

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 1 July 1983

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Middleton
Sir T Burns
Mr Littler
Mr Byatt
Mr Unwin
Mrs Hedley-Miller
Mr Collinson
Miss Court
Mr Edwards
Mr Peet
Mr Lennon
Mr Ridley

EUROPEAN COMMUNITY BUDGET: UK REFUNDS FOR 1983

The Chancellor asked for the Financial Secretary's comments on Mr Unwin's 29 June submission.

The Financial Secretary is generally content with the line proposed. He has suggested a few minor amendments to the draft minute ... (attached top copy only) to make clear that if things do go wrong, withholding would not be an automatic response but would then need to be considered in the light of the outlook at the time.

MEJ
M E DONNELLY

CONFIDENTIAL

DRAFT MINUTE

FROM: THE CHANCELLOR OF THE EXCHEQUER

TO : THE FOREIGN AND COMMONWEALTH SECRETARY

cc: Prime Minister
Sir Robert Armstrong

Minister of Agriculture
Attorney General

EC BUDGET: REFUNDS TO THE UK IN RESPECT OF 1983

The agreement reached at Stuttgart about refunds to the United Kingdom in respect of the 1983 Community Budget meant that we could put our contingency "withholding" plans on ice.

But the response of the French and some others to that agreement suggests that securing its implementation will not be easy, and that we cannot wholly rule out the possibility of again having to consider withholding at some stage. We would have to examine the question again if the Community's budgetary procedures, including not only the insertion of the relevant lines in the Budget, but the drawing up of the necessary Regulations which would provide the legal basis for payments to the UK, were clearly being used to frustrate the timely receipt of the net 750 million ecus promised by the Council. By "timely" I imply the now customary procedure for the receipt of about 90 per cent of the sums due by the end of the UK financial year: in the present case, March 1984.

I have accordingly looked at the budgetary timetable to identify ... critical dates - see parts I and II of the attached Annex. Events at each stage would be influenced by the progress - or lack of it - being made in the parallel discussions on the longer term problems of Community financing.

I conclude at present that while we must expect attempts at obstruction beginning at the time of the July Budget Council, these should not precipitate any final crisis. More important would be the weeks before mid-October - the last practical time for inserting refund figures in the Budget if the so-called Rectifying Letter procedure becomes necessary: and towards the end of December, by which time we would need to have secured both the necessary Regulations - implying the full consent of the Council to the implementation of the refunds - and the adoption of the Budget by the European Parliament - implying their final consent, too.

I have also looked again at the arithmetic of withholding - see part III of the Annex. It looks as if - despite unavoidable uncertainties - we would have a fair chance of securing in the current financial year a high proportion of the amounts due to us, if in the event we were forced to start withholding in November.

If we were again obliged to consider taking this step, we would have to consider, in the new circumstances, the question of the timing of legislation. Given the advice of the Attorney General, I would be very uneasy about delaying legislation, as suggested in your minute of 10 June - which dealt of course with the different scenario of no

agreement at Stuttgart.

I am sending copies of this minute to the Prime Minister, the Minister of Agriculture, the Attorney General and to Sir Robert Armstrong.

NL

CONFIDENTIAL

From: J B UNWIN
Date: 29 June 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir T Burns
Mr Littler
Mr Byatt
Mrs Hedley-Miller
Mr Collinson
Miss Court
Mr Edwards
Mr Peet
Mr Lennon
Mr Ridley

*Let me have FST
comment for Mr.*

*but an generally correct
if certain things go wrong. I
think it should be amended
to read more "we would
have to consider
a "take
over appropriate"
NR*

EUROPEAN COMMUNITY BUDGET : UK REFUNDS FOR 1983

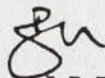
We have been taking stock of the implications of the Stuttgart agreement for both the short and longer term financial negotiations in the period ahead with a view in particular to identifying 'crunch' points at which we might have to consider bringing the withholding contingency plans to the top of our in trays again.

2. As part of this we have looked in more detail at the timetable for the Community 1984 budget and I attach immediately below a note, which Mrs Hedley-Miller and Miss Court have prepared, summarising the critical dates in the budget timetable between now and December. The note also discusses briefly the likely pattern of outflows from the EEC No 1 Account with reference to whether, if we found ourselves having to contemplate withholding again in the Autumn, we could secure in the current financial year most if not all of the 1983 refunds promised to us at Stuttgart.

3. The main conclusions on the timetable are that, serious difficulties arise and the French seem bound to cause trouble - the two most critical periods are likely to be the first half of October (mid-October being the last practical time for inserting refund figures in the 1984 Budget) and the latter part of December. In other words, we seem most unlikely to be faced with a crisis point before the Summer recess. So far as withholding is concerned, we should probably be able to secure in this financial year the bulk of the amounts due to us if following an October crunch, we began withholding in November, but we should obviously fall short of this objective if we were forced into a decision to withhold at the end of December.

4. I think it would be useful for you to ~~send the attached timetable to the Foreign and Commonwealth Secretary under a short covering minute.~~ Apart from the desirability of putting this assessment on the record in any case, I think ~~there is advantage in the Treasury (through you) being seen to be actively in the lead in consideration of these (primarily financial and budgetary) issues.~~ And the note would also provide you with a brief opportunity en passant to pick up, without rekindling the debate at length, the question of the timing of legislation on withholding on which the Foreign and Commonwealth Secretary's minute of ¹⁷18 June to the Prime Minister would otherwise represent the last Ministerial statement on the record.

4. I therefore attach a short draft minute for your consideration under cover of which the timetable note might be sent to Sir Geoffrey Howe and to the Prime Minister and the other Ministers most immediately concerned.


J B UNWIN

OFFICIAL - SENSITIVE

(D. B. Lloyd - 2/3/201

~~SECRET~~



FROM: M E DONNELLY

DATE: 4 July 1983

MS SEAMMEN

cc Mr Monger
Mr Watson
Mr Robson
Mr. Spence / IR.

THE ELDERLY

We discussed the range of benefits available to the elderly at this morning's meeting with the Financial Secretary.

You agreed to provide short notes on:

- (i) the earnings rule and the Job Release Scheme;
- (ii) whether it was possible to provide any estimate of the cost/benefit of a means-tested basic pension set at Supplementary Benefit levels (extra administrative costs as against savings from making the pension non-universal).

The Financial Secretary also explored possible tradeoffs between abolition of the I.I.S, payment of SWT by the elderly above the basic rate tax band, and abolition of the age allowance in the context of overall higher income tax thresholds. He hopes to explore these in more detail shortly.

M E Donnelly
M E DONNELLY



FROM: E KWIECINSKI
DATE: 4 July 1983

PS/CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State
Dr Rouse
Mr Robson
Mr Reed
Mr Graham - Parly Counsel
Mr Fawcett)
Mr O'Leary) IR
PS/IR

REFORM OF THE SPECIAL COMMISSIONERS OF INCOME TAX

The Financial Secretary has seen Mr Fawcett's submission of 1 July
... (copy attached, top copy only).

He feels that we must reintroduce these provisions in
next year's Finance Bill, and would add a sentence implying this
to the letter to Lord Gibson-Watt.

He would be grateful for confirmation that the Chief Secretary
would be content with this.

CK
E KWIECINSKI



FROM: P W FAWCETT

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

JUL 1983

1 July 1983

1. MR O'LEARY ^{For} 1.7.83
2. FINANCIAL SECRETARY

REFORM OF THE SPECIAL COMMISSIONERS OF INCOME TAX

1. The Council on Tribunals wrote to the Chancellor on 14 June (letter attached) urging the reintroduction of provisions for reform of the Special Commissioners of Income Tax as soon as possible. You will recall that the Finance Bill before the General Election provided for some reform of the Special Commissioners and some minor changes in relation to the General Commissioners but that the clause and schedule were dropped when the General Election was called.
2. The main provisions, which were dropped from the pre-Election Finance Bill, were appointment by the Lord Chancellor, instead of the Treasury; normally sitting singly; no longer hearing 'delay cases'; publication of more important decisions; procedural rules; increase in fee for a stated case; and certain appeals from the Special Commissioners going direct to the Court of Appeal.
3. There has been pressure, particularly from the Council on Tribunals, for some years to bring the Special Commissioners more into line with modern tribunals (they were established in 1842).

cc | Chancellor of the Exchequer
| ~~Chief Secretary~~
| Economic Secretary
| Minister of State
X | Dr Rouse
| Mr Robson
| Mr Reed
| Mr Graham - Parliamentary Counsel

Mr Isaac
Mr O'Leary
Mr P D Hall
Mr Pattison
Mr Sutcliffe
Mr Scott (Sol.Scotland)
Mr Waters
Mr Fawcett

Last year you gave assurances to Lord Gibson-Watt, the Chairman of the Council on Tribunals, about the Government's intentions and there was some disappointment at the clause in the pre-Election Finance Bill being dropped. The present complement of the Special Commissioners is based on the expectation of early reform on single sittings, and delay could involve further recruitment, which may in the long term prove unnecessary; it could also make it more difficult to find a suitable new Presiding Special Commissioner. The envisaged reforms would not be inconsistent with the more radical up-grading of the Special Commissioners recommended in the Keith Report and could not pre-empt the decision on that Report. At their recent meeting, Ministers understood the importance of action now - in advance of final discussions on the Keith package - both because the reforms envisaged at present are in any event desirable on their merits and because, as we believe, it is necessary to offer at least some up-grading now if there is to be a chance of recruiting a Presiding Special Commissioner, and other Commissioners as necessary, of the right quality.

4. We recommend further consultation on some points of detail (including some of the points raised by the Council on Tribunals in their attached letter), leading to publication of revised draft clauses if necessary and legislation in the 1984 Finance Bill, with effect from Royal Assent 1984. To this end I have drafted a suggested reply to Lord Gibson-Watt. We would be pleased to have your agreement to the course of action recommended in this note.

P. W. Fawcett

P W FAWCETT

Lord Gibson-Watt
Chairman
Council on Tribunals
St Dunstan's House
133-7 Fetter Lane
LONDON
EC4A 1HD

You wrote to the Chancellor on 14 June urging the reintroduction of provisions as soon as possible for the reform of the Special Commissioners of Income Tax.

As you say, the pre-Election Finance Bill incorporated a good many of the recommendations of the Council for reforming the Special Commissioners. The Council have now recommended some further measures, including in connection with the Keith Report on the Enforcement Powers of the Revenue Departments. The Government are considering these matters at the moment, and I assure you that they will bear firmly in mind the Council's recommendations. I am sure that you will understand that I cannot go any further at this stage.

NICHOLAS RIDLEY



T/SC/3/1
T/GC/3/1
T/VAT/3/1

EXCHEQUER

15 JUN 1983

COUNCIL ON TRIBUNALS

St. Dunstan's House, 133-7 Fetter Lane.

London EC4A 1HD

Telephone 071 404 2991

14th June, 1983

FINANCIAL SECRETARY	
15 JUN 1983	
ACTION	Mr. O'Leary/IR
EDWARDS	PRS CST
76	EST MST
	Mr. Robson Mr Reed
	PS/C+E. PS/IR

Dear Chancellor.

Report of the Committee on Enforcement Powers of the Revenue Departments, and possible legislation

The Council on Tribunals have long been concerned about various aspects of the legislation affecting the tribunals which deal with tax appeals and particularly the Special Commissioners of Income Tax. On a number of occasions since at least 1976 they have raised with the Inland Revenue and others their recommendations for reform, which have been summarised in our Annual Reports over the years. Some were made far earlier even than 1976. Some were spelt out further in 1980 in response to the consultation document about the possibility of a merger of the Special Commissioners and the VAT Tribunals - a possibility which the Government rejected, at least for the time being.

I am glad to say that in recent months there has been steady progress towards the implementation of many of our recommendations and the recent Finance Bill incorporated a good number of them. These provisions had to be dropped when the General Election was called. I am writing to you now to urge the re-introduction of those provisions as soon as possible, together with some other provisions which are needed in this field. These further provisions stem either from recommendations which we have made, or from recommendations made in the recent Report of the Committee on Enforcement Powers, or from both.

It may assist if I summarise some of the recommendations which the Council have made in the past:-

The Special Commissioners should be appointed by the Lord Chancellor, with the Lord Advocate.

Their independence from the Revenue should be clearly demonstrated.

Their status should be raised.

hnp j
P.T.

/They

The Right Honourable
Nigel Lawson, M.P.,
Chancellor of the Exchequer,

They should have a discretion to sit singly in suitable cases.

The Special Commissioners and the General Commissioners should be renamed.

A taxpayer's choice between appealing to the Special Commissioners and the General Commissioners could be decreased.

So-called "delay" cases are better confined to the General Commissioners.

There should be a comprehensive code of procedure for proceedings before the Special Commissioners.

There should also be procedural rules for the General Commissioners.

The Special Commissioners should have a limited and defined power to award costs.

There should be certain additional procedural provisions, for example enabling the Special Commissioners to order pleadings and the discovery of documents.

Provision should be made for the publication of selected decisions of the Special Commissioners.

Some appeals from the Special Commissioners should go direct to the Court of Appeal.

I now turn to the Report of the Committee on Enforcement Powers (Cmnd. 8822). The Council on Tribunals recently considered the recommendations made in the first part of the Report, in so far as they relate to matters within the Council's jurisdiction. The views of the Committee add substantial force to the case for legislation. I appreciate that the Committee are to produce a further part of their Report, but I do not anticipate that it will bear much, if at all, upon the issues to which I am referring.

/The

The Council generally agree with the Committee's views and recommendations on the status of the Commissioners and the VAT Tribunals, and on the procedures and associated matters concerning the functions and operation of these tribunals, many of which have been proposed by the Council in recent years. However, there are some particular points in the Report to which I should refer, either because the Council wish to emphasise them or because the Council do not altogether agree with the Report. I take these points in the order in the Report.

In paragraph 23.4.3 the Committee recommend that the General Commissioners should adjudicate on the question of whether certain information is commercially secret. The Council doubt whether the General Commissioners are equipped to deal with questions of this kind.

The Council note that the Committee often do not specify which body of Commissioners they have in mind in their recommendations, but that in paragraphs 25.4.1 and 25.4.2 they set out their views on the appropriate jurisdiction of the General and the Special Commissioners. The Council agree with the recommendations in paragraph 25.4.1 that the taxpayer's right of choice between the General and Special Commissioners should be abolished, that there should instead be a procedure whereby the more complex cases would go to the Special Commissioners by the direction of the Special Commissioners in default of agreement between the parties, and that the General Commissioners should have power to direct that a case should be heard by the Special Commissioners rather than themselves. The Council observe that, although it is recommended that the taxpayer's right of choice between the Commissioners should be abolished, there is a reference to "agreement between the parties" implying that there would still be some element of selection, presumably related to the parties' assessment of the complexity of the case. Care will have to be taken to reach a satisfactory definition of the "complex cases" which ought to go to the Special Commissioners which will catch all but the unusual or borderline cases: it would be unfortunate if a large number of cases had to be referred to the Special Commissioners for directions.

In paragraph 25.4.3 it is recommended that appeals from the Special Commissioners should go to the Court of Appeal. It remains the Council's view that there are some cases in which appeals should go direct from the Special Commissioners to the Court of Appeal, but that this may not be necessary for all appeals.

/The

The Council are particularly interested in the recommendations in paragraph 25.4.4 that each Special Commissioner should have a status at least comparable to that of a Circuit Judge and the Presiding Special Commissioner a status comparable to that of the President of the Lands Tribunal, that the Special Commissioners should have broadly the powers of the High Court, and that provision should be made for the making of formal Rules to regulate the procedure of the Special and General Commissioners, comparable to the VAT Tribunals Rules.

In his recent review of judicial consequential posts Sir Thomas Skyrme was not convinced that (except for the Presiding Special Commissioner) the Special Commissioners should rank with Circuit Judges, but he commented that it had not been possible to take into account the changes in the powers and procedures of the Commissioners which were under consideration. The Council informed the Treasury that, while they welcomed the proposal to enhance the status of the Special Commissioners, the proposed changes in the work of the Commissioners might well make it appropriate to review the matter further. If provisions such as those recommended by the Committee or those included in the recent Finance Bill were implemented there would appear to be justification for re-opening the question of the remuneration of the Commissioners.

The Council are glad to see reinforcement of their view that procedural rules should be made for the General Commissioners, as well as the Special Commissioners. The procedural rules for each should be in a self-contained Statutory Instrument, rather than divided between an Act of 1970, a new Act and a Statutory Instrument, as was envisaged for the Special Commissioners in the Finance Bill.

At various points in their Report the Committee recommend that in some circumstances appeals should lie from General Commissioners to the Special Commissioners. The Council agree that in the circumstances cited by the Committee this would be acceptable. On the argument advanced in paragraph 25.4.5 that it is inappropriate for appeals from the General Commissioners against the award of penalties to go to the High Court when the amount involved is small, the Council comment that it is unusual for the identity of an appellate body to depend upon the amount involved.

The Council are pleased to see from paragraph 25.4.7. that the Committee believe that the Commissioners should be renamed. They hope that the Government will now reconsider their earlier decision not to give the Commissioners new

/names,

names, and will agree with the Committee, the Council, and other bodies that the names should be changed to end the widespread misconception of the standing of the Commissioners, who are often confused with the Commissioners of Inland Revenue and thought to be a branch of the Inland Revenue rather than an independent and adjudicating body.

It is recommended in paragraph 25.5.15 that failure to comply with an order or witness summons issued by the VAT Tribunals or the Special Commissioners should be punishable as a contempt of court and that punishment for contempt should be reserved to the President of VAT Tribunals and the Presiding Special Commissioner respectively. The Council's general view has been that contempt provisions are not appropriate for most tribunals, although they accept that there is some merit in the Committee's recommendation. It is an open question whether the limited provisions of the Contempt of Court Act 1981 would apply to the VAT Tribunals or the Special Commissioners as they are now constituted or as they would be established following the implementation of the provisions dropped from the Finance Bill and the recommendations of the Committee and the Council.

A difficult question is whether, as recommended in paragraph 25.6.1, hearings by the Special Commissioners should continue to be held in private. However, on balance the Council consider it preferable for hearings to be held in public, with a right to a private hearing upon request.

In paragraph 25.6.4 the Committee recommend relaxation of the rule that the General Commissioners may accept only "lawful evidence", but add that a similar relaxation should not apply to the Special Commissioners. The Council do not favour the retention of the rule for the Special Commissioners. We also know that the late Presiding Special Commissioner, for one, would have preferred the present rule to be relaxed.

The Council agree with the recommendation in paragraph 25.7.2 that the Special Commissioners should be required to give written reasons for their decisions. In paragraph 25.7.3 the Committee say that they do not think that the General Commissioners could reasonably be expected to produce written reasons for all their decisions. In the Council's view the General Commissioners ought to give reasons for their decisions: a brief statement of reasons would probably be sufficient in most cases.

/The

The Council note that in paragraph 25.7.7 the Committee recommend that the Special Commissioners should have power to award costs under arrangements similar to those for the VAT Tribunals. This accords with the Council's view that the Special Commissioners should have a limited and defined power to award costs. No provision for this was made in the last Finance Bill, and the Council hope that the question of giving the Special Commissioners such a power to award costs will be reconsidered.

The Council note the recommendation in paragraph 25.7.10 for the abolition of the requirement that a party who disagrees with a decision of the General or Special Commissioners must express his dissatisfaction immediately after the determination of the appeal. The Council agree. They had suggested to the Board of Inland Revenue that this requirement might no longer be called for.

I fear I have written at great length at what must be a very busy time for you, but the subject is one on which the Council attach the greatest importance. I hope that it will soon be possible for the Government to take action to bring about the reform of the status and procedures of the Appeal Commissioners, and in particular the Special Commissioners, for which the Council have been pressing for many years.

I am sending copies of this letter to the Chairman of the Board of Inland Revenue, the Chairman of H.M. Customs and Excise, the Permanent Secretary of the Lord Chancellor's Department, and the Secretary of the Committee on Enforcement Powers of the Revenue Departments.

Yours

sincerely

Gibson-Watt

GIBSON-WATT

Chairman



FROM: FINANCIAL SECRETARY
DATE: 4 July 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State
(with attachments)

... I enclose a paper by Mr Fawcett on the question of one year covenants to Charities, which Geoffrey Howe had asked the Revenue to study.

You will see we are spending about £350m a year already on Charities - some of them bogus. It is also becoming a major new form of tax avoidance - or even evasion.

There are other issues in play on charities:-

- VAT on Charities' purchases
- the supervision of Charities and the futility of the Charity Commission.

Could we have a meeting on the whole question of where we want to go on Charities in the widest sense? The answer to this minute would come out of that.

N. Ridley
PR NICHOLAS RIDLEY

CONFIDENTIAL



FROM: P W FAWCETT
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

1 July 1983

61 JUL 1983

1. MR O'LEARY *For 1.7.83*
2. FINANCIAL SECRETARY

GIVING TO THE VOLUNTARY SECTOR

1. You may recall that we undertook on 14 April to do a study for the previous Chancellor of the feasibility and cost of introducing tax relief for single donations to charities by individuals (tax relief is currently given only in respect of payments under deeds of covenant). The immediate impetus for this undertaking was a Family Policy Group paper by the Home Secretary urging that such a study should be considered. We proposed research into the United States system of relief - which is the most frequently quoted example of a country giving such relief, and the previous Chancellor hoped that the study would look also at ... Germany. For convenience I attach further copies of the relevant papers.

2. We have started on this study but before going any further, particularly with visits to the United States and Germany, we wish to have confirmation that the new Government wishes us to continue on it.

cc Chancellor of the Exchequer
Chief Secretary
Dr Rouse
Mr Battishill
Miss Kelley
Mr Robson

Mr Isaac
Mr Green
Mr Beighton
Mr Blythe
Mr O'Leary
Mr P B G Jones
Mr Muir
Mr Lusk
Mr Fawcett

Present difficulties

3. There are two principal difficulties from the Government's point of view in introducing deductibility for single donations to charities by individuals. The first is administration. If an adjustment had to be made to an individual's tax liability there would be a need for a much greater number of coding adjustments and more particularly end of year assessments at a time when the Government wishes to simplify the tax system and to reduce staffing levels. The second is cost. No one knows the potential cost of giving tax relief for single donations, not least because no one seems to know the present total income of the potential recipients of the donations. The cost could be substantial.

Some particular points

4. We would mention the following points by way of background information:

(a) Government assistance to charities is currently running at over £m350 a year as follows:

Tax repayments on deeds of covenant	£m70
Other tax repayments	£m130
Higher rate tax relief on deeds of covenant	£m20
Grants by Government to charities	£m150

(b) Taxpayers in the US can deduct against taxable income contributions made in a tax year to organisations that are broadly treated as "charitable". A specific deduction is given for each contribution provided that it is itemised, with other authorised deductions, on the annual tax return. If deductions, including charitable contributions, are not itemised a flat rate deduction of \$2,300 (or \$3,400 for married people making a joint return) is given against taxable income to cover charitable contributions, interest paid, medical expenses and deductible state taxes etc.

(c) The Herald Tribune of 15 March 1983 reported that individuals, companies and foundations in the United States gave nearly 60 billion dollars to charity last year.

(d) In Germany contributions for charitable, religious, scientific, or political purposes, or for other purposes which are of public benefit and officially recognised as meritorious are deductible as special expenses within limits set by the income tax law. Contributions for scientific or political purposes, and those for cultural purposes that are especially meritorious, are deductible up to 10% of income, and contributions for other recognised purposes are deductible up to 5% of income.

Conclusion

5. Successive Governments have been able to head off demands for a tax allowance for one-off donations, relying to a considerable extent on administrative arguments, but the nearer we get to computerisation the more difficult this may become. Whether or not the Government ultimately decides to take the plunge it would be sensible, we believe, for us to try to find out rather more about the problems faced by other countries who presently give such relief. We would therefore be grateful if you would let us know whether the present Government wishes us to proceed on these lines.

P. W. Fawcett.

P W FAWCETT

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 4 July 1983

CHANCELLOR

cc Chief Secretary
Minister of State
Mr. Kemp
Miss. Sinclair.

TSRB: MINISTERIAL PAY - MR TEBBIT'S POINT

I have seen Mr Carter's note of 1 July.

On the point he raises about Ministers a) being deemed to live in London and b) only getting 2/7 of the cost of their constituency houses, you should know that I tested this at length with the Revenue in the last Parliament. The result is the slightly easier formula used in ^{the} latest Revenue circular to MPs - in some circumstances more than 2/7 can be obtained.

I am convinced that we will get no further on this unless we change the law, and I am against changing the law for ourselves - and restrictively!

I am not against the device of increasing the London supplement, though it might be simpler and more straightforward to increase Ministerial salaries by the same amount. Both are taxable, so it would make no difference to the recipients. The problem with increasing the London supplement for ourselves is that others might expect, quite unjustifiably, to get more themselves.

Nicholas Ridley
NICHOLAS RIDLEY



CC Chancellor
CSI
EST
MST
Mr Monger
Mr Robson
Mr Stredder

Treasury Chambers, Parliament Street, SW1P 3AG

Ian Gow Esq MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Dr Rouse
Mr Corlett } IR
Mr Baighon } IR
PS/IR

4 July 1983

Dear Minister,

ASSURED TENANCIES ALLOWANCE

Thank you for your letter of 30 June about our proposal to restrict the assured tenancies allowance to approved bodies which are companies. I did warn you on the telephone about this Clause, because I did not want to "bounce" you. However it has now appeared in public again.

I fully understand your reasons for wanting partnerships to be within the allowance, but I am afraid this is not a decision we can go back on. The issues were discussed at length earlier in the year, culminating in a meeting between Geoffrey Howe and Tom King at the end of March, at which Geoffrey explained the reasons why we were determined to legislate on the point. These were not concerned solely with avoidance and cost - important though they be. There is also the very real risk that a generous new tax shelter for individual investors would attract funds away from the more risky and economically important Business Expansion Scheme. Even more important it must be our top priority now to concentrate on trying to tackle the fundamental problem, which is that caused by rent control.

I am sorry not to be able to agree to your suggestion that we reconsider the matter. But our intentions have already been made quite clear when we tabled the provision as a Government amendment at Committee Stage of the Spring Finance Bill. It was only the intervention of the Election that caused it to drop.

Maybe we could have a chat about the difficulties of this particular proposal, and also about the more fundamental points which underlie the problem? I would welcome it.

pp *Nicholas Ridley*
NICHOLAS RIDLEY



Chancellor
COT

Mr Bailey
Mr Widdow
Mrs Kelly
Mr Watson
Mr Payne

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Seaman
Mr Coleman

The Rt Hon Norman Fowler MP
Secretary of State for Social
Services
Department of Health & Social
Security
Alexander Fleming House
Elephant and Castle
LONDON
SE1

6 July 1983

Dear Norman

MOTABILITY

I am concerned about the finances of Motability, the charity which helps disabled people with personal transport arrangements. This concern has been precipitated by the recent report prepared by your auditors, but in fact goes rather deeper. There are two aspects of my concern. First, there is our direct Governmental interest in the size of the Government grant to Motability. Secondly, there is the personal position of Motability's patrons.

As you will know, the auditors' main criticism was on fund-raising. In 1983-84 Motability expect to raise £160,000. Of this, £151,000 is expected to be spent on fund-raising expenses, leaving a net income from fund-raising of only £9,000. The funds raised are expected to be more than 30 per cent down on 1982-83. And for the future, three-quarters of net collecting box income is apparently already committed to the purchase of replacement collecting boxes.

I doubt if it would be constructive to take this up with Motability officially. But as one of its patrons, you may think that a personal approach is the most effective way to make Motability take the situation more seriously.

Motability itself regards administrative and fund-raising operations as closely linked and the taxpayer even pays part of the fund-raiser's salary. DHSS is represented on the committee which meets fortnightly to oversee both. Failings on the fund-raising side may have their counterparts in the administration. This is borne out by the auditors' report, which indicates that:

- a) the DHSS administration grant is carrying costs which properly belong to other functions (including fund-raising and the distribution of the resulting grants); and
- b) there is some scope for economies.

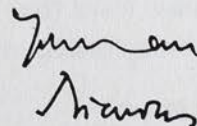
This is not surprising. Motability's administration has hitherto been covered by 100 per cent grant, which in any organisation is bound to reduce pressure to seek economies. We should, in line with the thinking of the Family Policy Group in its recent discussion on the voluntary sector, move away from 100 per cent Government funding as a matter of principle.

I accept that there are difficulties in making changes, especially in 1983-84. So in the interests of speed I suggest we instruct officials to agree the detail of a grant for 1983-84 covering 100 per cent of Motability's administrative costs. I would be prepared to accept a figure of up to £400,000. More importantly, for the longer term the grant should be settled at a lower percentage, which our officials should now jointly consider. To smooth the transition, I would be willing to maintain the grant at its 1983-84 cash value until this figure was overtaken by the new formula.

These proposals would only represent a modest move away from 100 per cent funding. The reduction in the grant would be gradual and would give Motability time to adjust to the new situation. I believe our long term aims should be that Motability should finance wholly from its fund-raising a number of activities which are at present grant-aided, such as the cost of fund-raising, the distribution of charitable grants, and assistance with "after sales" disputes between customers and manufacturers; and that any residual work which is grant-aided should be done as efficiently as possible. But in the light of the auditors' report, I am not sure that merely reducing the grant-in-aid will automatically achieve this; Motability appears to need outside help to put both its administration and fund-raising in order. This might best be achieved if - again informally - you could persuade them to employ appropriate consultants.

I would be happy to discuss all this if you thought it useful.

I am copying this letter to Jim Prior, George Younger and Nicholas Edwards, whose departments were also involved, and to Tony Newton. I am also sending copies on a personal basis to the Prime Minister and Patrick Jenkin (as patrons of Motability).



NICHOLAS RIDLEY

OFFICIAL - SENSITIVE

~~SECRET~~

(D. B. Lloyd 27/3/2014)



FROM: FINANCIAL SECRETARY
DATE: 6 July 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir T Burns
Mr Bailey
Mr Cassell
Mr Wilding
Mr Monger Mr Battishill
Mr Watson
Mr Robson
Ms Seammen
Mr Ridley
Ms Rouse
Mr Isaac - IR
PS/IR

TAXATION POLICY

... I enclose under a covering note from Mr Isaac, four "position papers" on the areas we have been studying for tax reform.

The Present System

The main feature of the present system is that tax starts to be paid at a comparatively low level of income, and at a comparatively high rate. This feature creates or worsens both the poverty trap and the unemployment trap. Part of the reason for it is the existence of expensive tax reliefs.

Another important feature of the system is the existence of the National Insurance Contribution, virtually a separate tax with its own rules on coverage and payment and with a complex interaction with income tax.

The complexity of the system and its effect on incentives have led to pressure for reform, most recently from the sub-Committee of the TCSC formed to examine the structure of taxation.

Objectives

As I see it, the objectives are:-

1. To end up with a direct tax system, bringing together Income Tax and NIC, which is simpler, easier to understand, and to administer.
2. To alleviate the tax burden at the bottom of the scale, in order to redress what I see as the over-taxation of the worst off in our society.
3. Partly as a consequence of 2 above, and partly by a close examination of benefits, to reduce or even abolish the poverty and unemployment traps.
4. To make the system fairer, with an even progression of marginal tax take as one goes up the scale, avoiding excessive taxation of higher incomes; making everyone contribute who can afford to.
5. (On a separate topic). To achieve "portable" pensions for early leavers (vitally important for labour mobility) the chance of personal ownership of pension funds; and re-examine the whole future of the State Pension Scheme.

To achieve these objectives there is bound to be some redistribution. There are bound to be losers as well as gainers.

These objectives mean going for the maximum increase in the tax threshold, financed by savings elsewhere. Broadly, this can come from an increase in the rate or from the removal of reliefs or anomalies in the tax system. The papers assume an increase in the basic rate, for tax and NIC together, to 40 per cent. While I would not rule this out, I should prefer to see as much as possible of the savings coming from the second source.

Sources of Savings

The areas we are looking at for possible savings are (in no particular order), with approximate maximum figures in brackets:-

1. Extension of the NIC component of the new tax to the earnings of casuals and part-timers, juveniles and married women, to unemployment and sickness benefit and to investment income (£2.1 billion).
2. Contributions to occupational pension schemes (£1.2 billion).
3. Premiums on life assurance policies (£0.6 billion).
4. The tax advantages of 2 earner married couples (Husband & Wife Green Paper). (£1 billion).
5. Those with earnings between the UEL and the basic rate limit (the UEL "kink") (yield included in 1 above). We also need to reconsider the taxation under the new system of the higher rate taxpayer.
6. The better off in receipt of universal benefits - chiefly Child Benefit (cost £4 billion).
7. The elderly; ~~although~~ the proposal in the paper to get savings of £1.2 billion by higher tax on the elderly is almost certainly too ambitious, and we shall have to consider some less far-reaching but more practical change.

Assuming that we must plan this work on a revenue neutral basis, the more that can be gained from these sources, the greater can be the increase in the basic income tax threshold, and the greater the relief of taxation of the poor, and of the "traps". Before discussing the "gainers", I would like to expand on the "losers".

The Losers: Main Points for Consideration

1. There are attractions in a 10 per cent social welfare tax right across all income, (with the exceptions mentioned in paper 1). It is a low-rate, broad-based tax. It might collect tax from some transactions which currently go untaxed in the Black Economy. It amalgamates the NIC and the income tax, while still preserving some element of the contributory principle.

But many problems with it remain to be solved: - the elderly; the details of the contributory basis; the cost of administration; its exact incidence. As at present designed it imposes a 10 per cent tax on all interest and dividends: and that, and its interaction with Investment Income Surcharge, require much study. It could indeed be a way of abolishing IIS which, I suggest, should be one of our major objectives.

2. Occupational pensions are a mess in many ways, and some may soon become beyond the capacity of their funds to afford. Vast sums of capital are tied up in faceless funds, and not available for productive investment. They ought to belong to their contributors, as part of the property owning democracy. Nor can we tolerate the victimisation of early leavers much longer, which is a major disincentive to industrial mobility.

Moreover, tax relief is available for the contributions of the contracted-out, but not for the contracted-in. The contracted-out get tax relief on the premiums paid to the occupational schemes, on the income obtained by these schemes and on the lump sum component of their benefits. There are potentially large savings here which we cannot ignore.

All this is compounded by the growing complexity and cost of the graduated state pension scheme.

This is an immensely difficult area because of the 40 year gestation periods, and existing obligations. Nevertheless, I believe it is essential to study it alongside the other issues, and paper 4 is a start. It is worth seeing if we can save those potentially large sums.

3. It seems unlikely that savings can be achieved from the married man's allowance, given your and the Prime Minister's doubts about changing the basis of the taxation of husband and wife. Nevertheless it may be possible to move some way, and get some savings here by gradual change.

4. It must be wrong actually to reduce the marginal rate of tax between $1\frac{1}{2}$ average earnings and twice average earnings. This anomaly is costly, and insupportable.

5. Paper 2 is about child benefit. There are difficult issues here which need much more exploration, but the potential for saving is large - up to £4 billion.

The possible savings from all these sources run into many billions. Against that are many extra costs, some of which are touched upon in the papers. But the more savings we can make, the more we can raise thresholds and hold down the rate of tax. It is too early to do the sums suggesting what improvements could be afforded. We must work through the potential savings and costs much more thoroughly first.

The precise mix of action on thresholds and rates would of course be for budgetary decision by the Chancellor at the time. But doing both benefits all taxpayers. If we could let a few million out of the income tax net, by raising allowances, we also benefit all taxpayers, which is some compensation for the withdrawal of reliefs and present advantages.

We would eventually have to consider the effects of any combination of changes on all groups in society, and no doubt re-adjust our plans accordingly.

Large, unsolved problems remain, as is only too evident from these papers. In particular, the contributory principle; the problems of pensions; the cost of support for the elderly are very difficult. The huge difficulties of reforming occupational pensions are particularly daunting. Indeed, we may change or modify all these plans, scrapping parts of them, as the work proceeds. But the task I want to pursue is to examine this range of problems as a whole to see if a solution can be found which reasonable men would think was reasonable.

I realise there are particular difficulties over Husband & Wife, which we should perhaps discuss soon; and in a separate context we must see how to handle the immediate situation, which is pressing.

Next Steps

Are you content that we should proceed to assess all these options further? Some may prove on further examination not to be practical. But I do not believe any should be ruled out until this further examination has taken place.

If you are content for this work to proceed, I shall aim to report further with more detailed proposals as soon as possible.

A handwritten signature in black ink, consisting of a stylized 'N' and 'R' with a small flourish at the end.

NICHOLAS RIDLEY

FROM: A J G ISAAC

CONFIDENTIAL



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

28 June 1983

FINANCIAL SECRETARY

28 JUN 1983

1. As arranged, I attach very brief "position papers" on
- NICIT
 - Child benefit
 - Husband and Wife
 - Pensions

These are the joint work of people here and in the Treasury.

2. It may be helpful if I were to say how I see the radical proposals discussed in these four papers relating, one to the other. As I see them

- (i) they are not dependent on each other, as a matter of structure. For example, one can decide the merits of NICIT, whether or not we move on husband and wife; and one can decide the merits of changing the treatment of husband and wife, whether or not we move on NICIT. (The exception to this generalisation is the structural link between husband and wife and child benefit, if the Government were contemplating a move to the MIT/benefit solution. However, that is not the Government's

c Mr Monger
Ms Seaman
Mr Robson
Mr Sinclair
Mr Ridley

Mr Green
Mr Isaac
Mr Blythe
Mr O'Leary
Mr Painter
Mr Spence
Mr Munro
Mr Calder
PS/IR

CONFIDENTIAL

intention. The options discussed in these papers are for reducing payment of child benefit.)

- (ii) Again, the various approaches are not related in a practical sense, ⁱⁿ that the "losers" under one option would be compensated in a systematic way from the "gains" under another option (again disregarding the MIT/cash benefits approach).
- (iii) ~~It is~~ That said, if the Government are minded to take up two or more of the main options discussed in these papers, it would obviously be important to consider the distributional impact of their combined effect on different classes of taxpayers and
- (iv) again, obviously, this could affect the general political climate within which individual proposals would be debated.

3. Finally, the "position paper" on pensions notes the work currently being done here and in the Treasury on a fairly wide-ranging paper on medium term tax policy. The aim, other commitments permitting, is to submit this to Ministers before the Summer Recess.

C.J.C.

A J G ISAAC

COMBINED STRUCTURE OF INCOME TAX AND NATIONAL INSURANCE
CONTRIBUTIONS (NICIT)

BACKGROUND

1. Over recent years there has been increasing interest both within and outside Parliament in the possibility of integrating the employee's liability to income tax and to national insurance contributions. The existence of the two separate systems with their different bases of charge makes for complication and anomalies in the progressivity of the combined burden.

2. At first under Lord Cockfield and more recently under the Financial Secretary's lead, Treasury and Inland Revenue have been studying the political and administrative feasibility of introducing a combined structure, with the following aims in mind:-

- i. to smooth out the progressive profile of the combined rate of NIC and income tax;
- ii. to get a better distribution of the tax burden;
- iii. to reduce the combined rate of tax;
- iv. to simplify the systems with a view to staff savings in the Inland Revenue and DHSS and to better public understanding.

STATE OF PLAY

3. A NICIT system could of course take very many different forms with varying costs and savings, redistributational effects and implications for the contributory principle of the national insurance system. Early in the late Government's term a major study was conducted into a radical form of NICIT which would have had a nil or very low exempt threshold, no special reliefs for mortgage interest etc and therefore a very low combined "basic rate". This study concluded with a report in August 1981 which noted the major structural and distributional effects of such a proposal. Recent work has focussed on a variant which charges NIC (renamed the Social Welfare Tax - SWT) at a higher rate and over a much broader base, using the yield from this to increase the main income tax thresholds - details are attached at Appendix A. By contrast to the original NICIT, this would increase thresholds, retain the special reliefs and involve a higher combined rate than at present.

4. The combined rate profiles[†] of the present system and the

[†] For simplicity, the profiles ignore the contracted-in element of NIC. If a graduated state pension were retained, contributions to it would be additional to the rates shown.

variant compare as follows:-

	Up to LEL	LEL to IT threshold	"Basic rate" band	UEL to "Basic rate" limit	First higher rate band	Other higher rates
Present System	9%	6.85%	36.85%	30%	40%) 45%, 50%,) 55% and 60%
NICIT	10%	10%	40%	40%	40%*)

THE MAIN ISSUES

5. The NICIT approach raises several major political, structural and administrative issues.

Profile of Tax and NIC

6. At present there is a "LEL kink"; an extra £1 of income above the lower earnings level for NIC (about one-fifth of average earnings) imposes a liability on the whole of that income. The latest NICIT could not change that (because it would cost £bn3 to convert the NIC LEL into an income tax type threshold).

7. There is also a "UEL kink". At present the combined rate of tax and NIC falls from 36.85% (or 39%) to 30% over a band of income between the upper earnings limit for NIC (about one-and-a-third times average earnings) and the threshold for higher rate income tax (about twice average earnings) where it rises to 40%. The latest NICIT would eliminate that, charging 40% throughout.

Redistribution of the Burden

8. The original NICIT would have lowered both the tax threshold and the rate of tax, and thus tend to shift the burden of tax from higher to lower incomes.

9. The latest NICIT would raise both tax thresholds and rates and would therefore tend to shift the burden in the opposite direction (though the fact that the increase in tax rates would come on the social welfare tax element rather than on income tax would mean a marginal increase in the burden on the very low paid - mostly part-timers and juveniles, but including single parents). Charging SWT on investment income would also tend to shift the burden in favour of lower incomes.

10. For the poverty trap the latest NICIT would reduce the numbers of families liable to very high marginal rates, but worsen (by 3.15 percentage points) the marginal rates towards the upper end of the trap.

* Under the variant, the basic rate band would extend up to the threshold of the 45% higher rate of income tax.

11. It would improve the unemployment trap - in-work incomes would increase for earnings between one-third and one and one-third times the male average and out-of-work incomes would fall.

12. Many of the elderly would lose, because of the 10 percentage point increase in the combined tax rate both on pensions (above the level of the basic NI pension) and on investment income; and if the age allowance were abolished, the losses would be widespread and large,

Reducing rates of tax . .

13. The original NICIT scheme would have reduced the rate of tax, not only by lowering tax thresholds, but also by abolishing many tax reliefs (mortgage interest, pensions etc) and imposing tax on many types of income that are not now taxable (child benefit, proceeds of life assurance policies etc etc). These options (so far as considered desirable) are now being handled in a related but separate context.

Simplification and staff savings

14. The integration of the two systems should produce a simpler and more logical overall tax profile. But the inconsistency between the form of the LEL and the income tax thresholds remains - with the added complication that for the SWT charge on the elderly the basic pension would operate like a threshold. The structure is also designed on the basis that the "income tax" reliefs including the special reliefs continue to run for income tax, but not for SWT.

15. At a more technical level, the rate of tax deduction at source from interest and similar income would need to be at 40 rather than 30% with a matching increase in the rate of ACT on dividends from three-sevenths to two-thirds. A "basic rate" of 40% would also have repercussions for the small companies rate of corporation tax, at present 38%.

16. It is not possible to make any useful estimate of staff savings. The variant of NICIT under consideration would involve significant net staff costs for the Inland Revenue because they would have more taxpayers, for example, amongst the elderly. But the total net effect on both the Revenue and DHSS staffing would depend crucially on the extent to which some kind of contributory principle was retained.

Contributory principle

17. There are general arguments for the contributory principle eg that it brings home the fact that benefits have a cost or, from another point of view, that it may be less easy to make arbitrary cuts in benefits that people believe they have paid for.

18. But from the Treasury's point of view, the main point is that it keeps down costs. Contributory benefits are not means-tested; to pay them only on a simple test of status (eg sick, unemployed, retired) would be hugely expensive.

19. The main costs would be incurred on the retirement pension. Entitlement to full basic pension requires, essentially, contributions over a full working life of 40 years. If full pension were payable to all over retirement age, the additional cost would be nearly £2½ billion. Additional costs on the short term NI benefits bring the total to over £3 billion.

20. The dilemma is that if qualifying conditions are abolished, the extra benefit expenditure is almost unthinkable; if they are retained it becomes much more difficult to achieve a full integration of income tax and NICs, and the potential administrative savings are much reduced if not eliminated. It might be possible to simplify or abolish contribution conditions for short term benefits, or replace them by a residence test, (at some cost); but records stretching back over 40 years (albeit computerised) would be needed for the pension.

NICIT VARIANT

The variant currently under consideration would:-

- i. replace employees' NIC with a more broadly based Social Welfare Tax (SWT);
- ii. charge SWT at the rate of 10% (higher than either the contracted-in NIC rate of 9% or the contracted-out of 6.85% above the LEL);
- iii. charge SWT (unlike NIC) on all income instead of only on wages and salaries or self-employment income;
- iv. charge SWT (like NIC, but unlike income tax) on the whole of an individual's income once the income exceeds the threshold of the Lower Earnings Limit (LEL - £32.50 per week) - except that for the aged, SWT would be charged only on the excess of income over the level of the basic NI Retirement pension;
- v. charge SWT throughout the income range - (unlike NIC which stops at the Upper Earnings Limit (UEL = £235 per week));
- vi. but (unlike the original NICIT) retain the special reliefs for income tax (eg relief for mortgage interest, life assurance premiums and pension contributions).

These changes would yield some £6 billion or more which can be analysed as follows:-

- i. from increasing the rate - £3 billion; and
- ii. from charging SWT on:-
 - the full range of earnings and in full on all married women, £1.2 billion;
 - the elderly and on pensions, £1.2 billion;
 - investment income, £0.5 billion;
 - unemployment and sickness benefit, £0.4 billion.

The yield is then used to:-

- i. finance a 35% increase in the main tax allowances, and
- ii. to reduce the higher rates of tax by 10 points to accommodate the additional SWT charge at the higher levels of income - that is, to keep the combined rate unchanged.

CHILD BENEFIT

1. Historically, child benefit replaced both family allowance (a universal cash benefit) and child tax allowances. Unlike the latter which gave greater benefits to higher income families, child benefit gives the same income to all, whether rich or poor. It is paid to the mother. It costs about £4 billion a year. The issue is whether child benefit should continue to be paid on a universal tax-free basis; or whether it should be made more selective, either by means-testing or through use of the tax system.
2. The case for selectivity is that child benefit goes to rich families, who do not need it. Some 45% of families with children have above average earnings. To remove this benefit from them would allow greater concentration on the poor, or welcome reductions in public expenditure.
3. The case for universal child benefit is that it reflects the 'taxable capacity' approach inherent in the original child tax allowances. This approach rests on the assumption that a couple with children have less taxable capacity than a childless couple with the same income; and that the cost of bringing up children is in some way different from other expenditure which the state does not recognise as contributing to a reduction in taxable capacity (eg on boats). This conforms with practice elsewhere in all other major western countries. This concept of horizontal equity could lead to pressure for reintroduction of child tax allowances if universal child benefit were abolished. It is also relevant than universal child benefit improves the unemployment trap, while not worsening the poverty trap.
4. If it were decided in principle that child benefit should be made more selective, it would be necessary to decide on how it should be done, whether by a means-test operated by DHSS or through the tax system; and the extent of the selectivity.
5. At one extreme, help could be concentrated on families in the FIS range of income (for a two-child family, up to about £95 a week), or a little above. This would alleviate poverty, and help the unemployment trap, but worsen the poverty trap. This route would effectively mean the abolition of child benefit, and give the greatest scope for expenditure savings.
6. If however it were desired to give help to families up to average earnings (£160 a week), there would be severe administrative problems in means-testing over half the families in the land. The poverty trap would be less deep, but much broader.
7. The alternative is to use the tax system, retaining universal payment of cash benefit but taxing it. For 95% of families this would merely mean the state paying out with one hand and clawing back with the other at considerable extra administrative cost. To leave the average family in the same position, gross child benefit (counting as public expenditure) would have to be

increased by the amount of the tax clawback. Married men would find their tax thresholds reduced and tax increased, in exchange for higher child benefit paid to the mother (with possible effects on wage claims); given the existing long band of basic rate tax, it would not be possible to select out only those below average earnings. Savings would come only from taxing child benefit at higher rates, and would therefore be small.

TAXATION OF HUSBAND AND WIFE

Background

The public response to the 1980 Green Paper was that the present system was unacceptable, and should be replaced by a system of independent taxation. This view was virtually unanimous, and included Conservative women's groups and professional women's organisations. Opinion was divided between ITTA (Independent Taxation with transferable allowances) and MIT (Mandatory Independent Taxation with cash benefits). The previous Chancellor's discussions with the Prime Minister and other colleagues concluded that, if the present system was to be changed, ITTA was the only acceptable alternative (and one that could not be implemented until the end of the decade).

Present Position. Sir G Howe minuted the Prime Minister in May and suggested the right course would be to publish a consultative document which would

- (a) provide a Government response to the reaction to the Green Paper (and some response would be necessary sooner or later)
- (b) expose the disadvantages of MIT (favoured inter alia by the Opposition Parties) and explain why it is unacceptable
- (c) set out the advantages of ITTA compared with the present system, but give equal weight to the disadvantages (including the losses for many married men and administrative costs). The object was to see whether there was sufficiently widespread support for the change to justify its introduction - it was clear that the change was not worth considering unless there was widespread support after the disadvantages (as well as advantages) had been fully exposed.

The Prime Minister agreed to the publication of a consultative document on the lines the Chancellor had suggested. There is, though, no public commitment to its publication.

Options for the future

1. Reject radical reform. There is as yet no public support, which the Government could quote, for maintaining the status quo. On the contrary, outright rejection of any reform would alienate the many representative bodies who have argued for reform, and risk leaving the field open to the MIT/cash benefits lobby.
2. Take a more positive line in favour of ITTA - ie publish a consultative document with a more positive steer in favour of ITTA than has been agreed so far. At least so far, there is not the wide public support for any particular reform which we should look for before making such a radical change, and it would risk alienating those who would lose from, or disapprove of, abolition of the married man's allowance.
3. Publish a genuinely 'open' consultative document. This is the line approved by the Prime Minister.

4. Finally, there are in theory two further options both discarded in the past - which could be re-opened.

- (a) merely remove the sexist language of the tax rules - though on the evidence so far this would be dismissed as a meaningless cosmetic;
- (b) introduce an option for independent treatment - this would, inter alia, remove the present tax penalty on marriage. But it too would be attacked as a cosmetic, it would be criticised as benefitting only the rich, and it would have administrative and revenue costs.

Timing A consultative document could not be published until the late Autumn at the earliest and could well be published later. If it is decided to reject ITTA, the announcement could be made immediately or delayed for a suitable opportunity (with holding statements meanwhile). Legislation on minor issues could be included in the 1984 Finance Bill.

Interaction with other issues

The basic points here are:

- (a) ITTA would free resources for some improvement in the position of low-paid one-income couples, and that would - in a modest way - alleviate one of the central problems at which the other options are directed.
- (b) as a matter of structure, ITTA would not pre-empt the introduction of the other options considered here - because the one-income couple would be in basically the same position as now (though somewhat better off);

though (c) by the same token, the introduction of ITTA would not be essential for any of the other proposals.

There would, of course, be a number of areas where the other proposals would have to be adapted - for better or worse - if ITTA was introduced. And as a matter of priority when the time came for implementation, ITTA might have to take second place to other changes (or vice versa) for administrative or financial reasons. But for planning purposes at this stage, it seems sensible to conclude that ITTA can be treated as a separate issue, though the interactions between this and other proposals will of course have to be closely watched.

PENSIONS ETC

Pensions

The issues here include

- (i) the problem of early leavers;
- (ii) the 'future burden' of pensions as both the State earnings related pension scheme (SERPS) and occupational schemes mature;
- (iii) the need to give individuals greater freedom to determine their own pension provision;
- (iv) early retirement.

(i) Early leavers

2. When the State scheme matures at the end of the century, the vast bulk of the population will no longer suffer an 'early leaver' problem; their pension rights will be the same, no matter how many changes of job they go through. A problem remains in the meantime for almost everybody (albeit diminishing); and will remain beyond the year 2000 for people with occupational pension rights in excess of those conferred by SERPS - the middle executives. DHSS propose to deal with this by urging the pensions industry to voluntary action and threatening legislation. There are signs of movement, but better rights for early leavers means either more resources for pensions or a worsening in the position of 'stayers'.

(ii) 'Future burden'

3. Projections over the next 40 years show a continued transfer of income from the working to the retired population as pension schemes mature and the number of elderly increases. Whether this can be 'afforded' depends on the rate of increase of the working population's own disposable income and hence on economic growth.

4. Officials are now considering possible changes to SERPS which would reduce its growing cost. A more radical option would be abolition of the earnings related scheme. In order to achieve the objective of reduced dependence on means tested benefits by the elderly, it would be necessary to increase the basic flat rate pension instead.

5. Such an option would destroy the 'partnership' with the occupational industry and put pensions policy back into the melting-pot. Although earnings related provision perpetuates inequalities of the working lifetime, it is the norm in western countries.

(iii) Greater freedom

6. Most individuals have no choice about the level of their ultimate pension provision. They must either join the State scheme (contracted-in) or an occupational scheme (contracted-out); either route will give the same provision for the bulk of the working population, who have earnings between LEL and UEL. Above this level, individuals again have no choice as to whether they join a company scheme.

7. If SERPS remains, it would still be possible to give greater freedom in individual provision. A possible approach is outlined in paragraph 12 below. This would ensure a more than adequate absolute, if not relative, standard of living in retirement. It would also help to solve the problem of the higher paid early leavers.

(iv) Early retirement

8. The Social Services Committee has recommended a common age of retirement for men and women of 63, with flexibility

to retire on an abated or incremented pension between 60 and 65. This would cost at least £0.5 billion a year. Mr Fowler is due to reply and will clear a reply with colleagues shortly. The general line agreed amongst officials is to stress the extra costs involved and avoid any commitment to action. An increase in women's pension age would clearly not be easy to secure.

9. A reduction in the retirement age for men to 60, with full pensions payable from that age, and no countervailing increase in the age for women would cost at least £2.5 billion. Voluntary retirement on an abated pension is not a practical option for most working men over 60, since an abated pension is inadequate to live on.

10. The JRS scheme already provides 'voluntary early retirement' for men over 62, (64 from March 1984); and part-time JRS will run from this October. About 80,000 men have taken advantage of the scheme. It is a condition of receipt of the allowance (about £60) that the job is filled by someone on the register. There is no requirement that the JRS recipient should retire permanently from the labour force, though presumably few would in fact re-enter it. If a reduction in the elderly workforce in order to make way for the young is the policy objective JRS is a much more cost effective way to achieve it than early retirement.

11. The pensioners' earnings rule is also relevant. If early retirement were to come about, it would be difficult to justify abolition of the rule, since men might simply remain at their existing job and draw full pension. There is a Manifesto commitment to raise the limit and to eventual abolition. This may be difficult to justify when the thrust

of policy elsewhere - eg JRS - is to ease the elderly out of the workforce. And of course the benefit would go to the better-off pensioner. There is £m190 for abolition in the social security programme in 1986-67; and we may wish to argue that this money could be better spent elsewhere, or saved.

A possible new approach

12. In connection, particularly with problems (i), (ii) and (iii) above, the Financial Secretary has been considering a change to a new 'three-tier' system on the following lines. First, employees would make compulsory contributions for the equivalent of the basic State pension, without tax relief (as now). Second, they would also be required to contribute up to the upper earnings limit but, if they so wished, as part of their own personal pension plan rather than the State scheme or their employer's scheme. But, unlike now, these contributions would not be tax deductible. Finally, employees could opt to make further contributions (either to their employer's scheme or their own private scheme) for a higher pension - almost certainly on money-purchase lines and again, without tax relief. Other aspects of the present tax treatment of pensions could remain broadly as they are now.

13. Withdrawing the tax relief for employees' contributions could release up to £m1,000 a year for other purposes (and a similar regime for retirement annuity relief could save up to £m200 more).

Life Assurance

14. The tax reliefs enjoyed by life assurance are almost as generous as those for pensions. Abolishing (or phasing out) life assurance premium relief on qualifying policies would save at least £m600 a year.

15. The Financial Secretary has also asked Revenue officials to review the present law as it relates to non-qualifying life insurance policies in an attempt to find a general solution to the perennial problem of tax avoidance in this area.

Wider aspects

16. In all these cases numerous practical issues would need to be considered - not least, what form of transitional period would be needed. DHSS (on pensions), Department of Trade (on life assurance) and the Bank (on implications for the financial markets) would be strongly interested.

17. A related issue on which Treasury and Revenue officials have done some work is the possible economic distortions in the tax treatment of investment (including the bias towards institutional investment). They are preparing a paper on medium term tax policy which will cover all three aspects of the tax treatment, not only of contributions, but also of income arising in the funds and of payments by the funds to pensioners and policy holders.



FROM: E KWIECINSKI
DATE: 6 July 1983

MR R MARTIN/IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Monger
Mr Robson
Mr Ridley
Dr Rouse
Mr Frost/IR
PS/IR

EMPLOYERS/EMPLOYEES: NET OF TAX PAY

The Financial Secretary sought the views of the Chancellor and colleagues on this in his note of 30 June.

Ministers have subsequently discussed the matter, and have agreed that the Revenue should proceed with the printing of the tables.

Ministers do not expect a very large take-up, and consequently do not accept the need for any increase in Revenue staff.

The Financial Secretary wishes to discuss the question of presentation with the Revenue, and I will be in touch shortly to arrange a meeting. Perhaps you could give your preliminary views on this beforehand.


E KWIECINSKI

RESTRICTED



FROM: M E DONNELLY
DATE: 6 July 1983

MR PEET

cc PS/Chancellor
Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards

POINTS ARISING FROM THE FINANCIAL SECRETARY'S STRASBOURG VISIT

As you know, the Financial Secretary left Strasbourg with the impression that MEPs were taking a less hostile line towards British Refunds than might have been expected; though much remains to be done before the Parliament is likely to accept UK refunds in the 1983 Supplementary and 1984 Budget.

There are three specific points on which he would be grateful for further advice:

- i) it will be important to ensure that David Curry as Chairman of the Parliament's Agricultural Committee stays in very close touch with the Secretary of State for Agriculture. The Financial Secretary recalls that the previous Chancellor minuted colleagues on the need for close relations with MEPs in their policy areas. Perhaps you would consider whether this gives us a useful entrée to approach Mr Jopling;
- ii) the Marquis of Douro MEP suggested to the Financial Secretary that a good way of saving money on the CAP would be for the Parliament to throw out the 1983 Supplementary Budget (!). The Financial Secretary would be grateful for a tactfully worded draft reply suggesting that on balance this might not be in our interests as the Budget also contains provision for UK refunds;

iii) it is clear that the Italians are taking a hard line on linkage of the UK 1983 refund with agreement on an increase in own resources. The Financial Secretary thinks it most important that we speak with the Italians - at Ministerial level if necessary - before the Budget Council to persuade them to soften their approach. Perhaps Mr Unwin might consider how best to tackle this.

MEI
M E DONNELLY

RESTRICTED



FROM: E KWIECINSKI
DATE: 7 July 1983

NOTE OF A MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM, HM TREASURY
AT 10.00AM ON 7 JULY 1983.

Present at Meeting: Financial Secretary
Mr Michael Grylls MP
Mrs Angela Rumbold MP
Mr John Symons (Dep Chairman BAT Industries)
Mr Kenneth Thompson (Financial Director of
Charterhouse Group PLC)
Mr M A Keith - IR

UNITARY TAXATION

The Financial Secretary invited Mr Grylls to open the discussion.

Mr Grylls commented that the interested parties in the UK had awaited the decision of the US Supreme Court in the case of Container Corporation of America V The Californian Franchise Tax Board with much interest. The decision was very unhelpful. It now seemed as if it was down to the UK and other countries to exert pressure for legislation on the US administration.

Mr Symons commented that from their own contacts with them, it was clear that the US Treasury would welcome external pressure for change. If there were no leverage from the UK and other countries the US Treasury doubted whether the issue would generate enough interest to be considered for legislation.

Mr Grylls added that Mr Schroyer, (US Treasury official) had taken the initiative on this matter, by phoning the Unitary Tax Campaign to express his dismay at the decision, and suggesting that the UK Government should now think about exerting pressure on the US Government. Mr Grylls pointed out that it was ^{the} UK Government's duty to do all in its power to influence the Americans in order to protect UK industry.

The Financial Secretary noted these comments and said that he hoped the UK interests would direct their fire at the US rather than the UK Government. The UK Government were fully aware of the problem and indeed had already taken action. The Chancellor would shortly be sending Secretary Regan a strongly worded letter on the matter, and the Foreign Secretary would raise the question in his talks with Secretaries Regan and Schultz in the US next week. Ministers were considering other ways to increase pressure on the US administration.

The Financial Secretary pointed out that the Supreme Court's judgement left the question of UK parent companies with US subsidiaries - the main cause of concern to the UK - unanswered, as the judgement only referred to US parents. The inference though was that the position would be the same for US subsidiaries with UK parents. Clearly the uncertainty was wholly unsatisfactory and we were really back to square one.

Mr Symons commented that the fact that the judgement only referred to US parents made the matter worse as it would persuade other states of the legitimacy of the unitary method of taxation, and would encourage them to adopt it themselves.

Mr Grylls suggested that the UK could take direct retaliatory action. He showed the meeting a draft new clause he wished to table for Committee Stage of the Summer Finance Bill. The new clause would in effect deny tax relief previously given to foreign (US) companies, thus overriding and in contravention of the UK/US double taxation treaty.

The Financial Secretary commented that the new clause if tabled would be outside the terms of the resolutions for the Summer Bill and would not be called for debate. In any case it would be unwise for back-benchers to press the Government to respond positively to such a controversial measure at such short notice. The Government would inevitably not be able to make any commitment on the measure. The Financial Secretary suggested that Mr Grylls should try and obtain as many signatories as possible for the new clause and either table it or put it down as a separate motion, without pressing the Government to respond to it. This would signal Members' disquiet to the US

administration and could be cited by Ministers as evidence of domestic pressure for retaliation. Also the Campaign should keep up their lobbying in the US.

Mr Grylls agreed that this would be the best course.

Mr Symons wondered whether the UK Government would ever be prepared to take direct retaliatory action. Of course the campaign would continue to lobby in the US, but their representations were falling on deaf ears and they were becoming a bit disheartened at their ineffectiveness.

The Financial Secretary commented that the sort of retaliatory measure the Campaign was suggesting was a major constitutional issue which would jeopardise the whole UK/US double taxation treaty. It was doubtful whether Ministers would readily sanction a measure which many would see as doing the UK more harm than good. We had to face the reality of the situation - that our ability to instigate effective retaliatory action was very limited.

Mr Grylls wondered whether a meeting between a high level delegation of UK businessmen and the Chancellor would help to show both to him and to the US Government how seriously this issue was viewed here.

The Financial Secretary commented that the Chancellor did not need convincing, although he could not speak for him concerning a meeting. He suggested that the Campaign would be better advised to press for a meeting ^{with} Secretary Regan. UK Ministers could certainly tell their US counterparts that they were under heavy pressure from our largest companies; we did not need to go through the ritual of actually having the meetings.

Mr Grylls asked whether it would be useful for him to table a further PQ asking for the text of the Chancellor's letter to Secretary Regan to be published as a Parliamentary Answer. He could liaise with the Financial Secretary's Office and put the question down when it was known that Secretary Regan had received the letter. .

The Financial Secretary was agreeable to this, but said it was the Government's intention to make the letter public anyway.

The Financial Secretary suggested that the campaign should liaise with their colleagues in other countries similarly affected (notably Canada, Netherlands and Japan) to co-ordinate action. The UK Government would similarly be sounding out foreign countries through official channels to see what could be done.

Concluding the meeting the Financial Secretary commented that the Government would continue to view the issue of unitary taxation in the US with the utmost seriousness. They would keep an open mind on the best way to achieve its removal. He urged Mr Grylls and his colleagues to keep up their own direct pressure on the US administration.

The meeting closed at 11.00am.


E KWIECINSKI

Circulation:

PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Middleton
Mr Bottrill
Mr Cassell
Mr Monger
Mr Robson
Dr Rouse
Mr Keith/IR
PS/IR
Mr Walsh - (British Embassy, Washington)



FROM: M E DONNELLY
DATE: 8 July 1983

MR UNWIN

cc Mrs Hedley-Miller
Miss Court
Mr Edwards
Mr Peet

FINANCIAL SECRETARY'S MEETING WITH MR RIFKIND: 5.30pm 7 JULY

This note reports on the Financial Secretary's discussion with Mr Rifkind about tactics for their trips to Athens early next week.

Mr Rifkind said that it would be helpful if the short term budgetary issues concerned with the mechanics of ensuring our 750 mecus refunds could be separated from questions of longer term budgetary and CAP reform. It would be tactically wise to take the line that the short term budgetary questions were purely procedural and that there should be no question of the UK not getting its refunds.

The Financial Secretary said that he proposed to take Mr Roumeliotis through the budgetary timetable and make him aware of the points likely to arise. Four were of particular concern to us: assiette versus payments; obligatory/non obligatory classification; Chapter 100; and grossing up for our contribution to the German refunds. The moment of truth would come when we had to get the refunds through the Parliament in December. There were three critical times: the July budget council, the October discussions with the Parliament and that final vote, in December. A de facto linkage between UK refunds for 1983 ^{and} longer term budgetary reform (including increases in own resources) was being made by some member states; discussions in Athens needed to recognise this. There was also the complication that the Parliament would want to throw out one or both of the budgets before it in December to stress its role prior to the 1984 Parliamentary election.

It was agreed that the Prime Minister's statement that the UK was "prepared to consider" an increase in own resources if satisfactory long term budgetary arrangements and reform of the CAP were agreed

was a useful step forward. The UK's safety net proposals were fairly close to the Greek position in that they did/^{not} limit redistribution from the more prosperous to the less prosperous member states. They were certainly closer to the Greek views than the French "écurement des soldes". On the other hand it was unhelpful that Papandreou had recently talked about the British demand for a "juste retour".

The Greek position that they were technically incapable of introducing VAT from 1 January 1984 - the earlier target date - appeared to be genuine. PASOK were committed to introducing VAT; and Mr Roumeliotis had a particular ministerial interest in this. There was no need for the UK to take the lead in pressing for quicker introduction of VAT, as this was a Commission responsibility. But at the same time we would not wish to appear excessively relaxed about the Greek position, to avoid setting too damaging a precedent for Spain and Portugal.

The Financial Secretary stressed the Treasury's close interest in the post Stuttgart long term budgetary discussions. Mr Rifkind acknowledged this and said that he would be happy to come over to the Treasury and report on the position in the negotiations as and when this would be helpful.

The meeting closed at 6.00pm.

MED
M E DONNELLY



FROM: E KWIECINSKI

DATE: 8 July 1983

MR L J H BEIGHTON/IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Middleton
Mr Monger
Mr Robson
Dr Rouse
Mr Graham (Parly Counsel)
Mr Lusk/IR
PS/IR

TAX TREATMENT OF HOLIDAY LETTINGS

The Financial Secretary has seen your note of 6 July, covering Mr Lusk's submission of 5 July.

As you acknowledged in your manuscript comments, some of the questions posed in the submission have been overtaken by events.

During the 2nd Reading debate of the Summer Finance Bill on 6 July the Financial Secretary repeated the statement he made during Committee stage of the Spring Finance Bill. In addition he announced that the measures would be included in the 1984 Finance Bill, taking effect from April 1983. This deals with the question of timing. The Financial Secretary would wish to see draft clauses issued at an early date, though he says there is no need for them to be rushed out.

On the points of detail raised in your and Mr Lusk's notes - the Financial Secretary would like to have a meeting to crawl over the ground. I have fixed a meeting for 25 July at 2.45pm.

The Financial Secretary's initial comments on Mr Lusk's submission are as follows:

- 1) that accommodation with shared facilities should qualify (para 10).

- 2) that use by a proprietor and his family should be allowed subject to the conditions mentioned (para 11).
- 3) he wonders whether we need the 4 months (and 2 out of the 4 months) test if we have the 75% test. (para 12).
- 4) He reaffirms his preference not to extend the new treatment to overseas holiday properties. He agrees that ^{there} that/is probably no need for a specific exclusion (para 13).
- 5) He remains of the view that the personal involvement test is unnecessary and undesirable. (para 16).
- 6) He agrees that CGT relief should be withdrawn only if within a six year period the property becomes the owner's only or main residence.

His only other general comment is that we should aim to make the legislation as simple as possible, although he recognises this may not be easy.

SK
E KWIECINSKI



FROM: E KWIECINSKI

DATE: 8 July 1983

MR L J H BEIGHTON/IR

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Middleton
Mr Monger
Mr Robson
Dr Rouse
Mr Graham (Parly Counsel)
Mr Lusk/IR
PS/IR

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His only other general comment is that we should aim to make the legislation as simple as possible, although he recognises this may not be easy.

SK
E KWIECINSKI

Covering Secret and Personal



PS/Chancellor (Miss O'Hara)

The FST thought the Chancellor might be interested to see his attached report on the pre-election state of play on contracting out; in the light of your 11 July note on contracting out.

OFFICIAL - SENSITIVE

D.B. Lloyd 27/3/2014

~~SECRET & PERSONAL~~



FROM: FINANCIAL SECRETARY
DATE: 11 July 1983

CHIEF SECRETARY

CC Economic Secretary

CONTRACTING OUT FOR LOCAL AUTHORITIES

I have seen Mr Mountfield's submission of 7 July, and especially direct my comments to para 3(f) of the paper and para 5 of the draft Cabinet paper.

This is to record that there was a meeting about December 1982 (I can't remember exactly when) between Geoffrey Howe, Michael Heseltine, and myself, when this subject was discussed. We agreed not to press DoE to push Local Authorities to contract out services, because Michael Heseltine said that it would have little effect. Instead, he wished to legislate after the Election, compelling local authorities to offer certain services out to competitive tenders. Clearly this would have to be done on the basis of fair pricing of local authorities' direct labour costings, and closing down direct labour services which failed to pay their way, as supervised by the DoE.

We did not discuss the range of services, but we all felt it should be very wide indeed: and some suggestions which I can think of are:-

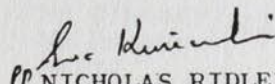
- all cleaning
- catering
- road & building maintenance & repairs
- security
- accountancy
- legal
- architectural
- land agency
- payment of wages and pensions
- collecting the rates

Indeed practically everything they do.

OFFICIAL - SENSITIVE

(I believe there are some Local Authorities in the US who only meet once a year to consider tenders and award contracts for all their activities for the year ahead).

You may wish to pursue this with Patrick Jenkin.


PP NICHOLAS RIDLEY



FROM: E KWIECINSKI
DATE: 11 July 1983

CHIEF SECRETARY

cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Robson
Dr Rouse
Mr O'Leary) IR
Mr Draper)
PS/IR

LIABILITY OF TRUSTEES

The Financial Secretary sought your views on this issue, and has noted your comments as recorded in Mr Gieve's minute of 4 July.

... In view of Mr Draper's further note of 8 July (copy attached, top copy only), the Financial Secretary is more than ever convinced that we should not change the law retro-actively to absolve trustees of their liability to CGT.

He has commented that if the trustees referred to in Mr Draper's original submission were not insured it is clear that they should have been, and their fate will encourage others to insure.

His final view therefore is that we should not legislate, although he would not want the Revenue to deal too harshly with the trustees in question when seeking a settlement with them.

CK
E KWIECINSKI



H/M

From: D G Draper
8 July 1983
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

1. MR O'LEARY *Re* 8.7.83 *R*
2. FINANCIAL SECRETARY

LIABILITY OF TRUSTEES

1. At the meeting on 29 June you asked for a note on the insurance position and for information about our previous practice.

Insurance

2. The Law Society requires all solicitors to carry indemnity insurance in a standard form. Under the terms of the insurance a solicitor is indemnified with certain exemptions against any loss in respect of any description of civil liability whatsoever incurred in connection with the Practice. "The Practice" means the practice of practicing as a solicitor including the acceptance of obligations as trustees. The amount of cover is thought to be normally an amount of £50,000 multiplied by the number of members in the partnership. The solicitor is however required to bear the first tranche of the claim (a sum of £500 again multiplied by the number of members of the partnership). There is also an exclusion for trading activities.

3. The Institute of Chartered Accountants does not impose a similar obligation on Chartered Accountants. They do however recommend that their members take out insurance cover on the

-
- cc | Chancellor
| Chief Secretary
| Economic Secretary
X | Minister of State
| Mr Robson
| Dr Rouse

- Mr Green
Mr Isaac
Mr O'Leary
Mr Houghton
Mr Hall
Mr Lawrance
Mr Draper
Mr Elliott
Mr Fawcett
Ms Tyrrell
PS/IR

same general lines as that taken out by solicitors. They also recommend their members who are appointed as trustees to obtain suitable indemnities. They suggest that, if the settlor agrees, a wide form of indemnity should be included in the instrument creating a trust. We have not contacted the other accountancy bodies.

4. It seems therefore that solicitors and accountants would normally be covered against a tax liability arising from a trust fund, but two points do need to be stressed. The first is that it is not possible to give a categorical assurance without putting the full facts to the insurers. In the circumstances it has not been possible to do this. The second is that not all accountants have necessarily accepted their Institute's recommendations.

5. As far as the two cases mentioned in the minute of 22 June are concerned, it seems in neither case has a general wide ranging indemnity been written into the trust deed. In Case A there is a limited form of indemnity which might apply although the settlor is understood to be worth very little in which case the indemnity will be correspondingly valueless. There is also the possibility that the solicitor in Case B might not be covered by his insurance because of the exclusion for trading activities. We think however the accountant's insurers are acting for him.

6. The enquiries we have made do suggest that the insurance cover available to professional trustees may be wider than we originally thought. If this is so it would tend to support the case for not limiting the trustees tax liability. Any uninsured loss would normally rank as an allowable deduction for tax against the fee income.

7. The Association of Corporate Trustees has told us that the big corporate trustee companies would expect to bear any

liabilities out of their fee income but they would normally be covered by indemnities.

Past practice

8. There seem to have been surprisingly few difficulties of this kind hitherto. Unless however a case is reported to Head Office we would not necessarily know that a trustee had met a liability out of his own pocket. In one case which we did see the settlor paid tax where the settlement was supporting his child and he presumably felt that he had some moral obligation to do this. In another more recent case we hope to be able to confine the tax demands to the amount remaining in the trust accounts. Although assessments have been raised in this case for a larger amount it may be possible to find grounds on which the excess could be discharged. A few years ago there was a case relating to an assessment to capital gains tax in respect of assets transferred out of a residuary estate. The Special Commissioners held that the assets transferred gave rise to a capital gains tax charge. The tax was recovered from the trustee. It is not known whether the trustee subsequently recovered the tax from the beneficiary. It seems likely that he would have done so.



D G Draper



Ms. Deane
Miss Court
Chancellor
EST
MST
Mr. Young
Ms. Hedley Miller
Mr. Edwards

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Biffen
House of Commons
LONDON
SW1A 0AA

Mr. Ingham
Mr. Peck

12 July 1983

Dear Sir

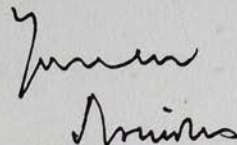
PRELIMINARY DRAFT SUPPLEMENTARY AND AMENDING BUDGET NO.2 FOR 1983
AND PRELIMINARY DRAFT BUDGET FOR 1984

The Commission of the European Communities presented their Preliminary Draft Budget on the 10 June. We have deposited the relevant volumes and we will make available an explanatory memorandum soon. The Commission have also presented a Preliminary Draft Supplementary and Amending Budget No.2 in 1983. Once an English version of their proposals for 1983 is available, we deposit it together with an explanatory memorandum. I am writing to inform you that these documents will need to be considered in the Budget Council before the Scrutiny Committee have decided whether or not to recommend a debate.

There will nevertheless be opportunity for the House to discuss the Community's expenditure plans for 1984 and also their proposed increases for 1983. The Commission's proposals are just the first stage in the negotiations leading up to the eventual adoption of the 1984 budget and the 1983 supplementary budget by the European Parliament at the end of this year. After the Council establishes the Draft Budget, it is then forwarded to the European Parliament who propose modifications and amendments. The Council will then consider the amendments and modifications at the second Budget Council in November. The same procedures would also apply to the Supplementary and Amending Budget. This leaves adequate time for debate before the second Budget Council.

Subject to your views and those of copy recipients, I will write to the Chairman of the House of Lords Committee who are sitting at the moment, seeking the Committee's approval to the procedure I have outlined above. In the absence of the House of Commons' Committee I will send a copy of that letter to the Clerk.

I am copying this letter to Malcolm Rifkind, Lord Whitelaw, John Wakeham
and Sir Robert Armstrong.

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

NICHOLAS RIDLEY



Treasury Chambers, Parliament Street, SW1P 3AG

P J Davies Esq
Office of Parliamentary Counsel
36 Whitehall
LONDON
SW1A 2AY

12 July 1983

Dear Davies

PREVENTION OF TERRORISM BILL: MONEY RESOLUTION

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

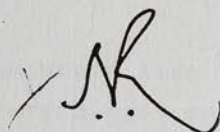
Yours sincerely
E Kwiecinski
E KWIECINSKI
Private Secretary

PREVENTION OF TERRORISM [MONEY]: Queen's Recommendation signified

Mr Nicholas Ridley

That, for the purposes of any Act of the present Session to repeal and re-enact with amendments the provisions of the Prevention of Terrorism (Temporary Provisions) Act 1976, it is expedient to authorise the payment out of money provided by Parliament of any expenses incurred by the Secretary of State in connection with -

- (a) the control of travel into and out of any part of the United Kingdom, including the provision of facilities for examining officers; and
- (b) the making of exclusion orders and the removal from any part of the United Kingdom of persons subject to such orders.



RESTRICTED



FROM: M E DONNELLY
DATE: 12 July 1983

NOTE FOR THE RECORD

Financial Secretary's meeting with Mr Varfis, Minister for Foreign Affairs, in the Greek Foreign Affairs Ministry, 9.30 Monday 11 July

Those Present: Mr Varfis
Mr Mitzos
Greek Ambassador
Financial Secretary
United Kingdom Ambassador
Mrs Hedley-Miller
Mr Thomas
Mr Donnelly

Mr Varfis welcomed the Financial Secretary to Athens. He reported that at the 8 July special Council meeting it has been decided that finance ministers would participate on an equal basis with foreign ministers. Agriculture and other ministers would be invited to participate in the work as necessary.

The Financial Secretary said that he would like to discuss the outlook for the 1983 Supplementary Budget and the 1984 Budget. He stressed that there could be no question of any linkage between the 1983 UK refund and the long term financing negotiations; though in practice both could come together when the European Parliament voted on the budgets in December, shortly after the Athens Summit. One question for consideration would be how best to deal with the Parliament, who would wish to cause some trouble before the 1984 elections but had not yet decided what to do.

Mr Varfis said that he had accepted at the 8 July meeting that the two problems were separate. Nonetheless discussions would take place in parallel and would influence each other. Furthermore the Stuttgart declaration had spoken of the British refunds "in the context of" a longer term solution. But he accepted that there was a clear commitment to put the 1983 UK refunds into the draft

1984 Budget. This could be done through a special line in the Budget. But the Parliament would object to that. Alternatively the money could be entered under Article 100. But this would suggest linkage which it was agreed should be avoided. The best approach would be to use the refunds to fund specific policies. But it was not yet clear what the outcome would be. He was afraid of an end year crisis.

In reply the Financial Secretary stressed that there would be a very grave crisis if the UK did not get its refunds by Christmas. In that event it would be necessary to take drastic action, which he hoped could be avoided.

Mr Varfis asked about the European Parliament's attitude to the 1983 Supplementary Budget. The Financial Secretary said that there were some MEPs opposed to the additional spending for agriculture contained in this Budget. But they could only reject the whole Budget, not merely the agriculture expenditure. If no long term solution was agreed at Athens in December then the Parliament would have ^apretext for throwing out one or both Budgets. But if progress had been made then the Parliament would be in something of a dilemma.

Longer Term Solution

Discussion turned to the longer term. The Financial Secretary said that the Parliament wanted an early increase in the 1% VAT ceiling. The UK - Government and Parliament - would not be prepared to consider this unless two conditions were met. Firstly that the Community's agriculture policy had been satisfactory amended. Secondly that there had been some agreement on a fallback financial mechanism - ^{ag}the "safety net" scheme. He stressed that this was merely a scheme to limit net contributions, not net receipts.

Mr Varfis said that speaking as a Greek Minister he understood these conditions. He agreed that the agricultural sector needed a healthy "gestion", leading to an overall reduction in spending. He opposed the safety net scheme, even though the UK ideas were better than those produced by the French. But he thought that some solution could be found, perhaps by combining the safety net ideas/^{with}some modulation of GNP per capita.

The Financial Secretary said that the UK would be submitting two papers to the Commission. One would be on agricultural spending, the other would be on our safety net. The British were not wedded to any one doctrinaire means of achieving results: it was just a question of ensuring that all paid a fair share. Mr Varfis suggested that any safety net scheme should work over say 3 years rather than one. The Financial Secretary said that there would be no difficulty in achieving flexibility on such questions. But the scheme must be automatic. All agreed that the richer Northern European countries should pay most. But it was just not sensible for the UK to subsidise eg France. Mr Varfis said that as president he could see the possibility of compromise here. But there were other conditions to be considered. There was the need to help the less developed countries; and to develop new policies benefiting all member states.

The Financial Secretary suggested that if agricultural spending could be cut on a sustainable basis there might be no need for more resources to finance new expenditure. Mr Varfis was sceptical of this. He stressed that spending constraints which were sensible on a national level should not be applied on a European level. Some member states - particularly the Germans - took far too negative line on funding of eg demonstration projects on a European level which they would finance on a national basis.

The Financial Secretary said that at present Community financing was like a lorry with all the weight on two wheels. The lorry could not move forward until the load was redistributed more evenly.

Mr Varfis said that others would be concerned that the load would be redistributed but there would still be no forward movement. He saw little hope in negotiations on the basis of expenditure savings then used only to pay UK and German refunds, on a juste retour basis. Other member states including Greece would not accept this. The only way forward was through a global approach looking at Community priorities, new policies and possible ways forward. This would include the need to encourage convergence, a just distribution of financial burdens, and enlargement. The Financial Secretary pointed out that because of the effect of the net benefit/cost of new policies on different member states, the first step needed to be agreement on a new financing system. Mr Varfis said that it was clear that the very rich small countries would need to make some sacrifice to help the general dynamic of the Community. Mrs Hedley-Miller stressed that one of the advantages of the safety net scheme was that it only came into operation if Community policies failed to produce a fair distribution of resources. It was therefore very much a last resort.

Agricultural Spending

The Financial Secretary said that there was a need to see agricultural surpluses in a global context and appreciate the real political problems they caused member states. The UK was proposing savings on the CAP of 1 billion ecus in the 1984 draft Budget. This was the most that could be achieved through use of the Commission's management powers. But 1 billion ecus out of a total cost of 17 billion ecus was not enough. Mr Varfis said that the French wanted to see an increase in Community preference. But this would greatly upset the United States. Price control was the most direct way of dealing with surpluses. But for a country like Greece with 20% inflation and 30% of the population involved in agriculture this was simply not practicable. The Financial Secretary suggested perhaps giving each country a target for agricultural savings in the light of their own position. Mr Varfis agreed, but said it was also necessary to preserve unity of the market.

The Financial Secretary suggested that it would be helpful if Mr Varfis could find time to discuss these problems, and the budgetary outlook, with prominent members of the European Parliament, who had felt left out of the Stuttgart negotiations. He asked about the Italian approach to the forthcoming Budget Council. Mr Varfis said that Columbo had been faking a very neutral line, probably because the Italian government was so unstable. It was agreed that the UK and Greece should remain closely in touch during the Council.

The meeting ended at 10.45am.

MEJ
M E DONNELLY

Circulation:

PS/Chancellor
Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards Mr Fitchew
Mr Peet
PS/Mr Rifkind - FCO
Mr Hannay - FCO
Mr Williamson - Cab Off
Mr Butt - UKREP
Mr Marsden - UKREP
Mr Thomas - UK Embassy Greece

RESTRICTED



FROM: M E DONNELLY
DATE: 12 July 1983

NOTE FOR THE RECORD

FINANCIAL SECRETARY'S MEETING WITH MR ROUMELIOTIS, UNDER-SECRETARY
FOR FINANCE MINISTRY OF FINANCE ATHENS

Those Present: Mr Roumeliotis
Mr Sapountzoglou
Financial Secretary
UK Ambassador
Mrs Hedley-Miller
Mr Thomas
Mr Donnelly

The Financial Secretary suggested that they discuss the outstanding points likely to arise at the Budget Council in detail.

Assiette v Payments

The Financial Secretary said that some member states were trying to change the basis on which the previous three years of refunds had been calculated - the payments basis - to the assiette basis. Had previous refunds been calculated on this basis they would have been more favourable to the UK. This year they would be less favourable. It was clearly absurd to change the calculation system in midstream. And on a political level the Prime Minister would not have accepted the Stuttgart agreement had it not been clear that the refunds would be calculated on the same basis as before. Mr Roumeliotis noted this.

Obligatory/Non-Obligatory

The Financial Secretary said that the previous year's refunds had been classified as 60 per cent obligatory, 40 per cent non-obligatory in the Budget.

The French wanted obligatory classification; the Germans and the European Parliament preferred non-obligatory. The UK had no strong preferences. Our priority was to get the money. Mr Roumeliotis said that he thought non-obligatory classification would make it more likely that we would be able to get the refunds through the Parliament.. The Financial Secretary confirmed that we were content with this.

Grossing Up for German Refunds

The Financial Secretary pointed out that the Stuttgart agreement for a UK refund of 750 million ecus was a net figure. It was therefore necessary for the figures in the 1984 draft budget to be grossed up to allow for the UK's contribution to the separate German refund, to ensure that we actually received 750 million ecus net. A similar adjustment was needed for the UK refund figures in the 1983 supplementary. Mr Roumeliotis seemed unaware of this problem, and it was agreed to provide him with a more detailed note.

Trop Percu

The Financial Secretary said that the Prime Minister had made it clear at Stuttgart that her agreement on the 1983 refund was conditional on the "trop percu" having been dealt with in that settlement. There could be no question of this matter being reopened. Mr Roumeliotis said that it would not be possible to avoid a general discussion within the Budget Council. But as President he saw his task being to prepare and present the 1984 Budget, taking the Stuttgart declaration into account. There would be parallelism in procedural terms between discussion of the UK's 1983 rebate and the special Council meetings to discuss the longer term; but the UK's refunds were not conditional on the outcome of the longer term discussions. Some states would not approve of this approach but he would do his best to follow it.

Chapter 100

The Financial Secretary said that putting UK refunds into chapter 100 would involve a further unnecessary Parliamentary stage. The only reason member states could want this was because they did not accept the Stuttgart declaration. Mr Roumeliotis agreed that chapter 100 created more problems and was an additional obstacle. There was no point in approaching the refunds problem in this covert way.

The Financial Secretary stressed the vital importance of ensuring that the UK's refunds were delivered by December at the latest. Otherwise the UK would be forced to take drastic measures.

Mr Roumeliotis said it was an unfortunate coincidence that there was a need to cut 1.2 billion ecus from the 1984 Budget while at the same time refunding 1.1 billion ecus to the British and Germans. Some, particularly the French, could argue that sums were being cut from European policies in order to provide the UK and Germany with a juste retour. Indeed some states were proposing that the UK refunds for 1983 should be held over and put into a special 1984 Supplementary Budget. The Financial Secretary stressed again that if the refunds that had been promised were not received the UK Government would reluctantly have to take drastic action. As the deadline for refunds was Christmas of this year placing them in a 1984 Supplementary Budget was not a realistic option.

Agricultural Spending

The Financial Secretary said that the UK hoped to cut about 200 million ecus from CAP spending in the 1983 Supplementary Budget. These were management savings. For 1984 cuts of 1 billion ecus were proposed in the CAP. Firm control of the CAP and a permanent financial mechanism to control imbalances were the two pre-conditions for UK consideration of an increase in the VAT ceiling. Until they were achieved the UK welcomed the approach of the 1% ceiling as a useful discipline within the Budgetary process. He stressed that the cuts proposed were all within the Commission's competence. Mr Roumeliotis said the role of the Commission would be very important. The Financial Secretary agreed to send him a list of the UK's proposed reductions in CAP expenditure.

Budget Council

In response to a question from Mr Roumeliotis the Financial Secretary suggested that he take the 1983 Supplementary Budget first of all, leaving the more difficult 1984 budget until later in the Council. The Ministers agreed that a 5.8% increase (half the maximum rate) was the ideal increase; as the Parliament would anyway wish to increase it to 11%. Mr Roumeliotis expressed the hope that the Financial Secretary would attend the 19 July special post-Stuttgart Council. This would discuss the Commission's modulated VAT ideas; as well as perhaps taking a broader tour d' horizon. It would be useful background to the Budget Council discussions on the following days.

Mr Roumeliotis pointed out that the Commission's "net surplus" proposal for modulating VAT would reduce the UK's contribution from 18% to 11%. The Greek government favoured VAT modulation in relation to the GDP average of each Community country. They also accepted the need for some decrease in agricultural spending. The Financial Secretary agreed but pointed out that most^{of} the UK's problem came on the expenditure side, through its low level of Community expenditure per head. Moreover modulated VAT tended to actually worsen the German position. Hence the safety net idea which took both revenue and expenditure into account. He gave Mr Roumeliotis a copy of the green booklet on the Budget Problem. In answer to a question the Financial Secretary again confirmed that the safety net scheme had no effect on recipients.

Greek economy

Mr Roumeliotis said that the Greeks were negotiating with the Commission to postpone the introduction of VAT until 1 January 1986. There were administrative problems still to be overcome. There was also the difficulty that while the Government was trying to reduce inflation from 20% the introduction of VAT would

add 4-6% to the price level at a stroke. The current Greek fiscal system was rather protectionist in its effects and he was again having discussions with the Commission on this subject. The Greeks were aiming for 3 VAT coefficients: 6%, 16% and 25%.

In conclusion Mr Roumeliotis said he looked forward to meeting the Financial Secretary in Brussels and having further discussions then. The meeting ended at 12.30pm

MED.
M E DONNELLY

Circulation:

PS/Chancellor
Mr Unwin
Mrs Hedley-Miller
Miss Court Mr Bottrill
Mr Edwards
Mr Fitchew
Mr Peet
PS/Mr Rifkind -FCO
Mr Hannay - FCO
Mr Williamson - Cab Off
Mr Butt - UKREP
Mr Marsden - UKREP
Mr Thomas - UK Embassy Athens



Treasury Chambers, Parliament Street, SW1P 3AG

S C Laws Esq
Office of Parliamentary Counsel
36 Whitehall
LONDON
SW1A 2AY

12 July 1983

Dear Laws

MEMBERS' PAY

... I enclose a copy of the resolution on Members' Pay, duly initialled by the Financial Secretary.

Your sincerely

E KWIECINSKI
Private Secretary

CONFIDENTIAL


12/32

B. MEMBERS' SALARIES: Queen's Recommendation signified

Mr John Biffen

That, the salaries payable to Members of this House in respect of service on and after 13th June 1983 should be at the following yearly rates -

- (1) £15,090 for Members not falling within paragraph (2);
and
- (2) £8,800 for Officers of this House and Members receiving a salary under the Ministerial and other Salaries Act 1975 or a pension under section 26 of the Parliamentary and other Pensions Act 1972.

X - 

11 7 83

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Treasury Chambers, Parliament Street, SW1P 3AG

The Honourable J J Louis
Ambassador of the United States of America
American Embassy
Grosvenor Square
LONDON
W1A 1AE

13 July 1983

cc PS/Chmuller
PS/CST
PS/EST

PS/MST
~~Mr Middleton~~
~~Mr Cassell~~

Mr Lavelle

Mr Bottrill

Mr Monger

Mr Robson

Dr Rouse

Mr Walsh (British Embassy
Washington)

Mr Keith (IR)

PS/IR

Dear John

UNITARY TAXATION

The use by certain States of the United States of the unitary basis of taxation with worldwide combined reporting is a matter of very great concern to the Government. The continued use and indeed spread of this arbitrary method of taxation is causing increasing concern and impatience on the part of British companies and in Parliament. The recent decision of the Supreme Court in the Container Corporation of America v The California Franchise Tax Board case to uphold the right of states to use this method of taxation was a great disappointment in this country.

--- I enclose a copy of the letter which the Chancellor of the Exchequer sent to Secretary Donald Regan yesterday.

Nicholas Ridley
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 8000

12 July 1983

The Honourable Donald T Regan
Secretary to the Treasury
Washington DC

John M. Regan

I am writing to you on the subject of unitary taxation following the recent decision of the United States Supreme Court in the case of Container Corporation of America v The California Franchise Tax Board, upholding the right of a state to use the worldwide combined unitary method of taxation. This method carries a high risk of double taxation, and imposes on international companies a heavy administrative burden. As you know this is a subject on which my predecessor and other colleagues have expressed strong views to you on a number of occasions. It is an issue of considerable concern to Parliament and the British business community.

After the filing of an amicus curiae brief in the Chicago Bridge and Iron case by the United States Solicitor General, we advised British companies to await the Supreme Court's decision before making further representations. We were therefore naturally disappointed with the ruling in the Container case. When these issues do arise it seems to us important that an amicus curiae brief is filed, and I wonder whether the lack of such a brief might have been a factor in this case. I appreciate that the latest decision does not apply to United States Corporations with foreign parents, which is the issue of most concern to us. However the consequence seems to be that there is little prospect of this particular issue being tested in the Supreme Court in the near future.

I understand that at your meeting on 7 July with the British Ambassador you said that you would probably consider legislative action as a result of the decision. In the circumstances I would welcome this. Following the reservation of the United States Senate on Article 9 (4) of the Double Taxation Convention, there were as you know, some misgivings here, when the Convention came before Parliament for ratification in 1980. Nonetheless ratification was approved in the expectation that action by the Administration to eliminate the practice was in hand.

/I should

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I should be interested to know how you see this developing, and to learn of your proposed timetable. You will of course be aware that this is a matter where there is strong pressure in Parliament. We are keen for the matter to be resolved as soon as possible before possible harm is done to the good relations between our two countries. I hope we shall have an opportunity to let you have our views on any legislation you may be preparing. Geoffrey Howe, who of course also has a close interest in this subject, will see you in Washington this week and looks forward to having further discussions on this with you.

John Major
Nigel Lawson

NIGEL LAWSON

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FROM: M E DONNELLY

DATE: 13 July 1983

MR UNWIN

cc PS/Chancellor
Mrs Hedley-Miller
Mr Edwards, *Mr Fitchew*
Miss Court
Mr Lennon
Mr Peet

EC BUDGET: PROSPECTS FOR 1983 SUPPLEMENTARY AND 1984 DRAFT BUDGET

The Financial Secretary this afternoon had an informal discussion with Robert Jackson MP and Neil Balfour MEP about the two Community Budgets to be discussed by the Council next week.

The Financial Secretary went briefly through the outstanding issues on the attached sheet. The following points were made:

i) Assiette v Payments - Mr Jackson intended to deal with this in his report on the 1983 Supplementary Budget (for which he is rapporteur).

ii) Obligatory/Non Obligatory - For the 1983 Supplementary Mr Jackson thought that the best way of getting UK refunds through the Parliament would be to make them obligatory. Otherwise the Parliament would want to tamper with the figures. There was also a timing difficulty in that the Parliament might well take this Supplementary in September, because the Commission had made it clear that they needed the agriculture money urgently. Mr Balfour however felt that the Parliament was unlikely to throw out the UK refunds in the Supplementary. This would be seen as too overtly an anti-British move.

iii) Grossing Up - This was a Council problem. There was no chance of the Parliament taking action favourable to the UK.

iv) Chapter 100 - Mr Balfour pointed out that to get the 1984 refunds by the end of our financial year the money would have to be put on the line. There was no chance of getting all the money out of Chapter 100 before March 31 1984.

v) Agriculture Spending - Both Balfour and Jackson/that agreed that the Parliament was ready to sound tough about agricultural spending, even if it would not translate this into action. The Financial Secretary agreed to give Mr Jackson notes of where the UK thought agricultural savings might be made, as background to his report to the Budget Council next week.

vi) Own Resources increase - The Financial Secretary said the two conditions - a safety net and a reform agricultural spending-necessary for the UK to even consider an increase were likely to prove hard to fulfil. Mr Jackson pointed out that it was not clear what sort of agricultural policy the UK wanted. Mr Balfour said that safety net ideas were much disliked by the Parliament.

The Financial Secretary agreed to keep in touch with Mr Jackson during next week's Council meeting in Brussels.

MEJ

M E DONNELLY

BUDGET POINTS

Assiette v Payments

83 S.B. and 84 draft Budget

Obligatory/Non-Obligatory

83 S.B. and 84 draft Budget

Grossing up for German refunds

83 S.B.: Comm propose 385 mecus; we need 408 mecus.

84 Budget: no Comm proposal yet; we need 985 mecus

Chapter 100/on the line

84 draft budget

Agricultural Spending

83 S.B. we want 200 mecus cuts

84 draft Budget we want 1000 mecus cuts
(both within management competence of Commission).



Mr BO Dyer
Mr Hopkinson
CST
Mr Middleton
Mr Bailey
Mr Wooding
Mr Restall

Treasury Chambers, Parliament Street, SW1P 3AG

14 July 1983

Mr Judd
Mr Petcher

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
LONDON SW1

Dear Secretary of State,

Thank you for your letter of 8 July about our response to the PAC Report on dog licensing. I have also noted, and appreciate, the views of colleagues who have participated in the recent exchange of correspondence on this subject.

I am sure it is right that the matter should be discussed in H, and therefore that a substantive reply must await that discussion. However, the PAC Report has been with us since December and it would be extremely difficult not to make any reference to it when dealing with all subsequent reports. To delay any response until the House returns in the autumn would, I fear, be quite unacceptable to the PAC.

It therefore seems best to incorporate, as an interim response in the composite Treasury Minute responding to the Committee's reports of 1982-83, the draft provided by ... Patrick Jenkin (copy enclosed). To publish before the Summer Recess we must go to press this week.

I am copying this letter to Patrick Jenkin, Members of "H" Committee, Michael Jopling, Jim Prior and Sir Robert Armstrong.

Nicholas Ridley
PP

NICHOLAS RIDLEY

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

Department of the Environment

Paragraphs 1 to 7 - Dog Licensing

1. The Treasury and the Department of the Environment note the comments and recommendations of the Committee.
2. They share the Committee's concern about the widening gap between receipts from licence fees and the costs of collection, and recognise that the matter needs further consideration. The Committee specifically recommended the suspension of the present arrangements temporarily until a policy decision becomes possible. But, as pointed out in paragraph 10 of the Comptroller and Auditor General's Memorandum, such a suspension would require primary legislation.
3. The Government have the Committee's report before them for consideration. They will examine the policy implications of the conclusions and recommendations of the Committee concerning the financial arrangements for dog licensing with a view to reaching a decision at the earliest opportunity.
4. In the meantime the Department of the Environment has introduced a minor change in the arrangements which will yield an annual saving of about £90,000 on the department's expenditure. Further possibilities for effecting savings through more efficient working methods are also being examined in consultation with the Post Office.

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FROM: E KWIECINSKI


DATE: 15 July 1983

FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Mr Middleton
Mr Littler
Mr Unwin
Mrs Hedley-Miller
Mr Lennon ^{Miss. Court}
Mr. Peet. ^{Mr. Edwards}

LETTER TO FOREIGN SECRETARY: EC BUDGET COUNCIL 20/21 JULY 1983

... I attach the latest version of your draft letter to the Foreign Secretary revised to take on board points arising during the Chancellor's meeting yesterday.


E KWIECINSKI

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DRAFT LETTER

FROM: THE FINANCIAL SECRETARY
TO : THE FOREIGN AND COMMONWEALTH SECRETARY
cc The Prime Minister and OD(E)
Sir Robert Armstrong

EC BUDGET COUNCIL, 20/21 JULY 1983

I set out below my approach to the forthcoming Budget Council, which will consider both the second Supplementary to the 1983 Budget, and the 1984 Budget.

2. This is going to be a difficult Council. The French have made it clear, both in President Mitterrand's recent letter to Herr Kohl and in every other way, that they will cause the maximum problems. You will, I know, be taking a firm line at the Foreign Affairs Council on Monday about these attempts to go back on agreements about UK refunds, but the prospect, is nevertheless difficult.

UK Budget Refunds

3. The main issue is, as usual the need to secure the net benefit the UK was intended to receive from the risk-sharing payments in respect of 1982, and the 750 million net refund agreed at Stuttgart in respect of 1983.

There are three main difficulties which arise of one or other Budget. I refer below to a judgement of our priorities, and to the possible outcomes of this Council. The contentious issues are:

i. Payments versus assiette basis for 1982 refunds (arises on the 1983 Supplementary)

There are strong indications that other member states will try to insist on altering the customary basis for calculating our net contribution, and hence our entitlement to risk-sharing refunds, by scoring the once-yearly VAT adjustments against the year to which they relate (the so-called 'assiette' basis) rather than the year in which they are paid (the so-called 'payments' basis). Their motive is simply to reduce the UK's entitlement to risk-sharing refunds. On our calculations, the amount involved is likely to be of the order of 100 million ecus. The Commission's earlier calculations pointed to an even higher figure. over the four years 1980-1983 would be reduced Total UK refunds/accordingly below the figures assumed in the percentages which the Prime Minister reported to Parliament after the Stuttgart summit.

ii. Reimbursement of UK contribution to German refunds (Relates to both Budgets)

There are signs that other member states, with the possible exception of Germany, will argue against 'grossing up' our refunds so as to reimburse us for our contribution to the German refunds. This would mean that we would not receive the correct 'net' refund figures for which provision was made in the 1982 and Stuttgart agreements. The amounts at issue are 23 million ecus for 1982 refunds and about 50 million ecus for 1983 refunds.

iii. Reserve chapter (Chapter 100) Arises on the 1984 Budget)

Some member states - though so far a minority - are trying to insert provision for our 1983 refunds in the reserve chapter on the budget, and not 'on the line'. Their motive is to increase the obstacles to payment of our refunds, by enabling the European Parliament to prevent transfer on to the 'line', and to facilitate linkage between the solution for 1983 and the longer term solution.

5. There is also a problem about classification of expenditure. This is likely to be rather less contentious. The measures to give effect to our risk sharing refunds are at present

partly classified 'obligatory' and partly 'non-obligatory'. This follows recent precedent. If they could all be classified "obligatory", which means that the Council had the last word on them, the European Parliament would find it more difficult to follow the tactic of splitting the Supplementary, agreeing to the FEOGA money, and delaying the risk sharing. On the other hand recent precedent argues against a UK initiative to change the present classification proposal; it could provoke the Parliament from the start; and it might also upset the Germans, whose refunds have to take a non-obligatory form. If others take a strong line in favour of obligatory classification I shall certainly follow but I shall not take up a strong position at the outset.

6. The problem of securing a successful outcome on our refunds will be the more difficult because of the need to find headroom big enough to permit provision for the figures we need. There is now a considerable squeeze. The available own resources for 1984 up to the 1% VAT ceiling will be smaller than had been estimated. There must be a margin for contingencies. The Parliament will also wish to use - to the full or beyond - its own powers to increase non-obligatory expenditure. I propose, however, to adopt the following tactics on the main issues.

1983 Supplementary Budget

7. The 1983 Supplementary No.1 Budget consists substantially of extra provision for FEOGA guarantee spending and provision for UK risk - sharing 1982 refunds.

8. On FEOGA, as agreed in interdepartmental discussions I shall seek reductions of some 130 million ecu in the guarantee provision. (This 130 ecu replaces an earlier target of 200 mecu, since the Commission have now themselves eliminated the provision for Christmas butter in 1983.) We are trying to get German and Dutch support for this cut.

9. We must face the possibility that the French and others will try to remove provision for UK risk sharing money from this Supplementary Budget entirely, using the argument that by doing so the Budget will be more likely to pass through the Parliament. This would, of course, be entirely unacceptable.

10. But there is also the possibility that the Supplementary will remain intact, but that the UK will be isolated and out voted on the "assiette" versus "payments" issue, and on the grossing up (paragraph 4(i) and (ii) above). These are both sticking points, on which I would not compromise. If there appeared a real prospect of my being out-voted I would in the first instance urge that the discussion should proceed to examine the 1984 draft Budget before

final positions were taken on the Supplementary. This would help to make the final outcome of this Council clearer. I should mention one more point of detail. The Supplementary Budget includes 25.6 million ecu for aid to Northern Ireland. I shall strongly push for agreement to this, though the French and others may create difficulties about it.

1984 Draft Budget

11. On the 1984 draft Budget, there is just one possibility of compromise in the context of refunds. This is on the Chapter 100 point - paragraph 4 (iii) above. I shall fight hard on this, but not regard it as a sticking point if I cannot command sufficient support, provided that I secure "grossing up".

12. Subject to this, the possibilities are:

- a) that our desiderata are met;
- b) that, in the face of continued disagreement with the Budgets I secure agreement to a recess, and to the recalling of the Budget Council in September to give time for further consultations before the Budgets are sent to the European Parliament by 5 October, the date specified in the Treaty.

c) that I am out-voted, and that one or other, or both draft Budgets, are "established" by the Council on the basis of a qualified majority in a form unacceptable to us.

13. In the latter case I would insist on a strong and specific reference in the Council Minutes which expressed our view that refunds agreements were being dishonoured by the draft Budgets as established, and made it plain that the UK would not take no for an answer and did not regard the matter as closed, and would raise the issues in all appropriate Community fora, in order that the wrongs should be up right before the end of the Budgetary process. I would make it plain that the UK was determined to protect its interest. We should have to consider carefully on the spot how to present the situation to the press in the light of the precise outcome. Even if there are serious difficulties, I do not think that at this stage we shall want to give any sign that we doubt our ability to secure our objectives in the course of the Budgetary process.

14. It follows that, even though we may need to start preparing the ground for the weapon of withholding again, I do not think that, even if we are out-voted on the key issues referred to above, we shall come to that at the end of this Council.

Other areas of expenditure

15. Turning to the remainder of the 1984 draft Budget, there will be much argument about agricultural spending. Our objective, agreed with MAFF officials, has been to reduce the Commission's proposed total of 16.5 billion ecu by some 1 billion. Reduction below this figure will be bitterly resisted by some other member states, who may take up harder positions on our own refunds in response. We have already proposed specific line by line reductions totalling 1 billion ecu, and so far in official discussions in Brussels we have had support for some of these reductions from the Dutch. The Germans, whose support will be essential, have publicly reserved their position. I will lobby them before the Council starts in order to co-ordinate tactics. The Germans would prefer to go for across the board cuts in the FEOGA guarantee provision - rather than the specific reductions we have suggested. This is less satisfactory than our more selective approach. But in view of the overriding requirements to make headroom available within the budget for our refunds I judge it essential that I should support the Germans if, as expected, they opt for an across the board reduction.

16.. On non-agriculture policies I agree that it would be right for us to emphasise our "positive approach", and to show our interest in progress towards redressing the imbalance in Community financing through the development of existing policies other than agriculture, and new Community policies. But since the Community is close to the limit of its own resources, and our refunds risk being

crowded out, some restraint here is inescapable. There is no need for the UK to be at the forefront of those pressing for these cuts - others have already made clear that they will be doing so. We may however have to "reluctantly acquiesce" in limiting the non-obligatory increase to half the maximum rate, a 5.8% increase, even if this means curtailing increases, or delaying expenditure, on some areas of benefit to the UK. 5.8% itself, is, of course, still well beyond the rate of increase in public expenditure that we and a number of other member states find acceptable domestically.

18. I am sending copies of this minute to the Prime Minister, to members of OD(E) and to Sir Robert Armstrong.

COVERING CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 18 July 1983

MR ISAAC - IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Middleton
Mr Cassell
Mr Monger
Mr Robson
Dr Rouse
PS/IR

SCHEDULES D AND E

... I attach a paper by the Financial Secretary.

He would be grateful for your comments and answers to the questions posed in paragraph 10 of his paper.

SK.
E KWIECINSKI

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SCHEDULES D AND E

The previous Chancellor's minute to the Prime Minister of March 30 said we would continue to examine the possibility of finding a simpler and more relaxed definition of self-employment and of dealing with the problem of casuals.

2. I have been considering this further and set out my thoughts to date as follows:-

3. The aim is to produce a more objective boundary line between Schedule D and E and one that is easier to justify. The boundary does not have to be drawn on the basis of the question "are you in business on your own account?" But we do want something fairly close to this because:

a) it is fairly close to a definition of the activity we want to encourage;

b) a big relaxation drawing a lot of people into Schedule D would be expensive.

5. The starting point for a new definition would seem to be the list of the Courts' eight factors. We want to relax this and to make it more objective. This means throwing out the factors relating to "control" and "financial risk" (both hard to define). Similarly the reference to "substantial" in relation to the provision of equipment.

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6. Onto what is left we need to graft our new criteria relating to sick pay etc. We might then be left with a two tier test as follows.

7. The Schedule D man would have to answer "no" to all the following:

- a) do you have paid holidays?
- b) are you entitled to sick pay?
- c) are you entitled to redundancy pay if made redundant?
- d) are you entitled to an occupation pension?

In addition he would have to give the right answer (shown in square brackets) to some of the following second tier of questions:

- e) do you provide your own equipment in so far as any is used? [yes]
- f) can you engage helpers? [yes]
- g) are you at liberty to work for more than one person? [yes]
- h) are you paid for set periods of time (eg hour, week month or year) or are you paid for the work done? [work done]
- i) do you have set hours of work? [no].

8. I think it might be enough to get the right answer to three of the five questions in the second tier. Alternatively one could ask them to score four out of five.

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9. This approach is more objective and more relaxed. It would seem to put into Schedule D such people as market researchers, and hop-pickers if they worked on an acreage or output basis. But it would not let in people like casual barmen or hop-pickers paid on hourly rates.

10. I would be grateful for your advice on the cost of the relaxation involved and on the type of person being brought into Schedule D assuming (a) all the second tier questions had to be answered correctly (b) only 4 had to be answered correctly and (c) only three had to be answered correctly. It would be interesting if you could compile a list of current borderline cases (fruit pickers, film makers, race-course attendants, opinion pollsters, examiners etc) to see how many of the second tier tests they would pass.

N.R.



cc Mr Stradder
Mr Corlatti - in
PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG

PS/Minister for Housing & Construction
Department of the Environment
2 Marsham Street
LONDON
SW1

18 July 1983

Dear Private Secretary,

ASSURED TENANCIES: FINANCE BILL DEBATE 12 JULY

In the course of the Committee Stage Debate on Clause 6 of the Finance Bill on 12 July, Mr Robin Cook asked the Financial Secretary about the number of dwellings constructed by approved bodies under the assured tenancies scheme. The Financial Secretary, in reply, said that he thought it was over 100, but that he would ask your ... Minister to send a fuller reply. I attach a copy of the relevant Hansard extract.

The Financial Secretary would be grateful if your Minister would write to Mr Cook with the information, and if you could in due course let us have a copy of the letter.

Yours sincerely
E Kwiecinski
E KWIECINSKI
Private Secretary

relief. I shall call those categories A, B and C. Within them, the identification rules laid down in the schedule are on a first in, first out basis.

Many hon. Members will remember the trouble we had with capital gains tax indexation and the pooling rules. I am sorry to introduce such an unwelcome note in my answer to the right hon. Gentleman, but that pattern of identification can produce anomalies. Where a company has more than one class of ordinary share and the classes have different values, there could be differences in the nominal value. Some of the shares could be 10p shares and others £1 shares, and some could carry voting rights, while others could not. Therefore, we are trying to make the rules fairer by considering each class of share separately. If there were a disposal of the 10p shares, the Committee will agree that it is right that the identification is only with the other 10p shares and not with the £1 shares, that is, that identification is within one class.

To decide whether shares are of the same class, we must again follow the capital gains tax rules and find out whether the stock exchange would put them in the same class. That is the definition that we shall adopt for the class of the share. The method is complicated, but I hope that I have demonstrated the point of it to the right hon. Gentleman and that he will not press his amendment because, if he succeeds in carrying it, he will make what seems complicated less complicated, but, equally, he will make an attempt at complete fairness less fair.

Mr. Sheldon: The purpose of the amendment was to secure the clarification that the right hon. Gentleman has provided. If I understand it correctly, he has said that the identification will be the same as before but within the same class, and that it uses the capital gains tax rules. If that is the position, I am content, and I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.
Schedule 1 agreed to.*

Clause 6

ALLOWANCES FOR DWELLING-HOUSES

LET ON ASSURED TENANCIES

Question proposed, That the clause stand part of the Bill.

Mr. Robin Cook: This clause follows a similar clause in the Finance Act 1982, which provided for capital allowances for dwelling houses provided by private landlords under the assured tenancy scheme. I am bound to repeat the point made last year when the scheme was introduced—that it shows a striking generosity towards the private landlord who provides assured tenancies, who, over five years, can set against tax the entire cost of constructing the dwelling. That striking generosity contrasts markedly with the stringency with which the Government approach local authorities, almost every one of which would dance with joy were the Government to offer it the possibility of writing off over five years its debt for constructing the few council houses that have been built under this Government.

The provision is strikingly short on rationale. The concept of a capital allowance was born in industry, and when applied to industrial building a capital allowance makes sense because over a lifetime of a factory its value will depreciate and it is not unreasonable to give those who

constructed the factory a depreciation allowance to set against tax. However, a dwelling house can be expected to appreciate in value, and it is anomalous to extend a capital allowance to an asset that will increase in value. I warned the Government last year, and I repeat the warning now, that, having let this matter under the net, they will find it increasingly difficult to resist pressure from their Back-Bench Members and others to extend capital allowances to other buildings and dwellings, most obviously to hotels.

There is no doubt that the introduction of capital allowances for assured tenancies has had a significant effect in stimulating companies to take advantage of such generous treatment. Last year, fewer than 20 companies had come forward to register an interest in an assured tenancy scheme, but as at July 1983 there are 71 such companies. I reminded the Committee last year that the then Minister of State for Housing and Construction said that the bodies that he had in mind for approval under the assured tenancy scheme were pension funds, insurance companies and building societies which would operate through unregistered housing associations.

I told the Committee last year that few of the companies that had registered fitted what the Minister had in mind at the time. I can now confirm that equally few companies out of the 71 that have registered fall into the category of companies which the Minister had, to quote his words, "in mind". Of the 71 bodies that have registered an interest in an assured tenancy, there is only one housing association and no building society. The great mass of companies coming forward to register assured tenancies are commercial property companies with a speculative interest. They are not pension funds, insurance companies or building societies; they are companies extending their property activities into this area.

I have a question for the Financial Secretary. If he cannot answer it tonight, I should understand, but perhaps he would answer me soon. How many units does this list represent? I now know that we have 71 bodies approved by the Financial Secretary, but how many units of housing do these 71 bodies hope to provide? After all, this is an experimental scheme, with a limit of five years. It would be interesting to know how well the experiment has developed.

Subsection (5) limits the capital allowance to those bodies where the approved body is a company rather than a partnership of individuals. The Opposition see nothing wrong in limiting the capital allowance to a company in this case. Indeed, unless the approved body is paying corporation tax, it is difficult to see how it can benefit from the capital allowance. However, I find it strange that the parent Act—the Housing Act 1980—provides that the only bodies that can provide assured tenancies are those bodies approved by statutory instruments by the Minister for Housing and Construction. Over the past 18 months, the Minister has laid a dozen orders adding to the approved bodies for assured tenancies. As far as I can see from my list, all the bodies are companies and none is a partnership of individuals.

This prompts a double-pronged question: first, why is this safeguard necessary; secondly, if it is felt that it would be inappropriate to extend this relief to partnerships of individuals rather than companies—I can understand and share that reservation—would it not be vastly more sensible for the Minister of State, in deciding which bodies he approves, not to approve partnerships of individuals

[Mr. Robin Cook]

and to confine his approval to companies? It appears undesirable that we should be creating, by virtue of this clause, a two-tier set of approved bodies—one a set of approved bodies approved by the Minister and by the Treasury so that it can get capital allowance and the second a set of bodies approved by the Minister but not approved by the Treasury, although registered for assured tenancies, and thus unable to obtain capital allowances. I find it difficult to conceive that a particular group of individuals would be perverse enough to proceed, and to seek the whole panoply of ministerial approval, with the assured tenancy scheme if they cannot receive the capital allowance that they could obtain were they to set about to form a company.

Therefore, I am puzzled by subsection (5) and would appreciate it if the Financial Secretary could enlighten the Committee before we approved the clause.

Mr. Ridley: I am grateful to the hon. Member for Livingston for the way in which he put his points and asked his question, which is correct and pertinent. I hope to be able to give him an answer that at least explains the point, although it may not entirely satisfy him on the major point that he raised at the end of his speech.

The hon. Gentleman said that he would like to know how many units had been constructed as a result of this relief and, as far as my information goes, it is over 100. However, I shall ask my hon. Friend the Minister for Housing and Construction to send a letter to the hon. Gentleman containing fuller information. The hon. Gentleman has always been unhappy about the scheme. In this case, however, far from others getting under the net as a result of the relief in last year's Finance Act, people who in theory were doing so hitherto will no longer be able to do so.

9 pm

Out of the 72 applications approved, one was a partnership. The legislation was not designed to cater for partnerships, but under the assured tenancy legislation my hon. Friend the Minister for Housing and Construction has no power to refuse an application on the ground that the applicant is a partnership rather than a company. If the applicant meets the other criteria as to bona fides, financial status, and so on, my hon. Friend does not have the power to discriminate in that way. Due to some lack of communication between two Departments in Whitehall, partnerships can be approved and possibly must be approved if they meet the other conditions.

The legislation provided only for capital allowances. As the hon. Gentleman rightly said, capital allowances are an appropriate form of assistance to companies that pay corporation tax, but they fit ill, to say the least, in the hands of partnerships or individuals. I recognise that individuals can sometimes obtain something like a capital allowance, but the intention was to restrict the relief to companies. Partnerships were not excluded from the original legislation due to lack of communication between the two Departments. This provision attempts to put the matter right.

The other two main parts of the clause merely correct defects in the drafting of last year's legislation.

Mr. Robin Cook: I am grateful for that explanation. If individuals have found a device allowing them to obtain

capital allowances to set against income tax, I am heartily relieved that the Treasury has spotted the defect and I wish the subsection godspeed. I should, however, appreciate a letter a year hence telling me whether that partnership of individuals proceeded with the construction of dwelling houses after the loophole had been blocked.

Question put and agreed to.

Clause 6 ordered to stand part of the Bill.

Clause 7

RELIEF FOR LOCAL CONSTITUENCY ASSOCIATIONS OF POLITICAL PARTIES ON REORGANISATION OF CONSTITUENCIES

Question proposed, That the clause stand part of the Bill.

Mr. Michael Stern (Bristol, North-West): Political associations hold land and property in a variety of ways. The normal way is by trustees, but some political associations in England and Wales hold land through companies, be they companies limited by shares, limited by guarantee or with unlimited liability. I cannot, of course, speak for the methods of holding land in Scotland.

Subsection (4) provides for relief when there is a transfer of such property directly between one association and another or from an association to a company and back to an association. It does not seem to provide for an association not holding property directly but holding it through a company. Various circumstances could arise in which a political association could be denied relief—I assume that the intention of the clause is to give relief—because of the structure by which it holds its land.

If the existing association and the new association hold land through trustees, that is fine. However, it will receive no relief under this clause if one of the associations holds land through a company or if it is necessary either for a company to have a change of shareholders because of the change of associations or a change of guarantors. Instead of trying to construct complex legislation for what may be one or two isolated cases, will my right hon. Friend consider the possibility of an extra-statutory concession, if the clause is agreed, so that the spirit of the relief in the clause is given to those political associations that we may not yet know have problems as a result of boundary redistribution?

Mr. Ridley: My hon. Friend has raised a matter of extreme erudition, and I am grateful to him for having given me warning. I confirm that if this legislation does not include all constituency associations affected by boundary changes—whatever political party may be involved—it is our intention to put the matter right and have it on all fours.

It would have been difficult, lengthy and complex to legislate for all possible forms of private ownership. The clause deals with what we thought, from consultations with the three political parties, was the most common form in which property is held by constituency associations. In addition, there is an existing statutory concession extending capital gains tax roll-over relief for replacement of business assets to the case where the property is owned by a company on behalf of a non-profit making organisation, and the organisation itself holds all or nearly



FROM: E KWIECINSKI
DATE: 20 July 1983

PS/CHIEF SECRETARY

cc Chancellor
Economic Secretary
Minister of State
Mr Middleton
Mr Cassell
Mr Battishill
Mr Lovell
Mr Watson
Mr Pirie
Ms Seammen
Mr St Clair
Mr Spackman
Mr Monck
Mr Thomas
Mr Ridley
Mr Saunders
Dr Rouse

WORKING GROUP ON THE LAW AND CONVENTIONS GOVERNING PENSION FUNDS

The Financial Secretary has seen Mr Saunders' submission to the Chief Secretary of 11 July.

He is a little anxious about this - particularly the part in the Report about portable pensions.

He thinks the part on disclosure seems alright although he has commented that this is only one of many problems in this area.

He feels the Government need to know more clearly what they want to do on Occupational Pensions generally.

The Financial Secretary himself wants to discuss the whole question further with officials in the near future.

UK
E KWIECINSKI



NOTE OF A MEETING HELD AT H M TREASURY 11.00am, 26 JULY 1983

Present at meeting: Financial Secretary
Mrs Rumbold MP
Teresa Gorman) Alliance of Small Firms
Daphne Macara)
Mr F Martin
Mr Beighton) IR
Mr Driscoll)

MEETING WITH ALLIANCE OF SMALL FIRMS AND SELF EMPLOYED PEOPLE LTD

The Financial Secretary welcomed the ASP, and invited Ms Gorman to open the discussion.

Ms Gorman commented that there was increasing disquiet among their members about the Inland Revenue's recent practice of reclassifying persons from Schedule D (self employed) to Schedule E/PAYE (employee) status. This was happening in many areas to people who were genuine freelance workers and had in the past been treated as self employed, and was causing problems both to the contractor and to the freelancer. Apart from the practical problems being caused the ASP objected in principle to the reclassifications taking place.

The Financial Secretary commented that it was important to start from the correct position under the law. To be taxed under Schedule D one had to be "in business on one's own account". The Revenue were charged with administering the law, and with interpreting the law as it stands. He could not interfere with their function in this. The Revenue had been reviewing their practice in recent years and had decided that in many cases they had been too tolerant in granting Schedule D status in the past. He added that he had considered the cases at the margins and had to accept that under the present law the Revenue were right to reclassify the people as employees. Whether the present definition under existing law was satisfactory was another question. He was presently considering this and would welcome ASP help in improving

definition. The Financial Secretary refuted the suggestion that the Revenue were arbitrarily changing the law.

He spelt out the eight tests considered by the courts when deciding on an individual's status. He agreed to send Mrs Gorman a summary of the eight tests.

P46 Procedure

Miss Macara commented that the new procedures involving PAYE were causing employers much concern. They could not be held responsible for tax owed to the employer should be held responsible for tax owed to the employer. Many employers have completed the P46, often / were being asked for back years. There was also the problem that some employers were scared off by employers asking for a P46.

The Financial Secretary commented that it was a general principle that the employer should be held liable where PAYE had been incorrectly deducted. The same principles applied to the P46 procedures. The second point he commented that if employees were refusing to complete the P46 one must assume that they had something to hide and wished to remain in the black economy. This perhaps suggested that the P46 could be a potent weapon to use against those claiming state benefit while working at the same time.

Ms Macara commented that ASP would welcome any moves to reduce fraudulent use of the benefits system. She herself would like to see the introduction of a general tax exemption certificate for the self employed allied to a self assessment system based on an individual's annual return of income (as in the USA).

The Financial Secretary agreed that this had some attractive but also some unpopular features such as the need for random / in depth investigations of taxpayers as a deterrent.

The meeting ended at 11.45 am

E KWIECINSKI

NOTE OF
Pres

Circulation:

Ms Rouse
Mr Martin)
Mr Driscoll) IR
Mr Beighton)

RESTRICTED



FROM: M E DONNELLY

DATE: 27 July 1983

NOTE FOR THE RECORD

Note of a meeting at 11.00am 26 July in the Financial Secretary's room to discuss the Business Expansion Scheme

Those Present: Financial Secretary
Mr Martin
Mr Beighton)
Mr Prescott) IR
Mr Donnelly

Papers were Mr Prescott's submissions of 1 July and 5 July; Mr Donnelly's note of 6 July; Mr Hudson's note of 23 June.

Takeovers

Mr Prescott's 1 July note outlined the problems. Mr Prescott said that this was an area where the choice was between effectively allowing takeovers to qualify under BES rules or banning the use of BES funds in this way completely. There was no middle position. The Financial Secretary said there was in any case no chance to make changes until the next Budget; and it would be right to allow this point to be debated fully in Parliament. The current position was anomalous in that BES money could be used to take over the assets and trade of another company but could not be used to purchase its shares. His preference was to make this concession explicit in future legislation. Since only small companies were concerned there was no problem of abuse of monopoly position. In theory both companies concerned in a takeover could receive BES money; and it was the purpose of the scheme to increase the funds devoted to the small firms sector. The real danger to be avoided was that of round tripping. Mr Prescott said that there was no real risk of this happening, given the safeguards already built into the scheme. But the question remained whether allowing takeovers under the BES meant that the funds would not always be genuinely additional capital. The Financial Secretary said that the danger of some leakage of the tax subsidy into people's pockets had to be acknowledged, and was

RESTRICTED

an inevitable side effect of increasing the profitability of small businesses. But it would be necessary to keep a close eye on the claims arising from the BES. These would be a sign both of the success of the scheme and of whether there was significant abuse. Mr Prescott said that there had certainly been enquiries from large city institutions on the question of takeovers. The Financial Secretary said that it was important to give them advice on the law as it stood.

In conclusion the Financial Secretary asked that this point be included in a note for Ministers on outstanding points for decision on the BES. He would clarify the present position on takeovers and the BES in his September speech to the British Venture Capital Association.

Overseas Subsidiaries

Mr Prescott's note of 6 July refers. The Financial Secretary said that he had sympathy with firms which were doing well and wished to set up overseas subsidiaries but might be constrained by the current rules of the BES. There was an anomaly in that firms with overseas branches were not affected whereas firms which were forced to set up foreign subsidiaries in order to compete in certain countries could be penalised.

Mr Prescott said that this difficulty was appreciated. He hoped that a technical solution could be found by the Revenue's experts. There was also a problem of knowledge in that many companies were not aware of the extent of relief available under the present rules. The Financial Secretary said that this should be an additional point for his September speech. He asked Mr Prescott to report back on the prospects for an administrative solution to this problem.

Mr Prescott also raised the question of the eligibility of companies quoted on unlisted securities market for BES relief. The Financial Secretary said that his inclination was to hold firm on the principle here. Shares of companies on the USM were by definition more marketable than those at which the BES was aimed. Nonetheless it would be for

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consideration whether the qualifying period for an unquoted company which wished to acquire a USM quotation without losing BES relief should not be reduced from 3 to 2 years. This matter should be covered in the Revenue's submission to Ministers in September and reviewed in the light of Ministers' comments then.

ME
M E DONNELLY

Circulation:

Those present
PS/Chancellor
PS/Chief Secretary
PS/Minister of State
Mr Middleton
Mr Cassell
Mr Monger
Mr Robson
Mr Ridley
Mr Lord
Dr Rouse

RESTRICTED



FROM: M E DONNELLY
DATE: 26 July 1983

MRS D EDWARDS

cc PS/Chancellor
Chief Secretary
Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards
Mr Peet
Mr Ingham
Mr Coombes

PARLIAMENTARY CLEARANCE OF EC DOCUMENTS

The Financial Secretary has seen the draft letter attached to your submission of 22 July.

... I attach a revised draft incorporating the Financial Secretary's amendments. He has commented that this is a most delicate area; and would be grateful if the redraft could be checked carefully before he sends it.

MEI
M E DONNELLY

DRAFT LETTER TO:

Lady Llewelyn-Davies of Hastoe
House of Lords
LONDON
SW1

cc Clerk to the House of
Commons' Committee on
European Legislation
c/o R W G Wilson Esq
St Stephen's Chambers
LONDON
SW1

PRELIMINARY DRAFT SUPPLEMENTARY AND AMENDING BUDGET NO.2 FOR
1983 AND PRELIMINARY DRAFT BUDGET FOR 1984

The Commission of the European Communities presented their Preliminary Draft Budget for 1984 on 10 June. We have deposited the relevant volumes together with an explanatory memorandum. The Commission also presented a Preliminary Draft Supplementary and Amending Budget no.2 for 1983. We will deposit the document soon together with an explanatory memorandum.

I have written to the Leader of the House of Commons, explaining that the date of presentation of these documents and the timing of the election has effectively prevented consideration of these proposals by your Committee; and also by the House of Commons' Scrutiny Committee on European Legislation (which is in addition has not yet been set up). I made a statement on the outcome of the Budget Council held last week on Monday 25 July, which was repeated in the House of

Lords. That Council established a Draft Budget for 1984 and a Draft Supplementary Amending Budget No.2 for 1983. Details of these drafts will be deposited as soon as documents are available.

There will thus be opportunity in due course for both Houses to discuss the Community's expenditure plans for 1984 and also the proposed increase for 1983.

I hope you will appreciate that the tight timetable for the first stage of the budgetary process did not allow us to wait for consideration by your Committees at this stage.

I am copying this letter to the Clerk to the House of Commons' Committee on European Legislation.

CONFIDENTIAL



FROM: FINANCIAL SECRETARY

DATE: 26 July 1983

CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State
Mr Ridley
Mr Lord
Ms Rouse

PUBLIC EXPENDITURE

I have seen Lynda Rouse's 25 July note on areas for public expenditure cuts.

While I am not against any of Lynda's ideas I doubt whether they will yield sufficiently large savings. In my opinion the fat is already largely off the public sector. Even all the fat that we have cut off over the last 4 years has been more than outweighed by the amount of demand determined spending - with Education, the NHS, Local Government and Social Security as the worst offenders. (Defence is in a different category; but even here one cuts defence only by cutting defence commitments.)

I am concerned that the approach of 1% here, 2% there, manpower cuts, recruitment freezes, driving down on public sector pay etc are being seen as the only ways to cut public spending. But you cannot cut the total of public spending by making 1% cuts in 5% of it.

All these marginal cuts become an alibi for failing to look critically at the real issues which we continue to pretend are too difficult to solve.

Specifically, these are:

- i) The total lack of market discipline in the NHS. There must eventually be a price discipline here.

- ii). The inordinate subsidies to private housing, which are becoming indefensible.
- iii). Education - which is not controlled effectively by either local or central government. Here too there is no price mechanism.
- iv). The failure to reform either the rates, or local Government spending.
- v). The enormous cost of Social Security and the attractions of being on Supplementary Benefit rather than working.
- vi). The appalling problem of the elderly, both as to numbers (which we can do nothing about) and to their demands for services (which we cannot over the long term afford).



NICHOLAS RIDLEY



FROM: M E DONNELLY
DATE: 20 September 1983

NOTE OF A MEETING HELD AT 11AM ON 27 JULY 1983 IN THE FINANCIAL SECRETARY'S ROOM WITH REPRESENTATIVES FROM THE INDUSTRIAL AND COMMERCIAL FINANCE CORPORATION

Those Present at Meeting: Financial Secretary
Mr Reid
Ms Rouse
Mr Beighton)
Mr Prescott) IR
Mr Templeman)
Mr Marlow)
Mr Armitage) ICFC
Mr Davies)

PURCHASE OF OWN SHARES (POS): SECTIONS 53 AND 54 FINANCE ACT 1982

The Financial Secretary welcomed the ICFC representatives and said that for the reasons set out in his reply of 5 May to Mr Armitage's letter dated 30 March, he saw major difficulties with the changes to the POS legislation which ICFC were advocating. But he was open to persuasion if a case could be made out, and he invited ICFC to elaborate further on their concerns about these provisions.

The ICFC said that they welcomed the new freedom given to private companies to purchase their own shares, and believed that section 53 had achieved its objective in respect of non-corporate shareholders. But its effect was to leave corporate shareholders generally in a worse position in tax terms than otherwise. Moreover, ICFC believed that the effect of section 54 was to discriminate against shareholders like themselves who acted as "corporate financiers" but who were taxed as share dealers. As a result, ICFC were put at a competitive disadvantage compared to, say, investment companies and their role as the largest provider of new equity for small firms was, therefore, being impeded. To remove these discriminatory effects, ICFC were recommending that neither section 53 nor section 54 should apply where the transaction was in the nature of "corporate financing".

The Financial Secretary stressed that the object of the legislation was to make it easier for a company to purchase its own shares where, as in the case of buying out a disaffected shareholder, this would be to the benefit of that company's trade. There were obvious difficulties with the ICFC proposal to disapply section 53 in certain circumstances as this would defeat the very purpose of the provisions. Moreover, whilst disapplying section 53/54 might suit ICFC, this would not necessarily be welcome to other corporate shareholders, particularly where the corporate shareholder was a close company. The Financial Secretary went on to say that whilst organisations such as ICFC might need to adjust the terms on which they invested to take account of the tax consequences which would flow from these provisions in the event of a subsequent purchase of own shares, that did not seem sufficient reason for seeking to disapply the provisions. The terms on which ICFC or any other corporate shareholder invested was a matter for negotiation between them and their prospective client companies.

In further discussion, Mr Prescott pointed out that the effect of what ICFC were proposing would be to give them more favourable treatment in respect of certain of their existing investments than they could have expected would apply when these investments were originally made. By contrast, the effect of section 54 was simply to ensure that the treatment on a POS of those ICFC's investments made prior to the introduction of legislation was the same as that which could have been originally expected.

It was also pointed out that section 53 and 54 applied in a situation where an investment had already been made in a company, and where that company now wished to purchase some of its own shares. The aim was to make it easier for the company to do this; the provisions were not designed to benefit investors as such, but simply to leave them no worse off if they sold their shares back to the company than if they sold them to a third party. It was also hoped that, by making it easier for a shareholder to get out, these provisions would encourage more equity investment in future than otherwise. But this was not the primary aim of the provisions. Other measures, in particular the Business Expansion Scheme, were directed specifically at increasing the flow of new equity investment into the small firms sector.

In conclusion, the Financial Secretary said that though he could see that bodies such as ICFC who were taxed as dealers were in a different position from other corporate shareholders, he was not persuaded that a case had been made out for amending sections 53-54 on the lines proposed. He was in particular unsympathetic to the idea of a change in the provisions as they affected existing investments. The most he could undertake to do was to continue to consider the points raised by ICFC.

MED
M E DONNELLY

Circulation:

Mr Reid
Ms Rouse
Mr Beighton)
Mr Prescott) IR
Mr Templeman)



FROM: E KWIECINSKI

DATE: 27 July 1983

MR DRISCOLL/IR

cc Mr Robson
Ms Rouse
Mr Savage/IR
PS/IR

FREELANCE LABOUR IN THE FILM INDUSTRY: LETTER TO LEVY GEE

At the Financial Secretary's meeting today the terms of the response to Levy Gee's letter of 20 June were decided.

The Financial Secretary asked you to prepare a draft for him to send on the following lines:-

1) On the charge that the Revenue's classification of workers as employees or self employed is arbitrary - We should answer that the Revenue are merely interpreting the law as they see it. We should emphasise that the way is open for anybody who disagrees with their classification to challenge it before the independent Commissioners. Indeed we should encourage aggrieved persons to do so. Our response should then turn to the question of the law as it is, stressing that responsibility for the state of the law and decisions to change it rest with Ministers.

2) On the suggestion that the 714 scheme should be extended to manual workers in the industry - we should respond by saying that the 714 certificate is available to genuine self employed persons who are construction industry tradesmen. Secondly we should distinguish between those who are Self employed construction workers, and those who are self employed but are not involved in work of a construction industry nature. Thirdly we should state that those workers who have been classified as employees cannot be eligible for a 714 certificate because they are Schedule E and subject to PAYE.

3) Our reply should not respond in too much detail to the charge that the proposals have disrupted the film industry.

4) We should nail the lie that the "new tax office" will be costly to administer.

EK

E KWIECINSKI

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 27 July 1983

MR R MARTIN/IR

cc PS/Chancellor
PS/CST
PS/EST
PS/MST
Mr Monger
Mr Robson
Mr Martin
Dr Rouse
Mr Hogan/IR
PS/IR

EMPLOYER/EMPLOYEES: NET OF TAX PAY

The Financial Secretary's meeting yesterday discussed the presentation and timing of the new proposals for net of tax pay.

The Revenue expressed their concern about the very difficult situation in local offices. To introduce new procedures in the middle of this tax year would heighten the problems. However it would be pointless introducing the new tables etc. without giving them some publicity thereby enhancing the level of take-up. There was also the problem of the effect of the cash limit cut on procurement. The Revenue are now only able to order stationery that has already been budgeted for in 1983/84. Expenditure on the new tables etc would therefore have to fall in 1984/85.

The Financial Secretary decided, that, regardless of the problems, it would anyway be sensible to issue the tables and announce their introduction in readiness for the start of the tax year 1984/85. The aim should be to issue the new tables etc. to local offices in March 1984. This time-table will allow expenditure on the new stationery to fall in 1984/85.

On publicity it was decided that the following action should be taken (also in March 1984):

- a) an announcement in Parliament by a PQ/Answer - possibly oral.

b) a press notice referring to the PQ.

and c) lobby interested journalists of the national press and trade journals to do feature articles to coincide with a) and b).

[K .

E KWIECINSKI

CONFIDENTIAL



FROM: M E DONNELLY
DATE: 27 July 1983

MR RAYNER

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
RS/Minister of State
Mr Middleton
Mr Bailey
Miss Kelley
Mr Mountfield
Mr Griffiths
Mr Ridley
Dr Rouse
PS/IR
PS/C&E

INLAND REVENUE AND CHARITIES COMMISSION

As agreed at the Chancellor's 13 July meeting, the Financial Secretary held an informal discussion with the Home Secretary on the relative roles of the Inland Revenue and Charities Commission in charities supervision.

It was agreed that two areas needed further consideration:-

- i) the reasons for the degree of divergence between the Charity Commission and the Inland Revenue in assessing whether a body should be defined as a charity and given tax reliefs. This led to the anomalies, with the two bodies in public disagreement;
- ii) the need for a joint enquiry to consider how to reduce the duplication of functions between the organisations; and in particular to look at the scope for efficiency increases in the Charities Commission.

The Home Secretary was not convinced of the case for abolition of the Charities Commission.

The Financial Secretary intends to hold an internal meeting to discuss the above points. It has been agreed that subsequently a joint Home Office - Treasury-Revenue official working party will be set up to consider these issues.

MEJ
M E DONNELLY

CONFIDENTIAL



FROM: E KWIECINSKI

DATE: 27 July 1983

MR J H ROBERTS/IR

cc PS/Chancellor
Mr Monger
PS/IR

RAYNER SCRUTINY OF PAYE RECORDS

The Financial Secretary has seen your submission of 22 July.

He has commented that clearly it is right to implement the new methods as soon as possible: he thinks that a start date of 31 October 1983 must be right.

He feels that the difficulties which remain are all on the side of consultation with and persuasion of:-

- a) The unions
- b) The staff - if different to a)
- and c) Parliament, and its Commissioner.

He is happy to leave a) and b) to the Revenue; but does think that you should take all possible care to achieve maximum acceptance from staff. On c) he has commented that we should inform (and consult where possible):

- i) The Parliamentary Commissioner
- ii) The Select Committee on the Parliamentary Commissioner.
- iii) Parliament as a whole.

If the Select Committee has not yet been formed we should inform the Clerk to the Committee.

Parliament itself requires a long and detailed written Answer before the recess, with probably copies of the Report placed in the Commons' Library.

He would be grateful if you would proceed on these lines and send him a draft PQ/Answer for approval.

UK

E KWIECINSKI

CONFIDENTIAL



FROM: M E DONNELLY

DATE: 28 July 1983

PS/CHANCELLOR

cc Chief Secretary
Economic Secretary
Minister of State
Mr Middleton
Mr Cassell
Mr Battishill
Mr Monck
Mr Hopkinson
Mrs Lomax
Mr Robson
Mr Pirie
Mr Saunders
Dr Rouse
Mr Bridgeman- RFS
Mr Beighton - IR

BUILDING SOCIETIES: CONSTITUTIONS AND POWERS

The Financial Secretary has seen the Economic Secretary's 21 July note and the Chancellor's comments in your 22 July note.

On the Revenue points raised the Financial Secretary considers that if we decided to go for Approach B then at least that part of a building society which engages in those activities outlined in para 6(a)-(d) of the Economic Secretary's note should be deemed to be a PLC, and consequently should be taxed on the same basis as any other PLC. He also considers that any major legislation on building societies should end the composite rate for depositors. But he is not yet persuaded that this rather unexciting piece of legislation should have a priority for Parliamentary time.

ME
M E DONNELLY



FROM: M E DONNELLY

DATE: 28 July 1983

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Mr Middleton.
Mr Bailey
Mr Wilding
Mr Pestell
Miss Kelley
Mr Monger
Mr Griffiths
Mr Culpin
Miss Rutter
Mr Lord
Mr Ridley
PS/IR
PS/C&E

RATING REVALUATION

The Financial Secretary has seen Mr Jenkin's letter to the Chief Secretary of 15 July and the Chancellor's comments in Miss Simpson's note of 25 July.

The Financial Secretary has commented that he is all for rent derestriction; but the majority of houses are already owner occupied. Most of these have never been let so there would be no basis for valuation in terms of rental value. Capital value on the other hand is something their owners do understand and which is fair to the large owner occupied sector. He therefore favours this approach to valuation.

MED

M E DONNELLY



NOTE OF A MEETING HELD IN H M TREASURY 3.30PM, 28 JULY 1983

Present: Financial Secretary
Mr Reed
Mr Keith - IR
Mrs Rumbold MP
Mr Woods)
Mr A Willingale) CBI
Mr J Wilkins)

UNITARY TAX: RECENT DEVELOPMENTS

The Financial Secretary welcomed the CBI and invited them to open the discussion.

Mr Willingale commented that the CBI realised that there was not much that could be done in the way of retaliation, we were "long on noise and short on action." They doubted / ^{whether} when it comes to the crunch the President would be keen to hammer the States into submission. They also doubted whether the filing of an amicus curiae brief by the Administration in the Container case would have made much difference to the judgement. They also thought that had the case involved a foreign parent the result would have been the same. The CBI themselves would not welcome a situation where a different ruling were given in a case involving a foreign parent, nor would they welcome legislation which solely relieved foreign parents from the burden of worldwide reporting. Such a situation would cause much resentment among US parents and would be seen as discriminating against them.

The Financial Secretary agreed that it was difficult to think of any effective retaliatory action, although if in extremis it was to come to this he would prefer to use something in the tax field that was not in breach of the double tax treaty.

He summarised the recent action taken by the Government: the Chancellor's letter to Regan; and the Foreign Secretary mentioning the subject

on his recent visit to the US. It appeared that Regan was sympathetic and was prepared to move quickly but what extent he would be able to influence Reagan himself was open to doubt. The Financial Secretary commented that now was the wrong time for the lobby groups to pressurise the UK Government, they should instead maintain maximum pressure on the US Government.

He asked how the CBI had fared in their talks with the Japanese. Mr Woods commented that Campbell Fraser had raised the matter in his talks in Japan recently. The Japanese expressed little interest in the matter. The Japanese multi-nationals were concerned but were waiting to see what Europe and Canada did first.

The Financial Secretary commented that the Japanese had more economic leverage and should be encouraged to use it. He added that we had EC support but the only practical step the EC could take to make a joint declaration of protest.

FUTURE ACTION

(i) Lobbying

The Financial Secretary commented that it would be crucial to maintain lobbying pressure in the US over the next few weeks. He suggested to the CBI that they ^{should} generate as much noise and pressure as possible in the US. The Government would help by laying the Embassy's facilities at their disposal.

The CBI said they would do this.

(ii) Retaliation

The Financial Secretary commented that we should all try to think

of measures to take which were effective and could be followed through, but were not counter productive. He recognised that it would be difficult to find any. The meeting concurred.

Ek
E KWIECINSKI

Circulation:

PS/Chancellor
PS/Chief Secretary
Mr Reed
Mr Keith - IR
PS/IR



NOTE OF A MEETING HELD AT H M TREASURY, 11.00am 28 JULY 1983

Present at meeting: Financial Secretary
Mrs Rumbold MP
Charles Morrison MP
Maurice Macmillan MP
John Golding MP
Mr Robertson - IR
Mr Spencer - CTO

MEETING WITH THE ALL PARTY RACING COMMITTEE

The Financial Secretary welcomed the delegation and invited them to open the discussion.

Mr Morrison commented that there was a great deal of worry in the thoroughbred breeders world about the change of practice by the CTO in applying CTT to stud farms. The new approach was an arbitrary change by the Revenue, and was seen as a reversal of the Treasury's attitude to the agricultural relief which had previously been relaxed. Breeders were worried that in future to qualify for the agricultural relief horse breeding would have to be allied to more general agricultural activity. They believed that the CTO were merely following the Valuation office's position on rating. They were worried that ultimately the change of practice will kill off stud breeding in the UK, by UK citizens.

The Financial Secretary commented that the CTO had indeed followed ~~the~~ recent decision in a rating case. However, a second rating case was under appeal and there was also a CTT case about to go to court, so the situation was still very much open. The CTT legislation did not contain a definition of agriculture, which was one reason why there was doubt on the question now.

Mr Golding commented that the stud farmers wondered why the view that horse breeding was not an agricultural activity had never been expressed before: it was not even considered when the 1975 legislation was enacted.

Mr Spencer commented that under the old estate duty the question to be asked when considering the status of land was whether the land itself was of agricultural quality; under CTT the question is whether the land is used for agricultural purposes. In the past therefore the question never arose.

Mr Golding commented that the present uncertain situation was most unsatisfactory. He asked whether the Government would now act to change the position to what it used to be. Mr MacMillan added that it was unreasonable for there to be two cases on which the situation rested, the Revenue were in effect having two bites at the cherry.

The Financial Secretary commented that he would prefer to await the outcome of the court cases, rather than acting now to pre-empt their outcome. In any event no legislation could be enacted before the 1982 Finance Bill.

The Financial Secretary wondered why the stud farmers were so keen to get the agricultural relief, because if they were in the business of breeding they would probably qualify for the similarly generous business relief.

Mr Golding commented that the agricultural relief was a better vehicle for the stud farmers to use to obtain the relief. For them to qualify for business relief they would have to be trading and making a profit.

The Financial Secretary commented that he thought it was reasonable that stud farming should be run as a business. He could see no good reason why someone breeding horses as a hobby should be given CTT relief.

Mr Morrison suggested that the CTO should taking the CTT case to court until the outcome of the rating case is known.

Mr Golding commented that the CTO should suspend their new approach until the cases were settled, and should in the meantime revert to their old practice.

The Financial Secretary commented that he was not in a position to instruct the Revenue on how they should administer the law, that was for them alone. His role was to decide questions of policy and to amend laws, and introduce new ones as necessary.

Mr Spencer commented that given the way CTT charges arise the practical effect of the court cases was to keep the CTO's change of practice in suspense. Until the cases were decided the CTO would not enforce collection of a full CTT charge on anyone who was claiming the CTT reliefs.

In summing up the discussion, the Financial Secretary said that he would prefer to await the outcome of the court cases before considering whether a legislative change was desirable or necessary. He believed that the situation was tenable and that even under the new practice by the CTO the majority of stud farmers were not disadvantaged as the business reliefs were available to them. He commented, that he would write Mr Morrison a letter, that he could circulate to interested parties, setting out the present position under the law, and explaining the Governments' present attitude to the question.


E KWIECINSKI

Circulation:

PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Ms Rouse

Mr Spencer - CTO
Mr I Robertson - IR
PS/IR



*Mr Galloway
Mr Peart
Mr Lawson
Mr Hedley-Mile
Miss Coomb
Ms Wilkinson*

Treasury Chambers, Parliament Street, SW1P 3AG

Malcolm Rifkind Esq MP
Minister of State for Foreign and Commonwealth
Affairs
FCO
Downing Street
LONDON
SW1

29 July 1983

Dear Minister,

EUROPEAN PARLIAMENT: POSSIBLE VISIT BY KEY BUDGETARY MEPS

I had correspondence with Douglas Hurd before the election about a possible visit to the UK by key budgetary MEPs to look at UK supplementary and energy measures. We agreed then that such a visit would be useful, but we postponed the arrangements because of the election.

I think it would now be right to revive this idea. I see from his minute of 21 July that the Foreign Secretary shares this view. Accordingly, subject to any further comments from you or colleagues, I propose to ask UKREP to issue invitations as soon as possible.

On the timing of the visit, I think we will have to be prepared to be flexible in order to fit in with the Parliament's crowded autumn programme. I suggest that UKREP might offer a couple of days in October (say 20-21 October), but I would propose that we word the invitations in such a way as to leave it open to the MEPs to suggest alternative dates if they prefer.

On the most appropriate sort of programme, I think we should build on the outline we had drawn up in May. This included in particular visits to the Hornsea gas storage facility and the Drax power station, both of which would need to be confirmed with their respective management. We also had in mind in May that the MEPs might visit the Stockport by-pass but since that is now complete, there might be a case for seeing if we can conveniently fit in another road building project. I understand that the Department of Transport are looking at the possibility of fitting in a visit either to the A64 South Docks road in Hull or the A660 Otley by-pass. If it is not possible to fit either of these in, we could revert to the original idea of the Stockport by-pass.

.. I attach a possible outline programme drawn up on this basis.

On the expenses associated with the visit, I should be grateful for confirmation that the FCO are willing to finance and organise meals, accommodation and transport inside the UK under their category II visits programme. I am however clear that we must ensure that the Parliament itself finances the MEPs' air fares; I believe these could be met out of MEPs' allowances. This suggests that the invitations need to be carefully worded. The most suitable form for them might be for UKREP to say to the relevant Committee chairmen that, if they were minded to visit supplementary measures or energy and transport measures schemes, the British Government would be very happy to help with the arrangements for such a visit.

In May, I had it in mind only to invite selected MEPs from the Budgets and Budgetary Control Committees. The then Secretary of State for Energy suggested that we might include budgetary members of the Energy Committee as well. We clearly do not want to have too large a party; but, nevertheless, I accept that there might be a case for including one or two key members from both the energy and the transport committees. I suggest that we leave it to UKREP to try to organise things in such a way that no more than say 12-15 MEPs actually come, but that within this number representatives of other Committees as well as the Budgets Committee might be included.

I should be grateful to know if you agree with my suggestions. I should also be glad to hear that the Secretaries of State for Energy and Transport are content. We need to give our instructions to UKREP during the next week or so.

I am copying this letter to Geoffrey Howe, Peter Walker, Tom King and Sir Robert Armstrong.

Yours sincerely

Martin Donnelly

NICHOLAS RIDLEY

*(Approved by the Financial Secretary;
signed in his absence.)*

BUDGET AND BUDGETARY CONTROL COMMITTEES OF THE EUROPEAN PARLIAMENT :

PRELIMINARY OUTLINE PROGRAMME FOR VISIT

Day 1

08.45 - 08.45	Brussels - London HR
09.00 - 10.00	LHR - Whitehall
10.00 - 11.30	Briefing by Financial Secretary and others
11.30 - 12.00	Whitehall - Kings Cross
12.00 - 14.00	London - York (lunch on train)
14.00 - 15.15	York - Hornsea
15.30 - 17.00	Hornsea Gas Storage Facility
17.00 - 18.15	Hornsea - York
18.30 - 19.30	York - visit
20.00 -	Dinner in York, hosted by a Minister

Day 2

09.00 - 10.00	York - Selby
10.00 - 10.15	Selby - Drax
10.30 - 14.00	Drax Power station visit and lunch
14.00 - 17.00	<u>Either</u> Hull Docks Road <u>or</u> Otley By-pass <u>or</u> Stockport by-pass
17.00 - 18.30	Travel to Ringway
19.05 - 21.00	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

Baroness Llewelyn-Davies of Hastoe
House of Lords
LONDON
SW1

CC PS/Chancellor
PS/CST - Red
Mr Unwin
Mrs Hedley-Miller
Miss Court
Mr Edwards
Mr Peet
Mr Ingham
Mr Coombes
Mrs Edwards

29 July 1983

Dear Pat

PRELIMINARY DRAFT SUPPLEMENTARY AND AMENDING BUDGET NO.2 FOR 1983
AND PRELIMINARY DRAFT BUDGET FOR 1984

The Commission of the European Communities presented their Preliminary Draft Budget for 1984 on 10 June. We have deposited the relevant volumes together with an explanatory memorandum. The Commission also presented a Preliminary Draft Supplementary and Amending Budget no.2 for 1983. The document is being deposited in the House today and we shall deposit an explanatory memorandum soon.

I have written to the Leader of the House of Commons, explaining that the date of presentation of these documents and the timing of the election has effectively prevented consideration of these proposals by your Committee; by the House of Commons' Scrutiny Committee on European Legislation (which in addition had not been set up before the Council met). I made a statement on the outcome of the Budget Council held last week on Monday 25 July, which was repeated in the House of Lords. That Council established a Draft Budget for 1984 and a Draft Supplementary and Amending Budget No.2 for 1983. Details of these drafts will be deposited as soon as documents are available.

There will thus be opportunity in due course for both Houses to discuss the Community's expenditure plans for 1984 and also the proposed increase for 1983.

I hope you will appreciate that the tight timetable for the first stage of the budgetary process did not allow us to wait for consideration by your Committees at this stage.

I am copying this letter to the Chairman of the House of Commons' Committee on European Legislation.

Nicholas Ridley

NICHOLAS RIDLEY