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Part A

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PART A

Chancellor's (Howe) Papers:

REPRESENTATIONS ON THE
1982 BUDGET

Disposal Directions: 25 Years

[Signature]
24/7/95

FROM THE PRESIDENT - GEOFFREY E. MOORE, CBE

SMMT

THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.

FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS

TELEPHONE 01-235 7000

20 October 1981

The Rt. Hon. Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3HE

Charles
P. Battiswell
23/10 ✓ *Jan Registrar*

CH/EXCHEQUER	
REC.	22 OCT 1981
ACTION	PS/IR
COPIES TO	MR. BATTISWELL
35191	

Dear Sir Geoffrey,

APPLICATION OF PAYE TO CAR AND CAR FUEL BENEFITS

In the last Finance Act you introduced provisions for applying PAYE to car and car fuel benefits from 6th April 1982 and, I understand, intend shortly to lay before Parliament regulations setting out the procedure to be applied.

SMMT has had the opportunity of discussing with Inland Revenue officials a draft of the proposed regulations and is extremely concerned by their complexity and has grave doubts about the ability of member companies to introduce the proposed system by April 1982. We also doubt that the application of PAYE to these benefits will give rise to the anticipated administrative cost savings for the Inland Revenue.

In the Society's view, the draft regulations for applying PAYE to car and car fuel benefits are so complex that even experienced professional tax managers have found difficulty in understanding fully their implications. Serious problems are therefore envisaged in bringing this legislation into operation and many companies are likely to be in immediate default.

Particular difficulty is envisaged in making the necessary adjustments to companies' computer systems in time for them to operate PAYE on car and car fuel from the beginning of the tax year 1982/83. Since the regulations are unlikely to be adopted by Parliament before November 1981, companies will have barely five months to complete the necessary re-programming of their PAYE systems. Although the Society understands that the Inland Revenue has been advised that it would be feasible to make the necessary changes in this time period, it is considered that such advice must relate to the drawing up of new programmes from scratch rather than to the amendment of existing computer systems. This will take much longer to effect, even given the availability of the necessary systems resources.

.../2

In addition to these immediate problems, the Society is strongly of the view that the expected administrative savings arising from the application of PAYE to car and car fuel benefits are likely to prove illusory. Even when Inspectors have overcome the inevitable initial teething problems, there will be a continuing heavy workload dealing with notifications to employers of changes in the bases of assessments. In the Society's view, this workload has been considerably underestimated and it could prove to be more onerous than existing arrangements.

Account must also be taken of the significant additional administrative burden placed on companies at a time when industry as a whole is trying desperately to improve profitability. Whilst the Society supports in principle further reductions in public sector expenditure, this must not be taken to the point where there is a net loss to the economy. In this instance the administrative burden of tax collection is better borne centrally by the Inland Revenue since the overall cost to the nation is likely to be less than where many thousands of individual employers are each involved as tax collectors.

For these reasons, SMMT urges the Government to reconsider the advisability of bringing car and car fuel benefits within the scope of PAYE. At the very minimum there should be a delay of one year in the application of PAYE to these benefits to allow further time to overcome the problems identified in the draft regulations and to permit employers to make the necessary changes in their own administrative systems.

Sincerely,

Geoffrey Hoare



The Association of British Chambers of Commerce

Sovereign House, 212a Shaftesbury Avenue
London WC2H 8EW

Telephone: 01-240 5831/6

PRESIDENT: SIR MONTY FINNISTON, FRS

DIRECTOR-GENERAL: W.A. NEWSOME

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3HE

TOP COPY BY FAX
CH/EXCHEQUER

5 November 1981

REC.	- 6 NOV 1981
ACTION	Mr FINNISTON
COPIES TO	CST
	FST
	MST(c)
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- Sir D. LAM
- Mr RYAN
- Mr MIDDLETON
- Mr KEMP
- Mr ANGLY
- Mr CROFT
- Mr HARRIS
- Mr F. MARTIN
- PS/INWARD
- PS/CUSTOMS & EXCISE

Dear Chancellor.

Fiscal Representations for 1982 Budget and Finance Bill

We recently sent you our paper entitled "A Policy for Industry" and we must once again preface our fiscal representations for your next Budget and Finance Bill with an emphasis on the importance we attach to reducing public expenditure on revenue account and shifting resources from the non-marketed to the marketed sector. There is great concern among Chambers of Commerce at the failure hitherto of Government, local authorities and nationalised industries to reduce over-manning in the public sector on a scale comparable to that which has taken place in the private sector. This failure must also have contributed to the need to raise interest rates, a fact which has caused very grave concern to Chambers and their members by reason of its adverse effect on business morale and profitability and on an economy still struggling to recover from recession.

Once again also we must reluctantly recognise that this failure to achieve significant reduction in public expenditure must limit your scope for tax reductions. Last year we urged that any relief which was available should be directed towards companies and firms. Since then the revised provisions for stock relief and the business start-up schemes have provided some relief and incentives, and we now consider that the overriding importance of reducing inflation and improving productivity must tip the balance in favour of devoting the major part of such relief as may be available to lessening the disincentive impact of personal taxation.

We remain convinced that reductions in the basic rate of income tax would provide a greater incentive to effort. We consider, however, that next year increases in personal allowances might be more immediately helpful towards securing wage restraint. We believe in any case that the principle of indexing personal allowances and rate bands was right, and we therefore recommend restoration of such indexation. A timely announcement of Government's intention to this effect could well be helpful in the current year's wage-bargaining round.

Pending the publication of the long awaited Green Paper on corporation tax our only recommendation on this tax is for the abolition of the marginal rate band on profits between £80,000 and £200,000, so that the 52% rate applies above the £80,000 threshold.

We must repeat our concern at the National Insurance surcharge, which is in effect a tax on all businesses. We hope to see this surcharge reduced, as a step towards its early abolition.

While it is not strictly a fiscal matter, the impact of local authority rates on businesses is now a matter of great concern. We have made, and are making, representations on the subject to the Secretary of State for the Environment, and we wish now to remind Government of the importance we attach to these.

We append to this letter a list of general representations for changes in taxation which we should like to see implemented when possible, a copy of more technical representations which we have prepared for discussion with the Inland Revenue and a list of representations about VAT. We suggest that the failure year after year to make any provision for any of these reforms, many of which are widely acknowledged to be desirable, emphasises the case, which you yourself have supported, for an autumn Finance Bill, and we would repeat our strong support for such a measure.

Finally we must repeat our protest at your evident intention that the relief for interest on debt incurred before 26 March 1974, which was extended to 6 April 1982 by section 10, Finance (No. 2) Act 1979, is not to be further extended after that date. It is in our submission quite wrong that a change in the fiscal rules should be permitted to cause financial hardship and possibly even insolvency in some cases where the financial commitment entered into by the individual concerned was based on the former rules and no question of tax avoidance is in issue. The few remaining cases where this will apply will certainly be due to the fact that the individual is locked in to investments which are unrealisable or realisable only at a loss. We would urge you to extend the relief without time limit.

*Yours sincerely,
Monty Finniston.*

Sir Monty Finniston FRS

President

THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

GENERAL REPRESENTATIONS FOR CHANGES IN TAXATION

1 Income Tax Rates

We remain convinced that high priority must be given to moving as quickly as possible to a basic rate of not more than 25%, a top rate of not more than 50% and a widening of thresholds and rate bands.

2 National Insurance

In view of the disincentive to additional effort which we are convinced results from marginal rates of deductions from pay in respect of income tax plus national insurance contributions, at present totalling 37½% for the great majority of the working population, we urge that the whole scheme of national insurance should be reviewed with a view to finding suitable means of reducing that marginal rate for most people to a substantially lower level.

3 Investment Income Surcharge

The rationale of the surcharge should be reviewed in present circumstances. This Association considers that there is a good case for its abolition.

4 'Loi Monory'

By reason of the taxation advantages enjoyed by superannuation funds and to a lesser extent life assurance funds, personal savings have in recent years been very largely channelled through the institutions. In order to encourage direct investment by individuals it is suggested that relief should be given for such investment similar to that given to contributions to superannuation funds. It might be limited to say 15% of total income for tax purposes and to new equity of UK trading companies whether quoted or unquoted. To prevent abuse the relief might be subject to withdrawal on realisation of the investments in respect of which it had been given (other than "involuntary" realisation on take-overs, liquidations etc) within say 5 years of subscription.

5 Relief for Interest

We still consider that in spite of claims that the cost of so doing in terms of revenue lost would be considerable there is a strong case for restoring the pre-1969 position.

If the principle of deduction at the source were restored in respect of all interest paid including that on -

- bank deposits and advances
- building society deposits and advances
- all holdings by UK residents of Government securities

the work of administering PAYE could be greatly reduced in that the need to "code in" interest would be eliminated. The problem of small repayment claims could be met by permitting individuals qualifying for age relief to receive interest gross.

If the above recommendations are not accepted, then we must urge that -

- (1) the limit on borrowing against the security of a taxpayer's principal residence should be removed, and
- (2) interest on all pre-1974 borrowing should continue to be allowed without time limit;

- (3) the material interest restriction should be removed in respect of borrowings to acquire shares in unquoted companies by employees;
- (4) where it is shown that money borrowed is invested in assets capable of producing income, the interest paid on such borrowings should be deductible from the income produced by those assets with a right to carry forward unrelieved interest against future income.

6 Retirement Annuities

In spite of the easing of restrictions in the Finance Act 1980, it remains impossible in practically every case for the self-employed to secure benefits equivalent to those capable of being secured through approved superannuation schemes. Ideally they should be brought into line, that is to say, the only limit should be the funding required to achieve similar benefits in relation to "final salary" having regard to "length of service". If the practical difficulties of this are insuperable, there should be substantial increases in the percentage deductions allowed for those over 40 years of age.

We would further suggest that there should be consultations with representative bodies and the Life Offices regarding possible ways of reducing or eliminating the differences between the treatment of the employed and self-employed in relation to provision for retirement.

7 Share Option and Incentive Schemes

We have seen the introduction in recent years of unrelated schemes for the acquisition by employees of shares in their employer companies. In various ways these do not provide wholly satisfactory solutions to the problem of encouraging and facilitating such acquisitions by employees at different levels. Here again we suggest that this whole subject should be the subject of consultations with a view to arriving at a more satisfactory comprehensive scheme.

8 Advance Corporation Tax

We look forward to seeing the promised Green Paper on corporation tax. We trust that it will examine the possibilities for changing the provisions in relation to ACT so that -

- (1) ACT is relieved against the first mainstream tax due for payment after the making of any distribution in respect of which ACT is payable;
- (2) ACT can be set off in full against mainstream tax without the restriction to 30/52nds of the chargeable profit;
- (3) double taxation relief is made available against ACT to the extent that distributions are made which can be shown to be out of income arising abroad; and
- (4) unrelieved ACT brought forward is made capable of surrender to a subsidiary in addition to that paid in the same year.

9 Commercial Buildings

Depreciation of non-industrial buildings is clearly a proper charge in arriving at the profits of undertakings. The only reason for its non-deductibility is cost in terms of tax. We again urge that relief should be given for new buildings and extensions to existing buildings. The cost

would be taken on gradually and it can be expected that some stimulus would result for the construction industry. This has become more pressing as a result of the decision in the case of Cole Brothers Ltd. vs. Phillips (Inspector of Taxes) (1980) STC 518.

10 Capital Allowances

Depreciation at will should be permitted in all cases eligible for 100% first year allowance.

11 Losses on Foreign Currency Borrowings

Last year we said that as a result of the removal of exchange control and the strengthening of the sterling exchange rate, this problem had eased, which would have facilitated, and reduced the immediate potential cost of, the introduction of the long-overdue change in the law along the lines suggested in previous years. The subsequent fall in the exchange rate has made the need for this change more urgent, although we recognise that it must have had the effect of increasing the potential cost in terms of tax. The corresponding taxation of gains is accepted as an equitable accompaniment to the allowing of losses.

12 Capital Taxation

Except in the case of the smaller estates the effective burden of Capital Transfer Tax on death has continued to increase with inflation. We welcome the substantial changes in the Capital Transfer Tax in the Finance Act 1981, but the charge on death and the treatment of settled property remain to be dealt with and, we hope, ameliorated.

Capital Gains Tax is still in effect almost entirely a tax on inflation and the changes introduced in the Finance Act 1980 merely reduced the administrative burden by exempting small gains.

The Development Land Tax produces a negligible yield for an absurdly high cost in compliance and in distortions in the market for land.

We remain of the opinion that the repeal of these taxes should be the ultimate aim.

13 Interest on Tax

The differentiation in favour of the Revenue in respect of outstanding tax owed to or by it should be removed. We do not believe that this would reduce the flow of tax revenue.

14 Costs of Appeals

The present position has the effect that the high costs of litigation are a powerful deterrent to taxpayers pursuing appeals in smaller cases.

15 Stamp Duty

The thresholds for exemption should be raised and made subject to indexation thereafter.

Deeds of family arrangement which adjust testamentary dispositions and which are effective for the purpose of Section 47 Finance Act 1975 should be exempt.

TECHNICAL REPRESENTATIONS

NEW MATTERS

1 Consortium Relief

While the extension of group relief for consortia by section 40, Finance Act 1981, was welcomed, the anomaly remains that the relief cannot be extended to other members of the group of which the consortium company is a member. While it is appreciated that the legislative provisions which would be required to enable both group and consortium relief to be given for the same company or companies in one accounting period would be complex, it is urged that in the present depressed state of the economy consideration be given to introducing such provisions in the next Finance Bill.

2 Chargeable Gains in Liquidation

Where a liquidator realises a chargeable gain on the disposal of an asset, pre-liquidation trading losses cannot be set off against such a gain. A possible solution to this anomaly would be to treat the liquidator's acquisition of the assets of the company as a deemed disposal by the company immediately before the time of his appointment at market value or proceeds of sale within a reasonable period at the option of the liquidator.

3 Capital Gains Tax - Gifts from Non-Residents

The effect of section 90 of the Finance Act 1981 is that gifts from non-residents are deemed to be acquired at nil cost for capital gains tax purposes unless they are currency or chattels or to the extent that the donee is charged under section 80 of the Act in respect of them. It is suggested that this provision is inequitable and can be capricious in its effects. In addition, if the subject matter or property is situated in the UK or the donor is domiciled (though non-resident) in the UK, the gift will be a transfer of value for capital transfer tax purposes. We do not see any justification for this provision which we suggest should be repealed.

4 Interest Relief - Interests in Close Companies

The requirement in paragraph 10(a) in Part III of Schedule 1 to the Finance Act 1974, whereby relief is only given if the individual has a "material interest" in the company, should be removed for the following reasons -

- (1) it is anomalous in that no similar restriction is placed on loans applied in acquiring interests in partnerships;
- (2) it can inhibit the raising of additional equity capital for expansion of the business;
- (3) the individual who borrows to acquire shares on the basis that the interest on his borrowing will be allowable may be put in financial jeopardy if further equity is so issued;
- (4) in the case of larger close companies, this effectively prohibits the acquisition of such holdings by reason of the size of the sums which would be involved.

It is appreciated that the Revenue do not wish to encourage the proliferation of borrowings for holdings of small value. It is suggested that a better approach would be to adopt a "de minimis" provision related to the amount of borrowing involved. We suggest that £1,000 might be an appropriate sum for this purpose.

5 Effects of Ramsay and Rawlings Decisions

Considerable concern is being felt in industry and commerce as to the extent to which the decisions of the Ramsay and Rawlings cases (1981 STC, 174, (1981) 1 AER 865) will be sought to be applied by the Revenue in cases where there is no question of "packaged schemes" having been used. The note in British Tax Review 1981, Number 4, at page 233, considers some of the implications. We would like to discuss this with the Board.

MATTERS INCLUDED IN PREVIOUS YEARS' REPRESENTATIONS

6 Costs of Raising Business Finance

The reasons advanced in discussions with the Inland Revenue on the 1980 Finance Bill for the exclusion of share capital from eligibility for relief in respect of the cost of raising new finance are not accepted. Particularly at a time when the raising of new money for manufacturing industry in particular is likely to become more necessary, the differentiation in favour of loan capital should be removed. The structure of the corporation tax itself creates distortions in this respect - they should not be increased.

7 Relief for Pre-Trading Expenditure

The one year restriction in Section 39 Finance Act 1980 is unreasonably limited, particularly where buildings and process plant are concerned. It should be increased to three years "or such longer period as appears to the Board to be reasonable in all the circumstances of the case".

8 Relief for Losses on Unquoted Shares in Trading Companies

It is illogical and inequitable that such losses should be set first against earned income: they should instead be set first against other income.

9 Second-Hand Industrial Buildings

Having regard to the effects of inflation, the allowances to a purchaser of a second-hand building should be given by reference to that purchaser's expenditure.

10 Section 151 Capital Gains Tax Act 1979

The effect of this anti-avoidance provision is that many innocent cases are caught: disposers are penalised and acquirers receive

benefits which they should not have. It is suggested that the section should be amended by substituting for the words "from one or more persons" the words "directly or indirectly from a person".

11 Capital Gains Tax - Relief for Gifts - Deemed Disposals

It is anomalous that the relief for gifts in Section 79 Finance Act 1980 as amended by section 78, Finance Act 1981, does not extend to all deemed disposals and to all disposals under Section 54 of the Capital Gains Tax Act 1979.

12 Taxpayers' "Family Company"

The definition of family company remains unsatisfactory particularly where there are subsidiary companies. In the case of wholly owned subsidiaries the definition should embrace all trading companies in the group where the taxpayer owns the appropriate proportion of the equity capital of the parent, whether or not it is itself a trading company. In addition where the only "outside" shareholders of a subsidiary are themselves shareholders of the parent their direct and indirect shareholdings should be aggregated for this purpose.

13 Sub-Contractors in the Construction Industry

In response to our request last year for clarification of the effect of paragraph 1 of Schedule 8 to the Finance Act 1980 we were assured that "Inspectors of Taxes have been instructed to examine their records to ensure that businesses which appear to be incurring expenditure which may bring them within the scope of the scheme are aware of their obligations in this area. Where such a business appears to be within the definition but has not yet applied to operate the scheme, the Inspector will be in touch". We are not aware of cases where the Inspector has so acted, and we would request an assurance that any companies which might unwittingly become trapped by this legislation will not be penalised if they have not been informed by the Inspector of their obligations.

14 Capital Allowances

- (a) The provisions of Section 177 (3A) Taxes Act should be amended to allow the carry-back of losses occasioned by first year allowances to be set firstly against available profits of the earliest year.
- (b) Individuals and partners should be permitted to disclaim first year allowances after a claim has been made, in the same way as companies.

15 Allowable Expenditure

The following types of expenditure should be allowable:-

- (a) abortive expenditure incurred for the purpose of a trade;
- (b) irrecoverable loans made by one company to another within the same group as bona fide transactions for the purpose of the trade of the recipient where the amount lost was not reflected in group relief.

16 Charges on Income: Interest Payable to Non-Residents

Section 249(3) Taxes Act should be extended so as to allow relief for interest on a borrowing made by a company on behalf of another company where both are 75% subsidiaries of a common parent.

17 Top-Slicing Relief

The provisions for top-slicing on a charge to recover stock relief should be extended to apportionment on liquidation and to corporation tax for the purpose of the small companies' rate.

18 Gains on Sale of Patent Rights

Gains on sales of patent rights should be taxable as capital gains rather than as income under Case VI.

19 Reports of Special Commissioners

Provision should be made for the reporting of the decisions of the Special Commissioners on valuations of unquoted shares.

THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

REPRESENTATIONS FOR CHANGES IN VAT

1 Legislation

The Board of Customs and Excise have powers effectively to change the legislation relating to VAT by statutory instrument greatly in excess of those which apply to any other tax of such widespread application. At the time of the introduction of the tax this was claimed to be necessary to facilitate changes in the early stages of the operation of the tax to meet unforeseen problems which might then arise. At that time this Association stated that such wide powers for delegated legislation were acceptable only as an interim measure, and we were assured that consideration would be given to the introduction of legislation consolidating the law as set out in the statutes and the statutory instruments and reducing to the essential minimum future powers of delegated legislation.

We again urge that this be put in hand with a view to bringing this tax into line with others so that it can effectively be changed only by the enactment of Parliamentary Bills.

2 Threshold

The threshold should again be adjusted for inflation.

3 Building Repairs

The anomalies resulting from the distinction for VAT purposes between repairs and alterations continue to cause substantial problems. We advocate the extension of zero-rating to repairs.

4 Relief for Bad Debts

At the time when the relief for bad debts was introduced in 1978 we made strong representations against the limitation of the relief to cases where the debtor becomes insolvent as defined in Section 12(4), Finance Act, 1978. We then pointed out that there were many cases where, although the debtor clearly is insolvent, formal insolvency proceedings will not be instituted because of the known deficiency of assets of the debtor. In such cases the creditor would not initiate insolvency proceedings since he could expect no return from the costs he would incur. As we mentioned last year, numbers of bankruptcies and liquidations are now being initiated solely to enable creditors to recover VAT.

The Inland Revenue allow deductions for bad debts for income and corporation tax purposes, whether or not formal insolvency is established. We must continue to press that H M Customs and Excise should fall into line, subject to reasonable safeguards against abuse, for which purpose we should be happy to make suggestions.

5 Effect of Appeals on Interpretation of VAT Statutes

The decision of the Court on the interpretation of a statute has the effect that it creates a presumption that its interpretation has always applied from the enactment of the statute. If that decision is changed on appeal to a higher Court, the latter's interpretation is presumed always to have applied. It is for this reason that, where a decision of a lower Court has gone unchallenged for many years and people have conducted their affairs on the basis of it, a higher Court will usually be reluctant to upset it and if a change appears to be desirable the preferred course is to effect it by statute which is only effective from the date of its enactment, or some date provided by it.

The practice of the Inland Revenue is to apply new interpretations of the taxing statutes arrived at by the Courts only to cases where assessments have not become final at the time of the judgment. In any event, the direct taxes on profits do not affect the quantum of those profits as such.

The position in relation to VAT is different in that a decision as to whether a particular supply is chargeable, exempt, or zero-rated directly affects the trader's profits, since he is required in effect to treat as output tax a proportion of his gross turnover. This can create considerable difficulties if a trader acts on the decision of a VAT Tribunal or a lower Court and that decision is subsequently reversed on appeal. The difference between a supply taxable at standard rate and one which is zero-rated is equivalent to a gross margin of just over 13% which is quite substantial.

We would welcome an opportunity to discuss this matter with the Board with a view to arriving at a method of dealing with what is a very real problem in a manner which prejudices neither the interests of H M Customs and Excise nor those of traders.

6 Gifted Supplies

The limit of £10 on business gifts in paragraph 5(2)(a) of Schedule 2 to the Finance Act 1972 should be raised in line with inflation since the limit was first fixed.

Similarly we would urge indexation of the limits on cost stated in VAT leaflet no. 700/7/79 in respect of minor articles linked with the supply of main articles.



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

20 November 1981

G E Moore Esq CBE
President
Society of Motor Manufacturers
and Traders Ltd
Forbes House
Halkin Street
LONDON SW1X 7DS

Mr Moore

You wrote to me on 20 October about our proposal to change the method of taxing car and car fuel benefits. You will, no doubt, be glad to learn that we have now decided not to proceed with the proposed change for 1982-83 and an announcement to this effect has been made to Parliament in a reply to a Parliamentary Question. I attach a copy of the press release.

This delay will allow the Revenue to re-examine its proposals and any alternative schemes. I very much hope that the Society of Motor Manufacturers and Traders will assist them in their review. We still aim to achieve a worthwhile reduction in the cost of taxing these benefits as soon as possible, while keeping any extra burden imposed on the employer to the minimum.

The Inland Revenue have noted the point you make about the special problems of computer users. You may rest assured that they are fully seized of your point.

Geoffrey Howe

GEOFFREY HOWE

letter at 2

✓ 18/11

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO THE PRESIDENT OF THE SOCIETY OF MOTOR MANUFACTURERS AND TRADERS

Mr Geoffrey E Moore CBE
President
Society of Motor Manufacturers and Traders Ltd
Forbes House
Halkin Street
London
SW1X 7DS

You wrote to me on 20 October about our proposal to change the method of taxing car and car fuel benefits. You will, ~~I am sure~~ ^{no doubt}, be glad to learn that we have now decided not to proceed with the proposed change for 1982/83 and an announcement to this effect has been made to Parliament in a reply to a Parliamentary Question, ~~the text of which is as follows:~~ *I attach a copy of the ~~text~~ press release*

~~[Text]~~

This delay will allow
~~The purpose of this delay is to enable the Revenue to re-examine its proposals and any alternatives which may present themselves & they will naturally welcome any assistance the Society can give in this task. I should emphasise that the original proposals were designed to save Revenue staff and it remains our objective to achieve a worthwhile reduction in the cost of taxing these benefits as soon as possible, while keeping any I hope that the renewed consultations which will now take place will lead to a solution which imposes the minimum additional cost on employers, but it may well be that progress in this area cannot be made without some cost for employers or employees, extra burden imposed on the employer to the minimum.~~

I very much hope that the Society of Motor Manufacturers and Traders will assist them in their review.

~~In your letter you draw attention to the particular problems faced by computer users. Both Ministers and Inland Revenue officials ^{are fully seized of} fully appreciate the point you are making and in bringing forward any new proposals the question of lead-times for computer programmers will be very much in our minds.~~

The Inland Revenue ^{have} noted the point you make about the special problems of computer users. You may rest assured that they are fully seized of your point.



SOVEREIGN OIL & GAS LTD

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PMT/DB/ab-470

4th December, 1981

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON. SW1P 3AG

Handwritten initials: R, STAR

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CH/EXCHEQUER	
REC.	- 8 DEC 1981
ACTION	PS/IR <i>Arno</i>
COPIES TO	PS/EST <i>PS/FST</i> <i>PS/MST(L)</i>
	MR. WICKS
	MR. BATHSMILL
	37209

Dear Chancellor,

We wrote to you in February 1981, outlining our reaction to the proposed Supplementary Petroleum Duty and PRT changes. In response to your recent request for industry proposals consistent with government objectives, we understand that submissions have been made by both UKOOA and BRINDEX and the Inland Revenue have now asked for each company's priorities.

We are especially concerned that the impetus to establish a significant British operating capability provided in the recent licencing round, be reflected in the taxation system. We believe that the opportunity to arrange non-recourse project financing has become severely restricted as a result of recent changes in taxation.

This situation has discriminated unfavourably against British-owned companies who cannot provide the collateral to which the foreign majors, with existing production, have better access. Many countries have introduced special incentives to develop a strong domestic oil industry, whose interests coincide with those of the nation. This requires skilled operators capable of developing discoveries themselves, as well as service companies, and this will be especially important in the future when Britain will look further afield for its energy requirements.

While Sovereign supports the UKOOA submission, we have highlighted two issues of special importance to Sovereign and of vital importance to Britain's long term self-sufficiency in energy: the technology for enhanced recovery of oil and deep water exploitation.

Concessions in these two areas will neither affect the Government's near-term depletion policy nor reduce the tax yield from existing and planned production; they could ensure Britain has the necessary skills to maximise recovery of known heavy oil deposits and to become a world leader in deep water frontier areas, where the greatest potential for significant future supplies exists.

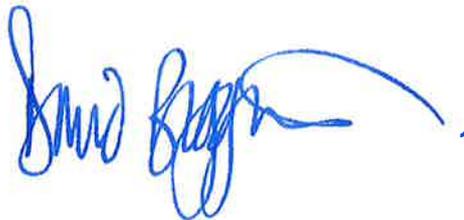
Continued

PMT/DB/ab-470

4th December, 1981

We concur with the entire industry in requesting that SPD be discontinued and plead for a stable and predictable profit-based fiscal regime to give British-owned companies the confidence and ability to invest in high risk projects.

Yours very truly,

A handwritten signature in blue ink, appearing to read 'David Biggins', with a long, sweeping flourish extending to the right.

DR. D. BIGGINS

for
W.E. RICHARDS
Managing Director

Enc.

INTRODUCTION

Profile of Sovereign Oil & Gas Limited

Sovereign is an independent company, 70% owned by British shareholders and 30% by Dome Petroleum Limited, which has been involved in North Sea exploration since the 3rd Round of licensing in 1970 and currently holds interests in a number of licences, including six awarded in the 7th Round.

Sovereign is a participant in the development of the South Brae field, scheduled to come on stream in 1983, and also holds a 40.375% share in a heavy oil discovery in Block 3/28.

With technical assistance from Dome Petroleum Limited, a pioneer in the exploration of frontier areas and development of enhanced recovery systems, Sovereign is planning an aggressive exploration and development programme over the next few years.

Reason for the Brief

In response to industry objections to the taxation changes introduced by the 1981 Budget, the Chancellor of the Exchequer invited the oil companies to submit alternative tax proposals prior to the introduction of permanent arrangements in the 1982 Finance Bill. Submissions were duly made by UKOOA and BRINDEX on behalf of the industry.

We support the UKOOA proposals and offer additional proposals for consideration. We ask that they be studied before the introduction of a new system of taxation in 1982.

We are sending copies of this proposal to Mr. H. Gray at the Department of Energy and to Mr. Crawley at the Inland Revenue, Policy Division (Oil).

Impact of Taxation Changes

The oil taxation system has changed considerably since the Oil Taxation Act 1975. These changes have resulted both from the Government's short-term cash requirements and as a result of a substantial increase in oil prices.

The most significant changes have been:-

- (i) An increase in the PRT rate from 45% to 70%.
- (ii) A decrease in capital expenditure uplift from 75% to 35%.
- (iii) Changes in the timing of PRT payments.
- (iv) Restrictions in the application of uplift.
- (v) A reduction in the safeguard provisions.
- (vi) The addition of Supplementary Petroleum Duty.

The effect of these changes has been to reduce substantially the rate of return in a high risk industry and to shift the emphasis in taxation from a profit base to a revenue base.

The impact has been particularly felt by the British Independants, who, while consistently re-investing their cash flow in the UK sector of the North Sea, have more difficulty in project financing than do the foreign majors. You will appreciate that, whereas it may be possible to raise project finance, the cost of funding is appreciably greater when a company cannot commit its initial cash flow from a field to repay the loan.

The nature and frequency of the taxation changes have made hazardous an adequate economic evaluation prior to major investment, particularly in the higher risk and lower yielding fields.

Future Oil Self-Sufficiency

In a statement made on 23rd July 1980, the Secretary of State for Energy announced that:-

"We expect that from later this year UK oil production will regularly reach a level equal to UK consumption. Thereafter on present forecasts production would rise to a peak in the mid-1980s giving a significant surplus over UK consumption in the 1980s as a whole. We are likely to become net importers of oil again about 1990".

If Britain is to remain self sufficient in oil through the 1990's, Sovereign contends that it is vital that a taxation system be developed now that will not discourage:-

- exploration in areas that involve unusually high risks and capital expenditure.
- maximisation of oil recovery through the use of new technology.

SUMMARY OF PROPOSALS

Sovereign endorses the proposals contained in the recent UKOOA submission, particularly:

- the termination of SPD
- the advancement of PRT payments
- separate oil allowance for satellite fields

We propose the following additional taxation changes which, while not adversely affecting the Government's short-term cash flow, will help ensure Britain's self-sufficiency into the 1990's:

A. Deep Water Exploration

- special reliefs for pre-development capital expenditures incurred in areas with water depths of over 1,000 feet.

B. Heavy Oil and Enhanced Recovery Projects

- special reliefs for investment in certain types of enhanced recovery systems and for heavy oil projects.

These proposals are amplified below.

A. DEEP WATER EXPLORATION

The Department of Energy estimated in the 1981 Brown Book that 30% of the UK Continental Shelf reserves potentially lie in water depths of more than 1,000 feet.

Risks greater than the industry has faced so far in shallower waters are involved in the exploration of these areas, due to the higher capital expenditures and the longer time between the first successful exploration well and first production. Sovereign estimates the cost of pre-development expenditure on a deep water field at £463 million compared with £100 million for a similar programme on a conventional field. (See Table I)

The higher level of capital expenditure is due primarily to:-

- (i) The requirement for special drilling rigs to cope with deep water drilling. It is anticipated that dayrates for these rigs will exceed normal rates by 25%.
- (ii) The longer drilling time for wells in deep water.
- (iii) The need for further considerable research and development for deep water production technology.

Sovereign estimates that a minimum of ten years is likely from first exploration to first production in deep water, compared with a typical six year minimum period in the case of conventional shallow water fields. With these lead times, it is important to initiate deep water exploration now, so that self-sufficiency can be maintained through the 1990's.

Because of the time element, the present tax structure fails to offer a sufficient rate of return relative to such risks. New incentives are required to encourage the exploration and development of these potential reserves.

We therefore propose the following changes to provide the necessary stimulus.

PROPOSAL:

In the case of deep water areas of 1,000 feet or more, the option should be provided either to:

- (i) Deduct pre-development capital expenditures incurred on such areas, with normal uplift, from PRT profits on existing producing fields immediately such expenditures are incurred; or
- (ii) Carry forward all capital expenditures within the deep water area and offset them, at a higher (70%) rate of uplift, against the subsequent PRT profits for that area, thereby compensating for the additional time elapsed before production.

B. HEAVY OIL AND ENHANCED RECOVERY PROJECTS

The U.K. sector of the North Sea contains potential fields where the oil discovered is so heavy that primary drive is insufficient for commercial production. In addition, fields containing lighter oil could improve their percentage recoveries using enhanced techniques.

By 'enhanced recovery techniques', we mean here thermal methods, such as steam and in situ combustion, and miscible floods, such as carbon dioxide or surfactant-polymer. These techniques are quite distinct from established recovery systems, including pressure maintenance and water injection. Enhanced recovery systems are expensive and, except for an experimental polymer flood, have not yet been applied offshore. They carry a much greater risk that the capital invested will not be recovered and involve longer production periods. These projects can readily be identified and could be certified, if necessary, as qualifying enhanced recovery projects by the licensing authorities without difficulty.

Investment to recover heavy oil should be encouraged, so that the total national recoverable oil reserves are increased. Encouragement should also be given by way of recognition that the payback period for such projects will be much longer and that the rate of return on capital lower (the capital cost per barrel per day is much greater). A substantial relaxation of oil taxation is appropriate for certified enhanced recovery projects.

If such a relaxation were made now, oil companies would be given the necessary incentive to develop technology for heavy oil discoveries, and to adjust production plans so that improved overall recovery may be possible in existing producing fields.

PROPOSAL:

It is suggested that investment be encouraged on certified schemes by rewarding successful projects either by:-

- (a) An enhanced rate of uplift, say 50%, or
- (b) A deduction from PRT income of, say, 5% of gross revenues.

TABLE I

COMPARISON OF PRE-DEVELOPMENT EXPENDITURES
DEEP WATER FIELD (1000 FT +) VS CONVENTIONAL FIELD

	<u>£ (millions)</u>	
	<u>DEEP WATER</u>	<u>CONVENTIONAL</u>
Exploration Wells - 4	66.1	18.8
Appraisal Wells - 5	74.7	26.9
Total Expenditures (excluding interest)	<u>140.8</u> =====	<u>45.7</u> =====
Total Expenditures (with interest)	463 ===	100 ===

ASSUMPTIONS :

	<u>DEEP WATER</u>	<u>CONVENTIONAL</u>
Drilling	1981-86	1981-84
First Production Date	1991	1987
Interest Rate	15%	15%

SOURCE: Sovereign internal study

FROM THE PRESIDENT - GEOFFREY E. MOORE, CBE

SMMT

THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.
FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS
TELEPHONE 01-235 7000

7 December 1981

The Rt. Hon. Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

No reply required
Stamp
mp

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	MR. BATTISHELL
	PS/C. G.

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Dear Chancellor

PPS 101
Sp

It was good of you to write as you did in your letter of 20 November in reply to mine of 20 October, and I am grateful to you for the way in which you and your officials have dealt with the points I raised.

The Society, of course, welcomes your decision to allow the Revenue time to re-examine its earlier proposed method for taxing car and car fuel benefits for 1982/83. This will be a relief to our member companies who had expressed doubts about their ability to introduce the proposed scheme by April 1982.

The Society would be glad to assist the Inland Revenue in its re-examination of its proposals and its study of alternative schemes and we have noted your aim in this regard. Doubtless your officials will let us know when they are ready to discuss their ideas.

Sincerely
Geoffrey Moore

TOBACCO ADVISORY COUNCIL

WIR B
Span

Glen House, Stag Place, London, SW1E 5AG

From Sir James Wilson, K.B.E., M.C.
Chairman

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	MR BATTISHELL
	MR GRIFFITHS
	MR CROPPER. PS/FAT

11th December, 1981

The Rt. Hon. Sir Geoffrey Howe,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

P.J.
We r fring
a packet only?
This will
lead v. full r
control of amount

Dear Chancellor,

In February of this year, before your March 1981 Budget, T.A.C. sent you a submission and a number of papers about the taxation of cigarettes and other tobacco products.

T.A.C. based its submission at that time on the ground that tobacco goods, and cigarettes in particular, were already substantially over-taxed; we gave a clear warning that imposing anything but a modest duty increase in 1981 would sharply affect the consumption base on which revenue receipts from tobacco depend. Subsequently, when a delegation from the industry met the then Minister of State for the Treasury before the March Budget, I repeated T.A.C.'s concern about the effect of a large taxation increase on future consumption of the industry's products; my colleagues and I remarked that the imposition of a large increase would be 'dipping disastrously into the seed corn'.

Regrettably, you felt unable to accept T.A.C.'s arguments. Not only was taxation raised by a drastic amount in the Budget itself, but, despite a further submission on our part in May, an extra impost of 3p on a packet of 20 cigarettes was imposed on a market which was in no sort of condition for such treatment.

The results of such severe fiscal handling have been devastating for the tobacco industry. Following the March Budget, consumption of cigarettes fell at once by about 15%; just when, in early July, there were signs of a slight recovery the supplementary tax increase stopped this movement in its tracks. In early November consumption was again running at about 15% below the pre-Budget level.

The situation described above indicates a market shrinkage in 1981 as great as the cumulative reduction (in itself giving serious cause for concern) of the previous seven years. In a market, which since 1974 has shown a basic downward trend (please see table of U.K. cigarette consumption attached), there is little current scope for recovery. It may even be that the revenue base has been damaged for all time. Cigarette consumption is now at a level 25% lower than in early 1974; so far as T.A.C. is aware, this is without parallel in any other cigarette market in the world.

The Rt. Hon. Sir Geoffrey Howe, QC, MP.

11th December, 1981

Not surprisingly, as T.A.C. also warned before the March Budget, the consequences for employment in the tobacco industry have been very serious. Some 12,000 jobs - directly and indirectly - will have been lost as a result of the 1981 duty changes. As you will have seen from recent statements by the manufacturers, many of these job losses are in areas where unemployment is already unacceptably high such as Northern Ireland.

I now attach a series of more detailed papers, which give the latest assessments of trends in consumption of tobacco products, together with T.A.C.'s views on how they should be treated fiscally in 1982. My Council hope that you will take these submissions carefully into account when framing your 1982 Budget. As I have indicated in this letter, the tobacco industry is currently facing a serious crisis as a result of last year's fiscal treatment; the consequences of any further increases in taxation could be disastrous for our companies.

The arguments in respect of the various tobacco products are, as usual, set out in separate papers for each product. I should, however, like to stress two particular aspects in respect of cigarette taxation:-

- (a) cigarette taxation is highly regressive. The large majority of cigarette smokers are in the lower income groups; any further taxation increase would bear most heavily on those least able to afford any extra burden.
- (b) the retail price of cigarettes (see separate table attached) is already unacceptably high as compared with other countries in Europe. Quite apart from the effect of further tax increases on the R.P.I., H.M.G. would surely not wish to discriminate any further against the British tobacco industry and smoker.

As regards the pipe tobacco and cigar sectors of our industry, T.A.C. has made representations in the past about the particularly serious effects of high taxation. The 1981 duty increases have exacerbated the problems faced by these two sectors of our industry; as we explain in our papers, there is a strong case for avoiding any further tax increase on these products next year. T.A.C. would urge you to consider very carefully the case for an indefinite moratorium on any increase of tax on pipe tobaccos; we would ask you to bear in mind the rapid decline in this market sector, together with the special social, economic and fiscal circumstances surrounding it.

To revert briefly to the taxation of cigarettes in your 1982 Budget, T.A.C. calculates that if you were to propose a duty increase based on an "indexation" of total tax burden this would amount next year to a tax addition at the most of 4p per packet of 20 and could take retail prices over the £1 threshold. In our view, however, the cigarette market is currently so price sensitive that even a limited duty increase of this nature might well create such an adverse reaction from smokers that there could be no guarantee of achieving the normally expected pattern of extra revenue.

The Rt. Hon. Sir Geoffrey Howe, QC, MP.

11th December, 1981

T.A.C. therefore urges you, on this occasion, to avoid any duty increase on tobacco products in order to give the market the chance to regain a degree of resilience. In the longer term, restraint of this kind would be beneficial to future revenue receipts; in the short run, it should help to protect the industry from further rapid contraction with the attendant problems of job losses, loss of competitiveness, lower profits and reduced investment levels.

Revenue from tobacco taxation comes from a narrow and shrinking base; as we predicted last year, the market is now showing all the consequences of severe over-taxation. In T.A.C.'s judgement, if it is necessary to look for further increases in taxation in 1982, these should be sought from more broadly based sources.

Finally, as I wrote in my letter to the Chief Secretary to the Treasury on 6th November, the industry has not had a pre-Budget meeting with the Chancellor in person for very many years. As I have indicated in this letter, the fiscal treatment of our industry during 1981 has created a new situation in that there is no sign of our market starting to recover; a situation which differs from the experience of heavy tax increases in the past. My Council would, therefore, ask to be granted a personal interview with you on this occasion.

Yours sincerely

John H. H. H.

Relative Price Levels of Cigarettes in E.E.C.

	<u>Most Popular Price Class of Cigarette</u> (per 20)
Belgium	52½p
Denmark	125p
France	31½p
German Fed. Rep.	66½p
Italy	35p
Netherlands	55½p
Rep. of Ireland	77p
United Kingdom	96p

Note: Exchange rates as at 16th November 1981

Cigarette Consumption and Tax Changes in the U.K.

<u>Calendar Year:</u>	<u>Cigarette Consumption</u>		<u>Budget/Regulator</u> <u>Increases in</u> <u>Cigarette Taxation</u>
	million	% cf. previous year	pence per 20 cigarettes
1974	137,000	- 0.3%	+ 4½p
1975	132,600	- 3.2%	+ 7p
1976	130,600	- 1.5%	+ 3/3½p
1977	125,900	- 3.6%	+ 8p
1978	125,200	- 0.6%	...
1979	124,300	- 0.7%	+ 6p
1980	121,500	- 2.3%	+ 5p
1981 (est.)	108,500	-10.7%	+ 17p
 <u>Fiscal Year:</u>			
1980/81	120,000	- 3.2%	
1981/82 (est.)	104,500	-12.9%	

TAXATION OF CIGARETTES

Since early 1974 cigarette consumption in the U.K. has been declining steadily, mainly as a result of regular taxation increases which have raised cigarette prices faster than the general rate of inflation.

Prior to the Spring 1974 Budget, U.K. cigarette consumption was running at an annual rate of 140,000 million, having increased fairly rapidly from 125,000 million in 1969 during a period in which there were no duty increases.

By early 1981, consumption had fallen to 120,000 million per annum, a drop of 14% over the 7 year period since early 1974.

Revenue receipts from tobacco goods have risen sharply over the period, reflecting the increasing levels of taxation - consumption perhaps showing some degree of resilience against a background of incomes growth.

The following table shows the trend of cigarette consumption in recent years, together with the cigarette taxation increases which have occurred. The relationship between the size of the taxation increase and the extent of the consumption drop is evident.

	<u>U.K. Cigarette Consumption</u>		<u>Budget/Regulator Increases in Cigarette Taxation</u>
	million	% cf. previous year	pence per 20 cigarettes
<u>Calendar Year:</u>			
1974	137,000	- 0.3%	+ 4½p
1975	132,600	- 3.2%	+ 7p
1976	130,600	- 1.5%	+ 3/3½p
1977	125,900	- 3.6%	+ 8p
1978	125,200	- 0.6%	...
1979	124,300	- 0.7%	+ 6p
1980	121,500	- 2.3%	+ 5p
1981 (est.)	108,500	- 10.7%	+ 17p
<u>Fiscal Year:</u>			
1980/81	120,000	- 3.2%	
1981/82(est.)	104,500	- 12.9%	

1980 showed some divergence from the previous trend at, with a taxation increase on cigarettes of +5p per 20, we would not - other things being equal - have expected consumption to have fallen by more than about 1%. The fact that consumption fell by 2%/2½% reflects the economic recession which began to take effect in 1980.

In spite of all the difficulties, however, until early this year the industry had been able to adapt the structure of its business because the changes, although severe in aggregate, were to some extent predictable and occurred at a manageable pace.

1981 Taxation Increases

Cigarette consumption always falls following a major price increase such as that arising from a Budget or Regulator taxation change. The generally accepted measure is a price elasticity factor of -0.5, determined over a fairly lengthy period; in the past, this has been a reasonably reliable predictive indicator.

However, the elasticity factor of -0.5 is an average figure and is based on the experience of much smaller price increases than have occurred this year. For relatively small price increases (e.g. +2p per 20) there is usually no measurable change in the level of consumption - i.e. demand is relatively price inelastic and therefore the elasticity factor is close to zero. On the other hand, when the price increases are more dramatic (say 10p per 20 or more), the elasticity of demand tends to increase, the elasticity factor moving closer to -1.0.

Cigarette taxation was increased by 30% in March 1981, compared with the level of a year earlier, raising cigarette prices by +14p per 20 or +18%.

Bearing in mind the factors described above, the industry's prediction was that cigarette consumption would fall by about 15% as an immediate result of the Budget changes, recovering to a level about 8%/10% below the pre-Budget level by the end of the year.

By end-June/early July, some signs of a marginal recovery were beginning to emerge, but at this stage consumption was still at least 10% below the pre-Budget level.

It was therefore a matter of considerable concern at the Chancellor imposed a further +3p per 20 taxation increase on cigarettes in early July. In fact, in an attempt to avoid a further contraction of business, most manufacturers phased the July taxation increase into their prices during August (+1p) and September/October (+2p) - with a consequential adverse effect on profitability.

Manufacturers increased their own prices during the period August/October 1981 - in most cases about 2p per 20, of which 0.7p per 20 represented additional taxation.

Since March 1981, therefore, cigarette prices have increased by some 19p per 20, or some 25%. Relative to the prices of other goods and services, cigarette prices (as reflected in the tobacco component of the R.P.I.) have risen by some 16%, as follows -

	<u>Tobacco Index</u>	<u>All Items Index</u>	<u>Index of Tobacco cf. All Items</u>
	Jan. 1974 = 100		
March 1981	315.2	284.0	111.0
October 1981	389.7	303.7	128.3
Oct. cf. Mar. 1981	+23.6%	+ 6.9%	+15.6%

In spite of manufacturers' attempts to soften the effect of the July 1981 supplementary taxation increase, the fact is that, since the summer, as the price changes are working through to over-the-counter retail prices, consumption is showing a further significant decline which sales research information at early November 1981 suggests is running at a rate 15% below the pre-Budget level.

Although some part of the 15% reduction in consumption is a reflection of the economic recession and the changing social attitude to smoking, the effect of these two factors is relatively small compared with the price and taxation levels for cigarettes - taxation now accounts for nearly 75% of the retail price.

Consumer research conducted on a sample of cigarette smokers following the March 1981 Budget indicated that, as a result of the Budget price increase, 6%/7% of smokers had given up smoking while 31%/32% had cut down. Those reporting reduced consumption claimed an average reduction of 40%. This research suggests an overall consumption drop of 19% which, after taking account of statistical sampling considerations, is not out of line with our estimate of the actual reduction. It confirms that it is the substantial rise in prices this year, rather than general economic or social factors, which has been primarily responsible for a fall in consumption in this one year as large as had previously occurred over the previous 7 years since the peak in early 1974. Moreover, because of the basic underlying downward trend in cigarette consumption, the drop sustained this year is to a large extent irreversible.

Cigarette Taxation Strategy

We earnestly believe that, other than perhaps in a situation of a national economic emergency, the Chancellor can never be justified in raising tobacco taxation so rapidly in such a short period of time as has occurred this year.

Admittedly, revenue receipts are higher than might have been the case with a smaller increase in taxation, but the incremental increase in revenue, over and above that which would have been achieved with a much more reasonable taxation increase, is relatively small and its achievement has the following severely adverse effects -

- (a) The R.P.I. increase has a significantly adverse effect on H.M.G.'s efforts to reduce inflation. (Increases in the tobacco component of the R.P.I. since March have already added nearly 1% to the year-on-year level of inflation).
- (b) The tobacco industry has been seriously damaged and, in this declining market, any significant recovery is most unlikely.
- (c) The future revenue base has consequently suffered a sharp reduction, most of which is likely to be permanent.
- (d) Direct employment levels in the industry are likely to fall by at least 4,000 in due course as a result of the 1981 taxation increases. Some significant job losses have already been announced.

- (e) Provisional results from an independent economic study indicate that each job in the tobacco industry supports two other jobs in the U.K. as a result of the effects on ancillary suppliers. The 1981 taxation increases on tobacco are therefore likely to add at least 12,000 people to the numbers of unemployed.
- (f) Since it is not possible immediately to reduce numbers employed in line with sales, it means that the U.K. industry has become less cost competitive. Although the import penetration level for cigarettes, at about 2% is extremely low at present, any sustained lack of competitiveness would tend to make the U.K. market more attractive to foreign suppliers.
- (g) Any weakening of the home market is a potential threat to the U.K.'s export trade in cigarettes, the success of which depends on a sound home base.
- (h) Profits have fallen and future investment levels will inevitably be curtailed.

In fact, we seriously question whether the supplementary taxation increase of +3p per 20 applied in July will have the predicted beneficial effect on revenue receipts. The July increase followed the March increase so closely - before any significant recovery in consumption had occurred - that its effect in the market was as if it had been an integral part of the same increase. The elasticity factor, being progressive in its effect, therefore gave rise to an additional consumption drop quite disproportionate to the incremental +3p per 20.

Our belief is that, without the supplementary +3p per 20 taxation increase in July, consumption now - allowing for manufacturers' price increases which were of varying amounts and made at different times between August and October - would be about 10% below the pre-Budget level. In other words, with consumption now at 15% below the pre-Budget level, consumption so far is showing an elasticity factor substantially in excess of -0.5 in respect of price increases since July.

Prospects for 1982

The present consumption base is extremely price sensitive and any further increase in taxation in the near future, before the 1981 increases are fully assimilated by smokers, would undoubtedly cause a further significant reduction in consumption, with a very real risk of the higher tax level being counter-productive in terms of revenue yield.

Cigarettes carry one of the most regressive forms of taxation and the fact that the highest proportions of cigarette smokers are in the lower income groups means that any further taxation increase would bear particularly heavily on those least able to afford it.

The 'indexation' adjustment which might be applicable to cigarettes - applying a possible 12% inflation rate to the post-March 1981 taxation burden on cigarettes - is around +4p per 20, which would bring the retail price of the majority of King Size brands above the £1 threshold. We urge the Chancellor to forego making such an adjustment on this occasion in order to give the industry time to re-adjust to the current significantly lower levels of activity, to avoid further erosion of the tax base and to avoid further job losses, particularly in the areas of high unemployment such as Northern Ireland, Scotland and Tyneside.

11th December, 1981

TAXATION OF HANDROLLING TOBACCOS

1. The consumption of handrolling tobaccos in recent years has been as follows -

<u>Calendar Year:</u>	<u>Handrolling Tobacco Consumption</u>	
	<u>million kg.</u>	<u>% cf. previous year</u>
1974	6.1	...
1975	6.4	+ 5½%
1976	6.5	+ 1½%
1977	6.5	- ½%
1978	6.1	- 6½%
1979	5.7	- 7%
1980	5.6	- 2%
1981 (est.)	6.1	+ 9%

Note: Percentages are based on unrounded sales figures.

2. The increase in handrolling tobacco sales this year is a direct consequence of the higher prices for manufactured cigarettes following the March 1981 Budget. As shown in the above table, sales of handrolling tobaccos last increased in 1975/76 following fairly large tax increases for manufactured cigarettes, but sales subsequently declined.

3. The social profile of handrolling tobacco smokers shows a very definite weighting towards the C2, D and E social classes, as follows -

<u>Social Group</u>	<u>Division of Handrolling Tobacco Smokers by Social Groups</u>	<u>(Division of U.K. Adult Population)</u>
ABC1	21%	(37%)
C2	42%	(33%)
DE	37%	(30%)
<u>Total</u>	<u>100%</u>	<u>(100%)</u>

Almost 80% of handrolling tobacco smokers are in the C2, D and E social classes.

4 At present price levels, many smokers in the lower income groups can no longer afford manufactured cigarettes and they have had no option but to change to handrolling tobacco. The increase in handrolling tobacco sales this year does not indicate that this product can bear a further tax increase: such a move would discriminate against the less well off members of the community by taxing tobacco completely out of their income range.

Consumption of handrolling tobacco can be expected to resume its previous downward trend when the tax burden on manufactured cigarettes becomes less onerous and as the general level of consumers' disposable income improves.

5. The increase in price for handrolling tobaccos has been severe, both this year and in relation to the scale of price increases generally over recent years, as follows -

	<u>Price of Handrolling Tobacco</u>	<u>R.P.I. All Items</u>
<u>Price Movements Oct. 1981 cf.:-</u>		
Jan. 1974	+ 310%	+ 204%
Jan. 1981	+ 31%	+ 10%

The market movement from manufactured to handrolled cigarettes underlines the need to avoid any increase in tobacco taxation in 1982 so as to give the market some opportunity to stabilise and more normal patterns of consumption to be resumed.

TAXATION OF PIPE TOBACCOS

1. There has been a steady reduction in the pipe tobacco market for a number of years but this decline has become more marked in recent years, as follows -

<u>Calendar Year:</u>	<u>Million kg.</u>	<u>% cf. Previous Year</u>
1965	6.6	- 3½%
1970	5.7	- 2½%
1974	5.4	- 3%
1975	5.0	- 7%
1976	5.0	- 1½%
1977	5.0	...
1978	4.6	- 7%
1979	4.2	- 7½%
1980	4.0	- 5%
1981 (est.)	3.8	- 6%

*Annual rates of decline over the preceding five years.

Note: Percentages are based on unrounded sales figures.

2. The relative stability of pipe tobacco consumption in 1976 and 1977 can be directly attributed to the favourable treatment afforded to pipe tobaccos in the Chancellor's Budgets in those years.

However, in the light of the tax increases for pipe tobaccos imposed in subsequent years, consumption has declined drastically since 1977. Over the last four years (1977-1981), pipe tobacco sales have fallen by around 25% - equivalent to the decline in consumption experienced in the previous twelve years (1965-1977).

3. Since March 1981, the retail price of a typical 25g packing of pipe tobacco has risen from 86½p to £1.05 - an increase of 21%. Of this increase, +16p per 25g represents additional tax; +2½p per 25g is the result of a manufacturers' price increase.

This scale of price increase puts an intolerable burden on an industry whose market is already in decline; any sales reduction is likely to represent sales lost for all time.

4 A further tax increase in 1982 would undoubtedly provoke another significant decline in pipe tobacco sales and, in this labour intensive market, this would have a significant impact on employment. A tax increase would be particularly damaging because pipe tobacco manufacture is concentrated in areas of the the country where the levels of unemployment are highest, as can be seen from the following figures -

	<u>Numbers Employed in Pipe Tobacco Manufacture in U.K.</u>
Northern Ireland	800/850
Liverpool	700
Glasgow	150
	<hr/> <u>1,650/1,700</u> <hr/>

5. An increase in tax on pipe tobaccos would also penalise those sectors of the community with lower incomes - around one-third of pipe smokers are aged 60 years and over and 56% are in the C2, D and E social groups.

6. Compared with Continental E.E.C. countries, the U.K. tax burden on pipe tobaccos relative to cigarettes is already excessive. The retail price of 25g of pipe tobacco within each Continental E.E.C. country varies from 21% to some 88% of the price of 20 leading cigarettes. However, in U.K. the price comparison is 109%. (Details are shown in the attached Appendix).

7. The lower levels of pipe tobacco taxation in Continental markets have enabled the industries in these countries to develop a strong home base, together with a successful export trade. In comparison, the U.K. industry has been burdened with extremely high levels of taxation; the domestic market has declined and, as a consequence, it has been very difficult to remain competitive.

The market share held by imported pipe tobaccos has grown to around 7% currently compared with only 1% in 1977. Clearly U.K. domestic manufacturers would be better able to resist an increase in import penetration and to maintain the level of U.K. exports of high quality pipe tobaccos if the home market - and therefore the production base - were not subject to the inevitable further contraction associated with a tax increase.

T.A.C. believes that the level of taxation on pipe tobaccos is already much too high. It strongly advocates a reduction in pipe tobacco taxation at the 1982 Budget in order to allow the market to regain some degree of stability - thus protecting employment levels and enabling U.K. manufacturers to compete on a more equitable basis with Continental E.E.C. manufacturers.

Indeed, there is a strong case on social and economic grounds for an indefinite moratorium on the level of pipe tobacco taxation. This market is now in such sharp decline and the revenue yield so small in relation to total receipts from tobacco products (some 2½% of the total) that pipe tobaccos should be considered as a special case quite separate from other forms of smoking.

11th December, 1981

From: ADAM RIDLEY
16 December 1981

N. Jenkins
When in the meeting
6.40

Mr. Ridley
Tosie

Miss Burton
PL liaison with Mr. Ridley and Sir W Clark

17.12
A.20

21.12

\$ 2 for discussion
@ mtg re PAC/C

CHANCELLOR

cc Chief Secretary
Financial Secretary

MEETING WITH BACKBENCH FINANCE COMMITTEE

As this morning's meeting broke up, no fewer than three MPs spontaneously suggested that it had been a very valuable occasion, and that another should be held soon. I am sure that we should capitalise on this opportunity, and would like, if you agree, to arrange a further rencontre at the end of January - in order to catch the Committee when they are fairly fresh back from their constituencies, and before Budget discussions have gone too far. May I have your agreement to do so, and to make the necessary arrangements with Bill Clark and Sharon Burton?

✓
x/

2. May I take this opportunity to mention one other point which struck me during this morning's discussion. Anxiety about the behaviour of the nationalised industries is more or less universal in the parliamentary party. It is, of course, one of the reasons why the FST is having so much trouble with the PAC and Controller and Auditor General. One of the lacunae in the activities of the present array of Select Committees is that none of them has examined its own nationalised industries with the rigour which such anxieties would suggest. Might there not be something to be said for trying to operate informally in order to get the energy, transport or industry Committees to launch their own inquiries ^{into} / some aspect of a particular industry which lies within their terms of reference? If you felt there was something in this, I am not entirely sure how best to set about making it happen. But I imagine the Chief Whip, Mr Du Cann and Ian Gow could between them sort something out.

M.

ADAM RIDLEY
16 December 1981

16/12/81-

A.20

CHANCELLOR

19TH MEETING WITH MPS, 10 DECEMBER, 11 DOWNING STREET

Present: Chancellor
 Chief Secretary
 David Atkinson MP
 Graham Bright MP
 David Mudd MP
 Tom Normanton MP
 Gerry Neale MP
 Adam Ridley

*S.U. / P.S.
 Cf. I.S. with notes
 WJR re M.S.*

David Atkinson opened with the hope that there would be some good news in the Budget - perhaps an NIS or income tax cut. On the spending side, he asked whether there were ways of ensuring that privatisation, such as the Southend refuse collecting experiment (which if generalised over all local authorities would save some £200 million) could be forced on other authorities. Could some arrangement not be devised for making a linkage ^{with} the block grant mechanism and penalties? One needed sticks for those that did not make such advances, and carrots for those that did. Tom Normanton and Gerry Neale asked about BT and privatisation. Normanton expressed the anxiety that the private sector's commercial criteria simply did not exist in such industries, bedevilled as they were by 50 years of drift. Gerry Neale observed that the trade association TIMA had long wanted the monopoly broken. But once the Beesley Report came out they had been terrified. In truth they had been crouching in a state of indolence behind the cosy competitive barriers which the monopoly offered them as well as BT itself. Looking at future progress, it was his view that the Department of Industry should be very careful not to "buy pups" from BT and DoI, indeed it seemed almost essential that DoI should have access to high class private sector consultants in order to decide what to do and how. Graham Bright observed that the British Airports Authority suffered from very similar problems. Was there not a case for splitting it up?

David Mudd talked about the problems of unemployment benefit, in

RESTRICTED

the light of recent discussions in his constituency, while stressing that he had no desire to rebel against the Government's general strategy. He reported, first, that he had been informed by his local DHSS office that the financial advantages of not uprating by the extra 2% would be more than offset by the financial disadvantages of the extra eligibility for free school meals, rent allowances and so on of those who would move into the supplementary benefits zone. This could be a serious problem in a constituency such as his which had over 20% unemployment. Second, he had been much assailed by his "Tory ladies", who had strongly argued that the failure to do the last 2% was socially wrong. In addition he had encountered a third problem. Many firms in his area had staved off disaster or achieved unexpected success on the basis of shrinking their labour forces, a process which could only be easily justified if there was fair and equitable treatment for those who made the sacrifice of redundancy. Now the problem was that both the employers and many of those who had suffered would be saying that the Government had ratted on their commitment to guarantee the living standards of those who had made the supreme sacrifice. If he had ^{had} a choice, he would prefer to have gone far further with prescription charges rather than fail to uprate the last 2%.

Tom Normanton discussed the "Len Murray argument", stressing the great need to get over the counter-arguments clearly. He also inveighed against the long-run dangers of temporary employment subsidies (little better than an addictive drug). Graham Bright observed that if one was talking about raising employment, he did not agree with David Atkinson. The NIS, in particular, would be merely a device for increasing wage levels. Surely it would be better to reward the successful entrepreneur and act, for example, with a further alleviation of capital taxes. Gerry Neale took up the point, stressing that there were still some important problems for the unincorporated partnership, despite the enormous advances made in tax legislation for the small business and entrepreneur. It was vitally important both politically and economically to carry things further. He undertook to communicate his ideas in greater detail to the Chancellor. (This is now being pursued directly with Mr Neale. ANR.) Graham Bright added that there might also be further

RESTRICTED

RESTRICTED

developments possible on the stock options front. Tom Normanton stressed that there must be parity of treatment between private and public companies - it would be foolish to neglect the private ones simply because they did not have the convenient legal and corporate tax structure of the public organisation.

Tom Normanton ended the meeting with a plea for more conscious attention on the opportunities presented by the EC. It remained amazing how little British industry understood the opportunities there on offer. If one took as an example the European Development Fund, with its vast array of expenditures, the French were getting twice as much out of the Fund in orders as they were putting in in money, while in the case of the UK the ratio was only 0.4 payments for every £ put in. To fully exploit the Fund it was necessary for people to be active and to establish good contact with EDF people on the ground. British firms did not do this - but why?



ADAM RIDLEY

16 December 1981

cc Ministers
Advisers
Mr I Stewart MP
Mr A Newton MP
Mr P Brooke MP

RESTRICTED

From the Chairman

Caterham 45211

Tandridge District Council
Council Offices
Caterham
Surrey CR3 6YN

MMMcN/JH/Ch.4 (AD)

17th December, 1981.

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
House of Commons,
LONDON, SW1A 0AA.

*I've told Mrs MacN
I can't go to this
- but found photos
little*

Dear Sir Geoffrey,

The Council's Annual Dinner will be held on the evening of Friday 26th March next year, and I write to let you know in the hope that you and Elspeth will be free to join us. The time is 7.30 for 8 p.m. at the Soper Hall, Caterham - dress dinner jacket or lounge suit.

My fellow Councillors and I will be delighted if you are able to come.

Yours sincerely,

Margaret McNaughton

Mrs. M.M. McNaughton
Chairman of the Council.

*? What under
lettering is
necessary?*

Central Council in Harrogate
on 26 and 27 March - regrets? ✓

SEB
4/1

*Am I going
to that?
P.C.*

P.C tells me I am expected @ Harrogate on 26th

Cancellor.

Mocking problems - we've held
6M days free

Miss Burton
Shum. ???

Bur - I have a constid.
during that evening?
Hr 1 finally refund?
Chancellor

Central Council

No. reply awaiting
this advice from
Mr Cropper. Seb

Harrogate 26/27 March. Previous note attached.

This question came up in conversation with Pat
Stouen. She talked to Alan Smith and came
back to say:

1. They would be very grateful indeed if
the Chancellor could attend and speak at
the Central Council.
2. He would be given the central Friday
afternoon spot and assured of a good
audience (PM on Saturday morning).
3. Please, however go.
4. While you are about it, could you
possibly do a Wykebeck - Smith in
Humberide on the Friday evening.
They have been having difficulty in
getting people to go there.
5. You could either go back to Harrogate for the
PM, or return to Leeds for Am. PR
13 Jan.

Cancellor.

→ Mr Cropper.

I think you discussed this with the Chancellor, and that the decision was not to volunteer anything; but to * keep the week-end free in his diary?

2. Sham, off * is confirmed; pl. act accordingly.

Central Council

Z.P.L.
20/11

This is at Harrogate 26/27 March (Fri/Sat)

Assuming the Budget does not prevent you going, Alan Smith says they would be delighted if you could do this.

On the Friday afternoon you might have about 500 people. On Saturday morning 1500 or so. The PM is doing the session just before lunch. You could perhaps do the early one on Saturday. Saturday pm is a forum on Social Security or Employment.



19 Nov 81

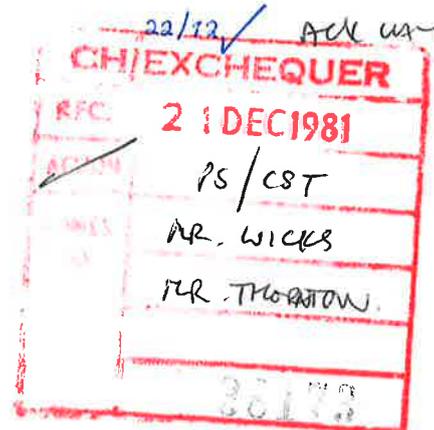
U.K. Offshore Operators Association Limited

192 Sloane Street
London SW1X 9QX
(Registered Office)

Telephone: 01-235 0292

18 December 1981

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1P 3HE



Dear *Chancellor,*

I am pleased to advise you that the new Executive Officers of the UK Offshore Operators Association for 1982 are:

President

Mr D B Walker, BP Petroleum Development Ltd

Vice-President (England)

Mr C E Spruell, Mobil North Sea Ltd

Vice-President (Scotland)

Mr G M Ford, BNOG (Development) Ltd

Honorary Treasurer

Mr C Menetrier, Elf UK Ltd

Honorary Secretary

Mr R C Shaw, Premier Consolidated Oilfields Ltd

Please accept my very best wishes for Christmas and the New Year.

Yours sincerely

G Williams



The Scottish Landowners' Federation

President
SIR DONALD CAMERON OF LOCHIEL, K.T., C.V.O.
Convener
A.B. HOUSTOUN, M.C., D.L., J.P.
Director
A.I. KONLY-DOUGAL

Our Ref: T8

Your Ref:

24th December 1981

ACK WAY ✓

CH/EXCHEQUER	
REC.	30 DEC 1981
ACTION	RS/FST
COPIES TO	
	38552

18 Abercromby Place,
Edinburgh EH3 6TY.

Telephone: 031-556 4466

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London,
SW1P 3HE.

Dear Chancellor,

YOUR SPRING BUDGET 1982

We enclose a copy of our Representations for your consideration when preparing your Spring Budget for 1982.

In our Representations last year reference was made to discussions with the National Farmers' Union of Scotland and the Landlord/Tenant system of agriculture in Scotland. These discussions have been completed and it is understood that the Report of the Scottish Office Working Party is shortly to be submitted to the Minister. It has been agreed that without significant relaxations on the taxation side there is little chance of the main objective being attained, which is to make the letting of land a more attractive proposition. While we welcome the 20% agricultural relief on let land which was introduced by the Finance Act 1981 we consider it essential that further relaxations of capital taxation be introduced without delay if the tenanted sector of farming is to remain at its present level.

Capital Transfer Tax Deferment

In our Representations last year we set out at some length our reasons for putting forward the proposal to defer liability to Capital Transfer Tax until such time as a transferee disposed of the holding for a cash consideration. Our position on this particular point remains unaltered and we wish accordingly to continue to press for such deferment of Capital/

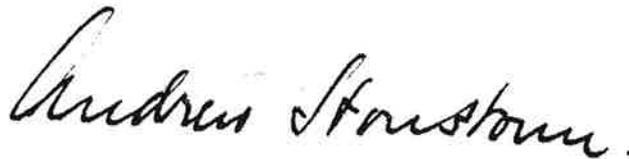
Capital Transfer Tax and that on the basis of the arguments which were put forward last year. Having regard to the traditional low rates of return on the investment and the illiquidity of the agricultural industry all taxes on capital are, in effect, taxes on working capital.

Capital Gains Tax

Inflation is having a continuing adverse effect on the farming industry and this is particularly noticeable in the application of Capital Gains Tax. Financial hardship is in many cases forcing farmers to effect sales of the whole or part of their holdings resulting in most cases in a substantial gain and the payment of Capital Gains Tax. The Representations put forward in previous years for "indexation" and "tapering" to take account of the inflationary element of capital gains have been rejected and we accordingly feel it to be perfectly logical to propose that the present rate of tax be revised from 30% to 15% which would give a measure of relief in respect of inflationary gains.

We consider that the farming industry is presently in such a critical state that further relaxations in taxation must be introduced and accordingly we would welcome an opportunity to meet you and your Officials to discuss our Representations in further detail.

Yours sincerely,

A handwritten signature in cursive script that reads "Andrew Houston".

A.B. Houston,
Convener.

Enclosure



The Scottish Landowners' Federation

President:
SIR DONALD CAMERON OF LOCHIEL, K.T., C.V.O.
Convener:
A.B. HOUSTOUN, M.C., D.L., J.P.
Director:
A.F. KINLEY-DOUGAL

18 Abercromby Place,
Edinburgh EH3 6FY.

Our Ref:

Telephone: 031-556 4466

Your Ref:

BUDGET REPRESENTATIONS 1982

1. CAPITAL TRANSFER TAX

(i) Deferment.

Although we welcome the introduction of the agricultural reliefs in the Finance Act 1981 which will certainly assist owners of agricultural land, it is still an inescapable fact that the death of a landowner will result in all probability in the fragmentation and the break-up of viable and efficient agricultural units despite the facility now available for paying Capital Transfer Tax over 8 years by interest free instalments. In order to preserve our agricultural heritage it is necessary that it should be dealt with for tax purposes in a similar way to other heritage assets. We therefore suggest that Capital Transfer Tax be deferred on disposals of all agricultural land where there is no cash consideration. This deferment would only delay the payment of the tax until the sale of the land by the ultimate successor but at that time cash would be available for payment of the tax involved.

(ii) Rates.

The rates and bands of Capital Transfer Tax should all be revised in the light of inflation.

(iii) Scottish Agricultural Leases.

In substance agricultural leases in Scotland and England are similar, such differences as there are being of a technical nature. Thus, while welcoming the reliefs given by Sections 98 and 99 of the Finance Act 1981 to Scottish agricultural leases, we consider the claw back provision unjust where relief has been given under these Sections on a death and where there is a subsequent disposal of the interest in the lease otherwise than by the death of the tenant. /...

tenant. The tax treatment of such cases in Scotland should be brought into line with that obtaining in England. Furthermore it is our contention that relief should be extended to cover leases to Scottish partnerships.

2. CAPITAL GAINS TAX

(i) Rate of Tax.

In previous years we have represented for "indexation" or "tapering" relief to take account of the inflationary elements of Capital Gains but this has been rejected by Government because of the considerable additional work that would be required to administer such a system and the ensuing loss of revenue. We and other organisations have also considered moving forward the base date for the calculation of a Capital Gain from April 1965. This has also been rejected primarily again because of the additional work that would result.

When Capital Gains Tax was first introduced by Mr. James Callaghan in 1965 the rate of 30 per cent had been fixed by him at that time at what was then considered to be a low figure specifically to take account of the inevitable inflationary element in Capital Gains. Since that date the rate of inflation has risen far more steeply than had been contemplated in 1965 and in our view therefore it is perfectly logical to propose that the rate of tax be revised from 30 per cent to 15 per cent thus giving a measure of relief in respect of inflationary gains. The adjustment of the rate is simple and can be administered without any additional work for the Inland Revenue or the taxpayer.

(ii) "Roll-Over" Relief.

For reasons which have been stated many times to discriminate against let land is unfair and unjustifiable. We wish to repeat our previous representation that "roll-over" relief should be extended to the sale of let land which would encourage investments and improvements in that sector.

(iii) "Hold-Over" Relief.

While we welcome the relief given by Section 86 of the Finance Act 1981 in that transfers into settlement were afforded relief we see no reason why similar "hold-over" relief should not be given where assets leave a trust. We appreciate/

appreciate that the Government is to produce draft clauses on capital taxation and settled property but we have not had the benefit of seeing the proposals and thus wish to press this representation for relief. This matter is of particular importance to us in Scotland because so much of the land is held in trust and we consider that a charge to Capital Gains Tax which results on the termination of a trust is an unjustifiable charge.

(iv) "Roll-Over" Relief - Trust Assets.

"Roll-over" relief should be extended to cases where a beneficiary carries on a trade on an asset owned by trustees. It seems illogical that such a relief is not presently available where agricultural land happens to be owned by trustees and not the individual who carries on the farming enterprise. Once again this is of particular importance to us because so much land in Scotland is held in trust.

(v) Tax Losses Offset Against Capital Gains.

In view of the current adverse economic conditions it is essential that relief is given to hard pressed owners of agricultural land to the extent that numbers of such owners are now being forced into a position of having to sell off land either as a whole or in parcels in order to reduce bank overdrafts which had arisen as a result of revenue losses. In such a situation we feel strongly that income tax losses should be available for offset against capital gains in these circumstances. Although this is introducing a new concept as far as Capital Gains Tax is concerned there is a precedent in the case of companies where current trading losses are available to offset against current capital gains. In such circumstances it would be only equitable to relieve such an owner of some of his burden.

3. INCOME TAX

(i) Overdraft Interest.

It is essential for the efficiency of the agricultural industry that repairs and maintenance of agricultural properties are kept at a high level. In the present economic climate there is a danger that this will not be so unless tax relief is given to landlords for overdraft interest which they incur in connection with these expenses and we would represent most strongly that this relief be given.

(ii) Investment Income Surcharge.

The investment income surcharge should not apply to agricultural rents as it is our contention that the letting of land is a business. The relief could simply be given by adding the following words to the end of Section 530(1)(c) of the Taxes Act 1970 "or which represents rents from agricultural land as defined in Section 79 of this Act".

(iii) Capital Allowances.

With regard to capital allowances on agricultural buildings we would wish to see these given on the basis of the gross cost before deduction of grant.

4. VALUE ADDED TAX

We repeat again our claim that agricultural rents should be rated for V.A.T. purposes.

5. STAMP DUTY

In cases of disposals of heritable property where no cash consideration is involved we feel strongly that no stamp duty should be charged. Such transactions already attract the payment of other capital taxes and it is inequitable and penal for yet another tax to be imposed especially where no cash derives from the disposal. We therefore press for the abolition of stamp duty in such circumstances.

6. DEVELOPMENT LAND TAX

When agricultural land is sold for development purposes we feel that this is a suitable case where "roll-over" relief should be given and we accordingly submit that this should be implemented so that relief may be given where the proceeds of such a sale are re-invested in agricultural property.

The Retail Consortium

19 Buckingham Gate, London SW1E 6LB Tel: 01-834 9526 Telex: 919291

COPY for CH/EX

FROM THE CHAIRMAN

(2)

CH/EXCHEQUER	
REC.	- 4 JAN 1982
ACTION	15 FST
COPIES TO	

The Rt. Hon. Sir Geoffrey Howe QC MP,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London SW1P 3HE.

38551

1st January 1982

Dear Chancellor of the Exchequer,

RETAILERS BUDGET SUBMISSION

a) The Retail Consortium

The Retail Consortium represents well over ninety per cent of the retailers in this country through its seven member organisations:- The Association of Retail Distributors, The British Multiple Retailers Association, The Co-operative Union Ltd., The Mail Order Traders' Association, The National Chamber of Trade, The Specialist Retailers Group and the Voluntary Group Association.

b) Retailing as part of the Economy

The Retail Trade is an important employer in that we employ around two and a half million people and we absorb twenty per cent of all school leavers. We do support the main principles of the Government's excellent initiative on youth employment and we are in touch with the Secretary of State for Employment on this matter. We contribute about ten per cent to the Gross Domestic Product and we absorb approximately thirty six per cent of the money spent by tourists in this country.

We are an important customer to a wide range of British manufacturers - it is estimated that around seventy per cent of the goods in retail stores are at least to some extent British made. We are also an important importer for we must always be able to buy the right goods at the right time in the right place. We provide the vital link between manufacturers and consumers whose interests and requirements are well known to us.

.../

Director General: Bob Lloyd-Jones Secretary: M.G.W. Wilsey A.C.I.S.

The Retail Consortium of: Association of Retail Distributors · British Multiple Retailers Association · The Co-operative Union
Mail Order Traders' Association · National Chamber of Trade · Specialist Retailers Group · Voluntary Group Association

A company limited by guarantee. Registered in England No. 1192857.

We do favour the Government's main objective to reduce the inflation rate and you will appreciate that we have made a major contribution to this by keeping our price increases well below the inflation rate. We also wish to see the high level of unemployment reduced for unemployed people represent a serious drain on the country's resources and quite apart from the moral implications are not good long term consumers. Although we may well be emerging from an industrial recession - and we hope so - we fear that 1982 will be the year of the consumer or retail recession. The high interest rates, increasing Public Sector costs, increasing occupancy costs (rents, rates, service charges) and lower wage settlements are all factors which will contribute to this.

c) Our Budget Submission

The previous Budgets during the life of this Government have been unhelpful to retailers and consumers with the substantial and sudden increase in VAT, the increase in excise duties on wine, beer, spirits and petrol together with the increased National Insurance charges which have also reduced the Personal disposable Income. However the effects have not been clearly seen because of the level of wage settlements and the availability of redundancy payments. There is no doubt that most retailers have suffered low profitability and unless there is a substantial change in the economic climate or the Government is prepared to demonstrate its "flexibility" in relation to the important retail sector 1982 will be a seriously difficult trading year for most retailers.

In brief we strongly urge you to consider the following proposals for inclusion in the next Budget:-

(1) National Insurance Surcharge

As a labour intensive industry we feel most strongly that this Surcharge should be immediately abolished. The cost which has been imposed on the retail trade so far is substantial and we estimate the total yield to be of the order of £250 million for the retail sector in 1982/83. It should also be recognised that the high level of National Insurance costs imposed on employers deters them from employing more labour. The country must look to the service sector to provide employment.

(2) VAT

A reduction of the current rate of 15 per cent where it applies to 12½ per cent. Although this will probably represent a loss of about £1500 million to the Exchequer it will reduce the Retail Price Index by 1.25 per cent. This will in turn diminish wage demands. We do favour a single positive rate and we would object most strongly to any re-introduction of differential rates or any extension of the scope of VAT.

This proposal would in our view assist the Government in its attempt to reduce inflation and provide some stimulus to demand.

(3) Capital Allowances

We do press most strongly for parity with at least the hotel trade which we believe is now seeking an increase on their 20 per cent rate which was introduced in 1978. Additionally the 1981 Finance Act increased the allowances for manufacturers from 50 per cent to 75 per cent.

We now require capital allowances for new shops and warehouses including the adaptation of premises. The retail trade has, despite the economic recession and other pressures exerted upon it, made substantial investments during the past year. It also intends continuing the pattern of investment in the future provided of course that this involvement is likely to prove profitable. This forward planning will also, if fulfilled, mean additional employment.

The current squeeze on retail profitability may endanger this investment.

The cost involved in making similar allowances to the hotel trade in the case of retailing would be:-

negligible in the first year
£20 million in the second year
£50 million in the third year
£65 million in the fourth year

23rd June 1980
(Hansard Coln 60)

The present unsatisfactory situation is having a serious effect on many retailers' margins and cash flow.

Additionally those retailers who are engaged in the rental business feel that there should be a restoration of the 100 per cent reimbursement of the first year capital allowances to retail leasing.

(4) Energy and Occupational Costs

We are in close contact with the CBI and we do support their views on the cost of energy but as already stated we do have a most critical view of the public sector costs in general. These costs have risen far more rapidly than the Retail Price Index, which demonstrates how responsible retailers are in relation to their customers and the Government's overall policy. There is no doubt that retailers in general have contributed substantially to the Government's primary objective of reducing inflation but this contribution has been negated by the considerable increase in energy and occupancy costs. We have already made a submission regarding the substantial and sudden increases in rates and we have taken this serious matter up with the Secretary of State for the Environment.

We have made several points in this letter but we have restricted our comments to those which are mainly of relevance to retailing. Many other suggestions have been made to the Retail Consortium by its member associations and individual firms in relation to interest rates, taxation reliefs and other matters and we believe that we should restrict our submission to the major relevant issues.

We recognise that you will face a most difficult task in formulating the next Budget and as we are a major element in the UK economy we would very much appreciate having an opportunity to discuss these matters with you. We have approached you at an early stage so that you will have an opportunity to take our written and we hope our oral submissions into account.

Yours sincerely,



C.W. Paterson.

TIMBER GROWERS GREAT BRITAIN LIMITED

Registered in England No: 1513776

Chairman
THE HON. JAMES GALBRAITH
Secretary
A.R. WILLIAMS

Registered Office
AGRICULTURE HOUSE
KNIGHTSBRIDGE LONDON SW1X 7NJ.

Telephone:
01-245 9927

Your Ref:

Our Ref: JMGG/cew

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON SW1P 3HE

cc cm/et

CH/EXCHEQUER	
REC. 1	18 JAN 1982
SECTION	15/FST.
DATE	
4th January 1982	
32256	



Dear Sir Geoffrey,

I write to ask if when preparing this year's Finance Bill, it would be possible to include certain adjustments affecting the incidence of Capital Taxation on Forestry, to which we have drawn your attention in recent years.

We believe that the ability of the Private Sector to respond to the Government's commitment to forestry expansion - which places an increasing emphasis on private investment - would be much enhanced if the helpful restructuring of CTT which you have so far carried out were to provide for the undermentioned additions, which we suggest might be put into effect this year. They are:-

1. The CTT liability on death where such is deferred should be based on the value of the growing trees at the date of death and not on the proceeds of the eventual sale of the timber.
2. The CTT liability on the land on which the trees are growing should, because of the liquidity problems inherent in a long-term rotation, be capable of deferment in the same way as the liability attaching to the timber. It is appreciated that many assets are not immediately realisable, but when the duration of a timber crop is taken into account, especially where it consists of broadleaved trees running to two hundred years in some cases, we suggest that land bearing trees is a special case which merits the CTT treatment we ask for.

At the same time, we should also be most grateful if you would please consider a number of minor amendments to, or clarification of the existing provisions which we believe could be subject to adjustment at no great cost, namely:-

- 1) Requiring changes in the law:
 - a) Deemed distribution from discretionary trusts should cancel estate duty after 5th April 1983. Section 49(4)FA 1975 provides for the cessation of estate duty charges on woodlands which are first charged to CTT on a 'transfer of value'. It would appear that the notional transfers for CTT under the proposed new regime for discretionary

trusts are not 'transfers of value for this particular purpose. We would ask that they be so defined or that alternatively the ten yearly charge should not apply to growing timber.

- b) Woodland reliefs to be carried through to companies and fully to Trusts (Partnership situations appear to be clear, but we would welcome confirmation).
 - c) Retirement relief for CGT purposes to extend to timber growers. There is in fact an opinion which is relatively widely held, supported by reasoned argument that retirement relief is available in respect of commercial woodlands. Perhaps a statement of practice or a declaratory provision that the relief would be so allowed would be sufficient.
- 2) Not requiring formal changes in the law:-

Business assets reliefs, where these are dependent on the transfer of a business or an interest in a business, for CTT and some CGT should be allowed more easily where only the asset (i.e. the woodland) is transferred.

I hope that you will give sympathetic consideration to the points I have outlined in this letter, in the light of the need to stimulate the private sector into further investment in planting trees in the national interest. Such arrangements would, I believe, prove effective incentives, and will greatly encourage our industry at a time when poor market prices and the recession are having a particularly adverse effect.

We have greatly appreciated the opportunity to discuss with representatives from the Inland Revenue the special case of broadleaved woodlands. We hope to come forward next year with definite proposals for assisting this branch of forestry, so that the growing anxiety of conservation groups and the public generally, may be allayed.

Yours sincerely,



Chairman.



Southampton Chamber of Commerce

President:
L. R. M. Tibble
Director-General:
P. M. St. George, M.B.E.
Established 1851 Incorporated 1875

Registered Office:
53 Bugle Street, Southampton, SO9 4WP
Telephone (0703) 23541/2
Telex 47388 CHACOM G

PMStG:jf

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

8 January 1982

cc CH/EX ✓

CH/EXCHEQUER	
REC.	11 JAN 1982
ACT.	75 FST
38887	

Dear Chancellor

1982 BUDGET PROPOSALS

Following our usual custom, I now have pleasure in giving below this Chamber's recommendations for your forthcoming Budget.

a) Stamp Duty

We consider that the allowances available on transactions up to £35,000 should continue to apply regardless of the price involved. For example, upon a transaction valued at £40,000, the stamp duty should be £250.00 calculated as follows:-

On the first £20,000	- nil
On the next £5,000	- ½%
On the next £5,000	- 1%
On the next £5,000	- 1½%
On the balance	- 2%.

At present, the duty would be £800.00, being 2% on the whole sum.

b) Employers National Insurance Surcharge

We feel that there was no justification for the surcharge and it should therefore be abolished. It is also a deterrent to employment.

Cont'd./.....

c) Mortgage Relief

It should be pointed out that the present limit of £25,000 has not been increased since 1974/75 and, if the inflation index was taken into account, this would now be in the region of £60,000. We would recommend that the present limit of £25,000 be increased to £40,000.

d) Investment Income Surcharge

More substantial relief should be given to the over 65's.

e) Capital Transfer Tax

Lowering of the rates and raising of thresholds. That a surviving spouse should take over any unutilised reliefs of the deceased spouse.

f) Industrial Building Allowance

As a means of assisting the development of new industrial business, the Government sought ways in which to stimulate the construction of small (up to 2,500 sq ft) buildings.

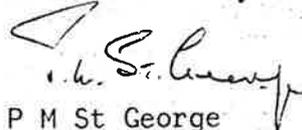
The method adopted and, it must be admitted very successfully, was to increase the initial tax allowance for such buildings as provided by the Capital Allowances Act 1968 to 100% of the allowable cost.

This arrangement has certainly produced funds from individuals and companies for the construction of buildings to the required specification, but due to the stringent definitions in Section 7 of the 1968 Act as to the types of use which would enable to 'industrial building or structure' to obtain the allowance, many small businesses do not attract the allowance and are, therefore, not being accepted as tenants.

This Chamber would recommend the widening of the definition set out in Section 7 of the Capital Allowances Act to include buildings or structures where the occupier carries on a business in which the whole or part of that business comprises light or general industrial use or special industrial use as defined in the Town & Country Planning (Use Classes) Order 1972 (No: 1385).

If this widened definition were to be adopted, employment opportunities would be increased, particularly in the service industry sector which today frequently requires as many or more employees in a building of the approved size as the occupier meeting the 1968 definition.

Yours sincerely



P M St George
Director-General



The Wine and Spirit Association of Great Britain and Northern Ireland

(Incorporated) Limited by Guarantee

Five Kings House, Kennet Wharf Lane
Upper Thames Street, London EC4V 3BH

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Fortified, London EC4

8 January 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
LONDON SW1

cc CH/ex ✓

CH/EXCHEQUER	
REC.	11 JAN 1982
ACTION	PS / FST
INDEXED	
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	38787

Dear Sir

On behalf of this Association, I enclose three copies of our formal representations in respect of the forthcoming Budget.

Once again, the bases of our submission are stability of duties in monetary terms, and the introduction of a credit period for payment of duties (or duty deferment). I would emphasize that both these points have equal priority.

I take this opportunity to request formally that you, or one of your Ministers, will receive a deputation from this Association so that we may be afforded the opportunity of amplifying and clarifying our supporting argument.

Yours faithfully

D G D Webb
Chairman

DGDW/lis

WINE AND SPIRIT ASSOCIATION
OF
GREAT BRITAIN AND NORTHERN IRELAND

Representations
to the Chancellor of the Exchequer
on his forthcoming Budget

January 1982

The Wine and Spirit Association of Great Britain and Northern Ireland presents to the Chancellor of the Exchequer the following observations on his forthcoming Budget.

TAXATION OF WINES AND SPIRITS

Wines

The European Communities Commission have proposed a ratio of light wine to beer duties of 3:1. This ratio could be established by a 30% reduction in the present duty on light wine. If the reduction were to be less than 30%, the 3:1 ratio could only be achieved by increases in beer duties, as much as 43% in the case of a nil reduction in light wine duties.

A given percentage reduction in the light wine duty would not give rise to an equal percentage reduction in the revenue produced, because price and income elasticities would operate. The Association's estimate is that about one third of the reduction would be offset by increased clearances; and that the retail price index would be reduced by 0.1%.

At this point the Association would ask the Chancellor to give some consideration to the trade and to the consumer. The combined total of duty and VAT per hectolitre of light wine is estimated to be, in the present year, $3\frac{1}{4}$ times what it was in 1973/74, when VAT was introduced. This is well above the rate of inflation during the period.

The Association asks the Chancellor to take the final step in reducing light wine duties to three times the level of those on beer; and to make suitable reductions in the duties on higher strength wines, so as to achieve a coherent and equitable scheme for wine duties as a whole.

Spirits

The Association estimates that the total tax revenue from spirits in 1980/81, at 1969/70 money values, was 107% of the total for 1969/70. The real value of the annual revenue from spirits has in fact remained close to the 1969/70 figure, over the twelve years. Until recently falls in the real burden of duty and VAT per hectolitre have been accompanied by rises in clearances roughly sufficient to maintain the real value of the total revenue.

For 1980/81, rates of duty on spirits were increased by 13.7%. In its representations to the Chancellor in January last, the Association forecast that the receipts from these increased rates would barely equal, or might even fall short of the receipts from the lower rates in force in 1979/80. The forecast was justified, because duty receipts for 1980/81 were 0.1% lower, in cash terms, than those for 1979/80.

In real terms, the receipts for 1980/81 were 14.2% lower than those for 1979/80.

For 1981/82, rates of duty on spirits were increased by 14.6%. The evidence available to the Association is that clearances are substantially lower than those in 1980/81. It is possible that the receipts from the duties at their new level will be less than in either of the two previous years, again in cash terms.

In the Association's opinion the conclusion to be drawn is that a further increase in the duties on spirits would be accompanied by a fall in the total cash receipts. This would be contrary to the interests of the Revenue and the trade.

DUTY DEFERMENT

The absence of a period of credit for the payment of duties ("duty deferment") on wines and spirits continues to be a totally unfair feature of fiscal legislation. It is not possible to justify the exclusion of wines and spirits from an arrangement which applies to other dutiable goods such as beer, made-wine, cider and perry and tobacco.

The Association earnestly represents to the Chancellor that the time for making a rational approach to this subject is much overdue and that the problem is capable of solution.

OTHER MATTERS

Local rates, in too many cases, represent the dissipation of resources without adequate, tangible returns. The Association supports the efforts which are being made by the Government to curb this waste which in many cases is turning viable businesses into non-viable ones.

As regards the National Insurance surcharge, the Association is glad that the Chancellor has recently taken a further step to redistribute this burden so as to provide some relief for employers.

The Association hopes that the Chancellor will turn his attention to the question of capital allowances on commercial buildings, with a view to planning a reform of the present inequitable law.

January 1982



J I thank you still have

X.

C 14/1

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

In v.m

14 January 1982

1. MR CRAWLEY *file 14/1/82.*
2. CHANCELLOR OF THE EXCHEQUER

2

'A NEW UKCS TAXATION SYSTEM' - MARTIN LOVEGROVE'S PROPOSALS

X 1. Martin Lovegrove, former manager of BNO's Economic Intelligence Group, wrote to you on 30 December enclosing a copy of his proposals for a new North Sea tax system. He sent a similar letter to the Secretary of State for Energy. We discussed the merits of his proposals very briefly at yesterday morning's meeting.

The proposals

2. These are in many respects similar to the IFS proposals which were discussed in our note of 16 December. The main points of Mr Lovegrove's scheme are as follows:

- a. SPD and PRT would both be abolished and replaced by a single progressive tax, Petroleum Tax (PT), related to profits as a percentage of costs. PT would be chargeable on profits of over 30 per cent of costs at an initial rate of 25 per cent rising in 4 stages to a top tax rate of 85 per cent on profits of over 70 per cent.
- b. Ring fence corporation tax and royalties would remain (the IFS scheme abolished these).

cc Minister of State (Lords)
Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Mr Rylie
Mr Wicks
Mr Robson

Sir Lawrence Airey
Mr Dalton
Mr Rogers
Mr Crawley
Mr Stephenson
Mr Whitear
Mr Johns
PS/IR

scheme in that Mr Lovegrove proposes spreading capital expenditure relief, which would create serious problems in relation to expenditure already committed. Whether this would be an essential feature of Mr Lovegrove's package in order to keep the yield up is not clear; its effects on profitability would also need to be examined.

5. As with the IFS scheme, we would not expect the industry to be greatly attracted by Mr Lovegrove's scheme given the upheaval it would cause and their general distrust of progressive tax systems. They would not welcome the further delay which would be inevitable before such a scheme could be set in place or the uncertainty about creditability.

6. We feel you need only send a brief acknowledgement to Mr Lovegrove's letter and a suitable draft is attached.

M.A. Johns

M A JOHNS



Chevron Petroleum (UK) Ltd.

(Incorporated With Limited Liability in Delaware U.S.A.)

Chevron House, 93 Wigmore Street, London W1H 9AA

Telephone: 01-486 7155 Telex: CPUK G 8811467

R. W. Donaldson
Managing Director

*1. C. ✓
An offensive
starts*

*2. pwp
Lfd*

CH/EXCHEQUER	
REC.	18 JAN 1982
ACTION	
COPIES TO	<i>19/</i> <i>Mr Middleton</i> <i>Mr Battinhill</i> <i>Mr Wick</i> <i>PS/IR</i>

15 January 1982

The Principal Private Secretary to
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Sir

I am writing to let you know, for the information of the Chancellor, that in this company we have decided to endeavour to make a positive contribution to a wider understanding of the offshore oil industry and its operations in the North Sea.

The way in which the resources of the Continental Shelf are used is a subject of interest to everyone in the country concerned with Britain's best interests and economic health. Because ours is a comparatively new industry, however, with its distinct systems of finance and tax, few people who are not themselves involved are familiar with the details.

One reason for our decision is that we foresee public discussion during 1982 of matters arising from the Chancellor's invitation to the industry to submit proposals for a new structure of offshore oil taxation, to follow the present arrangements after June 1982, and the industry's response. The proposals presented by the United Kingdom Offshore Operators' Association (UKOOA), on behalf of the large majority of operators in the North Sea, were made public, by agreement with the Government, a week after they were received by the Treasury last October. We are glad to know that they are at present under full and careful consideration.

Not surprisingly many of the matters discussed are thought to be abstruse and are not easily comprehended by people who are not themselves working in, or associated with, the industry. As one of the principal operators in the North Sea we are receiving enquiries and requests for information. We are, therefore, proposing to make our services available, so far as they can be extended, and to offer relevant factual information about the conduct of offshore operations and the circumstances which make them worthwhile or possible in the North Sea. We have it in mind in particular to assist Members of both Houses of Parliament who are interested in finding out more on this subject.

We hope in this way to help public discussion of matters which affect our industry and are likely to arise in the coming months to be well informed.

I am sending a similar letter to the Principal Private Secretary to the Secretary of State for Energy.

Yours faithfully

R W Donaldson
R W DONALDSON

RECEIVED
 15 JAN 1951
 THE SECRETARY OF THE ARMY
 WASHINGTON, D. C.

DEPARTMENT OF THE ARMY
 OFFICE OF THE SECRETARY
 WASHINGTON, D. C.

15 JAN 1951

The following information is being furnished to you for your information and for the information of the Department of the Army.

I am writing to let you know that the letter signed by the Chairman, the Board of Economic Warfare, dated 10 January 1951, is being furnished to you for your information and for the information of the Department of the Army.

The case in which the resources of the Department of the Army are being used in connection with the Board of Economic Warfare, is being used in connection with the Board of Economic Warfare.

One of the main reasons for the Board of Economic Warfare is that the Board of Economic Warfare is being used in connection with the Board of Economic Warfare.

The Board of Economic Warfare is being used in connection with the Board of Economic Warfare.

It is the policy of the Department of the Army to keep the Board of Economic Warfare informed of the activities of the Board of Economic Warfare.

I am writing to let you know that the Board of Economic Warfare is being used in connection with the Board of Economic Warfare.

Very truly yours,
 The Secretary of the Army

[Signature]
 THE SECRETARY OF THE ARMY

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 5533

From the President's Office

15th January 1982

Dear Chancellor

I attach on behalf of the Royal Institute a memorandum of proposals to which I hope you will give consideration in the preparation of the Budget for 1982.

Yours sincerely
Owen Luder

OWEN LUDER
President

cc CH/EX

CH/EXCHEQUER	
REC.	19 JAN 1982
ACTION	CS/FST
COPIES TO	
	39109

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H.M. Treasury
Parliament Street
London SW1P 3AG

RIBA SUBMISSION TO THE CHANCELLOR ON THE 1982 BUDGET

INTRODUCTION

- 1.1 The Royal Institute, as the major professional body representing architects, with their intimate involvement with the construction process, is gravely concerned about the continuing crisis in the construction industry. Since the present Government took office, output has fallen by 17% and private architects commissions by 26% whilst the profession in the public sector has also experienced major reductions in capital programmes. There are now 400,000 people unemployed in the construction industry.
- 1.2 In spite of recent indications of a small recovery in construction output in the 3rd quarter of 1981, prospects for the industry remain gloomy with a further 3% contraction forecast for 1982. At a time when the industry is experiencing the lowest level of output for twenty years, with serious implications for the stock of building capital, the RIBA is for the first time submitting a number of proposals which if implemented even in part, would assist in engendering confidence in the industry and more widely in the economy. The proposals in this paper are consistent with the Governments expressed wish to increase the share of capital within total public spending and to stimulate enterprise in the private sector.

PROPOSED MEASURES

Increased Capital Spending on Construction of £1,000 million

- 2.1 An increase of £1,000 million in the Government's plans for 1982/3 would enable the industry to achieve a modest growth rate of up to 2%, compared to a forecast drop of 3% in output in 1982.

The extra expenditure should be mainly directed towards the inner cities, housing improvement and associated infra-structural work which would generate additional private spending. Housing improvement work is particularly labour-intensive and has shorter lead-times and so can make a swift impact in the next financial year. Other measures which should be incorporated in the expenditure programme are grants to assist first-time buyers in raising deposits, thus stimulating the private housing market. The cost of these measures could be partially offset by restricting income tax relief on mortgage interest at the top rates. This would redress the present inequities of the system, which gives disproportionate benefits to high income purchasers.

Recent research suggests that the additional spending would increase employment by 130,000 jobs but would only increase net public sector borrowing by £350 million.

Reduce Interest Rates

2.2 The Government should give a higher priority to reducing interest rates. A significant reduction in rates would make a useful contribution to restoring confidence in the private sector whilst reducing the cost of public sector borrowing. Apart from the beneficial effect on mortgage rates and the private housing market, a cut in interest rates would particularly benefit the private industrial and commercial building sectors.

Zero-rating for VAT

2.3 The present tax arrangements discriminate against building repair and maintenance work, including energy conservation measures and preventative maintenance. Repair and maintenance work should enjoy

zero rating as is the case with new construction and improvement work. This measure would help in reversing the worrying trend towards the increasing disrepair of the nation's housing stock. The case for zero VAT rating is particularly strong in relation to listed buildings. From the Treasury's point of view this measure has the advantage of encouraging the use of bone fide builders who declare taxable income.

Increase the Lower Limit for VAT Registration

2.4 At present small service industry organisations come within the scope of VAT registration at a turnover of £15,000. This means in effect that a single self-employed architect is likely to be liable to pay VAT, and it is noteworthy that, partly as a result of spending cuts, an increasing number of architects are in this situation. Raising the limit at least to £25,000 would assist the development of small firms and in the case of the construction professions remove an obstacle to adjustment towards greater private sector employment.

Raise the Threshold for Stamp Duty

2.5 Although the level at which stamp duty on house purchase becomes payable was raised from £15,000 to £20,000 in 1980, it still means that the average housebuyer is liable. In 1974 however when the £15,000 lower limit was introduced the average price of new dwellings purchased on a mortgage was only about £11,000. In order to restore the situation to that in May 1974, the lower limit should now be raised to £35,000.

100% Initial Allowances on Industrial Building

2.6 Following on last year's Budget measures, the Government should raise initial allowances for industrial buildings by 100% to stimulate this hard-hit section.

One Year Tax Holiday on Development Land Tax in the Inner Cities

2.7 Some of the greatest potential for land development exists in the inner cities. The Government in promoting the establishment of Land Registers, has already shown a desire to encourage the release of more land for development.

To stimulate confidence the Government should introduce a one-year holiday on Development Land Tax. This would further encourage the private sector to release land now for building.

Government Guarantees to Financial Institutions

2.8 To encourage greater interest in high risk areas such as the inner cities, the Treasury should assist the financial institutions to develop a better framework for investment decisions. This framework could include Treasury and local authority guarantees which would reduce the risks involved, and refinement of the investment criteria employed by the institutions in considering projects in the inner cities.

Resource Conservation

2.9 In a densely populated land which at present is heavily dependant on imported raw materials, it would be prudent to encourage the recycling of materials, property renovation, all forms of repair work and the use of derelict land.

The Institute is concerned that, in an economy suffering from unemployment levels unprecedented in modern times, the burden of taxation lies disproportionately on the employment of labour relative to other inputs.

The proposals outlined in this paper on building repair and maintenance work and VAT registration, would assist individuals and small firms involved in resource conservation work. The Government should supplement these measures by providing initial finance adequate for local authorities specifically to initiate appropriate resource conservation measures.

In the longer term, however, to achieve a balanced approach to conservation would necessitate more radical changes in the fiscal structure and trading arrangements in relation to raw material inputs.



psw

CHANCELLOR ~~_____~~

Wass. I refer to Command

cc Chief Secretary
Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr Robson
Mr Griffiths

CONSERVATIVE RESEARCH DEPARTMENT - BUDGET SUBMISSIONS 1982

I agree generally with the Financial Secretary's endorsement of the CRD Budget Submissions attached to his Private Secretary's minute of 12 January to Mr Battishill.

However;

(i) I am unshaken in my belief that the best way to help the private sector is to set the stage for reducing interest rates with a modest PSBR. And the sum total of the various douceurs suggested by CRD would add up to a tidy sum. I suggest that NIS rebates on new employees would lead to some "new for old" which would cause us trouble. But if some move on NIS is unavoidable, this might be worth trying.

(ii) I am very dubious about the recommendation to increase excise duties by 12-15% across the board.

Revenue-wise it would be nudging the point of counter-productivity, and we cannot overlook the RPI effect.

(iii) I do not see how we can meet the proposal to exempt charities from VAT. To grant exemption to all would be crippling administratively; to give it to some would generate great difficulties in drawing the dividing line.

(iv) I would strongly resist the proposal to free from Investment Income Surcharge the rent which is payable to agricultural landlords, leaving it liable to income tax alone. It is really up to MAFF to settle the problem of the shortage of farm tenancies available for re-letting.

(v) The case for joining the EMS is overstated. The essential advantages remain

- (a) political presentation
- (b) Cabinet management.

the others are frankly hypothetical.

Cy Hurnis

J JOCK BRUCE-GARDYNE

17
mp

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 5533

From the President's Office

15th January 1982

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OWEN LUDER
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CH/EXCHEQUER	
REC.	19 JAN 1982
ACTION	
COPIES TO	

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H.M. Treasury
Parliament Street
London SW1P 3AG

39108

FINANCIAL SECRETARY	
REC.	20 JAN 1982
ACTION	PS/IR
COPIES TO	PPS CST, EST, MSTL EIRD, WASS MR RYRIE MR MIDDLETON MR BATHSHILL MR ROBSON MR GRIFFITHS

MR TURNBULL
MR BURIE
MR F. MARTIN
MR CROPPER
PS/CYE

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PRIVATE AND PERSONAL



SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Geoffrey Howe QC MP
HM Treasury
Parliament Street
LONDON SW1

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

20.1
1. cc Sir D. Wass, C.S.T.
2. Return to me. *J.P.*
28/1.

20th January 1982

Dear Crispin

CABINET DISCUSSION ON THE ECONOMY

I have been giving some thought to the forthcoming discussion in Cabinet on the economy. I feel sure that all colleagues will welcome this opportunity for discussion very warmly and that it will help avoid the kind of problems which arose last year.

Clearly no one will wish to usurp your right to decide on the general shape of the Budget, but colleagues will wish to form a broad judgement of the economic prospects and also be able to give some indication of their general feeling about the implications of the main options you will be considering for the Budget in the light of our discussion. I wonder therefore if you would agree that it would be useful if, in advance of our discussion, you could provide some analysis of the probable economic impact of a variety of policy options based on the Treasury's economic model.

I have in mind the kind of analysis presented by Mr Terry Barker in the January issue of Lloyds Bank Review, although some of the more fundamental measures which he tests would seem inappropriate at this stage. Of course, one is fully aware of the caution with which such an exercise should be treated, not least because of the way in which different combinations of options can produce a wide variety of outcomes. But I do feel, nonetheless, that colleagues would appreciate this point and that some analysis of the implications of the main options would be useful in informing our discussion.

It would seem most helpful if the likely implications of different options for economic growth, employment, inflation and the PSBR could be presented, and in each case for both the immediate future (eg about 6 months' time) and the more medium-term (eg about 18 months'/2 years' time). Clearly you will have a better idea of the

/...

PRIVATE AND PERSONAL

PRIVATE AND PERSONAL

range of options which we might usefully have before us, but perhaps I might suggest some options for consideration. Let me make it absolutely clear that in no way should my suggestions be regarded as some kind of list of preferences, or personal "shopping list". As you will see it would be quite impossible to include all of them in one Budget, but I put them forward because they are the kind of options one hears mentioned in public debate. The magnitude of the following options could also be varied, depending on what you feel would be most appropriate. (I am assuming indexation of tax allowances and duties except, obviously, in the first two options):

- Personal tax allowances increased by 5 per cent more than the rate of inflation.
- Non-indexation of duties.
- Reduction in the standard rate of income tax, (a) of 1p, (b) of 2p.
- Employers' national insurance surcharge, (a) no reduction, (b) reduction to 2½ per cent, (c) reduction to 1½ per cent, and (d) full abolition.
- Reduction of VAT from 15 per cent to 12 per cent.
- Higher benefit payments (eg restoration of 2 per cent shortfall and raising Child Benefit by £1).
- Increased spending on capital investment, (eg by accelerated housing improvements grants and by time-limited investment aid for industry) by (a) £500m and (b) £1,000m.
- Expansion of special employment measures by (a) £500m and (b) £1,000m.

One further option which fits less easily into this framework but where, nonetheless, it might also be useful to have some analysis of the likely implications would be for a general reduction in the level of interest rates with a consequent small reduction in the exchange rate.

A handwritten signature in dark ink, appearing to be 'G. ...', with a large flourish underneath.



DEP.
PROV.
Sebuton

Chancellor

Backbench Finance Committee
9:00am 9 February.

The following Treasury team will
support you when you see
the backbench officers
informally on Tuesday
morning :-

CST

FST

EST

MST(L)

MST(C)

Jan Stewart MP

Adam Kidley

Sebuton
8/2

D.12

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (L)
Mr Harris
Mr Cropper

CONSERVATIVE BACKBENCH FINANCE COMMITTEE

A brief note to record that, following a discussion with Miss Rutter, I have made arrangements with Sir William Clark as follows:

(a) The Finance Committee would be delighted, so it would seem, to have a meeting on 9 February at which they will express their views about the Budget and you would attend in a Trappist capacity.

(b) Sir William thought the officers would be delighted to come to talk to you at 2.30 on the afternoon of Monday 1 February, the first convenient date which we can establish in your diary. He will get in touch with them to pass on the invitation.

2. It would be helpful if you could indicate soon who you would like to accompany you on the latter occasion. My own guess would be that you do not need more than one Minister and one adviser. I take it also that it would be inappropriate for a second minister to accompany you to the Finance Committee, but there could well be a case for having the Chief Secretary along because of the Finance Bill implications.

L. Mr de orb

Must have all mins for this

AR

ADAM RIDLEY

NOTE

1 February cancelled.
Re-fixed 9 February
9.00am. SeB

*Sharon. Pl. note both in diary
and invite all Ministers + Ridley + Harris for
(b) The 1 Feb meeting.*

JW

pwf

THE TENANT FARMERS' ASSOCIATION

Telephone: Reading (0734) 583143

22 Greyfriars Road, Reading, Berks RG1 1NS.

22nd January, 1982.

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London S.W.1.

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Sir,

1. As you no doubt know, tenant farmers decided last October to set up an independent Tenant Farmers' Association. This decision, which was taken only after long and earnest countrywide consultation, signalled the serious concern of tenants about their future as individuals, the major decline in the number of farms to let, the escalation of farm rents, and the threat to the survival of the well tried and successful landlord/tenant system.

2. The reasons for the present unsatisfactory situation are many and complex but without doubt a significant factor was the Agriculture (Miscellaneous Provisions) Act 1976 under which any landlord who might wish to grant a tenancy, would in effect be surrendering occupation of the farm for up to three generations. This immense disincentive to let, together with other fiscal penalties in letting land, has virtually assured the demise of new farm tenancies; our latest information is that there has been a further disturbing fall in the number of farms and area re-let in the private sector to 8.9%.

3. The implications of the dramatic reduction in farms to let are:-

- (a) Landlords, often unwillingly, take land in hand rather than re-letting and in the few cases where re-letting does occur, the tendency is to let to already established farmers rather than to first time tenants.
- (b) New entrants (prevented also by the high cost of purchasing) are effectively barred from getting into farming.
- (c) The agricultural ladder, which should provide mobility within the farming industry, is blocked.
- (d) Rents have been influenced by the scarcity factor and are increasing to unrealistic and uneconomic levels.

All these factors add up to a fast approaching breakdown of the landlord/tenant system; a system that has formed the basis of the outstanding performance of British agriculture in producing relatively low cost food for very many years, and within which the costs of providing land, labour, capital, management and expertise, are shared between landlord and tenant as a business partnership.

FINANCIAL SECRETARY	
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/ 4.

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MR F. MARTIN
MR RIDLEY

4. A start on proposing remedies to the problems has been made by the National Farmers' Union and the Country Landowners' Association in their joint package of measures submitted to the Minister of Agriculture, Fisheries and Food recommending amendments to the succession provisions of the 1976 Act and changes in the method of assessing rents. This Association supports these proposals as useful steps in the right direction. The Tenant Farmers' Association is also considering other possible remedies on the basis of feed back from its growing membership.

5. The primary purpose of this letter however is to stress from the tenant farmers standpoint, that the landlord/tenant system is a vital commercial partnership that depends to a large extent not only on the correction of the legislative issues referred to above but also on the removal of certain fiscal penalties weighted upon let land.

6. Tenant farmers consider that there is justification for changes in taxation of capital and income to narrow the wide disparity of these taxes as between land with possession and let land; and further relief on let land taxation would remove the fiscal disincentive to let and would recognise the essential active working business element in the management function of the private land owner.

7. The Tenant Farmers' Association strongly recommends this important adjustment in the taxation arrangements as being a fundamental measure for the re-establishment and maintenance of a healthy and substantial let sector; particularly with regard to the benefits this will bring to the young new entrants desperately wishing to get into farming.

8. A copy of this letter has been sent to Mr. Peter Walker M.P., Minister of Agriculture, Fisheries and Food.



R. A. B. WHITTLE
Chairman

BUDGET AND FINANCE BILL 1982

SUBMISSION

by

THE UNQUOTED COMPANIES' GROUP

to the

CHANCELLOR OF THE EXCHEQUER

Please Contact:

Sir Emmanuel Kaye, C.B.E.,
Lansing Bagnall Limited,
Kingsclere Road,
BASINGSTOKE,
Hampshire,
RG21 2XJ

25th January, 1982

BUDGET AND FINANCE BILL 1982

SUBMISSION BY THE UNQUOTED COMPANIES' GROUP
TO THE CHANCELLOR OF THE EXCHEQUER

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SUMMARY OF RECOMMENDATIONS

1. Economic recovery must not be held back by the continuation of the present system of taxes on capital. (Paragraph 2).
2. We should strongly oppose the entry of the United Kingdom into the European Monetary System at anything like the present rate of exchange between the pound and the Deutschemark. (Paragraph 5).
3. Tax cuts are a more efficient use of resources than public spending and provide not only an immediate stimulus to activity but also a sound basis for long-term growth. (Paragraph 7).
4. Even in trading concerns that have not yet been privatised, there are ample opportunities, so far unexploited, for funding profit-seeking investment from private sources rather than government funds. (Paragraph 8).
5. The cost of the tax cuts we recommend should be borne as far as possible by reductions in government spending and sales of public-sector assets rather than by an increase in the Public Sector Borrowing Requirement. (Paragraph 9).
6. Our priorities for tax reductions are capital taxes, profit-related business taxes and personal income taxes. (Paragraph 21).
7. The basic rate of *Income Tax* should be cut by not less than 1p. and preferably more. (Paragraph 21).
8. The drastic reduction (or preferably abolition) of *Capital Transfer Tax* is more important to us than any other tax reform. (Paragraph 24).
9. Short of the abolition of the tax, the whole rate structure should be reduced, with a top rate of 50 per cent or less (paragraph 27); and the tax should be reformed along the lines indicated in paragraphs 28-34. *Of these recommendations, the most important is the standardisation and extension of business reliefs, preferably to a uniform rate of 100 per cent.* (Paragraph 34).
10. The draft clauses on *Capital Transfer Tax* on discretionary trusts are radically defective and require major amendment. (Paragraph 35).
11. Short of abolition, or as a step towards it, the structure of *Capital Gain Tax* should be radically reformed, by indexation, rebasing, tapering or the exemption of gains from assets held for more than a short period such as three years. (Paragraph 37).
12. In addition to this major reform, the rate of tax should be reduced to not more than 25 per cent (paragraph 39) and the Government should implement the proposals in paragraphs 40-45.
13. As a minimum, the cut that we have urged in the basic rate of *Income Tax*

- should be accompanied by a reduction in the rate of the Investment Income Surcharge to not more than 10 per cent. (Paragraph 49).
14. The facility for the separate taxation of spouses' investment incomes should be introduced without delay. (Paragraph 51).
 15. The rate of *Corporation Tax* should be reduced to 50 per cent or less. (Paragraph 52).
 16. The six-year limit on the carry-forward of stock relief should be abolished. (Paragraphs 53-56).
 17. Investment allowances should be reintroduced at the rates provided for under Section 33 Finance Act 1963 and earlier legislation unaffected by that Act. (Paragraphs 57-63).
 18. The provision for the surrender of losses by a consortium member to the consortium trading company should be complemented by provision for including associated companies in the parent's group. It should also be possible for consortium group relief to be claimed at the same time as normal group relief. (Paragraph 64).
 19. We shall be making a separate submission on the Inland Revenue's draft clauses on company residence, tax havens and upstream loans urging that the draft clauses be withdrawn in their present form to take account of the opposition aroused throughout the business community by the consultative documents of January 1981. (Paragraph 65).
 20. Unless the amendments to the present tax system go substantially further than is suggested in the consultative document on the fiscal implications of companies purchasing their own shares, much of the advantage otherwise obtainable from the reform of company law on this subject will be lost as the result of fiscal hindrances. The Government should therefore implement the recommendations which we submitted on this subject last November. (Paragraph 66).
 21. The failure to contain business *Rates* in general makes it all the more urgent to implement our proposal of last year that empty industrial buildings be completely derated throughout the period of the current recession. (Paragraph 70).
 22. The critical figure for determining who should and who should not be the subject of a P11D ought to include only salary and benefits and to exclude reimbursable expenses. (Paragraph 71).

The industrial and economic background

Economic outlook

1. The business situation has shown little improvement for most of British industry over the last year except in the sense that it is no longer deteriorating so fast. Our members' assessment of the immediate outlook is still sombre. The main positive influence for commerce and industry over the last year has been some reduction in the overvaluation of sterling; and this has already been partially reversed.

2. A number of the causes of this state of affairs are largely or entirely beyond the Government's control, such as the world recession, the international price of oil and the public spending plans and commitments inherited from the last Administration. This makes it all the more important to exploit those elements of policy that are subject to the Government's influence. In particular, *economic recovery must not be held back by the continuation of the present system of taxes on capital.*

3. The attempt to bring the economy back from rapid and accelerating inflation to a regime of stable money values has required a drastic adjustment by industry, because it falsified what had for some years been the rational assumptions on which to base corporate planning. This adjustment, which would have been difficult enough by itself, has taken place against the background of an overvalued exchange rate and a world recession. A number of good firms have therefore either gone under or survived only by drastically reducing the scale of their operations. This erosion of the industrial base will not be made good easily or quickly. The growth of profitable firms is organic and gradual; jobs can be quickly destroyed but only gradually created. We recommend below a number of countermeasures to the present erosion of the industrial base.

Exchange rate

4. Although sterling has returned to a more reasonable rate of exchange against the dollar, it is still high against a number of continental European currencies, particularly the Deutschmark. This is largely due to the higher level of interest rates in the United Kingdom. One of the

reasons why we should like to see government spending contained and reduced is that the consequent reduction in the Public Sector Borrowing Requirement would help to bring down interest rates and thus correct the present overvaluation of sterling. The continuing pressure on industrial profits from an overvalued exchange rate is more important than any temporary advantage of a reduction in the rate of inflation.

5. *We should strongly oppose the entry of the United Kingdom into the European Monetary System at anything like the present rate of exchange between the pound and the Deutschemerk. At a lower rate of exchange, entry into the EMS might be a way of obtaining the exchange-rate stability that is so badly needed at present.*

Government spending

6. While the private economy has been subjected to the severest depression for fifty years, central and local government and the nationalised industries have remained largely immune. The nationalised industries have used their monopoly positions to impose price increases on their customers far beyond what was possible for private firms exposed to competition; the increase in local authority expenditure is acknowledged by the Government as a major problem, although no solution has so far been found; and central government expenditure accounted for nearly half the overshoot of £5 billion in total public expenditure for 1982-83 announced on 2 December. *Despite the cuts which the Government have succeeded in making in the public expenditure programme they inherited from their predecessors, public expenditure has risen steadily under the present Administration, both absolutely in "real" terms (abstracting from price changes) and as a proportion of national income.*

7. *In our assessment, this is the central failure in the Government's stewardship of the economy, vitiating much else that has been done well. We are against attempting to boost the economy through increases in public expenditure, particularly on current account and, within the capital account, on projects that increase instead of reducing eventual current spending; the procedures for controlling expenditure by the public sector do not take adequate account of the superiority of investment yielding future economies in current spending over investment that itself requires servicing through additional financial outlays. Tax cuts are a more efficient use of resources than public*

spending and provide not only an immediate stimulus to activity but also a sound basis for long-term growth. Cutting taxes is a sounder method of reducing unemployment than spending public money on employment subsidies.

8. There is only limited scope for reducing government expenditure by increasing the efficiency of administration or even by restricting the rise in public-sector pay and pensions. *The main savings can be obtained only by moving whole functions and activities from government to the private economy, and we therefore welcome the recent increase in the pace of privatising the nationalised industries.* There is broad scope for the extension of this policy. A profitable concern like the telephone operation, for example, should obtain its investment finance on commercial terms from the market, not — as at present — either from internally generated surpluses (which drive up prices) or from funds guaranteed by the government (which increase the Public Sector Borrowing Requirement). *Even in trading concerns that have not yet been privatised, there are ample opportunities, so far unexploited, for funding profit-seeking investment from private sources rather than government funds.*

Scope for tax cuts

9. A new element in the costing of tax reductions has been contributed by Section 24 FA 1980 which provides for the indexation of Income Tax thresholds and allowances. The implementation of this section imposes a revenue cost by comparison with its suspension as under Section 23 FA 1981. But this revenue cost is different from the revenue cost of other tax reductions. The purpose of Section 24 FA 1980 is to achieve neutrality or consistency in the taxation of income from one year to the next. The suspension of this section is tantamount to an increase in the effective burden of Income Tax from year to year. When prices are rising, the levying of a graduated Income Tax on income unadjusted for inflation increases the tax take continuously throughout the year; indexation at the end of the year merely restores the situation to what it was a year earlier (while leaving in the government's hands the profit from inflation within the year). The suspension of Section 24 thus constitutes an effective tax *increase* from year to year; and the implementation of Section 24 is not a tax *reduction* but the *retention* of the same real tax schedule from one year to the next.

10. The additional yield from graduated taxes specified in money terms

when prices are rising thus provides scope for tax reductions from year to year within the constraints of a neutral Budgetary policy. The amount next Budget will be nearly £2 billion in a full year at 1981-82 prices. But it does not follow that the whole of this sum should be used to index the Income Tax schedule for the rise in prices in calendar 1981. Although we hope that full indexation will be possible, up to half of this £2 billion should in our opinion be used if necessary for tax reductions of higher priority.

11. In addition, there should be scope for genuine year-to-year tax reductions. Figures from the Manpower Services Commission and the Institute for Fiscal Studies suggest that the cost of unemployment to the Exchequer in 1981-82 is of the order of £13 billion or some £4,500 per person unemployed. Although most of this sum is beyond the reach of any prudent policy, the Government should aim to recapture a significant part of it through tax concessions intended to stimulate economic activity. The nominal cost of such tax concessions to the Exchequer and the nominal increase they impose on the Public Sector Borrowing Requirement are exaggerated if no account is taken of the Exchequer's financial interest in increased activity, not only through the reduction of unemployment but more generally as a result of the revenue's increased take from Income Tax, Value Added Tax and other charges.

12. *When these countervailing influences are taken into account, the Public Sector Borrowing Requirement may increase little, perhaps not at all, as the result of tax reductions, especially in so far as the tax reductions are concentrated on capital taxes, where they are most cost-effective.* Jobs created by government subsidy frequently impose a capital cost of £10,000 per job or more, and without any prospect of an economic return; and the figures are sometimes much worse than this. For example, the capital cost of government support for aluminium smelting was estimated by the Centre for Policy Studies as some £200,000 per job; and at the time of the announcement of the closing of the Invergordon smelter in December 1981, the *current* deficit per employee was of the order of £10,000 a year — far more than national average earnings.

13. By contrast, the cost of tax reductions is only notional (a possible cost in revenue forgone), not actual (an identifiable cost in additional government spending); and, even if the costs were comparable conceptually, the cost of job creation through tax cuts is a tiny fraction of the cost of job creation through government spending. If the revenue cost of increasing all Capital Transfer Tax business reliefs to 100 per cent were £50 million

(see paragraph 34 below), and if this revenue cost were allocated entirely to UCG members' employees (which would clearly be a gross exaggeration), the revenue cost of less than £300 per employee would be comparable with the total revenue cost and government-expenditure cost of some £4,500 imposed by the addition of one person to the ranks of the unemployed; and the £300 is grossly exaggerated and entirely notional, whereas the figure of £4,500 is an attempt at an accurate estimate and is largely actual. *The revenue cost of reductions in capital taxes is at worst very small and at best substantially negative by reason of offsets elsewhere.*

14. This argument is reinforced by the longer-term consideration that the longer the present recession continues the more the damage which it inflicts on the private economy becomes irreversible: *tax concessions that limit the erosion of the industrial base are a form of investment.*

15. Although we doubt whether the true cost of tax cuts to the Public Sector Borrowing Requirement is nearly as large as conventional estimates suggest, we would if necessary accept a significant increase in the PSBR (with the disadvantages that that involves) as the price of the fiscal relaxation that the economy requires. Any such increases in the PSBR should be due to reductions in taxes, not to further increases in government spending, which are not a sound basis for economic recovery. Tax reductions, by contrast, return resources to the wealth-creating sector of the economy; and profit-related tax cuts have their own built-in safeguards, since they cannot be enjoyed unless there is a profit against which to set them. And a major advantage of tax cuts over government spending as a stimulus to economic recovery is that the benefits can accrue to the economy a year or more before the cost, if any, falls to be borne by the government; *tax reductions can thus be highly cost-effective. This is especially true of the reductions in capital taxation which are our first priority.*

Timing

16. *Unquoted companies typically have a long time-horizon and are willing to accept long-term risks, which makes them an element of stability in times of recession.* But this attitude cannot be maintained indefinitely in face of a capital tax regime which makes long-term survival impossible for an unquoted company of more than the smallest size. And during the last few

years, exceptional stresses have been imposed by the severity of the adjustment from increasing inflation towards a stable currency.

17. What is badly needed is the possibility of looking ahead with confidence over a period of five to ten years. Tax reductions, one of the few elements in the business situation that are wholly within the Government's disposition, are the key to the improvement of morale and the strengthening of motivation that are required for a rapid and sustained recovery.

18. The reductions we propose in capital and business taxes would provide encouragement for the business community and thus a stimulus for the whole economy from the day they were announced — at the next Budget or even before. The cost (if any) that they imposed on the Exchequer would not arise for at least a year, often for substantially more. It is not improvident to make full use of this interval in response to what ought to be the once-and-for-all rigours of restoring a stable currency.

19. In the present exceptional situation, the danger is excessive caution in tax reductions rather than excessive generosity. A policy that would be prudent in more normal times may inflict large losses not only on the economy but even on the Exchequer — losses through increased unemployment spending and reduced tax revenue as a result of lower economic activity (or increases in activity forgone). *Our proposals for reductions in capital and business taxes are particularly suited to resolving this policy dilemma, since the benefits to the economy and short-term benefits to the Exchequer are obtained at least a year and often much more before any long-term cost to the Exchequer is incurred.*

Financing of tax cuts

20. *The cost of the tax cuts we recommend should be borne as far as possible by reductions in government spending and sales of public-sector assets rather than by an increase in the Public Sector Borrowing Requirement. The effective cost should be much less than the apparent cost, which ignores the increase in tax revenue and the reduction in government spending resulting from increasing economic activity; the effective cost could even be zero or negative.*

Nature of tax cuts

21. In our Budget submissions over the last few years we have put the main emphasis on *capital taxes, profit-related business taxes and personal income taxes*. On this occasion, we confirm our earlier assessment of priorities. The burden of personal Income Tax has been increasing since the reductions made in 1979, and this is the tax of which the ordinary citizen is most acutely aware. Cuts in personal taxes have advantages for business, notably by increasing demand; they are also immediately reflected in the government's tax-and-prices index. A reduction in the basic rate of Income Tax provides the right background for the reduction of the taxes on capital which are especially important to unquoted companies; *we recommend that the basic rate of Income Tax should be cut by not less than 1p. and preferably more*. Further reliefs to business should take the form of reductions in profit-related business taxes. Reductions in national insurance contributions and other elements of business cost should have a lower priority.

22. Not all the available resources should be used to index the Income Tax rate structure. Another cut in the basic rate of Income Tax should not be further delayed; if necessary, the cost can be covered by not fully indexing the Income Tax thresholds and allowances.

23. We warmly welcome the Government's various measures to assist firms starting in business. The recovery of the economy and the reduction of unemployment depend primarily on unquoted companies and the self-employed. But the logical complement to these measures is an alleviation of the present fiscal discrimination against established and growing firms in the unquoted sector. Since the hope of keeping the firm within the family and passing it on to the next generation is generally the most important single motive in the unquoted sector, present levels of Capital Transfer Tax are not merely an absolute bar to the expansion of such firms beyond the point at which the expense of insuring against the tax becomes prohibitive; they are also a severe discouragement to the expansion of firms far below this point, since expansion attracts a rapidly increasing CTT charge in addition to the taxes levied on business generally including quoted companies. *It is inconsistent to provide incentives for businesses to start and inflict penalties on the same businesses if they grow; it is also not a cost-effective use of public funds.*

Representations of particular interest to unquoted companies

Capital Transfer Tax

24. *The drastic reduction (or preferably abolition) of Capital Transfer Tax is more important to us than any other tax reform. Without it, the long-term survival of our companies in their present form is impossible. A number of statements and undertakings on this subject since the tax was first introduced indicate that major reform in this direction should be entirely acceptable to the present Government.*

25. We warmly welcome the abolition of lifetime cumulation in the 1981 Budget. However, the structure of rates on transfers at death has not been reduced, except at the lowest levels, since the tax was introduced, so that the effective burden is now heavier than ever as the result of inflation. *The long-term survival of our companies in their present form is not compatible with anything resembling the present Capital Transfer Tax at present rates.*

26. We are not on this occasion repeating our reasons for maintaining that Capital Transfer Tax is disproportionately damaging, not only to unquoted companies but to the economy as a whole, since we believe that our arguments are familiar to Ministers and in substantial measure accepted. *A major alleviation of the burden is urgently needed, since firms are constantly at risk from the death of a shareholder. The following proposals should be implemented in the next Budget.*

27. *Rate of tax.* The worst defect of the tax is that the rates are much too high throughout the scale and especially at the top. *The top rate should certainly be reduced to 50 per cent or less, with corresponding reductions lower down.*

28. *Indexation.* The rate schedule should be indexed for price rises since it was first published in 1974.

29. *Lifetime transfers.* The rate of tax on lifetime transfers should not be more than half the rate on death at any point on the scale.

30. *Cumulation.* The period of cumulation should certainly be reduced

to not more than five years, and lifetime transfers outside this period should no longer be subject to tax.

31. *Grossing up.* If lifetime gifts are subject to tax they should not be grossed up. Tax should be levied only on the gift, not on the tax itself.

32. *Quick succession.* The period of relief should be increased from the present 5 years to 15 years (half a generation).

33. *Instalments.* The present 8-year period should be extended to 12 years.

34. *Business reliefs, including shares in unquoted companies.* The present distinction between the 50 per cent, 30 per cent and 20 per cent reliefs is unjustifiable. In particular, minority holdings can be no less integral to the operation of unquoted companies than controlling interests. *Business reliefs should be standardised by extending eligibility for the highest rate of relief to all assets at present eligible only for one of the lower rates. In addition, the present 50 per cent rate (and the standardised rate that we propose) should be increased at least to 75 per cent and preferably to 100 per cent.* Whatever the arguments for levying Capital Transfer Tax on passively held investments, they apply hardly or not at all to business assets including shares in unquoted companies. These assets are not personal wealth in the hands of the proprietors; and they can be realised only at the cost of the destruction of the firm in the form of an owner-managed company, with all the loss that is inflicted on the economy by the fiscal suppression of an otherwise prosperous business or its sale to a fiscally privileged competitor. For the foreseeable future, the recovery and expansion of the economy are likely to depend predominantly on unquoted companies and privately owned businesses; we do not ask that these firms should be accorded fiscal privileges, but merely that their fiscal prejudice by comparison with quoted companies and public-sector concerns should be removed. *The increase of business reliefs is much the most cost-effective reduction in Capital Transfer Tax in terms not only of the economy as a whole but even of the revenue itself.* The cost of doubling the present 50 per cent relief is only some £30 million a year; and the cost of standardising the present lower reliefs at the new higher rate would be similarly modest. No other tax reduction would do so much (per million

pounds of *nominal* revenue yield) not only to revive the economy but even to *increase* the yield of tax revenue (in terms of *ultimate* or *effective* revenue yield, when all the offsetting benefits of the tax reduction are taken into account).

35. *Discretionary trusts.* We are making a separate submission on the draft clauses published on 9 December. Here we would only say that *the draft clauses are radically defective in principle and would impose a heavy and discriminatory burden on what is often the most efficient and economic method of organising an unquoted company.*

Capital Gains Tax

36. *The structure of the tax remains as objectionable as it was when the Government came to power — a rate of 30 per cent without allowance for inflation or exemption for long-term gains.* The argument that the government cannot afford substantial reform or abolition of the tax (at a full-year cost of some £800 million in 1981-82 prices) merely shows how heavy a burden the taxation of inflationary gains is imposing on the private economy. The March 1980 Budget Statement recognised that the indexation or tapering of the tax would reduce its yield to negligible proportions; this constitutes strong support for our policy of abolishing the tax, which is one of the most damaging elements in the whole tax system.

37. *Short of abolition, or as a step towards it, the structure of the tax should be radically reformed, by indexation, rebasing, tapering or the exemption of gains from assets held for more than a short period such as three years.* The last of these is the simplest and most attractive option; but rebasing on a more recent date is an alternative worth serious consideration, especially as it could be combined with indexation for subsequent price rises. The administrative cost of rebasing and subsequent indexation would be small. The new base we recommend is the first day of the current fiscal year, 6 April 1981. Since taxpayers ought not to lose from rebasing, they should have the choice (preferably for each asset separately) between the present system and the updated base.

38. In addition to this major reform, we have a number of other proposals.

39. *Rate of tax.* The rate of tax should be reduced to not more than 25 per cent.
40. *Overlap with Capital Transfer Tax.* No transaction should be subject to both taxes. *Capital Gains Tax should not be levied on gifts.* Hold-over relief (which should also be made available on gifts out of trust) is not an adequate substitute for exemption.
41. *Double taxation of corporate gains.* The case for relief from double taxation is as strong for corporate gains as it is for corporate income.
42. *Carry-back of losses.* It is unfair that loss relief should be eligible only for carry-forward and not for carry-back. The present system gives the revenue a full share in the taxpayer's gains but only a part share in his losses. *The taxpayer should be entitled to carry his losses back against gains taxed during the previous three years.*
43. *Roll-over relief.* Under Section 115 (3) CGTA 1979, the acquisition of the new assets must take place within the period beginning 12 months before and ending 3 years after the disposal of the old assets. Outside these time limits the availability of the relief depends on Revenue discretion. The existence and use of these discretionary powers show that the limits in Section 115 (3) are sometimes too restrictive; but it is unsatisfactory that relief in these circumstances should depend on the exercise of discretion instead of being available as of right. *We recommend that the period of 3 years in Section 115 (3) should be increased to 5.* The case for this increase is especially strong in times of recession, like the present, since it takes longer for firms to make the necessary redispositions.
44. *Hold-over relief for business assets.* (*Disposal of shares in a holding company held by a discretionary trust*). Section 126 (1) Capital Gains Tax Act 1979 (formerly Section 46 (1) FA 1978) should be amended so as to include disposals in relation to holding companies of trading groups as well as trading companies within the scope of the relief. *Section 79 FA 1980 should be amended so as to include disposals by trusts within the scope of the provisions for held-over gains.*
45. *Non-resident companies.* Section 15 CGTA 1979 should be modified so as not to bring gains into charge or at least so as to allow loss set-off in bona fide commercial situations. The present discrimination against non-resident companies which would be "close" if resident is unjustifiable.

Investment Income Surcharge

46. The essential structure of the Investment Income Surcharge, like that of the Capital Gains Tax, has been untouched by reform since the present Administration came into office. The Surcharge represents a heavier discrimination against investment income than ever before, both absolutely and as a proportion of the basic rate and the maximum rate of tax on earned income. In addition, the Surcharge is now levied on all investment income above the threshold, whereas earned income relief, the previous form of discrimination, applied to only the first £10,000 or less of income. Thus the investment income surcharge now reaches a maximum of 37.5 per cent of net income at the top of the scale, as compared with zero before the change of system in 1971.

47. It is especially anomalous that the discrimination against investment income should be historically high during a period when inflation has also been historically high and even gross-of-tax investment incomes have often been inadequate to offset the capital loss due to the depreciation of the currency. Although earned incomes also suffer from inflation, they lose only a small proportion of their value, not the whole or more.

48. Although some of our members do not distribute dividends, others have no choice but to do so. If shareholders in unquoted companies attempt to save up for Capital Transfer Tax out of dividend income, they are subjected to a combined tax charge of 93.75 per cent (= 75 per cent plus 75 per cent Capital Transfer Tax on the remaining 25 per cent), exclusive of Corporation Tax at the level of the company. The Investment Income Surcharge thus aggravates the already serious and often impossible problems created for unquoted companies by Capital Transfer Tax.

49. *The Investment Income Surcharge ought to have been abolished by now. As a minimum, the cut that we have urged in the basic rate of Income Tax should be accompanied by a reduction in the rate of the Surcharge to not more than 10 per cent.*

Spouses' investment incomes

50. The present tax treatment of spouses' investment incomes is of interest

to unquoted companies for the same reasons as the Investment Income Surcharge and is exposed to similar objections. The aggregation of spouses' investment incomes is obsolete and unjustifiable in modern conditions; and it intensifies the problems of unquoted companies in funding Capital Transfer Tax liabilities.

51. We are making a separate submission to the Inland Revenue on the Green Paper on the Taxation of Husband and Wife (Cmd. 8093). But we are anxious that the disaggregation of spouses' investment incomes should not be delayed by consideration of the many other questions raised in the Green Paper. *The aggregation of spouses' investment incomes is distinct from these other questions, and the facility for their separate taxation should be introduced without delay.*

Other representations

Corporation Tax

52. The present rate of Corporation Tax is a survival from days when the basic rate of Income Tax was higher, and it will be increasingly anomalous if the basic rate is further reduced in the next Budget. It is also high by international standards and imposes an excessive burden on the sector of business that still has taxable profits uncovered by allowances and reliefs. *The rate should be reduced to 50 per cent or less.*

Stock relief

53. We warmly welcome the exclusion from the 1981 legislation of the credit restriction contained in the original proposals. *However, we are still deeply opposed to the six-year limitation on the carry-forward of relief. This is wrong both in principle and in practice.* Any time limitation is wrong in principle: carry-forward of relief represents an interest-free loan from the taxpayer to the Revenue, and the longer the carry-forward, the longer the period of the loan and the lower the initial present discounted value of the eventual relief. Carry-forward over any period thus has a built-in safeguard for the Revenue: the longer the period, the less the

effective cost of the relief. The six-year cut-off denies relief to the taxpayers who need it most and have already incurred a heavy economic cost through their inability to utilise the relief during the intervening period. The "overhang" argument that without the six-year cut-off the accrued liabilities of the Revenue under this head would increase out of control is merely another way of saying that prospective trading conditions are so adverse that the Revenue expect a large proportion of British industry to continue making tax losses for the indefinite future: this is an argument for changes in Government policy (notably by bringing public spending under control), not for the unilateral cancellation by the Revenue of its debts.

54. The retention of the six-year cut-off on the statute book would provide an unfortunate precedent, which we fear that the Revenue would seek to extend to other areas, equally without justification.

55. In practice, the cancellation of relief after the end of the six-year period would certainly lead to much uneconomic rearrangement of activity designed to prevent the loss of stock relief, notably through the postponement of otherwise desirable investment expenditure.

56. The theme of our representations this year is that the present situation requires an immediate and substantial stimulus to economic activity and that this can be provided most cost-effectively by reductions in business and capital taxes, since these reductions have an immediate effect on incentives but impose the corresponding cost, if any, on the Revenue only after a delay of a year or often substantially more. The six-year cut-off for stock relief follows exactly the opposite principle: the deadening effect on incentives is immediate and continuing, whereas the corresponding benefit is obtained by the Revenue only after a number of years, if ever.

Investment incentives

57. In previous representations we have stressed the advantages of reintroducing investment allowances in the year of acquisition at the rates provided for under Section 33 Finance Act 1963 and earlier legislation unaffected by that Act (a general rate of 30 per cent for plant and machinery, with other rates for other assets and particular industries); the facility for 100 per cent first-year allowances would remain in addition,

as would the option for free depreciation where it applies at present.

58. The general argument for investment allowances is that they are the most cost-effective means of encouraging investment and thus limiting the current erosion of the British manufacturing base because the allowances are available only for investment expenditure by firms with taxable profits. It is only by mechanisation and the consequent increase in labour productivity that British industry can remain competitive with the new industrial nations of the Far East.

59. The case for reintroducing investment allowances is stronger than ever this year. We are arguing for fiscal encouragements to business activity that have an effect on incentives immediately but impose the corresponding cost, if any, on the Revenue only after a delay of a year or more. The reintroduction of investment allowances answers precisely to this specification.

60. It would be clear to the business community (whether or not it was spelt out by the Government) that investment allowances might have a limited lifespan; the fate of the 1963 investment allowances would not be forgotten. This uncertainty could have advantages, since it would serve to bring forward investment expenditure that might otherwise have been incurred only in later years, if at all. Our emphasis on the need for an immediate stimulus to business activity implies that there is an advantage in bringing investment expenditure forward as well as in increasing its amount in total.

61. Although investment allowances are additional to 100 per cent depreciation, we reject any idea that they constitute a subsidy. A subsidy is a disbursement of public funds, the cost of which would be incurred by the Exchequer immediately; investment allowances, by contrast, are at worst a reduction of tax revenue otherwise obtainable, the cost of which may be zero or negative and (even if positive) would be incurred only after a significant interval.

62. More generally, we do not accept that a heavier burden of proof should lie on tax cuts than on increases in government spending as a means of revitalising the economy. Traditionally, arguments for reductions in taxation are assessed sceptically by the government, because the benefits cannot be proved; increases in government expenditure (like the recent £1 billion for training subsidies) are accepted less critically. In our view,

this is the wrong way round. The demonstration of effects is an unattainable ideal, whether for tax cuts or increases in government spending; but there are three reasons why the former are likely to be more cost-effective than the latter. First, tax cuts reduce or eliminate the costs of administration, which are normally a large proportion of any government spending intended to stimulate economic activity. Second, even if the costs of public administration were zero, tax cuts have the advantage over government spending that they restore economic decision-taking from the government sector of the economy to the private sector, where decisions are generally better based because the decision-taker is spending his own money and not someone else's. Third, tax cuts, unlike government spending, have the advantage that the incentive effects can be enjoyed well before any revenue costs are incurred. Above all, reductions in profit-related business taxes create additional investment and employment, limit or reverse the erosion of the industrial base and provide the most cost-effective means of enabling British industry to remain competitive internationally.

63. Tax-related profit incentives, that cannot be enjoyed unless there is taxable income to absorb them, have built-in safeguards against abuse and extravagance, especially at a time when half or more of profit-seeking business is not making taxable profits at all; government spending, by contrast, is subject to no such safeguards. *We therefore urge the Government to consider our proposal for the reintroduction of investment allowances more sympathetically than they appear to have done so far.*

Consortium group relief

64. Much as we welcome the relief provided by Section 40 FA 1981, it by no means deals with the whole of the problem. Consortium group relief still falls significantly short of normal group relief. In particular, *the provision for the surrender of losses by a consortium member to the consortium trading company should be complemented by provision for including other companies in the parent's group. It should also be possible for consortium group relief to be claimed at the same time as normal group relief.*

Company residence and tax havens

65. We submitted representations on the Inland Revenue consultative documents in June 1981. We are deeply disappointed that the radical

criticisms of virtually the whole business community, including our own, have been largely ignored by the Revenue; the draft clauses published under the title "International Tax Avoidance" are on very much the same lines as the original proposals. We shall be submitting comments on the draft clauses; here we would only say that *the Revenue's disregard for the representations received discredits the consultative process in general.*

Companies purchasing their own shares

66. We submitted representations on the Inland Revenue consultative document in November. This was on the whole a well-drafted document and showed an understanding of the problem. However, *unless the amendments to the present tax system go substantially further than the Revenue appear to have in mind, much of the advantage otherwise obtainable from the reform of company law on this subject will be lost as the result of fiscal hindrances.*

67. Although a facility for companies to buy their own shares without tax penalty would do something to alleviate the difficulties which Capital Transfer Tax causes to unquoted companies, it would be only a palliative and would leave the essence of the problem untouched. The tax payable would be as high as before, and it could be paid only at the cost of a reduction in the size of the company. *The competitive burden on unquoted companies by comparison with quoted companies and public-sector concerns would be as heavy as ever.*

Rates

68. Although rates are not a Treasury responsibility, we mention them here because they are for most businesses much the most burdensome addition to overheads. The fact that they are levied irrespective of profitability means that they can and do put many firms out of business that would otherwise remain solvent.

69. We regret the failure of the Government's recent attempt to bring increases in business rates under control. An alternative solution to this problem is required urgently.

70. *The failure to contain business rates in general makes it all the more urgent to implement our proposal of last year that empty industrial buildings*

bc completely derated throughout the period of the current recession, in order to remove the existing inducement to degrade empty buildings to a level at which they are no longer liable to rates. We shall be writing again on this matter to the Secretary of State for the Environment.

P 11 D

71. The present method of aggregating salary benefits and reimbursable expenses in order to decide who should be the subject of a P 11 D is anomalous and unfair to employees, who may be taxed on benefits solely by reason of their reimbursable expenses even though the latter contain no element of benefit. *The critical figure, at £8,500 or any other level, should include only salary and benefits and should exclude reimbursable expenses.*

Conclusion

72. The next Budget should contain tax reductions going beyond the revenue cost of the indexation of Income Tax thresholds and allowances, which is now part of the normal system and merely restores the relationships of a year earlier.

73. There should be major reductions in Capital Transfer Tax, Capital Gains Tax and the Investment Income Surcharge.

74. Investment allowances should be reintroduced at the levels in force in 1963.

75. The basic rate of Income Tax should be cut by not less than 1p. and preferably more, if necessary at the cost of only partial instead of complete indexation of the Income Tax schedule.

APPENDIX

COST OF PROPOSALS

1. The cost of indexing the Income Tax schedule in 1982 for the rise in prices in calendar 1981 is of the order of £2 billion in a full year at 1981-82 prices. We are looking for further tax cuts of the order of up to £3 billion, making a total of up to £5 billion in a full year, of which £2 billion is the cost of indexation. We have explained in the text why the effective cost of our proposals (other than the cost of indexation) is much exaggerated by these conventional estimates. The cost in 1982-83 is some £2,600 million of which £1,500 million is the cost of indexation.
2. The cost of a reduction of 1p. in the basic rate of Income Tax is about £865 million in a full year at 1981-82 prices. We recommend that the basic rate be cut by not less than 1p. and preferably by 2p; the finance for this purpose should if necessary be found by indexing the Income Tax schedule for inflation only partially rather than completely. Half-indexation would provide rather more than the revenue cost of reducing the basic rate by 1p.
3. The yield of Capital Gains Tax is some £800 million a year in 1981-82 prices (of which less than a third from companies). The yield of Capital Transfer Tax is some £450 million and of the Investment Income Surcharge some £375 million. These are all taxes that we should like to see abolished, and we look for a reduction in their full-year yield of not less than £1,000 million: we have suggested minima of £125 million for the Investment Income Surcharge, £330 million for Capital Transfer Tax and £545 million for Capital Gains Tax.
4. The reintroduction of investment allowances cannot be accurately costed on the basis of published information. We have allowed for a full-year cost of £500 million.
5. The cost of reducing Corporation Tax to 50 per cent is about £145 million.
6. The full-year cost of the separate taxation of spouses' investment incomes is given as £300 million in the Green Paper "The Taxation of Husband and Wife".
7. The cost of our other proposals is either negligible, unquantifiable or not a Budgetary matter.

8. The full-year cost of our proposals is thus as follows:—

	£ million (1981-82 prices)
Capital items	
Capital Transfer Tax	330
Capital Gains Tax	545
	<u>875</u>
Current items	
2 per cent cut in Corporation Tax	145
Investment allowances	500
Investment Income Surcharge	125
Spouses' investment incomes	300
	<u>1,945</u>
Half-indexation of Income Tax schedule	1,000
Reduction of basic rate of Income Tax to 29p.	865
	<u>3,810</u>
Balance of indexation of Income Tax schedule (or preferably this money to be used to cut the basic rate of Income Tax to 28p.)	1,000
	<u><u>4,810</u></u>

9. The £875 million cost of the capital items can be met both in the first full year and thereafter, by sales of public-sector assets and other forms of "privatisation" on capital account.

10. The first-year cost is as follows:

	£ million (1981-82 prices)
Capital items	
Capital Transfer Tax	130
Current items	
2 per cent cut in Corporation Tax	145
	<u>275</u>
Half-indexation of Income Tax schedule	750
Reduction of basic rate of Income Tax to 29p.	815
	<u>1,840</u>
Balance of indexation (or preferably reduction of basic rate of Income Tax to 28p.)	750
	<u><u>2,590</u></u>



10

25 January 1982

C P H Murphy Esq MP
House of Commons
Westminster
London SW1

MR GRIFFITHS
MRS WOODS
FPS CST
ESTY MSTL
SIR D. WASS
MR RYRIE
MR MIDDLETON
MR BATTISHELL
MR ROZSON
MR F. MARTIN

MR FRESCH

Roche Products Limited PO Box 8 Welwyn Garden City Hertfordshire AL7 3AY
Telephone Welwyn Garden 28128 Telex 262998 ROCHEW

Dear Christopher

re: Budget - 9 March 1982

As the budget looms near and the Chancellor of the Exchequer begins to consider the approach that he will take, I believe it is important that the views of Industry are not only represented, but are presented in as favourable a light as possible for the Chancellor's attention.

As you know, the CBI is once again making a presentation to the Chancellor under the heading "A Winning Budget" and I would like to commend the CBI approach to you and to seek your support in lobbying the Chancellor. The CBI has highlighted the following priorities:

1. Reduce NIS - it is a tax on jobs and exports.
2. Reduce business rates - they are costing us jobs and exports too.
3. Reduce interest rates.
4. Boost productive public investment.
5. Reduce government current spending.

From my own personal experience I would like to reinforce two of the above.

...2

Reduction of NIS

This may seem an easy way of raising taxes, but it poses an enormous additional and hidden cost on employing people and on exporting, it places us at a competitive disadvantage where manpower is a key comparison between ourselves and our key competitors on the Continent and in the USA. We have two examples in our business:

- The first concerns research which is totally concerned with people. Some three years ago we took the decision to add a new research building and increase our research capacity by 35%. Because of the increasing costs of employing people it is now unlikely that we will generate as many jobs as we originally intended when this new facility becomes available to us in May.
- The second concerns exports. In one particular field our American company is anxious to build its own plant because it believes it can produce the product more cheaply there than we can. Only by the most superhuman effort have we been able to defer that decision and a reduction in the cost of labour would certainly help to tip the balance in our favour.

Rates

At our Welwyn site we are now paying rates amounting to £½ million per annum. This has increased by no less than 17% in the last twelve months. Certainly you may be tempted to say that this is not excessive against the increases that some local authorities have imposed but if you look at it from our point of view that in the same period we have not been able to increase the price of one single product then you will realise why I believe the Government has to do something to prevent the imposition of such a high cost on Industry in a situation in which we have no opportunity to respond.

I could draw other examples to your attention but will refrain from doing so.

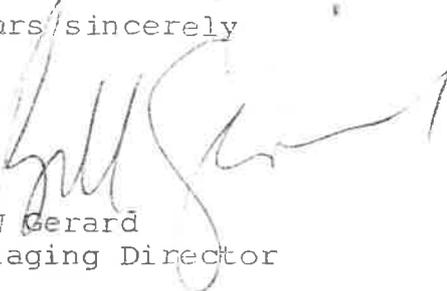
I believe that the budget for 1982 has to be one in which your Government promotes business activity because if it fails to do so not only will Britain miss out on the opportunity to take part in the recovery from the recession, but also I believe your party will not be able to look forward with optimism to the next general election.

The CBI has spelt out all the points which it believes will fulfil the aim of getting business moving again, generating more profits, increasing investment and ultimately creating more jobs.

I do hope that we can count on your support to impress this upon the Chancellor when he considers the best course for this country for 1982.

My very best wishes

Yours sincerely



W W Gerard
Managing Director

14

CH/EXCHEQUER	
REC.	29 JAN 1982
ACTION	PS/EST (P...)

RADAR

25 Mortimer Street, London W1N 8AB. Telephone 01-637 5400
Cables REHAB London W1

PM/leb

26 January 1982

40118

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

MR F. MARTIN
MR R. RIDLEY

FINANCIAL SECRETARY	
REC.	-1 FEB 1982
ACTION	PS/IER
CONES TO	PPS/CST EST/MSTL SIRD. WASS MR RYRIE MR MIDDLETON MR BATTISHILL MR ROBSON MR CD. BUTLER

Dear Chancellor

In the Social Security (No 2) Act 1980 the Government took powers to reduce the value of certain benefits in the November 1980 uprating. The rationale was that these benefits should be taxable and Ministers have now given a conditional guarantee that invalidity benefit will be restored to the level of retirement pension as soon as it is brought within tax. Nevertheless, I am sure you will recall the severe embarrassment caused to the Government at the evidence that a substantial minority of people on invalidity benefit would not have been liable to tax anyway because their total income fell below the level of their personal tax allowances.

We understand that the Treasury is now unable to give a date for the inclusion of invalidity benefit in the tax system. With each succeeding year the injustice to invalidity pensioners below the tax threshold is compounded. Last November it was possible to restore the value of the invalidity allowance and I am writing in the hope that you will give the highest consideration to restoring the value of invalidity pension in November 1982. If the reports are true that you may have more room for manoeuvre in your Budget than you had earlier thought, I trust that rectifying this injustice will be high on your list of priorities.

I am assuming that the battle over the 2% shortfall on short term benefits has been won. We could not countenance an increase in invalidity pension at the expense of, for example, disabled people enduring long term unemployment and attempting to exist on the short term supplementary benefit rate.

Yours sincerely

George Wilson

George Wilson
Director



ESCO STORES (HOLDINGS) LIMITED

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From the Office of The Chairman
Leslie Porter, Ph.D.(Hon.)

RT/CB

Rt. Hon. Sir Geoffrey Howe,
Chancellor of the Exchequer,
11, Downing Street,
London, W.1

CH/EXCHEQUER	
REC.	- 1 FEB 1982
ACTION	B/C
COPIES TO	

27th January, 1982

40190

Dear Chancellor,

I enclose a short paper prepared by our Financial Director, Mr. Ralph Temple, asking you to consider the case for extending the Industrial Buildings Allowance to the retail sector in your forthcoming Budget.

As you will know, retailers have made a considerable contribution to the Government's welcome objective of combating inflation - but the cost to the industry has been high; the bankruptcy level rate amongst retailers running at record levels.

This is not to suggest that the trade requires massive subvention. On the contrary, it has always been a powerful exponent of the free market economy, which may go some way to explaining why, presently, retailing (in striking contrast with other sectors) receives virtually no support from Government.

In view of the current situation, and in light of the highly discriminatory application of the I.B.A., I would urge you to consider this submission sympathetically in the firm belief that a concession to retailing under the Allowance would not only assist Government to achieve its own counter-inflationary objectives, but would also make sound commercial sense.

Kind regards

Yours sincerely,

Leslie Porter

Leslie Porter
Chairman

AN I.B.A. SUBMISSION TO

THE CHANCELLOR OF THE EXCHEQUER

SIR GEOFFREY HOWE

TESCO STORES (HOLDINGS) PLC

INTRODUCTION

- 1.1. It is now four years since Tesco Stores (Holdings) Limited first made representations to Government regarding the highly discriminatory application of the Industrial Building Allowance - a legislative measure enacted 37 years ago which successive administrations have accepted as inequitable.
- 1.2. At the Committee stage of the Finance Bill 1978, Mr. Denzil Davies for the Treasury, recognised that : "there is no case for treating industrial buildings differently from commercial buildings"; whilst in July 1979 a Treasury Minister accepted that he had to oppose an extension of the Allowance to the Retail sector: "on most unsatisfactory grounds."
- 1.3. Yet the inequity remains, whilst the discrimination is compounded for, after citing an estimated cost of £200 million as the "unsatisfactory grounds" for excluding retailing from the Allowance, Government raised the levels of I.B.A. support to manufacturing from 50% to 75% in the Finance Act of 1981 - at an estimated cost to Treasury of £4 million.
- 1.4. This is not to deny the need for effective support for the manufacturing sector. Patently, this is of paramount importance. Nonetheless, given that retailing also plays a role of some importance in the economy, representing, as it does, some 350,000 businesses, then equity demands the elimination of such discrimination.
- 1.5. It is on these grounds, associated with the generally accepted need to safeguard the industry's level of investment in new development, that we submit the following paper to Treasury, requesting that urgent consideration be given to the matter in the forthcoming Budget.

I.B.A.

- 2.1. First introduced in 1946 as: "a scheme for capital allowances for capital expenditure on buildings and structures used in industry, that is for the purpose of manufacturing and processing", the Allowance is managed by the Inland Revenue (Capital Allowance Act 1968).
- 2.2. Since 1946, however, much has changed; not least retailing. In the past thirty five years the whole structure of the industry, onetime operating out of small and cost inefficient units, has been radically transformed with the development first of supermarkets; more recently of large stores - both of which, by applying the economies of scale, have played a major role in holding down shelf prices.
- 2.3. In turn, such developments have led to the rapid growth of the sector as an employer (the retail work force now totals 2.3 million men and women, of which a fifth are school leavers) and to a situation where retailing now accounts for some 11% of the U.K.'s G.D.P. In short, retailing can no longer be considered a secondary but as a central component in the national economy.
- 2.4. Whilst opposed to any extension of the Allowance, however, a precedent was established in 1978 when Government agreed to amend the Finance Bill and make a capital allowance available for hotel construction in view of the tourist industry's contribution to the U.K. balance of payments.

Given the grounds for this amendment, a comparable case can be advanced for retailing which, in recent years, has accounted for 36% of all money spent by overseas tourists visiting the U.K.

- 2.5. Since 1978 other piecemeal measures have further distorted the intentions of the original legislation, not least, the provision of a range of financial incentives for the manufacturing and service sectors developing in Enterprise Zones.
- 2.6. But for all the anomalies, retailing still fails to qualify for any general support under the scheme, while if the Cole decision of 1980 (in which that Company lost its High Court appeal against the Revenue for relief on installing store equipment valued at £945,000) is any indication of intent, then it seems that the Treasury and the Inland Revenue are becoming less, rather than more sympathetic to the problems of the Industry - in direct contrast to the public statement of Government.

THE RETAIL ECONOMY

- 3.1. In the past half decade, successive administrations have actively solicited retail support to play a central role to achieve their own counter-inflationary targets and have frequently welcomed the industry's assistance in this respect.
- 3.2. For instance, an extract from a letter written on behalf of the Chancellor and dated 5th March 1981, read " ... the Chancellor has asked me to assure you that he does recognise the vital contribution that the retail trade makes to the economy and is very conscious of the problems that retailers have been experiencing in recent months."
- 3.3. As to its contribution to the economy during an intensely inflationary period, the facts are beyond dispute :

	<u>COSTS AND PRICES</u>				<u>TOTAL</u>
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981 estimated</u>	
RPI	8.3	13.4	18.0	12.5	52.2
Food	7.1	12.0	12.0	11.5	42.6
Durables	9.2	10.9	12.1	4.0	36.2
Clothing/footwear	8.6	9.5	9.7	1.5	29.3

3.4. The figures for food, durables and clothing/footwear contrast vividly with increases in public sector costs now borne by retailers for gas, electricity, postage, telephones, transport and rates. In the case of this Company alone energy costs have risen by 118% in the past three years, telephone and postage charges by 87% and rates by 11.4% (to £17.6 million).

(In this context a recent local authority study revealed that the current annual rental for central area shops run up to £60 a square foot - figures which, when used as the basis for rate assessments, highlights the punishing burden of liability borne by retailers for what is, by definition an urban activity).

3.5. As to the problems referred to in the Chancellor's letter, they have multiplied rather than diminished in the past twelve months. On a real profit margin averaging slightly over 1% in the food sector in the past five years, and with a sharp decline in real disposable income during 1981, closures and bankruptcies within the industry are now running at unprecedented levels.

3.6. The conflict implicit within this situation is clear, that while the industry remains anxious to assist Government to achieve its counter-inflationary goals, it cannot operate in minimal margins, against rising external costs indefinitely. That way lies 'Carey Street'.

3.7. In commercial terms, the past two years have already taken heavy toll of the industry and if the Treasury's own projections of minimal growth (by as little as 0.6%) in consumer expenditure is accepted, then it can only exacerbate the problems of an already seriously weakened sector of the economy and not least, its development programme.

RETAIL DEVELOPMENT

Although exact figures are not available, it is estimated that U.K. retailers invested between £900 million and £1,000 million in development and redevelopment schemes in 1981.

- 4.2. Such sums relate to the Government's own intentions of encouraging "retailing developments which extend choice in shopping, allow more efficient retailing to the public as a whole (DCPN 13) partly in recognition of the contribution that such modern facilities can make to holding down shelf prices.

(A MAFF study published coincidentally with DCPN 13 reported that national brands of groceries in large stores "were 3/10% cheaper than in supermarkets; 6/13% cheaper than in other food stores" significant economies when the average family's food bill is now running at £938.00 p.a.)

- 4.3. However, the cost of developing such facilities is high. At present, the cost of building and fitting out a new unit of 50,000 sq. ft. gross averages some £4 million.

- 4.4. As to the latter, the development of new shopping amenities cannot be divorced from the communities in which they are located. On the contrary, they provide far reaching and established socio-economic benefits :

- : in terms of rateable incomes (see 3/4 above)
- : in terms of environmental improvement
- : in terms of improving the general levels of community services
- : and in terms of employment generation - a large new store providing work for up to 500 men and women of which between 20% and 25% will be school leavers.

Each of the above factors has a direct bearing on the Government's stated goal of encouraging urban regeneration more especially in the U.K.'s more deprived inner city areas.

As with the Government's counter inflation strategy the retail sector is anxious to play a constructive role in this context. Here again, however, Government policy, as reflected in the current application of the I.B.A. militates powerfully against its own stated interests - whilst substantial reductions in allowances for Stock Appreciation Relief under recent legislation will further limit the capital available for development.

- 4.6. Currently, in fact, retailing receives no support and minimal relief from Government which, inevitably, seriously inhibits the industry's development programme - contrary, yet again to the Government's stated objectives of generating effective levels of investment in order to restructure the U.K. economy, not least in our hardest hit urban centres.

CONCLUSION

- 5.1. The widely held belief that the manufacturing and service sectors (of which retailing is an archetypal form) are two independent and free standing elements within the economy is fallacious. They are complementary, the well being of each depending on the other.
- 5.2. As a recent N.E.D.O. study argued, however, "In the past the discrimination in favour of manufacturing has been defended on the basis that many factors ... are biased against enterprise. Insofar as it does exist, this bias exists against all private sector activities, including services." ('The Service Sector - poor relation' : Discussion Paper 8).

3. What is true in general is particularly true of retailing which with the abolition of Stock Appreciation Relief will receive no capital support whatsoever from Government - despite "the vital contribution that the retail trade makes to the economy."
- 5.4. This is not to argue for special treatment, simply to suggest that Government cannot expect retailers to continue 'fronting' its own counter inflationary strategy, whilst denying the industry any support to develop those facilities essential to achieve its own goals, and again, that Government cannot expect the industry to invest in its own ambitions for urban regeneration without providing evidence, not that it is merely "conscious of the problems" facing traders - but that it is doing something positive to resolve them.
- 5.5. Given this, Tesco Stores (Holdings) Limited request that the Chancellor urgently considers extending the Industrial Building Allowance to cover retailing, not least to safeguard future inner urban development programmes (i.e. without Standard Metropolitan Labour Areas).
- 5.6. The alternative of continuing to refuse any extension of the Allowance to retailing, whatever the grounds, can be in no-one's interest - either of retailers or the constituencies they serve.

FROM
F. J. PLASKETT, C.B., M.B.E., F.C.I.T.
DIRECTOR-GENERAL

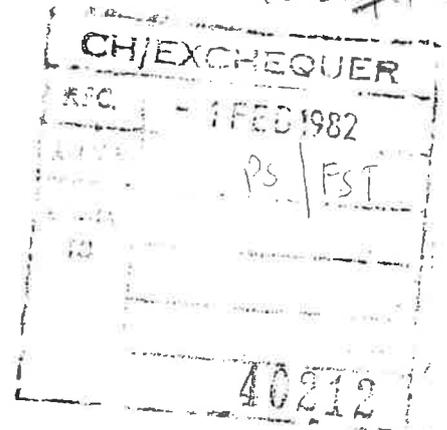
ROAD HAULAGE ASSOCIATION LIMITED
22, UPPER WOBURN PLACE
LONDON, WC1H 0ES
TEL. 01-367 9711
TELEX: 298404

FJP/EM

29th January 1982

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London,
SW1P 3AG.

Dear Chancellor,



Pre-Budget Representations

The Road Haulage Association represents some 13,000 companies operating road goods vehicles for hire or reward. The Association appreciates that the importance of these vehicles and their contribution to the well-being of trade and industry is generally recognised by Members of Parliament collectively and by your Government in particular.

In his report on the "Inquiry into Lorries, People and the Environment", Sir Arthur Armitage rightly described the lorry as "an essential sinew of the economy". With this in mind I would like to submit to you some points related to the position of the lorry and its operators vis-a-vis the national economy. The members of my Association hope that you will be prepared to consider this submission before you set the final seals on your forthcoming Budget statement.

Vehicle Excise Duty

The revenue raised by Government from vehicle taxation still greatly exceeds the costs incurred by load carrying road vehicles. The road haulage industry acknowledges that goods vehicles should meet their genuine costs through taxation but the industry is in no position to continue to pay large sums in excess of those costs. The Road Haulage Association has

The Rt. Hon. Sir Geoffrey Howe, QC, MP.

29th January 1982

already indicated its support for the change to gross vehicle weight rather than unladen weight as a means of gauging tax due on load carrying vehicles. We believe that this change should be made in the near future, but it is essential that it should not result in any overall increase in the total tax payable. The explanatory section of the Transport Act 1981 gives a clear impression that when implemented the effect of the vehicle excise duty restructuring proposals will result in changes which will be "neutral" in overall revenue terms. We would go further than this and suggest that a proper assessment of track costs is made and that vehicles should be taxed accordingly. We believe that this would result in reduced taxation in certain categories of vehicles. Your Budget will be an excellent opportunity to introduce this measure and we are prepared to offer any assistance possible in the assessment of track costs.

Fuel Duty

Your Budget proposals in March 1981 included an increase in fuel duty by 20p per gallon. It was gratifying that after strong representations from Members of Parliament and the transport community you agreed to halve the proposed increase in duty to 10p per gallon, but it has to be pointed out that the effect of even this increase was to enhance considerably the operating costs of road hauliers; this in turn made vastly more difficult an already very poor trading situation. At 11.9p per litre the level of duty payable on derv in the United Kingdom is already higher than in any other state in Western Europe. Moreover, the price of derv was increased several times by the fuel companies during 1981 and this naturally had an effect on the price of goods for domestic consumption and for export.

We believe that there is now a case for a reduction in the cost of derv to the road haulier and, as the Government is unable or unwilling to bring this about by pressure on the fuel companies, we feel it can only be achieved by a reduction in the rate of duty. This would relieve the pressure on the hard-pressed road haulage industry which receives no subsidies, social

The Rt.Hon. Sir Geoffrey Howe, QC, MP.

Page 3
29th January 1982

or otherwise, and where income in the form of charges has not kept pace with costs. Further, it would contribute to stability in the price of goods generally and it would assist our international road hauliers and exporters in their continuing and fierce competition with foreign companies.

Roads

You will certainly be aware of the reaction of Parliament to the Government's White Paper on the Armitage Report. Most of the 58 Armitage recommendations were ignored by those who spoke on the issue. Everyone concentrated on recommendation No.51 which was to increase the gross weights of lorries in order, as Armitage put it "to give large economic benefits, to help the environment, to improve road safety and to save energy".

My Association welcomed the Government's White Paper on Armitage as a sensible and forward looking statement of intent. The public, however, has grave misgivings. We believe that this concern is based not on the specific proposals related to Armitage but to a general dislike of lorries which the public at large feels are now out of scale with the environment in which they operate. This problem would not exist had successive Governments paid more attention to modernising our ancient road system. We believe that the country needs and must eventually accept heavier lorries if our standard of living and our competitive trading position is not to be eroded. Our major EEC trading partners have already grasped this nettle but Britain lags well behind. Both Germany and France have a record of devoting a significantly greater portion of GDP to their road networks than we do; the results are evident and comparisons of respective road networks are very much to our detriment.

We urge you to consider budgeting this year for considerably more expenditure on our road system than the White Paper indicates. With the air full of signs of an upturn in the economy the road haulage industry, traditionally first in and first out of a recession, would benefit greatly from the introduction of a vigorous and well-planned road building programme. Improvements to major transport systems require a long lead time. Perhaps now is the time to make a start.

Yours sincerely,

Francis Marshall



THE SMALL BUSINESS BUREAU

CH/EXCHEQUER	
REC	- 1 FEB 1982
ACTION	
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FINANCIAL SECRETARY	
REC.	- 2 FEB 1982
ACTION	PS/IR
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32 Smith Square London SW1P 3HH tel 01-222 9000

40193

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.
 Chancellor of the Exchequer,
 The Treasury,
 Parliament Street,
 London, SW1P 3HE

29th January, 1982

Dear Geoff,

I am enclosing our Budget Submissions for your consideration and obviously hope very much that you may be able to include some of these in your Budget.

[Handwritten signature]

Michael

Michael Grylls, M.P.
 Chairman

ENC:



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH tel 01-222 9000

S.B.B. Submissions For The 1982/83 Budget

1. Stock Relief

The "de minimis" provisions, wherein the first £2,000 of stock is not eligible for relief should be abolished. At present Stock Relief is calculated by multiplying the opening stock of a business, less £2,000 by the "All Stocks Index" and the resulting figure may be deducted from the assessable profits. This is less than fair to Small Businesses, as the following examples will show. Stock £400,000 less £2,000 = £398,000 eligible for relief = 99.5%. Stock £40,000 less £2,000 = £38,000 eligible for relief = 95%. Stock £4,000 less £2,000 = £2,000 eligible for relief 50%. It has been argued in previous correspondence by the writer with the Department of Industry that the abolition of the £2,000 disallowances will cause a great deal of additional work for the Revenue. It is submitted that this is not so. The calculation is extremely simple and will be done by the Taxpayer's Accountant. The Inspector of Taxes will have one extra figure to check, and will probably not bother to check small ones. At the present time many small computations are not checked by the Revenue.

2. Equipment Purchasing Reserve

It is suggested that Taxpayers be allowed to set against Taxable Profit sums of money earmarked for the purchase of Plant And Equipment. If this money is not spent within twelve months it would be brought back into charge for Income or Corporation Tax. The logical sequence of events for a Business Man is to try to make high profits, and then when he has done so to buy any equipment needed. If he does this under the present rules, he will obtain no relief in his good year, and if the following year is poor the relief will be reduced and indeed may only be available as losses in subsequent years and in the unincorporated sector, where personal allowances come into the computations much will be lost. At present the sophisticated have accounts prepared after say nine months and then try to buy what plant they may need in the near future, in the remaining three months of their financial year. This makes extra work and does not make financial sense. The unsophisticated merely pay higher tax. The argument against this will be that such a scheme will increase the scope for Tax Avoidance. The answer is that some are already avoiding tax, why not enable all to do so.

/...

National President: Keith Wickenden, MP

Chairman: Michael Grylls, MP Vice Chairmen: Richard Page, MP Graham Bright, MP Tony King, FCA

3. Graduated Scheme of Corporation Tax Without Marginal Rate Penalty

40% is too high a starting rate for Corporation Tax on small companies and, at the same time, it is regrettable that this rate of the first tranche of taxable profit is not retained after this level of profits, currently £80,000, is exceeded. As a result, the tranche of taxable profits between £80,000 and £200,000 is effectively taxed at a rate of Corporation Tax of 60% in order to ensure that the full rate of Corporation Tax of 52% is payable when profits reach £200,000.

Not only should the small company rate of Corporation Tax be retained when the first tranche of taxable profits have been exceeded, but also there should be a system for graduated rates of Corporation Tax to independent trading companies, leading up to the full rate of 52%. In this way growing companies will not be discouraged from expanding their businesses by encountering a steep rise in the rate of Corporation Tax at a particular profit level. At the same time this may well avoid having to take decisions, in which fiscal considerations override normal commercial ones, simply to keep their taxable profits under £80,000.

At present it is even advantageous for Capital Gains Tax purposes, and neutral to retained earnings, when the company is within the marginal rate band, to take out additional salary, pay the Income Tax on it and loan it back to the company.

It is considered that the first £2,000 of taxable trading profit should be free of all Corporation Tax, similar to the granting of a personal allowance to an individual, and that the next £3,000 should only be taxed at a Corporation Tax rate of 10%, followed by the next £5,000 at 15%. In particular this would give tremendous encouragement to new trading companies. The next three tranches of taxable profits of £10,000 each would be taxed at 25%, 35% and 45% respectively. All profit in excess of £40,000 will attract the full rate of Corporation Tax but without losing the reduced rates on the first £40,000. The profits of listed companies and non-trading income of their companies would attract tax at the full rate of 52%, irrespective of amount.

4. Capital Gains Tax

(a) It is felt that there is a case for allowing Roll Over Relief against Capital Gains Tax on the sale of Securities where the proceeds are used for the purpose of providing capital for a Small Business. For example, where in order to finance new enterprise or expand an existing one a Business Man approaches a friend or relative, such a person may well have to sell Stocks and Shares if he or she is to find the money. This will probably result in a charge to Capital Gains Tax and will act as a deterrent to the raising of capital. It is submitted that the time to levy Capital Gains Tax is when the investment in the new business is liquidated.

/...

4. (Cont.)

(b) There is also a case for allowing set-off of Trading Losses against Capital Gains Tax arising from the sale of a business, where the losses have occurred in that business. Very often such a charge will merely mean that unsecured loan creditors, who may well be relatives will not be paid in full.

(c) It is considered that where a Limited Company is wound up, and the management is unchanged, it would be possible to roll over Capital Gains Tax arising there from. At present, where a Company holds valuable assets and these are sold, there is a charge to Corporation Tax. Where the shareholders are then repaid, there will be a charge to Capital Gains Tax. This would not appear to be equitable.

5. Investigations in Depth

Every year approximately 5% of Taxpayers assessed under Schedule D Case I and II (Profits of Trade, Profession and Vocation) will have their affairs investigated in depth. This means a very detailed scrutiny of their affairs, including personal drawings, rates of gross profit earned, and also the amounts charged for private proportions of motoring, rents, rates, light and heat will be looked at, as will value of goods taken from the business for the use of the proprietor. This is very expensive in Accountant's fees.

If, therefore, the tax in dispute is reduced to the cost of trying to prove that it is not due the Taxpayer will normally be advised to settle for it, even though it is not due. This results in a feeling of resentment by the Taxpayer and may well lead him into the Black Economy. It is submitted that the Taxpayer should have the right to appear before the General Commissioners to ask for Costs. There will obviously only be granted where no material omission has occurred.

6. "Grylls" Study Group

The SBB also enthusiastically support the "Grylls" Study Group's proposals to allow interest on loans for new industrial or commercial projects to be paid Net of Corporation Tax.

7. Business Start-Up Scheme

The SBB would like to see the 'upper limit' for the Business Start-Up Scheme raised from £10,000 to £25,000. Also, to allow an employee to become eligible for this relief on up to 5% of a company's capital.

We would like the scheme to apply to genuine "management buy outs" even if not a "new" trade.

31st January, 1982



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

sent 29/1

EXCHEQUER	
DATE	29 JAN 1982
TO	Mr. Bunting
FROM	CS
	FS
	ES

For full consideration

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
London
SW1

John Smith

29 January 1982

- M. Dudley*
- N. Chapple*
- M. Harris*
- Asst Customs & Excise*
- W. Quinlan*
- M. Middleton*
- W. Dasthmal*
- W. Kemp*

I am writing to let you have my views on energy items for the Budget.

I believe the most important issue so far as energy is concerned is to do something to help large industrial consumers of electricity. I will be writing to you about this separately within the next few days.

On heavy fuel oil, we have agreed that before we can finally decide that the duty must remain at its present level, officials should consider once more the possibility of selective relief without triggering the Frigg contract provisions. I look forward to hearing in due course what they come up with, but I am not optimistic that they will find a workable solution.

I am sure that the acute political sensitivity of what we do about petrol rules out anything above revalorisation of the duty (ie an additional 7.67p a gallon). With the VAT effect, this would mean an increase of a little under 9p a gallon (bringing in about £500 million a year). In real terms, even full revalorisation would imply a reduction in the retail price of petrol compared with the position after the 1981 Budget. The real price of petrol may well continue to fall over the coming year.

On derv, we now have a duty differential with petrol following the pressures on road fuel taxes which emerged last time. There is a strong case for retaining and, indeed, widening the differential on energy conservation grounds: derv is cheaper to produce than petrol and diesel engines are overall 25% more fuel efficient than petrol ones. To achieve this, I suggest that the duty on derv should be increased by something less than full revalorisation (which would be 6.6p a gallon, excluding VAT). This would give some relative advantage to industry who are the major users of derv. It would also be very helpful if you were able to announce in your Budget speech that you intend to maintain a duty differential in favour of derv as a permanent feature of the fiscal system. Such an announcement would further encourage UK manufacture of diesel engined cars and provide a desirable extra incentive for consumers to buy diesels, given their generally higher initial purchase price. I understand that BL and Ford both intend to manufacture diesel engined cars in the UK during 1983.



I assume you will wish to increase the duty on avgas in line with petrol; and that you will continue to maintain the duty on LPG (as road fuel) at half the petrol rate in line with our commitment on this.

So far as the remaining oil products are concerned (ie gas oil, lubricating oils, avtur and kerosene), I see no scope for any increase. These products in general bear the same rebated rate of duty as heavy fuel oil. Significant increases would result in tax levels above those in most other European countries, and would bring in relatively little revenue.

The one exception to the general rate for rebated oils is, of course, kerosene. This bears duty at a rate of only 1p a gallon, and brings in only about £5 million a year. You may therefore wish to consider abolishing altogether this duty on domestic paraffin (as distinct from the related central heating or "standard grade burning oil"), especially since this is used particularly by the elderly and the poor. It would be a compassionate gesture if you were to do so. I do not think we would need to fear any switch by those using central heating oil to paraffin because the price differential in favour of the former will still be a sufficient deterrent (presently at least 8p a gallon). We have undertakings from the companies to limit this differential to the level represented by the extra manufacturing and wholesale distribution costs of paraffin. But over the last two years, we have seen the differential widen from about 2p to the present 8p a gallon as the market for paraffin has reduced, and we expect this trend to continue to some extent.

I am copying this to Patrick Jenkin, David Howell and John Biffen.

NIGEL LAWSON

Yes
Nigel

From: Rt Hon Shirley Williams M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

CH/EXCHEQUER

REC	- 1 FEB 1982
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Rt Hon Sir Geoffrey Howe QC, M.P.
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

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MR FRENCH.

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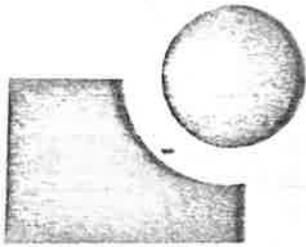
January 1982

Dear Sir Geoffrey,

I enclose a letter from a firm in Merseyside who have written to me with regard to their position if excise tax were to be raised in the next Budget, together with a copy of my reply. You may like to take their representations into account when deciding on your budget measures.

Yours sincerely,

Shirley Williams



Coinplay

WIDNES AUTOMATICS LTD

MEMBER OF BACTA

REGISTERED OFFICE
33 RODNEY STREET LIVERPOOL L12TE
REGISTERED No 967086 ENGLAND
VAT REGISTRATION No 164 7472 44

Directors :

W. McGhee
C. I. D. Ridgway
T. W. Evans

Company Sec. : Mrs. H. Williams

2/4 WHETSTONE LANE
BIRKENHEAD MERSEYSIDE
L41 2QR

Service: 051-653 6583
Office: 051-653 7626

Mrs. Shirley Williams M.P. for Crosby,
Houses of Parliament,
LONDON.

12th January 1982

Dear

The Government is considering proposals to introduce an ad valorem tax on the takings of amusement machines and gaming machines in the next Budget. At present Customs and Excise are conducting a review and will shortly be making recommendations to the Treasury.

Gaming machines are already heavily taxed and any increases would inevitably mean diminishing returns.

In my particular business the position would be that a lot of machines would have to be withdrawn from sites which would necessitate a reduction of my staff, and existing licence fees.

Non-profit making sports and social clubs in your constituency will be forced to raise prices and risk losing membership. Bingo clubs and arcades will close, unable to cope with added tax on their high capital investment.

Local entertainments - and jobs - will suffer.

A manufacturing industry supporting some 50,000 jobs (mainly in high unemployment areas) will be in jeopardy.

So will its very substantial export orders.

So will the £130,000,000 p.a. revenue it helps to generate.

The facts and figures are clearly set out in a report submitted to the Treasury by BACTA - the British Amusement Catering Trades Association. If you would like further information I will be only too pleased to arrange for a copy to be sent to you.

Will you please ask the Minister to take all these factors into account before he reaches a decision.

Meanwhile I would be grateful if you would let me know what action you are able to take on my behalf.

Yours sincerely,

Managing Director.



4 Cowley Street
London SW1P 3NB
Tel: 01-222 4141 & 1200

W. McGhee Esq.,
Coinplay
2/4 Whetstone Lane
Birkenhead
Merseyside
L41 2QR

From: Rt Hon Shirley Williams M.P.
House of Commons London SW1A 0AA

January 1982

Dear Mr McGhee,

Thank you very much for your letter of January 12th concerning the possibility of an ad valorem tax on the takings of amusement machines and gaming machines. I do indeed take note of what you say about jobs and exports which are clearly serious areas of consideration. I have to be honest and say, however, that I would not object to some small increase in excise taxes on gaming machines, tobacco and drink if the alternative were to be still further cuts in social benefits or a refusal to raise personal allowances in line with the rate of inflation. I do appreciate that a heavy increase in tax would be difficult for your industry and I am therefore making your views known to the Chancellor.

Yours sincerely,

Shirley Williams

THE SOCIAL DEMOCRATS

29/1/82.

CHANCELLOR - *Jill*
27/1

c .

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State (C)
 Minister of State (L)
 Mr Ridley
 Mr Harris

Comments from
 TB
 PM

PSBR - A VALEDICTION

No single item has made more impact on my thinking during the last three years than a simple table in Rowe Rudd's weekly circular of 26 March 1980. Slightly amplified, I set it out below:

Year	Assumed		Est GDP £bn	PSBR		Institutional Cash Flow £bn (ii)	Gap (Money) £bn (ii)-(i)
	Real Growth %	Inflation %		Ratio % (MTFS)	Amount £bn (i)		
1979-80			196	4.75	9.3	10.0	0.7
1980-81	- 2.5	15	220	3.75	8.3	11.2	2.9
1981-82	1	12.5	250	3.0	7.5	12.7	5.2
1982-83	1	10	277	2.25	6.1	14.2	8.1
1983-84	1	10	308	1.5	4.6	15.7	11.1

The table showed how, in 1979-80, the PSBR was roughly equivalent to the annual cash flow of the insurance offices and pension funds. It then showed how, with contractual savings expected to grow fast, and the PSBR intended to fall in line with the 1980 MTFS, a gap was going to open up. This gap represented the growing volume of (mainly contractual) savings that was going to become available for the nourishment and expansion of the private sector after the State

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had had its fill. It was an encouraging run of figures, with striking interest rate implications and even the prospect of a revival of the industrial debenture market.

With help from Stephen Bell in Mr Cassell's MP Group, I have revised the table. This shows what has actually happened so far, and what is likely to happen in 1982-83 and 1983-84.

Year	Assumed		Est GDP £bn	PSBR		Institutional Cash Flow £bn (ii)	Gap (Money) £bn (ii)-(i)
	Real Growth %	Inflation %		Ratio % (MTFS)	Amount £bn (i)		
1979-80			196	4.9	9.9	9.9	0.0
1980-81	- 2.5	12.7	231	5.7	13.1	11.5	- 1.6
1981-82	- 0.7	12.8	255	4.1	10.4	11.6	1.2
1982-93	1.0	8.8	283	2.8	8.0	12.3	4.3
1983-84	0.6	7.1	306	1.5	4.6	12.9	8.3

[No
it'll be over 2%]

Note: The institutional cash flow figures for later years reflect the drop in the savings ratio from its exceptional 1979 level.

The revised table tells us that:

(i) the opening up of the gap between PSBR and institutional cash flow has been delayed by two full years.

(ii) Over the period as a whole, 1979-80 to 1983-84, the surplus of institutional cash flow over PSBR looks like being £12.2 billion compared with Tony Rudd's aggregate £28.0 billion. Over the first three years it has probably been minus £0.4 billion against the hoped for plus £8.8 billion.

This goes quite a long way towards explaining the present level of British interest rates and British industrial investment.

It is also my answer to the Chris Pattens of this world, who still seem to be guilt ridden about any suggestion that the hard faced Tory Party might do anything to bring the PSBR down - as

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if the size of its PSBR were a direct measure of a Government's social respectability.

If it is our intention to let the British private sector wither on the vine, then it does not matter a lot if the opening up of Tony Rudd's gap is delayed indefinitely. But if we really believe in private enterprise capitalism then surely it should be a prime object of policy to get that gap up as fast as possible, so that industry can invest.

Some will argue, of course, that the PSBR is matched by capital creation in the public sector and that I should not therefore be complaining. One is bound to query the validity of any capital creation that is by and large undertaken for social reasons (as most public sector investment is, particularly if the commercially viable parts of the public sector are being actively privatised). But setting aside such carping comment, one has to point out that the optimum level of public sector investment is at best indeterminate, and that it is in direct competition with private sector investment.

Worse still, the real and overwhelmingly large variable in the equation is public sector current expenditure. It is that which really determines the PSBR.

There again, the critics will argue that it is President Reagan who determines our interest rates and that if free money were hanging from trees British industry would still not invest. The answer to that is (i) President Reagan has not managed to push German and Japanese interest rates up to 16 per cent yet, and (ii) British industrialists have understandably become a cautious lot, but if you take the line that lower interest rates and consequent better profitability would not induce any more investment (in either the short or the medium term) then we might as well pack up and go over to ^MConecon.

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As I see it, the argument over the size of the PSBR is very simply an argument about how much of the GDP we should consume and how much of it we should invest in the future of our productive sector. These figures seem to me to encapsulate the issue rather neatly.



P J CROPPER
29 January 1982

CONFIDENTIAL

(PWP)



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Robust stuff ✓

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

sent jh

EXCHEQUER	
REC	- 3 FEB 1982
ACTION	Mr. BATTISHELL
COPIES TO	GS
	FS
	ES
	MS(c)

- 2 FEB 1982

MS(c)	Mr. M. D. L. ...
Sir D. ...	W. ...
Mr. Payne	Mr. ...
Mr. ...	Mr. ...
Mr. ...	Mr. ...

De ...

I should like to offer you my views on where, from my *PS/Customs* standpoint the emphasis should be in your treatment of the motoring taxes in the Budget.

First, I imagine that your starting point will be a revalorisation of the fuel duties. So far as DERV is concerned, I would strongly support this so that the level of road track cost coverage achieved by heavy lorries is not eroded. But I would at the same time recommend that you impose no higher an increase on DERV duty than on petrol. Changing the duty balance which you struck last year would penalise the road freight industry and businesses generally. Moreover from an energy-saving point of view I could see advantages in giving UK car manufacturers a steer towards the development of diesel-powered cars by a statement that you will not disturb the current petrol-DERV relationship for the remainder of this Parliament.

Assuming a revalorisation of DERV, I suggest that VED on all but the heaviest lorries should simply be revalorised in the Budget. This would apply whether we restructure the basis of taxation to gross weight either in the Budget or in the autumn. Restructuring will in itself produce so many tax increases and decreases that anything more than

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revalorisation would add unduly to the burdens of some individual operators. Indeed, on track cost grounds there is a case for smaller or zero increases in VED levels on the lighter, less damaging lorries which more than cover their costs. But I think that further changes in relativities, over and above those which VED restructuring itself produces, and those relating to light vans on which I have written separately to Jock Bruce-Gardyne, are best left to next year. I would however make an exception in the case of the top weight 4 axle 32.5 tonne articulated lorries, where it is important that we should start to tackle the deficit in track costs immediately. I would suggest that for this group we aim at an increase in VED of about 25% above the present average amount paid by these vehicles. This selective increase ought, I suggest, to apply from March. This would represent an average real increase of around 12% (plus 12% for revalorisation). Although this 'tilt' will still leave the top weight vehicles in deficit, I would not recommend a VED increase higher than that proposed, given the impact of restructuring itself on operators currently paying below the average. But we shall have made a demonstrable start and will have a firm base from which to move to full cost coverage in future years.

If you do not revalorise DERV I would need to look again at my proposals on VED levels, since I cannot afford to lose ground in the level of track cost coverage achieved by heavy lorries. This is particularly important in the Armitage context.

Turning to cars, I assume you will wish to raise in total at least the equivalent of revalorising both VED and petrol duty; revalorisation of petrol would produce about £415m extra revenue, and of VED (assuming a rounded increase from £70 to £80) about £155m, giving a total of £570m extra revenue. I would strongly support the revalorisation of petrol, since pump prices are now about 5% lower in real terms than they were after last year's Budget. Indeed transport and

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energy consideration might point towards you raising the whole £570m from petrol taxation alone. But I appreciate this might cause you political difficulties, particularly if you wish to do more than revalorise petrol anyway. I would not, therefore, press the case this year for petrol taxation to carry the full weight of the increases on the motorists.

My final point concerns the taxation of company cars. You recognised in your Budget statement last year that the tax scales on which the benefit is assessed are well below their true value. At the very minimum I think you should revalorise the scales in this year's Budget. However I also think you should go somewhat beyond this and start to bring the untaxed benefit down in real terms. This is particularly relevant in the context of our continuing problems over subsidies to public transport.

I am copying this letter to Nigel Lawson and Patrick Jenkin.

*Yours
David*

DAVID HOWELL

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TRIMITE

The Paintmakers — for Industry

TRIMITE LIMITED

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TELEGRAMS TRIMITE LUXBRIDGE

DIRECTORS: M.H. BRENT, F.C.A. (CHAIRMAN AND MANAGING DIRECTOR);
I.D. BRENT (PRESIDENT);
L.E. BRENT (COMPANY SECRETARY)

REGISTERED IN ENGLAND NO. 355315

RECORDED DELIVERY

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON,
SW1P 3AG

REC'D
EST. INSTL
SIR D. JASS
MR RYBIE.
MR MIDDLETON
MR BATTISHILL
MR ROSSON
MR F. MARTIN

CH/EXCHEQUER	
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2nd February 1982	

Dear Sir Geoffrey

MR FREDCU

Capital Transfer Tax - Business Property Relief

You may recall that I addressed a question to you at the Small Business Bureau Conference "Encouraging the Entrepreneur" on 26th January 1982 concerning the major problem of expanding family businesses. I understood you to reply that you would like representations made on the particular point of Business Property Relief and I endeavour to do this below.

I believe you are well aware of the value of small and medium size businesses in that it is these concerns that are providing new jobs and opportunities for people in contrast to the large companies who collectively are "killing people off". Hopefully, my own company is a good example of this in that our work force has increased from 200 to 500 in the last decade and we have never made anyone redundant in the 40 years since we have been incorporated.

All companies have problems when the Chief Executive dies and it seems iniquitous to me that unquoted companies can be faced with being deprived of up to 37½% (50% Taxable Business Property x 75% Top Rate Capital Transfer Tax) of their working capital if the deceased were a Controlling Shareholder. However, if the Chief Executive happens to have a minority shareholding this percentage is made very much worse in that up to 60% (80% Taxable Business Property x 75% Top Rate Capital Transfer Tax) of his estate will, in effect, be confiscated by the Government. It is difficult to see why dying should be considered such a heinous crime - particularly as we all do it!

In case you think that this is all very theoretical and not likely to happen in real life, I can assure you that I know several families who have a potential Capital Transfer Tax liability on their Estates of £1,000,000 or more when they try to pass their family businesses on to the next generation.

The Government's view sometimes appears to be that they believe that every private company's long term ambition is to "go public". This is definitely not the case. Regrettably, there is no other way for most unquoted company's shareholders to pay Capital Transfer Tax except by "selling out" or "floating".

continued.....

The Government would not try to purloin any of the working capital of I.C.I. if Sir Maurice Hodgson were to pass on - so why should family businesses have £1,000,000 of their working capital withdrawn if their majority or minority shareholders are removed from the scene? Needless to say, if the proposed legislation allowing companies to buy their own shares does not become Law then family businesses will apparently have to be "sold off" or "go public" in the long run even though neither course is desired by their shareholders, employees or their customers. Is this the sort of result a Conservative Government wishes to see?

As I understand it, the reason there is a 50% Business Property Relief for Controlling Shareholders is to make it easier for the unquoted company to survive in its traditional form. Therefore, it seems to me that by making the Relief 100% you could be certain that no unquoted companies would perish due to Capital Transfer Tax.

However, I can see no logic for a smaller percentage Business Property Relief for the minority shareholder than for the majority shareholder. Indeed, I can argue that it is more unjust that the private company has to be sold because a minority shareholder dies than if a majority shareholder passes on. The grounds for this argument would be that if the majority shareholder dies then the chances are that he is the Chief Executive as well and the Company probably has so many leadership problems that it may well have to be sold - C.T.T. or no C.T.T. However, in the case of a minority shareholder in a major unquoted company, it must be exasperating (to say the least) to have to sell the business when there are no leadership or other problems of any sort merely because a minority shareholder has died!

I have been told that the cost of increasing Business Property Relief to 100% is approximately £50m and as this is less than 0.05% of the Government's Budget, I believe that the effect on the Government would be negligible BUT it would be very positive for the further development of the more successful family businesses in this Country.

Furthermore, when measured against approximately the £1,000m of other people's cash which the Government has pledged to British Leyland and the £1,000m of other people's cash pledged to British Steel last year (both of which are bankrupt concerns by normal commercial standards) I feel very strongly indeed that £50m left with the people who earned it in the first place is not only a fairer result but also a far better investment.

If Business Property is not to be relieved it would seem that Parliament is trying to prevent family businesses growing beyond the size at which Capital Transfer Tax can, hopefully, be met through Life Assurance Policies etc. Alternatively, judging from the rates of tax that have been set, Parliament appears to believe that it is more virtuous for private minority shareholders to "go public" and spend the proceeds on "wine, women and song" (Penalty: 30% Capital Gains Tax) than to pass the business to the next generation (Penalty: 60% (net) Capital Transfer Tax)!

2nd February 1982

Having met you at the Uxbridge Businessmen's Club on the 29th November 1977, I am sure that you do not mean small and medium size businesses either to be inhibited from growing or to be devastated through Capital Transfer Tax if they manage to expand.

Presumably, when Mrs. Thatcher said re Capital Transfer Tax "We shall therefore repeal this tax" (Commons Hansard 884, column 1389), the Prime Minister believed it was wrong that people who have already suffered Corporation Tax, Income Tax and Investment Income Surcharge should have Capital Transfer Tax levied on any assets that remained. It is even more wrong that Capital Transfer Tax should be imposed on an asset that is not readily realizable in cash especially when conversion into cash destroys forever the particular characteristics of family businesses that makes them successful (e.g. long-term time horizons and their "human face")!

It is significant to me that West Germany has more family businesses than the United Kingdom and I believe that it is because they have not been taxed out of existence to the same degree. Traditionally, the Germans have also enjoyed a better Economy than ourselves and I think that this is a "cause and effect" situation.

Therefore, if you cannot repeal Capital Transfer Tax as Mrs. Thatcher pledged, at least grant Business Property Relief of 100% instead of the present three rates of 20%, 30% and 50%. In this way, you can be sure that generations of effort will not be wrecked through "the philosophy of failure, the credo of ignorance and the doctrine of envy".

I would be glad if you could kindly acknowledge the safe receipt of this letter.

Yours very sincerely,

Michael Brent

M.H. BRENT,
Managing Director

**the
scottish
council**
Development
and Industry

President The Rt Hon the Lord Clydesmuir, KT, CB, MBE, TD, LLD, DSc
Chairman Peter Balfour Deputy Chairman John A Matheson, OBE Chief Executive Hamish R Morrison

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3 February 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON
SWIP 3AG

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PPS
CST
EST
MSTL
MR F. MARTIN
MR FRECH
MR RYRIE
MR MIDDLETON PS/IR
MR BATTISWILL
MR ROBCO
MR WICKS

Dear Chancellor

After due consultation and consideration the Scottish Council has decided against making a detailed presentation to you on the offshore oil and gas taxation regime. The United Kingdom Offshore Operators Association, BRINDEX and the Institute of Fiscal Studies have rehearsed the main possibilities in their separate submissions.

The Council's interest is in the maintenance of stability and continuity in the UK offshore industry which now generates some 75-80,000 jobs in Scotland. 4,000 of these jobs are in the Inner Moray Firth area which has recently undergone a traumatic experience with the closure of the British Aluminium smelter at Invergordon. Although both Moray Firth fabrication yards have work until early 1983 there is little comfort to be drawn from the outlook beyond that time. It is now some seventeen months since the last permit was issued for the development of a commercial find. During the same period several development projects have been shelved or postponed.

This recent lack of continuity in offshore development is not only due to the size of the tax bill which the operators must meet; the number of changes in the taxation regime over the past two years has seriously undermined the stability of the whole industry.

A further concern has been the note of self congratulation by Ministers at the success of the seventh round of exploration licences. The impression has been given that this situation somehow vindicates the general taxation regime. Such an impression is a dangerous delusion. The commercial motivation for exploration is quite different from the considerations underlying a decision to proceed with development and production.

The/

The Council has always held to the view that the most durable benefit of the offshore industry will be a revitalisation of Scottish engineering and the development of supply and service industries which will find a substantial long-term share of the offshore industry worldwide. Great progress has been made in this direction but much more remains to be done. In particular the advanced technologies necessary for the development of marginal fields in hostile weather conditions presents an outstanding long-term opportunity.

The Council urges you to give a high priority to reinforcing the success of this important industry by adjusting the balance of taxation to revive the incentive to develop known prospects and to forswear any temptation to make ad hoc adjustments to the regime once it is settled.

Yours sincerely

Peter Baalman

pwp.

UK Offshore Operators Association Limited

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4 February 1982

Rt Hon Sir Geoffrey Howe QC MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

CH/EXCHEQUER	
REC.	- 8 FEB 1982
ACTION	Mr DARTON - IN 7.2
COPIES TO	MST (L)
	Sir J. WMS
	Mr Pyrie
	W. M. DUNN
	W. DARTON
	Mr FRENCH

Adms

40575

Dear

Chancellor,

Tax Treatment of Incremental Investments on the UKCS

You will recall that UKOOA's Submission to you on the 1981 changes to the UK oil tax regime drew attention to the adverse effects of the PRT changes, inter alia, on the economics of incremental investments in or near to existing producing fields. This is important because such investments are required in all fields as time goes on in order to maximise oil and gas recovery. It is our contention that investment of this kind should be accorded the same benefits as any other investment. In particular, the Submission proposed that the difficulty could be resolved by the grant of a separate oil allowance, or that such a development should be given separate field status.

Our Submission did, in fact, propose that a joint Government/UKOOA Study Group should examine the tax treatment of all incremental investments made in a field after pay-back, and be required to report back by 31 December 1981. When this matter was discussed at our meeting with you and the Secretary of State for Energy on 15 November 1981, it was noted that informal discussions on the subject were already in progress between UKOOA and your officials, and it was agreed that this was the most appropriate way of handling our proposal.

During these informal discussions, UKOOA presented economic analyses of some illustrative incremental investments in selected North Sea fields, and the Department of Energy also tabled data. All results showed that the profitability of incremental investments varied depending on the timing of the investment in relation to the date of pay-back for the main oilfield. This is because the pay-back date is now the factor which determines when investments cease to be eligible for Uplift, and when the Safeguard ceases to be available. Comparisons have also been made between treating these incremental investments as part of the main field and granting them separate field status; these economics showed even wider disparities.

Those engaged in the discussions have not attempted, in the short time available, to establish a solution to this complex problem but, in UKOOA's view, the discussions have emphasised the following main points in the current tax treatment of incremental investments.

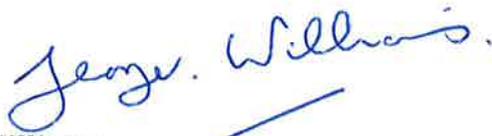
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1. In almost every case reviewed, the effect of the tax system is to make incremental investment in or near existing fields less profitable on most economic criteria than separate field projects requiring the same outlay. (The main exception to this occurs when the incremental investment takes place after production has started on the parent field but before pay-back has been achieved.) If this anomaly is allowed to persist, it can be expected that major new investments will be channelled into projects which are obviously new fields and the development of proven reserves in or near to existing fields may never take place. This is most undesirable at a time when producers should be considering additional investment designed to achieve better recovery rates, the maintenance of the level of production, etc. It should also be kept in mind that the validity of such incremental projects often depends on access to a near-by facility with a finite operating life.
2. Several of the incremental projects examined show relatively high rates of return and therefore appear, on superficial examination, to be attractive. However, detailed study shows that most of these projects yield extremely small net cash flows to the operators in relation to the capital investment and the required technical expertise. Many of these projects, therefore, would not be competitive with other potential investment opportunities and would not warrant diverting critical technical manpower away from other projects with higher potential. In addition, projects with low cash flows are by nature higher risk investments, being extremely vulnerable to fluctuations in production rates, reserves, increased costs and oil prices. In our view, rate of return certainly cannot be used as the sole criterion for judging the profitability of projects, especially incremental projects.

UKOOA considers that it is handicapped in making further suggestions until after your 1982 Budget statement, which will provide it with information on your proposed changes to the current tax system. Nevertheless, UKOOA most strongly recommends that changes are introduced to modify the tax system to remove the adverse treatment of incremental investments. The changes could be introduced at the Committee stage, if necessary, and UKOOA would be pleased to continue discussions with your officials after 9 March if this would be of value. As we have already advised you, the industry requires, for both marginal field developments and incremental investments, automatic tax reliefs, as distinct from discretionary reliefs. Large investments cannot be planned when only discretionary reliefs are available.

Finally, we wish to confirm that this letter has the unanimous approval of all our Members, as was the case in respect of our main Submission to you in October of last year, and we therefore trust that you will take this fully into account when formulating your revisions to the UK oil tax regime.

Yours sincerely


G Williams

Copy to Secretary of State for Energy



BRITISH INSURANCE ASSOCIATION

CHAIRMAN: P. R. DUGDALE · DEPUTY CHAIRMEN: P. W. SHARMAN · J. J. HOWARD
SECRETARY GENERAL: R. C. W. BARDELL

ALDERMARY HOUSE,
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40571

Reference: T.2019(g)

5th February 1982.

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

PC CH/ET

CH/EXCHEQUER	
REC.	- 8 FEB 1982
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Dear Chancellor,

1982 Budget - Policy Matters

I hope you will find it helpful to have the attached memorandum on policy matters which this Association would be very glad to see covered in your forthcoming Budget Statement and in the follow-up legislation.

Yours sincerely,

Chairman.

Enclosure.

BRITISH INSURANCE ASSOCIATION

1982 BUDGET STATEMENT

1. COUNTER-INFLATION POLICY

The Association supports the Government's resolve to continue, as a top priority, the fight against inflation.

2. INDUSTRIAL AND EMPLOYMENT POLICY

In the past, the policy of successive UK governments has been to provide particular incentives for capital investment and job creation in manufacturing industry. The services sector has in the meantime been treated as something of a poor relation. The Association suggests that the time is ripe for a review of these industrial priorities.

The subject is examined in some detail in a recent NEDO Discussion Paper* which considers the underlying arguments for according priority to the manufacturing industry and finds that many of them are ill-founded. It concludes that, irrespective of the special incentives applied to manufacturing, there is a long-run trend in developed economies for the services sector to account for a growing share of national output. "However, if the demand for services continues to expand, and their productivity (in volume terms) continues to lag, then it will certainly be worthwhile to improve their performance - the scope for improvement exists and will grow. improving (UK) performance depends upon raising efficiency in all activities, regardless of the sector in which they happen to be located."

This point is of particular concern to those services which are traded internationally, such as insurance and banking, which have in recent years been encountering greatly increased foreign competition. The Association believes that it would be in the national interest to build on existing strengths and, far from placing the financial service industries under relative fiscal and other handicaps, to encourage their competitiveness by all legitimate means.

Three particular aspects of fiscal policy which bear particularly harshly on the financial sector are considered in the following section and progress to deal with the points we raise would help to ensure the continued competitiveness and, in the long run, the prospects for growing output and employment, in insurance and the other industries concerned.

3. FISCAL POLICY

3.1 National Insurance Surcharge

The Association urges that this surcharge should be progressively removed as soon as possible. The surcharge not merely reinforces the other factors deterring increased employment at a time when the number out of work is at a record level but also, unlike indirect taxes such as VAT, acts as an additional constraint on UK exports.

3.2 Business Rates

The Association welcomes the publication of the Green Paper on "Alternatives to Domestic Rates" and the analysis therein of the repercussions for

*Discussion Paper 8, "The Services Sector - A Poor Relation?: A Review of its Role, Performance and Prospects in the UK" by John Whiteman.

non-domestic rates which would follow from the abolition of domestic rates and their replacement by some alternative form of revenue. The Association will be submitting representations on the Green Paper and hope that these will lead to an acceptable long-term solution for the contribution by domestic ratepayers towards local government services. The Association is anxious that any interim solution for domestic ratepayers should maintain an equitable balance between domestic and business ratepayers.

3.3 Corporation Tax

The Association welcomes the publication of the Green Paper on corporation tax and will be submitting representations on the alternatives set out in that paper. The following three aspects, which are of particular concern to insurers, are covered in the Green Paper and the Association urges that priority be given to changes in these areas without waiting for any radical change in the basis of corporation tax.

The first aspect of concern is the effect of double taxation relief under the imputation system. The imputation system is more onerous on companies which derive a substantial part of their income from abroad than on those which derive their income largely in the United Kingdom because it is impossible to obtain relief for overseas taxes against advance corporation tax. To avoid loss of double taxation relief in a year when foreign income accounts for an unusually large part of a company's taxable profits, the circumstances in which advance corporation tax may be carried back or forward should be widened to include any advance corporation tax to the extent that it would otherwise cause a restriction of double taxation relief. As this may not fully avoid loss of double taxation relief the Association also urges that a proportion of advance corporation tax should qualify for double taxation relief. This proportion should be at least that proportion of advance corporation tax which is not repaid or allowed as a credit to shareholders when the corporate sector is considered as a whole.

The second aspect is the need for an adjustment for the effects of inflation on insurance business. In times of inflation, profits reported by industrial and commercial companies on conventional accounting bases make insufficient allowance for the cost of maintaining a business and recognition of this problem has led to the introduction of stock relief. This relief does not, however, extend to the business activities of the financial sector whose problem is that to preserve the same real level of business in an inflationary period, the money values of their transactions must increase. Equity demands that an equivalent to stock relief should be introduced for the financial sector at the earliest possible opportunity.

The final aspect is the need to extend capital allowances to expenditure on commercial buildings. The Association urges that the existing system of granting capital allowances at various rates for expenditure on certain buildings occupied for business purposes should be revised and a standard rate of allowances granted for expenditure on any building occupied for business purposes. The provisions relating to enterprise zones recognise the importance of commercial buildings to the economy and such relief should be made available generally.

RETRA



14

Radio, Electrical and Television Retailers' Association (RETRA) Ltd

5th February, 1982.

Director: R.T. Edom F.B.I.M.

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Registered in England No. 374327

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London, SW1P 3HE.

CH/EXCHEQUER	
REC	- 8 FEB 1982
ACTION	
COPIES TO	

MR ROBSON
MR F. MARTIN
MR FREEDER
PS/IR

PPS
EST
EST
MSTL
SIRD. WASS
MR RYRIE
MR MIDDLETON
MR BATTLEWILL

Dear Sir Geoffrey,
MR P. J. DIXON

I refer to our earlier submissions to you regarding the transitional arrangements for the application of Capital Allowances to the rental to consumers of Television and related products.

We understand that under the present provisions the eventual residual allowance of 25% is to be on a reducing balance basis. My Association has asked me to submit to you a request that the final figure be placed in fact on a straight line basis rather than the present method. This would be of administrative and accounting assistance to our rental companies in removing the indefinite nature of the provision which will be particularly irksome and awkward for many rental companies, particularly smaller ones who are not yet computerised and who will have to make this calculation each year for all rental agreements held by them. Equally it seems to us that it would overcome any long term problem of 'policing' caused by the continual use of the reducing balance basis.

There are two further aspects of the transitional arrangements that I would like to submit again for your consideration.

The present economic climate and the growing number of unemployed persons must seriously affect future consumer expenditure and in turn the viability of the television rental operation for both rental organisations and their suppliers. We would ask you therefore to sympathetically reconsider the existing stages of reduction of allowances. It will be most helpful if a smoother transition could be operated of say 80% in the first year, 60% in the second year, 40% in the third year and 20% in the fourth year.

The second aspect is that of the treatment of Teletext receivers where in keeping with the considerable efforts that have been made by the whole of the trade to support the Department of Industry in the generation of

Cont...

increased consumer awareness of British Information Technology equipments the application of the transitional arrangements for Capital Allowances for the rental of Teletext receivers in line with that for the rental of Viewdata television would be very helpful.

Yours sincerely,

R T EDCM
DIRECTOR.



The Royal Institution of Chartered Surveyors

12 Great George Street, Parliament Square, London SW1P 3AD

Telephone 01-222 7000
Telex 915443 RICS G

Our ref H2/JAS

Your ref

The Rt. Hon Sir Geoffrey Howe QC MP
The Treasury
Parliament Street
London SW1P 3HE

CHEXCHEQUER	
REC.	- 9 FEB 1982
ACTION	
COPIES TO	
8 February 1982	

Dear Chancellor

I am pleased to enclose a memorandum by The Royal Institution of Chartered Surveyors, containing suggestions which we hope you will consider for inclusion in the 1982 Finance Bill.

Yours sincerely

R W Baker

R W BAKER
Secretary for Public Affairs

(Encl.)

PS/IR
 OPS CST
 EST MSTL
 SIRD. WASS
 MR RYRIE
 MR MIDDLETON
 MR BATTISWILL
 MR ROBERTSON
 MR GLIFFATHS
 MR F. MARTIN
 MR FRENCH
 PS/CTE

PROPOSALS FOR THE 1982
FINANCE BILL

A memorandum by

THE ROYAL INSTITUTION
OF
CHARTERED SURVEYORS

1 February 1982

PROPOSALS FOR THE 1982 FINANCE BILL

A memorandum by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS1. INTRODUCTION

- 1.1 This memorandum, prepared by The Royal Institution of Chartered Surveyors, sets out a number of measures which the Institution would like to see included in the 1982 Finance Bill. Whilst the Institution recognises that the current economic situation limits the Government's freedom of manoeuvre, it believes that these measures could be introduced in the coming year.

2. STAMP DUTY

- 2.1 The Institution believes that consideration should be given to raising the threshold at which Stamp Duty becomes payable upon the purchase of a dwelling, so that first-time buyers are given every encouragement. One means of achieving this would be to apply the principle of index-linking to the threshold.
- 2.2 Moreover, we continue to be concerned at the equity of the present system by which, once the threshold has been passed, duty becomes payable at a percentage of the whole purchase price and not merely on the amount by which the price exceeds the threshold. Similarly, once a property passes from one price band into another, a higher rate of duty is applied to the whole price. This is contrary to the system used for income tax, in which the higher marginal rates are very properly applied only to the amount of income above a particular level, not to the whole of a person's income.

This inequity is illustrated by the following examples of the present system:

<u>Price of property</u>	<u>% duty</u>	<u>Duty payable</u>	<u>% duty on marginal price</u>
19,500	Nil	Nil	Nil
20,500	$\frac{1}{2}$	£102.50	10.25%
24,500	$\frac{1}{2}$	£122.50	Nil
25,500	1	£255.00	13.25%
29,500	1	£295.00	Nil
30,500	$1\frac{1}{2}$	£457.50	16.25%

It will be noted that in the last two examples quoted, an increase of only £1000 in the price of the property results in an increase of £162.00 in the duty payable.

- 2.3 The Government is committed to assisting small family businesses. One means of doing this would be to exempt transfers of such businesses from Stamp Duty.

3. VALUE ADDED TAX

- 3.1 The Institution wishes to repeat its suggestion that works of repair and maintenance to buildings should be zero-rated for VAT purposes. Such a change would give a considerable boost to the building industry in its present depressed condition. Moreover, at a time when the condition of much of the nation's housing stock is known to be deteriorating the levying of VAT on repairs and maintenance would seem particularly harmful. The zero-rating of such work would also help to reduce the 'black economy' of builders doing work for cash payment on which little or no tax is paid.

4. CORPORATION TAX

- 4.1 In its response to a questionnaire issued by the Department of Industry, the RICS has indicated that there has been a significant increase in investment in small industrial premises since the introduction of the 100% initial allowance. However considerable difficulties have been encountered over the definition of a qualifying trade. These difficulties have led to premises remaining empty and to a loss of employment opportunities. We consider it essential that the definition of a qualifying trade should be widened so as to embrace other industries, most notably the service sector.
- 4.2 The Institution also considers it vital that the Government should clarify its intentions as soon as possible regarding the level of initial allowance that will subsist after March 1983 so that investors can plan ahead with some degree of certainty

5. CAPITAL GAINS TAX

5.1 Current Use Value

If land is sold at a price above current use value, as defined in the Finance Act 1974, the time apportionment approach is excluded under the provisions of Schedule 5, para.9 of the Capital Gains Tax Act 1979. It would now seem more appropriate to adopt current use value as defined in the Development Land Tax Act 1976.

5.2 Protection of Value of Reliefs

We believe that the value of CGT reliefs should be protected against inflation. In order to achieve this, consideration should be given to indexing the £3000 exemption under the CGT Act 1979.

5.3 CGT on Compensation for Compulsory Purchase

5.3.1 In a memorandum submitted to the Chancellor in July 1981 the RICS expressed the view that legislation should provide specifically for a measure of relief in regard to capital gains tax on compensation for compulsory purchase. A copy of the Institution's memorandum is attached.

5.3.2 We are pleased that the Chancellor indicated in his reply dated 18 August, that he has "considerable sympathy" with the case that we are putting forward. We do not accept that the implementation of our proposals would present any great difficulty and the Institution would be pleased to suggest solutions to any technical points that the Treasury might care to raise.

With regard to specific objections mentioned by the Chancellor in his response, we make the following points:

(i) An owner realising a gain under compulsory acquisition has no latitude in deciding the best time to sell to suit his own requirements. He is not, therefore, in the same position as a person who sells voluntarily in the full knowledge of the tax consequences of his decision.

(ii) The practical 'operational' difficulties referred to (i.e. sales made voluntarily but under threat of compulsory acquisition, and the determination of suitable substitute investments) were both dealt with in the Institution's memorandum. We would be pleased to enlarge on our proposals in respect of these matters.

(iii) If it is thought that a worthwhile change would require an inordinate amount of Finance Bill space, may we suggest that this problem could be overcome by the presentation of a specialised bill in the autumn.

6. CAPITAL TRANSFER TAX

6.1 Grants of Tenancies of Agricultural Property

Clause 97 of the Finance Act 1981 stipulates that the grant of a tenancy of agricultural property in the

United Kingdom for use for agricultural purposes shall not be a transfer of value by the grantor if he makes it for full consideration in money or money's worth. There is a need for clarification in regard to the definition of what constitutes a "full consideration", possibly by a Revenue Statement of Practice.

7. DEVELOPMENT LAND TAX

7.1 Development Land Tax was not introduced primarily as a revenue measure but in order to play a specific social role within the context of the community land scheme. In consequence certain features ordinarily found in tax measures were absent, their absence being justified by the special nature of the tax.

7.2 Notwithstanding the origins of the tax, the Institution believes that one important amendment would be immediately justified, namely that an allowance for any development losses resulting from earlier disposals by the same taxpayer should be given against realised development values. In addition the Institution would urge that the interaction between DLT and other taxes should be extended so that, for example, losses in other taxes may be made allowable against DLT (with suitable anti-avoidance safeguards).

8. PRESENTATION OF AN AUTUMN BILL

The Institution recognises that there is limited space available in the Finance Bill for technical amendments. The Institution therefore suggests that many of these amendments could be deferred for inclusion in an autumn Bill.

9. FURTHER DISCUSSIONS

The Institution would be pleased to amplify any of the points raised in this memorandum.

CAPITAL GAINS TAX ON COMPENSATION
FOR COMPULSORY ACQUISITION

A memorandum by

The Royal Institution of Chartered Surveyors

23 July 1981

GCPA/Report(81)18

CAPITAL GAINS TAX ON COMPENSATION
FOR COMPULSORY ACQUISITION

A memorandum by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

1. In a memorandum submitted to the Ministry of Housing and Local Government in 1968 The Royal Institution of Chartered Surveyors, in conjunction with the Chartered Land Agents' Society and the Chartered Auctioneers' and Estate Agents' Institute (The Chartered Land Societies' Committee), expressed concern at the effect of capital gains tax on compensation payments. It was suggested that legislation should provide specifically for a measure of relief.

Since then inflation in property values has exacerbated the problem.

2. The central principle of the present basis of compensation was stated by Lord Justice Scott in *Horn v. Sunderland Corporation* (1941) 2 K.B.26 at p.42 - "Compensation - the right (of the claimant) to be put, so far as money can do it, in the same position as if his land had not been taken from him".
3. The effect of this principle of equivalence can be seen in the decision of the House of Lords in *West Suffolk County Council v. Rought Limited* (1957) AC 403, applying the principles previously laid down by the House of Lords in *British Transport Commission v. Gourley* (1956) AC 185, where it was held that if compensation payable for a temporary loss of profit would not be taxable in the hands of the recipient, a deduction had to be made for the tax which would have been payable if the profit had actually been earned.

In the later case of *Stoke-on-Trent City Council v. Wood Mitchell & Company Limited* (1978) 38 P. and C.R. 126, the Court of Appeal held that the principle in *Rought's* case is to be applied only if it is clear that the compensation will not be taxable and expressed the view that the effect of the Finance Acts 1965 and 1969 was that, notwithstanding the antecedent judicial decisions as to treating compensation for compulsory acquisition as one indivisible sum:

- (a) Such compensation is liable to capital gains tax as a capital sum for disposal of an asset;
- (b) Such compensation may be apportioned between capital and income;
- (c) Any sum charged to income tax as income is to be excluded from the computation of the capital gain.

Following this case a new Statement of Practice was issued by the Inland Revenue on 18th June 1979.

4. In the case of *Stoke-on-Trent City Council v. Wood Mitchell & Company Limited* Lord Justice Roskill commented that "the purpose of decisions such as those in *Gourley* and *Rought* was to secure that a successful plaintiff or claimant did not get more by way of damage or compensation than would have been received by him in the absence of his injuries or of the compulsory acquisition in question as the case may be" and thus reaffirmed the central principle of the present basis of compensation.

The effect of capital gains tax on compensation payments is a clear breach of this central principle and means that the claimant is not left in the same position as if his land had not been taken from him.

5. While the compensation payable to an individual on the acquisition of his principal residence with its garden (up to one acre) is exempt from capital gains tax and compensation payable on the acquisition of business assets, including property, is subject to "roll-over" relief, there are a large number of other cases where at present capital gains tax is payable.

Principally these involve companies, trusts and individuals owning investment property. The net compensation received after payment of capital gains tax will not permit the purchase of an equivalent investment to produce the same income.

6. As was stated in the *Chartered Land Societies' Memorandum*, compulsory acquisition is something which happens to the person or company affected in invitum. It is a misfortune which falls upon him, often at a difficult time, and should therefore be treated differently from a voluntary disposal which can be effected by an owner at any time to suit his personal arrangements.

This is particularly relevant to the case of an investment property held by an individual which can be conveyed on his death to his wife without any liability for capital transfer tax.

7. It has further been submitted to the Institution that acquiring authorities find difficulties arising where they are endeavouring to negotiate the acquisition of properties ahead of the making and approval of a Compulsory Purchase Order when they find that owners of investment property are diffident about entering into negotiations knowing that the net compensation will not allow them to purchase a comparable property.
8. Various methods of overcoming the present inequitable situation have been suggested including the grossing up of the compensation payable, giving the right to acquiring authorities to make appropriate supplementary payments where they are satisfied that the incidence of tax would cause hardship, and the exemption of compensation for compulsory acquisition from liability to capital gains tax.
9. The Institution has carefully considered the whole position and wishes to reiterate strongly the view it expressed in 1968 that legislation should provide specifically for a measure of relief in regard to capital gains tax on compensation for compulsory acquisition.

It considers that on grounds of public policy such relief should apply not only to compulsory acquisitions, but also to sales by agreement under threat of compulsory acquisition. It takes the view that regard should be had to the fact that a compulsory acquisition, in general, brings forward a tax liability without the acquiescence of the claimant and that it would be equitable for such liability to be deferred. It therefore recommends that:-

- (a) Where land is acquired and the acquisition is, or could have been, made under compulsory powers, the normal capital gains should be computed.
- (b) The taxpayer should have the option either of paying the tax on that capital gain or purchasing a substitute investment within a reasonable period.
- (c) On the subsequent sale of the substituted investment the taxpayer would be liable to pay tax at the prevailing rate on the aggregate of the capital gain assessed under (a) above and the capital gain

computed on the valuation of the substituted investment.

- (d) A substituted investment would be such as would ensure the deferment of the liability for capital gains tax, rather than the exemption therefrom and would be one which was to the satisfaction of the Inland Revenue (possibly with a right of appeal to an independent body).
-

RESTRICTED

From: ADAM RIDLEY
8 February 1982

MR KERR

A.20 Other
cc Hon P Brooke MP

BACKBENCH ANXIETIES

I received your message today asking for background information about the various backbenchers who have been making noises about the Budget. You wished to have this information before seeing the Finance Committee and the Whips on Wednesday. I have put together some useful papers, which should be read in conjunction with your list of backbenchers groups, of which cards were sent to you some days ago now. The attached papers are all I can lay hands on, and I think represent all the identifiable groups and people of whom we should take notice.

2. One Nation Group You will see their brief prescription at Flag A. Their key recommendations are:

- PSBR, apparently, around £11¼ bn.
- Full indexation of personal allowances and restoration of 2% shortfall.
- NIS, or most of them seek this, as far as can be judged.

You may recollect that nearly half of the One Nation Group are Blue Chips.

3. Blue Chips I attach a copy of the papers following from our recent meeting at Flag B. Their key recommendations are a Budget for industry, consolidating the recovery with a PSBR increase of around £3 bn. In particular they seek:

- 2% off NIS in July.
- Small boost for the construction industry.
- Full Rooker-Wise allowances and thresholds, and restoration of the social security shortfall.

RESTRICTED

RESTRICTED

They seem happy to tolerate^a/more or less flat inflation prospect from hereafter, believe unemployment matters most, and that deflation is the best way to get it, but cast themselves in the role of prudent and reasonable reflators!

4. 100 Loyalists These are the signatories of George Gardiner's recent round robin, which broadly supports present policies. The signatories, whose letters I was originally sent by Ian Gow, had largely illegible handwriting, which I am at present having deciphered. Their posture is to stand by present policies, with some suspicion that many of them prefer income tax cuts to anything else.

5. Monday Club letter I have heard the thoughts of the recent Monday Club letter, of which copies may have already come to you, and which I will pass to you as soon as I can acquire a copy myself. I have the impression that, like the 100 Loyalists, this group seeks income tax cuts and sticking to the strategy.

6. Group of 25 You have a list of these on your card. Apart from containing some members of both the Chelsea Five and the Blue Chips, it is fair to assume that this group includes most of the more extreme reflationists, and that Ian Gilmour is perhaps their most eloquent flagbearer. His latest House of Commons speech of 28 January is at Flag C.

7. Other individuals More precise indications of the views of some individuals have been had from a number of letters. For example there was one from McCrindle, at Flag D; from Dykes, at Flag E; and one before Christmas from Michael Latham which, though largely dealing with the public expenditure statement, also advocated income tax cuts and a substantial measure of reflation (you may remember I drafted you a long answer which you sent off to him a little while ago).

8. If you would like any guidance as to points it might be helpful to make to the Whips, you will no doubt give me some indication overnight, and I can perhaps have a word with Peter Brooke if that would help. My own instinct is that it is probably most helpful if you simply make yourself available for questioning.



Motoring Services

83-85 Pall Mall, London SW1Y 5HW
Telephone: 01-839 7050

cc ~~enter~~

CH/EXCHEQUER	
REC.	- 8 FEB 1982
ACTION	BS / FST
CODE	

JW/IWL 490

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
The Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG

8th February, 1982

Dear Chancellor

MOTORING TAXATION AND ROAD EXPENDITURE

I write once again to express to you the very deep concern of the RAC about the adversely disproportionate level of motoring taxation compared with road expenditure. Our arguments remain basically the same and I do not therefore intend fully to re-state all our contentions as to why the motoring public justifiably expects to obtain a better deal when any changes are announced in your next Budget Statement.

Regrettably our representations last year did not achieve the desired result. Our subsequent 'Stop This Rip-Off' campaign attracted strong support but your sole concession to the pressure for reduction of the excessive increases of motoring taxes benefited only users of diesel-engined vehicles which includes a very small number of cars.

There is widespread resentment resulting from the failure to give 'value for money' by way of expenditure on roads and other essential facilities in return for the expanding motor tax revenue.

In these circumstances, the RAC has decided that it is necessary to seek further public support for its endeavours to persuade the Government to close the ever-increasing gap between the national road expenditure and the income from motoring taxes. I enclose information about our new 'Close That Gap' campaign which has been initiated for this purpose.

It is ironic that the £6000 million surplus income not used for the direct benefit of road users is similar to the annual tax income from North Sea Oil part of which the RAC and other bodies have urged should be invested in an expanded and accelerated road programme.

The plea for such investment is now stronger even than previously for a variety of reasons:

- There are greater demands now than ever before for increased capital investment, not only to reflate the economy but to help tackle the severe unemployment problem.
- Road investment, which has taken more than its fair share of reduction in public expenditure - with thirteen cuts in six years - should now merit top priority for provision of any additional resources.
- Every delay in road building during these inflationary times increases the ultimate cost to a point which may even frustrate the objective by causing abandonment of projects on the grounds of excessive later expense.
- In spite of the recommendation in the Armitage Report stressing the vital need for an improvement of the road system as part of the package of proposals required to make the heavier lorries an acceptable proposition, the White Paper revealed grossly inadequate plans for such improvement. The paltry addition of just a few extra by-passes will only scrape the surface of the problem and satisfy practically no-one.
- There is also urgent need for greatly increased expenditure on highway maintenance to rectify the ravaging effects of the severe winter weather - with the damage exacerbated by lack of adequate investment in maintenance in earlier years. It has been estimated that up to £100 million extra will be required by the local authorities for the roads which are their responsibility and it is vital that the already meagre investment programme for road construction should not be plundered for this purpose.

At the same time motor taxation should also be at the head of the list to benefit if there is to be any reduction of taxation - taking account not only of the succession of excessive increases in recent years but also the serious adverse effect on the rocketing cost of living. Road transport users have become heartily sick of being sitting ducks for Chancellors' taxation increases in so many recent years.

The current industrial dispute preventing use of rail transport for a large part of each week has once again demonstrated the country's great dependence on road transport and the vital importance of this to the national interest. It is pleasing that many public statements by Government spokesmen have acknowledged the magnificent way in which private transport users have met the challenge and ensured the continuation of business and other essential activities. But the real reward can only be tangible equity in the Budget Statement to compensate for the successive tax increases in earlier years.

As stressed in the RAC's campaign leaflet, you could close the ever-widening gap by cutting the taxation and/or by increasing the road expenditure. The RAC contends that the Government cannot fairly continue to have it both ways!

Regardless of the objective to restrict public expenditure, the RAC must emphasise that insufficient investment in the highway network is an expedient which the nation cannot afford - since any short-term savings will inevitably become immensely greater long-term losses.

About 90% of people and freight are now carried by road transport and it must be anticipated the proportion carried on the railways will continue to decrease - and more rapidly than in previous years.

The excessive contribution to British Rail of not far short of £1000 million compared with the £6000 million contribution from surplus taxation on road transport has become a grotesque state of affairs.

The RAC urges the Government to recognise that the time for change is overdue - and can no longer be delayed.

Thomas Linnelley

J. A. Williams

J. A. Williams
Chairman
Public Policy Committee

Encl:



FROM PRESS AND PUBLIC RELATIONS

NEWS

Press Enquiries: 01-839 7050 (9.30—5.30) 01-930 9142/3/4 (all other times), 83—85 Pall Mall, London SW1Y 5HW.

80 years of service to the motorist and the nation

9th February, 1982.

RAC'S BLUNT MESSAGE TO CHANCELLOR

"Close That Gap" Campaign

"Cut motor taxes or spend more money on the roads" - that's the blunt message the RAC is urging Britain's 25 million drivers and motor cyclists to send to Sir Geoffrey Howe, the Chancellor of the Exchequer, before Budget Day next month.

Mr. Tony Lee, the RAC's Director of Public Affairs, said today: "Road users are heartily sick of being sitting ducks for Chancellors' taxation increases in so many recent years. The Government must realise they cannot have it both ways and that the time for change is overdue. It can no longer be delayed".

In a nationwide "Close That Gap" campaign now being conducted by the RAC, it is claimed that last year the surplus income from motor taxation after deducting money spent on roads amounted to about £6,000 million.

Mr. Lee commented: "It is a grotesque and staggering figure and clearly the enormous gap between taxation revenue and road expenditure must not be allowed to widen still further over the coming years".

During the past six years revenue from motor taxes rose from £2,940 million in 1975 to over £8,500 million last year. Over the same period road expenditure went up from £1,580 million to £2,400 million but allowing for inflation and as a result of cuts in the road programme, the resources available now were in real terms much less than in earlier years.

close that gap.....two

Mr. Lee added: "With more and more people switching from rail to road transport to get to work and for other essential journeys - a move which is saving British trade and industry during rail strikes - the Government must help car owners to cut their rising costs by reducing motor taxes.

"Increased expenditure to provide better roads would also help cut motoring costs since avoidance of congestion greatly improves fuel consumption".

The first 100,000 campaign leaflets have been distributed to RAC offices throughout Britain and drivers are being asked to sign and send them to their MPs.

The leaflets outline the "six year story" and the effects that increases in petrol taxes, vehicle licence duties, VAT and car sales tax have had on the motorist's pocket. Diagrams also reveal how the lack of sufficient expenditure on roads - with 13 cuts in six years - has adversely affected motorists' interests resulting in fewer motorways, fewer by-passes and more potholes.

Mr. Lee said: "Only by a concerted effort from motorists in all parts of the country can we get a better deal for road users. We hope that MPs' post bags will be filled with leaflets and protesting letters from their constituents".

(ends)

MEM TO EDITORS:

Copy of "Close That Gap" campaign leaflet enclosed.

Send this form to your M.P. Now!

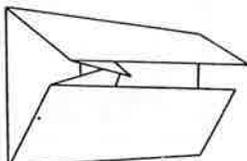
So that your views can influence the Chancellor of the Exchequer
to protect your interests

Second fold under



First fold under

PLEASE NAME
THE CONSTITUENCY
IF POSSIBLE



To post, simply fold as
indicated, tucking in the
flaps to form an envelope.

Please affix postage stamp

M.P. for _____
House of Commons (Constituency)
London SW1A 0AA

Third fold under and tuck in

I SUPPORT THE RAC'S 'CLOSE THAT GAP' CAMPAIGN

**WILL YOU URGE THE CHANCELLOR
TO GIVE MOTORISTS A BETTER DEAL?**

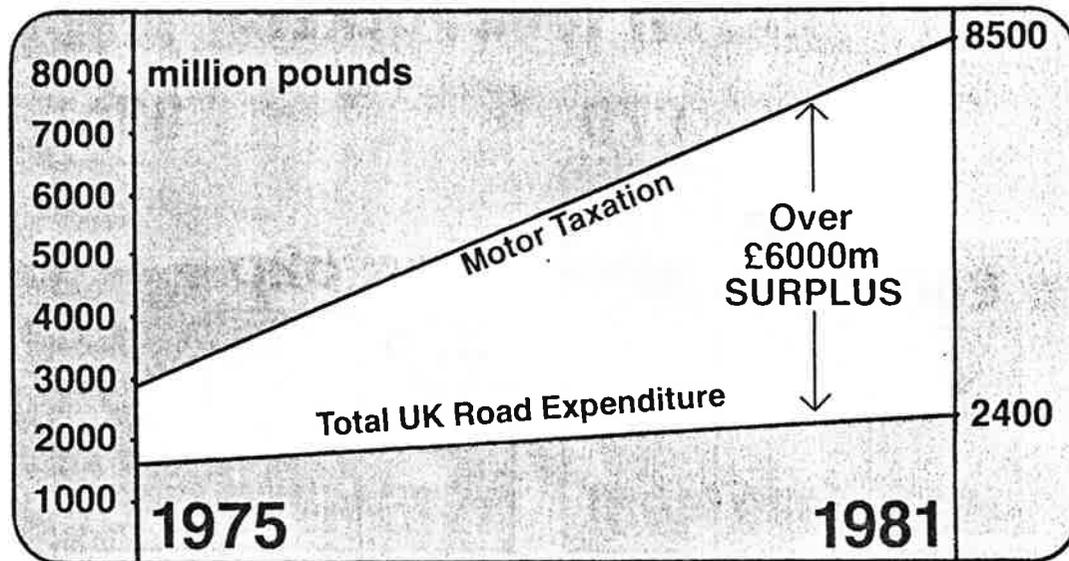
Signed _____ (Mr./Mrs/Ms)

Address _____



Support our Campaign

CLOSE THAT GAP



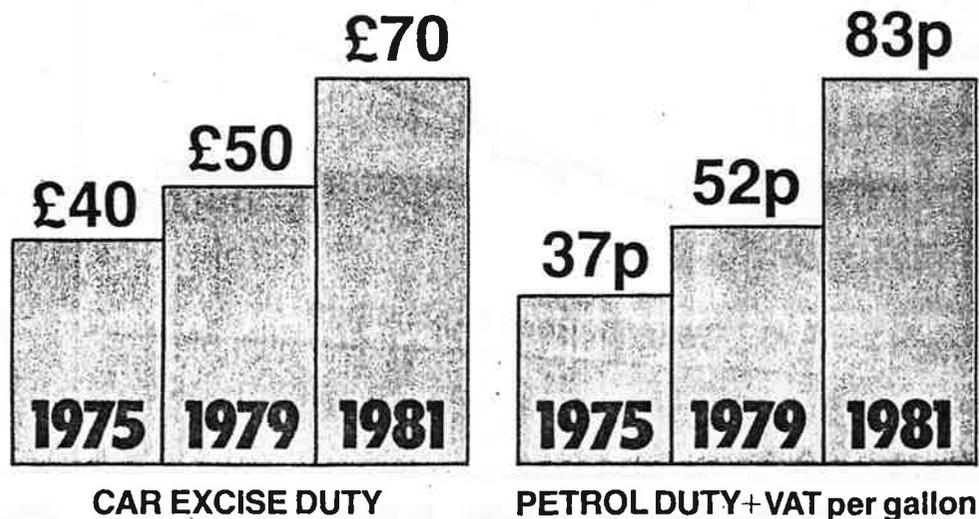
PROTEST TO YOUR M.P.

The RAC calls for a better deal for road users

THE SIX-YEAR STORY 1975 1979 1981

	£ million			
Car Sales Tax	160	515	550	+ 244%
VAT (fuel & vehicles)	575	1400	1950	+ 239%
Vehicle Excise Duty	780	1140	1630	+ 109%
Fuel Duty	1425	2630	4375	+ 207%
Total Taxation Yield	2940	5685	8505	+ 189%

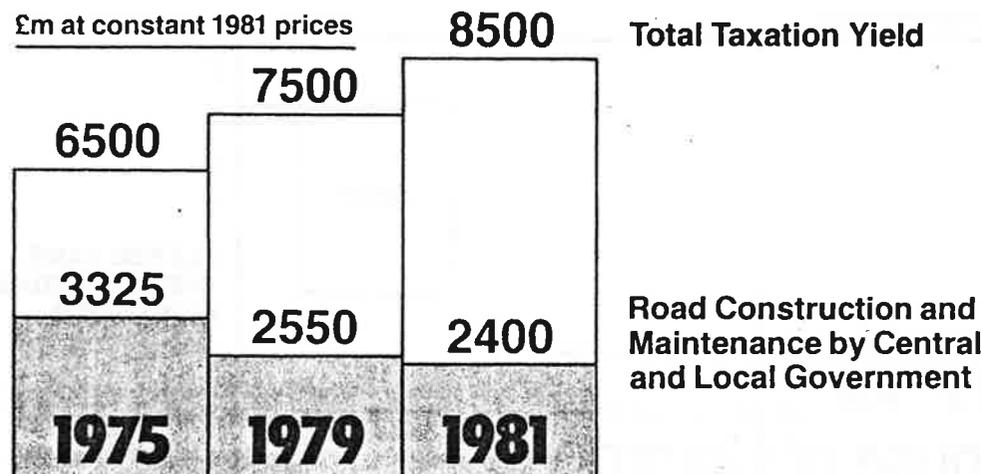
HOW THIS POLICY HAS HIT YOUR POCKET



(statistical source: British Road Federation)

HOW IT HAS HIT YOUR ROADS... FEWER MOTORWAYS, FEWER BYPASSES MORE POTHOLES!

During the same period, total Central and Local Government Road Expenditure rose only from £1580 million to £2400 million. At first glance this seems a sizeable increase, but after allowing for inflation, as this diagram shows, it went DOWN with no less than THIRTEEN expenditure cuts during those six years.



THE CHANCELLOR MUST CLOSE THE GAP

He can reduce motoring taxation
OR
He can increase spending on roads
OR HE CAN DO BOTH

CONFIDENTIAL



CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE (L)
MINISTER OF STATE (C)
MR BROOKE MP
SIR D WASS
SIR K COUZENS
SIR A RAWLINSON
MR RYRIE
MR BURNS
MR KEMP
MR RIDLEY
MR FRENCH

cc Sir L Airey - IR
Sir D Lovelock - C+E
Mr Ian Stewart MP

CONSERVATIVE PARTY FINANCE COMMITTEE - 9 FEBRUARY 1982

The meeting was attended by the Chancellor of the Exchequer, the Economic Secretary and the Minister of State (L).

Mr Hordern said that although the CBI and others were pressing for a reduction of NIS there was a danger that this would be swallowed up in increased wages. Personal allowances should be increased in line with inflation. The long-term unemployed over 60 faced special problems. It would only cost £130 million to allow those of 60 and over who had been unemployed for a year to draw retirement pension. The earnings rule should be abolished.

Sir Nicholas Bonsor thought that in the light of interest payments on public borrowing already, the Chancellor should resist calls for still higher borrowing. He agreed with the prevalent view that the maximum room for manoeuvre was in the range of £1 billion to £2 billion.

Mr Michael Morris agreed with Mr Hordern about pensioners. Action to help widows and young married couples setting up their first home and exemption for charities from VAT were other priorities. The Chancellor would be wrong to think of cutting VAT to 14%.

Mr Spence said that CGT was outdated and should be reformed by, for example, a cut-off.

Mr Atkinson wanted the basic rate of income tax reduced to 29% now and 28% by the next election. Britain should join the EMS before the next election.

Mr Michael Latham said that the Party would not win the next election with 3 million unemployed. Measures were necessary to stimulate the construction industry. Personal allowances should be fully indexed. Spending power in the economy should be increased.

Mr Gardiner broadly agreed with the CBI ^{for gradual recovery} proposals. The Chancellor probably had no more than £1 billion to £1½ billion room for manoeuvre. Help with NIS, stamp duty and raising the mortgage tax relief threshold were priorities.

Mr Johnson Smith said that the Budget must reduce industry's costs.

Mr Forman agreed. Now was not the time for a cut in the basic rate. A construction package was necessary.

Sir Julian Ridsdale wanted action on industrial and indeed domestic rates. A ceiling on the rates should be imposed and some programmes transferred to the Exchequer.

Mr MacMillan said that personal tax thresholds and especially the age allowance should be raised. The construction industry should be helped. The problem with cutting NIS was that a third of the benefit went to the public sector. The Government should try to ensure more exchange rate and interest rate stability.

Mr Hamilton said that the Reagan budget proposals left the Chancellor with less room. So public borrowing could not be increased. No action in the Budget would make much impact on the level of unemployment. What was important was that it should be coming down and that inflation and interest rates should be low by the time of the next election.

Sir Hector Monro said that Scotland could not accept another increase in petrol tax.

Mr W Benyon disagreed with Mr Hamilton. The Party could not win the election with 3 million unemployed. If necessary teenagers and others could lose some benefits but family allowance should be increased.

Mr Madel called for a cut in NIS. Employers who took on young people might be exempted from NIS altogether. Any increase in petrol tax which was necessary must be modest.

Mr C Morrison said that the Government must be seen to be trying to deal with unemployment in this Budget. NIS should be cut but most important was to help with industry's order books. Personal allowances should be indexed but there should be no cut in the standard rate of income tax.

Sir Brandon Rhys Williams said that this should be an investor's not a consumer's budget. There should be no cut in VAT. There should be no large cut in NIS for that would simply go in increased wages. It would be better to end corporation tax entirely. Interest rates and the exchange rate should be brought down, and child benefit generously raised.

Mr Ward said that if anything could be done this time there should be a cut in income tax. Child benefit should not be increased.

Mr Beaumont-Dark said that the Budget should help industry. Measures should be taken to stabilise nationalised industry prices.

Mr J Townend said that the Conservatives had been elected to cut tax and had failed to do so. Personal allowances should be upgraded for this year and some of the ground lost last year should be made up. That was the way forward rather than raising the level of benefits. People must be priced into jobs.

Mr Cormack said that the last Budget had been a disaster. This Budget should help the unemployed and industry. NIS should be cut. Spending on capital projects should be increased.

Sir R Fairgrieve said that this Budget should help private industry rather than contain a cut in income tax.

Mr Whitney said that as the savings ratio fell, with more confidence about inflation, gradually increasing and sustainable demand would help industry.

Mr Higgins said that what the Chancellor said in his Budget speech was as important as what he did. Clearly, a "U-turn" would be a disaster. However, the Government's policy on money supply, interest rates and the exchange rate had been drifting for 6-9 months. It should now be spelt out. Measures should be taken with a view to helping profits; otherwise the recovery would not be sustained.

Mr Dykes agreed with Mr Latham. The MSC had been right that the real unemployment figure was 4 million. The Government must seek to increase aggregate demand through tax cuts and capital projects, such as the channel tunnel for example. Even a £5 billion reflation as advocated by Sir Ian Gilmour was very small in relation to total GDP.

Mr Wolfson said that the Chancellor should introduce a Budget for business.

Mr Loveridge said that defence orders should be increased and grants given for robotics. NIS should not be cut. Capital taxes were more important.

Mr Cadbury denied that a reduction in NIS would be lost through higher wage settlements.

Sir Angus Maude said that the trend of the curves on unemployment, inflation etc were more important than the total figures as far as winning the next election was concerned. A "give-away" Budget on the eve of an election was a certain loser. Therefore, if this Budget were the Government's penultimate one it should be fairly generous. If it was intended to go through to 1984 it could be neutral this time.

Mr Dorrell said that more demand in the economy was the most important aim for the Budget. Even a £2½ billion reflation was only about 1% of GDP. The December package had involved £1 billion of deflation.

Mr Kenneth Lewis said that the Budget must help industry.

Mr Lester said that the question mark over the 2% "cut" in unemployment benefit should be removed before the Budget. In the Budget personal allowances should be indexed. There should be a jobs package consisting of measures to help construction, extension of the job release scheme to 60, and further schemes similar to the Young Workers Scheme.



ROBIN HARRIS

10 February 1982



SBBNF THE BRITISH BOATING INDUSTRY

Tel: Weybridge (0932) 54511

Telex: 885471

cc au/Ex

CHANCELLOR	
REC.	15 FEB 1982
ACTION	B / FST
COPIES TO	

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
H.M. Treasury,
Parliament Street,
LONDON SW1P 3AG.

11th February 1982

(Handwritten mark)

Dear Chancellor,

As the date for your formal presentation of budget proposals to Parliament approaches on March 9th, we are following our usual practice of representing to you, before that event, a number of factors affecting the boating industry, of which we hope you will be able to take heed when finalising your budget proposals.

40809

They are summarized as under:-

1. CONTROL OF INFLATION

Because of the effect that uncontrolled inflation has on wages and prices, we still regard the control of inflation as one of the most important aims in the economy, and we are sorry that despite the recent downward trend figures, the rate of inflation is still as high as it was when your government took office.

We again urge that strong measures continue to be taken to secure meaningful reductions so that manufacturing costs and sale prices can be contained in this difficult period.

2. NATIONALISED INDUSTRIES

The continued drain on the exchequer of contributions to maintain the nationalised industries is a serious source of concern, and we most strongly urge that further urgent consideration should be given to the provision of grants and loans to nationalised industries for the construction of national assets, rather than artificial support for management which is unable to contain its costs.

3. TAXATION POLICIES

In view of the pressures for wage increases arising from the employed sector, there must be strong arguments this year for invoking the Rooker/Wise amendment to allow for indexation of personal taxation allowances to at least keep in line with inflation. The continuing demands of the public sector borrowing rate will undoubtedly increase the

.../







SBBNF

The Rt. Hon. Sir Geoffrey Howe, QC, MP.

11th February 1982

pressure to maximise non-personal taxation by looking at VAT rates, and already in our industry there is strong evidence that the current 15% rate is a real deterrent to boat sales, and any further increase in VAT at this time would be disastrous to our industry which is just beginning to show a faint upturn in demand after two years in the doldrums.

4. TWO-TIER INTEREST RATES

We have never found persuasive the arguments that a two-tier system of interest rates, one for consumers and one for industry, is incapable of being instituted without serious risk of abuse. The major joint stock banks have in the past proved themselves responsible in administering government fiscal policy, and there is no reason to think that they would not monitor such loans carefully to minimise abuse.

5. NATIONAL INSURANCE SURCHARGE

We share the view of the CBI that the National Insurance Surcharge should be reduced as a matter of urgency as it is a tax on employment.

6. LOCAL RATES

We support most strongly the arguments that have been consistently advanced from many quarters that the current system of local rating on businesses operates unfairly and is a severe deterrent to reduction of manufacturing costs. Surely the rate burden should be more fairly shared among all sectors of the population, including the young who are not householders. If the system of state and city taxes on consumption can be implemented satisfactorily in other countries, it is difficult to see why Britain cannot follow their example.

7. EXPORT PROMOTION

We repeat our often stressed argument that the very small contribution made by the Treasury to the British Overseas Trade Board for export promotion at overseas trade shows and missions is of tremendous value in relation to the small amount of expenditure, and we urge most strongly that it should be continued at least at the current rate, if not increased.





SBBNF

The Rt. Hon. Sir Geoffrey Howe QC, MP.

11th February 1982

8. INDUSTRIAL TRAINING

We consider there is a manifest injustice in the fact that the costs of higher education at universities and polytechnics are borne by the State, while industrial training of those less academically qualified has to be undertaken at the cost of industry, when there is surely a strong argument that the whole country benefits as much from its youth acquiring technical skills as it does from its university graduates.

9. CONCLUSION

We recognise that at this time you are undoubtedly likely to be inundated with representations of this nature from many quarters, but we nevertheless hope that the foregoing proposals will receive the careful and considered attention that you have been good enough to indicate you have given them in previous years (even though subsequent finance Acts have indicated that we have failed to convince you of the superiority of our arguments!). We are not easily deterred, however, and shall go on trying.

Yours sincerely,

T.A. WEBB
Director General

From: ADAM RIDLEY
11 February 1982

mp

A.20 Other

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (L)
Hon P Brooke MP
Sir D Wass
Sir K Couzens
Sir A Rawlinson
Mr Ryrie
Mr Burns
Mr Kemp
Mr French
Mr Harris

Sir L Airey (IR)
Sir D Lovelock (C&E)
Mr I Stewart MP

CONSERVATIVE PARTY FINANCE COMMITTEE - 9 FEBRUARY 1982

... I attach Robin Harris's minutes of the meeting which you attended on Tuesday. Mr Harris has recorded every substantive proposal that was made at the meeting, unless I am very much mistaken. It may be worth noting one or two general conclusions which can be drawn from the views expressed.

- Very few expressed themselves against a Budget for industry, even by implication. Most notable was Mr Atkinson, who seemed to prefer income tax basic rate cuts. There were only three explicit critics of NIS cuts, but from an interestingly wide spectrum of opinion, viz Messrs Horder, Rhys Williams and Loveridge.

- The idea of a VAT²⁰⁰³ was criticised by several.

- Thinking about unemployment seemed to run^{on} very macro-economic tramlines. There were those who advocated^a very large PSBR as a way of dealing with it, but a striking lack of advocacy of specific anti-unemployment measures such as job subsidies.

- Almost no one appeared to be asking for allowance increases greater than Rooker-Wise.

2. It should, of course, be stressed that this record is not an entirely accurate reflection of the spirit of the meeting, since each speaker was requested to speak very briefly. Many will therefore have omitted to mention things that others had recommended with which they disagreed, or which they supported.

A handwritten signature in black ink, appearing to be 'AR' or 'A. Ridley', written in a cursive style.

ADAM RIDLEY

Confidential

FROM: C D HARRISON
12 February 1982



PWP

PRINCIPAL PRIVATE SECRETARY —

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Hon P Brooke MP
Sir Douglas Wass
Sir Kenneth Couzens
Sir Anthony Rawlinson
Mr Ryrie
Mr Burns
Mr Kemp
Mr Ridley
Mr French
Mr Harris
PS/IR
PS/Customs & Excise
Mr I Stewart MP

CONSERVATIVE PARTY FINANCE COMMITTEE: 9 FEBRUARY

The Economic Secretary has seen Mr Ridley's minute of 11 February.

As implied in his own minute of 10 February, he did not form the same impression of attitudes towards tax allowances as Mr Ridley, who suggests that almost nobody appeared to be asking for increases greater than Rooker-Wise.

On a point of detail - the Economic Secretary read Mr Morrison as specifically rejecting a cut in NIS - contrary to Mr Harris' recollection.

CDH

C D HARRISON
Private Secretary

Confidential

Chancellor of the Exchequer

cc Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr Battishill
Mr French
Mr Wicks
Mr Dalton IR

NORTH SEA FISCAL REGIME: UKOOA AND THE IFS

You will have seen, from the attached letter from UKOOA, that there is no enthusiasm in the industry for the IFS proposals. Perhaps I should add that George Williams telephoned me to make two additional points:

- a. the points made in his letter were those which commanded common assent. The sum of objections, taking points about which individual companies felt strongly, was much greater.
- b. They had heard rumours - I think suggestions by the IFS - that the IFS study would be used to delay a decision for a further year. He stressed that UKOOA were totally opposed to any such delay. They wanted a decision. They would then be in a position to take decisions on projects which were in the pipeline, and more generally consider their approach to North Sea development in the light of all the announcements which had been made over the past year.

I do not think that it had occurred to the oil companies that the IFS proposals might be taken seriously until they received your letter!

— *Which, for me, struck oil!*

Em

P E MIDDLETON
12 February 1982

Enc

UK Offshore Operators Association Limited

192 Sloane Street
London SW1X 9QX
(Registered Office)

12 February 1982

Telephone: 01-235 0292

The Rt Hon Sir Geoffrey Howe QC MP
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

EXCHEQUER	
NO	12 FEB 1982
ACTION	Mr Middleton
COPIES TO	MSTL
	Sir D Warr
	Mr Payne
	Mr Balfourhill
	Mr French

Dear *Chancellor,*

North Sea Oil Taxation

Mr Dalton

In your letter of 29 January 1982, you asked if there were any points UKOOA would wish you to bear in mind when assessing the Institute for Fiscal Studies' proposals.

PS/IR

Firstly, I would like to emphasise that, following your request last year for proposals on offshore taxation, our Members did consider the possibility of introducing an entirely new system, such as that suggested by the Institute for Fiscal Studies. However, as discussed with your officials, we decided to discard this possibility because of administrative complexity, problems of transition from one tax system to another and because of the potentially uneven effect on different licences. As you know, after examining a wide range of alternatives, we were able to provide you with a Submission that was unanimously agreed by our Members.

We would, however, call your particular attention to the following aspects of the proposals made by the Institute for Fiscal Studies.

1. In our view, transition issues would not be as straightforward as is implied in the IFS proposals and could cause serious inequities.
2. They would necessitate the re-negotiation of international tax treaties.
3. They would necessitate changes in all existing licence terms.

Members of UKOOA have asked me to advise you that they are firmly of the belief that the proposals in their Submission of October 1981 more closely satisfy the present needs of Government and industry than those submitted by the Institute for Fiscal Studies.

Yours sincerely

George Williams
G Williams

Copy to Secretary of State for Energy

