

RESTRICTED



FROM: M E DONNELLY  
DATE: 1 August 1983

MR DENISON

cc Mrs Case  
Mr Gordon - FCO

INFORMAL MEETING WITH COLOMBIAN MINISTER OF FINANCE

The Financial Secretary had an informal chat with Dr Edgar Gutierrez Castro, the Colombian minister of Finance, for half an hour on Friday morning.

Nothing of consequence was said. Dr Gutierrez was concerned to stress the difference between the financial position of Colombia and that of most other South American countries. He seems to have experienced more resistance to further commercial bank credits than he considers merited by the strength of Colombia's economy.

He was bullish about the prospects for further falls in Colombian inflation. He also suggested that the IMF - which has recently paid its annual visit to Colombia - will be giving the Government's economic policies a good report.

He expressed two particular concerns. One-inevitably - was the outlook for US interest rates. The other was current trading problems with Venezuela, where bilateral trade is currently severely restricted due to Venezuelan exchange control.

The Financial Secretary mentioned the Cerrejon coal development and the Medellin mass transit system. Dr Gutierrez said that Medellin would definitely go ahead. But as he had private interests in the project he was taking no part in the Government discussions on it.

*ME*  
M E DONNELLY

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FROM: FINANCIAL SECRETARY  
DATE: 2 August 1983

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Bailey  
Mr Littler  
Mr Unwin o/r  
Mrs Hedley-Miller  
Miss Court  
Mr Edwards  
Mr Fitchew  
Mr Peet  
Mr Ridley

EUROPEAN BUDGET OUTLOOK POST BUDGET COUNCIL

I have seen Brian Unwin's 27 July note on this. I have also discussed the position with Henry Plumb and some of his European Democratic Group colleagues.

We had an arbitrary £43 million of our agreed risk sharing rebate in the 1983 Supplementary Budget chipped off us at the Budget Council in July. I suspect that, although there may have been some doubt about the calculations, the motive was in part frustration with having to give us refunds at all, and in part to test our resolve to take drastic action to defend our position.

The immediate outlook is also bleak. The European Parliament are likely to consider the 1983 Supplementary Budget at their September meeting. The best we can hope for is that they will leave our (reduced) refunds untouched. But they will probably reduce them still further, or more likely still remove them from the Budget entirely. The Commission need the extra money for agriculture contained in that Budget so desperately that there may be pressure for a special Budget Council in September, so that the 1983 Supplementary Budget in respect of FEOGA can be passed that month. There is to my mind no possibility that the Council will restore the cuts in our refunds which may be made by the Parliament, let alone give us that to which we are

entitled. It is depressing that the impact of the 1 per cent ceiling causes cuts to be made in non-obligatory expenditure and our refunds, although contractually agreed, but FEOGA is allowed all the extra money it needs.

Thus by mid-September - in a little over 6 weeks time - we may well be facing a further cut in our entitlement. We need to consider the options early so that we are ready to react. The options as I see them are:-

1. The most extreme response would be to start withholding after the Parliament rejects the British refunds in September. We could claim provocation by both the Council in July and by the Parliament in September, leaving us with no other choice but to hold back the money we are owed.

To do this would require legislation. This would mean recalling Parliament in mid-September with all the political problems that that entails. It would sour the atmosphere for the long term financing negotiations in the run up to Athens in December. We might be in a negative position in those discussions, rather than pressing for a solution along the lines of the safety net and agricultural financial guideline. It would be to fire off prematurely our key weapon, which might be more effective as a Damoclean sword hanging over the Athens discussions.

2. The second option is to introduce a bill to give us power to withhold. This could not realistically be done before Parliament reassembles at the end of October. Yet it would be seen as an earnest of our determination not to accept a third bout of humiliation at Athens.
3. The third option is to act on the Commission's request for advances. The Commission are likely to go on asking for a monthly advance of £100 million or so each month until the end of the year. We paid the last advance on July 20. Following last week's Budget Council we could:

- i) pay the £100 million likely to be demanded on 20 August minus the £43 million which was held back from our refunds; or
- ii) we could await the outcome of the September Session of the European Parliament and then refuse to pay as much of the advance for September of £100 million as had been cut from the refunds by the Parliament.

The Commission only requests these advances, and legal advice is that we are under no obligation to pay them (though this would certainly be contested by the Commission): it could be said that not to pay is a less serious step than withholding. It would make the strength of our feelings over the refunds issue very clear. It also hits the Commission's cash flow at a time when it is very vulnerable. But it suffers from the twin defects of being arguably illegal, and of being precipitate, since the budget process will not then be completed. It would also seem to pre-empt Athens.

#### Conclusions

All three of these options have disadvantages; they might seem to be over-reacting, and to foreclose on the Athens Council's chances of coming up with a solution with which we could live. I suspect that you will not be attracted to any of them: and neither am I, on their tactical merits.

Yet there is another dimension. To fail to react either to the Budget Council's cut of £42 million, or to the Parliament's likely further cut, of whatever amount, could be seen as a green light for the continued exploitation of the UK, valid through Athens and beyond. If it is true, as I suspect, that our European friends are testing our mettle, it is wrong to give signals which imply that we will not react decisively to failing to get what we need at Athens. That would encourage them to try and push us too far at Athens. There is some need for a shot across their bows to convince them that we are in earnest.

Heaven knows the agricultural guideline, and the safety net, may not be adequate to protect our interests, even if we got them in their entirety. I suspect that we are asking for less than we need; and we are likely to get less than we are asking for.

My conclusion, very much subject to events as they unfold, is that we cannot go on towards the Athens Council in December taking the insults as they come "on the chin". To do so would convince the French, and others too, that we were not really serious in our threats to withhold if Athens failed to give us our requirements. If the Parliament, as I am sure it will, throws out the refunds in the 1983 Supplementary and Amending Budget in September then I think we should introduce a bill as soon as Parliament reassembles giving us power to withhold; but not actually do so. The existence of such legislation would remove the present break on our freedom to withhold at the psychologically correct time. It would be an earnest of our serious intent. It would be directed towards the ultimate result at Athens, and the end of the 1983 Budget procedures, rather than seeking to pre-empt those procedures.

For these reasons I am against options 1 and 3, and believe option 2 is the right course of action.

*NE Donnelly*  
pp NICHOLAS RIDLEY

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CHANCELLOR

EUROPEAN BUDGET OUTLOOK POST BUDGET COUNCIL

I have seen Brian Unwin's 27 July note on this. I have also discussed the outlook informally with Henry Plumb and other European Democratic Group colleagues.

The Problem

The United Kingdom lost £43 million of its agreed risk sharing rebate in the 1983 Supplementary Budget at the Budget Council last week. It may also have lost credibility in the eyes of other member states, who no longer believe that in a crisis the UK would take drastic action to defend its rights.

Immediate Outlook

This is bleak. The European Parliament will consider the 1983 SB at their September meeting. The best we can hope for is that they will leave our (reduced) refunds untouched. More likely they will reduce them still further, or remove them from the Budget entirely. Because the Commission need the extra money for agriculture contained in that Budget so desperately there may be pressure for a special budget Council to be held in Strasbourg, so that the 1983 SB can be passed in mid-September. I judge that realistically there will be no prospect of that Council restoring any further cuts in our refunds which may be made by the Parliament.

This means that by mid-September - in a little over 6 weeks time - we may well be facing a further grave budgetary crisis. We need to consider now what options there are to deal with this.

### Options

The most obvious response would be to start withholding immediately. We could claim provocation by both the Council in July and by the Parliament in September, leaving us with no other choice to get the money we are owed.

But this course has grave disadvantages. It would as we know require legislation. This would mean recalling Parliament in mid-September with all the political problems that entails. It could very well sour the atmosphere for the important long-term financing negotiations in the run up to Athens in December. We would be on the defensive in those discussions, rather than pressing hard for our ideas on the safety net and agricultural guidelines. It would also use up our key weapon, which might tactically be most effective as a Damoclean sword hanging over the Athens discussions.

For these reasons I think it is worth considering alternative actions which show the strength of our commitment to achieving a fair deal, while stopping short of immediate withholding.

The Commission are likely to go on asking for a monthly advance of £100 million each month until the end of the year. We have just paid the advance for July. Following

last week's budget Council we could:

(i) pay the August £100 million advance minus the £43 million which was held back from our refunds. Or

(ii) we could wait for the outcome of the September Parliament meeting and then refuse to pay as much of the September £100 million advance as had been cut from the Budget by the Parliament.

Since the Commission can only request this advance, and legal advice is that we are under no obligation to pay it (though this would certainly be contested by the Commission) not to pay is a less serious step than withholding. But it makes very clear the strength of our feeling over the refunds issue. It also hits the Commission's cash flow at a time when it is very vulnerable. Finally, it leaves the ultimate weapon of withholding to be used after Athens if all else fails; and it makes our position that we will withhold this if left with no alternative that much more credible.

#### Conclusions

By mid-September we may be in a further budgetary crisis. We will need to take some firm action if we want other member states to take our position seriously. Withholding may not be the best tactic. But I recommend that we think seriously about keeping back some or all of the £100 million Commission advance in either August or September.



[It would I think be useful to discuss tactics on all this with the Foreign Office and Cabinet Office and in due course with No.10].

N.R

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Treasury Chambers, Parliament Street, SW1P 3AG

→ / manover  
PS / EST  
Mr Middleton  
Mr Carr  
Mr Mack  
Mr Hornor  
Mr Gordon  
Mr Salmon  
Mr Stewart / K  
Mr Lane / B/E  
Mr Willetts

The Rt Hon Cecil Parkinson MP  
Secretary of State for Trade & Industry  
1 Victoria Street  
LONDON  
SW1H 0ET

2 August 1983

*Dear Cecil*

BANKRUPTCY ACT 1914

In the last Parliament I corresponded with Arthur Cockfield, and in this one with Alex Fletcher about a rather tricky problem we have encountered with Section 66(1) of the Bankruptcy Act 1914. I will not trouble you with all the details which were fully set out in my letter to Arthur Cockfield of 21 April 1983. The basic problem is simply that it looks as if this provision may penalise creditors of a bankrupt company who have lent to it through deep discounted or zero coupon bonds; yet as you know we have really got to find a way to encourage the revival of the corporate bond market, and as part of this we are hoping to make much more attractive the issuing of innovative rear-end loaded bonds. You will also be aware that the Cork Report recommends that Section 66 of the Bankruptcy Act be repealed.

I thought it might be helpful therefore if I brought you up to date with our plans for legislation on the tax treatment of these bonds. We announced earlier this week that we would be legislating on tax treatment of these bonds in next year's Finance Bill, and we are planning to publish draft clauses this Autumn. It would clearly be most helpful if by then we could give a full assurance about the intention to legislate as soon as feasible to remove the Bankruptcy Act problem. I quite understand the reasons why Alex Fletcher's recent reply to Peter Lilley's PQ on this subject could not be more forthcoming. But as that PQ showed, pressure is building up and I very much hope that by the Autumn we will be able to say something rather more positive and definite.

I see no reason why this problem could not be singled out for early and separate emphasis. It might even be suitable for a private members Bill this Autumn. But all that is required at this stage is a firm pledge to put the matter right at the first legislative opportunity.

*Yours truly*

*Nicholas*

NICHOLAS RIDLEY



FROM: E KWIECINSKI  
DATE: 3 August 1983

MR R A BLYTHE/IR

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

CONSULTATIVE DOCUMENT ON TAXATION OF HUSBAND AND WIFE

... The Financial Secretary has seen your submission of 26 July. I attach the draft of the preliminary synopsis with the Financial Secretary's detailed comments in the margins.

He is generally a little worried at the prospect of the consultative document being too long and complex for most people. He wonders whether in addition to the main document we could also have a plain man's guide to the problem in short and simple style.

On the detailed document itself, he thinks this should be "fairly political" this time round. He looks forward to seeing each draft paragraph.

  
E KWIECINSKI

CONSULTATIVE DOCUMENT ON TAXATION OF HUSBAND AND WIFE - SYNOPSIS

FOREWORD/INTRODUCTION - or both

- a. Purpose of document - to carry the public debate a stage further in the light of the Green Paper and the response to it, ie:-
  - i. examine criticisms of present system:
  - ii. examine the various changes that have been suggested against the criteria identified in Green Paper (fairness/simplicity/sex equality/privacy plus policy for the family) and the constraints

*I think it should be argued on the basis of Revenue neutrality stress them, although they're not conclusive*

- distributional consequences - losers
- transitional problems
- revenue costs if it is decided that extra resources are necessary to make the distributional consequences tolerable
- administrative costs

iii. pose the question for public consideration:-

*or rather: acceptable to the majority?*

- is there an alternative to the present structure that would be clearly preferable in principle?
- are the costs of changing to it (social, distributional and practical) worth the price?

b. Timescale for change - not before end of decade at earliest. Computerisation will make fundamental reforms possible. Consultative Document published now to allow for possibility of implementation soon after computerisation - need for full public consideration of complex issues - long lead time for planning, legislation and implementation after the public response has been received.

*full discussion of the issues needed in any case is no hurry because of C.O.P. delay*

I THE PRESENT SYSTEM

a. Factual description

*war time pressure to get wives to work?*

b. How the present system has evolved in response to changing social trends. Its practical merits (simplicity etc) for taxpayers and revenue

*separate assessment separate taxation*

c. Criticisms of the present system - bring out variety of emphasis in criticisms that have been made, and wide range of prescription for change.

II OPTIONS FOR LESS RADICAL CHANGE

Changes stopping short of full independence:

*include here IS + the capital axes - say they can be dealt with without any major change*

- a. Joint taxation
- b. Optional independence (Chapter IV of Green Paper and variations on the theme)

Test against criteria. General line that the solutions

or little?

they complicate without mentioning the main critic.

have some merit, but on evidence so far not seen as a worthwhile change.

III MANDATORY INDEPENDENT TAXATION (MIT)

expand a little on this - if marriage is disregarded totally there are many other consequences

Some have advocated this solution on the grounds that marriage should be totally disregarded (an unacceptable starting point).

III.1 - without "compensation"

Socially unacceptable to have no "compensation" for abolition of MMA where wife is at home.

totally

III.2 - with cash benefit

there is a strong argument against socialising income and giving benefits as of right simply because one is a married woman

a. Why this is the wrong approach - objections in principle to replacing MMA by cash benefits - based on selective approach between "deserving" and "undeserving" - wrong to base compensation for abolition of MMA on value judgements of whether the wife has a "good" reason or not for staying at home.

b. Practical difficulties of devising a cash benefit scheme: even if you accept the principle of discriminating between the "deserving" and "undeserving" candidates for compensation for abolition of MMA, the attempt breaks down in practice -

delete

i. difficulty impossibility of drawing dividing lines to meet the "acknowledged" deserving cases, viz:-

- wives with non-child home responsibility (elderly relatives etc);
- wives too old for the labour market;
- disabled wives (and husbands);
- wives wanting work who cannot get it;
- the elderly.

ii. complexity/cost of trying to provide a cash benefit for each "deserving" group.

iii. complexity and cost of the combination of the individual components -

- illustrate the administrative costs and complexity for taxpayer;
- bring out the means testing/universal benefit dilemma (do you try to distinguish between working wives and wives at home when giving cash benefits for children and other dependents? If so, how?);
- illustrate the anomalies: "deserving people" who get nothing, other people who get too much (eg working couples with multiple benefits);
- "money-go-round" is inevitable end-product.

c. Distributional effects

Reduction in tax thresholds for all families -

- poverty and unemployment trap effects, effect on wage claims;
- show who would lose under MIT [illustrate by

yes



agreed ✓ showing (relatively small) boost in child benefit after netting off cost of disaggregation and other cash benefits, but do not attempt to illustrate detailed cash benefits "packages"].

d. Wider implications of MIT. The logic is for ignoring marriage generally and thus -

yes -  
but it is  
very political

- i. completely separate treatment of investment income (? no anti-avoidance measures);
- ii. separate reliefs (mortgage interest etc);
- iii. separate capital tax treatment;
- iv. anomalies (and premium on cohabitation) if you compromise on full independence;
- v. treating the individual, not the family, as the unit for social security purposes (implications for pensions etc).

Yes ✓ e. Conclusion on MIT - an unacceptable alternative to present system.

IV INDEPENDENT TAXATION WITH TRANSFERABLE ALLOWANCES (ITTA)

Purpose of the whole of this section is:-

yes ✓ i. show advantages and disadvantages of ITTA compared with present system;

yes, but only on  
practical grounds

ii. argue for partial rather than full transferability;

iii. continue to load the argument against MIT, by picking out the points where ITTA is demonstrably superior to MIT.

yes

IV.1 ITTA - introduction

this is a  
sightrope, I would  
prefer to wait for  
to draft before  
commenting!

- objective of ITTA: independence plus recognition of marriage in the family.

IV.2 Full v partial transferability

a. Brief factual piece on how they work, the differences in effect and the broad distributional effect;

b. Arguments on merits against criteria (including administrative costs/complexity arguments);

c. Conclusion - strong (but not conclusive) steer in favour of partial transferability on the lines -

i. prima facie at this stage of the argument partial transferability seems preferable;

✓ ii. make the point that partial transferability is a flexible starting point - possible to move towards full transferability after ITTA has

been introduced.

So

- d. Rest of the discussion on ITTA will be on the basis of partial transferability.

IV.3 Basic comparison of ITTA with present system

*Comment on the fact that two-earner couples do too well at present.*

- a. Structure - ITTA a sensible structural alternative to present system.
- b. Distributional - ITTA represents a major disturbance - lots worse off -

*redistribution?*

- i. gainers/losers compared with present system - show on basis of "spare" £1bn-odd going on thresholds (? and on child benefit and/or in rate reduction);

- ii. emphasise impact on families (? and emphasise bonus for singles);

*yes ✓*

- iii. brief reference to transitional scheme - reduces adverse impact of change for losers, but does not remove the losses (IV for details);

*yes ✓*

- iv. emphasise financial costs - and constraints - of ensuring that two earner couples do not lose out in real terms.

c. Mechanics of transferability -

- i. wife who goes back to work problem (incentives effects and complexity);

*yes ✓*

- ii. "end year"? - marker only with cross-reference to Chapter IV.7 (c).

- d. Summary of advantages and disadvantages of ITTA compared with present system (NB emphasise advantages of ITTA over MIT).

*In discussion of child benefit make the same point about socialisation of income, and point out that it goes to the rich as well as the poor.*

*and question the justification?*

IV.4 ITTA - the special issues

*don't be too shy about justifying the end year treatment*

a. The elderly

- i. variations on age allowance theme;
- ii. provide separate distributional analysis;
- iii. emphasise superiority to MIT and difficulty/impossibility of having separate regimes for elderly and rest of population.

*perhaps here enter a caveat against change, unless there is overwhelming pressure for it.*

[NB sensitive political issues here on government's attitude to the "bonus for the elderly" which the most straightforward version of ITTA/age allowance would give to the elderly.]

*I'll wait for the draft before commenting.*



main issue requires more detail, we need a paragraph pointing out that these issues can be sorted out irrespective of ITTA or MIT; and that they are of a different nature.

b. Investment income and capital taxes -

for so long as IIS has to continue.

I think this section should seek to separate these "rich" issues from the general argument

Perhaps discuss covenanting at some length

1) Separate CGT treatment?

2) do not give a "strong steer" but rather argue whether to remove spouse exemption is compatible with the logic of ITTA - certainly it is compatible with the logic of MIT.

- i. strong steer for full disaggregation of investment income;
- ii. the "anti-avoidance measures question" - fairly open conclusion - cover covenants between non-married as well as between married couples;
- iii. capital taxes - strong steer against removing CTT spouse exemption - argue that it is compatible with the logic of ITTA, but not compatible with the logic of MIT.

c. Distribution of reliefs (mortgage interest etc) and dividing up the incomes of husband and wife.

[ d. Comparison of ITTA and the present system on the balance between married and unmarried. Emphasise how MIT creates bonus for cohabitation].

NB major theme for this chapter is that all the issues arise with MIT as well as ITTA, and that the problems are worse with MIT, because you cannot logically stop short of full independence across the board with MIT (whereas you can with ITTA) and produce thumping anomalies if you try to do so.

[ IV.5 "Other issues"

NB this could be a substantive chapter, but alternatively - and probably preferably - a passing reference as a marker to a separate annex dealing with -

yes, agreed.

a. Single parents and APA

- i. steer against abolishing APA - losses to single parents overall on a revenue neutral basis - poverty trap factor (through reduction in tax thresholds);
- ii. steer for maintaining present APA relativity to single allowance (so that it would match the amount of the transferable allowance for married couples);
- iii. recognise that the "bonus for cohabiting parents' problem" which exists under the present system would get worse under ITTA and canvass cohabitation rule solution.

emphatic IF we have ITTA

b. Maintenance payments. If this is tackled at all, relegate to a separate annex which identifies (briefly) the pros and cons of a "tax-neutral" regime for maintenance payments in the context of ITTA.]

Perhaps leave out of this paper?

IV.6 ITTA - The Transitional Arrangements

a. The practical inevitability of transitional arrangements;

I wonder whether we need all this, it is detail rather than essential to the argument

- b. "No-loser" transition - showing revenue costs involved;
- c. Alternative revenue - neutral regimes:-
  - i. "married men don't lose in cash terms"
  - ii. "married couples don't lose in cash terms":
    - both on different inflation assumptions;
- d. Transitions for particular groups -
  - the elderly
  - the breadwinner wives.

IV.7 Administration [and impact on taxpayer]

This is almost part of the summary?

- a. Computerisation - the opportunities and the constraints;
- b. Basic effects on the system -
  - i. working wives - returns and assessments;
  - ii. transferability and returns for non-working wives -
    - handling of personal reliefs and repayments [re-emphasise advantages of partial over full transferability; re-emphasise advantages of ITTA over MIT in these areas];
- c. Administrative questions -
  - i. "traditional in-year PAYE" or "end-year" approach to transferability [or intermediate solutions];  
  
NB what do we say about end-year assessments generally?
  - ii. joint returns options;
  - iii. wife's option to refuse transfer of "her" allowance.
- d. The staff costs -
  - register that ITTA would pre-empt staff resources (and revenue) which could be used for other changes; at the end of the day the Government will have to judge priorities between ITTA (if there is support for it) and other changes.

- V. SUMMARY AND CONCLUSION - anti MIT; open-ended on ITTA v status quo; invitation to continued public debate. General comment on ITTA that before a change of this scale were implemented there would have to be full public understanding of the consequences and widespread public acceptance and support for the objectives

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and its practical consequences. Objective of this Consultative Document is to supply the information that the public need for this purpose, and to establish whether the necessary degree of support for the change exists.

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APPENDICES AND BACKGROUND PAPERS - see next page

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APPENDICES TO CONSULTATIVE DOCUMENT

(Follow broad pattern of appendices to Green Paper viz

- i. glossary
- ii. historical development
- iii. description of present system
- iv. ITTA and MIT - effect on tax bills
- v. ITTA and MIT - effect on families
- vi. married women in employment [? brief appendix, with background paper in addition]
- vii. summary of response to Green Paper

BACKGROUND PAPERS

(To be issued simultaneously with Consultative Document or - more likely - a bit later. Presumably we need to repeat what we had at the time of the Green Paper.)

- i. distributional effects
- ii. international comparisons [? short appendix as well]
- iii. distribution of investment income
- iv. women in employment [? with short appendix as well]
- [ v. ? administration background paper including MIT  
[? any others]

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CC PPS  
EST.  
MST  
Mr Bailey  
Mr Wilding  
Mr Mountfield

Treasury Chambers, Parliament Street, SW1P 3AG

Miss Kelly  
Mr Paskett  
Mr St Clair  
Mr Culpin  
Mr Faulkner  
Mr Lord  
Mr Gieve  
Mr Sargent

Sir Keith Joseph  
Secretary of State for Education  
Department of Education & Science  
Elizabeth House  
York Road  
LONDON  
SE1 7PH

August 1983

*Dear Secretary of State,*

EDUCATION IN INNER LONDON

You sent Peter Rees a copy of your letter of 4 August to Patrick Jenkin. I am commenting in Peter's absence.

I am sure there will be considerable pressure from our supporters over the proposed joint board for education in Inner London. You did not refer in your letter to the possibility of individual boroughs opting out of the joint board; I do not know whether this is still favoured by any of the boroughs concerned, and I realise that there are genuine difficulties associated with the idea. Patrick Jenkin's minute of 27 July to the Prime Minister pointed out that the White Paper on abolition of the GLC and the Metropolitan County Councils would make it clear that the Government will consider on their merits proposals from particular district councils to set up separate municipal transport services. I am sure that we could give sympathetic consideration to this idea for education in Inner London, if any boroughs felt that they could achieve greater value for money by opting out of the joint board. We would of course need to weigh carefully the implications of such a move for the boroughs remaining within the joint board.

Turning to the proposals in your letter I am content that there should be 50 seats for the boroughs, and I would have thought it possible to defend giving 3 seats to the City despite their very small electorate. I am much more doubtful about the wisdom of

publing Westminster's representation; I question whether the difference this would make in practice would be sufficient to justify the political difficulties that the proposal would cause us. Similar considerations make me unenthusiastic about the proposed budget-blocking mechanism, and I doubt whether annual renomination of representatives, or issuing separate rate demands on separate days will get us very far.

It seems to me that the key to instilling financial responsibility into the new joint board will have to be the existence of rate limitation. If this fails I doubt whether your other proposals would succeed; the only effective alternative would be for you to retain in the longer term the budgetary control powers which you will no doubt exercise during the transitional period.

On staffing, I sympathise with your view that it should be for ILEA and its successor to determine what staffing reductions should be made in the light of the financial squeeze that will result from rate limitation and/or direct budgetary controls. I should say, however, that we shall expect to see substantial reductions in the light of the generous staffing levels currently enjoyed by ILEA.

I am copying this to the Prime Minister, to the members of MISC 95 and to Sir Robert Armstrong.

*Yours sincerely*  
*Nicholas Ridley*  
PP NICHOLAS RIDLEY

*seen and approved by  
the financial secretary  
signed on his behalf in his  
absence.*



Treasury Chambers, Parliament Street, SW1P 3AG

Kenneth Baker Esq MP  
Minister of State for Industry and  
Information Technology  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

CC Chancellor  
EST  
EST  
MST  
Mr Middleton  
Mr Bailey  
Mr Anson  
Mr Lovell  
Mr Chivers  
Dr Kosmin  
Mr Halligan  
Mr R Williams

5 August 1983

Dear Minister of State,

INMOS

Thank you for your letter of 19 July to John Moore. John is out of the office at the moment, so I am replying on his behalf.

I agree that the Wall Street Journal article which you referred to is moderately encouraging. However, people have been optimistic about INMOS before and performance has so far never been up to these expectations. I am not sure that we can place any more reliance on the latest optimistic noises.

I therefore agree completely with the line that you took with the BTG on sale and leaseback of Cheyenne Mountain. I would go further: we should only agree to sale and leaseback if there is reasonable evidence that private sector capital will be raised shortly afterwards. A paper timetable with no supporting evidence to its claims would be insufficient. We would like to be consulted if the BTG approach you with a specific proposal.

I am copying <sup>the letter</sup> to Arthur Cockfield and Nicholas Edwards.

*Nicholas Ridley*  
NICHOLAS RIDLEY

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

*Confidential*



FROM: FINANCIAL SECRETARY  
DATE: 5 August 1983

CHANCELLOR

cc Dr Rouse

CURING UNEMPLOYMENT

I certainly agree with Dr Rouse that there<sup>are</sup>/sizeable problems at the lowest end of the scale, where tax plus NIC can often make it not worthwhile for people to go to work even if they find a job. To be added is the cost of travel to work, and sometimes tools, clothing etc.

This works in three ways: it stops people taking a job they could get if they wanted it; it causes many to give up jobs in order to go onto benefit: it encourages all to claim benefit and at the same time get part-time or casual work which is concealed from the DHSS authorities.

It would certainly be a solution to take another £5bn from VAT and increase income tax allowances by the same amount. This would reduce the standard of living of those on benefit by a small amount (more VAT) and at the same time reduce the deductions from the wages of those in work. It would not do so by enough to provide a sufficient incentive for a lot of people, I suspect. £5bn does not go very far in this direction.

Where I disagree with Dr Rouse is over the NIC. Raising the LEL to the Income Tax Threshold would mean a very high marginal rate when that point was reached. This would act as an even bigger disincentive.

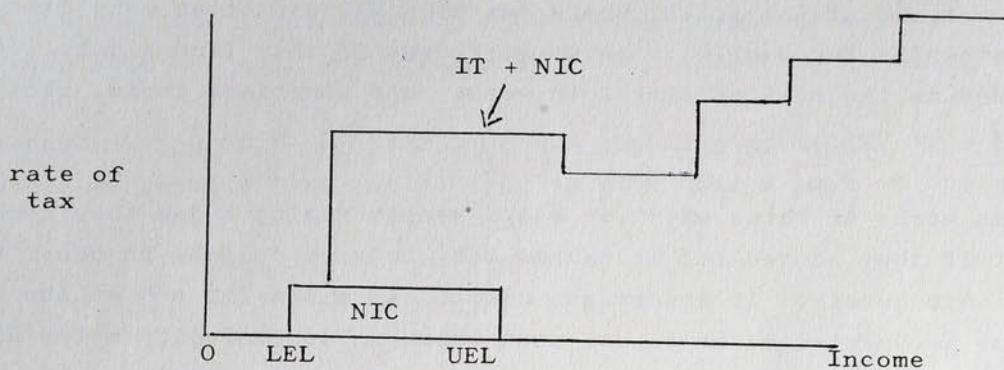
In my view the LEL should be set as low as possible (from an IR collection point of view) so that NIC is collected from nearly all earnings, even very small ones. This avoids people earning up to the LEL, and then refusing to earn more.



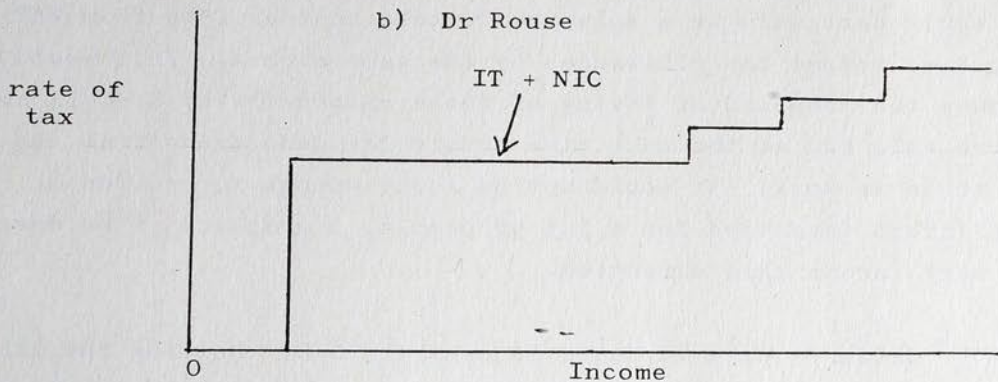
The second "trap" is Income Tax itself. It is important to get the threshold as high as possible, and the rate as low as possible so that it is not too big a disincentive when the threshold is reached.

It is one of the advantages of Social Welfare Tax that it enables just this result to be achieved. This can be illustrated pictorially:-

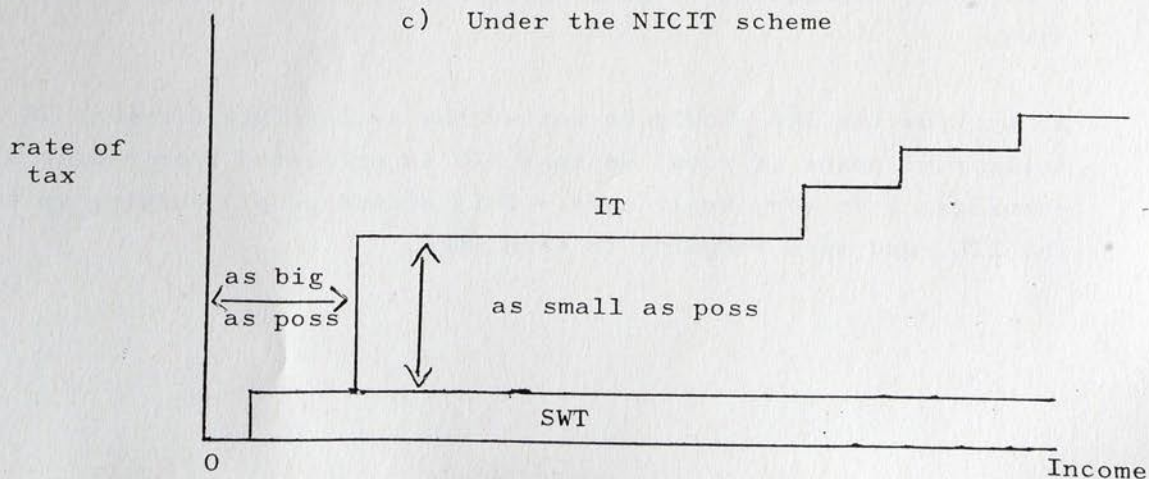
a) At present



b) Dr Rouse



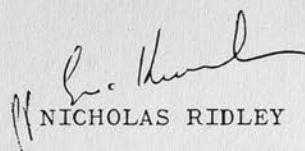
c) Under the NICIT scheme



Except for very small earnings the NICIT scheme gets rid of the "dead-weight". It would also be very costly to increase the LEL as she suggests.

Incidentally, none of this gets rid of the problem of - "earning and drawing" - the third problem I mentioned. At least under NICIT one would get 10 per cent off their earnings. To catch up with it entirely, one needs an extension of the P46 - something I intend to work on. I suspect that a very big contribution could be made to "clearing" the labour market, by stopping people effectively from being able to "earn and draw" I will follow this up in due course.

A combination of 5 per cent increase in VAT plus NICIT, plus "P46ery" would be going a long way to dealing with this aspect of the problem.

  
NICHOLAS RIDLEY

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 5 August 1983

MR STREDDER

cc Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Bailey  
Mr Middleton  
Mr Monger  
Mr Wilding  
Mr Pestell  
Mr Hopkinson  
Mr Speedy  
Mr Ridley  
Ms Rouse  
Mr Corlett - IR  
PS/IR

PRIVATE RENTED SECTOR

The Financial Secretary had an informal meeting with the Minister for Housing on 2 August.

They discussed briefly capital allowances for Assured Tenancies. The Financial Secretary thinks that Mr Gow now accepts that capital allowances are not appropriate for individuals (partnerships) under this scheme. Mr Gow made ritual complaint about the exclusion of partnerships in the Summer Finance Act - but he accepted the Financial Secretary's reasoning for their exclusion.

On rent control generally, Mr Gow commented that he hoped to legislate for its removal in 1984-85 - along the lines of your brief of 27 July. The Financial Secretary told Mr Gow that Treasury Ministers would support him all the way on this.

The Financial Secretary said that if in the interim two years, Mr Gow wished to use tax relief to promote the private rented sector, the Treasury/Revenue would be prepared to study the problem in conjunction with DOE officials, subject to the following conditions:-

- 1) the Chancellor's agreement: the cost might be heavy;
- 2) an appropriate method of relief for individuals being devised;
- 3) relief applying to all landlords across the board, irrespective of status or means;
- 4) the relief applying only until rent derestriction comes into effect. After de-restriction the markets must reward landlords and not the taxpayer.

Moreover the Financial Secretary emphasised that we would not contemplate tax relief as a permanent substitute for rent de-restriction, if Cabinet refused to sanction Mr Gow's rent plans.

Mr Gow accepted these conditions but nevertheless wanted his officials and Treasury/Revenue officials to study: a) how it could be done; b) how much it would cost - in revenue and staffing terms.

The study is to be without commitment and will merely provide Ministers with all the necessary information needed to assess this option.

Mr Gow will write to the Financial Secretary putting forward his proposals. The Financial Secretary will wish to make sure that his reply includes all of the conditions mentioned above.

  
E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 5 August 1983

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Mr Kemp  
Mr Monger  
Miss Sinclair  
Ms Rouse  
Mr Driscoll - IR  
PS/IR

LETTER OF 25 JULY 1983 FROM VISCOUNT WHITELAW

... I have seen Mr Driscoll's submission of 1 August. (*copy attached, top copy only*)

This is very tricky politically, but the rights and wrongs of it are quite clear to me.

MP's (and their wives) receive warrants for travel between their constituencies and Westminster - their two places of work. And really every wife works in the constituency even if she is not an MP's secretary - they are forced to do so by constituents and they are (correctly) unpaid. There is a good case for not taxing spouses on their warrants.

Viscount Whitelaw is claiming tax free status for travel for Lords' wives between Westminster and home. They do not have constituencies. None of us, nor our wives, receive tax free travel between Westminster and home. And spouses do not perform "duties" at home be they peeresses or commoners.

So in my view Mr Driscoll's option a) in paragraph 8 of his note is the correct one, but you may wish to discuss this further.

*Nicholas Ridley*  
PP  
NICHOLAS RIDLEY

CONFIDENTIAL

From: P J A DRISCOLL



INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

1 August 1983

1. MR BLYTHE *AB 1/8*
2. FINANCIAL SECRETARY

-2 AUG 1983

LETTER 25 JULY 1983 FROM VISCOUNT WHITELOW

Introduction

1. In his letter of 25 July Viscount Whitelaw raises the question of the tax treatment of travel facilities which are now to be provided for the wives and husbands of Ministers and office holders in the House of Lords.

Background

2. By a motion dated 25 July 1983 the House of Lords agreed to a recommendation of the TSRB that wives and husbands of Ministers and office holders in the House of Lords should have the same title to free travel facilities as wives and husbands of MPs.

3. By a resolution dated 20 July 1983 the House of Commons agreed to a recommendation of the TSRB that Secretaries and Research Assistants of MPs should be entitled to nine free journeys each year between the constituency and Westminster. The proposal is clearly that the nine free journeys will not count against the fifteen journeys for which facilities for free travel are available to a Member's wife or husband and it is

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c. PS/Chancellor of the Exchequer  
PS/CST  
PS/EST  
Mr Kemp  
Mr Monger  
Miss Sinclair  
Dr Rouse

Sir Lawrence Airey  
Mr Isaac  
Mr Blythe  
Mr Easton  
Mr Driscoll  
Mr Savage  
PS/IR

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further intended that where a spouse is employed by the Member, eg as a Secretary, he or she may qualify for the nine free journeys in addition to the fifteen which he or she is entitled to as spouse.

The Tax Treatment

4. Since 1976/77 'vouchers' exchangeable for goods or services provided for employees have been taxable as emoluments unless the expense which they are designed to cover is incurred wholly, exclusively and necessarily in the performance of the duties of the employment. Rail warrants provided for MPs' travel between constituency and Westminster fall unequivocally into this category and clearly attract no tax liability. Rail warrants provided for travel by MPs' spouses are prima facie taxable but have not been subject to tax. The same applies to car mileage payments received by MPs' spouses since 1980 (resolution of 4 March 1980). Warrants provided for travel by MPs' children are clearly taxable and have (since their introduction in 1982) been taxed.

5. In a recent letter to an MP the Chairman of the Board of Inland Revenue wrote 'we have conceded .... that warrants used by a Member's spouse may be treated as exempt on the grounds that the travel in question may be in furtherance of the Member's Parliamentary duties. This would apply if, as frequently occurs, the spouse acted as a Secretary or assisted in constituency matters'. --

6. This is plainly a fairly tenuous argument and one which is made thinner if as it now appears the fifteen journeys provided for spouses are provided for them as spouses and specifically not as employees/assistants. However, all things being equal, we should have been prepared to leave our practice in relation to the fifteen journeys undisturbed - although it is possible that we should have had to revamp our explanation for the exemption.

7. Viscount Whitelaw's letter obliges us however to look at the matter afresh. This is because on any basis it seems clear

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that travel facilities provided for spouses of Ministers and office holders in the Lords must be taxable under present law as reimbursement of purely personal travel expenses.

8. There are a number of possible courses of action:

- a. apply the law strictly to Lords, while not disturbing the status quo in relation to MPs;
- b. extend the treatment already given to MPs to Ministers and office holders in the Lords (but with the extension moving clearly outside the boundaries of the law);
- c. legislate to exempt either or both groups; or,
- d. cease the concessional treatment of MPs' spouses in relation to the fifteen journeys a year on the grounds that the nine free journeys will cover the occasions when the MP's spouse is travelling in the capacity of Secretary/Assistant. (It would, presumably, be open to individual MPs to establish that some or all of the fifteen journeys were in fact undertaken by their spouses in their capacity as Secretary/Assistant).

9. Option a., of course, rejects Viscount Whitelaw's case for equal treatment and, unless carefully handled, could expose the pretty generous interpretation of the law applied to MP's.

10. Option b. would clearly be an extra-statutory concession. Whether or not this were in due course to appear in the Board's booklet, it would have to be declared to the PAC and so become public knowledge.

11. From the Revenue point of view the most clear cut solutions would be c. or d. Each avoids a concession to a group who are very much in the public eye. However, we are well aware

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of the strength of feeling of Members of the House of Commons in particular about the need for and value of these facilities and we think that the choice of d. might put Ministers under intense pressure to provide a statutory exemption.

12. At first sight, c. has obvious difficulties - legislation specifically exempting any group raises presentational problems and it goes without saying that those problems will be no less if the group consists of Members of Parliament. However, we think Ministers would not want automatically to discard c. in the light of a further small development which we were in the process of bringing to your attention.

13. In paragraph 213 of its report number 20 the TSRB recommended 'that all Ministers and paid office holders in the House of Lords who cease to hold office, for whatever reason, after serving not less than two years and before they have reached normal retirement age (sixty-five) should be eligible to receive a payment equivalent to three months salary'. In our view such a payment would be taxable in full as additional emoluments.

14. However, similar payments made to former MPs who ceased to be Members of the House on a dissolution are, by virtue of Section 72 of the 1972 Finance Act, statutorily exempt and we think that Ministers will want to consider whether a similar statutory exemption (either in a Finance Bill or the Bill giving effect to the TSRB recommendation at paragraph 213) should be afforded to essentially similar payments to Ministers and office holders in the Lords. It may be that legislation on this point would provide a convenient peg on which to hang a statutory exemption for travel facilities provided for husbands and wives of MPs and of Lords Ministers and office holders.

Conclusion

15. This short note raises difficult issues which we think

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Ministers will want to consider at length and possibly to discuss with us. In view of the holiday season it may be that such a discussion could best take place in September? In the meantime I attach a draft (holding) reply for the Chancellor to send to Viscount Whitelaw.

2

PP P J A DRISCOLL

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DRAFT LETTER FOR THE CHANCELLOR OF THE  
EXCHEQUER TO SEND TO VISCOUNT WHITELAW

You wrote to me on 25 July about the tax consequences of the recommendation at paragraph 217 of the Top Salaries Review Body that the wives, husbands and children of Ministers and other paid office holders in the House of Lords who have their main home outside London should be able to travel between that home and Westminster at public expense to the same extent and on the same basis as the wives, husbands and children of MPs.

I fully appreciate your concern, particularly in relation to Junior Ministers and Lords in Waiting but as you suggest, there are a number of difficulties here which I should like to discuss with my Treasury colleagues when we all get back after the holidays. May I write to you again when we have had a chance to go into the matter?

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FROM: E KWIECINSKI  
DATE: 8 August 1983

MS WILKINSON

cc CBAR - K3  
Miss Court  
Miss Wright  
Mr Edwards

FIFTH REPORT BY THE COMMISSION ON THE IMPLEMENTATION OF SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM (8552/83)

The Financial Secretary has seen, approved and signed the draft Explanatory Memorandum.

... I attach the master copy.

*U*

E KWIECINSKI

Explanatory Memorandum on a European Community Document

Fifth Report from the Commission to the Council and the European Parliament on the Implementation of Supplementary Measures in Favour of the United Kingdom

Submitted by HM Treasury

August 1983

Subject Matter

This is a routine document reporting on the implementation of the Community's supplementary measures scheme during the period from January to June 1983. The United Kingdom's receipts under this scheme take the form of Community support for a series of regional infrastructure investment programmes, undertaken by public authorities.

2. The Commission reports that its staff carried out control checks in April on the electricity subprogrammes in Wales and South West England, and that the final outcome is not yet known. The checks are to verify that Community funds have been used as granted and that the subprogrammes are being implemented as planned.

3. The report refers to the adoption by the Council on 15 March of Regulation 624/83 to extend and amend Regulation 2744/80 and thereby create a legal base for the payment of 692 million ecu (£400 million) as part of the refund to the United Kingdom of its unadjusted net contribution to the 1982 Communities' budget. The detailed allocation of this sum to regional investment programmes for roads, water and sewerage and telecommunications was set out in decisions published in the Official Journal on 23 March 1983 following a meeting on 21 March of the ad hoc Committee on Supplementary Measures.

4. The report points out that a payment of 622.8 million ecu (£360 million) - that is 90 per cent of the agreed sum - was made at the end of March and the outstanding balance will be paid when the Commission have completed their scrutiny.

Ministerial Responsibility

5. Treasury Ministers are responsible for the implementation of Agreements on budget refunds and for the Community Budget generally.

Impact on UK Law

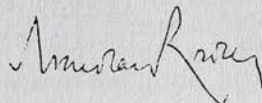
6. None.

Policy Implications

7. None.

Timetable

8. Neither the Parliament nor the Council is expected to take any action on this document which reports past events.



Financial Secretary  
HM Treasury

EUROPEAN COMMUNITIES  
THE COUNCIL

Miss Wilkinson

Brussels, 15 July 1983 (20.07)

8552/83	
	RESTREINT

ECOFIN 78

TRANSLATION OF LETTER

from : Commission of the European Communities, signed by  
Mr I. RICHARD, Member

dated: 11 July 1983

to : Mr Y. HARALAMBOPOULOS, President of the Council of  
the European Communities

Subject: Supplementary measures in favour of the United Kingdom

- Fifth Commission report to the Council and the  
European Parliament on the implementation of  
Council Regulation (EEC) No 2744/80 of 27 October 1980  
establishing supplementary measures in favour of the  
United Kingdom

Sir,

Please find enclosed the fifth Commission report to the Council  
on the implementation of Council Regulation (EEC) No 2744/80 of  
27 October 1980 establishing supplementary measures in favour of  
the United Kingdom.

The report, which covers the period from 1 January to 30 June 1983,  
has also been sent to the European Parliament.

(Complimentary close).

(s.) Ivor RICHARD

Encl.: COM(83) 415 final

8552/83

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E

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 415 final  
Brussels, 7 July 1983

FIFTH COMMISSION REPORT TO THE COUNCIL AND EUROPEAN PARLIAMENT  
on the implementation of Council Regulation (EEC) No 2744/80  
of 27 October 1980 establishing supplementary measures  
in favour of the United Kingdom

COM(83) 415 final



FIFTH COMMISSION REPORT  
TO THE COUNCIL AND PARLIAMENT  
on the implementation of Council Regulation (EEC)  
No 2744/80 of 27 October 1980 establishing supplementary  
measures in favour of the United Kingdom

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Introduction

1. The previous half-yearly reports on the implementation of the Regulation establishing supplementary measures in favour of the United Kingdom<sup>1</sup> covered the period from 1 November 1980 to the end of 1982. This fifth report covers the period from 1 January to 30 June 1983.

Verification of the implementation of the special programmes

2. During the reporting period, Commission staff carried out further on-site inspections and document checks, to verify that the special programmes and sub-programmes were being implemented in accordance with the Regulation and the Decisions pursuant thereto. The inspections carried out in April 1983 covered the electricity sub-programmes in Wales and in the South West of England. The final outcome of these inspections is not yet known.
3. This ninth inspection means that all eight special programmes have now been inspected. All categories of investment for which assistance has been granted have thus been inspected at least once, particularly to check that the Community's financial contributions have been used correctly.

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(1) SEC(81)1140 of 15 July 1981, COM(82)137 final of 23 March 1982, COM(82)460 final of 20 July 1982 and COM(83)100 of 1 March 1983.

Budgetary amounts available at the beginning of 1983

4. After the Decision granting financial assistance taken in December 1982<sup>2</sup> and the disbursement of all remaining appropriations by the end of 1982, there were no funds from previous budget years still available for 1983. Furthermore, the validity of Council Regulation (EEC) No 2744/80<sup>3</sup> had run out at the end of 1982. Accordingly, for the supplementary measures to be continued, a new legal basis was required, together with entry of the necessary appropriations in the budget.
5. With the amendment adopted by the Council on 15 March<sup>4</sup>, this legal basis was created and the original Regulation was extended for one year. At the same time a Community contribution of 692 million ECU was proposed for the supplementary measures. This amount was entered in the amending and supplementary budget No 1 for the financial year 1983 and was thus available<sup>5</sup>.

Decisions of March 1983

6. The Commission was able to allocate these funds to the United Kingdom's existing eight special programmes for the three financial years 1980/81 - 1980/83. The figures for the expenditure proposed in the United Kingdom financial year 1982/83 were revised in February 1983 to show the latest position.
7. With due regard to the criteria contained in the Regulation, and particularly the limitations on aggregation with other Community financial instruments, on 23 March the Commission took seven Decisions, the main provisions of which are shown in Table I annexed to this report.

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(2) See points 9 to 12 of the Fourth Report (COM(83)100 final, p. 4).

(3) OJ L 284, 29.10.1980, p. 4.

(4) Council Regulation (EEC) No 624/83 of 15 March 1983 amending Council Regulation (EEC) No 2744/80 establishing supplementary measures in favour of the United Kingdom, OJ L 73, 19.3.1983, p. 6.

(5) Final adoption of amending and supplementary budget No 1 of the European Communities for the financial year 1983, OJ L 60, 7.3.1983, p. 1.

8. With these Decisions, which were published in the Official Journal of the European Communities<sup>6</sup>, the total funds available for 1983 were exhausted before the end of the British financial year at the end of March 1983. The new financial contribution increased the total financial assistance granted since December 1980 for the supplementary measures by 692 million ECU to more than 3 900 million ECU. Table II attached shows the chronological and regional breakdown of all funds provided since December 1980, and Table III shows the funds allocated to the various special programmes and sub-programmes, together with the rate of assistance applied.

#### Current financial position

9. In accordance with Article 5(3) of the Regulation, 90% of the funds newly provided, i.e. 622.8 million ECU, were paid out at the end of March. The remaining 69.2 million ECU will be paid after the United Kingdom's official statement that the assistance granted has been utilized and exhausted has been received and scrutinized by Commission staff.

#### The ad hoc Committee

10. The Committee on supplementary measures in favour of the United Kingdom held its sixth meeting on 21 March 1983. The object of this meeting was to deliver opinions on the draft decisions prepared by Commission staff. The Committee gave a favourable opinion on all the decisions.

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(6). Decisions Nos 83/151/EEC, 83/152/EEC, 83/153/EEC, 83/154/EEC, 83/155/EEC, 83/156/EEC and 83/157/EEC of 23 March 1983, OJ L 98, 16.4.1983, pp. 18-32.

TABLE 1

## SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM

Financial contributions allocated in March 1983

Sub-programmes	Mio ECU									
	North	North-W	S-W	Y & H	Scotland	Wales	Northern Ireland	Total	% General	% North Ireland
Road	6.647	18.278	5.851	9.485	28.560	34.515	10.939	114.275	20	20
Rail	9.607	10.905	1.298	13.501	18.434	3.635	1.731	59.111	30	40
Water & Sew.	18.555	30.153	6.577	23.887	-	12.878	9.174	101.224	20	20
Telecomm.	39.984	84.953	13.605	68.700	78.411	44.035	30.686	360.374	30	32.
Housing	-	-	-	-	-	-	57.016	57.016	-	20
TOTAL	74.793	144.289	27.331	115.573	125.405	95.063	109.546	692.000		

TABLE II

## SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM

- Financial contributions allocated from December 1980 to March 1983 -

MioECU

	North	North West	South West	Yorkshire & Humberside	Scotland	Wales	Northern Ireland	Special road Investment Programme	Total
Dec. 1980	-	101,400	-	-	-	92,100	-	-	193,500
Jan. 1981	-	64,300	-	-	-	58,400	-	-	122,700
March 1981	106,490	-	28,140	144,580	159,540	-	125,670	-	564,420
Dec. 1981	39,136	77,544	13,173	75,213	73,459	56,698	40,280	181,461	556,964
March 1982	140,662	333,967	40,608	246,876	277,886	182,919	200,502	194,423	1,617,643
Dec. 1982	9,043	21,574	2,024	31,692	46,412	1,093	9,437	65,094	186,369
March 1983	74,793	144,289	27,331	115,573	125,405	95,063	109,546	-	692,000
Total	370,124	743,074	111,276	613,934	682,702	486,273	485,435	440,978	3,933,796

SUPPLEMENTARY MEASURES IN FAVOUR OF THE UNITED KINGDOM

Breakdown by region and sub-programme  
 Commitments made in: a) 1980 and 1981  
 b) 1982  
 c) March 1983

Million ECU

Sub-programme		North of England	North West of England	South West of England	Yorkshire & Humberside	Scotland	Wales	% of public expenditure	Northern Ireland	% of public expenditure (N.Irel.)	Special road investment programme	Total
Roads	a	30.350	48.692	-	17.199	66.955	73.484	50	46.463	60	-	283.143
	b	17.332	44.834	0.358	17.117	52.712	62.453	40	26.570	50	-	222.399
	c	6.647	18.278	5.851	9.485	28.560	34.515	20	10.939	20	-	114.275
Railways	a	17.658	30.499	6.714	35.961	44.238	12.842	50	2.097	60	-	150.009
	b	13.608	22.202	2.936	24.996	28.004	6.016	40	3.581	50	-	101.343
	c	9.607	10.905	1.298	13.501	18.434	3.635	30	1.731	40	-	59.111
Electricity	a	-	-	-	-	-	-	-	-	-	-	-
	b	38.317	112.892	4.029	90.063	129.454	29.096	25	-	-	-	403.851
	c	-	-	-	-	-	-	-	-	-	-	-
Water and Sewerage	a	36.917	43.876	9.767	41.552	-	16.533	30	19.939	40	-	168.584
	b	25.515	54.360	11.101	46.124	-	22.704	40*	22.650	50	-	182.454
	c	18.555	30.153	6.577	23.887	-	12.878	20	9.174	20	-	101.224
Advance factories	a	-	1.569	-	-	13.133	22.294	20	4.672	20	-	41.668
	b	-	-	-	-	-	-	-	-	-	-	-
	c	-	-	-	-	-	-	-	-	-	-	-
Land reclamation	a	-	-	-	-	6.585	-	20	0.441	20	-	7.026
	b	-	-	-	-	4.978	-	20	0.358	20	-	5.336
	c	-	-	-	-	-	-	-	-	-	-	-
Telecommunications	a	60.701	118.608	24.832	125.081	102.083	82.045	50	59.597	60	-	572.952
	b	54.933	121.253	24.208	100.268	109.152	62.740	40	56.849	50	-	529.401
	c	39.984	84.953	13.605	68.700	78.411	44.035	30	30.686	32.5	-	360.374
Housing	a	-	-	-	-	-	-	-	32.741	20	-	32.741
	b	-	-	-	-	-	-	-	99.911	50	-	99.911
	c	-	-	-	-	-	-	-	57.016	20	-	57.016
Special road investment programme	a	-	-	-	-	-	-	59.22	-	-	181.461	181.461
	b	-	-	-	-	-	-	57.5	-	-	259.517	259.517
	c	-	-	-	-	-	-	-	-	-	-	-
Total	a	145.626	243.244	41.313	219.793	232.999	207.198	-	165.950	-	181.461	1437.584
	b	149.705	355.541	42.632	278.568	324.298	184.012	-	209.939	-	259.517	1804.212
	c	74.793	144.289	27.331	115.573	125.405	95.063	-	109.546	-	-	692.000
Total a, b and c	370.124	743.074	111.276	613.934	682.702	486.273	-	485.435	-	440.978	3933.796	

\* North of England: 30 %



FROM: E KWIECINSKI  
DATE: 9 August 1983

MR F I ROBERTSON - IR

cc PS/Chief Secretary  
Mr Monger  
Dr Rouse  
Mr Spencer - CTO  
PS/IR

CTT AND STUD FARMS

Following his meeting with the All Party Racing Committee on 28 July, the Financial Secretary has been considering further the question of agricultural relief for Thoroughbred Breeders.

... I attach the Committee's submission to the Financial Secretary.

The Financial Secretary feels that there is little point in keeping everybody in suspense while the rating case (and possibly the CTT case) go through the courts. The whole question could be cleared up by an announcement to legislate in the next Finance Bill.

The only question is whether all stud farms should be allowed the 50 per cent<sup>relief</sup>, or only those in business to make a profit.

He would welcome your views.

*U*  
E KWIECINSKI

THOROUGHBRED BREEDERS

AGRICULTURAL RELIEF

History

The Inland Revenue accepted that stud farming was husbandry for Income Tax purposes following the House of Lords decision of Lord Glaneley -v- Wightman in 1933. Thereafter stud farming was treated as agriculture for rating, estate duty, income tax and all other purposes

The Problem

In 1981 the Lands Tribunal dealt with a small hunter breeding establishment in Sussex by unexpectedly and against all current practice deciding that stud buildings (but not the paddocks) did not qualify for the agricultural exemption for Rating purposes. This decision is being strenuously resisted by the Thoroughbred Breeders' Association and an official test case found in favour of the Rate payer on 10th December 1982 in the Court of First Instance (copy Judgement attached). The Inland Revenue have appealed against the decision which will now go to the Lands Tribunal early in 1984.

Although the Rating legislation is different from the Capital Transfer Tax legislation, nevertheless the Capital Taxes



Office have now declared that, in their opinion, stud farming does not qualify for the 50% Agricultural Relief for Capital Transfer Tax. This goes further than the Rating problem because it involves not only buildings but also the paddocks. Furthermore the Capital Taxes Office have also indicated that the alternative 50% Business Relief will also be denied to stud breeders if in the opinion of the Capital Taxes Office, the stud is not a genuine business whether or not it is treated as such for Income Tax purposes. The denial of Agricultural Relief has been confirmed by the Capital Taxes Office in writing but their attitude towards Business Relief has so far only been reported verbally to the best of our knowledge. The Capital Transfer Tax legislation was introduced to replace Estate Duty legislation and in order to examine the merits of the Capital Taxes Office ruling it is necessary to look back to the Estate Duty legislation.

The Estate  
Duty position

For Estate Duty purposes a reduced rate of duty was payable on the agricultural value of agricultural property. When the rates of Estate Duty were increased by the Finance Act 1925, agricultural property was exempted from the new rates by Section 23

of that Act, and this formed the basis for the reduced rate relief as most of us will remember it. The definition of agricultural property was that contained in the Act which introduced Estate Duty in 1894 namely Section 22 (i) (g) and even in those days agricultural property was protected from the full force of Estate Duty which was levied at a maximum rate of 8% for estates in excess of £1 m.

Agricultural property was defined as "agricultural land pasture and woodland, and also such cottages, farm buildings, farm houses and mansion houses (together with the lands occupied therewith) as were of a character appropriate to the property"

The Revenue practice was to widen the compass of the definition, often by extra-statutory concession. For example, following the rating case of W. and J.B. Eastwood Limited -v- Herrod (1970) 1 A.U.E.R. 774 where broiler houses were held not to be agricultural buildings, this resulted in an extra-statutory concession indicating that for Estate Duty they would qualify for the Agricultural Relief and this was in practice the case whether there was any land or not. Such was the attitude

of the Inland Revenue at the time towards widening the availability of Agricultural Relief that, at the end, it included cultivations, manures, certain growing crops, sporting and fishing rights and buildings used for intensive livestock rearing and without question it included stud farms.

It is interesting to note that when Agricultural Relief was extended for Estate Duty purposes to Companies, by Section 28 Finance Act 1954, we find a requirement in the legislation that, if the Company was engaged in husbandry or forestry on agricultural property, such property would qualify for relief. For the first time therefore the requirement of an "acceptable activity" appeared and that activity was "husbandry" and husbandry, as we have seen, covered stud farming.

The Capital  
Transfer Tax  
position

With the introduction of Capital Transfer Tax in March 1974 came new rules for agricultural property embodied in the Finance Act 1975 Schedule 8.

The definition of agricultural property remained much the same as for Estate Duty except for example that mansion houses had

been deleted, and it was considered by extra-statutory concession to include buildings for the intensive rearing of livestock or fish provided it was on a commercial basis for human consumption. It is important to note that the first and only reference to "human consumption" appears here, it was limited to factory farming, and was extra-statutory.

However there was another important aspect to this piece of legislation namely the concept of "working farmer".

1975 Act

Under Paragraph 3 of Schedule 8 it was necessary to determine whether the Transferor was wholly or mainly engaged in "farming" and farming has the meaning it would have for Income Tax and Corporation Tax purposes. If we look at Section 526 (5) Taxes Act 1970 farm land is defined as "land in the U.K." wholly or mainly occupied for the purposes of husbandry - and farming is to be construed accordingly.

The third requirement for agricultural relief under paragraph 3 of Schedule 8 is that at the time of transfer the farm should have been occupied by the Transferor for "agricultural purposes".

Three questions therefore need to be considered as follows:-

- (a) Is a stud farm agricultural property?  
The answer is arguably that it is.
- (b) Is the stud owner a working farmer?  
Again there is every argument that he fulfils the requirements.
- (c) Does he conduct an agricultural operation on the property?  
We most firmly believe that he does.

"Agriculture" and "agricultural purposes" are not defined in the Capital Transfer Tax legislation but nevertheless the Capital Taxes Office have indicated (as will be seen) that their initial reaction to the position is that stud farms do not qualify for relief and they have since acted upon this by denying C.I.T. relief in respect of paddocks and buildings occupied as a genuine stud and treated as such for income tax purposes.

1981 Act

The Agricultural Relief was extended and amended once again by a new set of rules in the Finance Act 1981 Section 96 and Schedule 14. The working farmer concept has been swept away and in its place we

have the 50% relief for vacant possession land and 20% relief for let land.

Agricultural property is defined much as before but it is important to note that it now incorporates the extra-statutory concession which is referred to earlier in this note and which brought in for Relief, buildings used in connection with intensive rearing of livestock or fish. In drafting the 1981 legislation Parliament looked at the previous 'concession' and has consciously deleted the words "commercial basis for the production of food for human consumption" and has introduced simply a need for land to be used with the buildings. This would appear to indicate strongly that Parliament did not approve of limiting the Relief to livestock which could be eaten.

The C.T.O.view      The Capital Taxes Office view however reads as follows:-

"The point I would wish to emphasis here is that in order to qualify for Agricultural Relief under Section 14 of the Finance Act 1981 it is necessary (inter alia) for the agricultural property to have been occupied for agricultural purposes (paragraph 3), a

requirement which envisages that such property can be occupied for non-agricultural purposes. There is no definition of "agriculture" or "agricultural purposes" in the capital Transfer Tax legislation (the definition in Schedule 8 of the Finance Act 1975 was of "farming") and we are therefore obliged to consider the ordinary meaning of the words. I would not attempt to construct a definition here but our view is that the purpose of a stud farm has nothing directly to do with the production of food from the land which seems to us central to the meaning of "agriculture" and "agricultural purposes". That seems to have been the basis of the decision in Evans -v- Bailey which therefore merely expresses a view of the meaning of agricultural buildings and operations to which we already subscribed. It follows that in our view Agricultural Relief is not available on land used to graze horses if the horses are not of the kind associated with an ordinary - i.e. agricultural - farm."

The Thoroughbred Breeders' Association  
Breeder's view on the 1975 Legislation is that if a  
Associations' stud farmer's activities fall within what  
View Parliament envisaged as those of a working

farmer and he is carrying out those activities on the agricultural property at the time of transfer, it should not be open for the Capital Taxes Office, on a matter of interpretation, to deny the Agricultural Relief.

The Capital Taxes Office therefore has taken a view which arguable was never intended by Parliament. When the legislation was drafted it was known by the Parliamentary Draughtsman that thoroughbred breeding establishments had been afforded Agricultural Relief since before the War. If Parliamentary had intended to take away this relief, with such devastating effect upon the industry, it would surely have been explicit on the subject.

The assistance  
required

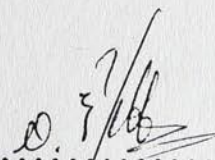
Since the Rating position is now the subject of an official test case a ruling will ultimately be forthcoming upon the current interpretation of the law for Rating purposes. It is unlikely however that the test case will reach the Court of Appeal until 1985 and if the case goes to the House of Lords the time factor may be even more protracted before a decision can be reached.



The Capital Taxes Office have indicated that if the Stud farmers ultimately win the Rating case they will consider the C.T.T. position again. We believe that the C.T.T. position is far too damaging to the Bloodstock breeding industry in this country to be allowed to await a Rating case which may turn on the wording of totally different legislation.

Ideally of course we would like Parliament to put an end to all the difficulties which have arisen by confirming that horse breeding for commercial purposes is, and always has been, Agricultural for all legislative purposes i.e. Rating Planning C.T.T. etc.

Since this solution may take some time however, the urgent need is for the Treasury, if it will, to confirm to the Capital Taxes Office that the C.T.O. departmental interpretation is wrong and that Agricultural and/or Business Relief is available to all horse breeding establishments.

  
.....  
Rustons & Lloyd  
Newmarket  
Suffolk  
26th Nov 1982

ALL PARTY RACING COMMITTEE

THOROUGHBRED BREEDING  
ESTABLISHMENTS

THE PROBLEM OF AGRICULTURAL  
RELIEF FOR CAPITAL TRANSFER TAX

Rustons & Lloyd  
Newmarket  
Suffolk  
0T/14/D8

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 9 August 1983

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Bailey  
Sir T Burns  
Mr Littler  
Mr Cassell  
Mr Wilding  
Mr Battishill  
Mr Mountfield  
Mr Middleton  
Mr Ridley  
Mr Lord  
Mr Norgrove

THE PSBR

The Financial Secretary has seen Miss Clarke's submission to PS/Chief Secretary of 4 August.

He has commented that the paper completely ignores the fact that at the time of last year's Autumn Statement, we expected an undershoot of the PSBR of some £1-£2 billion. We therefore had a spending spree before Christmas. He thinks that had this not happened, the undershoot this Easter would have been much smaller, if anything at all. What concerns the Financial Secretary is that we may be reacting to irregularities in the PSBR profile in mid year, as eg in Autumn 82 and July 83.

He wonders whether we could improve the forecasting so that the relevance of in year divergencies to the ultimate outturn of the PSBR may be better gauged.

*UK*  
E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 9 August 1983

CHANCELLOR

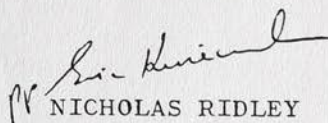
cc Chief Secretary  
Economic Secretary  
Minister of State

BOARD OF INLAND REVENUE: OUTSIDE APPOINTEES

I have seen Miss Simpson's minute of 3 August and John Hoskyns' letter of 29 July.

Geoffrey Howe considered this idea, and was I think rather in favour of it. The contrary argument which I confess I rather hold to myself is that to appoint outside directors suggests that the Board has an independence and a policy making role of its own - not subject to Ministerial control. It is just that impression that we are trying to kill (although sometimes the Revenue's actions do not exactly help us).

I think my preferred route is for Ministers to require the Revenue to clear more of their decisions, and policies with Ministers, and for Ministers to be seen to be taking greater responsibility. We have already done this with litigation, press notices, and letters to the press, and I think we should consider it in relation to some of the major administrative decisions, eg the reclassification of Schedule D to Schedule E etc. I think this would be a good subject for Ministers to discuss.

  
NICHOLAS RIDLEY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 9 August 1983

CHANCELLOR

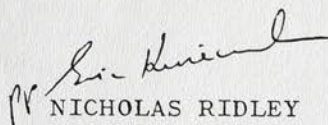
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NICHOLAS RIDLEY

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 11 August 1983

MR R MARTIN - IR

cc Mr Monger  
Mr Robson  
Dr Rouse  
PS/IR

WIDENING THE USE OF THE FORM P46

... I attach the Financial Secretary's paper outlining his preliminary thoughts on the possibility of using the form P46 to fulfil a wider function.

He would be grateful for your and copy recipients' early comments.

*Ek*  
E KWIECINSKI

CONFIDENTIAL

P46

I would be grateful if the Inland Revenue could investigate the possibility of using the P46 form to fulfil a wider function. It was designed to help the Revenue secure some knowledge of new employees, and how they instruct their employer to tax them. Could it be widened to perform more of a policing function in relation to the Black Economy - to catch tax dodgers, and "earners and drawers"? There are two possible ways in which this could be done.

- 1) Every employer, when taking on an employee whether casual, part time or full time, would require the employee to fill in:-
  - a) his/her name and address;
  - b) whether the employment is his main job or second job;
  - c) whether he is self employed or an employee;
  - d) his National Insurance number;
  - e) whether/<sup>he</sup> is drawing any state benefit or not;

This form would be sent to the Revenue who would order the employer to apply code for a deduction - or allow payment gross. It would also go to DHSS who would check the benefit side of things.

- or 2) Every person, gaining employment, whether casual, part time, or full time, would be required to produce a document, before employment could be given, which would tell the employer the details he needs to know to get a coding from the Revenue. This would be a sort of tax/identity card.

2) above is going much further than 1) and we would be open to accusations of using gestapo techniques. However both meet the Keith Report's requirement of making people sign a form, which requires them to tell, or not to tell, the truth. I suspect that it would smoke out a lot of evasion. It would also give IR/DHSS the information they need to track down the fiddlers. I realise that this would be staff-intensive. It may be that the Revenue could adapt either idea to be fairly effective at relatively small staff cost.

I realise that these techniques would only be applied to PAYE employers, and not to casual employers who employ people ad hoc, and privately (ie private citizens who employ cooks, gardeners, home helps, fruit pickers, window cleaners, painters etc.).

Nevertheless it would be a step forward to get employers to give us the information to know who are the fiddlers. It may be that we could later extend the scheme to private citizens (but I doubt it).

The P46 arrived without legislation, and is clearly having an effect. Yet there is no overt pressure to do away with it, because MPs and journalists know that those who want to do away with it want to continue fiddling without let or hindrance. Thus there seems to me advantage in extending the application of this technique without legislation - that is by administrative means only..





FROM: E KWIECINSKI  
DATE: 11 August 1983

MR BLYTHE - IR

cc PS/IR

TAX TREATMENT OF AGRICULTURAL CASUAL WORKERS

We spoke.

The Financial Secretary has seen Mr Martin's note of 3 August suggesting a form of reply to Sir Richard Butler's letter of 27 July. The Financial Secretary is not keen to send Sir Richard a copy of his letter to another Minister. He would though be content for the substantive points to be made in a further reply to Sir Richard.

... I attach a letter received today from Lord Belstead. This confirms a measure of agreement between Ministers on the way forward. The Financial Secretary's reply to Sir Richard Butler should refer to this, and advise Sir Richard that the NFU will be invited to join the Working Group in the near future.

The Financial Secretary would be quite happy to see the NFU if the Revenue feel that this would serve a useful purpose.

*EW*  
E KWIECINSKI



From the  
Minister of State

The Rt Hon Nicholas Ridley MP  
Financial Secretary  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

Ministry of Agriculture, Fisheries and Food  
Whitehall Place, London SW1A 2HH

FINANCIAL SECRETARY	
REC.	11 AUG 1983
ACTION	Mr. R. Hyde / R. Mr. R. Martin / R. — O.T.
COPIES TO	As/Chancery B/CST
	Dr Rouse Mr. Robson
	PS/R

August 1983

*Dear Nicholas,*

TAX TREATMENT OF CASUAL WORKERS

Thank you for your letter of 2 August.

I am pleased that you are able to agree that further discussion should be held at official level on this issue and that in the meantime the status quo should continue. This will be welcome news to the NFU and you will no doubt be letting Sir Richard Butler know of the agreement we have now reached.

Clearly we should aim to sort out the arrangements for the future well before the beginning of the 1984 soft fruit season. The uncertainty this year has led to a quantity of fruit remaining unharvested and we shall have to do all we can to avoid similar difficulties next season.

I should be quite happy for officials here to act as they did in 1978, and organise discussions on an inter-departmental basis together with senior representatives of the NFU. If this is acceptable to you my officials will be in touch with yours to sort out the details.

I note your comments about the future of local discretionary arrangements. At this stage I would like to keep the option open and to see whether we cannot build in some local flavour to the national arrangements which will meet particular needs but preserve the integrity of the tax system. This is something which the Working Group will be exploring.

*Yours sincerely,*  
*John*

BELSTEAD

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 16 August 1983

CHANCELLOR


cc Chief Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Bailey  
Mr Wilding  
Mr Monger  
Mr Mountfield  
Mr Kitcatt  
Mr Hopkinson  
Mr Robson  
Sir L Airey - IR  
PS/IR

REVIEW OF GOVERNMENT VALUATION SERVICES

... I attach <sup>(top copy only)</sup> the Inland Revenue's comments on the Review, with a covering note from Sir Lawrence Airey.

The Report itself seems to me to be very practical and workmanlike. I am sure we should consult colleagues and, if they agree, publish the Report in the autumn. There may be comments from the public at that time too. I would like to discuss it with Mr Christopher, as well as meeting the other members of the Committee to thank them and discuss it with them.

We can take more time before deciding on all the proposals. For myself, I think the integration of the service is desirable in the long term, but that the present suggestion for professional unification may be about the right step at this time. I also think that at some stage in the process towards integration, the Valuation Office should become a separate department responsible directly to the Chancellor, rather than through the Board of Inland Revenue. Indeed I feel that this step may be appropriate now. But we can discuss all these issues in the light of the responses received from colleagues.

PP   
NICHOLAS RIDLEY



nr

From Sir Lawrence Airey

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE

12 August 1983

2 AUG 1983

1. FINANCIAL SECRETARY TO THE TREASURY
2. CHANCELLOR OF THE EXCHEQUER

REVIEW OF GOVERNMENT VALUATION SERVICES

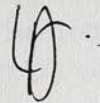
1. The Committee under Mr Dalton's chairmanship has now submitted to you its report on valuation services in central Government. Its conclusions and recommendations are in general acceptable to the Inland Revenue (who were, of course, strongly represented on it). But the Committee carried out its review as an independent body and I think it is right that I should offer the attached note of additional comments on the main questions from a specifically departmental viewpoint.

2. The Committee's main recommendation for change is the proposal to set up a Government Valuation and Estates Service as a federal grouping of valuers in the Valuation Office, Property Services Agency and other Departments. This has important implications for other Departments and you will want to have the views of your Ministerial colleagues before taking final decisions.

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Bailey  
Mr Wilding  
Mr Monger  
Mr Mountfield  
Mr Kitcatt  
Mr Hopkinson  
Mr Robson

Mr Isaac  
Mr Gracey  
Mr Christopher  
Mr Houghton  
Mr Vernon  
Mr Moore  
Mr Robertson  
Mr Willis  
PS/IR

3. It will probably not be possible to take early decisions because the doubts recently cast on Mr Alfred's plans for reorganising the Property Services Agency (eg in the minute of 1 August from the Prime Minister's Office) may lead to further consideration of moves towards greater integration than the Committee recommended. I think it will nevertheless be helpful to publish the report in October or November in response to the many outside bodies who made representations to the Committee, and who may wish to comment on its conclusions. If you are content, we shall set this in hand and put forward a separate submission, nearer the time, on the precise timing and the announcement to accompany the report.



Lawrence Airey

INLAND REVENUE COMMENTS ON REVIEW OF GOVERNMENT  
VALUATION SERVICES

i. Whether or not all the valuation work in  
central Government is essential?

1. The Revenue is the largest single client for the Valuation Office's non-rating work; valuations are essential for capital gains tax, capital transfer tax, stamp duty and elsewhere in the direct tax system. We have arrangements to minimise the volume of work, eg by accepting the taxpayer's valuation where little or no tax is at stake, or by carrying out only sample checks. But access to valuation advice as good as that available to taxpayers is essential for effective revenue collection.

2. As the Valuation Office is also the central source of valuations and advice for many other Government Departments, we have a keen interest in keeping the demands for its services, and on its resources, to the minimum necessary. The Committee's recommendations for the oversight of valuation work by a head of profession, for using the private sector, and for the extension of repayment terms would help to ensure that it carried out only essential work, and then only where the Valuation Office was competitive with other sources of valuation advice.

ii. How far the functions carried out by Government valuers  
need to be performed in-house?

3. The possibility of privatisation was one of the main reasons for setting up the review. We did not seek to exclude from this the use of the private sector for work

for the Inland Revenue, though naturally we put to the Committee the importance of considerations such as confidentiality, conflict of interest, and consistency. But the Committee's enquiries showed that there would be considerable opposition to the use of private sector practitioners for tax work. Nor did private sector valuers feel that it would be appropriate for them to undertake the work.

4. As regards non-revenue work, the Committee has identified a number of areas where the private sector should be used; other areas where Government valuers are needed; and - the major part - work which could in principle be undertaken either by Government valuers or by the private sector. In most cases, however, it has demonstrated quite clearly that use of the private sector would be considerably more expensive. As with the work for a non-domestic revaluation, where similar comparisons of costs were made, the use of the private sector in place of the Valuation Office would increase public expenditure. This militates against wholesale privatisation of valuation services.

5. In future years, however, this conclusion could change because of changes in the relative costs of the alternatives, or because of changes in the needs of Departments. For these reasons we think the more important question is whether or not the recommendations will leave us with the right system:

- i. to ensure that the private sector is used when it is more cost-effective; and
- ii. to keep up the pressure for improving the efficiency of work in-house.

The Committee has made its recommendations for the organisation of Government valuers and valuation work to achieve these aims.

Government Valuation and Estates Service

6. The recommendation for a Government Valuation and Estates Service as a professional group for staff in the Valuation Office, PSA, and other Departments is the key both to the efficient use of Government valuers and to the use of the private sector. It would introduce arrangements for valuation work for Government to be looked at as a whole. This would bring direct benefits in terms of the recruitment, training, and career development of surveyors. Secondments, including secondments to and from the private sector, would also be more likely. But we think it is particularly important that there would be a head of profession with clear and direct responsibilities for action to improve the Government's services, and who would have to report each year to Ministers on the work of Government valuers and estates surveyors.

7. The proposals for Government Valuation and Estates Service have been shown informally to some of the other Departments who would be affected, and have met criticism. First, it is suggested that the same benefits could be achieved, by using the machinery of the Management Committee for the Professional and Technology Group (the PTMC) and its subordinate Surveyors Panel. We do not doubt the MPO's need for the PTMC as an advisory group on personnel and management matters affecting all or some of the 38,000 staff in the Professional and Technology Group. But we do question the ability of a panel or committee to act as positively as a head of the valuation and estate surveying



profession with personal responsibility and accountability for these staff and the cost-effectiveness of their work. Further, the additional costs of a Government Valuation and Estates Service would be small; the logistics could be handled by our Chief Valuer's Office without significant additions to resources.

8. Secondly, officials in some Departments fear the professional group would introduce a conflict of loyalties and dilute the role of valuers and estate surveyors in departmental management. However, we do not think that there is anything in the way that other service groups operate - eg for economists, accountants, solicitors and statisticians - to bear out this concern. Moreover, the Committee's proposals would establish the Government Valuation and Estates Service as a federation of the various valuation and estate sections, less monolithic than some other arrangements, and give fairly restricted powers to the head of profession. This is a reasonable alternative to the total integration which was urged upon the Committee by many outside bodies.

9. Thirdly, MPO officials have suggested to us that the creation of a separate group for valuers and estate surveyors would lead to fragmentation of the Professional and Technology Group, with implications for the unification of pay scales and grades. We do not think there is much in this point. Valuers and estates surveyors are, however, already an identifiable group in the eyes of the staff and their unions, and the Government Valuation and Estates Service would simply recognise this fact. But the service would have no responsibilities for pay. This is on all fours with existing arrangements, eg for Statisticians, who

are a separate professional group but with the same pay scales as the Administration Group.

10. We would therefore see some real advantage, and no insuperable problems, with the Committee's proposals for a Government Valuation and Estates Service.

#### Organisation of Government Valuers and Estates Surveyors

11. When the review was set up last year, the Financial Secretary raised two important questions about the organisation of Government valuers: whether all valuation staff should be concentrated in the Valuation Office, and whether the Valuation Office should become a separate Department.

12. The principle of centralisation is supported in the report. It is the practical difficulty and cost of such a major reorganisation which, in their view, tilt the balance for the present against a single central body. We think this is right because, in addition to major changes in the PSA, the Valuation Office could be fully occupied with the rating revaluation. More gradual progress towards centralisation would, however, be practicable and could be explored by the head of profession if the Government Valuation and Estates Service is set up. But the benefits of a major reorganisation are always at a distance, and can never be certain, while the costs are immediate and inescapable. So we need to be sure of our ground before putting this in hand.

13. On the question of a separate valuation department or agency, the review has found that the Valuation Office's independence and impartiality do not in practice suffer from

it being part of the Inland Revenue, and that it enjoys the economies of scale for supplies and common services which only a large network department can provide. This leads to the conclusion that it should remain part of the Inland Revenue. However, the Committee's recommendations for a net sub-head for the Valuation Office in our Vote and for the Government Valuation and Estates Services, together with our plans for the financial management initiative, will lead to separate "business" accounts for the Valuation Office and an annual report to Ministers from the Chief Valuer.

Should service be provided to local authorities and other non-Government bodies?

14. The review recommends that the Valuation Office should continue to provide services to local authorities and others outside Government, provided that the authorities pay for the majority of these services rather than, as at present, have them available free of charge on the grounds that expenditure of public money needs to be safeguarded. This principle that the consumer of services should meet the costs may need to be tempered by practicalities of administering the charging system. But now that the Dalton Committee has indicated its views on the structure of Government valuation services, we shall finalise with client Departments proposals for a practical system of charging. A further report on this will follow shortly.

Use of new technology

15. The final point we would mention is the recommendation for a full feasibility study of DP applications in the Valuation Office. We have had this in mind since our previous plans fell with the cancellation of the rating

revaluation in 1979. Since then, uncertainties about rating have made it impossible to make firm plans.

16. Now the outlook on rating is more clear, we would propose to set up a study, with outside consultants, in 1984/85. We should like to make an earlier start, but our internal DP staff are already fully committed to existing projects and there is no money to buy in expertise in this financial year.

Publication

17. The review was publicised and received many comments and suggestions from a wide range of bodies. We are sure it was right to seek these outside comments, and that it would be equally worthwhile to publish the report. We suggest this be set in hand now, with a view to publication after the recess. The precise timing, and the announcement to accompany the report, can be considered nearer the time in the light of comments from your Ministerial colleagues.

Inland Revenue  
Somerset House

12 August 1983

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 16 August 1983

MR BAILEY

cc Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Wilding  
Mr Watson  
Mr Judd  
Mr Rayner  
Mr Woodall

E&AD/NAO: FUTURE DEVELOPMENT

The Financial Secretary has seen your submission of 12 August.

He does not think that we are quite as powerless as you suggest. He has commented that we could pay up just so much cash and no more, by cash limiting the NAO, and leaving the PAC to argue for a bigger limit. We could take our case to the floor of the House if necessary. The Financial Secretary thinks that there is a case for doing this, since all similar public spending is cash limited, whatever the PAC may say.

Equally, the Financial Secretary would not want deep political trouble over this. He thinks that, especially if we were very restrictive, we could lose the argument both in the press and in Parliament.

He thinks there may be advantage in him discussing the whole question with Robert Sheldon - presumably he is the most important non-Government person on the PAC?

The Financial Secretary's initial view is that he should threaten real control through cash limits, but for year One at a level that is acceptable to all concerned: this would establish the principle of cash limits without provoking a row over the amount.

He would though like to discuss the matter with you and officials  
before taking a final view.

I have arranged the meeting for Thursday 18 August at 11.30am.

UK.

E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 17 August 1983

CHANCELLOR  
CHIEF SECRETARY

cc PS/Economic Secretary  
PS/Minister of State  
Mr Middleton  
Mr Bailey  
Mr Mountfield  
Mr T A A Hart  
Mr Ridley  
Ms Rouse  
Mr Lord

PUBLIC EXPENDITURE CUTS

I have seen the papers by Mr Lord, Dr Rouse, and Barney Hayhoe on public expenditure cuts. We will have battles to achieve any or all of these cuts, and the question to decide is when we should stand and fight. It is always best to fight for a big one - a sheep rather than a lamb. It is not only the public and Parliament who will oppose - but Government colleagues too! Taking the points in order:-

Mr Lord at para 3. "Capping" SB is a good idea, but it needs looking at more carefully. The whole area of SB additions, (and possibly SB deductions - eg for young people living at home), needs considering. I would like to hold a meeting with officials to go over this carefully.

Mr Lord's paras 5-10. I think it is a bit too much to take women to 65 in one go. Dr Rouse suggests "phasing" this in. An alternative is to "phase" women in only to, say, 63 at this stage; and to do the 63-65 step later.

Mr Lord's para 11. I cannot see much hope on this unless the Prime Minister can be persuaded to negotiate on the Falklands!

Mr Lord's para 12. I am sure there are large savings to be got from Agriculture. We ought to have a Treasury paper setting out what is possible. With the CAP out of control it seems unnecessary to have the UKAP out of control too.

Mr Lord's para 13. I think this is more difficult - given the already firm plans for alteration to Regional Policy.

Mr Lord's paras 14-16. I will circulate a separate paper on LA spending.

Mr Lord's paras 16-19. I am a bit dubious of our chances of success on these items.

Mr Lord's para 21. I agree that we must attack the Family Practitioner Scheme.

Mr Lord's para 22. I tried to hot up the pace of Forestry Commission asset sales in the last Parliament. It proved too difficult. The backwoodsmen in the Lords, the landed Tory interest, the Scottish Office, and MAFF all combine to thwart one. But the assets are there to sell if anyone has the courage and pertinacity to get the Forestry Commission to sell them.

Dr Rouse at para 9. I think the furthest one can go is to abolish the Death Grant for all who are not on SB, but to pay, say, £250, for those who are. £25 is a farce - it covers only 10 per cent of the cost.

Dr Rouse's para 12. I think we should have one more meeting on Child Benefit to see if we can discriminate somehow.

#### Public Transport

There should be no subsidies to public transport at all. This is a fruitful area for huge savings. If the public want to have public transport, they ought to pay for it.

*Nicholas Ridley*  
PP NICHOLAS RIDLEY





cc PS/Chancellor  
PS/CST  
PS/EST  
PS/MST  
Mr Mowat  
Mr Reed  
Dr Rouse  
Mr Taylor-Thompson - IR

Treasury Chambers, Parliament Street, SW1P 3AG  
PS/102

Michael Grylls Esq MP

*Dear Michael*

17 August 1983

You wrote to me on 25 July about the New Clause which you put down during Committee Stage of the Finance Bill which was intended to have the effect of denying ACT relief to foreign companies operating in the United Kingdom but having their principal place of business in a political subdivision of a foreign country using the unitary method of taxation.

You showed me this New Clause and told me of your intention to put it down during our meeting last month and I noted that you did succeed in speaking to it briefly even though it was out of order. The Clause is certainly a further indication of the strength of feeling in the House about the continued use of this method of taxation by some States of the United States and an expression of our disappointment with the decision of the Supreme Court in the case of Container Corporation of America v Franchise Tax Board.

You know, however, that the Government is strenuously pressing these views upon the United States Administration by means of the Chancellor's letter to United States Treasury Secretary Donald Regan and in person by the Foreign Secretary when he met Secretary Regan in Washington recently. This had the encouraging outcome that Secretary Regan told him that the United States Treasury shared the United Kingdom's concern. The Chancellor has also discussed the matter with other European Community Finance Ministers who share our view about the unacceptability of this method and who should also be making their views known in Washington. We are hoping that the result of this will be legislation sponsored or supported by the United States Administration to prohibit this form of taxation. Meanwhile, while not closing any doors to future action should we not meet with early success, I do not consider it appropriate to speculate now on what form the expression of the Government's dissatisfaction in this event might take.

I have looked into the matter you raise in your post-script about the response given by the Treasury Press Office last week to enquiries about the possibility of retaliatory action. I have been assured that no member of the Press Office should have conveyed such an impression. The position is, as I have said, that the Government is strenuously pursuing this issue through diplomatic channels

and as for other possibilities, it has not closed any doors.  
I am ensuring that this response will be given to similar  
enquiries in the future.

But as I said to you, the less you try and get  
positive reactions from the Government at this time, the  
more united we can all appear. To ask for an  
assurance that we will support your New Clause  
next year is to do exactly the opposite!

NICHOLAS RIDLEY

Yours ever  
Nicholas



FROM: E KWIECINSKI  
DATE: 18 August 1983

MISS HART - IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
Mr Robson  
Mr Taylor-Thompson  
PS/IR

#### UNITARY TAXATION

The Financial Secretary has seen your submission of 17 August. He is broadly content with what is proposed.

He does have one major suggestion and that is whether the minute to the Prime Minister should mention the fact that the US Supreme Court only referred to US parents in its judgement. Similarly he wonders whether the Prime Minister's letter to the President should ask for legislation "which would ban unitary tax, at least for foreign owned corporations". He would be grateful for officials' views on this.

~~The Financial Secretary also suggests some minor drafting amendments to the Prime Minister's letter, as follows:-~~

Para 2 line 5 to end of paragraph redraft as "... attention to the very strong pressure that is building here, both in the business community, and in Parliament. Parliament ratified the 1980 Double Taxation Convention on the basis that action to eliminate unitary taxation would soon be undertaken".

Para 3, line 20, delete "persuaded" and insert "tempted".

Para 3, last sentence, redraft as "Its spread would hinder both our and your international trade and... etc".

EK

E KWIECINSKI

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 18 August 1983

CHANCELLOR

cc PS/Chief Secretary  
Mr Middleton  
Mr Bailey  
Sir T Burns  
Mr Monger  
Mr Cassell  
Mr Battishill  
Mr Robson  
Mr Griffiths  
Mr Ridley  
Mr McConnell - IR  
PS/IR  
Mr Wilmott - C&E  
PS/C&E

**METHODS OF TACKLING UNEMPLOYMENT**

I have seen Mr Monger's submission of 11 August and Miss O'Mara's notes of 15 and 16 August. I have the following comments:

BES

Except for the question of the five year waiting period for new business - the point raised by David Young, I see no merit in any major changes next year. I will soon be floating publicly the issues raised in paras (a), b), and c) of Annex A, in a speech to the British Venture Capital Association.

Share Options etc

I would like to improve SAYE stock options, and certainly go as far as a £75 upper limit and perhaps even further. Profit sharing schemes are satisfactory now in my opinion. The big question is stock options and Ministers should discuss this sometime during the winter. It may be wise to look at better treatment for small companies, but I am against going as far as the 1972 scheme.

CTT Hold Over)  
CGT Roll Over) Relief

I would like to go over this ground again with officials, and will report back to you in due course.

VAT


I think there is nothing to be done here.

There are two proposals about encouraging employment:-

1) That after training, self-employed people should be exempt from tax up to an income of £10,000 pa. This is an echo of the old IOD scheme for a £5,000 Schedule D tax free allowance. The first priority regarding the self-employed is to get a better definition of "self-employed". I already have this in hand. After that is done, there are some ideas I have to improve conditions for the self-employed, but this idea is going too far - nor do I like the training requirement.

2) That under 18's earning less than £45 per week should have a "passport" to give them tax exempt status. I find this idea promising in that with "passports" much could be done in <sup>the</sup> casual and youth employment areas. It impinges on the ideas I have about the use of the P46 procedure. I will report back to you on this after I have discussed it further with officials. My initial thoughts are that I do not think we should consider exempting the <sup>under 18s</sup> from NIC, but only IT.

I will leave comments on corporation tax to John Moore, although I do think that we will have to tackle capital allowances one day.

  
NICHOLAS RIDLEY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 18 August 1983

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Bailey  
Mr Ridley

TACKLING UNEMPLOYMENT

I have seen Adam Ridley's submission of 11 August.

I will be discussing the question of CTT-free transfers of shares within families, with officials in the near future. There is growing pressure for this from many sources. I will send you my recommendations in due course.

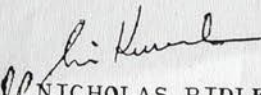
The only other thought that occurs to me is on the question of young unemployed people, who are on Supplementary Benefit (as opposed to UB), and presumably may get all the additions to SB. This is right, if they have children, separate homes (HB), need medical treatment etc.

But if they are single, and living at home, SB is probably more than they need. Could one have a sort of negative Housing Benefit - ie reduce SB? That would provide an incentive for them to go to work (or to go and get a house of their own - not so good!).

Perhaps this points to a growing problem:- wages are paid irrespective of family circumstances, the rate for the job; benefits are geared more and more to family circumstances.

So the "unemployment trap" for a young married couple in a Council House with two children is much worse than for a single person.

I know no answer: except that it might be possible to work on this discrepancy and get some single/<sup>people</sup> back into the Labour Market in the way I suggest.

  
NICHOLAS RIDLEY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 18 August 1983

CHANCELLOR

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

CURING UNEMPLOYMENT

I certainly agree with all that Dr Rouse says in her minute of 9 August. Indeed it is in finding solutions in this area that much can be done about:

- a) the why work syndrome;
- b) tax evasion; and
- c) the poverty trap etc.

I agree that the UEL should be changed so that NICs go right up to the 40 per cent higher rate threshold. But it must be noted that such a move would further weaken our old friend the contributory principle. We would be asking a lot of people to pay up to £468 a year more, many of whom will get nothing back in return; and presumably their employers will have to pay more too.

My own view is that the contributory principle is already weak, but that it serves a purpose if people believe in it. To change the UEL as discussed above might not make much difference to people's perception of the principle.

As to the LEL, the disincentive difficulty arises because it is not a threshold in the same way that the income tax personal allowance is. Once the LEL is reached taxpayers pay NICs on the whole of their wages - this is where the huge marginal tax rates come in. The best solution would be to make the LEL a threshold in a slice system, and

to achieve revenue neutrality the threshold would need to be a very low one, eg £10 per week. At such a low level it could hardly be a disincentive - because no one lives on such low pay. I will ask the Inland Revenue to work out at what level the NIC threshold would need to be set for revenue neutrality.

To do this would in a sense strengthen the contributory principle, making everyone pay towards their pension etc. It would also remove an enormous disincentive. The snag is that collection would probably be costly and difficult.

I will discuss this again with Dr Rouse at the next opportunity.

*Nicholas Ridley*  
PR NICHOLAS RIDLEY



CONFIDENTIAL



NOTE OF A MEETING HELD IN H M TREASURY AT 10.30am ON 19 AUGUST 1983

Present: FST  
Mr Robson  
Ms Seammen  
Mr Saunders  
Mr O'Leary }  
Mr Munro } IR  
Mr Cummins }  
Miss Grainger - DHSS

INLAND REVENUE/DHSS JOINT SCRUTINY: SUPERVISION OF OCCUPATIONAL PENSION SCHEMES

The meeting had before it Mr Cummins' note of 1 August.

The Financial Secretary noted that the scrutineers' synopsis contained two main recommendations which raised important policy implications.

Introducing the synopsis, Mr Cummins said that the Superannuation Funds Office had been looked at several times in the past, so the scope for further savings was very limited. The flow of work into the SFO was constant and it had a large backlog of outstanding work. Within SFO often the most essential work was also most staff intensive eg work involving directors of companies. If, therefore, further worthwhile savings were to be achieved, it would be necessary to reduce the work that was currently being carried out, rather than simply streamlining current procedures. But if some work now carried out were to be eliminated, it would be necessary to increase the existing controls on lump sums and controlling director schemes

Miss Grainger commented that of the 11½ million people covered by Pension Schemes and dealt with by SFO, 10½ million were contracted out members of large schemes which gave rise to few problems in practice.

The Financial Secretary commented that it was very important that, in considering possible options for change, the Scrutiny Report should not close down any wider changes which the Government may wish to propose on pensions generally. Mr Munro said that in his view many of the Government's policy objectives in this area were pulling in the opposite direction from the objectives underlying the Report.

#### Controlling Director schemes

The Financial Secretary thought there seemed to be scope for much improvement in this area. Mr Cummins said that director schemes - and, in particular, the small self-administered scheme, where the director was usually the principal trustee of the scheme as well as its main (or sole) beneficiary - would continue to need some form of control in order to guard against abuse. Moreover, it would always be necessary to impose some limit on benefits, such as the two-thirds final salary limit, because the directors were generally able to influence not only the level of their own remuneration but also the amount of contributions by the firm to the scheme. In contrast, for the generality of pension scheme members in 'arms length' schemes, market forces were probably sufficient to keep pensions to an acceptable level, and the two-thirds limit could in practice be supervised less closely, or even discarded altogether.

The Financial Secretary thought it might be difficult politically to ring-fence directors' scheme with special controls. He wondered whether we should instead aim for a standard rule for all perhaps based on the two-thirds limit. Mr Robson suggested that although directors were not subject to the same market forces as ordinary employees, their companies were and this would give some measure of market control over directors. Also, he thought in the long run the difference between taxing a director on his salary or his eventual pension would not be too great in revenue terms.

Mr Munro disagreed with this, and commented that as well as the loss of revenue resulting from the delay in collection, there would also be a probable loss from pensioners who might be on lower marginal rates

and from the fact that part of the pensions would be taken in tax-free lump sums. A further point was that controlling directors would be able to divert funds from their company which would otherwise be liable to tax at 52 per cent on its profits.

The Financial Secretary commented that the main argument against allowing a more relaxed regime for directors' pensions was the possible loss of revenue involved. As far as abuse was concerned he thought the problem would be solved by insisting on independent trustees to control the scheme, or by requiring such schemes to follow the insured route. This was agreed.

#### Lump Sums

The need for improved controls over the tax free lump sum was briefly discussed. The aim was to ensure that, if supervision of arms length schemes were to be significantly relaxed, excessive benefits in the form of tax-free lump sums should not be possible. The alternatives were to tax the lump sum, or to impose a fixed monetary limit on the amount that could be taken in this form.

The Financial Secretary thought more work needed to be done on the scale of director abuse, although not in the context of this scrutiny. In summing up the discussion he said that the scrutineers should proceed to completion of their report. However, in view of the possible conflict of objectives, he felt that the recommendations in the Report should not be presented in a way which might prejudice other possible changes in this area.

#### Circulation:

Those Present  
PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Middleton  
Mr Watson  
Mr Monger  
Mr St Clair  
PS/IR

  
E KWIECINSKI

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 19 August 1983

NOTE OF A MEETING HELD IN HM TREASURY AT 11.30AM ON 18 AUGUST 1983

Present at Meeting: Financial Secretary  
Mr Bailey  
Mr Wilding  
Mr Woodall  
Mr Colman  
Mr Kelly

E&AD/NAO: FUTURE DEVELOPMENT

The meeting had before it Mr Bailey's note of 12 August covering Mr Rayner's note of 11 August and Mr Woodall's submission of 10 August. The Financial Secretary had commented on these in his note of 16 August.

The Financial Secretary commented that he had called the meeting to see if there was any way that the Treasury could assert the principle of cash limits over the NAO.

Mr Bailey commented that we needed to define our terms when considering this. Under the National Audit Act 1983, estimates for NAO expenditure would not be presented to the House by Treasury Ministers, but by the new Public Accounts Commission. If Ministers wanted to override the recommendations of the Commission it would mean using the Government's majority to vote the Estimate down on the floor of the House - this would be very tricky politically.

The Financial Secretary commented that he was searching for a procedure which could be used as an ultimate safeguard against NAO expenditure running out of control. Mr Bailey commented that it was difficult to think of any mechanism; ultimately the use of the Government's majority would be the only restraint.

he Financial Secretary wondered whether it might be possible for the Government to somehow negotiate with the Commission before they took their decisions eg by the Government's representative on the Commission, the Leader of the House, putting down a marker by telling the Commission that the ultimate sanction was available to Government and would be used if necessary. Obviously we would need to discuss this with the Leader of the House.

Mr Wilding suggested that we could start a procedure whereby when the Commission was making its decision it had two notes before it:

1) the NAO's own proposals and 2) the Treasury's comments on them. In order to facilitate such a mechanism we could in the first year make the Treasury note uncontroversial, then once the principle of having the two notes was accepted by the Commission the Treasury would be free to argue its case more strongly in the future.

The Financial Secretary agreed that this was a possibility.

The Financial Secretary commented that having first established the principle with NAO, the way could become open for the Government to exert some financial control over the House of Commons! Commission whose position was in some ways similar to the Public Accounts Commission.

Mr Bailey commented that it was important to keep our involvement with the Public Accounts Commission low key and with this in mind he felt that consultation with the NAO at official level would be helpful.

The Financial Secretary agreed that it would help. As for further action the Financial Secretary thought it might be helpful if he wrote to Mr Biffen to sound him out on the propositions put forward at today's meeting.

Mr Bailey suggested that officials should explore this possibility further and come back with advice in due course. There was no immediate hurry as the new Commission did not come into being until next January.

Finally the Financial Secretary suggested that it might be helpful to smooth the process if a Minister had a word with Robert Sheldon or the eventual Chairman of the Commission, in order to give him some indication of the Government's thinking.

The meeting concurred.

*CK*  
E KWIECINSKI

Circulation:

Those present  
Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Middleton  
Mr Watson  
Mr Judd  
Mr Rayner



FROM: E KWIECINSKI  
DATE: 22 August 1983

NOTE OF A MEETING HELD IN HM TREASURY, 11.00AM 18 AUGUST 1983

Present at Meeting: Financial Secretary  
Mr Robson  
Mr Reed  
Mr Roberts ) IR  
Mr Anderson)

RAYNER SCRUTINY: PAYE END OF YEAR PROCEDURES

The Financial Secretary commented that the most important question to be decided was whether or not we wanted to transfer responsibility for checking an individuals' tax deductions from the Revenue to the taxpayer. His own view was that it must be right for individuals to take this responsibility, and it would be a small step in the direction of personal self-assessment - one of the Government's long term objectives.

#### Effect on Employers

The Financial Secretary commented that it was very important that any change did not involve the employer in extra work. The question of PAYE (and other) compliance costs was a sensitive issue at the moment.

Mr Robson commented that the change need not necessarily put extra pressure on the employer. Straightforward and easily understood explanatory notes would need to be given to employees.

#### COP

The Financial Secretary commented that the question arose as to whether it was worth effecting the change just for the period up to the full implementation of COP. COP itself would facilitate the ANZ review without additional cost.

### Staff Savings and Costs

The Financial Secretary observed that there would probably be no overall saving involved in scrapping the review, as the staff savings were broadly counter balanced by loss of revenue. Mr Reed said that there would be a net gain if the same number of staff were deployed against the black economy because a cost/yield ratio of about 1:4 could be achieved.

Mr Robson pointed out that abolishing the review would give much needed short term staff savings. It would also help to facilitate the planned staff reductions for the period 1984-88. There was a likelihood that otherwise we would not be able to get rid of unwanted staff fast enough.

### Potential Fraud

The Financial Secretary was concerned that when it became known that the Revenue were stopping their end of year checks, it would encourage fraudulent collusion between employers and employees - a possibility mentioned in Para 26(2) of the Management Response.

Mr Roberts commented that this would only be a problem until COP. The Revenue would of course prosecute where they discovered fraud. They were anyway increasing the number of staff working on PAYE audit and a sample code check would be possible.

### Code Check V Deduction Check

Mr Reed commented that it might be easier for the taxpayer to perform a simple code check rather than a detailed tax deduction check.

Mr Roberts pointed out that there could be difficulty in providing the taxpayer with a point of reference from which to check his code.

Mr Anderson added that many people were now recipients of flat rate expenses which further complicated the issue.

The Financial Secretary did not initially favour the idea of a code



check but he asked officials to consider the matter further.

### Legislation

The Financial Secretary commented that it would be desirable to effect the change without legislation if this were possible. He thought a clause in the Finance Bill would look a bit bald and could provoke much debate and criticism.

Mr Roberts agreed to consider this question further and report back.

### Pensioners

Mr Roberts commented that there was a case for telling OAPs that the checking would continue for them. They are potentially a big source of "write-in" costs, as they were often more vocal than the average taxpayer. The exception could be justified on the grounds that their tax affairs were often more complex than other taxpayers.

The Financial Secretary felt that the ANZ review should be ended for the generality of OAP's as for everybody else. He was not in favour of making them an exception.

### Presentation

The Financial Secretary thought that we should proceed with the consultative process, but that the consultative document should be more of a statement of intent than an invitation for widespread comment or criticism. It should be emphasised that every citizen is ultimately responsible for ensuring that his tax deductions are correct, and he would be provided with a simple kit to help do this. We should perhaps mention that this is a small step towards self-assessment. And to counter criticism from the Unions and PAC etc we should say that the change would free staff for black economy work.

The next step would be for the Financial Secretary to send his recommendations to the Chancellor. He asked the Revenue to provide a short draft minute for him to send. This should:-

- a) describe the survey and its recommendations;
- b) detail the whole range of fiscal and staffing implications and action to prevent fraud;
- c) discuss the timescale involved and propose the consultation document; and
- d) point out the political problems - the main question of passing responsibility from the Revenue to the taxpayer, the problem of increasing the burden on employers, the question of pensioners;
- e) discuss the question of legislation and recommend administrative action;
- f) mention the possibility of redeployment of some staff to black economy work.

The Revenue would consider further and report back on the question of: code checks V tax calculation, fraudulent collusion, and the detailed drafting of the consultative document.

  
E KWIECINSKI

Circulation:

Those present  
PS/Chancellor  
PS/Chief secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Appleyard - IR  
PS/IR

CONFIDENTIAL



FROM: E KWIECINSKI  
DATE: 25 August 1983

MR CALDER - IR

cc Mr Watson  
Ms Seammen  
Mr Monger  
Mr Robson  
Dr Rouse  
Mr Blythe - IR  
PS/IR

NATIONAL INSURANCE CONTRIBUTIONS: UPPER/LOWER EARNINGS LIMITS

The Financial Secretary would be grateful if you could supply the following information:

1) The level of LEL required if we were to change to a tax threshold type LEL; ie NIC's to be paid only on the income above the LEL:

a) assuming the UEL is moved to the same level as the start of the 40 per cent income tax band;

b) assuming the UEL is abolished.

1 a) and b) above to be worked out on a revenue neutral basis. Also comment on the change in rate of employee's NIC needed (i) if the UEL remains the same and (ii) in the regimes detailed at 1 a) and b) if the LEL were to remain unchanged.

2) The cost of moving to a tax threshold type LEL, assuming:

a) LEL and UEL remain at their present levels;

b) LEL adjusts to the level of the single person's tax allowance and the UEL moves to the level of the start of the 40 per cent income tax band;

c) the LEL remains unchanged, the UEL is abolished.

The Financial Secretary would be grateful for the figures involved and for your comments on the distributional effects etc. It would be helpful if you could send your comments by 12 September.



E KWIECINSKI



FROM: M E DONNELLY  
DATE: 30 August 1983

MR ROBERTSON - IR

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

CTT AND STUD FARMS

The Financial Secretary was grateful for your 25 August note.

He agrees that we cannot interfere in the rating case, which must go through the legal processes and is in any case DOE's responsibility.

Apart from the Lytton Estate question (which in any case concerns the past) the Financial Secretary sees advantage in clearing up the CTT position more generally. He agrees that CTT relief should be available for studs carried on for a profit - whether they are considered as agricultural or a business activity should make no difference. But he considers there to be something anomalous about tax relief on agricultural land not being available for activities which are not being carried on for a profit - such as hobby farming, non-commercial gardening, land kept for shooting, pony trekking etc. He wonders whether it is a new concept that relief should only be available on land which is used in pursuit of profit.

The Financial Secretary considers that a useful distinction might be made between agricultural land which should get CTT relief, while the value of the activity carried out on it (eg the value of the horses in the stud) should receive relief only if carried out in pursuit of profit.

If Revenue officials are content with this suggestion the Financial Secretary thinks that it would usefully short circuit much unnecessary legislation in the next Finance Bill. He would be happy to discuss this approach with officials. The reply to Mr Morrison will need to

await a decision here.

MED  
M E DONNELLY

CONFIDENTIAL



FROM: FINANCIAL SECRETARY  
DATE: 31 August 1983

CHANCELLOR

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Middleton -  
Mr Monger Ms Rouse  
Mr Robson PS/IR

1982 RAYNER SCRUTINY PROGRAMME: PAYE END OF YEAR PROCEDURES

The main recommendation of this Scrutiny is that the Revenue should drop a check on PAYE deductions which it presently makes at the end of each tax year. This check is expensive in terms of staff (800 units) and it is not very cost effective in that the number of significant employer errors picked up is only about 125,000 from 27 million PAYE cases.

The management response of 25 July 1983 (which was copied to your Private Secretary) makes the point that self checking by the taxpayer, which is the only alternative to the present check, means a change of substance in the Revenue's relationship with the public. This would tend to affect most those whose tax affairs were straightforward, and hence to include the least numerate and informed of the taxpaying public.

There are other considerations however which make the issue less than clear cut. The staff savings are somewhat less than the 670 units in the Scrutiny Report and they would tail off after the first 2 years because the COP system would be able to carry out the checking at little cost. In fact self checking carries with it the danger of some permanent costs from taxpayers "writing in" speculatively to the Revenue because they think their tax deductions may be wrong. There are also some possible fiscal losses (in the range £m2-12 per annum) because taxpayers are more likely to claim for overpayments than report underdeductions. There may be further potential losses from employer/employee collusion once it were known the universal Revenue check had been removed. The Revenue are examining the cost of audit or other sample checking to counter this danger.

Since the net staff savings after taking into account COP will only amount to £m5-6 a year for 2 or 3 years the changes cannot be justified on cost saving grounds except in the short term. But they do have other advantages. First, on the staffing front they would help to smooth out the Revenue's staffing profile in the period 1984-88 which at present shows a rise in the first 2 years. In a sense the savings from this Scrutiny would anticipate the COP savings; and reducing the '84-'85 staffing peaks makes the subsequent wastage problem somewhat easier, so that the 500 overhang in the COP savings foreshadowed in the Revenue's minute of 18 July "Manpower 1984-88 and the Black Economy" might be reduced. Second, on a wider front, I think it is right that with computerisation coming along all taxpayers including pensioners should be encouraged to take more interest in their own affairs. These changes can be presented as a preliminary move in the direction of self assessment, which would call for even more personal responsibility on the part of the individual.

My initial view therefore is that despite the difficulties we should implement the recommendations from next year and I have asked the Revenue to prepare a statement for issue in October publicising our intentions. This would take the line that it is desirable to move to a position where the taxpayer takes greater responsibility for his own tax affairs than at present. The changes proposed will be a preparatory step along the road towards assuming full responsibility. They will also release staff from checking work so that they can more usefully be redeployed against for example Black Economy activities. The computerisation of PAYE will make it no less important that the public should understand how their tax operates - indeed it will if anything become more important. The emphasis in the statement would thus not be so much on the staff saving aspects as on the wider issue of taxpayer responsibility.

I would prefer that the changes were introduced without legislation and the Revenue are obtaining confirmation that it is within their power to introduce them by administrative action. I have asked the Revenue to ensure also that in making the changes we should seek to minimise any extra impact on employers, since the last thing we wish to do is add to their existing burdens of PAYE administration.

A.E.D. R.



CONFIDENTIAL



FROM: M E DONNELLY  
DATE: 31 August 1983

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Middleton  
Mr Monck  
Mr Pirie  
Mr Ilett  
Mrs Lomax  
Dr Rouse  
Mr Graham - Parly Counsel  
Mr Green - IR  
Mr Taylor Thompson - IR  
PS/IR

#### OFFSHORE AND OVERSEAS FUNDS

The Financial Secretary has seen Mr Cayley's note of 18 August.

The Financial Secretary considers that we should certainly take some action in this area. He considers taxing the investor at the point of disposal as the most logical approach.

The Financial Secretary thinks that a further option worth considering would be to assume a level of compound interest (eg 10% p.a) on the principal and tax this at income tax rates, taxing the balance under CGT.

Thus if £1000 was invested for 5 years and sold for £2000, assuming a 10% interest rate the annual tax would be equal to:-

year 1	£100
2	£110
3	£121
4	£133
5	£146

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£610 at income tax rates;

Leaving £390 to be taxed at CGT rates.

MED  
M E DONNELLY