of tax. This relief could be restricted by placing a limit on the extent to which pension rights could be commuted into a lump sum. At the moment $\frac{1}{3}$ of pension rights can be taken as a lump sum.

An arrangement for a preferential rate of tax for fund income could be similar to the "pegged rate" of corporation tax paid by life companies. This pegged rate - currently $37\frac{1}{2}$ per cent - could be changed to suit the political needs of the time.

22. There are attractions in looking for greater neutrality between pensions and life assurance schemes; for example removing tax relief for employees pension contributions would point to the removal of life assurance premium relief. This would save over $\pounds\frac{1}{2}$ billion. It could to some extent be compensated for by reducing the pegged rate.

23. In logic tax relief for retirement annuities ought also to be brought into line with the scheme described above. This would involve splitting the premiums into two parts. The part analogous to the employee's contribution would not get tax relief. The part analogous to the employer's would continue to do so. This arrangement might save about half the current tax relief of around $\pounds\frac{1}{2}$ billion on these schemes.

Conclusion

24. The State's main interest in encouraging personal pension provision is to keep pensioners off Supplementary benefit. By the end of the century the new State scheme will achieve this.

25. This means the State has little interest in encouraging the provision of larger pensions. It points to the sort of arrangements described in paragraphs 13 and 14 above. A scheme based on these principles would remain viable even if the stated earnings related scheme is scrapped.

26. Judged against the concerns described at the outset of this note, the proposed scheme would :

- (a) deal with the problem of early leavers except for those with existing rights in occupational schemes;
- (b) lead to tax savings of $\pounds 1100$ million on employee's contributions to occupational schemes and, possibly, of over $\pounds\frac{1}{2}$ billion in

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respect of life assurance premium relief and, say, £200 million in respect of retirement annuity schemes. This could finance a substantial increase in tax thresholds and ^{or reduction in} rates;

- (c) by reducing tax subsidisation of pensions, lead to a reduction in pension provision and so a reduction in the overall burden of pensions;
- (d) give individuals some more freedom in respect of their pension provision.



FROM: FINANCIAL SECRETARY

DATE: 6 May 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Ridley
Mr Lovell
Mr Gordon
Mr Griffiths
PS/C+E

CRITERIA FOR FREEPORTS

I have seen the criteria for freeports set out in Mr Hawken's submission of 22 April.

I have nothing major to disagree with in the criteria. I do not know the reasons for Department of Trade ministers' objections to them.

My minor comments are:

"proven trade demand" - Its hard to prove demand.

"potential economic viability" - Its hard again to show - this is an entrepreneurial risk.

"customs attendance outside the normal hours approved for ports and airports locally" - It is for consideration whether the whole cost of customs services should not be charged at cost price.

"Existing traffic levels" - I presume this means through put, not traffic in the sense of number of motor vehicles. But it should be clarified.

ME Donnelly
p† NICHOLAS RIDLEY

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FROM: E KWIECINSKI
DATE: 9 May 1983

CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson
Mr Graham - Parly Counsel
Mr Battishill - IR
PS/IR

TAX TREATMENT OF HOLIDAY LETTINGS

The Financial Secretary has seen Mr Battishill's submission of 6 May.

On the details of the broad approach to be adopted (paragraph 47 of Mr Battishill's submission) he has made the following comments:-

- a) He agrees that "the new treatment should apply to furnished lettings carried on with a view to profit, where the property is available for letting for at least 4 months in the season (and actually let for say 2 months); no letting exceeds 4 weeks to the same person".

He does not think we need the qualification that "the proprietor spends a reasonable amount of personal time in the conduct of the business" (paragraph 20-25).

- b) He agrees that provided the conditions at a) ^(above) are met, "a wide variety of types of accommodation should be included....whether the accommodation were self-contained or whether there were shared facilities".

He wonders though whether we have to extend the new treatment to properties let for holiday purposes abroad (paragraph 14). He would prefer not to. He is not in favour of making the special treatment

dependent on registration with a tourist board.

- c) He agrees with the rest of the broad approach outlined in paragraphs 47c-f of Mr Battishill's note.

Paragraph 48 of the submission lists the three main issues to be settled. The Financial Secretary has made the following comments:-

- 1) He thinks that legislation should apply only to holiday lettings as defined, and not more widely.
- 2) He would prefer the limited concession only ie legislate specifically for earned income treatment and CGT rollover and retirement reliefs, and not treat holiday lettings as a trade for all tax purposes. He has commented that a decision is needed on this point as soon as possible, so that we can go ahead with the announcement.
- 3) He would not be happy to consult anyone until an announcement in principle has been made. He suggests a PQ/Answer in broad terms should be used, leaving any difficult issues unanswered. He thinks this would be necessary anyway in the event of an early dissolution.
The FST suggests a P.Q. for answer on Thursday 12 May.

SK.
E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 9 May 1983

CHANCELLOR _____

cc Chief Secretary
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

Suggested order of priorities, (and possibility), for the staff savings in Table III (Sir L Airey's submission of 25 March).

Items 1-6 Are all agreed, and can all be achieved?

Items which could be done after an Election if we have the political will

- Item 7. Abolish l.l.S
- Item 8. Abolish Minor Personal allowances
- Item 10. Abolish Overseas Earnings relief
- Item 18. Mortgage Interest relief at basic rate only
- Item 26. Abolish DLT
- Item 14. Raise CTT threshold to £100,000

Items which are less political, and should be done in next Parliament

- Item 11. Increase de-minimis limit for interest on overdue tax
- Item 12. Corporation tax self assessment
- Item 16. General expenses deduction for all employees

Items which can only be decided in the light of major tax reform plans

- Item 9. Abolish Income limit for Age Allowances
- Item 19. Abolish Age Allowances
- Item 13. Make Alimony tax neutral
- Item 28. Abolish tax relief on pension contributions

..... Comment to Charities.

Items which are rejected

- Item 17. Abolish farmers averaging
- Item 20. Abolish stamp duty
- Item 21. Composite rate for bank interest
- Item 23.)
- Item 24.) Excessive reduction in CTT and in CII
- Item 25.)
- Item 27. Abolish CGT

Item on which I need briefing

- Item 15. Introduce Interest charge on Regulation 29 determinations.

Nicholas Ridley
PP NICHOLAS RIDLEY



FROM: E KWIECINSKI
DATE: 10 May 1983

PS/CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State (R)
Mr Kemp
Mr Lovell
Mr Chivers
Mr Gordon
PS/IR

BELGIAN EMPLOYMENT ZONES

The Financial Secretary has seen your note to Mr Chivers of 5 May.

He has commented that the idea of enterprise zones is catching on, but the Belgian plans goes fairly close to creating a new company status - enterprise companies - with very substantial advantages.

As it is limited to high technology companies he thinks it is likely to create new high technology companies rather than much new employment.

He has added that no doubt the DOI would love to do this, but he would prefer not to limit any improvement in enterprise zone advantages to high technology companies.

E KWIECINSKI

CONFIDENTIAL



FROM: E KWIECINSKI

DATE: 10 May 1983

MR ROBSON

cc Mr Fawcett/IR

TAX RELIEF FOR MAINTENANCE PAYMENTS

You touched on this subject in your minute to Mr French of 25 January headed 'One Parent Families'.

The Financial Secretary would be grateful if you would rework the figures for your £20,000 man on the basis of ITTA being in place, using 1982/83 allowances:-

- a) while the couple are married
- b) with £5000 alimony after divorce, tax relieved
- and c) with £5000 alimony with no tax relief.

The Financial Secretary thinks it might be possible to abolish the relief as part of a change to ITTA. He would be grateful for your comments.

A handwritten signature in dark ink, appearing to be "EK".

E KWIECINSKI



FROM: M E DONNELLY
DATE: 11 May 1983

MR MCSHARRY

cc Mr Peretz
Mr Bailey

FOREIGN EXCHANGE MARKET REPORTS

I have seen your note of 10 May.

I would like to offer one or two comments on the proposed changes.

Morning Report

This is considerably clearer. My only query would be whether we really need to show sterling's change since 12 March 1979. This date has some significance in the history of European monetary collaboration. But I wonder about its economic or political importance now.

Evening Report

On the EMS section the above comment applies even more forcefully. If we are showing any percentage change, much better to use the change since the date of the last realignment rather than the inception of the system. Sterling's shadow position inside or outside the EMS bands remains a matter of some interest, unlike its change from March 1979.

One other minor point you might consider is whether it is worth talking about '(dollars million equivalent)' as the measure of significant intervention by other countries. Readers do easily get confused as to whether +30m French francs means that or +30m of French francs.

I hope these suggestions are of some help.

MED
M E DONNELLY

RESTRICTED



FROM: FINANCIAL SECRETARY
DATE: 11 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Mr Littler
Mr Burns
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Hall
Mr Ridley
(without attachment)

OECD MINISTERIAL MEETING, 9-10 MAY 1983

I attended this meeting in your place for the macro-economic discussion on Tuesday.

Major countries, with the exception of France, were in general cautiously optimistic about recovery in their own countries. The French - in company with the Scandinavians and some of the smaller Europeans such as Austria and Greece - were sceptical about both the strength and durability of the recovery.

This tallies with the OECD Secretariat's view that while output in the US and Japan should be rising fairly rapidly later this year, the recovery in Europe will be both weaker and later. Nevertheless, the Secretariat expects the OECD area as a whole to be growing by 3 per cent next year, which is reflected in today's bullish Press reports.

The main threats to the recovery identified by colleagues were continuing high real interest rates, protectionism and the financial position of developing countries.

Don Regan gave an optimistic account of recent US indicators on output and inflation and claimed the recovery could be sustained for many years to come 'barring any serious errors in monetary policy,

an impasse on the budget, or a severe mishandling of international trade and debt problems'. These are big 'ifs', and on the one which is most directly his responsibility - the US budget - he was not reassuring. He offered no hint of quick decisions. He defended higher defence spending and lower taxes but suggested no way in which these could be reconciled with the objective of a lower budget deficit.

There was an undercurrent of criticism of high US budget deficits and interest rates throughout the meeting. But my own intervention using the material supplied by your office was probably the most pointed and tough statement which named the US explicitly. This, of course, went no further than we have gone in private with the Americans and my remarks were not released to the Press. We should, however, be looking for more open support from some of the others at Williamsburg.

Lambsdorff and Okawa (standing in for the director of Japan's EPA) both concentrated more on their own domestic policies. The former said Germany was prepared to allow the automatic fiscal stabilisers to work but remained committed to reducing medium-term budget deficits. The latter said Japan would be contributing to the recovery by a moderate expansion of domestic demand. No sign of locomotives here.

Delors expressed his concern about the threat that high interest rates posed to the recovery. He also argued for greater exchange rate stability. His main point of interest, however, was to suggest that OECD meetings should not be seen as preparations for the seven-power Summits, but should instead follow them. He suggested a further meeting of OECD Ministers in the autumn. This seems a further step in the French campaign launched by President Mitterrand the previous evening with his call for a 'new Bretton Woods' to upstage the Williamsburg Summit (or, perhaps, distract attention from the French request for an EC loan). The Germans immediately responded sceptically to this idea. At the end of the discussion the Secretary-General suggested the Delors proposal be remitted/^{to} permanent representatives where we can presumably bury it if necessary or revive it if circumstances dictate.

There was a strong disposition among most colleagues not to tamper with the draft communique - no doubt for fear of unravelling it. A last minute Swedish attempt to inject a lot of unhelpful reflationary language was resisted. The American and German reservations about the inclusion of any reference to a framework for 'nominal GDP' was met by a reference which keeps alive the concept but allows them to distance themselves. Feldstein actually supported the idea.

The end-result gives us a useful balance between using the 'room for growth' which is emerging, and at the same time continuing 'to reduce inflation'. There is support for monetary policies which allow for sustainable growth and continued control of inflation. The need to reduce structural budget deficits is also emphasised. There are useful references to the need for policies to be considered in a medium-term framework and to be consistent internationally.

... A copy of the communique is attached. Mr Pym will no doubt report to Cabinet on East-West issues and Mr Rees on trade.

NE Donnelly
pp NICHOLAS RIDLEY

Paris, 10th May, 1983

COMMUNIQUE

1. At its meeting on 9th-10th May, the Council of the Organisation for Economic Co-operation and Development at Ministerial level agreed on a medium-term approach to sustaining and broadening the economic recovery now under-way. They agreed that increased sustainable non-inflationary growth in the OECD countries now must be aimed at in order to reduce the present very high levels of unemployment.

2. Ministers recognised that the powerful economic linkages among countries and regions imply a collective responsibility to shape policies so as to strengthen the international trading, monetary and financial systems.

3. Accordingly, their governments intend to:

- Take advantage of the room for growth, which is now emerging in an important part of the OECD area, to promote job creation and higher employment.
- Continue to reduce inflation and overcome structural impediments to improved economic performance.
- Make use, individually and collectively, of the favourable conditions provided by economic recovery to reverse protectionist trends.
- Work to resolve international debt problems in a trade-expansionary way as recovery and adjustment by debtor countries proceed.
- Provide more effective help to the poorer developing countries.

4. The meeting was chaired by Madame Colette Flesch, Vice-President of the Government of Luxembourg, Minister of Foreign Affairs, External Trade and Co-operation, Minister of Economy and Middle Classes. The Vice-Chairmen were Mr. Shintaro Abe, Minister for Foreign Affairs of Japan and Mr. Kurt Furgler, Federal Counsellor and Head of the Swiss Federal Department of Economic Affairs. In addition to reviewing their economic policies, and trade relations among Member countries, Ministers considered the difficult situation of the developing countries and the policies needed if they are to benefit from economic recovery. They discussed the dialogue with the developing countries, in particular preparations for UNCTAD VI. Ministers also reviewed East-West economic relations.

5. Finally, Ministers heard a report by Mr. William F. Birch, Minister of Energy of New Zealand, on the results of the Ministerial Meeting of the Governing Board of the International Energy Agency, held on 8th May, 1983, in Paris. They took note of the study, Energy Requirements and Security, prepared by the Secretariat, and of the discussions on it, and endorsed the conclusions set forth in the Annex to this Communiqué.

THE TRANSITION TO SUSTAINED GROWTH

6. Ministers welcomed the further achievements in reducing inflation. They are very concerned, however, about the high and rising levels of unemployment. It is therefore encouraging that signs of an up-turn have now emerged in several OECD economies. While uncertainties and risks remain, Ministers agreed that prospects for continuing recovery are better than they have been for several years, and that ensuring the transition to sustained non-inflationary growth and higher employment is the central task of policy.

Common Policy Principles

7. Ministers agreed on the following policy principles for all Member countries:

(i) Policies need to be set firmly in a medium-term framework to make clear the steadiness of policy intent. This will, of necessity, call for flexibility in the implementation of policies when circumstances require.

(ii) Pervasive economic linkages mean that the ability of individual countries to achieve domestic policy objectives depends importantly on the policies and performance of others. It is important for the consistency of policies that each Member country take account of the international implications of Member countries' policies taken together.

(iii) The achievement of greater exchange rate stability, which does not imply rigidity, is a major objective and commitment to be pursued. In this context they noted and welcomed the principles set out in the agreement by finance ministers of seven Member countries, announced in Washington on April 29th, 1983.

(iv) Improved economic performance and higher employment require a balanced use of macro-economic and structural policies. Growing room emerges as inflation diminishes and supply-side responsiveness increases. To this end:

- Macro-economic policies should be consistent with medium-term objectives of inflation control and steadier real growth; some countries have found a nominal income framework helpful in this respect.
- Policies to increase the profitability of job-creating productive investment are required.
- Collective bargaining should take account of the need to promote investment and to maximise the scope for higher employment without inflation.
- Positive adjustment policies are necessary to enhance competition and the flexibility of markets, and to improve the allocation of resources.
- Labour market policies are important to alleviate the burden of unemployment, particularly on young people; targeted programmes, including training, can help to deal with the problem of structural unemployment.
- Facilitating stronger social consensus can in many countries play an important role in achieving the necessary balance of policies.

8. While these policy principles are common to all Member countries, Ministers recognised that countries are in diverse situations. Not all countries have been equally successful in establishing the preconditions for better economic performance. Appropriate policies therefore differ in emphasis from one country to another.

National Policies

9. In a number of countries, accounting for about 70 per cent of OECD GNP, inflation is approaching the level of the 1960s. Confidence has strengthened; progress has been made in tackling structural imbalances; and activity, which has been weak, is now starting to recover. Further declines in real interest rates should be aimed at. For such countries, Ministers agreed on the importance of taking advantage of the room that has emerged for increased output and employment; in particular:

- As regards monetary policy, monetary aggregates should allow for output growth which is sustainable over the medium-term, with continued control of inflation, permitting a continued easing of interest rates. Current monetary policies are generally consistent with this approach. Targets for monetary aggregates should not be lowered in response to lower oil prices. Similarly, monetary policy should not accommodate any resurgence of inflationary wage and other income claims.
- Fiscal policy should be consistent with sustained non-inflationary growth, higher investment and higher employment. Structural budget deficits need to be reduced to make room for the investment needed to sustain growth and employment. Where future structural deficits loom large, it is important to act now to ensure that deficits on this scale will not materialise, thus permitting interest rates to ease. Given the strong international transmission of interest rates, such action would promote recovery in the world economy. The reduction of structural deficits should take care not to jeopardise economic recovery, and take account of the cumulative effects of simultaneous action in a large number of countries. Where measures to support activity are considered they should be designed to promote investment.

10. In some other countries, accounting for about 20 per cent of OECD GNP, further progress against inflation is required and structural impediments to better performance are more pronounced. As a result, growing room in the near-term is less. For such countries, Ministers agreed that perseverance with non-accommodating monetary policy is required, and structural budget deficits must be reduced further as part of a consistent medium-term approach. It is also particularly important that further efforts be made to reduce structural impediments.

11. In the remaining Member countries, despite serious efforts, inflation remains very high, while the international recession and chronic structural problems mean high rates of unemployment and underemployment. In such countries, Ministers agreed that limited flexibility of markets, structural imbalances, and difficulties in monetary and fiscal management are central problems, which must be addressed at their core. Improved economic performance remains primarily a task for domestic policies, although sustained recovery and lower interest rates in the OECD area, and an improving trade environment will make this easier.

TRADE, DEBT AND ADJUSTMENT

12. Ministers discussed the powerful linkages between growth, trade and debt which are now at work between creditor and debtor countries. They agreed on the importance of taking these linkages into account as fully as possible in the formulation of their macro-economic, trade and financial policies, and welcomed the work being done in the Organisation to help clarify the issues involved. They also recognised that the world recession had exposed problems of a systemic nature which need to be addressed.

13. Ministers noted that, during a period of severe and persistent economic and social difficulties, the world trading system has essentially been preserved. They recognised, however, that there has been a continuation and even extension of protectionist trade and domestic support measures to shelter weak industries and companies from the full impact of the recession and structural change. Such measures have contributed to slowing down the movement of resources into activities with greater growth and job-creating potential. A return to sustained growth requires more positive adjustment policies, more reliance on market forces and more productive investment.

14. Ministers agreed that, within the framework of their overall economic co-operation, strengthening the open and multilateral trading system is essential to support the recovery and the transition to sustained growth. They therefore agreed that the economic recovery, as it proceeds, provides favourable conditions which Member countries should use, individually and collectively, to reverse protectionist trends and to relax and dismantle progressively trade restrictions and trade distorting domestic measures, particularly those introduced over the recent period of poor growth performance. They invited the Secretary-General to propose appropriate follow-up procedures. At the same time, they agreed that the work programmes now under way in the GATT and OECD to improve the trading system and its functioning should be actively pursued.

15. Ministers welcomed the co-operative efforts being made by the International Monetary Fund, the Bank for International Settlements, the governments of the debtor and creditor countries and the private banks to preserve the effective functioning of the international financial system. They also recognised the determined efforts now being made by many debtor countries to adjust to a less inflationary world.

16. The groundwork has thus been laid for evolving a medium-term approach to resolve debt problems in a trade-expansive way as the recovery proceeds. The aim should be to maintain the basis for a continued flow of savings through world capital markets to countries where they can be productively used. A first element in such an approach is to maintain normal disciplines between borrowers and lenders. A second is that international lending will best serve the interests of both borrowers and lenders if external finance is used to develop efficient economies capable of, and enabled to, compete in world markets.

17. To this end Ministers agreed on the need for further efforts by both creditor and debtor countries to:

- Sustain a supply of finance to debtor countries, in support of determined domestic adjustment policies, that is sufficient to maintain or restore adequate levels of essential imports.
- Work towards mutually reinforcing action, within the framework of existing international agreements, to establish more predictable and transparent trade regimes, to reduce trade barriers and to pursue more market-conforming domestic structural policies.

DEVELOPMENT CO-OPERATION, DIALOGUE AND UNCTAD VI

18. Ministers welcomed and shared the importance attached to world economic interdependence, dialogue and consensus in declarations by developing countries, most recently at Buenos Aires. They reaffirmed their readiness to work, in a spirit of understanding and co-operation, with the developing countries and other participants at UNCTAD VI next month with the aim of reaching a common understanding of current world economic problems. In particular, they looked forward to discussing the contributions which developed and developing countries can make to further constructive dialogue and co-operation to:

- Ensure that all countries benefit from the economic recovery now getting under way, and that economic and social progress can gain momentum in the developing world.
- Continue to work together on development co-operation policies to tackle the fundamental problems of underdevelopment and poverty.

19. Ministers recognised that the world recession has created acute difficulties, in particular for most of the poorer developing countries. Meeting this challenge will call for difficult and courageous policies on their part. As recovery proceeds, these countries should benefit from increased export demand and higher commodity prices. But Ministers recognised that external support remains of crucial importance to facilitate the resumption of their longer-term development. They therefore agreed to:

- Maintain and, as far as possible, to increase their aid with a view to realising their commitments to the international aid objectives particularly for the poorer developing countries.
- Work together with the competent international institutions to assist poorer developing countries in implementing the difficult policy reforms required for adjustment and resumed development progress.
- Ensure adequate funding from all contributors of the multilateral development institutions, in particular the International Development Association.

20. Ministers agreed on the desirability of diversifying the developing countries' sources of external finance, and in particular fuller use of the potential for direct investment.

21. Ministers stressed the commitment of their governments to pursue development co-operation policies beyond the immediate requirements of economic recovery. They recognised, in particular, the importance of working with developing countries to strengthen and achieve greater stability in their export earnings. They also recognised the importance of technical co-operation, and reaffirmed their commitment to a strong centrally-funded system of United Nations technical co-operation.

EAST-WEST ECONOMIC RELATIONS

22. Following a decision taken by Ministers last year, the Organisation has carried out a thorough economic analysis of the evolution of trade and financial relations with the USSR and other Eastern European countries. Ministers noted that these relations have, with some exceptions, evolved in a less dynamic way than those with more market-oriented economies and not met earlier expectations.

23. This purely economic analysis demonstrates that East-West trade and credit flows should be guided by the indications of the market. In the light of these indications, Governments should exercise financial prudence without granting preferential treatment. Ministers recognised, moreover, that practices connected with the state-trading system of centrally planned economies can create problems which need to be kept under close examination within the Organisation. More generally, they agreed that, in the light of changing circumstances, the Organisation should continue to review East-West economic relations.

PERSONAL AND CONFIDENTIAL



FROM: NICHOLAS RIDLEY
DATE: 11 May 1983

CHANCELLOR

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

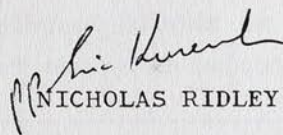
PENSIONS

I sent you a paper describing a possible way forward on the pensions question.

... I attach a further note on this from Mr Munro. I agree with what he says about the treatment of funds' income and capital gains. If we are going to encourage people to own capital we should let them take the most out as a lump sum as possible - $\frac{1}{3}$ lump sums may be too small, perhaps $\frac{1}{2}$ would be better.

However I regard the most important part of the proposals on the tax treatment to be that employees' contributions should be made out of taxed income.

I realise that we have a long way to go before deciding anything on this.


NICHOLAS RIDLEY

CONFIDENTIAL

From: N C MUNRO



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

9 May 1983

FINANCIAL SECRETARY

PENSIONS

1. If it is not too late, we should like to offer the following comment on Mr Robson's note of 6 May.
2. The alternative approach outlined in paragraph 21 may look attractive at first sight but might entail serious practical difficulties. Taxing funds' income and capital gains, at whatever rate, could be counter-productive, since many funds would either go off-shore (or roll up their investments in off-shore funds) or would become unfunded. Our impression from last week's discussion was that you were not attracted to this option for these reasons.
3. Nor do we think that paragraph 21(b) reflects what was agreed at your meeting. Our recollection is that a continuing exemption for a lump sum of about one-third of total pension rights would be a quid pro quo for the withdrawal of relief for employee contributions. Indeed, this would preserve a broad symmetry since this non-taxable point of the pension rights could be attributed to the employees' contributions made out of taxed income.
4. We should therefore prefer to see paragraph 21 deleted and replaced by the following -

cc Mr Monger
Mr Moore
Ms Seammen
Mr Robson
Mr Aaronson

Mr Isaac
Mr O'Leary
Mr Munro
Mr Coote

CONFIDENTIAL

"21. No changes would be needed either to the present tax treatment of funds' income and capital gains or to the emerging pension and lump sum. This would make for a broad symmetry: a tax-free lump sum (of about one-third total pension rights, as now) would be attributable to an employees' unrelieved contributions, while the rest of the pension (which would be taxed) would be attributable to the employer's (relieved) contributions and the tax-free build-up in the fund."

Nem.

N C MUNRO



FROM: E KWIECINSKI

DATE: 12 May 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Burns
Mr Littler
Mr Bailey
Mr Ridley
Sir L Airey - IR
Mr Fraser - C&E

MINISTERIAL AVAILABILITY DURING THE ELECTION PERIOD

Your minute of 11 May refers.

a) The Financial Secretary will generally be in his constituency during the election campaign; the address is:

The Old Rectory
Naunton
Cheltenham
Glos
Tel 0451 5252

He has agreed to address election meetings outside his constituency on the following dates:-

May 23 - Speaking tour West Midlands
May 27 - " " " "
May 28 - " " North West
June 3 - " " Northern
June 4 - " " Yorkshire
June 6 - " " Western

We do not, at this stage, have precise details of how the Financial Secretary can be contacted on the days on which he is on tour.

... b) I attach details of the Financial Secretary's whereabouts for the week 14-21 May.

SK

FINANCIAL SECRETARY'S DIARY

Week Commencing 14 May

SATURDAY	SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
NAUNTON	NAUNTON	LONDON (all day)	LONDON (all day)	8.30 Depart for STRASBOURG (UKDEL)	NAUNTON (all day)	NAUNTON (all day)
				[lunch with Ambassador Council of Europe]		
				5pm Depart STRASBOURG		
				6.30 Arrive Heathrow		
				Depart London for Naunton (evening)		
NAUNTON	Depart NAUNTON Arrive London: 50 Warwick Sq SW1 Tel: 828 1816					

M

M

RESTRICTED



FROM: M E DONNELLY
DATE: 12 May 1983

MR GRIMSTONE

cc Mr Neilson

NOMENCLATURE

OF E(DL) PAPERS

Cabinet Office this morning refused to accept the copies of the E(DL) paper which I sent them because they were incorrectly titled.

The correct title of E(DL) is "Sub-Committee on Disposal of Public Sector Assets".

Cabinet Office also require that the title of the department is placed towards the left hand margin, level with the initials of the Minister submitting the paper.

All this is pedantic and tiresome. But I would be grateful if you could bear it in mind for future E(DL) papers.

ME

M E DONNELLY

PERSONAL & CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 13 May 1983

CHANCELLOR

cc Minister of State (R)

NOTES ON INCOME TAX FOR MEMBERS OF PARLIAMENT

You will want to see the revised version of the Revenue's notes
... (attached) which they propose to issue to all incoming members after
the election.

I have had discussions with the Revenue on this, they have made some
small concessions but none of any substance. I am now reasonably
satisfied with them. I think that there are advantages in sending
the notes out to all MPs immediately after the election, so that
the rules which they are confronted with are at least some improve-
ment over the present ones.

The next Government can then decide whether or not to change the
law.

Nicholas Ridley
NICHOLAS RIDLEY

NOTES ON INCOME TAX FOR MEMBERS OF PARLIAMENT

1. The following notes have been prepared to assist Members when completing their Parliamentary expenses claims forms. The principles are set out in general terms but their application will, of course, depend on particular circumstances. They have no statutory authority themselves but are the Inland Revenue's interpretation of the tax laws as applicable to Members. Any questions arising in connection with these notes should be addressed to: HM Inspector of Taxes, Public Departments (1), Ty-Glas, Cardiff, GF4 5XZ, quoting the reference number 44.

2. The law on the deduction of expenses

2.1 The deduction of expenses for income tax purposes from the emoluments of holders of offices or employments is provided for by Section 189(1), Income and Corporation Taxes Act 1970, as follows:

"If the holder of an office or employment is necessarily obliged to incur and defray out of the emoluments thereof the expenses of travelling in the performance of the duties of the office or employment..... or otherwise to expend money wholly, exclusively and necessarily in the performance of the said duties, there may be deducted from the emoluments to be assessed, the expenses so necessarily incurred and defrayed."

2.2 Since 1977/78, the emoluments of Members include all sums reimbursable by the Fees Office in respect of expenses as a Member of Parliament. The law limits the maximum expenses deductible to the amount of the emoluments of the office. If the allowable expenses exceed this figure, no income tax relief is due for the excess. There is no provision by which any excess may be set off against other

income, or be carried forward for deduction against a later year's Parliamentary emoluments.

2.3 Any Member holding a Ministerial office may claim a deduction from Parliamentary emoluments for the expenses incurred in carrying out Parliamentary work (as distinct from Ministerial duties). Here again, the maximum is the amount of the Parliamentary emoluments, including where appropriate the London Supplement payable.

3. Procedure for claiming expenses

3.1 Cash allowances are paid by the Fees Office to reimburse Members in respect of additional living costs, and secretarial etc expenses. These are paid in full. Travel expenses are dealt with in Paragraph 10. A PAYE coding allowance is consequently only due for any estimated expenses in excess of the amounts payable by the Fees Office.

3.2 On election, a Member is invited to make a provisional claim for a coding allowance if he considers it appropriate. In any case, a final claim is necessary at the end of the year, for the purpose of an income tax assessment for that year.

3.3 A coding allowance is estimated for subsequent years, the estimate being based upon the most recent information available at the time the coding is made. In the event of a dispute, an appeal against the code or against an assessment, may be made to the Income Tax Commissioners, an independent tribunal, and in the case of an assessment, a further appeal on a point of law may be made to the High Court.

4. Living expenses: Members

4.1 A Member of Parliament is regarded as carrying out the duties of the office in two places, at Westminster and in the constituency.

4.2 A London Member is regarded as able to carry out the duties both at Westminster and in the constituency from a home in London. Even if the home is away from London, the Member is not entitled to a deduction for the cost of accommodation in London which may have been taken in order to carry out the Parliamentary duties.

4.3 A Member representing a provincial constituency, who could not carry out the duties both in London and in the constituency from a single base, is allowed for income tax purposes a deduction which takes account of the additional cost of living away from the main home in either of these two places. This does not include the costs of meals or food purchased for meals eaten at Westminster during the sessions, although it may be possible to claim for the additional cost of meals taken while travelling within the constituency on Parliamentary business.

4.4 The practice of the Revenue is to take 'London' as including an area within the old London County Council area and 'constituency' as including an area within twenty miles of the boundary line.

4.5 The position in the two types of case is therefore as follows:-

4.5.1 Member for a London constituency (or for a Greater London constituency where the London supplement is drawn):

No deduction is admissible for the additional costs of living away from home, nor is any deduction given for the

cost of meals away from home, nor for the cost of overnight accommodation in London after a late night sitting.

4.5.2 Member for a constituency outside London:

a. where the home is in London, the Member is entitled to a deduction in respect of the additional cost of living in the constituency which is incurred wholly, exclusively and necessarily in carrying out the Parliamentary duties there;

b. where the home is in the constituency, the Member is entitled to a deduction for the additional cost of living in London which is incurred wholly, exclusively and necessarily in carrying out the Parliamentary duties there;

c. where the home is neither in London nor in the constituency, a deduction may be claimed for the additional cost of living either in London or in the constituency (but not both) which is incurred wholly, exclusively and necessarily in carrying out the Parliamentary duties there.

5. Living Expenses: Ministers

5.1 Ministers are normally, by reason of their Ministerial offices, regarded as having to have accommodation in or near London. Ordinarily, therefore, no part of the cost of living in London is admissible as a deduction.

5.2 Where a Minister has a constituency outside London, he may claim against his remuneration as a Member the additional cost of living which he has to incur wholly, exclusively and necessarily in carrying out his Parliamentary duties in the constituency. As a matter of practice the Inland Revenue are prepared to accept a claim

for two-sevenths of the overhead expenses of a Minister's constituency base. This applies even if that base is also his family home. This practice acknowledges the fact that Ministers do incur additional expense through having to maintain two bases and can be expected to be in their constituencies at week-ends at least. Where such a claim is made it is the Inland Revenue's normal practice to accept it, subject to the Revenue being satisfied that no inadmissible expenditure - such as mortgage interest or the cost of providing fixtures and fittings of a domestic nature - is included in the expenditure to be apportioned. This practice does not prevent any Minister from seeking to establish that the additional cost of maintaining a base in the constituency for Parliamentary business is greater than this. An allowance may however be claimed only for expenses which the Minister is necessarily obliged to incur in the performance of his Parliamentary duties and the extent of the accommodation taken may be a factor in determining the allowances due.

5.3 The Revenue's practice is to take 'London' as including an area within the old London County Council area and a place is taken to be within daily commuting distance if the normal practice of the Minister is to stay in London only when his Parliamentary duties so require and otherwise to travel daily to perform his Ministerial duties.

6. Office expenses

Deductions may be claimed in respect of the following expenses:-

- a. Secretarial and clerical assistance in dealing with constituents' affairs.
- b. Office accommodation (including the cost of a room at home set apart as an office).

c. Payments to a local agent or party association in return for which a Member receives help in carrying out his Parliamentary work, eg clerical assistance, fixing interviews.

7. Incidental expenses

Other expenses which are deductible include:-

a. The cost of hiring rooms to meet constituents (eg "surgeries" in the constituency).

b. Expenditure in connection with all-party Parliamentary organisations such as the Inter-Parliamentary Union or the Parliamentary Group for European Unity. The subscriptions payable for membership of such organisations are not, however, allowable except where they have been approved as professional etc associations in accordance with Section 192, Income and Corporation Taxes Act 1970 - See 8.2. below.

c. Telephone and telemesssage charges, stationery and postage insofar as these are not provided free.

d. The extra cost of meals taken while travelling on Parliamentary business between London and the constituency. This is applicable only to Members who represent constituencies outside the London area.

8. Pension Contributions and Professional Subscriptions

8.1 The contributions payable by Members to the Parliamentary Contributory Pension Fund and the House of Commons Pension Fund, are allowable as deductions. The Fees Office is required to operate PAYE only on the net amount of pay after the deduction of such contributions and a separate claim is not therefore required in respect of such payments.

8.2 Subscriptions to certain approved professional etc associations are allowable as deductions and a separate claim should be made in respect of such payments made. They should therefore be excluded from the special expenses claim as a Member of Parliament.

9. Expenses which are regarded as not admissible

- a. Literature issued for canvassing purposes.
- b. Election expenses.
- c. Newspapers, periodicals, books, news cutting services etc.
- d. Charitable subscriptions and donations.
- e. Entertaining, including the cost of entertaining constituents.
- f. Extra costs arising out of late night sittings.
- g. Expenses incurred by wives or husbands of Members, eg in deputising for, or accompanying Members.
- h. Payments to political organisations for political purposes.
- i. Generally, expenses which a Member incurs not as a Member of Parliament but as a member of a political party.

10. Travelling expenses: general

10.1 In considering travelling expenses the Revenue's practice is to take Westminster as including an area within a 20 mile radius of the Palace of Westminster and the constituency as including any point within 20 miles in

a straight line from the nearest point of the boundary of the constituency.

10.2 A deduction may be claimed by a Member for costs necessarily incurred and defrayed on travelling in the performance of the Parliamentary duties.

11. Travel by car

11.1 In strictness the car mileage allowance paid by the Fees Office is assessable as an emolument, even when paid for travel on Parliamentary duties. It has been found however that taking one year with another, this cash allowance adequately covers both running costs and depreciation. For practical purposes the allowance is not taxed nor is an expenses claim required from the Member.

11.2 If a Member wishes to adopt the strict basis, detailed records of expenses and mileage need to be maintained each year. The car mileage allowance will be taxed as an emolument and a deduction allowed for running costs on the basis outlined in paragraph 11.3 below.

11.3.1 If a Member uses a car to travel within the constituency and/or between Westminster and the constituency direct, a deduction may be claimed in respect of the running costs of the car, and, where appropriate, any capital allowances. The amount deductible will be the proportion of the total running costs and capital allowances which the mileage travelled on purely Parliamentary duties bears to the total mileage for the year. All car mileage allowances payable by the Fees Office will be assessable.

11.3.2 Where the Member's home is neither in Westminster nor the constituency, and the car is used for travelling between Westminster and the constituency via home, the equivalent mileage of the direct journey between Westminster and the constituency is regarded as mileage on Parliamentary

duties, provided that the journey between Westminster and the constituency via home is "continuous". A "continuous" journey is considered to be one in which not more than one night passes between the two legs of the journey - Westminster/home and home/constituency. For this purpose Saturdays and Sundays are ignored.

11.3.3 Where car mileage allowance is paid by the Fees Office a special arrangement has been made whereby no tax is in practice deducted therefrom when it is paid for travel on Parliamentary duties. Where a Member's home is neither in Westminster nor in the constituency tax will be deducted by the Fees Office from the car mileage allowance payable for travelling between the Member's home and the constituency or between home and Westminster. If, however, the journey is between Westminster and the constituency via home, and the journey is "continuous", only the excess of the cash allowance received for the round trip over that which would have been received for the direct journey will have tax deducted from it. Since the mileage represented by any cash allowance from which tax is deducted was not incurred on Parliamentary duties, it does not qualify for income tax relief. It is, however, part of the total mileage referred to in Paragraph 11.3.1.

12. Other travel

A deduction may be claimed for incidental travelling expenses such as taxi fares between Westminster and London rail and air terminals when en route between Westminster and the constituency (less any cash mileage allowance payable) and on Parliamentary business.

13. Taxation of Travel Warrants

13.1 Section 36, Finance (No.2) Act 1975, had the effect of bringing within the charge to tax certain warrants issued by the Fees Office and used by Members for travel on

public transport (including those used for sleepers). Broadly speaking, the effect of the legislation is to charge to tax the value of those warrants used, which if the journeys had been undertaken by car, would give rise to a deduction of tax from the car mileage allowance. This means that warrants used for travelling between Westminster and a Member's home and Westminster, or between home and the constituency, where the home is neither in Westminster nor the constituency, are liable to tax.

13.2 The same definitions of "Westminster" and "constituency" apply as in Paragraph 10.1, but the expense of travel from home to work is not allowable for tax purposes. The taxation treatment of travel warrants is outlined in paragraph 13.3 below.

13.3.1 Where a Member's home is not more than 20 miles in a direct line from the nearest point of the constituency boundary, a warrant used for travel between home and Westminster, or between home and the constituency is not taxable.

13.3.2 Where a Member's home is within 20 miles' radius of the Palace of Westminster, a warrant used for travelling between home and the constituency is not taxable.

13.3.3 Where the home is more than 20 miles from the nearest point of the constituency boundary, a warrant used for travelling between home and Westminster is taxable.

13.4 In those cases where the home is neither in the constituency nor in London, and warrants are used for travelling between Westminster and the constituency via the home, provided that the journey between Westminster and the constituency can be regarded as "continuous", ie not more than one night passes between the two legs of the journey, (for this purpose Saturdays and Sundays are ignored), only the excess of the value of the warrant used for the round

trip over the value of a warrant for the direct journey between Westminster and the constituency is regarded as taxable.

13.5 Warrants used by a Member's spouse are taxed in the same way as those used by Members. This means that there is no charge to tax where the journey is between Westminster and the constituency. Warrants used by Members' children are however taxable regardless of the journey.

14. Season Tickets

Section 61, Finance Act 1976, had the effect of bringing the value of season tickets issued by the Fees Office and used by Members also within the charge to tax with effect from 6 April 1977. The same rules as those applying to car mileage allowance and the travel warrants are used in determining whether or not the value of the season ticket is regarded as taxable.

15. Overseas Duties

If Members travel abroad on Parliamentary duties, or in an all-Party Delegation, they may be entitled to a deduction under Schedule 7, Finance Act 1977. The conditions under which a claim may be allowed are summarised in the Tax Return Guide, which is issued with the Tax Return form.

16. Tax Liability of Employees

When Members engage secretarial assistance etc, these staff will almost invariably be employees and liable to tax under Schedule E. If the Member pays the salaries himself, and these salaries are above certain prescribed limits (currently £34 per week or £149 per month) he is required to deduct tax under the Pay As You Earn Regulations and to account for the tax so deducted to the Collector of Taxes.

If, however, the Member has arranged for the Fees Office to make these payments the Pay As You Earn responsibility will be undertaken by that Office.

HM INSPECTOR OF TAXES
PUBLIC DEPARTMENT (1)
June 1983



RS/Chancellor
RS/CST
RS/M&T (R)
W. Kelson
W. Corbett/IK
W. P. Atkinson/IK

Treasury Chambers, Parliament Street, SW1P 3AG

PK

John Stanley MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
LONDON
SW1

16 May 1983

Dear John

INDUSTRIAL BUILDINGS OFFICE AND PERMISSIBLE OFFICE CONTENT

Thank you for your letter of 5 May about the suggestion made at the recent meeting of the Economic Development Committee for Building that the allowable non-industrial proportion of an industrial building, which has been increased from one tenth to one quarter, should not be lost immediately the proportion exceeds that figure.

The suggestion is not one which I could accept. The non-industrial disregard is a de minimis measure, to avoid detailed enquires and relatively small adjustments where there is a limited commercial element in a building otherwise used primarily for industrial purposes. The EDC's idea would change the nature of the relief entirely. If I understand it correctly, it would have had the effect of providing for industrial buildings allowance on the cost of non-industrial space representing 25 per cent of the total building, even where the industrial use of the building as a whole was minimal - at the extreme, as little as 1 per cent. I cannot see how that could be justified. It virtually amounts to giving a 25% initial allowance on all commercial buildings which is a very different and expensive idea.

But we must await the
New Government!

Yours
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL



CC PPS
PS/CST
PS/EST
PS/MST (c)
PS/MST (r)
Mr Middleton
Mr Bailen
Mr Wilding
Mr Kemp

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Kitchin
Mr Judd
Mr Manger
Mr Hall
Mr Perry
Mr Rayner
Mr Ridley

Michael Scholar Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

18 May 1983

Dear Michael,

PAC 5TH REPORT ON DEFENCE MATTERS: PARAS 33-41
NON-COMPETITIVE CONTRACTS

... This report is due to be published at noon tomorrow. I enclose a CFR.

The section on non-competitive contracts is much less potentially damaging than had seemed likely in an early draft and we do not think that, on its merits, it should arouse very much Press interest of a critical kind. Although therefore it is conventionally regarded as legitimate, if unusual, for departments to issue factual statements on these occasions (but illegitimate to publish replies of substance other than by Treasury Minute addressed to the House) we do not propose to do so. The matter is one of six dealt with in the report and it does not seem wise to draw particular attention to this section.

... We have, however, prepared the enclosed defensive note in case comment becomes necessary. It should, of course, be regarded as subject to a corresponding embargo to that stamped on the CFR.

Yours sincerely
E Kwiecinski

E KWIECINSKI
Private Secretary

DEFENSIVE NOTE ON PAC 5TH REPORT - PARAS 33-41

1. The Committee's conclusions for the future are very much on the lines of the Government's own views viz.
 - (a) The profit rate should be reduced as soon as possible after the current review has been completed.
 - (b) The new rate should be consistent with the broad principle of comparability and should duly reflect the low rate of inflation now achieved.
 - (c) There should in future be provision for change, when circumstances justify it, between triennial reviews.

2. As for the past :
 - (a) The alleged £75m a year "extra cost" is a hypothetical figure based on what might have been the Review Board's 1980 recommendation if it had approached its task differently and with the advantage of perfect foresight - and if the contractors had been prepared to accept such a different result.
 - (b) There has never been provision for adjustment between reviews in the arrangements for these contracts and, in practice, as the Committee acknowledges in para 38, both sides have accepted the three year intervals between negotiations whether the advantage was with the Government or the contractors. The advantage has gone both ways in the past but, in view of the recent experience, provision for interim adjustment has been proposed by the Government in the review now in progress.
 - (c) The contracts in question are worth nearly £3,000m a year and any criticism of the profits made on them should be seen in proportion to this figure.
 - (d) There was no such delay in submitting the Government's evidence to the Review Board as is implied in para 36. The Board called for written evidence by the end of October 1982 and the Government's evidence was submitted within a day or two of that date.

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 18 May 1983

CHANCELLOR

cc Chief Secretary
Minister of State (R)
Mr Robson
Mr Spence - IR
PS/IR

TAX RELIEF FOR MAINTENANCE PAYMENTS

The Financial Secretary has asked me to send you a copy of
... Mr Spence's note of 16 May (attached, Ministers' copies only) which
he commends as an excellent and most interesting piece of work.

He has commented that ITTA plus "the variant" (ie tax neutrality)
would mean:

- a) a one earner couple who divorced would have a rather bigger combined tax burden than when they were married (instead of the reduction in tax bills which the present regime on maintenance payments would give to couples who divorce); and
- b) a two earner couple would have a rather lower tax bill after divorce than when they were married (though their gain from divorce would be much less than under the present regime for maintenance payments).

He thinks that tax neutrality over alimony would be both easier to sell and to justify with ITTA than with the present system. Without ITTA he agrees with Lord Cockfield that it would be difficult to achieve tax neutrality for alimony.

CK.

E KWIECINSKI



JK

FROM: MR I SPENCE

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

16 May 1983

J
PS/FINANCIAL SECRETARY

16 MAY 1983

TAX RELIEF FOR MAINTENANCE PAYMENTS

1. Mr Robson and I have agreed that I should take the questions raised by the Financial Secretary in your 10 May minute to him since the ITTA angle is central and since this particular question also runs on from what I was talking about in my 6 May minute to you about the effect of the switch to ITTA on total family income. But what follows reflects discussions with Mr Robson, and with Mr Fawcett here (since he leads on maintenance payments).

2. The figures the Financial Secretary asked for are attached as an Annex. As well as covering ITTA, these figures expand Mr Robson's original set to cover the position where the wife/ex-wife is working, as well as when she is at home. And we have dropped the mortgage interest element from the figures - partly for simplicity, but partly also because the introduction of MIRAS means that tax relief on mortgage interest will usually have less impact on the "before and after marriage" comparison than it has done hitherto.

3. What difference would the introduction of ITTA make? In essentials:

a) For the one-income couple, ITTA as presently conceived would make no difference. Assuming we retain APA, the total allowances would be the same before and after ITTA. If we keep the present (tax deductible) treatment of maintenance payments, the divorced couple will gain to the same extent after ITTA as they do now. If we moved to a "tax-neutral" regime for

cc Mr Robson

Mr Blythe
Mr O'Leary
Mr Fawcett
Miss Owen
M. Kilmay.
M. Syman.

maintenance payments (ie payments being non-deductible in "his" hands, and tax free in "her's") then the couple would lose to the same extent under the present regime and under ITTA.

- b) For two-earner couples ITTA will make no difference to people who are divorced, but it will reduce the allowances for the married couple: viz

	<u>Present regime</u>	<u>ITTA</u>
Working married couple	2½ allowances	2 allowances
Divorced couple	2½ allowances (single x 2 + APA)	2½ allowances (single x 2 + APA)

So under ITTA the divorced couple would have more allowances than their married counterparts, to add to the advantages they can get from the present treatment of maintenance payments. If we moved to a tax-neutral regime on maintenance payments, the loss to the divorced couples would correspondingly be mitigated by this allowance lead.

4. Where does this take us?

The broad conclusions from this seem to be:

- a) there is a fair case for moving to a tax-neutral regime for maintenance payments within the present system (as Mr Robson said in his previous minute). But the difficulties are equally obvious (and led Lord Cockfield to reject this approach a couple of years ago);
- b) if we have ITTA the case for moving to a tax-neutral regime would be rather stronger - because of the change at 3(b) above. And I would guess it would be less difficult to market such a radical reform as part of an ITTA package than if the change in the treatment of maintenance payments were made in isolation. Of course, the difficulties in a change will still be considerable. In particular it may be pretty difficult to justify a change in the treatment of payments to the child as distinct from alimony for the wife. And - perhaps unfortunately - there is an increasing trend for maintenance payments to be made direct to

the child, and a reduction in the scale and frequency of alimony settlement direct on the wife. But it is, of course, precisely because it is such a difficult area that it needs a long hard look.

As you know we are already pursuing the future of APA and maintenance payments, under the present system as well as under ITTA. This is primarily in the context of the tax advantages for cohabitting couples - a remit from MST(R) in response to my 29 March note to him on a Sunday Times article. It has already struck us that we cannot look at the "artificially" divorced in isolation from the "genuinely divorced" but the Financial Secretary has - if I may say so - provided a nicely timed stimulus to our activity on this broader aspect of the problem - ie something we can look at in the relatively serene (I hope) period before the election. In the course of this exercise we will also be taking another look at the (closely related) question of covenants for the unmarried, on which we exchanged thoughts with the FST last autumn. We have a nice set of problems to mull over in the next few weeks - and are, of course, duly grateful for it!

for some!



I R SPENCE

TABLE I

ONE-EARNER COUPLESMARRIED1. Present system

	<u>Husband</u>	<u>Wife</u>
Income	£20,000	
Married man's allowance	£2,445	
Taxable income	£17,555	
Tax	5,865	

2. ITTA

	<u>Husband</u>	<u>Wife</u>
Income	£20,000	
Single allowance	£1,565	£1,565 (notional)
Transfer from wife	880	
Taxable income	£17,555	
Tax	5,865	

DIVORCED

1. Present (ie alimony deducted from husband, and taxed on wife).

	<u>Husband</u>	<u>Wife</u>
Income	£20,000	£5,000
Single allowance	£1,565	£1,565
APA		880
Taxable income	£13,435	£2,555
Tax	4,094	767
Joint tax	£4,861	

2. Variant (ie alimony neither deducted from husband nor taxed on wife)

	<u>Husband</u>	<u>Wife</u>
Income	£20,000	£5,000
Single allowance	£1,565	
Taxable income	£18,435	-
Tax	6,261	-

a. Total joint income is £20,000

b. Allowances and rates of tax are those for 1982-83.

c. 'Variant' for divorced couples means the tax-neutral option: ie alimony is non-deductible from the husband's income and tax-free in the wife's.

TABLE II

TWO-EARNER COUPLESMARRIED1. Present system

	<u>Husband</u>	<u>Wife</u>
Income	£18,000	£2,000
Married man's allowance	£2,445	-
SPA or WEIA	-	£1,565
Taxable income	£15,555	£435
Tax	5,030	130
Joint tax	£5,160	

2. ITTA

Income	£18,000	£2,000
SPA	£1,565	£1,565
Taxable income	£16,435	£435
Tax	5,361	130
Joint tax	£5,491	

DIVORCED1. Present system (if alimony deducted from husband, and taxed on wife).

Income	£18,000	£2,000
SPA	£1,565	£1,565
APA	-	880
Alimony	£5,000	£5,000
Taxable income	£11,435	£4,555
Tax	3,430	1,366
Joint tax	£4,796	

2. Variant (if alimony neither deducted from husband nor taxed on wife).

Income	£18,000	£7,000 (of which £5,000 non-taxable)
SPA	£1,565	£1,565
APA	-	880
Taxable income	£16,435	-
Tax	5,361	-
Joint tax	£5,361	

a. Total joint income is £20,000 a year. Where both spouses work, this is split £18,000 to the husband, and £2,000 to the wife (with all higher rate tax paid by the husband).

b. Allowances and rates of tax are those for 1982-83.

c. 'Variant' for divorced couples means the tax-neutral option: ie alimony is non-deductible from the husband's income and tax-free in the wife's.

SUMMARY OF TABLES 1 and 2A. ONE-EARNER COUPLES - Man works, woman at home.

		<u>Gross income</u>	<u>Tax</u>	<u>Total net income</u>
I.	MARRIED	(ex-cb)		
	A.	Present £20,000	£5,865	£14,135
	B.	ITTA £20,000	£5,865	£14,135
II.	DIVORCED			
	A.	Present system £20,000	£4,861	£15,139
	B.	Variant £20,000	£6,261	£13,739

B. TWO-EARNER COUPLES

		<u>Gross income</u>	<u>Tax</u>	<u>Total net income</u>
I.	MARRIED			
	A.	Present £20,000	£5,160	£14,840
	B.	ITTA £20,000	£5,491	£14,509
II.	DIVORCED			
	A.	Present £20,000	£4,796	£15,204
	B.	Variant £20,000	£5,361	£14,639

a. Total net income will be increased where there are children by the child benefit (about £5.50 a week per child for 1982-83) and, where the couple is divorced, one parent benefit (about £4.50 a week over 1982-83).

b. Footnotes for Tables I and II apply.



FROM: M E DONNELLY
DATE: 18 May 1983

MR JUDD

cc PPS
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Bailey
Mr Wilding
Mr Kemp
Mr Kitcatt
Mr Hall
Mr Monger
Mr Rayner
Mr Perry
Mr Ridley

PAC REPORTS ON NON-COMPETITIVE CONTRACTS (DEFENCE AND DRUGS)

The Financial Secretary was grateful for your minute of 17 May.

He feels that the note to go to NO.10 might be expanded to lay more stress on:

- i) the fact that in practice these contracts last for a fixed term and therefore there will be an element of swings and roundabouts; and
- ii) perhaps make more of your point 5.(ii) that since 1968 both sides have accepted that the profit rate remains fixed between reviews.

You agreed to provide a re-draft during the course of 18 May, to be sent on to NO.10.

M E Donnelly
M E DONNELLY



FROM: E KWIECINSKI
DATE: 18 May 1983

MR RIDLEY MR RIDLEY

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Hague

BRIEFING ON FISCAL MATTERS: REASONS FOR INCREASES IN NATIONAL
INSURANCE CONTRIBUTIONS

... I attach a revised version of the question and answer briefing on
the reasons for the rises in NICs.

This takes on board Mr Robinson's comments of 18 May.

E KWIECINSKI

Question Why has the Government increased National Insurance Contributions so much?

Answer Because the numbers receiving the principle benefits have risen.

The increase in the number of pensioners between 1978-79 and 1983-84 is expected to be 565,000. The pension will have risen, by the next uprating in November, by slightly more than prices. The total cost of the pension, is estimated to rise from £7.6bn in 1978-79 to £14.7bn in 1983-84.

The rise in the number of unemployed has also increased spending. Expenditure on unemployment benefit is expected to rise from £0.6bn in 1978-79 to £1.9bn in 1983-84.

Thus the National Insurance Fund has needed increases in contributions, to cover expenditure rising from £11.0bn in 1978-79 to £20.8bn in 1983-84. [If the £11.0bn figure were merely indexed, the total would have been only about £19bn.] Of ^{the} £9.8bn increase in expenditure, £7.1bn (over 70%) is due to retirement pensions.



FROM: M E DONNELLY
DATE: 19 May 1983

NOTE

cc PS/Chancellor
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Mr Edwards
Miss Court
Mr Peet
Mr Marsden - UKREP
Mr Taylor - UKREP
Mr Fry - FCO
Mr Williamson - Cabinet Office

FINANCIAL SECRETARY'S MEETING WITH EDG MEPs - 18 MAY 1983

During his trip to Strasbourg, the Financial Secretary had a short meeting with about 20 members of the European Democratic Group.

The Financial Secretary spoke briefly about the current outlook for a Budget settlement. Although the UK had not requested it, it was on balance helpful that the Stuttgart Summit had been postponed until after the election.

The Commission's proposals for a longer term Budgetary solution did not solve the UK's problem. But some aspects of them - particularly the modulated VAT key - could be seen as a step in the right direction. The Government was also prepared to see expenditure on programmes where the UK would benefit rise; but increased expenditure was not the answer. There was an encouraging increase of awareness inside the Parliament of the need for firm long term controls on agricultural spending. The Government would continue to press for a satisfactory long term solution involving restraint on agricultural spending; and would present the need for interim budgetary solutions in that context.

Mr Moorhouse said that one area where the Commission had agreed to spend more money in the UK was on transport infrastructure, specifically on improving approach roads to the east coast ports. The Parliament's Transport Committee supported this. But he had been

informed that the Treasury was preventing this project from going ahead. There was some discussion of the UK Government's position on the 1 per cent VAT ceiling. Mr Balfour said that the Commission and Parliament were basically interested in finding acceptable ways of increasing the resources available to the Community. His assessment was that politically there was no chance of the UK receiving an acceptable budgetary deal without being prepared to give way at some point on the 1 per cent ceiling. Sir Fred Catherwood stressed that agreement on a long term limit on the share of agricultural expenditure within the Budget could also only be agreed in the light of a wider strategic decision on own resources.

Replying, the Financial Secretary stressed that the UK wished to see a water-tight limit on the amount of budget expenditure on agriculture; and also some safety net which guaranteed that relative shares in budget financing would not again produce unacceptable situations for any member state. Until these conditions were fulfilled, the question of increasing the 1 per cent limit could not even arise. The proximity of the 1 per cent ceiling strengthened the UK's hand in pressing for durable Budgetary reforms. To look further on was hypothetical, not least because satisfactory control on agricultural expenditure might well remove entirely the need for any increase in the VAT ceiling. So the UK Government's position remained that there should be no increase in the Community's own resources. He promised to look into Mr Moorhouse's point concerning the transport infrastructure. It would be useful for MEPs to come to the UK and see how Community funds were being spent on projects here; he hoped that such a trip could be arranged before too long.

MEJ
M E DONNELLY



FROM: M E DONNELLY
DATE: 23 May 1983

PS/CHANCELLOR

cc PS/Minister of State (C)
PS/Minister of State (R)

INCENTIVES TO IMPROVE EFFICIENCY

The Financial Secretary has now seen Sir Lawrence Airey's minute of 16 May, passed on to him by the Minister of State (C).

The Financial Secretary's view is that the reward money should be used to give a direct financial incentive to individuals. Improving sports grounds, theatre visits etc are essentially other ways of improving the general working environment, and do not provide the same type of direct incentives. The Financial Secretary finds the French parallel, whereby civil servants have their pay topped up by their Departments through a private bonus system, an instructive one.

ME
M E DONNELLY

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 23 May 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
Mr Middleton
Mr Littler
Mr Bailey
Mr Unwin
Mrs Hedley-Miller
Mr Judd
Miss Court
Mr Edwards
Mr Collinson
Mr Hall
Mr Lennon
Mr Peet

ADVANCE PAYMENT TO THE EC COMMISSION

The Financial Secretary has seen the Prime Minister's comments on the Chancellor's minute of 12 May to the Foreign Secretary.

The Financial Secretary discussed the UK's reactions to the Commission's request for an advance payment with Mr Tugendhat in Strasbourg on 18 May. Mr Tugendhat fully accepted that the constitutional reasons why we could not meet the Commission's request were entirely sufficient.

MEI
M E DONNELLY

RESTRICTED



FROM: M E DONNELLY
DATE: 23 May 1983

CHANCELLOR

cc Economic Secretary
Mr Middleton
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards
Mr Ridley

THE COMMUNITY BUDGET PROBLEM

The Financial Secretary has seen the Chancellor's comments on the Economic Secretary's 17 May minute.

The Financial Secretary has commented that several colleagues in the European Democratic Group of MEPs had put the following point to him:

"If the Community brings in measures to control agricultural spending; and sorts out the long term financing of the EC in an acceptable way; and provides interim refunds for the UK, we would have to be prepared to increase the 1 per cent VAT limit if necessary. Otherwise we would be deceiving our partners' hopes".

The Financial Secretary replied on the lines of:

"All these are hypotheses: I will believe them when I see them. If the Community controls spending on the CAP there would be no need to increase the 1 per cent limit etc".

But the Financial Secretary is aware that this reponse was not found satisfactory even by those helpful to our cause; and made him appear impossible to deal with. He feels that the presentation of our policy in this area is extremely difficult.

MEJ
M E DONNELLY



Neil

Third time lucky -
attachment now enclosed.

If you have any queries or points
to follow up on this John Peet
is probably the best contact.

Martin Donnelly

SAFETY-NET LIMITS ON NET CONTRIBUTIONS

Objective: to solve the problem of budgetary imbalances in the Community on a lasting basis which will -

- (a) ensure that no member state can be placed in an intolerable financial position, before or after enlargement, and
- (b) open the way for progress in the Community, while
- (c) disturbing the Community's existing arrangements as little as possible, and
- (d) ending the appalling annual arguments about refunds.

A possible approach:

- Concentrate on where the shoe is pinching or likely to pinch - ie the net contributor countries - rather than trying to fix the net budgetary positions of all member states.
- Community to agree that there should be an upper limit on the net budget contribution which any member state should be expected to make.
- The limits, or maximum net contributions, would be expressed as a small percentage of the GDP of the member state concerned, the percentage being related to relative prosperity. (Purely by way of illustration, the limits might be set at zero for member states below (say) 85-90 per cent of average prosperity in the enlarged Community, rising to some small percentage of GDP for member states with 140 per cent of average prosperity; but other formulae and parameters would of course be possible.)
- Implement by allowing any member state which would otherwise be making a net contribution of more than its limit to deduct the excess from its VAT payments. Such adjustments seem more in the nature of tax reliefs than policy expenditures. In contrast with a refunds system, other member states would not be obliged to make payments to Germany, France, the UK or any other beneficiaries of the limits scheme.
- Solve the imbalances problem to the maximum extent possible at source, by firm containment of agricultural expenditure and development of other genuine Community policies. The limits and associated reliefs would operate only to the extent that the imbalances problem was not solved by these means; hence the term 'safety-net'.



cc Chancellor
CST
EST
MST(cc)
MST(R)
MS Scamman
Mr Blythe } IR
Mr Martin } IR
PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG

John Selwyn Gummer Esq
Parliamentary Under Secretary
of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

23 May 1983

Dear Minister,

RAYNER SCRUTINY OF PAYMENT OF BENEFITS TO UNEMPLOYED PEOPLE:
RECOMMENDATION 27

Thank you for copying me your letter of 9 May to Hugh Rossi.

My interest in this Rayner recommendation lies in the possibility of short term benefit switching which you mention in your letter. I am glad the figures suggest that for the time being this is not happening.

However, we have no guarantee that this heartening position will remain unchanged indefinitely - or indeed for any great length of time. I gather that your officials have agreed to continue to record the figures of claimants switching, for which I am grateful. I hope you will agree that - whatever course you decide is best for the time being - we can take another look at the recommendation if the figures increase markedly. I see no reason why we should close the door on it for all time.

Nicholas Ridley
PP. *Nicholas Ridley*
NICHOLAS RIDLEY

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



FROM: M E DONNELLY
DATE: 23 May 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Peretz
Mr Ridley

CAMPAIGN SPEECHES: BALANCE OF PAYMENTS

... The Financial Secretary has now revised the attached draft speech handout, which has been checked for factual accuracy by officials.

If the Chancellor is content, the Financial Secretary intends to use it after the next monthly trade figures are published.

MED

M E DONNELLY

I want to say somethings about the balance of payments. It is indeed a balance; it is the sum of all our transactions with the outside world, and so it has to balance. It consists of two main elements; the surplus or deficit on trade, (including ^{so called} invisibles such as banking and tourism), together with borrowing from or lending to the world outside. These two must always add up to zero.

To explain why, suppose a British exporter sells some goods overseas worth £1000. Either he receives foreign currency for them, which he must convert into pounds sterling, or the purchaser overseas changes his money into sterling in order to pay for the goods directly. Either way foreign currency has to be sold and sterling bought. The bank with whom our exporter changes his foreign currency into pounds will end up with extra foreign currency-which is simply a claim on goods produced by other countries. If overall we in Britain are selling more to the rest of the world than we buy from the rest of the world then we will build up a surplus of foreign currency holdings. The only way this surplus can be used is to lend it, or to invest it overseas, in the countries that are buying our goods.

So foreign investment becomes inevitable when we have a trade surplus. Equally foreign borrowing becomes inevitable when we run a trade deficit. When Labour ran heavy trade deficits in the mid-seventies they had to go to the IMF to borrow, just as the French are now having to borrow heavily to cover their trade deficit.

Our cumulative trade surplus since May 1979 is about 13 billion pounds. This has led to overseas investments of about the same amount - as it must to maintain the overall balance of payments. Thus we have built up massive assets overseas worth about £13bn. Not only will these assets stand as in good stead in the future, when North sea oil earnings begin to run out; they help to increase our exports abroad through direct investment in overseas markets.

But Labour clearly does not understand this simple point - that our current and capital payments must balance. They rant and rail against the "export of our capital" and say they will stop it by re-imposing exchange controls.

We are predicting a further trade surplus of £1½bn in 1983, and even a tentative £2bn in 1984. Suppose Labour's policy were put in place, and exchange controls were re-imposed. If these controls successfully prevented money leaving the country (which is doubtful in itself since they only applied to UK residents, not non-residents) the exchange rate

would rise, until our exporters were no longer able to export so much, and our trade surplus were reduced to zero. But that is the opposite of what Peter Shore wants - he wants a lower exchange rate, not a higher one.

If he wanted the exchange rate to fall (assuming of course it doesn't fall through the floor anyway in the unlikely event of a Labour Government ever again taking office) then the Government could simply lend large sums of money overseas as official loans - in which case we would be back where we are, with capital going abroad. The only difference would be that it would take the form of Government lending overseas, rather than private investment, which is inevitably less likely to be rewarding for the future. Alternatively the ^{artificially} higher exchange ^{rate} produced by exchange controls would lead to foreign investments in Britain being cashed ⁱⁿ for a quick profit, which would do great damage to jobs in this country.

In other words, Labour policy in this area, as in so many others, is absolutely nonsense, and based on a simple failure to understand how the system works.

As I said, the projections for the future are of continuing trade surpluses. It may be that within those trade surpluses imports of manufactures have exceeded exports (although one should never read too much into one set of figures). But if it is so, there is nothing awful about it.

The large current account surplus on North Sea oil means that we can afford to import more manufactured goods than we otherwise could. This is one of the benefits of North Sea oil. It is reasonable to ask those who criticise the trend towards a smaller surplus/deficit on manufactured trade whether they would prefer to see a larger current account surplus and larger offsetting capital outflows?



FROM: M E DONNELLY
DATE: 23 May 1983

PS/CHIEF SECRETARY

cc Mr Bailey
Mr Wilding
Miss Kelley
Mr Hopkinson
Mr Pestell
Mr King
Mr Andren
Ms Gane

PSA: DESIGN COSTS WORKING PARTY REPORT

The Financial Secretary has seen Mr Hopkinson's submission of 18 May.

The Financial Secretary is strongly of the view that the report should not be published until after the election. He has commented that it would be entirely inappropriate to release such technical material when Parliament is not sitting and we are in the middle of an election campaign.

MED

M E DONNELLY



FROM: E KWIECINSKI
DATE: 23 May 1983

MR BRYCE - IR

cc PS/IR

CGT: DRUMMOND (HMIT) V BROWN

The Financial Secretary has seen the Times article of 17 May
... (attached).

He wonders if the Revenue are content with the outcome of this case
and would be grateful for your comments.

A handwritten signature in dark ink, appearing to be "E Kwiecinski".

E KWIECINSKI

No gains tax on tenant's compensation

Drummond (Inspector of Taxes) v Brown

Before Mr Justice Walton

[Judgment delivered May 9]

Section 22 of the Finance Act 1965 did not operate to impose capital gains tax on a capital sum paid as statutory compensation under section 37 of the Landlord and Tenant Act 1954 to a tenant on his quitting business premises.

His Lordship so held in the Chancery Division in dismissing an appeal by the Crown from a determination of the special commissioners discharging an assessment to the tax for 1977-78 made on Mr John Austin Brown in respect of a compensation payment of £31,384.

The provisions of section 22 of the 1965 Act are now contained in sections 19 and 20 of the Capital Gains Tax Act 1979.

Viscount Dilhorne for the Crown; Mr David Milne for Mr Brown.

MR JUSTICE WALTON said that since 1959 Mr Brown, a solicitor, had carried on practice from rented premises at 49/50 Cornhill, London.

In 1977 his landlords, the National Westminster Bank, served him with notice under section 25 of the Landlord and Tenant Act 1954 terminating his tenancy and stating that they would oppose any application for the grant of a new tenancy on the ground that the bank intended to occupy the premises for the purposes of their own business.

Mr Brown had simply and sensibly surrendered to the notice. He was paid statutory compensation on giving up possession.

Having been in the premises for more than 14 years he was entitled to a sum equal to twice the rateable value of the premises - £31,384. The Crown sought to assess him to capital gains tax on the whole of that amount.

Compensation under the 1954 Act was in general intended to be paid to a tenant who was desirous of remaining in occupation of business premises and who was being put out of possession by his landlord.

Thus he would have to look around to find alternative premises and make other arrangements to overcome the many ancillary difficulties arising from the termination of his tenancy. And, of course, it would be a rare case for the amount of the statutory compensation payable to equate exactly with loss suffered by such a tenant: some small profit or loss might well accrue to him.

The Crown relied on section 22 of the Finance Act 1965 to bring Mr Brown within the charge. Subsection (1) provided that "all forms of property shall be assets for the purposes of this Part of this Act".

By subsection (3) "... there is for the purposes of this Act a disposal of assets by their owner where any capital sum is derived from assets... and this subsection applies in particular to... (a) capital sums received by way of compensation... for the loss, destruction or dissipation of assets".

The Crown argued that Mr Brown had an asset in the shape of a statutory right to compensation and that the £31,384 was received by him as compensation for the loss of

that asset. Thus, it was said, Mr Brown was liable to be taxed on the whole amount of the compensation.

That was where the doubts began to creep in. One was aware that statutes might provide anything and often they provided for taxation in circumstances where no ordinary, fair-minded man would think that tax ought to lie.

The difficulty here was that if, as already mentioned, there was any gain accruing to a tenant, it would only amount to a small proportion of the sum that he had received.

But one then asked for the purpose of ascertaining the amount of any gain, where in the Act was there a provision for deducting from the compensation anything expended by a tenant in putting himself back in a position to carry on business from other premises?

The Crown could only refer to paragraph 4 of Schedule 6 to the Act that contained general provisions relating to expenditure. But those provisions had no application to the present case. That made one wonder whether statutory compensation was intended to be subject to liability to the tax.

The decision in *Davis v Powell* ([1977] 1 WLR 258) was to that precise effect. There Mr Justice Templeman held that compensation paid to a farmer for the termination of an agricultural tenancy did not come within the charge to tax.

The judge there said that the compensation was not derived from an asset at all: it was simply a sum which Parliament said should be paid for expense and loss which were unavoidably incurred after a lease had gone.

He went on to suggest that the position might be different in the case of a bargain whereby a landlord agreed to pay a tenant a sum of money to persuade him to give up his possession. In that case a tenant could not complain, if any profit accrued to him, that he should be taxed in respect of it.

The decision in *Davis v Powell* was to be followed - it was sound in law and in commonsense. The compensation payment made to Mr Brown did not come within section 22(3) and the appeal was dismissed.

The Crown indicated that the case had been brought as a test case and that it had been agreed to pay Mr Brown's costs in any event.

Solicitors: Solicitor of Inland Revenue; Hunters.

MANAGEMENT IN CONFIDENCE



FROM: M E DONNELLY
DATE: 23 May 1983

MR I P WILSON

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Mr Bailey
Mr Monck
Mr Burgner
Mr Kitcatt
Mr St Clair
Mr Morgan
Ms Seammen
Mr Pickering

ROYAL ORDNANCE FACTORIES: MINISTRY OF DEFENCE LETTER 16 MAY

The Financial Secretary has seen Mr Pattie's letter of 16 May and Mr Corcoran's note of 19 May, dealing with pensions for service by transferred staff after transfer from the Civil Service.

The Financial Secretary was concerned by Mr Pattie's suggestion that staff would seek assurances that their index linked pensions were absolutely secure. He has commented that if after transfer the staff want index linking, then they should be prepared to pay for it. There should be no question of a Government guarantee.

In the circumstances, the Financial Secretary thinks that it would be helpful to send a simple holding reply to Mr Pattie, pointing out that we will need to consider this question further after the election.

MED
M E DONNELLY



FROM: M E DONNELLY
DATE: 23 May 1983

MR PERETZ

cc Mr Middleton
Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Bailey
Mr Perfect
Mr Ridley

CAMPAIGN SPEECHES: BALANCE OF PAYMENTS

The Financial Secretary was grateful for the comments in your note of 17 May.

... Perhaps you would let me know whether the attached redraft contains either factual inaccuracies or misleading analysis; by close today if possible.

ME
M E DONNELLY

I want to say somethings about the balance of payments. It is indeed a balance; it is the sum of all our trans- actions with the outside world, and so it has to balance. It consists of two main elements; the surplus or deficit on trade, (including/^{so called} invisibles such as banking and tourism), together with borrowing from or lending to the world outside. These two must always add up to zero.

To explain why, suppose a British exporter sells some goods overseas worth £1000. Either he received foreign currency for them, which he must convert into pounds sterling, or the purchaser overseas changes his money into sterling in order to pay for the goods directly. Either way foreign currency has to be sold and sterling bought. The bank with whom our exporter changes his foreign currency into pounds will end up with extra foreign currency-which is simply a claim on goods produced by other countries. If overall we in Britain are selling more to the rest of the world than we buy from the rest of the world then we will build up a surplus of foreign currency holdings. The only way this surplus can be used is to lend it, or to invest it overseas, in the countries that are buying our goods.

So foreign investment becomes inevitable when we have a trade surplus. Equally foreign borrowing becomes inevitable when we run a trade deficit. When Labour ran heavy trade deficits in the mid-seventies they had to go to the IMF to borrow, just as the French are now having to borrow heavily to cover their trade deficit.

Our cumulative trade surplus since May 1979 is about 13 billion pounds. This has led to overseas investments of about the same amount - as it must to maintain the overall balance of payments. Thus we have built up massive assets overseas worth about £13bn. Not only will these assets stand as in good stead in the future, when North sea oil earnings begin to run out; they help to increase our exports abroad through direct investment in overseas markets.

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We are predicting a further trade surplus of £1½bn in 1983, and even a tentative £2bn in 1984. Suppose Labour's policy were put in place, and exchange controls were re-imposed. If these controls successfully prevented money leaving the country (which is doubtful in itself since they only applied to UK residents, not non-residents) the exchange rate

would rise, until our exporters were no longer able to export so much, and our trade surplus were reduced to zero. But that is the opposite of what Peter Shore wants - he wants a lower exchange rate, not a higher one.

If he wanted the exchange rate to fall (assuming of course it doesn't fall through the floor anyway in the unlikely event of a Labour Government ever again taking office) then the Government could simply lend large sums of money overseas as official loans - in which case we would be back where we are, with capital going abroad. The only difference would be that it would take the form of Government lending overseas, rather than private investment, which is inevitably less likely to be rewarding for the future. Alternatively the ^{artificially} higher exchange ^{rate} produced by exchange controls would lead to foreign investments in Britain being cashed ⁱⁿ for a quick profit, which would do great damage to jobs in this country.

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FROM: E KWIECINSKI
DATE: 24 May 1983

PS/CHANCELLOR/

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

Mr Aaronson
Mr R I G Allen
Mr Ridley
Mr Hague

TAX BURDENS UNDER SUCCESSIVE GOVERNMENTS, COMPARED

The Financial Secretary has seen your minute of 17 May.

He has commented that all the relevant material is contained in the note circulated by Mr Ridley on 16 May, but it is not presented in the right order. He thinks it should be set out as follows:-

- 1) Paragraph 1 - Aggregate tax burden.
- 2) Reasons for 1) above:
 - a) higher real wages (+7 $\frac{1}{4}$ % Tories, +2 $\frac{1}{4}$ % Labour);
 - b) less tax paid by industry;
 - c) more pensions/pensioners = +£7bn;
 - e) more unemployed = +£1.2bn;
 - d) world recession etc.
- 3) Nevertheless, real disposable personal income is up - then give the table in paragraph 4.

- 4) Share of income devoted to tax/NIC (paragraph 2).
- 5) Share of income devoted to tax alone (paragraph 3).

AK -

E KWIECINSKI



FROM: M E DONNELLY
DATE: 24 May 1983

PS/CHANCELLOR

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

HEALEY ON WITTEVEEN ON THE UK ECONOMY

The Financial Secretary has seen Dr Witteveen's statement on the world economy, circulated by Mr Ridley on 17 May as material used by Mr Healey to criticise the Government. The Financial Secretary has commented that this is pretty unpromising material for Mr Healey, since paragraph 5 clearly states the "clear need to take strong action now to reduce prospective budget deficits" and "the emphasis should be on reducing spending".

MED
M E DONNELLY



FROM: E KWIECINSKI
DATE: 24 May 1983

MR BATTERSBY - IR

cc PS/IR
Mr Milner - MCU

LETTER TO JOHN MACGREGOR ESQ: COOPERS & LYBRAND: DUTOM MEDITECH LTD

The Financial Secretary has seen the correspondence in this case and ... the proposed draft reply (all papers attached).

He has commented that this really is too hard. He thinks it is a case that we really must try and meet - if not in legislation then by some sort of discretionary action. He hopes the Revenue will try and find a way round this as he thinks this is just the sort of thing we want to happen.

A handwritten signature in dark ink, appearing to be "E Kwiecinski".

E KWIECINSKI



Treasury Chambers, Parliament Street, SW1P 3AG

John MacGregor Esq
Parliamentary Under Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Dear John

You wrote to me on 20 April enclosing a letter of 11 April from Patrick Taylor of Coopers & Lybrand about tax relief for investment in the shares of Dutom Meditech Ltd.

I should say at the start that it is not entirely clear whether the investment is to be considered under the Business Start Up Scheme or the Business Expansion Scheme. As you will know, the Business Expansion Scheme, which is now embodied in the Finance Act, applies to shares issued on or after 6 April 1983. If the shares here, as appears more likely, were issued on 5 April 1983, then it is the rules of the Business Start Up Scheme which apply. In practice, I think relatively little turns on that, since the relevant provisions are identical for both BSS and BES.

The point at issue is that two individuals agreed to subscribe for additional new ordinary share capital in Dutom Meditech Ltd in order to help the company over its immediate cash flow difficulties. They subscribed in the hope of obtaining relief under BSS. But, since the company also needs to raise much larger amounts of new equity, it has been decided to set up a new company with plc status, which will then issue its shares pro rata in exchange for the shares in Dutom Meditech Ltd. The problem is, that by exchanging their shares in Dutom Meditech Ltd for shares in the new plc, the individuals will have disposed of their shares, and they will therefore not be eligible, as they had hoped, for BSS relief on the new ordinary share capital they have subscribed.

The purpose of the disposal rule is of course to ensure that the very generous tax reliefs available are given only for genuine equity investment, which must be reasonably long term. So full relief is kept only if the investor holds the shares for 5 years.

You suggest that we should amend the legislation to allow relief to be kept in circumstances such as this where the disposal is "of a purely technical nature." No doubt that could be done, but not I think without considerable further complication to the legislation. It would for example be no easy matter to define the precise circumstances in which a share exchange was not to be treated as a disposal, and to distinguish this from the kinds of share exchange which would continue to be treated as a disposal. Moreover, when shares of one company are exchanged for shares in another company, the new shares may have a very different value: this would mean risking complexity in the rules for withdrawing relief in a situation where the exchanged shares were themselves disposed of within the 5 year limit.

It is true, as you say, that there are various types of roll-over provisions in the capital gains tax legislation, but the principles there are not precisely the same as those for BSS and BES where an individual gets relief to putting his money into a particular company carrying on a particular trade, and where the individual and the company have to continue to satisfy certain conditions for a specific period if relief is not to be withdrawn. Finally, it would, I think normally be fairly easy for companies to avoid this particular difficulty in practice; simply by ensuring that the new plc was formed before issuing shares in which BES relief was to be claimed. (We have helped here by relaxing the normal rules on replacement capital where temporary capital is provided purely in order to achieve plc status.) For all these reasons, therefore, I am not persuaded that any amendment to the legislation is required, although I should of course be happy to reconsider the matter if it could be shown that there are a number of companies likely to face this particular difficulty in practice.

Turning now to the unusual circumstances of this particular case, I agree that the consequences are unfortunate for the individuals concerned. But I am afraid that they were not given the best advice. The rules for BSS are

quite clear, and provide that relief is lost if the shares are disposed of within 5 years. There was such a disposal, and I do not see that it is possible for the Revenue to overlook the clear wording of the legislation.

I am sorry that relief is not available in this case, but I do of course wish Dutom Meditech well with their further call for capital. I hope that this will be able to take advantage of the Business Expansion Scheme.

NICHOLAS RIDLEY



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JU794

The Rt Hon Nicholas Ridley
Financial Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
London SW1

27 May 1983

FINANCIAL SECRETARY	
REC.	31 MAY 1983
ACTION	MR ST-CLAIR
ESTIMES TO	PPS EST MST(C) CST MST(U)
	MR MIDDLETON MR KEMP
	MR BAILEY MR KITCHIN
	MR THORPE MR MORRAN
	MR BURNER MR F WILSON
	MR KIT-KING MR RH WILSON
	MS SEAMEN MR PICKERING

Dear Nicholas,

PRIVATISATION OF THE ROYAL ORDNANCE FACTORIES - ASSURANCES TO THE STAFF CONCERNING PENSIONS.

I have seen Geoffrey Pattie's letter to you of 16 May.

As regards the question whether the ROFs, when privatised, should operate a pension scheme with index linking of benefits, I think that the issue turns on whether the privatised company could afford this or whether such index linking would make it very difficult to carry out the privatisation at an acceptable price. If Geoffrey Pattie is satisfied on both these points I should be prepared to accept his judgement.

I am not, however, persuaded that we should give any assurance as to the pension liabilities or entitlements incurred or earned after privatisation. This would go further than we have done in the case of British Telecom. Moreover, the Government's shareholding in the privatised company may turn out eventually to be very small or even non-existent and, if so, it would be odd to say that the pension scheme would in practice be supported by the Government in its capacity as shareholder.

I am copying this letter to Janet Young, Michael Havers and Geoffrey Pattie.

*Yours sincerely
Pattie*



RICHEQUER

- 1 JUL 1983

PSI & deal

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1

SECRETARY	
REC.	1 JUL 1983
ACT	MR. SALWESON & deal
CC	
TC	

30 June 1983

Dear Lord President

LEGISLATIVE PROGRAMME 1983-84

I am glad that you have been able to include my bid, for a contingent Insolvency Payments Bill in the programme set out in your paper for Cabinet C(83)19. I am writing to set out the latest position.

The need for a Bill arises from a Court of Appeal judgment, delivered on 28 June, in a case concerning insolvency notice payments (Westwood v. Secretary of State for Employment). The Westwood case is about employees who have claimed unemployment benefit during a period later covered by an insolvency notice payment - which is reduced by the amount of benefit received. The Court of Appeal's judgment went wider than we expected, and the Court rules that notice payments due from employers (whether insolvent or not) are statutory, not contractual entitlements, and therefore not subject to any deductions.

Unless action is taken, we estimate that over £20m more a year would fall to be payable out of the Redundancy Fund in insolvency notice payments. We are currently considering with Counsel the prospects of a successful appeal to the House of Lords. The likelihood is, however, that we shall need to put this right by introducing primary legislation.

I am sending copies of this letter to the Members of QL, to Norman Fowler and to Sir Robert Armstrong.

Yours sincerely

B. Row

(Approved by Secret^y of State and signed in his absence)

CONFIDENTIAL



PS/CJT
we Robinson
we Croucher/IK
PS/IK

Treasury Chambers, Parliament Street, SW1P 3AG

Dr George Copeman
Copeman Paterson
10 Buckingham Place
LONDON
SW1E 6HX

31 May 1983

Dear Dr Copeman

EMPLOYEE BUY-OUTS

Thank you for your letter of 4 May about the proposal, that appeared as Clause 27 of the Finance Bill, to allow employees to receive tax relief on interest paid on loans to buy shares in an employee controlled company as part of an employee buy-out. This provision did in fact form part of the (much abbreviated) Finance Bill that was passed by Parliament shortly before the recent dissolution. There was not time for a proper debate on the Clause and we recognise that we will probably wish to return to the provision to improve it in the future.

However, while I of course recognise the difficulties that can be involved for a large public company and its shareholders where a takeover bid arises, I have to say that that is not the sort of situation we aimed to cater for in relation to this provision. It is not our view that relief for employees for share buying generally should be made available, and we would be embarking a long way down the road if we were to extend relief to employees borrowing to buy shares in any public quoted company in which, as the largest shareholder, they held only a 25 per cent stake.

Nor was this provision aimed specifically at where companies are hived-off from the public sector and privatised. To the extent that a firm which is privatised then becomes employee owned and controlled within the terms of Clause 27 then naturally it too can benefit, on the same terms as any other company, from the employee buy-out relief which we have introduced. But to the extent that, initially at least, the appropriate degree of employee equity participation and control is significantly lacking then the case for extending buy-out relief does not appear to be a strong one.

As I have said I do not wish to give the impression that our minds are closed to future improvement of this provision but I fear that your suggestion would take us a long way from our aims here.

And we must await the next Parliament

Yours au
NICHOLAS RIDLEY *Nicholas Ridley*

PS/FST



Treasury Chambers, Parliament Street, SW1P 3AG

Austin Mitchell Esq
House of Commons
LONDON
SW1A 0AA

31 May 1983

Dear Austin

On 13 May Jock Bruce-Gardyne promised to write in connection with your five questions about the velocity of circulation of money.

The figures you requested are as follows:

	Money Supply ⁺		Velocity of Circulation		Prices	Output
	£M3	M3	£M3	M3		
1982 (1979=100)	150.5	157.4	92.6	88.5	143.4	95.8

Variables are defined as in the Answer of 18 January 1980, Official Report, column 873-4.

Year	£M3 Velocity ⁺
1981	3.37
1982	3.31

The fall in the velocity of circulation of £M3 between the first quarter of 1980 and the fourth quarter 1982 is 5.3%⁺. Assuming that money grows at the top of its target range the FSBR forecast implies that velocity could fall by 2%.

Velocity fluctuates because of a number of economic and institutional factors. In recent years these have included the "corset", as well as the removal of exchange controls, the fall in inflation and a shift in savings behaviour which has increased the demand for liquid balances relative to income and partly reflected the level of interest

⁺ Figures for the money supply have been scaled to allow comparison between the old banking sector (the basis of the published figures prior to 1981Q4) and the new monetary sector (on which the published 1982 figures are based).

ates. The link between changes in velocity and interest rates and the exchange rate is not precise. It is never easy to say at any one time whether velocity is above or below some equilibrium level. Changes in the velocity of circulation have been very small compared with changes in money supply and thus changes in money incomes are closely related to changes in money.

Nicholas
Ridley

NICHOLAS RIDLEY



Treasury Chambers, Parliament Street, SW1P 3AG

Teddy Taylor Esq
House of Commons
LONDON
SW1A 0AA

31 May 1983

Dear Teddy

I am sorry that I was not able to reply to your Parliamentary question about the costs of EC membership before the House rose. ... I enclose the information you requested.

Gross own resources payments made by the United Kingdom to the Community Budget from 1 January 1973 to 31 March 1983 amounted to £12,315 million. Total public sector receipts from the Community amounted to £8496 million including £2378 million of refunds negotiated by this Government since 1979 and payable under the agreements of 30 May 1980, and 25 May 1982. Thus net payments in this period amounted to £3819 million or approximately £1 million a day. ... An annual breakdown is shown in the attached table.

I should draw attention to a correction to the 1982 line since answering your previous question on this subject. Figures were transposed in the reply on 17 February and have now been corrected. I apologise for this.

Nicholas Ridley

NICHOLAS RIDLEY

£ million

	<u>Gross payments</u>	<u>Receipts other than refunds</u>	<u>Gross refunds</u>	<u>Net Total</u> /
1973	181	79		102
1974	181	150		31
1975	342	398		-56
1976	463	296		167
1977	737	368		369
1978	1348	526		822
1979	<u>1606</u>	<u>659</u>	<u> </u>	<u>947</u>
Sub-total 1973-79	4858	2476	0	2382
1980	1767	963	98	706
1981	2174	1084	693	397
1982	2863	1238	1019	606
1983*	<u>653</u>	<u>357</u>	<u>568</u>	<u>-272</u>
Sub-total 1980-83*	7457	3642	2378	1437
GRAND TOTAL	12315	6118	2378	3819

/ A negative sign indicates a net receipt

* 1 January to 31 March 1983

(number of days between 1 January 1973 and 31 March 1983 = 3742)